

VALUE-BASED INTERMEDIATION

R E P O R T 2 0 2 3

MAQĀṢID AL-SHARĪ'AH IN ISLAMIC BANKING





ACKNOWLEDGEMENT



The Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) has commissioned the International Shari'ah Research Academy for Islamic Finance (ISRA) Research Management Centre of INCEIF University to produce the Value-based Intermediation Report 2023. The report is authored by Mezbah Uddin Ahmed, Dr. Noor Suhaida Kasri, and Prof. Dr. Said Bouheraoua, with research assistance from Huzhaifah Kamal, Md Tanzirul Amin, and N M Baki Billah.



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FROM THE CHAIRMAN'S DESK

In an era in which ethical imperatives and sustainable practices are gaining prominence, Value-based Intermediation (VBI) has emerged as a transformative framework within Islamic banking. VBI redefines the role of Islamic financial institutions (IFIs) by aligning their operations with principles that generate positive impacts on the economy, society, and environment—going beyond the mere provision of Shari'ah-compliant products.

Anchored in the 3P approach—People, Planet, and Profit—VBI integrates ethical considerations into business practices, demonstrating that profitability and social responsibility are not mutually exclusive. By fostering inclusivity, supporting underserved communities, and contributing to sustainable development, VBI exemplifies the true essence of Islamic finance. The journey of VBI has been marked by significant milestones. From January 2017 to December 2023, Islamic banks in Malaysia channelled RM649.90 billion through VBI-driven initiatives. In 2023 alone, RM216.07 billion was intermediated, directly benefiting 7.98 million accounts—a significant leap from RM131.63 billion and 4.95 million accounts in 2022. This remarkable growth of 64.15% in value and 61.21% in outreach underscores VBI's transformative impact and its capacity to drive meaningful change.

However, challenges remain, including misconceptions and inconsistent understanding across the industry. Despite these hurdles, IFIs have made commendable progress by championing financial inclusion through initiatives such as affordable home financing and microfinancing programmes. These efforts are further strengthened by cultural transformations within organisations, embedding VBI principles across all levels of operations.

The VBI framework stands as a testament to the unwavering commitment of IFIs to fulfilling the objectives of Sharī'ah (*maqāṣid al-Sharī'ah*), emphasising the preservation and enhancement of human dignity, justice, and universal well-being. By prioritising inclusivity, sustainability, and socio-economic equity, VBI goes beyond compliance to uphold the core objectives of Sharī'ah—ensuring that financial activities contribute to the holistic betterment of individuals, communities, and the environment.

Aligned with the global emphasis on environmental, social, and governance (ESG) principles, VBI bridges faith-based values with universal ethical and sustainable practices. This synergy positions Islamic banks as pioneers in fostering a more responsible and impact-driven financial ecosystem. To fully realise VBI's transformative potential, it is imperative to address regulatory challenges, enhance reporting transparency, and cultivate governance stability. These steps will not only accelerate its integration across sectors but also reinforce its role as a powerful enabler of a just and sustainable future.

As we look ahead, the success of VBI hinges on sustained collaboration between regulators, industry players, and stakeholders. By addressing existing challenges and leveraging its inherent strengths, VBI has the potential to transform not only Islamic finance but the broader financial ecosystem. This collective effort will ensure that finance remains a powerful enabler of positive change, fostering a future that is inclusive, sustainable, and aligned with the principles of justice and shared prosperity. The journey of VBI is far from over, but its impact so far is a testament to what is possible when purpose drives progress.

Sincerely,
Dato' Mohd Muazzam Mohamed
Chairman
VBI Community of Practitioners



Our Aspiration towards Value-based Intermediation (VBI)

AFFIN aims to be innovative in providing solutions that cater to a wider range of stakeholders, including underprivileged and underserved segments, while being mindful of sustainable returns to its shareholders.



Our aspiration is guided by AFFIN VBI's Framework, which acts as a reference for AFFIN Group in adopting the VBI concept initiated by BNM.



VBI can better support the social aspects of AFFIN's strategic pillar of 'Responsible Banking with Impact'.



Focus on advancing social finance activities through zakat, sadaqah, and waqf.

Translating VBI Into Actions

Case Study: AFFIN Funded MyREF Hijrahpreneurs Skills Programme 2023

Intensive business upskilling programme conducted over 8 months

Aims at empowering Asnafpreneurs to grow and inspire their communities

Benefitted 10 underserved individuals (3 men and 7 women)



ENGAGEMENT

Identified 'Community Development' as one of our material matters. Hence, this programme was introduced.



PARTNERSHIPS

Collaborated with Majlis Agama Islam Melaka and the Malaysian Research & Education Foundation.



ENTREPRENEURSHIP

Exposed the participants to digital marketing, business techniques, the Halal industry, and leadership skills.



SHARED VISION

Aligned with the Twelfth Malaysia Plan, the Financial Sector Blueprint, and the UN Sustainable Development Goals.



IMPACT DRIVEN

Assessed on both financial (income growth) and non-financial (business improvement) aspects.



ENHANCED DISCLOSURE

A detailed course journey will be highlighted in the next AFFIN Sustainability Statement

FUNDED BY:



IN COLLABORATION WITH:





BUILDING A SUSTAINABLE FUTURE

At alrajhi bank Malaysia, we believe financial success should not come at the expense of the environment or society. That is why we continue to incorporate Value-Based Intermediation (VBI) as the cornerstone of our sustainable banking practices.

For us, VBI is all about fostering positive change by carefully considering the social and environmental impact of every decision we make. We partner with businesses that share our commitment to sustainability and empower individuals and families through financial inclusion.

Sustainable Banking

- ESG risk assessments and climate change classifications form an integral part of our financing practices.
- Provided financing for green buildings as well as renewable energy businesses.
- Our VBI-related financing stood at RM858 mil.

Financial Inclusion

- We continue to support Micro SMEs and SMEs through financial assistance.
- Spearheaded the financing of public infrastructure projects including schools/universities and roads/highways.
- Facilitated funding for affordable homes.

Care for Society

- Our zakat contribution helps to empower communities.
- Aided the disadvantaged through charitable contributions of more than RM500,000.
- Channeled more than RM60,000 to the less fortunate through the Bank's CSR projects.

Together, we are building a more resilient and sustainable future for Malaysia.

Scan QR to
visit our website



SECTION

1

OVERVIEW

About AIBIM

AIBIM is a dynamic, visible, responsive, and effective organisation representing the Islamic finance industry. It promotes a robust Islamic banking system and practices in Malaysia. Additionally, it serves as a dedicated advocate for its members, both domestically and internationally, offering valuable guidance and support essential for the growth and advancement of Islamic banking and finance at local, regional, and global levels. Furthermore, AIBIM leads initiatives focused on enhancing the human capital development of its members while actively promoting public awareness of Islamic finance. Established in 1995, AIBIM was initially known as the Association of Interest-Free Banking Institutions Malaysia before adopting its current name, the Association of Islamic Banking and Financial Institutions Malaysia, on 16 May 2018. Today, it hosts 26 member banks, as listed below:

Domestic Banks



Development Financial Institutions



Locally Incorporated Foreign Banks



Islamic Digital Bank



About This Report

The *Value-based Intermediation Report 2023* is the fourth in the VBI Report series published by AIBIM, which tracks the progress and impact of VBI initiatives within Islamic banks in Malaysia and shares the outcomes with stakeholders. The Financial Sector Blueprint (FSB) of Bank Negara Malaysia (BNM) provides foundational support for promoting VBI among Islamic banks, emphasising the integration of value creation into core operations rather than treating it as secondary to profit-driven objectives. In line with this national aspiration, this year's report reveals continued growth in VBI adoption by Islamic banks in Malaysia, with a particular emphasis on small and medium enterprises (SMEs), micro-SMEs (MSMEs), and net-zero and green financing. The data covered in this report is from January to December 2023.

As *maqāṣid al-Sharī'ah* serves as the foundation of the VBI framework, this report reexamines its interpretation within Islamic finance and strategies for its advancement through VBI. The report also presents insights from industry pioneers and leaders on promoting both *maqāṣid al-Sharī'ah* and VBI. It captures their understanding of VBI, efforts to align VBI initiatives with national agendas, and strategies for maintaining VBI momentum in an ever-evolving ecosystem. The findings reveal the strategies adopted, identify challenges to be addressed, and provide recommendations to guide the industry forward. The report concludes with a roadmap for implementing VBI, aiming to transform recommendations into actionable steps.

The report finds that Islamic banking has evolved well beyond mere replication, with VBI significantly enhancing its scope and impact, leading to more comprehensive and refined practices. VBI encourages Islamic banks to fundamentally rethink their roles and responsibilities in society, broadening their engagement beyond limited corporate social responsibility (CSR) efforts. It has transformed how Islamic banks operate, shifting their focus from profit generation to a more inclusive model that prioritises social impact, demonstrating that banks can effectively combine profitability with purpose.

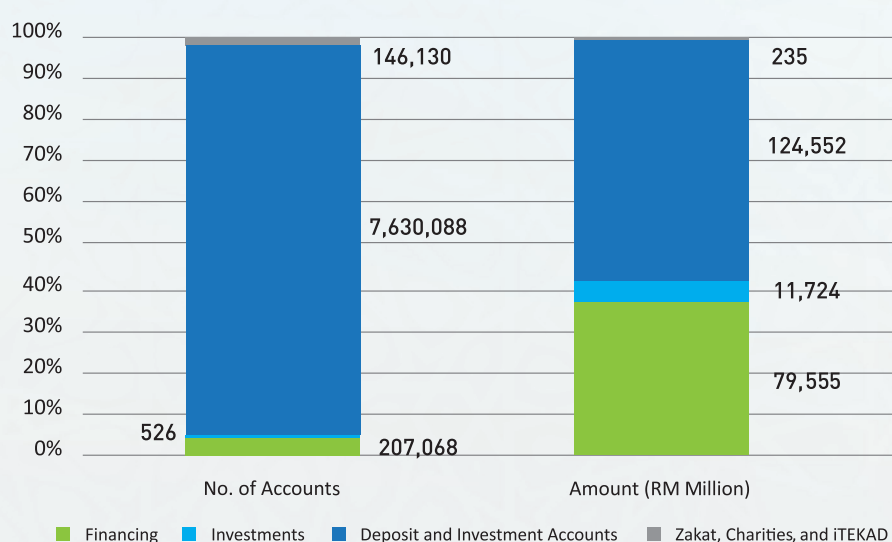
Additionally, although the report highlights that VBI activities have been steadily growing, challenges remain regarding consistency in implementation and clarity in reporting practices. It offers several recommendations, including the development of standardised metrics for reporting VBI contributions, raising awareness among stakeholders, and creating innovative financial products that align with VBI principles. The report emphasises that collaborative efforts from Sharī'ah scholars, research institutions, and industry stakeholders are critical to actualising VBI in Islamic banking practices.

The information, data, and findings in this report are primarily based on surveys conducted by AIBIM and the ISRA Research Management Centre, encompassing all AIBIM member banks. While every effort has been made to present a comprehensive report on the growth of the VBI initiative, it is important to note that the findings depend on the responses received from AIBIM member banks.

VBI Snapshots

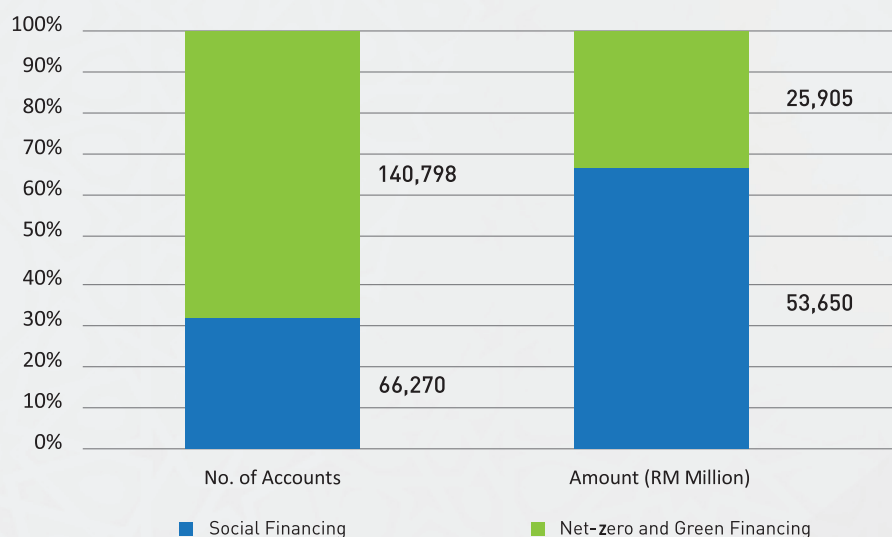
The data for the VBI initiative presented here originates from a survey conducted by AIBIM among its member banks. The findings indicate that Islamic banks intermediated a total of RM216.07 billion in VBI activities in 2023, benefiting 7.98 million accounts. VBI financing totalled RM79.55 billion, representing 36.82% of the total VBI and serving 207,068 accounts. VBI investments amounted to RM11.72 billion, accounting for 5.43% of the total VBI and serving 526 accounts. VBI deposits and investments reached RM124.55 billion, which is 57.65% of the total VBI and served 7.63 million accounts. Additionally, RM234.88 million was intermediated for zakat, charities, and the iTEKAD, representing 0.11% of the total VBI and serving 146,310 accounts. Refer to Figures 1.1 to 1.5 for snapshots of the VBI for 2023.

Figure 1.1: Snapshot of VBI in 2023

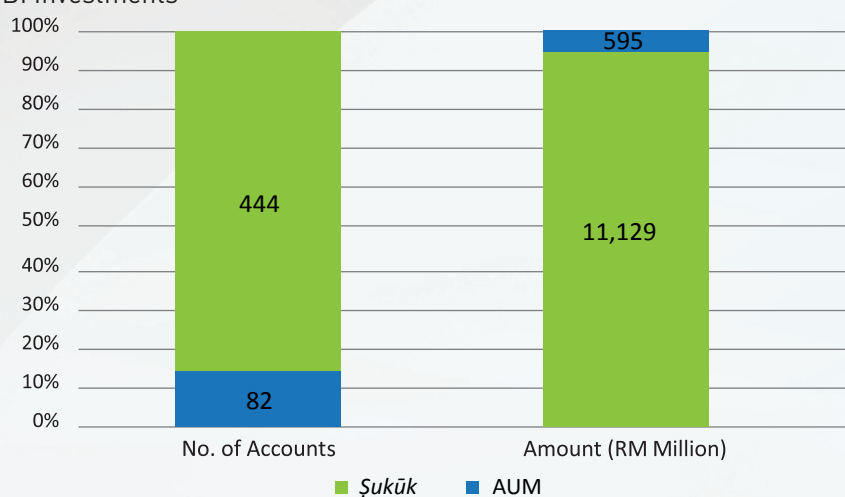


Source: AIBIM survey

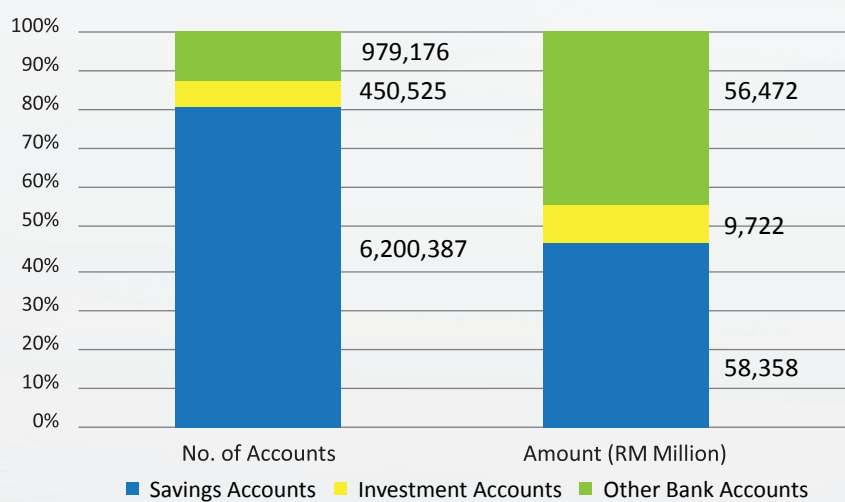
Figure 1.2: VBI Financing



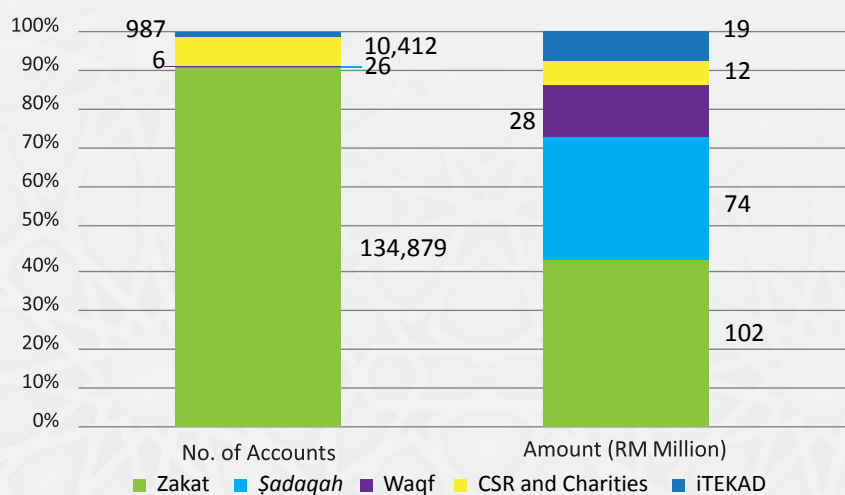
Source: AIBIM survey

Figure 1.3: VBI Investments

Source: AIBIM survey

Figure 1.4: VBI Deposit and Investment Accounts

Source: AIBIM survey

Figure 1.5: Zakat, Charities, and iTEKAD

Source: AIBIM survey

ALLIANCE ISLAMIC BANK PUSHES AHEAD WITH VALUE-BASED INTERMEDIATION (VBI) THROUGH FLAGSHIP PROGRAMMES

Zakat Microfinancing breaks new ground for social finance.



	FLAGSHIP VBI INITIATIVES	IMPACT (2023)
ADVANCING HALAL ECONOMY	HALAL IN ONE PROGRAMME A one-stop centre with a complete halal business support programme for SMEs to access and succeed in the halal market.	• RM900m in financing disbursed. • Assisted over 180 SMEs.
ADVANCING SOCIAL FINANCING	ZAKAT MICROFINANCING (“AZAM”) Malaysia’s first Islamic social funding programme that utilises <i>zakat wakalah</i> to uplift <i>asnaf</i> micro-entrepreneurs through the provision of accessible and affordable financing. SOCIOBIZ A social funding platform that aims to empower communities through entrepreneurship.	• RM225K disbursed. • Zero default (as of June 2024). • 45 <i>asnaf</i>preneurs enjoy increase in income and/or business capacity. • Over RM130K raised for two campaigns (Sarawak & Langkawi). • Assisted 134 micro entrepreneurs.
WIDENING & DEEPENING COMMUNITY IMPACT	ECONOMIC EMPOWERMENT PROGRAMME (EEP) A structured programme aims to elevate the livelihood of the B40 segment through micro entrepreneurship by providing business training, skills and knowledge.	• 50 <i>asnaf</i>preneurs. • Average 160% increase in income.

More on Zakat Microfinancing Programme (AZAM), Alliance Islamic Bank’s latest groundbreaking social finance innovation:



PROGRAMME MECHANICS

- Launched in December 2023, it is Malaysia’s first Islamic social funding programme that utilises *zakat wakalah* to uplift *asnaf* (underprivileged) micro-entrepreneurs.
- AZAM promotes financial inclusion and equitable development through the provision of accessible and affordable financing opportunities.
- We partnered with Amanah Ikhtiar Malaysia (“AIM”) to oversee several aspects of AZAM (disbursement and collections).
- Lembaga Zakat Selangor verifies the *asnaf* beneficiaries.
- The Bank disbursed another RM225,000 *zakat wakalah* for 45 new recipients in July 2024.



Creating Shared Prosperity

At AmBank Islamic, our commitment to sustainability renders our business beyond generating profits. We aim to create shared prosperity by integrating value-based intermediation (VBI) and environmental, social and governance (ESG) principles into our business strategies.

Aligned with the United Nations Sustainable Development Goals (UN SDGs) and Maqasid Shariah, we undertake responsible banking, uphold conscious self-conduct and strive to create positive societal impact. Through these efforts, we leverage opportunities to create an ecosystem where everyone thrives.

Responsible Banking

- We are navigating the transition to Net Zero responsibly, adopting a pragmatic approach to support our customers through sustainable financing solutions.
- We integrate ESG and climate change considerations into our financing decisions, utilising assessment frameworks and screening processes to gain better insights into the impact of ESG risks and climate change on our clients and portfolio.
- We are committed to evolving with our customers' requirements, by delivering fast, seamless, and personalised services that prioritise their satisfaction and trust.
- We support SMEs with solutions to grow their businesses, and to transition towards low carbon practices.
- We support underserved communities by financing affordable housing and other needs of the B40 community.
- We empower micro-entrepreneurs through the ITEKAD programme to generate sustainable income.

Supporting Communities

- We believe that social empowerment and community engagement are crucial for creating an ecosystem where everyone thrives. This aligns with our business objectives as a responsible and inclusive bank, reinforcing our role in driving sustainable growth, and ensuring that our success benefits our stakeholders.

Conscious Self-Conduct

- We believe that maintaining high standards of integrity in what we do fosters trust, and contributes to economic resilience and supportive, inclusive growth for long-term prosperity.
- We nurture a workforce capable of adapting to rapid changes and driving responsible banking practices. This ensures we remain responsive to stakeholders' needs and contribute to the communities we serve.
- We view our consumption and procurement as critical levers for amplifying our positive impact on society and the environment, reinforcing our dedication to responsible corporate citizenship.

At AmBank Islamic, we are dedicated to a future where sustainability and shared prosperity are at the heart of our business, creating lasting positive impact on society and the environment.

Winning Together...
is what matters

SECTION

2

**CONTINUITY
AND GROWTH**

VBI Developmental Journey

The Global Financial Crisis of 2007–09 marked a significant awakening, exposing the vulnerabilities and weaknesses inherent in the modern financial system. It prompted a worldwide call for comprehensive reforms aimed at enhancing financial resilience and stability. This led to a thorough reassessment of the fundamental nature of modern finance, fostering the development of ethical and responsible finance solutions firmly anchored in the real economy. However, the notion of such solutions is not new to Islamic finance, which is rooted in ethical and responsible finance principles, with Sharī'ah compliance as its cornerstone. In stark contrast to conventional financial services, the Islamic finance sector demonstrated notable resilience during the crisis. Nonetheless, this resilience is insufficient, as Islamic finance has historically concentrated on the legalistic aspects of Sharī'ah compliance, often inadequately addressing broader economic, social, and environmental outcomes.

As Malaysia was recovering from the crisis—especially in light of a significant decline in the Islamic banking sector's annual growth rate from 24.2% in 2011 to 8.2% in 2016—and recognising a unique opportunity to align with the global movement towards responsible finance, BNM introduced the VBI concept for the Islamic banking industry in 2017. VBI incorporates the principles of *maqāṣid al-Sharī'ah* and promotes an intermediation function that yields positive and sustainable impacts across economic, community, and environmental dimensions. This initiative aims to align the interests of shareholders with the long-term sustainability of the financial system.

VBI seeks to extend the concept of Sharī'ah beyond mere compliance, ensuring that practices and offerings result in tangible positive impacts. This approach differentiates Islamic banks from their conventional counterparts by placing greater emphasis on impactful, ethically driven practices that contribute to overall well-being. Such principles play a crucial stabilising role in the economy by supporting genuine and productive economic activities that ensure equitable risk distribution among stakeholders. This commitment enhances financial stability while aligning economic growth with broader societal values, addressing the significant shift towards ethical and responsible finance that seeks to establish a strong and lasting connection to the real economy, thereby tackling the root causes of financial instability.

In 2018, BNM released the VBI Strategy Paper—*Value-Based Intermediation: Strengthening the Roles and Impact of Islamic Finance*. This document identifies essential principles and strategies to advance VBI as a strategic direction for the Islamic banking sector. It highlights three critical areas for industry transformation:

- **Innovative offerings and market segments:** Islamic banks are encouraged to develop innovative financial products and services that aim to create greater societal impact. This includes fostering an impact-driven mindset that prioritises engagement with underserved market segments, thus addressing gaps in financial inclusion.
- **Enhanced banking practices:** Existing banking practices should be significantly improved by incorporating innovative risk management techniques, such as offtake agreements and supply chain finance. These enhancements will facilitate more effective risk-sharing and project financing.

- **Collaboration with strategic partners:** There is a strong emphasis on strengthening partnerships beyond the traditional financial sector to gain access to essential skills, shared resources, and infrastructure crucial for promoting sustainable practices.

In addition to the VBI Strategy Paper, the BNM published several guidance documents to assist the industry in understanding and implementing VBI initiatives. In addition, AIBIM published Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides. The Sectoral Guides provide comprehensive guidance for implementing impact-based assessments for their respective sectors. They also provide relevant sustainability metrics or indicators that can be considered when taking a more holistic approach to classifying economic activities. These are identified in Figure 2.1.

