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Does Islamic Finance fulfill the objectives of *Maqasid Al-Shari'ah*?

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Abstract--This study examines whether Islamic finance is fulfilling the objectives of *Maqasid al-Shari'ah*. It adopts qualitative analysis, where an in-depth interview session with 7 experts in the industry is undertaken. The findings are classified into 3 themes; 1) Information on the Islamic banking-growth nexus, 2) Information on the Islamic capital market-growth nexus, and 3) Information on the Takaful-growth nexus. The first theme shows that although Islamic Banking (IB) sector is gradually moving towards equity financing, it is still highly-dependent on debt-financing. The second theme shows that Islamic Capital Market (ICM) is significantly contributing to the

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ESG via the implementation of SRI *Sukuk*, Bond Grant Scheme, ESG Financing/*Sukuk*, and value-based judgement projects. The final theme shows that Takaful industry has contributed its own humble quota to economic growth by creating jobs to the society and adding values to both participants and businesses. The work gives some insights into the field of Islamic finance in the light of *Maqasid al-Shari'ah* from the perspective of a developing country, which is Malaysia.

Keywords---Islamic Finance, Islamic Banking, Islamic Capital market, Takaful, *Maqasid al-Shari'ah*.

JEL classification: E0, G2, O4

1. Introduction

Despite the remarkable growth of Islamic finance, particularly in Malaysia, which has been a global leader in this sector for the past ten years (State of Global Islamic Economy Report, 2024), it remains insufficiently recognized for its social benefits. While there have been significant advancements, several challenges persist. Yas et al. (2020) and Boukhatem and Moussa (2018) highlight the importance of strengthening the institutional, legal, and supervisory frameworks. Additionally, Imon (2018) argues that Islamic finance continues to struggle in achieving the goals of *Maqasid al-Shari'ah* due to an inherent identity crisis.

From an Islamic perspective, economic growth or progress is defined by the economy's ability to provide equal opportunities for all citizens to lawfully acquire, manage, and dispose of wealth, while upholding the higher objective of *hifz al-mal* (protection of wealth). This framework promotes equitable access to wealth and encourages the fair distribution of resources. Key Islamic social finance institutions, such as *zakah*, *sadaqah*, and *waqf*, facilitate the redistribution of wealth across various segments of society, ensuring widespread benefits. For optimal economic growth, wealth should not be concentrated in the hands of a few. To accurately assess the overall health and progress of the economy, it is essential to consider both societal and individualized metrics. For example, even in a country with a high real GDP, it is crucial to evaluate how this translates into accessible resources and opportunities for individuals. The government's role is to provide these opportunities, while individuals are responsible for maximizing them.

In 2013, the Islamic Financial Services Act (IFSA) was introduced to strengthen the role of *Shari'ah* in the Islamic finance sector. This study aims to address a gap in the literature regarding the Malaysian Islamic finance-growth nexus, specifically by examining the contributions of Islamic finance in the context of *Maqasid al-Shari'ah*, while also considering the impact of IFSA 2013. The study has three primary objectives: 1) To examine whether the Islamic banking sector fulfils the goals of *Maqasid al-Shari'ah*; 2) To assess whether the Islamic capital

market sector fulfils Maqasid al-Shari'ah; and 3) To investigate whether the Takaful sector fulfils Maqasid al-Shari'ah.

2. Literature Review

2.1 The Definition of *Maqasid Shari'ah*

Islam adopts a comprehensive and strategic approach to human progress, emphasizing the achievement of the goals of Islamic law, known as Maqasid al-Shari'ah. From an Islamic socioeconomic perspective, Maqasid al-Shari'ah serves as both the foundation and pillar of the socioeconomic framework, with its progress and related issues representing the practical application of this foundation. Consequently, Islam recognizes the necessity of a clear "purpose" or "maqsud" as guiding principles. Imam Abu Hamid al-Ghazali, a renowned scholar, asserts that the focus of Maqasid al-Shari'ah is on human well-being, which entails safeguarding five fundamental aspects: religion (din), human life (nafs), intellect (aql), posterity (nasl), and wealth (mal). According to Chapra (2008), protecting these five dimensions is essential for societal welfare, and any harm to them may result in societal chaos. Kamali (2009) further categorizes the protection of these dimensions into three levels: necessities (daruriyat), requirements (hajiyat), and embellishments (tahsiniyat).

