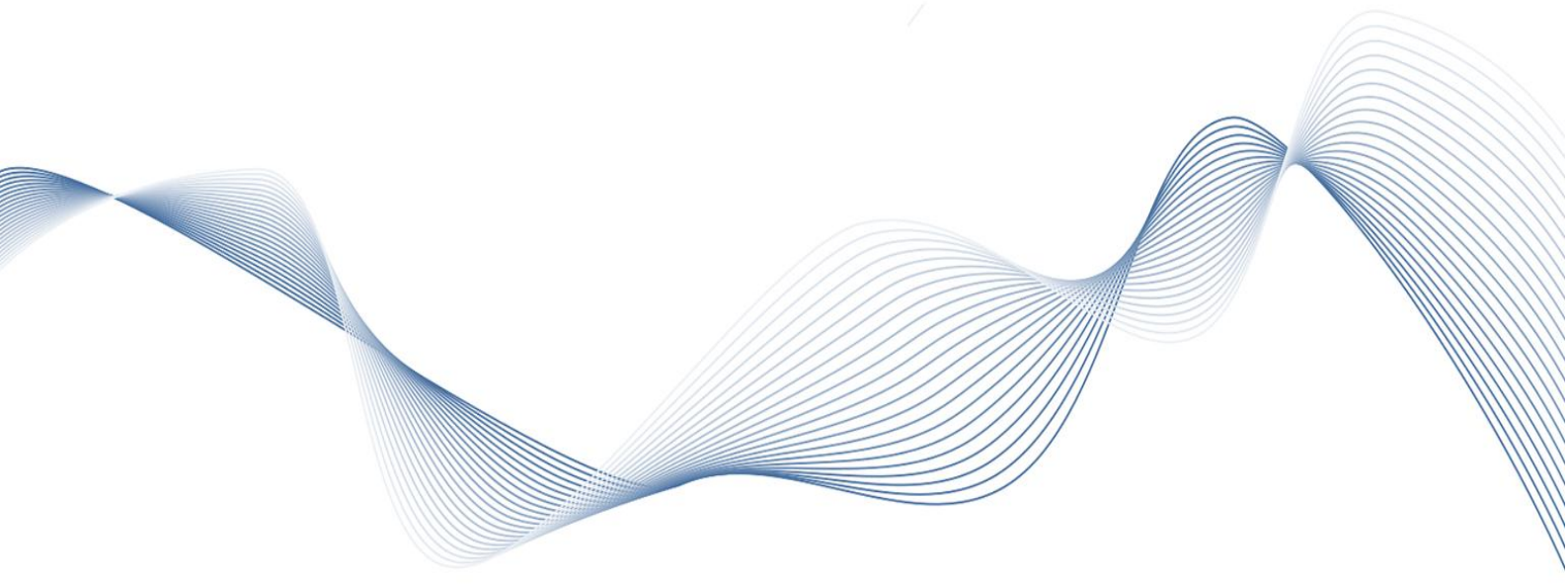
BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Advancing Shariah Contract Applications for a More Productive and Inclusive Economy in line with Shariah Objectives

Strategy Paper



Issued on: 3 November 2026

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About the Strategy Paper

Malaysia's Islamic financial system has achieved significant scale, maturity and institutional strength. As Islamic finance continues to grow as a key channel of financial intermediation, there is a growing opportunity to deepen its contribution to productive economic activities, sustainable value creation and positive societal outcomes.

This Strategy Paper sets out Bank Negara Malaysia's (BNM) strategic direction on the application of Shariah contracts within the Islamic financial system. It articulates how the broader range of Shariah contracts can be applied more purposefully and diversely to meet evolving financing, investment and protection needs, while advancing the role of Islamic finance to the economy and society.

The strategies do not prescribe the use of particular Shariah contracts or require the existing contractual structures to be replaced. Existing structures that continue to serve genuine market needs, including *tawarruq*, will remain relevant. The Strategy Paper seeks to broaden the range of viable Shariah-compliant solutions, creating greater space for innovation, differentiation and value creation.

The Strategy Paper complements BNM's broader policy and development agenda for the financial sector, including the Financial Sector Blueprint, Value-based Intermediation (VBI) initiatives, Shariah contract-based policy documents and the Shariah Governance Policy Document. Within this broader agenda, this Strategy Paper focuses on the role of Shariah contracts as an important enabler for innovation, productive financial intermediation and sustainable economic outcomes.

The implementation of these strategies will be progressive and supported through future policy, regulatory and market development initiatives. This includes the modernisation of the Shariah contract framework, efforts to facilitate wider application of diverse Shariah contracts and continued enhancement of the supporting ecosystem required for commercially viable adoption. The pace and sequencing of these initiatives will consider industry readiness, market developments and the need to preserve financial stability, Shariah integrity and customer interests.

The strategic direction is anchored around three mutually reinforcing shifts: a more coherent Shariah contract framework; more purposeful and diverse contract applications; and a clearer role for *tawarruq* within a broader ecosystem. As the implementation details are developed over time, Islamic financial Institutions (IFIs) should begin assessing where their product strategies, governance, capabilities, data and operating models may need to evolve to support a wider range of viable Shariah contract applications.

Achieving these aspirations will require collective efforts across regulators, IFIs, Shariah committees, industry associations and other ecosystem partners. Through shared commitment and coordinated action, the Islamic financial system can further strengthen its role in supporting Malaysia's economic transformation while continuing to meet the evolving needs of businesses, households and society.

Any further queries may be directed to ifdconsult@bnm.gov.my.

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PART A:

Strengthening the Link Between Islamic Finance, Productive Economy and Societal Outcomes

PART A: Strengthening the Link Between Islamic Finance, Productive Economy and Societal Outcomes

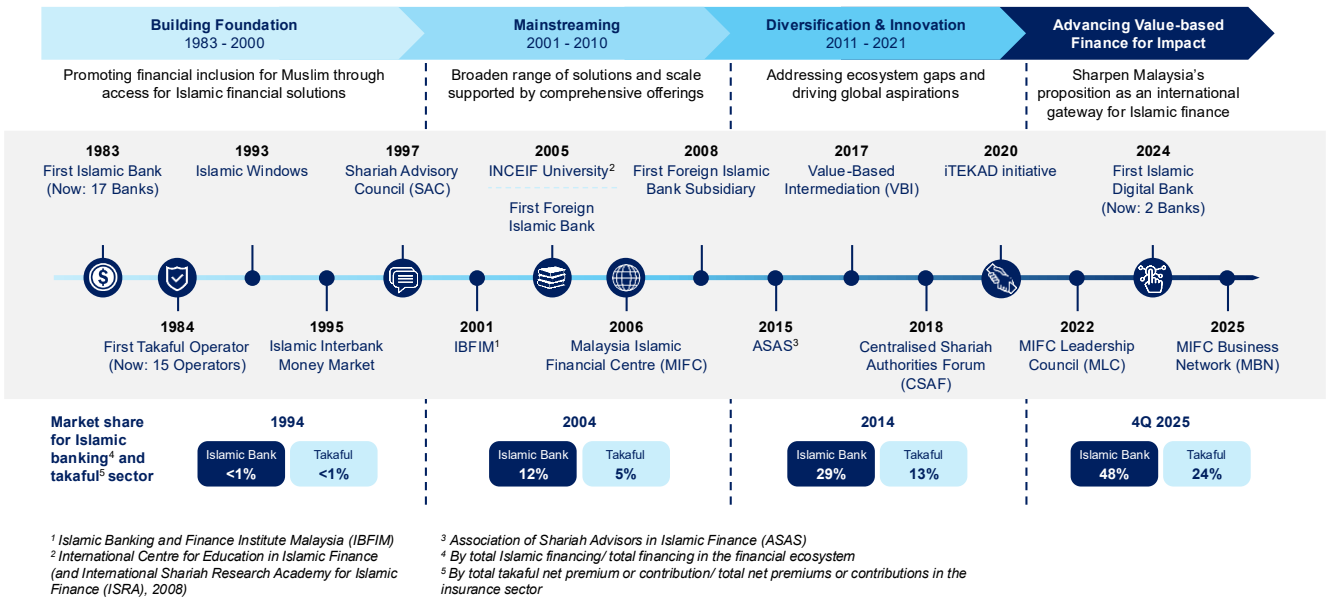
1. The Role of Islamic Finance in Supporting a Productive Economy