Figure 2.1: Guidance Documents on VBI



Source: BNM and AIBIM websites

Funds Intermediated with VBI

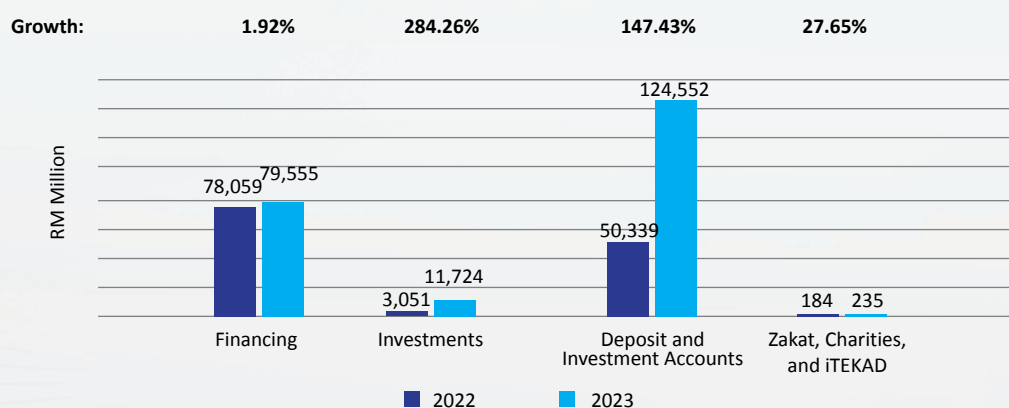
AIBIM surveys reveal that from January 2017 to December 2023, a total of RM649.90 billion has been intermediated by Islamic banks in Malaysia in alignment with the VBI framework (see Figure 2.2). In 2023 alone, these banks intermediated RM216.07 billion, benefiting 7.98 million accounts. This marks a significant increase from RM131.63 billion and 4.95 million accounts in 2022, reflecting a growth of 64.15% in the amount and 61.21% in the number of accounts. This growth underscores the ongoing commitment of Islamic banks in Malaysia to align their operations with the VBI framework and indicates a greater recognition of their activities as VBI-aligned. For example, a larger number of deposit and investment accounts are now classified as VBI-aligned (see Figures 2.3 and 2.4).

Figure 2.2: Funds Intermediated



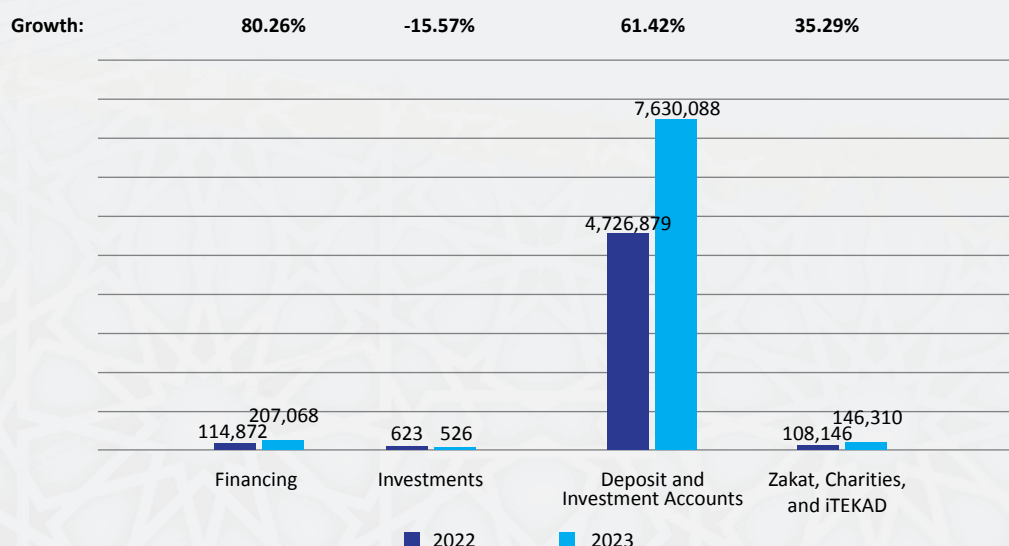
Source: AIBIM Survey

Figure 2.3: Year-on-Year Growth of Funds Intermediated



Source: AIBIM survey

Figure 2.4: Year-on-Year Growth of Accounts Intermediated

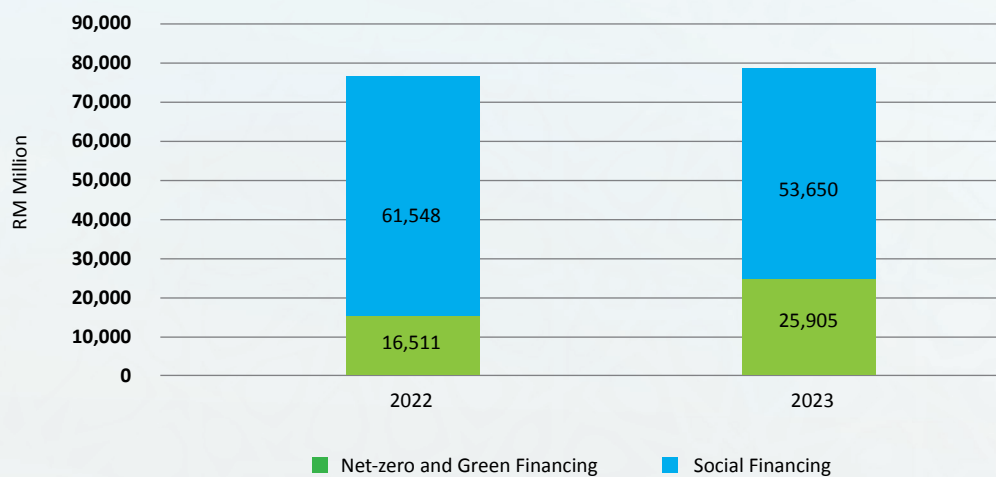


Source: AIBIM survey

VBI Financing

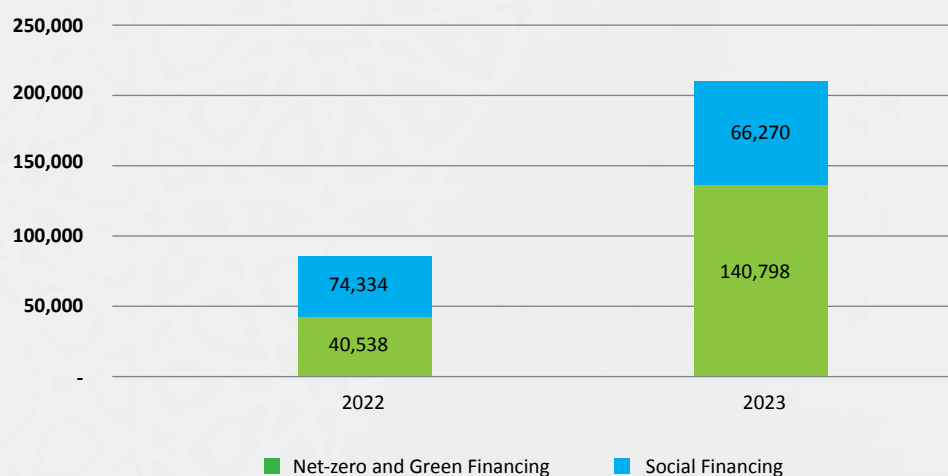
The VBI financing of the Islamic banks in 2023 was RM79.55 billion, serving 207,068 accounts. This represents 13.80% of the total financing provided by these banks. Social financing amounted to RM53.65 billion, serving 66,270 accounts, while net-zero and green financing totalled RM25.90 billion, serving 140,798 accounts. Social financing represents 67.44% of total VBI financing, whereas net-zero and green financing accounts for 32.56%. Figures 2.5 and 2.6 show a growing emphasis on net-zero and green financing.

Figure 2.5: VBI Financing Amounts



Source: AIBIM survey

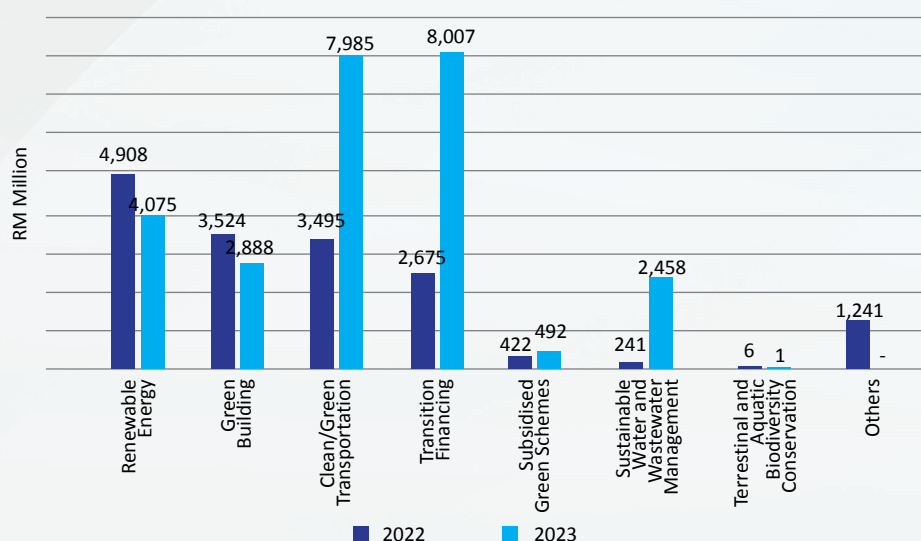
Figure 2.6: VBI Financing Accounts



Source: AIBIM survey

Figure 2.7 compares the net-zero and green financing of Islamic banks in 2023 with that of the previous year. It highlights an increased emphasis on clean/green transportation, transition financing, and sustainable water and wastewater management.

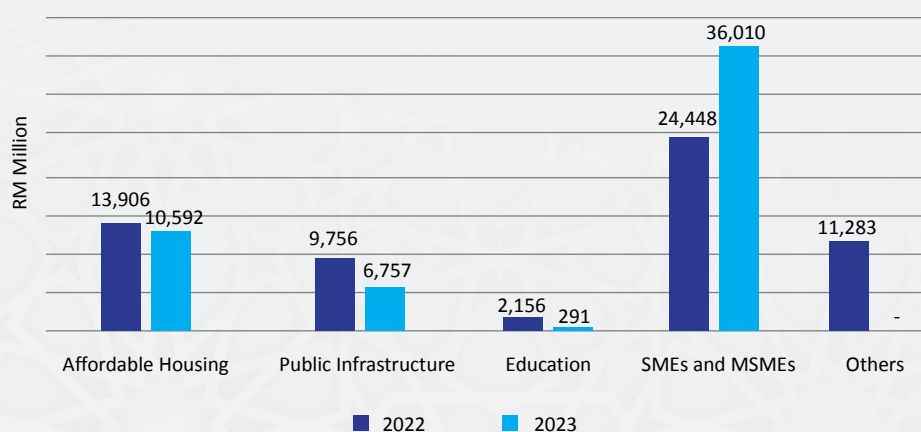
Figure 2.7: Net-zero and Green Financing Amounts



Source: AIBIM survey

Figure 2.8 compares the social financing of Islamic banks in 2023 with that of the previous year. It shows an overall decrease of 12.42% in this segment, while financing for SMEs and MSMEs has increased by 47.29%. Notably, SMEs and MSMEs are the largest recipients of VBI financing. When including both green and social segments, SMEs and MSMEs received a total of RM41.22 billion in 2023, accounting for 51.82% of the total VBI financing for the year.

Figure 2.8: Social Financing Amounts

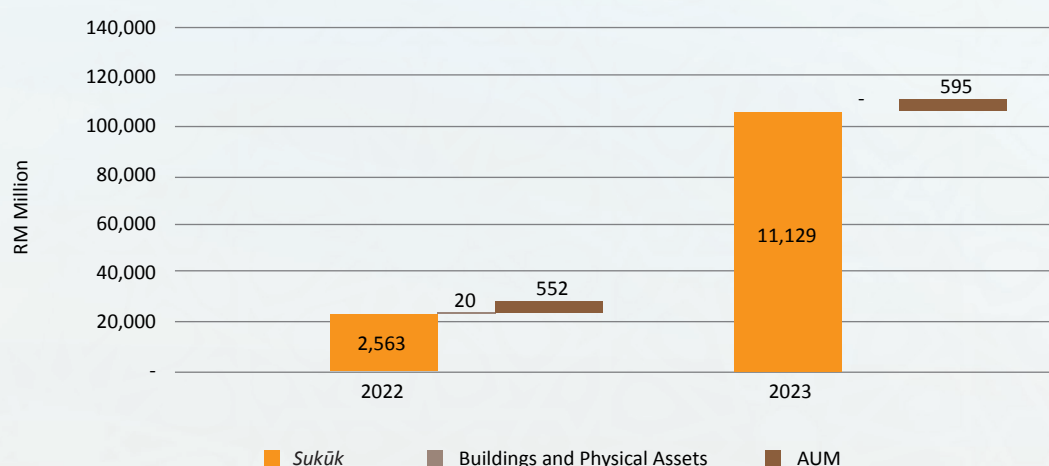


Source: AIBIM survey

VBI Investments

The VBI investments identified for 2023 from the survey responses include investments in *şukūk* and assets under management (AUM) aligned with Sustainable and Responsible Investment (SRI), Sustainable Development Goals (SDGs), ESG, Green, and similar agendas. Respondents reported RM11.72 billion in VBI investments for this year, primarily due to *şukūk* investments, which account for 94.92% of the total VBI investments, while AUM represents 5.08%. VBI investments in *şukūk* totalled RM11.13 billion in 2023, serving 82 accounts, while AUM amounted to RM595 million across 444 accounts. Refer to Figure 2.9.

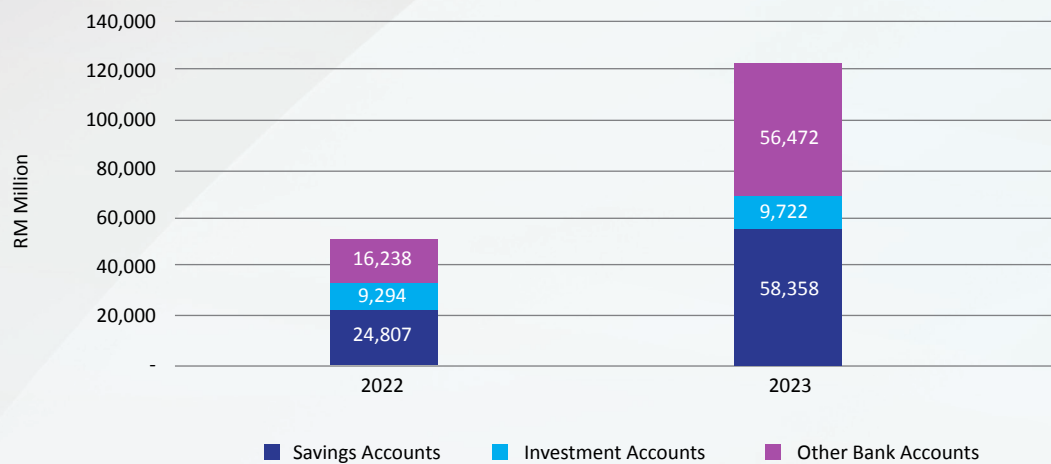
Figure 2.9: VBI Investment Amounts



Source: AIBIM survey

VBI Deposit and Investment Accounts

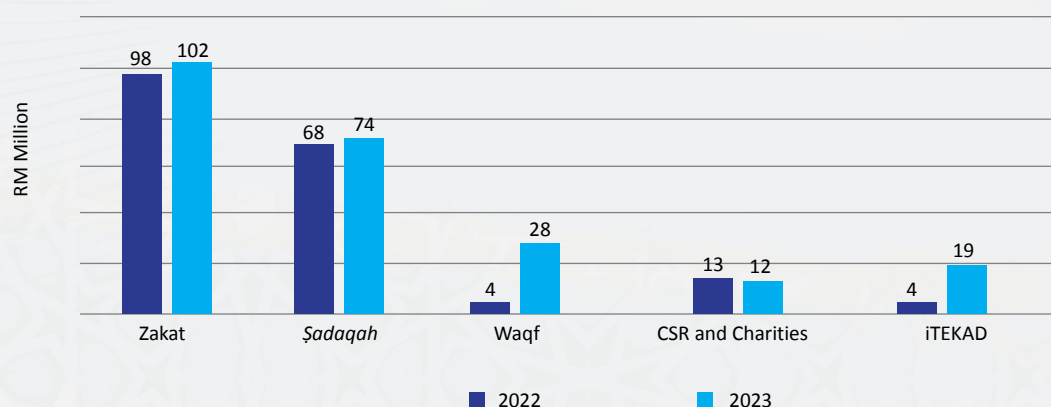
The survey respondents reported RM124.55 billion in VBI deposit and investment accounts for 2023. Savings accounts totalled RM58.36 billion from 6.20 million accounts, while VBI-aligned investment accounts contributed RM9.72 billion from 450,525 accounts. Additionally, other VBI-aligned bank accounts accounted for RM56.47 billion from 979,176 accounts. The savings, investment, and other accounts represent 46.85%, 7.81%, and 45.34% of the total deposits and investment accounts, respectively. Refer to Figure 2.10 for a comparison with the previous year.

Figure 2.10: Amounts in VBI Deposit and Investment Accounts

Source: AIBIM survey

Zakat, Charities, and iTEKAD

In 2023, Islamic banks intermediated RM102 million in zakat, benefiting 134,879 accounts. They also intermediated RM114 million in charitable contributions, including *ṣadaqah*, waqf, and CSR initiatives, supporting 10,444 accounts. Additionally, RM19 million was allocated for iTEKAD, serving 987 accounts. These amounts represent 43.38%, 48.46%, and 8.16% of the VBI segment, respectively. Refer to Figure 2.11 for a comparison with the previous year.

Figure 2.11: Zakat, Charities, and iTEKAD Amounts

Source: AIBIM survey



BANK ISLAM
Assuring Trust. Delivering Value.

Mainstreaming Social Finance to Advance Sustainable Prosperity for All

JOIN US TO EMPOWER OUR SOCIETY THROUGH SADAQA HOUSE ORPHAN FUND

Transforming Lives Together!

In 2023, Sadaqa House Bank Islam achieved many impactful milestones—sponsoring education for 71 orphans, providing our Infrastructure Improvement Grant to support 15 orphanages and 502 children and aiding single mothers and baby hatches with financial assistance. We look forward to achieving our goal of sponsoring 110 orphans, assisting 40 underserved families in home ownership, and empowering small farmers through microfinance in 2024.

Your support is the heartbeat of our success. Help us build a brighter future for them!

HOW YOU TOO CAN SUPPORT?

Contribution via QR
code DuitNow



Contribution via
monthly deduction



Scan here for
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Sadaqa House

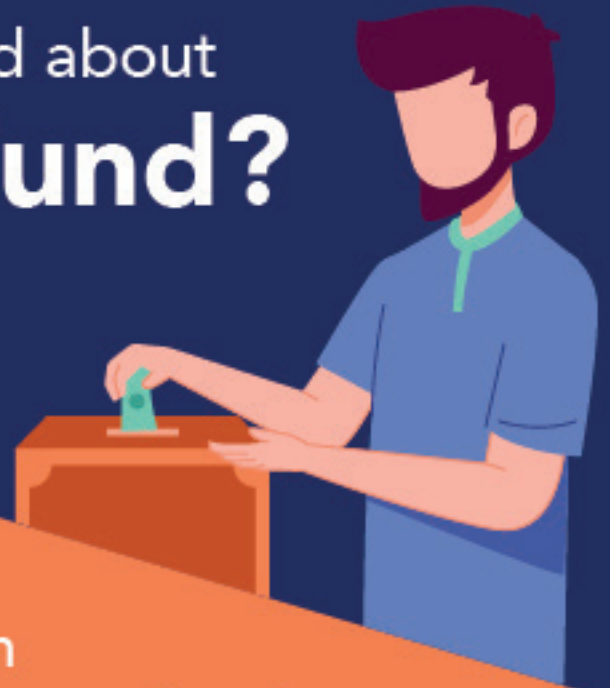


Sadaqa House





Have your heard about
Jariah Fund?



A community crowdfunding platform by Bank Muamalat in collaboration with charity partners, aimed to alleviate communities in accessing education, healthcare and significant economic support.

**Let's participate
in charitable
giving**



<https://jariahfund.muamalat.com.my/>

Charity Partners:



Yayasan
Muslimin



Yayasan
Ikhlas



NASOM



MAB

SECTION

3

MAQĀṢID AL-SHARĪ'AH
IN PRACTICE

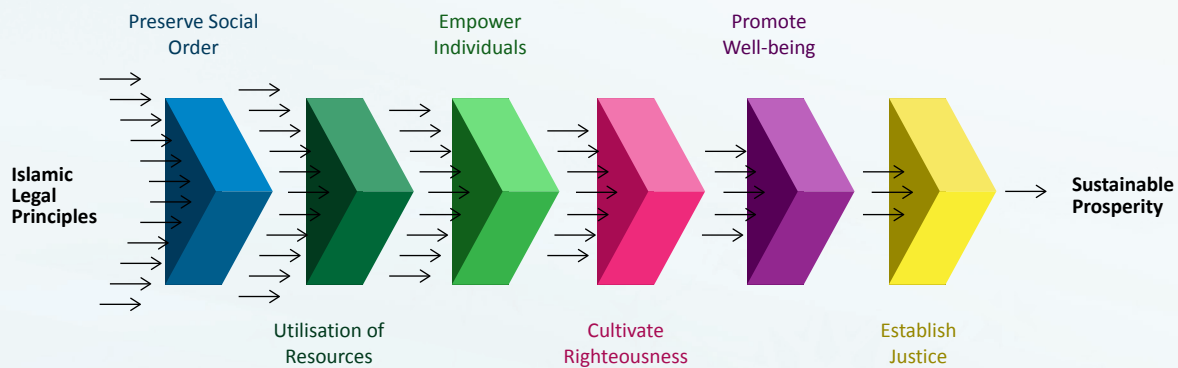
Relevance of *Maqāṣid al-Sharī'ah* in the Orderly Preservation of the Financial World

Maqāṣid al-Sharī'ah serves as a foundation alongside Sharī'ah principles in guiding the application of Islamic finance. While both *maqāṣid al-Sharī'ah* and Sharī'ah principles are essential sources for validating the implementation of Islamic finance, the recent emphasis on impact financing has highlighted the similarities between *maqāṣid al-Sharī'ah* and modern concepts. This development has brought the importance of understanding *maqāṣid al-Sharī'ah* and its application in today's financial landscape to the forefront, establishing it as a crucial topic in discussions among industry stakeholders globally.

Maqāṣid al-Sharī'ah offers a comprehensive framework that caters to the diverse realities of IFIs operating in various jurisdictions and national contexts. This framework provides a practical operational structure for these institutions and serves as a guide for regulators in formulating policies and products within the Islamic finance sector. The fundamental principle of *maqāṣid al-Sharī'ah*, articulated by Abū Ḥāmid al-Ghazālī (d. 505 AH/1111 CE) focuses on promoting individual well-being and safeguarding people from harm (al-Ghazālī, 1937, p. 139). Ibn al-Qayyim al-Jawziyyah (d. 751 AH/1350 CE) further elaborated on this principle, stating, 'Sharī'ah is founded upon wisdom and the achievement of people's welfare in both this life and the hereafter. It encompasses justice, mercy, wisdom, and goodness. Therefore, any ruling that replaces justice with injustice, mercy with cruelty, common good with mischief, or wisdom with folly does not belong to Sharī'ah, even if it is claimed to be so according to some interpretations' (al-Jawziyyah, 1973).

The *maqāṣid* approach has been further developed in contemporary scholarly works. Muḥammad Ṭāhir Ibn 'Āshūr (d. 1393 AH/1973 CE) defined *maqāṣid* from a broader perspective, asserting that 'the all-purpose principle (*maqṣad 'āmm*) of Islamic legislation is to preserve the social order of the community and ensure its healthy progress by promoting the well-being and righteousness (*ṣalāḥ*) of human beings. The well-being and virtue of individuals are rooted in the soundness of their intellects, the righteousness of their deeds, and the quality of their environment and the resources at their disposal' (Ibn Ashur, 2006). 'Allāl al-Fāsī (d. 1394 AH/1974 CE) explained this approach, emphasising that the aim of *maqāṣid* is 'to cultivate civilisation on earth, maintain a system of collective livelihood, and sustain its prosperity by empowering those on it to carry out God's will, establish justice and integrity, cultivate the intellect, improve the world, and harness its resources for the benefit of all' (al-Raysuni, 2005). The concept of achieving societal well-being through *maqāṣid* is summarised in Figure 3.1.

Figure 3.1: Achieving Societal Well-being Through *Maqāṣid*



Source: Authors' own

The foundational *maqāṣid* principles highlight Islamic finance's dedication to aligning its practices with the broader goals of social welfare and ethical responsibility. This commitment is reflected in the promotion of justice and equity, the elimination of exploitation, and the assurance of fair treatment in financial transactions. *Maqāṣid al-Sharī'ah* underscores the importance of economic welfare and development, guiding Islamic finance to invest resources in ventures that benefit society. Financial institutions are therefore encouraged to fund projects that create employment opportunities, improve living standards, and support community development.

