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Literature Review

Benchmarking the Business Model of Bank Syariah Indonesia Against International Best Practices: A Comparative Literature Review

Hirshi Anadza

Universitas Islam Malang, Indonesia
Email: hirshi.anadza@unisma.ac.id

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Abstract

The development of Islamic banking in Indonesia still faces challenges in Sharia governance, product diversification, risk management, digitalization, and regulatory harmonization when compared with practices in the Gulf Cooperation Council (GCC) countries and Malaysia. This study aims to analyze these gaps and to identify strategies for strengthening the competitiveness of Indonesian Islamic banking. It applies a PRISMA-based comparative literature review and a bibliometric analysis of 20 academic sources published between 2008 and 2026, with the discussion covering ten strategic dimensions of Islamic banking. The review identifies several main challenges: the dominance of *murabahah* financing, Sharia governance and supervision that are not yet optimally standardized, limited integration of financial technology, regulatory fragmentation, and the insufficient incorporation of sustainability indicators and *Maqasid al-Shariah* into performance measurement. It also draws attention to benchmark practices, namely centralized Sharia supervision, a more consolidated legal framework, product diversification, and the adoption of financial technology. The study concludes that improving the competitiveness of Indonesian Islamic banking calls for stronger governance, the development of profit-sharing-based products, regulatory harmonization, and digital transformation. Its contribution lies in a multidimensional comparative synthesis that serves as a conceptual basis for developing a hybrid performance index, one that integrates financial, digital, and sustainability aspects grounded in Sharia principles. These findings can serve as input for regulators and Islamic bank managers in formulating policies and strategies for sustainable industry development.

Keywords: Benchmarking, Business Model Innovation, Islamic Banking, *Maqasid al-Shariah*, Shariah Governance.

1. Introduction

Islamic banking is among the fastest-growing segments of the global financial system, having expanded from a niche market in Muslim-majority countries into the world's mainstream financial centers. In Indonesia, the country with the largest Muslim population in the world, Islamic banking has grown considerably since Bank Muamalat was established in 1992. Government support, a dedicated regulatory framework under the Financial Services Authority (OJK), and rising demand for Shariah-compliant products have accelerated the sector's growth. Even so, Islamic banking assets account for only about 7.41% of national banking assets as of June 2025 (OJK, 2025), while in Malaysia the share is reported at around 37% (Suheriadi, 2024). Over the past three decades, Islamic banks in the GCC and Malaysia have built strong governance frameworks, diverse product portfolios, and advanced fintech ecosystems (Nawaz, 2017; Siddiqui, 2008), which makes both suitable benchmarks for Indonesia. The gap is not only a matter of market size, because recent studies show that the advantages of each country are not uniform across all indicators. Pratama et al. (2025), for

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example, found that Indonesian Islamic banks have a higher profit-sharing ratio, while Malaysia leads in net profit margin, and the other indicators do not differ significantly. Rahim et al. (2023) also show that Shariah governance disclosure is more prominent in Malaysia than in the GCC countries, so these two benchmarks are not homogeneous either.

Nevertheless, the existing literature has three limitations that form the basis of this study. First, comparative studies generally focus on a single dimension, such as financial performance and Shariah compliance (Azzahra et al., 2023; Pratama et al., 2025; Wahyuni et al., 2023), accounting and tax harmonization (Rahayu et al., 2024), Shariah governance (Hijriah et al., 2024; Rahim et al., 2023), or financial inclusion and efficiency (Taufiq & Razali, 2024), so the links between dimensions within the business model have not been mapped in an integrated way. Second, comparisons involving Indonesia are generally made against Malaysia alone, while systematic comparisons with Malaysia and the GCC countries together remain rare. Third, more recent issues, namely sustainability and ESG as well as fintech adoption, are generally studied separately from governance and performance. Research on ESG in the GCC shows mixed results: Kolsi and Al-Hiyari (2023) report that Islamic banks lead on most ESG pillars, whereas Al-Khouri and Abdul Basith (2022) find low levels of voluntary disclosure, especially among Islamic banks. Studies on sustainability reporting in Indonesia–Malaysia (Sholihah et al., 2024) and cross-country research on fintech (Rahman et al., 2023) have likewise not been connected to the governance and financial dimensions within a single framework. On the other hand, research on Shariah governance, risk-taking, and *maqasid*-based performance (Kiranawati et al., 2023; Nastiti, 2023; Prasojo et al., 2022; Sueb et al., 2022) has not been compared across regions together with the other dimensions. For this reason, the assumption that the GCC and Malaysia are superior still needs to be tested on each dimension rather than taken for granted.

