FORUM INSIGHTS

FIDE FORUM

From Principles to Progress: **The Next Era of Islamic Finance**

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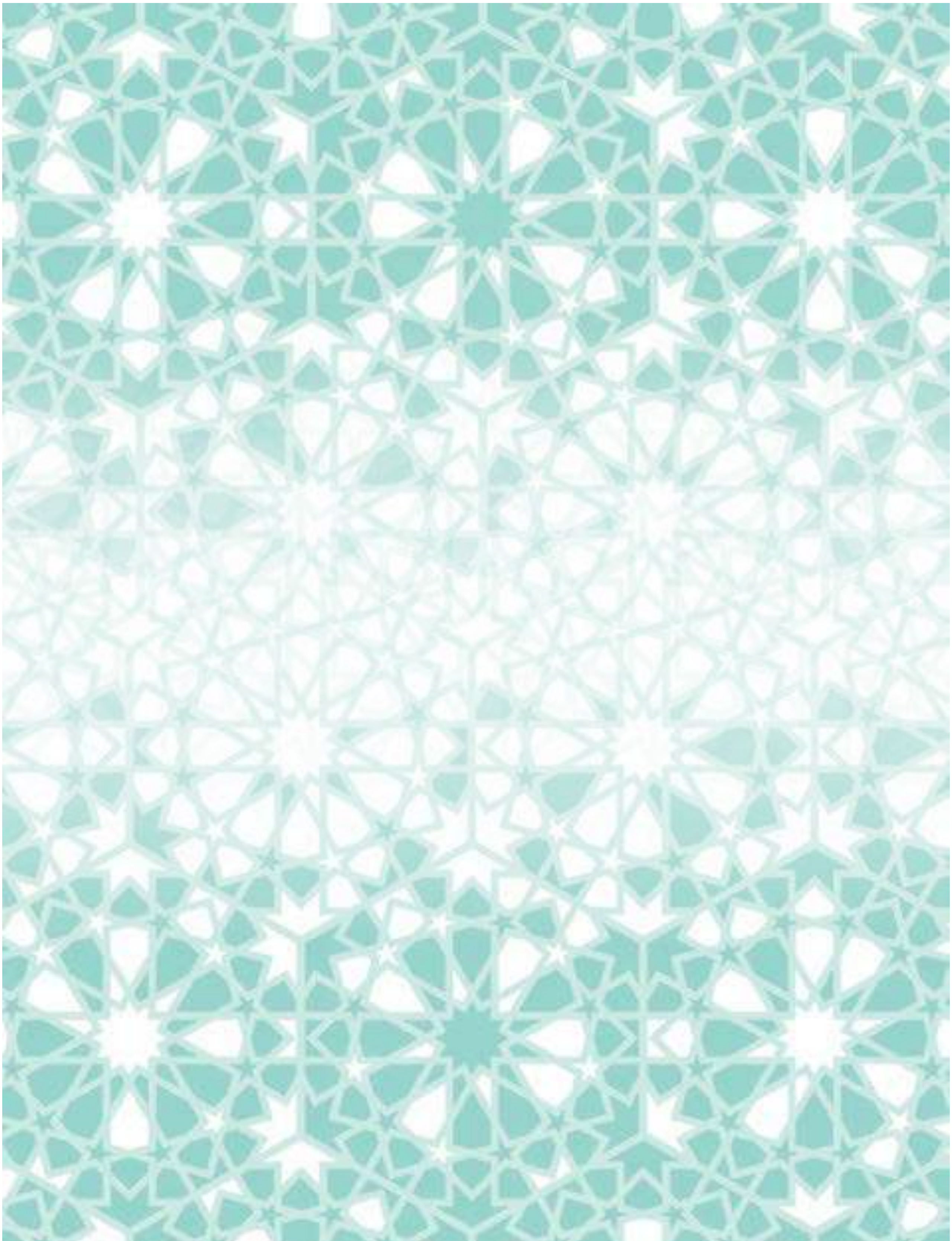

About FIDE FORUM

FIDE FORUM is a community of board leaders in the financial industry that provides a vibrant platform for networking and collaboration among esteemed industry professionals. At FIDE FORUM, we play a pivotal role in empowering board directors in the financial sector to share invaluable insights, engage in discussions on best practices, and address industry-wide challenges in corporate governance.

Established in 2010, FIDE FORUM is uniquely positioned as the only organisation that specifically represents and serves the interests of directors of financial institutions in Malaysia. For the past 15 years, our institutional and individual membership base recorded a sustained growth.

We advocate strong corporate governance practices through our vision and mission. The organisation enables the coming together of individuals, enabling potential business opportunities to be explored, and collective partnership to be enhanced.

The formation of FIDE FORUM was initiated by alumni members of the Financial Institutions Directors' Education ("FIDE") Programme. Both Perbadanan Insurans Deposit Malaysia ("PIDM") and Bank Negara Malaysia ("BNM") shared a common vision to establish a unified platform for financial institutions' boards, fostering and strengthening communication, cooperation, and collaboration among its members and stakeholders. The successful formation of FIDE FORUM is well positioned to grow as it evolves its strategies, structure and synergy to adapt to changing circumstances and challenges.

Today, FIDE FORUM is a membership-based organisation that helps Members to connect and build relationships, access resources and information relevant to their interests, and own a platform for sharing their views to relevant stakeholders. FIDE FORUM provides a comprehensive range of services from talent sourcing to improving the effectiveness of board performance. The aim is to create a forward-looking environment where Members can access, acquire and grow professionally while contributing to the overall success of the organisation's mission.

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VISION

To be an exclusive network for financial institutions directors to enhance board excellence for sustainable business growth and financial stability.

MISSION

To provide seamless board services to enhance financial institutions directors' awareness, board talent management and board effectiveness by leveraging on thought leadership and insights of Members.

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- *Datuk Kamaruddin Taib*

Chief Executive Officer

- *Tay Kay Luan*

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- *En Mohammad Nizar Idris*
- *Ms Pushpa Rajadurai*
- *Mr Choong Tuck Oon*
- *Mr Adil Ahmad*
- *YM Dr Tunku Alina Raja Muhammad Alias*

Table of Contents

Foreword

Islamic finance has over time evolved into a credible, resilient, and globally recognised financial system that complements and strengthens conventional finance. The capital assets size of the global Islamic finance will reach USD7.5 trillion by the year 2028.[1]

Grounded in the sound principles of ethics, and shared risk, Islamic finance offers the governments, businesses and investors an alternative source of funding as well as an economic model that can be both socially responsible and financially sound. As of April 2025, the value of Islamic capital in Malaysia has grown to RM2.56 trillion. It plays a prominent role in trade and finance, especially as nations and markets place a deeper emphasis on the value of ethics, equity, and purpose in sustaining global growth.

Islamic banking, according to the BNM report, refers to a system of banking that complies with Islamic law, also known as Shariah law. The underlying principles that govern Islamic banking are mutual risk and profit sharing between parties, the assurance of fairness for all and that transactions are based on an underlying business activity or asset. The concepts of Islamic banking, such as ijarah (leasing), mudharabah (profit sharing), and musyarakah (partnership), have over time been key drivers behind the growth and viable alternatives to investors who prefer principled-based standards for investments that are aligned with Islamic core values.

That said, in this Fourth Issue of Forum Insights, we trace its progress with a pressing theme – From Principles to Progress: The Next Era of Islamic Finance. Islamic finance, rooted in its values of fairness, risk-sharing, and social responsibility, continues to evolve through innovation, global acceptance, and relevance.

In line with the concept of a sustainable development trajectory, the world of finance, green sukuk and impact investments are embracing universal values with modern needs, driving the growing prominence of Islamic finance. This is to be expected as the Muslim market continues with its growth trajectory to expand worldwide.

In this publication, Governor Dato' Sri Abdul Rasheed Ghaffour provides a comprehensive overview of the development of Islamic finance in Malaysia. It explains how Malaysia's Islamic finance industry has evolved from a faith-based niche into a mainstream and globally recognised financial ecosystem. The Governor's article, as well as those of other distinguished authors, also provides details and explanations on how Value-Based Intermediation (VBI), a feature of the Financial Sector Blueprint 2022–2026, will serve as the industry's compass.

It would be a mistaken notion to constrain Islamic finance to a mere subject alongside the day-to-day issues such as digital banking, fintech, blockchain, artificial intelligence, sustainability, or risk and compliance. Instead, it is to be viewed from an overarching lens are wider complementing and enhancing conventional financial practices.

Adopting such a mindset enhances accessibility and transparency, expanding its reach. With regulatory leadership, the use of Islamic finance principles can strengthen governance and investor confidence, particularly when it offers a resilient, ethical alternative amid economic volatility and climate challenges.

The call for greater adoption of Islamic finance rests on its ability to align economic growth with moral and social purpose. This conviction was eloquently expressed by His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak, during the Global Islamic Finance Forum 2025: **"Leadership must be anchored in courage, wisdom, and moral clarity. We must pursue profit with responsibility and growth with justice, facilitated by a value-based financial system that uplifts communities and serves the greater good."**

[1] *Standard Chartered (2025). "Global Islamic Finance Assets to Surpass USD 7.5 Trillion by 2028". Retrieved from https://www.sc.com/en/press-release/standard-chartered-global-islamic-finance-assets-to-surpass-usd-7-5-trillion-by-2028/*

His Majesty's words remind us that Islamic finance is not merely a financial alternative, but a framework for sustainable progress – one that integrates ethics with enterprise and redefines success through the lens of shared prosperity.

I take this opportunity to express my deepest gratitude to the authors and institutions/organisations that have contributed to this year's Forum Insights, each providing their unique perspectives on the subject. This includes Bank Negara Malaysia, Securities Commission Malaysia, HSBC Amanah, ASAS, AEON Bank, ISRA International, audax, TAB Global, and Monash University.

I also applaud you, the reader, for your fervour in expanding your knowledge and taking a keen interest in reading the articles featured in this edition of Forum Insights. After all, for Malaysia to be a leader in Islamic Finance requires each director to have a clear grasp of its principles.

To quote a statement by Governor Rasheed made in the first article, **"The tone and vision set by Boards of Directors, CEOs and shareholders will shape whether Islamic finance continues to deliver on its higher purpose, or converges into a mere parallel, and replicative system to the conventional finance."**

With the advent of artificial intelligence (AI), the principles of Islamic finance become even more relevant in guiding responsible innovation. Its emphasis on fairness, transparency, and accountability offers a values-based compass to ensure that AI enhances, rather than undermines, trust and ethical conduct in financial services.

FIDE FORUM, as an association of directors of financial institutions, will continue to serve its mandate to ensure each director is up to speed with all developments concerning our business – to have our knowledge on various issues constantly renewed – with the purpose of ensuring each of us has the capacity to carry out our fiduciary duties and to ensure effective board governance.

As we look ahead to 2026, we do so with anticipation but also with clear awareness of the challenges that lie ahead. Global geopolitical tensions, shifting trade dynamics, and economic uncertainties will continue to shape the headlines and influence the business environment. Amidst these complexities, one sector stands out for its resilience and continued momentum: Islamic Finance. Despite external headwinds, the industry is expected to sustain its upward growth trajectory, driven by strong fundamentals, ethical grounding, and increasing global demand for sustainable and inclusive financial solutions.

Datuk Kamaruddin Taib
Chairman
FIDE FORUM

Creating an Inclusive and Progressive Islamic Financial Ecosystem

AUTHOR

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BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SUMMARY

This article traces Malaysia's journey in Islamic finance over the past four decades, highlighting how it has grown from a niche sector into a globally recognised and resilient financial ecosystem. With Islamic banking now accounting for nearly half of total banking assets and takaful contributing almost a quarter of net contributions, Malaysia's model is underpinned by strong regulation, Shariah governance, and international standard-setting. The Governor emphasises the role of Value-Based Intermediation (VBI) as a framework that ties finance to real economic impact, sustainability, and inclusivity. While VBI has enabled significant progress in areas such as green financing and microentrepreneur support, it is still too often treated as a compliance exercise rather than a transformative approach. The article urges boards, CEOs, and shareholders to embed purpose-driven leadership, align strategies with Shariah objectives, and embrace innovation across fintech, social finance, and cross-border partnerships. Ultimately, Malaysia's Islamic finance industry must continue to evolve with integrity and foresight, balancing profitability with sustainability and inclusivity, so that it delivers meaningful outcomes for society while remaining true to its higher calling.

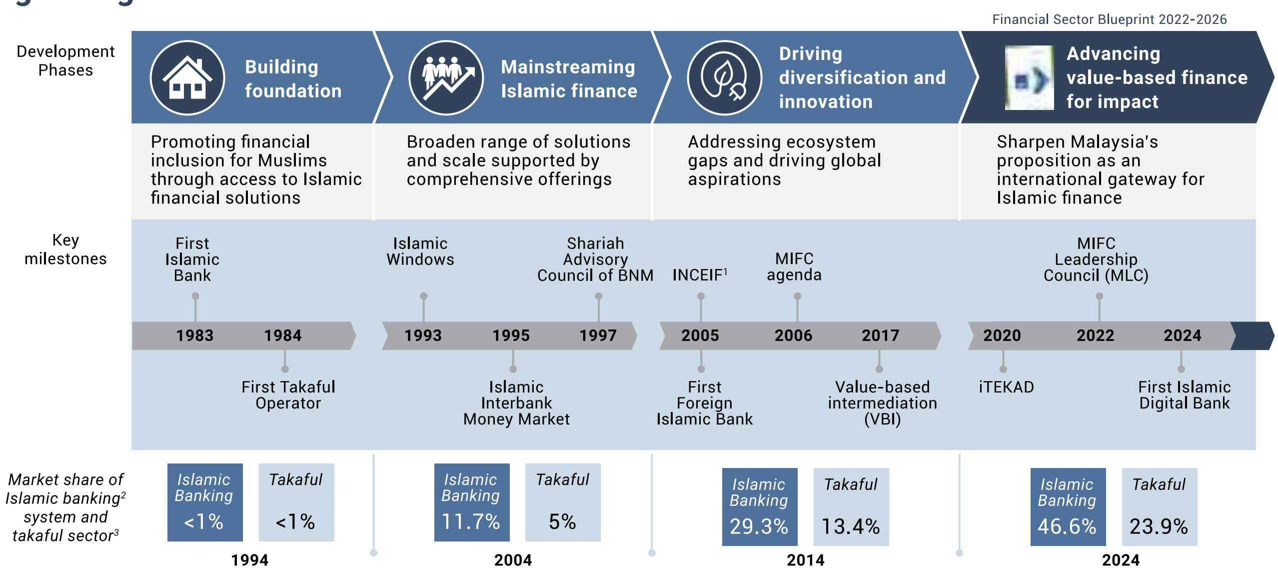
Islamic Finance in Malaysia: A Journey of Strategic Growth and Global Recognition

Islamic finance in Malaysia has grown and evolved remarkably over the past four decades, transforming from a niche sector into a comprehensive and globally recognised financial ecosystem. Initially established to provide Muslims with Shariah-compliant financial products, the industry has since advanced into a mainstream component of the national financial landscape. Within Malaysia's dual financial system, the industry's proposition is no longer confined to religious considerations – it now serves a broad spectrum of stakeholders, including individuals, businesses, and the government.

The Islamic banking sector now accounts for **46.6%** of total banking assets, while the takaful industry contributes **23.9%** of total net contributions. These figures reflect the growing trust and demand for Islamic financial products and services. The strength of Malaysia's Islamic finance system also lies in our comprehensive regulation, strong Shariah governance and a robust ecosystem. From the outset, Islamic financial institutions (IFIs) are held to prudential standards comparable to conventional peers, ensuring that resilience and credibility would not be compromised while delivering on the developmental agenda. Equally important is the establishment of the Shariah Advisory Council (SAC) as the legislated apex decision making body in Shariah ascertainment for the IFIs. Malaysia also continues to shape international standards, foster innovation, and promote cross-border collaboration in Islamic finance. These are outcomes of a series of strategic initiatives led by Bank Negara Malaysia (BNM), aimed at ensuring the industry's pragmatic development. From laying the foundational infrastructure to promoting financial inclusion, Malaysia's Islamic finance journey has consistently aligned with broader national economic goals (see Diagram 1).

Diagram 1: Islamic finance development phases in Malaysia

Islamic finance in Malaysia has evolved through different development phases with growing market share and contributions



[1] International Centre for Education in Islamic Finance (and International Shari'ah Research Academy for Islamic Finance (ISRA), 2008)
[2] By total Islamic financing/ total financing in the financial ecosystem
[3] By total takaful net premium or contribution/ total net premiums or contributions in the insurance sector
Source: Bank Negara Malaysia

Bridging growth with value and impact creation through Islamic finance

Under the current Financial Sector Blueprint 2022-2026, an important focus is advancing **value-based intermediation (VBI)**,[1] a framework that emphasises real economic impact, social outcomes, and sustainability. Islamic finance is envisioned as a catalyst for inclusive development, supporting sectors that drive long-term prosperity and resilience. This is deeply aligned with the fundamental principles and the objectives *(maqasid)* of Shariah that advocate a model of balanced, progressive, sustainable and inclusive economic growth (see Diagram 2). The Islamic finance system is designed to broaden access, increase participation, and promote shared prosperity, embodying the Qur'anic injunction *"…so that wealth does not merely circulate among the rich…"* in Surah al-Hashr (59:7). This can be realised through financial intermediation towards an economy that promotes financial inclusion and prioritises quality growth for all, moving beyond the short-term profit maximising objective.

Diagram 2: Shariah principles underpinning Islamic Finance

Economic growth that is balanced, progressive, sustainable and inclusive

Prevention of harm and attainment of benefits

Fairness and attainment of excellence (*ihsan*)

Profit comes through accepting and bearing risk	Money is only a store of value and medium of exchange	Wealth creation must be balanced with wealth transfer and circulation	Assurance of transparency and traceability

Shariah compliance

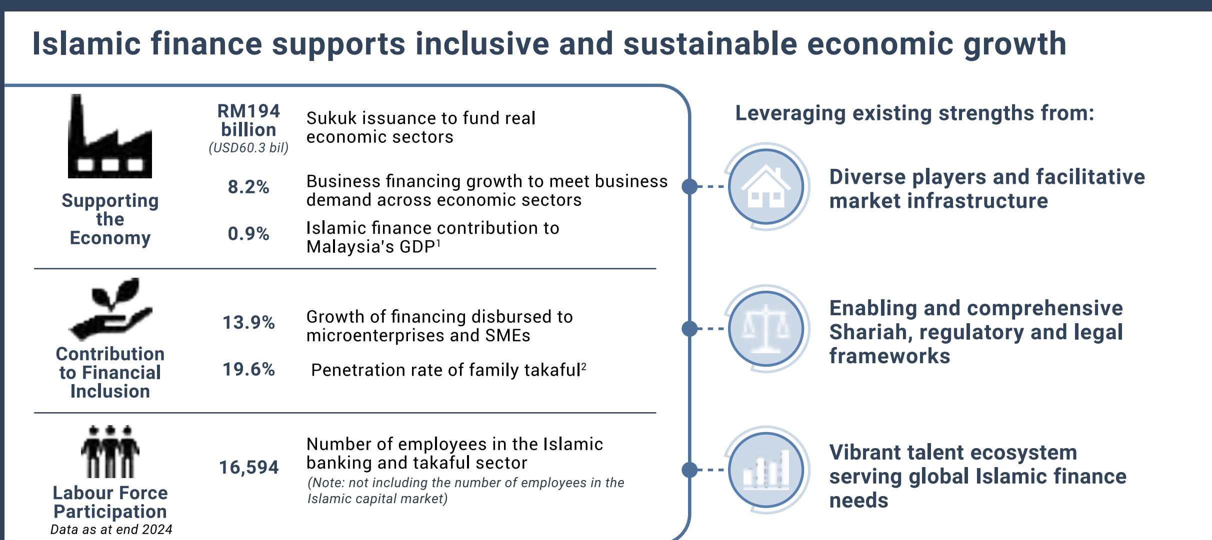
[1] *Strategy Paper on VBI: Strengthening the Roles and Impact of Islamic Finance issued in March 2018*

The values upheld which are centered on prevention of harm and attainment of benefit, advocating social justice and equitable wealth distribution, align closely with Malaysia's developmental aspirations.[2] These also resonate well with global trends that call for sustainability and resilience amidst the growing uncertainty in today's economic landscape. VBI that was introduced in 2017, aims to further unlock Islamic finance's inherent potential for economic and social development. Anchored on four thrusts: good governance, best conduct, entrepreneurial mindset, and community empowerment, VBI encourages positive impact creation by IFIs across the economy, society, and environment. The outcomes of these efforts are promising. VBI facilitated RM216.1 billion in financing in 2023, reflecting a 64.5% increase in value and 61.2% growth in outreach compared to 2022. IFIs also showed significant progress in fostering a high value green economy through a substantial rise in net-zero and green financing. Notably, green and net-zero financing rose by 50% to RM25.9 billion (2022: RM16.5 billion), with account numbers tripling, reflecting a growing focus on green finance such as transition financing, and sustainable water management.[3]

While significant strides have been made, particularly in driving national economic growth, expanding financial inclusion, and enhancing societal well-being (see Diagram 3), there remains considerable untapped potential within the industry. Despite these achievements, the adoption of VBI continues to face challenges. Too often, VBI is approached as a mere compliance exercise (or perceived as a cost centre), rather than embraced as a transformative, strategic shift. To further realise the transformative potential of VBI for the industry, more attention can be directed to growing beyond traditional household[4] segments, towards supporting industrial sectors, SMEs (Small and Medium Enterprises), and businesses, in serving the national funding gaps[5] and achieving the broader developmental agenda.

It is imperative for key stakeholders, including Boards of Directors, CEOs, and shareholders of IFIs to assume a more proactive role in unlocking the industry's value proposition. Strategic direction and oversight are essential in steering organisations towards long-term, value-driven outcomes. For instance, establishing focused workstreams to elevate the contribution and innovation of Islamic finance in supporting national priorities such as climate resilience, inclusive finance, and sustainable entrepreneurship, would be highly impactful. These efforts must translate into tangible, real-world outcomes that are meaningful. By moving beyond box-ticking, and instead fostering a culture of genuine transformation, the industry can better serve both national objectives and the broader community.

Diagram 3: Islamic finance contributions toward national economic growth



[1] *Based on total net income of the Islamic financial institutions from the total GDP. For Islamic banks, net income includes net profit margin and service charges. Meanwhile, for takaful operators, it includes net premium income and investment income (minus claims paid). Source: Department of Statistics Malaysia, DOSM.*
[2] *Percentage of total takaful certificates in force from the share of total population.*

[2] *Maqasid shariah values are integrated within the MADANI Framework 2023 and the 13th Malaysia Plan 2026-2030*
[3] *Source: Value-based Intermediation (VBI) Report 2023 by the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM).*
[4] *As at end-2024, household financing accounted for 63.2% of total Islamic financing, while business financing remains comparatively lower at 28.1%. Home and personal financing together accounted for 45% of total Islamic financing.*
[5] *Estimated MSME financing gap of RM290 billion in 2022; Source: Securities Commission Malaysia, Catalysing MSME and MTC Access to the Capital Market: 5-Year Roadmap (2024–2028).*

From a **macro and structural lens**, evolving domestic and global dynamics present significant opportunities for Islamic finance to showcase its unique value proposition. Geopolitical fragmentation abroad and Malaysia's structural reforms are reshaping trade patterns, investment flows, and supply chains. These shifts necessitate practical responses, including enhancing economic resilience to navigate uncertainties. Islamic finance with its universal scope of intermediation, **enabled by the diverse range of Shariah contracts** covering structures based on equity, debt and sale, along with supporting ancillary contracts, is well-suited to meet these emerging areas, in line with FSBP's aspiration. As economic needs evolve towards more complexity, including in areas like green finance and fintech, equity-based structures such as *Musyarakah* and *Mudarabah* become increasingly relevant due to their suitability for ventures requiring specialised arrangement. Industry players should utilise the available incentives and accommodative avenues provided to further scale up, such as through the RM100 million matching fund announced during Budget 2025 to promote risk-sharing instruments in climate resilience and food security sectors, as well as other viable initiatives with tangible benefits to Malaysia. The fund aims to incentivise IFIs' and private investors' involvement in the sectors through co-financing support, and increase market familiarity with risk-sharing instruments. It is also envisaged to help address the current challenge of mainstreaming sustainability into the full spectrum of Islamic finance, from retail products to corporate financing and investment strategies.