Alias et al. (2018) note that Maqasid al-Shari'ah plays a crucial role in the determination of Islamic law, particularly through qiyas and the use of Maslahah Mursalah, as recognized in the Shafi'i school of thought. Alias et al. (2024) clarify that the Arabic term "maslahah" carries two meanings: one refers to virtue or interest, while the other pertains to the pursuit of public welfare. Maslahah Mursalah is described as a public interest that aligns with the higher objectives of Shari'ah law and is supported by many legal writings derived from divine revelation, despite the absence of specific legal texts endorsing or rejecting it. Even in the absence of a clear legal document, scholars agree that Maslahah in alignment with Maqasid Shari'ah is permissible (Al-Zuhayli, 1986; Al-Shawkani, 1999). Some scholars consider Maslahah Mursalah as an aspect of Maslahah consistent with Maqasid Shari'ah, which is generally accepted without dispute (Burkab, 2002).

In their analysis, Alias et al. (2024) argue that Maslahah Mursalah refers to public interests that do not have direct textual roots in Shari'ah but remain consistent with its overarching goals and principles. In contrast, Maqasid Shari'ah encompasses the higher objectives of Shari'ah, which are derived from various Islamic legal rulings. The acceptance of Maslahah Mursalah must be evaluated against the goals of Maqasid Shari'ah. The rejection of Maslahah Mursalah by certain scholars, particularly within the Shafi'i school, stems from its reliance on reasoning rather than direct textual support from Islamic legal texts. Therefore, recognizing Maqasid Shari'ah as a framework for establishing Islamic legal principles remains a crucial

and uncontroversial approach. Medi and Jedidia (2025) compiled several perspectives on the relationship between Takaful and economic growth in their study, providing a useful basis for further discussion. The first theory is saving mobilization and capital formation. Takaful serves as both a protection and savings mechanism (Abdullah, 2012). Its presence reduces the need for households to keep cash savings for emergencies, since protection is already provided. Instead, money flows into Takaful funds, which operators pool together and invest in Shariah-compliant assets (Aziz and Kassim, 2020). Through this process, Takaful mobilises savings and converts them into financial capital for the country. This strengthens capital formation, supporting the supply-led growth hypothesis (finance drives economic growth).

2.2 The Idealism Versus the Realism in Islamic Finance

Islamic banks design and offer financial products based on contractual structures that comply with Shari'ah principles. In addition to ensuring Shari'ah compliance, early proponents of Islamic banking envisioned it as a means to promote equitable income distribution, enhance social mobility, broaden financial inclusion, and meet societal needs. However, the challenges faced by the sector make it difficult to fully prioritize these objectives. As a result, a divide has emerged between realists and idealists (Rahman, 2007). Rahman explained that realists are practitioners who operate within the Islamic banking sector and must compete with conventional banks under the same regulatory framework and market conditions. Although their products are Shari'ah-compliant, they are designed to compete with conventional banking products, compelling Islamic banks to evolve and integrate into the mainstream financial system. Imon (2018) referred to this group as "mainstreamists," who are largely practitioners seeking to align Islamic banking practices with conventional norms. In contrast, idealists advocate for a more revolutionary approach to Islamic banking, aiming for a distinctive transformation of the financial system. Imon (2018) described them as "structuralists," who, often academicians, argue that the development of Islamic finance is at a critical stage where the debate between emulating conventional banking and innovating beyond it must be resolved.

Suzuki and Pramono (2020) further emphasized the need to bridge the gap between the "idealists" and "realists" by fostering a consensus that prioritizes the realist perspective, particularly the "wealth creation first" strategy, in the development of Islamic banking. Despite the ongoing divergence between these two groups, with no clear consensus on the strategic direction for positioning Islamic banking within the broader financial industry, Shaikh et al. (2017) highlighted the critical importance of addressing financial exclusion in Muslim-majority countries, as well as making broader societal contributions.