Given these gaps, this article aims to map the literature's findings on the business models of Islamic banks in Indonesia, the GCC, and Malaysia; to compare Indonesian Islamic banking practices with international benchmarks across ten analytical dimensions; and to identify structural and operational gaps as a basis for policy and institutional development recommendations. The contribution and originality of this article are threefold. First, it offers a multidimensional comparative framework that combines traditional aspects (governance, products, risk, performance) with contemporary ones (fintech, ESG, innovation). Second, it critically assesses the advantages of the GCC and Malaysia on the basis of empirical evidence on each dimension. Third, it produces a gap map that regulators, bank management, and researchers can put to use.

The ten dimensions were chosen on the basis of three considerations. Dimensions (1) to (4), namely Shariah governance and supervision, product and contract diversity, risk management, and performance and efficiency, are the themes most often compared in recent cross-country studies (Pratama et al., 2025; Rahim et al., 2023; Sueb et al., 2022). Dimensions (5) to (9), namely customer service, technology and fintech, regulation, sustainability/ESG, and innovation capacity, represent fast-developing issues that determine long-term competitiveness (Kolsi & Al-Hiyari, 2023; Rahayu et al., 2024; Rahman et al., 2023; Sholihah et al., 2024).

The selection of the ten dimensions in this study rests on both conceptual and empirical grounds. Conceptually, the business model of an Islamic bank cannot be understood through performance indicators alone, since it is shaped by the interaction among governance structure, product design, risk profile, technological capability, and the institutional environment in which the bank operates. Empirically, dimensions (1) to (4), namely Shariah governance and supervision, product and contract diversity, risk management, and

performance and efficiency, are the themes most consistently compared in recent cross-country studies (Pratama et al., 2025; Rahim et al., 2023; Sueb et al., 2022). Dimensions (5) to (9), namely customer engagement, technology and fintech adoption, regulatory compliance, sustainability and ESG, and innovation capacity, represent contemporary issues that determine long-term competitiveness but are still studied in a fragmented manner (Kolsi & Al-Hiyari, 2023; Rahayu et al., 2024; Rahman et al., 2023; Sholihah et al., 2024). Dimension (10), namely cultural influence and cross-country adaptability, serves as a contextual lens. The finding that country advantages are not uniform, even among the countries used as benchmarks (Pratama et al., 2025; Rahim et al., 2023), indicates that the transferability of best practices depends on how well they fit the social, regulatory, and institutional configuration of the recipient country. This dimension is therefore needed to judge whether a practice is worth adopting, and not merely whether it is superior.

On this basis, the study organizes its analysis into ten comparative dimensions: (1) Shariah governance and supervisory structure, (2) product offerings and contract diversity, (3) risk management practices, (4) financial performance and efficiency, (5) customer engagement and service quality, (6) technology adoption and fintech integration, (7) regulatory compliance and legal framework, (8) sustainability and ESG practices, (9) innovation capacity and product development, and (10) cultural influence and cross-country adaptability. On each dimension, Indonesian Islamic banking practices are compared with the Malaysian and GCC benchmarks using the available empirical evidence, and structural and operational gaps are then identified in order to formulate implications for policy and institutional development.

2. Literature Review

2.1. Principles of Islamic Finance and Business Model Structures

The foundational principles of Islamic finance rest on the prohibition of *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation or gambling). These prohibitions are complemented by positive injunctions to promote risk-sharing, asset-backed financing, and ethical economic conduct (Alshater et al., 2023). The distinctive contractual architecture of Islamic banking includes *Mudharabah* (profit-sharing between capital provider and entrepreneur), *Musharakah* (joint venture with shared profits and losses), and *Murabahah* (cost-plus sale) (Khan & Bhatti, 2008). Each contract embodies different risk-sharing arrangements and has distinct implications for bank profitability, stability, and Shariah compliance.

In practice, *Murabahah* dominates Indonesian Islamic banking, accounting for approximately 60 percent of financing portfolios. While administratively straightforward, heavy reliance on *Murabahah* raises concerns about the so-called 'quasi-*Murabahah* syndrome', in which cost-plus sales effectively replicate interest-based lending without delivering the risk-sharing benefits that distinguish Islamic finance (Suzuki et al., 2019). By contrast, international best-practice markets such as Malaysia and GCC countries maintain more diversified portfolios incorporating *Musharakah* and Ijarah (leasing), thereby more authentically reflecting the participatory ethos of Islamic finance (Belkhaoui et al., 2020).

