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# JOURNAL OF ISLAMIC FINANCE

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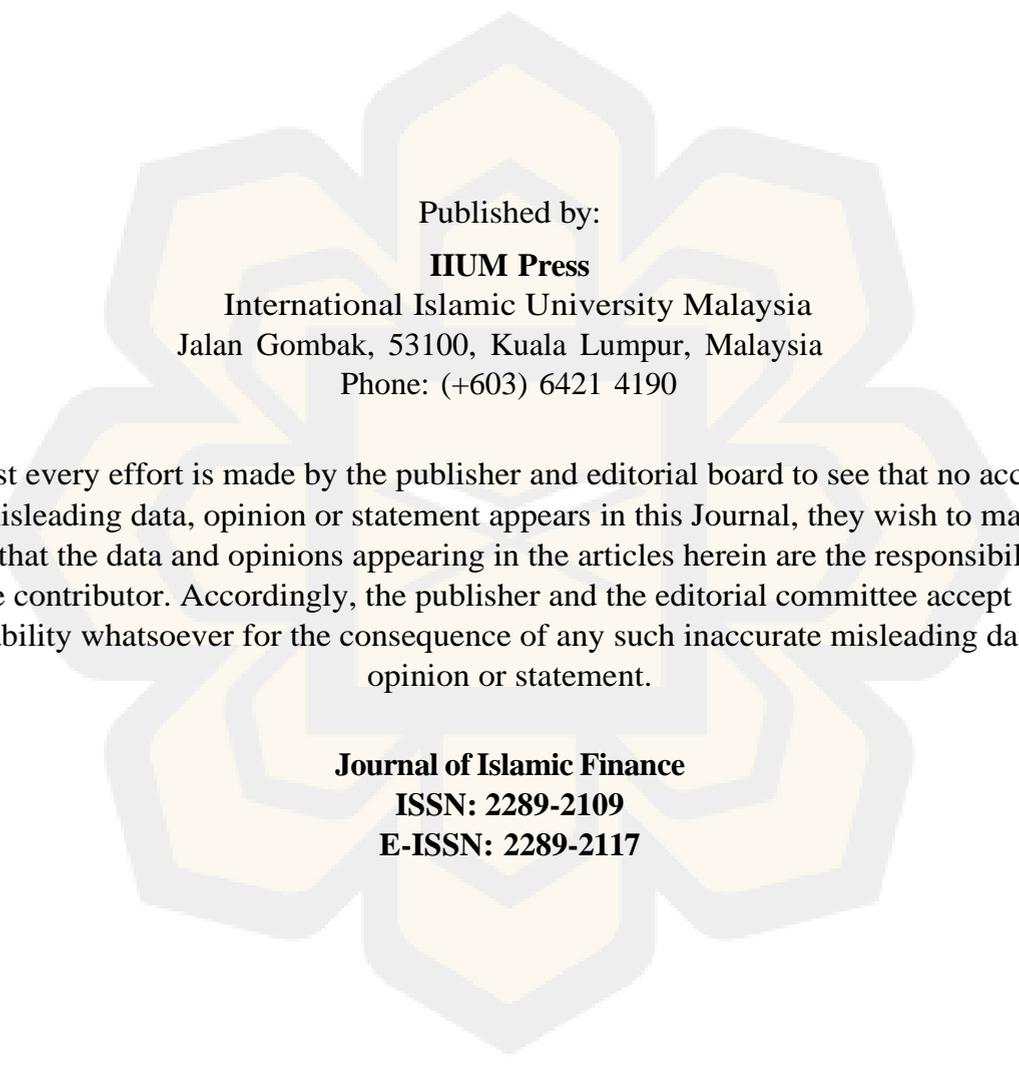
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# Bibliometric Analysis of Zakat Literature: Exploring Research Trends and Factors Influencing Zakat Payment

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## Abstract

This study explores the emerging trends and factors influencing zakat payment, drawing on a comprehensive analysis of 661 Scopus-indexed publications from 1969 to 2024. Utilising Microsoft Excel, VOSviewer, WordSift, and Harzing's Perish or Publish (PoP), the study analysed the selected publications to identify key trends, themes, and contributing factors. A significant increase in zakat-related publications was observed, particularly from 2019 to 2023. The International Islamic University Malaysia emerged as a leading institution in this field, and the Journal of Islamic Accounting and Business Research was identified as the most prominent journal for Zakat scholarship. As such, Ram Al Jaffri Saad was recognised as the most prolific author in the area. The article with the highest citation count, authored by J.C. Scott, focused on Zakat and Social Justice. Key research themes encompassed zakat, socio-economic factors, zakat institutions, poverty alleviation, management, distribution, and efficiency. The study highlighted Indonesia, Malaysia, Oman, Saudi Arabia, and the United Arab Emirates (UAE) as key contributors to the field, likely due to collaborative research efforts. Factors influencing zakat payment in Indonesia, Algeria, and Nigeria included individual, environmental, and social factors, while in Malaysia, Philippines and Yemen, individual and social factors are the primary determinants that were deemed more influential. Thus, future research could examine the challenges and issues faced by zakat management organisations in terms of collection and distribution.

*Keywords:* Zakat, Bibliometric analysis, trends, factors influencing zakat

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## 1. Introduction

Zakat is one of the five pillars of Islam. It is a mandatory charitable contribution that Muslims are obligated to pay. Zakat has been made obligatory for Muslims when the conditions stipulated are met. It is to assist the poor and the needy, a practical manifestation of a Muslim's belief in Allah (SWT.) and His Messenger (Ab Rahman et al., 2012). Two main types of zakat are zakat on the individual (Zakat-ul-Fitr) and zakat on wealth (Zakat-ul-Maal) which include zakat on earnings, zakat on business, zakat on savings, zakat on gold and silver, zakat on Employees Provident Fund (EPF) savings, zakat on farming, zakat on livestock, zakat on shares and bonds and zakat on mineral resources. Furthermore, zakat serves as a mechanism for poverty alleviation, social justice, community development, spiritual purification, economic stability, and wealth redistribution within Muslim communities.

The emergence of zakat literature has been characterised by diverse research themes that reflect the multifaceted role of zakat in society. Ahmed et al. (2017) and Abdullah et al. (2015) focused on zakat's role in poverty alleviation. Meanwhile, Sawmar and Mohammed (2021); and Abdul-Jabbar and Bin-Nashwan (2022) studied zakat compliance, investigating factors influencing individuals' adherence to zakat obligations. Syed Yusuf et al. (2024) and Yamaludin et al. (2024) examined the methods and impacts of zakat fund distribution. Widiastuti et al. (2021) and Zakiy et al. (2023) explored the frameworks and practices ensuring effective zakat

governance. Recent studies by Hashim et al. (2024), Az-Zahra Ahmadzin et al. (2024), Omar et al. (2022), and Zaki et al. (2020) focused specifically on the governance of zakat funds allocated for educational purposes. These studies emphasise the need for efficient management and distribution to eligible students, highlighting governance's critical role in maximising the impact of zakat within the educational sector. Furthermore, the authors highlighted that the primary *asnaf* (beneficiaries) category entitled to zakat for educational purposes is *fakir* (students from extremely poor families who cannot afford their education). The second category is  *miskin* (students from poor families who struggle to meet their basic needs). The third category is *gharim* (students who are burdened by debts and cannot afford their education). The last category is *fi-sabilillah* (those striving in the path of Allah). However, Zaki et al. (2020) emphasised that Lembaga Zakat Negeri Kedah (LZNK) follows the three *maslahah* principles (*daruriyyah, hajiyyah, and tahsiniyyah*) when distributing the education zakat fund. Furthermore, zakat and economic development have been examined by Ascarya (2022) and Ben Jedidia and Guerbouj (2022). The intersection of zakat and social finance has been explored by Dirie et al. (2023) and Akhter et al. (2023), focusing on how zakat can be integrated into modern financial systems to enhance social welfare. Lastly, zakat and sustainability are increasingly gaining attention, with recent studies by Saputra et al. (2024) and Alshehadeh et al. (2024) investigating how zakat can support sustainable development goals. These various streams of research collectively enrich the understanding of zakat's role in contemporary society and its potential to address complex social and economic challenges.

The growing interest in zakat research is reflected in the increasing number of bibliometric studies being conducted in this field. Alshater et al. (2021) conducted an extensive analysis covering the years 1969 to 2020, offering a broad historical perspective on the development of zakat literature. Supriani et al. (2022) expanded on this work by examining publications from 1964 to 2021, providing a comprehensive overview of the evolution of zakat research over nearly six decades. Ismail et al. (2022) specifically concentrated on the impact of the COVID-19 pandemic on zakat research, analysing literature from 2019 to 2021. Similarly, Wahyudi et al. (2022) analysed zakat literature from 1969 to 2021, highlighting key trends and developments. Most recently, Khalifah et al. (2024) also explored zakat literature spanning from 1964 to 2021, further contributing to the understanding of research trends in this area. They have addressed various research questions to understand the scope, influence, and future directions of zakat research.

This study aims to answer the following research questions.

- RQ 1 – What is the overall trend of zakat publications over time?
- RQ 2 – Which institutions, journals, and authors have published the most zakat research?
- RQ 3 – Which are the highly cited articles in the field of zakat research?
- RQ 4 – What is the trend on the co-occurrence and collaboration of keywords in zakat research?
- RQ 5 – Which countries are the most influential in the field of zakat research?
- RQ 6 – What factors influence zakat payment behavior among individuals and organisations and how are these factors represented in the existing literature?

The structure of this paper is organised into five main sections. The first section provides an overview of the evolution of literature in zakat studies. The second section details the methodology employed in this study, including a flow diagram that outlines the search strategy. The third section presents the findings and results through various bibliometric indicators supported by tables and figures. The fourth section summarises the conclusions, the limitations of this study, and potential directions for future research. The final section outlines the practical implications of this study.

## 2. Literature Review

The study of zakat literature through bibliometric analysis offers a detailed understanding of the evolution, trends, and thematic focus of zakat research across decades. There are several bibliometric analyses of zakat literature.

For example, Maziah et al. (2021) analysed 493 articles from the Scopus database, focusing on the challenges and improvements in zakat administration. Her study emphasized the need for ongoing enhancements in infrastructure, human capital, and governance transparency to ensure that the zakat administration continues to effectively address poverty and uplift living standards nationally and internationally. Alshater et al. (2021) took a historical approach, examining zakat literature from 1669 to 2020. His bibliometric review includes 224 articles from Scopus. They suggested that future research could emphasise zakat management, zakat distribution, zakat collection, and development of zakat institutions. With

technological advancements, such as artificial intelligence and data analytics, the role of zakat institutions could be enhanced in improving the collection and distribution of zakat.

Surprisingly, studies focusing on bibliometric analysis of zakat literature have increased in recent years. Handoko et al. (2022) provided a broader overview of zakat research trends, analysing 635 articles from Scopus extracted on March, 2021. The crucial part of their findings is that they offer seventeen zakat issues for future research. The issues include zakat distribution, zakat compliance, zakat institutions, zakat collection, and zakat for sustainable development.

Later, Supriani et al. (2022) analysed 522 articles extracted from Scopus in June 2021 to identify key themes and trends in zakat research. Their findings highlighted six focus areas, which are the governance of zakat institutions, zakat's role in poverty eradication, compliance with Islamic zakat obligations, zakat as a social security scheme, intention to pay zakat, and the distribution of zakat funds. However, Ismail et al. (2022) conducted a bibliometric analysis of zakat development in Indonesia during the COVID-19 pandemic. They reviewed 55 articles retrieved from Google Scholar for three years during the COVID-19 pandemic. His study emphasised the potential of zakat as a Shariah financial instrument to address poverty and economic challenges during the pandemic, suggesting that zakat could play a critical role in national economic recovery efforts. Meanwhile, Zaky et al. (2022) focused on the research trends of zakat institutions. They analyzed 944 articles extracted from Google Scholar and Scopus starting from 2009 until 2022. Their suggested future research is consistent with Ismail et al. (2022), which highlighted the importance of digitalisation and management to post-COVID-19 topics reflecting the evolving challenges and opportunities faced by zakat institutions in the modern era. In another study, Apriliyah and Fianto (2022) analyzed zakat-related publications between 2009 and 2020, including 87 articles extracted from Scopus. Similarly, Wahyudi et al. (2022) also contributed to this field by examining 405 articles from 1969 to 2021. Their findings suggested the need for ongoing research regarding the policy and emerging challenges in zakat administration, zakat collection, and distribution.

Furthermore, Mansyur and Rusanti (2023) focused on developing zakat scholarly publications in Malaysia and Indonesia. Utilising the Scopus database, they analysed 659 articles and provided a comparative analysis between the two countries. The study highlighted several areas for further research in zakat. In Malaysia, topics such as blockchain technology, service quality, zakat management, accountability, and crowdfunding offer potential avenues for development. Meanwhile, Indonesian research on zakat and agriculture development, decision support systems, and information systems could be emulated and adopted by other countries. These areas represent opportunities for future research and innovation in the field of zakat.

The recent study by Khalifah et al. (2024) focused on 632 articles and zakat-related publications gathered from Scopus between 1964 and 2021. The analysis indicated that research on zakat institutions and zakat collections has gained prominence between 2010 and 2021, and this trend is expected to continue in the future.

Overall, the bibliometric analysis reveals a growing body of literature on zakat. Several key themes were identified from the bibliometric analysis of zakat literature. These include zakat administration, zakat management, zakat distribution, zakat collection, and poverty alleviation.

Handoko et al. (2022) proposed that future studies should concentrate on zakat compliance. The objective is to examine and ascertain the behaviors and intentions of muzakki (zakat payers) in the payment of zakat, as well as to evaluate zakat compliance from the perspective of the muzakki. This study highlighted the theoretical framework employed by the researchers to examine and identify the factors influencing muzakki's behavior and intention to pay Zakat.

A diverse range of theoretical frameworks has been applied to explore the factors influencing zakat payment behaviour. For instance, Kasri and Sosianti (2023) used the Unified Theory of Acceptance and Use of Technology (UTAUT) model to examine factors that shape the intention to pay zakat online. Venkatesh et al. (2003) introduced the UTAUT. It is used to explain user acceptance and behavior regarding technology. It synthesises eight different models of technology acceptance, including the Theory of Reasoned Action (TRA), the Technology Acceptance Model (TAM), and the Theory of Planned Behavior (TPB), among others, into a unified framework.

Oktavendi and Mu'ammal (2022) employed TAM and Innovation Diffusion Theory (IDT) to explore the factors that can encourage Generation Z to continue using *Zakat, Infaq, and Sodaqoh* (ZIS) digital payments. TAM was developed by Fred Davis in 1986. It explains how individuals adopt new technologies. It proposes that two primary factors influence users' intentions to adopt technology. The first factor is perceived usefulness, which refers to the belief that technology will improve user efficiency. Next is perceived ease of use, which

refers to the belief that technology is easy to use and understand. These two factors, in turn, influence the user's behavioural intention to adopt the technology. Meanwhile, IDT was developed by Everett Rogers in 1962. IDT focuses on how innovations spread through a population over time. As such, it identifies five stages of adoption, namely innovators, early adopters, early majority, late majority, and laggards. Notably, TAM and IDT are both valuable frameworks for understanding the adoption of new technologies. However, TAM focuses on individual factors that influence adoption decisions, while IDT emphasises the broader social and organizational factors that influence the diffusion of innovations.

[Bidin et al. \(2009\)](#) and [Andam and Osman \(2019\)](#) conducted similar studies on zakat compliance, specifically focusing on zakat on employment income. However, they adopted different theoretical frameworks. [Bidin et al. \(2009\)](#) utilised the TRA, developed by [Ajzen and Fishbein \(1975\)](#), to examine how individuals' attitudes and social norms shape their intentions and behavior toward paying zakat. This framework emphasises the role of personal and societal influences in motivating compliance with zakat obligations.

On the other hand, [Andam and Osman \(2019\)](#) applied the TPB, which extends TRA by incorporating the concept of perceived behavioural control. TPB accounts for external or internal barriers that may hinder individuals from acting on their intentions. Their study provided a more comprehensive analysis by investigating attitudes and norms and how perceptions of control and zakat fairness impact the intention to comply with zakat payments.

[Saad et al. \(2020\)](#) employed the Decomposed Theory of Planned Behavior (DTPB) to examine the factors influencing the intention to comply with business zakat. Taylor and Todd (1995) introduced the DTPB and extended the TPB by breaking down core components into detailed factors. In the context of zakat payment, DTPB examines specific attitudes (such as the perceived effectiveness of zakat governance), subjective norms (like community expectations), and perceived behavioural control (including access to payment platforms). This detailed decomposition offers nuanced insights into the drivers of zakat compliance behaviour.

Lastly, [Sadallah et al. \(2023\)](#) applied Social Cognitive Theory (SCT) to study the intention of Zakat compliance among entrepreneurs from a social cognitive perspective. Bandura (1986) introduced SCT, emphasising that behaviour is shaped by a dynamic interaction among personal, behavioural, and environmental factors. In zakat payment, religious communities, institutional norms, and family support significantly influence individual compliance. Specifically, SCT's three main elements are personal factors, behavioral factors, and environmental factors.

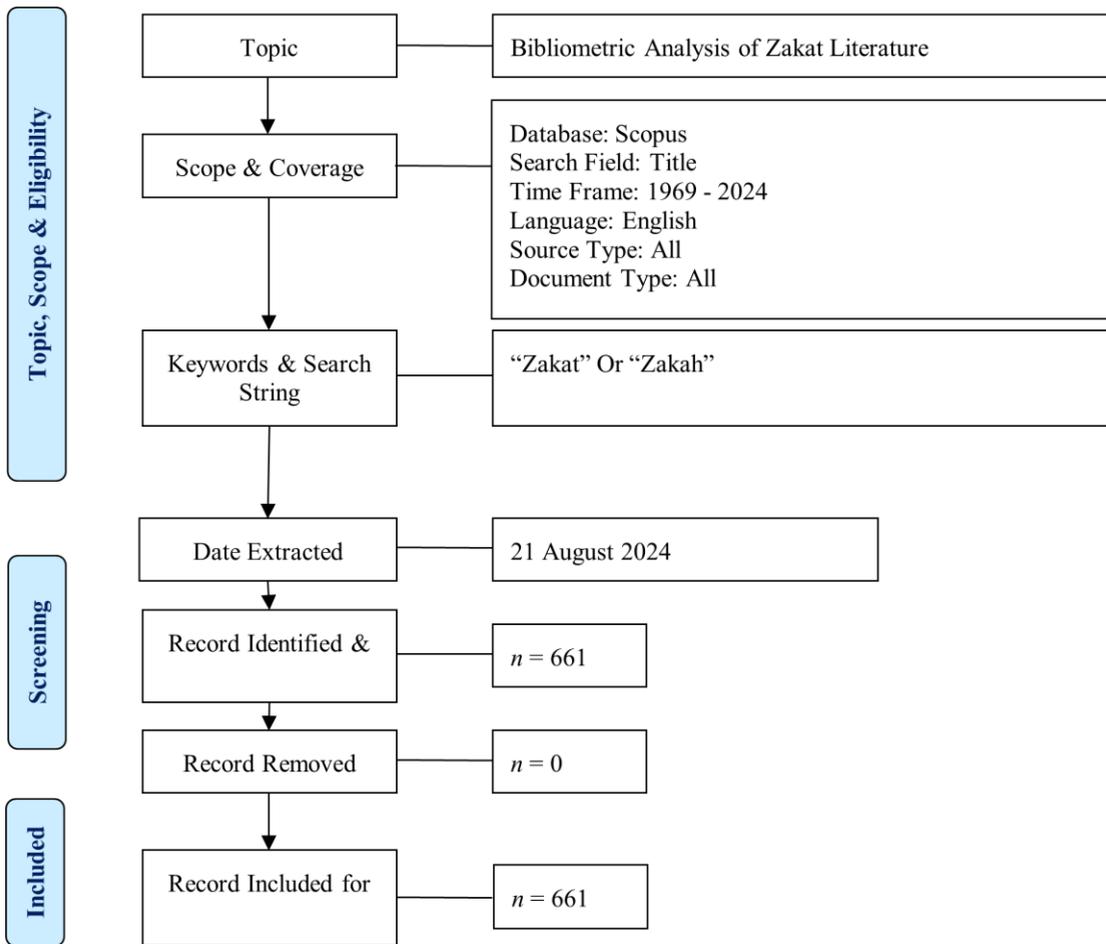
This study differs from previous bibliometric research in two significant ways. First, it extends the study period from 1969 to 2024, offering a more comprehensive and long-term view of the evolution and trends in zakat research. Second, it incorporates an analysis of the factors influencing zakat payment behaviour, as suggested by [Handoko et al. \(2022\)](#). To date, bibliometric research has not extensively explored behavioural drivers related to zakat compliance, leaving a gap in understanding how individual factors shape payment behaviour. Thus, by addressing this underexplored dimension, the study provides fresh insights that bridge existing knowledge gaps in zakat literature and expand the scope of future research directions.

### **3. Research Methodology**

Bibliometric analysis is a study that employs quantitative and statistical methods to identify patterns in the distribution of articles related to specific issues and periods ([Wahyudi et al., 2022](#)). Notably, it is a popular and rigorous method for exploring and analysing large volumes of scientific data. Accordingly, the analysis enables us to unpack the evolutionary nuances of a specific field while shedding light on the emerging areas in that field ([Donthu et al., 2021](#); [Khan et al., 2022](#)).

This study utilised the Scopus database to conduct a comprehensive literature review on zakat. Scopus was chosen for its extensive coverage of peer-reviewed research across various academic disciplines, including journals, book series, conferences, and proceedings. Its citation-based ranking system further enhances the quality and relevance of the selected literature. Figure 1 outlines the step-by-step process followed in this study, from the initial search strategy to the subsequent bibliometric analysis.

Figure 1: Flow diagram of the search strategy



Sources: [Wahyudi et al. \(2022\)](#)

The search strategy for investigating the intention of zakat payers to pay zakat was conducted using the Scopus database, focusing on article titles. The search covered a time frame from 1969 to 2024 and was limited to articles published in English. All source and document types were included. The keywords and search string were "Zakat" OR "Zakah" in the title field. Data extraction was completed on August 21, 2024, identifying and screening a total of 661 records. None of the records were removed during the screening process, resulting in all 661 records being included for bibliometric analysis.

The research primarily employed bibliometric analysis, utilising Microsoft Excel 2013 to calculate the frequency and proportion of published materials and to create relevant tables, charts, and graphs. This approach was used to address the first and second research objectives.

VOSviewer, a widely used bibliometric analysis tool, was employed to visualise and analyse the interconnections among 661 zakat-related articles in .ris format. This software utilises advanced techniques like co-citation and co-authorship analysis to identify patterns and relationships within large bibliographic datasets. The fractional counting method was used to extract keywords from the articles, and the results were visualised in a network map. VOSviewer was instrumental in addressing the third and fourth research questions.

To visually illustrate the prominent terms used by the authors, the study employed the WordSift tool, which creates graphical representations of the most frequently appearing words in a given text. Researchers input the author keywords from each publication into the WordSift program, and the resulting visualizations were used to enhance understanding of the main themes and topics discussed in the literature. Additionally, WordSift

played a significant role in the keyword analysis, contributing to the insights gathered for the third research question.

Another tool utilised in the study was Harzing's Publish or Perish (PoP). PoP is a well-established software application designed to retrieve and analyse academic citations. It is particularly beneficial for individual academicians aiming to demonstrate their research impact, even with limited citations, and is highly suitable for conducting bibliometric research (Harzing, 2010). In this research, PoP was employed to conduct citation analysis, contributing to the insights gathered for the fourth research question.

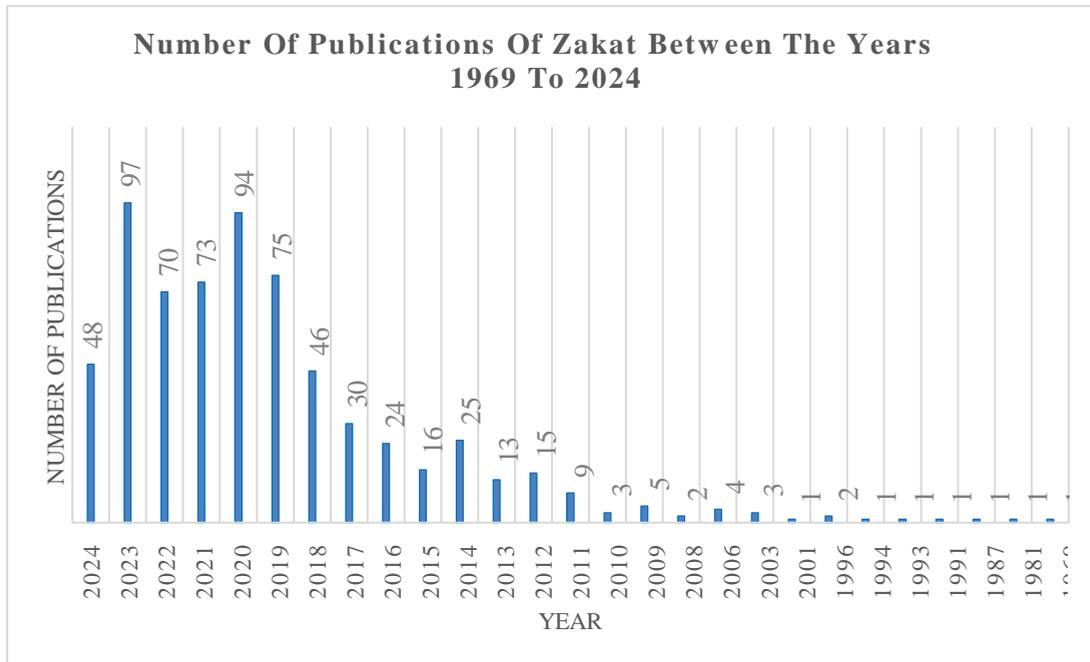
Utilising the Scopus database, we systematically identified articles that specifically examine the factors influencing zakat payment behaviour. This analysis was conducted to address the fifth research question. This study effectively utilised a range of analytical tools, including Microsoft Excel, VOSviewer, Harzing's PoP, and WordSift, to comprehensively address the research questions. These tools were employed to perform various analyses, such as generating visual representations, conducting bibliometric evaluations, and analysing citation data, thereby contributing to the overall robustness of the research findings.

#### 4. Results and Discussion

##### 4.1 Number of publications of zakat between the years 1969 to 2024

Figure 2 illustrates the number of published articles on the topic of zakat over a study period ranging from 1969 to 2024. The data reveals a significant increase in publications over the years, with the highest number of articles being published in 2023, totaling 97. The year 2024 also saw a substantial number of publications, with 48 articles. A notable rise in publications is observed from 2019 to 2023, with annual totals consistently exceeding 70 articles, indicating growing academic interest in the subject during this period. Earlier years, particularly before 2010, indicate significantly fewer publications, with many years recording only one or two articles, highlighting the relatively recent surge in scholarly attention to zakat. The earliest recorded publication is from 1969, with sporadic increases in the following decades, gradually leading to the current trend of more frequent publications in recent years.

Figure 2: Number of Publications of Zakat between the years 1969 to 2024.



Source: Authors' elaboration based on Scopus

#### 4.2 Number of articles by affiliation

Table 1 presents the distribution of articles on zakat by affiliation, highlighting the top ten institutions with the highest number of publications. The International Islamic University Malaysia leads with 61 publications, accounting for 7.72% of the total output. Following closely, University Utara Malaysia contributed 57 publications, making up 7.22% of the total. Universiti Teknologi MARA ranks third with 40 publications, representing 5.06%. The College of Business, Universiti Utara Malaysia, contributed 33 publications, or 4.18% of the total. Universiti Sains Islam Malaysia follows with 28 publications (3.54%), and the International Islamic University Malaysia, Institute of Islamic Banking and Finance has 26 publications (3.29%). Universiti Kebangsaan Malaysia and Universitas Airlangga each contributed 25 publications, each making up 3.16%. Universitas Indonesia has 18 publications (2.28%), and Universiti Malaya rounds out the top ten with 16 publications, accounting for 2.03% of the total. This distribution underscores the significant contributions of Malaysian institutions to the scholarly discourse on zakat.

Table 1: Number of articles by affiliations (top ten institutions)

<b>Affiliation</b>	<b>No of publications</b>	<b>Percentage (%)</b>
International Islamic University Malaysia	61	7.72%
Universiti Utara Malaysia	57	7.22%
Universiti Teknologi MARA	40	5.06%
College of Business, Universiti Utara Malaysia	33	4.18%
Universiti Sains Islam Malaysia	28	3.54%
International Islamic University Malaysia, Institute of Islamic Banking and Finance	26	3.29%
Universiti Kebangsaan Malaysia	25	3.16%
Universitas Airlangga	25	3.16%
Universitas Indonesia	18	2.28%
Universiti Malaya	16	2.03%

Source: Authors' elaboration based on Scopus

##### 4.2.1. Top ten sources in zakat publications

Table 2 highlights the distribution of articles on zakat across various academic journals, focusing on the top ten journals by the number of articles published. The Journal of Islamic Accounting and Business Research leads with 32 articles, accounting for 6.17% of the total publications. The International Journal of Islamic and Middle Eastern Finance and Management follows with 15 articles, making up 2.89% of the total. The Impact of Zakat on Sustainable Economic Development and the Journal of Islamic Marketing published 14 articles each, representing 2.70% of the total. The Global Journal Al Thaqafah contributed 12 articles (2.31%), while the Lecture Notes in Networks and Systems published 11 (2.12%). Both the AIP Conference Proceedings and the ISRA International Journal of Islamic Finance published ten articles each, contributing 1.93%. The Journal of Islamic Monetary Economics and Finance published nine articles (1.73%), and the International Journal of Innovation, Creativity, and Change rounds out the list with eight articles, accounting for 1.54% of the total. This distribution emphasises the leading journals in the field where research on zakat is most frequently published.

Table 2: Top ten sources in Zakat publications

<b>Name of the Journal</b>	<b>No of articles</b>	<b>Percentage (%)</b>
Journal Of Islamic Accounting and Business Research	32	6.17%
International Journal of Islamic and Middle Eastern Finance and Management	15	2.89%
Impact of Zakat on Sustainable Economic Development	14	2.70%
Journal of Islamic Marketing	14	2.70%
Global Journal Al Thaqafah	12	2.31%

Lecture Notes in Networks and Systems	11	2.12%
AIP Conference Proceedings	10	1.93%
ISRA International Journal of Islamic Finance	10	1.93%
Journal of Islamic Monetary Economics and Finance	9	1.73%
International Journal of Innovation Creativity and Change	8	1.54%

Source: Authors' elaboration based on Scopus

#### 4.2.2. Top authors in zakat publications

Table 3 lists the top authors in zakat publications, each with a minimum of 5 articles. Ram Al Jaffri Saad leads with 19 publications, accounting for 3.79%. Tika Widiastuti follows with 11 articles, representing 2.20%. Both Hijattullah Abdul-Jabbar and Saeed Awadh Bin-Nashwan have contributed ten articles each, making up 2.00% of the total. Fuadah Johari and Norfaiezah Sawandi each published eight articles, constituting 1.60%. Authors like Saliza Abdul Aziz, Irfan Syauqi Beik, and Wahab, N. A. have each contributed seven articles, accounting for 1.40%. Several other authors, including M. Kabir Hassan, Imron Mawardi, Mohamad Soleh Nurzaman, Muhamad Nafik Hadi Ryandono, and Dodik Siswanto, each have six articles published, contributing 1.20%. Finally, Rusni Hassan, Sri Herianingrum, Rahmatina Awaliyah Kasri, Mustafa Omar Mohammed, Ahmad Fahme Mohd Ali, and Maheran Zakaria contributed five articles, making up 1.00%. This table highlights the key contributors to the academic literature on zakat.

Table 3: Top authors in zakat publications with a minimum of 5 articles

Authors	No of articles	Percentage (%)	Authors	No of articles	Percentage (%)
Ram Al Jaffri Saad	19	3.79%	Imron Mawardi	6	1.20%
Tika Widiastuti	11	2.20%	Mohamad Soleh Nurzaman	6	1.20%
Hijattullah Abdul-Jabbar	10	2.00%	Muhamad Nafik Hadi Ryandono	6	1.20%
Saeed Awadh Bin-Nashwan	10	2.00%	Dodik Siswanto	6	1.20%
Fuadah Johari	8	1.60%	Rusni Hassan	5	1.00%
Norfaiezah Sawandi	8	1.60%	Sri Herianingrum	5	1.00%
Saliza Abdul Aziz	7	1.40%	Rahmatina Awaliyah Kasri	5	1.00%
Irfan Syauqi Beik	7	1.40%	Mustafa Omar Mohammed	5	1.00%
Wahab, N.A.	7	1.40%	Ahmad Fahme Mohd Ali	5	1.00%
M. Kabir Hassan	6	1.20%	Maheran Zakaria	5	1.00%

Source: Authors' elaboration based on Scopus

#### 4.3 Most Globally Cited Articles

Table 4 highlights the most globally cited articles in the field of zakat studies. Some significant findings of these top ten articles are as follows:

- i. J.C. Scott, published in 1987, leads with 131 citations, averaging 3.54 per year. Scott illustrated how similar resistance patterns can emerge in various cultural and religious settings.
- ii. N.A. Wahab and A. Rahim Abdul Rahman, published in 2011, with 93 citations (7.15 average citations per year). They highlighted the significance of assessing these institutions' efficiency and governance to ensure the Islamic financial system achieves its objective of socio-economic justice

- through equitable wealth distribution.
- iii. M.H. Syed, S. Khan, M.R. Rabbani, and Y.E. Thalassinos, published in 2020, stand out with 75 citations and the highest average of 18.75 citations per year. The findings suggested that Islamic finance, particularly through the zakat and Qardh-Al-Hasan, holds significant potential for addressing crises like COVID-19.
  - iv. S. Javaid and H.-A.N. Al-Malkawi's, published in 2018, follows with 58 citations and 9.67 citations per year. The result indicated that the companies operating in Islamic economies can effectively implement zakat as a CSR measure. This implementation not only helps narrow socio-economic gaps but also facilitates the achievement of both short-term and long-term corporate objectives.
  - v. T. Kuran's, published in 2003, with 56 citations (2.67 average citations per year). The result revealed that zakat was a vital component of early Islamic societies, serving as a mechanism for wealth redistribution and community support. However, in contemporary settings, the lack of robust state involvement in zakat collection and distribution has led to inefficiencies and inequities, limiting its potential to achieve its intended goals.
  - vi. R. Al Jaffri Saad and R. Haniffa published in 2014, which garnered 55 citations, averaging 5.5 per year. Their findings demonstrate that intention plays a crucial role as a predictor of zakah compliance behavior. Additionally, the study revealed that intention is significantly shaped by both attitude and subjective norms, with intention mediating the relationship between these factors and business zakah compliance behavior.
  - vii. I. Ali and Z.A. Hatta, published in 2014, received 54 citations (5.4 per year). They discovered that the effectiveness of zakat administration in Bangladesh is less developed compared with Malaysia and Indonesia due to minimal governmental involvement in zakat collection and distribution.
  - viii. Z. Bidin, K.Md. Idris and F.M. Shamsudin, published in 2009, also earned 54 citations with 3.6 per year. The findings indicated that subjective norms and attitudes significantly impact behavioural intention to comply with zakah obligations.
  - ix. A. Ab Rahman, M.H. Alias, and S.M.N.S. Omar published in 2012, with 52 citations (4.33 per year). They emphasised the need to strengthen the zakat management system, particularly in the distribution process, to ensure that zakat reaches the intended recipients. Additionally, they suggested transforming zakat administration by improving the ability to identify and track prospective zakat payers and encourage a capacity-building approach to transition the poor from being zakat recipients to becoming zakat payers.
  - x. M.R.B. Rosli, H.B. Salamon, and M. Huda published in 2018 with 50 citations, averaging 8.33 per year. The findings suggested that elder neglect victims, child abuse victims, children involved in crime, and domestic violence victims are eligible to be categorised as *asnaf ar-riqab*.

Table 4: Most globally cited articles

No.	Authors	Title	Cites	Year	Average citations Per Year
1	J.C. Scott	Resistance without Protest and without Organisation: Peasant Opposition to the Islamic Zakat and the Christian Tithe	131	1987	3.54
2	N.A. Wahab, A. Rahim Abdul Rahman	A framework to analyze the efficiency and governance of zakat institutions	93	2011	7.15
3	M.H. Syed, S. Khan, M.R. Rabbani, Y.E. Thalassinos	Artificial intelligence and NLP-based Islamic FinTech model combining zakat and Qardh-Al-Hasan for countering the adverse impact of COVID-19 on SMEs and individuals	75	2020	18.75
4	S. Javaid, H.-A.N. Al-Malkawi	Corporate social responsibility and financial performance in Saudi Arabia: Evidence from zakat contribution	58	2018	9.67

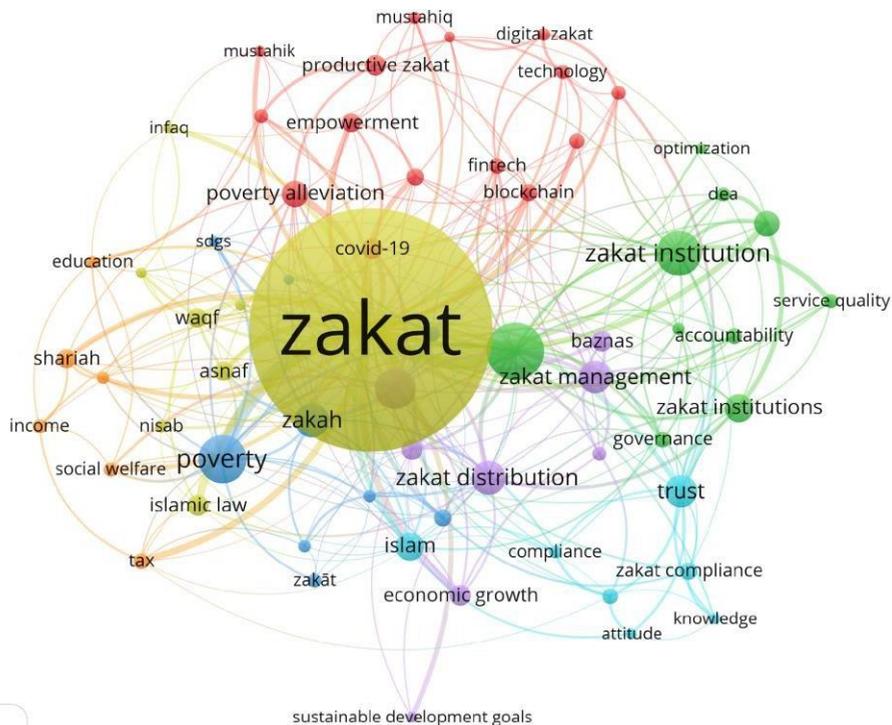


Figure 4 provides a visualisation of the co-occurrence of author keywords in zakat-related research mapped using VOSviewer, a software tool for creating and visualising bibliometric networks. The analysis uses fractional counting to assess the relationships between different keywords, with a minimum threshold of five occurrences for a keyword to be included. As such, the connecting line's colour, circle size, text size, and thickness indicate associations with other terms. Notably, keywords of the same colour, for example, are frequently included together. A total of 64 keywords were selected and grouped into seven clusters.

Cluster 1 revolves around contemporary themes in zakat research, such as blockchain, COVID-19, digital zakat, fintech, and technology. Cluster 2 centered on governance and institutional efficiency in zakat. Cluster 3 highlights the integration of zakat with broader economic and social responsibility themes. Cluster 4 focuses on the religious and charitable aspects of zakat. Cluster 5 is concerned with the broader economic implications of zakat, particularly in Indonesia. Cluster 6 is centered on behavioural aspects of zakat compliance. Lastly, Cluster 7 is related to socio-economic factors.

Overall, the visualisation of these keyword clusters provides a comprehensive view of the various thematic areas in zakat research, from technological innovations and governance issues to religious practices and socio-economic impacts. Each cluster represents a different facet of zakat studies, illustrating the multi-dimensional nature of the field.

Figure 4: Network visualisation map of the author keywords



Source: Authors' elaboration based on Scopus

#### 4.5 Network visualisation of the citations by countries

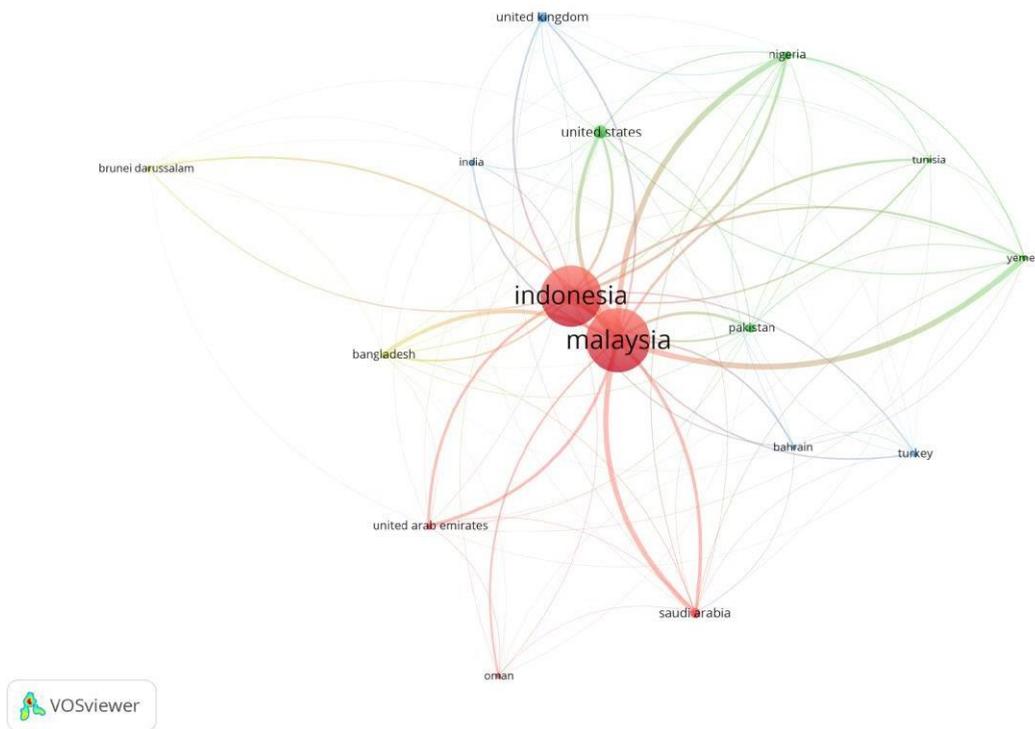
Figure 5 presents a network visualisation of citations by countries, with the unit of analysis being the countries themselves. To be included in the visualisation, each country needed a minimum of five documents, although there was no minimum citation threshold. The analysis revealed four clusters.

The first cluster consists of Indonesia, Malaysia, Oman, Saudi Arabia, and the United Arab Emirates (UAE). These countries are likely interconnected in terms of research collaboration and citation networks

focused on Islamic finance and zakat-related studies.

Nigeria, Pakistan, Tunisia, the United States (US), and Yemen form the second cluster. This grouping suggests a mix of countries with various levels of economic development and varying approaches to zakat, possibly highlighting cross-regional research collaborations. The third cluster includes Bahrain, India, Turkey, and the United Kingdom (UK). These countries might be connected through their research on Islamic finance, with Turkey and the UK being notable for their significant contributions to Islamic finance scholarship. The fourth cluster, which is comprised of Bangladesh and Brunei, is a smaller cluster that suggests a closer research relationship between these two countries, likely due to their shared interest in zakat as a tool for poverty alleviation and economic empowerment. The network visualisation highlights the global distribution and collaboration patterns in zakat research, indicating that while some countries are central to this field, others are emerging as significant contributors. The clusters reflect regional cooperation and cross-regional scholarly exchanges, illustrating the diverse and interconnected nature of zakat studies worldwide.

Figure 5: Network visualisation of the citations by countries



Source: Authors' elaboration based on Scopus

#### 4.6 Factors Influencing Zakat Payment.

Bibliometric analysis of zakat literature and keyword analysis reveals its significant role in fostering economic development and addressing poverty within Muslim countries. Zakat is a vital mechanism for poverty alleviation and economic redistribution within these countries. Consequently, comprehending the determinants influencing zakat payment is crucial for enhancing its efficacy in these domains, thereby aligning religious obligations with socio-economic development objectives. Table 5 summarises the results of the bibliometric study on factors influencing zakat payment, which addresses the fifth research objective.

The results reveal that, among the countries studied, Indonesia exhibited the highest number of zakat literature publications, followed by Malaysia, Algeria, Nigeria, Bangladesh, Morocco, the Philippines, and Yemen. Most of the studies conducted in Indonesia employed the UTAUT to identify the factors influencing zakat payment. In the context of zakat, applying the UTAUT framework can help explore how people perceive and use digital zakat payment systems or technology-based zakat management platforms by exploring

performance expectancy, effort expectancy, social influence, and facilitating conditions. At the same time, several studies have explored the factors influencing the adoption of digital zakat payments, yielding both common and distinct findings. Kasri and Yuniar (2021) identified performance expectancy, effort expectancy, facilitating conditions, and zakat literacy as significant determinants in Indonesia, with social influence deemed insignificant. This is consistent with Kasri and Sosiarti (2023), who also reported that facilitating conditions, performance expectancy and zakat literacy positively influenced the intention to pay zakat online. However, in this later study, trust in zakat institutions also emerged as a crucial factor. Similarly, Sunarsih et al. (2023) added that both intrinsic motivation (including habit and effort expectancy) and extrinsic motivation (such as facilitating conditions, performance expectancy, and social influence) significantly impact the intention to pay zakat through institutions. In addition, Haryanto et al. (2023) supported the positive effect of performance expectancy, social influence, and facilitating conditions on the intention to use online platforms for zakat payments. Kamal et al. (2024) focused on the role of effort expectancy, finding it significantly influences behavioural intention to pay zakat digitally in Aceh, further emphasising the varied factors influencing digital zakat payment behaviour across different contexts. Furthermore, Mutmainah et al. (2024) discovered that performance expectancy, social influence, facilitating conditions, perceived security and privacy, and zakat literacy significantly enhance the intention of muzakki (zakat payers) to adopt financial technology, especially during the national economic recovery. Martono et al. (2019) demonstrated that both knowledge and trust have a positive and significant effect on employees' intention to pay zakat. This relationship suggests that a better understanding of zakat principles and trust in the institutions managing zakat collection are crucial motivators for zakat compliance. Similarly, Hamdani et al. (2024) emphasised the role of trust in influencing the intention to pay zakat, particularly through institutional channels. Their study also discovered that firm-generated information on social media significantly impacts the intention to pay zakat through these institutions, further reinforcing the importance of reliable information and trust in driving zakat-paying behaviour. In another study, Mohd Suki et al. (2023) from Malaysia discovered that social influence plays a crucial role in shaping the intention of youth to use social media networks to understand zakat online campaigns, particularly those using creative animation. This finding highlights the significance of social influence in digital platforms, especially among young people.

In contrast, Oktavendi and Mu'ammal (2022) employed the TAM and IDT to explore Generation Z's adoption of ZIS digital payments. The results suggested that factors such as innovative sense, security and privacy risks, ease of use, usefulness, facilitating conditions, and social influence are key drivers of the zakat payment.

In Malaysia, Bidin et al. (2009); and Al Jaffri Saad and Haniffa (2014) utilised the TRA to identify the factors influencing zakat payment. In the context of zakat payment, TRA could help explain how people's attitudes toward the religious duty of zakat and the influence of societal or community expectations shape their intention and likelihood of actually paying zakat. Their results revealed that subjective norms and attitudes are significant predictors of zakat compliance behaviour in terms of employment income and business zakat. As such, Farouk et al. (2018) also supported these findings, emphasising the direct relationship between attitude, subjective norms, and religiosity with behavioural intention in Nigeria.

Other researchers employed applied the TPB. The TPB is frequently applied to explore compliance behaviour in zakat payment. By integrating this framework, the study illustrates how intentions, attitudes, and perceived behavioural control influence zakat payer behaviour, providing a holistic understanding of factors driving zakat's contributions.

Bulutoding et al. (2020) and Sadallah et al. (2023) highlighted that the attitude of zakat behaviour, subjective norms, and perceived behavioural control significantly influence the intention to pay zakat. However, Yusoff and Omar (2022) stated that the perception of zakat fairness in the zakat system significantly influenced the willingness of zakat payers to pay zakat. If people believe the zakat system is fair, they will likely comply with their obligations. Meanwhile, Andam and Osman (2019) identified that attitude, descriptive norms, and moral norms have a positive relationship with the intention to give zakat on employment income in the Philippines. This result is consistent with Bin-Nashwan et al. (2021) in Yemen. However, in Morocco, Ghaouri et al. (2023) reported that attitude significantly impacts the intention to pay zakat to the national fund.

Saad et al. (2020) employed the DTPB. This theory extends the TPB by incorporating additional constructs to better explain and predict behaviour. In the context of zakat payment, the DTPB can be applied to examine the factors influencing an individual's intention to pay zakat. Applying DTPB to zakat payment could help

understand how these decomposed beliefs influence zakat payment behaviour. Their findings revealed that attitudes towards zakat evasion, moral reasoning, peer influence, zakat knowledge, zakat distribution, and perceived zakat board capital significantly influence business zakat compliance behavioural intention.

Lastly, [Sadallah et al. \(2023\)](#) in Algeria used SCT to study the zakat compliance intention among entrepreneurs from a social cognitive perspective. This theory explains how individuals learn and acquire behaviours through observation, imitation, and self-regulation. It emphasises the interaction between personal factors, environmental factors, and behaviour. They highlighted a positive relationship between service quality, trust, knowledge, and the intention to pay zakat.

The findings reveal that the factors influencing zakat payment can be categorised into three distinct dimensions: individual, environmental, and social. In particular, individual-level factors include attitude, ease of use, effort expectancy, and intrinsic/extrinsic motivation. Meanwhile, environmental factors include facilitating conditions, firm-generated information, and innovative sense. At the same time, social factors include knowledge, perceived security/privacy, performance expectancy, security/privacy risks, social influence, trust in zakat institutions, usefulness, and zakat literacy. This framework provides a comprehensive understanding of the complex interplay of factors that shape zakat compliance behaviour and offers valuable insights for policymakers and researchers seeking to enhance zakat's impact on society.

Table 5: Factors influencing zakat payment.

No	Authors	Title	Year	Sample of Study	Factors Influencing Zakat Payment
<b>COUNTRY: INDONESIA</b>					
1	S. Martono, A. Nurkhin, F. Lutfhiyah, Fachrurrozie, A. Rofiq, Sumiadji	The relationship between knowledge, trust, intention to pay zakah, and zakah-paying behavior	2019	Employees (Ministry of Religion, the Semarang municipal)	<ul style="list-style-type: none"> <li>● Knowledge</li> <li>● Trust</li> </ul>
2	R.A. Kasri, A.M. Yuniar	Determinants of digital zakat payments: lessons from Indonesian experience	2021	223 Muslim respondents	<ul style="list-style-type: none"> <li>● Performance expectancy</li> <li>● Effort expectancy</li> <li>● Facilitating condition</li> <li>● Zakat literacy</li> </ul>
3	T.W. Oktavendi, I. Mu'ammal	Acceptance model for predicting adoption of Zakat, Infaq, and Sodaqoh (ZIS) digital payments in Generation Z	2022	Generation Z aged 15–25 years old	<ul style="list-style-type: none"> <li>● Innovative sense</li> <li>● Security and privacy risks</li> <li>● Ease of use</li> <li>● Usefulness</li> <li>● Facilitating conditions</li> <li>● Social influence.</li> </ul>
4	S. Sunarsih, L. Hamdani, A. Rizal, R. Yusfiarto	Motivational factors to paying zakat through institutions: a multigroup analysis of urban and suburban muzakki based on a digital payment scheme	2023	325 respondents (Java Region)	<ul style="list-style-type: none"> <li>● Attitude</li> <li>● Intrinsic motivation</li> <li>● Extrinsic motivation</li> </ul>

5	R.A. Kasri, M.W. Sosianti	Determinants of the intention to pay zakat online: the case of Indonesia	2023	734 respondents (Jakarta, Indonesia)	<ul style="list-style-type: none"> <li>Facilitating conditions</li> <li>Performance expectancy</li> <li>Trust in zakat institutions</li> <li>Social influence</li> <li>Zakat literacy</li> </ul>
6	R. Haryanto, A.A. Bakri, H.E.S. Samosir, D.L. Idris, T.R. Fauzan, W. Agustina	Digital literacy and determinants of online zakat payments lessons from Indonesia experience with UTAUT	2023	330 muzakki of Baznas (Indonesia)	<ul style="list-style-type: none"> <li>Performance expectancy</li> <li>Social influence</li> <li>Facilitating conditions</li> </ul>
7	L. Mutmainah, I. Berakon, R. Yusfiarto	Does financial technology improve the intention to pay zakat during national economic recovery? A multigroup analysis	2024	265 respondents (Indonesia)	<ul style="list-style-type: none"> <li>Performance expectancy</li> <li>Social influence</li> <li>Facilitating conditions</li> <li>Perceived security and privacy</li> <li>Zakat literacy</li> </ul>
8	L. Hamdani, S. Sunarsih, R. Yusfiarto, A. Rizal, A.N. Khoirunnisa	Social media, trust and intention to pay zakat through institution: lessons from Indonesian experience	2024	230 respondents	<ul style="list-style-type: none"> <li>Firm-generated information</li> <li>Trust</li> </ul>
9	S. Kamal, N. Safarida, E.S. Kassim	Investigating the role of fiqh zakat knowledge in moderating the behaviour of the Acehese to pay zakat digitally	2024	350 respondents (Aceh)	<ul style="list-style-type: none"> <li>Effort expectancy</li> </ul>

**COUNTRY: MALAYSIA**

1	Z. Bidin, K.Md. Idris, F.M. Shamsudin	Predicting compliance intention on zakah on employment income in Malaysia: An application of reasoned action theory	2009	250 Muslim respondents (Kedah, Malaysia)	<ul style="list-style-type: none"> <li>Subjective norms</li> <li>Attitudes</li> </ul>
2	R. Al Jaffri Saad, R. Haniffa	Determinants of zakah (Islamic tax) compliance behavior	2014	227 active businessmen (Malaysia)	<ul style="list-style-type: none"> <li>Attitude</li> <li>Subjective norm</li> </ul>
3	L. Bulutoding, Z. Alwi, R. Dwiayuparmitasari	Akhlaq of zakat behavior among determinant factors of intention in Malaysia: a perspective of Prophet Muhammad tradition	2020	285 muzakki (Malaysia)	<ul style="list-style-type: none"> <li>Akhlaq</li> <li>Subjective norms</li> <li>Perceived control</li> </ul>

4	Y.H. Yusoff, M.K. Omar	Islamic Intellectual Capital: Zakat compliance among zakat payers in Terengganu, Malaysia	2022	100 respondents (Terengganu, Malaysia)	<ul style="list-style-type: none"> <li>● Perception of zakat fairness</li> </ul>
5	N. Mohd Suki, N. Mohd Suki, M.F. Hussin Shokri	Examining youths' intention to use social media networks for understanding zakat online campaigns that use creative animation	2023	300 youths (Kedah, Malaysia)	<ul style="list-style-type: none"> <li>● Social influence</li> </ul>

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**COUNTRY: ALGERIA**

1	M. Sadallah, H. Abdul-Jabbar, S.A. Aziz	Promoting zakat compliance among business owners in Algeria: the mediation effect of compliance intention	2023	344 respondents of business owners in Algeria	<ul style="list-style-type: none"> <li>● Attitude</li> <li>● Subjective norm</li> <li>● Perceived behavioural controls</li> </ul>
2	M. Sadallah, H. Abdul-Jabbar, S.A. Bin-Nashwan, S.A. Abdul Aziz	Alms tax (zakat) compliance intention among entrepreneurs from a social cognitive perspective: the moderating role of knowledge	2023	315 of Algerian entrepreneurs.	<ul style="list-style-type: none"> <li>● Service quality and trust</li> <li>● Knowledge.</li> </ul>

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**COUNTRY: NIGERIA**

1	A.U. Farouk, K. Md Idris, R.A.J.B. Saad	Moderating role of religiosity on zakat compliance behaviour in Nigeria	2018	474 civil servants in Kano State, Nigeria	<ul style="list-style-type: none"> <li>● Attitude</li> <li>● Subjective norms</li> <li>● Religiosity</li> </ul>
2	R.A.J. Saad, A.U. Farouk, D. Abdul Kadir	Business zakat compliance behavioural intention in a developing country	2020	524 of small and medium-scale businessmen in Kano, NIGERIA	<ul style="list-style-type: none"> <li>● Attitudes</li> <li>● Peer influence</li> <li>● Knowledge</li> <li>● Zakat distribution</li> <li>● Perceived zakat board capital</li> </ul>

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**COUNTRY: MOROCCO**

1	M.H. Ghaouri, S. Kassim, A.H.A. Othman, H. Zakariyah	Behavioural intention of zakat participants towards the zakat fund in Morocco	2023	343 respondents in Morocco	<ul style="list-style-type: none"> <li>● Attitude</li> </ul>
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**COUNTRY: PHILIPPINES**

1	A.C. Andam, A.Z. Osman	Determinants of intention to give zakat on employment income: Experience from Marawi City, Philippines	2019	384 respondents in Marawi City	<ul style="list-style-type: none"> <li>● Attitude</li> <li>● Descriptive norm</li> <li>● Moral norm</li> </ul>
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**COUNTRY: YEMEN**

1	S.A. Bin-Nashwan, H. Abdul-Jabbar, S.F. Dzigielewski, S.A. Aziz	Moderating effect of perceived behavioural control on Islamic tax (zakah) compliance behavior among businessmen in Yemen	2021	202	<ul style="list-style-type: none"> <li>● Attitude</li> <li>● Perceived norms</li> </ul>
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Source: Authors' elaboration based on Scopus

**5. Conclusion, Limitations and Future Research**

In conclusion, this study highlighted that there has been a significant increase in research about zakat since the 1960s, especially in recent years. This surge highlights the increasing importance of zakat as a focus of academic study in recent years.

The analysis of zakat research reveals that Malaysian universities, especially the International Islamic University Malaysia, have conducted numerous research on zakat. They have published many articles about zakat in important journals like the Journal of Islamic Accounting and Business Research. Ram Al Jaffri Saad is a well-known researcher in this field, and other researchers have also made significant contributions. This suggests that Malaysian scholars are leading the way in studying zakat.

The top ten cited articles predominantly centered on three key themes: zakat and social justice, zakat governance and efficiency, and zakat and contemporary issues. The article with the highest citation count, authored by J.C. Scott, focused on the theme of zakat and social justice, examining historical cases of peasant resistance to zakat as a form of social protest. The other leading articles emphasised governance, efficiency, and contemporary challenges facing the zakat administration.

This study highlights the growing academic interest in zakat research, particularly in Malaysia and Indonesia. Key research themes encompass socio-economic factors, zakat institutions, poverty alleviation, management, distribution, and efficiency. Emerging trends include exploring modern technologies like blockchain and integrating zakat with Islamic social finance strategies. Additionally, the study emphasises the religious and ethical dimensions of zakat. A network analysis identified seven distinct clusters of zakat research. The clusters are contemporary zakat research, governance and institutional efficiency, economic and social responsibility, religious and charitable aspects, economic implications, compliance behaviour, and socio-economic factors.

The result reveals four clusters of countries focusing on Islamic finance and zakat-related studies. The first cluster includes Indonesia, Malaysia, Oman, Saudi Arabia, and the UAE, which are likely interconnected in research collaboration. The second cluster includes Nigeria, Pakistan, Tunisia, the US, and Yemen, with varying economic development levels and approaches to zakat. The third cluster includes Bahrain, India, Turkey, and the UK, with Turkey and the UK being notable contributors to Islamic finance scholarship. The fourth cluster comprises Bangladesh and Brunei, with a closer research relationship due to shared interest in zakat for poverty alleviation and economic empowerment.

The factors influencing zakat payment behaviour vary across countries. In Indonesia, Algeria, and Nigeria, individual, environmental, and social factors play important determinants. However, in Malaysia, the Philippines, and Yemen, individual and social factors are the primary determinants. In Morocco, individual factors, particularly attitudes, dominate zakat payment behaviour.

This study has four limitations. First, this study was limited to the Scopus database. Future research could expand the search to include multiple databases like Web of Science, Social Science Citation Index, Emerging Sources Citation Index, and Google Scholar to capture a wider range of literature. Second, the search field. Future research can utilise "title," "keywords," and "abstracts" in the search to enhance the accuracy of results. Third, time-bound data. The total number of publications and citations is only accurate as of the time of the inquiry. Future studies may need to update the data for new publications and citations. While previous research has primarily focused on factors influencing zakat on income and business, future studies could examine the specific determinants or awareness of zakat payment for gold, a less explored area within zakat scholarship. Lastly, this study primarily examined factors influencing zakat payment from the perspective of zakat payers. Hence, future research could examine the challenges and issues faced by zakat management organisations

regarding zakat collection and distribution.