A notable example of the consideration of *maqāṣid* is the revised resolution on rebate (*ibrā'*) by the Shariah Advisory Council (SAC) of BNM. Initially, in 2000, granting *ibrā'* was viewed as discretionary for banks. However, in alignment with *maṣlaḥah* (public interest) and fairness, the SAC later mandated *ibrā'*, ensuring equitable treatment for both financiers and customers. This shift reflects *maqāṣid*'s emphasis on justice and societal harmony.

Further integration of *maqāṣid* is evident in BNM's *Guidelines on Late Payment Charges for Islamic Financial Institutions* issued in 2013. In implementing these guidelines, IFIs are expected to act judiciously and ensure that late payment charges are imposed only on negligent defaulters. A default is considered negligent when it occurs without reasonable mitigating circumstances that would prevent the customer from making timely payments. Such circumstances may include cash flow issues, unemployment, abandoned projects, and loss of property due to natural disasters, fire, or other related catastrophes, particularly when customers have not misused the financing facilities or have cases with good merit. The *maqāṣid* embraced in the guidelines ensures that Islamic finance goes beyond mere profit-making to contribute meaningfully to societal well-being, reflecting Islam's holistic approach to economic justice and sustainability.

In terms of product offerings, Islamic microfinance initiatives that provide funding to small businesses align clearly with *maqāṣid al-Sharī'ah* by empowering individuals and fostering economic growth. The interpretation of *maqāṣid al-Sharī'ah* also includes environmental sustainability, encouraging financial institutions to adopt eco-friendly practices. A notable example is the iTEKAD programme, established by BNM, which aims to empower low-income

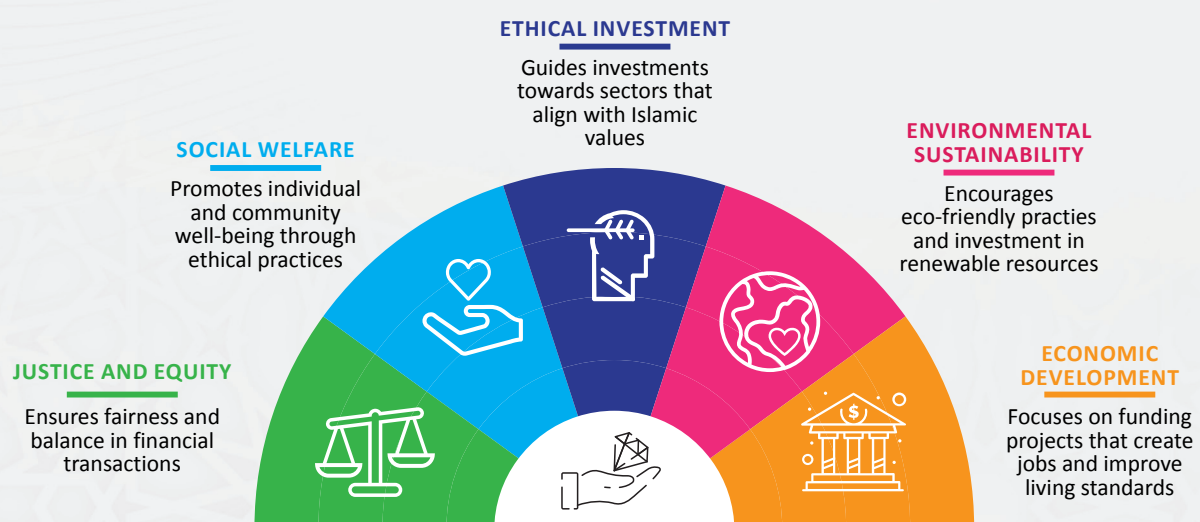
microentrepreneurs by offering microfinancing to meet their working capital needs and facilitate business expansion. With active participation from Islamic banks, the programme incorporates innovative blended components of microfinance products. To date, it has benefited 6,540 participants, with RM44.9 million disbursed in social finance funds and RM39.8 million allocated for financing and investments (BNM, 2024). The programme has created thousands of job opportunities and significantly contributed to the country's economic development by generating millions in additional income. This initiative exemplifies the practical application of *maqāṣid al-Sharī'ah* by fostering self-reliance, promoting community development, and advancing financial inclusion, all while contributing to sustainable economic growth.

Given contemporary challenges such as climate change and resource depletion, Islamic finance also plays a crucial role in advancing sustainable initiatives. Investments in renewable energy, sustainable agriculture, and green technologies align with the goals of preserving life and wealth while promoting balanced economic development. The AIBIM survey identifies that the VBI financing of Islamic banks in 2023 includes RM25.90 billion in net-zero and green financing, which is a 56.90% increase from RM16.51 billion in 2022.

Moreover, *maqāṣid al-Sharī'ah* advocates for ethical investment practices, which are vital for maintaining the integrity of the financial system. IFIs are guided to avoid investments in sectors that harm or contradict Islamic values, including alcohol, gambling, and unethical industries.

By adhering to *maqāṣid al-Sharī'ah*, as illustrated in Figure 3.2, IFIs can help build a just and equitable society, creating a system that is not only profitable but also socially responsible and ethically grounded. Integrating *maqāṣid al-Sharī'ah* into the core operations of Islamic finance highlights the broader purpose of financial activities: to enhance the well-being of individuals and communities while upholding the values of justice, integrity, and sustainability.

Figure 3.2: *Maqāṣid al-Sharī'ah* in the Context of Islamic Finance



Source: Authors' own

Embracing *Maqāṣid al-Sharī'ah* Through VBI

The VBI initiative introduced by BNM aims to fulfil Sharī'ah objectives by promoting practices, conduct, and offerings in Islamic finance that create positive and sustainable impacts on the economy, community, and environment, while also aligning with shareholders' long-term interests. VBI emphasises not only compliance with Sharī'ah principles but also broader Sharī'ah outcomes, such as enhancing societal well-being through the preservation of wealth, faith, life, lineage, and intellect. In Islamic finance, this preservation of wealth includes the fair generation, accumulation, and distribution of resources.

Rooted in *maqāṣid al-Sharī'ah*, VBI provides a foundational structure that supports intrinsic Sharī'ah values. As outlined in the VBI Strategy Paper, the initiative articulates the intended outcomes of Sharī'ah in financial transactions, encouraging stakeholders to adopt *maqāṣid al-Sharī'ah* in their operations. This alignment also motivates stakeholders to integrate Sharī'ah objectives into their strategic plans to further VBI goals. Achieving these outcomes requires a collaborative effort among Sharī'ah scholars advising IFIs, research and training institutions, and industry players.

Sharī'ah scholars advising IFIs play an important role in advancing *maqāṣid al-Sharī'ah* through VBI. These scholars are essential in ensuring that the operational and strategic goals of IFIs align with Sharī'ah principles. In doing so, they need to ensure that the following actions are appropriately undertaken:

- Adopting a *maqāṣid*-centric methodology that integrates Sharī'ah fundamentals with VBI while considering the evolving contexts of time, place, and custom.
- Establishing a consistent framework to ensure rigor, relevance, and coherence in a *maqāṣid*-centric methodology for decision-making. This framework would enhance the impact of *maqāṣid*-centric Sharī'ah decisions within the strategic direction of IFIs and their VBI practices.
- Promoting positive societal outcomes by emphasising sustainable development in their Sharī'ah decisions. This approach involves moving beyond mere technical compliance to support practices that foster long-term value creation and social welfare.
- Integrating legal and ethical standards to ensure that legal imperatives and moral obligations are aligned, so that Islamic finance practices adhere to both Sharī'ah principles and ethical standards.
- Ensuring consistency in Sharī'ah committee decisions while implementing VBI principles such as transparency, integrity, honesty, and ethics in all their decisions.
- Contributing to the development of products that promote sustainable, socially, and environmentally responsible finance.
- Supporting financial inclusion through VBI products that particularly benefit vulnerable groups, such as the B40 segment and zakat-eligible (*aṣnāf*) communities.

- Exploring new Sharī'ah contracts by assisting in the design of innovative hybrid contracts and developing those that enhance financial inclusion and serve a diverse customer base, including blended financing products and responsible investment initiatives.

By actively engaging in these practices, Sharī'ah scholars and the Sharī'ah committees of IFIs can advance the goals of *maqāṣid al-Sharī'ah* through VBI, fostering a more ethical, sustainable, and socially responsible Islamic finance sector. Figure 3.3 summarises the role of Sharī'ah committees in embracing *maqāṣid al-Sharī'ah* through VBI.

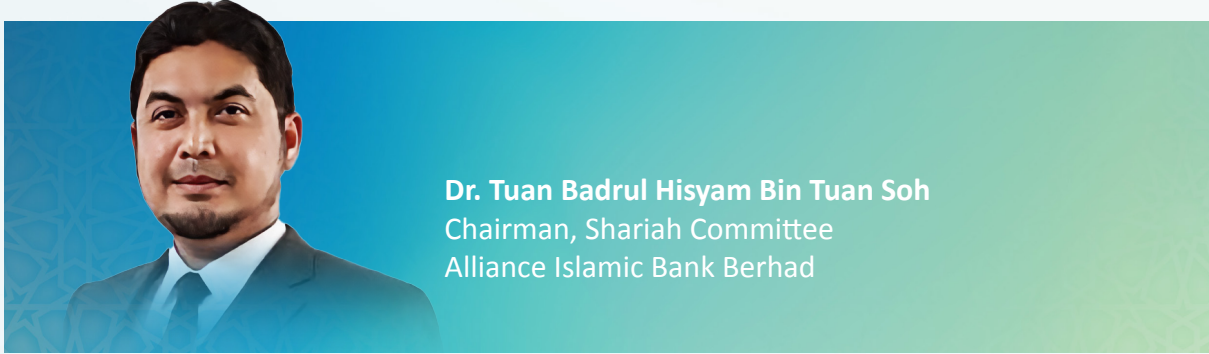
Figure 3.3: Embracing *Maqāṣid al-Sharī'ah* Through VBI



Source: Authors' own

To gain insights into the current practices of Sharī'ah committees in Islamic banks, ISRA Research Management Centre, with assistance from AIBIM, has gathered responses from several chairmen of these committees. Their feedback suggests that the VBI framework enhances Sharī'ah decision-making by evaluating the societal impacts of their decisions. Additionally, the chairmen's responses indicate that a better understanding of *maqāṣid al-Sharī'ah* among Sharī'ah scholars improves the implementation of VBI by ensuring that financial products align with societal welfare and environmental sustainability. Furthermore, the chairmen noted that, while many IFIs have started to incorporate *maqāṣid al-Sharī'ah*, there is still a need for improvements in product development, stakeholder engagement, and awareness initiatives. They encouraged all Sharī'ah committees to assess financial products beyond mere compliance. They envision that *maqāṣid al-Sharī'ah* will shape the financial sector by guiding ethical practices, governance, and financial stability, promoting products that balance profit with societal benefits.

The detailed responses of the chairmen of the Sharī'ah committees who participated in the written interviews are provided next.



Dr. Tuan Badrul Hisyam Bin Tuan Soh
Chairman, Shariah Committee
Alliance Islamic Bank Berhad

Influence of the VBI Framework on Sharī'ah Decision-making

The Sharī'ah committee of Alliance Islamic Bank integrates the principles of VBI in its deliberations on various issues, requiring it to balance Sharī'ah compliance with business prospects. This aligns with the Islamic legal maxim and VBI principle of attaining benefit and preventing harm. For example, as the only Islamic bank in the industry offering corporate finance and capital markets advisory, Alliance Islamic Bank occupies a unique position where the Sharī'ah committee ensures that all Sharī'ah principles and guidelines are adhered to without compromising business prospects. The Sharī'ah committee maintains the principle that while the bank may pursue business gains, it must not sacrifice the sanctity of Sharī'ah principles. By adhering to Sharī'ah requirements, Alliance Islamic Bank will preserve the value generated by customers for the community in the long run.

Role of *Maqāṣid al-Sharī'ah* in VBI Outcomes

Maqāṣid al-Sharī'ah is essential for achieving the desired outcomes of VBI, as the Sharī'ah committee of Alliance Islamic Bank aims to uphold its principles in the bank's operations and provide guidance. Recognising this importance, a member of the Sharī'ah committee of the bank led a webinar to explore the maxims of *maqāṣid al-Sharī'ah*, enabling Sharī'ah scholars to apply these maxims in various situations.

Extending Value Creation Beyond Profits

IFIs have realised the principles of *maqāṣid al-Sharī'ah* in various ways, particularly in protecting customers' well-being. This was evident during the pandemic when IFIs offered several payment assistance relief measures to numerous customers who were unable to pay their instalments due to job loss, medical conditions, and other hardships. This is further supported by the SAC of BNM ruling, which prohibits the compounding of profits for customers facing financial difficulties (*mu'sir*). IFIs should harness the untapped potential of Islamic social funds, such as zakat, waqf, and *ṣadaqah*, by innovating their utilisation to benefit the underserved and unserved segments of the community. In this regard, the bank has launched the Alliance Islamic Bank Zakat Microfinancing Programme (AZAM), which allows *aṣnāf* entrepreneurs to obtain zero-profit microfinancing to start or expand their businesses.

Role of IFIs in Assisting People to Manage Wealth in Accordance with *Maqāṣid al-Sharī'ah*

IFIs should offer innovative deposit and wealth management products that foster the growth of the Sharī'ah-compliant industry while safeguarding their customers' wealth. This unique differentiation means that Islamic deposits could potentially surpass conventional deposits and provide greater access to capital for Sharī'ah-compliant businesses.

Future Role of *Maqāṣid al-Sharī'ah* in Financial Innovation

Maqāṣid al-Sharī'ah reflects the rationality in Islamic principles, making it comprehensible to all of humanity, regardless of religion. Therefore, we should leverage it to bridge the gap between pursuing business desires and ensuring Sharī'ah compliance.



Assoc. Prof. Dr. Ahmad Zaki Salleh
Chairman, Shariah Committee
AmBank Islamic Berhad

Influence of the VBI Framework on Sharī'ah Decision-making

The VBI framework has introduced a broader perspective in Sharī'ah decision-making, promoting a more holistic approach to Sharī'ah compliance. It encourages Sharī'ah committees to consider not only the technical requirements of Sharī'ah but also its broader objectives, such as social justice, environmental sustainability, and good governance, when making decisions.

Importance of Pragmatic Understanding of *Maqāṣid al-Sharī'ah*

A practical understanding of *maqāṣid al-Sharī'ah* by Sharī'ah scholars enables a more effective application of VBI principles, helping scholars bridge the gap between traditional Sharī'ah rulings and contemporary needs. By concentrating on *maqāṣid al-Sharī'ah*, scholars can ensure that financial products and services are both Sharī'ah-compliant and contribute to social justice, environmental sustainability, and economic resilience. This understanding can also lead to innovation in financial products and services while strengthening the alignment of IFIs with the goals of VBI.

Actualisation of *Maqāṣid al-Sharī'ah* by the IFIs

To date, many IFIs have made significant strides in aligning their operations with *maqāṣid al-Sharī'ah*; however, there is still room for improvement. More structured efforts are needed to integrate *maqāṣid al-Sharī'ah* into core business strategies. Further actions should include developing products and services that consider social and environmental impacts, strengthening stakeholder engagement, fostering a culture of accountability and transparency, and increasing awareness and understanding of *maqāṣid al-Sharī'ah* among stakeholders, including customers and employees.

Role of IFIs in Assisting People to Manage Wealth in Accordance with *Maqāṣid al-Sharī'ah*

IFIs can offer various Sharī'ah-based strategies and solutions to help individuals manage their wealth responsibly in accordance with *maqāṣid al-Sharī'ah*. These include:

- Ethical investments that avoid industries harmful to society and the environment, promoting long-term sustainability.
- Sharī'ah-compliant savings and investment accounts that encourage financial prudence while adhering to the prohibition of interest (*ribā*) and uncertainty (*gharar*).

- Climate change and ESG risk assessments for financing facilities to prioritise funding for businesses and projects that generate positive social, ethical, and environmental outcomes, in line with ESG goals.
- Engagement with communities through financial literacy programmes.
- Zakat-based instruments that ensure wealth circulation and support those in need.

These strategies ensure that wealth management is not only profitable but also aligned with ethical principles.

Role of *Maqāṣid al-Sharī'ah* in Shaping the Future Direction of the Industry

Maqāṣid al-Sharī'ah will significantly influence the future direction of the industry and foster innovation, contributing to financial stability and a sustainable economy. Key aspects include guiding ethical and sustainable practices, encouraging innovation, enhancing governance and transparency, promoting financial inclusion, and fostering long-term economic stability. As IFIs strive to meet the evolving needs of society, a focus on *maqāṣid al-Sharī'ah* will inspire the development of products and services that balance profitability with societal impact. This will contribute to financial stability by ensuring that business practices promote justice, reduce economic disparities, and support environmental sustainability. Furthermore, *maqāṣid al-Sharī'ah* provides a framework for IFIs to lead the charge in promoting a sustainable economy, where the well-being of communities and ecosystems is prioritised alongside financial success.



Ir. Dr. Muhamad Fuad Abdullah
Chairman, Shariah Supervisory Council
Bank Islam Malaysia Berhad

Influence of the VBI Framework on Sharī'ah Decision-making

The VBI framework has significantly impacted the Sharī'ah decision-making process across various dimensions, promoting a more holistic approach that extends beyond traditional criteria. The deliberations of the Sharī'ah committee have evolved to encompass not only compliance with Sharī'ah law but also key ethical, social, and environmental considerations. For example, when evaluating new financial products, the committee thoroughly assesses their potential societal impact by scrutinising economic benefits and sustainable practices.

Concerns often arise about products that may comply with Sharī'ah principles but could unintentionally harm social welfare or the environment. This comprehensive evaluation prompts the Sharī'ah committee to prioritise financial products that actively promote positive social and environmental outcomes, favouring those that align with sustainable practices and encourage community development.

The reliance on metrics and reports that monitor not only financial performance but also social responsibility and environmental sustainability has markedly increased. Such data-driven methods are becoming integral to decision-making processes and influence the selection of products available in the market. Consequently, the VBI framework expands the scope of discussions during meetings, urging Sharī'ah committee members to transcend mere technical compliance with Sharī'ah principles in favour of a more socially responsible interpretation of those principles. Moreover, decisions are increasingly informed by the teachings of *maqāṣid al-Sharī'ah*, which highlight the significance of addressing contemporary challenges and enhancing societal well-being.

Role of *Maqāṣid al-Sharī'ah* in VBI Outcomes

A pragmatic and well-informed understanding of *maqāṣid al-Sharī'ah* among Sharī'ah scholars strengthens the capacity to fulfil the objectives of VBI. The foundational philosophy of IFIs is closely linked to *maqāṣid al-Sharī'ah* principles, which advocate for community welfare, equitable resource distribution, and social equity. This comprehensive perspective facilitates the creation of Sharī'ah-compliant products that responsibly promote client investments in a low-carbon economy, thereby contributing to global efforts to combat climate change.

An exemplary application of this commitment can be seen in Bank Islam's launch of the Ihsan Sustainability Investment Account (ISIA). This innovative financial product not only provides competitive returns over a 24-month period but also aligns with essential ESG criteria and SDG themes. It specifically targets sectors such as renewable energy, emissions reduction, and clean transportation options—critical areas for achieving sustainable economic growth. Additionally, social finance is advanced by broadening the reach and effectiveness of blended finance programmes, particularly iTEKAD Maju and iTEKAD BangKIT, by streamlining the distribution of grants to underserved and unserved segments of society.

Extending Value Creation Beyond Profits

Maqāṣid al-Sharī'ah provides a robust framework for IFIs, guiding their actions towards promoting a just and sustainable economy. This framework encourages ethical investments in socially responsible projects across key sectors such as renewable energy and education, driving economic growth while ensuring equitable social and environmental benefits. Furthermore, it advocates for the expansion of inclusive finance initiatives, particularly through the prohibition of interest, which enhances access to financial services for marginalised and underserved populations. This approach significantly contributes to the SDGs aimed at poverty alleviation and reducing inequalities. The commitment of Islamic finance to ensuring financial stability and advancing a sustainable economy reflects a strategic alignment with the core principles of *maqāṣid al-Sharī'ah*.

To fully embody and actualise *maqāṣid al-Sharī'ah*, IFIs must adopt a holistic approach that goes beyond merely complying with technical Sharī'ah requirements through the following initiatives:

- IFIs should integrate *maqāṣid al-Sharī'ah* as overarching aspects in their strategic planning to promote social welfare, adhere to ethical investment practices, and ensure a fair distribution of wealth.

- Fully integrate environmental sustainability into the financial products offered by IFIs in alignment with the objectives of protecting life and ensuring the welfare of future generations.
- Establish strong governance frameworks that emphasise transparency and ethical accountability in decision-making, ensuring alignment with both Sharī'ah principles and broader ethical standards.
- Strategically position the IFIs by actively engaging in partnerships with international institutions, non-governmental organisation (NGOs), and governments that share a commitment to ethical and sustainable finance, thereby aligning Islamic finance products with global standards for sustainability and social impact.
- Support community empowerment and enhance social finance through initiatives that foster micro-entrepreneurship and strategically invest in essential sectors such as education, livelihoods, and healthcare through micro-financing programmes.

Future Role of *Maqāṣid al-Sharī'ah* in Financial Innovation

The principles of VBI are decisively reshaping investment strategies, ensuring strict ethical compliance and fostering significant contributions towards social welfare. Integrating *maqāṣid al-Sharī'ah* into the operational frameworks of IFIs is vital for driving innovation, achieving long-term sustainable economic objectives, and ensuring that the financial sector aligns itself with the broader aspirations of society. This adaptive approach redefines the role of finance in serving community needs, emphasising that the ultimate goal of financial intermediation transcends mere profit-making, aiming instead for a positive societal impact that enhances overall quality of life.

As safeguarding and managing individual wealth in accordance with *maqāṣid al-Sharī'ah* is a fundamental obligation for IFIs, this can be achieved through the following key strategies:

- Providing investment opportunities in approved Sharī'ah-compliant products that prioritise ethical and socially responsible standards, targeting sectors that champion sustainable development and make positive contributions to society.
- Facilitating user-friendly digital platforms for zakat calculation and payment simplifies the wealth redistribution process, ensuring ethical financial engagement among clients.
- Developing comprehensive solutions for the establishment and management of waqf, which funds social initiatives, education, healthcare, and poverty alleviation projects, underscores the commitment to community support and development.
- Offering personalised wealth management advisory services that incorporate Sharī'ah principles can assist clients in making informed and ethical financial decisions, guiding them towards investments that align with their values and beliefs.
- Implementing robust financial literacy programmes to educate clients about managing their wealth according to *maqāṣid al-Sharī'ah* principles can empower them to make better choices regarding budgeting, savings, and investments, while also understanding their roles in sustainable finance.



Dr. Yusri Mohamad
Chairman, Shariah Committee
Bank Muamalat Malaysia Berhad

Influence of the VBI Framework on Sharī'ah Decision-making

The VBI framework aims to generate sufficient momentum to advance the VBI agenda into a more sophisticated phase of implementation. This ensures that VBI is not a one-off event but becomes deeply ingrained within existing operations and offerings. The VBI framework, together with Sharī'ah governance, transparency, and integrity, is continually strengthened by the Sharī'ah committee, which ensures that decision-making processes adhere to governance standards and that honesty, ethics, and consistency are upheld in every committee decision.

The Sharī'ah committee also enhances the impact of Islamic finance by driving the development of ethical products that comply with *maqāṣid al-Sharī'ah*, emphasising principles of sustainable, environmentally, and socially responsible finance. The committee promotes VBI values that deliver justice and fairness through its decision-making processes during meetings.

Throughout the year, the Sharī'ah committee has assisted the bank in progressing along its VBI journey by actively advising on the introduction of products that focus on financial support and inclusion. The aim is to generate a sustainable economic impact, especially for the B40 and *aṣnāf* communities. Notably, the committee initiated and approved the development of social welfare products like iTEKAD Mahabbah, targeted at *aṣnāf* and the B40 group through the i-PUSH scheme. The Sharī'ah committee also seeks to guide the bank in exploring new hybrid Sharī'ah contracts and will continue to support the development of products and services that benefit all customer segments, particularly *aṣnāf* and the B40.

Importance of Pragmatic Understanding of Maqāṣid al-Sharī'ah

A pragmatic understanding of *maqāṣid al-Sharī'ah* by scholars is crucial for achieving the goals of VBI. VBI is an initiative introduced by BNM designed to utilise finance for sustainable economic, social, and environmental growth. *Maqāṣid al-Sharī'ah* seeks to protect people's well-being, encompassing their faith, lives, intellect, posterity, and wealth. Thus, *maqāṣid al-Sharī'ah* provides a foundational framework closely aligned with the objectives of VBI. When Sharī'ah scholars have a pragmatic grasp of *maqāṣid al-Sharī'ah*, they can design initiatives that comply with Sharī'ah principles and actively promote social justice, economic growth, and environmental sustainability.

For instance, IFIs can develop diverse products through social finance mechanisms such as zakat, waqf, and *ṣadaqah* to assist those in need. In Bank Muamalat, initiatives like the iTEKAD Mawaddah and i-PUSH Scheme have been launched to support the *aṣnāf* and B40 groups, providing essential assistance to vulnerable populations.