Business model innovation in Islamic banking requires integrating traditional contractual structures with modern financial tools, navigating the tension between Shariah authenticity and market competitiveness (Von Pock, 2007). Internationally competitive Islamic banks have pursued global expansion by adapting their models to non-Muslim

contexts, emphasizing regulatory harmonization and cultural sensitivity as core strategic competencies.

2.2. Shariah Governance and Supervisory Frameworks

Shariah Supervisory Boards (SSBs) are the cornerstone of Islamic banking governance, tasked with ensuring that all bank operations conform to Islamic law. Research consistently demonstrates that SSB characteristics including board size, member expertise, independence, and cross-institutional membership significantly mediate both financial performance and compliance quality (Roziq & Ahmad, 2024). In Indonesia, SSBs operate within a decentralized governance framework in which individual banks appoint their own boards, leading to variability in effectiveness and consistency.

By contrast, Malaysia operates a centralized Shariah governance model anchored by the Shariah Advisory Council of Bank Negara Malaysia, which issues binding rulings applicable to the entire industry. GCC countries, particularly Bahrain and the UAE, have similarly developed centralized oversight mechanisms with higher disclosure standards and more rigorous enforcement mechanisms (Tashkandi, 2023). The empirical evidence suggests that centralized governance is positively associated with financial performance and Shariah compliance quality, reinforcing the case for governance reform in Indonesia (Roziq & Ahmad, 2024).

The dual-board structure comprising both the SSB and a conventional Board of Directors creates unique governance dynamics. Studies comparing Indonesian and Malaysian Islamic banks find that dual-board configurations enhance compliance monitoring when the two boards operate with clearly delineated mandates and robust inter-board communication (Hijriah et al., 2021).

2.3. Performance Measurement: From Financial Metrics to *Maqasid al-Shariah*

Conventional performance metrics such as Return on Assets (ROA), Return on Equity (ROE), and Non-Performing Financing (NPF) ratios provide important but incomplete pictures of Islamic bank performance. Recognizing that Islamic banks are obligated to pursue social welfare alongside profitability, scholars have developed *Maqasid al-Shariah* (objectives of Islamic law)-based performance frameworks (Nurkhin et al., 2023).

The *Maqasid*-Based Performance Evaluation Model (MPEM) operationalizes the five classical objectives of Islamic law preservation of religion, life, intellect, progeny, and wealth into quantifiable performance indicators. Complementary frameworks include the M Score, which integrates financial and ethical dimensions, and emerging sustainability indices that align Islamic banking with Environmental, Social, and Governance (ESG) criteria (Ammar et al., 2023; Muhamad et al., 2022). These frameworks offer holistic assessments that capture the social contract inherent in Islamic banking but remain underutilized in practice, particularly in Indonesia, where reporting is still largely oriented toward conventional financial metrics.

The integration of ESG principles with *Maqasid al-Shariah* represents a significant theoretical advance, positioning Islamic banking as a natural vehicle for sustainable finance. The pyramid approach proposed by recent scholars prioritizes social responsibility, followed by governance and environmental sustainability, reflecting the *Maqasid* hierarchy (Muhamad et al., 2022).

2.4. Business Model Innovation and Strategic Management

Strategic management theory provides additional scaffolding for understanding Islamic banking competitiveness. Market-based views emphasize the importance of product differentiation and customer value propositions, while resource-based views highlight the role of organizational capabilities including human capital, technological infrastructure, and institutional knowledge in sustaining competitive advantage (Von Pock, 2007). For Islamic banks, innovation capacity is shaped not only by conventional market forces but also by Shariah compliance constraints, regulatory environments, and the availability of qualified Islamic finance scholars.

Globally competitive Islamic banks have invested significantly in R&D, cross-country product adaptation, and fintech integration. Research on barriers to product innovation identifies regulatory uncertainty, shortage of qualified Islamic finance professionals, and cultural resistance to financial novelty as the principal impediments facing banks in developing markets, including Indonesia (Chaudhry et al., 2020).