1.1 Malaysia's economic transformation has been closely linked to how effectively capital is mobilised towards productive activities. Over the past four decades, the economy has evolved towards higher value activities increasingly driven by technology and innovation (e.g. advanced manufacturing, higher-value services and specialised capabilities). Looking ahead, sustainable growth will depend on improving productivity, strengthening domestic capabilities, supporting business transformation and accelerating investments in new growth areas. These priorities underpin Malaysia's broader national development agenda, including industrial upgrading, energy transition, digitalisation and the expansion of the halal economy.

1.2 Against this backdrop, the role of finance must extend beyond providing and expanding access to financing. Increasingly, the focus should be on where and how capital is deployed towards activities that strengthen productive capacity, create sustainable value and improve outcomes for individuals, businesses and communities. Financing decisions can play an important role in developing new industries, strengthening supply chains, supporting entrepreneurship, enabling business innovation and creating quality economic opportunities.

1.3 Islamic finance is well-positioned to contribute more meaningfully to this transition. From a niche segment, it has evolved into a significant pillar of Malaysia's financial system, accounting for almost half of total loans and financing. This scale, supported by strong institutional capabilities, established Shariah governance arrangements, deep market infrastructure and a mature ecosystem, provides a strong foundation for Islamic finance to play a greater role in supporting Malaysia's next phase of economic development (Diagram 1).

Diagram 1: Growth and Development of Islamic Finance in Malaysia



[1] *Islamic Banking and Finance Institute Malaysia (IBFIM)*
[2] *International Centre for Education in Islamic Finance (and International Shariah Research Academy for Islamic Finance (ISRA), 2008)*
[3] *Association of Shariah Advisors in Islamic Finance (ASAS)*
[4] *By total Islamic financing/ total financing in the financial ecosystem*
[5] *By total takaful net premium or contribution/ total net premiums or contributions in the insurance sector*

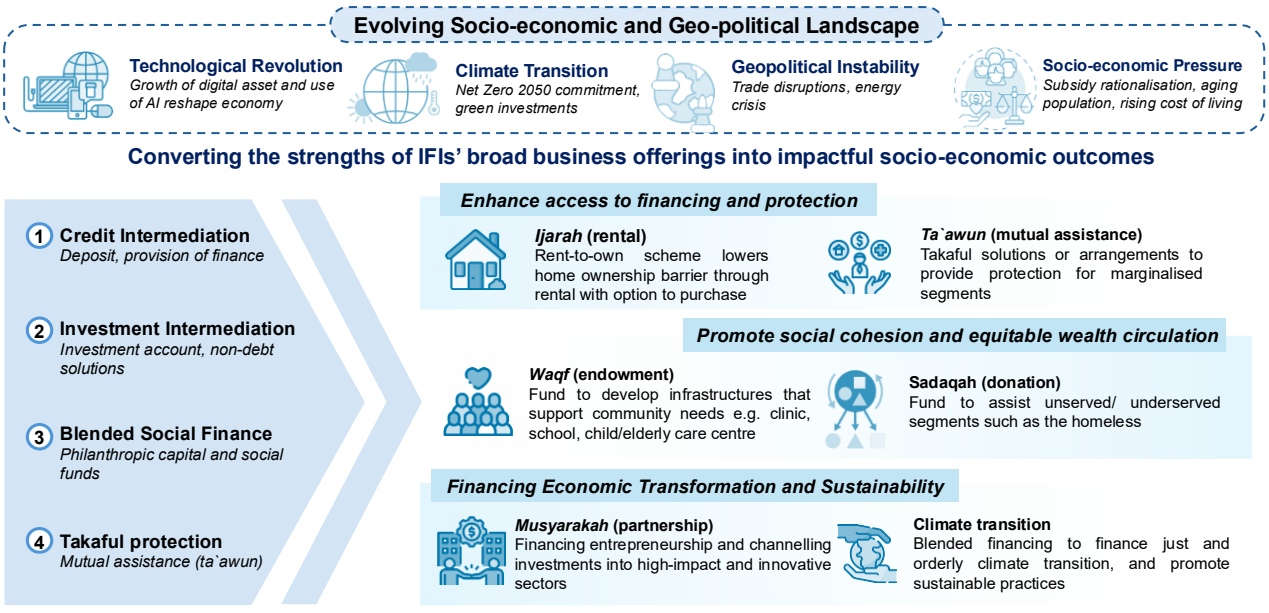
2. A Strong Foundation Provides an Opportunity to Diversify

2.1 Shariah contracts provide different mechanisms for trade, investment, service provision and protection. This diversity is an inherent strength of Islamic finance. When applied according to their distinctive characteristics and intended purposes, these contracts can support a wider range of economic activities, facilitate more innovative financial solutions and strengthen the connection between finance and the productive economy.

2.2 The objective is to broaden the range of viable Shariah-compliant solutions, enabling the Shariah contracts to be applied more purposefully according to the underlying activity, customer need and intended outcome. This does not seek to displace existing structures that continue to serve legitimate market needs, but to expand the range of solutions available to the industry.

2.3 Greater diversity in Shariah contract applications can deliver broader economic and societal outcomes. Economically, it can support productive activities, entrepreneurship, business expansion and innovation while enabling solutions that better respond to different business models, customer segments and financing needs. Societally, it can promote stronger financial resilience, more responsible allocation of resources and better financial outcomes for households and businesses. Financial solutions that are aligned with genuine economic activity and sustainable value creation can help strengthen livelihoods, support long-term wealth creation and promote broader societal well-being.

Diagram 2: Islamic Finance is Well Positioned to Support Socio-economic Development



Note: Examples shown are illustrative and non-exhaustive.

2.4 Realising the full potential of Shariah contracts requires an enabling ecosystem that supports their broader and more purposeful application to meet evolving financial and economic needs. This calls for a more coherent and facilitative Shariah contract framework, stronger industry capabilities, and greater readiness to develop and implement commercially viable solutions. It also requires a clearer positioning of *tawarruq* within a more diverse ecosystem. Collectively, these elements aim to foster meaningful diversification and commercially viable innovation, while preserving Shariah integrity, financial stability and customer interest.