Harnessing innovation to maximise impact creation to the economy

Ibn Khaldun, the prominent Muslim historian and philosopher once emphasised the intrinsic link between innovation and social advancement and highlighted the cyclical nature of innovations and civilization, quoting that *"Innovations are perfected only through the perfection and prosperity of urban civilization."* [6] In today's fast-paced financial landscape, this wisdom remains strikingly relevant. The ability to progress and innovate in Islamic finance is not an option, but a strategic necessity going forward. Islamic finance, with its diverse instruments and ethical foundations, is uniquely positioned to meet evolving economic needs and promote ethical business practices. This value proposition gives IFIs a **competitive edge to pursue more innovative solutions**, underscoring the need for IFIs to continuously adapt and respond to rapid changes in the financial environment driven by digitalisation and evolving customer expectations. In today's context, value-based innovation in Islamic finance could be explored through two overarching perspectives:

[6] Tarikh Ibn Khaldun (1981), Dar Al-Fikr, Beirut, vol. 1, page 502.

i Ecosystem Collaboration and Social Finance Integration

First, a **whole-of-ecosystem approach** enables IFIs to partner with stakeholders with relevant expertise to deliver comprehensive solutions for the target market, leveraging on the Islamic financial ecosystem's strength which extends beyond institutions governed under the IFSA. This includes social finance institutions such as zakat authorities and waqf corporations, which are under the jurisdiction of State Islamic Religious Councils (SIRCs). Collaboration between IFIs and these institutions expands the reach of Islamic finance into areas that commercial institutions alone cannot address.

A prime example of this is the iTEKAD initiative, which blends social finance instruments like zakat and waqf (unique only to Islamic finance) with traditional financing to support underserved microentrepreneurs. Beyond financial assistance, iTEKAD helps low-income microentrepreneurs hone their business management skills through embedded financial literacy programmes, which further strengthens their track record, making them more bankable. Now in its fifth year, iTEKAD has empowered over 10,000 microentrepreneurs through partnerships with 15 financial institutions and over 100 implementation partners. The iTEKAD is also expanding its programme with the offering of matching grants for insurance and takaful contributions, encouraging deeper integration of social finance into financial offerings. Supported by Budget 2025 grants, the programme aligns with the FSBP's goal of strengthening financial safety nets for households and businesses, with applications for insurers and takaful operators opened in July 2025.

Apart from this, inclusivity remains central. An ageing society calls for innovative retirement and healthcare solutions. The growth of the gig economy requires products that address income volatility and protection gaps. Persistent inequalities demand that outreach extend to B40 households, rural communities, and women entrepreneurs. Islamic finance offers ready tools such as zakat, waqf, and takaful which are poised to deliver nationwide impact through collaborative efforts with stakeholders beyond financial institutions.

ii Technology and Digitalisation

Second, the **prospect of technology and digitalisation** continues to widen, reflecting significant opportunity for growth. Digitalisation presents immense opportunities for Islamic finance. Technologies such as blockchain, artificial intelligence (AI), along with the application of open banking, can enhance efficiency, inclusivity, and transparency. For instance, blockchain enables sukuk and waqf tokenisation, improving access and traceability; AI improves credit scoring and risk management; and open banking fosters customer-centric offerings. Fintech platforms allow individuals to invest in Shariah-compliant funds, participate in crowdfunding or purchase micro-takaful instantly. New technologies such as smart contracts offer opportunities to revitalise equity-based contracts like *Mudarabah* and *Musyarakah*, which can potentially be executed with greater transparency and accountability. However, digital adoption must be complemented with **strong cyber resilience and ethical data practices to maintain customers' confidence.**

BNM remains supportive in providing avenues for financial innovation to encourage progressive and impactful innovation for greater outreach and financial inclusivity, through its proportionate regulation. The enhanced Financial Technology Regulatory Sandbox published in February 2024 aims to improve pathways for digital innovations, particularly Shariah-compliant offerings, to be tested, refined, and exited efficiently. Key enhancements include the introduction of a green lane application track for faster time-to-market, and a simplified eligibility assessment. Since its introduction in 2016, Sandbox has received 132 applications as of 2Q 2025, with five products currently undergoing live-testing, including Shariah-compliant offerings. Partnerships between IFIs and fintech solution providers are crucial, as they bring agility, fresh ideas, and technological expertise beyond financial spectrum. Such collaborations can accelerate innovation while mitigating risks and costs.

The recent launch of two Islamic digital banks reflects the sector's diversification and deepening of Malaysia's Islamic financial landscape to reach underserved communities, including rural households and microenterprises. Additionally, the issuance of the Policy Document on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (DITOs) in July 2024 has attracted strong interest from prospective market entrants, with applications open from January 2025 – December 2026. Wider adoption of digital technology can boost financial inclusion by overcoming geographical barriers and lowering transaction costs. On the digital asset and AI front, industry players are encouraged to provide constructive feedback based on possible market use cases and on-the-ground experiences on the recently issued BNM Discussion Paper on Artificial Intelligence in the Malaysian Financial Sector and the Discussion Paper on Asset Tokenisation, as well as the upcoming Exposure Draft on Open Finance to help shape progressive and responsive innovation pathways.

Capitalising windows of opportunities with stronger partnership and talent building

Strengthening global and regional integration is key to building a progressive and inclusive Islamic financial ecosystem beyond domestic borders. The global Islamic finance market is expanding, attracting international investors, and supporting economic growth across multiple regions, including in emerging markets such as the Philippines and Central Asia. This presents opportunities for IFIs to expand their international footprints and foster cross-border investments and collaboration. A key opportunity aligned with Malaysia's ASEAN Chairmanship 2025, is to elevate the role of Islamic finance in meeting **regional funding needs, particularly in climate actions, green transition and social finance.** At the ASEAN Investors Roundtable held in April 2025 in conjunction with ASEAN Finance Ministers' and Central Bank Governors' Meeting (AFMGM), stakeholders called for **greater use of Islamic and blended finance structures** to support ASEAN's climate initiatives. Islamic finance, with its alignment to ESG principles and long-term value creation, is well-positioned to scale up climate financing and attract a broader investor base.

To support this, it is imperative for IFIs to **forge meaningful collaborations** across borders by leveraging existing platforms such as the MIFC Leadership Council, to build strategic international partnerships. In strengthening our Shariah linkages globally, BNM remains committed to enhancing global cooperation through initiatives like the Centralised Shariah Authorities Forum, in promoting mutual respect and knowledge exchanges on emerging Shariah issues. BNM's recent Working Paper on Fundamentals of Modern Money and its Application to Central Bank Digital Currency (CBDC): An Exploratory Shariah Analysis[7] reflects our efforts to advance applied Shariah research and stimulate global discourse on pertinent forward-looking topics, thus reinforcing Malaysia's role in shaping the future of Islamic finance.

[7] *BNM Working Papers WP3/2025 - Fundamentals of Modern Money and its Application to Central Bank Digital Currency (CBDC): An Exploratory Shariah Analysis.*

Tone at the top to shape future pathway

For the leaders, the strategic focus is clear: One must lead with purpose. The tone and vision set by BODs, CEOs and shareholders will shape whether Islamic finance continues to deliver on its higher purpose, or converges into a mere parallel, and replicative system to the conventional finance.

In further elevating the role of Islamic finance to support sustainable economic growth and inclusive social outcomes, institutional commitment to value-based intermediation must be strengthened. In achieving this, boardroom leadership is critical. The VBI framework provides a compass for aligning business models with real outcomes. In realising VBI's full potential, BODs must lead with clarity and conviction. This includes embedding VBI into strategy, through clear VBI-aligned Key Performance Indicators (KPIs), and tracking impact meaningfully. Embedding values-based leadership ensures strategies deliver both financial returns and societal impact. A fundamental shift in boardroom discourse, from short-term profit extraction to long-term value creation, shared prosperity, and collaborative stakeholder model – is essential. Strategic alignment with **Shariah objectives** should guide decision-making, encouraging institutions to embrace value creation beyond compliance.

In parallel, driving innovation and transformation requires bold and visionary leadership. Key success factors to harness effective innovation within the financial industry would require **active collaboration across the ecosystem**, including with regulators, industry peers, and relevant stakeholders to shape enabling pathways. No institution can innovate in isolation. Investing in upskilling, particularly in Shariah-compliant product innovation development, cross-disciplinary expertise, and digital literacy are essential to build a future-ready and agile workforce. It is also imperative to create an environment where experimentation of ideas is encouraged, such as through sandboxes or innovation labs, which allows teams to test and refine solutions without fear of failure. Efforts to future-proof the Islamic finance talent pool and expertise could be explored through collaborative initiatives with talent development institutions such as INCEIF University, ISRA, IBFIM, ASAS, and the multitude of other talent or capacity-building providers. These efforts will also enhance Malaysia's global connectivity and reinforce its leadership in Islamic finance.

Conclusion

Islamic finance in Malaysia has evolved significantly over the decades, transforming into a globally recognised and resilient financial ecosystem. Its future hinges on strong leadership and a collective commitment to challenge the status quo and unlock new frontiers while remaining rooted in Shariah principles.

CEOs, board members, and shareholders play a pivotal role in shaping a more inclusive, sustainable, and impactful industry that is not just for today, but for future generations. This responsibility, particularly in upholding the integrity of Islamic finance, is also shared among regulators, financial institutions, and stakeholders, who act as khalifah (entrusted stewards). The Qur'anic guidance to *"Help one another in righteousness and piety…"* (Surah Al-Ma'idah, 5:2) reminds us of our duty to collaborate, innovate, and lead with purpose.

As Malaysians, we are blessed with cultural instincts for values such as trust, fairness, transparency, and social responsibility. Amid rising demand for patient capital and innovative risk-sharing structures, these ethical foundations are not only moral imperatives but strategic advantages for Islamic finance – we must embody the spirit of Shariah and integrate these values into the DNA of our institutions.

While the challenges are real, the opportunities are greater. With foresight, integrity, and a values-driven approach, Islamic finance can continue to evolve to meet the demand while staying true to its higher calling. Its enduring principles and proven progress position it as a vital force not only for Malaysia but for the global ummah and global financial system. The world is evolving, and the opportunity to lead with impact and purpose has never been greater.

Beyond Growth: Building a Resilient Malaysian Islamic Capital Market in the Digital Age

AUTHOR

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As Malaysia's capital market regulator, the Securities Commission Malaysia (SC) has placed the Islamic capital market (ICM) at the centre of its priorities. Over the past three decades, the SC has nurtured and enhanced the ICM ecosystem through various policies and initiatives - from Islamic fund guidelines, the SRI Sukuk Framework, and the Waqf-Featured Fund Framework, to, more recently, the *Maqasid Al-Shariah Guidance Islamic Capital Market Malaysia* **(Maqasid Al-Shariah Guidance)**. Each milestone is a progressive step towards a broader objective: an assurance that Malaysia's Islamic finance industry is not only Shariah-compliant, but also competitive, trusted, and globally relevant.

In terms of the digitalisation of the capital market, the SC has taken a structured and phased approach. This involves establishing avenues for market participation through **Equity Crowdfunding (ECF)**, **Peer-to-Peer (P2P) financing**, and **Digital Investment Management (DIM)**; opening pathways for innovation via the **Regulatory Sandbox**, and providing guardrails through **Digital Asset Exchange (DAX)** registrations.

From an Islamic lens, initiatives such as **FIKRA ACE** accelerate Islamic fintech solutions while the **Maqasid Al-Shariah Guidance** ensures that technology adoption is rooted in the principles of fairness, inclusion, and accountability. It is a consistent approach: **build foundations first, then innovate under supervision**. This ensures each new market development - from robo-advisory to tokenisation pilots – occurs within a regulatory framework that preserves trust, enhances disclosure, and mitigates risks such as money laundering and misuse.

Malaysia's ICM journey demonstrates the value of pairing robust regulatory frameworks with targeted innovation to uplift principles, market investability, and digital readiness.

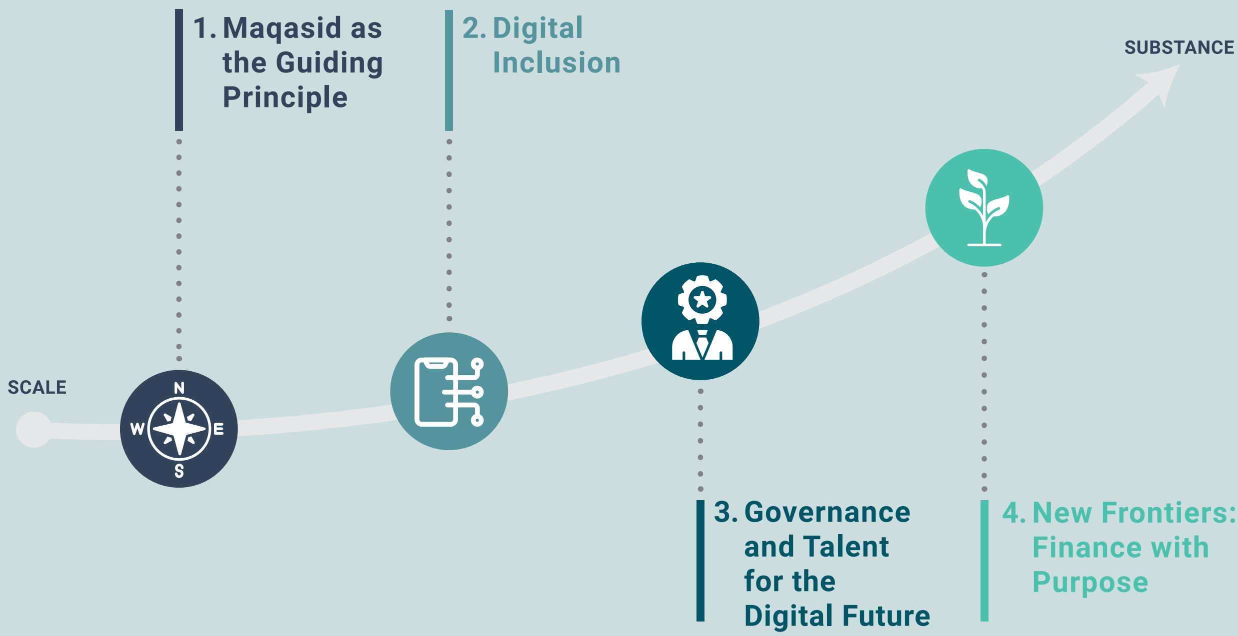
The next question is no longer whether Malaysia's ICM should grow in scale. While scale matters for liquidity, competitiveness, and attracting global investors, a more pressing issue is whether scale translates into meaningful impact. Does it enable issuers to raise funds credibly, provide investors clarity and confidence, and serve wider societal aims including fair and orderly markets?

These questions remain relevant - even as we shift from the industrial age to the information age, and now the digital era – but the context continues to evolve. Digitalisation, fintech, and even the early use of Artificial Intelligence (AI) are reshaping how markets raise and allocate capital. For Islamic finance, the core tenets of trust, governance, and Shariah integrity become even more critical, because technology can accelerate both inclusion and abuse, if left unchecked.

In the digital age, capital is mobilised swiftly, scrutiny is instant, and trust must be continuously earned. Investors will leave markets weighed down by underperforming companies, or if disclosures fail to meet expectations. Younger generations will seek alternatives if the capital market cannot reflect their values or social concerns. Similarly, global investors will hesitate to participate if Malaysia's investment instruments do not meet international benchmarks for efficiency and impact.

The challenge ahead continues to be two-fold: to maintain resilient regulatory foundations that can withstand disruptions, and to create space for strategic innovations such as tokenisation, new digital tools, or AI-assisted compliance.

This article explores four thrusts that will shape Malaysia's ICM as it shifts from scale to delivering substance:



Maqasid as the Guiding Principle

Islamic finance's formative years were focused on building credibility and Shariah-compliant products. Sukuk or Islamic bonds were developed as alternatives to conventional debt instruments, while Islamic funds were cultivated as the preferred investment vehicles. It took courage and conviction for Shariah scholars and market pioneers to declare such instruments permissible, especially at a time when "faith" and "finance" were often perceived as incompatible. In retrospect, these early innovations laid the foundations for Shariah-compliant solutions to stand shoulder-to-shoulder with conventional finance.

Today, credibility depends on delivering value - not only for investors, but also for markets and society at large. The Maqasid Al-Shariah Guidance reflects this shift. Rather than a conceptual idea, **Maqasid al-Shariah** can serve as a genuine differentiator, steering Islamic finance towards the outcomes that truly matter.

Globally, the key considerations for investors include: Are projects sustainable? Are companies managing resources responsibly? Are markets rewarding fairness? While these questions matter, investors are also demanding competitive returns. The challenge lies in meeting both sets of expectations.

Evidence shows this alignment is possible. Issuers with strong sustainability practices typically enjoy tighter spreads and lower financing costs. The SRI Sukuk Framework has attracted billions of ringgit in inflows, reflecting rising environmental, social, and governance (ESG) mandates. Listed companies that integrate ESG considerations into their reporting are better placed to inspire higher levels of investor confidence.

Viewed in this light, Maqasid is not about adding complexity. It is about helping market participants **differentiate** themselves, broaden their investor base, and strengthen trust. By integrating Maqasid-linked metrics into corporate sustainability reports, sukuk disclosures, and Islamic fund performance, credibility with investors can be reinforced. This also provides a platform for the Islamic finance industry to remain principled and competitive.

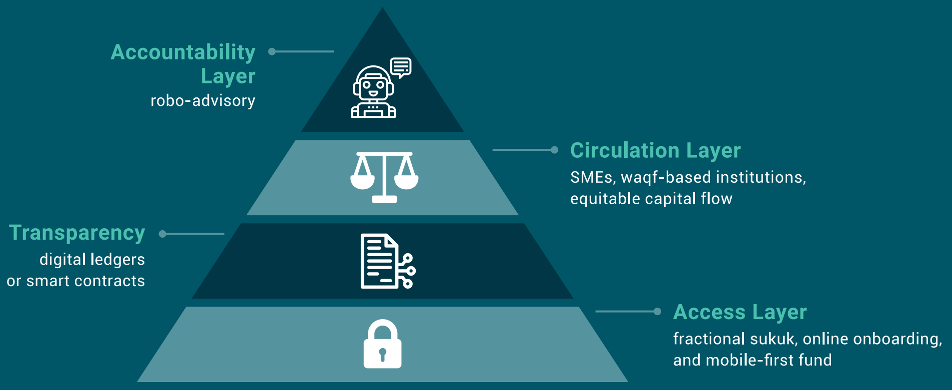
Digital Inclusion

Moving forward, the challenge for Islamic finance is not whether to adopt digital tools, but how it can be leveraged in accordance with **Maqasid al-Shariah**. Digitalisation is no longer a peripheral trend in finance; it is an enabler for capital flows.

Broadly, digitalisation covers diverse areas such as digital platforms, tokenisation, and regulatory sandboxes. From an Islamic perspective, this can be viewed through the lens of a **"Maqasid Tech Stack"**. This is not a formal framework, but a conceptual tool to illustrate that while digitalisation itself is neutral, its outcomes are shaped by its application. The design and implementation will determine whether digitalisation enhances trust and inclusion.

At the base, an **Access Layer** supports participation by lowering barriers to entry. Examples include fractional sukuk, online onboarding, and mobile-first fund distribution. **Transparency** must then be layered above this; with a view to engender trust through disclosures, digital ledgers, or smart contracts. The next level is a **Circulation Layer** that channels capital towards a broad group of stakeholders such as SMEs, social enterprises, and waqf-based institutions - reflecting the Maqasid principle of equitable wealth flows. Finally, an **Accountability Layer** ensures advanced tools such as algorithms and robo-advisors are utilised not only effectively, but ethically.

Maqasid Tech Stack



Viewing digitalisation through this lens brings demand and supply into clearer focus. On the **demand side**, businesses – from SMEs to listed companies – are seeking more effective mechanisms to raise capital. On the **supply side**, investors – ranging from retail customers to global institutions - increasingly expect products that are accessible, transparent, and aligned with their values. Digitalisation connects these two components, helping to reduce friction, improve price discovery, and enhance investor confidence.

Malaysia has witnessed tangible progress in this area. In 2024, ECF and P2P platforms raised RM2.6 billion for smaller businesses, demonstrating the digital use case in broadening access to capital. On the supply side, investors now expect seamless access to Shariah-compliant funds through digital avenues, with disclosures that communicate both financial performance and the impact of investments. Internationally, countries are piloting initiatives involving digital securities and sukuk. The aim is to test and roll out digital infrastructure that emphasises trust and governance as key differentiators.

For Malaysia, tokenisation represents a promising next step. This could facilitate the offering of sukuk in fractional units to retail investors, support MSMEs' capital raising via more cost-effective digital tokens, and enhance the transparency and governance of waqf or zakat related funds through digital ledgers.

Governance and Talent for the Digital Future

In Islamic finance, governance and talent are often framed around all-too-familiar checklists: Shariah compliance, board effectiveness, succession planning, capacity-building programmes, and diversity. While these are important, it should also fully capture the scale of challenges encountered today.

Across global businesses and industries, boards are expected to navigate an evolving landscape shaped by diverse trends - climate risk, sustainability reporting, geopolitical disruptions, and digitalisation, among others. These dynamics demand that boards shift beyond traditional oversight and engage more deeply in long-term value creation.

Within Islamic finance, governance must be more than form; it must embody *amanah* (trust) and the Maqasid values of fairness, accountability, and stewardship. This ensures decisions will be appropriate, effective, and purposeful, even as boardroom discussions evolve.

At the same time, standard setters have moved the goalposts. Domestically, the SC's **Malaysian Code on Corporate Governance** (MCCG 2021) includes strengthened expectations on board independence, gender diversity, and sustainability oversight. A further revision is planned for 2026, reflecting new priorities such as human capital, digitalisation, and long-term value creation. Internationally, the **G20/OECD Principles of Corporate Governance** (2023) for example embed stronger expectations for board oversight of human capital and sustainability.

Yet, research shows that talent strategies are often under-prioritised at board level, even as the demand for new skills continues to grow. **PwC Malaysia's Corporate Directors Survey 2024** finds that while 96% of directors feel confident on routine governance, confidence drops to 69% when assessing the board's own performance and just 39% when addressing underperforming directors - signalling gaps in succession and capability building. Regionally, **58% of ASEAN directors say sustainability/ESG will require more board training**, and 50% say the same for technology and innovation.

PwC Malaysia's Corporate Directors Survey 2024

96%
confident on
Routine Governance

69%
confident on Assessing
Board's Performannce

39%
confident on Addressing
Underperforming Directors

ASEAN directors training needs

58%
Sustainability/ ESG

50%
Technology & Innovation

SC's **Corporate Governance Monitor 2024** shows progress - 30 of the 48 Malaysia Code on Corporate Governance (MCCG) best practices recorded adoption levels above 90% - but also highlights areas needing improvement: refreshing board composition, ensuring more meaningful shareholder engagement, and integrating sustainability more deeply into governance.

Boards are expected to guide, challenge, and hold management accountable, ensuring alignment with long-term objectives. Talent development in this sense, therefore, cannot be reduced to filling positions. It needs to also be about cultivating leaders who uphold principles and values while contributing to strategic decision-making.

In terms of the pool of Shariah advisers and professionals, this requires rethinking their roles and contributions. For example, discussions on tokenised sukuk may likely extend beyond risk, capital adequacy, and Shariah compliance to include broadening retail access and supporting green financing. This shifts the focus from permissibility to competitiveness, risk appetite, and reputation.

It is an emerging reality which shows how conversations have evolved and correspondingly, the competencies and skills required. Therefore, it is crucial for present and future Shariah advisers to be equipped in order to contribute as strategic partners apart from compliance guardians.

Malaysia's Islamic finance pool must aim to cultivate such multi-faceted characteristics to continue to thrive. It is a competitive and strategic imperative for industry participants to bring a multidisciplinary perspective, covering finance, sustainability, and technology, to generate insights and explore new areas of growth and innovation. Such breadth of expertise and depth of values in decision-making will keep governance robust, and talent anchored yet agile in Malaysia's ICM.