3. Methods

3.1. Systematic Review Protocol

This study uses a comparative literature review method, adapting the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework to document the identification, screening, eligibility assessment, and selection of literature in a transparent way. The search was carried out in two academic databases, Scopus and Web of Science, which returned 60 and 40 records respectively. The keywords used were Islamic banking, Sharia compliance, benchmarking, business model, digital transformation, ESG, *Maqasid al-Shariah*, fintech, governance, and Indonesia. These keywords were combined with the Boolean operators AND and OR in order to retrieve publications relevant to the research objectives.

The search was limited to publications from 2008 to 2026 that address the business model, governance, performance, innovation, or digital transformation of Islamic banking. The literature considered includes empirical studies, theoretical work, and literature reviews relevant to comparing Indonesia, Malaysia, and the Gulf Cooperation Council (GCC) countries.

3.2. Inclusion and Exclusion Criteria

Literature selection proceeded in three stages. At the identification stage, 100 records were obtained from Scopus and Web of Science. After 15 duplicate records were removed, 85 records remained for screening. At the screening stage, 55 records were excluded because they were not relevant to the business model or benchmarking of Islamic banking. Next, 30 full-text articles were assessed for eligibility. Ten articles were excluded because they lacked an adequate comparative focus (5 articles), did not cover Indonesia, the GCC, or Malaysia (3 articles), or were published before 2008 or available only as conference abstracts (2 articles). As a result, 20 academic sources were included in the final synthesis, as shown in Figure 1.

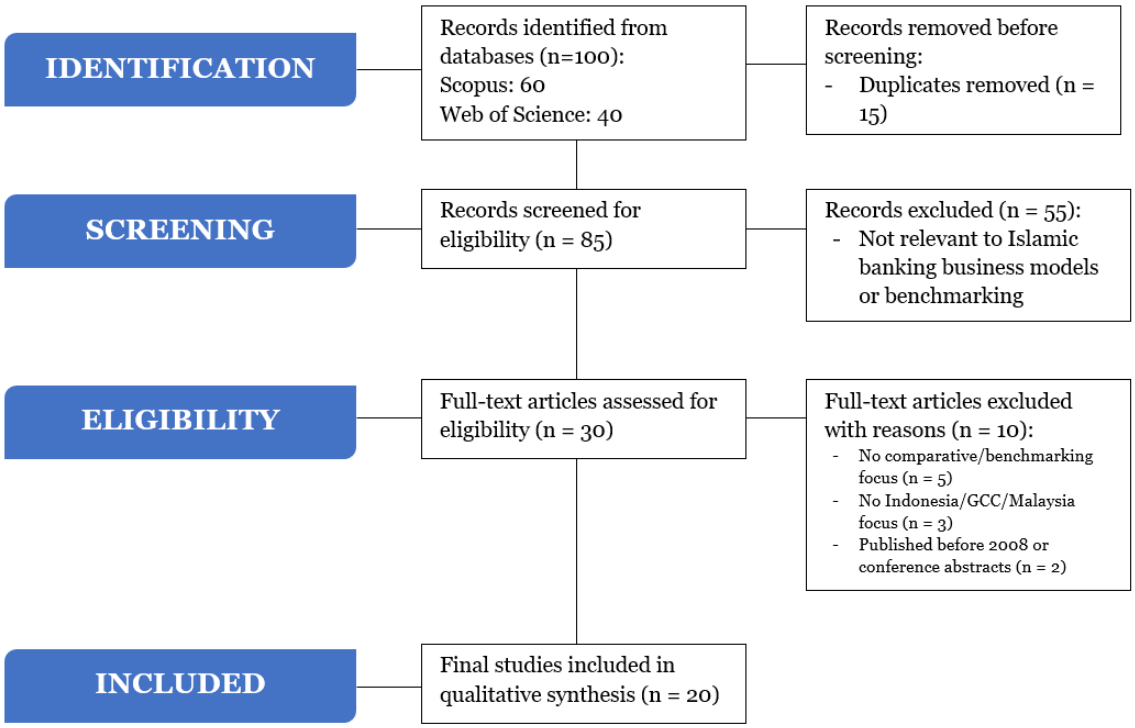


Figure 1. PRISMA Flow

According to the Figure 1, literature selection proceeded through three stages. At the identification stage, 100 records were retrieved from Scopus and Web of Science. After 15 duplicates were removed, 85 records were left for screening. During screening, 55 records were excluded for lacking relevance to the business model or benchmarking of Islamic banking. The full text of 30 articles was then assessed for eligibility. Ten of these were excluded because they did not have a sufficiently comparative focus (5 articles), did not address Indonesia, the GCC, or Malaysia (3 articles), or were published before 2008 or available only as conference abstracts (2 articles). Accordingly, 20 academic sources were included in the final synthesis, as shown in Figure 1.