2.5 Against this backdrop, efforts to strengthen the role of Islamic finance will focus on three mutually reinforcing priorities:

(a) **Strengthening the regulatory foundation** by modernising the Shariah contract framework to promote greater coherence, proportionality and flexibility in the application of Shariah contracts;

(b) **Enabling more purposeful and diverse market applications** by strengthening industry capabilities, addressing implementation barriers and fostering innovation that responds to genuine customer, economic and societal needs; and

(c) **Recalibrating the role of *tawarruq*** to ensure its continued application serves genuine market needs, while facilitating the development and adoption of other viable Shariah contracts.

Together, these priorities provide an integrated approach to addressing the regulatory, commercial and implementation conditions needed to advance a more diverse, resilient, and value-driven Islamic finance ecosystem.

PART B:

Modernising the Shariah Contract Framework for Greater Regulatory Coherence and Alignment with Intended Shariah Objectives

PART B Modernising Shariah Contract Framework for Greater Regulatory Coherence and Alignment with Intended Shariah Objectives

Strategy 1: Modernise the Shariah Contract Framework through a balanced consideration of form and substance

(a) Recalibrate Shariah contract requirements to ensure a more coherent regulatory architecture.

(b) Guide Shariah contract applications towards their intended Shariah objectives.

3. Balancing Form and Substance in Shariah Contract Applications

3.1 The Shariah contract framework has been instrumental in supporting the growth, credibility and consistency of Islamic finance in Malaysia. By establishing clear requirements for individual Shariah contracts, the framework has strengthened market confidence, facilitated product development and provided a sound regulatory foundation for Islamic financial intermediation.

3.2 As Islamic finance evolves, Shariah contract applications are becoming more diverse and sophisticated. Financial solutions increasingly combine multiple contracts, support a wider range of economic activities and are delivered through evolving business and technology models. A framework designed primarily around individual contracts should therefore continue to evolve to support greater innovation, flexibility and coherence, while preserving the essential Shariah requirements and objectives.

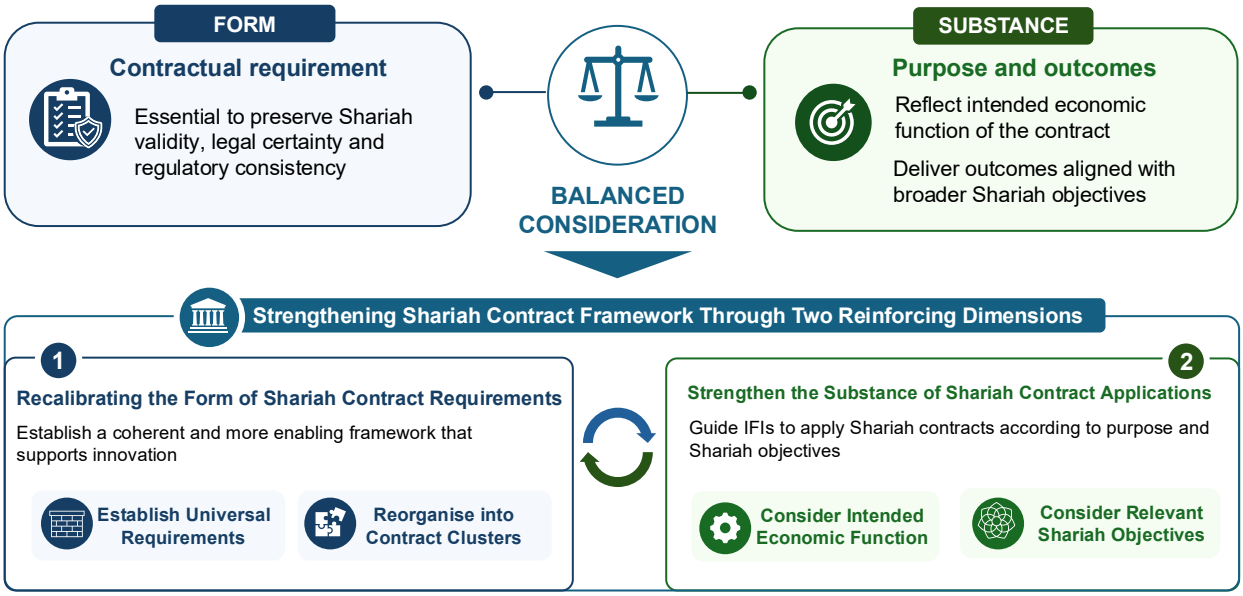
3.3 Building on this strong foundation, Shariah contract applications should be assessed through two complementary lenses i.e. contractual form and substance. Contractual form remains foundational because it preserves Shariah validity, legal effects and the integrity of contractual arrangements. Substance of the Shariah contract complements that foundation by considering whether the contract is applied consistently with its intended purpose and broader Shariah objectives. Substance does not override valid contractual requirements (form); it guides how compliant structures are selected, designed and implemented purposefully.

3.4 Accordingly, BNM will progressively modernise the Shariah contract framework through two complementary initiatives:

(a) Recalibrating Shariah contract requirements to ensure a more coherent regulatory architecture; and

(b) Guiding Shariah contract applications towards their intended Shariah objectives.

Diagram 3: Strengthening of Overall Shariah Contract Architecture through a More Balanced Consideration of Form and Substance



4. Recalibrating Shariah Requirements to Ensure a More Coherent Regulatory Architecture

4.1 The current framework contains both common requirements that apply across multiple contracts and requirements unique to specific contracts. Over time, this has resulted in a degree of duplication across policy documents and a regulatory structure that is increasingly complex to navigate as Shariah contract applications evolve. There is an opportunity to organise these requirements more coherently while preserving the distinctive features of individual contracts.

Establish universal Shariah requirements

4.2 A common set of baseline requirements will apply across all Shariah contracts. These requirements will reflect fundamental principles necessary to preserve Shariah validity and contractual integrity, including the fulfilment of essential contractual elements, preservation of the contract's inherent nature, proper recognition of ownership and liabilities, and avoidance of prohibited elements.

Diagram 4: Universal Shariah Requirements for Shariah Contract Application



Introducing contract clusters

4.3 Beyond universal requirements, contracts with similar characteristics and intended purposes will be grouped under common contract clusters. This will allow shared requirements to be streamlined at the cluster level, while retaining requirements necessary to preserve the unique characteristics and legal effects of individual contracts. This modernised architecture aims to–

(a) promote greater consistency across Shariah contract applications;

(b) reduce unnecessary duplications;

(c) improve regulatory clarity and usability; and

(d) provide greater flexibility to accommodate innovative and evolving applications of Shariah contracts.

The review will be undertaken progressively, taking into account implementation readiness, industry capacity and opportunities to facilitate wider application of diverse Shariah contracts.