When it comes to empirical research, the results obtained have also swung between the perspectives of realists and idealists. Most studies tend to support the idealists, confirming that Islamic finance has achieved the objectives of *Maqasid al-Shari'ah*. For example, the study

by Sheikh and Hussain (2024) suggested that Islamic banks in Pakistan emphasize not only the maximization of shareholders' wealth but also the implementation of real economic activities. This has provided employment opportunities and facilitated the distribution of charity funds, in addition to corporate social responsibility (CSR) initiatives, which contribute to societal welfare and demonstrate the fulfilment of *Maqasid al-Shari'ah*. In Indonesia, Prasoji et al. (2025) concluded that the alignment of CSR activities with the five elements of *Maqasid al-Shari'ah* by Islamic banks has led to significant improvements in community welfare, economic stability, and customer satisfaction. Similarly, Rahmawati et al. (2025) also found that Bank Syariah Indonesia in Makassar City demonstrates a strong commitment to the implementation of *Maqasid al-Shari'ah* by prioritizing services such as *Shari'ah* education financing programmes and worship-related services, which strengthen social benefits, justice, and the welfare of the community. With regard to environmental sustainability, a study by Smolo (2026) also associated the development of Islamic banking with reduced emissions in the QISMUT countries.

Despite the efforts to achieve the purposes of *Maqasid al-Shari'ah*, there are still certain aspects that have not received sufficient attention. Recent studies by Avdukic and Asutay (2024), Mohd Zain et al. (2025), and Syaichoni et al. (2025) have all suggested that Islamic banking, Takaful, and Islamic finance have contributed to human development, community welfare and ethical compliance, as well as poverty alleviation and environmental sustainability. However, these efforts remain incomplete. Avdukic and Asutay (2024) stated that while Islamic banks did not exacerbate income inequality in the sampled countries, they also did not significantly reduce it. Mohd Zain et al. (2025) further identified notable deficiencies among Takaful operators in integrating environmental and social governance (ESG) factors into their sustainability practices. Moreover, Syaichoni et al. (2025) discovered that gender disparities still existed, despite the role of Zakat and Green Sukuk in reducing poverty and enhancing environmental sustainability. Meanwhile, Lestari et al. (2025) argued that many Islamic banks continue to rely on debt-based approaches rather than risk-sharing models, which limits the realization of Shariah objectives. This suggests that Islamic finance may still be operating within a framework similar to the conventional financial system, aligning with the realist perspective that emphasizes the integration of Islamic finance into the mainstream financial industry.

Consequently, this study explores the divide between idealist and realist views, or structuralists and mainstreamists, by investigating whether Islamic finance in Malaysia is shifting towards equity-based or debt-based financing. The research aims to determine whether Malaysia's approach aligns more with the idealist or realist perspective through interviews with industry experts.

2.3 Islamic Financial Services Act (IFSA) 2013

The Islamic Financial Services Act (IFSA) 2013 came into effect on June 30, 2013, replacing the Islamic Banking Act (IBA) 1983 and the Takaful Act 1984. This legislation aims to enhance financial stability and ensure Shari'ah compliance, while also addressing other related and incidental matters. It regulates and supervises Islamic financial institutions, payment systems, and relevant entities, and oversees both the Islamic money market and Islamic foreign exchange market. The IFSA 2013 was enacted alongside the Financial Services Act (FSA) 2017. A key feature of the IFSA is the introduction of a new Part IV, which strengthens Shari'ah governance, ensuring that Islamic financial institutions adhere to comprehensive Shari'ah compliance in their policies, procedures, and operations. According to Abdul Rahim (2025), IFSA 2013 represents a significant development that facilitates a shift in the development of financial products away from conventional banking practices and towards prioritising the role of Ijtihad. The additional reclassification requirements imposed on Islamic banks under this policy have encouraged the industry to align more closely with the objectives of Shari'ah principles, thereby strengthening the fulfilment of Maqasid al-Shari'ah.

