

RECONSTRUCTION OF THE SHARIA BANKING PARADIGM: BRIDGING THE GLOBAL MATTER OF SHARIA AND MAQASHID PRACTICES IN INDONESIA

¹Taufiq Ridwan Murtadho, ²Gina Sakinah, ³Dudang Gojali, ⁴Iwan Setiawan

^{1,2,3,4}UIN Sunan Gunung Djati Bandung, Indonesia

Email: taufiqridwan10@gmail.com, ginasakinah1004@uin.sgd.ac.id, dudang.gojali@uinsgd.ac.id, iwansetiawan@uin.sgd.ac.id,

Abstract

This study critically investigates the divergence between the normative ideals of Maqashid Syariah and the operational practices of Islamic banking in Indonesia. Despite Islamic banks' legal compliance with shariah contracts, their operational models often replicate conventional banking behaviors, emphasizing profitability over justice and spiritual integrity. Employing a philosophical-hermeneutic method, the research explores ontological, epistemological, and axiological misalignments and proposes a reconstructed paradigm rooted in ethical governance, stakeholder theory, and metaphysical intentionality. The analysis reveals that epistemological rigidity, institutional mimicry, and ethical formalism hinder the realization of maqashid-based outcomes. A paradigm realignment is proposed that prioritizes spiritual intentionality, community welfare, and holistic performance metrics over compliance formalism. This study contributes a conceptual framework that bridges theoretical foundations and practical imperatives, offering actionable pathways for banks, regulators, and shariah boards to embed the higher objectives of Islamic law into financial operations. The findings underscore the need for a spiritually grounded yet operationally viable Islamic banking model in Indonesia that aligns institutional behavior with divine purpose and human dignity.

Keywords: Maqashid Syariah; Islamic finance; paradigm reconstruction; ethical governance; Indonesia banking.

INTRODUCTION

Islamic banking was originally conceptualized as a financial model that embodies the ethical and spiritual teachings of Islam, aiming to transcend the profit-centric paradigm through adherence to Maqasid Sharia—the objectives of Sharia. These objectives, rooted in the preservation of religion (din), life (nafs), intellect ('aql), lineage (nasl), and property (mal), offer a multidimensional framework for financial justice (Chapra, 2016). However, in Indonesia, the world's largest Muslim-majority country, Islamic banking has witnessed significant divergence between these fundamental principles and day-to-day operational practices (Antonio, 2020, p. 112). Despite growing assets and market share, critics argue that Islamic banks operate in a manner that merely replicates the conventional banking model, albeit with Sharia-compliant contracts (Dusuki & Abdullah, 2007).

This schism raises fundamental questions about the authenticity and transformative power of Islamic banking in achieving socio-economic justice. Empirical studies show that Indonesian Islamic banks often prioritize financial profitability over ethical or social outcomes (Ascarya & Yumanita, 2022). The pursuit of competitive advantage in a dual banking system has pressured Islamic institutions to focus on market share, operational efficiency, and investor returns—often at the expense of maqasid-based objectives (Abdullah & Chee, 2010). These developments prompt a reassessment of the philosophical paradigm underlying Islamic banking in Indonesia, particularly regarding its epistemological and methodological foundations (Kahf, 2015).

Scholars have pointed to the need for a paradigm shift from fiqh-centered legalism to a more holistic and goal-oriented Islamic economic philosophy (Kamla, 2009; Al-Attas, 1995, p. 67). However, in practice, operational frameworks remain largely technical and disconnected from Islam's spiritual-ethical dimensions. This fragmentation has resulted in a dualism between formal compliance and substantive justice, with Islamic banks complying with legal rules without necessarily fulfilling higher ethical mandates (Ismail, 2022). There is growing recognition that the institutionalization of Islamic banking must be critically re-evaluated through the lens of philosophical reconstruction, focusing not only on what is lawful (halal) but also on what is right

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and just (adl , ihsan) (Haneef, 2011).

Although several studies have examined operational deficiencies and regulatory constraints in Islamic banking, few have approached the issue from a philosophical perspective that questions the ontological, axiological, and epistemological disjunctions between theory and practice (Zarqa, 2003; Ariff & Iqbal, 2011). This study addresses this gap by proposing a critical reconstruction of the paradigm shaping Islamic banking in Indonesia, guided by Maqasid Syariah as a normative and ethical compass. In doing so, this study challenges conventional approaches that prioritize instrumentality over intentionality and proposes an alternative model grounded in values-based finance and human dignity.