Diagram 5: Clusters of Shariah contracts



5. Guiding Shariah Contract Applications Towards Their Intended Shariah Objectives

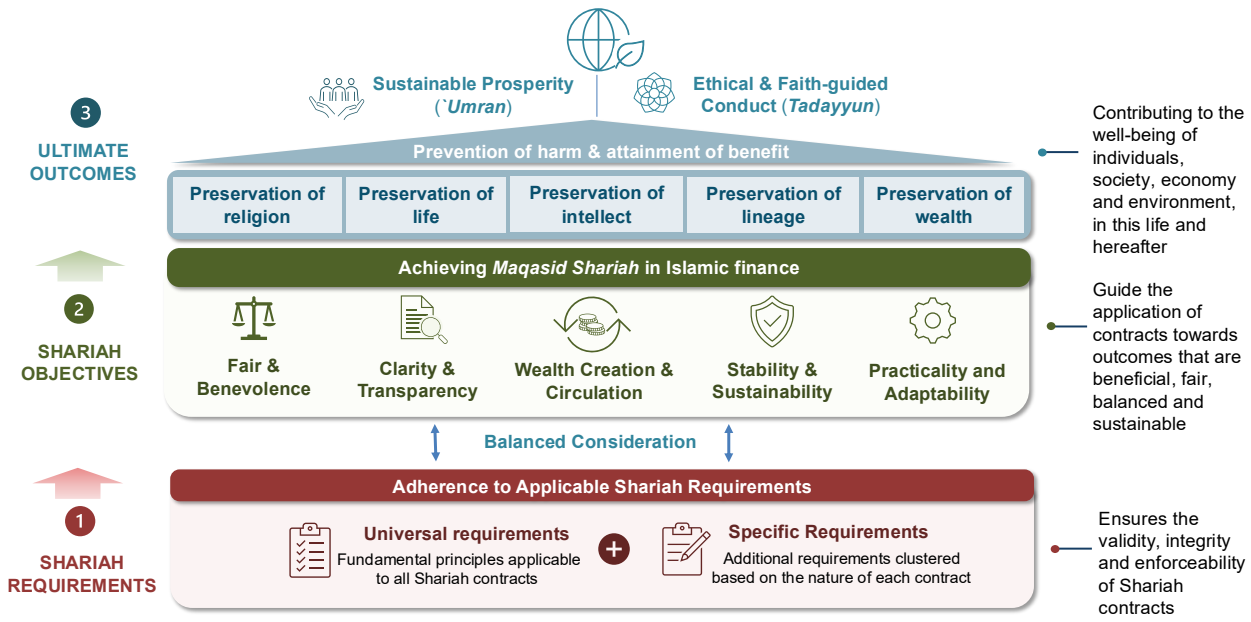
5.1 Compliance with Shariah requirements remains the essential foundation for Islamic financial transactions. Shariah contracts facilitating trade, investment, service provision and protection should be applied in a manner that reflects their intended purposes and contributes to the broader objectives of Islamic finance (Diagram 6).

5.2 To support this direction, BNM will strengthen the role of Shariah objectives as a guiding consideration throughout the product lifecycle, including product design, implementation and ongoing review. The intention is neither to prescribe particular contractual structures nor to treat these considerations as a mechanical compliance checklist. Rather, they are intended to support more informed and purposeful judgement when IFIs select, design, implement and review Shariah contracts, with the extent of such consideration calibrated to the nature and impact of the arrangement.

Shariah objectives as a strategic lens

5.3 Shariah objectives provide a broader reference point for assessing whether financial intermediation delivers meaningful value to customers, businesses and society. For practical application, the assessment can be organised across three interconnected but distinct dimensions: the value created through genuine economic activity; the benefits promoted and foreseeable harms prevented or mitigated; and the essential interests protected. These dimensions are complementary and may overlap within a single financial solution.

Diagram 6: Dimensions for Purposeful Shariah Contract Applications



Integrating Shariah objectives into Shariah contract applications

5.4 To support the more purposeful application of Shariah contracts, IFIs should consider the following principles throughout the product lifecycle, from design and implementation to ongoing review. The depth of consideration should be proportionate to the nature, purpose, complexity, scale, customer impact and risk profile of the financial arrangement. These principles are intended to support sound judgement rather than prescribe a particular contractual structure or require a mechanical assessment, thereby preserving flexibility in the selection and application of Shariah contracts.

(a) **Fairness and benevolence:** Rights, obligations, risks and returns should be appropriately allocated, having regard to the nature and purpose of the contract. Where relevant, IFIs should consider reasonable measures to alleviate undue hardship while preserving contractual integrity and the legitimate interests of other stakeholders.

(b) **Clarity and transparency:** Customers and other stakeholders should be provided with material information, including key terms, risks and costs, in a timely, accessible and understandable manner. This supports informed decision-making and strengthens confidence in Islamic financial solutions.

(c) **Wealth creation and circulation**: Financial solutions should support productive economic activities, sustainable value creation and wider economic participation. IFIs should consider how Shariah contracts can facilitate trade, investment, service provision and protection while contributing to the effective circulation of financial resources within the economy.

(d) **Stability and sustainability:** Financial arrangements should preserve the continuity and integrity of contractual rights and obligations (*thabat*) while remaining resilient and sustainable over time. IFIs should consider whether financial solutions continue to serve their intended purpose throughout their lifecycle and support long-term stability for customers, institutions and the broader financial system.

(e) **Practicality and adaptability**: Shariah contracts should remain responsive to evolving customer needs, business models and market conditions. Financial solutions should be fit-for-purpose, operationally workable and adaptable to changing circumstances without compromising the integrity or intended purpose of the relevant Shariah contracts.

Further guidance is provided in **Appendix I**.

PART C:

Unlocking Innovation and Value Creation through Purposeful Application of Diverse Shariah Contracts

PART C Unlocking Innovation and Value Creation through More Purposeful Application of Diverse Shariah Contracts

Strategy 2: Unlock innovation and value creation through more purposeful application of diverse Shariah contracts

(a) Enabling a more accommodative and proportionate regulatory environment;

(b) Catalysing product innovation and market development; and

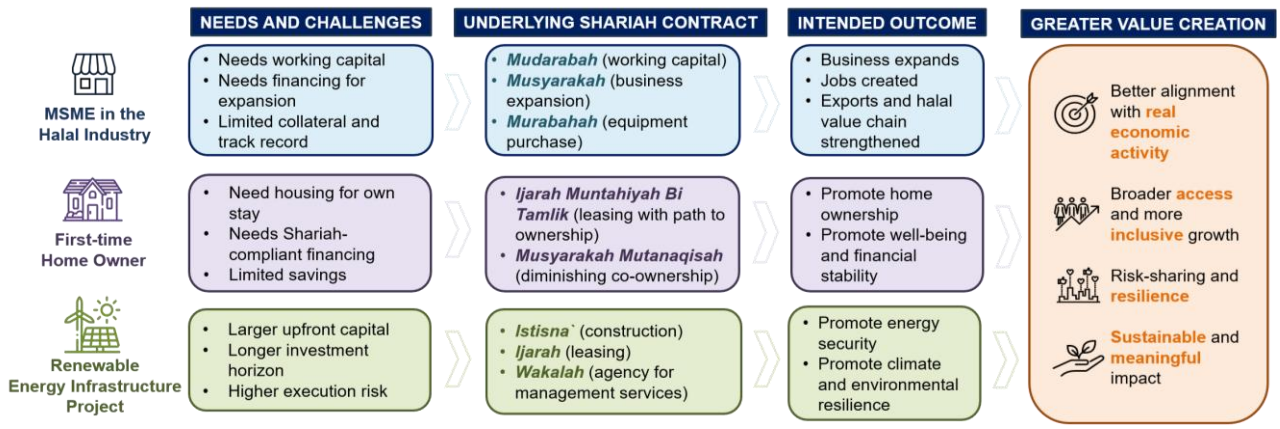
(c) Strengthening market infrastructure and ecosystem readiness.