New Frontiers: Finance with Purpose

Conventional finance has made great strides with market-based instruments such as green bonds and pension funds, as well as innovative private fund structures and mandates. Despite these efforts, significant funding gaps exist.

Whether it is **climate adaptation and mitigation, ageing populations, or intergenerational wealth transfer**, the common thread is enhancing resilience – to protect lives, livelihoods, and dignity amid economic and environmental shifts. These are not separate themes, but elements of an emerging frontier - one that will require finance that is purposeful yet sustainable.

This is where Islamic finance has an opportunity to stamp its mark. Its value proposition lies in its purpose and design. By embedding **risk-sharing, intergenerational accountability, and social finance integration**, Islamic finance can provide financing and investment structures that make resilience not only aspirational, but investable:

Risk-sharing

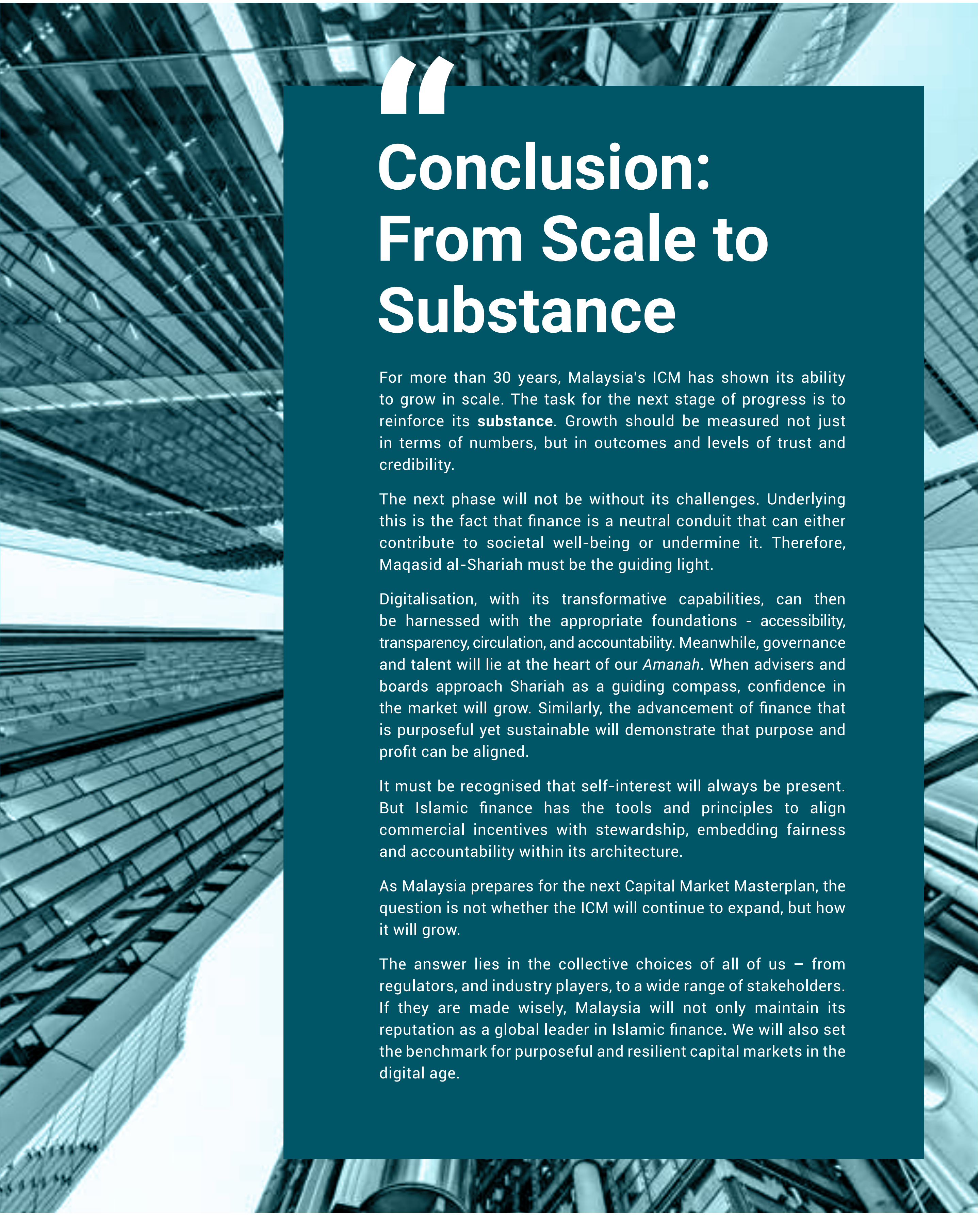
enables investors to participate in projects with uncertain cash flows. For instance, flood defences or elderly care infrastructure can be financed by distributing risk more equitably across public, private, and philanthropic sources of capital.

Intergenerational accountability

aligns with the objectives of family offices managing legacy wealth. For example, the sukuk structure could be remodelled to enable a portion of returns to be earmarked for future beneficiaries, in alignment with family continuity and the Maqasid principle of protecting future generations.

Social finance integration

through mechanisms such as waqf or zakat, which can be used to subsidise resilience outcomes without distorting commercial returns.



Conclusion: From Scale to Substance

For more than 30 years, Malaysia's ICM has shown its ability to grow in scale. The task for the next stage of progress is to reinforce its **substance**. Growth should be measured not just in terms of numbers, but in outcomes and levels of trust and credibility.

The next phase will not be without its challenges. Underlying this is the fact that finance is a neutral conduit that can either contribute to societal well-being or undermine it. Therefore, Maqasid al-Shariah must be the guiding light.

Digitalisation, with its transformative capabilities, can then be harnessed with the appropriate foundations - accessibility, transparency, circulation, and accountability. Meanwhile, governance and talent will lie at the heart of our *Amanah*. When advisers and boards approach Shariah as a guiding compass, confidence in the market will grow. Similarly, the advancement of finance that is purposeful yet sustainable will demonstrate that purpose and profit can be aligned.

It must be recognised that self-interest will always be present. But Islamic finance has the tools and principles to align commercial incentives with stewardship, embedding fairness and accountability within its architecture.

As Malaysia prepares for the next Capital Market Masterplan, the question is not whether the ICM will continue to expand, but how it will grow.

The answer lies in the collective choices of all of us – from regulators, and industry players, to a wide range of stakeholders. If they are made wisely, Malaysia will not only maintain its reputation as a global leader in Islamic finance. We will also set the benchmark for purposeful and resilient capital markets in the digital age.

Inclusion meets innovation: Why Southeast Asia is the next frontier for Islamic finance

AUTHOR

Kelvin Tan
Chief Executive Officer
audax

SUMMARY

Kelvin Tan highlights the growing role of Southeast Asia as the new frontier for Islamic finance, with the sector projected to exceed US$1 trillion by 2026. Malaysia continues to lead with its mature regulatory frameworks, sukuk markets, and Islamic fintech sandbox, but fresh opportunities lie in emerging markets. Indonesia, despite having the world's largest Muslim population, has low banking penetration, leaving room for mobile-first and digital Islamic banking to reach millions of unbanked and underbanked citizens. In the Philippines, where most Muslims live in underserved areas of Mindanao, digital Shariah-compliant platforms can provide vital access to financial services, while in Singapore, the focus is on structuring cross-border sukuk and driving fintech innovation. Tan argues that digitalisation is the great enabler, lowering costs and levelling the playing field for smaller players, while also meeting the expectations of younger, digital-native consumers. He stresses that collaboration among banks, regulators, and fintechs will be crucial to scaling inclusive solutions. If done right, Southeast Asia can set the global standard by showing how Islamic finance can be both inclusive and innovative, marrying faith-based principles with next-generation digital infrastructure.

It should come as no surprise that Southeast Asia's burgeoning Islamic finance sector is set to surpass US$1 trillion by the end of 2026 according to Fitch Ratings' latest estimates. Malaysia, the world's largest sukuk issuer, has been the sector's undisputed leader for decades. With mature regulatory frameworks, world-class sukuk markets, and a high penetration of Shariah-compliant banking products, the country has stood as a benchmark for how Islamic banking can flourish at scale.

However, across the region, new markets are beginning to emerge as dynamic engines of growth. For one, Indonesia, home to the world's largest Muslim population, is still relatively underpenetrated when it comes to Shariah-compliant products, accounting for a mere US$162 billion in Islamic finance assets in 2023. In the Philippines, with roughly 7 million Muslims concentrated in the south of the archipelago, Islamic finance is proving to be a vital cornerstone of financial inclusion in Mindanao through Shariah-compliant offerings. Singapore — though a minority Muslim market — has potential to serve as a structuring centre for cross-border sukuk and Islamic fintech innovation.

In my view, the sector is now at an inflection point where growth is being driven by new markets in this part of the world, as well as by a fortuitous mix of market demographics and accelerating digitalisation. Mobile-first banking, embedded finance, and Banking-as-a-Service platforms are removing barriers that once kept Shariah-compliant offerings out of reach. Together, these forces are reshaping Islamic finance from the margins to the mainstream.

Setting the stage

For the past 12 years, Malaysia has continued to top the Islamic Finance Development Indicator, a composite index developed by London Stock Exchange Group in partnership with the Islamic Corporation for the Development of the Private Sector. Today, almost 50% of its total banking assets are Shariah-compliant, a level of penetration that few countries globally can match.

Over the years, the country has encouraged innovation to flourish in the sector through its Islamic fintech sandbox, established by Bank Negara Malaysia and the Securities Commission, to allow new digital solutions — from Shariah-compliant robo-advisors to peer-to-peer lending platforms — to be tested under regulatory oversight. In fact, earlier this month, the Securities Commission Malaysia, in partnership with sovereign wealth fund Khazanah Nasional, announced it would be rolling out tokenised bonds and sukuk as early as 2025, lowering the barriers to entry for regular Muslim Malaysians to fractionally own shariah-compliant assets.

By marrying strong governance with room for experimentation, Malaysia is demonstrating how regulation can be both protective and progressive, shaping the standards and practices that neighbours around the region are closely watching.

The next frontier

If Malaysia represents Islamic banking's maturity, then Indonesia represents its potential. In seeking to grow its share of Shariah-compliant banking assets, government initiatives such as the National Committee for Islamic Economy and Finance (KNEKS) merged several Islamic banks into Bank Syariah Indonesia (BSI) to strengthen the domestic sector's competitiveness on the global stage. But policy alone won't be enough.

Indonesia's banking penetration remains relatively low with 80% of its population classed as both unbanked and underbanked as of 2023. Yet, much of its population is young, mobile-first, and digitally savvy, making *digital* Islamic finance the natural path forward. Mobile wallets, embedded finance solutions, and micro-savings apps offer a way to reach millions of unbanked and underbanked Indonesians at scale, while Shariah-compliant SME financing products can unlock growth for the backbone of Indonesia's informal economy. In this way, Indonesia is well-positioned to leapfrog directly into a digital-first model for Islamic banking, setting precedents for the region and beyond.

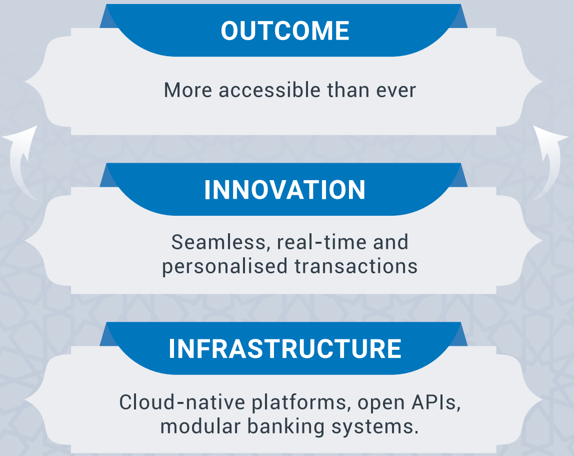
A similar narrative is playing out in the Philippines where Islamic finance is increasingly seen as a driver for inclusion. Only a few years ago, lawmakers passed the Philippine Islamic Banking Act of 2019, providing a legal framework for new Islamic financial institutions to be established under the central bank's supervision. But with rural communities in Mindanao, where most of the country's Muslim population is concentrated, often far from brick-and-mortar back branches, digital platforms are set to be the gamechanger.

In a country where remittances are a cornerstone of the economy, Shariah-compliant e-wallets, microfinance apps, and remittance-linked Islamic savings products could dramatically expand financial inclusion. After all, for these communities, Islamic banking is not a niche preference but the only acceptable gateway into the financial system, making it a developmental imperative that could unlock entrepreneurship, improve financial security, and drive economic mobility in line with faith-based principles.

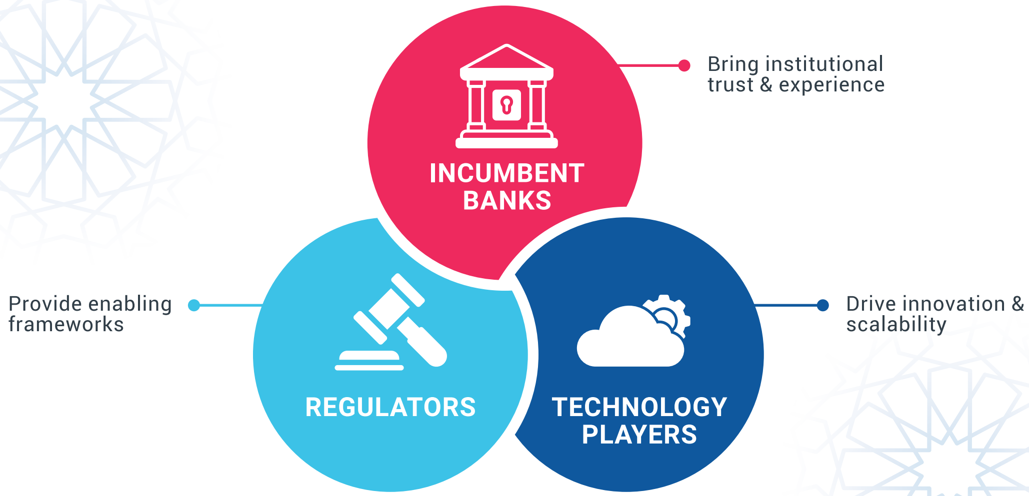
Going digital as the great enabler

What sets this moment apart for Islamic banking is the speed and scale at which digital transformation is unfolding — and the economics that now make this more accessible than ever. Today, cloud-native platforms, open APIs, and modular banking systems mean that Islamic finance products can be designed, tested, and scaled faster and more cheaply than before. This means a mid-sized bank in Indonesia or a cooperative lender in Mindanao can now offer Shariah-compliant savings, financing, or payments without having to replicate the full legacy infrastructure of a conventional bank.

In this sense, digital transformation is all about levelling the playing field, allowing for a more diverse market of solutions to cater to the needs of different consumers. This is particularly critical in Southeast Asia where a new generation of banking customers is coming to the fore. These digital natives expect the very same experiences they have on their favourite smartphone apps to be replicated in their banking transactions: seamless, real-time, and personalised. To keep pace, Islamic banking must use digital channels to deliver services in ways that align with both faith and modern consumer expectation.



Capturing the momentum



However, seizing these opportunities requires collaboration. Incumbent banks bring deep institutional trust; regulators provide the enabling frameworks; and technology players unlock scalability, and the innovation required to capture an incoming generation.

This is the spirit behind our very own partnership with Maybank Islamic, which married the bank's decades of Shariah-compliant banking expertise with our modular, cloud-native digital banking platform. Together, we've shown how traditional strengths and new capabilities can reinforce one another to deliver new products faster but with the flexibility to adapt as customer and market needs evolve.

Beyond private sector partnerships, regional collaboration at the regulatory level will also be critical to unlock Shariah-compliant cross-border capital flows, all while being underpinned by compliant-by-design technological infrastructure that can give banks and fintechs the operational backbone to scale their offerings. Partnerships, in other words, are not optional.

A model for the rest of the world to follow

For Southeast Asia, the stakes are high. Done right, Islamic banking can become both a tool of financial inclusion and a driver of innovation — one that not only serves Muslim-majority markets but also positions the region as a global leader in ethical finance. If what we're seeing in the market is any indication, I believe that the future of Islamic finance will be both digital and inclusive.

By combining Shariah-compliant principles with next-generation banking infrastructure, Southeast Asia has the opportunity to set the global standard for what Islamic banking can achieve in the 21st century.

Sustainable Islamic Finance: Islamic Finance's role in the ESG Agenda

ABSTRACT

Islamic finance (IF), based on the core principles of prohibition of riba (interest), elimination of gharar (excessive uncertainty), emphasis on real economy transactions and social justice, has been established and practised as a values-based financial system that strongly aligns with environmental, social and governance (ESG) goals. Over the last few years, IF has experienced renewed growth and product innovation, primarily due to its strong alignment with the sustainable finance agenda. Islamic social finance, including zakat, waqf, and Islamic microfinance, is being leveraged to combat poverty and promote inclusion. This article distils the IF's position today, demonstrates how IF aligns with ESG (with particular emphasis on the Social pillar), and gives real-world examples and practical takeaways for practitioners.

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INTRODUCTION

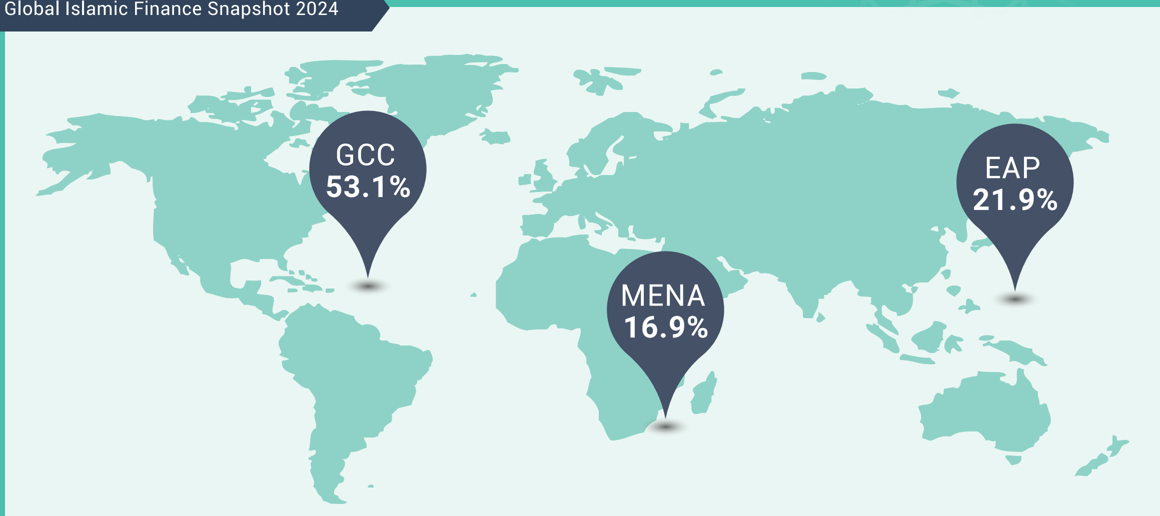
The unprecedented economic turmoil and global supply chain disruptions caused by the recent geopolitical situation have accelerated the need for firms and individuals to seek and rely on sustainable financing structures that are agile, adaptable, and transformable.

Islamic social finance, through the institutions of Waqf (Islamic endowments), zakat (obligatory charity), Sadaqah (voluntary charity), Qard hasan (interest-free loans), and crowdfunding platforms, has the opportunity to provide the much-needed relief for poverty alleviation, economic growth and sustainable development in the challenging economic times marred by pandemic, geopolitical issues and climate change. Islamic finance can play a huge role in economic recovery from volatile economic conditions and can provide a vision for a new era of human development based on a blend of both the United Nations Sustainable Development Goals (SDGs) and the Maqasid al-Shariah (Objectives of Islamic law).

For instance, waqf forms the focal point of social inclusion through the utilisation of sustainable, perpetual finance for social schemes such as education, healthcare, and poverty alleviation, thereby supporting vulnerable populations and fostering socio-economic development. By applying endowment funds for the public good and investing in plans that generate long-term income, waqf facilitates consistent sources of finance for schemes that promote equitable wealth distribution and improve living standards for future generations.

State of Islamic Finance Industry

Global Islamic Finance Snapshot 2024



The global IF industry continued to expand in 2024, recording a robust 14.9% year-on-year growth to reach USD 3.88 trillion in total assets[1]. While Islamic banking remains the dominant segment, accounting for over 70% of IF assets in 2024, strong year-on-year growth in the Sukuk (Islamic Bond) sector (25.6%) and the Takaful (Islamic insurance) sector (16.9%) underscores the increasing momentum of non-bank segments within the IF. As of the end of 2024, the Gulf Cooperation Council (GCC) region accounted for 53.1% of total global IF assets. The East Asia and Pacific (EAP) region followed with 21.9%, driven by the well-established Islamic finance ecosystems of Malaysia and Indonesia. The Middle East and North Africa (MENA, excluding GCC) contributed 16.9%, while other regions, such as Europe and Central Asia (ECA), South Asia (SA), and Sub-Saharan Africa (SSA), held relatively small shares but represent emerging growth frontiers.[2]

In alignment with the ESG agenda, the issuance of sustainable Sukuk, such as green Sukuk and sustainability-linked Sukuk, has been increasing. Fitch Ratings stated that the global value of Shariah-compliant bonds focused on ESG expanded by 23% year-over-year to USD 45.2 billion in outstanding value as of 2024. This growth outpaced the global ESG bond market, which saw a 16% increase. The analysis added that countries such as the UAE, Indonesia, and Malaysia would play a key role in driving the growth of ESG sukuk.[3]

Growth by segment

Takaful (Islamic Insurance)
+16.9%

Sukuk (Islamic Bonds)
+25.6%

Islamic Banking
+70%

[1] *https://www.ifsb.org/wp-content/uploads/2025/05/IFSI-Stability-Report-2025.pdf*
[2] *https://www.ifsb.org/wp-content/uploads/2025/05/IFSI-Stability-Report-2025.pdf*
[3] *https://www.fitchratings.com/research/non-bank-financial-institutions/esg-sukuk-to-cross-usd50-billion-in-2025-key-esg-funding-role-in-emerging-markets-21-01-2025*

Islamic Finance Principles are Aligned to the ESG Agenda

Islamic finance institutions (IFIs) do not need to make any changes to integrate the ESG agenda into their operational framework, as it is inherently embedded in their working principles. What follows is the real mapping of traditional Shariah principles to ESG concepts, which is useful for communicating this relationship to IFIs stakeholders or while integrating ESG frameworks.

1. The prohibition of Riba (interest) encourages financing structures tied to underlying real economic activity, such as profit-and-loss sharing (Mudarabah/Musharakah) and asset-backed finance (sukuk). This reduces speculative or excessively leveraged exposures with socially destabilising potential, directly tied to Governance (G) and Social (S) aspects.

2. Avoidance of excess Gharar (uncertainty/excessive speculation) enables better risk disclosure, more transparent contracts and prudent governance tied to the Governance (G) element.

3. IF emphasis on real assets and productive activity anchors financing to tangible environmental projects such as energy and infrastructure, and productive social outcomes such as housing, SME financing ties up well with the Environmental (E) and Social (S) agenda of ESG.

4. Prohibition of harmful sectors like alcohol, gambling and tobacco overlaps with ESG negative screening and fulfils all three elements (Environmental/Social/Governance).

5. Zakat, waqf and social responsibility are natural mechanisms of IF for redistribution, poverty alleviation and long-term investments in the community, which gel well with the Social (S) aspect of ESG.

It is evident from the above mapping that IF is not an ESG add-on, but in many ways, ESG is an extension and modern expression of Islamic finance's traditional values. That being said, operational practices such as ESG measurement, third-party verification, and disclosure still need to be developed and standardised in most Islamic jurisdictions.

Islamic Finance's Contribution to Social & Financial Inclusion

While IF is positively contributing to environmental objectives by issuing green sukuk and financing renewable energy, its comparative advantage presently lies in the Social aspect, which is highlighted by certain real-life projects.