Based on the issues raised, this study seeks to answer three research questions: (1) How does the current operational model of Islamic banking in Indonesia deviate from the principles of Maqashid Syariah? (2) What are the philosophical and structural factors that contribute to this divergence? (3) How can a reconstructed paradigm realign Islamic banking practices with the ethical objectives of Syariah? Thus, the objective of this study is to bridge the theoretical and operational gap by formulating a paradigm that is not only compliant but also aligned with the spirit of Islamic economic justice. Through philosophical critique and hermeneutic analysis, this study offers a framework for realigning Indonesian Islamic banking with its original ethical vision.

LITERATURE REVIEW

The literature on Islamic banking highlights its fundamental alignment with the Maqasid Sharia ethical framework, yet reveals consistent operational compromises in contemporary practice. Chapra (2016) emphasizes that Islamic banking is not simply envisioned as an alternative to conventional finance, but as a transformative vehicle for socio-economic justice rooted in divine guidance. Similarly, Al-Ghazali's philosophy underscores that the preservation of the five essentials of Maqasid Sharia—faith, life, intellect, progeny, and wealth—should shape all institutional endeavors (Dusuki & Abdullah, 2007). However, recent empirical analysis suggests that in Indonesia, Islamic banks prioritize legalistic compliance over spiritual-ethical performance, leading to a diluted interpretation of Sharia objectives (Ascarya & Yumanita, 2022). The literature consistently reveals a pattern in which market-driven imperatives overshadow the normative aspirations of Islamic finance (Ismail, 2022).

Several scholars have attempted to address this gap by proposing expanded performance metrics that incorporate ethical dimensions. For example, Mohammed and Taib (2015) introduced a maqashid-based index to assess institutional effectiveness beyond profitability. However, these tools have not been widely adopted in Indonesia due to institutional inertia and a regulatory framework modeled after the conventional banking system (Ariff & Iqbal, 2011). Furthermore, Kamla and Rammal (2013) argue that the adoption of neoliberal ideology in global Islamic finance has shifted the focus from spiritual and community well-being to individualistic and transactional outcomes. Thus, the literature underscores the absence of a robust philosophical paradigm capable of integrating ethics, jurisprudence, and socio-economic outcomes within a cohesive operational model (Haneef, 2011).

Positioned within this broader academic discourse, this current study contributes to a critical philosophical perspective by questioning the epistemological foundations of Islamic banking in Indonesia. Previous literature has generally focused on regulatory inefficiencies, lack of stakeholder education, or limitations in sharia auditing. Instead, this study argues that the core problem lies in the gap between the ontological goals of Islamic finance and its technocratic implementation. The reviewed literature justifies a deeper philosophical reconstruction—one that reconnects Islamic banking with its spiritual origins while accommodating practical realities through an ethically grounded paradigm.

METHODOLOGY

This study utilizes qualitative data characterized by conceptual, textual, and normative content. The primary data types involve philosophical texts, legal commentaries, and institutional reports relevant to Islamic banking and the Maqasid al-Shari'ah. The data are non-numerical and rooted in interpretive traditions,

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allowing for thematic and contextual analysis (Neuman, 2014, p. 152). By focusing on ideas, values, and paradigms, this study avoids quantification and instead provides an in-depth exploration of the disconnect between operational banking practices and fundamental Islamic principles.

Data sources were drawn from a wide variety of credible academic and institutional materials. These included peer-reviewed international journals, scholarly books on Islamic economics and philosophy, official reports by Indonesian banking authorities, and fatwas issued by the National Sharia Council – Indonesian Ulema Council (DSN–MUI). Reliance on multiple sources enabled triangulation, increasing the depth and reliability of conceptual insights (Blaikie, 2007, p. 99). Sources were selected based on their philosophical relevance, academic credibility, and ability to inform the theoretical and practical dimensions of the research questions.

Data collection was conducted through document analysis and critical literature review. Hermeneutic methods were applied to deconstruct and interpret Islamic texts and banking guidelines, particularly in understanding how classical doctrines are operationalized in modern Islamic financial institutions (Patton, 2002, p. 453). The literature review systematically used keyword searches such as "Maqasid Sharia," "Islamic banking ethics," and "paradigm reconstruction." Only sources published no later than 2024 were included to ensure contemporary relevance.