6. Facilitating Wider Adoption of Diverse Shariah Contracts through Regulatory, Innovation and Ecosystem Enablers

6.1 The modernised Shariah contract framework outlined in Part B provides the regulatory foundation for expanding the range of commercially viable Shariah-compliant solutions available to IFIs. This will enable IFIs to select and apply Shariah contracts according to their distinctive characteristics, intended purposes and value propositions. The objective is neither to pursue diversification for its own sake nor to replace existing business models that continue to serve legitimate market needs, but rather to enable a broader range of solutions that better address diverse customer needs and support economic activities.

6.2 Diverse economic activities and customer needs require different financing, investment and protection solutions. A broader range of Shariah contracts can enable IFIs to structure financial solutions that better reflect the nature, risk profiles and cash-flow characteristics of the underlying activities. For example, partnership-based, investment-based and asset-based structures may be better suited to certain business expansion activities, project financing requirements and growth capital needs, including those of micro, small and medium enterprises (MSMEs). These structures can complement existing financing solutions, offering greater choice in meeting diverse economic and financial needs (Diagram 7).

Diagram 7: Illustration of Shariah contract applications to serve diverse needs



6.3 Wider adoption of diverse Shariah contracts will ultimately depend on whether they can be implemented efficiently, managed effectively and delivered in a commercially viable manner. Accordingly, BNM will pursue complementary initiatives: enabling a more facilitative and proportionate regulatory framework; catalysing product innovation and market development; and strengthening ecosystem readiness.

Enabling a more facilitative and proportionate regulatory framework

6.4 Building on the architecture described in Part B, BNM will progressively review relevant Shariah contract-based policy documents to ensure that regulatory requirements remain practical, proportionate and responsive to evolving applications. The review will focus on requirements that materially affect implementation, including operational requirements that may impose unnecessary friction, while preserving those necessary to uphold Shariah compliance, sound risk management and financial stability.

Catalysing product innovation and market development

6.5 Regulatory enablement alone will not drive wider adoption of diverse Shariah contracts. Product innovation remains essential to translating contractual flexibility into commercially viable financial solutions that address genuine customer, business and economic needs.

6.6 BNM will continue to support responsible experimentation and innovation through mechanisms that facilitate the progression of promising Shariah contract applications from concept to commercial adoption. Building on initiatives such as the i-CITA Programme[1], BNM will explore appropriate regulatory and market-development levers, including the regulatory sandbox framework to test new propositions, identify legal, prudential and operational barriers, assess customer and commercial value, and build market confidence ahead of wider adoption.

Strengthening ecosystem readiness

6.7 Many alternative structures involve different approaches to product structuring, risk assessment, governance, monitoring and customer engagement. Their successful adoption therefore depends on stronger ecosystem capabilities and market infrastructures.

6.8 BNM will work with industry players and relevant stakeholders to strengthen ecosystem readiness across four priority areas:

(a) **Capability and talent development** to deepen expertise in structuring, Shariah, risk management, sector assessment and specialised financing models;

(b) **Market and operational infrastructure** to improve the commercial and operational feasibility of diverse Shariah contract applications;

[1] i-CITA Programme is an initiative that enables Islamic banks to pilot risk-sharing contracts such as *mudarabah* and *musyarakah*, supported by RM100 million Government-backed matching fund. The programme helps reduce front-loaded risks for banks and supports financing for climate transition and food security projects where risk-sharing structures are most effective.

(c) **Data, due diligence and risk-mitigation enablers** to improve information availability, support consistent assessment of underlying activities and counterparties, and strengthen mechanisms for managing associated risks; and

(d) **Implementation guidance and knowledge sharing** to promote industry understanding, responsible innovation and more consistent adoption.

6.9 Achieving this direction will require coordinated effort across regulators, IFIs, Shariah committees, industry associations and ecosystem partners. Regulatory enablement must be matched by credible propositions, implementation capability and supporting infrastructure. Together, these elements will position the industry to deliver more differentiated financial solutions, respond to evolving economic needs and strengthen the contribution of Islamic finance to sustainable economic growth and positive societal outcomes.

Implementation roadmap for industry

6.10 BNM will advance the strategy through a phased approach. The first phase will focus on establishing policy direction and modernising architecture, including universal, cluster-based and contract-specific requirements. The second phase will support market testing, product development and resolution of implementation barriers through appropriate regulatory and innovation mechanisms. The third phase will broaden adoption where solutions demonstrate customer value, commercial viability, sound risk management and alignment with Shariah objectives.

6.11 Across these phases, IFIs should assess strategic opportunities, strengthen governance and capabilities, identify operational and data gaps, and develop suitable propositions for testing. BNM will continue to engage the industry as detailed policy, regulatory and market-development initiatives are developed.

PART D:

Clarifying the Use of *Tawarruq* in a More Diverse Islamic Finance Ecosystem

PART D Clarifying the Use of *Tawarruq* in a More Diverse Islamic Finance Ecosystem

Strategy 3: Recalibrate the application of *tawarruq* to support a more diverse and vibrant Islamic finance ecosystem

(a) Position *tawarruq* as a contract that addresses genuine market needs where suitable alternatives are unavailable or impractical.

(b) Facilitate a gradual transition towards greater adoption of alternative Shariah contracts based on their intended purposes.

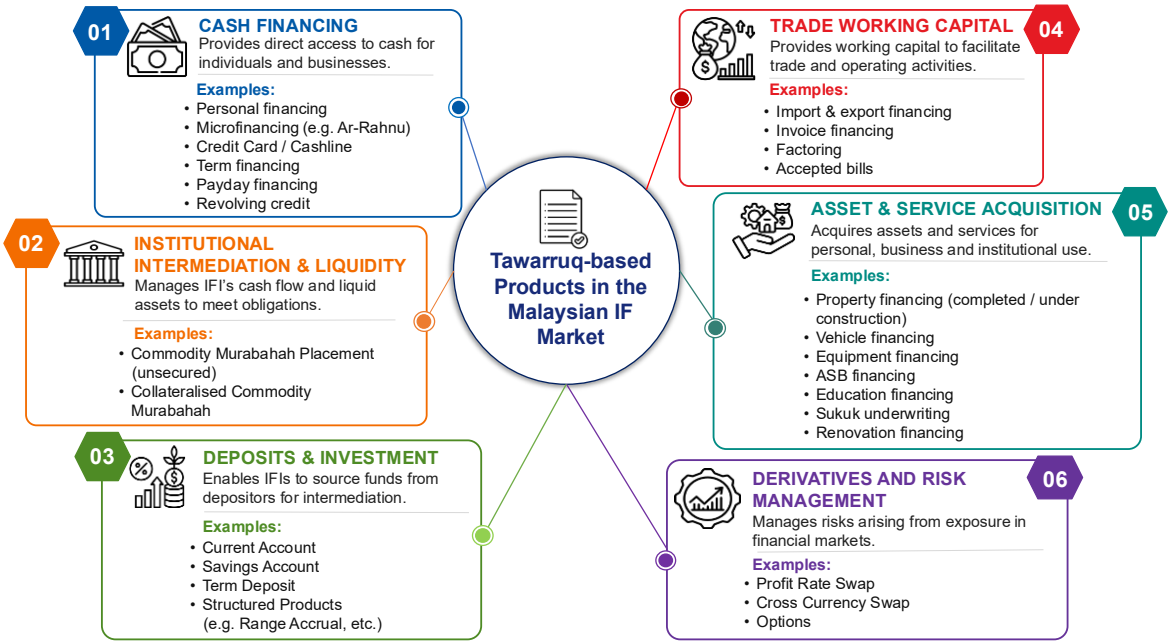
7. The Role of *Tawarruq* in the Development of Islamic Finance