Financial inclusion through Islamic microfinance and interest-free models: Akhuwat[4], a Pakistan-based interest-free microfinance that provides Qard-hasan and complementary social services. Akhuwat's model revolves around zero-interest loans, rigorous repayment discipline, and converting borrowers into donors, a true model of social inclusion that extends to the very poorest.

Amanah Ikhtiar Malaysia (AIM): One of Malaysia's oldest microcredit institutions provides interest-free financing to rural and low-income households to reduce economic vulnerability among the majority of clients. Islamic microcredit products such as Mudarabah, Murabaha, or interest-free programmes reduce cultural and religious access barriers for practising Muslims.

Zakat potential and magnitude: Zakat national institutions, such as Indonesia's BAZNAS[5] collected approximately IDR 32.3 trillion (USD 2 billion) as zakat funds in 2023. Zakat, when combined with good governance, can be a valuable complementary financing channel for poverty reduction and social safety nets.

Waqf (endowments): Cash waqf and monetised waqf properties are increasingly being utilised to fund education, health and affordable housing. Combining waqf with Fintech and commercial Islamic finance, such as waqf asset management, can multiply the social impact of the waqf.

Linking commercial IF with social programmes: Banks and issuers are experimenting with blended models where commercial Islamic banks are partnering with zakat agencies or waqf institutions to launch corporate social responsibility Shariah-compliant instruments. These funds can be used to finance MSME training, affordable housing and social infrastructure. Such blended structures can support commercial scale while preserving social outcomes, a practical bridge between ESG investors and financial inclusion initiatives.

[4] *https://akhuwat.org.pk/about*
[5] *https://baznas.go.id/*

Although there are numerous overlaps between IF objectives and the ESG agenda, significant roadblocks remain to full integration. There is no single globally agreed Shariah-ESG standard. There are varied Shariah and sustainability practices across jurisdictions. This can only be overcome with the harmonisation of Shariah-based ESG standards. Islamic green and social impact measurement needs better metrics and third-party assurance. Data gaps have been mapped by LSEG and UNDP in green sukuk flows.[6] Regarding the governance of social funds, improved governance and disclosure of zakat and waqf funds are necessary to scale up and connect with formal finance. Zakat institution research shows progress, but consistent issues with disclosure and effective disbursement remain.

Conclusion

It can be seen that Islamic finance is already making a positive contribution to the ESG agenda, specifically to the Social pillar, through built-in redistributive instruments (zakat, waqf), interest-free and participatory microfinance, and a steady pipeline of labelled environment and sustainability sukuk. For IF practitioners and policymakers, the immediate opportunity is to establish standards that are credible, integrate social and commercial capital, scale inclusive digital distribution, and enhance governance. This will realise IF's full potential, and remain aligned with Shariah values, while meeting global investor demand for measurable ESG impact.

6 https://www.undp.org/sites/g/files/zskgke326/files/2025-05/undp-kfh-green-sukuk-tool-for-sustainable-financing.pdf?utm_source=chatgpt.com

Professionalising Shariah Advisory: Laying the Foundation for Global Recognition and Impact

AUTHOR

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Association of Shariah Advisors in Islamic Finance Malaysia (ASAS)

ASSOCIATION of SHARIAH ADVISORS in ISLAMIC FINANCE

This article examines the evolution of Shariah advisory in Malaysia from its humble beginnings in the 1980s to its current role as a professionalised discipline central to Islamic finance governance. Initially led by academics with limited financial training, Shariah advisory has since matured in scope and sophistication, spurred by Malaysia's regulatory frameworks and the growing complexity of Islamic finance. Makhtar Abdullah underscores the need to professionalise Shariah advisors through clear standards, accountability, and continuous training, noting that inconsistent practices across jurisdictions can undermine trust and growth. ASAS, established in 2011, has been pivotal in this effort with certification programmes such as the Certified Shariah Advisor (CSA) and Certified Shariah Practitioner (CSP), which bridge religious scholarship and technical expertise. However, challenges remain, including a shortage of advisors, an ageing talent pool, and the demands of fintech, AI, and ESG. To address this, ASAS has launched succession and talent development initiatives, alongside efforts to integrate Shariah advisors into board-level strategy and governance. The article concludes that professionalising Shariah advisory is not just about standardisation but about ensuring future readiness, global recognition, and the continued credibility of Islamic finance, with Malaysia positioned as a benchmark for excellence.

Introduction: The Evolution of Shariah Advisory in Malaysia's Islamic Finance

Malaysia pioneered Islamic banking in 1983, marking the beginning of a transformative journey for the country's financial landscape. Starting with a handful of Shariah scholars, primarily from local universities with backgrounds in Islamic studies, Malaysia's Islamic finance sector has grown exponentially over four decades. The need for skilled Shariah advisors emerged alongside this growth, fuelled by innovations such as the Islamic banking window models initiated after 1993, and Malaysia's pioneering Islamic Finance (IF) regulatory frameworks.

In the early years, Shariah advisors were mostly academicians who taught themselves the technical aspects of finance, law, and accounting as applied to Islamic finance. Some pursued external professional qualifications or industry attachments, gaining practical experience to complement their religious and jurisprudential knowledge. They were supported by academic research and grew together with the younger generations of Islamic financial workforce along with the growing guidelines from the regulators. The setup was basic, yet practical, but as the industry matured, so did the expectations of Shariah advisory playing a more sophisticated and integrated role in industry growth, governance, product innovation, and internationalisation.

This article explores the evolution of Shariah advisory in Islamic finance, focusing on the role of the Association of Shariah Advisors in Islamic Finance Malaysia (ASAS) in shaping its professionalisation. It highlights key foundational programmes, ongoing strategies, and forward-looking initiatives aimed at aligning Shariah advisory practices with global standards. The discussion also considers how the industry is responding to emerging challenges, including developments in fintech and increasing emphasis on Environmental, Social, and Governance (ESG) principles.

Strengthening Governance Through Professional Shariah Advisory

Strong governance is very important in Islamic finance today. As the industry grows and becomes more global, there is greater demand for clear rules, transparency, and accountability. One of the key parts of Islamic finance governance is Shariah advisory, to ensure that products, services, and operations follow Shariah principles.

However, in many places, the practice of Shariah advisory still lacks clear standards. There are differences in how advisors are trained, certified, and how they work. This can lead to confusion, inefficiency, and even loss of trust in the system.

That is why professionalising Shariah advisory is now more important than ever. By setting proper standards, recognising qualifications, and supporting continuous learning, we can strengthen the quality and consistency of Shariah advice. This will help the industry gain wider acceptance, both locally and internationally.

By 2011, the growing complexity and scale of the Islamic finance sector compelled the Shariah fraternity to institutionalise their professional body. ASAS was formally established with a clear vision: to promote and uphold the highest levels of professionalism and ethics in Shariah advisory services, both domestically and internationally.

Bank Negara Malaysia (BNM), the nation's central bank and Islamic finance regulator, recognised ASAS's strategic role in the Financial Sector Blueprint 2011-2020, endorsing it as the responsible body for enhancing qualifications and professionalism among Shariah advisors worldwide.

The Current Landscape of Shariah Advisory and Why Professionalisation Is Important

Today, Shariah advisors play a critical role in the development and governance of Islamic financial products and services. However, their roles and responsibilities vary from one institution to another and from one country to the next.

Some jurisdictions have strong regulatory frameworks for Shariah governance, while others leave it to market practice. In many cases, advisors operate without standardised qualifications, continuous professional development, or a clear career path. As a result, the quality and consistency of Shariah advice can vary widely even within the same region.

Without professional structures in place, there is a risk of misinterpretation, duplication of fatwas, and reputational issues. This makes it difficult for the industry to grow with confidence, especially in cross-border markets.

Professionalising Shariah advisory is no longer an option; it is a strategic necessity. Like doctors, lawyers, or accountants, Shariah advisors hold a position of trust and influence. Their advice affects not only products but also the reputation of the institutions they serve. They are one of the pivotal features that differentiates Islamic finance from the conventional or traditional finance.

Creating a proper professional framework would solve many of these problems. Firstly, it ensures that advisors have the right combination of knowledge both in Islamic jurisprudence and in modern finance. They would also be trained in ethical standards, so they understand not just what is legal under Shariah, but what is responsible and fair.

Besides, a professional structure helps make their work more consistent. With recognised guidelines and standards, institutions can expect a higher level of uniformity in Shariah decisions, regardless of who the advisor is or where they are based.

Next, professionalisation encourages ongoing learning. The financial world is always changing. New products, technologies, and regulations continue to emerge. A structured professional body can ensure that Shariah advisors keep their knowledge up to date and are able to provide relevant and timely advice.

Lastly, it introduces accountability. When advisors are part of a recognised profession, they can be held to account for their actions. This reduces the risk of poor advice, ensures better governance, and increases public confidence in the Islamic finance system.

By professionalising this field, we are not only raising the quality of Shariah advisory but also strengthening the governance and credibility of the entire Islamic finance industry.

Designing a Cross-Disciplinary Certification: Certified Shariah Advisor (CSA) and Certified Shariah Practitioner (CSP)

In 2017, the Governor of BNM, Tan Sri Muhammad Ibrahim, launched two landmark certification programmes by ASAS in conjunction with BNM's 20th Shariah Advisory Council anniversary:

Certified Shariah Advisor (CSA)

Designated specifically for Islamic studies scholars, this programme expanded their expertise in finance, economics, accounting, law, capital markets, takaful, and product structuring. The focus was to equip Shariah scholars with a thorough understanding of financial and legal intricacies, enabling them to effectively oversee Shariah governance, evaluate accounting treatments, and ensure products were both Shariah-compliant and commercially viable.

Certified Shariah Practitioner (CSP)

Designed for technical professionals such as accountants, lawyers, economist, engineers, auditors and others, this pathway provided foundational Islamic jurisprudence focused on Fiqh Muamalat (Islamic transactional or classical laws and principles) and Shariah principles. This empowered non-Islamic studies professionals to better appreciate Shariah rationales behind compliance requirements, diverse school of thought (*Mazhab*) interpretations, and jurisdictional nuances. Understanding how new "fatwas" or rulings are made enables professionals to better understand needs in the adoption of accounting treatments, legal provisions, contracts, and transactions, without compromising Shariah principles.

The CSA and CSP programmes created a unique "crossbreeding" of expertise—breaking silos between religious scholars and technical experts. Both groups gained valuable insights into the other's domain, resulting in Shariah advisors who were not only guardians of Shariah purity but also competent strategists fluent in modern financial operations and governance.

CSA and CSP certifications are now part of the essential qualifications considered during the appointment or renewal of Shariah committee members in Islamic financial institutions (IFIs) under the BNM regulatory framework.

This integration underlines the critical role that professional standards and continuous training play in maintaining Shariah governance integrity and industry credibility. ASAS is aware of the demand and working closely with all talent development initiatives providers to provide the necessary support.

The Intersection of Regulation, Governance, and Professional Growth

The trajectory of Islamic finance in Malaysia mirrors the maturation of its regulatory and governance frameworks. With sophisticated IFI Boards demanding solid Shariah oversight and engagement in broader industrial transformation, ASAS recognised the need for Shariah advisors who can meet high expectations and contribute strategically beyond compliance.

The seniority of the Islamic finance workforce strongly challenges the Shariah Advisor to outperform their benchmarks. The experienced IFI's Board of Directors demands solid engagements for wider industrial transformation. Advancement of regulatory and governance in Malaysia requires robust and detailed supervision from all Shariah fraternity and industry players.

The introduction of digital banking, fintech innovations, artificial intelligence, and digital assets has elevated the stakes. Shariah advisors must now possess not only jurisprudential and technical knowledge but also agility in addressing emerging technologies and financial innovations swiftly and with authoritative references.

Furthermore, the global rise of Environmental, Social, and Governance (ESG) considerations has introduced new dimensions for Shariah advisory. Upholding Maqasid Shariah (objectives of Shariah) within ESG frameworks is becoming imperative to ensure ethical finance translates into tangible sustainability practices. Shariah advisors' adaptability to align moral imperatives with evolving societal values helps financial institutions stay relevant and responsible.

Advancing Shariah Leadership in Global Islamic Finance under the BNM Financial Sector Blueprint 2022–2026

As Malaysia continues to position itself as a global leader in Islamic finance, strengthening the professionalism and credibility of Shariah advisory functions has become more critical than ever. In line with the *Financial Sector Blueprint 2022–2026* issued by Bank Negara Malaysia (BNM), the professionalisation of Shariah advisory is not only essential for upholding the integrity of Islamic financial institutions but also for enhancing their global competitiveness and trustworthiness.

The Blueprint underscores the importance of sound Shariah governance and robust advisory frameworks in supporting a resilient and inclusive financial sector. Among the key initiatives highlighted are:

Enhancing the qualifications and competency standards

of Shariah advisors through structured certification and continuous professional development, spearheaded by institutions such as International Shariah Research Academy for Islamic Finance (ISRA) and the Association of Shariah Advisors in Islamic Finance Malaysia (ASAS).

Strengthening the role and accountability of Shariah Committees

ensuring they are empowered to provide independent and well-informed decisions aligned with both Shariah principles and regulatory expectations.

Promoting the use of technology and digital tools

to support effective Shariah compliance and review processes, thereby increasing operational efficiency and transparency.

Encouraging cross-border harmonisation

of Shariah interpretations and governance standards to support the internationalisation of Islamic finance.

By laying a strong foundation for professional excellence, Malaysia aims to create a new generation of Shariah advisors who are not only well-versed in Islamic jurisprudence but also equipped with financial acumen, regulatory awareness, and global insight. This multidimensional expertise is crucial to meeting the evolving demands of the Islamic finance industry, particularly as innovation and sustainability become key priorities.

Recognising the continued importance of Islamic finance in the regional and global economy, the BNM Financial Sector Blueprint 2022-2026 assigns ASAS on a critical role under Strategic Thrust 5, which is to advance value-based finance through Islamic finance leadership.

ASAS's mission aligns with serving as a global gateway for Islamic finance markets in Asia and Organisation of Islamic Cooperation (OIC) nations by fostering a vibrant talent ecosystem integrated with academic and professional institutions such as The International Centre for Education in Islamic Finance University (INCEIF) and Islamic Banking and Finance Institute Malaysia (IBFIM).

Addressing Talent Shortages and Succession Planning: The Shariah Committee Succession Plan Initiative (SCSPI)

A concerning challenge is the aging profile of Malaysia's Shariah advisors, with many aged above 50, who have formed the backbone of the industry since the late 1990s. The regulatory cap of nine years for a Shariah advisor's tenure in a single IFI, combined with retirement, threatens to create a vacuum in Shariah advisory expertise.

Furthermore, the demand-supply mismatch has forced about 30% of Shariah advisors to serve multiple institutions (not within the same industry or competitors) simultaneously, a practice permitted by BNM but challenging in terms of governance and workload. It is to our advantage to have all-rounded Shariah Advisors who are exposed to Islamic Banking, Takaful, and Development financial institutions.

They were exposed to the Islamic Capital market through their BNM licensed entities, but the issue of shortage needs to be addressed without further delay. The musical chairs can continue (one Shariah advisor to rotate to another financial institution) but the retirement or death of a few senior Shariah advisors in the past two years has raised the urgency for a succession plan initiative.

ASAS initiated the SCSPI in 2024 following extensive consultations with stakeholders such as Association of Islamic Banking and Financial Institutions Malaysia (AIBIM), Malaysian Takaful Association (MTA), Association of Development Financial Institution of Malaysia (ADFIM), International Council of Islamic Finance Educators (ICIFE) and we also get the support from BNM.The initiative encompasses:

TIER 1

Identification and nurturing of new talent from academia, IFI workforce, and professionals across fields including engineering, biotechnology, environmental science, and ESG-related disciplines. The programme involves intensive boot camps, 8-10 months of on-the-job rotation internships, mentorship, and rigorous evaluation. The strategy is to diversify the pool of potential Shariah advisors by inviting talents from STEM fields to enrich Islamic financial expertise.

TIER 2

Enrolment of appointed candidates into CSA or CSP to build comprehensive cross-domain expertise essential for effective Shariah Advisory.

TIER 3

Continuous professional development (CPD) and leadership training for senior Shariah advisors to prepare them for strategic roles, including board participation and ESG integration.

The engagement of ICIFE and collaboration with regulatory and industry bodies ensures the programme remains rigorous, relevant, and aligned with industry needs globally.

SCSPI will prepare existing Senior Shariah Advisors to become IFIs and Shariah compliant companies Board of Directors (about 800 are listed on Bursa Malaysia) via ASAS collaboration programmes with the Institute of Corporate Directors Malaysia (ICDM) as well as FIDE FORUM. Some of them serve as IFI Shariah committee Chairmen who are also invitees to their respective Board of Directors meetings. The intention is to try to keep them in the financial industry, because they have dealt with various internal and external IFI stakeholders, including regulators, while serving in the industry. We need Shariah-minded board members to connect ESG applications closer to the applications of *Maqasid* Shariah.

Cross-Disciplinary Upskilling: Breaking Silos and Elevating Professionalism

One critical insight emerging is that Shariah Advisory today demands proficiency beyond either Islamic jurisprudence or technical know-how alone.

For example, Shariah advisors fluent in accounting principles and auditing standards can effectively clarify why certain Shariah-compliant transactions require specific treatments, bridging gaps with auditors and regulators. Likewise, legal professionals educated in Islamic contract law and financial regulations strengthen the Shariah framing in complex transactions.

Conversely, Shariah scholars equipped with technical and legal literacy can better contextualise rulings and ensure practical applicability in product design and governance.

Such cross-disciplinary fluency curbs risk of misapplication or misunderstanding of Shariah rulings, which can undermine public confidence and expose institutions to reputational and regulatory sanctions. In Malaysia, we are fortunate to have individuals who have memorized the entire Al-Quran (hafiz and hafizah) while also pursuing academic curricula similar to MARA's Ulul-Albab programs. Many of them began their education in religious schools at the primary and secondary levels before advancing to technical disciplines such as accounting, finance, law, or engineering. This combination of strong Islamic foundations and professional expertise enables them to bridge classical muamalat references with contemporary resources, supported by their proficiency in Arabic.

It has been discovered that some financial clarifications and/or deliberations are better handled by technical professionals with wide Islamic transaction knowledge. An accountant can give relevant accounting treatment examples (related to Islamic finance) to their accounting and auditing community. Legal practitioners can relate appropriate legal provisions, terminologies, and applications (related to Islamic finance) to their legal fraternity. Shariah advisors can convince their fraternity and the public better if they can articulate accounting, legal or financial related matters from the Islamic studies perspective (in Arabic if necessary) to their Shariah fraternity. It is very difficult to justify the application of *Riba* in the context of modern financial transactions if Shariah Advisors do not have both skillsets. It is also dangerous to allow incompetent Shariah advisors to clarify modern financial transactions while safeguarding their positions in public, especially in the Muslim community.

Moreover, these skills enable Shariah advisors to participate meaningfully in strategic decision-making, impacting product innovation, compliance culture, ESG integration, and digital transformation.

Governance Enhancements: Integrating Shariah Advisory with Corporate Boards and Secretariat Functions

Governance remains a cornerstone of sustainable Islamic finance. Senior Shariah advisors often serve as Shariah committee chairs and are increasingly participating in IFI Boards of Directors' meetings, influencing policy and strategic direction.

ASAS commenced Tier 3 of SCSPI programme through an ASAS x ICDM Dialogue (Fireside Chat) themed **"Future-Ready Shariah Committees: Leading with Foresight in a Changing Landscape."** The event marked a significant step in advancing leadership readiness and strengthening governance among current and future Shariah Committee members. Beside, FIDE FORUM and ASAS also had opportunities to conduct dedicated in-house programmes for the Boards of IFIs on specific topics. This special programme is important to address specific issues involving policy making, strategic directions and the application of classical Muamalat provisions in modern matured financial ecosystems like Malaysia. Similar needs are also pertinent in other matured financial jurisdictions globally.

Furthermore, ASAS is working closely with the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) on initiatives to upskill the Shariah secretariat teams.

Through this integration, ASAS fosters a governance ecosystem where Shariah compliance is embedded in the highest levels of decision-making, risk oversight, and operational management. This strategic interconnectedness is crucial for adapting to rapid financial innovation and regulatory expectations.

Malaysia's Global Leadership in Shariah Advisory and Islamic Finance Professionalisation

Malaysia's Islamic finance practices, Shariah advisory standards, and professionalisation frameworks serve as global benchmarks for many emerging Islamic finance jurisdictions.

To date, about 19 other countries with an Islamic finance presence have established national Shariah advisory councils. Malaysia's Shariah advisors are already engaged in six of these jurisdictions, a testament to the quality and reputation of Malaysian expertise.

International students who study Islamic finance in Malaysia and are currently working in strategic positions in their countries will have confidence in our Shariah advisors' talents, as they may well also be their lecturers.

Demand for ASAS's CSA and CSP programmes from other countries, either as-is or customised to local contexts, is rising. ASAS actively collaborates with global partners to adapt programmes to diverse legal, regulatory, and cultural settings, ensuring relevance and effectiveness.

Exposure to Malaysian VBI and VBIT models will create exclusive demand for our Shariah Advisors in the global market. We are learning how other countries are growing (or even starting) their Islamic finance industry, post-Covid, and adopting fintech surrounded by matured traditional conventional financial ecosystems.

Beyond certification, Malaysia's Islamic finance ecosystem offers lessons in integrating social finance, fintech innovations, and value-based inclusiveness—insights attractive to OIC nations and emerging markets seeking to replicate Malaysia's success.

Future-Ready Shariah Advisory: Embracing Fintech, AI, ESG and Ethical Finance

The next frontier for Shariah advisory lies in embracing disruptive technologies such as artificial intelligence (AI), blockchain, digital assets, and fintech-enabled financial services.

Shariah advisors must adopt agile mindsets and continuously update their knowledge to provide timely and trusted guidance for digital innovation, ensuring Shariah compliance without stifling creativity and competitiveness.

Similarly, upholding Maqasid Shariah within ESG frameworks allows financial institutions to deliver ethical finance that aligns profit with purpose. Green sukuk, social impact investing, and ESG-linked instruments require Shariah advisors who understand sustainability science and can shape policies reflecting Islamic ethical imperatives.

ASAS's ongoing continuous professional development (CPD) programmes such as "Future-Proofing Shariah Review" focus on preparing advisors with the foresight and skills to navigate these dynamics effectively.

Conclusion: Investing in Future Shariah Talent for a Resilient Islamic Finance Ecosystem

Looking ahead, the professionalisation of Shariah advisory is more than just setting standards; it is an investment in future talent that will sustain and grow the Islamic finance industry. As financial products become more complex and as the industry expands into areas like fintech, ESG, and digital assets, tomorrow's Shariah advisors will need strong Shariah knowledge, commercial awareness, and the ability to navigate new challenges.

This has important implications for boards of licensed IFIs. Boards must ensure their institutions are supported by skilled, professional Shariah advisors who uphold both religious principles and sound governance. Developing Shariah talent is a strategic priority, reflecting a commitment to ethical leadership and long-term success.

ASAS's journey has transformed Shariah advisory from isolated religious counsel to a professional, integrated, and multi-disciplinary function pivotal to the success of Islamic finance nationally and globally. Through strategic certifications, structured succession planning, cross-disciplinary education, governance enhancement, and international collaboration, we are laying a robust foundation for Shariah advisors who are respected, competent, and globally recognised.

As Malaysia's Islamic finance continues to mature, and as regional and global ecosystems expand their Islamic finance footprints, the role of Shariah advisory will become even more critical at the intersection of faith, ethics, risk management, innovation, and public trust.

For the wider industry including regulators, academia, and financial institutions, collaboration is essential. Together, we can build a strong pipeline of future-ready Shariah professionals who will drive innovation, maintain integrity, and expand the global impact of Islamic finance.

The foundation is being laid today. With collective commitment, we can elevate Shariah advisory into a respected, recognised profession that meets the demands of a dynamic and global financial world.

This comprehensive professionalisation initiative exemplifies how Malaysia continues to lead in establishing high standards for Shariah advisory services that balance tradition with modernity, ethics with innovation, and local practices with global needs—all essential for building resilient, inclusive, and value-driven Islamic finance ecosystems.