The analytical approach used in this study is thematic interpretation combined with philosophical hermeneutics. Themes are derived inductively from the literature and then tested against the core values of Maqasid Syariah and broader Islamic metaphysics (Guba & Lincoln, 1994). This approach allows researchers to uncover the underlying assumptions in banking practices and trace their philosophical origins or inconsistencies. It also allows for conceptual clarity in identifying where operational models deviate from Islamic ethical norms.

Finally, the conclusion-drawing process involves synthesizing thematic findings into a reconstructed paradigm. This synthesis combines ontological, epistemological, and axiological insights to form a cohesive philosophical framework. Such a method ensures that the conclusions are not only descriptive but also transformative, offering a path to recalibrating Islamic banking in accordance with its normative objectives. The goal is not merely to critique but to contribute constructively to the intellectual and institutional development of Islamic finance in Indonesia (Crotty, 1998, p. 111).

RESULT AND DISCUSSION

The findings of this study should be understood as a dialogical engagement between normative theory and institutional practices observed in the Indonesian Islamic banking sector. Rooted in the theoretical framework of Maqashid Syariah, ontology, epistemology, and axiology, the findings reveal that operational practices have become increasingly technical and market-driven, thus marginalizing ethical intentionality. This reinforces the critiques by Haneef (2011) and Kamla (2009), who note that Islamic financial institutions often adopt the structural forms of the Western capitalist system while disengaging from their own spiritual foundations. This study asserts that Indonesian Islamic banks prioritize financial performance and regulatory compliance over deeper ethical obligations such as justice ('adl), virtue (ihsan), and public welfare (maslahah), which are at the core of Islamic economics (Chapra, 2016).

Furthermore, this study introduces a new perspective by reconceptualizing Islamic banking operations as a manifestation of epistemological choice—a choice that determines whether sharia is interpreted strictly through fiqh or through a multidisciplinary, goal-oriented lens. This critical insight builds on the philosophical work of Al-Attas (1995, p. 78) and Nasr (2006, p. 103), which suggests that current models lack metaphysical depth and prioritize legality over intentionality. Recent expert commentary, particularly from Indonesian scholars such as Ascarya and Yumanita (2022), emphasizes that institutional transformation requires a reorientation of goals and governance mechanisms toward maqasid-based performance. By aligning governance with a values-centered ethic and reconfiguring success metrics beyond profitability, Islamic banks can meaningfully reinstill divine justice and accountability into financial operations.

In its contribution to theoretical discourse, this study proposes a reconstructed paradigm that integrates stakeholder theory—anchored in amanah (trust) and khalifah (stewardship)—with Islamic metaphysics. Unlike previous studies that advocated gradual reform, this research calls for a paradigm shift, echoing Kuhn's (1970) framework of scientific revolutions. It suggests that unless Islamic banking restructures its core assumptions to prioritize maqasid-driven intentionality over compliance formalism, its socio-economic contributions will remain marginal. Thus, this reconstructed model fills both theoretical and practical gaps by offering a spiritually coherent and operationally viable alternative grounded in the Qur'anic ethos of justice and human dignity.

Operational Divergence of Maqashid Syariah in Indonesian Islamic Banking

The operational model of Islamic banking in Indonesia is increasingly deviating from the principles of Maqashid Sharia, a trend that reflects structural, regulatory, and institutional limitations. While Islamic finance aspires to serve as a socio-economic catalyst, Indonesian Islamic banks often conform to a profitability-centric framework that resembles conventional banking structures (Ascarya & Yumanita, 2022). This study found that core maqashid values—such as justice ('adl), social equity, and preservation of dignity—are rarely embedded in product design or performance evaluation. Instead, the operational focus remains limited to Sharia compliance through legalistic interpretations of contracts, such as murabahah and ijarah, which mimic interest-based loans in form but not in spirit (Dusuki & Abdullah, 2007).

Institutional pressures within Indonesia's dual banking system exacerbate this problem, as Islamic banks compete directly with conventional banks under the same financial regulatory framework (Abdullah & Chee, 2010). Regulatory standards, set primarily by the Financial Services Authority (OJK) and Bank Indonesia, emphasize capital adequacy, liquidity, and return on assets—metrics inherited from the capitalist paradigm (Ismail, 2022). As a result, Islamic banks are incentivized to prioritize financial performance over social goals. This divergence results in structural isomorphism, where Islamic banks outwardly adhere to Islamic legal norms but inwardly operate within a secular capitalist logic (Kamla, 2009).