7.1 *Tawarruq* has been an important enabler of Islamic finance development in Malaysia. Its practicality, scalability and broad applicability have allowed IFIs to efficiently meet a wide range of financing, deposit mobilisation and liquidity management needs. Supported by established market infrastructure, operational capabilities and regulatory standards, *tawarruq* has become an integral component of Malaysia's Islamic financial system and has contributed to the industry's growth and accessibility.

7.2 *Tawarruq* remains a recognised and viable Shariah-compliant mechanism that serves genuine customer, business and market needs. It will continue to play its role in supporting financial intermediation, particularly where it remains a practical and effective solution to achieve the intended financial outcome.

7.3 Its wider adoption was supported by several key market and regulatory developments, including organised commodity trading platforms such as Bursa Suq Al-Sila', more efficient transaction execution through dual agency and straight-through processing (STP) arrangements, and clearer regulatory standards. Together, these developments strengthened the infrastructure, governance and operational certainty for *tawarruq* to be applied efficiently at scale.

Diagram 8: Current Landscape of *Tawarruq*-Based Products in the Malaysian Islamic Financial System



8. Towards a More Diverse Islamic Finance Ecosystem

8.1 Different economic activities, business models and customer needs require different financing, investment and protection solutions. While *tawarruq* has been used for many purposes, other Shariah contracts may offer distinctive features that suit specific activities such as trade, investment, service provision and protection. IFIs should therefore consider the potential application of a wider range of Shariah contracts across their business activities, particularly where such contracts can deliver meaningful value in supporting economic activities consistent with Shariah objectives.

8.2 This reflects the broader aspiration articulated in Parts B and C: a more mature Islamic financial system where Shariah contracts are selected according to their respective characteristics, intended purposes and value propositions.

8.3 Going forward, BNM's approach will be guided by three principles:

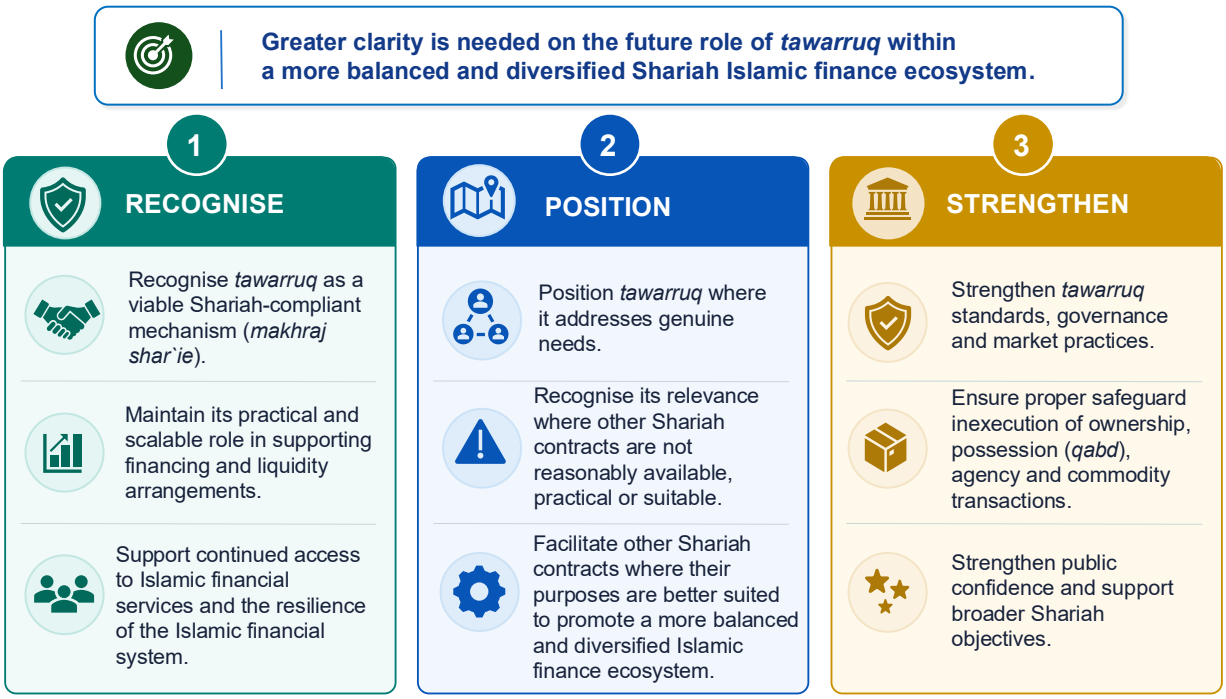
(a) **Recognise the role of *tawarruq*** as a viable Shariah-compliant mechanism;

(b) **Position *tawarruq* to address genuine market needs**[2] while promoting greater diversity in Shariah contract applications; and

(c) **Strengthen the integrity and implementation of *tawarruq* practices** through continued enhancement of standards, governance and market practices to support market confidence and alignment with broader Shariah objectives.

[2] For example, in determining a genuine need, the assessment may include circumstances where other Shariah contracts are not feasible to achieve the intended outcome of the underlying activity.