Membership at a Glance

FIDE FORUM

FIDE FORUM brings together over 600 directors across 94 licensed financial institutions. It is Malaysia's leading community for board leaders committed to governance excellence and sustainable growth.

Membership Categories:

Membership categories ensure that every stakeholder in the financial ecosystem can join the conversation.

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For licensed financial groups	For licensed financial institutions	For non-financial entities that influence or support the sector	For FIDE Programme graduates who meet board requirements

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Islamic banks strengthen balance sheets amid evolving risk and governance priorities

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Islamic banks worldwide continue to build capital and liquidity, led by institutions in Saudi Arabia, Kuwait and the UAE. The TABInsights Islamic Banks Rankings highlight not only financial performance but also governance lessons in risk management, capital planning and sustainable growth across markets.

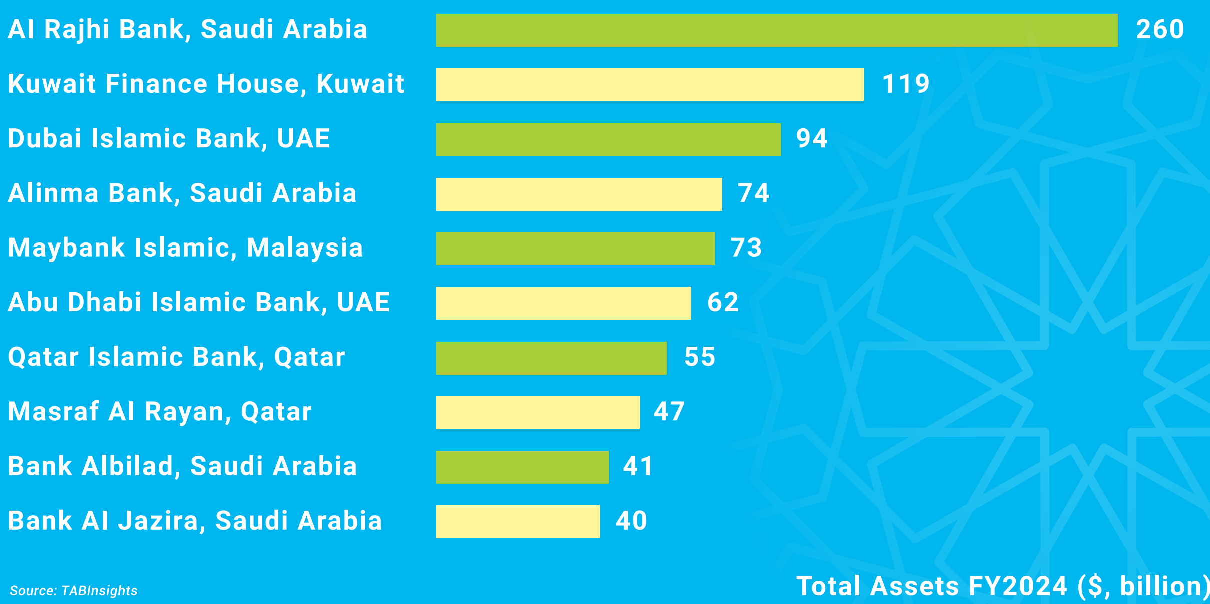
As Islamic banks expand in scale and sophistication, effective board oversight has become a critical driver of financial resilience and long-term sustainability. The 2025 TABInsights Islamic Banks Rankings underscore both financial performance and the governance practices that underpin balance-sheet strength and sustainable growth. By assessing scale, balance-sheet growth, profitability, risk management, capital adequacy and liquidity, the rankings provide a comprehensive view of how boards shape outcomes across the sector.

The assessment covers 100 full-fledged Islamic banks, including 47 from Asia, 39 from the Middle East, nine from Europe and five from Africa. Gulf Cooperation Council (GCC) banks lead in overall financial strength, with Saudi institutions excelling in asset quality, United Arab Emirates (UAE) banks in profitability, Kuwaiti banks in liquidity and Qatari banks in capitalisation. In Asia, Pakistani banks outperformed peers in Indonesia, Malaysia and Bangladesh in balance-sheet growth and profitability, while Indonesia showed resilience in capitalisation and Malaysia led in scale and asset quality. These regional distinctions underscore how governance frameworks interact with local market conditions to influence performance.

Leading GCC banks, including Al Rajhi Bank, Kuwait Finance House (KFH), Dubai Islamic Bank (DIB) and Qatar Islamic Bank (QIB), demonstrate how disciplined governance and strategic board oversight of capital, liquidity, credit quality, cost efficiency and sustainable growth underpin resilience, offering lessons for directors navigating evolving risks.

Al Rajhi Bank is the largest Islamic bank, Maybank Islamic the sole Asian bank in the top 10

Top 10 largest Islamic banks in the world



Source: TABInsights

Capital strength and liquidity are key to board oversight

Top-performing Islamic banks sustain robust capital and liquidity, supported by stable funding bases, enabling them to withstand market shocks while pursuing growth. In 2024, Saudi, Kuwaiti and Qatari banks reported average capital adequacy ratios (CAR) above 19%, reflecting proactive board oversight. Al Rajhi Bank maintained an average Tier 1 ratio of 20% and total CAR of 21% between 2022 and 2024. KFH achieved a CAR of 19.9% after merging with Ahli United Bank while QIB recorded a CAR of 20.9%.

Liquidity positions were equally strong, with all banks meeting Basel III standards. Liquidity coverage ratios ranged from 120% at Al Rajhi Bank to 279% at QIB. Stable funding further reinforced resilience, with Al Rajhi Bank's demand and non-profit-bearing deposits accounting for 73% of total deposits, QIB expanding through digital channels and KFH centralising group liquidity management.

Effective board oversight shapes these outcomes through strategic capital planning, diversified funding and operational efficiency. Al Rajhi Bank issued a $1 billion Sustainable AT1 Sukuk and secured $4.6 billion in syndicated and bilateral deals; KFH launched a post-merger Capital Management Program and issued a $1 billion Senior Unsecured Sukuk; QIB attracted global investors with a $750 million Sukuk; and DIB aligned capital with Environmental, Social and Governance objectives via a $1 billion Sustainable Sukuk. Al Rajhi Bank also approved a 65% stake in Drahim and established the open banking platform neotek, supporting efficient capital allocation across business units.

Leading banks ensure liquidity frameworks comply with Basel III requirements and maintain stable funding structures. KFH implemented country-specific contingency plans for subsidiaries and participated actively in international Sukuk markets. DIB enhanced real-time monitoring, while QIB's Asset and Liabilities Committee oversees liquidity buffers. Forward-looking governance is embedded through stress testing, scenario analysis and contingency planning.

Capital and liquidity planning have evolved from regulatory exercises into core strategic disciplines. Leading banks align capital adequacy with risk appetite and growth strategies while ensuring liquidity frameworks are stress-tested and funding diversified. Independent committees should lead annual reviews of stress tests and contingency plans to address emerging risks, including interest rate shifts, geopolitical shocks and Sukuk market disruptions.

Managing credit quality and concentration risk

Asset quality across the GCC Islamic banking sector improved in 2024, highlighting the critical role of board-supervised risk frameworks. Although GCC banks historically recorded higher non-performing financing (NPF) ratios than their Asian counterparts, severe challenges in Bangladesh pushed its Islamic banks' gross NPF ratio above 40% from 5.2% the previous year, underscoring the urgent need to strengthen governance, risk management and transparency to restore confidence and support sustainable growth.

Leading GCC banks demonstrate strong board oversight of NPF and credit concentration, through diversified financing, industry-specific limits, multi-country operations and sectoral exposure caps. Al Rajhi Bank maintained one of the lowest NPF ratios at 0.8%, with a provision coverage ratio of 159%, by separating its Credit Risk function under a Chief Credit Officer to ensure objective credit decisions, shifting toward lower-risk retail products and diversifying across sectors. KFH applies a three-line-of-defense model with automated rating systems, early warning mechanisms and stress testing to manage sectoral and geographic exposure. QIB held an NPF of 1.86%, well below the Qatari sector average, through conservative underwriting and Sharia-compliant collateral, supported by AI-driven document verification and fraud management systems. DIB's "DRIVE" strategy integrates sectoral and geographic diversification with real-time credit monitoring and Sharia compliance, reinforced by core banking system upgrades in 2024.

How Leading Banks Manage Credit Risk :
Board-Supervised Frameworks Strengthen Credit Quality and Transparency

Diversified Financing

Across sectors and countries to mitigate concentration

Independent Risk Review

Separate credit risk units ensure objective assessment

Early Warning Systems

Proactive detection of financial stress indicators

AI-Driven Monitoring

Supports data analysis and Sharia compliance

Effective governance demands a proactive, forward-looking culture. Leading institutions maintain independent risk-review structures, early warning mechanisms and region-specific credit policies, leveraging AI-driven credit models to detect stress early. Portfolio-level assessments are complemented by cross-sector and cross-geography spill-over monitoring, ensuring that credit risk management remains strategic, Sharia-compliant and aligned with long-term resilience objectives.

Profitability, cost efficiency and digital transformation

Global Islamic banking has seen profitability grow steadily, led predominantly by GCC banks, with the asset-weighted average return on assets (ROA) of the top 100 Islamic banks rising from 1.1% in 2020 to 1.7% in 2024. Profitability increasingly reflects board strategies that align growth with risk appetite, integrate revenue diversification, drive technology investment and enforce cost discipline, prioritising long-term sustainable returns.

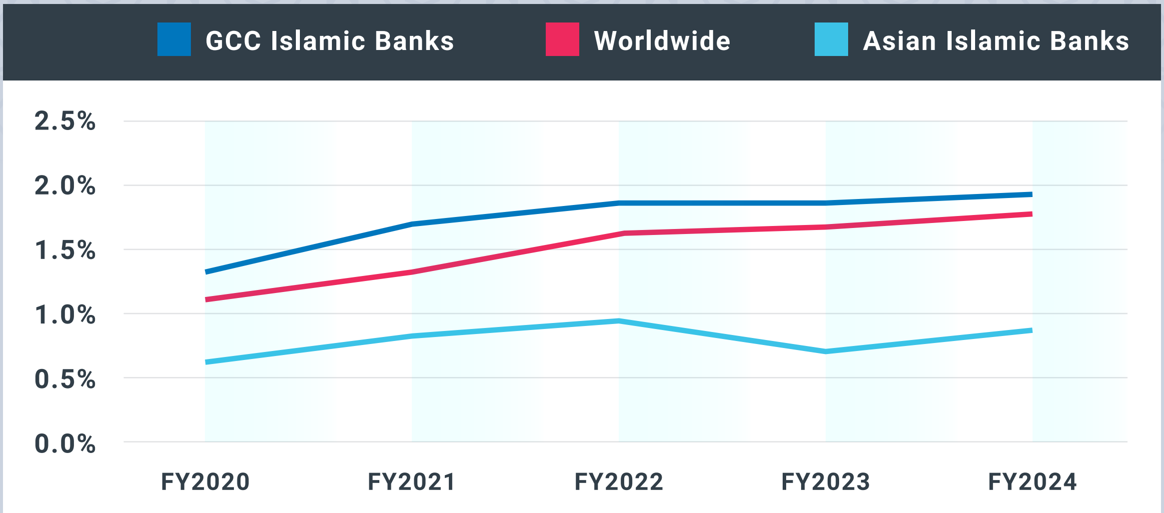
Effective boards guide growth while maintaining stability and diversifying revenue streams. Al Rajhi Bank broadened retail segments and strengthened lending to Small and Medium-sized Enterprises (SMEs) and corporate clients under its “Harmonize the Group” strategy and mandated cross-selling, with 42% of customers using multiple products. QIB maintained conservative underwriting, supporting steady deposit and financing growth, while DIB expanded geographically and diversified SME and corporate business under its 2022–2026 “DRIVE” strategy.

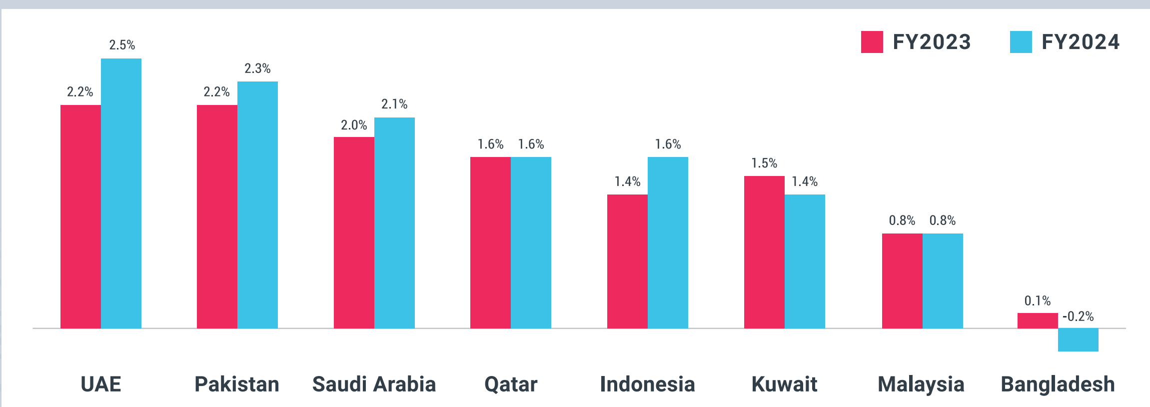
Cost discipline remains central to profitability strategies. Al Rajhi Bank achieved a cost-to-income ratio (CIR) of 25% through centralisation, automation and digital solutions, while automating 52% of back-office processes. KFH realised post-merger cost synergies and unified systems to eliminate redundancy. Qatar Islamic Bank maintained a sector-low CIR of 17% through digital channels and branch optimisation. Dubai Islamic Bank cut manual workflows and eliminated legacy system costs, keeping CIR below 30%.

Digital transformation has become a core board priority, enhancing efficiency, risk management and sustainable growth. Al Rajhi Bank replaced legacy systems with real-time digital cores and implemented a five-year digital roadmap. KFH integrated over 80 systems and deployed AI, machine learning and robotic process automation. QIB invested in AI-driven credit tools and digital platforms, achieving 99% digital transaction share, while DIB upgraded its core banking system for real-time credit monitoring, AI-powered default prediction and fintech partnerships.

Global Islamic banks recorded rising profitability, led mainly by GCC banks

Asset-weighted average return on assets of Islamic banks





Source: TABInsights

Sustainable efficiency now defines best practice, aligning cost management with long-term transformation rather than short-term savings. This includes approving targeted investments in digital technology, automation and operational enhancements to strengthen risk management, customer experience and revenue generation. Committees should review key profitability drivers quarterly and ensure alignment between strategic goals and execution, with savings and digital initiatives supporting long-term resilience, competitiveness and growth.

Malaysian banks and the regional governance

Malaysian Islamic banks, guided by Bank Negara Malaysia's governance standards, demonstrate mature board practices. These institutions integrate Sharia compliance into product development, risk management and audit functions, supported by Shariah committees and directors with relevant expertise. While Malaysia's dual banking system balances Islamic and conventional financing, local banks face challenges in achieving global scale comparable to GCC counterparts.

In the 2025 ranking, 16 Malaysian Islamic banks represented 18.2% of total assets and 8.7% of total net profit among the top 100 Islamic banks worldwide, with Maybank Islamic the only Asian bank in the global top 10. Despite long-standing experience in Islamic finance, average ROA of Malaysian Islamic banks remained at 0.8% in FY2024, constrained by sensitivity to interest rate changes, relatively high operating costs, intense competition and product homogeneity.

Boards should balance domestic governance strength with international expertise to support complex expansions, offering a regional benchmark for governance maturity. Continuous board training and succession planning are critical, including cross-border risk management training and identifying directors with global banking expertise, enabling Malaysian banks to compete with GCC peers while maintaining compliance with local regulations.

Strengthening board stewardship for long-term

As the Islamic banking industry expands in scale and sophistication, boards must evolve from compliance-driven oversight to proactive, forward-looking governance. The Islamic Banks Rankings 2025 show that strong financial performance often coincides with disciplined governance, prudent risk management and strategic board stewardship. Directors should prioritise forward-looking supervision of capital and liquidity through regular stress testing, independent committee reviews and contingency planning. Credit quality and concentration risk require independent oversight and technology-enabled early warning mechanisms to detect stress promptly.

Profitability depends on balancing cost efficiency with strategic investments in digitalisation, talent and operational improvements, avoiding short-term measures that could undermine long-term resilience. Embedding governance into every strategic decision ensures alignment between strategy, capital and culture — maintaining stakeholder trust, fairness and transparency while delivering sustainable returns in an increasingly complex global environment.

Mainstreaming Shariah Intelligence: Empowering Boards and Institutions for the Future of Islamic Finance

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SUMMARY

Dr Eskandar Shah argues that Islamic finance must progress beyond compliance to embrace "Shariah Intelligence," a paradigm where Islamic principles are not only regulatory requirements but strategic foundations embedded into corporate culture and governance. Shariah Intelligence integrates ethics, jurisprudence, and strategy, enabling financial institutions to align with justice, fairness, and inclusivity while creating long-term value. The article illustrates how initiatives such as Malaysia's Value-Based Intermediation (VBI) Maqasid Scorecard, Khazanah's Sukuk Ihsan, and Indonesia's Green Sukuk demonstrate the shift from legalistic compliance to value creation. At the same time, technology - from blockchain and artificial intelligence to decentralised finance - is redefining transparency and accessibility, expanding the reach of Shariah-compliant products. Eskandar stresses that this vision requires a shift in board-level mindsets, positioning Shariah not as a constraint but as a driver of innovation, ESG alignment, and global competitiveness. He concludes that Malaysia, with its strong governance frameworks and pioneering innovations, is well placed to be a global reference point for Shariah Intelligence, provided institutions embed it deeply into strategy and practice as a compass for ethical, sustainable, and resilient growth.

Over the past 40 years, Islamic economics and finance have seen significant growth. This growth is rooted in Shariah compliance, which ensures that financial products adhere to Islamic principles by avoiding *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling). This achievement reflects our commitment to providing an alternative system.

More importantly, we have worked tirelessly to translate the vision of early Islamic economists into a financial system that promotes fairness and justice – a non-exploitative system designed to deliver different results from conventional finance. We argue that our adherence to Shariah makes us better, and despite its relative rigidity, its principles ensure that we act in the best interests of all stakeholders as looking beyond mere profit maximisation is, in fact, central to Islamic finance.

As we move forward, stakeholders rightly expect more from us, urging us to surpass simple compliance. Increasingly, policymakers, scholars, and industry leaders are calling for Islamic finance to move beyond compliance and embrace the higher objectives of Shariah as many Islamic financial products still struggle to drive meaningful socio-economic transformation. Critics often highlight the dominance of form-over-substance contracts, the underutilisation of profit-and-loss sharing models, and the limited direct impact on poverty alleviation. This shift requires a rethinking of how Islamic finance is conceptualised and practised.

The fundamental question is: how do we evolve from here? This write-up shares thoughts on matters that are deeply important: the need to elevate the role of Shariah, transitioning from Shariah Compliance to Shariah Intelligence. Before delving into specifics, it's crucial to understand Shariah Intelligence.

This concept represents a new paradigm in Islamic finance and corporate governance, marking a progression beyond mere Shariah compliance, towards a more integrated, value-oriented approach. Instead of viewing Shariah as simply an external control, Shariah Intelligence embeds Islamic principles into the core of institutional and corporate decision-making. In essence, it synthesises ethical values, jurisprudential principles, and governance frameworks to guide organisations towards integrity, accountability, and long-term sustainability.

SHARIAH INTELLIGENCE

ETHICAL VALUES | **JURISPRUDENTIAL PRINCIPLES** | **GOVERNANCE FRAMEWORKS**

This redefines Shariah, positioning it not just as a regulatory requirement but as a strategic foundation that shapes corporate behaviour and culture. Importantly, Shariah Intelligence extends beyond financial institutions, demonstrating the broader applicability of Islamic principles in enriching governance and strengthening strategic outcomes across various industries.

> **It is timely to reflect on where we stand today and live the soul of Shariah Intelligence in Islamic finance, moving beyond technical Shariah compliance towards a more holistic realisation of the Maqāṣid al-Sharīʻah.**
>
> *Ustaz Bahroddin Badri, Principal Consultant of Shariah Advisory at ISRA*

Furthermore, Shariah Intelligence is central to translating Shariah's ideals into practical action. More than a symbolic gesture, effective Shariah Intelligence not only ensures compliance, but also enhances decision-making, and aligns corporate strategies with broader socio-economic objectives promoting justice, fairness, and inclusivity.

Core principles such as risk-sharing, ethical financing, fairness in contracts, and responsible stewardship of resources have universal appeal, providing organisations with alternative pathways to resilience and sustainable growth. By embracing these principles, corporations can adopt a governance model that unites financial prudence with ethical responsibility, enabling them to thrive in increasingly values-driven markets.

Shariah Intelligence should not be seen merely as a technical compliance mechanism, but as a dynamic and integrated practice that actively shapes an organization's identity and culture. The success of this approach hinges on developing a robust knowledge ecosystem that integrates academic research, regulatory guidance, and practical implementation. This ecosystem must prioritise the higher objectives of Shariah (*Maqasid al-Shariah*) and the Islamic worldview, which positions leaders as *khalifah*, entrusted with safeguarding both society and the environment.

As such, a shift in perspective is needed, especially among board members and top management, to view Shariah through a new lens. In this way, Shariah transcends simple regulatory obligation, becoming a framework of sincerity and responsibility that revives the very essence of Islamic principles.

Although the concept of Shariah Intelligence may look like a novelty, plenty of small steps have been taken by many countries including Malaysia. Encouragingly, new models are emerging that push Islamic finance closer to the spirit of the *Maqasid al-Shariah*. The VBI initiative, launched in 2017, encourages Islamic banks to integrate social and environmental impact into their core strategies.

Further solidifying this commitment, the 2023 launch of the VBI Maqasid Scorecard provides a framework for measuring financial institutions' contributions to key objectives like the preservation of wealth, life, intellect, lineage, and faith. With this scorecard, Malaysia has become the first country to systemically integrate *Maqasid al-Shariah* into its financial system, transforming Shariah compliance from a legal necessity into a catalyst for value creation.