Furthermore, the findings demonstrate a lack of systemic integration between the maqashid-based framework and governance structures. While fatwas issued by the DSN–MUI provide regulatory guidance, they often omit the ethical depth of products and services, focusing instead on formal compliance (Haneef, 2011). Internal sharia boards, while tasked with ensuring compliance, rarely assess whether banking practices promote economic justice or societal well-being. This underscores the criticism made by Mohammed and Taib (2015), who proposed maqashid-oriented performance metrics but acknowledged limited institutional adoption in Southeast Asia.

Furthermore, banking personnel often lack formal training in Islamic economic philosophy, creating a gap between operational decisions and the fundamental ethical objectives of Sharia. In many institutions, product officers and compliance personnel are evaluated based on market performance, not ethical impact (Zarqa, 2003). This misalignment of incentives perpetuates a cycle in which Islamic banking remains legally Islamic but ethically neutral, serving the literal meaning rather than the spirit of Sharia.

The commoditization of Islamic financial products also contributes to this disparity. These products are often reengineered to fit within the constraints of Islamic law, rather than being designed from the ground up to meet the needs of maqasid-based objectives (Kamla & Rammal, 2013). As a result, ethical considerations become an afterthought, if considered at all. In practice, the social functions of Islamic banking—such as financial inclusion, support for micro-enterprises, and redistribution through zakat—are subordinated to commercial imperatives (Chapra, 2016).

This section has demonstrated that the operational model of Indonesian Islamic banking has deviated from its core values. While formal Sharia compliance remains intact, the deeper ethical and spiritual dimensions of Maqasid Syariah are often neglected or underdeveloped. These findings highlight the urgency of reorienting the operational ethos of Islamic banking toward a paradigm that aligns legal compliance with ethical intentionality and socio-economic justice

Philosophical and Structural Determinants of Inequality in Islamic Banking

This section examines the philosophical and structural factors contributing to the misalignment between Maqasid Sharia and Islamic banking operations in Indonesia. At the heart of this discrepancy is the epistemological prioritization of fiqh-based reasoning over ethical-spiritual frameworks. Contemporary Islamic banking relies heavily on classical jurisprudence to determine the legality of products, but neglects broader philosophical underpinnings linking legality to human well-being (Haneef, 2011). The dominance of taqlid (uncritical imitation) in legal thought perpetuates a static interpretation of Islamic finance, which rejects innovation rooted in ethical intentionality (Kahf, 2015).

Structurally, the regulatory framework established by the Financial Services Authority (OJK) and Bank Indonesia does not mandate ethical impact reporting or maqashid-oriented audits, thus reinforcing a compliance-centered paradigm. As noted by Chapra (2016), the regulatory architecture should ideally include indicators that assess banks' contributions to justice, financial inclusion, and community empowerment. However, the current framework is modeled on the Basel Accords and emphasizes risk management and financial ratios, which are not anchored in Islamic values. These institutional limitations constitute a structural barrier to operationalizing maqashid-centered banking (Mohammed & Taib, 2015).

The findings also identify an ontological confusion within the identity of Islamic banking. Instead of conceptualizing Islamic banks as agents of ethical transformation, they are often treated as financial intermediaries operating solely without *riba* (interest). This ontological reduction strips Islamic banking of its prophetic vision to serve as a mercy for society (Al-Attas, 1995, p. 67). Without redefining their institutional purpose—grounded in the Maqasid Sharia—Islamic banks risk becoming “halal-certified” versions of conventional entities, as Kamla (2009) warns.

Culturally, the internalization of the ethical paradigm among banking professionals remains weak. Many bank employees, particularly in operations and marketing, receive training that focuses on regulatory compliance and profit targets, rather than on Islamic values and ethical reasoning (Zarqa, 2003). This results in operational decisions being made with minimal consideration of ethical outcomes or community impact. Thus, the lack of philosophical education among practitioners serves as a critical structural obstacle to paradigm transformation.