Diagram 9: Clarifying the Future Role of *Tawarruq*

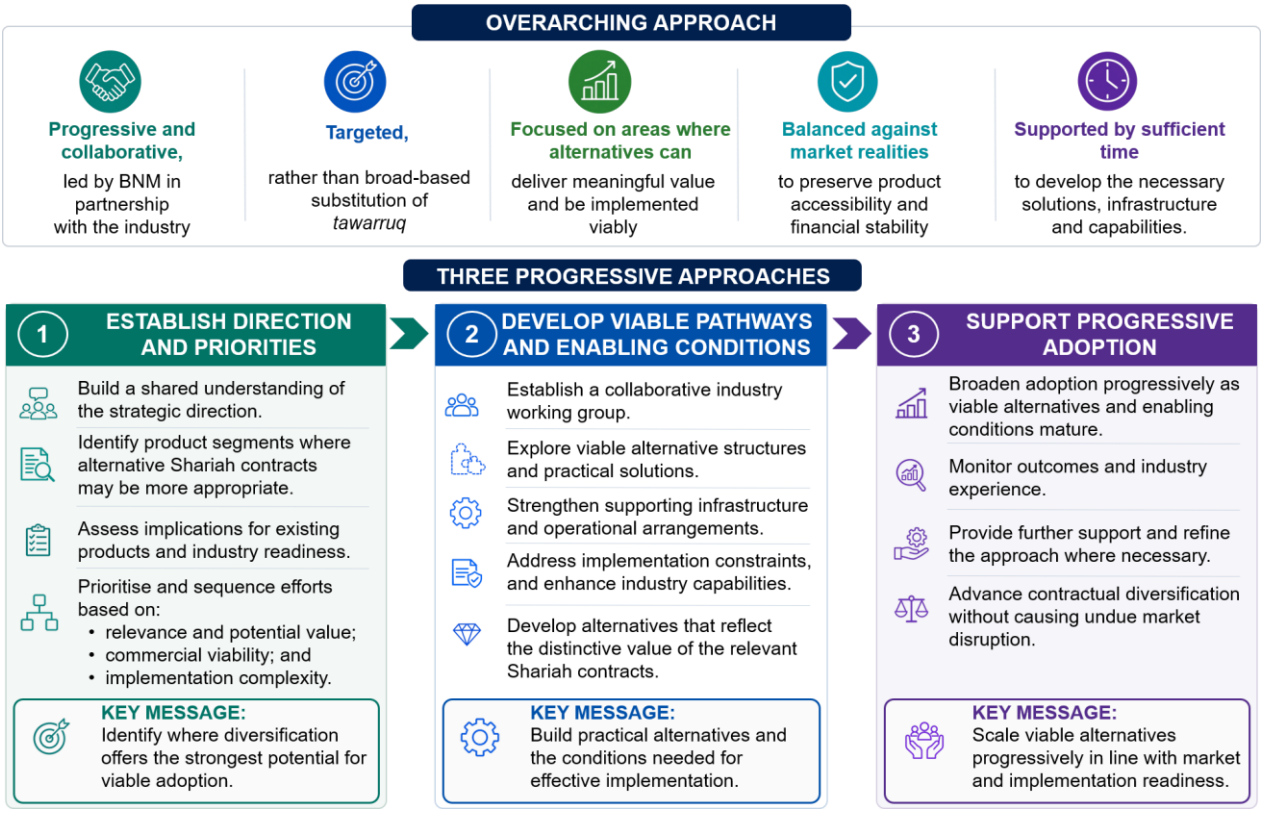


9. A Progressive and Collaborative Transition

9.1 BNM does not intend to mandate broad-based substitution of existing *tawarruq*-based products or prescribe specific contractual structures for individual product segments. Any transition towards greater contractual diversity should be evidence-based and guided by customer need, commercial viability, implementation readiness, risk implications and the ability of alternative structures to deliver meaningful value. Adoption should therefore proceed where these conditions can be demonstrated, rather than according to a predetermined substitution target.

9.2 Accordingly, BNM will continue to work closely with IFIs, Shariah committees, industry associations and other stakeholders to identify opportunities where alternative Shariah contracts can be adopted sustainably and at scale. This includes addressing implementation challenges, strengthening supporting infrastructure and facilitating innovation pathways outlined in Part C.

Diagram 10: A Phased and Collaborative Recalibration



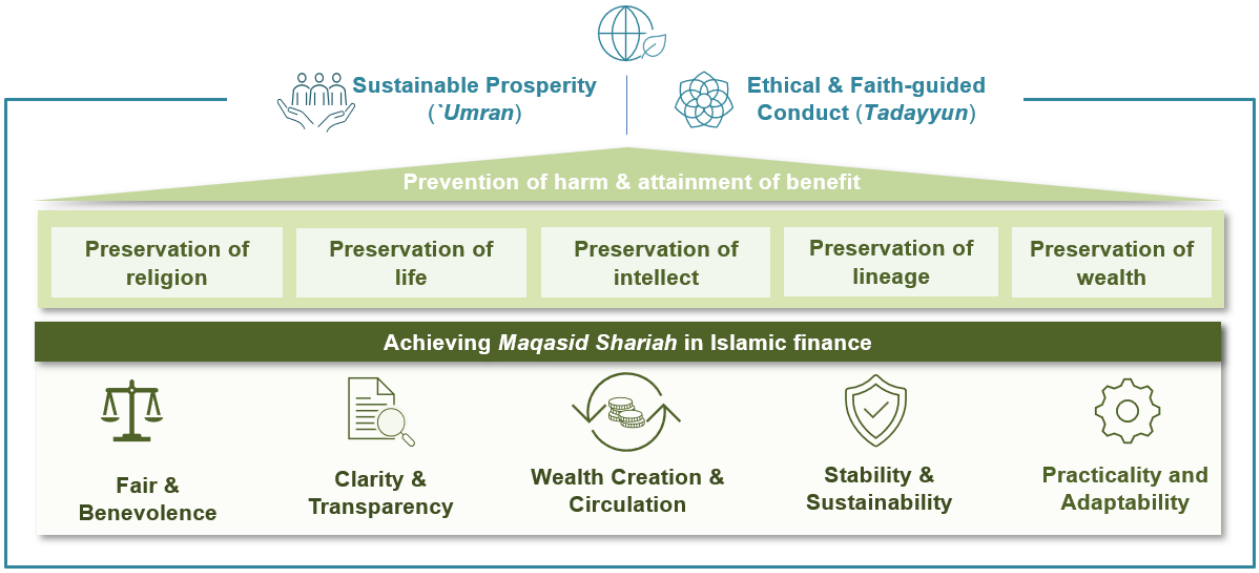
9.3 The desired end state is an Islamic financial system in which *tawarruq* continues to serve needs for which it is well suited, while other Shariah contracts are applied where their distinctive characteristics can create differentiated value and better support diverse economic activities. Contract selection should be driven by customer need, the underlying activity, intended outcome, commercial viability and the capacity to manage associated risks. This disciplined diversity will strengthen the resilience, relevance and long-term value proposition of Islamic finance while preserving accessibility, market stability and Shariah integrity.

Appendix I: Reference Guide on Integrating Shariah Objectives in Shariah Contract Applications

1. Purpose of this Guide

This Appendix provides a reference guide to assist IFIs in considering relevant Shariah objectives when applying Shariah contracts. It is intended to support sound, proportionate judgement and should not be read as a substitute for, or an expansion of, applicable regulatory requirements. As the revised Shariah contract framework is developed, the guide should be read together with the relevant universal, cluster-based and contract-specific requirements issued by BNM.

The intended outcome is to encourage a more purposeful application of Shariah contracts, where contractual compliance is complemented by consideration of how financial solutions contribute to sustainable value creation, responsible financial intermediation and positive outcomes for customers, businesses and society.



2. Understanding Shariah Objectives in Financial Intermediation

Shariah contracts are designed not only to facilitate valid financial transactions, but also to support outcomes that create benefit, preserve legitimate interests and promote responsible economic activity. In the context of Islamic finance, these objectives can be viewed through three interconnected dimensions:

Supporting Sustainable Value Creation

Financial intermediation should contribute to genuine economic activity and sustainable value creation. This reflects the concept of *umran*, which refers to the advancement and prosperity of society through productive enterprise, innovation, investment and responsible development. It is complemented by *tadayyun*, which emphasises integrity, accountability and ethical conduct in economic and financial activities. Together, these concepts recognise wealth as a means to support economic and social prosperity.