3.3. Thematic Analysis and Synthesis

The analysis combined an exploratory bibliometric mapping using VOSviewer with qualitative content analysis. VOSviewer was used to help visualize the links between terms and the clustering patterns of themes in the literature, while content analysis was used to assess how substantively the findings of each study bear on the comparison of Islamic banking business models in Indonesia, Malaysia, and the Gulf Cooperation Council (GCC) countries.

The bibliometric mapping was treated as a supporting exploratory tool, not as the sole basis for determining the research themes. Interpreting the map took into account the relationships among keywords and their relevance to the focus of the study. Because the final corpus consists of only 20 purposively selected sources, the mapping is not intended to depict the overall intellectual structure or publication trends of the Islamic banking field. Technical parameters such as the minimum keyword occurrence threshold, the counting method, and the clustering settings belong to the software procedure and should be kept distinct from the process of conceptual synthesis. The ten research dimensions were therefore not determined solely by the number of clusters VOSviewer produced, but were developed through a comparative reading and conceptual grouping of the sources that met the inclusion criteria.

The ten comparative dimensions are (1) Shariah governance and supervisory structure, (2) product offerings and contract diversity, (3) risk management practices, (4) financial performance and efficiency, (5) customer engagement and service quality, (6) technology adoption and fintech integration, (7) regulatory compliance and legal framework, (8) sustainability and ESG practices, (9) innovation capacity and product development, and (10) cultural influence and cross-country adaptability. These dimensions were drawn up according to their relevance to the structure and development of Islamic banking business models, how well they represent the main and contemporary issues in the corpus, and their usefulness for comparing conditions in Indonesia with practices in Malaysia and the GCC countries.

Each source was analyzed in terms of its focus, geographic context, approach, and the findings relevant to one or more of these dimensions. The results were then synthesized thematically to identify consistent patterns, differences in findings, structural and operational gaps, and implications for policy and institutional development. This approach allows a discussion across dimensions without assuming that any one country is superior in every aspect of Islamic banking.

4. Results and Discussion

4.1. Research Results

The literature review identified 20 selected publications that address various aspects of Islamic banking business models, governance, financial performance, risk management, innovation, and regulatory developments. As presented in Table 1, the literature reviewed covers both global perspectives and specific country and regional contexts, including Indonesia, Malaysia, the Gulf Cooperation Council (GCC) countries, Bangladesh, Pakistan, and the Philippines. These publications represent a number of interrelated research dimensions, ranging from financing contracts and risk allocation to Shariah supervisory structures, sustainability, digital transformation, and cultural influence. This breadth of coverage provides the basis for comparing the institutional arrangements and operational practices of Islamic banking across countries.

Table 1. Research Results

No.	Author(s) & Year	Primary Research Dimension(s) Supported	Geographic Scope
1.	Siddiqui (2008)	Financial contracts and efficiency	International
2.	Nawaz (2017)	Dual-banking business models	International
3.	Alshater et al. (2023)	Principles of Islamic Finance	Global
4.	Khan & Bhatti (2008)	Development and risk-allocation	Global
5.	Suzuki et al. (2019)	*Murabahah* dominance and “quasi-interest”	Indonesia / Bangladesh
6.	Belkhaoui et al. (2020)	GCC best practices and portfolio diversification	GCC
7.	Von Pock (2007)	Strategic management and innovation	Global
8.	Roziq & Ahmad (2024)	SSB characteristics and performance	Indonesia
9.	Tashkandi (2023)	GCC centralized oversight mechanisms	GCC
10.	Hijriah et al. (2021)	Dual-board configuration and compliance	Indo / Malaysia
11.	Nurkhin et al. (2023)	*Maqasid al-Shariah* performance models	Indonesia