Additionally, a pragmatic understanding enables Sharī'ah scholars to address modern challenges such as climate change and financial inequality. They can assist in developing Islamic financial products that promote environmental sustainability or offer equitable financing to those in greatest need. For instance, Bank Muamalat has introduced the Retail Financing Eco Green package to support sustainable energy solutions aimed at reducing the country's carbon footprint.

This package includes financing for Solar Photovoltaic (PV) Systems, Battery Energy Storage Systems (BESS), Electric Vehicles (EV), EV Charger Boxes, and ESG Investment (via the iFAST Barakah ESG Focus Portfolio). Therefore, a pragmatic understanding of *maqāṣid al-Sharī'ah* equips Sharī'ah scholars to guide IFIs in effectively implementing VBI. This fosters a financial system that is not only compliant with Sharī'ah principles but also equitable, sustainable, and ethical, ultimately promoting social and environmental objectives.

Actualisation of *Maqāṣid al-Sharī'ah* by the IFIs

The VBI emphasises value creation that goes beyond profit maximisation, aligning closely with the principles of *maqāṣid al-Sharī'ah*. In my opinion, many IFIs have begun to embody and actualise these objectives effectively, though there is still room for improvement.

IFIs like Bank Muamalat have implemented various programmes and products that reflect the core goals of *maqāṣid al-Sharī'ah*, which aim to promote welfare and prevent harm. For example, Bank Muamalat's collaboration with several State Islamic Religious Councils for Waqf Development directly contributes to economic growth by funding projects in education, health, and economic empowerment. This initiative not only fosters economic development but also aligns with the Sharī'ah objective of enhancing social welfare. Furthermore, Bank Muamalat's Jariah Fund Programme demonstrates a commitment to social responsibility, providing a platform for charitable contributions. With over RM167,000 raised, this programme has benefited 2,564 individuals, emphasising the importance of community support and welfare.

To further actualise *maqāṣid al-Sharī'ah*, IFIs such as Bank Muamalat should consider several additional actions. For instance, Bank Muamalat could offer financing or investment products specifically for carbon-free companies, thereby supporting industries that positively impact the environment and ensuring sustainability for future generations. Additionally, Bank Muamalat could introduce financing for green agriculture projects, including organic farming and hydroponics, which promote environmental sustainability and food security, benefitting both society and the environment.

Furthermore, Bank Muamalat could collaborate with NGOs, mosques, or community welfare centres to provide regular food assistance by establishing food bank kiosks at these locations. This initiative would promote social justice by ensuring that underprivileged individuals have consistent access to food and basic necessities. In conclusion, while current IFIs are making strides in embodying *maqāṣid al-Sharī'ah* through various initiatives and products, a continued focus on these actions can enhance their ability to fulfil these important objectives in alignment with VBI goals.



Prof. Dr. Azman Mohd Noor
Chairman, Shariah Committee
Bank Kerjasama Rakyat Malaysia Berhad

Influence of the VBI Framework on Sharī'ah Decision-making

Generally, the VBI framework does not influence the Sharī'ah decision-making process during Sharī'ah committee meetings, unless the identified issues and concerns are significant.

Role of *Maqāṣid al-Sharī'ah* in VBI Outcomes

Sharī'ah scholars have differing understandings, which makes their pragmatic interpretation of *maqāṣid al-Sharī'ah* subjective in the context of achieving the desired outcomes of VBI.

Extending Value Creation Beyond Profits

The primary objective of the Sharī'ah committee is not to focus on value creation beyond profits. However, the values can be realised through strict adherence to Sharī'ah requirements. The regulator needs to provide guidelines on the permissible limits, for example, for personal financing.

Role of IFIs in Assisting People to Manage Wealth in Accordance with *Maqāṣid al-Sharī'ah*

The IFIs are generally profit-driven entities, with the primary KPI of making money. However, they are well positioned to provide effective non-profit-oriented solutions, and the regulator needs to play a role in this.

Future Role of *Maqāṣid al-Sharī'ah* in Financial Innovation

Maqāṣid al-Sharī'ah should serve as a benchmark over time. However, we need the opinions of Sharī'ah scholars to interpret the contents of *maqāṣid* appropriately.



Dr. Akhtarzaite Abdul Aziz
Chairman, Shariah Committee
Maybank Islamic Berhad

Influence of the VBI Framework on Sharī'ah Decision-making

The implementation of the VBI framework has transformed decision-making processes within the industry by requiring the integration of ESG considerations into offerings and operations. This framework not only ensures compliance with Sharī'ah principles but also highlights the broader ethical and social impacts of financial products. Consequently, Sharī'ah committee decisions are increasingly focused on promoting positive societal outcomes and sustainable development, moving beyond mere technical adherence. This shift aligns the Sharī'ah committee with sustainable practices that encourage long-term value creation.

Importance of Pragmatic Understanding of *Maqāṣid al-Sharī'ah*

A practical understanding of *maqāṣid al-Sharī'ah* enables Sharī'ah scholars to address contemporary challenges and adapt Islamic finance to modern circumstances. By concentrating on the fundamental objectives of Sharī'ah—such as justice, social welfare, and economic stability—scholars can help design financial products and services that not only comply with Islamic principles but also achieve the goals of VBI. This ensures that financial offerings contribute meaningfully to society and sustainable development, aligning ethical values with Sharī'ah principles.

Actualisation of *Maqāṣid al-Sharī'ah* by the IFIs

IFIs have begun to incorporate ESG considerations into their offerings and operations, indicating a shift towards ethical practices and greater societal impact, beyond mere Sharī'ah compliance. However, to fully embody *maqāṣid al-Sharī'ah*, these institutions must enhance their focus on sectors that promote social welfare and environmental sustainability, such as agriculture and waste management. Additional measures should include more rigorous impact assessments, strengthening ethical financing practices, and expanding financial literacy to empower underserved communities, ensuring that Islamic finance reaches a wider audience and supports societal goals.

Role of IFIs in Assisting People to Manage Wealth in Accordance with *Maqāṣid al-Sharī'ah*

IFIs have consistently prioritised ethical considerations, ensuring that all products and services align with Islamic principles. They are now well-positioned to offer Sharī'ah-compliant financial planning services that not only adhere to these principles but also promote long-term financial stability and social well-being. Comprehensive wealth management solutions should encompass the five key pillars: wealth creation, accumulation, preservation, purification, and distribution, all tailored to align with the broader objectives of *maqāṣid al-Sharī'ah*.

Role of *Maqāṣid al-Sharī'ah* in Shaping the Future Direction of the Industry

Maqāṣid al-Sharī'ah will play a crucial role in steering the future of the Islamic finance industry by fostering innovation in sectors that enhance sustainability and financial stability. A well-established framework for assessing the ESG impacts of investments, aligned with VBI principles, should be central to this endeavour. This approach emphasises how Islamic finance can drive sustainable economic growth. By aligning financial practices with the broader objectives of *Sharī'ah*, institutions will promote not only ethical financial stability but also a more resilient and sustainable economy.



Dr. Khairul Anuar bin Ahmad
Chairman, Shariah Committee
OCBC Al-Amin Bank Berhad

Influence of VBI in *Sharī'ah* Decision-making

The VBI framework has significantly influenced the *Sharī'ah* decision-making process by incorporating ethical, social, and environmental considerations into financial practices. The *Sharī'ah* committee now evaluates financial products not only for *Sharī'ah* compliance but also for their broader impact on society and the environment by considering the consequences (*ma'ālāt*) that may arise from transactions and dealings. For instance, it is now a requirement of the Securities Commission Malaysia (SC) to include *Sharī'ah* justification in the application of *maqāṣid al-Sharī'ah* in the *Sharī'ah* pronouncements of all *ṣukūk* proposals. This holistic approach ensures that financial decisions align with the principles of *maqāṣid al-Sharī'ah*, which aim to promote welfare and prevent harm.

Importance of Pragmatic Understanding of *Maqāṣid al-Sharī'ah*

A pragmatic understanding of *maqāṣid al-Sharī'ah* by *Sharī'ah* scholars is crucial for achieving the desired outcomes of VBI. With their in-depth knowledge of *maqāṣid al-Sharī'ah*, *Sharī'ah* scholars can guide financial institutions in aligning their operations with ethical and sustainable practices. They can ensure that the financial products and services offered by these institutions adhere to the principles of fairness, justice, and social responsibility, thereby contributing to the overall objectives of VBI.

Actualisation of *Maqāṣid al-Sharī'ah* by the IFIs

Many IFIs have begun to embody and actualise *maqāṣid al-Sharī'ah* by adopting VBI principles. However, the extent of implementation varies. While some institutions have made significant efforts to integrate social and environmental considerations, others are still in the early stages. The lack of regulatory requirements and a structured measurement framework is hindering the mainstream adoption of *maqāṣid al-Sharī'ah*. To encourage this adoption, regulations

should be implemented to enforce transparency through mandatory disclosures and establish standardised measurement criteria for public assessment.

Role of IFIs in Assisting People to Manage Wealth in Accordance with *Maqāṣid al-Sharī'ah*

IFIs can provide various Sharī'ah-based strategies and solutions to help individuals manage their wealth in accordance with *maqāṣid al-Sharī'ah*. Firstly, it is essential to create a cohesive ecosystem that includes the Islamic banking sector, *takāful*, Islamic wealth management (*waṣiyyah*, *hibah*, etc.), and philanthropic institutions such as zakat and waqf. From there, all parties can collaborate and integrate their efforts. For Islamic banks, microfinance has proven to be an effective tool for alleviating poverty and promoting financial inclusion, entrepreneurship, job creation, and community upliftment.

Role of *Maqāṣid al-Sharī'ah* in Shaping the Future Direction of the Industry

Maqāṣid al-Sharī'ah will be pivotal in shaping the future direction of the Islamic finance industry. By embracing *maqāṣid al-Sharī'ah* as a core principle of VBI and prioritising ethical and sustainable practices, the industry can drive innovation, enhance financial stability, and promote a sustainable economy. This strategy will enable Islamic finance to meet current needs while ensuring the well-being of future generations. However, the extent of this impact will depend on various factors, including market dynamics, technological advancements, and regulatory frameworks. Islamic banks are also subject to commercial risks and shareholder expectations similar to those faced by conventional banks.

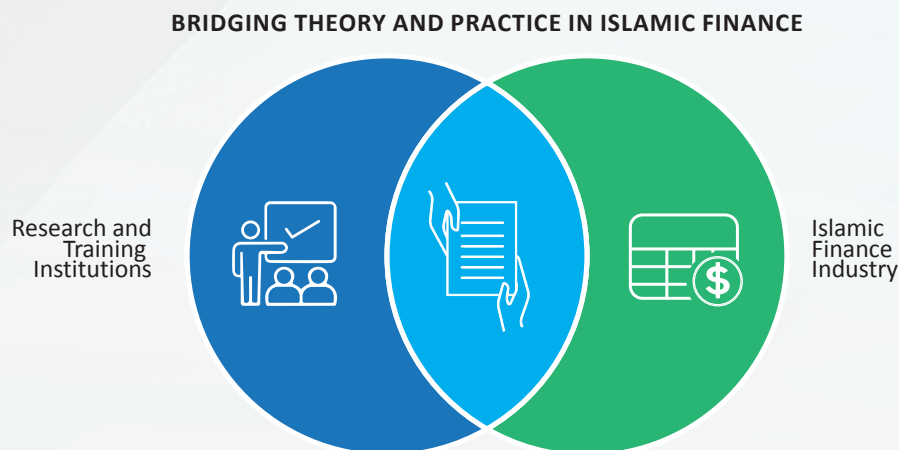
Role of Research and Training Institutions

Research and training institutions also play a crucial role in advancing *maqāṣid al-Sharī'ah* through VBI. They conduct independent and rigorous research aimed at developing Sharī'ah-based policy enhancements and solutions, which are then shared through scholarly presentations and publications. Their efforts significantly impact both Sharī'ah committees and industry participants. Among their key contributions is presenting the fundamentals of *maqāṣid al-Sharī'ah* in an accessible and relevant manner for practitioners in the Islamic finance sector. This is achieved by using clear, industry-friendly language and practical, industry-specific examples, bridging the gap between the theoretical foundations of *maqāṣid al-Sharī'ah* and their real-world applications in modern finance. By adopting this approach, research institutions can demonstrate how IFIs can effectively incorporate *maqāṣid al-Sharī'ah* into their business strategies, ensuring their operations comply with Sharī'ah and contribute positively to societal well-being.

For instance, ISRA Research Management Centre, on behalf of the Malaysia International Islamic Financial Centre (MIFC) Leadership Council (MLC), has developed the *ṭayyib* concept paper—a significant endeavour to advance *maqāṣid al-Sharī'ah* through VBI. This paper offers a comprehensive comparison of current practices in both Islamic and global financial systems. It defines *ṭayyib* as a *maqṣid*—an objective of Sharī'ah—in the context of Islamic finance. The *ṭayyib* values are contextualised into five thrusts that reflect the operational realities of the Islamic finance industry, resulting in a concept that is both practical and centred on key measurable aspects (MLC, 2024).

Figure 3.4 highlights the role of research and training institutions in advancing VBI by bridging theory and practice in Islamic finance.

Figure 3.4: Role of Research and Training Institutions in Advancing VBI



Source: Authors' own

The *Feedback Statement - Consultative Document on VBI Financing and Investment Impact Assessment Framework (VBIAF)* identified the lack of expertise and capacity among existing talent to articulate Sharī'ah values and conduct impact-based risk assessments as the second most cited challenge in incorporating a Sharī'ah focus into the impact-based risk management framework (BNM, 2019). To address this challenge, structured training and engagement programmes are essential. These programmes should enhance the technical expertise within the industry's talent pool while raising public awareness of the VBI initiative. This includes fostering a deep understanding of applied Sharī'ah principles in Islamic economics and finance through independent research and innovation. In response to this need, INCEIF University has incorporated relevant training into its master's and PhD programmes. Additionally, ISRA Research Management Centre and the Association of Shariah Advisors in Islamic Finance (ASAS) have introduced masterclasses and other forms of training on *maqāṣid al-Sharī'ah* to support capacity building in this critical area.

Navigate a Sustainable Banking Future

Empowering Today, Ensuring Tomorrow

As a responsible Islamic bank, Bank Rakyat recognises the importance of sustainability and the role we play in creating a better future for everyone.

SOCIAL FINANCE

Bank Rakyat is one of the participants in BNM's iTEKAD programme which provides access to capital, microfinance and structured training to budding entrepreneurs from the lower-income communities. The Bank Rakyat Entrepreneur Leadership Series (BRELS), known as the RAKYATpreneur and Bank Rakyat UNIPreneur are philanthropic initiatives to assist entrepreneurs, including university students, Asnaf and B40 group in line with the government's push for the National Entrepreneurship Policy (NEP2030). Through these initiatives, the Bank actively supports the growth of the entrepreneurial ecosystem, empowering individuals to create sustainable livelihoods and contribute to the nation's prosperity.



CASHLESS LIFESTYLE



Bank Rakyat continues to promote a cashless culture among rural communities through the use of e-banking and e-payment services via the Bank's 'Digital Desa' programme. This programme aims to provide sustainable and inclusive digital financial solutions to rural communities, including Micro, Small and Medium Enterprises (MSMEs).



GREEN AND TRANSITION FINANCING

Bank Rakyat offers green financing through attractive packages such as Green Homes, Solar Panel and Electric and Hybrid Vehicle Financing under Retail Banking. For the Bank's Business Banking customers, the Bank provides green transition financing through products like BRPLUS-i, the BNM Low Carbon Transition Facility and the BNM High Tech and Green Facility.

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BNM LCTF

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Suri 'Women Empowerment Program' graduation ceremony



#suriwomenempowerment
#financialinclusion



#financialliteracy
#HLISBCelikMuamalat



#islamicfinance
#HLISBCelikMuamalat



Celik Muamalat

The workshops were held for primary students (ages 10–12) from SK Kota Warisan, and university students from Universiti Sultan Zainal Abidin (UniSZA), including those from the Faculty of Contemporary Islamic Studies and the Islamic Administration and Sharia Law Student Association (PERISYA).



HLB **jumpstart** Social Finance Program

HLISB launched its social finance programme under the HLB Jumpstart - Micro Business to provide financing for individuals with limited or no credit history and aspiring entrepreneurs with low credit scores to start their own businesses.

20

microentrepreneurs supported by



22

microentrepreneurs supported by

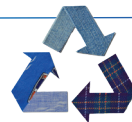


RM100,000

disbursed in benevolent loans



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Financial Literacy Program Series **CELIK MUAMALAT**



Universiti Sultan Zainal Abidin



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participants

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SECTION

4

INDUSTRY LEADERSHIP
IN DRIVING *MAQĀSID*
AL-SHARĪ'AH AND VBI

The leaders of the Islamic banking industry in Malaysia have played a pivotal role in the development and growth of VBI to its current state. Their leadership mindset, strategic planning, foresight, and wisdom are evident in interviews conducted by the ISRA Research Management Centre with several founding and current industry leaders in the country. These conversations explored a range of questions, from the conceptual understanding of VBI to its impact on the industry's brand and reputation. The interviews also addressed practical aspects, including the challenges faced by stakeholders in developing and implementing VBI and how they were overcome. Additionally, the discussions covered measures adopted to promote and accelerate the growth of the Islamic banking industry compared to its conventional counterpart, as well as the potential of *maqāsid al-Sharī'ah* and VBI in shaping the future of banking in Malaysia and beyond.

The interview responses are summarised next.



TAN SRI DR. ZETI AKHTAR AZIZ

Former Governor, Bank Negara Malaysia

Foundational Work Leading to the Introduction of VBI

It began by placing greater strategic focus on Islamic finance, including its overall institutional infrastructure, markets, and supporting legislation. In 2000, all efforts related to the development of Islamic finance, previously scattered across various departments within BNM, were centralised into a single department dedicated to overseeing and developing the Islamic financial system. The vision for the development of the Islamic financial system was further articulated in the *Financial Sector Masterplan 2001 - 2010*.

To enhance awareness of Islamic banking within the domestic financial system, BNM issued a circular in 2001 mandating that the 'Perbankan Islam' (Islamic banking) logo be displayed at all counters offering Islamic financial products and services, as well as on all related documents. This was followed by a meeting in Washington DC of an expanded G-7 of Finance Ministers and Central Bank Governors, where Islamic finance was discussed as a viable form of financial intermediation. This fostered greater international understanding and appreciation of Islamic finance and its positive role in adding value to the economy, given its inherent characteristics that support growth and development.

In developing Malaysia's domestic financial system, significant attention was devoted to establishing supporting institutions. This included various institutions, such as the Malaysian Deposit Insurance Corporation (Perbadanan Insurans Deposit Malaysia-PIDM), which also serves as a resolution authority providing coverage for IFIs. Additional supporting entities included the Credit Guarantee Corporation and Cagamas (National Mortgage Corporation),

along with rating agencies that facilitated the development of the money market and the *ṣukūk* market. The establishment of INCEIF in 2005 and ISRA in 2008 played a crucial role in generating the necessary talent and research for both the domestic industry and its global development.

Another significant milestone was the establishment of key international institutions for the Islamic financial architecture. Ten Central Bank Governors, along with the President of the Islamic Development Bank, convened to discuss the creation of a prudential standard-setting international organisation. This dialogue extended over two years and resulted in the establishment of the Islamic Financial Services Board (IFSB) in November 2002 in Kuala Lumpur. Subsequently, in October 2010, the International Islamic Liquidity Management Corporation (IILM) was formed by several central banks to regularly issue short-term Shari'ah-compliant instruments, facilitating liquidity management for multi-currency portfolios and enhancing cross-border investment flows while ensuring financial stability.

With these foundations in place, as the Governor of BNM, I had the opportunity to deliver a speech on Building Financial Systems for Sustainable Development at the Global Ethical Finance Forum in Edinburgh in September 2015. In my address, I discussed the potential impact of Islamic finance on the economy, society, and environmental sustainability. I emphasised that Islamic finance is well anchored to the real economy and that financial systems should not only add value and contribute to the economy but should also be value-based. Finance must also bring benefits to society and ensure environmental sustainability.

Islamic Banking Towards Sustainable Economic Growth

Islamic banking incorporates unique features within its intermediation process that enhance financial stability. One key feature is that all financial transactions are backed by underlying economic activities, with a strong emphasis on long-term objectives. Short-term transactions and speculative activities are largely prohibited. Transparency and disclosure are equally important, underpinned by a culture of ethical values. In addition, governance plays a crucial role in fostering a culture of accountability. The profit-sharing arrangement typical of Islamic investment model necessitates thorough due diligence on the validity of investments. The oversight and review provided by Shari'ah committees also serves as an essential mechanism to ensure that financial products and services comply with Shari'ah principles, offering an added safeguard against irresponsible and unethical practices. Collectively, these features ensure that financial resources are allocated to the most beneficial and relevant projects that hold economic value.

Financial stability is further reinforced by the implementation of the accounting standards established by the AAOIFI and the prudential standards set by the IFSB. This oversight regime adds another layer of assurance to the financial stability agenda. Consequently, Islamic banking is well positioned to promote sustainable economic growth while maintaining financial stability.

Challenges in VBI Implementation

A key challenge lies in balancing competing considerations while educating stakeholders on the significance of VBI and its potential contribution to the economy, society, and environmental sustainability. Essentially, VBI should be regarded as a strategic advantage for the Islamic

finance industry, reinforcing its principles and values while creating opportunities to enhance financial returns. Realising this vision requires collaboration not only within the Islamic finance sector but also with other stakeholders, including industry leaders and the broader economic community, to navigate the path towards a more impactful and value-driven financial ecosystem. Furthermore, the vision for VBI implementation must extend beyond mere compliance. It necessitates a strategic framework that is integral to the operations of IFIs. Several implementation frameworks for various segments of the financial system, including banking, *takāful*, and capital markets, have already been issued to guide the Islamic finance industry.

Propositions to Advance VBI

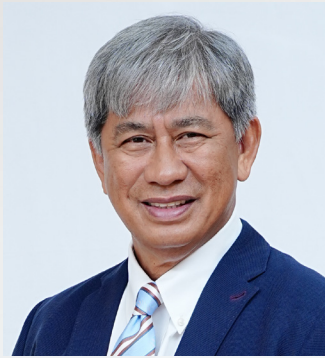
The foundations of Islamic finance already represent a type of finance that fosters growth and adds value to the economy. However, the focus must also shift towards developing financial products and systems that effectively meet the new demands of the times. Accordingly, it is crucial for Islamic finance to increasingly engage in sustainable finance activities. These activities should be evaluated for both their financial viability and compliance with established principles.

In Malaysia, the financial intermediation process has been overly consumer-centric and heavily concentrated on the real estate sector. There is a need to diversify into higher value-added economic activities and infrastructure development to enhance the potential for a greater contribution to economic activity. Equally important is the role of Islamic finance in the capital market in achieving these objectives.

Moreover, Islamic banks need to explore further initiatives to amplify and advance this agenda. Essentially, it involves fostering greater innovation focused on impact while developing products and services aligned with the fundamental values of Islamic finance. New technologies can also be harnessed to enhance financial inclusion and sustainability. This requires increased customer engagement and greater involvement in cross-border and infrastructure investment activities.

Collaboration among industry players and other key stakeholders could facilitate a unified and cohesive approach to implementing VBI. Some challenges may be addressed by fostering strong partnerships and sharing best practices. The establishment of the VBI Community of Practitioners (CoPs) has already provided a platform for Islamic banks to network and engage in discussions about challenges and potential solutions. This platform can be effectively utilised for collaboration and progress within the industry.

Finally, there should be investment in shared infrastructure and technology, along with improved data gathering and analysis, and increased public disclosures as part of this process. Effective communication is also vital for raising awareness among investors, customers, and the broader public about the value of VBI. Essentially it will necessitate a concerted effort to enhance the potential for VBI to evolve and make a meaningful impact within the Islamic finance industry.

**TAN SRI TAJUDDIN ATAN**

Chairman, Bank Muamalat Malaysia Berhad

Understanding VBI

The tenets of *maqāsid al-Sharī'ah* are embedded in Islamic banking operations. However, as banking has evolved from simple transactions to more complex financial services, identifying the values inherent in Islamic banking has become increasingly crucial. VBI provides a clear framework to guide the industry in articulating and implementing practices that align with both ethical obligations and business objectives. It underpins the concept of a double bottom line—balancing financial performance with social impact that sees values integrated into the bank's core business strategy. While certain VBI-related initiatives may not yield immediate financial gains, their contribution to societal well-being meets and aligns with the objectives of Islamic banking.

Operationalising VBI

While both conventional and Islamic banks are adopting sustainability practices in their banking initiatives, Islamic banks go beyond mere compliance or checking boxes. Their approach to sustainability reflects a deep commitment to the values and ethics of Islamic law. These religious principles guide Islamic banks in making deliberate choices that benefit not only their shareholders but also the communities they serve. Accordingly, Bank Muamalat has instilled the concept of the double bottom line in its business strategies and decision-making processes. This is evident in the bank's five-year business plan, which showcases its initiatives in areas such as zakat, waqf, and microfinance programmes, including the iTEKAD programme—empowering underserved communities.

The bank has also adopted several key measures in its business operations; for instance, it has changed its approach to risk management and its perspective on profit-sharing. It has also revised its scorecard, which now includes ESG, sustainability, due diligence, climate control, and more. Even the bank's thought processes, KPIs, and culture have undergone changes to adapt to VBI.