Furthermore, the commodification of Sharia itself—as a regulatory tool rather than a moral compass—has distorted the role of Sharia councils and fatwa bodies. Rather than acting as spiritual guides rooted in the maqasid (Islamic principles), these institutions often function as legal certifiers that validate pre-designed products. Haneef (2011) argues that such commodification reduces Sharia to a checklist devoid of moral substance. These findings suggest that until Sharia councils reassert their ethical leadership role, structural misalignment will persist.

Finally, international Islamic finance standards—such as those from the AAOIFI and IFSB—focus primarily on technical harmonization and governance formalism, rather than advancing normative or ethical benchmarks. While these standards are crucial for global integration, they often prioritize cross-border regulatory compatibility over local spiritual authenticity (Ismail, 2022). This global-local tension contributes

to the perpetuation of a paradigm that values conformity over transformation, thus hampering the development of an authentic Islamic banking model rooted in Indonesia's socio-religious context.

In conclusion, the philosophical and structural gaps in Islamic banking are profound and multifaceted. These gaps range from an epistemological overreliance on fiqh (Islamic jurisprudence) to an ontological misidentification of objectives, from global institutional pressures to inadequate professional education. Addressing these underlying factors is crucial for reconstructing a paradigm that can truly reflect and operationalize the holistic vision of Maqasid Syariah in the Indonesian Islamic banking sector

Towards the Reconstruction of the Islamic Banking Paradigm Based on Maqashid

This section discusses how a reconstructed philosophical paradigm can realign Indonesian Islamic banking practices with the ethical objectives of Maqashid Sharia. The first step in this reconstruction is to redefine the ontological identity of Islamic banks—not as profit-maximizing intermediaries, but as institutions serving divine justice and human welfare. Al-Attas (1995, p. 45) emphasizes that Islamic institutions should be designed around 'ubudiyyah (devotion to God), with every operational element aligned with this spiritual mission. Reaffirming this identity requires embedding maqashid-based intentions in the bank's vision, mission, and governance, transforming it from a technically Islamic institution to a philosophically coherent one. Operationally, the reconstructed model integrates ethical governance through values-based leadership and accountability mechanisms that go beyond compliance checklists. Stakeholder theory, as adapted to Islamic finance by Dusuki and Abdullah (2007), provides a suitable foundation for this transformation. By incorporating amanah (trust) and khalifah (stewardship) into institutional ethics, banks can assess their impact on customers, employees, and the broader ummah. Practical implementation will involve an inclusive governance structure that reflects diverse stakeholder voices and mandates regular maqasid-oriented performance audits (Mohammed & Taib, 2015).

Education plays a crucial role in this paradigm shift. This study recommends integrating Islamic economic philosophy into formal training programs for bank staff, executives, and Sharia board members. Such training should go beyond legal mechanisms and address the moral, ethical, and spiritual underpinnings of financial operations (Zarqa, 2003). Philosophical literacy will empower professionals to make ethically aligned decisions that reflect both the letter and spirit of Islamic teachings, thus enabling a more authentic implementation of the maqasid objectives in everyday banking.

The reconstructed paradigm must also shift the epistemological foundation of Islamic banking from reasoning dominated by fiqh (Islamic jurisprudence) to multidisciplinary integration. As Haneef (2011) argues, the Qur'anic worldview supports the use of reason (aql), experience, and modern scientific disciplines, as long as they serve the higher goals of Sharia. Integrating insights from behavioral economics, ethics, and sociology into the financial decision-making process will enable Islamic banking to address real-world complexities while remaining faithful to divine principles. This approach respects tradition without becoming bogged down in traditionalism.

Technological innovation, when guided by maqasid-based ethics, can also serve as a catalyst for transformation. Digital platforms can increase transparency, expand financial inclusion, and facilitate the provision of social financial instruments such as zakat, waqf, and qard hasan. However, the design and implementation of fintech must be guided by ethical algorithms that prioritize maslahah (public good) over mere efficiency or profit (Ascarya & Yumanita, 2022). Embedding ethical standards into Islamic fintech can provide a scalable model for inclusive and justice-oriented finance.

Institutional reform is the final pillar of paradigm reconstruction. National regulatory bodies such as the Financial Services Authority (OJK) and the National Council of Islamic Scholars (DSN-MUI) must shift from compliance oversight to ethical guidance, developing new frameworks that reward outcomes based on *maqashid* (the principle of goodness). Policy incentives could include tax benefits for banks that meet social impact benchmarks or mandatory ethics audits. International standard-setting bodies must also evolve to support ethical differentiation, not just formal standardization (Ismail, 2022). Without a supportive institutional infrastructure, ethical aspirations risk remaining symbolic rather than structural.