## 6. Practical Implications

The findings of this study suggest that improved governance and transparency in zakat practices can positively impact societal attitudes, fostering a stronger sense of community responsibility toward zakat payments. This could lead to a shift in perception, where zakat is seen not only as a religious obligation but as a significant contributor to socio-economic development. Thus, by understanding the factors influencing zakat payment, public campaigns can be tailored to encourage consistent and intentional zakat contributions. This can lead to higher compliance rates and greater public participation in zakat programs, ultimately benefiting community development. Zakat can serve as a powerful economic redistribution tool, particularly when managed efficiently. Nevertheless, by demonstrating how zakat can alleviate poverty and promote social justice, the findings can promote a more proactive attitude toward zakat payment, especially in countries where it plays a vital role in economic development.

## 7. Glossary

Term	Definition
Asnaf	eight categories of individuals who are eligible to receive zakat.
Ar-riqab	those in captives or slaves eligible to receive zakat.
Fakir	Extremely poor individuals who cannot meet their basic needs.
Fisabilillah	Individuals who strive in the path of Allah.
Gharim	Those who are struggling to pay off debts incurred for the sake of Islam.
Maslahah	the concept of Shariah (Islamic divine law) is regarded as a basis of law.
Maslahah daruriyyah	must be achieved by every individual for the sake of the well-being of our religion and to ensure life sustainability.
Maslahah hajjiyyah	a good deed that humans can live comfortably and will be protected from any harm.
Maslahah tahsiniyyah	all the good deeds that lean on luxury and easy life.
Miskin	Poor individuals who struggle to meet their basic needs.
Muzakki	Any Muslim who meets the financial threshold for zakat is, therefore, required to pay zakat.
Qardh-Al-Hasan	an interest-free loan.
Zakat	A mandatory charitable contribution in Islam, often translated as "alms" or "purification tax."

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# Income Inequality and It's Contribution to Market Failure and Solutions from an Islamic Perspective

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## Abstract

This study explores the intricate dynamics of income inequality and its impact on market failure, with a particular focus on the Islamic perspective and the Gambian context. The persistence of income inequality poses significant challenges, particularly in developing nations, affecting consumption, production, savings, and investment levels, thereby impeding optimal resource allocation and productive efficiency. This market failure is further exacerbated by the concentration of resources among a small economic segment. Islam offers robust mechanisms, such as zakat and waqf, to address poverty and enhance income equality, promoting a more equitable and progressive society. The research encompasses a comprehensive literature review, examining various studies on income inequality, poverty, and market failure from both conventional and Islamic perspectives. It also highlights the detrimental effects of income inequality on economic growth. Furthermore, the study explores the fiscal policies and their impact on poverty and income inequality in The Gambia, revealing a complex relationship between these factors. Furthermore, the research investigates absolute poverty and its contribution to market failure. The study utilizes various measures, such as the Gini Coefficient, to assess income inequality and explores the economic and social implications of this disparity. By integrating both conventional and Islamic approaches, the study offers a multifaceted understanding of the mechanisms to curb income inequality and promote economic growth and social equity.

**Keywords:** Income inequality, economic growth, zakat, waqf, Gambia

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## 1. Introduction

Society encompasses a diverse array of individuals with various social backgrounds, racial identities, religious beliefs, and opportunities. Nevertheless, these disparities typically enhance social solidarity, foster brotherhood, and promote mutual support among individuals. Income inequality serves as a crucial measure in any economy to assess income disparity between the affluent and disadvantaged. Governments and stakeholders have implemented various initiatives, regulations, and charitable endeavors in different countries to mitigate income disparities. Despite various initiatives taken to address income inequality, it continues to pose a significant challenge, especially in developing nations. Income inequality significantly affects not only income levels but also consumption, production, savings, and investment levels. This presents a major challenge to resource allocation and productive efficiency, as a majority of a country's resources are controlled by a small segment of the economy, which tends to underutilize these economic resources. Consequently, the optimal level of production is not attained, leading to a decline in the country's GDP and per capita income. This market failure occurs because the market does not fulfill the needs of society.

Income inequality is particularly significant in the context of Islam, which places strong emphasis on mechanisms that have proven effective in reducing inequalities throughout history. A more equitable and progressive society is highly valued in Islam, making it a central focus for policymakers and philanthropists, particularly in the Muslim world. Thus, Islam has established rules and regulations to eradicate poverty and

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enhance income equality. The institutions of zakat and waqf, which are regarded as the third sector in the Islamic economic system, can serve to promote income equality by providing additional resources and opportunities to those in need. In addition, the participation of non-governmental organizations, philanthropy, and other non-profit institutions can facilitate resource mobilization and income distribution to those who are financially challenged.

Given that capitalism continues to function as a prevalent economic system within society, it tends to exacerbate economic disparities by enriching the wealthy and impoverishing the disadvantaged. Consequently, it is crucial to adopt a distinct approach to addressing and reducing income inequality. Accordingly, this study examines the factors contributing to income inequality and poverty from both the conventional and Islamic perspectives. Furthermore, this study aims to examine the prevalence of income inequality in the Gambian context and its detrimental impact on market outcomes. Finally, it examines the mechanisms and tools delineated by Islam to mitigate poverty and income inequality.

## **2. Literature Review**

This section offers an empirical analysis of poverty and income inequality, as well as their role in contributing to market failure in the economy, by examining a range of scholarly studies and viewpoints.

[Polacko \(2021\)](#) examined the reasons for and effects of global income inequality. He noted that income inequality has primarily been influenced by factors such as globalization, executive pay, union regulation, and tax progressivity. However, these factors are subject to political and policy shifts implemented by governments across the globe. According to [Polacko \(2021\)](#), the repercussions of income inequality extend to economic factors such as growth, investment, and innovation, as well as social indicators such as health, social mobility, and crime rates. [Dufour \(2008\)](#) conducted a study of market failure, inequality, and income redistribution. He contends that market failure alone is insufficient to justify income redistribution because policies aimed at rectifying market failure do not necessarily result in improved income distribution. However, redistributive measures can help alleviate market failures and promote economic output efficiency, thereby enhancing income redistribution. In another study, [Kawachi \(1997\)](#) cross-sectional data from 39 US states were analyzed to assess the linkage between income inequality and mortality rate. After controlling for cause-specific mortality rates, levels of social trust, and per capita density of group memberships in each state, the study revealed that income inequality exhibited a significant correlation with per capita group membership, as indicated by a negative coefficient. However, the study also reveals a positive correlation between income inequality and public trust.

[Carrasco et al. \(2022\)](#) assessed the fiscal system's impact on poverty and income inequality in The Gambia as of 2015. To gather relevant data, the researchers utilized the Integrated Household Survey (IHS) of 2015, which provides information on household income and consumption rates. Additionally, data was collected from government parastatals and agencies to determine the state's fiscal conditions. The researchers employed the Commitment to Equity (CEQ) method to evaluate the effects of fiscal policy on poverty and inequality rates. The findings reveal that the fiscal system, including taxes and expenditures, contributed to a reduction of 1.2 Gini points in income inequality and an increase of 5.3 percent in the national poverty headcount. Meanwhile, [Ogbeide and Agu \(2015\)](#) examined the relationship between income inequality and poverty by employing the Granger Causality technique and found that there is a direct and indirect connection between these two variables. This indirect relationship was linked to unemployment and life expectancy. Another study by [Ibrahim and Uchechi \(2020\)](#) investigated the effects of income inequality on poverty levels in Nigeria from 1960 to 2018. They applied an Autoregressive Distributed Lag model and found that income inequality contributed to a 75% increase in poverty levels. Furthermore, the research demonstrated that additional significant indicators such as unemployment and inflation also play a role in exacerbating poverty levels.

In a study conducted by [Lee \(2014\)](#), the impact of trade openness and financial integration on income inequality and the poverty rate was investigated. Utilizing data from World Bank indicators, the findings reveal that financial globalization has a negative effect on income distribution and poverty levels, while trade openness exhibits a significant relationship between income inequality and poverty. [Ayuniyyah et al. \(2017\)](#) analyzed the effect of zakat on consumption and production in alleviating poverty and income inequality. The research utilized the decile model, Gini Coefficient approach, and Atkinson Index. Data were gathered from 1,309 Zakat beneficiaries from three distinct cities across Indonesia. Following extensive examination, the researchers found that one-year post-Zakat distribution programs pertaining to production exhibited significant advancements in both material and spiritual dimensions by a factor of 300 percent. The findings also indicate

a significant increase in household consumption-based programs, amounting to a 20 percent increase. Nevertheless, the Gini Coefficient experienced a decline of 0.017 points, while the Atkinson Index showed a decrease of 0.042 points. These findings suggest an improvement in the inequality gap and reduction in poverty

### **3. Research Methodology**

This study adopts a structured literature review methodology by examining scholarly works relevant to income inequality, poverty, market failure, and Islamic economic principles. The study focuses on research studies and articles published within the last two decades, ensuring a balanced perspective between contemporary findings and foundational economic theories. The literature sources focus on works that address both conventional and Islamic approaches to mitigating income inequality and its impacts on economic stability.

The literature review is conducted in three stages. First, the conceptual frameworks around income inequality and market failure are identified and defined. Second, relevant economic and social studies exploring income redistribution, fiscal policies, and Islamic tools such as zakat and waqf were reviewed to provide a comparative analysis. Finally, empirical studies examining income inequality in The Gambia and similar developing economies were synthesized to provide a contextual understanding of how these issues manifest in real-world settings. This approach facilitated a comprehensive view of income inequality's root causes, impacts, and potential solutions, grounding the findings within both theoretical and applied economic perspectives.

### **4. Results and Discussion**

#### *4.1 Absolute Poverty*

Todaro and Smith (2015) defined poverty as “the situation of being unable or only barely able to meet the subsistence essentials of food, clothing, shelter, and basic healthcare”. The United Nations has set a target to eliminate absolute poverty by 2030 by implementing Sustainable Development Goals (SDGs). Despite the efforts made by the Millennium Development Goals to alleviate extreme poverty, they have not been entirely successful, leading to the need for a new program to address this issue. Eradicating extreme poverty is one of the key objectives of SDGs.

In the context of The Gambia, numerous individuals and families face the challenging situation of absolute poverty, particularly those residing in rural areas. Many families are unable to meet their fundamental needs for survival and sustenance. One reason for this distressing reality is the high levels of unemployment and dependency ratios prevalent in the country. Many Gambian families live in large households with limited numbers of individuals. Consequently, this trend exacerbates the dependency ratio, making it increasingly challenging for households to access the essential requirements for a basic standard of living. The aforementioned individuals are also affected by the scarcity of marketplaces for their agricultural outputs during the harvest season. Owing to their reliance on local equipment and small-scale farming practices, they generate substandard and low-yielding crops that are unlikely to be traded, especially in international markets. Furthermore, these crops may be infested with diseases that negatively impact overall farm output. These obstacles led to reduced sales for rural farmers at the conclusion of the season, perpetuating extreme poverty. This situation also contributes to market failure by preventing the realization of potential growth in farm produce as a result of the use of outdated equipment, adoption of small-scale farming practices, and prevalence of local agricultural methods. The market demand for these products is greater than supply, resulting in an inefficient market.

#### *4.1.1. Measurement of Poverty*

- i. Income Poverty: Poverty may be assessed by the number of individuals who cannot obtain fundamental necessities, such as food, shelter, clothing, and basic healthcare. Globally, the World Bank uses a standard of \$2 per day in purchasing power parity to measure extreme poverty (Todaro & Smith, 2015). People falling below this income threshold are considered to be living in extreme poverty, regardless of their location. In accordance with the data gathered by David Locke and Touray (2022) in The Gambia, the percentage of the population living in extreme poverty was 1.5% in 2015, which rose to 21% in 2020. The poverty threshold for extreme poverty was set at \$2.15 per person. However, the poverty headcount indicated that 4.8% of the population was living in poverty in 2015, which increased to 53.4% by 2020, resulting in an estimated 1.1 million people living in poverty. Despite significant government investments and social programs, millions of people continue to

endure extreme poverty. This figure was recorded prior to the COVID-19 pandemic, which also had a negative impact on poverty rates in The Gambia. The pandemic has caused a decrease in economic growth and an increase in unemployment, resulting in an increase in the poverty rate to 53.4 percent. This represents an increase of eight percentage points since the beginning of the pandemic. Prior to the pandemic, the poverty rate stagnated slightly from 2010 to 2015 and was expected to decrease to 45.8 percent by 2019. Despite occasional growth in GDP per capita, the rate of poverty remained high. [David Locke and Touray \(2022\)](#) further assert that the GDP per capita growth rate in The Gambia decreased from 1 percent in 2016 to 4 percent in 2019.

- ii. The Gini Coefficient Index: The Gini coefficient is a commonly used index that measures income inequality among the poor. This index is frequently referenced in the academic literature. The Gini coefficient is effective in capturing the varying effects of economic shocks on different individuals within the poor population based on the resources they share. For instance, a reduction in the purchasing power of rice producers at the poverty level can lead to increased market sales. As a result, economic conditions improve, as do income levels and living standards of these individuals. This may even lead to them moving above the poverty line ([Todaro & Smith, 2015](#)).

#### 4.1.2. Poverty and Economic Growth

From an economic perspective, one might posit that growth in per capita income reduces the prevalence of poverty in a specific region. This is because when real GDP increases, individuals' share of national income rises, enabling them to allocate more resources towards necessities such as food, clothing, and housing, which subsequently enhances their living standards. Consequently, many individuals are lifted out of poverty. The disbursement of government funds towards welfare schemes such as cash transfers, particularly during calamities, serves as a significant factor in stimulating real income growth. These initiatives also play a role in wealth redistribution, thereby fostering consumption. However, certain studies have indicated that economic growth does not necessarily decrease or eliminate poverty, but instead exacerbates it. For instance, studies conducted by [Nuruddeen and Sani Ibrahim \(2014\)](#) and [Lee \(2014\)](#) revealed that the upsurge in GDP in Nigeria and Korea, respectively, does not exhibit a statistically significant negative correlation with the poverty rate. According to [Todaro and Smith \(2015\)](#), the reason for this discrepancy between conflicting theories are as follows:

- i. Limited financial resources can hinder access to credit, a critical determinant of economic growth. In addition, it can impede families' ability to invest in their children's education, thereby limiting their future economic potential. The absence of credit financing can result in several disadvantages for individuals from low-income backgrounds, including the inability to pursue business and entrepreneurial opportunities, which could contribute to increased national output.
- ii. Research has demonstrated that individuals with higher levels of wealth tend to have lower levels of motivation to save and invest their additional income, opting to allocate a significant portion of their resources to maintain a luxurious lifestyle. This behavior can impede the growth of per capita income, as funds are not redirected towards sectors that offer the potential for profitability. Consequently, poverty rates may not be significantly reduced.
- iii. The income level of individuals residing in poverty is typically below \$2 per day, leading to reduced expenditure on healthcare, nutrition, and education. Consequently, this situation results in reduced life expectancy and lower productivity, which, in turn, causes a decline in overall income and impedes economic growth.
- iv. A significant increase in the income of impoverished individuals leads to an increase in aggregate demand. When the income level of disadvantaged individuals increases, they tend to purchase locally produced goods. This results in an upswing in the country's economic output, which subsequently boosts the production level of businesses and firms. Consequently, more job opportunities are created to meet the desired output level. As a result, the surge in aggregate demand fuels a rapid expansion of the economy and a significant rise in aggregate output while also maintaining a high degree of labor employment during the growth process.
- v. Incentives play a crucial role in promoting economic growth through psychological and material means. When the poverty rate is low, individuals are more likely to participate in economic activities, either through labor or material contributions, which ultimately stimulates growth. Nonetheless, high

levels of economic disparity and absolute poverty rates can hinder a nation's ability to develop and grow. Individuals' attitudes towards development and the desire for higher per capita income are critical. However, some individuals may be deterred from embracing progress because of psychological or material barriers, such as impatience with slow growth or a lack of faith in their ability to improve their material conditions.

#### *4.2 Inequality*

The gap in income levels is typically assessed by examining the discrepancy between earnings of high- and low-income individuals across different societal levels, racial groups, age ranges, or populations. Income disparity is a fundamental element of social classes and political dominance. Those in higher socioeconomic positions often have more authority and influence than those in lower socioeconomic positions. Income is a primary factor contributing to inequality, but other disparities, such as wealth, political power, and social standing, persist. For instance, in The Gambia, individuals who hold political offices are often valued more than those working in the informal sector, leading to wider income disparity between these groups. Income is an essential factor that enables individuals to attain a decent standard of living, quality of education, and healthcare services. However, the distribution of income varies among individuals of different sexes, ages, races, and ethnicities. In The Gambia, income distribution is typically skewed towards a small percentage of the population, thereby creating a significant disparity between the wealthy and the rest of the population.

A World Bank study conducted in 2020 to determine the inequality rate in The Gambia used the Gini coefficient. This study revealed that the Gini coefficient increased by three points from 2010 to 2020. Additionally, the study indicated that the inequality rate was higher among rural Gambians than among urban centers before 2020. However, rural areas showed a significant decline in inequality, dropping by 31 points compared with their urban counterparts, which demonstrated a coefficient of 36 points in 2020. The findings suggest that a contributing factor to this disparity may be the influx of rural inhabitants into urban centers as well as the exodus of youth from rural regions seeking better opportunities in Europe. The research further reveals that the Janjanbureh area exhibits the highest level of inequality in The Gambia, followed by Kanifing, Basse, and Brikama. The Gambia exhibits a lower level of income inequality compared to other countries in the subregion, including Senegal, Rwanda, Uganda, Comoros, Togo, and Guinea-Bissau. Unfortunately, there is a significant disparity in access to education between children from wealthy and poor households. Households in the upper 60% of the expenditure distribution tend to have higher rates of school attendance than those in the lower 40% of the distribution. Urban areas consistently demonstrated higher levels of school attendance for children from 2012 to 2020 than rural areas. In contrast to other African countries, rural households in The Gambia showed slightly better performance than those in Mali, Liberia, and Mauritania. However, urban areas in The Gambia have a lower attendance rate than Senegal, Rwanda, Guinea, and Comoros, with the exception of Liberia and Mauritania.

##### *4.2.1. Measurement of Inequality*

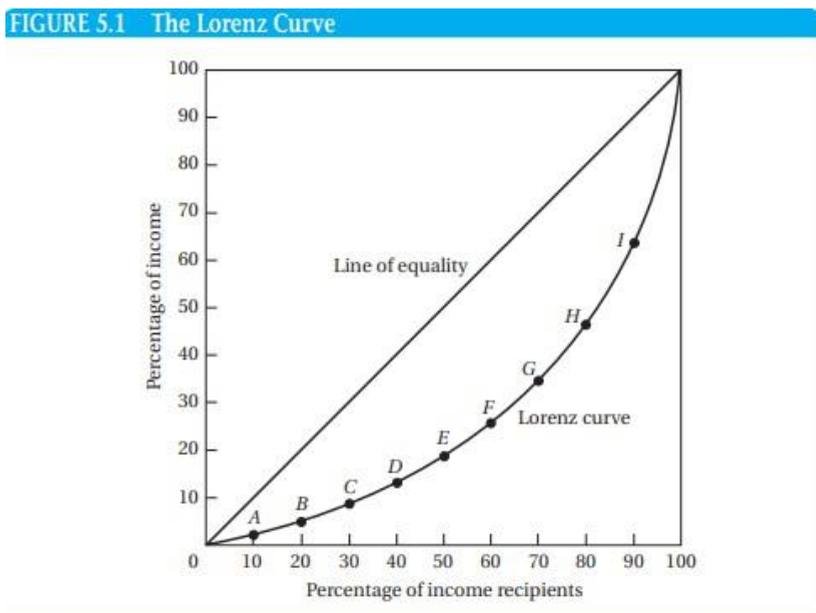
- i. **Size Distribution:** The distribution of income by size is used to represent the various income levels received by a group of people, regardless of the source of their income. Individuals can be divided into different sections of the population and varying income levels, from the highest-income earners to the lowest-income earners. One of the methods used to categorize individuals is percentile and decile percentage. Individuals in this income category receive a portion of their total income. Individuals in the upper class of the distribution received a larger percentage than most individuals at the lower end of the distribution. According to the table below, the top 20% of the income distribution controls 51% of the total earnings, while the bottom 20% receives only 5% as a share of the total earnings. This reveals a substantial disparity in income levels between groups. The third column indicates that each individual in the top 10% earns 28.5% of total earnings, which is more than the earnings received by the least 60% group combined.

**TABLE 5.1** Typical Size Distribution of Personal Income in a Developing Country by Income Shares—Quintiles and Deciles

Individuals	Personal Income (money units)	Share of Total Income (%)	
		Quintiles	Deciles
1	0.8		
2	1.0		1.8
3	1.4		
4	1.8	5	3.2
5	1.9		
6	2.0		3.9
7	2.4		
8	2.7	9	5.1
9	2.8		
10	3.0		5.8
11	3.4		
12	3.8	13	7.2
13	4.2		
14	4.8		9.0
15	5.9		
16	7.1	22	13.0
17	10.5		
18	12.0		22.5
19	13.5		
20	15.0	51	28.5
Total (national income)	100.0	100	100.0

Source: Todaro &amp; Smith (2015)

- ii. **Lorenz Curve:** The Lorenz curve is another effective means of illustrating income inequality. This curve measures the degree of income distribution disparity by demonstrating the proportion of income received by the different income groups. It plots recipients of income against the income received, and its slope indicates the level of income inequality within a population. By examining the curve, one can assess the elasticity of the income distribution and identify individuals or groups that are disproportionately affected by income inequality. Overall, the Lorenz curve provides a comprehensive visual representation of the income distribution and can be used to inform policy decisions aimed at addressing income inequality. At points A and B on the graph, the difference in the percentage of income is smaller than that at points H and G. This can be attributed to the steeper curve as population size increases, resulting in individuals in the top percentage of the population earning a higher income than those earning a lower percentage. However, the diagonal line or equality curve reflects the proportion of the income received by each group. From the graph, it is evident that the bottom 25% of the population received exactly 25% of the income distribution, while the top 25% of the population received the same proportion, or 25%, of the income.

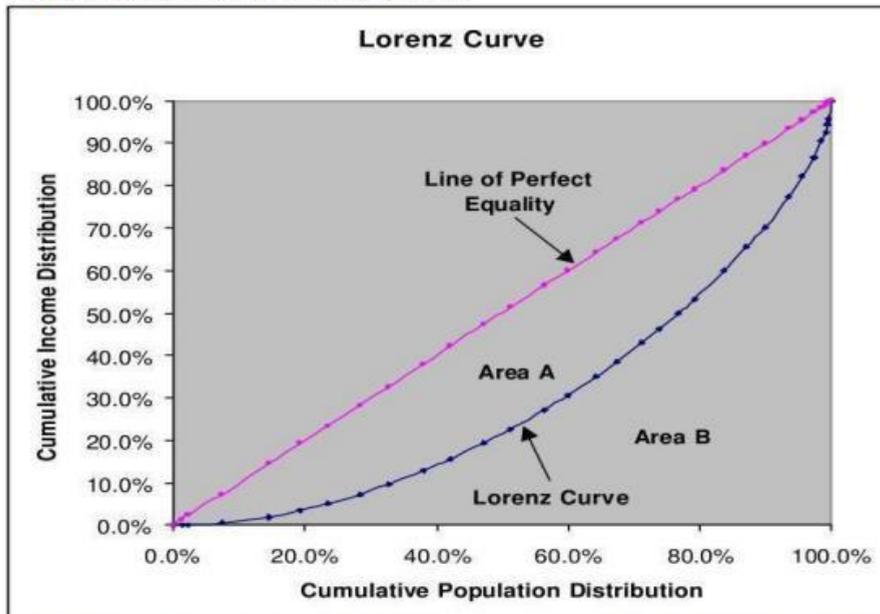


Source: Todaro & Smith (2015)

- iii. **Gini Coefficient:** The Gini index, derived from the Lorenz curve, is a statistical measure of the variance in total earnings among the population. This measure is widely used by most researchers to gauge the level of economic disparity, with a degree of one indicating complete income inequality and a coefficient of zero indicating perfect income equality. The Gini coefficient can be measured in two ways to provide different angles for understanding what is being measured. The first method involves comparing the income of two individuals in relation to the mean income, whereas the second method compares the Lorenz curve to the equality line. By plotting the total number of people against the total number of earnings distributions, we capture the effects of elasticity and assess the level of income inequality in a population. The Lorenz curve is a commonly used technique to assess the Gini coefficient. According to the graph presented below, the total area (A + B) can be determined using the fundamental principles of a right-angle triangle, specifically,  $(\text{base} \times \text{height}) / 2$ . Because the total area was determined, the area of portion A can be calculated by subtracting the area under curve B from the total area. Therefore, it was necessary to determine the area of portion B. One possible method for calculating it involves dividing the area under the curve into several trapezoids and estimating the total area of these trapezoids to determine the area under curve B (Poverty Statistics SDG). Hence, the Gini coefficient is given as:

$$\text{Gini coefficient} = \text{area A} / \text{total area(A+B)}$$

Figure 1: Illustration of the Lorenz Curve



Source: Deaton 1997. *Analysis of Household Surveys. A Microeconomics Approach to Development Policy*. John Hopkins University Press, Baltimore, Maryland.

The Gini is defined as  $A / (A+B)$

#### 4.3 Islamic Dimensional Approach to Curbing Income Inequality

The issues of poverty and income inequality in Islam are longstanding. Many Muslims have experienced extreme poverty since the prophet (SAW). Poverty and income disparity were viewed as circumstances beyond an individual's control but were also considered a test of divine will (Bashir & Arabia, 2018). Allah, in his wisdom, provided varying levels of sustenance to humanity. Accordingly, Allah stated that, “*And Allah has favored some of you over others in provision*”

This implies that Allah has bestowed some individuals with wealth while making others poor. This disparity is intended to serve as a test for determining which believers are most faithful to Allah. Allah says: “*And we will surely test you with something of fear and hunger and a loss of wealth and lives and fruits, but give good tidings to the patient.*” (Quran 2:155).

Allah mentioned the reward for paradise, but it comes with a test of hardship and poverty, similar to the experiences of those who came before us. He states in the Holy Quran: “*Or do you think that you will enter paradise while such (trial) has not yet come to you as came to those who passed on before you? They were touched by poverty and hardship and were shaken until (even their) messengers and those who believed with him said, ‘When is the help of Allah?’ Unquestionably, the help of Allah is near*” (Quran 2:214).

This indicates that the best among the earlier generations was tested with hardship, yet they remained steady and patient until the help of Allah came. Islam advocates Muslims to be productive and acquire legitimate wealth without resorting to begging and other idle pursuits. The prophet (SAW) has been reported to have said, “*The strong Muslim is better and more beloved to Allah than the weak Muslim*”

This hadith emphasizes the importance of productivity and self-sufficiency for Muslims. According to the hadith, those who work hard and earn a living are considered superior to those who are constantly beg. The prophet (SAW) referenced the example of prophet Dawud (AS), who supported himself through hard work, rather than relying on others.

Islam has established a systematic framework that addresses poverty and income inequality by highlighting effective distributive mechanisms that cater to society’s needs. The mechanisms involved are as follows.

- i. Employment: Self-employment and seeking employment are two effective methods for reducing poverty, as emphasized by Islam. Thus, Islam sees the labor market as a market that provides

individuals with the opportunity to earn wages and salaries through the provision of goods and services, thereby fostering trade and employment, promoting economic growth, and increasing per capita income. The labor market is essential for individuals to participate in, and the prophet (SAW) is reported to have said: *“It is better for a person to cut wood, carry it on his back to sell them than asking people (for a charity).”* (Al-Bukhari, 1422H, 3:113; Hadith No. 2374). This implies that participation in the labor market is essential for individuals to seek a source of income and contribute valuable goods and services to the community. Such involvement is crucial for enhancing the overall well-being of society. In addition, Islam advocates that individuals invest their funds to generate employment opportunities for others to work and earn income. This approach is considered to be more virtuous than providing charity to a capable and able-bodied person. By investing this way, the economy can experience a multiplier effect through increased consumption and savings. This is in line with the hadith of the prophet (SAW), which states that: *“There is none amongst the Muslims who plants a tree or sows seeds, and then a bird, or a person or an animal eats from it, but is regarded as a charitable gift for him.”*

Accordingly, it is strongly recommended to allocate resources either through personal effort or financial support for the betterment of individuals or living beings. Job opportunities serve to provide impoverished individuals with a means of earning a livelihood, thereby enhancing their subsistence and the well-being of their families. In turn, this can narrow the poverty gap and reduce income inequality, ultimately fostering progress and advancement.

- ii. Zakat: Zakat is the annual tax paid by Muslims whose wealth has reached a minimum zakatable rate. This amount is paid to certain beneficiaries explicitly mentioned in the Quran. The Quran states: *“Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler – an obligation [imposed] by Allah. Allah is Knowing and Wise”* (Quran 9:60). Zakat is considered one of the essential pillars of Islam and is, therefore, mandatory for all Muslims who possess financial means. The assets used to pay zakat, including gold, silver, and merchandise, can be utilized for either consumption or production upon receipt of wealth. This contributes to stimulating the economy and aids poverty (Osman, 2023). Zakat serves to redistribute wealth from the affluent to the less fortunate, thereby reducing disparity between socioeconomic classes. Furthermore, textual evidence suggests that zakat has the potential to mitigate or eradicate extreme poverty within society. Historical evidence supports this, as it came in a narration during the caliphate of the Umar RA. The narration states: *“During the caliphate of Umar (RA), Mu’adh (RA) was sent to Yemen during the caliphate of Umar. One of his duties was to administer Zakat. He removed Zakat from the wealthy and redistributed it to the needy in Yemen. Initially, he sent a third of Zakat to Madinah, as he could not find any recipients in Yemen for Zakat. The following year, this increased to half. In the third year, Mu’adh (RA) sent the entirety of Zakat, collected from Yemen to Madinah. Umar (RA) inquired about this decision, and Mu’adh (RA) replied, I cannot find any single person in Yemen who is eligible to receive Zakat.’ Within three years, Mu’adh (RA) could not find a single person in need of Zakat; this is an indication of the potential for Zakat to fully abolish poverty in a region”*. Years after the implementation of zakat, which was successful in eradicating poverty, and after the era of Umar bin Abdul Aziz, the nature and scope of the economy has changed, raising the question of whether zakat can fully eradicate poverty. Studies have shown that zakat can help eradicate poverty in a specific region; however, it is difficult to estimate its effect on a global scale.
- iii. Waqf System: In Shariah, Waqf refers to the act of holding a property with the specific intention of utilizing its benefits or usufructs to serve social, economic, and religious purposes. The Waqf system is a means by which income disparity and extreme poverty can be reduced (Abubakar, 2022). Waqf is a source of financial strength for funding social development and infrastructure, which tends to alleviate living conditions and provide opportunities for individuals in society in all aspects of life. Moreover, the Waqf system was established to promote the well-being of individuals and communities by supporting initiatives that enhance their living conditions. This encompasses endeavors aimed at advancing educational facilities, infrastructure such as borehole drilling, and healthcare facilities for disadvantaged populations. The Waqf system significantly contributes to the third-sector economy,

which focuses on redistributing the income that the capitalist system does not adequately address. This sector operates on a non-profit basis and aims to provide essential services to people, particularly to those who are impoverished or disadvantaged. By doing so, it helps reduce the disparity between socioeconomic groups and tackle poverty through various means, such as cash transfers, initiating new projects, or providing aid.

## **5. Implications**

This study's findings have significant implications across various domains. For research, it opens up avenues for further exploration into the effectiveness of Islamic economic tools, like zakat and waqf, in addressing income inequality in developing nations. Future studies could empirically evaluate the long-term impact of these mechanisms on poverty reduction, economic stability, and social mobility, especially in contexts where conventional economic systems have failed to alleviate these issues. Additionally, comparative studies could assess the scalability and adaptability of Islamic financial tools in non-Islamic contexts, potentially providing a novel framework for global poverty reduction strategies.

In practice, the study emphasizes the need for policymakers, especially in The Gambia and similar economies, to integrate Islamic economic principles into national poverty alleviation strategies. Zakat and waqf, as pillars of Islamic finance, can be used to create sustainable social safety nets, mobilizing local resources to support impoverished communities. For instance, expanding zakat distribution networks to include rural and underserved regions can enhance the inclusivity and effectiveness of poverty reduction programs. Moreover, establishing community-based waqf initiatives could provide long-term funding for infrastructure, education, and healthcare, addressing some of the systemic barriers that perpetuate poverty.

For society, the study highlights the role of Islamic social finance in fostering a sense of communal responsibility and social solidarity. Emphasizing charitable giving and wealth redistribution, these practices encourage a more equitable society by prioritizing the welfare of disadvantaged populations. This approach can shift public attitudes towards a more socially conscious economic model, wherein individuals and institutions actively participate in reducing inequalities. The adoption of these principles can ultimately lead to a more cohesive society, where economic growth is balanced with social justice and moral accountability.

## **6. Conclusion**

The problem of income inequality is a significant concern in contemporary society and various strategies have been implemented to alleviate its negative impacts. Traditional approaches, such as the government's utilization of monetary and fiscal policies, have been the primary means of addressing this issue. However, these methods have proven ineffective as a considerable portion of the population continues to live in poverty. Traditional methods, including the free-market economic system, as outlined by classical economists, also strive to redistribute income and maximize societal welfare. However, such markets are vulnerable to economic disruptions such as externalities, natural catastrophes, government shortfalls, and taxes, which can significantly impact market outcomes. This results in market failure, as consumers fail to optimize their consumption and suppliers of goods do not achieve maximum profits. In turn, this situation has a more significant impact on income redistribution. Although the conventional viewpoint of poverty and income inequality is similar to the Islamic perspective, the methods employed to address these issues differ significantly.

The Islamic approach to addressing income inequality is characterized by a clear and tangible redistribution of wealth from the affluent to the disadvantaged. This is achieved through several key channels, including the employment, zakat, and waqf systems. The primary objective of these systems is to provide financial support to those who lack access to basic necessities, such as food, shelter, clothing, healthcare, and education. In the Islamic system of zakat, an annual payment is required, with no exemptions or holidays, as seen in the tax systems. This is intended to prevent the accumulation of funds, whereas others are required. In The Gambia, the Supreme Islamic Council is tasked with collecting zakats annually. Most of the funds are dispersed in urban areas, where the majority of the poor reside. In addition, the Waqf system is a significant charitable cause that can be supported at any time throughout the year. Donations primarily benefit widows, the physically disabled, and the community.

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# Shariah Audit Compliance in Islamic Financial Institutions in Palestine: A Systematic Literature Review

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## Abstract

Shariah audits are required to make sure that Islamic financial institutions adhere to Islamic Shariah standards in their financial and operational activities, and that the goods and services they provide to international financial institutions do not contravene any Islamic laws. The aim of this study is to accomplish its objectives and provide answers to its questions. To accomplish the primary objective of this research, a systematic literature review, content analysis, and descriptive techniques were employed. This study used a systematic literature review methodology to locate, evaluate, and consolidate the extant literature on the analytical topic. This study analyzes the differences in the roles of internal and external auditors between (IFIs) and (IBs), while considering the subject matter of internal Shariah audits and credentials of Shariah auditors. This analysis is conducted through a literature review and examination of the existing literature on Shariah audit compliance and governance. Consequently, the advantages of Shariah compliance audits will be increased, and upcoming legal amendments will be put in place to minimize or eliminate the danger of Shariah's noncompliance. This study provides a literature review and a theoretical and conceptual understanding of Shariah audit compliance in Islamic financial institutions and banks. This study contributes to the body of knowledge by proposing a theoretical framework to evaluate the importance of Shariah audit governance and identifies the basic elements that affect compliance, quality, and effectiveness in Islamic banks and financial institutions in Palestine. Compliance with the Islamic Shariah audit can lead to optimal benefits, and future legislative changes can be implemented to minimize or eliminate the dangers of non-compliance with Shariah.

**Keywords:** Auditors, Islamic banks, financial institutions, Islamic finance, Shariah compliance audit, Shariah Governance Framework

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## 1. Introduction

Increasing at a pace of 11% to 17% annually, Islamic Banks (IBs) and Islamic Financial Institutions (IFIs) are outpacing all other industries in terms of growth and are now recognised internationally as a viable and thriving part of the global financial system. Shariah audits are necessary to ensure that the IFIs' products and services do not violate any Islamic laws and to ensure that the IFIs follow the rules of Shariah in both their financial and operational operations. Any organization that promises to provide services that comply with Shariah must ensure that all procedures and actions required for its daily operations accomplish the goal of Islamic law, Maqasid, al-Shariah.

The Palestine Monetary Authority (PMA) a specialized committee of Palestinian Islamic banks, mandated the performance of a Shariah audit function in Islamic financial institutions through the issuance of the Shariah Governance Framework in 2015, which also required Shariah research, review, and risk management. (PMA, 2019; Iriqat & Khalaf, 2018; Khalid et al., 2019). Let us consider the case of Palestine as an example: Systems, goods, personnel, the environment, and society are a few examples of situations in which the idea of Shariah auditing is used. The audit function has been suggested as the best way to achieve this goal (Mohd Ali et al., 2020; Rashid & Ghazi, 2021). A strong monitoring system would increase and maintain the public's trust in

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the sector's operations and activities.

Islamic countries, including Palestine, have two main types of banking system. The first is the conventional banking system, which relies on interest or usury and charges additional interest on top of a loan's principal amount. The second system is the Islamic banking system, which strictly adheres to Islamic principles based on the Qur'an and Hadith. This system differs from the conventional system in that it places special emphasis on sharing earnings and losses. Islamic banking, particularly in the financial sector and with regard to Shariah audit compliance, can be viewed as a progressive expansion of the Islamic economy. It was developed in response to the needs of Muslim bankers and economists who wanted to satisfy many stakeholders' expectations (Iriqat & Khalaf, 2018).

Islamic financial institutions are explicitly created in most Islamic nations to offer alternative financial solutions in compliance with the Shariah standards. They provide several financial solutions that steer clear conventional banking interests. Islamic banks are financial organizations that raise money, invest in it, and use it for further Islamic cooperation and economic expansion. While attempting to best serve the interests of its clients, these tasks include cooperative insurance, establishing zakat, complying with the Shariah audit, and researching the most significant elements affecting it. Zakat is a required Islamic act of charity, in which Muslims give a portion of their money to those in need and the less fortunate (Iriqat & Khalaf, 2018; Khalid, 2019).

According to Khalid et al. (2018), substantial financial transactions are conducted by the Islamic finance industry in both Arab and Western countries. The Islamic Finance Development Index (IFDI) reported a remarkable 17% increase in total assets, reaching approximately US \$4.0 trillion in 2021, indicating significant growth in the industry. Furthermore, the worldwide net income of Islamic financial institutions tripled compared to 2020, demonstrating a significant improvement, particularly for Islamic banks. Notably, there are no specific laws governing Islamic transactions in Palestine, and the PMA does not issue any directives to regulate its operations.

Commercial banks operating in Palestine are mandated by the PMA to adhere to the regulatory capital requirements outlined in Basel III as per Instruction No. 8 of 2018. However, Islamic banks are exempted from this requirement as per the same instructions. Instead, Islamic banks must comply with capital adequacy criteria that align with the standards set by the Board for Islamic Financial Services as per Instruction No. 9 of 2018. This ensures that these banks follow the guidelines established by Islamic financial organizations. It is important to verify that standard contracts produced by Islamic banks comply with Shariah audit requirements and the norms of decency and civility, as outlined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The AAOIFI Standards prohibit any agreements or contractual clauses that contradict both the standards and tenets of Islamic law, as per Rajgopal et al. (2020), Khalid et al. (2019), and Aliyu et al. (2017).

The PMA issued Resolution No. 15 in 2019, granting the Supreme Shariah Supervisory Board the power to oversee transactions conducted by Islamic banks to ensure that they align with Shariah standards and are provided by banks in Palestine (PMA, 2019). This measure aims to guarantee compliance with the requirements established by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This decision fully conforms to Article 20 of Law No. 9 of 2010, which governs banks in Palestine and mandates that Islamic banks conduct all their operations in accordance with Islamic Shariah law (Mnif Sellami & Tahari 2017; Hassan & Haridan, 2019; Algabry et al., 2020).

All practices and beliefs that God has prescribed are referred to as adhering to the Shariah. The PMA formed a Shariah Supervisory Board to guarantee the institution's conformity with Islamic Shariah, because these institutions are required to follow its rules (Iriqat & Khalaf, 2018). The Shariah Supervisory Board's experts issue fatwas, which are legal judgments based on the 'Qur'an' and 'Sunnah', the two fundamental sources of Shariah. If there is an Islamic law-based judgement known as a fatwa that forbids engaging in usury, then adhering to this ruling ought to automatically be in line with the objectives of Islamic finance. Among non-profit organizations worldwide that play a crucial role in supporting Islamic financial institutions, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) holds a significant place. Founded in 1991, AAOIFI was headquartered in Bahrain (Raja 2021).

To successfully achieve its objectives, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) established 100 jurisprudential norms that govern Islamic financial operations. Over forty-five Islamic countries, including Palestine, have adopted these guidelines. Given that 90 percent of

Islamic banks and financial institutions worldwide conform to these norms, adhering to them is a crucial component of any Islamic bank's commitment to operate in accordance with Islamic principles. It is important to note that AAOIFI was created to supplement the ((IFRS) by offering an additional framework that bridges the gap between Islamic and conventional financial operations. Primary Islamic standards bodies include the International Islamic Financial Market (IIFM), AAOIFI, and Islamic Shariah audit committees, all of which encourage and influence adherence to Islamic financial practices and principles. As a result, the current edition of AAOIFI (2020) comprises a comprehensive set of 103 standards.

These standards are created and assessed using a meticulous five-stage process that begins with the creation of an agenda, continues with preliminary research and discussion drafts, produces exposure drafts, and ends with the creation of a final edition. This procedure involves the formation of a special committee composed of board members and participation of outside consultants to guarantee inclusivity and expertise. In developing and putting into practice the standards of the (AAOIFI), several steps are followed to assure quality, effectiveness, and conformity to Islamic financial principles (Hassan & Haridan, 2019; El-Halaby et al., 2021).

The Islamic financial industry needs supplementary criteria to control its operations, such as compliance with Islamic Shariah audits, given the different approaches to commercial transactions used by conventional Islamic financial systems and those governed by Shariah. These requirements are taken from the law of transactions, which establishes regulations governing financial transactions. To maintain compatibility and consistency, it is crucial to carefully analyze international norms before developing and adopting Islamic financial rules. The (AAOIFI) rules on Shariah auditing and compliance have not been the subject of many national studies (Raja, 2021).

Isa et al. (2020) investigated the degree of Islamic Shariah auditing compliance among modern Islamic banks in Palestine in relation to the Shariah standard of the (AAOIFI) and the general legal principles governing contracts. The goal of this study is to help the Palestinian Islamic banking sector close the gap between the AAOIFI Shariah standards for Shariah auditing and compliance with those standards, and perhaps even reduce or eliminate those contradictions (El-Halaby & Hussainey, 2016).

The objective of this study is to carry out a comprehensive review of existing literature, with a particular emphasis on the following objectives: assessing the level of adherence and compliance of audit committees with Islamic Shariah auditing principles, which are overseen by the PMA) in accordance with the most recent directives issued by the PMA and the standards set out by the *Standing Board of Palestine (SBP) in 2018* and the *PMA (2019)*. Exploring the key elements influencing Shariah auditing and its adherence Verifying that Shariah audit committees adhere to the prescribed laws, principles, and principles that, due to laxness or non-compliance, are likely to violate the standards of the (AAOIFI). Then, make changes to guarantee adherence to Islamic principles and pertinent national laws.

This research makes a significant contribution to the field of Islamic banking and finance by addressing the scarcity of specialized legal studies on compliance with Shariah auditing by audit committees, banks, and Islamic financial institutions. Additionally, it provides guidance to Palestinian Islamic banks on how to enhance their practices in accordance with Shariah principles and legal requirements. This study thoroughly analyzed the theoretical and conceptual issues faced by Islamic banks while implementing the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions in the context of Shariah audit compliance. This research identifies significant barriers that obstruct the implementation of these standards, as presented in the following parts of the paper (Pbisgf, 2019; Karim & Shetu, 2020).

The first test examines how compatible the fundamentals of audit compliance specified by national legislation are with Islamic Shariah banking principles. The second issue is how Islamic banks and audit committees should apply and implement Shariah auditing requirements. This technique could put more responsibility on Shariah audit committees, which might be at odds with the fundamental principles of Islamic finance and Shariah auditing, which emphasize fairness and an equitable division of tasks among participants in a financial transaction. This study analyzes the effects and significance of Islamic banks' and audit committees' levels of commitment to Shariah audit compliance.

This study aims to fill the gap in specialized legal research on compliance with Shariah audits and enhance their effectiveness by offering guidance to Palestinian Islamic banks to improve their practices in accordance with the principles of Shariah contained in the Qur'an, the Sunnah, and legal requirements. By doing so, this study provides valuable insights into the fields of Islamic institutions, banking, and finance. Additionally, the challenges faced by Islamic institutions and banks when implementing the requirements of the Accounting and

Auditing Organization for Islamic Financial Institutions in the context of compliance with the Shariah audit and its effectiveness via compliance, as stated in Islamic principles of Shariah, were thoroughly examined in earlier parts of this research paper.

This study highlights the difficulty of Shariah audit compliance, which presents barriers to the efficient application of these standards based on Shariah audit compliance in Islamic banks and institutions. This test determines how well the Shariah principles outlined in national law in accordance with the Qur'an and Sunnah are consistent with the principles of Islamic financial services. The issue is how well Islamic banks and organizations employ Shariah auditing requirements, and how widely they are used. This study analytically evaluated the effect of Shariah audit compliance on the overall dynamics of Islamic banks and organizations. It recommends substitution strategies that closely follow the tenets of Islamic banking.

The study is structured and divided into the following parts: Part 1 outlines the introduction to the study, Part 2 consists of the literature review, Part 3 outlines the research methodology, Part 4 presents the findings and discussion, part 5 is the conclusion and policy implications, and the final Part 6 includes the limitations and recommendations for future research.

## **2. Literature Review**

The Shariah audit has been explored from a variety of angles in the literature, including the determination of the Maqasid al-Shariah auditing process (Rashid et al., 2017), problems and obstacles, and the future of the Shariah audit labor market (Shafii et al., 2014). However, there is little research on Shariah audit quality (Yazid & Suryanto, 2016), which is the only study we can locate, and it only covers a small number of variables. On the other hand, there is a wealth of studies on traditional audit quality.

Based on our review of the literature, we identified eight subcategories related to audit quality and its various elements, including the audit quality conundrum, stakeholder views on audit quality, audit quality frameworks, assessment of audit quality, factors influencing audit quality, Shariah compliance auditing, Shariah enterprise theory, and Shariah compliance audit in Palestine. By reviewing the literature, we gained a better understanding of the subject's conceptual foundations and made informed judgments.

An examination of the pertinent literature demonstrates that there is no universally accepted definition of audit quality. Despite numerous efforts over the past few decades to reach an agreement on how to define and evaluate audit quality, no consensus has been reached (IOSCO, 2010). Due to the uncertainty surrounding audit quality, there are two primary issues: (a) it is challenging to pinpoint the factors that impact audit quality and (b) it is impossible to accurately measure audit quality. Regulators, standard-setting organizations, auditors, and other stakeholders are still debating the issue in an attempt to reach consensus (FRC, 2006; IOSCO, 2010). For example, the International Auditing and Assurance Standards Board has acknowledged that "Audit Performance is a complex subject, and no description or evaluation of it has gained global acceptance" (IAASB, 2014). As a result, the current literature does not include all features of the concept in its definitions (Raak & Thürheimer, 2016).

After reviewing the current literature, we found that various interested parties have established and presented diverse opinions on audit standards. The first is the viewpoint of the general population or consumers, who judge the accuracy of an audit based on how it affects their company's choices and investment decisions (Holt and DeZoort, 2009; Ianniello and Galloppo, 2015). In light of this, it may be said that the standard of the audit is attained if the auditor discloses any substantial misstatement (DeAngelo, 1981).

Auditing is structured work completed through a methodological procedure. Therefore, satisfying an efficient audit plan's requirement is sufficient to achieve high audit quality (Christensen et al., 2015). This viewpoint holds that even if substantial misrepresentation is not discovered throughout the auditing procedure, the standard of excellence is still reached if the auditor correctly follows the audit plan, risk assessment methods, and auditing methods (Al-Khazaleh et al., 2023). Auditors have asserted that audit assignments offer a reasonable degree of confidence based on sufficient audit proof rather than absolute assurance (IAASB, 2019). The third viewpoint is the audit company's point of view. They believe that an audit's integrity can be attained if it can be effectively represented in court against legal action or malpractice claims. According to Franz et al. (1998) lawsuits are indicators of poor audit quality. To prevent adverse results, auditors act more carefully when there is significant danger to lawsuits.

Many people and associations of professionals have developed and put forward various frameworks as an alternative to judge the audit's general quality to overcome the difficulty of describing the quality of audits. In

this context, the Financial Reporting Council (FRC) took the initiative and published a discussion study titled Promoting Audit Quality in 2006. This endeavor started the discussion on the subject, and other approaches have been developed since then. A structure titled The Audit Quality Framework was provided by the FRC itself in 2008 (FRC, 2008).

The International Auditing and Assurance Standard Board published: A Structure for Auditing Quality: Important Features that Develop Conditions for Auditing the Quality (IAASB, 2016-17a, c), which is similar to the aforementioned publications. Various others have provided regulations on audit quality (DeFond and Zhang, 2014).

Contributions, procedure, Output, and Context refer to how the structures have commonly classified the aspects that impact audit quality. The inputs are the qualities auditors possess, such as expertise, competent judgment, and sector expertise. Audit organizing, risk evaluation, collection, review of evidence from the audit, and other steps are all included in the audit procedure.

Auditing findings and data sent to users were considered as the output. Context refers to the circumstances in which the audit is conducted, including regulations or guidelines, audit fees, audit employment, and non-audit fees (Huang et al., 2016; Hassan & Haridan, 2019).

The next topic covered in the available literature is how to assess audit quality. This problem has been the subject of several studies. Nevertheless, no study (Raak & Thürheimer, 2016; Ramamoorti et al., 2017; Rajgopal et al., 2020) offers a definite resolution to this problem. The absence of an expression that is broadly recognized as appropriate is a clear cause of this inadequacy. Consequently, it is impossible to evaluate and assess the precision and effectiveness of an audit without a commonly accepted standard.

As previously noted, assessing audit quality is a difficult task with many facets, both theoretically and practically. Professionals' organizations and individuals constructed their structures by classifying the characteristics of audit quality in terms of components, procedures, outcomes, and contexts. There is a wealth of research on the variables that influence audit quality, whether they affect it either separately or cumulatively.

We discussed a few of the key elements noted in the published work below. A number of research studies that examine the influence of auditors' expertise and knowledge in specific sectors have revealed that they have a favorable relationship with audit quality (Carcello et al., 1992).

One of the causes is that by performing the same job, auditors acquire particular to an industry's ability (Frederick & Libby, 1986), which enhances their performance. Additionally, this expertise improves their capacity to spot errors and fraud (Sarwoko & Agoes, 2014) as well as vulnerabilities in internal controls. An identical principle can be applied to the Shariah auditors. A Shariah auditor cannot evaluate the adequacy, efficacy, and effectiveness of Shariah safeguards at divide and operating divisions without a thorough understanding of the dynamics of Shariah non-compliance risk. Nevertheless, one of the major issues facing the sector is the lack of Shariah auditors and compliance assessment employees (Ali & Kasim, 2019; Rashid & Ghazi, 2021).

Scholars have also discovered a link between auditor expert judgments and audit accuracy. Nevertheless, other studies contend that a variety of prejudices, including the effect of recency, the impact of framing or framing prejudice (Emby & Finley, 1997), and the consequences of dilution (Hoffman & Patton, 1997), might occasionally influence assessment.

Moreover, expertise and innate skepticism may reduce the auditor's prejudice. Some of the key elements that influence the standard of an audit are the auditor's impartiality. Several studies have considered several factors that may have an impact on the auditor's impartiality, including the significance of the customer, the length of service of the auditor, non-audit fees, atypical audit fees (Hribar et al., 2014), and the size and diversity of the auditing market (Huang et al., 2016).

Greater audit fees (Geiger & Blay, 2011) and lower audit fees compared to standard fees (Ettredge et al., 2014) are both viewed as threats to the auditor's impartiality, which may result in subpar audit quality. Many studies have examined the determinants and factors of the audit process, such as risk evaluation and management procedures (Zaiceanu et al., 2015), analytical evaluations and procedures (Glover et al., 2015), sampling audit quality and effectiveness (Hoogduin et al., 2015), and documentation of audit effectiveness. Several studies have been conducted to determine the nature of the relationship between various factors related to regular auditing companies, legitimacy, audit quality, and effectiveness. Furthermore, the Public Company Accounting Oversight Board (PCAOB) (2011) reported that audit firm rotation enhances audit quality and effectiveness. This is because internal and external auditors may form personal relationships with clients or

stakeholders, which can negatively impact audit quality and effectiveness.

The literature review methodology begins by dissecting the scope of the Shariah Compliance Auditing, Syariah Enterprise Theory, and Shariah Compliance Audit in Palestine. It then examines the factors that determine the effectiveness of Shariah Compliance Auditing in Palestine, including cooperation between internal and external auditors, the scope of internal Shariah audits, and the qualifications of Shariah auditors (Manaf, 2014; Algabry et al., 2020). Shariah is the foundation of Islamic financial institutions (IFI).

According to Lahsasna (2011), Shariah is the total sum of Islamic teachings and systems, which was revealed to Prophet Muhammad, peace be upon him, and is recorded in the Quran as well as deducible from the Prophet's divinely guided lifestyle, called the Sunnah. These teachings are comprehensive and complete, regulating not only the relationship between man and Allah (God), but also relationships among people, between man and animals, and the environment. Shariah consists of three matters: *Aqedah* (faith and belief), *Akhlaq* (morality and ethics), and *Fiqh* (law) (Lahsasna, 2011; Ali & Kasim, 2019). Therefore, Shariah covers beliefs and spirituality, ethics, and morals, as well as laws that regulate all aspects of human life and relationships. In other words, Shariah is an Islamic way of life.

According to Khalid et al. (2018), the need for a Shariah audit arises because of the consequences of large corporate scandals, such as Enron and WorldCom. Khalid (2019) further emphasized that Shariah compliance is a crucial aspect of Islamic financial products and services, and any non-compliance can significantly damage the confidence of customers in the industry. Islamic Financial Institutions (IFIs) must prioritize internal audits and enhance the effectiveness of internal Shariah audits in achieving their organizational objectives. However, challenges and issues related to Islamic audit mechanisms exist, particularly in Palestine. Regulatory aspects, the audit process, and human resources are factors that contribute to severe problems in Shariah audits (Pbisgf, 2019).

Shariah audits and conventional company audits have similar functions, but the former focuses more on ensuring compliance of Islamic financial institutions (IFIs) with Shariah principles and requirements (Ali & Kasim, 2019; Ahmed et al., 2019). This is in contrast to conventional financial audits, which are deemed insufficient for meeting the needs of IFI stakeholders, as they do not cover Shariah aspects, as pointed out by Hanif (2019). Shariah audits play a crucial role in maintaining and upholding the integrity of IFIs by adhering to and implementing the Shariah principles.

The significant influence of the Shariah audit on ensuring compliance with Islamic principles and rules in banks are where the Shariah's principles and regulations play a vital role in maintaining and promoting sustainability, particularly in banking operations. However, previous researchers have not conducted comprehensive studies on the factors that affect internal Shariah auditing, particularly in Palestine.

Endaya (2014) primarily focused on identifying the optimal framework for internal audit effectiveness. Additionally, studies by Khalid et al. (2019) explored the connection between internal Shariah audit characteristics and its effectiveness, while Abd Rahman (2020) examined the needs and challenges faced by academicians and practitioners in relation to Shariah audit. Shafii et al. (2014) also conceptualized the duties and rules of shariah auditors and developed an audit framework for Shariah compliance, with a focus on professionalizing shariah auditors.

A handful of studies have concentrated on the Shariah audit practices employed by IFIs, including their scope, competency, operating procedures, and the present framework utilized to conduct a Shariah audit (El-Halaby & Hussainey, 2016; Ahmed & Sarea, 2019; El Halaby et al., 2021). Nevertheless, the elements that affect Shariah compliance auditing among the IFIs in Palestine have not been extensively explored when compared to studies on external and internal audits in conventional banks. This study examines the perspectives of stakeholders who are directly or indirectly involved in the Shariah compliance auditing of IFIs, such as the collaboration between internal and external auditors, the scope of internal Shariah audits, and the qualifications of Shariah auditors.

Shariah audits for compliance involve routine assessments that offer an unbiased evaluation and independent verification aimed at improving the level of compliance with Islamic Financial Institutions' IFI business operations, with the ultimate goal of establishing a robust and reliable internal control system (Yasoa et al., 2020).

According to the Accounting and Auditing Organization for Islamic Financial Institutions AAOIFI, a Shariah audit is an audit attestation for compliance. However, a simple definition cannot fully capture the complexity of a concept (Ali et al., 2018; Ali & Kasim, 2019). The AAOIFI Governance Standard for IFIs No.

3 (GSIFI 3) (El-Halaby & Hussainey, 2016; Mnif Sellami & Tahari, 2017) defines an internal Shariah evaluation as "an autonomous department or part of internal audit that examines and evaluates the extent of compliance with Shariah principles, rulings, and directives provided by the Islamic Financial Institutions IFT's Fatwa and Shariah."

### 2.1 Shariah Enterprise Theories

Shariah Enterprise Theory (SET) is a theoretical framework that merges enterprise theory with Islamic principles of value. As stated by Novikova and Kharisova (2019), the concept of wealth or value creation extends beyond parties directly involved in or contributing to cooperatives and companies, such as shareholders, creditors, employees, and the government, but also includes other parties who are not directly related to the business operations of the company, or those who provide financial and skills support.

The SET framework is built on the premise that humans act as Khalifat Allah to create and distribute welfare for both humans and the environment. This framework emphasizes fairness in both human beings and the natural world, and benefits all parties involved, including both the vertical (Allah) and horizontal (human and natural environment) aspects. The ultimate goal of SET is to fulfill the purpose of God in creating humans as Khalifat Allah, which is not addressed by existing entity theories (Hassan Haridan, 2019; Sri et al., 2019; Retnasih, 2023). This idea is based on the belief that humans are Khalifat Allah and responsible for generating and disseminating welfare for all people and nature. To be considered *Shariah* compliant, a business must follow Islamic regulations. These regulations are based on the *Qur'an*, the *Sunnah*, and *Ijtihad* (reasoning), which are collectively referred to as 'the *Shariah*'. In modern times, this equates to the decisions and viewpoints of qualified scholars who focus on the investigation and interpretation of Islamic law in contemporary settings (OICU-IOSCO, 2004).

Enterprises that want to be labelled as '*Shariah* compliant' must abide by the limitations set by Islamic law in addition to any secular national legislation that may be in effect where the business is located. Businesses who choose not to be deemed are solely subject to secular national legislation (Suganda & Humaemah, 2023).

The key limitations imposed by the *Shariah* law are described here to illustrate how these limitations could impact and distinguish the target cash holdings of *Shariah*-compliant and non-*Shariah*-compliant enterprises. The first limitation on businesses operating in accordance with *Shariah* relates to routine daily operations. Only acceptable (*halal*) goods and services can be traded by businesses. This prevents the manufacturing of weapons, wine, pork, pornography, and gambling, among other goods and services. Financial services that entail speculation are included in gambling (El-Gamal 2000). Second, the use of interest (*riba*) in fundraising or financing is prohibited for *Shariah*-compliant businesses.

*Shariah* law prohibits acquiring loans with interest or generating cash through the issuance of interest-bearing financial instruments such as bonds. According to several Islamic scholars and *Shariah* boards, such as AIRajhi Capital, the debt of *Shariah*-compliant businesses should not exceed 33% of the total value of the business's market capitalization during the preceding 12 months. Nevertheless, some *Shariah* boards permit a firm to be considered *Shariah* compliant if the interest income does not exceed 5% of its total revenue.

However, it is essential that cash and interest expenditures do not exceed 30% of an enterprise's market capitalization over the past 12 months. In addition, revenues derived from investments or non-compliant firms are strictly prohibited (Pardiansyah et al., 2023).

*Shariah*-compliant businesses have access to various unconventional funding options, such as debt-based contracts like '*Murabaha*' and '*Tawarruq*' and trade partnership-based contracts like '*Musharaka*' and '*Mudaraba*'. These contracts are commonly used in Islamic finance, with trade-based contracts comprising the majority of Islamic financial assets. However, trade partnership arrangements are relatively uncommon because of their complexity and high risk, as noted by Suzuki and Uddin (2016).

Despite this, the value of '*Murabaha*' contracts in GCC countries has increased from US\$120 billion in 2006 to over US\$720 billion in 2016, as reported by Alandejani and Asutay (2017). However, it's important to note that *Murabaha* contracts can be more expensive than standard loans due to the additional steps involved in their completion, which raises the cost of debt for businesses that adhere to *Shariah* law, as pointed out by Alandejani and Asutay (2017).

As a result, *sukuk* is a less desirable way for businesses that adhere to the *Shariah* to raise finance. Risk management is the final challenge that *Shariah*-compliant businesses must overcome. Companies that adhere to the *Shariah* regulations are required to manage and safeguard themselves against various risks, including

those related to liquidity, foreign exchange, interest rates, credit risk, and operational hazards.