Despite its size and limitations, Bank Muamalat has established dedicated departments to focus on sustainability and VBI initiatives. This enables the bank to create a meaningful impact despite its limited infrastructure and resources.

Challenges in VBI Implementation

Size is crucial in banking, particularly when implementing initiatives like VBI. Larger banks can invest substantial resources in sustainability without significantly impacting their bottom line. In contrast, smaller banks must allocate resources with careful consideration.

Changing mindsets presents another challenge that requires years of nurturing, education, and advocacy. Financial literacy and education—through seminars, discussions, or policy changes—are essential for facilitating this paradigm shift. By investing in education, banks can empower entrepreneurs to make better decisions, ultimately contributing to a healthier economy.

In addition to understanding VBI, shareholders and boards are expected to make sacrifices in terms of their returns. While there may be short-term financial trade-offs, the long-term benefits to the community and environment are invaluable. This is about investing in a sustainable and equitable future.

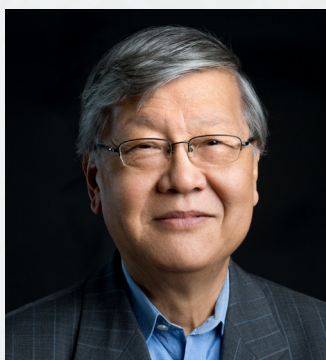
Assessment of VBI's Growth

The growth of the Islamic banking industry should be measured organically. Rather than comparing the VBI sector against the Islamic banking industry at large, one should study its growth within its context. VBI has grown, and its growth percentage is much better than at the inception of VBI, along with the steady growth of the Islamic banking industry in Malaysia.

Propositions to Advance VBI

Policy support is essential for driving wider adoption of VBI initiatives. Regulatory encouragement can incentivise more banks to integrate VBI into their operations. A gentle nudge from regulators would motivate them to prioritise VBI initiatives. This push may not last indefinitely; it will only continue until the VBI effort can sustain itself. Larger market players must also take on a greater role in fostering the growth of the VBI sector. A collaborative effort across the industry could amplify the societal benefits.

Moving forward, *maqāṣid al-Sharī'ah* and VBI can significantly shape the future of banking in Malaysia and globally. By extensively practising these principles, the world can achieve the much-needed sustainable and resilient economic growth and societal well-being.



TAN SRI ANDREW SHENG
Member of MIFC Leadership Council

Understanding VBI

VBI is founded on the principles of trust, equity, and stakeholder value. Its success relies on the industry's willingness to embrace risks, innovate, and uphold commitments. By implementing practical solutions, engaging with local communities, and leveraging Malaysia's strengths in technology and innovation, VBI has the potential to foster a more inclusive and sustainable Islamic finance sector. However, ESG appears to be more widely recognised than VBI. This recognition is now driven internationally, with financial regulators and market practitioners

already integrating ESG into their operations and practices, including disclosure and compliance. It is time to conduct a survey to assess public awareness of VBI since its inception and to evaluate the extent to which each financial institution is practising VBI.

Essential Priorities in Advancing VBI

The theoretical framework for the value proposition of Islamic finance is well established. When considering priorities, a statement by Harvard Professor Malcolm K. Sparrow is particularly relevant: 'Pick important problems, fix them, and tell everyone' (Sparrow, 2000). In contemporary terms, analyses such as Political, Economic, Social, and Technological (PEST) and Strengths, Weaknesses, Opportunities, and Threats (SWOT) should be conducted. Then, prioritise by selecting a realistic path within the available resources, implement a pilot or experiment, seek feedback from all stakeholders, review their feedback, revise the approach, and finally scale the experiment to different communities or areas to achieve success.

To accomplish this, an open mind, a willingness to take risks, and the ability to build the right team are needed. It is not enough to strategise how to implement Islamic finance; how to operationalise it in practice must also be taken into account. Standing still or relying solely on perfection without taking risks is actually a significant risk. Competitors who are willing to innovate will succeed, while those who remain stagnant will fall behind. Business as usual is not an option. Not taking risks actually poses significant risks. The world does not wait for you. Islamic finance covers nearly 20% of the world's population, 70% of the world's oil and gas reserves and production, but only 5% of the world's GDP and less than that in terms of the global finance asset share. Therefore, the competition is vast and intense. Conventional debt and interest-based finance primarily transfers risk, which is unequal since the borrower bears most of the risks through guarantees or required collateral provided to the lender. Islamic finance, on the other hand, is about equity, which involves risk-sharing and adheres to ethical Shari'ah principles. The only difference in performance between Islamic and non-Islamic finance is practice—how it is practiced and how it outperforms non-Islamic finance in terms of return on equity, values, and the well-being of all stakeholders. Ultimately, this is a market test in practice. It is much easier to be a scholar and theoretician because, in theory, everything is possible. However, in practice, there is no certainty, and there are high risks, with everyone ready to blame if one does not succeed. Islam spread from Medina to Andalusia (Spain) within one hundred years and thrived there for eight centuries, proving that Islam and Islamic finance were open to risk, innovation, and experimentation.

Risk is not about gambling, which lacks knowledge and ethics. Risk-taking involves professionalism, ethics, and experimentation, including an attitude towards risk-taking for the social good, not just private gain. It is evidence- or data-based and requires good judgment and values/ethics. Ultimately, finance is about trust. Those who break it have no value proposition of Islamic finance.

Challenges in VBI Implementation

A common problem in Malaysia is the disconnect between aspirations outlined in strategy papers, plans, vision statements, and goals, and the execution or implementation of these aspirations, particularly when it comes to making a social impact. This has resulted in a loss of trust in those who make grand proclamations but fail to deliver satisfactory results for the people (*rakyat*). It is important to understand that having a vision without proper execution

is merely an illusion. The people, as consumers, expect better. It is crucial that the focus not only on improving financial institutions or management but also strive to enhance the well-being of consumers and the general public. This is the essence of VBI (Vision with Bottom-up Implementation). Operationalising any vision, strategy, or concept will require actual experimentation at the ground level because people trust proof of concept. The second stage is scale—meaning that spread the concept and practice model to as many users as possible. The market is about more and more people buying the product or believing in the value-based proposition and practising it.

The primary challenge for management lies in changing the mindset of the organisation or the consumers. They must adopt an open and democratic approach that empowers both staff and consumers, with the ultimate goal of improving everyone's well-being, rather than solely focusing on shareholder value or management bonuses. VBI is about benefiting all stakeholders and the public, rather than a select minority. Once this mindset shift occurs, it will lead to a bottom-up approach of sharing and caring rather than strictly top-down directives. It is important to listen more and talk less, as change is a complex process that cannot be achieved overnight. What is preached must be practised, and trust should be built gradually through consistent actions. There are no shortcuts to success.

Propositions to Advance VBI

The reality facing the Malaysian drive for Islamic finance is not theory but practice. It needs a realistic strategy to differentiate the products and services, not only from other Islamic economies but also from mainstream financial centres that offer Islamic finance. The first point to remember is that Malaysia is a small nation and lack economies of scale compared to larger Islamic countries like Indonesia (280 million people) or wealthy and resource-rich countries like Saudi Arabia or Gulf states. Pakistan, Bangladesh, Turkey, UAE, Bahrain, etc. are all competing for Islamic finance leadership, and their Shari'ah councils and standards may not fully accept Malaysian Islamic standards. This is not to say that ISRA Research Management Centre and Malaysian Islamic finance academics, scholars, and professionals are not diligent or pioneering in producing standards and codes of professional practice.

However, if it is accepted that Islamic finance is primarily equity-driven rather than debt-driven, then the success, competitiveness, and resilience of Islamic finance will depend on the evolution and experimentation/innovation at the infrastructure, institutional, and product levels of Islamic finance in practice. The main point remains the same—this is not a contest driven by theory; it is all about practice and delivering superior risk-adjusted return-on-investment (ROI or ROE), liquidity, low transaction costs, transparency, and regulation/oversight.

To be more specific, if it is possible to provide the most technologically advanced platform or infrastructure (using artificial intelligence (AI), robotics, blockchain, etc.) that demonstrates the ability to offer convenient, useful Islamic products and services that enhance the well-being of users (whether Islamic or non-Islamic) through digital and non-digital channels, then VBI would be implemented in practice. If Islamic finance does not prove to be as competitive or values-driven as non-Islamic finance, even the best VBI will not prevent non-Islamic finance from maintaining its dominance in the market.

Therefore, Islamic finance must be strategic, practical, and willing to innovate and experiment, taking risks while adhering to Islamic values and leveraging global technology. Perfection is often the enemy of progress. Success will not be perfect, as only the Almighty is perfect. Humans live in an environment of uncertainty but must have faith in themselves and their contributions to the community, nation, and global public good to fulfil their faith in the Almighty.

Being a small country, Malaysia should have the agility, nimbleness, and flexibility to quickly innovate and bring new ideas to market. For example, it has dedicated a lot of attention to halal products, branding, and certification. However, it seems that Thailand has managed to exploit halal food production very successfully. The issue lies not in halal certification itself, but rather in the quality of the food product, its marketing, taste, branding, and delivery/distribution. If Thai food producers excel in distribution compared to our MSMEs, their products will have a greater market reach, generating more revenue and profits.

The idea is to simply focus on doing one or two things very well, in areas where others are not paying much attention. A tendency to declare victory before it is fully consolidated should be avoided; otherwise, it may attract competition and erode the leading edge.

From a practical background, with a preference for market diversity and competition, the *rakyat* is the solution to our problems, rather than the other way around. Therefore, empowering MSMEs through increased equity, trust in their abilities, and support through coaching, training, and market experimentation is key. The Bank Rakyat Indonesia (BRI)'s wet-market approach is a good example. BRI wet-market vans are present in Indonesia's markets (*pasar*) early in the morning, providing credit without collateral for the day, and expecting a return of up to 10% at the end of the market day. The non-performing financing (NPF) is low because the farmers understand that betraying faith and confidence will impact their future ability to engage in trades and access credit. Thus, working directly with the *rakyat* at their level, rather than taking a top-down approach, is more equitable, fair, and transparent. Trust is built through repeated interaction and fulfilling contracts. It is gained through practice, not just through talk.

Malaysian financial institutions possess a sufficient understanding of VBI. However, they must put it into practice through specific projects, products, and services. It is only through innovative VBI with a real impact that they can make a difference.



JUDITH GREEN

Country Manager Malaysia
World Bank Group

Evaluation of VBI Introduced by BNM

The introduction of VBI by BNM and the Islamic banks in 2018 was an important step to align Islamic finance with broader sustainability and ethical goals. The Islamic finance industry has primarily been focused on Shari'ah compliance, and VBI extends this focus by encouraging Islamic banks to consider their impact from an ESG perspective. This positions Islamic banking as not only Shari'ah-compliant but also as a contributor to sustainable development. By introducing VBI, Malaysia is demonstrating global leadership in Islamic finance.

Reception of VBI in Malaysia and Other Markets

Islamic finance has played a significant role in Malaysia's economy, and the VBI initiative aligns well with the aspirations of the Madani Economy Framework. The reception of VBI has been a positive development, largely due to BNM's proactive regulatory support. Establishing the VBI CoPs has also been instrumental in sharing best practices to drive the implementation of the VBI principles. The growth of the CoPs from five founding members in 2018 to 16 members today is a clear testament to the Islamic financial industry embracing this initiative. For instance, CoP members have introduced a range of financial products and services aligned with ESG principles, such as green finance and Islamic social finance.

Furthermore, the VBI initiative has gained visibility among global Islamic finance practitioners as BNM and the VBI CoPs have made significant efforts to disseminate this initiative at various international Islamic finance forums. The World Bank often facilitates knowledge sharing with other Islamic finance jurisdictions keen to learn how Malaysia's Islamic finance industry is leading the sustainability agenda. For example, the VBI was one of the references in developing the Central Bank of Jordan's Green Finance Strategy, published in 2023.

Importance of Collaboration and Stakeholder Engagement

VBI emphasises a shift towards value creation beyond profits, such as sustainability and social impact, to achieve more sustainable development in Malaysia. These goals require collaboration with multiple stakeholders, including regulators, financial institutions, customers, and the broader community. No single entity can achieve these outcomes alone. VBI can only reach its goals through these partnerships. This is a constantly evolving initiative that leverages multi-stakeholder collaboration to generate innovative solutions to overcome emerging challenges. For example, Islamic banks can collaborate with green technology companies to develop new financial products or with NGOs to improve social financing efforts, such as microfinance programmes for underserved communities.

It cannot be emphasised enough how important collaboration is, as it helps to reduce fragmentation and ensure effective and impactful implementation of initiatives. The VBIAF,

along with the subsequent Sectoral Guides, for which the World Bank provided technical support, exemplifies how effective collaboration can lead to meaningful outcomes. Specifically, the VBIAF has contributed to facilitating the growth of green financing by Islamic banks, which increased from RM7.1 billion in 2021 to RM25.90 billion in 2023.

Challenges in VBI Implementation

The demonstration effect is important here as scaling up innovative Islamic finance solutions shows impact and encourages greater participation across the sector. The adoption of effective impact monitoring and evaluation (M&E) and reporting frameworks is a crucial enabler in this regard, as this improves transparency and ensures credibility. Tracking progress through appropriate impact indicators and engaging with stakeholders can provide feedback loops that allow for continuous improvement. For example, Islamic banks can utilise assessment results to adjust their strategies to ensure more impactful results, for example, by reallocating funds or altering target customer segments. The World Bank report *Tracking Progress: Impact Monitoring of Social Finance*, which was released last year, highlights the importance of impact frameworks for social finance. Building upon the key findings of this report, the World Bank is currently working with BNM, relevant government agencies, and the Islamic finance industry to develop guidance on impact monitoring and reporting for the financial sector.

Promising Sectors for Developing VBI and Sustainability-aligned Solutions

According to BNM, implementing the National Energy Transition Roadmap (NETR) and New Industrial Masterplan (NIMP) will require over RM1 trillion in combined public and private financing by 2050. The current green finance market remains relatively small in comparison to the overall market in Malaysia, and financing volumes have been concentrated on renewable solar energy. There is an opportunity to innovate and promote transition financing to support decarbonisation activities in other sectors such as transportation and construction. In addition, Malaysia has the potential to expand sustainable agriculture and forestry practices and promote biodiversity conservation, further supporting Malaysia's climate resilience and its emissions reductions.



SYAHRUL ISHAK

CEO, Al Rajhi Banking & Investment Corporation (Malaysia) Bhd

Understanding VBI

VBI is aligned with the objectives of *maqāṣid al-Sharī'ah*, which emphasise preventing harm and enhancing well-being. By implementing VBI principles, organisations can improve governance and risk management practices. This, in turn, strengthens the stability and resilience of the financial system while adhering to Sharī'ah principles. Effective governance and risk management are crucial for sustainable growth and development. Through ethical and sustainable banking practices, VBI ensures that financial actions have a positive impact on

the environment and society. This alignment allows Islamic banks to fulfil their religious and ethical responsibilities while contributing to broader sustainability goals.

Operationalising VBI

Since its inclusion as one of the VBI CoPs in 2021, Al Rajhi Banking & Investment Corporation (Malaysia) Bhd (alrajhi bank Malaysia) has made significant progress in operationalising VBI. For example, by the end of 2023, the bank met its investment target for sustainable-linked *ṣukūk*, achieving 6.63% of total corporate *ṣukūk*, exceeding the initial target of 5%. Moreover, the bank enhanced its wealth management offerings by increasing the number of SRI funds from two in 2022 to four in 2023.

In terms of governance, the bank sees the following influences from the VBI framework and its focus on *maqāṣid al-Sharī'ah*:

- **Enhanced Sharī'ah governance:** The bank ensures that all products and services comply with Sharī'ah principles, with a strong focus on achieving the objectives of *maqāṣid al-Sharī'ah*. In this regard, the Shariah Board of the bank plays a critical role in consistently overseeing the implementation of VBI and social finance initiatives.
- **Transparency and accountability:** The bank engages with its stakeholders, including customers, regulators, and community organisations, to gather feedback and improve its solutions and VBI implementation.
- **Ethical business practices:** The bank integrates initiatives that promote social welfare and environmental sustainability into its business strategy. It adopts best practices in governance to ensure ethical conduct and decision-making processes that align with the principles of *maqāṣid al-Sharī'ah*.

To continue advancing the VBI agenda, alrajhi bank Malaysia has identified several key actions:

- **Product innovation:** Develop and refine financial solutions that adhere to strict Sharī'ah standards while promoting sustainable and ethical practices. This includes exploring funding instruments such as Islamic repo, also known as collateral commodity *murābaḥah*, so that the bank can raise specific funding to meet the funding needs of VBI assets.
- **Product integration:** Explore the inclusion of social finance elements, such as waqf, *ṣadaqah*, and zakat, in the bank's financial solutions.
- **Collaborations and relationship building:** Partner with public and private stakeholders to explore opportunities in community engagement programmes, social initiatives, and research focusing on impact assessment, best practices, and innovative social finance models.
- **Training and development:** VBI training and development sessions to enhance the team's knowledge of VBI and foster the team's alignment with the bank's VBI aspirations.

Propositions to Advance VBI

The Islamic banking industry can effectively implement VBI by prioritising the following areas:

Short-term

- **Internal capacity building:** Invest in training and development programmes to equip employees with the knowledge and skills necessary for the effective implementation of VBI. This includes developing technical expertise in VBI methodologies, risk assessment, and compliance requirements.
- **Alignment:** Align investment with VBI initiatives. Align a greater portion of the Islamic bank's investments with VBI while consistently meeting the bank's investment targets.
- **Regulatory compliance:** Ensure strict adherence to all regulations related to VBI. This involves conducting thorough regulatory impact assessments and developing robust compliance frameworks.

Medium-term

- **Product development and innovation:** Explore opportunities to create new Islamic financial solutions that incorporate VBI principles.
- **Technology integration:** Enhance digital banking platforms to support VBI initiatives, making sustainable finance products more accessible to customers.
- **Data quality and accessibility:** Strengthen data management capabilities to ensure the availability of high-quality, accurate, and timely data for VBI analysis. Implement data analytics to monitor the impact of VBI initiatives and facilitate data-driven decision-making.
- **VBI taxonomy:** Develop a specific taxonomy for VBI to improve the understanding and implementation of its principles. A well-defined taxonomy would provide clear definitions and classifications for VBI-related activities, helping stakeholders to comprehend and apply VBI principles.
- **Reporting and publication:** Establish transparent reporting mechanisms and regularly publish reports on the social, economic, and environmental impacts of VBI initiatives. The availability of a VBI Taxonomy will enhance transparency by providing a structured framework for reporting and assessing these initiatives.
- **Stakeholder engagement:** Engage regularly and actively with regulators, industry peers, and other stakeholders to promote the adoption of VBI practices within the Islamic banking industry.

Long-term

- **Overall strategy and operations:** The aim is to integrate VBI principles into Islamic banks' overarching strategy and operations to ensure sustainability and alignment with industry standards.

- **Long-term collaboration and partnerships:** Establish enduring partnerships with stakeholders to ensure the sustainability of VBI initiatives.
- **Sustainability and impact measurement:** Develop robust metrics and frameworks to assess the social, environmental, and economic impact of VBI initiatives, demonstrating Islamic banks' contribution to the SDGs.
- **Global leadership:** Position the Malaysian Islamic banking industry as a leader in VBI, both domestically and internationally, through continuous innovation and benchmark setting.
- **Holistic development and inclusive growth:** Focus on comprehensive community development by supporting projects in education, healthcare, and environmental sustainability that align with the SDGs while ensuring that VBI initiatives contribute to inclusive growth, benefiting all segments of society.



EQHWAN MOKHZANEE
CEO, AmBank Islamic Berhad

Understanding VBI

VBI refers to the role of financial intermediaries in generating a positive impact on the economy, community, and environment via the offering, conduct, practices, or collaboration of IFIs, whilst being aligned with *maqāsid al-Sharī'ah*. It goes beyond compliance, thus focusing more on the broader outcomes of the activities of IFIs. VBI closely resembles ESG principles and is based on the 3P concept—People, Planet, and Prosperity—as compared to ESG, which incorporates governance. The key differences between VBI and ESG lie in *inter alia* Sharī'ah compliance (which serves as the moral compass for VBI), emphasising the real economy and impact from social finance. For example, while activities that have limited impact on the real economy may be acceptable under ESG, they are not deemed aligned with VBI principles.

Operationalising VBI

AmBank Islamic's engagement with VBI began in 2018 during industry-wide discussions about its scope and implementation. Whilst there could be a school of thought that opines that VBI encompasses every initiative undertaken by an IFI, AmBank Islamic views VBI as more than our primary role as an Islamic credit intermediary or business-as-usual activities. For an initiative to be deemed as aligned with VBI, the IFI must ensure that it meets the criteria which underpin VBI's four thrusts as set out in the VBI Strategy Document, which are entrepreneurial mindset, community empowerment, good self-governance, and best conduct.

AmBank Islamic has mapped its existing initiatives and, where practical, developed a matrix to align its products, processes, and collaborations with VBI principles.

Premised upon the entrepreneurial mindset, AmBank Islamic has developed entrepreneurial-focused financing for SMEs and startups. Additionally, programmes such as AmBank BizRACE have allowed AmBank Islamic to collaborate with industry experts and provide a platform for SMEs to learn and network. For this purpose, AmBank Islamic has partnered with the likes of Bosch Rexroth Malaysia and the Malaysian Green Technology and Climate Change Corporation (MGTC) to run capacity-building programmes for SMEs.

In respect of community empowerment, one notable VBI-related initiative is our participation in the Housing Credit Guarantee Scheme (Skim Jaminan Kredit Perumahan), which offers affordable housing solutions to customers.

Furthermore, AmBank Islamic fulfil the VBI thrust on best conduct by evaluating our customers' ESG practices as part of our risk assessment process and measuring greenhouse gas emissions. AmBank Islamic also prioritise customer satisfaction, employee welfare, after-sales service, and cyber risk management in our operations.

Challenges in VBI implementation

Although IFIs often engage in initiatives that align with VBI principles, these initiatives are not always recognised as VBI initiatives. For example, providing affordable home financing or supporting SMEs is clearly VBI-related. However, they are often categorised under ESG or overlooked entirely.

Furthermore, there is some confusion among practitioners about what qualifies as VBI. For instance, one of the main goals of VBI is to foster an entrepreneurial mindset by supporting entrepreneurs and SMEs. However, this does not mean that IFIs are obligated to act as entrepreneurs. Instead, IFIs can fulfil their role in entrepreneurial initiatives through their product offerings.

Propositions to Advance VBI

VBI has the potential to greatly influence the future of the Islamic financial industry. By clearly defining, articulating, measuring, and reporting on VBI initiatives, IFIs would not only fulfil their Shari'ah obligations but also make a positive impact on society as a whole. Therefore, the Islamic financial industry should take the lead in promoting VBI, emphasising recognition and ownership.

Capacity building is another critical aspect to focus on, as there is a pressing need to enhance practitioners' understanding of VBI and how it aligns with ESG. Integrating these two concepts will enable IFIs to incorporate their existing ESG efforts into VBI reporting, highlighting the value proposition of Islamic finance.



DATO' MOHD MUAZZAM MOHAMED
Group CEO, Bank Islam Malaysia Berhad

Understanding VBI

VBI encompasses more than just CSR. It focuses on effective wealth intermediation and support for positive impact projects. This presents an opportunity for the industry to highlight the strengths of Islamic finance.

Operationalising VBI

VBI is fundamental to the bank's business model, where everything is integrated within VBI. To integrate VBI within the system, the bank went through several processes. The initial stage involved the bank taking stock of its current state and approach, leading them to ask among themselves the hard, tough questions. This phase saw the bank onboard individuals who shared the same ideology and enthusiasm for VBI. Through these effective preliminary efforts, the bank was able to adjust its business model by positioning VBI at its focal point. The next stage saw the bank introduce Sadaqah House in 2018, a move initiated from the urgent need to channel wealth from diverse sources beyond deposits, as deposits are capital protected. This innovative initiative allows fundraising via philanthropic funds to support financial inclusion, particularly the low-income groups with entrepreneurial potential.

In cognisance of the legal requirements surrounding philanthropic funds in the country, the bank decided to establish the Sadaqah House independently, without intervention or collaboration with the state authorities. The bank also ensured that the Sadaqah House initiative is premised on a sustainable business model by keeping credit risk off the bank's balance sheet. This means that the only item recognised on the balance sheet is the salary of the bank's social finance team rather than the credit risk itself. In this way, the bank's shareholders are protected from risk, thus augmenting the viability of this initiative.

The experience gained from developing the Sadaqah House led to the introduction of another similar initiative during the peak of the COVID-19 pandemic in 2020—the iTEKAD programme. In view of the philanthropic nature of the Sadaqah House and the iTEKAD program, the bank was careful in crafting these models as the bank are subjected to strict regulatory and auditing requirements. By having a robust framework, the bank can support unbankable businesses without compromising its financial stability. The success of these initiatives, particularly iTEKAD, garnered interest and support from the BNM and led to the same being replicated by several industry players.