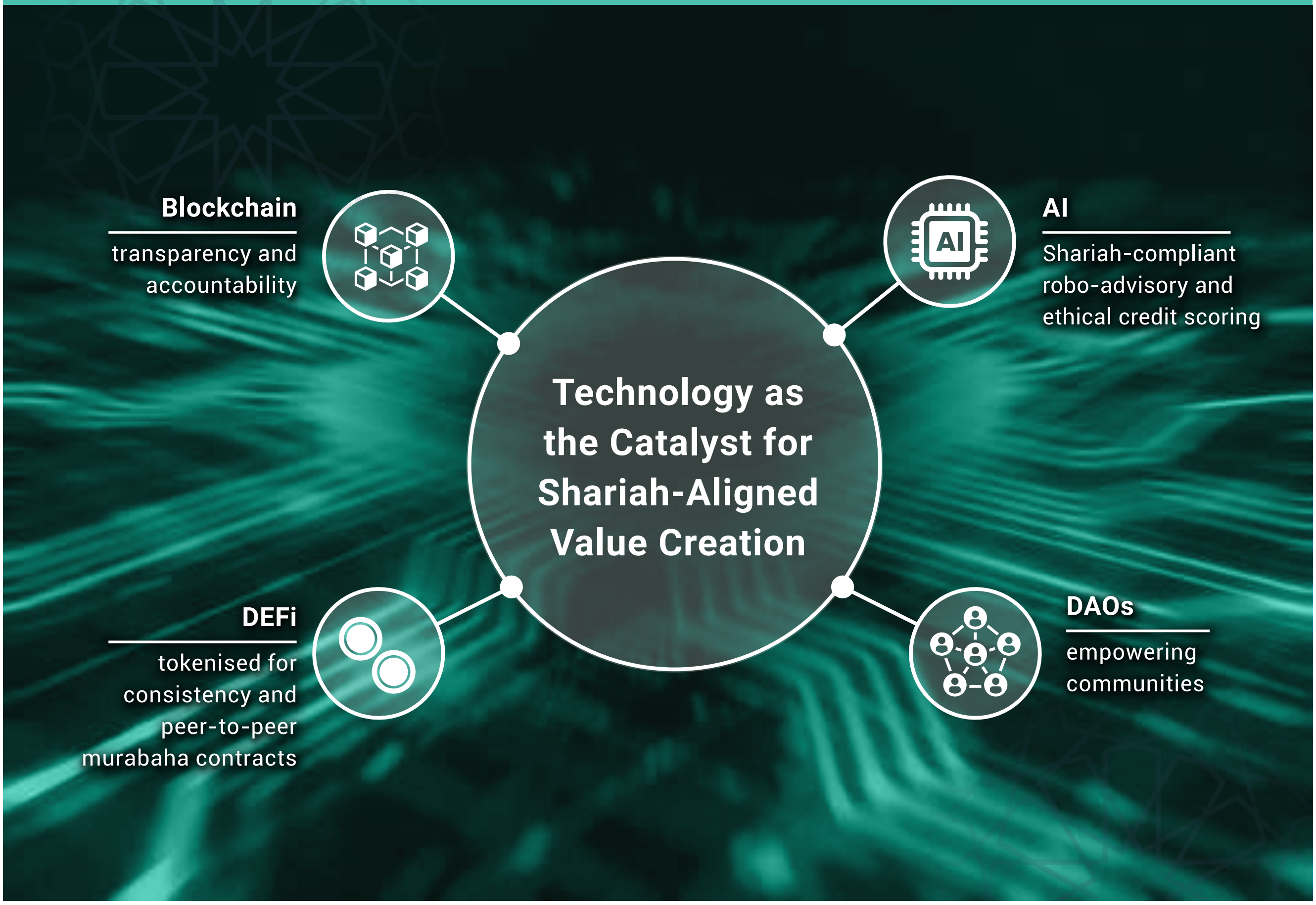
Capital markets are also demonstrating how Islamic finance can be mobilised for the public good. In 2015, Malaysia's Khazanah Nasional issued Sukuk Ihsan, the world's first social-impact *sukuk*, which channelled RM100 million into education projects with returns linked to measurable outcomes. Indonesia followed in 2018 with its sovereign Green Sukuk to finance renewable energy and climate-resilient infrastructure. These examples demonstrate how *sukuk*, traditionally used for infrastructure and budget financing, can be structured to achieve both financial and social returns.

Moreover, the launch of the Bursa Carbon Exchange-i further illustrates commitment to linking sustainability with Shariah principles, positioning Malaysia as a global model for environmentally and socially responsible finance. These developments collectively showcase how the country is translating Shariah values into practical, scalable, and forward-looking financial solutions across multiple sectors.

At the grassroots level, Islamic social finance platforms such as KitaWakaf in Indonesia, which uses blockchain to manage *waqf*, and Global Sadaqah in Malaysia, which digitises zakat collection and disbursement, are boosting transparency and donor trust. Meanwhile, microfinance institutions such as Akhuwat in Pakistan, which has provided interest-free loans to over five million families, and Indonesia's Baitul Maal wat Tamwil (BMTs), which combine microfinance with community development, show that financial inclusion and social uplift can be achieved within a Shariah-based framework.

Technology is proving to be a powerful catalyst in this transformation. Blockchain allows for tamper-proof records of *sukuk* issuance, halal supply chains, and *waqf* contributions, ensuring transparency and accountability. Decentralised Finance (DeFi) opens the door to tokenised *sukuk*, peer-to-peer *murabaha* contracts, and decentralised applications, thereby expanding access to Shariah instruments across borders. Artificial intelligence (AI) is already being applied to ethical credit scoring for the unbanked, Shariah-compliant robo-advisory, and real-time compliance audits.

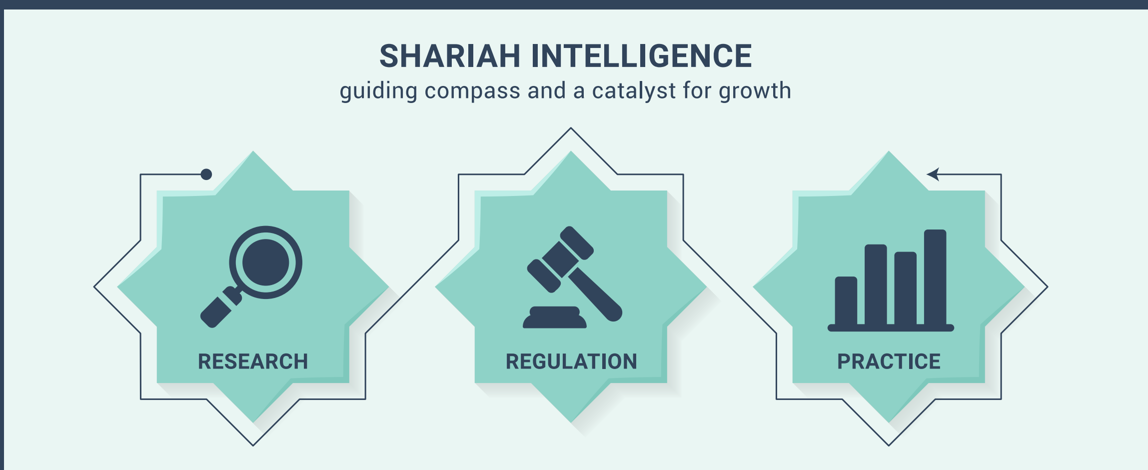
Looking ahead, the industry could witness the rise of impactful blended financing dedicated to hospitals, schools, and renewable energy projects. Islamic banks may evolve into integrated social-commercial institutions, offering *zakat* and *waqf* management alongside conventional savings and financing. Digital governance models such as Shariah-compliant decentralised autonomous organisations (DAOs) could empower communities to participate directly in financial decision-making.



As Maqasid increasingly converges with global ESG standards, Islamic finance has the opportunity to position itself as a leader in the global movement towards sustainable and ethical finance. Ultimately, the true potential of Islamic finance lies not just in adhering to prohibitions, but in actively pursuing the higher objectives of Shariah. Guided by Maqasid al-Shariah and powered by technology, the industry can redefine finance by aligning profit with purpose, delivering justice, inclusion, and sustainability for the benefit of all. Rather than replacing values, technology amplifies them by enabling Islamic finance to scale trust, access, and fairness in unprecedented ways.

The evolving Islamic finance ecosystem should leverage affiliations with academia and industry, combining the expertise of seasoned practitioners with the insights of leading academicians and researchers. This synergy will enable the translation of cutting-edge research on emerging trends, regulatory developments, and innovative financial solutions into actionable strategies.

By seamlessly integrating research, regulation, and real-world practice, organisations will be empowered to internalise Shariah Intelligence as a guiding compass and a catalyst for growth. There are already programmes that provide invaluable knowledge and guidance for board members and senior management. Some even offer comprehensive Shariah frameworks, emphasising not just how Shariah should be implemented but why it matters, reviving the philosophy and sincerity *fikrah Islamiyyah* and *ikhlas* that elevates Islamic finance beyond technical practice.



Shariah Intelligence is not merely a framework for compliance but a transformative force, reviving the soul of Shariah and fulfilling its ultimate purpose of *rahmatan lil-'alamin*: delivering mercy, justice, and sustainable benefit for humanity and the world at large.

Malaysia's efforts in advancing Islamic economics and finance agendas have the potential to significantly shape both domestic and global agendas. Anchored by robust regulatory frameworks and progressive Shariah governance standards, Malaysia is uniquely positioned to champion *Shariah Intelligence* as a cornerstone of its financial ecosystem, thereby consolidating its role as a global reference point for Islamic finance.

A critical element of this leadership trajectory lies in the systematic documentation and dissemination of success stories.

Notable examples include Malaysia's pioneering role in the issuance of innovative sukuk structures, the establishment of comprehensive Islamic banking frameworks, and the introduction of green and sustainability-linked Islamic finance instruments. By presenting these achievements on the international stage, Malaysia can demonstrate the tangible impact of Shariah-based governance in fostering market confidence and supporting economic development.

Equally vital is the transformation of institutional mindsets, particularly among board members, towards the mainstreaming of Shariah Intelligence across the financial ecosystem. Shariah Intelligence must be reconceptualised not as a compliance obligation but as a driver of strategic value. When embedded into board-level deliberations, product innovation, and enterprise risk management, it empowers institutions to align operations with Islamic ethical principles while pursuing sustainable growth.

Such integration will distinguish Malaysia's Islamic finance model as forward-looking, resilient, and capable of addressing evolving global challenges. Furthermore, the enhancement of Shariah governance must adopt a holistic orientation. While existing regulatory standards are strong, they should be complemented by strategic approaches at the institutional level.

Boards of Islamic financial institutions are encouraged to move beyond technical compliance and embrace a broader vision that integrates ethical leadership, long-term sustainability, and alignment with global trends such as ESG and sustainable finance. Positioning Shariah not merely as a regulatory requirement but as a principle of value creation will strengthen Malaysia's global competitiveness while maintaining authenticity. Through such initiatives, Malaysia can establish itself not only as a regulatory pioneer but also as a benchmark for strategic Shariah governance worldwide.

Looking ahead, Malaysia's economic strategy necessitates the extension of Shariah governance principles beyond financial institutions to encompass the broader economy. National policies, corporate strategies, and industrial practices must be grounded in ethical foundations, ensuring that profit generation, resource allocation, human capital development, and environmental management are pursued with fairness, accountability, and social responsibility.

Central to this vision is the philosophy of *maqasid al-Shariah*, which emphasises justice, equity, human dignity, and the preservation of wealth and welfare. By embedding these objectives across industries and policy frameworks, Malaysia can achieve sustainable growth while safeguarding ethical integrity and public trust.

By consolidating regulatory frameworks, leveraging technology, and promoting a culture of ethical decision-making, the country is well-positioned to advance an inclusive, resilient, and sustainable economy. This approach not only reinforces Malaysia's leadership in global Islamic finance but also demonstrates the capacity of Shariah principles to drive long-term economic growth, societal well-being, and environmental stewardship.

Policymakers, regulators, and institutional leaders are therefore called upon to embrace this vision comprehensively, ensuring that Malaysia sustains its competitive advantage while pioneering a holistic model of ethical, sustainable, and future-ready economic development.

The Role of Islamic Finance in the Green Economy

AUTHOR

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INTRODUCTION:

Finance at the Frontline of Climate Reality

Being a pioneer often means taking the road less travelled to meet a pressing need. Today, that need is unambiguous as climate change has shifted from a distant risk to a present reality, disrupting infrastructure, agriculture, public health, and livelihoods worldwide. Inaction is no longer an option. The financial sector, by virtue of its ability to price risk, allocate capital, and shape incentives, has become central to society's response.

Over the past decade, markets have mobilised. A spectrum of sustainable[1] financial products has emerged, signalling appetite to channel capital into low-carbon and socially inclusive outcomes. Yet early innovation primarily flowed through conventional instruments. For economies with deep Islamic finance ecosystems, this created both a gap and an opportunity, to design instruments that align with Shariah principles while accelerating climate and social progress.

[1] *Definition: Sustainability is the practice of operating a business in a way that meets the economic, social and environmental needs of the present without compromising the ability of future generations to meet their own needs. (Source: https://www.businessgo.hsbc.com/en/article/demystifying-sustainability-and-esg)*

Islamic finance is not new to the ethics of sustainability. Anchored in Maqasid al-Shariah, the higher objectives of Islamic law, it seeks to promote human well-being through– stewardship (khalīfa), social justice (ʿadl), and the prohibition of harm (ḍarar); discourage excess, waste, and harmful speculation. What had been missing, until recently, were Shariah-compliant capital market instruments explicitly targeted at environmental and social goals. The emergence of green and sustainability-themed sukuk has begun to fill that gap.

Maqasid al-Shariah

STEWARDSHIP (khalīfa)

SOCIAL JUSTICE (ʿadl)

PROHIBITION OF HARM (ḍarar)

From Concept to Market: The Early Landmarks

A decisive shift occurred in 2017 when Malaysia launched the world's first green SRI sukuk to finance a solar project. Introduced by Tadau Energy Sdn Bhd, the sukuk raised MYR250 million ($59 million) to finance a 50MW solar photovoltaic power plant in Sabah, Malaysia. It was issued under Malaysia's SRI sukuk framework, endorsed by the Securities Commission Malaysia's (SC) Shari'ah Advisory Council and received the highest rating by what was previously the Center for International Climate and Environmental Research Oslo, CICERO, (CICERO)[2] which has since been renamed Shades of Green, and is now part of S&P Global.

That transaction provided tangible proof that Islamic capital markets could mobilise at scale for climate solutions. It also demonstrated that the discipline of Shariah structuring could coexist with the rigour of environmental use-of-proceeds frameworks.

Subsequent transactions broadened the template. In 2018, HSBC Amanah Malaysia issued a senior unsecured SDG sukuk from its multi-currency programme – an early illustration of how Islamic instruments could be anchored in the UN Sustainable Development Goals (SDG) while maintaining strong market reception and credit quality[3]. The sukuk was well received as it was given an AAA rating by RAM[4]. Proceeds were channelled to eligible activities such as health, education, clean water, clean energy, and climate action[5].

Innovation accelerated again in 2020 with the first ASEAN Green SRI Sukuk for Leader Energy for which HSBC Amanah Malaysia acted as sole principal adviser and sole lead manager, arranging MYR260 million to finance two large solar power projects in Kedah[6]. The issuance received a "Gold" sustainability rating from the Malaysian Rating Corporation (MARC) and is aligned with international green finance standards such as the ICMA Green Bond Principles and the ASEAN Green Bond Standards[7]. This issuance was also the first of its kind in the ASEAN region, marking a significant step in the growth of green finance within Islamic finance in the area.

[2] *The World Bank (2019). Helping Malaysia develop the green sukuk market: Facilitating Sustainable Financing - Case Study (English).* Retrieved https://thedocs.worldbank.org/en/doc/21c2fb7dfb189f10a0503004757b03f4-0340012022/original/Case-Study-Malaysia-Green-Sukuk-Market-Development.pdf

[3] *UNDP (20218). HSBC Amanah Malaysia issues world's first SDG sukuk.* Retrieved https://www.undp.org/press-releases/hsbc-amanah-malaysia-issues-worlds-first-sdg-sukuk

[4] *RAM (2018, October 8). RAM Rating rates world's first SDG Sukuk by HSBC Amanah.* Retrieved https://www.ram.com.my/pressrelease/?prviewid=4719

[5] *HSBC (2019, October) HSBC UN Sustainable Development Goals Bond and Sukuk Report.* Retrieved https://www.hsbc.com/-/files/hsbc/investors/fixed-income-investors/green-and-sustainability-bonds/pdfs/191016-hsbc-sdg-bond-and-sukuk-report-2019.pdf

[6] *HSBC Bank Malaysia Berhad (2020, August 12). HBCB Arranges First ASEAN Green Sustainable and Responsible Investment (SRI) Sukuk for Leader Energy.* Retrieved https://www.about.hsbc.com.my/-/media/malaysia/en/news-and-media/200812-hsbc-amanah-arranges-first-asean-green-sri.pdf

[7] *Leader Energy (2020, August 13). HSBC Amanah arranges first ASEAN Green Sustainable and Responsible Investment Sukuk for Leader Energy on 12th August 2020.* Retrieved https://www.leaderenergy.com/hsbc-amanah-arranges-first-asean-green-sustainable-and-responsible-investment-sukuk-for-leader-energy-on-12th-august-2020

ESG Sukuk's Evolution - The Market Today

The green sukuk market has experienced significant growth and diversification since its launch, expanding rapidly across Malaysia and globally in terms of volume, issuer type, and geographic reach. Its volume grew from an initial USD58 million issuance in 2017 to a cumulative USD21 billion by mid-2022, illustrating remarkable year-on-year increases and growing share of ESG-themed investments with Islamic finance[8].

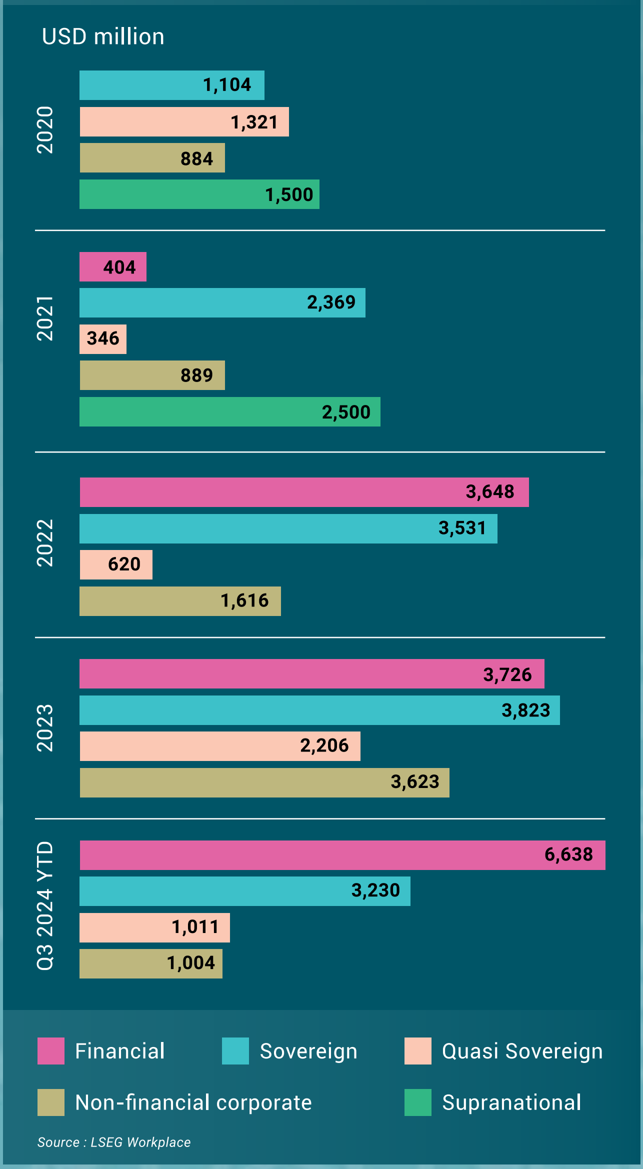
Indonesia led globally with the first sovereign green sukuk in 2018 and followed a year later with the world's first retail green sukuk, becoming the largest issuer of green sukuk at the time[9]. The Gulf Cooperation Council (GCC) and other markets like Turkey, Bangladesh, Sudan, and Nigeria have since joined the ranks as ESG sukuk issuers[10].

According to Fitch, the share of ESG USD Sukuk of the total ESG USD debt issued in in the first quarter of 2025 in the emerging markets (excluding China) made up about 50%, up from 20% in 2024[11]. Issuers now include not only sovereign and government-linked entities such as Indonesia and the GCC but also corporates, financial institutions, and supranational entities, showing a broadening base and cross-border uptake[12].

Corporate issuers have become increasingly active in the green and sustainability sukuk market, accounting for 64% of the value issued in the first nine months of 2024. This compares with 55% in 2023[13]. As seen in the table below, financial institutions made significantly greener and more sustainable issuances over the years compared to the broader industry (15.4% growth from FY2021 to Q3 2024). This shows the commitment from financial institutions to enable green and sustainability efforts.

By 2025, global ESG sukuk outstanding surpassed USD$50 billion, with green sukuk representing around 10% of total sukuk issuance volume[14].

Green and Sustainability sukuk issuance by issuer type 2020-Q3 2024



[8] *Refinitiv (2022). Green and sustainability sukuk report 2022.* Retrieved https://www.globalethicalfinance.org/wp-content/uploads/2022/10/Financing_A_Sustainable_Future_Web.pdf

[9] *UNDP (2018). Indonesia's green bond & sukuk initiative.* Retrieved https://climatepromise.undp.org/research-and-reports/indonesias-green-bond-sukuk-initiative

[10] *ibid*

[11] *Fitch (2025, May 6). Sukuk Share Surpasses 50% of EM ESG Debt Issuance as Market Matures.* Retrieved https://www.fitchratings.com/research/islamic-finance/sukuk-share-surpasses-50-of-em-esg-debt-issuance-as-market-matures-06-05-2025

[12] *Bennett, M. & Cyole, H. (2025, March 4). State of the Sukuk Market and Prospects for Growth. World Bank.* Retrieved https://blogs.worldbank.org/en/allaboutfinance/state-of-the-sukuk-market-and-prospects-for-growth

[13] *LSEG (2024). Green and Sustainability sukuk update 2024.* Retrieved https://www.lseg.com/content/dam/data-analytics/en_us/documents/reports/lseg-green-and-sustainability-sukuk-2024-report.pdf

[14] *Fitch (2025, July 29). SG Sukuk Market to Surpass USD60 billion by End-2026; No Defaults.* Retrieved https://www.fitchratings.com/research/islamic-finance/esg-sukuk-market-to-surpass-usd60-billion-by-end-2026-no-defaults-29-07-2025

Malaysia's Contribution: World's First Sovereign US Dollar Sustainability Sukuk

As a nation, Malaysia stands tall with its pioneering efforts in the introduction of sukuk products. In 2021, Malaysia issued the world's first sovereign US-dollar sustainability sukuk, a milestone that embedded ESG within sovereign funding strategy, signalling a maturing policy and market infrastructure. Proceeds were used for eligible social and green projects aligned to the UN's SDG agenda[15].

HSBC Amanah Malaysia played a pivotal role in supporting the Malaysian government's sukuk framework[16] ; where it acted as joint lead manager, bookrunner and SDG structuring agent for the Malaysian government's landmark USD800 million 10-year Sustainability Sukuk and US$500 million 30-year tranche in 2021[17].

Investors' confidence was clear; the offering was oversubscribed by 6.4 times[18]. Due to the overwhelming demand, the Malaysian government decided to upsize the issuance to USD1.3 billion from the initial US$1 billion. In recognition of this success, both tranches have been assigned a rating of A3 by Moody's Investors Service and A- by S&P Global Ratings.

The ASEAN region, with Malaysia serving as a key centre for green and sustainability finance activity, contributed 63.9% of Green, Social and Sustainability (GSS) deals as green in 2021, demonstrating regional leadership and attracting diversified global investment flows[19].

The ESG sukuk market marked a significant milestone by surpassing US$50 billion in outstanding value by the end of 2024. Global issuances of ESG sukuk totalled US$15.4 billion in 2024, up 14.7%. from 2023. ESG sukuk accounted for 1.8% of global ESG bond issuance and 6.2% of total sukuk issuance[20].

These early steps did more than raise capital. They emphasised the idea that Islamic finance can be both principled and pragmatic, anchored in values yet focused on measurable outcomes, helping Malaysia to cement its role as a global centre for Islamic sustainable finance.

[15] ***Ministry of Finance Malaysia (MOF) (2021, April 22). Press Release: World First Sovereign U.S. Dollar Sustainability Sukuk Issuance by The Government of Malaysia.*** *Retrieved https://www.mof.gov.my/portal/en/news/press-release/world-s-first-sovereign-u-s-dollar-sustainability-sukuk-issuance-by-the-government-of-malaysia*

[16] ***MOF (2021, April). The Government of Malaysia SDG Sukuk Framework.*** *Retrieved https://www.mof.gov.my/portal/pdf/economy/sustainability/sukuk/*

[17] ***Malay Mail (2021, April 21). HSBC advises Malaysian govt on world's first sovereign US dollar sustainability sukuk.*** *Retrieved https://www.malaymail.com/news/money/2021/04/30/hsbc-advises-malaysian-govt-on-worlds-first-sovereign-us-dollar-sustainabil/1970705*

[18] ***MOF (2021, April 22). Press Citations: Malaysia's Sustainability Sukuk oversubscribed by 6.4 times, allocation well-spread globally.*** *https://www.mof.gov.my/portal/en/news/press-citations/malaysia-s-sustainability-sukuk-oversubscribed-by-6-4-times-allocation-well-spread-globally*

[19] ***HSBC Malaysia (2022, August 5). ASEAN Sustainability Debt Market Hits Record Issuance Volume in 2021.*** *https://www.about.hsbc.com.my/-/media/malaysia/en/news-and-media/220805-report-by-climate-bonds-and-hsbc-shows-asean-sustainable-debt.pdf*

[20] ***LSEG (2025). ICD – LSEG Islamic Finance Development Report 2025.*** ***Retrieved*** *https://www.lseg.com/content/dam/data-analytics/en_us/documents/reports/lseg-islamic-finance-development-indicator-2025.pdf*

The Rise of Social Sukuk

Parallel to the growth of green and sustainability instruments, social sukuk have gained strong traction as tools for financing projects with direct social benefits ranging from affordable housing and poverty alleviation to SME empowerment and healthcare access. These instruments are typically structured in accordance with the International Capital Market Association (ICMA)'s Social Bond Principles (SBP), ensuring that proceeds are directed toward projects with clear social impact and transparent beneficiary outcomes.