However, the majority of risk management tools currently used in traditional financial markets are based on *Riba*, *Maysir*, and *Gharar*, which are prohibited under *Shariah* law for Muslims (Alam, 2017; Ma'ruf & Fikri, 2023). Consequently, companies that comply with *Shariah* regulations often face difficulties in managing their risks and may encounter more challenges than non-compliant companies.

### 2.2 *Shariah compliance audit in the Palestinian context*

Palestine's financial system, which follows Islamic principles, includes Islamic banks, Takaful operators, Development Financial Institutions, and Islamic capital markets. The PMA oversees the regulation of Islamic banks, Takaful operators, and development financial organizations while also governing the capital market's regulation. Palestine has a two-tier *Shariah* governance system that consists of an internal *Shariah* Committee established in each Islamic Financial Institution (IFI) and a central *Shariah* advisory body at the bank. This structure is essential for ensuring the compliance of Islamic financial institutions with the *Shariah* principles (Alam et al., 2020).

The *Shariah* Advisory Council (SAC) of the Ministry of Awqaf and Religious Affairs was created under Section 42 of the PMA Act 2016. It has established itself as the highest authority for determining Islamic laws for Islamic financial businesses. The SAC's responsibilities include ascertaining relevant Islamic law on financial matters and providing a ruling upon request as well as advising the PMA and the Islamic Financial Institution (IFI) on *Shariah* issues related to their operations, activities, or transactions.

The Guidelines on the Governance of *Shariah* Committee for Islamic Financial Institutions issued in 2015 further outline the duties and responsibilities of the internal *Shariah* Committee in advising the respective IFIs on *Shariah* matters. These guidelines have been updated to reflect new developments in Islamic finance and the increased expectations of IFI's key stakeholders regarding the *Shariah* compliance process (Khalid, 2020).

The PMA in collaboration with the Ministry of Awqaf and Religious Affairs (MARA), formulated a *Shariah* governance framework for Islamic Financial Institutions (IFIs) with the primary objective of strengthening the role of the board, the *Shariah* Committee, and management in matters related to *Shariah*, including enhancing the capabilities of the relevant key organs responsible for executing *Shariah* compliance and research functions. The ultimate aim was to establish a *Shariah*-compliant operating environment (PMA 2019; Puad et al. 2020).

The *Shariah* Governance Framework for International Financial Institutions (IFIs) (hereafter referred to as the *Shariah* Framework) is designed to achieve the following objectives: first, it sets out the expectations of the Primary Market Auction with respect to the *Shariah* governance structures, processes, and arrangements of IFIs to ensure that all their operations and business activities are in accordance with *Shariah* principles; second, it provides comprehensive guidance to the board, *Shariah* Committee, and management of IFIs in discharging their duties in matters related to *Shariah*; and third, it outlines the functions related to *Shariah* review, *Shariah* audit, *Shariah* risk management, and *Shariah* research. Three factors directly or indirectly impact the *Shariah* compliance auditing of IFIs: cooperation between internal and external auditors, the scope of internal *Shariah* audits, and the qualifications of *Shariah* auditors.

### 2.3 *Interaction between Palestinian internal and external auditors*

Internal and external auditors from traditional financial institutions collaborate to increase audit efficiency and effectiveness. This collaboration is crucial, because internal audits provide an impartial evaluation of risk management, control, and governance systems. As Arwani (2018) highlights, creating a *Shariah* audit framework is essential for achieving *Shariah* compliance goals in IFIs, which can positively impact society or "The Ummah." The external audit function also works with the internal audit function to offer an objective review of the correctness and fairness of financial statements to shareholders. This collaboration allows the internal audit function to contribute to the overall risk assessment by learning about the organization's internal control systems and gathering relevant data, as mentioned by Khalid and Sarea (2021).

The governing body can benefit from a comprehensive understanding of the organization's operations and risks as well as the elimination of potential redundancy in audit jobs through a good working relationship and cooperation between internal and external audit functions (Alqudah et al., 2019; Abd Rahman et al., 2020).

Puad et al. (2020) emphasize the importance of frequent communication between internal auditors and external auditors in areas of mutual interest, as well as close collaboration with management. Internal and

external auditors must communicate well with each other to ensure the effective governance of the organizations they serve. This is supported by [Khelil's \(2023\)](#) study, which highlights the importance of sharing knowledge, viewpoints, and reports to conduct high-quality audits. While previous research has focused primarily on internal and external audit functions in the banking industry, there is a lack of detailed studies on internal *Shariah* audits in Islamic Financial Institutions (IFIs), particularly in the context of Palestinian practice ([Khalid et al., 2018](#); [Algabry et al., 2020](#)).

To avoid unnecessary duplication of effort and to achieve high-quality audits, external and internal auditors must collaborate. [Omar \(2019\)](#) suggests that internal auditors work with external auditors in a coordinated manner, as part of the management function, to enhance the effectiveness of internal audits.

#### 2.4 Palestine's internal Shariah audit's scope

When conducting daily business operations, Islamic Financial Institutions (IFIs) must adhere to all Islamic laws and standards, making the scope or role of internal *Shariah* audits critical. Although the PMA provides various guidelines and policy papers to stakeholders in the industry, many internal *Shariah* auditors and review officers remain unaware of their tasks, as stated by [Ab Ghani et al. \(2019\)](#) and [Yasoa et al. \(2020\)](#). Due to a lack of understanding of these distinctions, it is unclear how to operationalize them ([Ali et al., 2018](#); [Yazkhiruni et al., 2018](#)).

The roles of an internal auditor and an internal *Shariah* auditor differ significantly in the application of Islamic rules and principles, as seen in conventional practices ([Sani & Abubakar, 2020](#); [Rashid & Ghazi, 2021](#)). Internal auditors rely on financial statement analysis and the organization's governance and management controls, whereas internal *Shariah* auditors are responsible for ensuring that all activities, such as transactions, products, policies and procedures, agreements and contracts, financial statements and reports, comply with Islamic standards and principles ([Isa et al., 2020](#); [Yasoa et al., 2020](#)). Traditional auditing methodologies in the financial sector have developed from traditional auditing, which focuses on topics such as socioeconomic infrastructure and Islamic social culture ([Ab Ghani et al., 2019](#); [Yazkhiruni et al., 2018](#)).

*Shariah* auditing seeks to accomplish objectives comparable to those of traditional financial organizations ([Algabry et al., 2020](#)). The fundamental distinction, however, is whether or not IFIs adhere to national accounting standards and their guiding principles. Internal *Shariah* auditors have a broader range of responsibilities than conventional internal auditors do while performing daily tasks and operations ([Tawfik & Bilal, 2020](#)).

An internal *Shariah* auditor must possess skills and expertise that are primarily focused on the specifics of the business as a whole to provide a view of the current situation regarding conformity with the *Shariah* guidelines and fatwas issued by their *Shariah* committee ([Raja, 2021](#)).

The necessity of performing a *Shariah* audit by internal auditors with comprehensive knowledge of the *Shariah* regulations applicable to Islamic financial institutions is emphasized by the findings of PMA (2019). It is strongly recommended that any data that may be subject to *Shariah* audit risk, including financial statements, policies, and processes, be audited by a certified auditor to ensure accuracy ([Alahmadi et al., 2017](#); [Ab Ghani et al., 2019](#)).

An effective auditing process can be achieved by providing the auditor with sufficient evidence that the business adheres to *Shariah* principles and the fat was issued by its *Shariah* Supervisory Board (SSB). This is crucial for reducing internal or external breaches or risks and for enhancing *Shariah* governance through *Shariah* auditing ([Algabry et al., 2020](#)).

#### 2.5 Palestinian Shariah auditor qualifications

As the Islamic finance sector continues to expand, qualified *Shariah* auditors will increasingly become in demand. To ensure that these auditors can perform their tasks in compliance with the *Shariah* regulations, only competent internal and external auditors with substantial expertise in Islamic finance, *Shariah*, and other relevant subjects should undertake *Shariah* auditing ([Yasoa et al., 2020](#); [Sani & Abubakar, 2020](#)).

According to [Omar \(2019\)](#), a shortage of educated *Shariah* board members can harm *Shariah* governance and erode public trust. Therefore, the expertise of *Shariah* Board participants is crucial for ensuring an effective *Shariah* governance process in IFIs. Additionally, the demand for competent *Shariah* auditor specialists ensures that Islamic banks' operations align with their ultimate objective of fulfilling *Maqasid al-Shariah* and maintaining significance in the eyes of their stakeholders ([Ali et al., 2018](#)).

According to [Shafii et al. \(2014\)](#), professional development programs from reputable organizations such as the Palestinian Association of Certified Public Accountants (PACPA), in-house training, and Shariah-certified courses from reliable entities can increase the visibility of *Shariah* auditors. Universities should include Islamic finance and *Shariah* audit courses in their undergraduate programs to better prepare students for careers as Shariah auditors. Increasing the number of qualified and experienced Shariah auditors can address the Shariah agency problem and promote good governance in Islamic financial institutions, as [Schneider \(2009\)](#) and [Karim and Shetu \(2020\)](#) note. [Khatib et al. \(2022\)](#) emphasize that qualified *Shariah* auditors need a specific set of skills, knowledge, and traits in addition to relevant work experience. To maintain a continuous supply of knowledgeable and qualified Shariah auditors and to avoid potential negative consequences for *Shariah*-based commerce, coordinated efforts from the government, industry, and academia are essential, as highlighted by [Khatib et al. \(2022\)](#). To address this issue, collaboration among authorities, the government, Shariah experts, and, most importantly, the Muslim community is crucial.

### 2.6 Identifying the elements that determine the quality of a Shariah audit

The study categorizes the elements influencing *Shariah* audits in accordance with the three elements of the Audit Risk framework: risks of inherent, risks of control, and risks of detection.

#### 2.6.1 Risks of inherent

In the context of a *Shariah* audit, there are several facets of inherent danger. The standard of the Shariah audit may be impacted by the substance's effectiveness, the good's supervisor's background and expertise, the financial institution's size and age, and other factors. Nevertheless, the quality of the audit topic will ultimately determine all hazards categorized as inherent dangers. The *Shariah* audit's subject matter is encapsulated in the terminology of 'financial arrangements', 'contracts', 'operations', 'measures and procedures', 'accounting and IT systems', 'transaction procedure flows', and related terms ([SBP, 2018](#)).

#### 2.6.2 Risks of control

Controlling risk is a crucial aspect of an audit risk framework. The management team is expected to develop and establish appropriate processes and controls in the form of an Internal Shariah Control System (ISCS) in collaboration with the Shariah board and other Shariah governance framework authorities to foster a strict *Shariah* compliance environment within the bank ([Eriqat & Al-Khazaleh, 2024](#)).

ISCS refers to the policies and practices created, put into place, and upheld by those in the position of oversight, leadership, and other staff in order to give investors a fair level of confidence over the accomplishment of an entity's *Shariah*-related goals. When adequate internal controls to guarantee Shariah compliance are not located, it may be misleading to market Islamic financial instruments (IMF 2014).

Operations were performed in conformity with the rules of *Shariah*, according to the ISCS. According to [IAASB \(2019\)](#), ISA-315 offers comprehensive instruction to "*the auditor in acquiring knowledge of many facets of the company and its surroundings to determine the risk of material misrepresentation*". This knowledge gives the auditor the chance to comprehend the entity's operations and dangers connected to insufficient controls. With this knowledge, auditors can choose the best auditing techniques and important processes.

#### 2.6.3 Risks of detection

The third element of the audit risk framework is risk of detection. This idea has several facets. Failure to recognize a major misrepresentation may be related to security participation, audit companies, and auditors ([Faza et al., 2023](#)). The subsequent paragraphs describe the aspects that affect audit quality in relation to the auditor and audit company as audit engagements. One of the crucial elements that impact the *Shariah* audit's effectiveness is the auditor's competence. Understanding *Shariah* law, in addition to conventional security abilities and processes, is a necessary mix of capabilities for evaluating and detecting *Shariah* risk in various financial deals, agreements, and operations ([Mohd Ali et al., 2020](#); [Khalid, 2020](#)). Therefore, *Shariah* auditors cannot fully recognize *Shariah* non-compliance risk, an intricate issue, without a solid foundation in Islamic banking and auditing, as well as in-depth knowledge of the characteristics, risks, and actual limitations of Islamic financial products.

The above discussion demonstrates the effectiveness and quality of *Shariah* auditing in the Islamic context,

revealing that the literature can be divided into eight important areas. The first addresses the puzzle of audit quality and effectiveness, which is a multifaceted concept with no universally agreed-upon definition (Al-Khazaleh et al., 2021). The second section discusses the different viewpoints that have emerged in the absence of a consensus on the definition of audit quality and effectiveness, and it appears that there are four different perspectives regarding the quality and effectiveness of the audit. The first perspective is related to the success of discovering fundamental errors and is called the consequential perspective. The second perspective is related to the process of verifying fundamental and major errors in the audit and its quality. The third perspective is the procedural audit perspective, while the fourth is related to compliance with regulations and best practices, known as the audit compliance perspective. Each of these perspectives offers a unique view of audit quality and effectiveness, which may be considered appropriate. The third area of literature related to audit quality and effectiveness is the audit quality and effectiveness framework presented by various individuals and professional bodies to understand the dimensions of audit quality and its effectiveness. The fourth area in the literature is the expression of previous studies that suggest different methodologies for measuring audit quality, audit effectiveness, and compliance and classifying the factors that affect audit quality as inputs, processes, outputs, and context. The sixth area discusses the importance of compliance with the *Shariah* audit and its benefits. The seventh context deals with *Shariah* theories of Islamic companies, which detail and explain the importance of Islamic *Shariah* theories in auditing and accounting processes. The eighth and final areas deal with the Palestinian context of compliance with Islamic legal scrutiny and its implementation in Islamic institutions in Palestine.

A thorough examination of the literature reveals that despite its tremendous relevance in ensuring rigorous *Shariah* compliance in IBIs, the idea of *Shariah* quality auditing is largely unexplored. For the *Shariah* audit quality, both the description and elements are specified. Consequently, the goal of this study is to offer an approach for defining *Shariah* auditing standards and identifying the variables influencing *Shariah* auditing quality within the framework of the model for audit risk.

Consequently, any inability to comprehend inherent dangers or regulate risks during the planning process will result in the creation of inadequate analytical techniques. The quality of *Shariah* audit assignments will be impacted if any major misstatements go undetected, which would increase the interaction risk. Audit fees, reputation of the audit company, duration of the auditing company, and the size of the company are all factors that affect audit businesses. These are the most important and hotly contested elements in the standards of auditing literature.

Adequate sample size, risk evaluation processes, proper audit techniques, audit proof gathering and review processes, compliance with essential legislative and regulations, and industry standards of excellence are all factors that are ancillary to audit engagements (Karim & Shetu, 2020).

### 3. Research Design and Methodology

This study is the first to investigate the efficiency of *Shariah* auditing by Islamic institutions and banks in Palestine. It offers realistic advice for best practices to ensure that these transactions comply with laws that must be followed. The degree to which Islamic banks and institutions abide by pertinent legal requirements and *Shariah* principles has not yet been investigated by legal experts (Grais & Pellegrini, 2006). The findings of earlier studies were restricted to a few accounting studies that looked at the extent to which banks and other organizations complied with accounting rules from an accounting perspective.

This study used a systematic literature review methodology to locate, evaluate, and consolidate the extant literature pertaining to the analytical topic (Fink, 2005; Okoli, 2015; Ahmad & Omar, 2016).

To determine the degree of validity of Palestinian Islamic banks' and institutions' compliance with the *Shariah* audit in line with relevant legal norms and *Shariah* principles, this study adopted a comparative descriptive analytical method. To learn from their experiences, this study analyzed various financial reports and publications from Islamic banks and institutions operating in Arab nations (Palestine Islamic Bank, Arab Islamic Bank, Al-Safa Bank, and Jordan Islamic Bank). This study uses AAOIFI's ratings of Islamic banks from a number of periodic reports published by the organization over the previous eight years.

The following steps were included in the research methodology:

Literature assessment: A thorough assessment of the literature was conducted to examine previous research on the degree to which Islamic financial institutions and banks adhere to Islamic law and norms, as well as the *Shariah* Audit. Accounting studies that address contracts in relation to accounting are also located. Data were

gathered from Palestinian Islamic banks, which provided records and reports outlining the degree to which they complied with Shariah audits. To examine the framework and provisions of relevant papers, contracts, and agreement conditions, sources were consulted.

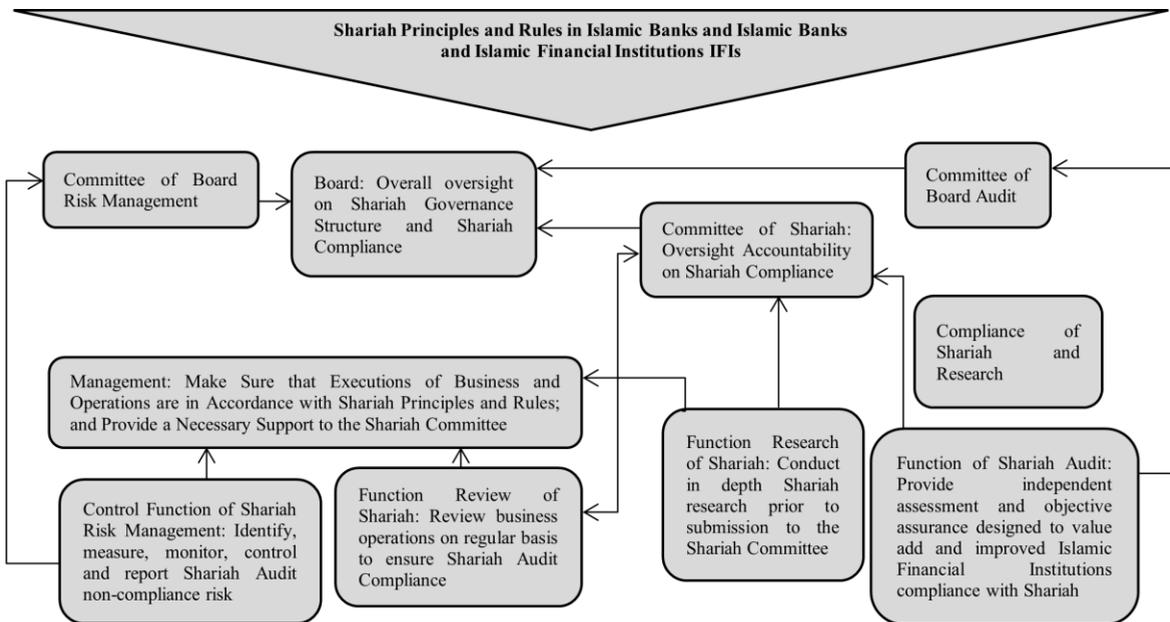
**Comparative review:** To draw lessons from their experiences and standards of excellence, the data gathered from Palestinian Islamic banks were compared with papers and reports demonstrating the extent to which these institutions complied with the Jordan Islamic Bank's Shariah audits.

The gathered information was used to assess compliance with Islamic principles and the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions for Shariah audits.

**Legislative framework assessment:** To uncover any discrepancies and difficulties in executing Shariah audit compliance, the pertinent legal framework in Palestine, particularly Courtesy Law, was examined. Practical suggestions were developed based on the research findings to ensure the legitimacy and Shariah audit compliance of banks and Islamic financial institutions in Palestine, in line with Islamic norms and legal requirements.

The findings of the research are presented, highlighting its significance as the first specialist legal study to assess the significance of Shariah auditing compliance by banks and Islamic financial organizations in Palestine. Potential directions for further study in this field were identified, and useful recommendations were highlighted.

Figure 1: Shariah Audit Governance Framework for Islamic Banks and Islamic Financial Institutions IFIs



Source: Authors' own

The Shariah Committee was responsible for overseeing all Shariah-compliant activities on behalf of the multinational financial institutions. They can also be required to perform a *Shariah* audit, in addition to a *Shariah* assessment. At the time, there were no formal rules on Shariah governance in international financial institutions. However, there were substantial improvements in Shariah concerns in international financial institutions after 2011 with the formation of the Social Security Fund.

The Social Security Administration Fund has demonstrated heightened awareness of Shariah by implementing four distinct functions commonly utilized in Islamic finance, as described in Figure 1. These functions comprise the *Shariah* risk management regulation, overseen by the Risk Management Committee of the Board of Directors, and the administrative and *Shariah* review functions, managed by The Shariah Committee.

Furthermore, the administration views the *Shariah* audit function as subordinate to the authority of the committee. Generally, the *Shariah* risk function is executed by collaboration between finance and *Shariah* executives, who are typically undergraduate students specializing in finance or *Shariah*. On the other hand, the *Shariah* audit function is performed by *Shariah* authorities who are undergraduate students specializing in *Shariah* at the IB in question. Currently, IBs' internal auditors are implementing this process without any established criteria for selecting the most qualified expert to serve as the *Shariah* auditor for Islamic Banking institutions.

#### 4. Findings and Discussion

The findings of the study point to a specific issue that prevents the PMA decision from being implemented correctly. Examining the compatibility of Islamic banking principles with the fundamental tenets of the *Shariah* compliance law as forth in national legislation is difficult. A major problem is the legal acceptance of unilateral pledges as legitimate sources of legally enforceable duties.

Since these guarantees are necessary for *Shariah* compliance, Islamic banks and financial institutions may experience difficulties if they do not have any legal standing under *Shariah* compliance legislation. To align this compliance with Islamic banking principles and regulatory standards, this study thoroughly investigates the ramifications of this difference and considers various remedies.

*Shariah* audits are very important to Islamic financial institutions and companies that follow Islamic principles and rules. The fundamental purpose of a *Shariah* audit is to ensure that an organization's activities, transactions, and operations adhere to Islamic law. Some major arguments in favor of a *Shariah* audit are as follows.

Per Aliyu et al. (2017), Islamic financial institutions, including banks, investment funds, and insurance companies, are required to conduct their operations in accordance with the principles of *Shariah* law. Activities that are forbidden or non-compliant with these principles and rules are prohibited. A *Shariah* audit can help to ensure compliance with the ethical and moral tenets of Islam.

Businesses that adhere to *Shariah* rely significantly on the faith and trust of stakeholders, investors, and clients. These institutions demonstrate their dedication to openness and respect for Islamic values by submitting themselves to periodic *Shariah* audits. As a result, trust increases, and a good reputation is fostered. To find any non-compliance or *Shariah* hazards inside an organization, a *Shariah* audit is essential.

By addressing these risks at an early stage, the major consequences that could result from unintended violations of Islamic principles, such as reputational harm or legal problems, can be avoided.

Islamic financial firms may suffer severe financial repercussions if they violate *Shariah* standards. *Shariah* boards or regulatory authorities may issue penalties or punishments if an institution functions against Islamic law (Awwad & Razia, 2021).

Organizations can avoid these penalties by quickly addressing any noncompliance concerns identified by a *Shariah* audit. Islamic financial services and products need to be verified and authorized by qualified *Shariah* scholars to be regarded as *Shariah* compliant. A *Shariah* audit ensures that an organization's goods and services have received this examination and are compliant with Islamic law. As the global Islamic financial sector continues to expand, there is growing demand for *Shariah*-compliant goods and services.

By obtaining *Shariah* audit certifications, organizations can enhance their market competitiveness and attract a broader clientele, including those who prefer to conduct financial transactions in line with their religious beliefs.

The *Shariah* audit process typically ensures the integrity, compliance, and ethical standards of both Islamic financial institutions (IFIs) and enterprises, as highlighted by Alkhan (2020). By adhering to *Shariah* rules, these organizations not only fulfil their religious obligations but also contribute to the establishment of a robust and trustworthy Islamic financial environment.

#### 5. Conclusion & Recommendations

This research mainly concentrated on the significance of Islamic banks and organizations in Palestine in compliance with the *Shariah* audit. He discussed a significant obstacle these banks and organizations confront in upholding Resolution No. 15/2019 of the PMA, which intends to implement Islamic principles in their dealings. The research brought to light an important discrepancy between these Islamic norms, which are inspired by modern jurisprudential tendencies, and the writings of 'Al-Mujahirah' journal, which adheres to

traditional Hanafi jurisprudence. This discrepancy is apparent in the inconsistency between several compliance laws and the Code's provisions, as well as in the standards set by relevant Islamic financial institutions.

The findings of this study revealed a significant discrepancy between the rules and regulations set by the PMA for banks and Islamic financial institutions in Palestine and the legal standards outlined in the AAOIFI guidelines (El-Halaby et al., 2021). The contractual parties must abide by the regulations and legislation of the PMA, which is based on the Islamic Shariah and its tenets. (AAOIFI) standards and fundamental legal precepts in Palestine must be adhered to by these standards and legislation.

Compliance with Shariah principles is essential for the daily operations of Islamic Financial Institutions (IFIs), as it greatly impacts financial practices that violate Shariah law. Despite this, there are still issues with Shariah compliance auditing, including cooperation between internal and external auditors, scope of internal Shariah audits, and qualifications of Shariah auditors. It is crucial for all parties involved to take action to bridge this gap, as it will significantly affect stakeholders' confidence in the Shariah compliance of IFIs' products and services related to their operations and activities.

Scholars have ignored this field of study despite the fact that the quality of the Shariah audit is incredibly important in maintaining tight compliance conditions at IBIs. Regarding the Shariah auditing standard, the literature is ambiguous. What elements influence Shariah audit quality? Therefore, how can it be accurately quantified? To better comprehend the idea and to lay a solid basis for successful and effective decision-making about internal Shariah oversight systems in IBIs, it is imperative to explore the factors, parameters, and effects of Shariah quality of audits.

This study focuses on reviewing prior literature and emphasizes the importance of an effective Shariah audit in business operations. This ensures that IFIs adhere to the Shariah principles, which ultimately benefits their operations.

To establish a strong and sound framework for IBs and IFIs to carry out Shariah audits, responsible authorities must establish appropriate procedures. Given the growing number of IFIs in Palestine, the Palestinian Association of Certified Public Accountants (PACPA) or the regulatory body overseeing IFIs should take responsibility for developing and implementing a comprehensive and integrated Shariah auditing framework.

In light of these findings, the study suggests that a draft civil code be released in line with modern jurisprudential developments in Islamic jurisprudence. Additionally, the PMA advises ordering banks and Islamic financial institutions to comply with all Shariah audit regulations and norms. To guarantee that financial institutions and Islamic banks adhere to modern Islamic norms, the PMA must examine all Shariah audits of these organizations. All substantive requirements for Islamic banks and financial institutions must be met in line with the rules and regulations established in accordance with prescribed Shariah principles.

Drawing on this conclusion, we can identify several policy implications. First, Islamic Financial Institutions (IFIs) should strive to enhance the existing knowledge base on Shariah audit compliance. This study emphasizes the significance of Shariah compliance auditing in fulfilling the needs of stakeholders. Furthermore, all relevant parties must take steps to bridge the gap that could negatively impact stakeholders' confidence, particularly regarding the Shariah compliance of the products and services provided by IFIs in their operations and activities.

The main aim of this article is to offer comprehensive insights into the extent to which the Accounting and Auditing Organization for Islamic Financial Institutions' regulations and standards are followed during audits of Palestinian Islamic banks and other Islamic establishments, in accordance with Shariah principles. We also examine the difficulties caused by these discrepancies, jurisprudence and the results of the law. Regarding unilateral duties, it's important to be aware of some restrictions that could have an impact on the scope and application of the outcomes: Changing Regulatory Environment: Despite the fact that the study primarily focuses on current guidelines released by the PMA and the requirements of the (AAOIFI), it is crucial to acknowledge the regulatory framework's dynamic character. The potential effect of possible regulatory changes that occur following the completion of the research on the validity and practical value of research outcomes cannot be ruled out. Additionally, we focus on the qualitative technique used in the research, which is mostly used to analyze problems, distinctions, importance, and advantages.

Although this method offers insightful information, it may not fully capture the quantitative range of difficulties experienced by Islamic banks and audit committees or offer a complete statistical picture. The results and revisions can be tailored to the legal framework of prestigious Palestinian Shariah Audit Committees

and Islamic Accounting and Banking Committees, in addition to their degree of application in various countries. When applying these findings to other geographical areas or nations with distinct legal systems and cultural traditions, such as those in the Middle East, caution should be exercised. Time restrictions: Due to time or location restrictions, a thorough examination of all areas of Shariah audit compliance and the difficulties connected with it may also be constrained. Beyond the purpose of this study, an additional thorough investigation may be necessary for certain complicated components. Nevertheless, the present study offers significant theoretical and conceptual insights into compliance areas, challenges, and anticipated improvements in relation to compliance with Islamic Shariah auditing by audit committees, Islamic accounting committees, and Palestinian Islamic banks despite these acknowledged limitations.

## 6. Limitations and Recommendation of Future Research

Based on our analysis, we propose that future researchers should explore additional factors related to the current study and compare them with previous findings. This will help to develop new concepts and recommendations that align with *Shariah* compliance auditing. By offering a structure, this study aims to discuss the quality of the Shariah audit. The structure thoroughly identifies the aspects that may have an impact on the quality of a *Shariah* audit, including those linked to the audit's topic of study, internal *Shariah* oversight, auditors, audit company, and audit participation.

Future research can be conducted such as: How do religious teachings, training, rewards, and advancements affect the judgments and views of *Shariah* auditors? What are the elements that strengthen *Shariah* auditors' professional distrust and discernment in IBIs? How does expert distrust and technical skills in *Shariah* audits communicate with one another? What standards should be used to assess the effectiveness of *Shariah* audit results? Will the standard of the *Shariah* audit project improve as a result of an additional partner's review? What are the ways to improve the Shariah audit statements? Does the Shariah auditing procedure become overly standardized as a consequence of the AAOIFI requirements? Is the PMA's definition of the scope of the external *Shariah* audit acceptable and adequate?

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# Exploring Research Mapping Trends and Innovation in The Takaful Industry

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## Abstract

The takaful industry is one of the fastest growing industries and innovations in various areas such as but not limited to product development, business models, digital technology. The purpose of this study is to systematically review the literature, identify key research topics, highlight gaps, and reflect the intellectual structure of takaful research. This research uses bibliometric analysis of the literature using the scientific mapping tool biblioshiny. According to the data collected, Malaysia ranks first in the country with the highest number of authors with more than 100 published articles. The journals with the highest impact are International Journal of Islam and Middle Eastern Finance and Management and Journal of Islamic Marketing, both with an h-index of 10. This study provides valuable information for researchers and policymakers seeking to improve the development and implementation of takaful products and services.

*Keywords: Takaful, Islamic insurance, biblioshiny*

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## 1. Introduction

Takaful, an Islamic insurance system, operates on principles of mutual assistance, shared responsibility, and cooperative risk-sharing. It is derived from the Arabic word '*kafala*' meaning '*guaranteeing each other*'. Participants contribute to a common pool of funds, which is then used to support members in need due to specified losses or damages, ensuring compliance with *Shariah* law by avoiding elements like interest (*riba*), excessive uncertainty (*gharar*), and gambling (*maysir*) (Billah, 2007).

From a historical point of view, the development of takaful research dates back to the early 20th century. In 1836, Ibnu Abidin was the first Islamic scholar to define the definition, idea, and legal basis of Islamic insurance contracts. This concept was subsequently recognized in the mid-20th century, especially in the 1970s and 1980s, when the first insurance companies were established in Sudan and the United Arab Emirates (Alam et al., 2023). The modern insurance industry officially developed at the end of the 20th century, with the establishment of the Sudanese Islamic Insurance Company in 1979, marking the beginning of a *Shariah*-compliant insurance product (Khan & Bhatti, 2008). Since its creation, the takaful industry has grown considerably, especially in Muslim-dominated regions such as Southeast Asia and the Middle East. For example, Malaysia has become a pioneer in developing comprehensive regulatory frameworks and fostering an environment conducive to industry growth. This expansion is prompted by a growing awareness of *Shariah*-compliant financial products and a growing demand for ethical financial solutions (Razak & Ismail, 2011).

The growth of takaful research accelerated in the 21st century, with a significant increase in publications on the subject. This surge in research can be attributed to the increasing popularity of Islamic finance and the need for more comprehensive understanding of takaful products and their applications. In terms of current trends, takaful research is focused on various aspects, including the development of takaful products, the efficiency of takaful companies, and the impact of takaful on the economy. There is also a growing interest in

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the application of takaful in different regions and countries, particularly in Asia and the Middle East (Alam et al., 2023). Although progress has been made, there is still a significant need for further research in the takaful industry. By applying biblioshiny to takaful research, this study aims to systematically review the literature, identify key research themes, uncover gaps, and visualize the intellectual structure of takaful research. This methodological approach enhances our understanding of the past, present, and future trajectories of takaful research. It enables researchers to analyze publication trends, authorship patterns, citation networks, and thematic evolution within a specific field (Aria & Cuccurullo, 2017).

Based on this background, the author is interested in analyzing the development of research trends and identifying themes and areas of innovation in the takaful industry. This study will provide valuable insights for researchers, and policymakers who seek to improve the development and implementation of takaful products and services. The following are the details of the research questions in this study.

RQ 1: How are the developments and trends of research in the takaful industry?

RQ 2: Along with the evolution of the financial industry, what are the areas of innovation in the takaful/Islamic insurance industry?

## 2. Literature Review

### 2.1 Definition and Operations of Takaful

Etymologically, takaful comes from the Arabic word '*kafl*' which means to guarantee, secure, and fulfill someone's needs (Khan et al., 2020). More clearly, takaful can be defined as the process of agreement of a group of people who face certain risks so that each of them contributes to providing compensation to anyone among them for the losses that they will face when the risk occurs, according to the agreement (COMCEC, 2019).

The basic principle of takaful is the concept of mutual assistance and shared responsibility, where participants contribute to a common fund and share the risks and benefits of the fund. In its operation, takaful is based on Islamic principles that do not contain elements of *gharar*, *maisir*, and usury (Alhammadi, 2023). Meanwhile, for its transactions, takaful uses various contracts with various implementation models including *takaful ta'awuni* (non-profit model), *mudharabah* model, *wakalah* model, mixed model (mudharabah-wakalah), *wakalah* model with waqf fund, and family takaful (Akhter, 2012).

### 2.2 Development of Takaful Globally

Modern takaful insurance first started in Sudan in 1979. Its operations must comply with *Shariah* law and operate under the supervision of a Shariah Supervisory Board (Hassan, 2020). Over the past three decades, takaful has grown rapidly, with the market expanding from West Asia and Southeast Asia to Africa and even parts of Europe and North America (Rahman, 2009).

Malaysia is known as the largest takaful market in Southeast Asia and has even contributed greatly to the establishment of regulatory practices in the takaful industry (Lee et al., 2019). Countries such as Saudi Arabia, UAE, and Qatar have well-established takaful markets. Regulatory frameworks and *Shariah* compliance are key factors driving growth in the region (Thanasegaran & Shaiban, 2014). In African countries such as Nigeria and Kenya, their takaful focuses on regulatory frameworks and raising awareness among the population. The takaful window model is popular here, which allows conventional insurance companies to offer takaful products (Alshammari et al., 2021). Even takaful is slowly entering the Western market, driven mainly by the need to serve the Muslim population in the region. The industry faces challenges related to regulatory harmonization and consumer awareness (Rahman, 2009).

## 3. Methodology

### 3.1 Methods and Analysis Tools

This study uses bibliometric analysis relying on the biblioshiny scientific mapping tool. Biblioshiny through R programming is used for bibliometric analysis, developed by Massimo Aria from the University of Naples Federico (Huang et al., 2021). Bibliometrix R will import bibliographic databases from Scopus or Web of Science, saved as Bibtext (.bib) or Plain Text (.txt) files (.txt) (Buyamin et al., 2023). Through the biblioshiny quantitative approach, clear and complete research field information will be obtained and effective in identifying the latest topics and leading research trends. Through the database import process, a series of visual maps will be produced that are able to explore document sources, the number of citations in documents, authors,

publication affiliations, author countries, and so on (Wang & Jia, 2023).

To identify the main topics in takaful research, the author uses a content analysis approach supported by the bibliometric software Biblioshiny. The stages of analysis begin with an initial review of the literature from the Scopus database to recognize general patterns and identify dominant topics in takaful research. Topics that are rarely discussed are categorized as potential research gaps. Each stage is repeatedly analyzed to ensure data validity and reliability.

### 3.2 Sample Selection

The database used comes from Scopus. According to Parlina et al. (2020) Scopus is the largest international database and holds a good academic reputation. In addition, Scopus also provides many research references from various multidisciplinary fields that play an important role in providing perspective in the analysis process (Chin & Chew, 2021; Suprpto et al., 2021). In collecting data, 4 keywords were used including ‘takaful’, ‘islamic insurance’, ‘sharia insurance’, and ‘cooperative insurance’ in TITLE-ABS-KEY to extract the desired literature during the period 1937-2023. Filters were also applied to several options including language, document type and publication type. From this process, 449 final documents were produced that were ready for biblioshiny analysis.

Table 1: Sample selection on Scopus database

Category	Criteria	No. of documents
Keyword and Search String, extracted on 25 May 2024	TITLE-ABS-KEY (“takaful” OR “islamic insurance” OR “sharia insurance” OR “cooperative insurance”)	607
Years	Including all years. Removed article for 2024 (1937-2023)	585
Subject Area	All subject area	585
Document Type	Limiting the documents to Article (433) and Proceedings Paper ( 50)	483
Language	Limiting to english (461) and indonesian language (1)	462
Publication Stage	Final published only	449
Final documents for Biblioshiny Analysis		449

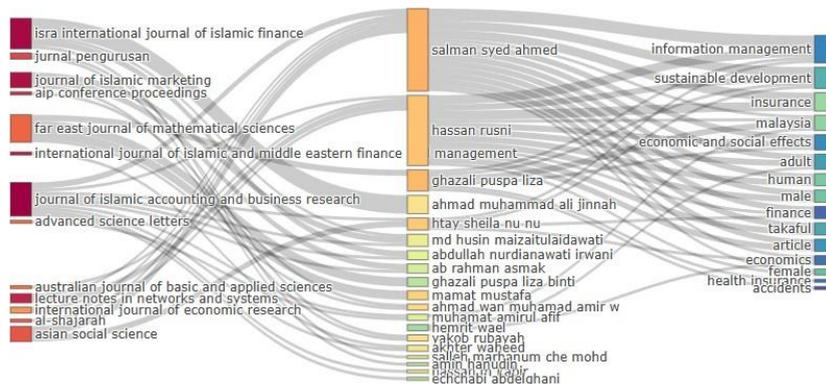
Source: Created by Author, sorted from Scopus database

## 4. Results and Discussion

### 4.1 Research Development and Trends Progressed on Takaful Industry

#### 4.1.1. Result Analysis

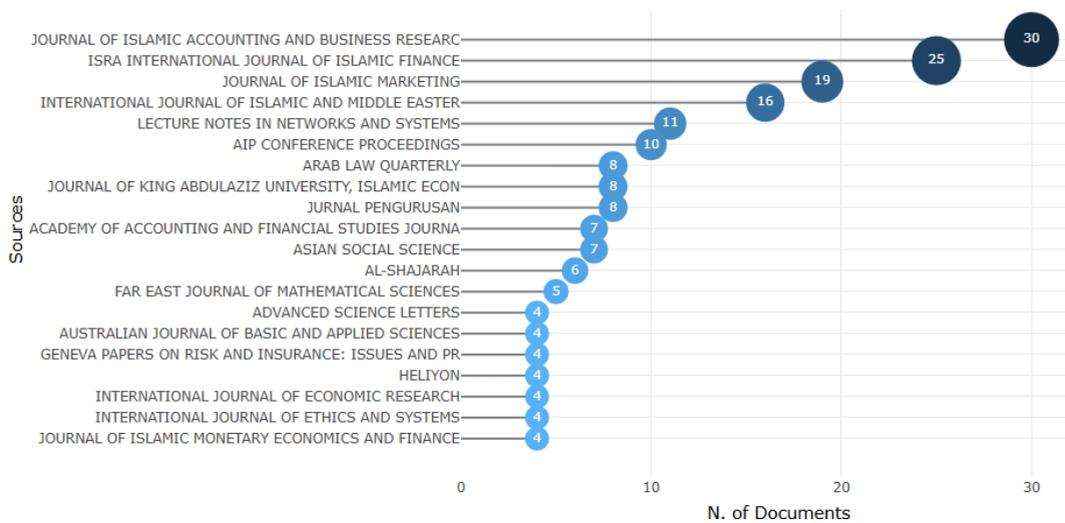
Figure 1: Three fields plot



These findings indicate that most takaful research is published in the *Journal of Islamic Accounting and Business Research*, which has a primary focus on Islamic finance. This shows a reliance among academics on this journal to expand knowledge in takaful, while other journals could be explored to broaden insights further. Additionally, identifying prominent authors such as Salman Syed Ahmed and Hassan Rusni highlights a concentration of knowledge within a specific group of researchers, which could serve as a reference for other researchers to build collaborations or pursue further studies. Thus, these findings not only provide insight into the distribution of literature but also guide strategies for building research and publication networks.

In the middle of the image, there are two elements: the name of the author, with 19 authors associated with the author's name and the theme/topic. The most published author is Salman Syed Ahmed, who publishes themes/topics in the fields of Takaful, Islamic Insurance, *Sharia* and Cooperative Insurance. The next authors who have published most are Hassan Rusni and Gazali Puspa Liza. Finally, the third element explains the subject of research (right data). Each topic is associated with an author who writes a lot about the related topic. Based on the previous image, 15 keywords are listed. Of all the topics that appear, the words information management, sustainable development and insurance appear frequently. This shows that these words are closely related to research into Takaful, Islamic Insurance, *Sharia* and Cooperative Insurance.

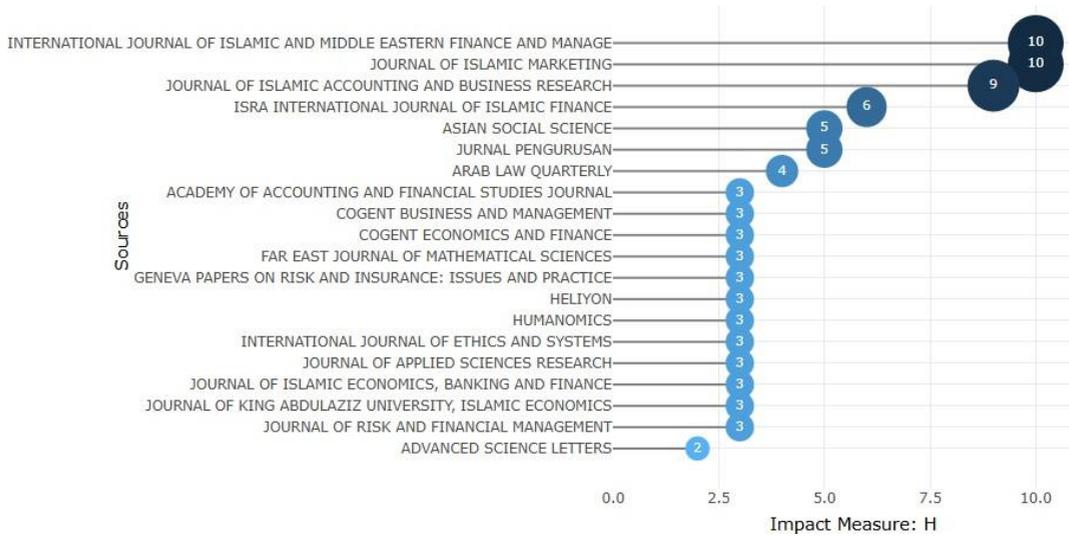
Figure 2: Number of research documents published by journal



The figure above shows the number of research documents published by each journal based on their relevance to the topics of Takaful, Islamic Insurance, *Sharia* Insurance and Cooperative Insurance. The data shows the names of the most frequently published journals and the intervals of documents published in blue circles. The darker the circle, the greater the number and relevance of the research theme, and the number of documents published in all journals is between 0 and 30. The number of publications listed in the most relevant data sources is 20.

Journal of Islamic Accounting and Business Research, which has the largest number of published documents displayed in dark blue circles and circles compared to other journals. This is because the journal is related to the subject of discussion. At the bottom of the journal are 4 publications, with 7 bright blue journals. This shows that there is still a lack of quantity and relevance to the themes of Takaful, Islamic Insurance, *Shariah* Insurance and Cooperative Insurance.

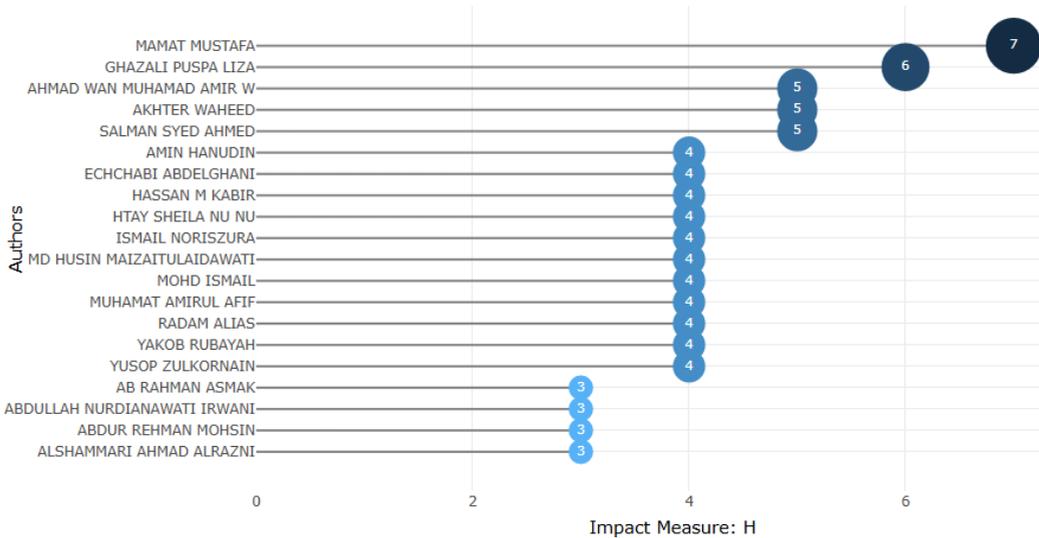
Figure 3: The impact of the publishing journal



Journal calculations can be seen not only from the quantity or relevance of the output. However, this study also shows that each journal whose paper on the topics of Takaful, Islamic Insurance, *Sharia* Insurance and Cooperative Insurance still lacks impact. The calculation is based on the h-index of the journal shown in the blue circle. The darker the blue in the circle, the more impact the magazine has.

The above image shows the Islamic and Middle Eastern Journal of Finance and Management in the top position, with the h-index of 10 on the dark blue circle. Second, the Journal of Islamic Marketing has the same index as the first, 10 points. Both journals have the greatest influence on the themes of research. Meanwhile, the lower-right magazine is Advanced Science Letters, whose h-index is 2 and marked with a bright blue circle. This indicates the low impact of the magazine.

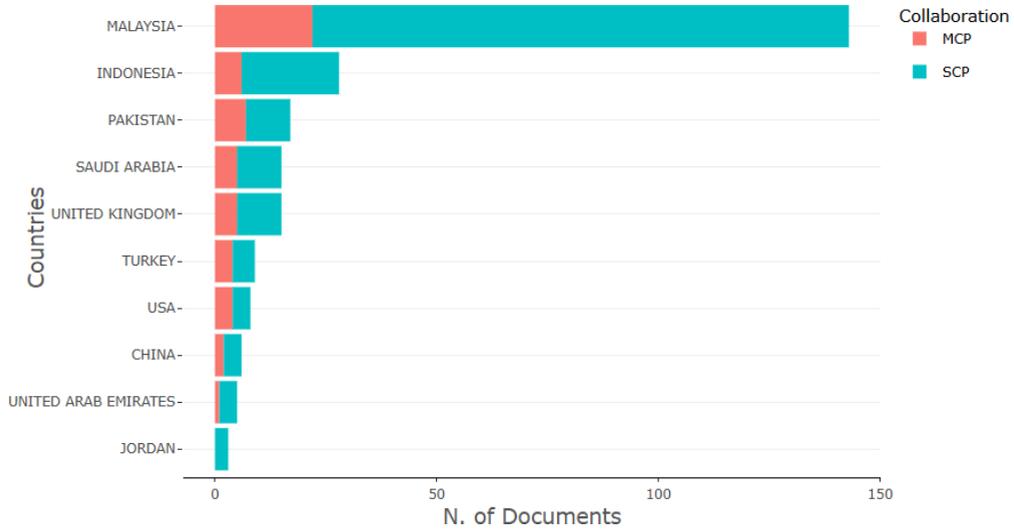
Figure 4: The impact of the authors



Authors who have published their papers can also be classified on the basis of the h-Index-based impact generated. In this study, the value of the h-index is between 0 and 7. The size of the impact is indicated by a dark blue circle above. The above image shows the author with the highest h-index is Mamat Mustafa, with an

h-index of 7 indicating the maximum impact and a dark blue circle. Although the lowest-ranking authors obtained 3 and the lowest impact level were Ab Rahman Asmak, Abdullah Nurdianawati Irwani, Abdur Rehman Mohsin, and Alshammari Ahmad Alrazni.

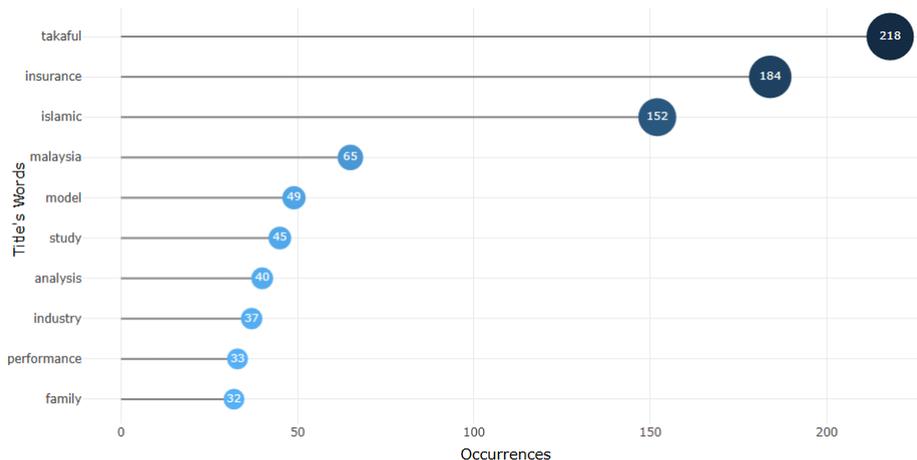
Figure 5: Corresponding author’s country



The figure above shows the country of the author's correspondence in each document, and calculates the total form of collaboration between SCP (Single Country Collaboration) or one country, MCP (Multiple Country Collaboration) or several countries. The data show 10 of the leading countries, with a period of document quantity from 0 to over 100 published paper documents covering topics such as Takaful, Islamic Insurance, *Sharia* Insurance and Cooperative Insurance.

The bibliometric analysis results indicate that Malaysia leads in the number of publications and author collaborations related to Takaful research. This is significant as it highlights the academic strength and dominance that can serve as an example for other countries. For instance, policymakers in developing countries could emulate Malaysia’s strategies to advance their Takaful industry. These findings also suggest a broader potential for international collaboration to bridge existing research gaps. Indonesia follows with fewer than 50 papers, while Jordan has 3 papers.

Figure 6: Most relevant words



This study also counts relevant words used in the document collection that is the subject of the study. The words displayed range from 0 to 200 times. The word list is marked with blue lines and circles showing the number of times each word is used and its relevance to Takaful, Islamic Insurance, Sharia Insurance and Cooperative Insurance. The most common words that appear in this study are the 218 times used ‘Takaful’, and the top word is marked with dark blue circles that relate to the theme of the study. This shows that the theme of Takaful, Islamic Insurance, Sharia Insurance and Cooperative Insurance is closely related to the words often mentioned. The second word is ‘insurance’, which appears 184 times.

Figure 7: World Tree Map

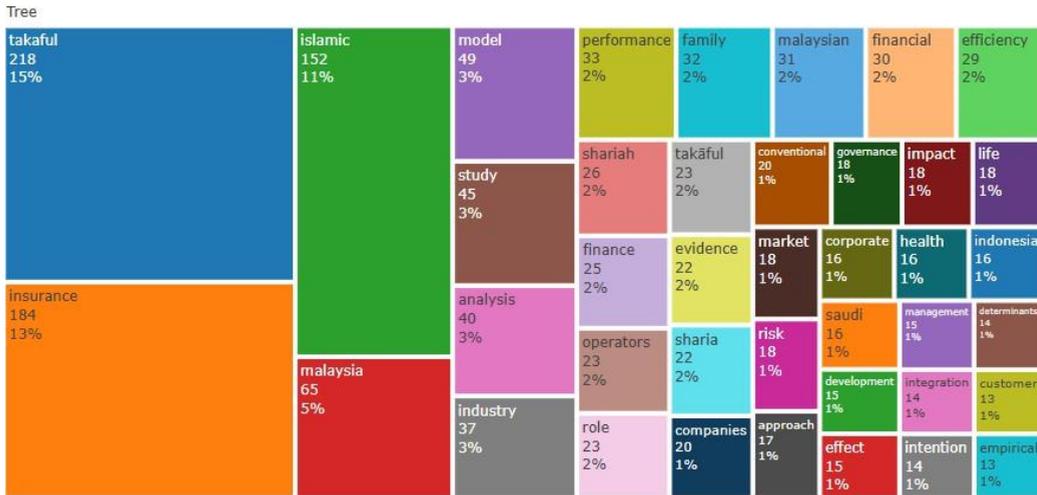
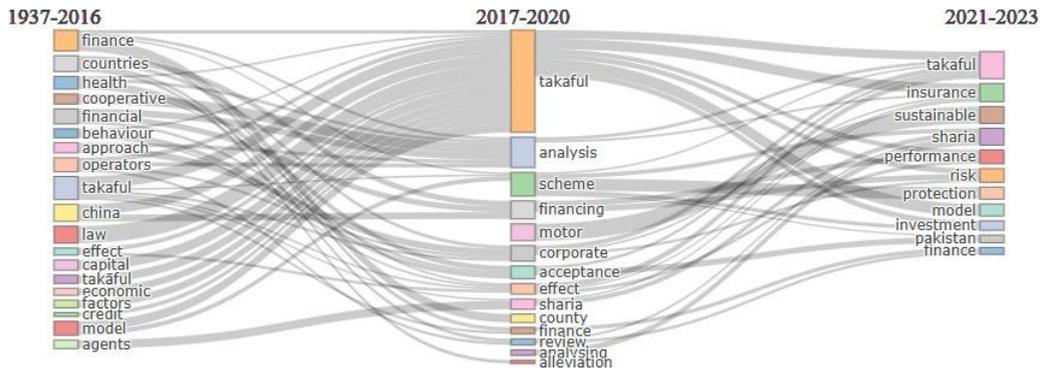


Figure 8: Word Cloud



The above Word Tree Map and Word Cloud are words that frequently appear in a study group related to the subjects of Takaful, Islamic Insurance, Sharia Insurance and Cooperative Insurance. The result displayed is the same as the above image, i.e. the word ‘takaful’ most often appearing. The word ‘insurance’ is second, and the word ‘islamic’ is third. Word Tree Maps show the words commonly used in boxes. The more words appear, the larger the boxes that appear. Word Clouds show words in various sizes. Words are placed randomly, but often used words are displayed in the center and larger sizes. The more frequently used words are used, the larger the word appears in the word cloud.

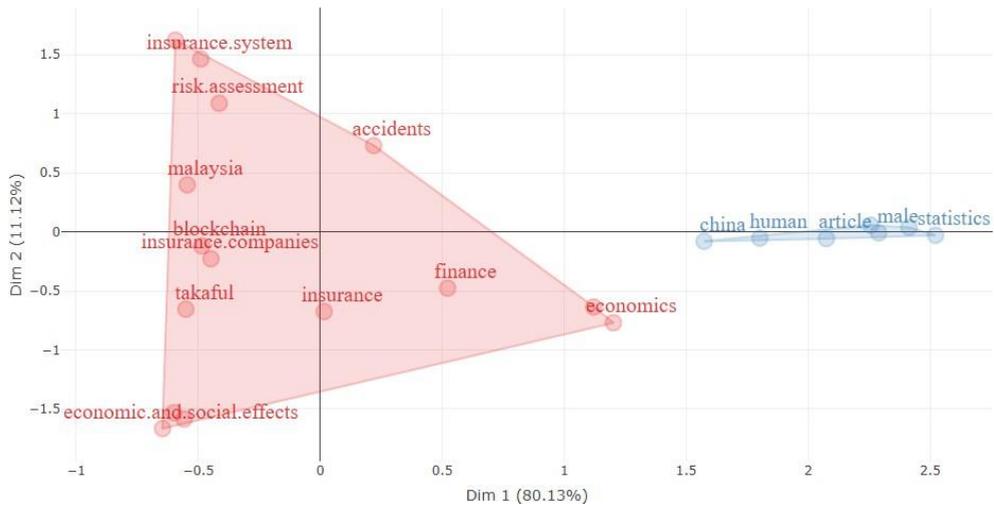
Figure 9: Thematic Evolution



The evolution of the theme can be seen in the image above. The topics used in the research papers have changed over time. The above data show several words that are widely used as sub-themes. On the left are some words that were widely used between 1937 and 2016. There are 19 themes, with boxes of different sizes depending on the number of words used. The theme ‘finance’ was first, followed by ‘countries’ and ‘health’ in second and third places.

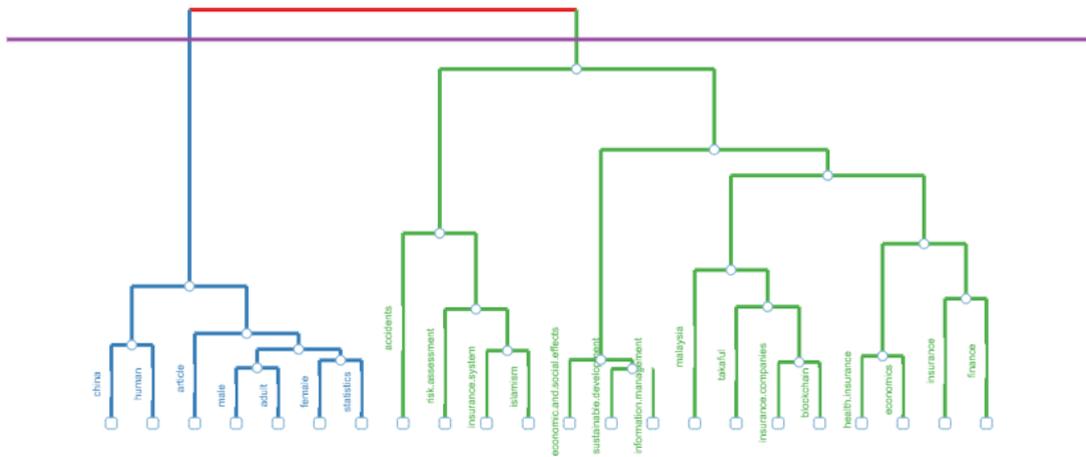
The second part in the middle of the above image shows several themes that are widely used from 2017 to 2020. The themes that appeared during this period were the evolution of the earlier used themes, and were related to the word ‘takaful’, which evolved from the form of ‘finance’. In this section, the most widely used theme is ‘Takaful’. The third section on the right of the above picture shows the themes that will be widely used between 2021 and 2023. First, the theme of ‘takaful’ followed the theme of ‘insurance’ and ‘sustainable’.

Figure 10: Conceptual structure map



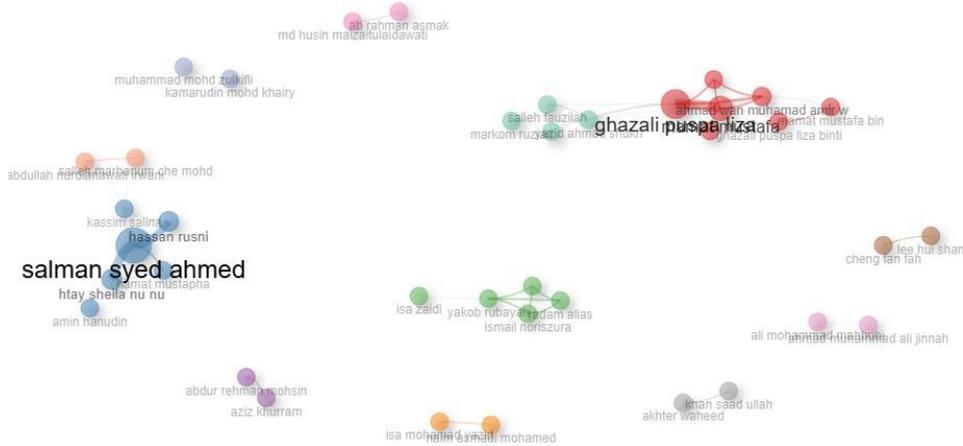
The above image is a conceptual structure map of each word or a contextual structure map that appears frequently in Takaful, Islamic Insurance, Sharia Insurance, and Cooperative Insurance papers. The image above shows two areas, red and blue. Each region contains interrelated words, which can be illustrated by the mapping of the relationship between words through the area map. The red area shows more interconnected words based on the data. This shows that many papers link the words listed in the area.

Figure 11: Dendrogram diagram



The image above is a dendrogram diagram showing the most used topics and their relationships with other topics, as well as the classification of the topics shown in blue and green. This diagram shows the division of the relationship between the elements of a group by data analysis. The diagram above shows that there are two types of topics. This shows that the relationship between the green classification topic and the blue classification topic is similar. Each classification is divided into several clusters, subclusters, etc. Some subjects are part of a group that illustrates the relationship between topics.