3. Methodology

3.1 Research Design

This study involves conducting an interview to gather insights from experts in the Islamic Finance (IF) industry, specifically regarding the relationship between IF and economic growth in Malaysia. To select suitable participants, the study uses a judgmental sampling approach, targeting individuals with relevant knowledge, experience, and expertise in the field. A total of seven experts from diverse academic and industry backgrounds are chosen for the interviews. This sample size aligns with previous research by Chao and Salvendy (1994), Sarwer et al. (2012), Yusuf and Bahari (2015), Sharofiddin et al. (2018), Gwadabe and Rahman (2020), and Farlian et al. (2021), which also included 3 to 8 interviewees based on their expertise and experience. The chosen experts, specializing in Islamic finance and economics, share their perspectives on how Islamic finance contributes to economic growth, particularly from an Islamic viewpoint. The selection of interviewees was based on their qualifications and relevance to the study. Due to their busy schedules, the experts participated in either written or video interviews. In total, 4 written interviews and 3 video interviews were conducted, with a set of pre-prepared questions designed to elicit detailed responses on the topic.

The interviewees from Elzar Shari'ah Solution Sdn. Bhd. (Dr. Zaharuddin Abd Rahman), HSBC Amanah Malaysia (Dr. Ahmed Firas), and Raja, Darryl & Loh (Dr. Syed Adam Alhabsyi) participated in verbal interviews through an online video call. On the other hand, the representatives from International Islamic Liquidity Management Corporation (Dr. Umar Oseni), Great Eastern Takaful Berhad (Mohd Aizzudin Hares), and Etiqa Family Takaful Berhad (Ahmad Shaifuldin Mahamad Shahrudi) opted for written

interviews due to time constraints that limited their availability for a verbal session.

3.2 Research Questions and Validations

The questions are organized into three main themes. The first theme covers the relationship between IB and growth with 5 questions, while the second theme focuses on the link between the Islamic capital market and growth, consisting of 5 questions. Finally, the third theme explores the connection between Takaful and growth with 4 questions, as outlined in Table 1.