No.	Author(s) & Year	Primary Research Dimension(s) Supported	Geographic Scope
12.	Ammar et al. (2023)	Sustainability Performance Index (IBSPI)	Global
13.	Muhamad et al. (2022)	ESG and *Maqasid al-Shariah* integration	Global
14.	Chaudhry et al. (2020)	Barriers to product innovation	Pakistan
15.	Aspiranti et al. (2019)	NPF and credit risk evaluation	Indonesia
16.	Bonang et al. (2025)	Service quality and SERVQUAL dimensions	Global
17.	Maniam (2024)	Fintech integration and literacy	Global
18.	Čiković & Keček (2025)	Blockchain and advanced fintech adoption	Global
19.	Fidhayanti et al. (2025)	Legal frameworks and the IFSA model	Indo / Malaysia
20.	Purnamasari et al. (2024)	Cultural influences and inclusive finance	Indo / Philippines

The mapping in Table 1 shows that the Islamic banking literature offers complementary analytical perspectives. Studies on financing contracts, risk allocation, and portfolio diversification provide a basis for understanding differences in financing practices and risk management. Research on the characteristics of the Shariah Supervisory Board, centralized supervisory mechanisms, and legal frameworks underlines how important governance and regulation are for maintaining Shariah compliance. Meanwhile, studies on *Maqasid al-Shariah*, the integration of environmental, social, and governance (ESG) factors, and sustainability performance indices extend the assessment of Islamic banking beyond conventional financial indicators. The dimensions of service quality, financial literacy, financial technology (fintech), blockchain, and cultural influence also point to the relevance of technological readiness, customer engagement, and local context for industry development. Taken as a whole, these publications form the conceptual foundation for comparing Indonesian Islamic banking with Malaysia and the GCC countries across ten analytical dimensions. However, this mapping of dimensions and geographic coverage is not sufficient to conclude that one country performs better than another. A comparative conclusion requires further analysis of the substantive findings of each study.

4.1.1. Governance Structures and Shariah Supervisory Boards

Indonesian Islamic banks operate under a fragmented governance landscape in which each institution maintains its own SSB without a centralized oversight body comparable to Malaysia's Shariah Advisory Council. Empirical studies on Indonesian banks find that SSB characteristics particularly board size and the academic credentials of members are positively associated with financial performance and risk mitigation (Roziq & Ahmad, 2024). However, cross-membership of scholars across multiple SSBs raises independence concerns and limits the depth of oversight any individual scholar can provide.

International benchmarks from GCC countries demonstrate that stricter disclosure requirements, independent SSB appointments, and centralized fatwa issuance are associated with higher Shariah compliance quality and superior financial outcomes (Tashkandi, 2023). Malaysian data corroborate this finding, with centralized governance correlating with reduced variance in compliance standards across institutions (Hijriah et al., 2021). The principal gap

for Indonesia lies in the absence of a binding, industry-wide Shariah governance code with enforceable standards for SSB composition, remuneration, and reporting.

4.1.2. Product Offerings and Contract Structures

The dominance of *Murabahah* in Indonesian Islamic banking portfolios is well-documented, with some estimates placing its share at over 60 percent of total financing (Suzuki et al., 2019). While *Murabahah* is operationally efficient and familiar to bank customers accustomed to fixed-payment structures, its widespread use has attracted scholarly criticism for mimicking conventional interest-based lending and failing to deliver substantive risk-sharing (Suzuki et al., 2019). By contrast, GCC banks have developed more sophisticated *Musharakah Mutanaqisah* (diminishing partnership) products for home financing and Ijarah-based leasing facilities that align more authentically with Islamic finance principles (Belkhaoui et al., 2020).

Regional fatwa differences further complicate product standardization in Indonesia. The absence of nationally binding Shariah standards for specific contracts creates compliance uncertainty for banks operating across different regional jurisdictions. International best practices point to the importance of standardized contractual templates endorsed by a central Shariah authority as a prerequisite for product diversification and cross-border compatibility.

4.1.3. Risk Management Practices

Non-Performing Financing (NPF) ratios in Indonesian Islamic banks have risen in recent years, reflecting sectoral concentration in retail and small business financing and the adverse effects of macroeconomic volatility (Aspiranti et al., 2019). Studies attribute elevated NPF levels to inadequate credit risk evaluation procedures, insufficient collateralization practices, and limited sectoral diversification (Aspiranti et al., 2019). Intellectual capital encompassing human, structural, and relational capital has emerged as a significant moderator of risk and performance in Indonesian Islamic banks, underscoring the importance of talent development.

GCC Islamic banks have adopted enterprise risk management (ERM) frameworks, maintained higher capital buffers aligned with Basel III requirements, and implemented IFRS 9 expected credit loss provisioning to strengthen resilience (Belkhaoui et al., 2020). Macroprudential policy tools, including loan-to-value caps and concentration limits, have further supported stability in these markets. Indonesia's path to risk management best practice requires investment in ERM capacity, improved credit scoring methodologies, and greater sectoral portfolio diversification.