Figure 12: Collaboration network



The above image is a network of collaboration between the authors of papers dealing with the topics of Tanakaf, Islamic insurance, Sharia insurance and cooperative insurance. It can be seen that some authors are related and others are not. The relationship between authors can be demonstrated by the existence of similar color groups and lines between names. 11 groups of authors collaborate with each other and two major groups are examined. The first group is blue and the second group is red.

4.1.2. Findings

This study utilizes biblioshiny to perform bibliometric analysis on papers indexed by the Scopus database, linking publication journals, authors, and research themes/topics in takaful, Islamic insurance, sharia insurance, and cooperative insurance. The data reveals that 13 journals predominantly publish papers on the theme of takaful. The Journal of Islamic Accounting and Business Research leads in the number of publications and is

associated with several active authors in this field, such as Salman Syed Ahmed and Hassan Rusni. Among the 19 authors linked to the journal and research topic, Salman Syed Ahmed has the highest number of publications on takaful, Islamic insurance, sharia insurance, and cooperative insurance. The study identifies 15 keyword topics, with the most frequently used being Information Management, Sustainable Development, and Insurance, all of which are closely related to the study.

The number of documents published by each journal is categorized based on the relevance of themes such as takaful, Islamic insurance, sharia insurance, and cooperative insurance. The Journal of Islamic Accounting and Business Research leads in document count, highlighted with dark blue lines and circles. Journal impact is measured using the h-Index, with the International Journal of Islamic and Middle Eastern Finance and Management and the Journal of Islamic Marketing both having the highest h-Index of 10, indicating their significant influence on research in these themes.

Authors are ranked by their impact, as measured by the h-Index. Mamat Mustafa has the highest h-Index of 7. An analysis of author correspondence reveals that Malaysia ranks first, with over 100 papers, followed by Indonesia with fewer than 50 papers, and Jordan with 3 papers. This data highlights the need for increased publications in countries with lower output to enhance research in these areas.

The most frequently occurring and relevant word to the research theme is 'takaful,' appearing 218 times, followed by 'insurance,' which appears 184 times. Word Tree Map and Word Cloud visualizations demonstrate the dominance of these terms in research related to takaful, Islamic insurance, sharia insurance, and cooperative insurance. The theme evolution image indicates that 'finance' was a prevalent theme from 1937 to 2016, while 'takaful' began to dominate from 2017 onwards, continuing to grow through 2023. 'Takaful' ranks first in prominence, followed by 'insurance' and 'sustainable'.

The conceptual structure map highlights two major clusters (red and blue) that depict the relationships between words in the research. The red cluster contains more related words, signifying a higher intensity of research in that area. The dendrogram diagram classifies the research topics into two main groups (blue and green), showing that topics in the green cluster are closely related to those in the blue cluster. The author collaboration network reveals 11 groups of interconnected authors, with the largest groups highlighted in blue and red, indicating the presence of primary collaboration networks within this research field.

## 4.2. Innovation in The Takaful Industry

Along with the significant progress of Islamic finance, various innovations have been made to meet the increasingly diverse needs of consumers and to keep the Islamic finance industry competitive in the era of economic progress. The takaful industry is one of the industries that has experienced significant growth and innovation in various domains, including product development, business models, and digital technology.

### 4.2.1. Product Development

The takaful industry provides various products to meet the needs of the community while adhering to Islamic principles. Over time, various new risks have emerged due to technological advances and environmental changes in various sectors. These risks encourage insurance groups to develop new products that are expected to be able to overcome existing new risks (Sharif, 2004). Here are some of the main products and innovation products of the takaful industry that currently exist.

- i. Family takaful is a product that provides financial protection to individuals and their families against various risks such as death, permanent total disability and other unforeseen events. (Ismail & Fisol, 2020).
- ii. Travel is a product that offers travel insurance protection to tourists, as well as providing protection against various travel-related risks, one of which is during the Hajj pilgrimage (Nasir & Rahman, 2022).
- iii. General takaful is a product that provides comprehensive protection for various risks and hazards, including risks to life, health and property (Alnemer, 2012).
- iv. Agriculture takaful is a product that is specifically targeted at the agricultural sector with the aim of providing financial protection to farmers against various risks such as the threat of climate change, natural disasters, diseases, and pest and insect attacks. The existence of agriculture takaful will help ensure the stability and sustainability of agricultural operations (Aziz et al., 2015).

- v. Micro takaful is a type of takaful that focuses on providing financial protection for micro businesses and low-income families. Micro takaful is an alternative to reduce poverty and promote social security networks in lower-level communities (Ahmed, 2016).
- vi. Green takaful is a takaful concept that focuses on environmentally friendly and sustainable practices. Micro takaful aims to promote environmentally friendly investments and reduce the environmental impact of takaful operations. Green takaful encourages investment in renewable energy, energy efficiency projects and other environmentally friendly initiatives, which are in line with global sustainability goals. Specific studies on green takaful are limited, but it is seen as a potential growth area in the takaful industry (Malik & Sulaiman, 2023).
- vii. Funeral takaful is a type of takaful product that provides financial assistance to families in the event of death. This product helps ease the financial burden of funeral costs. This takaful is also an initiation of the micro-takaful type (Muhamed et al., 2020).

#### 4.2.2. Business Model

In the early days of Islam, takaful in society used the concept of ‘*Aqilah*’ (a system of sharing risks) to help each other overcome financial difficulties. This system was implemented in Islamic insurance institutions in 1979 in Sudan with the establishment of the Sudanese Islamic Insurance Company, which is referred to as the tabarru takaful concept. Tabarru' takaful also called Donation-Based Takaful is a type of takaful that focuses on providing financial assistance to individuals and families in times of need which are participants contribute a portion of their premiums as a donation (tabarru') to a fund that is used to help those who have suffered losses. Contributions are considered donations, not premiums for guaranteed returns. This helps eliminate the elements of uncertainty (gharar) and gambling (maysir) which are prohibited in Islamic finance. (Ali et al., 2015). Tabarru' takaful generally uses the qardul hasan contract where the takaful operator provides financial assistance to participants when needed. Participants pay their contributions, which are then used to help those in need. The takaful operator manages the funds and distributes assistance based on the needs of the participants (Alnemer, 2012).

As the global economy develops, the need for insurance becomes more complex. There is a need to manage funds more efficiently and professionally while still complying with sharia principles. Therefore, *tijari takaful* which is identical to the commercial concept developed. A commercial takaful model that operates on a profit-sharing basis. *Tijari takaful* participants deposit premiums into a common fund, which is then managed by the takaful operator. The profits generated from this fund are divided between participants and operators based on a previously agreed ratio. This concept uses the *mudharabah* and *wakalah* contracts. In *mudharabah*, the takaful company acts as the *mudharib* (fund manager) and participants as *rabbul maal* (fund owners). Investment profits are divided between the company and participants according to the agreement. While in *wakalah*, the company acts as an agent who manages participant funds and receives a fee as a reward for services.

#### 4.2.3. Digital Technology

The takaful industry has undergone a significant transformation towards its current modern state, which is heavily influenced by the emergence of financial technology (FinTech). The shift to modern takaful began with the integration of digital platforms and technologies. FinTech innovations such as online portals, mobile applications and electronic payment systems have made takaful services more accessible and efficient (Abdullah et al., 2018). Takaful insurance operators have embraced digital disruption by adopting innovative strategies to stay competitive. Collaboration with technology companies and development of digital marketing strategies have expanded market reach and increased customer engagement (Wati & Manaf, 2019). In fact, to expand reach and improve service delivery, takaful operators partner with major technology companies such as Google, Facebook, Apple and Amazon (Hemed et al., 2021).

Takaful products are increasingly being offered online, making it easier for customers to access and purchase these products. This shift to digital platforms is driven by the need to remain competitive in the rapidly evolving insurance market. Takaful Companies in Malaysia are using social media marketing to reach a wider audience and increase customer engagement. Their collaboration with software companies like Fusionex has resulted in a significant increase in sales through digital platforms (Wati & Manaf, 2019). Currently, many studies are assessing the potential of blockchain technology to be implemented in the takaful industry.

Blockchain technology is used to ensure transparency, security and integrity of takaful transactions. This decentralized architecture is in line with the principles of mutual guarantee and cooperation inherent in takaful. Blockchain enables decentralized and tamper-proof record-keeping, enhancing trust among participants and ensuring compliance with *Shariah* principles (Abdeen et al., 2019).

The discussion on innovation in the takaful industry explains how innovation in the takaful industry, such as product innovation, business model development, and digitalization, has developed based on existing research trends. Innovation development can increase the attractiveness and competitiveness of takaful services, create products that are more in line with consumer needs, and utilize technology to improve operational efficiency and customer service. In addition, these findings provide an overview of the changes and challenges faced by the takaful industry in responding to technological developments and market needs. These findings can also be a reference for further research. For example, in terms of business models, in general, takaful only explains in general about the *tabarru'* and *tijarri* models, so that it can be explored further by conducting research by examining more inclusive business models, for example through a collaborative approach with non-traditional partners or using a community-based approach.

## 5. Conclusion

This study was conducted to explore the development of takaful research and what innovations had accompanied it, from 1937 to 2023. 449 documents used in this study show that research with the theme of takaful has increased every year. From the results of the research trend analysis, it is known that the writer who often examines this theme is Salman Syed Ahmed and the Journal of Islamic Accounting and Business Research as the most banayk journal publish articles about takaful. The keywords used in this study are takaful, Islamic insurance, *Shariah* insurance and cooperative insurance. Some innovations that occur along with the evolution of the takaful industry include the development of products that are tailored to the increasingly complex problems, business models according to the needs and development of the field of technology to increase the efficiency and operation of the takaful industry.

As a limitation of this study, literature in the form of books and other significant publications outside of Scopus has not been included. This may affect the results and scope of the research, as books often provide in-depth discussions on the concept of takaful. The author identifies this as a methodological limitation that should be noted in future studies.

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# Exploring The Factors Influencing Customers' Intention to Adopt Online Takaful in Tunisia

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## Abstract

The purpose of this paper is to identify the main factors, which influence the Tunisian customers to adopt online Islamic insurance (Takaful) characterized by infrequent interactions, inherent complexity and risk. It extends the technology acceptance model to include subjective norms and trusting attitude. A total of 350 questionnaires were randomly distributed to Tunisian Takaful customers and 102 were returned (29.2 percent response rate). Multiple linear regression analysis was used to test the framework. The research findings indicate that perceived risk has a significant and negative impact on intention to use the online Takaful services. However, perceived usefulness and subjective norms positively and significantly influence the intention to use the online service. The study provides insights for Takaful management to develop and enhance more online services with a view to expand their offerings and develop innovative products. This research represents an initial effort to examine the behavior of Tunisian citizens regarding their intention to adopt online Takaful insurance focusing on factors discussed above. The study provides valuable insights and acknowledges that further research surrounding the need for online Takaful services needs to be explored in further studies.

*Keywords:* Takaful, Perceived Risk Theory (PRT), TAM, online Islamic insurance, intention

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## 1. Introduction

Information technology has evolved at a pace never seen before in the previous few decades, impacting and changing human behavior as we know it. This evolution has an impact on all industrial sectors, but particularly on the services industry. The insurance sector has experienced tremendous technical advancement and change in recent years.

The Takaful insurance market is impacted by technology, for instance in the ways that consumers and insurance companies interact and provide services (Ismail et al., 2022). To date, the insurance effect of Artificial Intelligence (AI) has been low. The adoption of AI in insurance nevertheless gains momentum and has proven to be a major catalyst to enhance insurers' competitive services (Hall et al., 2017). Movement to electronic channels not only provides a technical solution but also includes social aspects relating to both staff and clients. If clients are to change their behavior, the new service model must first be accepted (Rayport & Sviokla, 1994). To date, insurance companies have invested in call centers, but little was done to design new channels for standardization and simple assurance. The attitudes of clients towards new channels must also be made more positive. We note that insurance networks are still in their infancy, while banks and their business customers are now mature (Ahonen & Järvinen, 2004). In the latest report, though about half of consumers have been using the internet to request a contract, only 25% of them buy the policy through the insurer website, 50% close their offer directly by talking to an agent, and 22% move through an online service. The truth is that most insurance providers don't have a real value online (Murray, 2017).

Most of the research conducted on Takaful during past decade were carried out in Malaysia (Aris et al.,

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2009; Amin, 2011; Ayinde & Echchabi, 2012; Arifin et al., 2013; Kamil & Nor 2014; Aziz et al., 2015; Zakaria et al., 2016). In addition to this, only a limited amount of research has been conducted in Africa, particularly in Tunisia (Echchabi et al., 2014; Gafsi & Ziadi 2018).

The Tunisian insurance market is made up of 22 resident companies and 6 offshore companies. The resident companies consist of 20 operate under the status of public limited company (which are further categorized as 3 Islamic companies and 17 conventional companies). The remaining 2 companies are incorporated as mutual companies.

The growth rate of conventional insurance companies is very low compared to Islamic Takaful insurance companies (Al-Amri & Hossain, 2017). The turnover growth rate of Islamic insurance companies in 2021 ranged between 17.2% and 30.1% whereas conventional insurance companies experienced a wider range, with rates varying from a negative rate of -0.9% and a positive rate of 26.6% which is based on General Insurance Committee Annual Report 2021.

In terms of training, Tunisia plays an appreciable role in the Maghreb and even in Africa, through the African Insurance Institute (A.I.I) founded in 1966, which has been used by more than 23 African countries. The Institute for Financing the Development of the Arab Maghreb (IFID), created by the Tuniso-Algerian Convention of September 3, 1981, specializing in the training of senior executives in the insurance and banking sectors, and the Technical Centre for Insurance Training (C.T.F.A), founded in 1999 on the initiative of the Tunisian Federation of Insurance Companies (F.TU.SA).

Although information technologies and service provider offerings have advanced, not all customers prefer making purchases online. According to Shankar et al. (2003), a variety of issues led to customers' reluctance and outright refusal to shop online. They discovered that consumers' reluctance to engage in online buying was influenced by a few factors, including perceived lack of human interaction, technological failure, privacy and financial security concerns, and unfamiliar service encounters.

The purpose of this paper is to identify the main factors, which influence the Tunisian customers to adopt online Islamic insurance (takaful) characterized by infrequent interactions, inherent complexity and risk. It extends the technology acceptance model to include Subjective norm and trusting attitude.

This paper is organized into five parts. Part 2 provides literature reviews and hypotheses of the study. Part 3 describes the methodology used, while Part 4 discusses the results of the empirical study and the final part offers the Conclusion, limitations and future research.

## 2. Literature Review and Hypotheses Development

The current research aimed to identify the key factors influencing customers' intention to adopt online Takaful. The literature review focuses on exploring studies specifically related to consumer behavior.

There has been growing recognition of decision-making need to identify the main factors, which influence the Tunisian customers to adopt online Takaful. The subsequent sections outline the arguments that form the basis for developing the study's hypotheses.

### 2.1 Theoretical background

The theoretical framework of this research work is based on a set of theories to explain the determinants of intention to use online Takaful. In this sense, the theories used are three: the theory of TAM (technology acceptance model), the theory of Perceived Risk and the theory of Reasoned Action (TRA).

#### i. The theory of technology acceptance model (TAM)

TAM has its roots in the theory of reasoned action (Ajzen & Fishbein, 1980) based on social psychological principles and seeks to explain behaviour rooted in the adoption of information technology infrastructure in the workplace. TAM adopts the informal relationship between attitude, belief, intention and behavior. It assumes that actual system usage is driven by the behavioral intention to use a new technology. Likewise, individual attitude towards using a new technology determines the behavioral intention to use a new technology.

#### ii. The theory of perceived risk

Bauer (1960) first proposed that consumer behavior should be perceived as risk-taking. Useful empirical research has attempted to identify various types of perceived risk in the context of consumer purchasing behavior. Since the early 1960s, marketing and consumer behavior researchers have continued to be interested in Perceived Risk. Perceived Risk theory plays a role in making it easier for

the world's marketers to get started. The theory has intuitive appeal and can be applied almost universally. It is suggested that Perceived Risk is ideal in explaining consumer behavior since consumers' motivations when purchasing is more often about avoiding errors that maximize the utility of the purchase. Risk analysis can be used in branding development, targeting, positioning and segmentation.

iii. The theory of reasoned action (TRA).

According to the TRA, a person's intention is a function of two fundamental causes, one is personal and the other reflects social influence. The personal factor is the positive or negative evaluation of behavior. This factor is called attitude toward behavior (Ajzen & Fishbein, 1980). The second factor of intention is the person's perception of the social pressure exerted on them to adopt or not adopt the behavior in question. Since it deals with perceived prescriptions, this factor is called subjective norm (Ajzen & Fishbein, 1980). According to the theory, attitude is a function of beliefs; a person who believes that engaging in a given behavior will lead to generally positive outcomes will adopt a favorable attitude toward the behavior, whereas a person who believes that the behavior will lead to primarily negative outcomes will adopt an unfavorable attitude. The beliefs that underline a person's attitude towards this behavior are called behavioral beliefs (i.e. consuming or purchasing halal or non-halal products). Subjective norms are also a function of beliefs that specify individuals or groups to think whether they should perform the behavior. These beliefs that underline a person's subjective norm are called normative beliefs. A person who believes that most of the referents with whom he is motivated to conform think he should perform the behavior will receive social pressure to do so. The theory of reasoned action is a widely used model of expectancy and value that relies on the outcomes of attitude, subjective norms, and the intention to perform a specific behavior (Fishbein & Ajzen, 1975).

## 2.2. Hypothesis development

### 2.2.1. The effect of perceived usefulness on the intention to use Online Takaful Services

i. Perceived Usefulness

The significance of perceived usefulness derives from the Technology Acceptance Model (TAM) (Davis, 1989) where perceived usefulness affects attitude and behavioural intentions both directly and indirectly (Igbaria et al., 1994).

According to social psychology theories, such as the Theory of Reasoned Action (Ajzen & Fishbein, 1980); Fishbein and Ajzen, 1975) and the Theory of Planned Behavior (TPB) (Ajzen, 1985), the Technology Acceptance Model (TAM) has been validated as a powerful and parsimonious framework perceived usefulness is a fundamental variable in explaining consumers' intention to use online services (Davis, 1989). According to Davis (1993) perceived usefulness was defined as the degree to which an individual believes that using a particular technology would enhance his job performance in one organizational context. Davis (1989), think that there is strong direct relation between usefulness and intention to use. This explains why consumers intend to use technology is due to ease and benefit. Perceived usefulness has a positive effect on behavioral intention to use insurance claims (Cham et al., 2018; Gebert-Persson et al., 2019; Yet Mee et al., 2019; Pavlou, 2003; Sun et al.,2022; Jiang et al.,2019; Park et al.,2021). This discussion leads to the following hypothesis:

*H1: Perceived Usefulness Positively affect intention to use the online Takaful.*

### 2.2.2. The effect of perceived risk on the intention to use Online Takaful Services

i. Perceived risk

Perceived risk according to Snyder (1986) refers to “an expected negative utility that consumers associated with purchasing a particular product or service.” It has always been an important content for academic research (Zhang & Yu, 2020).

Consumers' perception of network risk is associated with their sense of risk for specific apps. In addition, it represents the customer's anxiety about possible profits or losses in a particular deal (Murray, 2017). Word-of-mouth, prior experiences, and advertisements help consumers set expectations for the services they will receive. Service quality is used to compare and assess perceived versus expected services. Furthermore, customer attitudes significantly influence perceived utility,

perceived ease of use, and perceived risk—all of which are related to the intention to use online group purchasing (OGB) sites—according to a quantitative study that used the technology acceptance model (TAM).

The perceived risks will be described in respect of the perception of the consumer that the product or service is uncertain with possible adverse consequences (Bauer, 1960).

Bauer (1960) is the father of the Perceived Risk Theory (PRT) explaining that perceived risk was a cause of consumer behavior and in turn when applied to online services, it could be the main factor negatively affecting consumer intent to adopt online services.

Rational action theory predicts that if their perceived risks are small, consumers are then willing to act (Ajzen, 1985).

Also, buyers are aware of the risk if they face uncertainty and potentially unwanted effects from a purchase made (Taylor, 1974). The perceived risk has a significant negative effect on an individual's intention towards the use of certain technological products or services (Lee, 2009; Huei et al., 2018; Juniwati, 2014; Kim et al., 2008; Sun et al., 2022). Thus, the following hypothesis is proposed:

*H2: perceived risk negatively affect intention to use the online Takaful*

### 2.2.3. The effect of trust attitude on intention to use online Takaful services

#### i. Trusting attitudes

Many researchers have explored the concept of trust from varying perspectives based on their respective disciplines. In the field of e-commerce research, for instance, some scholars have identified contradictions and confusion (Taylor, 1995). Others have noted its complexity in its definition, whilst some have opted to avoid defining altogether.

The decision to position trust as an attitude versus a behavioral intention, however, clearly depends on its definition and operationalization. Trust scales that focus on the user's effective or evaluative predisposition toward the referent are more consistent with an attitudinal conceptualization. In contrast, questions concerning the user's willingness to do something specifically reflect the conceptualization of trust as a behavioral intention (Fuller, 2009). Suggested that trust in e-commerce has a positive impact on people's intention (Gefen et al., 2003, Gidhagen & Persson 2011; Fuller, 2009; Gennaioli et al., 2022; Liu et al., 2022; Sun et al., 2022; Pavlou, 2003). It also shows that online trust is positively correlated with consumers' intention to engage in electronic commerce. Therefore, the following hypothesis is proposed:

*H3: Trusting attitudes positively affect intention to use the online Takaful*

### 2.2.4. The effect of Subjective norms on intention to use online Takaful services

#### i. Subjective norms

Subjective norms are the expectations of influential individuals or groups that a specific behavior will be accepted and encouraged. Subjective norms are shaped by an individual's incentive to conform to the opinions of others and their perception of social pressure from others to behave in a particular way. The impact of arbitrary standards on the formation of Subjective norms are the expectations of influential individuals or groups that a specific behavior will be accepted and encouraged. Subjective norms are shaped by an individual's incentive to conform to the opinions of others and their perception of social pressure from others to behave in a particular way.

Subjective norm is a fundamental construct of the theory of reasoned action (Fishbein and Ajzen, 1975). It is a function of a person's belief that specific referent individuals or groups approve of the behavior, and therefore the person is motivated to conform to these referents. In other words, if a person perceives pressure from family, friends, or a spouse, they are likely to act in accordance with the expected behavior.

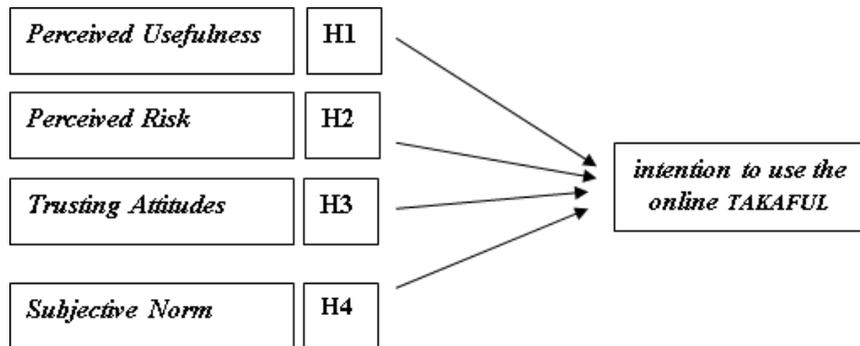
Subjective norm is shaped by social networks and institutions such as school, workplace and family. The construct, commonly used to evaluate social influence, has proved to be valuable in predicting behaviors (Finlay et al., 1997).

Venkatesh and Davis (2000), proposed to include additional variables and to modify their original relationships an extended model called TAM. These variables included: Subjective norms influence others on the user's decision to use or not use the technology. In the technology domain, influences

from both peer and superior are strong determinants of subjective norms (Taylor, 1995). Subjective norm through word of mouth has a significant impact on consumers purchase decision (Yet Mee et al., 2019; Jiang et al.,2019). Subjective norm influences the decision-making process because it eliminates ambiguity and gives individuals the possibility of having knowledge and social norms (Lu, Yao, & Yu, 2005). Thus, the following hypothesis is proposed:

**H4: Subjective norm Positively affect intention to use the online Takaful.**

Figure 1: The conceptual research model.



### 3. Research Methodology

In what follows, we will describe the sample, the tools and procedures applied for data collection, and the empirical model.

#### 3.1 Questionnaire design

The questionnaire developed had two parts. The first part of the questionnaire had questions on demographic details of the potential respondents including gender, age group, education level, occupations level. The respondents had an Internet connection and Internet connection at home, respondents answered that they have utilized online Islamic insurance (takaful). The second part of the questionnaire had 22 statements covering the independent and dependent variables of the study. Each statement was presented as a five-point Likert scaled-response question with 1 being “strongly disagree” to 5 “strongly agree”.

#### 3.2 Sample and data collection

The questionnaire brings together scales assessing, intention to use online Islamic insurance claims, Perceived usefulness, perceived risk, online trust and Subjective norm. The intercept survey method was chosen. A total of 350 customers in Tunisia were invited to take part. Before leaving the physical office of an insurance company, customers had to be asked about their perception and opinion of E-insurance. There have been 102 responses in total. The response rate was 29.2 %, which compares to the 30.6 percent average of recent research surveys found (Goyal et al., 2013). The hypothesized relationships were examined by self-administered study.

#### 3.3 Measurement of variables

All variables in our research were measured by instruments already validated by previous literature.

##### 3.3.1. Measurement of the dependent variable

- i. Intention to use online Takaful services

To measure customers' intention to use online Islamic insurance services, adopting the scale developed by Venkatesh & Davis (2000). This selection is based on its validity and internal reliability which have been demonstrated in prior empirical research.

### 3.3.2. Measurement of independent variables

The independent variables of the study are attitude of trust, perceived usefulness, perceived risk and subjective norms.

- i. **The trusting attitude**  
Concerning the trusting attitude, we used the measurement instrument developed by [Doney & Cannon \(1997\)](#). This measure was used by [Koufaris & Hampton-Sosa \(2002\)](#).
- ii. **Perceived usefulness**  
To measure perceived usefulness, we used the instrument developed by [Davis \(1989\)](#). According to this author, perceived usefulness was defined as the degree to which a person believes that the use of a particular technology would improve their work performance in each organizational context. This measure was used by [Pavlou \(2003\)](#).
- iii. **Perceived risk**  
Perceived risk is measured by the instrument developed by [Stone & Gronhaug \(1993\)](#), which presents a combination of uncertainty, severity of outcome and loss expectations associated with the purchase. This measure is used by [Belanche et al. \(2012\)](#).
- iv. **Subjective norms**  
The “subjective norms” variable is measured by the instrument developed by [Ajzen and Fishbein \(1980\)](#). This measure is used by [Bhatti & Md Husin \(2019\)](#).

Table 1 summarizes all the variables used for this research, the items which measure each of the variables and the corresponding bibliographic references.

Table 1: Summary of the attributes retained for the operationalization of the variables

Research variables	Code	Items	Measure developed by	Measurement used by
Intention to use online services	IN	IN1, IN 2, IN 3, IN 4, IN 5	<a href="#">Venkatesh &amp; Davis (2000)</a>	<a href="#">Paul A. Pavlou (2003)</a>
Trusting attitude	TA	TA 1, TA 2, TA 3, TA 4, TA 5, TA 6	<a href="#">Doney &amp; Cannon (1997)</a>	<a href="#">Marios Koufaris &amp; William Hampton-Sosa (2002)</a>
Perceived Risk	PR	PR1, PR2, PR3	<a href="#">Stone &amp; Gronhaug (1993)</a>	<a href="#">Daniel Belanche et al. (2012)</a>
Perceived Usefulness	PU	PU1, PU2, PU3, PU4	<a href="#">Davis (1989)</a>	<a href="#">Paul A. Pavlou (2003)</a>
Subjective Norms	SN	SN1, SN 2, SN 3, SN 4	<a href="#">Ajzen &amp; Fishbein (1980)</a>	<a href="#">Tariq Bhatti &amp; Maizaitulaidawati Md Husin (2019)</a>

### 3.4 Regression model

The methodology used in our empirical analysis is the multiple linear regression method, processed by the SPSS 20 software.

The multiple regression equation is given below:

$$IN = \beta_0 + \beta_1 PU + \beta_2 PR + \beta_3 TA + \beta_4 SN + \varepsilon$$

IN: Intention to use  
PU: Perceived Usefulness  
PR: Perceived Risk  
TA: Trusting Attitude  
SN: Subjective Norms

## 4. Data Analysis and Results

This section deals with the presentation of survey findings, data analysis reports and discussion of the findings. The first step is to provide the respondents with a demographic profile and technical profile. It is followed by the reporting of reliability test and validity test findings of the questionnaire. Then the multiple diagnosis of regression and the findings of the regression analysis are discussed.

#### 4.1 Profile of respondents

A total of 102 respondents completed the survey as outlined in Table 2. 42.2% are female and 57.8% are male. Most of the respondents were aged 25-44 years (67.7%). 80.4% of the respondents are highly educated possessed a university level. The most cited occupations were high-level managers (14.7%), intermediate level managers (14.7%), intellectual occupations (22.5%), independents (17.6%), worker (10.8%), and student (19.6%).

Table 2: Demographics/e- Islamic insurance use

<b>Characteristics of respondents</b>	<b>%</b>
<b><u>Gender</u></b>	
Female	42.2
Male	57.8
<b><u>Age</u></b>	
-19–24	10.8
-25–29	16.7
-30–34	11.8
-35–39	19.6
-40–44	19.6
-45–49	9.8
->50	11.8
<b><u>Education level</u></b>	
-Primary school	2
-High school	17.6
-Undergraduate	33
-Graduate	34.3
-Master	5.9
-PhD	6.9
<b><u>Occupation</u></b>	
-High-level managers	14.7
-Intermediate level managers	14.7
-Intellectual occupations Independents	22.5
-Worker	17.6
-Student	10.8
-Other	19.6

#### 4.2 Reliability test

On all the structures, the computation Cronbach was carried out. Cronbach's  $\alpha$ -values, as proposed by Cavana et al. (2001), were far higher for all structures than 0.7. The results are shown in Table 3.  $\alpha$ -values show the internal coherence of the scales for the structures used for analysis to verify the reliability of the scales used.

#### 4.3 Validity test

The main component analysis has been used for building validity measurement (Cavana et al, 2001). The main parameter analysis was used. The survey data were subject to two tests prior to performing the main component analysis. The statistical test for Bartlett test of sphericity was significant ( $p= 0.000$ ;  $Ddl = 231$ ). The value of Kaiser-Meyer Olkin (KMO) was 0.789 and in the acceptable range of 0.5 and 1.0. Both these tests show that principal component analysis was appropriate for the data collected from the survey. Table 3 provides descriptions of the main component of the study. The performance of the SPSS shows that Eigen values are above 1.0 for all constructs, ranging from 3,974 maximum for "trusting attitude" to 2,448 minimum for "perceived risk". Factor loadings greater than 0.50 assess the convergent validity.

Table 3: Confirmatory factor analysis results for Measurement model

Factor's name	Items	Factor loading	Eigen-value	Percentage of variance explained	Cronbach's reliability coefficients
<b>Intention to use</b>	ITU1	0.895	3.508	70.169	0.890
	ITU2	0.581			
	ITU3	0.910			
	ITU4	0.911			
	ITU5	0.844			
<b>Perceived usefulness</b>	PU1	0.879	2.640	65.999	0.816
	PU2	0.902			
	PU3	0.615			
	PU4	0.822			
<b>Perceived risk</b>	PR1	0.906	2.448	81.586	0.887
	PR2	0.909			
	PR3	0.894			
<b>trusting attitude</b>	TA1	0.797	3.974	66.240	0.896
	TA2	0.856			
	TA3	0.890			
	TA4	0.766			
	TA5	0.735			
	TR6	0.828			
<b>Subjective norm</b>	SN1	0.909	3.132	78.311	0.906
	SN2	0.913			
	SN3	0.804			
	SN4	0.909			

Notes: KMO measure of sampling adequacy = 0.789;  $p = 0.000$  ( $p < 0.05$ ); Ddl= 231

#### 4.4 Regression diagnostics

Before the regression analysis is carried out, the six premises of regression analysis must be discussed accordingly. Field (2005) describes the assumptions as follows: (1) normality; (2) linearity; (3) independence of error term; (4) absence of multicollinearity; (5) absence of heteroscedasticity; and (6) absence of outlier and influential observations. The residual distribution was symmetrical and unimodal, which was the normality assumption when the histogram was drawn. No heteroscedasticity was observed and when the dispersed graph was formed, the distribution was linear in nature. The value of Durbin-Watson was 1.537 which was relatively nearer to 2, showing the independence of error term. There was no multicollinearity in the data, as the tolerance statistics were all above 0.2 and VIF values below 5.

### 5. Regression Results and Discussions

Multiple linear regression was conducted to determine the structure of the relationship between the independent variables namely trust, perceived usefulness, perceived risk, norm subjective on the dependent variable that is intention to use online Takaful services. The results are given in Table 4.

Table 4: Multiple linear regression results

	Coefficient	Standard error	t-value	p-value
<b>(Constant)</b>	9.541E-17	0.084	0.000	1.000
<b>Perceived Usefulness</b>	0.288***	0.105	2.751	0.007
<b>Perceived Risk</b>	-0.223*	0.085	-2.629	0.010
<b>Trusting Attitude</b>	0.144	0.099	1.458	0.148
<b>Subjective Norms</b>	0,240***	0.091	2.646	0.010

---

 $R^2 : 0.304$ 


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 $\text{Adjusted } R^2 : 0.272 ; F = 10, 578 ; p < 0.000 >$ 


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Notes: Dependent variable –intention to use; independent variables –Perceived Usefulness, Perceived Risk, Trusting Attitude, Subjective Norms;

\*, \*\*, and \*\*\*: significant at the level of 10, 5, and 1%, respectively

**i. Perceived usefulness**

As presented in Table 4, the results showed that the coefficient  $b_1$  was positive and significant ( $t$ -value= 2.751,  $p < 0.007$ ), providing support for hypothesis H1, which states that *Perceived Usefulness Positively affect intention to use the online Takaful*.

This finding is consistent from the existing literature by Gebert-Persson et al. (2019) and Davis (1989) which states that “perceived usefulness” will positively affect the “intention to use online insurance claims”. In the present research, perceived usefulness concerns whether the Tunisian customers perceive the online application as having a positive effect on task performance, which in this case is completing an insurance service. The digital transformation of the insurance industry also allows consumers to follow the process of managing consumer services through the insurance provider. Such a transition would also have straightforward claim processes and open more customer engagement. Usefulness has been perceived as a motive for making a service online rather than directly or telephonically. Typical accounts have verified that the online assertion is quicker than telephone and the request is available online 24 hours a day.

**ii. Perceived risk**

As presented in Table 4, the results showed that the coefficient  $b_2$  was negative and significant ( $t$ -value=- 2.629,  $p < 0.01$ ), providing support for hypothesis H2, which states that *Perceived Risk negatively affect intention to use the online Takaful*.

This finding is consistent from the existing literature by (Bauer, 1960; Taylor, 1974; Pavlou, 2003). Risk has been recognized as the primary barrier to online transactions. Higher perceived online risk is often caused by being unable fully to monitor the seller’s behavior and/or concerns regarding the security of online services.

**iii. Trusting attitude**

The regression results point out that trust attitude has no impact on intention to use as the  $p$ -value of 0.148. Hence, H3 is rejected. This is contrary to the findings from the previous studies. Theoretically, the results support research maintaining that TAM explains behavioral intention to use technologies (Davis, 1989), whereas the trusting attitude does not seem to be as important for less frequently used services, such as Islamic insurance. However, so long as the customer has a base level of trust in the insurance company, then emphasis shifts to perceived usefulness, perceived risk and the norm subjective to technology.

**iv. Subjective norms**

As presented in Table 4, the results showed that the coefficient  $b_4$  was positive and significant ( $t$ -value= 2.646,  $p < 0.010$ ), providing support for hypothesis H4, which states that *Subjective Norms Positively affect intention to use the online Takaful*.

This finding is consistent from the existing literature by (Venkatesh & Davis, 2000; Cham et al., 2018; Martin & Frank 2010; Choi & Geistfeld, 2004; Lee & Wan, 2010). These authors explain Subjective norms had a consistent effect on intention, irrespective whether travelers were familiar with online services. In the absence of new technology encounters, prospective adopters appear to evaluate the views of others who trust in their intentions of adoption (Lee, 2010).

## 6. Conclusion, Limitations and Future Research

The main objective of the study was to identify the main factors, which influence the Tunisian customers to adopt online Takaful services characterized by infrequent interactions, inherent complexity and risk. It extends the technology acceptance model to include Subjective norm and trusting attitude. The results showed that Perceived usefulness and subjective norm have a significant impact on the Tunisian customers’ intention to adopt online Takaful services. On the other hand, the results have also shown that the Tunisian customers are strongly willing to shift to adopt online Takaful services. However, perceived Risk has been recognized as the

primary barrier to online transactions.

The research results have implications for the development of internet insurance systems and internet insurance services marketing. If online Takaful services are regarded as helpful, the customer will adopt it.

To encourage customers to perceive online Takaful services as useful, it is essential to shape their expectations regarding the utility, ease of use, and the safety and privacy of these services. As online Takaful is a relatively new concept in Tunisia, insurance companies should leverage media ads such as radio, TV, brochures and website to offer internet services to inform and reach a broader public. Additionally, awareness programs should be initiated to highlight the time saving, accessibility and availability of information at any time. The main objective of these campaigns should be to educate customers on the relative advantages of the program, including how to manage and protect their privacy (Cyril et al., 2011). Insurance company can tailor the information to meet customer needs, potentially leading to a higher level of engagement with internet-based insurance services, moving beyond just information search (Gidhagen & Persson, 2011).

While this paper provides valuable theoretical insights and deepens the understanding of consumer behavior regarding the adoption of online Islamic insurance, there are several limitations. First, the sample size in this study is relatively small, which may affect the generalization of the findings. Future research could aim to expand the sample size or include participants from additional countries to strengthen the validity of the results. Additionally, this study examines Takaful in a broad sense, encompassing all services, however, consumer behaviors may vary depending on the specific nature of each services. Future studies could categorize different types of online Takaful services and explore consumer behavior for each service individually, allowing for meaningful comparisons. Finally, while this study focuses on online Takaful, exploring consumer behavior in other contexts, such as in Islamic banking services, presents an interesting avenue for future research. So future research could consider different settings in other industries which have various benefits, risk levels and decision-making.

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# Unfair Contract Terms in Malaysian Islamic Banks: Empowering Bank Consumers by Islamic Financial Literacy via Selected Ethical Framework

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## Abstract

For too long, Malaysian bank consumers have been at the losing end due to unfair contract terms that are disproportionately biased favoring the Islamic banks and they have no alternative but to accept those detrimental terms or risk having their financing application be rejected. However, bank consumers seldom read the standard form contracts that Islamic banks offer before signing them. This paper aims to explore the role of Islamic financial literacy in educating bank consumers to avoid unfair contract terms in Islamic banking contracts. Adopting the qualitative method through content and comparative analysis methodology, this study provides an exploratory analysis on selected ethical literacy framework based on *Maqasid al-Shariah* to help integrate literacy to bank consumers which include Islamic education ethics, *Maqasidic* leadership model, Multidimensional model and Madani ethical framework introduced by the 10<sup>th</sup> Prime Minister of Malaysia, Anwar Ibrahim. Findings of this study conclude that the no reading problem of the standard form banking contracts by bank consumers could be improved by adopting *Maqasidic* Islamic financial literacy ethics. These *Maqasidic* Islamic literacy ethics empower bank consumers to apply their duty to read and be responsible to report unfair contract terms to Bank Negara Malaysia. This study suggests Islamic Banks to practice sustainable consumer banking by drafting fair contracts and strike out detrimental contract terms since responsible treatment to bank consumers ensure and generate banking growth. This study is important to government policy since sustainable and ethical banking practices on bank consumers help generate growth in the Islamic banking sector in Malaysia.

*Keywords: Islamic financial literacy, empowering bank-consumer, Maqasid al-Shariah, sustainability of Islamic banks.*

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## 1. Introduction

Standard form banking contracts allow Islamic banks to one-sidedly prepare a template set of contract terms in relation to the supply of banking goods and services without prior bargaining with bank consumers. The terms and conditions of standard banking contracts explain the nature and extent of the relationship between bank consumers and Islamic banks. These legal documents also explain the intended use of the banking services or products provided by the banks. For too long, Malaysian bank consumers face unfair contract terms heavily favoring Islamic banks, leaving them with no choice but to accept these terms or risk rejection of their financing applications.

Through the years, Bank Negara Malaysia (BNM) as the financial regulator has monitored unfair contract terms in standard consumer contracts of Malaysian banks. Table 1 below shows the existence of unfair terms during BNM's Consumer and Market Conduct Department (CMCD) thematic review from 2016 to 2019.

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Table 1: Thematic reviews conducted by CMCD BNM

Year of Publication CMCD Report	Poor practices by Financial Service Providers (FSPs)	Supervisory and Enforcement actions taken by BNM CMCD
23 March 2016	Unfair terms and conditions	Two FSPs were required to revise contract terms that were deemed unfair or detrimental to bank consumers' interest
23 March 2017	Unfair terms and conditions	Banking institutions were required to revise the contract terms
28 March 2018	Imposition of exorbitant fees and charges on customers	3 FSPs were ordered to cease excessive fees and charges
27 March 2019	Some clauses in the financing contracts were found to be "disproportionately skewed in favour of the banking institutions" and detrimental to bank consumers	Banking institutions were ordered to revise their unfair terms and improve clarity by using plain language for both new and existing financing contracts by the end of 2019.

Source: [BNM \(2016-2019\)](#)

Overall, bank consumers seldom read the standard form contracts that Islamic banks offer before signing them. There are many factors that contribute to "no read problem" which include: (1) lengthy contract, unclear terms, full of legal jargons, are notoriously complex to understand such that bank consumers are unable to make informed decisions ([Karanicolas, 2021](#)); and (2) the substantive content imposes undue burden on bank consumers especially when bank consumers are required to indemnify the liability of Islamic banks for breach of contract.

Studies showed that Malaysian's financial literacy standing is low, for example in the 2018 Financial Capability and Inclusion Demand Side Survey by Bank Negara Malaysia (which covers 26 countries, of which 12 are Organisation for Economic Co-operation and Development (OECD) members) revealed that the current level of Malaysian's financial literacy need to be improved ([BNM, 2018](#)).

It is important to make an effort to read and understand these banking agreements, as they can have significant implications on the rights and responsibilities of bank consumers in having: (1) a fair, consistent, effective enforcement of financial consumer protection laws; (2) equip bank consumers with skills, knowledge, information and confidence to exercise their rights; and (3) provide bank consumers access to advice and redress ([The ASEAN Secretariat, 2024](#)).

This paper aims to explore the role of Islamic financial literacy (IFL) in educating bank consumers to avoid unfair contract terms in Islamic banking contracts. As a proactive action, bank consumers need to be financially literate which enable them to take measures to address the risks associated with unfair contract terms in standard form Islamic banking contracts. A higher standard of bank consumer financial knowledge is integral to a more competitive and dynamic Malaysia that benefits bank consumers and generates sustainability for the Islamic banking sector.

This study is structured as follows: Section 1 is an introduction and background to the study. Section 2 provides the theoretical context for the exploratory test of the study. It presents the literature review of various Islamic financial literacy (IFL) frameworks which include Islamic education ethics, *Maqasidic* leadership models, multidimensional ethics and Madani ethical framework introduced by the 10<sup>th</sup> Prime Minister of Malaysia, Anwar Ibrahim. Thereafter, it briefly presents the definition of IFL, *Maqasid al-Shariah*, and the regulatory framework to control unfair contract terms and no read problem while encouraging IFL. Section 3 describes the research methodology of the study. In addition, Section 4 analyses the findings of the study and proposed the way forward of a new IFL on consumer contract readability. Finally, Section 5 concludes the study with recommendations that Bank Negara Malaysia (BNM) and Islamic banks should be mindful that the majority of bank consumers accept standard form banking contracts without proper scrutiny. Ultimately, such information asymmetries and imbalance of bargaining power adversely impact not only bank consumers, but may also lead to market failures due to lack of competition and innovation. BNM as the financial consumer

regulator therefore plays an important role in monitoring banking practices and keeping unfair contract terms at bay. This study is important to government policy since fair treatment and ethical banking practices to bank consumers help generate growth in the Islamic banking sector in Malaysia.

## 2. Literature Review

This section analyses the general concept of the no-read problem of standard form consumer contract, Islamic Financial literacy (IFL), Bank Negara Malaysia's revised Policy Document on Fair Treatment of Financial Consumers, and the four selected IFL frameworks with emphasis on the central role of ethics in integrating banking literacy to bank consumers to empower them to read the banking contracts before signing them and subsequently to report unfair terms to BNM.

### 2.1. No-read Problem of Standard Form Consumer Contract

It is common for bank consumers to consent and sign the banking contract even if they seldom understood, pay attention to the contract terms or read the standard form contracts that Islamic banks offer (Bakar et al., 2019). These consumer contracts are also known as “fine print or boilerplate contracts, take-it or leave-it contracts and contracts of adhesion”, are widely used when bank consumers acquire banking services (Nicholls, 2022). These agreements are relied upon for thousands of Islamic banking transactions per year and account for the vast majority of contracts signed by bank consumers (Muneeza et al., 2020).

The prevalence use of standard form consumer contracts in Islamic banks that are unreasonably lengthy and complicated often exacerbate the traditional “no-read” problem by bank consumers. This “unreadiness” of contracts creates opportunities for Islamic bankers as contract drafters to include unfair or unreasonable contract terms (Bakar et al., 2017). When bank consumers do not read the fine-print terms of the banking contracts, the problem of imperfect information about the contract terms can lead to efficiency losses from adverse selection and moral hazard and unfair treatment by the Islamic banks (Bakar et al., 2017). Moreover, for most bank consumers the language of standard form contracts is usually a hidden, non-salient attribute and therefore they cannot properly evaluate them when facing a lack of information (Ayres & Schwartz, 2014).

Bank consumers routinely accept standard form banking contracts which have already been the focal point of one legal battle: *CIMB Bank Berhad v Anthony Lawrence Bourke & Anor [2018] 1 LNS 1887*. In this case, the Federal Court held that “exclusion clauses in a loan agreement that absolved a party from all liabilities to pay compensation or damages for non-performance of contracts were void and unenforceable as it was an agreement in restraint of legal proceedings in breach of section 29 Contracts Act 1950 being contrary to public policy that agreements should be void for uncertainty”. The principles laid down by the Federal Court on particular provision a loan agreement may have wider ramifications on the validity of limitation of liability clauses in Malaysia since it can be equally applied to exclusion clause in other agreement types. In the respective case, the courts will determine whether an exclusion clause in effect operates as an absolute restriction to a party's right to claim damages or otherwise. This means that exclusion clauses in banking contracts are still valid and enforceable if they do not offend section 29 of the Contracts Act 1950. The decision in the CIMB's has cleared any uncertainty in the banking industry to the effectiveness of properly drafted exclusion clauses in banking contracts.

In the light of the CIMB's case, the unfairness clause 12 of the standard form banking contract negates the Plaintiff's rights to a suit for damages, provide the general mechanism on the basis of which unfair treatment on bank consumers might be established. Such exoneration clauses within standard form banking agreements can harm the rights of bank consumers since these contracts are often unclear to read, it is “hundreds of pages long with lengthy and complex terms that even lawyers are unwilling to read” (Choi et al., 2024). It is due to this fact that standard form banking contracts with onerous exclusion clauses that exclude liability absolutely are patently unfair and unjust to bank consumers.

### 2.2. Islamic Financial Literacy (IFL) and Maqasid al-Shariah

Financial literacy refers to the “ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing” (Investopedia Dictionary, n.d.). The concept of bank financial literacy is associated with many concepts, including “financial knowledge, financial ability, financial education, and financial competence such as the use various financial skills, including personal management, budgeting, and investing” (Kevser & Doğan (2021).

From various studies the literal meaning of Islamic financial literacy (IFL) can be defined as the degree of

knowledge, awareness, and skill related to Islamic financial services (Yildiz & Kılıç, 2020) as well as “the ability to understand the concepts of money, debt, savings, expenditure, zakat, and other (Biplob et al., 2022). In other words, the IFL consists of five dimensions namely: (1) knowledge of Islamic finance; (2) Islamic financial communication skills; (3) the ability to use knowledge of Islamic finance for decision making; (4) actual use of Islamic financial instruments; and (5) financial trusts (Ahmad et al., 2022). In a nutshell, Islamic financial literacy refers to both knowledge in the capital market and financial behaviour of individuals shaped by their beliefs and financial skills (Farla et al., 2023).

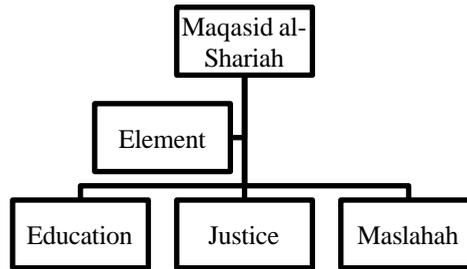
IFL is a prerequisite for bank consumers’ financial well-being. The duty to read doctrine is well-recognised in Al-’Alaq as the first Quranic revelation that came down to Prophet Muhammad which means, “Read! in the name of your Lord, Who has created (all that exists)” (96:1). In this first verse Allah stresses the importance of literacy by commanding the Holy Prophet to read or recite. The literacy value in verse 1 consists of four ethical values namely: “reading, research, writing, and teaching values” (Ahmad et al., 2022).

The principle of *Maqasid al-Shariah* (objectives of Shariah) can be applied to encourage IFL in Islamic banking to achieve bank consumer welfare and sustainable banking industry. For many decades Muslim scholars have developed a universal system of “higher objectives” called “*Maqasid*” which is in line with the Shariah that can be “integrated in the production of legal rulings, fatwas, and good-manners to bestow justice and mercy for the community” (Egypt’s Dar Al-Iftha, 2019). Significantly, *Maqasid al-Shariah* is one of the most important principles of Islamic jurisprudence used by Muslim scholars as a guideline and parameter to promote sustainable human well-being and state development, ensuring the economic, social and political policies conform to Shariah principles (Maidawa & Gokaru, 2024). Application of the *Maqasid al-Shariah* elements in all aspect of human life can promote positive values as propounded by the Islamic teaching (Anggraini et al., 2024). According to Ibn Ashur, *Maqasid al-Shariah* is a term that refers to the “preservation of order, achievement of benefit and prevention of harm or corruption, establishment of equality among people, causing the law to be revered, obeyed and effective as well as enabling the ummah to become powerful, respected and confident” (Wardi et al., 2023).

Abu Zahrah’s (1898-1974) *Maqasid al-Shariah* model is a popular performance system used to evaluate the context of IFL among bank consumers and to increase the reading interest on banking contracts amongst them. This framework categorised *Maqasid al-Shariah* into three dimensions which include: “to educate the individual (*tahdhibal-Fard*); establish justice *iqamah al- ‘Adl* and public interest (*maslahah*)” (Mohammad & Shahwan, 2013). Abu Zahrah places education dimension as the first foundation since it promotes trustworthiness in upholding the Shariah values, and consequently the other two dimensions of *Maqasid al-Shariah* can be realised (Antonio et al., 2020). In this context, education entails expanding one’s knowledge, learning new abilities, and raising consciousness (Bakar et al., 2020). As for the justice element, examples of the respective values include: eradicate unfairness, fair deals, fair dealing of employees, and fair treatment with the community (Mohammad & Shahwan, 2013). The third element of public interest requires consumers contracts to be developed based on Shariah-guided norms, and resources allocation (Sarif et al., 2017).

The three-dimensional components of Abu Zahrah’s *Maqasid al-Shariah* paradigm are depicted in Figure 1. According to Sarif et al. (2017), Abu Zahrah’s classification of *Maqasid al-Shariah* can be viewed from holistic development model and the relationships of God-Man- Universe for the betterment of human development. The *Maqasidic* human development model focuses on the betterment in wealth, health, freedom, security, spirituality, moderate, fair, access to adequate income, healthy life, balanced life, and educated human beings (Sarif et al., 2017). The notion of wellbeing is one of the instruments that may be used to help the community, particularly the business community, to adapt to change. In addition, *maslahah*, education and justice form an understanding on how Shariah spirit is practised. An introduction of new banking product to increase profit for Islamic banks is not good enough unless it is backed and complied by a solid Shariah authority (Bakar et al., 2019). According to Bakar et al., (2019), the Islamic bankers must be flexible and attentive to bring policy formulation to reconcile and facilitate innovation in Islamic banking contracts before reconciliation for a balanced and fair views.

Figure 1: Three dimensions of Abu Zahrah’s Maqasidic IFL model



Source: Suhaim et al. (2017)

Placing education aspect as the basis of *Maqasid al-Shariah* is in accordance with the blueprint of BNM’s Financial Sector Blueprint 2022-2026. For example, strategic Thrust 2 considers the quality of financial well-being of the community to be the first pillar for sustainable development of Islamic banks (BNM, 2022). The Strategic Priority 2 of the National Strategy for Financial Literacy to “Increase access to financial management information, tools and resources” as published by the Financial Education Network (FEN) in 2019 to guide Malaysia’s financial education strategy over the next five years. The FEN was established in November 2016 to increase the level of financial literacy comprising of BNM, the Securities Commission, Ministry of Education, Employees Provident Fund, Malaysian Deposit Insurance Corporation, AKPK and Permodalan Nasional Berhad (BNM, 2022).

### 2.3. Regulatory Framework to control Unfair Contract Terms and the No-read Problem

#### 2.3.1. International Standards to Regulate Unfair Contract Terms

International standards address unfair contract content by promoting fairness, clarity, and balance between contractual parties. These standards are embedded in a mix of binding conventions, guidelines, and national laws that regulate both consumer and business contracts globally. Key principles across these standards are: transparency (contract terms to be clear, understandable, and disclosed in advance); equity (a balance of rights and obligations between parties and prevent exploitation by the stronger party); good faith (both parties should act honestly, without misleading or taking advantage of the other), and consumer protection (consumers to be treated as a vulnerable party, and and specific protections are in place to prevent unfair or imbalanced terms). The key frameworks and guidelines related to regulating unfair contract terms include:

First, the United Nations Convention on Contracts for International Sale of Goods (CISG). The CISG was established in 1980 and set out rules for contracts in international trade, with emphasis on fairness and reasonableness. Although the CISG does not explicitly address “unfair contract terms”, it focuses on contract performance, remedies, and obligations that imply fairness and good faith between contracting parties (Alam, 2021).

Second, the European Union (EU) Consumer Protection Law specifically the “Unfair Contract Terms Directive (93/13/EEC)” aims to protect bank consumers from unfair terms with banks. It outlines a list of criteria to determine whether a terms is unfair which include: transparency (terms must be written in clear and understandable language); significant imbalance (a term must not create a significant imbalance in the contractual rights and obligations that detracts bank consumer); good faith (contract terms must not be in conflict with the good faith principle); and the directive also allows courts to modify or remove unfair terms and provide bank consumers with remedies.

Third, the Organisation for Economic Co-operation and Development (OECD) Guidelines for multinational enterprises promote responsible business conduct and recommends businesses to avoid exploiting their bargaining power in contracts, especially in cross-border transactions (Ingrams, 2023). The guidelines stress the importance of fairness and transparency in business dealings (Ingrams, 2023).

Fourth, the United Nations Commission on International Trade Law (UNCITRAL) has developed several conventions, model laws, and recommendations that indirectly address unfair contract terms. For example, the UNCITRAL Model Law on International Commercial Arbitration promotes fairness in dispute resolution, which includes the equitable enforcement of contract terms (Kristi, 2024). In addition, the UNCITRAL’s Legislative Guide on Secured Transactions and Convention on the Use of Electronic Communications in

International Contract also contain provisions to protect unfair or unbalanced terms in commercial contracts (Kristi, 2024).

Fifth, the National Legal Systems of many countries have adopted domestic laws that provide mechanisms for regulating unfair contract terms. For example, in the Common Law jurisdictions like the United Kingdom and the United States of America the courts use doctrines like unconscionability or public policy to strike down or modify unfair contract terms, especially those that severely disadvantage one party or violate basic principles of fairness. As for the countries with Civil Law jurisdictions like France and Germany, consumer protection laws and contractual fairness principles are embedded in their civil codes. For instance, Germany's Burgerliches Gesetzbuch (BGB) includes provisions regarding the regulation of unfair contract terms.

Sixth, the World Trade Organisation (WTO) although it does not directly regulate unfair contract terms, however, it promotes fair trade practices and dispute resolution mechanisms that indirectly affect contract terms between trading nations (Widiarty, 2024). WTO agreements encourage the use of non-discriminatory and transparent contract provisions in international trade.

### 2.3.2. Malaysian Regulation on Unfair Terms: Guidelines on Fair Treatment of Financial Consumers (the revised FTFC)

Malaysia has always been one of the most regulated countries in the world. For many years, BNM has issued many guidelines as a regulatory response to ensure bank consumers become an integral component of the Islamic banking sectors. BNM continues to produce relevant policy documents to protect bank consumers from unfair terms in standard form consumer contracts.

Unfair terms in contract terms are regulated in Malaysia through the FTFC guideline issued by BNM on 6 November 2019 and came into effect on 6 May 2020. On 27 March 2024, BNM raised the bar for FSPs to treat bank consumers fairly by revising and enhancing the earlier policy document, introducing "a new principle and specific requirements for FSPs to consider and respond to the interests and needs of vulnerable consumers in conducting its business and operations" (BNM, 2024). The updated guideline sets out existing requirements and guidance for FSPs to "treat financial consumers fairly by adopting high standards of responsible and professional conduct and implement a culture where the interests of financial consumers are an integral part of FSP's business strategies and operations" (BNM, 2024). This policy document applies to all financial consumers (as defined by section 133 of Islamic Financial Services Act 2015), including "sophisticated and high net worth individuals, persons with disabilities and vulnerable consumer".

FSPs are expected to provide the appropriate support to vulnerable consumers, consistent with fair treatment of financial consumer outcomes. Throughout the revised policy document, BNM has supplemented existing and new requirements with illustrations of good and poor practices to facilitate industry implementation. The aims of the guidelines are:

- i. Foster high standards of responsible and professional conduct in Financial Service Providers (FSPs);
- ii. Promote a culture where the interests of financial consumers are an integral part of a FSPs business strategies and operations;
- iii. Set expectations for a FSP to effectively manage conduct risk;
- iv. Provide financial consumers with the confidence that a FSP exercise due care, skill and diligence, and acts fairly in its dealings with financial consumers; and
- v. To ensure that vulnerable consumers are to be treated fairly and equitably by the FSP and its staff, representatives and agents.

In promoting fair treatment to financial consumers, the FTFC has listed out six principles that FSPs should implement in their business which include:

- i. Principle 1: The Board of Directors and Senior management to set clear expectations on FTFC and incorporate it as part of their corporate culture and core values;
- ii. Principle 2: FSPs to ensure fair terms in standard contracts offered to financial consumers;
- iii. Principle 3: FSPs to provide financial consumers with information on financial products and services that are clear, relevant and timely;
- iv. Principle 4: FSPs to ensure their staff, representatives and agents practice due care, skill and diligence in dealing with financial consumers;

- v. Principle 5: FSPs to take reasonable care to ensure advice and recommendations provided to financial consumers are relevant to their financial needs; and
- vi. Principle 6: FSPs to handle complaints and claims of financial consumers promptly, fairly and effectively.

BNM has also included illustrations on good and poor practices in appendix 2 of the guideline which is non-exhaustive and intended as guidance to FSPs when implementing the requirements of the FTFC policy document. The FTFC also gives flexibility to FSPs to adopt other measures to achieve the intended outcomes of the guideline. The revised document also introduces specific requirements for dealing with vulnerable consumers and extend certain responsibilities to representatives and agents of a FSP to emphasise BNM's expectations on FSPs treatment to financial consumers (BNM, 2024).

In promoting fair dealing culture, the Islamic banks specifically the Board of Directors and senior management must demonstrate a commitment to fair treatment of vulnerable consumers including to establish and maintain appropriate policies, processes and accountability to ensure that the standard contract terms are fair to bank consumers (BNM, 2024). Here, the FTFC defines unfair terms as “terms that have the tendency to create significant imbalance, whereby it shifts the rights and obligations significantly in favour of the FSP to the detriment of bank consumers.” With regards to Principle 2 on fair terms in the standard contract, Appendix 5 has provided a list of non-exhaustive contract terms that may be regarded as unfair to bank consumers. Examples include: “high compensation fee for early contract termination, high penalty for breach of contract, exclusion of liability for breach of contract, unilateral variation by FSPs exclusive right on FSPs to interpret contract terms and terms that transfer risks to bank consumers which detriments them” (BNM, 2022).

#### 2.4. Frameworks to control Unfair Contract Terms, No-read Problem and encourage IFL

This sub-section analyses four selected IFL frameworks to solve no-read problem of banking contracts amongst bank consumers which include: Islamic education ethics, *Maqasidic* leadership model, Madani ethical model, and Multidimensional IFL model.