Malaysia continues to showcase leadership in this field through several landmark issuances:

- Cagamas ASEAN Social SRI Sukuk (2025)[21] finances the purchase of affordable homes through the financial system, advancing initiatives that promote social equity and responsible development—fully aligned with Malaysia's national sustainability agenda.
- LBS Bina MYR200 million ASEAN Social SRI Sukuk (2024)[22] which funds affordable housing projects; it is the first social sukuk by a real estate developer in Malaysia and the first sukuk aligned with the ASEAN Sustainable Finance Taxonomy for affordable housing.

Malaysia's Pioneering SRI-Linked Sukuk Framework

To further catalyse sustainable financing, the SC introduced the Sustainable and Responsible Investment-linked (SRI-Linked) Sukuk Framework on 30 June 2022[23]. The framework is designed to enable companies, including those in hard-to-abate sectors, to tap into the capital market while pursuing their sustainability ambitions.

Under this framework, issuers can link the structure and pricing of their sukuk to measurable sustainability performance targets. This approach encourages accountability and transparency, allowing issuers to raise funds that directly support climate transition, social inclusion, and other sustainability-linked goals. The framework, helps businesses transition toward low-carbon and net-zero pathways.

A Sign of Market Maturity

These innovations signal the maturing of the green sukuk market, one that is increasingly diversified, purpose-driven, and responsive to both global ESG expectations and Islamic principles of social justice and shared prosperity. As frameworks strengthen and investor demand deepens, instruments like sustainability-linked and social sukuk could play an even greater role in financing the just transition towards an inclusive and low-carbon economy.

Innovation in the sukuk market reflects a broader shift in finance from compliance-driven initiatives to purposeful, performance-based accountability. Yet, innovation alone is not enough. Sustaining momentum will depend on how well stakeholders align governance frameworks, integrate Shariah and ESG principles, and embed transparency as a cornerstone of trust and market credibility.

[21] *Cagamas (2025, August 13). Cagamas Issues Malaysia's First ASEAN Social SRI Sukuk Variable Rate Notes.* *Retrieved https://www.cagamas.com.my/press-release/cagamas-issues-malaysias-first-asean-social-sri-sukuk-variable-rate-notes*

[22] *HSBC Amanah (2025, April 25). How is LBS Bina helping Malaysia build more inclusive residential communities?* *Retrieved https://www.business.hsbcamanah.com.my/en-gb/insights/sustainability/lbs-bina*

[23] *Securities Commission Malaysia (SC) (2022). Driving Greater Growth in Sustainable and Responsible Investment.* *Retrieved https://www.sc.com.my/annual-report-2022/enabling-a-more-relevant-efficient-and-diversified-market/driving-greater-growth-in-sustainable-and-responsible-investment*

Systemic Challenges to Scale

While the concept of green sukuk has captured global attention as an innovative bridge between Islamic finance and sustainable investing, the path to scaling it remains far from straightforward. Beneath the promising growth statistics lies a complex set of structural, regulatory, and market-related challenges that continue to impede wider adoption.

• **Limited Green Assets and Taxonomy**
Many issuers struggle to identify and verify a sufficient pool of eligible green assets due to lack of clear, standardized green taxonomy. This challenge restricts the size of green sukuk and complicates compliance with both Islamic and environmental standards[24].

• **High Issuance Costs and Absence of Pricing Incentives**
There is a significant cost burden associated with obtaining external reviews, green certifications, and setting up transparent reporting mechanisms. Additionally, issuers often do not see meaningful pricing advantages or tax incentives compared to conventional sukuk, discouraging adoption[25].

• **Limited awareness and Investor Engagement**
In emerging markets, issuer and investor awareness of green sukuk remains low, leading to a restricted investor base and limited demand. Education and capacity-building are needed to promote broader adoption and understanding[26].

Understanding these hurdles will lead to the development of critical solutions and unlock the full potential of green sukuk as a credible instrument for financing the transition towards a low-carbon economy.

Challenges

Limited Green Assets and Taxonomy
Shortage of Shariah-complaint, eligible green projects

High Issuance Costs
Complex structures and compliance raise costs for issuers

Low Awareness and Capacity
Lack of understanding among investors and pracitions

[24] *Salaam Gateway (2020, February 21). Why so few green sukuk? Sector still faces longstanding challenges, says practitioners. Retrieved https://salaamgateway.com/story/why-so-few-green-sukuk-sector-still-faces-longstanding-challenges-say-practitioners*

[25] *ibid*

[26] *LSEG (2024). Green and sustainability sukuk update 2024. https://www.lseg.com/content/dam/data-analytics/en_us/documents/reports/lseg-green-and-sustainability-sukuk-2024-report.pdf*

Positioning Malaysia as a Global Hub for Islamic Sustainable Finance

Malaysia stands at the crossroads of two major global trends — the rise of Islamic finance and the accelerating shift toward sustainability. Having pioneered the world's first green sukuk in 2017, Malaysia has since evolved into a testbed for innovation and a reference point for sustainable Islamic finance. To consolidate this leadership and scale its global influence, Malaysia must now deepen its regulatory resilience, broaden product innovation, and enhance ecosystem capacity and transparency.

Strengthening Policy and Regulatory Frameworks

Malaysia's Securities Commission (SC) continues to play a central role in steering the sustainable finance agenda. Through clear guidelines and incentives for SRI sukuk and sustainable financing, the SC has ensured alignment with global frameworks such as the ICMA Green, Social and Sustainability Bond Principles and the ASEAN Sustainable Finance Taxonomy[27].

Moving forward, Malaysia's competitive edge will depend on regular policy updates, clearer implementation roadmaps, and stronger inter-agency coordination between Bank Negara Malaysia, the Ministry of Finance, and capital market players. These measures will not only reinforce investor confidence but also signal Malaysia's long-term commitment to becoming a regional capital for Islamic sustainable investment.

Driving Innovation and Product Diversity

Innovation remains the cornerstone of Malaysia's sustainable finance success. Landmark issuances such as the world's first green sukuk, social sukuk, and SDG sukuk have showcased the nation's ability to design and deliver instruments that merge Islamic finance principles with ESG objectives.

Looking ahead, Malaysia can further strengthen its position by expanding into sustainability-linked and transition sukuk, enabling companies in high-emission sectors to access financing while committing to measurable sustainability outcomes. Developing a secondary market for these instruments could also enhance liquidity and attract international investors seeking credible ESG-aligned assets.

Building Capacity and Strengthening Market Awareness

Malaysia's sustainable finance ecosystem benefits from a strong foundation of institutional collaboration. The Joint Committee on Climate Change (JC3), co-chaired by Bank Negara Malaysia and the Securities Commission, serves as a key platform for capacity building and knowledge sharing. Within it, Sub-Committee 4 (SC4), chaired by HSBC Amanah Malaysia[28], has led industry-wide efforts such as climate risk roundtables, training programmes, and sectoral workshops aimed at embedding sustainability practices across the financial sector. These initiatives have raised climate literacy, improved technical capabilities, and promoted alignment between Islamic finance practitioners and sustainability objectives – a crucial step toward mainstreaming responsible finance in Malaysia's boardrooms and balance sheets.

Advancing Transparent Impact Measurement and Reporting

Transparency and disclosure are vital for maintaining trust in the sustainable finance market. Malaysia can continue to set regional benchmarks by promoting impact measurement, third-party verification, and consistent reporting practices. This direction is being further institutionalised through the National Sustainability Reporting Framework (NSRF) introduced by the Securities Commission Malaysia, which provides a national baseline for sustainability disclosures aligned with global best practices.

[27] ***Capital Markets Malaysia (n.d.). SRI Sukuk.*** *Retrieved https://www.capitalmarketsmalaysia.com/public-sri-sukuk/*
[28] ***Joint Committee on Climate Change (JC3). (n.d.) Who we are.*** *Retrieved https://www.jc3malaysia.com/about-jc3*

The framework adopts the standards issued by the International Sustainability Standards Board (ISSB) including those originally developed by the Task Force on Climate-related Financial Disclosures (TCFD), to ensure that sustainability information is consistent, comparable, and decision-useful for investors and stakeholders. By embedding these standards into Malaysia's regulatory landscape, the NSRF reinforces the country's commitment to transparent, high-quality reporting, and strengthens its position as a regional leader in sustainable finance.

HSBC Amanah Malaysia's 2021 TCFD report, the first of its kind in the country[29], underscored the industry's growing maturity and commitment to climate-risk transparency. While climate-related disclosures are now a regulatory expectation under Bank Negara Malaysia's sustainability agenda, HSBC Amanah Malaysia's early adoption of the TCFD framework pioneered strides towards transparency and accountability in the financial sector. Issued in 2020 and 2021, well before the formalisation of such requirements through the Climate Change and Principle-based Taxonomy (CCPT), the Financial Sector Blueprint 2022–2026, and NSRF, these reports introduced an unprecedented level of clarity on governance structures, sectoral exposures, and the integration of climate considerations into lending and enterprise-risk management. They disclosed, for the first time in Malaysia's banking industry, quantified exposures to high-transition-risk sectors, delineated board-level oversight of sustainability strategy, and outlined the operational embedding of climate risk within business processes. These pioneering reports not only set an early benchmark for transparent climate-related disclosure but also underscored Malaysia's potential for leading regionally in aligning sustainability, governance, and Islamic financial ethics.

A Vision for Global Leadership

Malaysia's pathway to becoming a global hub for Islamic sustainable finance lies in its ability to integrate innovation, regulation, and integrity. By building on its strong policy frameworks, nurturing market talent, and strengthening disclosure standards, Malaysia can position itself as the go-to destination for sustainable Islamic capital — one that not only channels financing toward climate and social goals but also sets global benchmarks for responsible stewardship grounded in Shariah values.

[29] *Malaysia International Islamic Finance Centre (MIFC) (2021, June 10). HSBC Amanah publishes first TCFD report for Malaysia's financial industry. Retrieved https://www.mifc.com/-/hsbc-amanah-publishes-first-tcfd-report-for-malaysia-s-financial-industry*

Conclusion: From Pioneering Transactions to Systemic Change

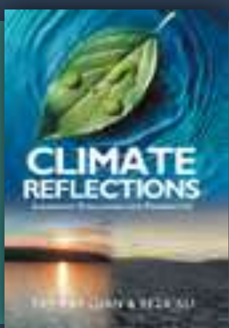
Islamic finance is well suited to the green economy, not simply because it avoids harm, but because it aspires to deliver benefit. Its progress in the past few years with pioneering frameworks, landmark transactions, and widening issuer bases demonstrate what is possible when values and market design reinforce one another. Malaysia's experience illustrates how policy clarity, supervisory alignment and capacity building can translate aspiration into execution.

The task now is to scale – grow eligible asset pools, reduce frictional costs, strengthen secondary markets, refine taxonomies, and embed disclosure practices that have the trust and confidence of investors. Innovation will play its part, especially sustainability-linked and transition structures that tie capital to performance. The real test is whether the market can deliver measurable outcomes at pace and with integrity.

Should the ecosystem continue to evolve, anchored in Shariah values, disciplined by data, and guided by real-economy impact, Islamic sustainable finance can move from pioneering issues to systemic relevance. The result would not only be more green sukuk, but also the financial architecture capable of funding a just transition – one with resilient infrastructure, cleaner energy, inclusive services, and opportunities that reach communities too often left behind.

Islamic Finance and Climate Change

*Chapter 12 of **Climate Reflections: Leadership Challenges and Possibilities** by Tay Kay Luan and Reza Ali*



> *"The Earth is green and beautiful, and Allah has appointed you his stewards over it.*
>
> *–*
>
> *The Prophet Muhammad (Peace be upon him) (Sahih Muslim)"*

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Central to Islamic teachings is the responsibility of environmental stewardship. In a world increasingly threatened by the ravages of climate change, finding effective and ethical financial solutions has become paramount. The need for innovative and substantial financial interventions to combat this global crisis is more urgent than ever. This is where Islamic finance, with its deep-rooted principles of ethical investment and social justice, offers a beacon of hope.

Islamic finance, a system governed by Shariah law, prohibits activities that involve excessive risk (*gharar*), interest (*riba*), and unethical investments. Instead, it promotes risk-sharing, fairness, and tangible asset-backing. These principles inherently support sustainability, positive social impact, and ethical behaviour, making Islamic finance a natural ally in the fight against climate change. With a growing market that now nears $4 trillion globally and is expected to exceed $6 trillion by 2026, the potential impact of Islamic finance on global sustainability goals cannot be overstated.

The Islamic Development Bank (IsDB) has been a trailblazer in this realm, committing 35 per cent of its total annual financing to climate adaptation and mitigation initiatives by 2025. This ambitious target underscores the pivotal role that Islamic financial institutions can play in addressing environmental challenges. One of the most notable innovations is the issuance of green sukuk, Islamic bonds that fund environmentally friendly projects. The IsDB's first AAA-rated green sukuk, issued in 2019, raised over €1 billion for projects aimed at reducing carbon emissions and promoting renewable energy.

Consider the transformative power of these investments: the Senegal's Express Train Regional, an eco-friendly hybrid train reducing greenhouse gas emissions by decreasing road traffic, and Turkey's hydro-solar hybrid power plant, delivering 590 megawatts of clean energy to over half a million people. These projects are not just mitigating climate impacts; they are also driving sustainable development in local communities, aligning with the UN's Sustainable Development Goals (SDGs).

However, the journey is not necessarily a clear one. The integration of Islamic finance with modern climate finance mechanisms, such as carbon credits, is still in its nascent stages, facing regulatory and market barriers. Yet these challenges also present unique opportunities for growth and innovation. The development of new financial instruments like transition sukuk and blue sukuk exemplifies the sector's potential to mobilise more capital for climate action.

As we stand at a critical juncture, the synergy between Islamic finance and climate action offers a compelling narrative of transformation. Harnessing the ethical and sustainability foundations embedded within Islamic finance, there exists the opportunity to introduce a greener, equitable, and sustainable future. This chapter explores how Islamic finance is not just an alternative financial system but a catalyst for global climate action poised to make a significant impact on our journey towards sustainability.

A Primer on Islamic Finance

Islamic finance operates on a foundation deeply rooted in ethical and social responsibility, guided by the principles of Shariah law. At its core, Islamic finance seeks to promote justice and equity in all financial transactions, ensuring that the economic activities adhere to the moral and ethical guidelines prescribed in Islam. This section explores the key principles of Islamic finance: *riba* (interest prohibition), *gharar* (uncertainty), and *mudarabah* (profit sharing) and how they align with the goals of sustainability and ethical investment.

One of the fundamental principles of Islamic finance is the prohibition of riba, or interest. This stems from the belief that money should not generate money without any productive activity or risk sharing. Charging interest is seen as exploitative and unjust, as it guarantees a return to the lender regardless of the outcome of the borrower's ventures. Instead, Islamic finance promotes profit-sharing and risk-sharing arrangements, which ensure that both parties involved in a financial transaction share the risks and rewards. This principle encourages investments in real economic activities that can contribute to sustainable development.

Islamic finance also prohibits *gharar*, which refers to excessive uncertainty or ambiguity in contracts. Transactions should be clear and transparent, with all terms and conditions explicitly stated to avoid any form of deception or exploitation. This principle promotes trust and integrity in financial dealings, reducing the chances of disputes and fostering a stable and predictable economic environment. By ensuring transparency and clarity, Islamic finance aligns with the broader goals of sustainable and responsible investment.

Mudarabah is a partnership where one party provides the capital while the other provides expertise and management. Profits are shared according to a pre-agreed ratio, while the provider of the capital bears losses. This principle aligns the interests of both parties, encouraging the efficient and ethical use of resources. It also supports entrepreneurial activities and innovation, which are crucial for sustainable economic growth.

The ethical foundations of Islamic finance resonate strongly with the UNSDGs. Islamic finance inherently supports goals such as reducing inequality, fostering inclusive economic growth, and ensuring sustainable management of resources. The principles of Maqasid al-Shariah (or goals and objectives of Islamic Shariah), which aim to preserve and protect religion, life, intellect, lineage, and property, further reinforce the commitment of Islamic finance to achieving comprehensive social and economic well-being.

Islamic Financial Instruments and Emerging Applications

Islamic finance employs a variety of financial instruments designed to comply with Shariah law, each facilitating ethical and socially responsible investment. Among these instruments, sukuk (Islamic bonds) and takaful (Islamic insurance) stand out for their significant contributions to sustainable and green financing.

Sukuk are Islamic financial certificates similar to bonds in conventional finance but structured to comply with Shariah principles. Unlike traditional bonds, sukuk holders have partial ownership in a tangible asset, project, business, or investment, rather than a debt obligation. This structure ensures that investments are backed by real economic activity and assets, aligning with the ethical and risk-sharing principles of Islamic finance.

The green sukuk is a particularly noteworthy innovation within Islamic finance, aimed at funding environmentally friendly projects. The Islamic Development Bank (IsDB) green sukuk issued in 2019, raised over €1 billion for projects designed to combat climate change. These funds have been allocated to renewable energy projects, sustainable agriculture, and other initiatives that reduce carbon emissions and promote environmental sustainability.

The Senegalese Dakar Train Express Regional (TER) in Senegal, launched in 2021, has transformed urban mobility and advanced sustainable transportation in the region. This thirty-six-kilometre rail line connects Diamniadio to Dakar, offering a cleaner alternative to traditional transport modes using eco-friendly hybrid trains that significantly reduce greenhouse gas emissions by decreasing road traffic. TER's environmental impact is substantial, preventing 92,000 tonnes of CO_2 emissions, reducing urban air pollution, and supporting Senegal's climate goals. This transformational development was financed through a green sukuk organised by the Islamic Development Bank and the Senegalese government. It is also the first express train service in sub-Saharan Africa, highlighting the transformative potential of Islamic finance in promoting sustainable transportation. The train project not only mitigates climate impacts but also drives economic development by improving connectivity and reducing travel time for commuters and enhancing economic potential.

With 200 stations and daily service for 115,000 passengers, the TER has eased traffic congestion, cut travel times, and improved connectivity for millions of Senegalese commuters. Its influence extends beyond mobility, contributing an estimated twenty-two billion CFA francs (over US $36 million) annually to the economy. The TER has catalysed job creation, investment, and development along its route, fostering growth in sectors like tourism and hospitality by enhancing access to key destinations.

As Senegal's flagship sustainable infrastructure project, the TER exemplifies how sustainable transit can benefit urban living, economic growth, and environmental health. It serves as a model for addressing urbanization and climate challenges, showcasing the role of sustainable transport in building greener, more connected, and prosperous cities. The TER is a powerful example for other nations of sustainable urban transformation.

Takaful is an Islamic insurance concept grounded in cooperation and shared responsibility. Participants contribute to a common pool to cover each other's losses, reflecting the principles of solidarity and shared risk. Takaful is structured to avoid riba (interest), gharar (excessive uncertainty), and maysir (gambling), ensuring that insurance practices are ethical and equitable. Takaful can play a critical role in mitigating climate-related risks by providing coverage for natural disasters, promoting resilience among vulnerable communities, and supporting recovery efforts.

The dynamic field of Islamic finance continues to evolve with the development of innovative financial instruments aimed at addressing specific sustainability challenges. Transition sukuk and blue sukuk are two such innovations that have garnered attention.

Transition sukuks are designed to support companies transitioning from high-carbon to low-carbon operations. They provide the necessary capital for businesses to implement cleaner technologies, reduce their carbon footprint, and align with global climate goals. This aligns with the broader objectives of Islamic finance by promoting ethical and responsible business practices.

Blue sukuk is similar to green sukuk but specifically targets projects related to ocean conservation and marine resource management. These projects can include sustainable fisheries, coral reef restoration, and pollution reduction initiatives. By financing blue economy projects, blue sukuk contributes to the preservation of marine ecosystems and supports the livelihoods of communities dependent on ocean resources.

The success of these instruments can be seen in various projects and initiatives worldwide. Malaysia has also been at the forefront of green finance, issuing a US $1.3 billion sovereign sukuk in 2021. This issuance included a significant sustainability tranche, with proceeds used to finance social and green projects aligned with the UN SDGs. These projects span various sectors, including renewable energy, affordable housing, and public health, illustrating the broad applicability of Islamic finance in supporting sustainable development.

Indonesia has also been active, issuing a $750 million green sukuk tranche to fund renewable energy and sustainable land use projects.

Islamic banks are increasingly incorporating sustainability into their operations and product offerings. Dubai Islamic Bank (DIB) has launched multiple sustainability-linked sukuk, including a US $1 billion issuance in February 2023. These are sukuk finance projects that contribute to environmental sustainability, such as renewable energy, waste management, and water conservation.

The impact of these instruments is also multifaceted. They not only provide the necessary capital for green projects but also set a precedent for ethical investment practices. By ensuring that funds are used for tangible, productive activities that align with environmental and social goals, Islamic finance instruments help build a more sustainable and equitable global economy.

As the market for these instruments grows and there is greater investor education, they offer a promising pathway for integrating ethical finance with sustainable development, demonstrating the potential of Islamic finance to drive positive environmental and social change.

Emerging Challenges

One of the primary challenges in integrating climate finance with Islamic finance is the lack of standardised regulations and frameworks. The absence of universally accepted guidelines for green sukuk and other Islamic finance instruments aimed at climate action can lead to inconsistencies in their application and acceptance across different jurisdictions. This regulatory fragmentation makes it difficult to scale up these instruments and attract a broad base of investors.

Moreover, the market for Islamic green finance is still in its nascent stages. Limited awareness and understanding among investors, financial institutions, and even regulators hinder the growth of this market. The complexity of structuring Shariah-compliant financial products that also meet the criteria for green finance adds another layer of difficulty. This lack of familiarity and expertise can result in a slower uptake of green Islamic finance instruments.

Integrating modern financial mechanisms, such as carbon credits, with Islamic finance presents additional juristic complexities. Carbon credits, which are essentially 'rights to intangible assets', must be traded in a manner compliant with Shariah law. There is ongoing debate among Islamic scholars about the acceptability of trading these credits under Islamic law. Some argue that since carbon credits do not represent tangible assets, their trading might involve gharar (excessive uncertainty), which is prohibited. Resolving these juristic issues is crucial for expanding the scope of Islamic finance in climate action.

The Future

Islamic finance stands at a critical juncture, offering a potent blend of ethical principles and innovative financial instruments that can play a transformative role in addressing the global climate crisis. The market for green sukuk and other sustainable finance instruments is rapidly growing, and Islamic financial institutions are uniquely positioned to leverage this momentum to drive significant environmental and social impact. As we look towards the future, the integration of climate considerations into the strategic management and operations of these institutions will be crucial in enhancing their resilience and fostering a greener, more equitable world.

The trajectory of Islamic green finance is promising, with emerging trends indicating a robust future. The increasing issuance of green sukuk is a testament to the growing recognition of Islamic finance as a vehicle for sustainable investment. Malaysia's sovereign sukuk and Indonesia's green sukuk tranches illustrate the expanding use of these instruments to fund a variety of sustainable projects, from renewable energy to public health.

The potential for Islamic finance to impact climate change mitigation is vast. By scaling successful green finance projects to other Islamic countries, financial institutions can broaden their reach and amplify their impact. Encouraging cross-border collaborations and partnerships with international organisations like the United Nations Environment Programme (UNEP) can facilitate knowledge sharing and the development of best practices. Such collaborations can help standardise regulations, enhance market awareness, and build the necessary infrastructure for green Islamic finance.

Innovation will be a key driver of growth in Islamic green finance. The development of new financial instruments, such as transition sukuk and blue sukuk, offers exciting opportunities to address specific sustainability challenges. Transition sukuk can support companies in reducing their carbon footprints by providing the necessary capital to implement cleaner technologies. Blue sukuk, which funds projects related to ocean conservation and marine resource management, can contribute to preserving marine ecosystems and supporting the livelihoods of communities dependent on ocean resources.