Table 1: Interview's Themes and Questions

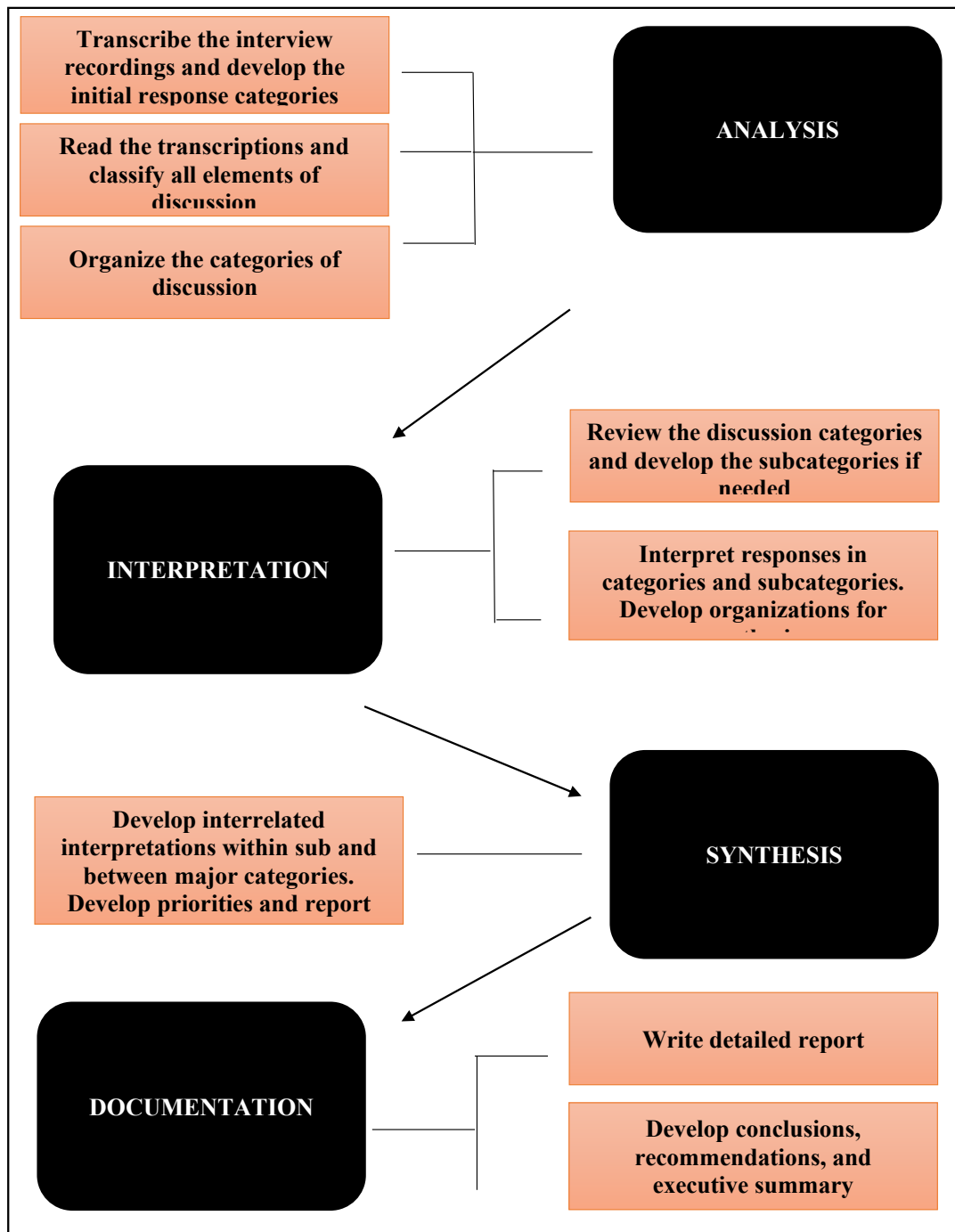
No	Themes	Questions
1	Information on the IB-Growth Nexus	<p>Is the IB sector moving towards debt or equity financing? How successful have the current efforts to move towards equity financing, been? Do you think IB will increase its dependence on equity-based financing modes?</p> <p>Do you think Islamic financial institutions should be more involved in Islamic social finance, such as, microfinance, zakat and waqf fund management; or do you believe such involvement harms the original objectives of Islamic social finance? Please provide reasons for your opinions.</p> <p>Does the Islamic financial sector, particularly the IB sector, have any significant impact on environmental, social and governance (ESG) objectives? Why or why not? What about the trends of IB in Malaysia towards ESG?</p> <p>Do you think IFSA 2013 has enabled the IB sector to contribute more to economic growth and development? Why or why not?</p> <p>Is IB sector now changing to include more social narratives?</p>
2	Information on the Islamic Capital Market-Growth Nexus	<p>Do you think IFSA 2013 has enabled the ICM sector to contribute more to economic growth and development? Why or why not?</p> <p>Does ICM positively and significantly contribute to environmental, social and governance (ESG) impact? Why or why not? What about the trends of ICM in Malaysia towards ESG?</p> <p>Do you think ICM has moved more towards finance or economics?</p> <p>In your opinion, which sector is better achieving Islamic economic values and objectives: is it the ICM or the IB sector? Please provide reasons for your opinions.</p> <p>Do you think the ICM is now changing to include more social narratives?</p>
3	Information on the Takaful-Growth	<p>In what way do you think has the Takaful industry contributed to the economic growth of the country?</p> <p>Do you think IFSA 2013 has enabled the Takaful sector to contribute more to economic growth and development?</p>