##### 2.4.1. Islamic education ethics

To promote Islamic financial literacy, Bakar et al., 2020 developed an Islamic finance educational ethics or the framework for financial educational ethics. The guiding principles are: “(1) the religious duty of Muslims to seek knowledge, the obligatory duty to practice and preach knowledge, (2) tawhid or accountability to Allah, (3) accountability and responsibility as (4) Caliphate; and (5) apply justice” (see Figure 2).

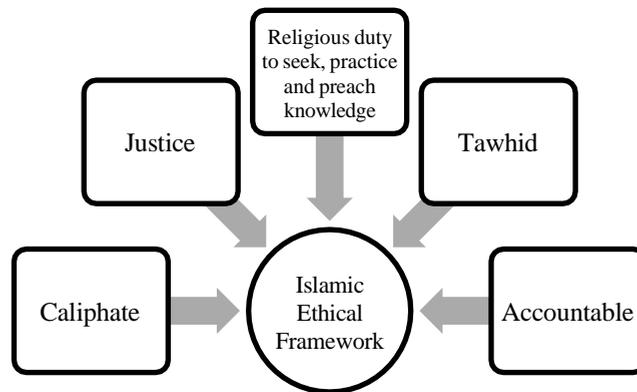
According to Bakar et al. (2020), this framework focuses on the role of Caliphate based on the values of integrity, morality, and trust such that all contractual dealings to be governed by the rules of fair dealing and justice. Islamic banks need to be transparent when offering their products by disclosing unfair terms rather than hiding onerous terms in footnotes and fine print under “other terms and conditions apply”. Although these contractual offerings are legal, however, not many bank consumers read the contract and even if they read them, they do not understand the legalese terms. As a Caliphate, Islamic banks need to highlight contractual literacy awareness on bank consumers with regards to their rights and for Islamic banks to avoid onerous contract content. To motivate bank consumers to read the contract content, Islamic banks need to practice transparency by “shortening and simplifying the contract terms and add quality tag to banking entity of respective local consumer association by statement like these contract terms are fair” (Bakar et al., 2020).

In this AFL framework, the concept of *tawhid* to Allah Almighty connotes the value of avoiding no-reading banking contract to acquiring knowledge on the rights of bank consumers in such contracts. In other words, bank consumers need to be vigilant whether the terms of contract are either procedurally or substantively unfair or both, and if so whether they can challenge such terms to be severable from the contract. Despite being pre-formulated and non-negotiable contracts, Islamic banks are discouraged to create any significant imbalance between the rights and obligations of the contracting parties.

As for the accountability and responsibility values, when negotiating, signing or performing a contract the duty of care is imposed on the Islamic banks not to derive or seek benefit from bank consumers without providing consideration or benefit that are disproportionate to the value of the respective banking services. In other words, Islamic banks to avoid using contract terms and conditions that exclude or limit the liabilities of the Islamic banks which are deemed unfair contract terms.

From these respective principles, bank consumers are expected to: “(1) fight against ignorance of Islamic financial knowledge; (2) should acquire Islamic finance knowledge to understand the principles and mechanism of Islamic banking; (3) to acquire Islamic banking knowledge based on the values and goals of *Maqasid al-Shariah*.”

Figure 2: Framework for Islamic educational ethics



These educational ethics expects the Islamic banks to: “(1) fulfill social responsibilities by being fair and reasonable when writing contractual terms; (2) ensure form and substance of contracts are Shariah compliant and Shariah based; (3) transparent, accurate and disclose all material terms and conditions to avoid unfairness; (4) fulfill their contractual obligations; (5) avoid exploitation and unfair contract terms; and (6) to innovate bank products that complies with *Maqasid al-Shariah*” (Bakar et al., 2020).

This framework promotes the importance of IFL specifically Islamic banking education on bank consumers since it is a religious duty to do so. Financial literacy acts as a defense against unfair contracts terms in banking contracts. Adhering to Islamic educational ethical framework helps to improve bank consumers’ no-read problem and contribute to better management of their financial affairs in Islamic banks. It is not the only solution but rather an added value to empower bank consumers to read contracts and be aware of their contractual rights at the same time to negotiate for fairer contract content.

#### 2.4.2. *Maqasidic Leadership Model*

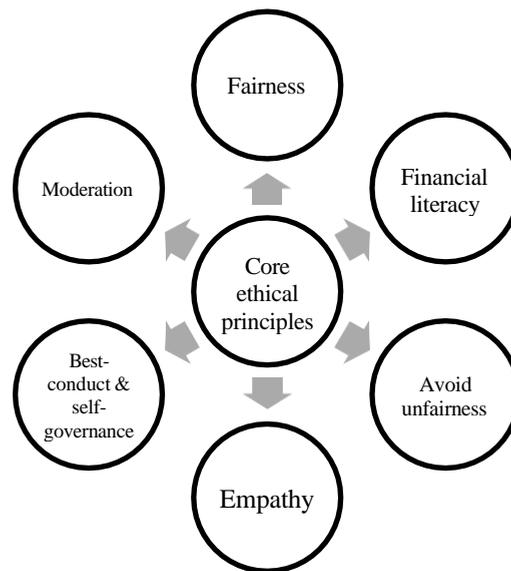
Bakar (2022) expanded the IFL *Maqasidic* values to promote reading of banking contracts and to protect bank consumers from unfair contract terms. This *Maqasidic* Leadership model include core values such as: “fairness, financial literacy, avoid unfairness, empathy, best conduct and self-governance, and *wasatiyyah* (moderation)” as shown in Figure 3. Considering that many bank consumers do not read the banking contract, this framework sets high standards of consumer fair treatment from banking contract with one-sided terms that are unfair or unjust.

Financial literacy values require Islamic bank to remind bank consumers before signing the contract to read and understand the contract content and make prominent clauses that affect their rights which include;

- i. Fairness (*adl wal ihsan*) means distributive justice whereby Islamic banks to take into account the legitimate interest of bank consumers in contract by complying with all local and international laws, rules and regulations of BNM and the Code of Ethics for banking institutions;
- ii. Islamic banks to avoid unfairness of unequal bargaining strength and practice social justice. Fairness should be practiced as part of the prudent corporate culture of Islamic banks. This value requires the Islamic banks to make the well-being of bank consumers an integral part of their banking strategies and operations;
- iii. Empathy. Islamic banks need to be ethical bankers who are fair, kind, caring, empathetic not sympathetic to bank consumers by practicing solidarity when contracting and conveying their business missions and visions prudently. Empathy also includes innovativeness; whereby Islamic banks apply new ideas to be consumer-centric;

- iv. Best conduct and self-governance. Professionalism here requires Islamic banks to respect bank consumers as individuals by assessing the fairness of a term as a whole in the context of the particular product or service. The risk of unfairness must be removed from a contract term and acting fairly in contracting with bank consumers. In addition, integrity as part of best conduct entails Islamic banks responding to the banking needs of bank consumers on a timely basis by taking into account developments in legislation and relevant case law on unfair terms in consumer contracts; and
- v. Moderation (*wasatiyyah*) requires Islamic banks to avoid extremism in contract content, such as one-sided exploitative contract terms that cause undue hardship to bank consumers.

Figure 3: *Maqasidic* Leadership model



This IFL framework focuses on the importance of readability of the prevalent type of consumer banking agreement. Apart from making bank consumers’ well-being integral to their banking strategies and operations, Islamic banks need to prioritise being ethical bankers that implement good conduct and self-governance that promotes fairness and avoids extremism in the banker-customer relationship.

#### 2.4.3. Malaysia Madani (Civilised Malaysia) ethical framework

It is a policy framework and government slogan introduced by Unity Government led by the 10<sup>th</sup> Prime Minister of Malaysia, Anwar Ibrahim. To rise again as the Asian Tiger, the Government outlined the MADANI framework which consists of six main thrusts namely: sustainable development (*kemampanan*), prosperity (*kesejahteraan*), innovation (*daya cipta*), values of respect (*hormat*), trust (*keyakinan*), and care and compassion (*Ihsan*) (Minister of Finance, 2023). This ethical framework is inclusive and encompasses the interests of all races, religions and regions in the country even though it emphasized the importance of Islamic teachings since it is the religion of the Federation.

According to the Prime Minister’s, the MADANI framework focuses on the problem-solving process to build a better society on good moral values, especially among the younger generation (News Strait Times, 2023). This concept strengthens the Muslim faith, their morals and worship while at the same time it emphasised on the grace of goodness, stamp out poverty and safety for all races and religions. This call-for-action to enable bank consumers to better cope with greater contractual document uncertainty and financial complexity.

The core of Malaysia Madani philosophy is promoting of reading to understand knowledge by every citizen. IFL aspires to alleviate financial literacy levels, promote responsible financial behaviour and healthy

financial management attitudes, as well as upholding the Islamic principles to ensure that the cultural tradition of knowledge is embraced (Minister of Finance, 2023). Knowledge allows individuals to make informed decisions, understand complex Islamic finance concepts, solve problem, to protect oneself and one's family from becoming a tool or victims of ideologies that opposes Islamic views (Minister of Finance, 2023). This educational value of handling differences of opinion with wisdom represents a strategic investment in Malaysia's intellectual future.

UpToDate, there exist a join a collaborative effort between the government and private sectors, aimed to promote IFL in Malaysia. Table 2 below reflects the engagement in enhancing Islamic financial literacy to empower individuals and contribute to broader societal benefits.

Table 2: Examples of Malaysian Agencies fostering IFL

Agencies	Vision	Approaches	Strategic outcomes
Financial Education Network (FEN)	To deliver, monitor and measure financial literacy of Malaysians under the National Strategy of Financial Literacy	Intensifying financial education to elevate the financial literacy of Malaysians	Inculcate positive behaviour among targeted groups
Permodalan Nasional Bhd (PNB)	To strengthen the financial standing of the people across generations.	Inspiring young people to pursue knowledge and higher education	Hold annual financial literacy carnival & investment education activities
Employee Provident Fund (EPF)	To promote financial inclusivity and empower individuals to secure their financial future	Improve accessibility and ensure more Malaysians have sufficient social safety coverage upon retirement	Register for i-Akaun, join the i-Lindung insurance scheme, register for Shariah savings
Credit Bureau Malaysia Sdn Bhd (CBM)	To make the process of credit management more accessible and understandable	Provide a practical demonstration of how financial knowledge and tools can empower individuals	Provide access to credit reports, offer personalised advice to enhance credit scores
Agensi Kaunseling Dan Pengurusan Kredit (AKPK)	To build comprehensive consumer protection framework and ensure sustainability and resilience of the household sector	Provide free advisory, counselling and assistance to individuals on credit, financial management, education and debt restructuring	Conduct financial education programmes to the public

Source: [BNM \(2022\)](#)

Table 2 highlights the crucial role that agencies play in promoting IFL to build a financially savvy community. By equipping Malaysians with financial knowledge and tools necessary for effective financial management, the respective agencies help pave the way towards a future where financial empowerment and literacy are accessible for the society. The Madani philosophy on reading encourages bank consumers to read their banking contracts in full, in turn helps prepare them for the future when they have a better understanding of their contractual rights and responsibilities under the law. The journey towards financial literate and enlightened bank consumers begins with the simple act of reading the contract, and with the Madani philosophy on knowledge, bank consumers will avoid putting themselves at risk unnecessarily.

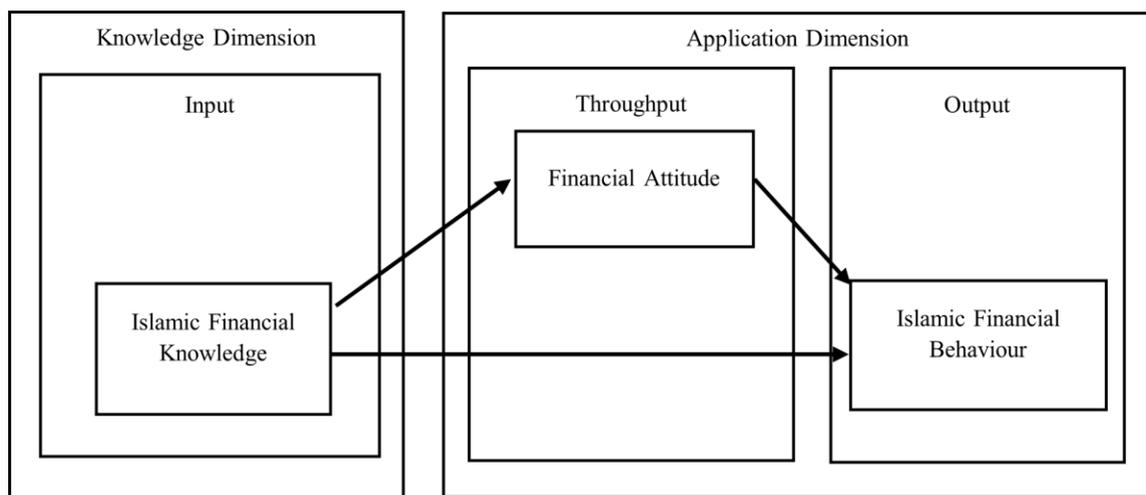
#### 2.4.4. Multidimensional Islamic Financial Literacy Framework

[Nawi et al. \(2022\)](#) proposed the Multidimensional Islamic Financial Literacy Framework (Figure 5) which is denoted by three primary components such as: (1) Islamic financial knowledge; (2) Islamic financial attitudes, and (3) Islamic financial behaviour. These three primary components are further divided into three sub-components: Islamic financial products, Islamic philanthropy, and financial management. Firstly, the

component of Islamic financial knowledge is deployed as “input” which “assessed the knowledge on Islamic finance principles, products, philanthropy, and financial management”. Secondly, the Islamic financial attitudes as the “throughput” assessed the Islamic financial products, philanthropy, and financial management. The third component or “output” of IFL is financial behaviour which assessed individuals’ behaviour of Islamic financial products adoption, philanthropic behavior and behavior in personal financial management.

According to [Nawi et al. \(2022\)](#), bank consumers who intends to engage in Shariah-compliant banking behaviour may discover that they lack the necessary Islamic banking information and knowledge that would affect attitudes when dealing with Islamic banks. Therefore, the basis of this Multidisciplinary model views that a financial literate bank consumers must be well-versed in Islamic finance, have positive financial attitudes, and demonstrate prudent financial behaviour. However, this model is limited to only three components of IFL of financial knowledge and attitudes whereas other components that might also influence bank consumers’ IFL such as financial skills are not considered.

Figure 5: Multidimensional Islamic Financial Literacy Framework



This model opines that bank consumers are more likely to establish a long-term bank-customer relationship with Islamic banks to provide positive values such as loyalty and enhance satisfaction when they have a thorough understanding of Islamic banking operations ([Bakar et al., 2019](#)). The contractual relationship between Islamic banks and bank consumers is legal in nature which enable banks to maintain good relationship with their customers. Also, creating a real opportunity for bank consumers to read to address the no-reading contract problem, and avoiding terms written in fine print or written in legal language. The lack of IFL may lead to bank consumers making uninformed decisions due to inadequate information. Therefore, IFL is deemed as one of the most critical aspects to discourage no-reading of banking contract as well as to establish Islamic banking sustainability.

Based on this framework, bank consumers are said to be financially literate Muslim when they have sufficient knowledge on Islamic finance, positive financial attitudes, and good financial behaviours ([Nawi et al., 2022](#)). Therefore, understanding every aspect of bank consumers’ banking needs should be in tandem with the Islamic worldview.

### 3. Methodology

This study adopts the qualitative method through content and comparative analysis methodology as a research design. It provides an exploratory analysis on how Islamic ethical principles are applied to promote IFL and counter the no-read problem among bank consumers. It offers insights into how selected frameworks can contribute to contractual literacy among banking consumers to avoid unfair terms. As a comparative case study design, four ethical frameworks pertaining to IFL to ensure contract fairness from unfair contract terms in Islamic banking contracts are selected which include:

- i. Islamic education ethics (emphasizes the relationship between *Maqasidic* ethics and unfair contract terms);
- ii. *Maqasidic* leadership model (known for the interpretation of Islamic financial literacy in unfair contract content);
- iii. MADANI ethical framework (focused on socio-economic justice to achieve sustainable development); and
- iv. Multidimensional Islamic Financial Literacy framework (offers a contemporary approach with a focus on ethical issues in Islamic finance).

The data collected from the above frameworks are analysed from the perspective of Abu Zahrah’s *Maqasid al-Shariah* principles while using the latter as a benchmark to evaluate how these frameworks directly influence IFL on bank consumers to avoid unfair contract content. This study also applies the library research that studies and explores databases such as: Elsevier (Scopus and Emerald Insight) and Web of Science related to the fairness in contract content and the ethics of financial literacy to avoid “no read” problem by bank consumers.

**4. Findings and Discussions**

This section maps out and compare the key components of the selected four ethical frameworks by benchmarking using Abu Zahrah’s *Maqasid al-Shariah* principles and evaluate their success in promoting IFL to avoid unfair terms. This comparative method helps to strengthen the comparative analysis between Abu Zahrah’s framework and the selected ethical frameworks such as: Islamic education ethics framework (Model 1), *Maqasidic* Leadership model framework (Model 2), Multidimensional IFL framework (Model 3) and Madani ethical framework (Model 4).

Table 3: Measuring Abu Zahrah’s model against selected models

<i>Maqasid al-Shariah</i> Framework by Abu Zahrah	Islamic education ethics Framework (Model 1)	<i>Maqasidic</i> Leadership model Framework (Model 2)	Multidimensional Islamic Financial Literacy Framework (Model 3)	Madani ethical Framework (Model 4)
To educate the individual ( <i>tahdhibal-Fard</i> )	Religious duty to seek, practice and preach knowledge	Financial literacy	Islamic Financial Knowledge	Sustainability
Establish justice ( <i>iqamah al- Adl</i> )	Tawhid Justice Accountable	Avoid unfairness Moderation Fairness ( <i>adl wal ihsan</i> ) Empathy	Islamic Attitude	Ihsan Respect Trust
Public interest ( <i>maslahah</i> )	Caliphate	Best conduct & self-governance	Islamic Financial behaviour	Innovation Prosperity

The study employs Abu Zahrah’s *maqasid al-Shariah* model of education, justice, and *maslahah* as a performance system to evaluate the context of IFL among bank consumers and to increase the reading interest on banking contracts amongst them. There are several insights that can be derived from the above table based on Abu Zahrah’s three division of the *maqasid al-Shariah* framework which include:

Firstly, the respective values similar to the value of educating the individual (*tahdhibal-Fard*) include Model 1 introduced values of religious duty to seek, practice and preach knowledge; Model 2 includes financial literacy ethic; Model 3 focuses on Islamic financial knowledge, and Model 4 suggested sustainability value. All values by the respective four models induce bank consumers to review the banking contract and impose the duty to read to increase the probability that the transaction is based on a well-informed decision, thus promoting bank consumer welfare. Moreover, contract reading can clarify the parties’ obligations and rights. The duty to read can also reduce the probability of costly disputes arising from contractual misunderstandings. Overall, the duty to read has economic benefits, for example it promotes efficient reliance on banking contracts. An

incentive to read the banking contract increases the likelihood of mutually informed agreements that promote the welfare of both contracting parties. This encourages bank consumers to be aware of the information that is not available for them to evaluate.

Secondly, Values from the four models to establish justice (*iqamah al- 'Adl*) include: Model 1 with tawhid, justice, and accountable; Model 2 promotes the values of the duty to avoid unfairness, moderation, *ihsan*, and empathy; in Model 3 related value is Islamic attitude, and Model 4 proposes *ihsan*, respect, and trust. These values can potentially improve the attributes of no-read problems that make bank consumers aware of unfair contract content and empower them to make informed financial decisions. Bank consumers can hope that making contracts more readable will create further pressure on Islamic banks to draft clear and balanced contracts.

Thirdly, in relation to public interest (*maslahah*) the relevant values are Model 1 with caliphate value; Model 2 with best-conduct and self-governance, Model 3 has Islamic financial behaviour; and Model 4 suggests innovation and prosperity. For the benefit of bank consumers, Islamic banks need to draw conclusion that readable contracts must avoid using legal terms that are incomprehensible to the average bank consumer, unconscionable, excessively long, lacking proper sub-headings, written in rather small font, or deliberately presented to bank consumers at a late or uncomfortable time when reading becomes unlikely.

Fourthly, IFL may have a considerable role to minimise unfair contract terms cases by changing the attitudes and behaviours of bank consumers. The selected four IFL frameworks in this study have constructed IFL from the sources of the Shariah and found it suitable to implement IFL in financial awareness programs for bank consumers. This study found that IFL provides a comprehensive guideline for bank consumers to reduce the no-read problem. Furthermore, the study confirmed that IFL is effective to raise awareness among the Islamic banking sector to ensure contract content are fair and easy to understand.

Fifthly, exposure of these unfair terms to bank consumers will harm Islamic banks' reputations. Therefore, Islamic banks that worry about their reputation will avoid using one-sided contracts. Alternatively, rational bank consumers would respond to unreadable contracts by lowering their willingness to enter into transaction with Islamic banks. Islamic banks concern for good reputation is more likely to take the form of waiving one-sided contracts and excluding unfair terms. Such a strategy would portray Islamic banks as emphatic, kind, consumer friendly, or even generous.

In conclusion, the findings of this study conclude that the no reading problem of the standard form banking contracts by bank consumers could be improved by adopting the *Maqasidic* IFL ethics. These *Maqasidic* literacy ethics empower bank consumers to apply their duty to read to make informed financial decisions and be responsible to report unfair contract terms to BNM as the case may be. The IFL has a positive influence on the decision making by bank consumers to become a customer in Islamic banks. Reading the consumer contract is an action for bank consumers to obtain knowledge on their contractual rights and this process may lead them to make informed decisions. Reading also boosts communication skills between Islamic banks and bank consumers.

## 5. Conclusion and Recommendations

In the Islamic banking business in Malaysia, bank consumers are expected and presumed to read their contracts whereas the Islamic banks as contract drafters do not have a duty to draft readable contracts. This asymmetry creates a serious public policy challenge to the Malaysian government and financial regulator since bank consumers are expected to read unreadable contracts that is written in a way that dissuades them from reading such banking contracts. This, in turn, undermines the sustainability and efficiency of the Islamic banking sector while raising fairness concerns.

To make the impact of IFL on contract fairness more tangible and clearer in Islamic banking in Malaysia, this study suggests the Islamic banks can consider implementing the following concrete recommendations. By adopting these recommendations, Islamic banks in Malaysia can enhance their customers' understanding of Islamic finance and ensure that the impact of IFL on contract fairness becomes tangible and clear to bank consumers.

First, Islamic banks to hold educational programs on Islamic finance and contracts. Islamic banks can organise regular workshops and seminars for both customers and employees, explaining key concepts in Islamic finance contracts such as *Mudarabah*, *Musharakah*, *Ijarah*, and *Murabaha* along with how these contracts uphold fairness according to Shariah principles. Additionally, Islamic banks can develop interactive,

easy-to-understand digital learning tools like apps and websites that educate bank consumers through different Islamic finance contracts, highlighting the fairness principles, profit-sharing mechanisms, and risk distribution.

Second, clear and transparent banking documentation. Islamic banks to simplify consumer contracts by adopting plain language, easily understandable language contracts. This ensures that Islamic banks and bank consumers, regardless their financial literacy level, can understand the terms and conditions in promoting fairness. Islamic Banks to practice fair treatment to bank consumers based on values in *Maqasid al-Shariah* by drafting fair and readable contracts as well as striking out detrimental contract terms. Responsible treatment of bank consumers ensures and generates banking growth. A simplified presentation of banking contracts indeed improves bank consumers' understanding of those contracts.

Third, Islamic banks to customised IFL programs for different customer segments such as individuals, SMEs and corporate clients by focusing on the financial products most relevant to them, ensuring bank consumers fully understand the contractual commitments. Moreover, to provide customer support for IFL Islamic banks need to set up a dedicated accessible advisory service where bank consumers can ask questions about Islamic finance contracts, helping them to understand the fairness of their contracts and how their rights are protected. Islamic banks need to develop an online portal where frequently asked questions (FAQs) about Islamic finance contracts are addressed in simple terms. This will allow bank customers to gain clarity on their rights and obligations before entering into any agreement.

Fourth, Islamic banks should strengthen Shariah governance and monitoring. Regular Shariah audits should be conducted to ensure that banking contracts and products remain in line with Islamic principles, and that customer fairness is consistently maintained. These audits must be made transparent to the public, ensuring that bank consumers are reassured of the fairness of the agreements they enter into. Shariah advisory team need to be readily available for bank consumers to ask about the fairness of specific contracts and how they align with Shariah principles.

Fifth, Islamic banks need to practice sustainable consumer banking by publishing their "Charter of Fair Treatment to Customers" on their websites to show their commitment as ethical bankers by promoting IFL and demystify legal terms by incorporating clearer language in contracts. Moreover, feedback mechanisms like customer satisfaction surveys should also be incorporated to gauge bank consumers' understanding and satisfaction with contract fairness. This feedback can be used to refine educational materials, improve product transparency, and avoid unfair contract content. Islamic banks should also strengthen the grievance redress mechanism to address any complaints on unfair contract content, allowing Islamic banks to resolve issues promptly and maintain customer trust.

Sixth, Islamic banks to collaborate with educational institutions such as universities and schools to integrate IFL into the curriculum. This early exposure to IFL will help create a better understanding of Islamic banking and contract fairness in the long term. Internship and practical exposure programs should be set up that allow students to experience Islamic banking operations firsthand, particularly focusing on how IFL impacts contract fairness.

Finally, regulatory compliance and advocacy. BNM as the Financial regulator authority needs to craft an IFL legislation that addresses the no-reading banking contract problem. This legislation advocates for BNM to promote the *Maqasidic* duty to read as a pillar to creativity in the Islamic banking sector. BNM to support initiatives that improve financial knowledge among bank consumers. Moreover, such legislation allows BNM to grant a special tribunal, the Standard Contracts Tribunal, the power to review ex ante any potential unfair terms in consumer contracts ex ante which is outside the litigation context. Within this context, BNM can carry national campaigns aimed at raising awareness about financial fairness in Islamic contracts and how consumers can make informed decisions. Awareness campaigns on social media can be launched to explain the ethical and fair nature of Islamic finance and how the Islamic bank's products empower bank consumers through IFL and shared risk management.

In conclusion, financially literate bank consumers on Islamic finance principles help them make informed financial decisions throughout their life, which leads to sustained improvements in their living standard. Having the awareness, knowledge, skills, attitude and necessary behaviour are essential life attributes to make bank consumers interact responsibly with Islamic banks to build financial resilience. With bank consumers being confident that their well-being is integral to Islamic banks' corporate culture, in the long run, they will feel confident and empowered to make informed decisions that drive innovations, competition, and sustainable development of the Islamic banking sector. A creative bank consumer creates a progressive and sustainable

Islamic banking sector in Malaysia.

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# Dynamic In Family Takaful Product Offerings for Senior Citizens: Exploring the Potential of Integration Between Takaful and Banking Product

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## Abstract

This research will explore how the banking products can be creatively integrated for the utmost protection for the elderly certificate holder and at the same time allowing them to remove the financial hardship through guaranteed income protection during this critical phase of life. In addressing the research questions and meeting the objectives, this study employs a qualitative research methodology by conducting literature review by studying primary and secondary references from academic papers, books and article related to the topic of this research. In addition to the textual analysis, researchers have also conducted non-structured interviews and discussions with stakeholders of one of the Takaful Operator (TO) which are representatives from Product Development, Legal, Appointed Actuary and Compliance Division. As a result, the study proposes three structural models, evaluating their strengths and weaknesses, with the aim of ensuring a reliable income stream post-retirement. After analyzing the proposals and considering the common key challenges and comparisons, researchers acknowledge the pros and cons of the proposals. However, it is evident that the third proposal offers the most advantages for all related parties which are the senior citizens, TO and banks.

*Keywords: Takaful, banking, financing, reverse mortgage, senior citizens*

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## 1. Introduction

Future life planning is truly needed by senior citizens to ensure they are ready with sufficient and comfortable financial support. One of the main pension schemes initiated by government is employees provident fund (EPF) scheme or also known as Kumpulan Wang Simpanan Pekerja (KWSP). The main objective of this scheme is to maintain the quality of life for the elderly during their retirement years (Hassan & Othman, 2018). However, Anwar (Hassan et al., 2018) alarmed about 80 percent of total workers in Malaysia who turned 55 in 2015 (based on the released figures in EPF 2014), did not have adequate savings from their EPF accounts to survive above the RM830 poverty line.

Nowadays, there are various financial instruments that could be relied on by senior citizens on top of the EPF scheme to sustain and thrive during retirement years by engaging in takaful and investment products, safeguarding both their health and finances, as these aspects complement each other. However, there is still a gap spotted in the financial products offered in the market by the industry players which offer systematic financial assistance (monthly or quarterly income) and protection for the elderly.

In general, takaful is the manifestation of the spirit of mutual responsibility, cooperation and protection for the well-being of the people and solidarity of the society (Yusuf & Mobolaji, 2016). The market offers a diverse array of products from takaful operators, encompassing both family and general takaful plans. Additionally, there is a takaful product crafted specifically for senior citizens, addressing their retirement planning

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requirements through offerings such as takaful annuity plan and takaful retirement plan. However, the discussion conducted on 23rd Feb 2024 with the Product Development team (Product team) of the TO have revealed lower demand for this product, influenced by various factors to be detailed in the problem statement in this research paper. Conversely, bancatakaful has emerged as a crucial distribution channel for takaful operators, especially for family takaful products (Bank Negara Malaysia, 2022). This practice holds the potential to significantly improve the synergy and integration between takaful and banking products, particularly benefiting senior citizens.

On the other hand, banking products are continuously evolving to meet the growing needs of society. Islamic banking offerings encompass various products such as deposit products, treasury products, trade financing products, debt-based financing products and equity-based financing (Md Husin & Ab Rahman, 2013). Abdul Rahman (2014) emphasized that financing activities contribute significantly 50% to 80% of the total assets of Islamic banking. Given the high demand and opportunities within financing activities, researchers are in view of the potential blending and integration particularly focusing on combining takaful with financing products. This research will explore how the financing products can be creatively integrated for the utmost protection for the elderly certificate holder and at the same time allowing them to remove the financial hardship through guaranteed income protection during this critical phase of life.

According to the Ministry of Economy, Department of Statistics Malaysia (DOSM) the composition of the population aged 65 years and over (old age) increased from 7.2% in 2022 to 7.4% in 2023. It also indicates that Malaysia is experiencing population ageing and slowly shifts towards becoming an ageing population by 2030. Even a small increase in the percentage; it gives a significant number of increasing senior citizens' population in Malaysia, necessitating a creative product that is marketable and caters their post-retirement needs.

While the EPF serves as the primary savings scheme for senior citizens' post-retirement, it cannot be solely relied upon, as 80% of retirees have insufficient savings from their EPF accounts to maintain a standard of living above the RM830 poverty line as mentioned by Anwar (Hassan et al, 2018) According to a survey conducted by HSBC in 2018, nearly half of parents with children in university, which is 49% expressed their concerns on the lack of financial means to adequately support them. Similarly, an equal percentage regretted not commencing saving earlier. These findings underscore the challenges faced by parents in accumulating savings for their children, primarily due to the necessity of allocating funds toward essential monthly expenses. Anwar (Hassan et al, 2018) further elucidated this issue through a random survey conducted by the provident fund. The research revealed that the feasible range to survive financially monthly lies between RM510 and RM1,000 in the case of contributors that already withdrawn all their savings at the initial start of retirement and being excluded from paying medical expenses on catastrophic illnesses.

In the meantime, the product offered by takaful operators such as annuity/retirement plans in the market also has low demand because of the reluctance of senior citizens to give up access to their life savings in the annuity product (Webb et al., 2007). This product is also structured with an accumulation and decumulation period which requires the annuitant to contribute either a single contribution or a series of regular contributions prior to the start of the annuity payments (Ali et al., 2018). Not everyone has the consciousness to start at an early age or has excess money to contribute to such a product with a lump sum payment in a single contribution.

This research aims to resolve the problems above by investigating how takaful and financing products can be innovatively combined to offer comprehensive protection for elderly certificate holders while also alleviating financial burdens through guaranteed income during this crucial phase of life.

## **2. Literature Review**

In addressing the research questions and meeting the objectives, this study employs a qualitative research methodology. It begins with gaining a thorough understanding of the financial challenges encountered by senior citizens, as outlined in the problem statement, and identifying the typical advantages they have during this life stage. Subsequently, the research examines the available products offered by takaful operators and banks, analyzing their potential for integration to offer comprehensive protection and to alleviate financial stress for retirees. The study proposes several structural models, evaluating their strengths and weaknesses, with the aim of ensuring a reliable income stream post-retirement. This is done by conducting literature reviews by studying primary and secondary references from academic papers, books and articles related to the topic of this research.

In addition to the textual analysis, researchers have also conducted non-structured interviews and discussions with stakeholders of one of the Takaful Operator (TO) which are representatives from Product

Development, Legal, Appointed Actuary and Compliance Division. The objective is to gain information which is not available in the texts as well as to seek their input from different perspectives and expertise.

### **3. Existing Retirement/ Annuity Takaful Product**

A retirement/annuity Takaful plan operates on the principles of mutual assistance and risk-sharing, structured to provide financial security during retirement while complying with Islamic ethical guidelines. The process begins with participants contributing regular payments (contributions) to a collective fund managed by a Takaful operator.

These contributions are divided into two key components: the Participant's Account (PA), which functions as personal savings, and the Participant Risk Fund (PRF), which serves as a pooled risk-sharing fund. The operator invests the funds in Shariah-compliant ventures, ensuring transparency and adherence to Islamic principles. Over time, the savings grow based on the profits generated from these investments (Khan & Bhatti, 2008).

Upon reaching retirement, participants receive regular payouts from their accumulated savings and returns, ensuring a steady income. In the event of a participant's untimely death, the PRF provides a financial benefit to the participant's beneficiaries, fulfilling the product's protection component. If any surplus remains in the PRF, it is redistributed among the participants or retained to support the fund, reinforcing the communal nature of Takaful (Yusuf & Mobolaji, 2016). This structure ensures fairness, as the operator earns a fee for managing the fund rather than generating profits through interest-based mechanisms.

Despite its potential, a key gap in the existing retirement Takaful products is that they inadequately address the unique financial situation of elderly individuals who lack regular income or liquid cash but possess substantial immovable assets, such as property. Therefore, researchers propose several structures to cater for this issue in the later section.

### **4. Proposal**

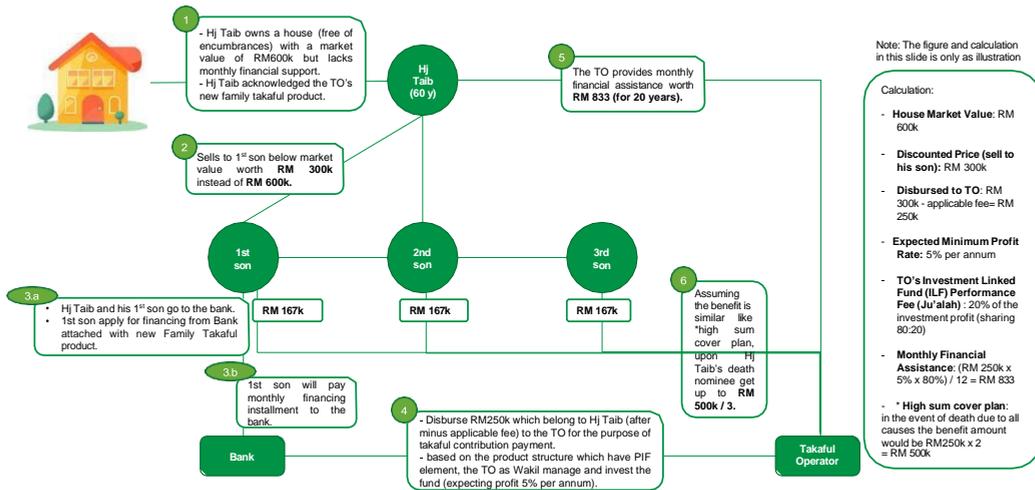
To develop a comprehensive product proposal, researchers have analyzed the financial obstacles faced by senior citizens and examined the reasons behind the low demand for existing market offerings, as outlined in the problem statement. Additionally, researchers have identified a common advantage among senior citizens during post-retirement which many of them own homes, even if they lack sufficient savings, as they have utilized their funds to finance monthly housing payments. Sherif & Shaairi (2013) enlightened that the accumulated savings of the EPF are inadequate to support retirement expenses over a long period, of which one key problem is primarily stems from the early withdrawals for financing monthly housing payments and reaping other pre-retirement benefits such as education and health. According to the Khazanah Research Institute, Malaysia has a homeownership rate of 72.5% in 2011. This figure is notably high compared to developed countries, where homeownership rates, except for Singapore, were below 70% during the same year.

Based on the above, the researchers are of the view that both challenges and benefits experienced by senior citizens, particularly their homeownership, are useful in developing a comprehensive product which could address their needs and can overcome their financial obstacles. This involves concentrating on housing-related solutions such as house financing and reverse mortgages, providing customized solutions specifically designed for senior citizens.

In this section, researchers will present three (3) separate proposals, including the one suggested by the Product team. The first proposal involves incorporating Family Takaful into house financing, while the second proposes integrating Family Takaful into reverse mortgages. The third proposal, originating from the Product team, will also be outlined. For the first and second proposal, researchers will first explain its structure, followed by an exploration of its features and the considerations necessary for its implementation. Finally, after presenting these proposals, researchers will analyze key challenges and common ground elements of the products that must be considered, especially regarding senior citizens. This analysis aims to determine the most suitable product to offer in the market, considering the specific needs and preferences of this demographic.

#### *4.1 First Proposal – Integration of Family Takaful with House Financing*

For the first proposal, the product is structured by integrating family takaful product with house financing. The proposed structure and its explanation are shown below:



Explanations:

- i. Hj Taib, owner of a house (free of encumbrances), finds himself in need of monthly financial support. Upon learning about one of the TO's new products (Integration of Family Takaful in House Financing), he decides to explore it further.
- ii. To alleviate his financial strain and recognize the potential benefits of the product, he opts to participate by selling his house at a reduced/delayed price of RM 300k, significantly below its market value of RM 600k to his son.
- iii. His 1st son;
  - a. together with Hj Taib come to bank to apply for House financing attached with Family Takaful (New Product of the TO).
  - b. will pay monthly financing installment to the bank.
- iv. Upon approval, the bank disburses RM 250k to the TO (upon obtaining consent from Hj Taib) as a single contribution, after deducting any applicable fees. The TO, acting as a Wakil, takes charge of managing and investing the funds on Hj Taib's behalf (as participant). The fund will be credited into PIF and dripped into PRF on a monthly basis. In managing the PIF, the TO aims for a projected minimum profit of 5% per annum, employing strategies such as dividing the funds into various investment vehicles.
- v. As part of the new product plan, the TO provides Hj Taib with monthly financial assistance amounting to RM 833 for a duration of 20 years, helping to cover his expenses and alleviate his financial burden.
- vi. In the event of Hj Taib's demise, his nominated beneficiaries are entitled to receive RM 500k ensuring that his loved ones are financially supported even after his passing.

4.1.1 Product Features of First Proposal

The proposed product features of the first proposal are as follows:

Features	Description
Coverage Tenure	20 years
Benefits	Fixed monthly pay-out to certificate holder Death coverage; or Total and Permanent Disability (TPD) coverage. Get savings amount after maturity
Contribution Mode	Single Contribution disbursed by bank directly to the TO
Initial Expenses	- Customer/buyer to absorb the initial expenses such as property valuation, legal fee, and/or fire takaful coverage of the charged property. - Such initial expenses can be financed in the House Financing

#### 4.1.2 Considerations of First Proposal

Several aspects of consideration need to be considered for this first proposal as follows:

i. Shariah Consideration

Protecting property is one of the *dharuriyyat al-khams* (five necessities) and Islam is very concerned about protecting and managing property. Particularly for senior citizens, there is a right for them and a right they need to deliver. Given that, Shariah consideration specifically for this first proposal is closely related to the sale of the property below market price by a father to his son where it is known as *al-muḥābātu fī al-bay' wā al-shirā'* which *al-muḥābāh* literally means favouritism, discrimination or bias. Muhammad bin Abi Al –Baali (Dadah, 2019) defined *al-muḥābāh* technically is when someone sells without following the market price, or buy above market price, so he has done discrimination by donating the excessive amount (as indirect donation). On the other hand, Nazih Hammad (Dadah, 2019) defined it as an 'intended donation within the contract of exchange'. In simple terms, *al-muḥābātu* means giving someone an amount of money indirectly (By naming it as discount or with other same meaning) during a buying and selling contract. In the context of this research, the term "*al-muḥābāh*" refers to a situation where the father (Hj. Taib) sells the house to his son (first son) at a price lower than the prevailing market value. The concern is to mitigate any potential conflicts and to safeguard the rights of all heirs, particularly as this matter pertains closely to the elderly. Generally, scholars categorize this issue into three situations: *al-muḥābāh* in buy and sale occurring during a person's health, *al-muḥābāh* in buy and sale with other than heirs occurring during sickness leading to death (*maraḍ al-mawt*) and *al-muḥābāh* in buy and sale with heirs occurring during sickness leading to *maraḍ al-mawt*. The deliberation of the issue is as follows:

a. *Al-muḥābāh* in buy and sale with other than heirs occurring during a person's health

In *al-Mausu'ah al-Fiqhiyyah al-Kuwaitiyyah*, topic of *al-muḥābātu fī al-bay' wā al-shirā'*, writers explain that *Hanafiah*, *Shafi'iah*, and *Hanabilah* are in view the recipient (buyer) entitled to all of the property including the discounted portion if the transactions occur during a person's health because *al-muḥābāh* in buy and sale is considered a valid contract which necessitates the immediate transfer of ownership, hence no one including his heirs or creditors shall have the right over his money (discounted portion) and it is also not subject to the requirement of one third in bequest (Transaction made during sickness leading to *maraḍ al-mawt*. In this context, the father may sell his house to the son at a discounted price as long as he sells the house during his health by fulfilling the *Shariah* and law requirement of buy and sell. *Al-Malikiyyah* also shared the same view on its validity as long as possession (*qabd*) had occurred on the part of the buyer.

b. *Al-muḥābāh* in buy and sale with other than heirs occurring during sickness leading to *maraḍ al-mawt*

For this case, it is also noted in the *al-Mausu'ah al-Fiqhiyyah al-Kuwaitiyyah* that the *Hanafiah*, detailing the issue where *al-muḥābāh* in buy and sale with other than heirs during person's sickness leading to *maraḍ al-mawt* is not allowed if he is in debt, and the debt amount is equivalent to the value of his entire property. In this case the consent from the heir will not be considered as it is related to the right of the creditor. Consequently, the buyer must pay the *al-muḥābātu* portion according to the market price or cancel the sale and purchase (*faskh*). However, if the sick person has no debt, he can give *al-muḥābātu* portion within 1/3 or less of his property and if more than 1/3, the heir's permission is required. One of the opinions of *Malikiyyah* the buyer is given option of either completing the full payment according to the market value of the item or taking only what was paid (according to market value) and for the buyer what within one third of the seller's property (for the *al-muḥābāh* portion) while according to the *Shafiyyah* the buyer has option between canceling the sale and purchase and may accept a one third of the market price of the property to separate the portion of the property (combination of the sale and purchase with *wasiat* (Will))

c. *Al-muḥābāh* in buy and sale with heirs occurring during sickness leading to *maraḍ al-mawt*  
In this case, *Hanafiyah*, *Malikiyyah* and *Shafiyyah* are in the view that if *al-muḥābāh*

between heirs occurs during sickness leading to *marāḍ al-mawt*, then it is not allowed unless the rest of the heirs consented to the portion given. *Al-muḥābāh* from a sick person which leads to the *marāḍ al-mawt* is considered as a *wasiat*. And a will to an heir cannot be made except with the permission of the heir.

In summary, this first proposal, which involves selling property at a price below market value, is closely tied to the concept of *al-muḥābāh*. Therefore, this part serves as a concise explanation of *al-muḥābāh* as a Shariah consideration for the first proposal. This concept of *al-muḥābāh*, an indirect donation often disguised as a discount or other form of benefit, carries significant implications in Shariah law. It is crucial to safeguard the rights of all parties including heirs and creditors. *Al-muḥābāh* concept as above may be considered and applied to ensure this first proposal is carried out in accordance with Shariah principles.

Another *Shariah* consideration that requires attention is the fact that the banks intend to collaborate with the TO in offering *Shariah*-compliant residential financing products. This entails ensuring that any financial arrangements or agreements entered into are aligned with Islamic principles and are in accordance with Shariah guidelines.

#### ii. Legal Consideration

Based on consultations with the legal team of the TO, it has been determined that this first proposal necessitates the preparation of a comprehensive set of documents. These documents will likely require customization and discussion with the financial institutions which the TO would like to engage with for the house financing, such as banks, to ensure compliance and effectiveness. Additionally, a crucial legal consideration involves the drafting and execution of a Letter of Assignment, specifically designed to facilitate direct disbursement to the relevant party, the TO, as per the requirements of the proposal. This meticulous attention to legal details ensures the robustness and legality of the proposed structure can take place.

#### iii. Marketability Consideration

One notable advantage of this product is that the ownership of the house remains within the family member, particularly transferred to the senior citizen's son. This arrangement can hold significant sentimental value, addressing the emotional attachment that many senior citizens have towards their homes. However, significant concern arises if the senior citizen only possesses one house, as there is a risk of being displaced from their residence, even if they sell the house to their own son. This risk emerges from the possibility that the son, upon becoming the owner, may find it more profitable to rent the house to others rather than allowing his father to reside there.

Another critical consideration arises when the senior citizen either has no children to sell the house to or if none of their children are interested in purchasing the property. In such cases, this product becomes inapplicable, posing a significant challenge for senior citizens without willing or eligible family members to transfer ownership to. This highlights a limitation of the proposal, as it may not address the housing needs of senior citizens who lack familial options for property transfer.

Additionally, this first proposal exists a similar concept to Islamic reverse mortgage, which is exclusively offered by Cagamas in Malaysia. This alternative presents both advantages and disadvantages worth considering. On the positive side, it provides an avenue for senior citizens to access funds based on the equity of their homes without the need to sell the property outright. This can be particularly beneficial for senior citizens seeking financial support while retaining ownership and occupancy of their homes. However, it is essential to acknowledge the limitations and potential drawbacks of this option. For instance, the availability of this product is limited to certain areas, thereby restricting its accessibility for senior citizens residing elsewhere. Therefore, these all considerations addressed encompass Shariah compliance, legal adherence and market feasibility. These factors are paramount in ensuring the proposed products or services are aligned with Islamic principles, meeting legal requirements and having potential for success in the market. Each aspect necessitates thorough examination and meticulous attention to detail to ensure the viability and integrity of the proposal.

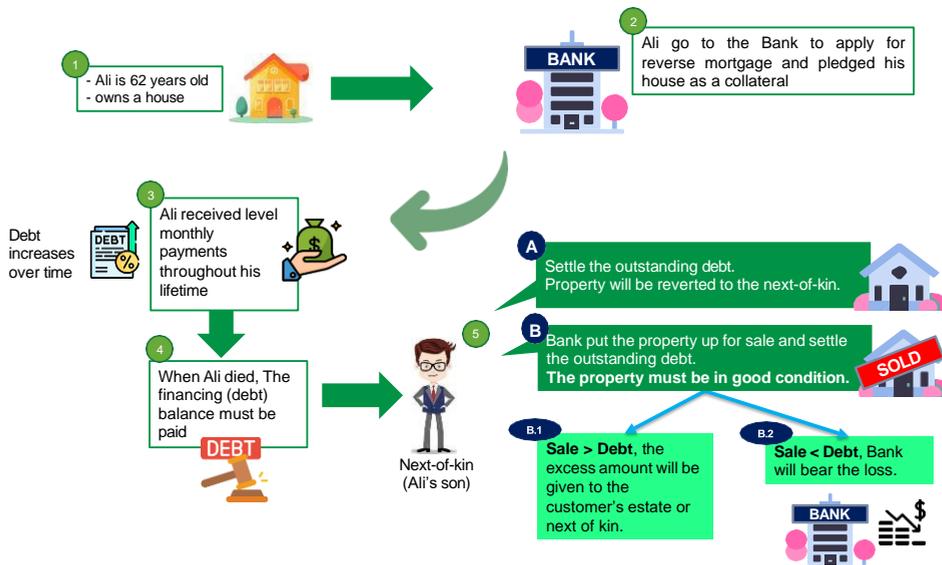
#### 4.2 Second and Third Proposal – Integration of Family Takaful with Reverse Mortgage

For the second and third proposals, the product is designed by integrating Family Takaful with reverse mortgage. However, since reverse mortgage may not be widely known by readers, this paper shall provide a

brief explanation of its structure for better comprehension.

#### 4.2.1. Reverse Mortgage Structure

Reverse Mortgage (“RM”) is a type of financing that is targeted for the elderly or retirees who own a home and allows them to convert their one big asset (their residential property) into a fixed monthly income stream throughout their lifetime, without sacrificing ownership whilst continuing to stay in their home. The reverse mortgage structure and its explanation are as follows:



Explanations:

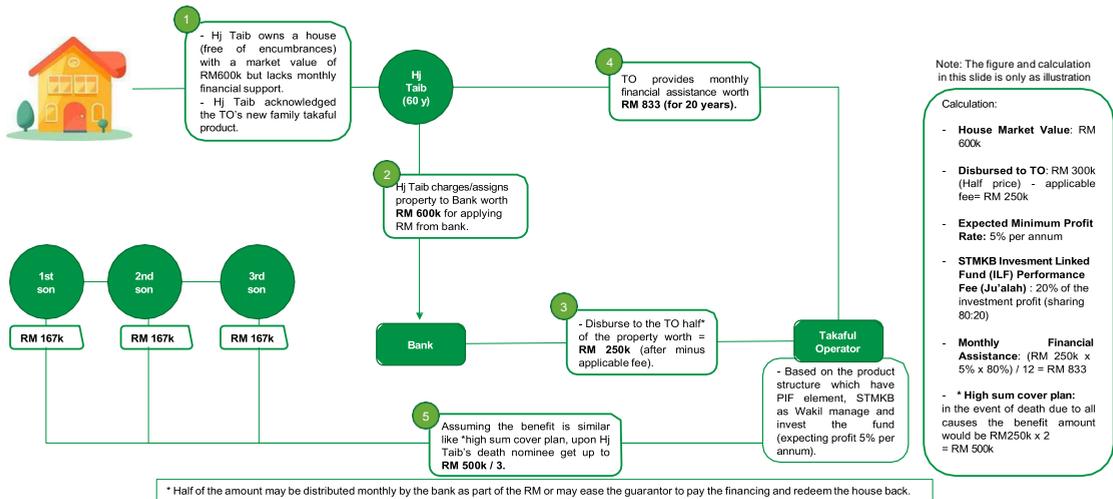
- i. Ali, aged 62, is a retiree and owns a house outright.
- ii. Ali, realizing his need for additional financial support during retirement, decides to explore the option of a reverse mortgage. He visits his local bank and applies for a reverse mortgage, using his house as collateral.
- iii. Upon approval of his application, Ali begins receiving monthly payments from the bank. For certain institutions, they have the option to provide a lump sum payment to the customer. These payments serve as a steady source of income for him to cover his living expenses throughout his retirement years.
- iv. Upon his demise, the outstanding debt from the reverse mortgage must be addressed. The bank presents two options for settling the debt:
  - Option A: Ali's next of kin may settle the outstanding debt directly. Upon settlement, the property will be reverted to them, ensuring that Ali's family retains ownership of the house.
  - Option B: If Ali's next-of-kin is unable or unwilling to settle the debt, the bank will initiate the sale of the property to settle the outstanding balance with two situations apply:
    - a. If the sale price of the property exceeds the outstanding debt, the excess amount will be distributed to Ali's estate or next of kin. This ensures that any surplus funds from the sale benefit Ali's beneficiaries.
    - b. If the sale price of the property is lower than the outstanding debt, the bank will bear the loss. This means that Ali's estate or next of kin will not be responsible for covering the shortfall, providing them with financial protection.

This serves as a concise overview of reverse mortgage, a concept that will be applied in the second and third proposals for reference.

#### 4.2.2. Second Proposal – Integration of Family Takaful with Reverse Mortgage

For the second proposal, research will be structuring the product by integrating family takaful product with

reverse mortgage. The proposed structure and its explanations are as below:



Explanations:

- i. Hj Taib, the owner of a house (free of encumbrances), finds himself in need of monthly financial support. Upon learning about the TO's new family takaful product (Integration of Family Takaful in Reverse Mortgage), he decides to explore it further.
- ii. To alleviate his financial strain and recognizing the potential benefits of the product, he opts to participate by assigning his house as collateral to Bank worth RM 600k for applying Reverse Mortgage from bank attached with Family Takaful plan.
- iii. Upon approval, the bank disburses RM 250k to the TO, after deducting any applicable fees. The TO acting as a Wakil, takes charge of managing and investing the funds on Hj Taib's behalf (as participant). The fund will be credited into PIF and dripped into PRF monthly. In managing the risk by splitting the disbursed amount into PIF and PRF, the TO aims for a projected minimum profit of 5% per annum, employing strategies such as dividing the funds into various investment vehicles.
- iv. As part of the product plan, the TO provides Hj Taib with monthly financial assistance amounting to RM 833 for a duration of 20 years, helping to cover his expenses and alleviate his financial burden.
- v. In the event of Hj Taib's demise, his nominated beneficiaries are entitled to receive RM 500k ensuring that his loved ones are financially supported even after his passing.

4.2.3. Product Features of Second Proposal

The proposed product features of the second proposal are as follows:

Features	Description
Coverage Tenure	20 years
Benefits	<ul style="list-style-type: none"> <li>- Fixed monthly pay-out to certificate holder</li> <li>- Death coverage; or</li> <li>- Total and Permanent Disability (TPD) coverage.</li> <li>- Get savings amount after maturity</li> </ul>
Contribution Mode	Single Contribution disbursed by bank directly to the TO
Initial Expenses	<ul style="list-style-type: none"> <li>- Customer to absorb the initial expenses such as property valuation, legal fee, and/or fire takaful coverage of the charged property.</li> <li>- Such initial expenses can be financed in the House Financing</li> </ul>

4.2.4. Considerations of Second Proposal

Several aspects of consideration need to take into account for this second proposal are listed as follows:

i. Shariah Consideration

Shariah consideration for the second proposal involves ensuring that engagement with the reverse mortgage institution is Shariah-compliant. Since the reverse mortgage will be offered by the bank, it is crucial to ensure that it is structured with applicable Shariah contracts, such as *Tawarruq* for financing or *Rahn* for collateral arrangements, or any other Shariah contract applicable to reverse mortgage.

ii. Legal Consideration

Following consultations with the legal team of the TO, this second proposal also requires a comprehensive set of documents. These documents will require customization and discussions with financial institutions, including banks, which the TO intends to collaborate with for the reverse mortgage. The objective is to ensure compliance and effectiveness. Additionally, a critical legal aspect involves drafting and executing a Letter of Assignment, tailored to facilitate direct disbursement to the TO, as stipulated in the proposal requirements. This meticulous approach to legal considerations underscores the solidity and legality of the proposed structure.

iii. Marketability Consideration

Based on discussion with product team it is noted reverse mortgage is a relatively unfamiliar concept among Malaysian citizens, but there is growing interest among banks other than Cagamas, which are currently exploring its potential. However, it may take another 2 or 3 years for it to become fully developed and widely known.

In Malaysia (as Cagamas offering), the standard practice for disbursement or pay-out is monthly, rather than as a lump sum. Offering this product as a lump sum payment to the TO, banks may find this product less profitable to them since they would need to provide a lump sum disbursement amount of cash to the TO. This could lead to some reluctance from banks to accept the product. Considering this concern, the product proposition shall be customized to balance the bank's profitability with the TO as a takaful operator.

However, a key advantage of this proposal is that the ownership of the property remains with the individual, and there is no risk of being evicted from the property. This aspect could serve as a significant selling point for the product, addressing concerns about property rights and security for the elderly population in Malaysia. Hence, all these considerations addressed, including Shariah compliance, legal adherence, and market feasibility, are crucial. Ensuring alignment with Islamic principles, meeting legal requirements, and gauging potential success in the market are paramount for this second proposal. Thorough examination and meticulous attention to detail are required for each aspect to ensure the proposal's viability and integrity.

#### 4.3 Third Proposal from Product Team – Integration of Family and General Takaful in Reverse Mortgage

For the third proposal proposed by the product team it will be structured by integrating family and general takaful with reverse mortgage. The product team proposed that it would not be the TO providing financial assistance, but rather the reverse mortgage product itself would support the monthly expenses. In this scenario, the TO would only complement the product, indicating TO's support for the bank's product. This approach emphasizes TO's collaboration with banks and shows TO's support of their offerings that may make them attracted to the TO's product.

As explained in the 3.2, there will be two options for the debt settlement as follows:

- i. Option A: Ali's next-of-kin could settle the outstanding debt directly. Upon settlement, the property will be reverted to them, ensuring that Ali's family retains ownership of the house.
- ii. Option B: If Ali's next-of-kin are unable or unwilling to settle the debt, the bank will initiate the sale of the property to settle the outstanding balance with two situations apply:
  - a. If the sale price of the property exceeds the outstanding debt, the excess amount will be distributed to Ali's estate or next of kin. This ensures that any surplus funds from the sale benefit Ali's beneficiaries.
  - b. If the sale price of the property is lower than the outstanding debt, the bank will bear the loss. This means that Ali's estate or next of kin will not be responsible for covering the shortfall, providing them with financial protection.

From these two options there are takaful plans/products that can be integrated as complement for the reverse mortgage product as follows:

- i. Death and TPD Benefit to Cater First Option

A Takaful plan covering death and Total Permanent Disability (TPD) of the individual could be integrated into the reverse mortgage. In this setup, if the individual passes away or becomes totally and permanently disabled, the sum covered by the Takaful plan would be paid to the bank. This payment would help cover the outstanding amount owed under the reverse mortgage.

ii. Homeowner & Fire Takaful to Cater Second Option

For option B, where the bank initiates the sale of the property to settle the outstanding balance, it's important to note that the property must be in good condition. This ensures that the property can fetch the maximum profit from the sale, allowing the bank to settle the debt and distribute any excess amount to Ali's estate or next of kin. To address this, integrating a Homeowner & Fire Takaful product could be beneficial. This Takaful coverage would protect the property against damage from fire or other hazards, ensuring that it remains in good condition and maximizing its value for sale.

In conclusion, the product team suggests that it may not be necessary to develop a new product from scratch. Instead, existing products can be strategically positioned to fit into arrangements such as house financing or reverse mortgage. By researching current Takaful offerings, the TO can identify suitable products and adapt with the existing offerings to align with these arrangements. For instance, the TO can explore how their current Takaful products can be integrated into reverse mortgage structures to provide added value and support for customers. This approach allows the TO to leverage on their existing product portfolio effectively and cater to the evolving needs of the market.

## 5. Analysis of the Proposals

### 5.1 Key Challenges of the Proposals

During the discussion with Product team, it was noted one of challenges for the proposals especially when it is offered for senior citizens is the high amount to be contributed by older ages. As the older age, contribution increases, potentially making the product less attractive to the market. The high required contribution may discourage senior citizens from participating in the Takaful plan. Consequently, it poses an additional challenge in product pricing.

Another challenge stems from the limitation of the current product offered by TO. Existing products do not offer increasing sum coverage which is necessary for a reverse mortgage in third proposal which the debt increasing over the time. Developing new products with increasing sum coverage takes time, and currently TO only has products that the maximum entry age is limited to 65-70 years old. Furthermore, there are issues related to medical requirements and non-medical limits. For older individuals, the Non-Medical Limit (NML) is capped at a maximum of RM150,000. Customers must undergo a cumbersome medical check-up process to enroll in the Takaful plan, which may deter participation.

Additionally, the lack of Retakaful support for products targeting older ages poses a challenge due to longevity risk. This complicates the development of such offerings by Takaful Operators, as they may face difficulties in managing risks associated with older age groups. During a discussion with a Legal representative, they highlighted that the Senior Citizen Bill will likely be tabled in the Parliament this year (2024). This bill may introduce related acts that could influence the structuring of products for senior citizens in the future. Additionally, Compliance representatives have reminded that senior citizens are considered vulnerable customers. Therefore, it is essential to refer to the Fair Treatment of Vulnerable Consumers Exposure Draft, as it will likely apply in this case. This draft outlines guidelines for ensuring fair treatment of vulnerable consumers, including senior citizens, and should be considered when designing products and services tailored to their needs.