Technological advancements, particularly in fintech, will also play a crucial role in the evolution of Islamic green finance. Technologies such as blockchain and smart contracts can enhance the transparency, efficiency, and traceability of green finance transactions. These technologies can address regulatory and juristic challenges by providing verifiable records of transactions and ensuring compliance with both Shariah and environmental standards. By integrating these technologies, Islamic financial institutions can improve their operational efficiency and build greater trust with investors.

Despite the promising future, challenges need to be addressed to fully realise the potential of Islamic green finance. The lack of standardised regulations and frameworks for green sukuk and other sustainable finance instruments remains a significant barrier. Different interpretations of Shariah law can lead to inconsistencies, complicating the application and acceptance of these instruments across various jurisdictions.

To overcome these challenges, there is a need for concerted efforts to develop clear and consistent guidelines for green Islamic finance. Regulatory bodies, financial institutions, and scholars must work together to resolve juristic complexities, particularly those related to the trading of carbon credits and other modern financial mechanisms. Developing standardised regulations will facilitate the scaling up of green finance instruments and attract a broader base of investors.

Collaboration is crucial to enhancing the impact of Islamic finance on climate change. Initiatives like the Middle East Green Initiative and the Arab Coordination Group's pledge to support climate resilience highlight the potential for collective action. The IsDB's commitment to mobilising resources and providing technical assistance to its member countries further strengthens these collaborative efforts. Partnerships between Islamic financial institutions and global entities can facilitate knowledge sharing, capacity building, and the development of best practices.

Creating a supportive ecosystem for green Islamic finance involves multiple stakeholders, including regulators, financial institutions, investors, and civil society. Regulatory bodies can play a pivotal role by developing clear and consistent guidelines for green Sukuk and other sustainable Islamic finance instruments. Financial institutions need to invest in capacity building and expertise to structure and market these products effectively. Investors, both institutional and retail, must be educated about the benefits and opportunities of green Islamic finance. Civil society can advocate for and support the adoption of sustainable practices in the financial sector.

Policymakers and financial institutions are called upon to develop and promote policies that encourage the issuance of Sukuk and the establishment of carbon credit sukuk markets. Training and capacity-building initiatives are essential to equip financial institutions with the knowledge and skills needed to develop innovative green financial products.

Islamic finance, with its ethical foundation and innovative instruments, offers a powerful avenue for mobilising capital towards climate action. The synergy between Islamic finance principles and sustainability goals creates a unique opportunity to drive positive environmental and social change. Climate economics from conventional funding are heavily reliant on the fundamentals of economics of profit maximisation. The geopolitical scenarios make it more complex and complicated. Many emerging economics will encounter resistance, but there are opportunities to bridge such gap through the introduction of value-based financing and innovation.

Through collaborative efforts, innovation, and a steadfast commitment to ethical investment, Islamic finance can significantly contribute to the global fight against climate change. As the market evolves, the potential for Islamic finance to make a substantial impact on achieving sustainability and climate resilience is immense.

NOTE: *This article is a reprint of* ***Chapter 12 of Climate Reflections: Leadership Challenges and Possibilities*** *(Partridge Publishing Singapore, 23 April 2025; ISBN 9781543783629) by* ***Tay Kay Luan and Reza Ali****, and is reproduced with permission from the authors.*

Beyond the Binary: The Ethics of Islamic Finance and the Metaphysics of Big Data

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INTRODUCTION

The global financial architecture is undergoing a profound structural transformation, driven by a force that is both a tool and a new paradigm: Big Data. The historical impetus for structured information is essential for preserving human memory, from the earliest tallying on the Ishango bone (19,000 BC), to the statistical analysis pioneered by John Graunt (1640s), and the mechanised data management of Herman Hollerith's punch card tabulation (1880s) which culminated in the modern digital age[1].

This transition necessitated an elegant and efficient computational system capable of physical representation within electronic circuitry. This fundamental requirement was met by the binary system (0 and 1), formally developed by Gottfried Wilhelm Leibniz in the 17th century[2], which remains the indispensable, scalable foundation perfectly aligned with the physical states of transistors, for processing the massive data volumes that arose.

This scalable processing capability, in turn, fueled the emergence of Big Data in the 1990s, which institutions now embrace as an essential tool to enhance operational capacity, and capitalise on the immense volume and variety of information generated in contemporary digital operations. The ascension of digital banking has profoundly reshaped the financial industry, enabling institutions to deliver services characterised by superior efficiency, tailored personalisation, and heightened responsiveness.

A pivotal enabler of this transformation is Big Data itself, defined as voluminous, intricate datasets produced at an accelerated velocity. The strategic leverage of Big Data affords financial institutions enhanced commercial opportunities and cultivates a more granular comprehension of both market dynamics and customer profiles.

[1] *El Shatby, S. (2024, April 15). The history of data: From ancient times to modern day. 365 Data Science.* https://365datascience.com
[2] *Strickland, L., & Lewis, H. R. (2022). Leibniz on binary: the invention of computer arithmetic. MIT Press.*

The Big Data Dual Reality and Ethical Imperative

This data revolution presents a dual reality. On one hand, it holds unprecedented potential to deepen financial inclusion, enhance economic efficiency, and build more resilient systems. On the other, it introduces systemic risks and ethical dilemmas that challenge the very foundations of market integrity and human dignity. As data becomes the world's most valuable resource, its aggregation and algorithmic interpretation are creating new centers of power and giving rise to a nascent digital economy whose rules are yet to be written.

The challenge of Big Data, however, transcends mere technical or regulatory compliance. A metaphysical shift is underway: the "datafication" of human identity, where individuals are rendered into quantifiable data points, and algorithmic models emerge as new forms of epistemological authority that shape credit, opportunity, and social outcomes. This ontological change requires a move beyond conventional questions of data management to more fundamental inquiries: What are the ethical implications of a system where correlation supersedes causation? How do we govern invisible arbiters of economic destiny? And what does it mean to uphold human agency in an age of predictive analytics?

Islamic Digital Banking Lacuna and Guiding Framework

Nevertheless, the adoption rate of Big Data within Islamic digital banking remains comparatively constrained, thereby underscoring a significant lacuna in the Islamic digital banking ecosystem[3]. Given the increasingly fundamental role of Big Data in this sector, maintaining transactional and relational transparency between the bank and its stakeholders is paramount. Such transparency ensures the strict adherence of contractual agreements to Shariah principles and facilitates the precise ascertainment of the ownership of the exchanged data assets.

Moreover, the sustained preservation of Shariah compliance in Big Data transactions is contingent upon robust data protection mechanisms and the acquisition of explicit individual consent. This oversight necessitates vigilant monitoring by the designated data controller, especially concerning the integration of data users into any relevant contractual frameworks.

Navigating this new terrain requires drawing from the world's rich ethical traditions. Islamic ethical philosophy, with its emphasis on the Objectives of Shariah (Maqasid Shariah) in preserving faith, life, intellect, lineage, and property, offers a robust and holistic framework. The approach here moves beyond a legalistic binary of simple halal (permissible) and haram (forbidden) compliance. Instead, Islamic ethics is deployed as a critical lens to examine the deeper implications of Big Data, focusing on key ethical principles such as justice (‘adl), public interest (maslahah), and the prevention of ambiguity (gharar) and harm (dharar).

[3] *Indriasari, E., Gaol, F. L., & Matsuo, T. (2019). Digital banking transformation: Application of artificial intelligence and big data analytics for leveraging customer experience in the Indonesia banking sector. In 2019 8th International Congress on Advanced Applied Informatics (IIAI-AAI) (pp. 863-868). IEEE.*

The Ontology of Data from Shariah Lens

DISCUSSION

Big Data refers to extensive and diverse datasets that expand rapidly over time. It is characterised by three key dimensions: Volume, representing the sheer amount of information; Velocity, indicating the speed at which it is generated and gathered; and Variety, referring to the wide range of data types and sources, collectively known as the "Three V's" of Big Data[4]. The conceptual model is often expanded to the Five Vs through the additional dimensions of Veracity (quality) and Value (usefulness), which provide a potent framework for comprehending the essential characteristics that delineate Big Data from its conventional counterpart.

Big Data Characteristics through 5Vs

Source: Generated by Gemini

Furthermore, a comparative analysis grounded in differences pertaining to their intrinsic definition, data generation source, and operational use offers a richer understanding, with these distinctions being visually aggregated in Diagram 1.

Diagram 1: Comparison of Traditional Data vs Big Data

Traditional Data		Big Data
Structured, relational data organizations have been storing and processing.	**Definition**	Large, complex datasets processed using advanced analytics.
Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Online Transactions, and other enterprise-level data.	**Source**	Broader range of enterprise and non-enterprise-level data, (social media, device and sensor data, and audiovisual data).
Basic account management, generate financial, standard credit checks	**Use**	Financial modelling, customer analytics, risk management, and fraud detection.
Collecting and verifying personal data for financing application.	**Example**	Analyzed vast historical customer data to tailor an event-based marketing strategy.

Source: AEON Bank (M) Berhad

From the Arabic language, Data derived from the word al-bayan "البيان", and Big Data derived from al-bayanat al-dhakhmah "البيانات الضخمة". Al-Bayan, or data, refers to something that becomes clear and revealed; as Ibn Faris (Maqayis al-Lughah, vol. 1, p. 228), Al-Jawhari (Al-Sihah fi al-Lughah, vol. 5, p. 2082), Ibn Manzur (Lisan al-Arab, vol. 13, p. 69), and Al-Zabidi (Taj al-Arus, vol. 24, p. 292) explain, it is said: "So-and-so clarified his words," meaning he made his words clear[5]. The definition aligns with the verse mentioned in the Quran:

كَذَٰلِكَ يُبَيِّنُ ٱللَّهُ لَكُمْ ءَايَـٰتِهِۦ لَعَلَّكُمْ تَعْقِلُونَ

"Thus, Allah makes clear to you [His verses] that you might use reason" (Al-Baqarah: 242)

[4] *Udeh, C. A., Orieno, O. H., Daraojimba, O. D., Ndubuisi, N. L., & Oriekhoe, O. I. (2024). Big data analytics: a review of its transformative role in modern business intelligence. Computer Science & IT Research Journal, 5(1), 219-236.*

[5] *Adel bin Abd Aziz. (2022). Bayanat dhakhmah: Dirasah fiqhi. Imam Muhammad Bin Saud Islamic University.*

Meanwhile, the word " الضخمة " applies to anything whose size is significantly greater than usual in which it is always expanding in size. Nevertheless, the term "البيانات الضخمة" (Big Data) is a relatively recent linguistic adoption, introduced into contemporary discourse due to its widespread usage, as the concept was not explicitly defined within the terminology of previous eras.

Reforming Data Exchange through Ownership and Shariah Contracts

The Prophet (PBUH) said:

الْمُسْلِمُونَ شُرَكَاءُ فِي ثَلَاثٍ فِي الْمَاءِ وَالْكَلَإِ وَالنَّارِ وَثَمَنُهُ حَرَامٌ

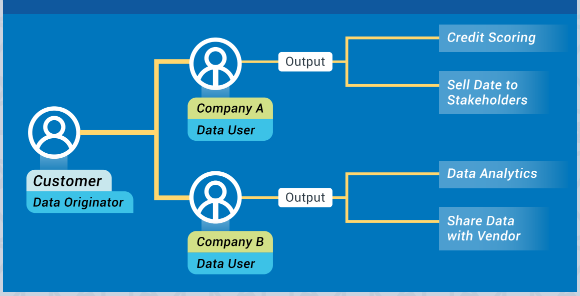
"The Muslims are partners in three things: water, pasture and fire, and their price is unlawful."

(Reported by Abu Dawud and Ibn Majah)[6].

General data and fundamental resources are generally considered shareable among people, as supported by the previously cited hadith. The application of Shariah principles is primarily reserved for regulating the outcome of data use, specifically when it causes harm or negative outcome. This approach is based on the imperative to prevent harm, reflecting the core legal maxim of لَا ضَرَرَ وَلَا ضِرَارَ (There should be neither harming nor reciprocating harm).

Within Shariah principles, ownership confers the exclusive rights to a person over a property, encompassing the authority for its use, transfer, or restriction. As Abdul Karim Zaydan elucidates, this concept of ownership involves both control and usufruct (the right to enjoy the use and advantages of another's property), and may be exercised either directly, as with tangible goods, or indirectly, regarding resource rights such as those pertaining to digital data[7]. The ownership or the right to utilise Big Data is established when the data originator grants full and explicit consent to the data user for its analytical or commercial deployment. Within the banking context, the specific purposes of customer data usage are formally documented within the Privacy Notice.

Diagram 2: The Flow of Data from Originator to User



Source: AEON Bank (M) Berhad

Subsequent to ownership transfer, institutions commercially benefit from the data through either trend analysis or the use of raw output, subject to the originating party's consent. Given its inherent shareability and generalisability, raw data can be analogised (or "qiyas") to common resources such as grazing lands, pastures, fire, and water. Nevertheless, when individuals or groups expend effort or financial resources to convert raw data into a valuable, processed product, this investment warrants the recognition of exclusive ownership rights over the processed data. This is founded on the principle that any commodity deemed to possess value must be legally recognised as al-Mal (Property), The Hanafi school of Islamic jurisprudence defines al-Mal as any object or resource naturally desired by humans, which possesses the capacity for storage and offers concrete, practical benefits[8].

Consequently, to establish true ownership over a valuable data asset, a proper Shariah contract is necessitated. Several Shariah contracts relating to data exchange can thus be applied during the transaction. These transactions include sale and purchase of big data, and leasing of big data.

The commercial transactions involving big data frequently incorporate resale restrictions, which fundamentally limit the purchaser's capacity to transfer ownership or usage rights to external third parties. The enforceability and Sharıah permissibility of such stipulations engender divergent opinions among Islamic legal scholars. A practical illustration is a Fintech company that develops a proprietary dataset detailing consumer spending patterns, gathered through ethically sound, Sharıah-compliant methodologies.

[6] *https://www.muftiwp.gov.my/en/artikel/irsyad-fatwa/irsyad-fatwa-umum-cat/2061-22*

[7] *Mujahidin, M. (2021). The Principle of Tauhid and Ownership in Islamic Economic. Al-Kharaj: Journal of Islamic Economic and Business, 3(2).*

[8] *Maluf, L. (1975). Al-Munjid fi al-Lughah wa al-a'lam. Dar al-Mashriq.*

The data is offered to financial institutions via a subscription model that embeds a contractual clause expressly prohibiting the resale or unauthorised sharing of the dataset. The rationale for this restriction is twofold: to ensure the proprietary data is used exclusively for the subscriber's internal analytical purposes (e.g., product tailoring or market analysis) and to prevent unauthorised redistribution that would directly compromise the data provider's competitive advantage and commercial model. This tension highlights a critical governance area where modern market necessity intersects with established Islamic jurisprudence on the free transferability of al-Mal (property).

Scholars generally deem the leasing of Big Data to multiple entities permissible provided the data is a non-depleting asset, the usage terms are clearly defined, and the transaction adheres to Sharıah principles of transparency and mutual benefit. For example, in a typical Big Data lease agreement (akin to an ijarah contract in Fiqh), the subscribing entities are granted temporary access to the data and its analytical tools exclusively within the Originator's platform. This structured access means the lessees can utilise and derive value from the data—such as running proprietary models or generating insights—but they are explicitly prohibited from reselling, transferring, or physically removing the data from the secure platform. Furthermore, this granted access is strictly limited to a stipulated timeframe as per the contract. This controlled mechanism addresses the Shariah principles of preventing harm (dharar) to the data owner and eliminating ambiguity (gharar) regarding the asset's use.

Conversely, the subleasing of data without explicit prior contractual permission is strictly prohibited, as it violates both the agreement and Shariah principles, with figures like Imam Ahmad ibn Hanbal underscoring the necessity of contractual stipulation (syart) to prevent misuse and protect the data provider's stipulated terms[9] and the integrity of the leased asset.

Reconceptualising Personal Data Privacy in Islamic Finance

Having secure data transfer is a must for each person. There are a lot of issues in cybersecurity issues whereby personal data has been leaked by illegal activities. Islam prohibits such action. Everything related to the user's data belongs rightfully to them, and it is not permissible to infringe upon their right because the fundamental principle is the prohibition of aggression, as stated in the words of Allah:

وَلَا تَعْتَدُوٓا۟ ۚ إِنَّ ٱللَّهَ لَا يُحِبُّ ٱلْمُعْتَدِينَ ﴿١٩٠﴾

"And do not transgress. Indeed, Allah does not like transgressors" (Surah Al-Baqarah: 190)

Big Data yields substantial benefits for the banking sector, particularly when managed with meticulous responsibility through techniques such as data masking. This practice is critical for safeguarding sensitive personal data including names, identification numbers, and financial details by employing anonymisation or substitution while diligently preserving its original analytical utility.

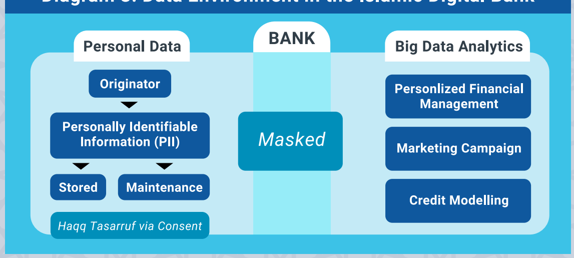
The methods deployed, which include format-preserving encryption and robust algorithms such as SHA-256, are indispensable for achieving compliance with regulatory mandates like the Personal Data Protection Act (PDPA) and the Payment Card Industry Data Security Standard (PCIDSS). This not only mitigates the risk of data breaches and sustains customer trust but also enables secure, ethical data sharing with third-party entities.

In the context of Islamic finance, data inherently constitutes a customer asset, necessitating explicit consent (haqq al-tasarruf) prior to its utilisation by the financial institution. Although the process of masking and functionally transform the data, allowing the bank to assert ownership over the data, allowing the bank to assert ownership over the resultant Big Data derivative, underlying ethical and Shariah considerations persist, particularly when the generated insights influence customer outcomes. From a Shariah jurisprudence perspective, masked data transactions are deemed permissible subject to three core stipulations:

1. The existence of mutual consent (ridha) between all contracting parties.
2. A clear description of the data to mitigate excessive uncertainty (gharar).
3. Granting the buyer the right of inspection (khiyar al-ru'yah), strictly limited by the masking parameters to ensure the continued protection of sensitive information despite access.

While minor uncertainty is tolerated when strictly unavoidable, contractual agreements must meet the standard of clarity stipulated by both Shariah and Malaysian law. Consequently, the ethical deployment and commercial exchange of masked data are viable, provided they are managed with stringent transparency, explicit consent, and appropriate safeguards. The comprehensive scope of these requirements is elucidated in Diagram 3.

Diagram 3: Data Environment in the Islamic Digital Bank



Source: AEON Bank (M) Berhad

[9] *Adel bin Abd Aziz. (2022). Bayanat dhakhmah: Dirasah fiqhi. Imam Muhammad Bin Saud Islamic University. https://365datascience.com*
[2] *Strickland, L., & Lewis, H. R. (2022). Leibniz on binary: the invention of computer arithmetic. MIT Press.*

Towards an Islamic Digital Civilisation

The convergence of Artificial Intelligence (AI) and Big Data Analytics (BDA) delivers critical insights that enhance intelligent operational systems, resulting in demonstrable competitive gains for commercial entities. In digital banking, this integration is central to improving customer interaction quality. Financial institutions utilise AI and BDA to meticulously map and analyse the full scope of the customer journey, evaluate digital channel performance, and optimise platforms by identifying profitable usage trends and eliminating inefficiencies in underutilised channels. The capacity to create personalised and friction-free customer experiences fostered by these tools directly promotes satisfaction, cultivates brand loyalty, encourages organic advocacy, and ultimately elevates the institution's overall financial health.

A global overview of Big Data Analytics implementation in banking systems is summarised in Table 1 below.

Table 1

Banks	Objective
OCBC Bank[10]	Real-time analysis for the customer service and strengthen intelligent risk control system
Bank of China[11]	
HSBC[12]	Enhance customer understanding, deliver personalised insights, improve service quality, and strengthen operational efficiency and security
Citibank[13]	To automate reporting to regulators, eliminating manual work and errors.
AEON Bank[12]	Implement a targeted marketing campaign to cross-sell bank products to AEON customers, utilising personalised financial management within the banking app to enhance user experience.

Hence, the proven operational models of big data analytics and AI-driven solutions utilised by global financial institutions from predictive risk modeling and fraud detection to advanced customer segmentation must be strategically adopted and repurposed by Islamic financial institutions (IFIs). However, this adoption presents a dual challenge: achieving technical parity while ensuring Shariah-Compliance.

Unlike conventional models, which prioritise purely quantitative risk, IFIs must adapt machine learning algorithms to screen financial transactions in real-time for prohibited elements such as Riba (interest), Gharar (excessive uncertainty), and non-Halal investments, essentially requiring a layer of Shariah Compliant Big Data guardrail or AI-powered RegTech (Regulatory Technology) tailored to Islamic jurisprudence. This strategic repurposing elevates the technological objective beyond mere efficiency to the fulfillment of embedding Shariah-Compliance and Maqasid al-Shariah (Objectives of Shariah) directly into the design and governance of all AI algorithms and Big Data frameworks[14].

[10] *Lim, R. (2024, June 6). The award winning formula: How Cloudera empowered OCBC with trusted data to unlock business value from AI. Cloudera. https://www.cloudera.com/blog/business/the-award-winning-formula-how-cloudera-empowered-ocbc-with-trusted-data-to-unlock-business-value-from-ai.html*

[11] *Bank of China Limited. (2018). 2018 interim report: Business review [PDF]. https://pic.bankofchina.com/bocappd/report/201809/P020180927589632090381.pdf*

[12] *HSBC. (n.d.). Harnessing big data [Transcript]. https://www.hsbc.com/growtogether*

[13] *Omata, S. (2019, May 3). 5 ways banks in Singapore are using big data. Fintech News Singapore. https://fintechnews.sg/30505/bigdata/5-ways-banks-in-singapore-are-using-big-data/*

[14] *Najib, N. W. M., Basarud-din, S. K., & Fazial, F. (2025). Artificial Intelligence (AI) In Islamic Finance: A Maqasid Al-Shariah Perspective. INTERNATIONAL JOURNAL OF LAW, GOVERNMENT AND COMMUNICATION (IJLGC), 10, 40.*

“ Conclusion

Drawing on the insights of Johnson[15] and Ogden[16] regarding Big Data's potential to enhance financial stability, business development, and precise marketing, future research must undertake a deeper exploration from a rigorous Sharıah perspective. A mandate is thus issued to regulators, policymakers, and industry stakeholders to propose and implement governance parameters that manage data in alignment with Islamic values.

The fundamental necessity is for Islamic banks to embed fairness, transparency, and respect for user rights within their data practices, utilising defined contracts that uphold justice (ʿadl) and mutual consent (ridha). Ethical data analytics, guided by Sharıah principles, is critical for all risk management and decision-making, necessitating the development of a holistic ethical code to protect humanity with the Maqasid al-Shariah (Objectives of Shariah). Integrating Big Data into Islamic digital banking requires a deliberate re-envisioning of Sharıah through technology to ensure an ethical and sustainable ecosystem. This includes paving the way for a Shariah-compliant Big Data governance framework that mandates transparency, fairness, and the avoidance of data misuse or exploitation.

By responsibly leveraging Big Data, Islamic financial institutions can significantly enhance customer insights, optimise risk management, and drive product innovation based on core principles, including the prohibitions of Riba (interest), Gharar (excessive uncertainty), and Maysir (gambling). Educational programmes highlighting real-world case studies will further equip professionals for ethical data practices, ultimately fostering trust and supporting the broader objectives of Islamic finance in promoting economic growth, financial inclusion, and social equity within a principled framework.

[15] *Johnson, D. (2015). Advancing Islamic finance. Asian Investor, No. 40.*

[16] *Ogden, G. (2015). Islamic financial institutions need to jump on the Big Data bandwagon. Islamic Business & Finance, No. 91, 48-49.*

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