Nexus	Why or why not? Does Takaful sector have any significant impact on environmental, social and governance (ESG) objectives? Why or why not? What about the trends of Takaful in Malaysia towards ESG? Do you believe the Takaful sector is now changing to include more social narratives?
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Furthermore, to guarantee the reliability and precision of the interview results, the questions were reviewed and validated by five experts in the Islamic finance sector: Professor Dr. Rusni Hassan, Professor Dr. Gairuzazmi Mat Ghani, Associate Professor Dr. Azman Mohd Noor, Associate Professor Dr. Maya Puspa Rahman, and Assistant Professor Dr. Riasat Amin Imon. The periods before COVID-19 contain 22 observations, while only 10 observations exist for periods during and after COVID-19. Due to the limitation of data, Pearson Correlation Coefficient is a suitable approach to examine the relationship between Takaful and Industrial Production Index (IPI).

3.3 Research Analysis

The data collected from the interviewees is analysed based on Ptacek (2009)'s content analysis procedure. The process is shown in Figure 1.



4. Results and Discussions

4.1 Results of Islamic Banking-Growing Nexus

The initial segment of the interview questions delves into the relationship between Islamic banking (IB) and economic growth in Malaysia. It consists of five questions: 1) Is the IB sector shifting more towards debt or equity financing? 2) Should Islamic financial institutions expand their involvement in Islamic social finance, such as microfinance, zakat, and waqf fund management, or could this undermine the core objectives of Islamic social finance? 3) Does the Islamic financial sector, especially IB, have a meaningful impact on environmental, social, and governance (ESG) goals? 4) Has the Islamic Financial Services Act (IFSA) 2013 enhanced the IB sector's contribution to Malaysia's economic growth? 5) Is the IB sector increasingly incorporating social considerations? For this section, interviews were conducted with four industry experts, including the CEO of the International Islamic Liquidity Management Corporation (IILM), the Managing Director of Elzar *Shari'ah* Solution Sdn. Bhd., the Head of the *Shari'ah* Department at HSBC Amanah Malaysia, and a Partner at Raja, Darryl & Loh.

The findings reveal that while the IB sector is gradually shifting towards equity financing and making concerted efforts to embrace it, it still remains heavily reliant on debt financing. This is not considered problematic from a *Shari'ah* perspective, provided it meets the required criteria. Most experts agree that Islamic banks are already actively involved in Islamic social finance, with many advocating for further involvement to advance Islamic economics. However, Dr. Ahmed Firas, the Head of the *Shari'ah* Department at HSBC Amanah Malaysia, contends that Islamic banks should refrain from over-involving themselves in Islamic social finance, emphasizing that commercializing such areas could be detrimental. He suggests that specialized institutions dedicated to Islamic social finance should be established. Moreover, all experts concur that the IB sector is increasingly focusing on ESG objectives. They also acknowledge that IFSA 2013 has played a key role in fostering economic growth in Malaysia by enhancing stability, supporting the growth of SMEs, empowering *Shari'ah* scholars to ensure compliance, and providing a solid foundation for developing equity-based products. Lastly, the experts agree that the IB sector is integrating more social aspects by prioritizing ESG, increasing corporate social responsibility (CSR) spending, implementing Value-Based Intermediation (VBI), and channelling funds to support societal needs. In conclusion, the IB sector is becoming more *Shari'ah*-compliant, aided by updated policies and active participation in social initiatives.

4.2 Results of Islamic Capital Market-Growth Nexus

The second set of interview questions focuses on the relationship between the Islamic capital market (ICM) and economic growth in Malaysia. This section examines whether the ICM contributes to economic growth and the role of IFSA 2013 in influencing this relationship. The five questions in this section are: 1) Has IFSA 2013 helped the ICM sector contribute more

to economic growth? 2) Does the ICM have a significant positive effect on environmental, social, and governance (ESG) outcomes? 3) Has the ICM become more aligned with finance or economics? 4) In your view, which sector better achieves the values and goals of Islamic economics: ICM or IB? 5) Is the ICM sector evolving to incorporate more social elements? Three industry experts were interviewed for this section, including the CEO of IILM, the Managing Director of Elzar Shari'ah Solution Sdn. Bhd., and the Head of the Shari'ah Department at HSBC Amanah Malaysia. Additionally, the Partner at Raja, Darryl & Loh provided input on the first question only.