The iTEKAD microfinancing programme offers credit products to unbankable customers, targeting those with the potential to improve their financial situation though it also provide grants to deserving cases. The programme goes beyond financing; it includes training,

coaching, mentoring, and business partnering. iTEKAD consists of three tiers: iTEKAD Bangkit, iTEKAD Maju, and the forthcoming iTEKAD Jaya. Participants begin at iTEKAD Bangkit and, upon graduation, advance to iTEKAD Maju. By developing participants' credit track records, the programme facilitates their transition from unbankable to bankable status. The impairment rate for the microfinancing portfolio is approximately 7%, and it is comparable to healthy SME banking portfolios. This demonstrates that the bank's credit model for the underserved is effective, proving the bank's ability to cater to both bankable and unbankable clients.

Successful implementation of the programme relies on collaboration with key stakeholders, particularly in monitoring, coaching, and mentoring. In addition to that, it offers an avenue for any VBI-aligned institutions to place their funds in. For instance, the bank received RM4 million less than four years ago to initiate iTEKAD. That initial funding has now increased to over RM8 million in disbursements due to the bank's *qard*-based model, which enables the bank to re-lend repaid funds. Due to the blended structure, the bank is able to charge profit lower than the standard rate—around 4% compared to the 10% profit rate offered by other banks to micro-entrepreneurs. To ensure that this initiative achieves its impact, the bank sets the KPIs to focus on customer transitions from unbankable to bankable status rather than profitability, as the bank does not profit from the *qard hasan* facility.

The seamless integration of VBI within the bank benefits both customers and employees. Employees in commercial and corporate banking feel part of the VBI movement as they see the bank aiding the underserved, thus aligning well with their personal values. The success and sustainability of these initiatives heavily depend on the bank's financial strength. Only with a strong and resilient balance sheet can the bank deliver social finance initiatives with a harmonious balance of sustainability, profitability, and social inclusion.

Advantageous Position of the Bank

Being a publicly listed entity, the undertaking of VBI-related initiatives requires Bank Islam to build effective communication with its shareholders. This strategy allowed the bank to distinguish it with its traditional peers, narrating that Islamic finance is not only attending to Sharī'ah-compliant contracts but also genuinely embracing the principles of Islamic finance—justice, fairness, equitable wealth distribution, etc. For instance, not only Islamic banks offer home financing but affordable housing thus closing the financial inclusion gap and creating social cohesion. Waqf is another mechanism that sets Islamic banks apart from their conventional counterparts. By integrating this tool with banking products, the bank has developed solutions that address urgent national needs, such as the iTEKAD programme. The practice of CSR by conventional banks and the practice of Islamic social finance bear notable dissimilarity. While CSR is typically pursued only when there are surplus time and funds, Islamic social finance is embedded in the bank's operations, with dedicated allocation of time and resources.

Challenges in Implementing VBI

The independence of a bank is a critical factor in determining the expediency and advancement of VBI into the bank's ecosystem. Based on the experience of Bank Islam, its independence allows it to grow VBI more quickly and effectively as compared to institutions that are under banking group. Deploying effective advocacy initiatives including engagement and awareness initiatives would facilitate such institution to address this challenge.

Propositions to Advance VBI

VBI requires banks to have a clear vision and genuine intention regarding their objectives. Equally important is to ensure that the right and appropriate structures and mechanisms are structured to facilitate growth and sustainability. It is crucial to remember that banks are not charitable organisations; they must provide returns and dividends to their shareholders, particularly those listed as public entities. The industry should take a leading role and capitalise on the diverse tools available in Islamic finance. This will help the country to address its socio-economic needs particularly in supporting energy transition through investment income and philanthropic capital.

To drive this forward, Islamic banks must think realistically within the constraints of the financial system. BNM offers certain concessions under the Islamic Financial Services Act (IFSA) 2013, which create opportunities for innovation. To remain relevant, banks must address broader societal needs, not just serve as intermediaries for those who already possess wealth, but also cater to the underserved. This focus is central to VBI, and collaboration is key, as it enables banks to achieve significantly more.

Participating in forums and platforms organised by AIBIM or MyWakaf initiatives would foster productive engagement among the industry stakeholders. Such collaboration provides a foundation for banks to work together on innovative and impactful projects that can be executed more effectively and efficiently in a collective manner.



AHMAD SHAHRIL MOHD SHARIFF

Acting CEO, Bank Kerjasama Rakyat Malaysia Berhad

Understanding VBI

Maqāṣid al-Sharī'ah and VBI principles align naturally with the global movement towards ethical and sustainable finance, a trend that is gaining momentum. As customers increasingly seek financial institutions that prioritise ethical practices and environmental responsibility, Islamic banking—guided by *maqāṣid al-Sharī'ah* and VBI—is well-positioned to meet these evolving expectations. *Maqāṣid al-Sharī'ah* and VBI are poised to play a crucial role in the future of banking, particularly within Malaysia's Islamic banking sector and beyond.

Operationalising VBI

Bank Rakyat has achieved several key milestones demonstrating its commitment to integrating VBI across all aspects of its operations. VBI has been incorporated into the bank's five-year strategic plan, BR25, and serves as a vital component of its Sustainability Blueprint. This integration ensures that VBI principles are not merely theoretical but actively influence the bank's decision-making and long-term strategic objectives.

To reinforce the VBI commitment, the bank developed the Bank Rakyat Sustainability Framework and Policy, providing the foundation for its VBI initiatives. Additionally, a dedicated Sustainability Committee was established, comprising members from its Management Committee (MANCO), to oversee and drive these efforts at the highest organisational level.

To further institutionalise this commitment, the bank developed a Sustainability Operating Model, ensuring that VBI is integrated at all levels of the organisation. This model promotes consistency in applying sustainable practices, aligning the bank's actions with its long-term vision for sustainable and responsible banking. By embedding VBI into its operations, Bank Rakyat aims to create lasting value for its stakeholders and make a meaningful contribution to the broader Islamic finance ecosystem.

In the realm of social finance, the bank launched programmes such as RAKYATpreneur and Bank Rakyat UNIPreneur in 2020, aimed at assisting *aṣnāf* and small businesses with high growth potential. These programmes support entrepreneurs in progressing along the business value chain by providing seed funding, coaching, and comprehensive monitoring through social impact assessments, all in line with the VBI framework. To date, these initiatives have facilitated the development of over 2,500 entrepreneurs across various sectors. Both RAKYATpreneur and Bank Rakyat UNIPreneur are part of the BNM iTEKAD programme, which aims to empower the B40 community by fostering entrepreneurship and financial independence. Through iTEKAD, the bank offers a blend of financial and non-financial support to help vulnerable groups enhance their livelihoods. The success of these programmes has not only empowered entrepreneurs but has also garnered recognition from local and international organisations for their positive impact and success stories.

The bank launched initiatives like Digital Desa in 2023, aimed at enhancing financial inclusion and economic empowerment in rural areas. The Digital Desa programme seeks to increase participation among underserved communities, encouraging them to adopt a cashless lifestyle and embrace e-banking and e-payment via the bank's digital platforms. This initiative has positively impacted over 3,500 members of rural communities by offering activities such as pocket talks, account onboarding, and Cashless School initiatives to foster digital literacy.

Additionally, the bank supports customers' transitions through green financing in both the retail and business sectors. For retail customers, it provides financing options for EVs, hybrid cars, green homes, and personal financing for solar panels. For businesses, it offers green and transition financing through products like BRPLUS-i, alongside facilities provided by BNM, including the Low Carbon Transition Facility and the High Tech and Green Facility.

To accelerate the advancement of the VBI agenda, the bank plans several key actions:

- Deepening the integration of VBI across all business units, including financing, investment, and risk management processes through its annual business plan. This ensures that every sector shares a clear direction and understanding of VBI. Such strategic alignment will help consistently embed VBI principles in all aspects of operations, actions, and decisions across the bank.

- Expanding the range of green and sustainable financing products to meet the increasing demand from environmentally and socially conscious customers. To support this, the bank will enhance employee training and awareness of climate risk, ESG considerations, and sustainable finance, ensuring that the team is well-informed and equipped to drive these initiatives.
- Focusing on innovation through digital and technological solutions to support VBI initiatives, such as promoting financial inclusion and enhancing digital banking services for customers.

Challenges in VBI Implementation

One of the main challenges in implementing VBI is the lack of awareness and understanding among staff. Many employees were initially unfamiliar with VBI principles and their application to the bank's operations. Integrating VBI into the bank's existing business processes proved complex, necessitating adjustments to traditional workflows and decision-making models. To address these challenges, the bank introduced comprehensive capacity-building and awareness programmes to educate employees about VBI. These initiatives have been vital in fostering a deeper understanding of VBI across all levels of the organisation.

Propositions to Advance VBI

To implement VBI more effectively and efficiently across the industry, capacity building is essential. Providing training, resources, and technical support will enable banks to integrate VBI more seamlessly into their business models. This could involve developing industry-wide best practices, case studies, and workshops led by AIBIM and regulators, thereby fostering the sharing of insights and successful implementations.

Furthermore, VBI can be enhanced through the use of technology and innovation. By leveraging digital tools, banks can improve the efficiency of tracking social, economic, and environmental impacts, facilitating the assessment and reporting of VBI outcomes. AIBIM and regulators can promote the adoption of these tools and encourage collaboration on industry-wide platforms for data and resource sharing.

Finally, in embracing VBI further, it is also imperative for stakeholders to place balanced expectations between short-term financial results and long-term values that can be derived from VBI initiatives for financial institutions. Oftentimes, bottom-line targets overshadow the value creation through VBI in driving up institutional performance.



KHAIRUL KAMARUDIN

CEO, Bank Muamalat Malaysia Berhad

Understanding VBI

While VBI's coverage is more comprehensive, including social impacts such as job creation and poverty eradication, alongside environmental considerations, ESG primarily focuses on environmental concerns and net-zero targets. Unlike CSR, VBI adopts a 3P approach—People, Planet, and Profit—requiring banks to integrate these elements into their operations from the outset rather than treating them as initiatives to be addressed after achieving profit.

Operationalising VBI

To operationalise VBI, the bank has amended its policies, strategies, and products, including its Shari'ah governance framework, by integrating *maqāṣid al-Shari'ah* into its decision-making processes. This framework now guiding the bank in its risk management for instance awarding contracts based on their alignment with VBI principles while considering factors such as job creation and environmental sustainability. The bank's financing policies are also reflecting these principles, prioritising projects that generate positive social and environmental outcomes.

VBI principles are also internalised across all departments, from senior management to front-line employees. Internal campaigns and contests are organised to raise awareness and deepen understanding of VBI throughout the organisation. During external engagements, the bank ensures its representatives promote VBI and the Triple Bottom Line (TBL) in those discussions. The bank also collaborates with experts such as Arabesque to develop Islamic ESG stock selection models, further embedding VBI principles in its investment decisions. Each department is required to report on VBI-related initiatives, ensuring VBI is a core part of the bank's operations. Although the bank has achieved over 50% of VBI-related assets, much work is still required to fully operationalise the model across all aspects of banking.

In addition, the bank also offers the iTEKAD programme, pioneering the introduction of *muḍārabah* (profit-sharing/equity-based) financing in this programme, as well providing loans through *qarḍ*. Despite being the smallest bank among its peers, Bank Muamalat secured the largest number of recipients for the programme, totalling 2,823, and has even obtained halal certification for some of them. In undertaking these initiatives, the bank is not profiting much; in fact, with *muḍārabah*, it has to share any losses incurred. Furthermore, the bank has taken the lead in several social initiatives, such as being the first to introduce cash waqf collection and launching the state-of-the-art dental bus in collaboration with Waqf Selangor.

Challenges in Implementing VBI

One of the major challenges in implementing VBI is the lack of understanding and awareness surrounding it, along with confusion between CSR and VBI. To address this, the bank adopted

the 3P narrative, which simplifies the concept. Unlike CSR, which can be perceived as making a profit and then doing good, VBI focuses on doing good while making a profit. Another significant issue is 'VBI washing', which signifies the superficial adoption of VBI principles. To ensure that the transition to business VBI is genuine, clear policies and ongoing customer engagement are essential.

Additionally, frequent changes in board members hinder the momentum of VBI adoption, highlighting the need for more comprehensive training and a deeper understanding of VBI among board members.

Propositions to Advance VBI

For VBI to be successfully embedded within a bank, strong buy-in from shareholders and board members is essential. Board members must not only grasp the principles of VBI but also actively support its implementation across all departments. By emphasising the global investment potential in ESG—approximately USD27 trillion in 2017—the stakeholders can be strongly convinced of the profitability of doing good.

Regulators and industry stakeholders should establish a unified VBI reporting standard, integrating various frameworks such as SRI and ESG into a single, externally audited report. This would streamline the reporting process and ensure greater consistency and accountability across Islamic banks.

When assessing potential customers, banks should offer opportunities for clients to improve their compliance over time, reflecting the Islamic principle of fairness. Simultaneously, banks should avoid adopting discriminatory stances by engaging with customers who may not initially meet VBI criteria but are willing to improve.

Creating incentives like the BNM's special fund to support SMEs during the COVID-19 crisis, which provided loans at a 3.5% interest rate with a six-year term, a one-year moratorium, and five years of instalments, would significantly boost VBI adoption. Establishing a similar special fund for VBI, offering a preferred rate, would encourage all banks to become VBI-compliant. As part of the VBI educational campaign, initiatives like the Financial Institutions Directors' Education (FIDE) programme should include VBI and ESG in their curriculum. This would enable board members to make more informed decisions regarding VBI implementation. There is also a need for legislative reform to support the development of Islamic finance products aligned with VBI, such as *mushārah mutanāqishah* (diminishing partnership), which hold great potential. The lack of a supportive legal framework for Islamic contracts limits their full implementation. The introduction of a carbon tax and other legislative measures would help incentivise VBI-compliant activities.

Future of VBI and Maqāṣid al-Sharī'ah

The VBI, grounded in *maqāṣid al-Sharī'ah*, provides a comprehensive and ethical approach to banking that fosters sustainable growth alongside positive social and environmental outcomes. With suitable regulatory support and a sustained commitment from the industry, VBI could significantly shape the future of Islamic banking in Malaysia and beyond.



AHMAD SHAHRIMAN MOHD SHARIFF

CEO, CIMB Islamic Bank Berhad

Understanding VBI

VBI represents an advanced evolution of current ESG frameworks by incorporating screening for harm and evaluating the positive and negative financial and non-financial impacts of business activities on stakeholders, particularly people and the planet. Unlike existing ESG frameworks, which primarily focus on external impacts on the organisation, VBI is guided by *maqāṣid al-Sharī'ah*, emphasising noble outcomes as an obligation. The current ESG frameworks tend to assess sustainability or climate-related risks and their effects on the organisation's long-term viability or economic success. In this respect, VBI aligns closely with impact investing, where the focus is not solely on absolute financial returns but also on achieving a positive overall impact against a baseline, with non-financial metrics playing a crucial role in these assessments.

Operationalising VBI

Since 2017, CIMB Islamic Bank has progressively implemented VBI through key products and services, which include recalibrating existing offerings and introducing new value-based propositions. VBI is embedded in the business strategy, product and service development, and charitable contributions. This approach aligns with the CIMB Group's commitment to foster long-term economic development through ethical responsibility as well as social and environmental stewardship.

In line with VBI principles, CIMB Group mobilised RM32.4 billion of sustainable finance in 2023 through Green, Social, and Sustainable Impact Products and Services (GSSIPS), distributing RM8.7 billion in financing to low-income individuals across the Association of Southeast Asian Nations (ASEAN). The bank ensures that successful outcome parameters are integrated into a reporting framework for all corporate responsibility initiatives. In 2021, CIMB Group pledged RM150 million to CSR initiatives over five years. Additionally, in 2023, CIMB Islamic Bank contributed RM15 million in corporate zakat to religious authorities nationwide.

CIMB is also part of Malaysia's Smart Manufacturing Taskforce, which aims to transform 3,000 manufacturing companies, helping SMEs ascend the value chain in accordance with the New Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP). This positions Malaysia as a vital component in the global supply chain. Furthermore, CIMB Islamic Bank supports SMEs through sector-driven agendas, notably its flagship value-based financing product, SME Biz Ready. This suite of solutions focuses on digitalisation, technology, and sustainability, combining financing with capacity building and access to solution providers. The bank aims to finance 1,000 companies within high-value manufacturing sectors, including Electrical & Electronics, Pharmaceutical & Medical Devices, Automotive, Aerospace, Machinery & Equipment, and Chemical Industries.

CIMB Islamic Bank is also facilitating Islamic investment and funding in sustainability-related ventures, as well as climate change adaptation and mitigation efforts in Johor. In this context, CIMB Islamic Bank is collaborating with the Johor Sustainability Centre as part of the Johor-Singapore Special Economic Zone, in line with national agendas to drive positive outcomes for the real economy. Additionally, CIMB Islamic Bank contributes to green causes through its Islamic flagship savings account, Ecosave-i. Through this account, the bank donates 0.2% of balances from its corporate responsibility funds to support green initiatives, including decarbonisation, environmental preservation, and biodiversity. To date, CIMB Islamic Bank has committed more than RM8.24 million to such causes, demonstrating its dedication to achieving both financial returns for customers and positive outcomes for the planet.

Challenges in VBI Implementation

VBI is at the forefront of global trends, with the potential to significantly impact capital intermediaries. However, the primary challenge lies in the interim period, where the costs associated with measuring and reporting the outcomes of VBI-driven financing are perceived as an additional expense for Islamic banks. In this context, incentives such as access to lower-cost financing or guarantees from BNM and other entities, such as the Credit Guarantee Corporation (CGC) and the Business Financing Guarantee Company (Syarikat Jaminan Pembiayaan Perniagaan—SJPP), are commendable. Meanwhile, a sector-wide approach to capacity building, reporting, and establishing common measurement frameworks or surveys for key agendas—such as SME financing—could be crucial. This effort should be supported by incentives for improved impact reporting for both Islamic banks and the target beneficiary groups. It is essential to develop a unified measurement framework for these groups to reduce the individual costs for Islamic banks related to impact measurement and reporting requirements.

Propositions to Advance VBI

Key domestic institutional investors are developing impact funds that complement global philanthropic funds driven by impact measures without expectations of financial returns. The shift towards a second phase of ESG measurement and reporting, emphasising positive impact and the accelerating global decarbonisation agenda, presents a historic opportunity for risk participation aligned with these goals. In this context, the risk and profit-sharing structure of the investment account products offers a scalable solution to direct impact capital towards achieving beneficial outcomes for people and the planet, in line with the noble objectives of VBI. This is particularly relevant in the impact investment sector and among capital providers focused on impact measures. It enables blended financing solutions that manage single counterparty exposures and support the financing of long-term projects tailored to investors' risk profiles.



RAJA AMIR SHAH RAJA AZWA
CEO, HSBC Amanah Malaysia Berhad

Understanding VBI

VBI is an excellent way to reconnect people with the fundamentals of Islamic finance, focusing not only on what is halal but also on what is *ṭayyib* and impactful. In Malaysia, the focus of the financial industry on *maqāṣid al-Sharī'ah* and VBI lends itself well to the tenets of sustainable finance, enabling banks to take an Islamic-first approach to sustainable finance and value-based banking. As an approach, VBI emphasises the need to evaluate financial products and services from every angle and assess their impact in a comprehensive manner, including important elements such as the family unit and community. It enables the assessment of outcomes from an ecosystem perspective, considering the needs and concerns of each stakeholder.

Operationalising VBI

HSBC Amanah has made significant efforts to promote VBI in its business and operations. Among its notable initiatives was the issuance of the world's first benchmark sustainable *ṣukūk* by a financial institution in 2018, referencing the SDGs for the use of proceeds. The *ṣukūk* proceeds of RM500 million were subsequently utilised to finance eligible businesses and projects in accordance with the HSBC SDG Bond Framework.

In 2020, the bank launched Project Cocoon, a 24-month transformation programme aimed at embedding sustainability in the business and operations of HSBC Amanah through the lens of TBL—Planet, People, and Prosperity, in line with the VBI guidance issued by BNM. The project sought to align 51% of the bank's financing and advances with TBL principles, and by 2022, the bank achieved 49% alignment, just 2% shy of its target. Upon completing Project Cocoon, the bank published its TBL Framework, which enabled it to classify its financing and measure its impact using TBL principles. The Framework was the first of its kind in the banking industry and, to ensure transparency and validity, was reviewed and validated by the United Nations Global Compact, confirming its alignment with the targeted SDGs. The percentage of assets tagged in alignment with the Framework was to be verified by an independent party through a limited assurance process.

In addition to establishing the TBL Framework, Project Cocoon also enabled the bank to focus on and develop four core areas: (i) the origination of customised financing solutions for customers, specifically in sustainable financing; (ii) external disclosures via the publication of the TBL Framework and Task Force on Climate-related Financial Disclosures (TCFD) reports, among others; (iii) capacity building and external advocacy via the Joint Committee on Climate Change (JC3) and other industry bodies; and (iv) cultural transformation and net zero ambition internally as the way forward.

As part of its commitment to promoting the adoption of VBI in the industry, in 2020, the bank participated in the VBIAF Sectoral Guide Working Groups for palm oil, renewable energy, and energy efficiency, contributing to the development of impact-based risk management toolkits for financial institutions. A year later, the bank became the first financial institution in Malaysia (both Islamic and conventional) to publish a TCFD report. By 2023, it had released its third TCFD publication, well ahead of the mandated requirement for banks to disclose TCFD reports by 2025. The bank has also been an active member of JC3 and currently serves as the Chair of Sub-Committee 4, playing a central role in advocating for sustainability-related capacity building and engagement within the industry.

To further drive sustainable finance and TBL financing in partnership with the business, the bank developed the Amanah First Strategy and established a dedicated local sustainability team providing localised support and guidance on sustainability matters. The bank has also continued to track and verify its TBL asset positions to measure its contribution to the VBI strategy. Additionally, the bank has improved the material component of its credit card, upgrading from an initial 85% recycled plastics to 100%.

In terms of supporting social causes, the bank participates through its zakat *wakālah* initiative, for example, supporting the Pertiwi Soup Kitchen by contributing more than 14,000 meals over three months. The bank has also funded the purchase of advanced repair toolkits for 21 participants of the G-Lab: Smartphone Repair Accelerator & Youth Entrepreneurship Program organised by the Pintar Foundation. The G-Lab trained 100 youth participants from the B40 community, equipping them with essential technical repair skills and entrepreneurial knowledge, laying the foundation for their journey towards self-sufficiency and financial resilience. The strategy adopted by the bank is to develop long-term partnerships with charities by providing a reliable and consistent source of support, enabling them to achieve a more significant impact.

HSBC Amanah has been recognised as a leader in ESG practices within the industry, both by regulatory bodies and peers. In 2023, the bank was awarded 'Best International Islamic Bank (Global)' by the Euromoney Global Islamic Finance Awards. In 2024, the bank was awarded 'Islamic ESG Bank of the Year' by The Asset Triple A Islamic Finance Awards, for the fifth consecutive year.

Challenges in Implementing VBI

Although VBI is positioned as part of the bank's organisational purpose, it has yet to be fully integrated across the organisation. The challenge locally is twofold, creating awareness about VBI among various stakeholders and subsequently receiving their support and co-operation for the VBI agenda. Awareness relating to VBI at the group level—specifically at its global headquarters—also remains limited, as there is still a lack of familiarity with VBI on a global scale. While there is support for VBI in local operations given the regulatory push, it is primarily viewed as a Malaysia-specific initiative, limiting it to a country-based effort.

The absence of internationally accepted definitions for concepts like VBI complicates the creation of a standardised framework. The non-fungibility of these definitions further hinders the process. Due to the lack of internationally accepted standards specifically for VBI, when developing its TBL Framework, the bank had to create its own design and interpretation by

relying on global benchmarks such as the SDGs. To lend credibility to its framework, the bank engaged a third-party validator to assess and validate it.

Another challenge from an industry perspective is regulatory reporting. As highly regulated institutions, banks have already dedicated significant time and resources to mandatory reporting on liquidity and capital ratios, among others. In addition, banks also have multiple climate-related and sustainability obligations currently in place and moving forward, such as alignment with the Climate Change and Principle-based Taxonomy (CCPT) guidance, conducting climate stress testing, and meeting the criteria for transition planning. The regulatory scrutiny and focus on ESG have limited the urgency of the VBI agenda, given that it is a voluntary, but highly encouraged initiative. In practice, the VBI agenda aligns closely with ESG and sustainability; however, further regulatory support and industry convergence on the outlook and next steps for VBI for Islamic banks is critical in charting the way forward.

Propositions to Advance VBI

While the Islamic banking industry has made significant strides in adopting VBI since 2017, there are significant opportunities to further enhance the application of VBI among Islamic banks. To realise BNM's vision to mainstream VBI, as outlined in the FSB 2022–2026, several factors need to be considered:

- **Defining the narrative:** It is crucial to shape the narrative surrounding VBI. The industry must clearly define its purpose—be it for differentiation, branding, or reclaiming the narrative around sustainable finance. This requires a collective effort from regulators and industry practitioners to establish a unified understanding and direction for VBI.
- **Harmonisation of VBI:** It is important to integrate *maqāsid al-Sharī'ah*, VBI, and sustainability under one cohesive framework. Rather than existing independently, these concepts can be aligned to create a unified understanding of what VBI truly represents.
- **Complementary initiatives:** Initiatives such as *maqāsid al-Sharī'ah* and the climate and sustainability agenda complement VBI by further strengthening its foundation. These initiatives help to embed VBI more deeply within the Islamic finance framework.
- **Stakeholder collaboration:** Achieving mainstream acceptance requires collaboration among all stakeholders. While discussions are ongoing within the VBI community, broader stakeholder engagement is essential to align goals and strategies.
- **Regulatory and operational support:** Banks face immense pressure to meet regulatory requirements related to liquidity, capital ratios, climate principles, and stress testing. These obligations often take precedence over voluntary initiatives like VBI, making it challenging to allocate resources and attention to VBI effectively. Clear regulatory support and industry convergence on future applications of VBI among Islamic banks is necessary.
- **Impact-driven reporting:** There is a shift towards more impact-driven reporting that aligns with VBI's objectives. However, banks must balance this focus with their day-to-day operations and the complexities of the current global economic environment, including geopolitical tensions and fluctuating interest rates.