In essence, this reconstructed paradigm does not aim to eliminate current practices, but rather to realign them with the spiritual and ethical imperatives of Islam. By integrating ontological goals, epistemological balance, axiological foundations, and stakeholder-centered governance, Indonesian Islamic banking can reclaim its original mandate: to serve humanity through justice, compassion, and accountability to God. This reimagining is not merely a reformation—it is a renaissance of the very soul of Islamic finance.

This study has answered three research questions by uncovering a multidimensional gap between the philosophical ideals of *Maqasid Syariah* and the operational realities of Islamic banking in Indonesia. First, the findings indicate that although Islamic banks maintain formal compliance with Sharia contracts, they often lack substantive alignment with ethical goals such as justice, equality, and human dignity. Their operational models are primarily shaped by conventional financial metrics and competitive pressures, leading to the implementation of Islamic principles that prioritize form over substance.

Second, this study identifies the key philosophical and structural determinants of this divergence, including the dominance of a *fiqh*-centered epistemology, ontological misinterpretations of banking's objectives, institutional inertia, and an inadequate regulatory framework. These factors perpetuate a system in which Islamic banking is reduced to legal formalism devoid of spiritual intentionality. Theoretical engagement with paradigm reconstruction and stakeholder theory reveals the need to redefine institutional identity and performance indicators in line with Islamic metaphysical principles.

Third, this study proposes a reconstructed paradigm that integrates ethical governance, stakeholder-based accountability, multidisciplinary epistemology, and spiritually grounded institutional objectives. This model addresses the fundamental disjunctions identified in the literature and offers a viable alternative for realigning Islamic banking with the higher objectives of Sharia. Such a paradigm is not only doctrinally sound but also operationally transformative, capable of guiding institutions toward holistic success as measured by human development and ethical impact.

This study provides new theoretical insights by connecting ontological, epistemological, and axiological frameworks with operational practices, offering a comprehensive philosophical foundation for Islamic finance. It also introduces a paradigm shift from compliance to intentionality, calling for banks to become divinely oriented institutions of service rather than mere commercial entities. This reconstruction serves as both a critique and a blueprint, challenging existing assumptions while offering an actionable framework.

The theoretical implications are substantial, as this study critiques the current Islamic banking paradigm and expands the discourse by offering a spiritually coherent, interdisciplinary, and ethically grounded alternative. Practically, the findings suggest a pathway for Islamic financial institutions to revise their governance structures, training curricula, regulatory engagement, and performance assessments. For regulators and policymakers, this study underscores the need for metrics that capture ethical and social outcomes. For practitioners, this study offers concrete strategies for integrating *maqasid* values into banking

products and operations. Ultimately, this study bridges the gap between divine purpose and worldly application, advancing Islamic finance discourse toward its intended transformative role.

CONCLUSION

This study has critically examined the gap between the philosophical ideals of Maqasid Syariah and the operational practices of Islamic banking in Indonesia. It has shown that although Islamic banking institutions adhere to a form of Sharia compliance, they often fail to realize their ethical and social objectives. This discrepancy stems from an overemphasis on legalistic interpretations, a structural imitation of the conventional banking system, and the absence of a cohesive philosophical foundation that integrates ontology, epistemology, and axiology in institutional design.

This research has reaffirmed the relevance of a reconstructed paradigm based on Islamic metaphysical values and ethical governance. By adopting a values-driven identity, embracing a balanced epistemology, and implementing stakeholder-inclusive governance, Islamic banking can realign its objectives with Islam's spiritual and social mission. These findings provide theoretical clarity and practical insights into how this alignment can be realized in the contemporary financial system.

Based on these insights, this study recommends that Islamic financial institutions reform their governance structures to incorporate ethical accountability measures. Regulatory bodies should introduce maqasid-oriented performance indicators to evaluate social and ethical outcomes alongside financial metrics. Training programs should integrate Islamic economic philosophy to deepen ethical literacy among practitioners. Future research is encouraged to empirically test the proposed paradigm and explore its applicability across diverse Islamic financial ecosystems. Through these efforts, Islamic banking can be revitalized as a truly transformative force rooted in divine justice, compassion, and accountability.

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