### 5.2 Comparison and Discussion of the Proposals

The summarized comparison between the proposals is tabulated as below:

Criteria	Proposal 1: Family Takaful + House Financing	Proposal 2: Family Takaful + Reverse Mortgage	Proposal 3 (Product Team): Family + General Takaful + Reverse Mortgage
Shariah Compliance	The provisions of <i>al-muḥābātu fī al-bay' wā al-shirā'</i> and Shariah-compliant	Shariah-compliant reverse mortgage arrangements need to be	Shariah-compliant reverse mortgage arrangements need to be taken into account.

	house financing arrangements need to be taken into account.	taken into account.	
Legal Adherence	Requires preparation of comprehensive legal documents, including a Letter of Assignment, and compliance with relevant laws and regulations.	Similar legal requirements as Proposal 1, with additional considerations for reverse mortgage structures.	Utilize existing legal documentation, as it's readily available takaful product.
Ownership	Ownership stays within the family member which is passed to the buyer (his son), preserving sentimental value. However, there is risk of displacement if the senior citizens own only one house.	Property ownership remains with the individual (while he's alive), eliminating the risk of eviction and providing security for the elderly in Malaysia.	Property ownership remains with the individual (while he's alive), eliminating the risk of eviction and providing security for the elderly in Malaysia.
Market Feasibility	Demand may be limited due to high <i>tabarru'</i> charges for older ages and lack of interest from potential buyers. However, House financing is widely recognized and can be leveraged through bancatakaful arrangement.	Demand may be limited due to high <i>tabarru'</i> charges for older ages and Reverse mortgage is currently unfamiliar in Malaysia.	Demand may be limited due to high <i>tabarru'</i> charges for older ages and Reverse mortgage is currently unfamiliar in Malaysia.
Integration Complexity	Requires integration of Takaful with house financing products, which may require customization of documentation and coordination with Islamic financial institutions.	Integration of Takaful with reverse mortgage entails document customization and coordination with Islamic institutions. In Malaysia, disbursements are usually monthly, posing potential reluctance from banks due to profitability concerns with lump sum <u>payments.</u>	Requires integration of Takaful with reverse mortgage product, which may require coordination with Islamic financial institutions. However, the TO will just complement the reverse mortgage showing support for banks and their offerings that may attract them to the TO's product.

After analyzing the proposals and considering the common key challenges and comparisons, researchers acknowledge the pros and cons of the proposals. However, it is evident that settling third proposal from the product team offers the most advantages for all related parties which are the customer, takaful operator and banks. One significant advantage is the utilization of existing legal documentation for the TO's readily available takaful product, streamlining legal processes. Furthermore, the third proposal safeguards property ownership for the individual, mitigating the risk of eviction. It also offers options such as death benefit and Total Permanent Disability (TPD) coverage to settle outstanding debt, ensuring financial protection for the individual's heirs. Additionally, integrating homeowners and fire Takaful ensures the property remains in good condition, increasing its appeal and demand for potential buyers when the bank sells the house.

In terms of integration complexity, this third proposal requires coordination with Islamic financial institutions to integrate Takaful with reverse mortgage products. However, TO's role is only to complement the reverse mortgage, showing support for banks and their offerings, which could make them more inclined to collaborate with the TO. This approach emphasizes partnership and may enhance the attractiveness of TO's product to banks.

Researchers view that the proposal has the potential to address key issues identified in the problem

statement, including the lack of monthly financial support and insufficient savings among senior citizens and the low demand for current products available in the market.

## 6. Conclusion

In conclusion, the integration between Takaful and banking products presents a promising avenue for addressing the dynamic needs of senior citizens in the family Takaful sector. Through this integration, senior citizens can benefit from a comprehensive suite of financial solutions tailored to their specific requirements, including retirement planning, healthcare coverage and inheritance management. By leveraging the synergies between Takaful and banking offerings, Islamic financial institutions can enhance the accessibility, affordability, and effectiveness of their products for this growing demographic segment. Moreover, such integration fosters financial inclusivity and social welfare by ensuring that senior citizens have access to robust protection and wealth management solutions aligned with their ethical and religious beliefs. However, successful implementation requires careful consideration of regulatory frameworks, product design, distribution channels and customer education initiatives. As the population ages and demand for Sharia-compliant financial products continues to rise, exploring the potential of integration between Takaful and banking products remains imperative for promoting financial resilience and well-being among senior citizens in the Muslim community.

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# Harmonizing Sustainable Development Goals and Maqasid Shariah: A Strategic Framework for Indonesian Islamic Banks (Case Study on Bank Syariah Indonesia)

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## Abstract

This study explores the integration of Sustainable Development Goals (SDGs) with *Maqasid Shariah* in the management of Islamic banks. Employing qualitative research approach through content analysis, it identifies SDGs principles that align with the components of *Maqasid Shariah*. The research provides stakeholders and Islamic banks with a framework for assessing sustainable strategic management from an Islamic perspective. The study focuses on Bank Syariah Indonesia (BSI), where the majority of shares are state-controlled, and it hold substantial assets in the country. The strategies identified relation to SDGs can serve as valuable insights for managers in other Islamic banks and support *Shariah*-compliant practices.

*Keywords: Sustainable Development Goals (SDGs), Maqasid Shariah, Bank Syariah Indonesia (BSI)*

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## 1. Introduction

Islamic banks in Indonesia play a crucial role in expanding the country's banking industry, offering customers access to a diverse range of financial institutions (Asriani & Kurniawan, 2023). The legitimacy of Islamic banks in Indonesia was established by Law No. 7 of 1992, leading to the adoption of a profit-sharing structure (Puteh et al., 2018). The Islamic banking sector globally grows at least 5% annually (Majeed & Zainab, 2021). In Indonesia, Islamic financial institutions include 15 Islamic banks and 20 Islamic window banks (Statistics et al., 2022).

Positioned as an alternative economy promoting Islamic values for the welfare of all people, Islamic banks aim to achieve *maslahah* and minimize *mafsadah* (Laldin & Furqani, 2013). Islamic banks, as instruments of Islamic economics, seek profits while adhering to *Shariah* principles and contributing to community welfare. The objective is to reconcile diverse interests, with *maslahah* achieving shared welfare in line with the *Maqasid Shariah* (Johnston, 2007). Collaborating with the community to achieve Sustainable Development Goals (SDGs) becomes a crucial task for Islamic banks in fulfilling *maslahah* (Fares & Younes, 2021).

Efforts to harmonize the Sustainable Development Goals (SDGs) and *Maqasid Shariah* have been actively pursued. Fitria (2023) asserts that the synergy between *Maqasid Shariah*, which focuses on the protection of religion, intellect, lineage, and wealth, aligns closely with key SDGs such as poverty alleviation, quality education, and decent work. Islamic financial instruments like zakat, waqf, and sukuk-waqf play a significant role in supporting the SDGs by enhancing social and economic welfare.

Other studies also highlight the harmonious relationship between *Maqasid Shariah* and the SDGs, where the protection of the five key elements of *Maqasid* aligns with SDG objectives such as poverty eradication (SDG 1), zero hunger (SDG 2), good health and well-being (SDG 3), quality education (SDG 4), reduced inequalities (SDG 10), and gender equality (SDG 5). These studies further demonstrate that zakat management, guided by *Maqasid Shariah* principles, is well-aligned with SDG targets (Ab Rahman, 2019; Abdurrehman et

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al., 2021; Isman & Amalia, 2023; Md Rejab et al., 2022; Omar & Hajimin, 2023).

In addition to *zakat*, *waqf*, with its sustainable nature, also makes a significant contribution to the SDGs through innovative models such as *sukuk-waqf*. This model supports the financing of economic and social development projects, including education, healthcare, and environmental conservation. *Waqf* also serves as a platform for global partnerships (SDG 17) by fostering cross-border collaboration to achieve shared development goals (Abdullah, 2018; Hai et al., 2021; Rusydiana et al., 2023). Both *zakat* and *waqf* strengthen social inclusion and development grounded in moral values (Dirie et al., 2023; Mohd Zain et al., 2024; Rosman et al., 2022). Moreover, *Maqasid Shariah* and the SDGs can synergize through *takaful* (Mohd Zain et al., 2024), fintech (Jumat et al., 2023), and the circular economy (Campra et al., 2021).

Based on previous works, it is evident that most studies focus on linking *Maqasid Shariah*, SDGs, and Islamic social finance instruments such as *zakat*, *waqf*, *takaful*, and others. However, only a few have explored the connection between *Maqasid Shariah*, SDGs, and Islamic banking. Therefore, this study aims to synergize *Maqasid Shariah* and the Sustainable Development Goals (SDGs) within the framework of Islamic banking.

The paper is structured as follows: Section 2 explores the theoretical foundations of Islamic banking, SDGs, and their current implementation in Indonesia. Section 3 details the theoretical framework, while Section 4 explains the study methodology. Sections 5 and 6 provide the discussion and conclusions, respectively.

## 2. Literature Review

### 2.1 Islamic Bank

Islamic banks are growing in the world, including in minority Muslim countries. Islamic bank functions are standardized on *Shariah* guides, so their business operations contradict conventional banks (Prasojo et al., 2022). The *Shariah* principles that form the foundation of Islamic banks are sourced from the Qur'an, Hadith, Ijma, and other references such as knowledge development and research (Aslam, 2019). Mensi et al. (2019) state that Islamic banks' growth is centralized in the Gulf Cooperation Country (GCC), Iran, and Malaysia, with nearly 80 percent of the global Islamic bank industry. According to Islamic Financial Service Industry 2017 data, the total assets of Islamic banks globally in 2016 achieved USD 1,493.4 billion (Mensi et al., 2019). These assets are distributed across several regions, such as Asia, amounting to USD 218.6 billion. In the GCC, they amount to USD 650.8 billion. In the Middle East and North Africa (MENA), they amounted to USD 540.5 billion, and in Africa, other than North Africa, at USD 26.6 billion and in further countries it amounted to USD 56.9 billion.

Islamic banks have a perspective of values and products that are more varied than conventional banks. Nawaz (2019) expressed that in addition to savings products (savings and investment accounts), Islamic bank products provide equity-based products such as *mudharabah* and *musharakah* or interest-free debt products such as *Murabaha* and *ijarah*. The inherent difference between the Islamic banking scheme and conventional banks lies in principle. Islamic banks must follow *shariah* regulations from the *Qur'an* and *Sunnah*, prohibiting the usage of interest instruments, speculation, and *gharar* (Bhatti & Bhatti, 2009).

### 2.2 SDGs and their Recent Implementation in Indonesia

The United Nations designed the SDGs agenda to reconcile economic and social development by conserving nature (Biermann et al., 2017). The SDGs change global governance with the 5P principles: people, planet, prosperity, peace, and partnership. The SDGs schedule is held in the United Nations towards reaching economic, social, and environmental development by 2030 (Umar et al., 2022).

Governments must facilitate the SDGs at the national, regional, and global levels to successfully fulfill the SDGs. Islamic banks require the help of international institutions to allow them to play a critical part in fulfilling the SDGs (Budiman et al., 2022). Through the partnership, compromises should be designated to provide the poorest people access to adequate medicine, food, and water; and facilitate and help company and philanthropic entities to contribute to the achievement of the SDGs (Caiado et al., 2018).

The Indonesian government issued Presidential Decree (Kepres) No. 59 of 2017 regarding sustainable development to discover the SDGs. This regulation rules the roadmap for executing the SDGs in the nation by solving it into execution plans at both the national and regional levels. The four pillars of Indonesia's development program are integrated with the SDGs: social progress, economic development, environmental progress, and the formation of laws and regulations. According to a current Hudaefi (2020) report, Indonesia is ranked 99th out of 156 countries in the overall SDGs index.

### 2.3 SDGs on Maqasid Shariah Perspective

The United Nations approved the SDGs, also known as the Global Goals, in 2015 as a universal call to action to eradicate poverty, safeguard the planet, and ensure that all people experience peace and prosperity by 2030. The SDGs document has 17 objectives, 169 targets, and at least 230 indicators that must be met by 2030. The 17 specific objectives are as follows: SDG-1, "no poverty", SDG-2 "zero-hunger", and "excellent health and well-being" are the third SDG. Goal 4: "excellent education", Goal 5: "gender equality", SDG-6: "water quality and sanitation", SDG 7 "affordable and sustainable energy", and SDG-8: "decent jobs and economic growth". SDG-9L "Industry, Innovation, and Infrastructure", SDG-10 aimed to "reduce inequality", SDG-11: "sustainable cities and communities", SDG-12: "responsible consumption and production", SDG-13: "climate action", SDG-14: "protecting life below water", SDG 15: "living on the land", SDG-16: "Peace, justice, and strong institutions" and "Partnership for the Goals" is SDG-17 (Asmalia et al., 2018; Hudaefi, 2020; Goyeneche et al., 2022).

The SDGs are a bold commitment to accomplish what we started and abolish all forms and dimensions of poverty by 2030. This involves focusing on the most vulnerable individuals, providing them with additional primary resources and services, and assisting communities impacted by conflict and natural catastrophes. It also aims to abolish all forms of hunger and malnutrition by 2030, ensuring everyone, especially children, has year-round access to sufficient and nutritious food. This includes promoting sustainable agriculture practices, assisting small-scale farmers, and ensuring equal access to land, technology, and markets. Additionally, international cooperation is required to ensure investments in infrastructure and technology to enhance agricultural output. Achieving inclusive and high-quality education reinforces the conviction that education is one of the most potent and tested vehicles for long-term development as by 2030, all girls and boys will have completed free primary and secondary school. It also aspires to equalize cheap vocational training, erase gender and economic gaps, and provide universal access to high-quality higher education. Many other programs are carried out to achieve the desired target (Abdullah, 2018; Adebayo, 2020; Alkhan & Hassan, 2021; Al-Khawaja & Bardai, 2018; Anderson et al., 2017; Fad, 2019; Guo et al., 2022; Hudaefi, 2020; Okitasari & Katramiz, 2022; Qoyum & Prasojo, 2020; Rusanti, 2021; Tasnim et al., 2022).

The modern *Maqasid Shariah* notion has evolved from 'protection' to 'development' and 'human rights'. This transition is due to Ibn 'Asyur's contribution, which opened the door for modern academics to develop *Maqasid* theory in new directions. The new point of view is not an al-version of Ghazali's protection (*Hifzh*) but rather Ibn 'Asyr's version of 'value' and 'system' (Auda, 2011).

*Maqasid Shariah* is intended to assist both persons in this world and that hereafter. The benefit principle is fulfilled by fulfilling three basic needs: primary, secondary, and tertiary (*dharuriyah*, *hajiyah*, and *tahsiniyah*). Primary necessities (*dharuriyah*) are met when the permanence of the five major things (*mabadi' al-khams*, *dharuriyat al-khams*) is confirmed: soul, religion, mind, property, and descendants. The second level, *hajiyat* (secondary), requires an experience of difficulties, if not materialized, not to the detriment of his safety. This challenge is mitigated by Islamic law. The existence of *Rukhshah* law demonstrates Islamic *Shariah's* concern for this issue. The third level, *tahsiniyat*, is the level of wants that, if not met to the extent that it threatens the life of one of the five essential elements listed above, does not also bring the community.

Things that are proper according to tradition are consistent with morality and ethics on this level. This style places a greater emphasis on ethics and aesthetics. Principles relating to hygiene and humanitarian help, for example, fall within this category (Ar-Risuni, 1995; Auda, 2011). According to past research, the 17 aims are compliant with *Maqashid Shariah*. However, some argue that *maqashid* is broader than the SDGs (Abdullah, 2018; Adebayo, 2020; Asmalia et al., 2018; Qoyum et al., 2022; Qoyum & Prasojo, 2020)

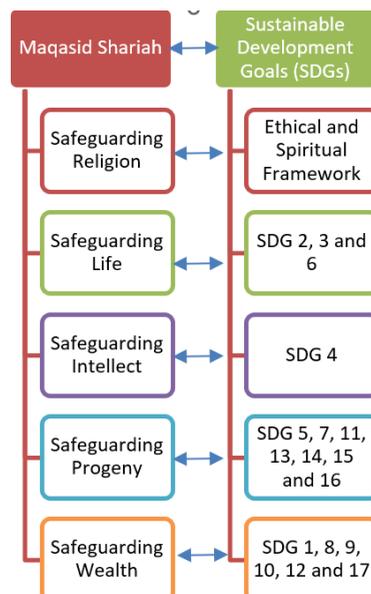
### 3. Theoretical Framework

A theoretical framework is a structured conceptual foundation designed to support and guide research. It serves as a basis for understanding a phenomenon by offering philosophical, epistemological, methodological, and analytical perspectives. This framework outlines the relationships between key variables and concepts, grounded in relevant theoretical foundations (Eisenhardt, 1989; Grant & Osanloo, 2014).

This study integrates the principles of *Maqasid Shariah* and SDGs to assess their synergy within Islamic banking (see Figure 1). Safeguarding Religion (*al-Din*), though not directly linked to specific SDGs, provides a foundational ethical and spiritual framework for development initiatives. Safeguarding Life (*al-Nafs*) aligns

with SDG 2 (eradicating hunger and promoting food security), SDG 3 (ensuring health and well-being), and SDG 6 (managing water and sanitation sustainably). Safeguarding Intellect (*al-Aql*) supports SDG 4 (ensuring quality education and lifelong learning opportunities). Safeguarding Progeny (*al-Nasl*) resonates with SDG 5 (achieving gender equality), SDG 7 (ensuring sustainable energy), SDG 11 (creating inclusive and resilient cities), SDG 13 (taking climate action), SDG 14 (conserving marine resources), SDG 15 (preserving terrestrial ecosystems), and SDG 16 (promoting peaceful and inclusive societies). Finally, Safeguarding Wealth (*al-Mal*) is linked to SDG 1 (eradicating poverty), SDG 8 (promoting sustainable economic growth and decent work), SDG 9 (building resilient infrastructure), SDG 10 (reducing inequalities), SDG 12 (ensuring sustainable consumption and production), and SDG 17 (strengthening global partnerships for sustainable development). This framework demonstrates the potential of Islamic ethical principles to complement global sustainability objectives, fostering holistic and inclusive progress.

Figure 1: Theoretical Framework



Source: Authors' own

#### 4. Research Methodology

This investigation uses a qualitative method by investigating the annual report documents of Islamic banks. This method was selected because it is more effective in terms of time and cost than surveys or focused discussion groups (FGD). This examination adopts the method of prior researchers, [Hudaefi \(2020\)](#), which investigates the connection between SDGs and Islamic fintech. [Umar and Kurawa \(2021\)](#) concerning knowledge of Islamic accounting standards in Nigerian Islamic banks.

The breakdown population consists of Indonesian Islamic banks which publish annual reports for 2023. The sample using the purposive selection technique is based on the research objectives. The sample criteria, first, is that Islamic banks issue annual reports for the 2023 period. Second, Islamic banks disclose satisfactory information concerning the dimensions of *Maqasid Shariah*. Based on Otoritas Jasa Keuangan (OJK) data, the number of banks fulfilling the sample criteria is only Bank Syariah Indonesia (BSI).

Research data analysis was carried out with a thematic analysis that prior researchers have widely used ([Rahman et al., 2020](#); [Richards & Safari, 2021](#); [Thaker, 2018](#); [Umar & Kurawa, 2021](#); [Umar & Musa, 2020](#)). Themes are classified founded on the five elements of *Maqasid Shariah* with a question design to answer the analysis goals, which are demonstrated in Table 1.

Table 1: Question Design

No	Categorical themes	Designed questions
1	Safeguarding religion ( <i>al-Din</i> )	Do the goals of SDGs practices of Islamic banks support Safeguarding religion?
2	Safeguarding life ( <i>al-Nafs</i> )	Do the goals of SDGs practices of Islamic banks support Safeguarding Life?
3	Safeguarding intellect ( <i>al-Aql</i> )	Do the goals of SDG practices of Islamic banks support Safeguarding Intellect?
4	Safeguarding progeny ( <i>al-Nasl</i> )	Do the goals of SDGs practices of Islamic banks support Safeguarding Progeny?
5	Safeguarding wealth ( <i>al-Mal</i> )	Do the goals of SDGs practices of Islamic banks support Safeguarding Wealth?

#### 4.1 Islamic Bank Sample Overview

Briefly, the chronology and ownership of BSI are as follows. First, BSI was only established in early 2021 through a merger. A substantial event in 2021, three state-owned Islamic banks consisting of BNI Syariah, BRI Syariah, and Bank Syariah Mandiri merged to become Bank Syariah Indonesia (BSI) on February 1, 2021. The Otoritas Jasa Keuangan (OJK) approved the BSI merger with Number SR-3/PB.1/2021 on January 27, 2021. BSI's share ownership composition consists of Bank Mandiri at 50.83%, Bank Negara Indonesia at 24.85%, Bank Rakyat Indonesia at 17.25%, and the public owns the rest.

Table 2: Descriptive Statistics

Total asset (billion Rupiah)	Number of branches	ROA	Total employee
353.620	1.986	2.35%	24.875

Individual brief Islamic bank data is presented in Table 2. Based on OJK Islamic bank statistics in December 2023, the total assets of non-window banking Islamic banks amounted to IDR 353.620 billion. BSI controlled 39.6% of the total assets of national Islamic banks. The number of branch offices of all Islamic banks is 1.986, so BSI branch offices. The ROA of the Islamic banking industry for the same period was 2.35%. It can be concluded that BSI performed outside the industry standard with an ROA value of 1.79%.

#### 4.2 Connection Islamic bank, Maqashid Shariah, and SDGs

Islamic banks not only focus on business orientation like conventional banks but also encourage the real sector economy and social inclusion to have a solid potential to promote the achievement of the SDGs. Islamic banks are mandated to concede with the Shariah aspect, and the fulfillment of this aspect can be measured by the *Maqasid Shariah* indicator (Tarique et al., 2021). Elements of *Maqasid Shariah* align with the SDGs' dimensions of sustainability, which include economic, social, and environmental sustainability. Islamic banks contribute to achieving SDGs when bank operations follow Islamic *Maqasid* indicators.

The achievement of Islamic bank performance in the vision of *Maqasid Shariah* can be measured based on the ensuing five dimensions: safeguarding religion (*al-din*), safeguarding life (*al-nafs*), safeguarding intellect (*al-aql*), safeguarding progeny (*al-nasl*), and safeguarding wealth (*al-mal*). The analysis results from the three sample banks of this study are presented in the observation.

##### 4.2.1 Bank Syariah Indonesia (BSI)

The analysis was carried out by exploring the five elements of *Maqasid Shariah* in the BSI annual report and then reaching them with the SDGs arrows. The results indicated that BSI had fulfilled all aspects of *Maqasid Shariah*. All aspects of *Maqasid Shariah* are internalized in the bank's operational practices. Actions to fulfill stakeholder interests are classified into internal (employees, directors, and shareholders) and external parties. Fulfilling the interests of internal stakeholders connected to *Maqasid* components is realized through training and competency development. External stakeholders focus on social and environmental-related shiftings, which are realized through corporate social responsibility (CSR) activities. In overview, the details of *Maqasid*

shariah connected to the SDGs in BSI are offered in Table 3.

Safeguarding religion (SR) as the first indicator of *Maqasid Shariah* cannot be connected to the SDGs indicator because it has no bearing. BSI has fulfilled the benchmarks for this element by conducting training and competency development. The collected expenses for training and competency development in 2023 are IDR 90.600.000.000. This program is delivered to all employees, from senior managers to managers, officers, and staff. The number of training agendas is 1.118 items, with a total of 521.036 participants. Each employee participates in several training programs throughout the year. In 2023, employees received an average of 78 hours of training each.

CSR funds disbursed in 2023 amounted to IDR 255.000.000.000. The bank's social CSR funding sources come from zakat funds (company zakat, employee zakat, customer zakat, and general zakat) and benevolence funds (*infaq/sadaqah*, fines, non-halal income, donations/grants). CSR activities are relevant to social, namely BSI Village, BSI Maslahat, BSI powered Islamic boarding school and BSI Scholarship.

Safeguarding life can be linked to SDG2, SDG3, and SDG6. The BSI Village Program, an initiative by BSI, empowers 4,095 beneficiaries across 10 provinces by optimizing local resources such as agriculture and livestock, strengthening institutions, applying appropriate technology, and utilizing ZISWAF funds. With an end-to-end strategy, this program aims to improve the economic, social, and spiritual welfare of communities.

Related to SDG3 indicators, The BSI Maslahat supported 693 families in 2023 through intensive coaching and assistance to enhance knowledge, management skills, and business quality. Covering 19 business clusters across 11 provinces, the program also provided halal certification education through webinars, focusing on benefits, procedures, and marketing strategies, to help MSMEs grow and compete in the market. BSI powered Islamic boarding school aims to enhance the self-reliance of *pesantren* through economic and entrepreneurial development. By the end of 2023, it supported 624 students across 12 *pesantren* in 6 provinces.

Indicator SDG6, BSI encourages clean water savings. Efficiency is carried out through water treatment and recycling used water for toilet flush water. BSI saves water for ablution and utilizes used water for ablution for watering plants. Appeal to reduce drinking water consumption in bottles/glasses for internal events. BSI recycles used water for toilet flushing and ablution and repurposes it for watering plants. The company encourages reducing bottled or glass drinking water at internal events.

Indicator SDG4, BSI provides health insurance to all employees and their families with a maximum of two children. This program is implemented through the Social Security Administering Body. BSI has registered all employees for health insurance and employment insurance in accordance with Indonesian government regulations.

Elements of *Maqasid Shariah* safeguarding progeny are linked to SDG5, SDG7, SDG11, SDG13, SDG14, SDG15, and SDG16. The SDG5 indicator in the analysis of the BSI annual report is the issue of gender equality. Gender equality in employment opportunities. Bank guidelines that support fair treatment and gender equality for employees include:

- i. Implementation of Human Capital Strategy.
- ii. BSI provides employee rewards such as incentives and bonuses.
- iii. BSI issued sanctions for employees who violate discipline in guidance, warning letters (SP1, SP2, SP3), and layoffs for problematic employees (fraud).
- iv. Transfer, promotion/rotation/demotion of employees and work unit officials.
- v. BSI Giving appreciation in the form of prizes/for employees/branch achievements.
- vi. Bank implementation of the new employee screening program, primarily related to family relationships.
- vii. Employee Assessment Center Program.

SDG7 is related to indicators of saving electricity use. The total electricity consumption in 2023, electricity usage totaled 2.117.285 kwh, and fuel consumption reached 281.983 liters. BSI has switched to 100% energy-efficient LED lighting, reducing waste, and collected 22.9 tons of plastic bottles for recycling, cutting 84.4 tons of CO2 emissions. Additionally, 39.329 trees were planted to support reforestation. BSI has carried out energy efficiency during 2023 in various ways:

- i. Bank applicable solar panels and water treatment at the office.
- ii. BSI uses environmentally friendly materials in the form of LED lights.
- iii. Office using inverter technology and refrigerant volume in air conditioners.

iv. Set the air conditioner as needed.

Indicator SGD11, BSI made various efforts to reduce emissions through more efficient workspace layouts, work from home, and online meetings to reduce the use of operating vehicles. BSI performs routine vehicle servicing and uses high-quality fuel to reduce air pollution. The bank uses shuttle vehicles for employees to reduce the use of private vehicles. The bank calculates the number of hours of use of operational vehicles to estimate the number of carbon emissions. In 2023 the total emissions from operational vehicles amounted to 1,800,442 tons of CO<sub>2</sub> emissions.

SDG13 indicator, BSI has a disaster emergency and recovery center program. The program strengthens the function of disaster response management and recovery for affected communities. This activity aims to reduce the risk of casualties and help alleviate the community's needs. Throughout 2021, BSI has helped at least nine disaster locations throughout Indonesia. The disaster emergency and recovery center have three activities focusing on reducing disaster risk, disaster response, and post-disaster recovery. SDG14 indicator, BSI seeks to improve water use efficiency through various means:

- i. The use of water treatment in the BSI office building.
- ii. Recycle the water used by the building to flush toilet water in the new building.
- iii. Set up so that the ablution water at the BSI Mosque is more efficient.
- iv. Use water used for ablution to water plants.

SDG15 indicator, Banks demonstrates its commitment to sustainable finance through the launch of the Gerakan Berkelanjutan BSI. This program encourages Indonesians to contribute to environmental preservation and sustainability. Key activities include collecting plastic waste via Reverse Vending Machines (RVMs) in Bali and Jabodetabek, which are recycled into products by local SMEs, and planting trees and caring for turtle hatchlings. Collaborating with Plasticpay, this initiative allows the public to exchange plastic bottles for money, promoting the 3P principles (People, Planet, Profit) in sustainable finance while raising environmental awareness.

SDG16 indicator, BSI's business activities are not directly related to nature. BSI environmental sustainability through financing activities. BSI has evaluated the environmental impact on all of its debtors. Throughout 2023, BSI did not receive information on environmental complaints from bank debtors.

The fifth element of *Maqasid Shariah*, safeguarding wealth, can be linked to indicators of SDG1, SDG8, SDG9, SDG10, SDG12, and SDG17. BSI reports the distribution of sustainable financing and humanitarian assistance programs as an effort to alleviate poverty, and these activities are relevant to the SDG1 criteria. Assistance program for various asnaf: poor, *fii sabilillaah*, and *gharimin*. The provision of this assistance focuses on the fields of education, health, economy, and da'wah. Throughout 2023, assistance has been distributed to 333,000 beneficiaries worth Rp 255,100 billion. The bank recorded assets of Rp 353,620 billion, financing of Rp 240,300 billion, third-party funds of Rp293,800 billion, and a net profit of Rp 5.7 trillion in 2023. BSI disbursed sustainable financing of Rp 46,158 billion, consisting of the MSME portfolio amounted to Rp 45,500 billion, and the green financing (Non-MSME) Portfolio amounted to Rp 57.7 trillion in the same year. The ratio of sustainable financing to total financing reached 24%.

SDG8 indicator, BSI has made various efforts to improve employee welfare. Throughout 2021 BSI reported four efforts to achieve these goals:

- i. The bank guarantees the welfare of employees by following labor laws and company regulations.
- ii. Ensuring gender equality in employment opportunities and employee training.
- iii. Providing health facilities and a proper and safe workplace for all employees.
- iv. Ensure that the bank's operational activities run under work safety procedures and standards.

SDG9 indicator, BSI conducts the construction of places of worship, public facilities that have a social impact, and office buildings with the concept of green buildings. SDG10 indicator, Cooperation with Dubai to open a representative office. BSI opened a branch in Dubai after receiving a Letter of Incorporation from the Dubai International Financial Center (DIFC) on November 4, 2021. BSI is preparing to strengthen Indonesia's position on the Global scene to become the first Bank from Indonesia to have a representative office in the Middle East Region with the operation of BSI on January 28, 2022. SDG12 indicator, BSI recycles waste to reduce earth pollution. BSI utilizes wastepaper to print internal documents. BSI provides vending machines for

recycling plastic waste/beverage bottles. BSI is trying to reduce the use of documents through digitizing transactions, such as online account opening.

Table 3: Linking Maqasid Shariah, SDGs, and BSI

No	Maqasid Shariah	SDGs	BSI
1	Safeguarding religion	No SDGs related to this part	Internal (training and competency development) and external (CSR)
2	Safeguarding life	1. SDG2: BSI village programs 2. SDG3: ensure healthy lives and promote well-being for all 3. SDG6: ensure availability and sustainable management of water and sanitation for all.	External (developing farmers to enhance food security) External (Enroll in the health and pension insurance programs provided by the govern) Internal (Water Use Efficiency)
3	Safeguarding Intellect	SDG4: ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Internal (health insurance for employees)
4	Safeguarding Progeny	1. SDG5: achieve gender equality and empower all women and girls 2. SDG7: ensure access to affordable, reliable sustainable, and modern energy for all 3. SDG11: make cities and human settlements inclusive, safe, resilient, and sustainable 4. SDG13: take urgent action to combat climate change and its impacts 5. SDG14: conserve and sustainably use the oceans, seas, and marine resources for sustainable development 6. SDG15: protect, restore, and promote sustainable use of terrestrial ecosystems, manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss 7. SDG16: promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions	Internal (gender equality in employment opportunities) Internal (energy efficiency) Internal (emissions reduction) External (disaster emergency and recovery center program) Internal (water use efficiency) External (play an active role in maintaining biodiversity) BSI did not receive complaints related to environmental issues during 2023.
5	Safeguarding Wealth	1. SDG1: eradicate poverty in all its forms everywhere 2. SDG8: promote sustained, inclusive, and sustainable economic growth, full and	Internal (sustainable financing) and external (humanitarian assistance) Internal (employee welfare)

productive employment, and decent work for all	
3. SDG9: build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation	Internal (development with green building concept)
4. SDG10: reduce inequalities within and among countries	Internal (cooperation with Dubai to open a representative office)
5. SDG12: ensure sustainable consumption and production patterns.	Recycle waste and reduce printed documents.
6. SDG17: strengthen the means of implementation and revitalize the global partnership for sustainable development	There are no activity or program reports relevant to this indicator.

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## 5. Conclusion and Recommendation

This study uses documentary research methods to analyze the relationship between Islamic *Maqasid* elements in Indonesian Islamic Banks (BSI) and the SDGs initiated by the United Nations. BSI during 2023 is known to have realized expenditures related to fulfilling employee welfare such as training and developing employee skills, covering health insurance, providing pension insurance, and upholding gender equality. In addition to environmental issues, BSI has made efforts to save water, electricity, and fuel, apply the concept of green building, and recycle used goods. BSI has managed to fulfill SDG indicators related to social and environmental issues through CSR activities.

These findings indicate that BSI has the potential to contribute significantly to the achievement of various SDG indicators. These findings have implications for Islamic banks to improve their company's internal and external initiatives and programs following Islamic *Maqasid*, which can significantly contribute to achieving SDGs for socio-economic development. Compliance with the *Maqasid Shariah* component helps BSI to increase the disclosure of employee welfare programs and economic, social, and environmental issues in the annual report to provide comprehensive financial and non-financial information about the bank's initiatives and activities related to the program. BSI's active participation in employee welfare program initiatives and economic, social, and environmental issues will significantly help legitimize their activities and enable them to gain stakeholder approval.

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# Consumers' Perspectives on Sustainability Practices of Islamic Banks and Halal Businesses

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## Abstract

Given the accelerated climate change, economic woes, growing social inequality and social discontent in various communities, Islamic banks and halal businesses can no longer ignore concerns about sustainability practices if they are to remain viable. To this end, this study intends to ascertain consumers' views on the sustainability practices of Islamic banks and halal businesses. A quantitative research design was adopted, and a survey questionnaire was used to collect data from 302 predominantly young consumers in Klang Valley, Malaysia. Descriptive analyses were performed on the collected data using the Statistical Package for Social Sciences (SPSS) software. The results reveal that respondents strongly agree that goods and services from sustainably operating Islamic banks and halal businesses are worth paying for and patronising, that the ethical reputation of Islamic banks and halal businesses influences their decisions to patronise them, that they will not patronise Islamic banks and halal businesses that engage in unethical practices, and that they are willing to pay more for products that show care for the well-being of society. Additionally, they prefer to patronise Islamic banks and halal businesses with a socially responsible reputation compared to other companies without such a reputation. Based on these findings, it is recommended that rather than pursuing profitability at all costs, Islamic banks and halal businesses should adopt a comprehensive approach to sustainability practices—specifically economic, environmental, social, and philanthropic sustainability—that truly advances sustainable development if they are to remain viable.

*Keywords:* Sustainability practices, halal businesses, Islamic Banks, economic sustainability, environmental sustainability, social sustainability

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## 1. Introduction

Sustainable practices, which are an important aspect of Islamic and halal businesses have attracted the attention of scholars, management and practitioners alike in the halal industry. Given the accelerated climate change, economic problems, growing social inequality, and social dissatisfaction in various societies, it has become increasingly impossible for Islamic banks and halal businesses (henceforth, halal businesses) to ignore issues related to economic, environmental, and social dimensions in today's business landscape (Svensson & Wagner, 2016). These and other relevant issues have made sustainability a critical goal that must be achieved at every stage of a halal business's life cycle and crucial for achieving their long-term developmental plans (Muñoz-Pascual et al., 2019). Despite the crucial roles of the private sector in making the world a better place, Fauzi et al. (2020) note that halal businesses are yet to address sustainability issues holistically, involving the integration of key fundamental aspects including people, planet, and prosperity as they truly deserve. To this end, halal businesses need to focus on all aspects of sustainability to be able to convince stakeholders and promote the

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essence of Shari'ah.

Briefly, 'halal' originates from the Arabic word meaning allowed or permitted, while 'haram' means prohibited or unlawful by Islamic law. The term 'halal' is applicable to food, cosmetics, personal care, pharmaceuticals, Islamic finance, lifestyle, tourism etc. Specifically, a halal business refers to a business involved in the manufacturing of halal products, offering halal services, and not violating Shari'ah law in all aspects, especially those related to economic, social and environmental factors (Azam & Abdullah, 2020). As businesses that truly subscribe to Islamic principles, focusing on sustainability holistically is tantamount to promoting the essence of Maqasid al-Shari'ah. This is because the overall objective of Shari'ah is to serve the interests of human beings, protect them from danger, and promote peace in our societies (Nor et al., 2019). Given their nature, halal businesses are expected to show adequate concerns for the best way to contribute positively to people and the environment, since one of the critical outcomes of Islamic religious learning practices is to promote well-being (Bensaid & Machouche, 2013). Thus, emphasising the core aspects of sustainability will not only improve public well-being but offer long-term benefits to businesses.

In light of the above arguments, Azam and Abdullah (2020) note that halal businesses should emphasise goods and services that fall into the category of necessity to achieve the objectives of Shari'ah. Jaiyeoba and Azam (2023) assert that businesses that operates within the tenets of Islam must be ethical in seeking economic gain, versatile in serving the community, and active in protecting the environment. Therefore, taking a holistic approach to all aspects of sustainability is an effective way to achieve Maqasid al-Shari'ah for people, communities and business entities. This perfectly aligns with the Qur'an, where Allah says: "*Allah does not intend to make difficulties for you, but He intends to purify you and complete His favor upon you so that you may be grateful.*" This demonstrates that Shari'ah's goal is to prevent difficulties for human beings, suggesting that the holistic pursuit of sustainability offers financial benefits as well as spiritual benefits for halal businesses. As noted by Jaiyeoba et al. (2023), businesses must pay adequate attention to the elements of sustainability and maintain a balance between these elements. In accordance with this view, there is a need to conduct research on the sustainability practices of halal businesses, essentially to expose these businesses to consumers' perspectives on a holistic approach to sustainability practices. This is because consumers are likely to provide an unbiased view as respondents (Nor et al., 2019). Through such a holistic approach, halal firms can better comprehend the necessity of genuinely fulfilling their economic, social and environmental obligations.

This invariably suggests that halal businesses are encouraged to lead their operations and conduct their activities in accordance with virtue and moral awareness as commanded by Shari'ah (Jaiyeoba et al., 2024). As halal businesses are required to respond to economic, social and environmental concerns in a balanced manner, rather than as self-centred utility-maximising economic agents idealised in neoclassical economics (Dusuki & Bouheraoua, 2011), it is envisaged that this study will encourage them to develop a holistic sustainability strategy with a positive effect on the country's economic development and halal business sustainability. The study will help halal businesses realise that low morale, lack of ethics or inadequate attention to the sustainability framework could lead to poor financial performance by emphasising the importance of addressing the economic, social and environmental dimensions effectively. Therefore, investigating consumers' perspectives on the sustainability practices of halal businesses will not only increase their understanding of the importance of sustainability to consumers but also provide a comprehensive view to support the long-term sustainability of their operations. This study is expected to establish a foundation for halal businesses to operate more efficiently and profitably while simultaneously achieving the desired economic, social and environmental value over the long term.

Moreover, responsible consumers will gain insight into the importance of sustainability practices in Malaysia and, by extension, understand why it is crucial to consider such practices when making purchasing decisions or patronising halal businesses in the country. Following this introduction, the remainder of the study is structured into four main sections. The next section reviews relevant literature, focusing specifically on business sustainability and an empirical analysis of sustainable practices. Section three outlines the data and methodology. The subsequent section presents and interprets the findings of this study. The penultimate section discusses the implications of the findings, while the final section concludes by highlighting the study's limitations and providing recommendations for future research.

## 2. Literature Review

### 2.1. Business sustainability practices

Business sustainability refers the practice of managing a company's financial, social and environmental responsibilities in a way that ensures its long-term success and contributes positively to society and the planet. According to [Tonello and Singer \(2015\)](#), business sustainability involves allocating financial resources for non-financial factors, i.e., environmental, social, and governance (ESG) or corporate social responsibility (CSR) practices, to seize growth opportunities. Sustainability has been hailed as a critical new phenomenon that organisations, including stakeholders, such as investors, customers and regulators must comprehend and implement ([Sheth et al., 2011](#)). Many researchers who have discussed sustainability strongly agree that it has had and will continue to have a significant material influence on business strategy and operations. Many business managers have acknowledged that sustainability practices are crucial for firm competitiveness, reducing company expenses and risks, improving brand reputation, attracting top talent, and enhancing competitiveness ([Dyllick & Muff, 2016](#)). Business sustainability practices are crucial for discovering competitive advantages and generating long-term value for profitability and ongoing growth by integrating these practices into corporate strategy to address global issues ([Jaiyeoba, 2023](#)). While business sustainability practices have been widely explored by numerous scholars, business executives have recognised, more than ever, the need to take steps towards sustainability practices to ensure the long-term sustainability of their businesses.

Business sustainability involves entrepreneurial activities aimed at improving the environment, reducing human impact, and promoting social well-being, while also helping businesses generate more revenue to sustain themselves. [Jaiyeoba et al. \(2024\)](#) document that there are ample justifications from a Shari'ah perspective for integrated sustainability practices. They also reveal that there is a need for increased awareness regarding the importance of businesses adopting a holistic approach to sustainability through the implementation of suitable sustainability strategies that ensure compliance with social and environmental standards. [Jaiyeoba and Azam \(2023\)](#) identify commitment to halal best practices, zakat and charitable donations, halal economic responsibility, legal responsibility, environmental responsibility, employee welfare, and responsible dealing with clients as the CSR of Islamic banks and halal businesses in the post Covid-19 pandemic era. [Peterson et al. \(2021\)](#) note that firms that strongly pursue sustainable business practices would receive support from consumers who are passionate about business playing a role in protecting the natural environment and increasing social justice. They aver that sustainable business practices cover effective and responsible investing in their financial capital as well as simultaneously contributing to certain environmental and social causes that assure environment protection and social justice. [Viciunaite and Alfnes \(2020\)](#) reiterate the need for sustainability-oriented firms to be aware about consumer preferences for pro-social and pro-environmental attributes to put forward a value proposition that can convince consumers to buy their product.

In terms of ideology, [Söderbaum \(2009\)](#) documents that business sustainability and Corporate Social Responsibility (CSR) are inherently linked. For instance, [Carroll's \(2000\)](#) study argues that CSR can benefit businesses by promoting a sustainable environment and having a social impact due to the focus on CSR. [Closs et al. \(2011\)](#) note that there has long been a belief that controlling the triple bottom line will increase a company's efficiency and profitability in the long run. However, [Hassini et al. \(2012\)](#) assert that no study has yet comprehensively addressed the economic, environmental, and social components of sustainable practices in an integrated manner. This argument is supported by [Gao and Bansal \(2013\)](#), who claim that only a few studies have attempted to articulate the business model linking the economic, environmental and social aspects of business sustainability. Moreover, the Sustainable Development Goals (SDGs) to be met by 2030 represent initiatives aimed at promoting a more sustainable approach to addressing global issues such as economic growth, social inclusion, and environmental protection ([Morton et al., 2017](#); [Collste et al., 2017](#); [Fleming et al., 2017](#)). [Morton et al. \(2017\)](#) believes that implementing SDGs should involve not only government measures but also non-governmental players, such as halal businesses. Although businesses often have multiple objectives to achieve, entrepreneurs must focus on sustainability alongside financial success and strategic objectives to develop sustainable capabilities, practices, and resources to gain a competitive advantage over their competitors ([Murthy, 2012](#)). Thus, [Linnenluecke and Griffiths \(2010\)](#) suggest that companies need to undergo a process of transformation and cultural change to effectively respond to social and environmental challenges.

Moreover, sustainability is widely recognised as a critical component of long-term business success.

Organisations that integrate sustainability into their marketing strategies are seen to gain a distinct competitive advantage over their competitors (Crittenden et al., 2011). The increasing importance that consumers place on the environment, firms are encouraged to promote sustainable packaging (Wandosell et al., 2021). This business phenomenon is a factor that brings about fundamental and long-term changes in how businesses compete. In addition, initiatives that can assist halal businesses in becoming sustainable, improving and enhancing their competitive edge and supporting their strategic position require business executives to understand sustainability activities and incorporate sustainability framework strategies throughout the organisation and business network, not just at the corporate level, but to enable smooth operation in a competitive environment too (Schulz & Flanigan, 2016; Ferro et al., 2017). In this regard, businesses can enhance both their short-term and long-term profitability. Many businesses in the industrial sector, including private and non-profit organisations, now utilise a sustainability framework to assess their performance. Therefore, every level of management from lower to upper, must engage in constructive learning for firms to achieve sustainability targets, mitigate the risks of increased public scrutiny, implement large-scale adaptive policies, develop employee competencies and sustain profitability (Jackson et al., 2011).

In his book titled “Cannibals with Forks: The Triple Bottom Line of 21st Century Business,” Elkington (1999) argues that businesses should aim for goals beyond profit by developing strategies that include environmental and societal sustainability practices. He emphasises the significance of the sustainability framework for small and medium businesses, highlighting that its value extends beyond multinational corporations. Elkington examines the process of greening capitalism and proposes an audit method to assess a corporation’s sustainability, while rethinking the role of business and enterprise in a society that prioritises environmental and social concerns. The implication of the discussion so far is that businesses, including halal businesses, must adopt a holistic approach to sustainability practices to remain sustainable in the long run. It is evident that sustainability practices encompass three main components: economic, social and environmental. Additionally, philanthropic responsibility, as a voluntary contribution is considered an essential aspect of social sustainability. Hence, paying attention to sustainability practices is crucial for the long-term performance and viability of halal businesses.

## *2.2. Empirical review of literature on sustainability practices*

Over recent decades, sustainability has evolved beyond a fad to become an important business strategy aimed at appealing to stakeholders and attracting customers. It is no longer news that sustainability practices are beneficial to businesses when conscientiously integrated into business strategy. To some individuals, sustainability is associated with environmental concerns, while others use the term interchangeably with CSR (Bansal & DesJardine, 2014). Some generations now want to live in the same way as their parents did, and they want their children to have comparable and perhaps better opportunities. This concept can also be applied in the business world, where business executives desire their companies to earn a profit that grows over time. Given the fact that many firms have pledged to be more environmentally friendly or sustainable, it is critical to focus on how these practices enhance company performance, protect ecosystems, preserve natural resources and safeguard people’s lives (Porter & Derry, 2012). In accordance with Barack Obama’s speech at the United Nations’ Sustainable Development Summit 2015, the former US president urged everyone to take sustainability concerns seriously and take action to address them (Lambert, 2015). Sustainability, including economic, environmental and social dimensions is a global issue that affects every aspect of human life. Thus, understanding how consumers perceive the idea of sustainability is a crucial first step in encouraging sustainable consumption.

To this end, Mahdzan et al. (2024) examine the influence of Islamic financial literacy and motives on the holdings of Islamic financial products based on the data that were collected from 234 bank customers in Klang Valley, Malaysia, they find that Islamic financial literacy and religious motives positively influence holding Islamic financial products. Jan et al. (2019) evaluate the nexus between sustainability practices and financial performance from the Islamic banking perspective based on a decade of sustainability data from 2008 to 2017. They find that sustainability practices have a significant positive association with the financial performance indicators of the Islamic banks. Their analysis further reveal that an improvement in sustainability practices will add financial values to the management, shareholder and the market financial performance indicators of the Islamic banking industry across. Peterson et al. (2021) investigate whether consumers’ perceptions of the marketplace practices of firms influence their support for those firms pursuing sustainable business practices.

Their results suggest that consumers' nature-based values have the most positive influence on consumers' support for sustainable businesses. This is followed by attitude toward firm benevolence, and the concern about the ethicality of firms. Štofejová et al. (2023) examine the relationships between consumer behaviour when shopping online for green products and the factors that influence it are from the point of view of sustainability. The results showed that digitisation in green marketing has a significant impact on environmental attitude such as environmental attitude, environmental oriented lifestyle, willingness to pay for green products, and subjective norms have a significant impact on environmental purchasing behaviour. Additionally, they also found that environmental oriented lifestyle, willingness to pay for green products, subjective norms and environmental purchasing behaviour have a significant impact on future purchase intention.

Hanss and Böhm (2011) conducted research on 123 Norwegian consumers' understanding of basic sustainability principles and how that understanding influences their purchasing decisions. They discovered that, to varying degrees, the aspects of environmental, social and economic sustainability play a crucial role in consumers' purchasing decisions. The environmental and social aspects are particularly significant and are frequently considered in tandem. Consumers' understanding of sustainability is based on both factors, and when it comes to the environmental dimension, user understanding varies the most. Nonetheless, several studies have demonstrated that customers who claim to have ethical beliefs frequently fail to translate their intentions into ethical purchasing behaviour. This has resulted in an "intention-behaviour gap" phenomenon among individuals or consumers (Markkula & Moisander, 2012). As a simpler example, communities express concerns about environmental problems but are hesitant to take appropriate action to address those problems. Another qualitative study by Goworek et al. (2012) focuses on the opinions of 99 UK consumers regarding the sustainable use of clothes; they find that they were unaware of the environmental impact of clothing. These findings have larger societal and environmental consequences, as retail practices may have a substantial influence on the planet's resource sustainability.

Hill and Lee (2012) explore the real knowledge and perspectives of 80 young Generation Y students, aged 18-25 years on sustainability and environmental issues, both in general and within the apparel industry. They find a lack of understanding of the concept of holistic sustainability and some of the negative consequences of the garment business on social and environmental aspects. The planet cannot support the current level of clothes manufacturing and disposal due to a lack of natural resources, dyeing and printing processes, transportation, and disposal. This problem will negatively impact the environment's long-term sustainability (Gam and Banning, 2011). Other instances of the negative influence of the business industry on society include child labour, forced labour, human rights abuses and large-scale pesticide usage, all of which are regarded as highly complicated in terms of social sustainability (Khurana and Ricchetti, 2016). Aslam and Jawaid (2023) examine the impact of green banking adoption practices on banking performance, encompassing financial, operational, and environmental dimensions. Their findings indicate that the adoption of green banking practices positively influences all three aspects of performance. Notably, the results reveal that these practices have the greatest impact on environmental performance, followed by operational performance, and finally financial performance.

Jung and Ha-Brookshire (2017) examine customer expectations of CSR towards sustainability objectives and find that consumers with greater incomes tend to embrace more ethical purchasing because most sustainable items are more expensive. On the other hand, those with low incomes may have a strong belief that businesses have a moral responsibility to provide adequate employment conditions and protect the environment, pointing to a possible ethical purchasing gap among low-income consumers, which is the largest in the sustainable consumption literature. Furthermore, Tasci (2017) surveyed residents in the US to measure consumer awareness and expectations for various types of benchmarks, standards, licences, and certificates including those linked to sustainability. According to the researcher, consumers in the US lack awareness and enthusiasm for sustainability-related standards. Thus, consumer awareness and attention may be needed by organisations that advocate for sustainability. Suki (2013) investigates 200 college students in Labuan, Malaysia, to examine the impact of environmental concerns, green product awareness, pricing and brand image on customers' green product purchasing decisions. He finds that consumers are aware of pricing and brand image, and such awareness has a significant impact on their green product purchases. This actively demonstrates that consumers who are concerned about environmental sustainability have a high awareness of green products as the demand based on pricing and image branding factors is increasing in the Malaysian market. However, customers' environmental concerns have no impact on their green product purchase

selections to preserve environmental safety (Suki, 2013). According to a survey conducted by Joung and Park-Poaps (2013) in the US, the main motivation for consumer donations is altruistic concern (helping people).

Jaiyeoba and Azam (2023) review literature to discuss the CSR activities of Islamic banks and halal businesses. The CSR activities advocated include commitment to halal best practices, zakat and charitable donations, halal economic responsibility, legal responsibility, environmental responsibility, employee welfare, and responsible dealing with clients. Meanwhile, sustainable development has become a new wave, bringing listed companies to the attention of the government and society. In addition to corporate social responsibility (CSR), philanthropic responsibility has become one of the pillars of a sustainable development strategy (Idowu et al., 2013). As a result, altruistic concern (helping people) is the primary reason for consumer donations (Joung & Park-Poaps, 2013). Interestingly, extant literature has suggested that sustainability practices have become one of the crucial factors considered by consumers when making decisions to patronise or purchase certain brand; however, little is known about the perspective of consumers on sustainability practices of halal businesses. Having reviewed relevant studies in the domain of this research, it is pertinent to discuss the gaps that this study intends to fill with respect to its novelty and uniqueness. While some researchers have examined corporate social responsibility from an Islamic perspective (Muhamad et al., 2008; Nor et al., 2019), an extensive review of the literature suggests that studies on consumers' views on the sustainability practices of halal businesses are lacking. Therefore, this study fills this gap by investigating this issue from the perspective of consumers in Malaysia.

Based on the reviewed empirical studies, most of the research conducted in this area has focused on other countries, indicating that more studies need to be conducted on Malaysian halal companies. Additionally, as interest in sustainability practices has recently been renewed, there is a need for more empirical studies, particularly to reveal stakeholders' opinions on sustainability practices across countries. As reiterated, this research investigates the consumers' perspectives on halal business sustainability, this study is likely the first of its kind in this regard. Thus, the researchers' thorough literature search reveals that no previous studies have been conducted in this manner.

### **3. Methodology**

This study follows a descriptive approach to analyse the data collected from participants who are consumers and customers of halal businesses and Islamic banks. The descriptive approach was used to gather data on the consumers' backgrounds as well as to identify sustainability practices from respondents' perspectives. According to Sekaran (2003), descriptive research can provide a detailed picture of all the elements of the study topic, generating fresh ideas. As noted by Chan and Saad (2019), a quantitative research design is the most appropriate approach, especially when investigating issues such as sustainability practices among halal businesses. Accordingly, the research population for this study comprises consumers and customers of halal businesses and Islamic banks in Klang Valley, Malaysia. The Klang Valley area was chosen for this study because it makes up a large proportion of the Malaysian population, representing approximately a quarter of the entire Malaysian population. Another important reason for selecting this location is that this area of Malaysia is a rapidly developing metropolitan entity encompassing five major areas: Kuala Lumpur's Federal Territory, Gombak, Hulu Langat, Klang, and Petaling, which also covers Selangor's neighbouring cities and villages. Given the level of development and literacy rate in Klang Valley, it was envisaged that respondents here would find it easy to respond to the survey questionnaires used to collect data for this study.

As mentioned, the Klang Valley area of Malaysia represents approximately a quarter of the entire population of the country, 32.39 million as of 2019 according to the Department of Statistics. Asiamah et al. (2017) note that collecting data from a location with a large population will produce a bigger sample, which in turn produces estimates that are closer to population parameters. Thus, conducting a survey in a location with a large number of participants may reduce the possibility of accidentally including extreme or biased groups. Meanwhile, the researchers collected data from 302 respondents who are consumers of halal businesses and customers of Islamic banks using a questionnaire developed based on extensive review of literature. Considering the scope of this study, this sample size is deemed appropriate (Hair et al., 2014). Since halal products are also consumed by non-Muslims and Islamic banks are patronised by non-Muslims, the choice of respondents was not limited to Muslims only but included anyone with a good understanding of sustainability practices of halal businesses. Despite the source of data, the researchers ensured that the data used did not deviate from the main aim of this study. In addition, a non-probability sampling technique, specifically a

convenience sampling method, was used to collect data for this study.

In the social science domain, the most commonly used research instruments for data collection include survey questionnaires, interviews, observations, and checklists (Hair et al., 2014). Among these tools and based on the adopted research design, the researchers selected a survey questionnaire for the present study. The questionnaire used for data collection was developed based on existing literature and was structured into two main sections. The first section focused on the demographic profile of respondents, while the second section contained questions on sustainability practices of Islamic banks and halal businesses. The developed questionnaire was sent to six experts for content validity and grammatical structure. Subsequently, the questionnaire was revised based on the comments received from the competent experts. Data were collected through an online platform (Google Meet) (Jaiyeoba et al., 2023). Although data collection through online platforms is widely acknowledged for being convenient and cost-effective, this method also faces several limitations that can impact data quality and representativeness. One notable challenge of data collection through online platforms is sampling bias, as it often excludes populations without internet access or digital literacy, such as older adults or rural communities, and tends to attract only motivated participants, leading to self-selection bias. To address this challenge, partnerships with community organisations and several local institutions were established to engage populations that are typically underrepresented in online surveys. To prepare the data for analysis, the completed questionnaires were processed into a single SPSS file downloaded from Excel sheets via Google Forms. The specific analysis performed on the data after processing them in SPSS is descriptive analysis.

#### 4. Analysis

##### 4.1 Descriptive analysis

The questionnaire was distributed to consumers of halal businesses in Klang Valley via an online platform. A total of 302 usable responses were collected. As shown, Table 1 summarises the descriptive statistics on respondents' gender, age, level of education, religious affiliation, and the importance of halal businesses operating responsibly. Regarding gender, 205 female respondents (67.9%) and 97 male respondents (32.1%) participated in the survey. Female respondents outnumbered male respondents by a significant margin, indicating a higher response rate from females to the distributed questionnaire links. In terms of age, respondents aged between 19 and 35 years constituted the largest proportion of participants in this study, amounting to 290 respondents, which is 96% of the total sample size. This suggests that more data were collected from young adults compared to other age groups. The remaining respondents were aged between 36 and 55 years, comprising 12 respondents, or 4% of the total sample size. Regarding respondents' level of education, bachelor's degree holders comprised the majority at 201 respondents (66.6%). Following this, diploma holders accounted for 72 respondents (23.8%) of the total. Postgraduate degree holders represented 29 respondents (9.6%) in this research. Moreover, 93% of the respondents agreed that it is extremely important for halal businesses to operate responsibly. This is followed by respondents who believe that operating responsibly is less important, comprising eight respondents (2.6%). Only one respondent (0.3%) indicated that it is unimportant for halal businesses to operate in a socially responsible manner.

Table 1: Demographic profile of respondents

S/N	Variable	Category	Frequency	Percentage (%)
1	Gender	Female	205	67.9
		Male	97	32.1
2	Age	19-35	290	96.0
		36-55	12	4.0
3	Educational level	Diploma holder	72	23.8
		Degree holder	201	66.6
		Post-graduate degree holder	29	9.6
4	Importance of halal business operating responsibly	Extremely important	293	97.0
		Less important	8	2.6
		Not important	1	0.3

4.2 Consumers' perspectives on sustainability practices of halal businesses

This section discusses consumers/customers' perspectives on the sustainability practices of halal businesses based on the information in Figure 1, Figure 2, Figure 3, Figure 4, Figure 5 and Table 2. Starting with respondents' views on the importance of halal businesses operating in a socially responsible manner, 123 respondents (40.7%) strongly agree that goods and services from sustainably operating Islamic banks and halal businesses are worth paying for and patronising. This is followed by 100 respondents (33.1%) who agree to pay more for goods and services of halal businesses that are operating sustainably. Additionally, 72 respondents (23.8%) are neutral with respect to the above question. Five respondents (1.7%) disagree with the statement, while 2 respondents (0.7%) strongly disagree. Regarding the consumers/customers' views on considering the ethical reputation of halal businesses and Islamic banks before deciding to patronise them, 153 respondents (50.7%) strongly agree that ethical reputation of halal businesses influences their purchasing decisions. This is followed by 93 respondents (30.8%) who agree that ethical reputation plays an important role in their purchasing decisions. 48 respondents (15.9%) are neutral on this statement, while eight respondents (2.6%) disagree. This finding supports the findings of Nicolaidis (2021), who found that the performance of a business (in the hospitality industry) will rise if it has a positive ethical reputation, either directly or indirectly.

Figure 1: I would be willing to pay more to purchase products or patronise sustainably operating halal businesses and Islamic banks.

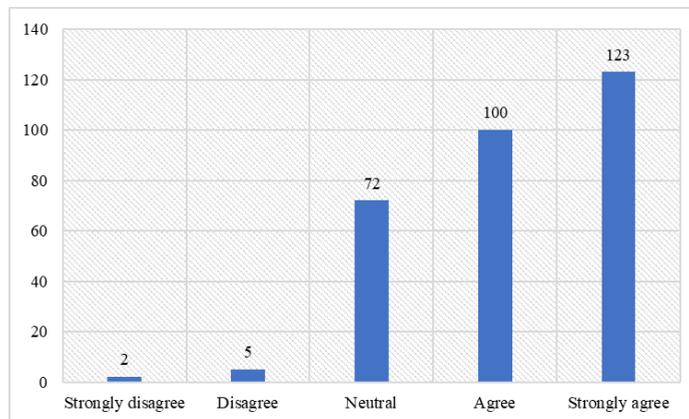
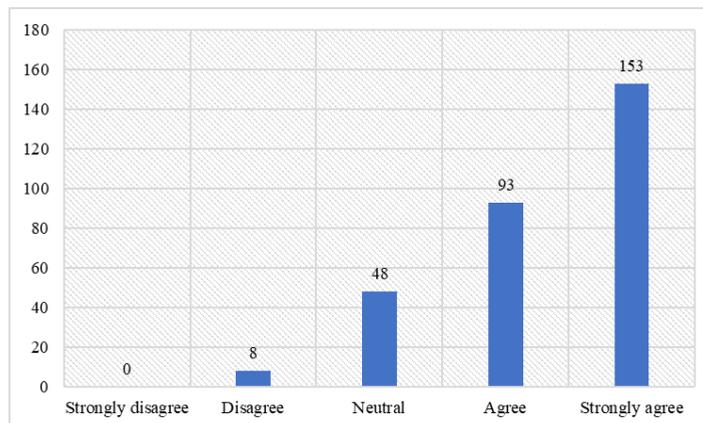


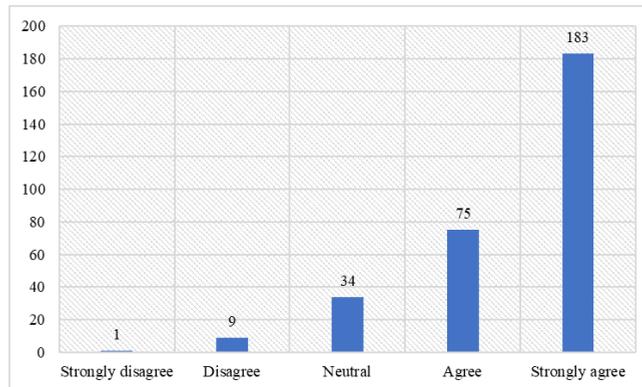
Figure 2: I consider the ethical reputation of halal businesses and Islamic banks before deciding to patronise them.