- **Common reporting standard:** To strengthen VBI, there is a need to develop an agreed-upon reporting framework that allows banks to assess their progress and facilitates easier comparisons among banks based on a common definition, criteria, and indicators of VBI.



SYED ABDULL AZIZ SYED KECHIK
CEO, OCBC Al-Amin Bank Berhad

Understanding VBI

VBI integrates a bank's social and environmental initiatives into its core business operations, particularly its product offerings. By aligning these activities with its overall business strategy, VBI ensures that sustainability and social impact are central to its daily operations. This approach differs from traditional CSR initiatives, which are often perceived as separate from core business activities.

Operationalising VBI

The OCBC, which comprises OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad, prioritises financing projects and businesses that align with *maqāṣid al-Sharī'ah* and contribute to sustainable development. This involves assessing the social and environmental impacts of potential financing and investments while avoiding activities that are detrimental or non-compliant with Islamic principles. Additionally, OCBC develops and offers financial products tailored to customer needs, considering their social and environmental implications. These products include Islamic green financing and socially responsible investment funds.

In 2019, OCBC Group became the first bank in Southeast Asia to cease financing coal-fired power plants and stopped project financing for upstream oil and gas projects that received development approval after 2021. In 2022, the bank launched the *OCBC SME Sustainable Finance Framework* to enhance the sustainability performance of its SME customers. To support impact-focused disclosures, OCBC established a climate disclosure policy to guide the development of climate-related disclosures in 2023.

The bank implements sector-specific responsible financing policies for agriculture and forestry, mining and metals, energy, chemicals, infrastructure, and waste management. It outlines clear requirements and expectations for clients in sectors with a high risk of environmental and social impacts. Furthermore, OCBC was the first bank in Malaysia to offer green Islamic foreign currency and bank-to-bank term financing facilities. The bank aims to expand in this area and is collaborating with like-minded companies to reinforce its commitment to advancing the ESG agenda. As one of the leading Islamic banks in Malaysia in sustainable financing, OCBC recognises significant opportunities for collaboration with industry stakeholders and the broader ecosystem to deliver tailored Sharī'ah-compliant financing to its customers. It is

also keen to contribute to the development and enhancement of the VBIAF Sectoral Guides, drawing on its experience in developing and implementing its Responsible Financing Policy and Framework, as well as its sectoral policies.

Challenges in VBI Implementation

The lack of a standardised measurement framework is a key reason why VBI adoption has not become mainstream compared to other sustainability initiatives. Without regulations, banks are not required to disclose their VBI practices, and the lack of a uniform measurement framework complicates impact assessment. To promote the uptake of VBI, it is essential to implement a standardised measurement framework that mandates disclosures for public scrutiny. Furthermore, Islamic banks operate in a banking environment that involves commercial risks and shareholder expectations similar to those faced by conventional banks.

Future of VBI and *Maqāṣid al-Sharī'ah*

The integration of *maqāṣid al-Sharī'ah* principles and VBI has the potential to significantly influence the future of banking in Malaysia and globally, particularly in regions experiencing a growing demand for Islamic banking services. However, the extent of this impact will depend on several factors, including market dynamics, technological advancements, and regulatory frameworks. To accelerate the adoption of VBI, regulators may consider establishing a supportive regulatory framework that addresses the interoperability of the VBIAF Sectoral Guides and the CCPT.



SYAMSUL AZUAN AHMAD FAUZI
CEO, Public Islamic Bank Berhad

Understanding VBI

Integrating VBI requires a bank to leverage and enhance its existing products and services to meet VBI requirements. It does not necessitate the creation of entirely new offerings. This approach ensures that VBI can be effectively embedded in the bank's daily operations while utilising the same resources, which helps the bank avoid additional costs or organisational restructuring. In this respect, VBI and CSR are clearly distinguishable; VBI is an integral part of a bank's core business operations, whereas CSR is a separate initiative.

Operationalising VBI

Public Islamic Bank became a VBI CoP in 2020, and one of its immediate initiatives was to introduce a green car financing offering that same year. Leveraging the substantial scale of its hire purchase business and supporting the national green agenda, the bank's green car financing offers favourable rates for energy-efficient vehicles. To define what qualifies as an energy-efficient vehicle, the bank engages with leading car makers and the MGTC, which

assists in calculating the carbon emissions saved through this financing portfolio. To date, the bank has provided approximately RM11 billion worth of energy-efficient vehicle financing. Adjusting its existing products to align with VBI principles has enabled the bank to promote environmental sustainability while also meeting the needs of its customers.

In addition, the bank has launched a rooftop solar financing programme targeting existing customers who already have their properties financed by the bank. Through this programme, customers are offered 100% financing for rooftop solar installations. The cross-securing of solar financing with customers' existing property financing allows them to enjoy immediate financial benefits through lower instalment payments (for solar panel financing) compared to the savings from reduced energy bills. This approach enables the bank to foster environmental sustainability while delivering tangible financial advantages to customers, thereby meeting VBI objectives.

The bank is also looking to expand its investment accounts, although this initiative is still in its early stages. By adopting a behavioural approach in its credit evaluation process, the bank can offer financial services to unbanked and underbanked segments, particularly micro-entrepreneurs who lack traditional credit records and are often excluded from conventional financing systems. Investment accounts enable the bank to manage credit risk more effectively by keeping certain activities off-balance sheet. In this model, the bank acts as an intermediary or investment manager, generating income through fees rather than profit-and-loss from financing income. This represents a shift from traditional banking practices, aligning more closely with the operations of an investment bank and adhering to the core principles of Islamic finance, which emphasise risk-sharing and partnership. Meanwhile, the bank is exploring the development of a waqf fund as a new business model. Although still in the early stages, this initiative aligns with the bank's commitment to integrating Islamic values into its operations and creating a sustainable social impact.

Challenges in VBI Implementation

There are significant challenges, particularly regarding regulatory constraints and investor education. Stakeholders and regulators often require substantial time and resources to understand and support new initiatives related to VBI. Existing banking regulations, such as Basel III requirements, impose limitations on how banks can structure and manage their financing activities. Implementing meaningful changes that require a longer-term perspective can be complicated, given that banks are typically motivated by short-term gains. To address this, banks must focus on building a strong narrative and demonstrating success through incremental wins, tangible results, and business impact. In this way, they can build momentum and secure further support from their stakeholders.

Customer behaviour and market readiness also present challenges. Although products like solar financing demonstrate immediate and significant savings, uptake has not been as high as anticipated. People tend to prioritise immediate gratification from things like new cars or gadgets over long-term benefits. While the bank has shown its readiness to advocate for the ESG and VBI agenda, customers and the broader market may not be fully prepared to embrace these changes. Although this requires an urgent societal mindset shift, the reality is that, to be cheaper and more efficient, Islamic banking needs economies of scale. Currently, much of the sector's growth stems from traditional business areas rather than VBI, as it is still in its nascent stage.

Propositions to Advance VBI

Regulatory changes are essential to encourage greater risk-taking and participation, which are fundamental aspects of Islamic finance. Islamic finance should focus on partnerships, leases, investments, and trade—not merely traditional financing. By emphasising genuine Islamic finance principles through instruments such as investment accounts and profit-sharing arrangements, the Islamic banking industry can be reshaped to better reflect the core values of the Islamic economy. This transformation requires meaningful engagement with regulators to adjust existing frameworks that currently restrict innovative financial models and risk-sharing mechanisms.

Additionally, making VBI a mandatory initiative, akin to the compulsory nature of climate reporting, could significantly enhance its growth and adoption. Adopting VBI-related terminology in Islamic banks' reports and disclosures helps to raise awareness and keeps the concept visible and relevant within the industry. This requirement would foster standardisation across the sector, promote a collective movement towards sustainable finance, and reinforce the unique value proposition of Islamic banking compared to conventional banking.

Meanwhile, for Islamic banks, particularly those not affiliated with larger conventional groups, frequent use of the term VBI could help differentiate Islamic finance from its conventional counterpart, emphasising its unique ethical and value-based approach. For Islamic banks that are part of a group, it is crucial to inform their group's top management and shareholders about market competitive threats; necessary changes are required to remain relevant.

It is imperative for VBI to be integrated as part of the bank's core business processes rather than treated as a separate initiative. Treating it as a distinct initiative would limit the real potential of VBI, as it may not be immediately profitable. However, if VBI is incorporated into the bank's existing business model, there will be no hindrance to capacity as the same resources are being utilised. By leveraging existing resources and focusing on innovative financial solutions that align with Islamic values, Islamic banks can make significant progress towards a more sustainable and ethical banking industry. In fact, implementing changes on a smaller scale is often the most effective approach.

Developing innovative products based on investment accounts is likely to accelerate the growth of VBI. Investment accounts are flexible tools that can be structured like deposits or financing products. If managed well, they allow for considerable creativity and can truly stand out.

The concept and practice of VBI should be more widely shared with regional players and counterparts in the Middle East and beyond. Expanding the viability, sustainability, and application of VBI on a global scale could significantly enhance its impact and effectiveness.

Cross-border collaboration would facilitate the exchange of ideas, resources, and best practices, thus fostering innovation and growth in the industry. This broader collaboration would also help to find innovative solutions and address common challenges such as regulatory constraints and market readiness.



DATO' ADISSADIKIN ALI

Managing Director and CEO, RHB Islamic Bank Berhad

Understanding VBI

Within Islamic banking, the advent of VBI reemphasises the focus on ethical practices that benefit both society and the planet. In essence, VBI holistically encapsulates the ethical and humane principles as advocated by the ESG standards. For all practical intents and purposes, both VBI and ESG are seamlessly aligned. This refocussing affords the Islamic banking industry the opportunity to redefine its approach to be more humanitarian in its service perspective.

Operationalising VBI

RHB Islamic began the process of operationalising VBI by obtaining board approval for the VBI framework, which includes establishing a statement of intent to adopt and implement VBI across all its segments, including products, services, and operations. The statement of intent it developed has significantly influenced the bank's behaviour and mindset.

Backed by this milestone achievement, the bank reviewed all its products and services, assessing their impact on people and the planet. Gap analyses were conducted, and identified gaps were addressed through short-, medium-, and long-term strategies. The aim of the bank's VBI policy is to minimise negative impacts while maximising positive ones. For the bank, the introduction of VBI is founded on the principle that *maqāṣid al-Sharī'ah* is a fundamental tenet that should remain indisputable. The spirit of *maqāṣid al-Sharī'ah* is integrated into the bank's practices, striking a balance between profit and other objectives, including ethical and humanitarian values.

Moreover, Muslims believe they are to serve as vicegerent (*khalīfah*) in this world, which makes them accountable for their actions and their impacts. Recognising that *maqāṣid al-Sharī'ah* may not resonate well with non-Muslims, the bank deployed awareness campaigns about VBI and *maqāṣid al-Sharī'ah*. As awareness grew, interest increased. The focus was on the 3Ps mantra: Profit, People, and Planet, emphasising that while profit is fundamental, the bank prioritises its contributions to people, communities, and the planet.

As part of its VBI efforts, the bank created 'harmony' initiatives for both people and the planet. It adopted a Blue Ocean strategy centred on water, rather than traditional climate actions such as tree planting, selecting SDG 14: Life Below Water as its 'Ocean Harmony' initiative. This initiative has deepened the bank's understanding of marine life and the necessity of aligning its activities accordingly.

To enhance its efforts and understanding of marine life, the bank first partnered with Universiti Malaysia Terengganu, a leading ocean research institution, in 2019. Since then, more subject matter partners have been onboarded to further expand the Ocean Harmony initiative. Under this initiative, the bank launched a 100% recyclable debit card, the first recyclable plastic debit

card in the Asia-Pacific region, featuring a turtle design. For every account opened with this debit card, an RM3 donation from the account holder will support the research and activities undertaken by the partners. In 2025, the bank will periodically update its website to keep abreast of the activities of its Ocean Harmony partners.

In terms of financial inclusion, the bank has taken the initiative to channel its funds to the less bankable through social finance instruments, such as the Zakat Wakalah Package, which allows zakat payers to obtain a refund on zakat payments for self-distribution (on behalf of Pusat Pungutan Zakat-Wilayah Persekutuan (PPZ-MAIWP) based on *wakālah* or agency) directly to *aṣnāf*. While BNM has encouraged conventional banks to explore this area (under social finance), many of these banks rely on their Islamic subsidiaries to undertake these initiatives.

Challenges in Implementing VBI

Despite VBI being introduced ahead of BNM's ESG banking and JC3, which place greater emphasis on climate-related risk and taxonomy, the latter has taken precedence in industry practices. This is evident in the financing and investment activities of Islamic banks, which are defined using JC3's climate-related taxonomy, classifying loans, financing, and investments as green or brown, rather than adhering to VBI's financing book categorisation.

VBI is typically associated with Islamic social finance—channelling funds to unbanked or underbanked individuals. Given the nature of Islamic social finance, it is natural for VBI to be positioned within Islamic banking. Although Islamic banks embrace the philanthropic aspects of Islamic social finance and VBI, they are subject to strict regulations under fractional reserve banking and various banking regulatory capital requirements. Hence, the real challenge in implementing VBI lies at the operational level rather than in management. While risk-sharing mechanisms are limited, the need for market support to enhance the application of Islamic social finance is critical in assisting underserved communities.

Future of VBI and *Maqāṣid al-Sharī'ah*

VBI will remain fundamental as it forms the foundation of Islamic banking practices. Industry players must operate within the existing framework and distinguish themselves through VBI and risk-sharing contracts. Given the maturity of Islamic banking in Malaysia, there is significant potential for it to become mainstream. To enhance economic capacity, Islamic banks should optimise the use of Islamic social finance instruments, such as zakat and zakat refunds. Additionally, developing risk-sharing mechanisms can further stimulate economic growth. As industry leaders, Islamic banks have a responsibility to advance this initiative.



BILAL PARVAIZ

CEO, Standard Chartered Saadiq Berhad

Understanding VBI

VBI serves as an overarching framework that incorporates ESG aspects. It aligns with sustainability objectives and promotes a stakeholder model, enabling Islamic banks to focus on their specific strategies alongside the broader goals of Islamic finance. The VBI strategy not only supports industry growth but also creates a positive impact. It provides a foundation for enhancing contributions to the community, society, and environment, ultimately fostering a legacy of a healthier ecosystem.

VBI Strategy Paper

The VBI Strategy Paper is instrumental as it establishes a clear strategy that differentiates Islamic banks from their conventional counterparts. It emphasises that Islamic banking extends beyond mere Sharī'ah compliance; it also strives for *ḥalāl ṭayyib*—permitted and pure, reflecting the overall goals and impacts of financing. By utilising *maqāṣid al-Sharī'ah*, Islamic banks are encouraged to adopt a redefined role centred around an outcome-driven model. This approach enhances the focus on the intended results from a Sharī'ah perspective, which is fundamentally essential to Islamic banking. Consequently, Islamic banking encompasses more than just the creation of *tawarruq*, *wakālah*, or *muḍārabah* products. It requires a shift from the traditional banking model to one oriented towards outcomes—profit with purpose—rather than merely pursuing commercial gains, transitioning from a traditional shareholder model to a stakeholder model.

Operationalising VBI

As an international bank, Standard Chartered Saadiq adheres to the highest regulatory standards set by multiple authorities, including BNM and the Monetary Authority of Singapore. Thus, it is not surprising that upon reviewing the VBI documents, the bank discovered that its internal governance was already 99.9% compliant. Its VBI journey has also benefited from its robust internal governance and its practices in environmental, social, and risk management. The bank has already embarked on environmental and social risk assessments since the late 1990s and has established position statements on industries such as coal, palm oil, and deforestation. This proactive stance enables the bank to support sustainable practices and avoid harmful activities, providing it with a competitive advantage over local banks that are still striving to meet the best standards.

In addition to that, the bank fosters active engagement among the board and senior management to ensure alignment, including gender diversity at the management level. It established inclusive policies on maternity and paternity leave, as well as healthcare, and ensures comprehensive financial disclosures and stakeholder updates on progress and relevant

issues. Aligned with best practices, the bank prioritises transparency in its fees, charges, and product disclosures.

Over the past seven years, the bank has launched initiatives such as the WOWNita project, aimed at empowering women, and introduced green mortgages to support home financing for environmentally friendly properties. It has also completed landmark transactions in the corporate sector, such as sustainable supplier finance with Malaysia Airports, benefiting SME suppliers under that supply chain programme. Additionally, it carried out the first Islamic ESG report transaction with CIMB, facilitating funding for transactions that comply with CIMB's sustainability policy and framework, and signed an agreement with Petronas for an Islamic sustainable account.

The bank's Halal360 campaign and financial literacy programme support social upliftment initiatives, and it has partnered with organisations like Grab to promote youth and women empowerment, enhancing financial inclusion and independence. In 2023, the bank committed to the SC's *Maqasid Al-Shariah Guidance*, which sharpens its focus on VBI implementation. Guided by this document, the bank is now integrating *maqāsid al-Sharī'ah* into its structured and capital markets product offerings. Malaysia's VBI approach is unique and globally admired. The bank's global CEO is passionate about Islamic finance and frequently seeks updates on VBI. Leveraging its global presence in key markets such as the UAE, Bahrain, Bangladesh, Pakistan, and Saudi Arabia, the bank continues to engage with management and group teams to share best practices while comparing these to Malaysia's progress toward VBI. Inspired by Malaysia's experience in developing VBI initiatives, the bank scaled out its initiatives abroad via its social finance projects, such as the *ṣadaqah* account (which donates profits from the account to charity) in Bangladesh and similar initiatives in Pakistan.

Challenges in VBI Implementation

Despite the growth and scale of VBI initiatives, the bank faces challenges related to data access and standardisation, particularly in social finance. There is a pressing need for improved data to facilitate informed decision-making.

Malaysia, in particular, holds great promise, especially with its micro businesses. For instance, during Ramadan, small bakers in Malaysia experienced substantial growth and there is much room to grow the halal business and its ecosystem. Industry-level initiatives are necessary to support these businesses, enabling them to scale and access markets such as Indonesia and the countries in the Gulf Cooperation Council (GCC). Additionally, assistance from multilateral organisations and regulators in addressing risk appetite is vital for advancing these businesses within the financial value chain as these viable entities can yield significant socio-economic benefits to the country.

Future of VBI and *Maqāsid al-Sharī'ah*

VBI is strategically poised to position Malaysia and its Islamic banking sector as the global leader, aided by key documents such as the VBI Strategy Paper, Maqasid Shariah Scorecard, and the *MIFC Leadership Council Position Paper - Establishing Islah through Islamic Finance*. Whether the progress of VBI in Malaysia is viewed as too rapid, too slow, or too limited is largely a subjective matter. What is crucial at this stage is to continue sharing the initiatives and outcomes of VBI locally and internationally, as these efforts have already made a significant

impact on the Islamic banking sector in the country. By aligning their banking activities with VBI, Islamic banks in Malaysia can strengthen the country's leadership in the global Islamic banking market. It is only a matter of time before other Islamic banking markets and regulators begin to adopt VBI as a strategy, due to its clear alignment with the core principles of Islamic finance.

Summary

Industry leaders serve as the driving force in translating *maqāṣid al-Sharī'ah* principles and the VBI strategy into practical applications. Their role involves developing and structuring innovative financial products that align with *maqāṣid*-driven objectives, fostering wealth generation, accumulation, and distribution while upholding justice and fairness. This ensures that wealth is effectively directed towards productive economic sectors, promoting sustainability and societal prosperity.

Furthermore, industry leaders advocate VBI by embedding core ethical values into the financial system. They prioritise the creation of a more resilient and sustainable financial ecosystem that addresses the well-being of both people and the planet. By championing VBI principles, they contribute to long-term value creation, balancing financial success with positive societal and environmental impacts.

A summary of the achievements of the industry leaders in meeting the expectations of VBI, as derived from the interviews, is provided in Table 4.1.

Table 4.1: Industry Achievements in Meeting the Expectations of VBI

Segment	Key Initiatives	VBI Thrust
Banking Solutions	Affordable housing, SME financing, green financing, and the issuance of sustainable-linked <i>ṣukūk</i> support underserved communities and promote sustainability.	  
	Islamic repo-raised funds are used for Sharī'ah-compliant sustainable assets.	 
Impact Financing	iTEKAD and Sadaqah House empower low-income individuals and address gaps in financial inclusion.	  
	Waqf, <i>ṣadaqah</i> , and zakat financing contribute to socio-economic development.	 
Capacity Building	Programs like RAKYATpreneur, Bank Rakyat UNIPreneur, and Halal360 offer entrepreneurial training and technical support for SMEs.	  

Islamic Social Finance	<i>Qard</i> financing provides stability for underserved groups, while cash waqf funds welfare projects, including healthcare and relief efforts.	  
Digital Solutions	Initiatives such as Digital Desa and Cashless School encourage the adoption of e-payments and enhance financial literacy.	 
Empowerment Programmes	Social impact assessments and rural financial education improve literacy and inclusion in underserved areas.	 
Sustainability Policies	Governance frameworks and sustainability blueprints promote ethical decision-making and ensure alignment with VBI principles.	 
	The establishment of senior-level Sustainability Committees guarantees oversight and consistent integration of VBI principles across business units.	
Environmental Impact	Green financing, coal exit strategies, and TCFD implementation target climate action and biodiversity.	  
Transparency & Reporting	Impact reports, VBIAF guides, and sectoral policies foster accountability and establish benchmarked industry practices.	 
Awareness & Education	Staff workshops, university partnerships, and ongoing stakeholder engagement enhance understanding and implementation of VBI principles.	
Industry Collaboration	VBI taxonomies, myWakaf, and AIBIM projects facilitate scalable and collaborative impact initiatives.	  



Entrepreneurial Mindset



Community Empowerment



Good Self-governance



Best Conduct

The interviews with industry leaders reveal their enthusiasm, determination, and unwavering support for institutionalising VBI. Their commitment to advancing VBI initiatives underscores their strong dedication to the VBI agenda. However, the implementation of VBI among Islamic banks varies depending on their maturity and level of adoption. While their efforts to drive change are commendable, there are challenges that need to be addressed in advancing VBI adoption. These challenges include the following and are summarised in Figure 4.1.

- **Varying understandings:** The CoPs operate VBI at varying levels of adoption, shaped by their unique contexts. This variation largely arises from each institution's understanding of VBI, their capabilities, and the level of funds allocated to advancing the VBI agenda. Interestingly, some smaller institutions demonstrate stronger VBI-aligned performance compared to larger ones. For instance, one institution may integrate the VBI agenda into its overall business strategy, while another treats it merely as a component of its broader sustainability framework.
- **Absence of standards:** Several industry leaders have called for regulatory support and improved reporting standards. For example, while one institution may have proactively developed its own internal metrics in line with the VBI Strategy Paper, another may rely solely on regulatory requirements concerning VBI reporting.
- **Limited solutions for MSMEs:** Some industry leaders have expressed concerns that efforts to address the FSB's objectives have been limited. They have highlighted that the expansion of digital and alternative financial solutions, particularly for MSMEs, remains underdeveloped. Despite MSMEs constituting 97% of all registered companies in Malaysia and contributing 38% to the national GDP, they accounted for only 2% of funds raised in the local capital market in 2023. While industry leaders recognise the importance of tackling this challenge, tangible progress has yet to be achieved. The additional risks and costs associated with pursuing these objectives are significant concerns for market participants and, if unaddressed, could hinder the growth of VBI.
- **Unexplored investment account potential:** There is considerable potential in the utilisation and diversification of investment account product offerings. Several institutions have noted that positioning investment accounts as off-balance-sheet items creates a unique value proposition for stakeholders.
- **Confusion with global agendas:** Industry leaders have stressed the importance of preserving VBI's unique value proposition, distinguishing it from other global sustainability agendas. They emphasise that VBI is a vital aspect of Islamic finance's identity and should continue to be recognised as such by both local and global stakeholders. This distinctiveness is fundamental to ensuring the long-term success of VBI.