Accordingly, IFIs should consider whether financial solutions:

- support productive economic activities and genuine economic value;
- facilitate responsible investment, entrepreneurship and business growth;
- encourage responsible stewardship of financial resources; and
- contribute to sustainable value for customers, businesses and society.

For example, when designing an SME financing programme, an IFI should consider not only whether financing is provided, but whether the solution is structured to support sustainable business growth and long-term viability.

Preventing Harm and Promoting Benefit

Islamic finance seeks to promote legitimate benefit while preventing or mitigating foreseeable harm. This reflects the Shariah principle of *dar` al-mafasid wa jalb al-masalih* (preventing harm and promoting benefit).

The objective is not to eliminate risk entirely. IFIs should consider whether potential harms are appropriately identified, understood and managed relative to the intended benefit of the financial arrangement. This includes considering whether financial solutions–

- are appropriate for the needs of the intended customer segment;
- avoid creating excessive financial burden;
- contain safeguards against foreseeable customer harm;
- promote fair and responsible outcomes; and
- remain capable of delivering their intended benefits over time.

For example, affordability assessments, appropriate financing limits, clear disclosures and financial hardship assistance arrangements may help preserve customer benefits while reducing foreseeable risks.

Protection of Essential Interests

A key consideration of Shariah objectives is the preservation of five essential interests (*daruriyyat al-khams*), namely:

(a) **Religion**: Ensuring financial activities comply with Shariah principles and do not facilitate prohibited activities;

(b) **Life and dignity**: Supporting access to appropriate financial services and protection that strengthen financial resilience and address genuine needs;

(c) **Lineage and family**: Supporting household financial stability, responsible financial planning and intergenerational well-being;

(d) **Intellect**: Enabling informed decisions through clear, accurate and accessible information, free from deceptive or manipulative practices; and

(e) **Wealth**: Safeguarding assets, ownership rights and financial interests against fraud, misappropriation, exploitation and avoidable loss.

In Islamic finance, these five essential interests provide a broader reference point for considering how financial activities affect individuals, families and society. They are not intended to simply function as a checklist or legal test.

For example, in developing a family takaful product, a takaful operator may consider whether the product–

- provides meaningful financial protection against death or disability;
- enables benefits to be paid appropriately to the intended beneficiaries;
- provides sufficiently clear terms and exclusions to support informed participation; and
- is supported by sustainable contributions and fund arrangements.

This illustrates how a single financial solution may support several essential interests concurrently, including life, family, intellect and wealth.

A practical assessment may begin with five questions:

1. What genuine customer or economic need is the proposed solution intended to address?
2. Why is the selected Shariah contract appropriate to the underlying activity, risk allocation and intended outcome?
3. What material benefits and foreseeable harms may arise, and how will they be managed?
4. Is the solution operationally workable and commercially viable throughout its lifecycle?
5. What evidence and governance arrangements will enable the IFI to review whether the solution continues to achieve its intended purpose?

3. Applying Shariah Objectives in Practice

Fairness and Benevolence (*`adl wa ihsan*)

Financial transactions should promote fair allocation of rights, obligations, risks and returns, having regard to the nature of the contract and the responsibilities assumed by each party. Fairness does not necessarily require equal rights or outcomes but requires parties to be treated appropriately based on their respective contractual positions.

In addition to fairness, Shariah encourages benevolence and mutual consideration among contracting parties[3]. Benevolence complements fairness by encouraging reasonable consideration beyond strict contractual rights, where appropriate, particularly where their exercise may result in disproportionate hardship. Such consideration should not unfairly disadvantage other parties.

Examples may include restructuring support for customers experiencing temporary financial difficulties or providing fair and accessible review mechanisms for takaful claims decisions.

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[3] This is consistent with the Prophetic encouragement to exercise leniency and grant consideration to parties experiencing financial hardship. The Prophet ﷺ narrated the example of a creditor who instructed his servant: *"When you come to an insolvent person, overlook his debt; perhaps Allah would overlook our sins"* (Sahih al-Bukhari, no. 3480).

Clarity and Transparency (*wuduh*)

Customers and stakeholders should receive material information in a manner that is timely, accessible and understandable. Clarity supports informed decision-making and helps preserve trust (*amanah*) in financial relationships.

IFIs should therefore ensure that–

- key terms, costs and risks are communicated clearly;
- information remains consistent across channels and documents;
- customers are able to understand material implications of the arrangement; and
- disclosures are proportionate to the complexity of the product.

The objective is not merely legal disclosure, but meaningful understanding[4]. The Board, Shariah committee and relevant control functions should also receive sufficient information to understand how the product operates in practice.

Wealth Creation and Circulation (*rawaj*)

Financial intermediation should support lawful wealth creation[5] and the productive circulation of financial resources across the economy. In considering this principle, IFIs may assess whether the financial arrangement–

- supports productive economic activity;
- facilitates broader participation in economic opportunities;
- promotes responsible wealth creation; and
- contributes to sustainable business and economic development.

This principle is particularly relevant in supporting SMEs, innovation, business expansion and other productive sectors that contribute to long-term economic growth.

Stability and Sustainability (*thabat wa istidamah*)

Financial activities should support the long-term resilience of customers, takaful participants, IFIs and the financial system. Financial solutions should remain viable over their expected lifecycle and avoid creating undue long-term risks for short-term commercial benefits. This includes preserving the continuity of contractual rights and obligations while considering the longer-term resilience and sustainability of customers, institutions and the broader financial system.

Relevant considerations may include–

- resilience under changing circumstances;
- responsible management of financial and operational risks;
- long-term viability of the underlying activity;
- sustainability of funding and protection arrangements; and

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[4] The Prophet ﷺ said: *"If both parties speak the truth and disclose (the relevant information), they will be blessed in their transaction."* (Ṣaḥiḥ Muslim, no. 1532). The hadith underscores the importance of transparency and disclosure in financial transactions.

[5] The Prophet ﷺ said: *"No one has ever eaten food better than that earned through the work of his own hands" (*Ṣaḥih Bukhari, no. 2072). This reflects the legitimacy of generating wealth through lawful effort and productive economic activity.

- broader implications for consumers, society and, where relevant, the environment.

For example, asset-based financing should have clear and enforceable ownership and transfer arrangements, with risks appropriately managed throughout its lifecycle to support the continued viability of the financing arrangement. For takaful, this includes prudent management of participants' risk funds, sustainable contribution structures and sound underwriting, claims and solvency management. Likewise, profit-sharing arrangements should be structured based on sustainable business activities and realistic risk assumptions, with appropriate measures to address moral hazard and information asymmetry between the customer and financier.

Practicality and Adaptability (*taysir wa murunah*)

Shariah contracts should remain responsive to evolving customer needs, technologies and market conditions.

Practicality does not mean defaulting to the simplest structure. Financial solutions should be fit-for-purpose, operationally workable and proportionate to the underlying activity. Adaptability may be informed by recognised Shariah considerations such as:

- principle of recognised need (*hajah*);
- removal of undue hardship (*raf' al-haraj*); and
- accepted market practice (*'urf*).

In practice, this may include streamlining digital financing for small businesses and introducing flexible repayment arrangements to better cater for different revenue cycles.