The findings indicate that although IFSA 2013 was not specifically designed to regulate the ICM in Malaysia, it has contributed to economic growth by fostering market stability. The experts agree that the ICM plays a significant role in advancing ESG goals, notably through initiatives such as SRI Sukuk, the Bond Grant Scheme, ESG Financing/Sukuk, and other value-based projects. They also emphasize that while finance and economics are distinct areas, ICM influences both, as its funds are used to support economic development. The experts agree that both the IB and ICM sectors are crucial and complement one another, each playing unique roles in promoting Islamic economics. Finally, all experts acknowledge that the ICM is shifting to incorporate more social elements, with products like green Sukuk and SRI Sukuk reflecting a stronger focus on ESG objectives.

4.3 Results of Takaful-Growth Nexus

The third section of the interview questions focuses on the relationship between the Takaful industry and economic growth in Malaysia. It examines whether the Takaful sector contributes to economic growth and how IFSA 2013 influences this connection. This part includes five questions: 1) How do you think the Takaful industry has contributed to the country's economic growth? 2) In your opinion, has IFSA 2013 helped the Takaful sector contribute more to economic development? 3) Does the Takaful sector have a meaningful impact on environmental, social, and governance (ESG) goals? 4) Do you think the Takaful sector is evolving to incorporate more social elements? Five industry experts were interviewed for this section, including the CEO of IILM, the Managing Director of Elzar Shari'ah Solution Sdn. Bhd., the Head of Corporate Planning & Strategy and Assistant Vice President at Etiqa, and the Business Development Director of Great Eastern Takaful Berhad. The Partner at Raja, Darryl & Loh shared insights on the first question only.

The findings suggest that the Takaful industry has made a modest yet valuable contribution to economic growth by creating jobs and offering benefits to both participants and businesses. Additionally, IFSA 2013 has supported the Takaful sector's contribution to economic development by enabling Bank Negara Malaysia (BNM) to oversee the stability and security of Islamic financial institutions through a more robust regulatory framework. This has also facilitated more efficient wealth distribution, leading to a greater economic impact. According to the Head of Corporate

Planning & Strategy and Assistant Vice President at Etiqa, the Takaful industry has experienced a growth rate of 10-13% annually since the introduction of IFSA 2013. Furthermore, all the experts agree that the Takaful sector significantly influences ESG objectives through initiatives such as Value-Based Intermediation (VBI), ESG ratings, sustainable business practices, and a strong commitment to incorporating ethical and environmentally friendly practices. These efforts include offering risk management products focused on issues like climate change. They also agree that the Takaful sector is increasingly incorporating social narratives through the principles of *tabarru'* and *ta'awun*, developing more socially-conscious products, and running public education campaigns to provide a financial safety net.

5. Conclusion

Despite its impressive growth, particularly in Malaysia, which has led the global Islamic finance sector for a decade, Islamic finance still faces challenges in delivering social benefits (State of Global Islamic Economy Report, 2024). In response, this study aims to fill a gap in the existing literature on the Malaysian Islamic finance-growth relationship by examining the contributions of Islamic finance through the lens of *Maqasid al-Shari'ah*, while also considering the impact of IFSA 2013.

The findings indicate that all three key sectors of Islamic finance—Islamic banking, the Islamic capital market, and the Takaful sector—are progressively adopting socially-driven practices, such as the implementation of Value-Based Intermediation (VBI), Environmental, Social, and Governance (ESG) principles, and socially-conscious products. Future research should explore the effects of these socially-oriented Islamic finance products and initiatives on economic growth. Rosenthal (1967) noted that Ibn Khaldun's development theory emphasizes the importance of human well-being, asserting that the rise and fall of civilizations depend on the conditions of their people. Therefore, future studies should prioritize wealth distribution over wealth accumulation, as the State of Global Islamic Economy Report (2024) suggests that while Malaysia excels in Islamic finance development, it has yet to lead in terms of social contributions.

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