Figure 4.1: Challenges in Advancing VBI Adoption



Source: Adapted from interviews

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SECTION

5

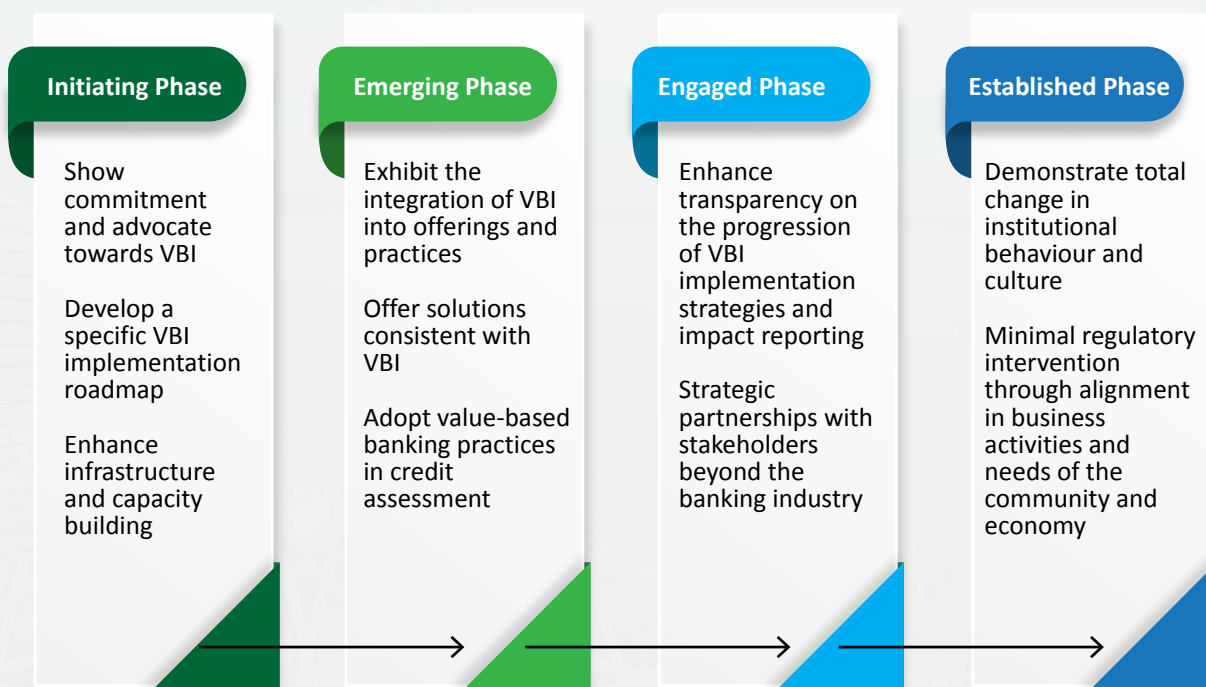
MOVING
FORWARD

Lessons Learnt

Mainstreaming VBI has been identified as a key priority and a sustainable development objective within the FSB. Recognised as crucial to Malaysia's Islamic banking vision, the ongoing development of VBI is essential in strengthening the country's position as a global leader in Islamic finance. VBI is expected to bolster significant sustainability initiatives, including green finance, net-zero targets, and social finance efforts. Furthermore, the development of VBI aligns with the broader *halāl ṭayyib* principles embedded in Malaysia's Ekonomi Madani framework, which seeks to promote ethical and sustainable economic growth.

Overall, the progress made by Islamic banks is commendable. The VBI Report 2022 noted that the CoPs have progressed from the 'Emerging' phase to the 'Engaged' phase, reflecting the sector's sustained growth. However, it is important to note that the identification of these phases relies on self-interpretation by each institution, and there is no independent authority validating this interpretation. Nonetheless, as shown in Figure 5.1, advancing to the next stage, the 'Established' phase, will require the VBI to become an integral part of business operations. This will involve fostering the right mindset, nurturing a supportive culture, and developing innovative product offerings that lead to meaningful and impactful outcomes.

Figure 5.1: VBI Implementation Plan



Source: BNM (2023)

Given the steady growth VBI is currently experiencing in the industry, it is essential to implement the recommendations identified in Figure 5.2 incrementally. Continuous support from regulators is necessary to facilitate VBI development, as it addresses regulatory friction and inadequacies while promoting the creation of enabling infrastructures. Therefore, a

balanced and strategic approach is crucial for fostering the sustainable development of VBI-aligned assets, ultimately paving the way for a framework that could serve as an inspiration on a global scale.

Figure 5.2: Strategies for Advancing VBI



Source: Adapted from interviews

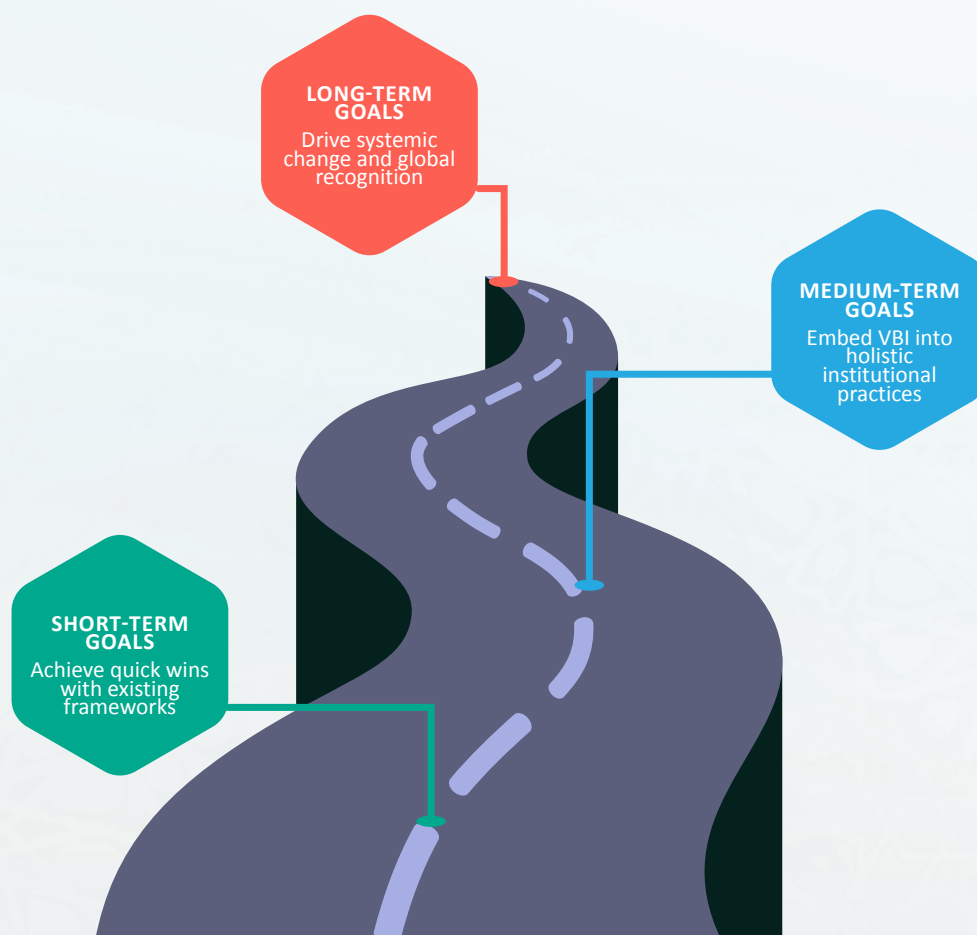
- **Low-hanging fruits:** To identify ‘low-hanging fruits’ by ensuring that all feasible actions within the industry’s capacity are consistently implemented across all participants. This approach will enable the industry to effectively capture and reflect its growth. For instance, product offerings that can be quickly aligned with VBI principles should be prioritised, and viable Islamic social finance initiatives should be actively pursued. Upselling and cross-selling green product offerings could be adopted to advance the VBI agenda, alongside promoting financial inclusion and female inclusivity as part of the broader VBI efforts.
- **Structured reporting:** To gradually introduce structured VBI reporting, as a clear unifying framework is still lacking. Implementing structured VBI reporting practices could enhance transparency and provide greater visibility of VBI initiatives beyond national borders, as outlined in the FSB. By establishing clear impact benchmarks and gradually embedding VBI principles across products and services, the financial sector could further promote objectives such as financial inclusion, green financing, and the growth of value-based

finance. It could also significantly support and guide reporting metrics that improve comparability and the quality of disclosures of VBI-aligned assets while avoiding ‘VBI washing’ across the industry. Encouraging more transparent and standardised reporting is not unfamiliar, as other sectors are already moving towards enhanced sustainability disclosures. For instance, the JC3, co-chaired by BNM and SC, is advancing climate-related financial risk disclosures in line with TCFD recommendations by 2024.

- **Non-debt financing:** To facilitate the further development of non-debt-based financing solutions in line with the FSB’s ‘Fund Malaysia’s Economic Transformation’ agenda. In this regard, recognising the prudent behaviour of the industry towards undertaking such initiatives is a crucial step. It fosters the development of innovative risk-sharing mechanisms and tailored solutions to bridge the funding gap without compromising institutional sustainability.
- **Innovative solutions for MSMEs:** To effectively address the funding gap for MSMEs, as this segment presents a significant opportunity for growth. The need to supplement this segment with innovative financing structures beyond traditional models, such as mezzanine financing and other hybrid approaches, is elaborated in the FSB.
- **Investment account treatment:** To facilitate distinct treatment of investment accounts under financial reporting standards, as this will offer players the flexibility to innovate and develop VBI-aligned offerings without being overly burdened by liability and capital adequacy requirements.
- **Emphasise *hikmah*:** To emphasise the importance of wisdom (*hikmah*) as a fundamental value underpinning VBI, as noted in the FSB, and by extension, the unique value proposition of Islamic finance. This approach drives reform (*iṣlāḥ*), as highlighted by the MLC, promoting sustainability and social good across every sector while aligning with the broader vision for Malaysia’s Islamic finance industry.

VBI Roadmap

The VBI roadmap proposed in Figure 5.3, inspired by insights from the interviews and national agendas, is structured in three phases to drive sustained growth and impact. The initial phase focuses on short-term goals, often referred to as ‘quick wins’ or ‘low-hanging fruit’. This phase leverages existing frameworks and data to achieve immediate, tangible results, creating a strong foundation without necessitating significant structural changes. The second phase targets medium-term goals, encompassing practical initiatives that the Islamic banks can implement with relative ease. These initiatives aim to embed VBI more deeply into institutional practices, fostering measurable progress within the sector and enhancing its overall impact. The final phase emphasises long-term goals aimed at driving systemic change and positioning VBI as a globally recognised leader in sustainable finance. This stage seeks to align Islamic finance with international sustainability principles, fostering a paradigm shift towards broader adoption and integration of the VBI framework. Each phase provides a clear strategic pathway, enabling a structured progression from foundational adjustments to impactful global recognition.

Figure 5.3: VBI Roadmap

Source: Adapted from interviews and national agendas

Short-term Goals

- **Product integration:** Islamic banks already offer products and services that align with VBI. Leveraging these alignments can enhance VBI objectives. Identifying and expanding these synergies should be a primary focus moving forward. Therefore:
 - Target and integrate VBI principles into current products and operations. Establish clear goals, such as addressing the financing needs of MSMEs, and develop financing solutions like micro-financing and customised financing facilities that are in line with VBI principles.
 - Ensure that the financing is gradually fully aligned with TBL principles or *maqāṣid al-Sharīʿah* principles to facilitate meaningful integration.
 - Embed VBI principles into existing products and offerings while actively promoting and cross-selling VBI-aligned products, such as green car financing and rooftop solar financing.
- **ESG utilisation:** Given the similarities between ESG and VBI, it is essential to ensure that data collected for ESG reporting also meets VBI requirements. This will prevent VBI metrics from being understated and promote consistency in reporting standards. Therefore:

- Identify and integrate the commonalities between VBI and ESG reporting standards into VBI reporting practices.
- Utilise existing ESG data to meet VBI reporting standards. Tag ESG products and services as VBI-aligned where applicable to enhance their visibility.
- **Communication enhancement:** Building stakeholder understanding is essential for the sustainable growth and success of VBI. Therefore:
 - Launch VBI centred campaigns that incorporate the principles of People, Planet, and Profit from the outset.
 - Ensure the visibility of VBI implementation among employees and stakeholders. Communicate VBI initiatives clearly, both internally and externally, to enhance staff engagement and customer awareness.
 - Establish policies that encourage staff involvement, enabling them to share ideas and take the lead on VBI initiatives.
- **Regulatory support:** There is a need to advocate for regulatory advancements that support VBI by introducing incentives and flexible frameworks to encourage innovation. Therefore:
 - Secure legislative support for products that align with VBI principles.
 - Promote risk-sharing mechanisms by advocating for regulatory flexibility to reach underserved communities, including reducing risk weights on risk-sharing assets to encourage banks to offer these products.
 - Establish accounting requirements that accurately reflect profit-and-loss sharing in Islamic contracts.

Medium-term Goals

- **Unified reporting frameworks:** To establish standardised reporting frameworks that enhance transparency and strengthen credibility, collaboration with industry stakeholders and regulators is essential. Therefore:
 - Validate existing frameworks, such as the TBL framework, through external reviews to ensure consistency.
 - Develop a comprehensive matrix outlining key VBI products and segments to establish clear reporting standards.
- **Sustainable financing products:** New products must be developed that deliver environmental and social benefits alongside financial returns, encouraging wider adoption of sustainable finance. Therefore:
 - Embed VBI principles into new products and services.
 - Broaden the range of eco-friendly product offerings.
- **Financial inclusion and social finance:** Efforts to support underserved communities through tools such as microfinance, zakat, and waqf need to expand to improve access to financial services and promote social equity. Therefore:
 - Leverage existing zakat funds to implement social financing programmes aimed at less bankable segments.

- Prioritise social objectives such as financial inclusion, women's empowerment, and SME financing, using social finance tools to create impact.
- **Investing in advanced financial technologies:** Initiatives are necessary to maintain competitiveness and enhance VBI's impact through ongoing investment in emerging technologies. Therefore:
 - Invest in cutting-edge technologies to remain competitive and maximize its social, economic, and environmental impact. Key technologies such as AI, blockchain, and other fintech innovations play a pivotal role in achieving VBI objectives effectively and sustainably in the rapidly evolving financial landscape.

Long-term Goals

- **Risk-sharing financing models:** There is a need to shift from debt-based models to equity-based financing. Therefore:
 - Prioritise profit-sharing models to promote sustainable growth.
 - Enhance the focus on equity financing to empower MSMEs.
- **International recognition and integration:** There is a need to promote global acceptance of VBI by emphasising its benefits in international forums and aligning it with established Islamic finance standards. Therefore:
 - Support the definition and standardisation of VBI practices globally through collaboration across industries.
 - Align financial products with existing sustainable frameworks, such as the SDGs, to enhance their credibility and relevance.

The roadmap encapsulates the vision outlined by BNM and incorporates recommendations from industry leaders, based on the established VBI Strategy Paper and the FSB. It offers a progressive and sustainable framework to advance VBI while ensuring the steady growth of VBI-aligned assets. A critical point raised during interviews is the need to preserve VBI's unique value proposition, which distinguishes it from other global sustainability agendas. VBI is a key component of Islamic finance's identity and should continue to be perceived as such by local and global stakeholders alike. This distinctiveness is likely to remain a fundamental factor in ensuring VBI's long-term success.

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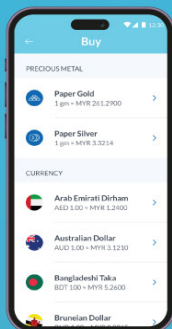


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SECTION

6

CONCLUSION

BNM's introduction of the VBI framework marks a transformative shift in the Islamic banking sector, emphasising the need for these institutions to balance profitability with ethical, sustainable, and inclusive operations. VBI is strengthening Islamic banks by embedding Shari'ah principles into their core, enabling them to drive a transformative financial ecosystem that empowers individuals, uplifts communities, and safeguards the environment. This initiative represents a crucial step for Islamic finance in realising *maqāṣid al-Sharī'ah* and leading sustainable and responsible finance. BNM's vision of positioning VBI as a core component of Islamic finance underscores its unique role, which goes beyond merely replicating global sustainability frameworks. The distinct nature of VBI, aligned with the ethical principles of Islamic finance and *maqāṣid al-Sharī'ah*, is vital for maintaining the integrity of the Islamic banking industry and ensuring its long-term success.

Insights from interviews conducted by the ISRA Research Management Centre with Shari'ah committee chairmen and industry leaders reveal the evolution of the VBI since its inception and its operationalisation by Islamic banks. These interviews, along with data collected by AIBIM, highlight achievements and underscore the potential for Islamic banks to combine profitability with purpose, ensuring a balanced integration of values into their core operations. For example, the steady progress of VBI adoption among Islamic banks in Malaysia, particularly in green financing and support for SMEs and MSMEs, illustrates the transformation of Islamic banking into a purpose-driven model that balances profitability with social impact. VBI has prompted Islamic banks to redefine their societal roles, moving beyond limited CSR activities to a broader commitment to societal well-being.

However, the interviews also highlighted specific challenges and offered recommendations. They emphasised the importance of formulating innovative blended financing products and solutions targeted at the B40 class and the SME sector. Establishing a clear system for measuring performance in line with *maqāṣid al-Sharī'ah* and VBI strategies was identified as essential. Implementing annual *maqāṣid* KPIs can facilitate the measurement of progress and impact, thereby enhancing transparency and accountability. Furthermore, improving disclosure practices to align with both *maqāṣid* principles and global best practices in sustainability reporting is crucial. The interviews reveal that VBI development is currently flourishing within a flexible, principles-based framework that fosters organic growth and innovation in the industry. One way to further embrace VBI is by creating a comprehensive *maqāṣid* implementation roadmap with defined timelines and milestones.

One concern raised in the interviews is the potential risk of 'VBI washing' or 'impact washing' in disclosures. Such practices could undermine the integrity of VBI and dilute its intended impact. Therefore, it is essential that the evolution of VBI, including the development of enhanced disclosure standards and metrics, remains true to its core purpose and aligns with the *maqāṣid al-Sharī'ah* and the ethical principles central to Islamic finance. The FSB highlighted this issue by recommending a reduction in the subjectivity or discretion applied to specific parameters.

Despite the challenges encountered during its initial implementation, the FSB and industry leaders provided crucial guidance to overcome these difficulties, emphasising the need for greater transparency, improved reporting, and alignment with national agendas. With significant experience in VBI implementation and strong leadership in the Islamic banking

sector, the industry is now well positioned to sustain positive momentum and growth in the years ahead. Collaboration among Shariah scholars, research institutions, and industry stakeholders is vital for advancing VBI, addressing implementation challenges, and maintaining momentum in VBI adoption.

Overall, while challenges persist, the global growth of Islamic finance offers an attractive opportunity and a solid foundation for the continued expansion of VBI. Embedded in *maqāṣid al-Sharī'ah*, VBI represents an integration of both the form and substance of Islamic finance. As Islamic finance assets increase, the development of VBI is expected to progress naturally, evolving alongside the broader trajectory of Islamic finance. In conclusion, the growth of VBI hinges on maintaining momentum that reflects the wider development of Islamic finance, reinforcing its role as a driver of ethical and sustainable economic development.



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Abbreviations

AI	Artificial Intelligence
AIBIM	Association of Islamic Banking and Financial Institutions Malaysia
ASAS	Association of Shariah Advisors in Islamic Finance
ASEAN	Association of Southeast Asian Nations
AUM	Assets Under Management
AZAM	Alliance Islamic Bank Zakat Microfinancing Programme
B40	Bottom 40% of earners
BESS	Battery Energy Storage Systems
BNM	Bank Negara Malaysia
BR25	Bank Rakyat 2025
BRI	Bank Rakyat Indonesia
CCPT	Climate Change and Principle-based Taxonomy
CGC	Credit Guarantee Corporation Malaysia Berhad
CoPs	Community of Practitioners
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Governance
EV	Electric Vehicles
FIDE	Financial Institutions Directors' Education
FSB	Financial Sector Blueprint
GCC	Gulf Cooperation Council
IFI	Islamic financial institutions
IFSA	Islamic Financial Services Act 2013
INCEIF	International Centre for Education for Islamic Finance
ISIA	Ihsan Sustainability Investment Account
ISRA	International Shari'ah Research Academy for Islamic Finance
JC3	Joint Committee on Climate Change
KPIs	Key Performance Indicators
MANCO	Management Committee
MGTC	Malaysian Green Technology and Climate Change Corporation
MIFC	Malaysia International Islamic Financial Centre
MLC	MIFC Leadership Council
MSMEs	Micro-SMEs
NETR	New Energy Transition Roadmap
NGO	Non-governmental organisation
NIMP	New Industrial Master Plan
NPF	Non-performing Financing
PEST	Political, Economic, Social, and Technological
PPZ-MAIWP	Pusat Pungutan Zakat-Wilayah Persekutuan

PV	Solar Photovoltaic
Repo	Repurchase Agreement
RM	Ringgit Malaysia
ROI	Return on Investment
ROE	Return on Equity
SC	Securities Commission Malaysia
SDGs	Sustainable Development Goals
SJPP	Syarikat Jaminan Pembiayaan Perniagaan Berhad
SME	Small and Medium Enterprise
SRI	Sustainable and Responsible Investment
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TBL	Triple Bottom Line
TCFD	Task Force on Climate-related Financial Disclosures
VBI	Value-based Intermediation
VBIAF	VBI Financing and Investment Impact Assessment Framework

Glossary

3P	People, Planet, and Profit/Prosperity
Aṣnāf	Zakat-eligible/beneficiaries
BRPLUS-i	Financing programme by Bank Rakyat to support the development of national entrepreneurs, especially from the MSME sector, cooperatives, and women entrepreneurs to advance their businesses.
Ecosave-i	An eco-friendly savings account that supports green projects in Malaysia and incentivises customers for their sustainable choices.
Gharar	Uncertainty
Halal	Permitted
Halal360	An initiative by Standard Chartered Saadiq in Malaysia to support businesses in the halal industry.
Ḥalāl Ṭayyib	Permitted and pure
Hibah	Gift
Ḥikmah	Wisdom
iFAST Barakah	First Shari'ah-compliant ESG-focused managed portfolio in Malaysia.
i-PUSH scheme	Pahang Micro Entrepreneur Financing Scheme
Iṣlāḥ	Reform
iTEKAD	An umbrella programme established by BNM to assist low-income microentrepreneurs in strengthening their financial management and business acumen towards generating sustainable income.
iTEKAD BangKIT	Provides <i>qarḍ</i> financing for business start-up and expansion.
iTEKAD Jaya	One of the iTEKAD programmes dedicated to developing innovative social finance solutions.
iTEKAD Mahabbah	A micro-entrepreneur development programme run in collaboration with state governments. This social finance initiative is based on the <i>qarḍ</i> concept and aims to assist B40 and <i>aṣnāf</i> micro-entrepreneurs.
iTEKAD Maju	Microfinancing for working capital and seed capital on needs-basis.
iTEKAD Mawaddah	<i>Muḍārabah</i> social finance programme to help entrepreneurs from the B40 and <i>aṣnāf</i> groups to start and maintain their businesses.
Khalīfah	Vicegerent
Ma'ālāt	Consequences of actions
Maqāṣid	Objectives
Maqāṣid al-Shari'ah	The objectives of Shari'ah; the deeper meanings and inner aspects of wisdom considered by the Lawgiver in all or most of the areas and circumstances of legislation.
Maqṣad 'Āmm	All-purpose principle
Muḍārabah	A form of partnership in which one partner finances the project, while the other party manages it.

Mushārah	
Mutanāqishah	Diminishing Partnership
Mu'sir	Customers facing financial difficulties
MyWakaf	An inclusive economic instrument based on philanthropic values that aims to serve all members of society, particularly the underserved, by providing access to quality essential services and assisting them in fulfilling their needs for shared prosperity.
Qarḍ	Loan; a payment of money given to someone to benefit from it, with the recipient bound to repay the equivalent amount. See also <i>qarḍ ḥasan</i> .
Qarḍ ḥasan	Benevolent loan; an interest-free loan extended on a goodwill basis, primarily for welfare purposes, i.e., the borrower pays back only the amount borrowed. See also <i>qarḍ</i> .
Rakyat	People
RAKYATpreneur	A philanthropic project and sustainable initiative that aims to identify promising entrepreneurs from the <i>aṣnāf</i> community and offer them mentoring, seed funding, capacity development, and coordinated support to enhance their business growth and advancement throughout the business value chain.
Ribā	Interest
Ṣadaqah	Voluntary charity
Ṣalāḥ	Righteousness
Sharī'ah	The path to the watering place, the clear path to be followed, and the path that the believer must tread to obtain guidance in this world and deliverance in the next.
Ṣukūk	Certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, assets of particular projects or special investment activity.
Takāful	'Mutual guaranteeing' through mutual support and shared responsibility whereby a group of people agree to jointly guarantee one another against a defined loss. <i>Takāful</i> is an alternative to contemporary insurance.
Tawarruq	An arrangement consisting of two sale and purchase contracts used to seek liquidity. The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a spot basis.
UNIprenuer	A programme for <i>aṣnāf</i> students interested in entrepreneurship.
Wakālah	A contract of agency in which one party appoints another party to perform a certain task on its behalf, usually for payment of a fee or commission.

Waqf	An Islamic endowment; a charitable trust whereby a certain property is held and preserved for the exclusive benefit of a certain charitable objective, and any use or disposition of it outside that specific objective is prohibited.
Waṣiyyah	Bequest; a charitable transfer of wealth, either tangible property or usufruct, to be effective after the death of the donor.
WOWnita project	A business financing facility exclusively for women entrepreneurs.
Zakat	Alm, religious tax; an obligatory contribution that every wealthy Muslim is required to distribute directly to the poor or to pay to the Islamic state, or another agent, to distribute on their behalf.

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