Regarding whether consumers/customers will patronise Islamic banks and halal businesses that are engaged in unethical practices with respect to economic, social and environmental sustainability, most of the respondents, 183 (60.3%), strongly agree that they will not purchase products from halal businesses that are

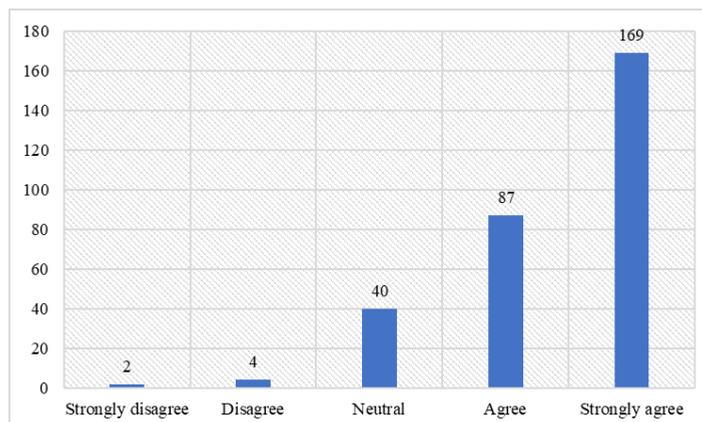
engaged in unethical behaviour. This is followed by 75 respondents (24.8%) who agree to avoid buying products from companies that are engaged in immoral actions. The next are 34 respondents (11.3%) who are neutral on the above statement. Whereas nine respondents (3.0%) disagree with the above statement, and only 1 respondent (0.3%) strongly disagrees with the statement. This finding is consistent with the findings of [Namkung and Jang \(2014\)](#), which indicated that customers are willing to pay extra for green products. The study also shows that green purchasing behaviour was unaffected by income and education levels.

Figure 3: I will not patronise Islamic banks and halal businesses that are engaged in unethical practices with respect to economic, social, and environmental sustainability.



Concerning whether consumers/customers would be willing to pay more for products from Islamic banks and halal businesses that show care for the well-being of society, most of the respondents, 169 (56.0%), strongly agree that they are ready to pay more to buy products from halal businesses that show care for the well-being of our society. This is followed by 87 respondents (28.8%) who also agree to pay more to buy products from halal businesses that show care for the well-being of our society. Besides, 40 respondents (13.2%) are neutral regarding this statement. Four respondents (1.3%) disagree with this statement, and just two respondents (0.7%) strongly disagree with this statement. This finding supports the findings of [Cuesta-Valiño et al. \(2019\)](#), where it was discovered that CSR has a positive relationship with customer loyalty, as measured by customer satisfaction. This suggests that if a business behaves in a socially responsible manner, customers' trust in the business will grow. This trust is also influenced by their level of satisfaction with the product's quality. It is expected that loyal customers will recommend a product or brand to others, even if the business charges a higher price.

Figure 4: I would be willing to pay more for products from Islamic banks and halal businesses that show care for the well-being of society.



Regarding whether consumers/customers would prefer to patronise Islamic banks and halal businesses with a socially responsible reputation compared to other companies without such a reputation if the price and quality of two products or services are the same, most of the respondents, 189 (62.6%), strongly agree that they will prefer to buy from halal businesses with a socially responsible reputation compared to other companies without such a reputation. This is followed by 69 respondents (22.8%) who prefer to buy from halal businesses with a socially responsible reputation compared to other companies without such a reputation. The next are 40 respondents (13.2%) who are neutral regarding the above statement. While only four respondents (1.3%) disagree with the statement.

Figure 5: If the price and quality of two products are the same, I would prefer to patronise Islamic banks and halal businesses with a socially responsible reputation compared to other companies without such a reputation.

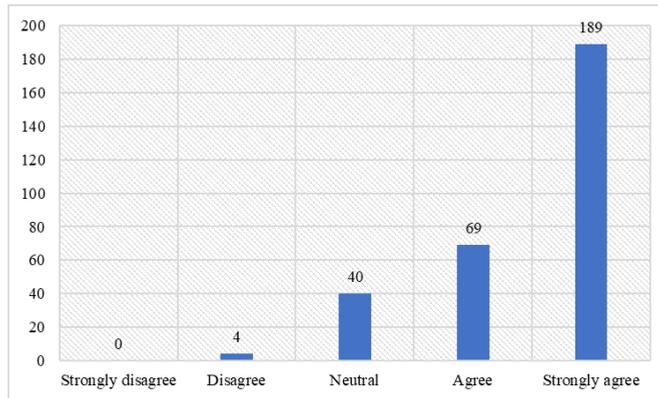


Table 2: Consumers’ perspectives on sustainability practices of halal businesses

S/N	Variable	Category	Frequency	Percentage (%)
1	I would be willing to pay more to purchase products or patronise sustainably operating halal businesses and Islamic banks.	Strongly disagree	2	0.7%
		Disagree	5	1.7%
		Neutral	72	23.8%
		Agree	100	33.1%
		Strongly agree	123	40.7%
2	I consider the ethical reputation of halal businesses and Islamic banks before deciding to patronise them.	Disagree	8	2.6
		Neutral	48	15.9
		Agree	93	30.8
		Strongly agree	153	50.7
3	I will not patronise Islamic banks and halal businesses that are engaged in unethical practices with respect to economic, social, and environmental sustainability.	Strongly disagree	1	0.3
		Disagree	9	3.0
		Neutral	34	11.3
		Agree	75	24.8
4	I would be willing to pay more for products from Islamic banks and halal businesses that show care for the well-being of society.	Strongly agree	183	60.3
		Strongly disagree	2	0.7
		Disagree	4	1.3
		Neutral	40	13.2
		Agree	87	28.8
5	If the price and quality of two products are the same, I would prefer to patronise Islamic banks and halal businesses with a socially responsible reputation compared to other companies without such a reputation.	Strongly agree	169	56.0
		Disagree	4	1.3
		Neutral	40	13.2
		Agree	69	22.8
		Strongly agree	189	62.6

## **5. Implications of the Study**

The researchers have sought to conduct research that is critically relevant, and its findings will have serious implications for various entities, including Malaysian halal businesses, Islamic banks, the halal industry, the community and government entities. With respect to the implications of this research for halal businesses, the findings of this study suggest that paying attention to sustainability practices is crucial for halal business performance and sustainability. Moreover, integrating sustainability strategies to their operations will promote the essence of Shari'ah, help them achieve higher growth through innovative approaches, strengthen their relationships with stakeholders, enhance business value and reputation, increase productivity, and enable them to attract and retain highly qualified personnel. Therefore, the findings of this study will assist halal businesses and Islamic banks in refocusing their efforts on taking a holistic approach to sustainability by integrating sustainability into their business strategic planning. Additionally, by promoting the essence of the sustainability framework to halal businesses, the findings of this study will benefit Malaysian communities. When halal businesses ensure their economic, social, philanthropic and environmental sustainability, the communities will be safer to live in, and people will be able to go about their everyday lives in peace. Consequently, the involvement of halal businesses will improve their relationships with stakeholders and contribute to solving social problems such as poverty, homelessness, and climate change.

In addition, this study will be beneficial to the halal industry in Malaysia. As the halal industry is increasingly recognised as an engine of economic growth, this fact cannot be ignored. If halal businesses pay serious attention to the sustainability practices, the contribution of the halal industry could significantly boost Malaysia's halal ecosystem, as suggested in the Halal Industry Master Plan 2030. With the potential of the Malaysian halal industry, Malaysia could compete with non-Muslim countries to become the largest halal producer if halal industry players adopt the Triple Bottom Line (TBL) framework as their primary strategy. Therefore, this study will help halal industry players to recognise the opportunities that are possible through sustainability practices. Furthermore, the findings of this study will be beneficial to government entities. This study will benefit Malaysia's government in its efforts to make the country more inclusive and address social challenges. Relevant government entities would be encouraged to promote Malaysia's sustainability agenda to halal businesses in the country. Finally, this study will benefit researchers in this domain. Researchers will be aided in identifying the critical reasons for promoting holistic sustainability in halal companies, particularly within the context of the Triple Bottom Line framework and Shari'ah principles. This foundation will encourage further studies globally to advance this field of study among halal businesses.

Meanwhile, halal businesses can implement sustainability practices to strengthen consumer loyalty and enhance brand reputation in the competitive halal market. For example, adopting eco-friendly production methods, such as using biodegradable packaging or sourcing materials from sustainable suppliers, can justify ethically produced goods to attract environmentally conscious consumers. To build a strong ethical reputation, they can adhere to fair trade practices, provide equitable wages to employees, and engage in transparent financial reporting, particularly for Islamic banks. By actively avoiding unethical practices like exploiting labour or polluting the environment, halal businesses can ensure they retain customers who prioritise ethical operations. Demonstrating care for societal well-being through initiatives like funding educational programs or supporting underprivileged communities not only appeals to socially conscious buyers but also positions the brand as a responsible market leader. Moreover, promoting their socially responsible reputation through collaborations with reputable organisations can differentiate halal businesses from competitors, ensuring consumer preference for their products and services. Ultimately, these sustainability efforts can significantly enhance brand loyalty and market position in the halal industry.

## **6. Conclusion**

This study was conducted to investigate consumers' views on the sustainability practices of halal businesses and Islamic banks in Malaysia. Through several analyses, this research has achieved the research objectives, showing that sustainability practices, covering economic sustainability, social sustainability, environmental sustainability and philanthropic responsibility are crucial from the perspectives of consumers in Klang Valley, Malaysia. The findings of the study suggest that consumers and customers of halal businesses as well as Islamic banks value businesses that pay more attention to sustainable practices. They are also less likely to support halal businesses that violate ethical work standards and lack vision in protecting the environment, employee welfare, and society. Thus, paying attention to sustainability practices is essential for halal businesses to remain

sustainable, since doing so will not only benefit halal businesses but also other stakeholders, such as consumers, the community, and government.

While conducting this study, the researchers encountered several limitations that are worth mentioning. Firstly, the respondents were predominantly drawn from Klang Valley. Therefore, future research could benefit from including consumers outside Klang Valley, particularly those from rural areas, as they may have diverse demographic backgrounds including income levels, education levels, understanding of halal and sustainability, and access to markets. Next, this research focused solely on consumers' views on the sustainability practices of halal businesses and Islamic banks. For future research, it may be necessary to explore the influence and interactions between the independent variables (economic, social, environmental sustainability and philanthropic responsibility) to understand how they interact with each other. Additionally, this research did not investigate whether respondents actually act against businesses that violate the sustainability practices. Future studies could delve into this issue to provide deeper insights. Furthermore, this research was conducted based on data that were collected solely through online surveys. It could be beneficial for future studies to consider employing physical data collection methods to provide researchers an opportunity to explain the purpose and background of study to respondents, this could potentially enhance their knowledge before responding to the survey. This research does not represent perspectives from consumers above 55 years old. Hence, future research could aim to include a broader age range of respondents to capture a more diverse demographic perspective. Furthermore, future studies on sustainability practices in halal businesses could explore the influence of sustainability practices on consumer loyalty and brand reputation in the halal market. Finally, future research could examine how demographic variables shape consumer willingness to support sustainably operating halal businesses and Islamic banks, and how these preferences translate into loyalty.

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# Comparative Efficiency Analysis in Takaful Industry in Southeast Asia

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## Abstract

This research aims to evaluate the comparative efficiency of the Takaful industry in Southeast Asia, specifically in Indonesia and Malaysia, highlighting the sector's performance and operational benchmarks. Utilizing Data Envelopment Analysis (DEA), this research measures the efficiency of various Islamic insurance companies in 2019-2023 by comparing input variables such as Total Assets and Operating Expenses to output variables such as Revenue and Profit (Loss). The selection of input and output variables is adjusted to the intermediation efficiency approach used in the study. The results reveal that the efficiency trend in Islamic insurance companies in Indonesia and Malaysia tends to fluctuate. Besides, there is no Islamic Insurance company in Indonesia and Malaysia has achieved the maximum average efficiency score (1.00) during 2019-2023. PT Asuransi Sonwelis Takaful (0.93) reached the highest average efficiency score (0.93) among Islamic insurance companies in Indonesia. Meanwhile, Etiqa General Takaful Berhad was the Islamic insurance company in Malaysia that achieved the highest average efficiency score (0.99). This study also found that the efficiency level of Islamic insurance Companies in Malaysia tend to be higher than that of Islamic insurance companies in Indonesia. To achieve maximum efficiency level, Islamic insurance companies in Indonesia and Malaysia can improve their performance by concerning to the Revenue and Profit as the input variables, which are the largest sources of inefficiency in Islamic Insurance companies in Indonesia and Malaysia respectively. Islamic insurance companies in Indonesia and Malaysia should focus on improving efficiency through regular performance evaluations and product innovation to enhance financial inclusiveness and expand their reach. Regulators and academics are encouraged to support this effort by monitoring industry performance, addressing operational challenges, and conducting further research to provide comprehensive insights into the efficiency of Islamic insurance companies.

*Keywords: Islamic Insurance, Efficiency, Data Envelopment Analysis (DEA), Indonesia, Malaysia*

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## 1. Introduction

Islamic insurance has become an important component in the Islamic financial industry, both in Indonesia and Malaysia (Ardianto & Sukmaningrum, 2020). Indonesia and Malaysia have large Muslim populations and have adopted the Islamic financial system as part of a national strategy to strengthen financial inclusion towards economic stability (Parizi & Riani, 2024). The Islamic insurance industry in Indonesia and Malaysia has also shown development from year to year (Ardianto & Sukmaningrum, 2020).

Referring to the Indonesia Financial Group (2022), globally, the Islamic insurance industry in Indonesia has a relatively small contribution compared to other Islamic financial sectors, only recording a contribution of 1% of the total assets of the Islamic financial sector. The development of the Islamic insurance industry also has an impact on the suboptimal performance of the financial sector. This can also be seen from the small number of Islamic insurance companies that are already fully operating in Indonesia.

In Malaysia, the Islamic insurance industry is considered quite mature. This is reinforced by the government's support in formulating policies and regulations that allow the Islamic insurance industry in

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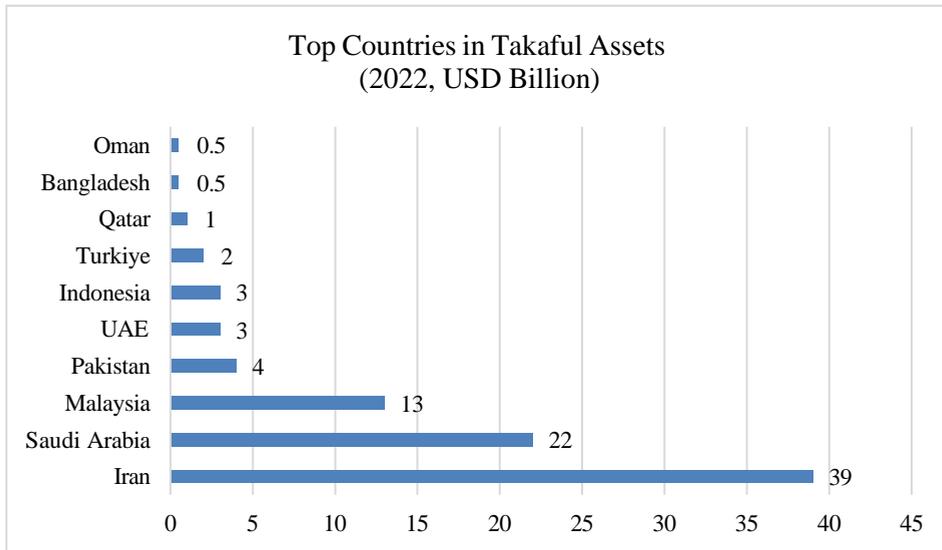
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Malaysia to continue to grow and excel in world Islamic finance. Figure 1 below shows the countries with the highest number of assets in the Islamic insurance industry globally.

Figure 1: Top countries in Takaful assets



Source: IFDI (2023)

In Indonesia, the Islamic insurance industry is regulated by the Financial Services Authority (OJK) and supervised by the Deposit Insurance Corporation (LPS) based on the principles set out in the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). Meanwhile, in Malaysia, the Islamic insurance industry is regulated by Bank Negara Malaysia (BNM) through a comprehensive regulatory framework. Indonesia and Malaysia have the potential for the development of Islamic insurance, with their large Muslim populations.

Given the increasing growth of the Islamic insurance industry and global competition, it is important to measure the performance of the Islamic insurance industry in terms of efficiency (Parizi & Riani, 2024). The urgency of measuring this efficiency is reinforced to determine the extent to which Islamic insurance companies, both in Indonesia and Malaysia, are able to manage funds optimally. It is the expectation of hope that the Islamic insurance industry in Indonesia and Malaysia can provide maximum benefits to customers and continue to maintain the sustainability of the company and can contribute to maintaining national stability.

The purpose of this study is to measure the level of efficiency of Islamic insurance companies in Indonesia and Malaysia in the period 2019 to 2023. This study also captures a comparison of the efficiency conditions of Islamic insurance companies in Indonesia and Malaysia during and after the Covid-19 pandemic. This study also provides results of potential improvements to achieve maximum efficiency in Islamic insurance companies in Indonesia and Malaysia. This study can be useful for Islamic insurance companies to provide projections of company performance in terms of efficiency. For regulators, this study can provide alternative references in decision making. As for academics, this study can fill the gap in literature regarding the efficiency of Islamic insurance companies, especially in Indonesia and Malaysia, and become one of the references in future research.

## 2. Literature Review

### 2.1 Islamic Insurance

The word 'Insurance' in Arabic is also called *at-taimin* which means providing peace, a sense of security, protection, and a feeling of freedom from fear. Referring to DSN Fatwa No.21/DSN MUI/2001 concerning general guidelines for Islamic insurance, Islamic Insurance is also called *Ta'min*, *Takaful*, or *Tadhamun*, defined as an effort to help each other and protect a number of people in the form of *tabarru'* funds and can be returned when experiencing certain risks which are carried out through contracts that are following Islamic

principles, such as contracts that do not contain elements of usury, *gharar* (fraud), *maysir* (gambling), *zhulm* (abuse), *risywah* (bribery), illicit goods, and immorality. Based on its management system, Islamic insurance companies in Indonesia may only be carried out by an institution that functions as an Amanah holder. Islamic insurance companies can also obtain profit sharing from the management of funds collected on the basis of *tijarah* (*mudharabah*) contracts. In addition, Islamic insurance companies in Indonesia are also permitted to obtain *ujrah* from the management of *tabarru'* (grant) contract funds.

The Islamic insurance industry in Malaysia is regulated in the Takaful Act of 1984 which is the legal basis for the establishment of takaful industry operations. The expansion of the company's scope and product range, coupled with the increase in participants, has resulted in significant progress for the takaful industry in Malaysia in recent times. The explosive growth of this industry requires the establishment of an appropriate operational structure to direct takaful operators. This also contributes to making Malaysia a superior and advanced country in the field of Islamic finance.

Referring to the OJK, in Indonesia, Islamic insurance has various products such as Islamic Life Insurance, Islamic Education Insurance, Islamic Health Insurance, Insurance with Islamic Investment, Islamic Loss Insurance, Group Islamic insurance, and Hajj and Umrah Insurance. Meanwhile in Malaysia, the types of Islamic insurance (takaful) are divided into 2 products, namely General Takaful and Family Takaful.

## 2.2 The Concept of Efficiency

The concept of efficiency according to Farrell (1957) is formed from two components, namely technical components and allocative components. The technical efficiency component allows for efficient results that maximize output according to a certain amount of input. The allocative efficiency component measures efficiency that optimizes input. Referring to Ascarya & Yumanita (2008), economic efficiency will be achieved when both components have been met. Economic efficiency, according to economic theory is divided into two types, namely economic efficiency and technical efficiency. Economic efficiency measures efficiency from a macro perspective, while technical efficiency measures efficiency from a micro perspective by measuring technically and operationally. Mathematically, efficiency is formulated in the following formula:

$$Efficiency = \frac{output}{input}$$

Efficiency measurement can be done by using input variables and output variables as a measure of relative efficiency. Conceptually, if the output variables produced by a company/entity are greater than the input variables, then a DMU can be said to be efficient compared to other DMUs that use the same number of input variables. Referring to Cooper et al. (2011), efficiency measurement is divided into two orientations, namely input orientation and output orientation. Input-oriented efficiency identifies efficiency by minimizing input at the same output level. Output-oriented efficiency is measured by emphasizing output maximization without changing the amount of input.

## 2.3 Previous Studies

Previous studies related to the efficiency of Islamic insurance companies in various regions have been conducted. There are studies that discuss the efficiency of Islamic insurance in Indonesia (Sunarsih & Fitriyani, 2018; Ningsih & Suprayogi, 2017; Ghoni & Efendi, 2021; Sabiti et al., 2017; Benarda et al., 2016; Iskandar et al., 2020), in Malaysia (Antonio et al., 2013; Lee et al., 2019; Razaly et al., 2024). Other studies also compare the efficiency of Islamic and conventional insurance companies (Hasanatina et al., 2020; Astuti & Suprayogi, 2017; Suryoaji & Cahyono, 2019). There are also studies that analyze the efficiency of Islamic insurance companies in Indonesia and Malaysia (Ardianto & Sukmaningrum, 2020; Nasution, 2021).

Research by Ningsih & Suprayogi (2017) which analyzed the efficiency of 12 Islamic insurance companies in Indonesia in 2013-2015, found that the average Islamic insurance company in Indonesia is still inefficient. The input variables used in the study were total assets, expenses, and claim payments, and the output variables were income and *tabarru'* funds. The study stated that during the study period, the efficiency score based on the CRS assumption could reach 0.978, while with the VRS assumption it reached 0.925. The scale of operations and management of the use of input and output in Islamic insurance companies are sources of inefficiency in the study. In previous studies discussing the efficiency of Islamic insurance in Indonesia,

Ningsih & Suprayogi (2017), Ghoni & Efendi. (2021), Sabiti et al. (2017), and Benarda et al. (2016) found similar results, namely that Islamic insurance companies in Indonesia are considered inefficient. However, research conducted by Sunarsih & Fitriyani (2018) found that only four Islamic insurance companies in Indonesia had not achieved maximum efficiency (1.00).

Hasanatina et al. (2020) in a study comparing the efficiency levels of Islamic and conventional life insurance, showed that the efficiency level of conventional life insurance was higher than the efficiency level of Islamic life insurance in Indonesia. In addition, the results of the study also found that the average efficiency level for all DMUs, both Islamic and conventional life insurance companies, whereas considered inefficient. This result was also found in the study of Suryoaji & Cahyono (2019) which stated that the average efficiency level of Islamic and conventional life insurance companies was still inefficient.

A comparison of the efficiency of Islamic insurance companies in Indonesia and Malaysia was also carried out in the study of Ardianto & Sukmaningrum (2020). The study analyzed the efficiency level for the period 2015 to 2018 and found that the average efficiency score of Islamic insurance companies in Indonesia was relatively lower than the average efficiency score of Islamic insurance companies in Malaysia. The study stated that the cause of inefficiency of Islamic insurance companies in Indonesia and Malaysia is the total expenditure variable.

The efficiency analysis of the Islamic insurance industry, particularly through the lens of Data Envelopment Analysis (DEA), has garnered significant attention in recent years. This analytical approach allows for a comprehensive evaluation of the operational efficiency of Islamic insurance companies by comparing multiple inputs and outputs. The studies reviewed here provide a detailed examination of the input and output variables utilized in DEA assessments, as well as the conclusions drawn regarding the efficiency levels of Islamic insurance firms.

One of the prominent studies conducted by Puspitasari & Fauziyah (2022) emphasizes the importance of DEA in evaluating the efficiency of Islamic general insurance in Indonesia. The authors utilized various input variables, including total assets, general and administrative expenses and claim payments, while the outputs were measured through investment income and tabarru' funds. This study concluded that the Islamic general insurance sector demonstrated a commendable level of efficiency, although certain firms exhibited room for improvement, particularly in optimizing their resource allocation.

Further supporting this notion, Sabiti et al. (2017) conducted a similar analysis focusing on Islamic insurance companies in Indonesia, using data from 14 Islamic life insurance companies and 12 Islamic general insurance firms over the period from 2013 to 2015. Their findings revealed that while the Islamic insurance sector generally performed well in terms of technical efficiency, operational cost efficiency was identified as an area needing enhancement. This study underscored the necessity for Islamic insurance companies to refine their operational strategies to bolster competitiveness against conventional insurance providers.

In a broader context, the research by Tuffahati et al. (2019) also employed DEA to assess the efficiency of Islamic insurance companies in Indonesia, utilizing input variables such as total assets and operational expenses, while outputs included net premiums and investment returns. The study found that the Islamic insurance sector's efficiency levels were competitive yet highlighted the need for continuous improvement in managing operational costs to sustain growth and profitability.

Moreover, the comparative study conducted by Naushad et al. (2020) on the managerial efficiency of insurance companies in Saudi Arabia, which included both conventional and (Takaful) Islamic insurance firms, revealed that Takaful companies exhibited higher efficiency levels in certain operational aspects. This study utilized inputs such as total assets and operational expenses, while outputs were measured through net earnings and investment returns. The findings indicated that Takaful companies were effectively managing their resources, which contributed to their relative efficiency in the market.

The analysis by Rahman (2013) further contributes to the discourse by examining the efficiency of both life insurance and Islamic insurance industries in Bangladesh. This study employed DEA to explore the contributions of technical and efficiency changes to productivity growth, utilizing a panel of 13 life insurance and Islamic insurance companies. The results indicated that while both sectors showed potential for efficiency, the Islamic insurance industry was slightly more efficient, suggesting that the principles of Islamic finance may provide a competitive edge in resource management.

In Indonesia, the study by Sunarsih & Fitriyani (2018) specifically focused on the efficiency of Islamic insurance from 2014 to 2016, employing an intermediation approach in DEA. The input variables included

total assets and claims expenses, while outputs were represented by investment income and tabarru' funds. The results indicated that the efficiency of Islamic insurance companies was commendable, yet the study called for improved strategies to enhance operational efficiencies further.

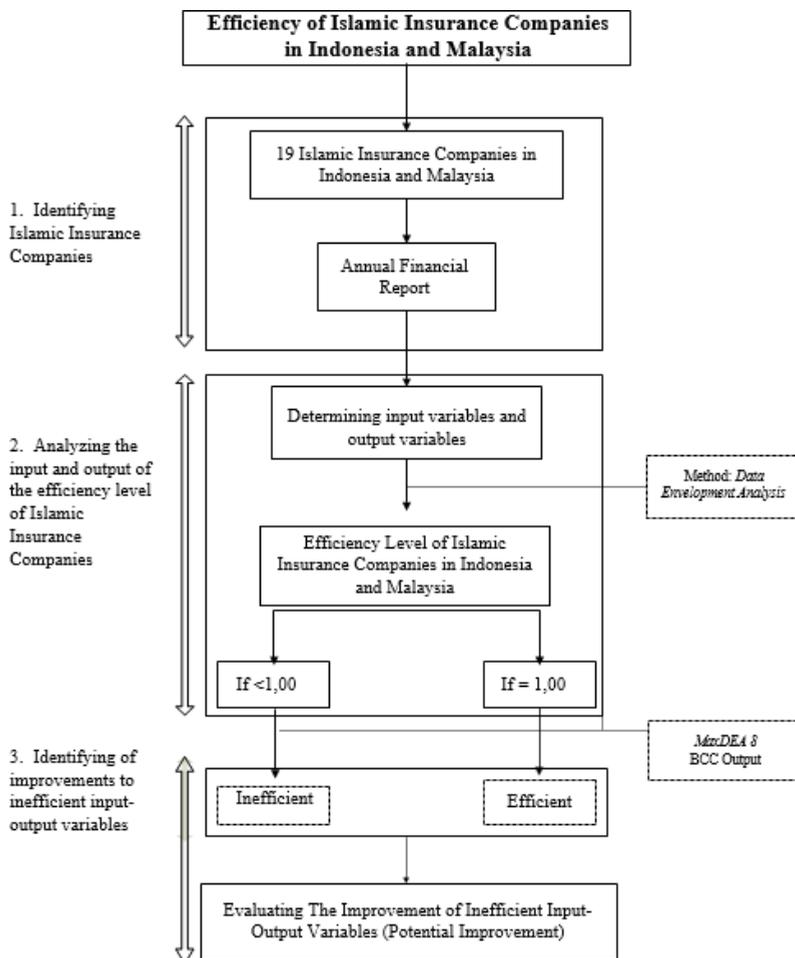
The comparative analysis of conventional and Islamic life insurance efficiency conducted by Ikhwan & Rusydiana (2022) during the COVID-19 pandemic revealed that while conventional insurance faced significant challenges, Islamic insurance maintained its efficiency levels. This study utilized a comprehensive set of input and output variables, reinforcing the resilience of the Islamic insurance sector during economic downturns.

In conclusion, the body of research surrounding the efficiency analysis of the Islamic insurance industry through DEA reveals a consistent theme: while Islamic insurance companies generally exhibit commendable efficiency levels, there remains considerable scope for improvement, particularly in operational cost management. The input and output variables utilized across these studies provide a robust framework for assessing efficiency, highlighting the importance of strategic resource allocation and operational optimization. As the Islamic insurance sector continues to evolve, ongoing efficiency assessments will be crucial in ensuring its competitiveness in the broader insurance market.

### 3. Conceptual Framework

This study measures the efficiency level of Islamic insurance companies in Indonesia and Malaysia with the following conceptual framework:

Figure 2: Conceptual framework



## 4. Research Methodology

### 4.1 Type of Research

This type of research is quantitative descriptive. Quantitative descriptive is a type of research that explains the results of numerical calculations using literature study analysis to obtain research conclusions. The type of approach in this study is a non-parametric approach with the Data Envelopment Analysis (DEA) method. The DEA method is used to obtain the results of the Decision-Making Unit (DMU) efficiency level. MaxDea 8 is used as a data processing analysis tool to measure efficiency in this study.

### 4.2 Data Identification

This study uses data from Islamic insurance companies in Indonesia and Malaysia from 2019 to 2023. The research year was chosen to capture the period during and after the Covid-19 pandemic. There is a total of 19 Islamic insurance companies in Indonesia and Malaysia that are the samples in this study. The research sample was selected based on data availability and the largest proportion of assets in each country. Table 1 below contains a list of Islamic insurance companies in Indonesia and Malaysia that are the research samples.

Table 1: List of sample

Countries	Islamic insurance Companies
Indonesia	1. PT Asuransi Askrida Syariah
	2. PT Asuransi Chubb Syariah Indonesia
	3. PT Asuransi Jasindo Syariah
	4. PT Asuransi Jiwa Syariah Al Amin
	5. PT Asuransi Jiwa Syariah Jasa Mitra Abadi
	6. PT Asuransi Sonwelis Takaful
	7. PT Asuransi Syariah Keluarga Indonesia
	8. PT Asuransi Takaful Keluarga
	9. PT Asuransi Takaful Umum
	10. PT Capital Life Syariah
Malaysia	1. AIA Public Takaful Berhad
	2. Etiqa Family Takaful Berhad
	3. Etiqa General Takaful Berhad
	4. FWD Takaful Berhad
	5. Hong Leong MSIG Takaful Berhad
	6. Prudential BSN Takaful Berhad
	7. Sun Life Malaysia Takaful Berhad
	8. Takaful Ikhlas Family Berhad
	9. Takaful Ikhlas General Berhad

### 4.2 Data Collection

The type of data in this study is secondary data. The data used comes from the financial statements of each company. The financial statements used are the financial position and profit and loss statements. The financial statements are used to obtain information on input and output variable data used in this study. This study uses two input and output variables each. The input variables used are Operating Expenses and Total Assets. The output variables used are Revenue and Profit (loss). The variables Operating Expenses, Revenue, and Profit (Loss) are included in the profit and loss statement. For data information regarding the Total Assets variable, it is provided in the financial position statement. The selection of input and output variables is adjusted to the intermediate efficiency approach used in the study. In addition, the availability of data on each Islamic insurance company in Indonesia and Malaysia used in the study is also a reason for selecting these variables.

### 4.3 Definition of Operational Variables

This study uses input and output variables based on previous studies. Table 2 below provides variable definitions and references for variable use in this study.

Table 2: Definition of operational variables

Variable Name	Definition	Reference
<b>Input Variables</b>		
X1	Operating Expenses	Expenses related to the company's operations.
X2	Total Assets	The total value of all assets owned by the company.
<b>Output Variables</b>		
Y1	Revenue	Revenue obtained from company operations.
Y2	Profit (Loss)	Profit/loss obtained by the company.

### 4.4 Data Analysis Method

The Data Envelopment Analysis (DEA) method is used in this study to answer the research objectives. Referring to Yildirim (2015) the DEA method produces information on the relative efficiency level of the Decision-Making Unit based on certain input and output variables. Mathematically, the DEA method is formulated with the following formula (Ascarya & Yumanita, 2008):

$$Efficiency\ of\ DMU = \frac{\sum_{k=1}^p \mu_k \gamma_{k0}}{\sum_{i=1}^m \nu_i x_{i0}}$$

DMU	: Decision-Making Unit	n	: number of DMU evaluated
m	: different inputs	$x_{i0}$	: number of inputs consumed by DMU <sub>0</sub>
p	: different outputs	$y_{k0}$	: number of outputs consumed by DMU <sub>0</sub>
$\mu_k$	: average output	$\nu_i$	: average input

The DEA technique was first created by Banker, Charnes, and Cooper (BCC) in 1984 with the variable returns to scale (VRS) model, which was built on the work of Charnes, Cooper, and Rodhes (CCR) in 1978 with the constant returns to scale (CRS) model. According to the CRS model, there is a constant ratio between the addition of input and output. This indicates that there will be a corresponding increase in output of x times for every increase in input of x times. On the other hand, the VRS model assumes that the ratio of additional input to output is not constant. This means that an increase in input of x times does not necessarily result in an equivalent increase in output, which can be greater or smaller.

The efficiency measure in the CRS and VRS assumptions is scaled from 0 to 1. If the efficiency score shows a value of 0 or close to 0, then the DMU is declared inefficient. Conversely, if the efficiency score shows a value close to 1, then the DMU is declared efficient. An efficiency score of 1 indicates that a DMU has

achieved maximum efficiency.

Efficiency measurement using the DEA method also has two types of orientations, namely input orientation and output orientation. Input-oriented efficiency measurements with output have different assumptions. Input-oriented efficiency measurements assume that a DMU can increase efficiency by using fewer input variables to obtain the same output. Meanwhile, output-oriented efficiency measurements state that efficiency can be achieved by using more output variables while using the same amount of input. This study uses an output-oriented approach to measure efficiency.

In addition to answering the research objectives, the DEA method used in this study also has several advantages, namely: 1) The DEA method produces a relative level of efficiency based on the DMU used (Akbar, 2009). 2) The DEA method allows the results of each DMU used to be compared, while also showing the variables that cause inefficiency (Riani & Ikhwan, 2022). 3) The DEA method can handle several input and output variables simultaneously without requiring a functional relationship between the two (Rusyadiana, 2018).

## 5. Results and Discussion

### 5.1 Descriptive Statistic

Descriptive statistics provide an overview of the data used in this study. Table 3 presents descriptive statistics of input and output variables used to measure the level of efficiency of Islamic Insurance in Indonesia and Malaysia in the period 2019 to 2023.

Table 3: Descriptive statistic

	Mean	Min	Max	St.Dev
<b>Output Variables</b>				
Revenue	\$ 113.723.190	\$ 361.383	\$ 707.355.570	\$ 170.477.435
Profit (Loss)	\$ 8.489.858	\$ 12.160	\$ 122.020.290	\$ 20.851.818
<b>Input Variables</b>				
Operating Expenses	\$ 56.867.149	\$ 758.952	\$ 493.196.360	\$ 97.392.957
Total Assets	\$ 426.273.463	\$ 4.695.086	\$ 3.138.555.620	\$ 676.371.868

The income variable has the highest value of USD 707,355,570 and the lowest value of USD 361,383, with an average income of USD 113,723,190. Other input variables, namely profit (loss), reached the highest value of USD 122,020,290 and the lowest production of USD 12,160, with an average profit (loss) of USD 8,489,858.

Meanwhile, in terms of output variable, namely Operating Expenses, the highest value was USD 493,196,360 and the lowest value was USD 758,952, with an average operating expense of USD 56,867,149. The Total Assets variable reached the highest value of USD 3,138,555,620 and the lowest value of USD 4,695,086, with an average total asset of USD 426,273,463.

### 5.2 Panel Efficiency

Using the DEA method, the level of efficiency of Islamic Insurance in Indonesia and Malaysia can be obtained with a general limit in each year. Table 4 presents the panel values of Islamic Insurance efficiency in Indonesia and Malaysia from 2019 (Panel A), 2020 (Panel B), 2021 (Panel C), 2022 (Panel D), 2023 (Panel E), and the overall year (Panel F).

Table 4: Panel Efficiency

	MEAN	MIN	MAX	ST.DEV
PANEL A (2019)				
TE	0,42	0,09	1,00	0,28
PTE	0,53	0,10	1,00	0,29
SE	0,81	0,24	1,00	0,22

PANEL B (2020)				
TE	0,43	0,09	1,00	0,28
PTE	0,56	0,10	1,00	0,31
SE	0,82	0,14	1,00	0,22
PANEL C (2021)				
TE	0,45	0,09	1,00	0,26
PTE	0,58	0,09	1,00	0,30
SE	0,82	0,14	1,00	0,22
PANEL D (2022)				
TE	0,37	0,11	0,90	0,23
PTE	0,47	0,11	1,00	0,28
SE	0,83	0,27	1,00	0,20
PANEL E (2023)				
TE	0,34	0,13	0,92	0,19
PTE	0,44	0,13	1,00	0,23
SE	0,83	0,27	1,00	0,20
PANEL F (ALL YEARS)				
TE	0,40	0,34	0,45	0,04
PTE	0,51	0,44	0,58	0,05
SE	0,82	0,81	0,83	0,01

The table above explains the level of efficiency of Islamic insurance in Indonesia and Malaysia based on Technical Efficiency (TE), Pure Technical Efficiency (PTE) and Scale Efficiency (SE). Based on the average value of the level of efficiency of Islamic insurance in Indonesia and Malaysia, the lowest average TE and PTE values were obtained in 2023, namely 0.34 (TE) and 0.44 (PTE). The highest average TE and PTE values were also obtained in 2021, namely 0.45 (TE) and 0.58 (PTE). The lowest average SE value was obtained in 2019, namely 0.81 and the highest average SE value was obtained in 2022, namely 0.83.

### 5.3 Efficiency Score

The table below shows the results of the calculation of the efficiency score of Islamic Insurance in Indonesia and Malaysia from 2019 to 2023. The results of the efficiency score are on a scale of 0 to 1, where a unit is considered inefficient if the resulting efficiency score is close to 0, while a unit is considered efficient if the resulting score is close to 1 and is considered to have achieved the maximum efficiency score if the resulting score is 1.

Table 5: Efficiency Score

No	DMU	2019	2020	2021	2022	2023	Average
1	AIA Public Takaful Berhad	1,00	0,94	0,86	0,35	0,32	<b>0,69</b>
2	Etiqa Family Takaful Berhad	1,00	0,98	1,00	0,44	0,48	<b>0,78</b>
3	Etiqa General Takaful Berhad	1,00	0,99	0,99	0,96	1,00	<b>0,99</b>
4	FWD Takaful Berhad	0,42	0,44	0,59	0,22	0,23	<b>0,38</b>
5	Hong Leong MSIG Takaful Berhad	0,61	0,53	0,53	0,65	0,62	<b>0,59</b>
6	Prudential BSN Takaful Berhad	0,92	0,87	0,94	1,00	0,41	<b>0,83</b>
7	PT Asuransi Askrida Syariah	0,55	0,55	0,65	0,69	0,59	<b>0,61</b>
8	PT Asuransi Chubb Syariah Indonesia	0,36	0,59	0,53	0,35	0,39	<b>0,44</b>
9	PT Asuransi Jasindo Syariah	0,30	0,31	0,33	0,35	0,31	<b>0,32</b>
10	PT Asuransi Jiwa Syariah Al Amin	0,26	0,15	0,21	0,25	0,25	<b>0,22</b>
11	PT Asuransi Jiwa Syariah Jasa Mitra Abadi	0,35	0,35	0,38	0,32	0,42	<b>0,37</b>
12	PT Asuransi Sonwelis Takaful	0,64	1,00	1,00	1,00	1,00	<b>0,93</b>

13	PT Asuransi Syariah Keluarga Indonesia	0,61	0,42	0,42	0,37	0,39	<b>0,44</b>
14	PT Asuransi Takaful Keluarga	0,14	0,13	0,12	0,12	0,13	<b>0,13</b>
15	PT Asuransi Takaful Umum	0,36	0,38	0,46	0,66	0,55	<b>0,48</b>
16	PT Capital Life Syariah	0,10	0,10	0,09	0,11	0,14	<b>0,11</b>
17	Sun Life Malaysia Takaful Berhad	0,85	1,00	1,00	0,20	0,23	<b>0,66</b>
18	Takaful Ikhlas Family Berhad	0,36	0,37	0,41	0,42	0,43	<b>0,40</b>
19	Takaful Ikhlas General Berhad	0,21	0,44	0,42	0,49	0,45	<b>0,40</b>
<b>Average</b>		<b>0,53</b>	<b>0,56</b>	<b>0,58</b>	<b>0,47</b>	<b>0,44</b>	

Table 5 explains that among the Islamic insurance companies in Indonesia and Malaysia, no company has achieved the maximum average efficiency score. The Islamic insurance company that almost achieved maximum efficiency is Etiqa General Takaful Berhad from Malaysia with an average efficiency score of 0.99. In addition, a company from Indonesia, namely PT Asuransi Sonwelis Takaful, also almost achieved maximum efficiency, with an average efficiency score of 0.93.

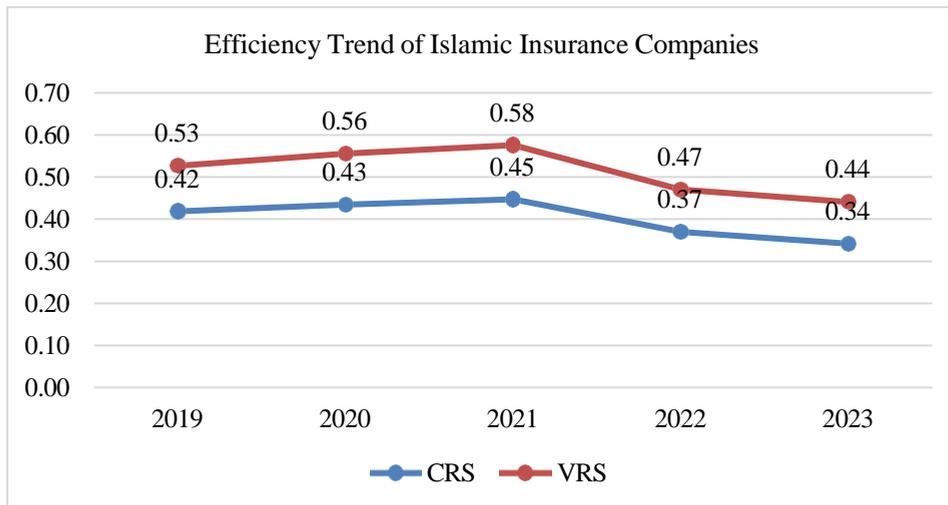
Furthermore, the table above also shows that the highest average efficiency score of the Islamic insurance companies in Indonesia and Malaysia was achieved in 2021 (0.58) and the lowest in 2023 (0.44). Overall, the average efficiency score of Islamic insurance Companies in Indonesia and Malaysia showed quite low results during the period 2019 to 2023. The results of this efficiency score also show that the average efficiency score of Islamic insurance companies in Indonesia and Malaysia is considered more efficient during the Covid-19 pandemic, compared to after the Covid-19 pandemic.

This finding is supported by the same findings in previous studies, namely [Antonio et al. \(2013\)](#), [Benarda et al. \(2016\)](#), [Ningsih & Suprayogi \(2017\)](#), [Sabiti et al. \(2017\)](#), [Ghoni & Efendi \(2021\)](#), and [Razaly et al. \(2024\)](#) which found similar results, namely that Islamic insurance companies in Indonesia and Malaysia are considered inefficient. However, this result contradicts [Sunarsih & Fitriyani \(2018\)](#) which found that only 2 Islamic insurance companies in Indonesia had achieved maximum efficiency (1.00), and [Saad & Idris \(2011\)](#) also found that there were 4 Islamic insurance companies in Malaysia that achieved the average maximum efficiency value (1,00).

#### 5.4 Efficiency Trend

This study also provides the results of the efficiency trend of Islamic insurance companies in Indonesia and Malaysia in 2019-2023 which is presented in Figure 3.

Figure 3: Efficiency trend of Islamic insurance companies

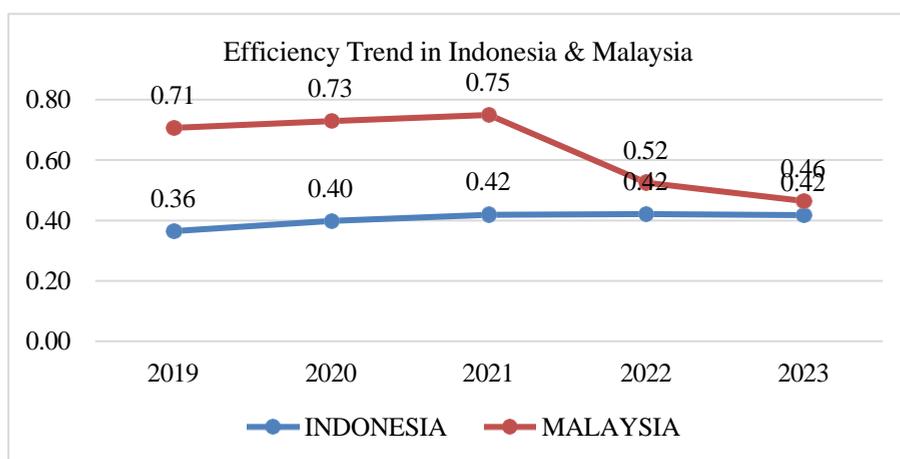


Based on the graph above, the efficiency scores according to the VRS and CRS assumptions show the same fluctuation trend. The highest efficiency score was achieved in 2021 and the lowest in 2023. This trend also shows that during the period from 2019 to 2021, the average efficiency score tended to increase. This captures the level of efficiency of Islamic insurance companies in Indonesia and Malaysia during the Covid-19 pandemic. Meanwhile, in the period after the Covid-19 pandemic, namely from 2022 to 2023, the average efficiency score was recorded to have decreased.

This result contradicts the findings of the research by Parizi & Riani (2024) which found that during the Covid-19 pandemic there was a decrease in the efficiency score of Islamic insurance companies in Indonesia. To overcome the same phenomenon in the future, Indonesia and Malaysia also need to pay more attention to the operations of the Islamic insurance industry, because this industry is also important so that access to health and lifestyle for the people of Indonesia and Malaysia can run well.

This study also compares the efficiency trends of Islamic insurance companies between Indonesia and Malaysia in the period 2019 to 2023 which is presented in Figure 4.

Figure 4: Efficiency trend in Indonesia & Malaysia



Based on the graph above, the efficiency level of the Malaysian Islamic insurance company is higher than that of the Indonesian Islamic insurance company. The efficiency trend of the Malaysian Islamic insurance company has changed from year to year. The highest efficiency level of the Malaysian Islamic insurance company was achieved in 2021, which was 0.75 and the lowest in 2023, which was 0.46.

In addition, the efficiency level of the Indonesian Islamic insurance company shows a trend that tends to increase and is quite stable. The highest efficiency level of the Indonesian Islamic insurance Company occurred in 2021 to 2023, which was constant at 0.42 and the lowest in 2019, which was 0.36. The efficiency level of the Indonesian Islamic insurance company is considered inefficient because it shows results close to 0.

Similar results were also found by Ardianto & Sukmaningrum (2020) who stated that this happened because of less-than-optimal input management for the Indonesian Islamic insurance company, which had an impact on its output results. For this reason, Islamic insurance companies, not only in Indonesia, but also in Malaysia, need to proportionally reduce Business Expenses and use capital optimally.

In the period before the Covid-19 pandemic, namely 2019 to 2021, the efficiency level of Malaysian Islamic insurance companies tended to be high and showed an increasing trend. However, it experienced a significant decline in 2022 (0.52) and decreased again the following year (0.46).

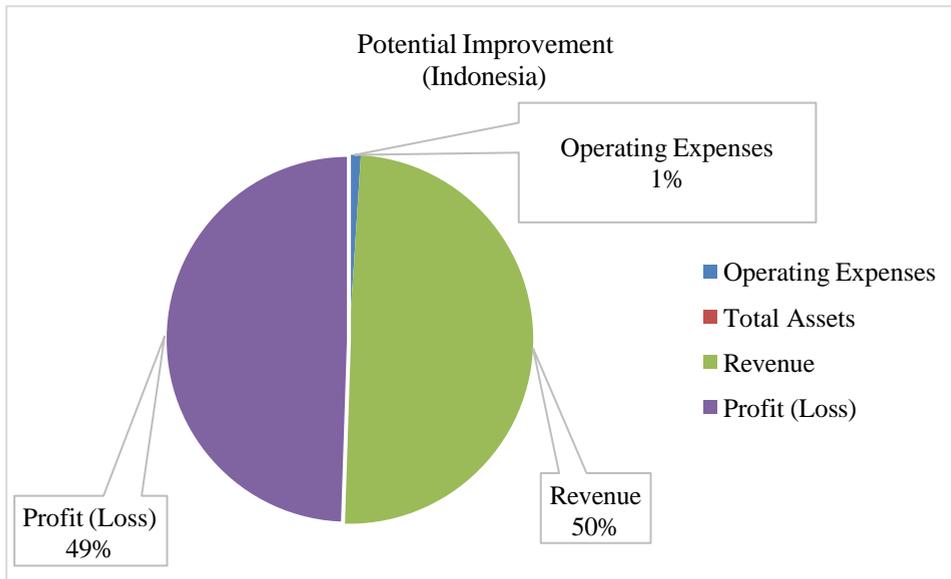
A similar thing happened to Indonesian Islamic insurance companies. During the Covid-19 pandemic, the efficiency trend of Indonesian Islamic insurance companies increased. After the Covid-19 pandemic, Indonesian Islamic insurance companies experienced a constant trend of 0.42.

### 5.5 Potential Improvement

This study also provides potential improvement results from the DEA method used. The potential for improvement is a value that needs to be adjusted by Islamic insurance companies in Indonesia and Malaysia to

achieve maximum efficiency levels. The potential for improvement is analyzed using observations from the last year of the research period, namely 2023. Figure 5 shows information on potential improvements in Islamic insurance companies in Indonesia. While Figure 6 shows information on potential improvements in Islamic insurance companies in Malaysia.

Figure 5: Potential improvement (Indonesia)



Based on the Figure 5 above, the variable that is the largest source of inefficiency in Islamic insurance companies in Indonesia is the revenue output variable. Other variables, namely the Profit (Loss) and Operating Expenses variables also contribute to the inefficiency of Islamic insurance companies in Indonesia. The Total Assets variable is not a source of inefficiency. The potential for improvement based on the image above can be seen that to achieve the maximum level of efficiency, Islamic insurance companies in Indonesia need to increase Revenue by 50% and Profit by 49%. And the Operating Expenses variable needs to be reduced by 1%.

Figure 6: Potential improvement (Malaysia)

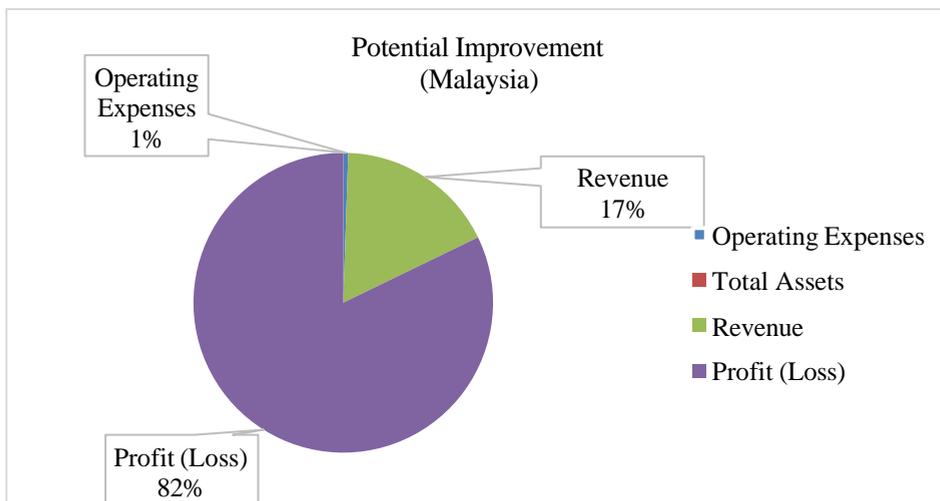


Figure 6 above shows that the largest source of inefficiency in Islamic insurance companies in Malaysia

is the Profit output variable. Other variables that are sources of inefficiency in Islamic insurance companies in Malaysia are the Income and Operating Expense variables. Similar to Islamic insurance companies in Indonesia, the Total Asset variable in Islamic insurance companies in Malaysia is also not a source of inefficiency.

To achieve the maximum level of efficiency, Islamic insurance companies in Malaysia can potentially improve the Profit output variable by 82% and Income by 17%. The Operating Expense variable can be reduced by 1% as a potential improvement.

Other results were found in the research of [Ardianto & Sukmaningrum \(2020\)](#) which found that the overall sources of inefficiency in Islamic insurance companies in Indonesia and Malaysia were Total Expense, Capital, and Total Investment. Total Expense is the largest source of inefficiency with the largest contribution from claim expenses and employee salary expenses of the company.

## **6. Conclusion**

Based on the results of the analysis using the Data Envelopment Analysis (DEA) method, the conclusions regarding the level of efficiency of Islamic insurance companies in Indonesia and Malaysia in the period 2019 to 2023 obtained in this study are:

- i. This study found that there is no Islamic insurance company in Indonesia and Malaysia has achieved the maximum average efficiency score (1.00) during the 2019-2023 research period. Among the 10 Islamic insurance companies in Indonesia in this research sample, the company that achieved the highest average efficiency score was PT Asuransi Sonwelis Takaful (0.93). Meanwhile, among the 9 Islamic insurance companies in Malaysia that were the research sample, Etiqa General Takaful Berhad was the company that achieved the highest average efficiency score (0.99) and almost reached the maximum efficiency level.
- ii. Analysis of efficiency levels per country shows that the efficiency level of Islamic insurance companies in Malaysia tends to be higher than that of Islamic insurance companies in Indonesia.
- iii. The efficiency trend in Islamic insurance companies in Indonesia and Malaysia tends to fluctuate. The increasing trend occurred from 2019 to 2021, while the decreasing trend was found from 2021 to 2023.
- iv. This study also measures the potential for improvement so that Islamic insurance companies in Indonesia and Malaysia can achieve maximum efficiency levels. Based on the results of the analysis of potential improvements, the sources of inefficiency in Islamic insurance companies in Indonesia and Malaysia are the variables Profit, Revenue, and Operating Expenses. The Revenue variable is the largest source of inefficiency in Islamic insurance companies in Indonesia. While the Profit variable contributes greatly to the inefficiency of Islamic Insurance Companies in Malaysia.

This study found that the performance of Islamic insurance companies in Indonesia and Malaysia can be shown based on the efficiency level value. Therefore, measuring the efficiency level value of Islamic insurance companies is important to do. Increasing efficiency in Islamic insurance companies can ultimately also have an impact on increasing financial inclusiveness in the Islamic insurance companies industry. Operational efficiency of Islamic insurance companies can reduce transaction costs and premiums charged to customers, so that Islamic insurance companies' products in Indonesia and Malaysia can be more affordable for the lower and middle economic classes, thus the customer segment of Islamic insurance companies can also be wider. Good efficiency values can also increase trust in Islamic insurance companies as an initial step in the growth of this industry. In that way, public access to Islamic insurance companies can also increase. This also helps improve financial literacy for the community regarding available financial instruments and the importance of financial protection.

## **7. Recommendations**

### *7.1 For Islamic Insurance Companies*

This study provides recommendations for Islamic insurance companies, both in Indonesia and Malaysia, to be able to pay attention to financial performance, especially in terms of efficiency. Efficiency measurements also need to be carried out periodically to determine the projection of the company's performance development.

Islamic insurance companies also need to innovate products in order to reach a wider community. This

will have an impact on the inclusiveness of Islamic finance in Indonesia and Malaysia. The development of the Islamic insurance industry in Indonesia and Malaysia is increasingly being considered considering that this industry is an important instrument in Islamic finance globally.

### 7.2 For Regulator

This study recommends that regulators pay more attention to the operations of the Islamic insurance industry. This is related to the operations of the Islamic insurance industry so that it can be better. Furthermore, regulators can also evaluate the performance results of the Islamic insurance industry. So that they can identify the source of the problems in this industry and can provide concrete efforts in solving the problems. The hope is that the Islamic insurance industry can develop significantly and contribute to the stability of the national financial sector.

### 7.3 For Academics

This study recognizes that there are limitations to this study. Therefore, this study recommends that academics conduct research updates using different variables and research methods. In addition, the research year period can also be extended to be able to capture the efficiency assessment of Islamic insurance companies.

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# Integrating Social Business for Sustainable Impact: A Systematic Literature Review in the Context of *Waqf*

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## Abstract

Integrating social business principles into *waqf*, the Islamic endowment tradition, presents a promising avenue for enhancing its impact and sustainability. This systematic literature review examines existing research on integrating social business for sustainable impact in *waqf*. This review aims to identify key themes, theoretical frameworks, methodologies, and best practices related to integrating social business in *waqf* management by systematically analyzing and synthesizing the literature. The review finds that while there is a growing interest in the potential of social business to transform *waqf* management, more comprehensive research needs to be conducted that systematically explores this topic. Existing studies highlight the importance of adopting a holistic approach to integrating the social business in *waqf*, encompassing financial sustainability, social impact assessment, legal and governance frameworks, and stakeholder partnerships.

*Keywords:* Social-business, sustainable, waqf, literature review.

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## 1. Introduction

In recent years, the concept of social business has evolved into a strategic approach to address social and economic issues more sustainably (Torre et al., 2019; Yadav & Yadav, 2023). A social business is an entity that combines social and environmental goals with a business approach to create shared value, not just financial benefits (Yunus, 2017). Social business aims to achieve significant social impact while maintaining economic sustainability through innovative and effective operating models (Torre et al., 2019).

Meanwhile, sustainability is increasingly becoming a significant focus in various sectors, including business, government, and non-profit organizations (Dariah et al., 2022). Sustainability is defined as the ability to meet the needs of the present without sacrificing the ability of future generations to meet their needs (Ibrahim, 2023; Velenturf & Purnell, 2021). In this context, sustainability includes environmental, social, and economic dimensions, including poverty alleviation, social justice, and inclusive economic development (Estupiñán & Alvarez, 2016).

As a unique philanthropic instrument in the Islamic tradition, *waqf* offers excellent potential to support sustainable social and economic development (Lahuri et al., 2021; Zaldi & Tanjung, 2023). As a treasure endowed for charitable purposes, *waqf* has immortality characteristics that can be used in the long term (Lahuri et al., 2021; Tahir, 2010; Zaldi & Tanjung, 2023). In addition, the emergence of the productive and cash *waqf* concept has expanded the scope and potential of *waqf* to provide a broader impact on the economy and society (Rohman, 2022).

The linkage between social business, *waqf*, and sustainability is crucial in supporting inclusive social and economic development. As an instrument of Islamic social finance, *waqf* has the potential to support various social initiatives through a sustainable approach promoted by social businesses. On the other hand, integrating

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sustainability principles in *waqf* management ensures optimal utilization of *waqf* assets. It expands its impact in addressing social challenges such as poverty, inequality, and access to essential services. An in-depth exploration of these synergies can provide innovative operational models to achieve sustainable development goals (SDGs).

Recent research shows that integrating social business and *waqf* can provide innovative solutions to social and economic challenges (Kasri & Ismail, 2021). This combination can maximize the potential of *waqf* assets to achieve social goals and support the initiative's financial sustainability (Torre et al., 2019). Social businesses supported by *waqf* can create sustainable social impact while providing financial benefits that can be reused for charitable purposes and community development (Torre et al., 2019).

Although this integration has excellent potential, research on the synergy between social business and *waqf* must be completed. Therefore, this study aims to conduct a systematic literature review to examine how the integration between social business and *waqf* can be optimized to achieve sustainable impact. This research contributes theoretically and provides practical guidance for stakeholders on utilizing *waqf* more effectively in social business. As such, this research aims to broaden the understanding of the potential collaboration between social business and *waqf* and offer innovative operational models to support sustainable and inclusive development.

This study aims to conduct a systematic literature review regarding integrating social business in the context of *waqf* for sustainable impact. Specifically, this research will identify and analyze existing literature, investigate the contribution of social business and *waqf* integration to sustainable impacts, explore models and best practices, examine the role of digital transformation, and evaluate its potential in achieving the Sustainable Development Goals (SDGs). In addition, the study aims to identify gaps in current research, propose future research directions, and formulate practical recommendations for stakeholders in implementing and managing social business-based *waqf* initiatives for sustainable impact.

## 2. Literature Review

### 2.1 Social Business and Sustainability

Social business is a business model that prioritizes social impact over financial gain. Muhammad Yunus proposed this model as a company that aims to overcome social problems using a sustainable approach (Yunus, 2017). Sustainability in social business includes environmental, social, and economic aspects (Estupiñán & Alvarez, 2016; Ibrahim, 2023; Junarti et al., 2021; Tahir, 2010; Yadav & Yadav, 2023). Companies must consider their environmental impact and provide added value to local communities and the long-term economy (Elkington, 1998).

### 2.2 Waqf and Economic Empowerment

*Waqf* is an instrument of Islamic philanthropy that can support sustainable and inclusive economic development (Lahuri et al., 2021; Kasri & Ismail, 2021; Fauziah & Kassim, 2022). It can also be social and economic capital used to promote social justice and economic empowerment of the community (Kahf, 1999). Changing *waqf* from traditional to more modern forms, such as cash and productive *waqf*, can increase its impact on economic sustainability (Fauziah & Kassim, 2022). It involves professional management and strategic investment to increase the value and benefits of *waqf* assets (Çizakça, 2000).

### 2.3 Integration of Waqf and Social Business

Integrating social business models with *waqf* allows for project financing that supports sustainable development while meeting social and religious goals. This model can balance achieving social impact and financial sustainability (Obaidullah, 2008). Professional management of *waqf* integrated with social business principles can increase the sustainability of its social impact. *Waqf*-based social businesses can help alleviate poverty and improve community welfare (Raimi et al., 2014).

Case studies from various countries show that implementing social enterprises funded by *waqf* can be successful in multiple contexts, including in community development, education, and health service projects (Sadeq, 2002). The literature shows that integrating social business and *waqf* offers significant potential to

create a sustainable impact. This model can support inclusive social and economic development through professional management, sustainability principles, and utilizing *Waqf* resources.

The combination of social business and *waqf* provides a foundation for financial sustainability and creates sustainable social impact. Sustainability in social business can complement the purpose of *waqf*, which is to create sustainable benefits for society. In addition, insights from previous studies show that a social business model integrated with *waqf* can strengthen *waqf* asset management through strategic and professional investment practices. Thus, this integration has the potential to create a resilient social and financial system that can face global challenges such as pandemics, climate change, and economic inequality.

### 3. Research Methodology

This study uses a combination of bibliometric and systematic review approaches to identify trends and gaps in the literature on integrating social business with *waqf* for sustainable impact. The bibliometric methodology was conducted using Publish or Perish and VOSviewer software, which involves analyzing co-citation, co-authorship, and co-occurrence keywords to map patterns of relationships between themes in the literature (Van Eck & Waltman, 2010). The steps include:

- i. Data search using a combination of keywords such as 'social business,' '*waqf*,' and 'sustainability' in Google Scholar and Scopus databases. Scopus presents quality articles from international journals with strict peer review, while Google Scholar covers a broader range of articles, including those not in Scopus but still relevant.
- ii. Article screening with particular inclusion and exclusion criteria. Inclusion criteria included: (1) articles on the integration of social business and *waqf* in sustainability, (2) published in the last 10 years (2013–2023), (3) using English or Indonesian, and (4) published in indexed journals such as Scopus or Google Scholar. Meanwhile, exclusion criteria included (1) articles that did not discuss the integration of the two, (2) non-peer-reviewed reports, and (3) publications with incomplete or unavailable data.
- iii. Visual mapping uses VOSviewer to identify key clusters and themes in the literature.

Meanwhile, a systematic review was conducted to analyze the content of the most relevant articles based on bibliometric results. The articles were examined in depth to explore theories, operational models, methodologies, and best practices related to integrating social business with *waqf*. The systematic review methodology (Okoli, 2015) includes:

- i. Make a group of articles based on key themes identified in the bibliometric analysis.
- ii. Narrative analysis of the articles contributes to understanding the relationship between social business, *waqf* and sustainability.
- iii. Identify research gaps and recommendations for future research.

### 4. Results and Finding

The results of this study were obtained through a combined approach of bibliometric analysis and systematic review, as explained in the methodology. Bibliometric analysis was used to map patterns of relationships between key concepts in the relevant literature. At the same time, a systematic review delved into the content of the literature to evaluate each article's contribution to central themes such as social business, *waqf*, and sustainability. This process allowed for exploring relevant key themes and gaps in the existing literature.

Publish or Perish software to collect and filter scientific articles related to the keywords "*waqf*", "social business", and "sustainable." Four hundred nine articles were obtained from Google Scholar, of which Scopus indexed 14. The articles analyzed include research published in the last ten years, reflecting the latest trends and developments in integrating social business and *waqf* to achieve sustainable impact. Studies derived from Google Scholar provide a broader and more diverse scope. At the same time, articles indexed in Scopus tend to have a more rigorous methodology and focus more on specific cases or contexts relevant to the topic.

Furthermore, the analysis uses a VOS viewer to map the relationships between research topics and themes related to "*waqf*", "social business", and "sustainable." The analysis results showed that 39 items were identified in the analyzed literature. From these items, 7 clusters were formed that grouped articles based on similarities in themes and keywords that appeared frequently. In addition, 120 links described the direct relationship

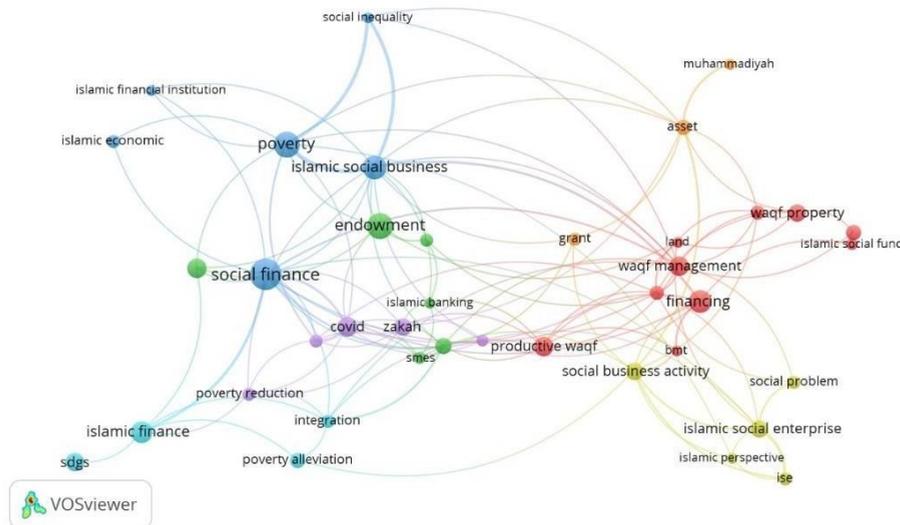
between the items, with a total of 166 strength links that showed the strength of associations or connections between topics in the literature (Van Eck & Waltman, 2010).

#### 4.1 The Network Map Visualization

The network map visualization generated using VOSviewer provides a comprehensive overview of various critical concepts in the literature (Van Eck & Waltman, 2010). This map shows interconnected keywords related to social business integration in *waqf*. The connections between keywords show how the literature discussed focuses on aspects considered crucial in managing *waqf* and implementing Islamic-based social enterprises.

Keywords such as *social finance*, *endowment*, *Islamic social business*, *waqf management*, *poverty*, and *financing* are central to this network. In the literature, social finance management and *waqf* are often necessary to overcome poverty (Izzah & Soemitra, 2022; Lita, 2021; Mahmood & Fatima, 2015; Nusrate & Mohamad, 2016). The strong relationship between these keywords indicates that the *waqf* management strategy highly depends on applying social finance principles to achieve social goals such as poverty alleviation. This shows that academic literature focuses on how *waqf* can be used strategically to achieve broader social impact.

Figure 1: The network map visualization using VOSviewer



In addition, this network map also shows the close relationship between other Islamic financial concepts, such as *zakah* and *Islamic banking*, and the management of *waqf* and *social business*. This indicates that the literature's discussion of *waqf* is not separate from other Islamic financial concepts but well integrated into a single financial system based on Islamic principles (Alpay & Haneef, 2015; Winarsih et al., 2019; Wisudanto et al., 2023; Zarfi, 2019). This approach allows for achieving more holistic social and economic goals, especially in reducing poverty and social inequality.

The map also reveals broader social issues related to discussions about *waqf* and social business, such as *social inequality* and *social problems*. This literacy reflects awareness of the social challenges of managing *waqf* in the modern era (Gündoğdu, 2019; Nusrate & Mohamad, 2016). This literacy also shows that concepts such as *waqf* management and financing are seen from technical and financial aspects and in a broader social context to create a more profound impact on society.

This grouping of keywords by colour in the map helps identify the main themes in the literature. For example, clusters related to *waqf* property management and social finance provide insight into how this literature is grouped based on different but interrelated subjects. It allows the reader to understand the various dimensions of integrating social business with *waqf* and how these elements work together to achieve

sustainable goals (Wisudanto et al., 2023).

This visualization provides insight into how scientific literature views social business integration with *waqf*. By connecting the various core concepts, this visualization helps illustrate the complexity and potential of using *waqf* to support social goals, especially regarding social finance and poverty alleviation. The network map generated by VOSviewer provides an in-depth overview of the complex relationships between the concepts discussed in the literature regarding integrating social business in the context of *waqf* and its sustainability. Unfortunately, research linking *waqf*, social business and sustainability is minimal.

#### 4.2 The Network Map Evolution of Research Topics

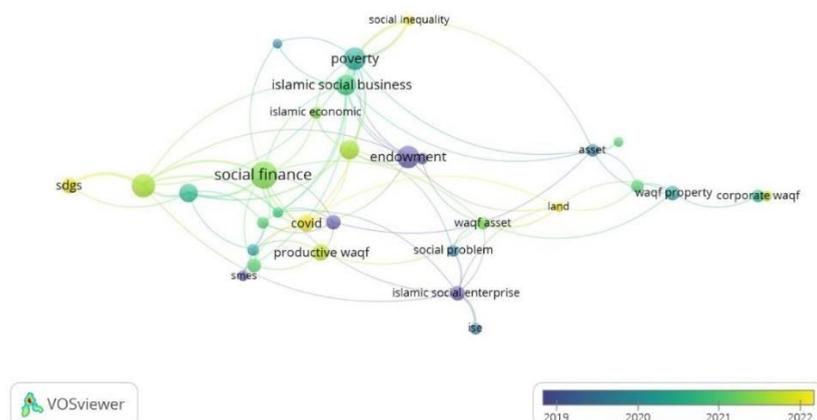
This VOSviewer network map provides an in-depth look at the evolution of research themes related to *waqf* and social business in recent years. These visualizations display the relationships between key concepts and provide essential temporal information. The colours on the map indicate the period from 2018 to 2022 in which specific topics were the focus of the literature. Through this map, we can understand how academic discourse on *waqf* has developed and adapted to dynamic social and economic conditions.

One of the main findings of this visualization is the increased attention to topics such as *covid*, *productive waqf*, and *Islamic social enterprise* (Faiza, 2023; Iskandar et al., 2023; Nawawi, 2023; Othman et al., 2022; Purwanto et al., 2021; Umar, 2021). The dominant yellow on these topics indicates they are starting to take centre stage in research, especially after 2020. This is not surprising given the global impact of the COVID-19 pandemic, which has forced academics and practitioners to look for new ways to utilize *waqf* and social finance mechanisms to address the socio-economic crisis. In this context, the literature shows efforts to connect the traditional values of *waqf* with the urgent needs faced by modern society, such as aiding during the pandemic, supporting MSMEs, and promoting Islamic social entrepreneurship.

In addition, the map also shows topics that have been part of academic discourse over the past few years, such as *social finance*, *poverty*, and *Islamic finance* (Gündoğdu, 2019; Hassan & Ashraf, 2010; Izzah & Soemitra, 2022; Khalifa, 2014; Mahmood & Fatima, 2015; Nusrate & Mohamad, 2016; Owais & Ali, 2024). These topics are shown in blue and green, suggesting that even though they have been discussed for a long time, they remain the focus of the research. Social finance and poverty, for example, stay at the centre of studies examining how *waqf* can alleviate poverty and improve social welfare. The resilience of this topic in the literature shows that these issues are still very relevant and require sustainable solutions.

Interestingly, the map also reflects a shift in focus from theoretical and historical issues to a more practical and implementable approach. For example, the concepts of *waqf* management and productive *waqf* occupy a central position on the map (Al-Daihani et al., 2023; Abd. Ghani & Aziz, 2023; Dharma et al., 2023; Huda et al., 2017; Owais & Ali, 2024; Pratama et al., 2023; Raimi et al., 2014; Winarsih et al., 2019). This shows that research is shifting from mere theoretical exploration to practical applications that can impact the field. The literature strongly advocates ensuring that *waqf* is an ideal concept and an instrument that can be managed and utilized effectively for the broader social interest.

Figure 2: The network map evolution of research topics using VOSviewer



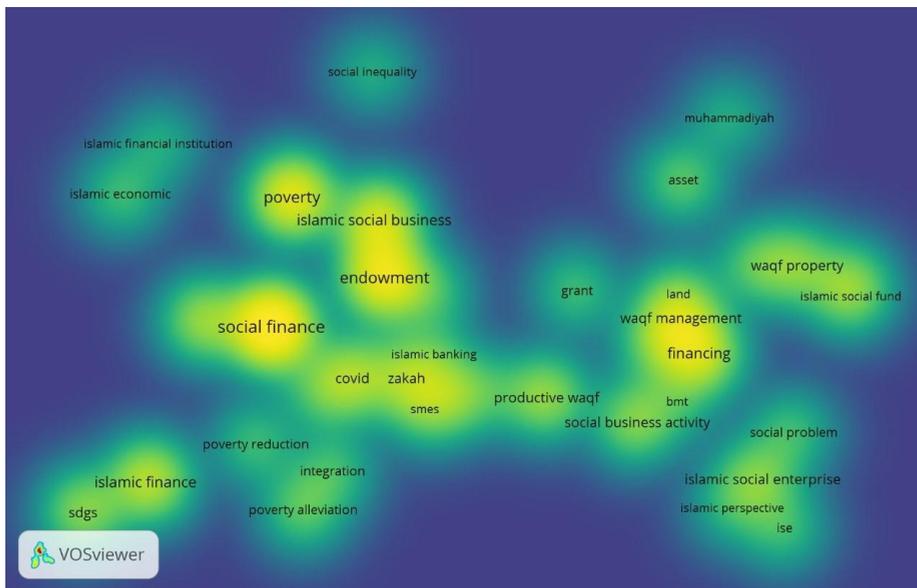
This network map also reveals complex and interrelated relationships between various concepts, reflecting the multidimensional nature of the topic of *waqf* and social enterprise. For example, the relationship between social finance, poverty alleviation, and Islamic social enterprise shows how the literature tries to integrate various approaches to achieve a common goal: improving social welfare through Islamic financial instruments (Abd. Ghani & Aziz, 2023; Izzah & Soemitra, 2022; Lita, 2021; Mahmood & Fatima, 2015; Pratama et al., 2023; Winarsih et al., 2019). This interconnectedness also shows that solutions to social problems require a holistic approach combining finance, management, and social innovation.

Overall, this visualization provides a comprehensive insight into the direction and development of research on *waqf* and social enterprise in recent years. From this analysis, the literature has adapted to changing times, responded to new challenges such as the COVID-19 pandemic, and continues to explore ways to utilize *waqf* as an instrument for sustainable social development. This map not only illustrates the evolution of research themes but also reflects a shift in academic approaches from theoretical ones to more practical and responsive applications to the needs of modern society.

#### 4.3 The Density Map

The VOSviewer map analysis resulting from this study reveals several vital interrelated themes in the existing literature, providing an in-depth picture of how *waqf* and social business can work together to achieve social goals.

Figure 3: Density map using VOSviewer



One of the main findings of this map is the central role of social finance in the *waqf* ecosystem and social business. *Poverty*, *endowment*, *financing*, and *waqf management* emerged as central to the literature, suggesting that social finance and waqf management were the focus. The connectivity between social finance and topics such as poverty alleviation and poverty reduction emphasizes that the primary goal of social business integration in *waqf* is to reduce poverty and social inequality (Alpay & Haneef, 2015; Ichsan & Mahmudi, 2022; Owais & Ali, 2024; Rana et al., 2020; Yakubu et al., 2019). It also reflects efforts to ensure that *waqf* assets are used effectively for the benefit of the wider community.

In addition, the map also highlights contemporary issues of concern in the literature, such as COVID and the role of small and medium enterprises (SMEs) in the context of *waqf* and social business (Islam et al., 2023; Khan & Badjie, 2022). This shows that the literature focuses on traditional concepts and challenges affecting *waqf* management's success. The COVID-19 pandemic, for example, has affected the way *waqf* and social businesses operate, forcing adaptations in management strategies to maintain their social impact (Iskandar et

al., 2023; Nawawi, 2023; Umar, 2021).

Another issue that stands out is the importance of waqf asset management, reflected in the connection between *waqf management*, *waqf property*, and *grant* (Abd. Ghani & Aziz, 2023; Dharna et al., 2023; Owais & Ali, 2024; Raimi et al., 2014). This indicates that one of the main challenges in social business integration is managing *waqf* assets effectively to achieve social and economic goals. Good management is critical in ensuring waqf can contribute significantly to the community's welfare, especially in financing social projects.

In a broader perspective, several keywords, such as *Islamic social enterprise*, *integration*, and *Islamic perspective*, show an increasing interest in new approaches to social business that integrate Islamic principles (Alpay & Haneef, 2015; Winarsih et al., 2019; Wisudanto et al., 2023; Zarfi, 2019). This literacy reflects an effort to create an economically profitable business model that aligns with religious values, ultimately expected to produce a broader and sustainable impact.

Overall, this analysis provides in-depth insights into how the current literature addresses integrating social business with *waqf* and the challenges and opportunities in creating sustainable social impact. This VOSviewer map shows that research in this area constantly evolves, with significant attention to social finance management, poverty reduction, and adaptation to new challenges in an ever-changing world.

## 5. Discussion

### 5.1 Context in the literature

The findings of this study reinforce several key arguments in previous literature. For example, bibliometric results show that 'social finance' and 'poverty alleviation' are dominant themes in integrating social business and *waqf* (Lahuri et al., 2021; Torre et al., 2019). This is consistent with research showing that social-based financial models such as *waqf* can significantly address social inequality and poverty (Kasri & Ismail, 2021; Raimi et al., 2014).

However, the systematic analysis also reveals that the sustainability dimension is often only discussed theoretically without comprehensive operational studies. For example, previous literature focuses on the productive potential of *waqf* in general (Fauziah & Kassim, 2022) but lacks exploration of deeper social impact measurements or evidence-based implementation models (Htay et al., 2013; Obaidullah, 2008; Sadeq, 2002).

### 5.2 Literature Gaps

This study found a gap in the literature regarding the lack of studies linking *waqf* asset management to specific social business models. Most literature is still limited to traditional *waqf* management or generally focuses on the productive concept of *waqf* (Çizakça, 2000; Khalifa, 2014). Furthermore, although some articles discuss innovations such as the digitalization of *waqf* management, such as crowdfunding in *waqf* models (Al-Daihani et al., 2023; Mohsin, 2013), in-depth research on how these innovations support socio-economic sustainability is still rare.

### 5.3 Synthesis of Findings and Implications

The methodological approach used in this study shows that combining bibliometrics and systematic reviews can provide holistic insights. For example, bibliometric analysis identifies dominant clusters in the literature. At the same time, systematic reviews allow for deeper exploration of these themes, such as how *waqf* can be used as a social finance tool to support sustainability goals.

These findings underscore the need for future research to adopt a multidisciplinary approach, integrating *waqf* management with innovative social business models and sustainability as a key impact indicator. In addition, collaboration between academics, practitioners, and policymakers is needed to address the challenges in *waqf* management in the modern era, as suggested by Kasri & Ismail (2021) and Wisudanto et al. (2023)

## 6. Conclusion and Recommendation

Network map analysis using VOSviewer shows that concepts such as social finance, *waqf* management, and poverty occupy a central position in the literature that discusses integrating social business with *waqf*. The strong relationship between these concepts confirms that social finance and *waqf* management are the main instruments in reducing poverty and social inequality. This literacy underscores the importance of utilizing *waqf* as a strategic tool to achieve sustainable social goals, balance religious values, and achieve social welfare.

This network map also shows how literature has adapted to contemporary issues, such as the impact of the COVID-19 pandemic and the role of Islamic social enterprise in the modern economy. The increased attention

to productive *waqf* after 2020 reflects a response to global challenges, where Islamic social finance mechanisms are used to address socio-economic crises. This shows that discussions on *waqf* are increasingly relevant to the needs of modern society, focusing on practical and innovative solutions that can help strengthen social and economic resilience.

Overall, the literature on integrating social business in the context of *waqf* highlights the importance of a holistic and practical approach. However, research linking *waqf*, social business, and sustainability is minimal. This relationship has great potential to have a broader and sustainable social impact. Therefore, there is an urgent need for more research and exploration that identifies practical ways of managing *waqf* as an effective social financial instrument. This is important to ensure that *waqf* is understood theoretically and utilized optimally to achieve social development goals and sustainable poverty reduction.

By integrating a robust methodology and relevant literature, this results and discussion section provides an overview of literature trends. It points out future research directions needed to address theoretical and practical challenges in managing *waqf* and social business.

There are several recommendations for further research in integrating social business and *waqf* to achieve social and economic sustainability. Future research should focus more on developing practical and measurable operational models for *waqf* management integrated with social businesses, including case studies on the implementation of productive *waqf* and Islamic social business, as well as an analysis of the effectiveness of these models in creating sustainable social impact. Further research also needs to explore the interaction between *waqf* and other Islamic finance mechanisms, such as zakah and Islamic microfinance, to support poverty alleviation more comprehensively and evaluate the role of regulations and public policies in improving the efficiency and effectiveness of *waqf* management. In addition, the long-term sustainability dimension of *waqf* management integrated with social business also needs to be explored, especially in terms of adaptation to changes in social and economic conditions, risk analysis, mitigation strategies, and critical factors that support the sustainability of *waqf* as a social development tool.

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# Non-Performing Financing (NPF) on Islamic Rural Banks in Indonesia: Bibliometric Analysis and Literature Review

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## Abstract

Although Islamic Rural Banks (IRBs) have experienced substantial expansion, Non-Performing Financing (NPF) remains a persistent issue. The NPF levels of Indonesian IRBs often exceed the maximum threshold established by Bank Indonesia. This study conducts an extensive bibliometric analysis and literature review of NPF in IRBs in Indonesia. Using Publish or Perish (PoP) software, articles from the Google Scholar database were analyzed. Out of 1,000 articles identified from 2020 to 2024, 35 were deemed relevant and selected for analysis. The data analysis included: (1) Mapping journal publication trends related to NPF in IRBs; (2) Utilizing VOSviewer for bibliometric visualization; and (3) Reviewing research topics on NPF in IRBs through a literature review. The findings provide a comprehensive view of publication timelines, journals, citation rates, authorship, research subjects, and methodologies used. Six primary topics on the effects of NPF and 22 topics on its determinants were identified. This study serves as a valuable reference for future research by presenting potential topics, methodologies, variables, and recommendations for investigating NPF in IRBs.

*Keywords:* Non-performing financing, Islamic rural banks, bibliometric analysis, literature review

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## 1. Introduction

An Islamic bank, as defined by the Republic of Indonesia's law number 21 of 2008 on Sharia banking, is a financial institution that conducts economic activities adhering to Sharia principles. These institutions are categorized as Islamic Commercial Bank (ICB) and Islamic Rural Bank (IRB).

ICBs differ from IRBs in operational aspects, services, foreign exchange transactions, ownership entities, and minimum capital requirements. While ICBs offer diverse financial services requiring a minimum capital of IDR 3 trillion, IRBs, primarily operating in rural areas, are prohibited from collecting time deposits or conducting foreign exchange transactions. The minimum capital for IRBs varies by region, starting from IDR 5 billion for Jakarta, while smaller cities require less. IRBs focus on micro and small-scale financing, filling a critical gap by supporting small and medium-sized enterprises (SMEs), which are often underserved by larger financial institutions (Mawardi et al., 2023).

Islamic Commercial Banks (ICB) and Islamic business units currently hold a dominant position in the Islamic finance market in Indonesia. Nevertheless, these institutions typically prioritize large-scale investments, thus not reaching the provision of capital for small and medium-sized enterprises (SMEs). Therefore, the existence of Islamic Rural Banks (IRB) is crucial, as they focus primarily on providing small and micro-scale financing in rural areas.

Despite their significance, IRBs face persistent challenges, particularly regarding NPF, which often exceeds Bank Indonesia's 5% threshold. For instance, in October 2019, the NPF rate for IRBs was 8.28% (Priyadi et al., 2021).

If there is a possibility that the contract cannot be executed according to the agreed terms, this is referred to as non-performance risk. Non-performance risk, or credit risk, arises when borrowers fail to meet contractual

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obligations (Brown & Moles, 2008). Risks may arise from unexpected strategic changes. Despite thorough planning, there is still a possibility that activities may not proceed as expected (Anggraini & Harianto, 2023). Credit risk in conventional banks is typically represented by Non-Performing Loans (NPL) (Priyadi et al., 2021). These loans are classified as non-performing when borrowers fail to make the agreed payments for a certain period. However, the time required for a loan to become non-performing may vary based on the specific conditions of the loan (Kavirathne et al., 2022).

Unlike conventional banks that operate within a debtor-creditor framework, resulting in all their products being exposed to credit risk (Haryono et al., 2016), In Islamic banking, this risk manifests differently compared to conventional banking due to unique contractual structures, including profit-and-loss sharing (PLS) mechanisms. These financial instruments are typically represented as various forms of financing, rather than “loans” (Bhala, 2012). Credit risk arises in fee-based product agreements, such as sales, leasing, or specific sales with deferred payment, due to uncertainty about timely and full repayment. This risk is heightened if there is no provision for delayed repayment guarantees. Credit risk emerges in transactions involving delayed delivery, due to non-delivery of goods, delayed delivery, or delivery of defective goods. In equity-based contracts like *mudharabah* and *musharakah*, the risk is the reduction in capital value (Jobst & Sole, 2020).

Previous studies on credit risk largely focus on Non-Performing Loans (NPLs) in conventional banks. For instance, Nikolopoulos & Tsalas (2017) reviewed NPL determinants at micro and macro levels. The results indicate that Non-Performing Loan (NPL) is a common indicator of credit risk. Factors influencing NPL at the micro level include bank-specific factors such as bad luck, skimping, moral hazard, size effect, bad management, and procyclical credit policy. Meanwhile, at the macro level, NPL is influenced by macroeconomic factors such as GDP, public debt, unemployment, and inflation/deflation. Khairi et al. (2021) also identified variables affecting NPL. Based on 21 relevant articles, the study found that macroeconomic variables such as GDP and inflation, as well as bank management (market structure and managerial skills), significantly impact NPL.

Almuraikhi (2022) highlighted interactions among borrower profiles, bank-specific factors, and macroeconomic conditions in NPL trends. However, this relationship is not yet fully understood, particularly in the context of Islamic banks. Islamic banks use profit-sharing contracts that positively moderate NPLs, but further research is needed to explore how these interactions occur with bank-specific and macroeconomic factors. On the other hand, the behaviour of Islamic and conventional banks tends to be similar in many aspects related to bank-specific and macroeconomic factors. Nevertheless, there is a critical research gap regarding the prediction of NPLs based on borrower behaviour in Islamic banks. Alnabulsi et al. (2023) conducted a systematic review of 76 studies on the determinants of NPLs published between 1987 and 2022 in the Web of Science and Scopus databases. The findings reveal that macroeconomic factors (GDP, unemployment, and inflation), bank-specific factors (management and credit risk), and industry factors (regulation and market conditions) significantly influence NPLs.

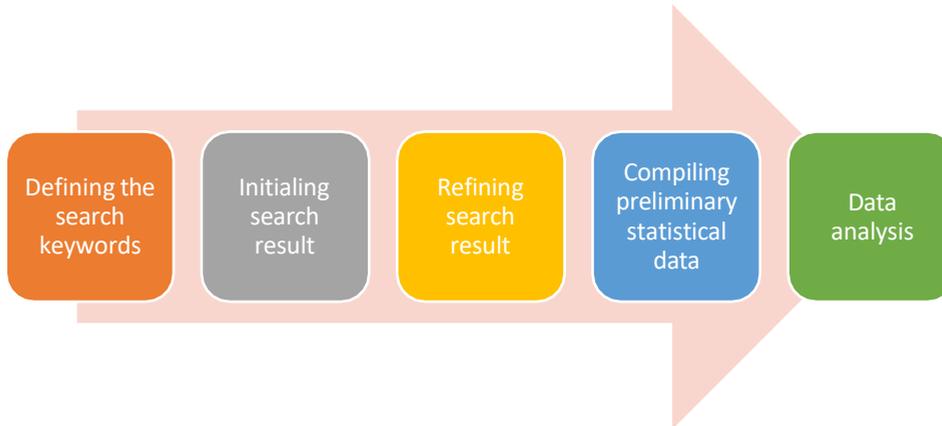
Dimitrios (2023) examined global approaches to addressing NPLs, categorized into two strategies: ex-ante (prevention) and ex-post (resolution). The results show that prevention involves strict regulations, risk evaluations, and mitigation strategies, while post-event resolution includes the use of Asset Management Companies (AMCs) and debt restructuring. Wahyu & Budianto (2023) mapped credit risk in Islamic and conventional banking from 1975 to 2022 using bibliometric analysis (VOSviewer) to identify research trends and clusters. The findings indicate the existence of five clusters and 84 topics. While these studies provide valuable insights, there remains a significant gap in research focusing on NPF in IRBs, particularly in Indonesia. This study addresses this gap by conducting a bibliometric analysis and literature review to explore NPF in IRBs.

This study is divided into 4 parts. The Introduction provides the background of the research and a literature review on previous works. Next, the Methodology explains the approach used to conduct the research. The Findings and Discussions section presents the results of the study and elaborates on their implications. Finally, the Conclusion summarizes the entire research, highlights its limitations, and proposes suggestions for future research.

## 2. Research Methodology

This research employed a mixed-methods approach, combining quantitative bibliometric analysis and qualitative literature review. The research object was NPF in Indonesian IRBs. The bibliometric analysis followed five stages (see Figure 1) outlined by (Tranfield et al., 2003) and (Setyaningsih et al., 2019).

Figure 1: Schematic diagram of the study



### 2.1 Defining the search keywords

The selected search keywords were: “Non AND Performing AND Financing AND Islamic AND Rural AND Bank AND Indonesia.”

### 2.2 Initialing search results

The initial search, conducted in May 2024, used the Google Scholar database via PoP software. A maximum of 1,000 articles, published between 2020 and 2024, were targeted.

### 2.3 Refining search results and compiling preliminary statistical data

The initial results were refined based on relevance to NPF in IRBs. Criteria included:

- i. Alignment of titles, abstracts, and keywords with NPF and IRB-related terms.
- ii. Exclusion of duplicate or inaccessible articles.
- iii. Focus on peer-reviewed journal articles.

This process resulted in 35 relevant articles, saved in CSV format for analysis.

### 2.4 Data analysis

Quantitative analysis utilized PoP and VOSviewer. PoP identified publication trends, citation metrics, and authorship patterns, while VOSviewer generated network, overlay, and density visualizations. Qualitative analysis reviewed the 35 selected articles to map research topics.

## 3. Findings

### 3.1 Article Search

The initial data search on the Google Scholar database was conducted using PoP Software, resulting in the collection of 1000 articles, which were then stored in Excel for a four-stage screening process (see Table 1). The stages were as follows:

- i. Identifying the alignment between titles, abstracts, and keywords. The essential terms that needed to be present in each selected paper/journal were Non-Performing Financing (NPF) or Non-Performing Loan (NPL) or Financial Performance, and Islamic Rural Bank (IRB) or Bank Perkreditan Rakyat Syariah (BPRS) or Islamic Microfinance (IMFI), along with Indonesia. The terms Financing, Loan, Bank, and Microfinance could be in singular or plural forms.
- ii. Removing duplicated articles.
- iii. Selecting only scientific journals, excluding books and scientific proceedings.

iv. Selecting only fully accessible scientific journals.

Based on these four criteria, 35 scientific journals met the requirements. Here is the comparison between the initial search results and after screening:

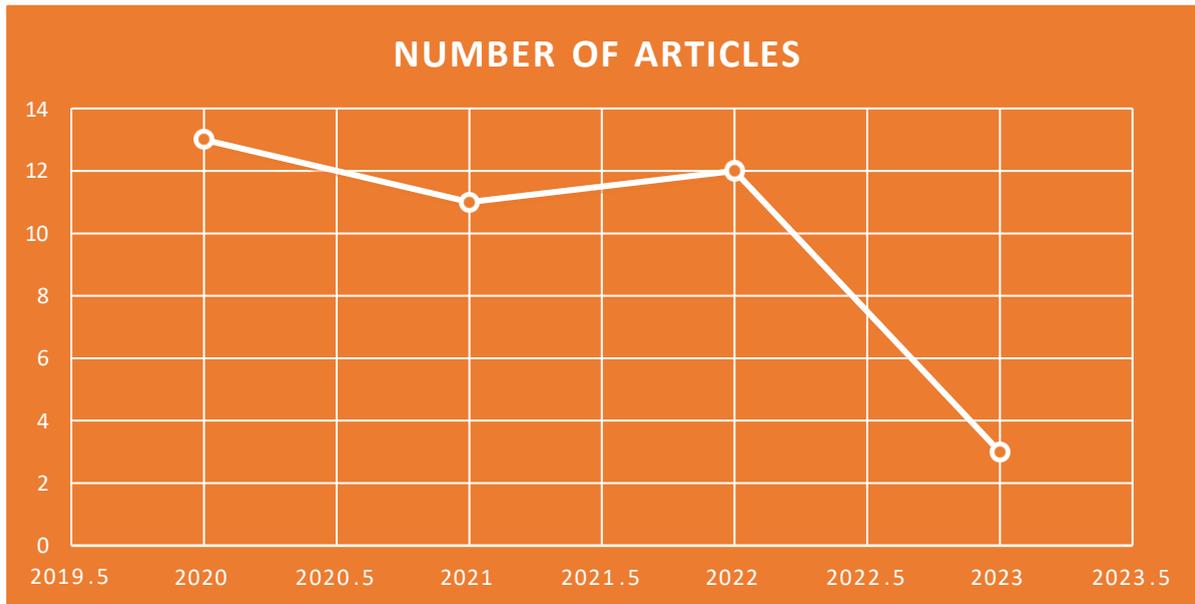
Table 1. Comparison metric

Metric Data	Initial search	Refine search
Source	Non-Performing Financing of Islamic Rural Banks in Indonesia	Non-Performing Financing of Islamic Rural Banks in Indonesia
Publication years	2020-2024	2020-2023
Papers	1000	35
Citations	23490	879
Citation per year	5872.50	219.75
Citation per paper	23.49	25.11
h-Index	67	14
g-Index	102	29
hI_norm	42	10
hI_annual	10.50	2.50

3.2 Publication Trend

From 2020 to 2023, Figure 2 outlines that publication numbers fluctuated, peaking in 2020 but declining sharply in 2023. The COVID-19 pandemic significantly affected research output.

Figure 2: Periodic evaluation of the number of publications



3.3 Citation and Journal Distribution

Among the 35 articles, the most cited work was by Firas et al. (2020), with 117 citations. Table 2 lists the top five cited articles, showcasing key contributions to NPF research.

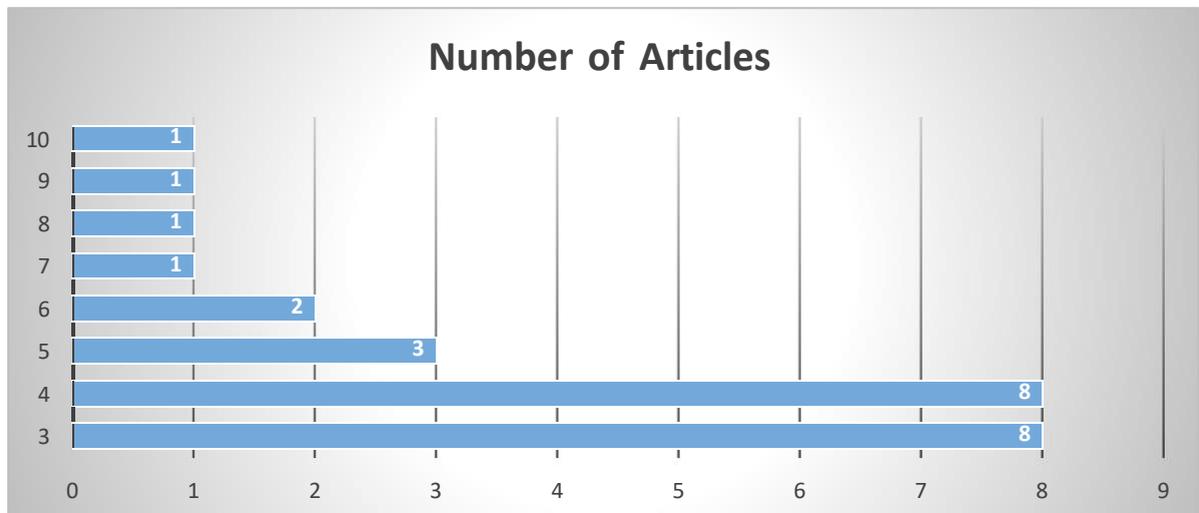
Table 2: The Top 5 Highest Citation Articles

Year	Authors	Title	Journal	Citation
2020	HFT Kuncoro, S Anam, M Sanusi	Analisis Pengaruh Dana Pihak Ketiga dan Non Performing Financing Terhadap Return On Asset Pada BPRS Di Indonesia	Jurnal Manajemen Dan Bisnis Indonesia	117
2020	Wasiaturrahma, R Sukmana, SR Ajija, SCU Salama, A Hudaifah	Financial performance of rural banks in Indonesia: A two-stage DEA approach	Heliyon	97
2021	U Priyadi, KDS Utami, R Muhammad, P Nugraheni	Determinants of credit risk of Indonesian Shari'ah rural banks	ISRA International Journal of Islamic Finance	77
2022	E Endri, N Fatmawatie, S Sugianto, H Humairoh, M Annas, A Wiwaha	Determinants of efficiency of Indonesian Islamic rural banks	Decision Science Letters	69
2020	A Widarjono, MB Anto, F Fakhrunnas	Financing risk in Indonesian Islamic rural banks: do financing products matter?	Journal of Asian Finance, Economics and Business	66

### 3.4 Authorship

Based on the number of authors for each paper, we created Figure 3 below. Three or four authors wrote the majority of the articles. Most of the selected articles had more than four authors with only a few written by one author. However, the common collaboration involves three or four authors, with more extensive collaborations being sporadic.

Figure 3: Authorship



### 3.5 VOSviewer Output

The 35 articles resulting from the previous screening were analyzed using VOSviewer software. Three types of visualizations were obtained notably: Network visualization, Overlay visualization, and Density visualization. The result of the network visualization is illustrated below:

Figure 4: Network visualization

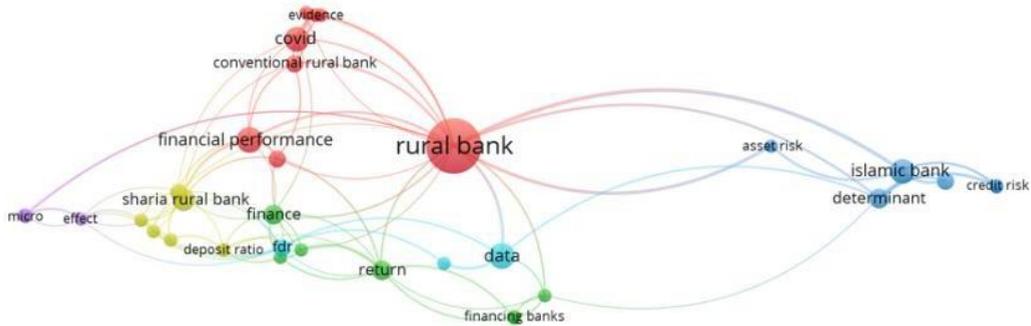


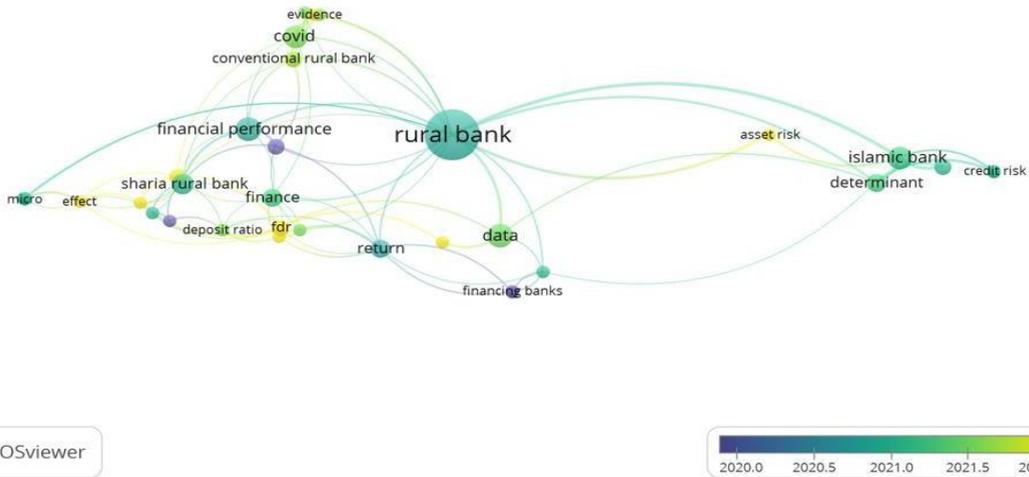
Figure 4 above maps the relationships between keywords in studies on 'NPF in Islamic rural banks in Indonesia,' where nodes represent specific keywords. The size of the nodes indicates the frequency of occurrence in the analysis; the larger the node, the more frequently the keyword appears. Lines between nodes indicate the relationships between topics, with thicker lines representing stronger connections. Based on the visualization, there are 6 clusters and 34 items related to 'NPF in Islamic rural banks in Indonesia,' as shown in Table 3:

Table 3: Keywords cluster

Clusters	Items
Cluster 1	Conventional Rural Bank, Covid, Evidence, Financial Performance, Islamic Banking, Pandemic, Rural Bank, Variable
Cluster 2	Asset, BOPO, Finance, Financing Banks, Islamic People, Research, Return
Cluster 3	Asset Risk, Bank Efficiency, Credit Risk, Determinant, Indonesian Shariah Rural Bank, Islamic Bank
Cluster 4	CAR, Deposit Ratio, MSME Financing, Shariah Rural Bank, Significant Effect
Cluster 5	Effect, Medium Enterprises Financing, Micro, Small
Cluster 6	Data, FDR, Rural Bank Sharia

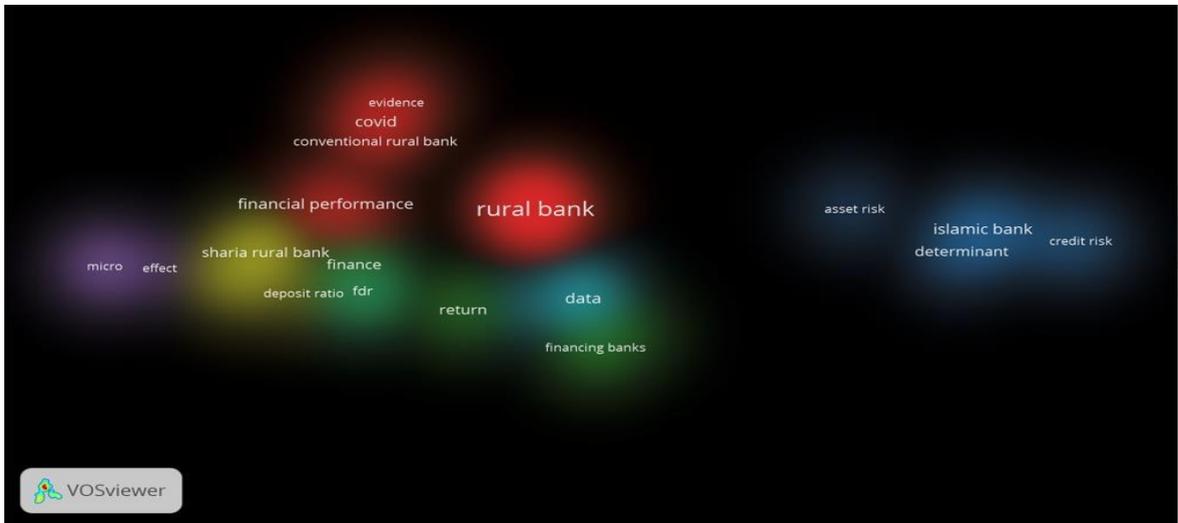
Next, regarding the overlay visualization in Figure 5. The results are similar to the previous ones but with the addition of a time dimension depicted by the color gradient on the nodes. The colors indicate the volume of research in those years. 2020 is marked in blue, while green and yellow represent the more recent years of 2021 to 2022. The most frequently occurring keywords in early 2020 were financing banks, financial ratio, and variable. From mid-2020 to early 2021, rural banks, financial performance, shariah rural banks, and return dominated the research. Then, from mid-2021 to early 2022, research on data, COVID-19, asset risk, Islamic banks, and determinants received more attention.

Figure 5. Overlay Visualization



The density analysis addresses the same issues as before but emphasizes the main clusters and the relationships between research topics. The different colors refer to groups of closely related items. The size of the nodes indicates the frequency of those topics within the dataset. 'Rural bank,' shown in the red cluster, is the main focus, and the themes closely related to it are COVID, evidence, financial performance, and conventional rural bank. Meanwhile, the keyword 'shariah rural bank,' marked in yellow, is closely related to finance, deposit ratio, FDR, return, and financing banks. Keywords in the green cluster are data, return, and financing banks. Islamic bank, determinant, credit risk, and asset risk are keywords in the blue cluster. The smallest cluster is micro and effect, marked in purple as shown in Figure 6.

Figure 6. Density Visualization



### 3.6 Research Methodology

The method used in the 35 selected journals is as shown in the following image:

Figure 7: Count of research methods used in the research

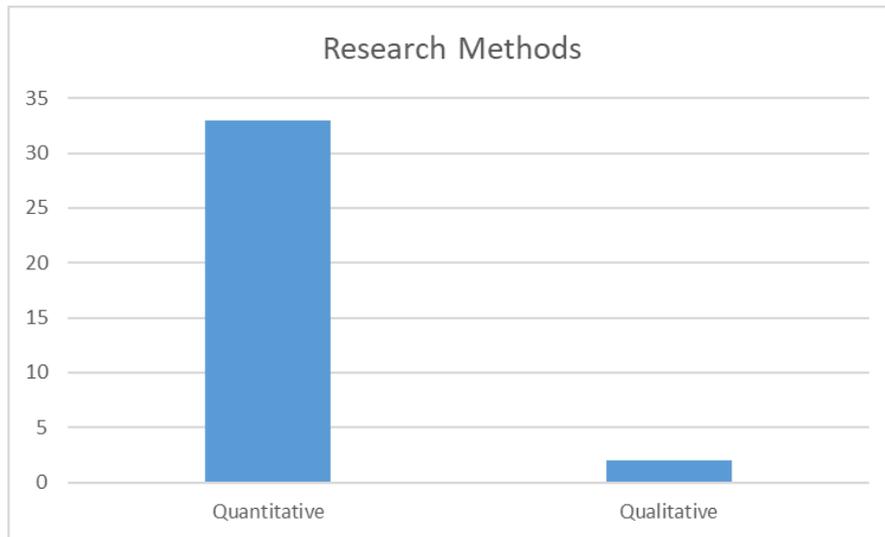


Figure 7 outlines that the majority of research methods used are quantitative methods, including multiple regression analysis, panel data, Non-linear Autoregressive Distributed Lag model (NARDL), Autoregressive Lag model (ARDL), Data Envelopment Analysis (DEA), Vector Autoregressive (VAR), and Wilcoxon. Only two studies employed qualitative research methods, namely field research and Analytic Network Process (ANP).

### 3.7 Literature Review on NPF in Islamic Rural Banks

Based on the review of 33 selected pieces of literature, which conducted research with quantitative analysis, researchers found that NPF (Non-Performing Financing) in Islamic Rural Banks in Indonesia affects 6 factors, as

i. *ROA (Return on Asset)*

A ratio that shows the ability of the bank management to generate profits by comparing net income to the total assets held (Usamah, 2022). The higher the ROA, the more efficient the company is in utilizing its assets, which means the better the company performs (Firas et al., 2020). The NPF indicates the magnitude of poor financing, thus affecting the bank's ability to maximize profits. Therefore, the large and small levels of NPF on the IRB will affect the ROA (Santika, 2022).

ii. *SME (Small Medium Enterprise) Financing*

The efficiency of the bank influences the size of the financing provided by IRBs to SMEs, the more efficient the IRB, the greater the availability of funds that can be provided to the SMEs (A'yun, 2020). Efficiency in the IRB is influenced by capital adequacy and the size of the credit jamming represented by the NPF. Thus, the higher the NPF, the smaller the availability of financing for SMEs (Hariyanto & Nafi'ah, 2022; Yudiansyah et al., 2022)

iii. *Efficiency*

Low levels of NPF imply the superior quality of finance management, hence low NPFs affect greater efficiency in IRBs (Endri et al., 2022).

iv. *The Soundness of IRB (Islamic Rural Bank)*

NPF is a risky financing, whether due to congestion, inefficiency, or non-compliance, measured by comparing the portion of the financing problem with the total financing. Therefore, the high NPF affects the soundness of the IRB (Sari & Canggih, 2021).

v. *Banking Stability*

Research conducted by Wijana & Widnyana (2022) showed that the NPF on IRBs exceeded the limits given by Bank Indonesia before the Covid-19 pandemic hit, and worsened during the Pandemic. This has influenced the resilience of Islamic Banks including Islamic Rural Banks.

vi. *Profitability*

NPFs have a negative impact on the profitability of IRBs. The higher the problem financing rate of the IRB, the lower the profit that can be generated (Heliyani, 2020).

Conversely, NPF in Islamic Rural Banks is also influenced by the following factors:

i. *FDR (Financing to Deposit Ratio)*

The FDR reflects the level of liquidity of a bank. The FDR is measured by comparing the amount of funding and the funds of the bank's assembly (a comparison between a liquid asset and a liquid debt). A bank with high liquidity means being able to pay its entire debt when a withdrawal or maturity occurs. A high FDR indicates that the bank's fund allocation for financing is excellent but less liquid. On the contrary, if the FDR is low, the bank has good liquidity but also means many funds are unemployed. Therefore, FDR has an impact on the NPF (Arinda et al., 2022; Dermawan et al., 2021; Rahman, 2021; Priyadi et al., 2021; Rahman & Fatmawati, 2020; Setiawan & Putri, 2012; Umami, 2022).

ii. *ROA (Return on Asset)*

ROA is the ability of the company to manage assets to generate profits. The higher the ROA, the greater the profits obtained, while describing the small amount of problematic financing (Muhammad & Nugraheni, 2021; Priyadi et al., 2021; Rahman & Fatmawati, 2020; Setiawan & Putri, 2012; Umami, 2022).

iii. *IB (Indonesian Bank) Rate/Interest Rate*

The IB Rate is the interest rate set by Bank Indonesia as a benchmark for determining credit interest rates. The BI Rate serves as a reference for Islamic Rural Banks (IRB) in determining the profit-sharing ratio. If the BI Rate increases, the profit-sharing ratio must adjust to this increase in order to remain competitive with other banks. This leads to an increase in non-performing financing, as operational costs also rise (Arinda et al., 2022; Setiawan, 2021; Umami & Rani, 2021).

iv. *IPI (Industrial Production Index)*

The Industrial Production Index (IPI) is an economic indicator that reflects the real economy of a country, measured by the real output of the industry as the primary indicator, alongside supporting indicators such as the value of output, the number of workers, and productivity. If the IPI increases, it indicates an improvement in economic performance, which means that public income also increases, enabling them to fulfill their obligations. Consequently, this reduces the likelihood of Non-Performing Financing.

v. *BOD (Board of Directors) Ownership*

There is a conflict of interest between shareholders and management. However, this conflict can be aligned by having shares owned by the managers. Sohail et al. (2017) found that managerial ownership of larger shares enhances their role in the organization. Therefore, the ownership of the Board of Directors (BOD) is expected to improve the performance of Islamic Rural Banks (IRB), which is indicated by a reduction in financing risk.

vi. *BOC (Board of Commissioners) Ownership*

The Board of Commissioners (BOC) represents the shareholders and acts as an advisor in the company's management. The BOC has a positive impact on the efficiency and profitability of the company. Therefore, the BOC also influences non-performing financing (Fithria et al., 2021).

vii. *SSB (Sharia Supervisory Boards) Ownership*

The Sharia Supervisory Board (SSB) is an integral part of the structure of Islamic Rural Banks, playing a crucial role in ensuring Sharia compliance in both transactions and the issuance of Sharia-compliant products. The SSB positively influences Good Corporate Governance (GCG), which ultimately also impacts the risk of Non-Performing Financing (NPF) (Ridwansyah et al., 2021).

viii. *LLP (Loan Loss Provisions)*

Loan Loss Provision (LLP) is used to measure the quality of financing. A high LLP indicates the inability of debtors to make timely payments. Therefore, LLP has a positive relationship with Non-Performing Financing (Widarjono et al., 2020).

ix. *Income Diversification (INCDIV)*

Non-financing income represents income diversification. Income diversification is measured by the formula  $1 - (FI - NFI / TI)$ , where FI is financing income, NFI is non-financing income, and TI is total income. INCDIV has a negative relationship with Non-Performing Financing (Widarjono et al., 2020).

- x. *Financing Diversification (FINDIV)*  
Financing diversification describes the concentration of financing. The more financing diversification is undertaken, the lower the potential financing risk, ultimately contributing to minimizing the Non-Performing Financing (NPF) ratio in Islamic Rural Banks (Widarjono et al., 2020).
- xi. *Regional Inflation/Inflation*  
Inflation is one of the factors that influence economic conditions. Inflation reduces economic growth due to its impact on rising prices and decreasing public purchasing power. Thus, it has a direct effect on bank financing. As a result of inflation, banks increase interest rates through monetary policy, which becomes a burden for Islamic banks in providing financing. Inflation is the general and sustained increase in the prices of goods. If income does not rise as a result of inflation, the debtor's ability to make their installment payments will weaken, leading to an increase in Non-Performing Financing (Dermawan et al., 2021; Perdani et al., 2020; Priyadi et al., 2021; Setiawan, 2021).
- xii. *Economic Growth (Gross Domestic Product or Gross Domestic Regional Product)*  
Economic growth reflects the overall financial condition of society. When economic growth increases, the demand for the production of goods and services also rises (Fakhrunnas, 2020). Financing will continuously strive to support production, which impacts the risk of Non-Performing Financing (NPF) because the allocation of bank funds for financing tends to be substantial (Priyadi et al., 2021).
- xiii. *Liquidity*  
Liquidity has a significant impact on the stability of a bank. High liquidity indicates that the bank has greater financial resources, but it also increases the bank's risk. Therefore, banks with a higher deposit ratio compared to total assets will have lower liquidity risk, which in turn affects NPF (Widarjono et al., 2020).
- xiv. *PLS (Profit and Loss Sharing)*  
What PLS means here is the portion of the PLS financing compared to the entire financing (Widarjono et al., 2020) The larger the PLS in the IRB, the higher the risk of NPF, because PLS is closely related to moral hazard and asymmetric information (Azmat et al., 2015).
- xv. *Market Power (Market Structure)*  
Market structure, as proxied by the Lerner index, is related to bank profitability and stability. Therefore, the Lerner index is suspected to have a relationship with NPF in banking (Widarjono et al., 2022).
- xvi. *Islamic Bank (IB) size*  
Apart from market power, the size of Islamic Banks (IB), measured by total assets, also affects financing risk (Widarjono et al., 2022; Widarjono & Rudatin, 2021).
- xvii. *Equity*  
Equity represents the availability of funds that a bank has to provide financing. The larger the capital, the greater the financing that can be offered by the bank. However, the larger the capital, the higher the potential financing risk that Islamic Rural Banks (IRBs) may face (Widarjono et al., 2022).
- xviii. *CAR (Capital Adequacy Ratio)*  
In addition to equity, many studies indicate that CAR is related to financing risk. CAR is the ratio of capital to risk-weighted assets, in accordance with government regulations (Arinda et al., 2022; Muhammad et al., 2020; Perdani et al., 2020; Priyadi et al., 2021; Rahman & Fatmawati, 2020; Setiawan, 2021; Widarjono et al., 2020; Widarjono & Rudatin, 2021).
- xix. *TPF (Third-Party Funds)*  
The amount of third-party funds collected by the bank affects its ability to provide financing. The larger the financing provided, the greater the potential financing risk that may arise (Yasin & Muhammad, 2020).
- xx. *Efficiency (Cost to Income Ratio/Operating Expense over Operating Revenue/Operational Efficiency Ratio)*  
Operating Expense over Revenue indicates that the company's efficiency is low, which in turn affects the risk of financing (Kadir et al., 2022; Perdani et al., 2020; Priyadi et al., 2021; Rahman & Fatmawati, 2020; Widarjono et al., 2020; Widarjono & Rudatin, 2021).
- xxi. *Growth of Financing*  
Financing growth indicates an increased ability of the bank to provide funds to borrowers. However, a high level of financing presents a greater credit risk challenge for the bank (Widarjono & Rudatin, 2021).

xxii. Covid-19

The research conducted by Rahman (2021) shows a difference in the NPF values before and after the Covid-19 pandemic. This indicates that the Covid-19 outbreak had an impact on NPF.

Meanwhile, from the other two studies that used qualitative research methods, it was found that financing risk is one of the most common risks faced by Islamic Microfinance. However, the strategies used to manage this risk lack standardization (Mutamimah et al., 2022). It can also be concluded that the approaches to handling these risks are divided into two types: litigation and non-litigation (Yasin & Muhammad, 2020).

**4. Discussions**

From the three visualizations above, it can be concluded that general studies on rural banks still dominate research on NPF in Islamic rural banks and are significantly related to the impact of COVID-19 and financial performance, both conventional and shariah. Shariah rural banks are closely associated with financing risks and other risks. The clear separation between clusters indicates that while there is interaction between topics, each tends to be studied specifically. Based on the time dimension, topics related to COVID-19 appear more prominent between 2021-2022.

Therefore, future research should not only address the short-term impact of COVID-19 but also its long-term effects. There is a need for studies on the technology that can be applied to Islamic rural banks, as well as empirical research on risk management, which has not been extensively discussed. Additionally, how Islamic rural banks adopt sustainable practices also requires further investigation.

Furthermore, based on the authorship structure and collaboration, most of the studies were conducted in cooperation with authors from Indonesia. Therefore, for future research, collaboration with authors from other countries is still needed, especially with researchers from countries that are also developing Islamic Microfinance, such as Islamic Rural Banks. This would allow for research to be conducted not only in Indonesia but also by comparing several countries.

As for the research methods, most studies were conducted using quantitative methods. Therefore, future research could be developed using other methods, such as mixed methods or qualitative methods, which are characterized by a deeper examination of the issues.

Based on the literature review, it can be seen that most studies investigate the internal and external factors affecting NPF, as illustrated in Table 4:

Table 4: Internal and external factors of NPF

Total	Internal Factors	External Factors
1	FDR	IB Rate/Interest Rate
2	ROA	IPI
3	Ownership of BOD/BOC/SSB	Inflation
4	LLP	GDP/GDRP
5	INCDIV	Market Structure
6	FINDIV	Covid-19
7	Liquidity	
8	PLS	
9	IB Size	
10	Equity	
11	CAR	
12	TPF	
13	CIR/OER/BOPO	
14	Growth of Financing	

Based on Table 4, most of the factors causing NPF in IRBs are related to factors that are all connected to the IRBs themselves. Therefore, it is essential to develop research that links other factors related to customers, who are the primary contributors to NPF, such as demographics, customer gender, occupation, age, and even family conditions, to determine whether these factors influence the financing risk in IRBs.

## 5. Conclusion

This study offers a bibliometric analysis and literature review of NPF in Indonesian IRBs, identifying publication trends, key research topics, and methodologies. While valuable insights were gained, limitations include reliance on a single database and possibility of subjective bias during article selection. Future research should explore additional databases, employ mixed methods, and address customer-related factors influencing NPF. Enhanced international collaboration could also broaden the scope of comparative studies on Islamic microfinance.

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