4.1.4. Financial Performance and Efficiency

Financial performance studies consistently identify operational efficiency as a key challenge for Indonesian Islamic banks relative to international peers. Higher overhead cost ratios, limited economies of scale in smaller Islamic banks, and NPF-related provisioning burdens constrain profitability (Siddiqui, 2008). Return on assets and return on equity metrics for Indonesian Islamic banks trail those reported for GCC and Malaysian counterparts in regulated, competitive environments.

Research decomposing performance determinants in Indonesian banks finds that corporate governance implementation quality specifically board independence and SSB characteristics is a significant positive predictor of pre-COVID profitability, reinforcing the governance-performance link identified in the broader international literature (Roziq & Ahmad, 2024). Post-merger dynamics following the formation of Bank Syariah Indonesia in

2021 offer a natural experiment for examining whether consolidation-driven scale benefits can narrow the performance gap with international peers.

4.1.5. Customer Engagement and Service Quality

Customer trust, religious conviction, and perceived service quality are the primary drivers of Islamic bank loyalty in Indonesia (Bonang et al., 2025). Bibliometric analyses of service quality research in Islamic banking reveal sustained scholarly attention to SERVQUAL dimensions including reliability, responsiveness, assurance, empathy, and tangibles supplemented by Shariah compliance dimensions unique to the Islamic banking context (Bonang et al., 2025). Digital literacy and financial literacy deficits among broad segments of the Indonesian population constrain the effectiveness of digital service delivery and limit informed product selection.

International benchmarks, particularly from Malaysia, demonstrate that transparency in product disclosure, integration of fintech-enabled service channels, and robust customer education programmes significantly enhance satisfaction and retention (Maniam, 2024). Indonesian Islamic banks are gradually developing digital service propositions, but the depth and sophistication of customer engagement lags international standards, particularly in personalization, omnichannel integration, and Shariah-compliant robo-advisory services.

4.1.6. Technological Adoption and Fintech Integration

Fintech integration presents a significant opportunity and challenge for Indonesian Islamic banking. While digital banking penetration is increasing, most Indonesian Islamic banks remain at basic digital service levels including mobile banking, digital account opening, and online financing applications without deeper integration of artificial intelligence, blockchain, or big data analytics (Maniam, 2024). IT skill shortages within Islamic banking institutions and regulatory uncertainty around digital financial products have slowed adoption relative to conventional banking peers and international Islamic banking markets.

GCC Islamic banks and Malaysian institutions have moved more decisively into advanced fintech territory, piloting blockchain-based sukuk issuance, smart contract automation for *Murabahah* transactions, and AI-driven credit scoring (Čiković & Keček, 2025). Research on Islamic fintech adoption determinants identifies religious compatibility, perceived usefulness, and trust as critical antecedents, findings that are directly applicable to the Indonesian context and that suggest demand-side conditions are favourable for accelerated adoption if supply-side capacity and regulatory clarity can be improved (Čiković & Keček, 2025).

4.1.7. Regulatory Compliance and Legal Frameworks

Indonesia operates a dual banking system in which Islamic banks function alongside conventional counterparts under a shared regulatory architecture administered by OJK and Bank Indonesia. While this system has facilitated Islamic banking growth, it has also created regulatory fragmentation, with Islamic-specific provisions dispersed across multiple legislative instruments and subject to evolving interpretation (Fidhayanti et al., 2025). The legal framework for Islamic fintech is particularly underdeveloped, with regulatory sandboxes and digital financial service guidelines still maturing.

Malaysia's Islamic Financial Services Act (IFSA) of 2013 provides a model of cohesive, dedicated Islamic banking legislation that consolidates Shariah governance, consumer protection, and capital adequacy requirements in a single, enforceable framework (Fidhayanti et al., 2025). Comparative insights from Indonesia-Malaysia regulatory studies suggest that legal harmonization through dedicated Islamic banking legislation or a comprehensive

Shariah financial services code would significantly reduce compliance uncertainty and lower barriers to product innovation.

4.1.8. Sustainability Practices and ESG Integration

Sustainability reporting in Indonesian Islamic banking is improving in volume but lags in quality and depth. Most reports remain compliance-oriented, disclosing mandated CSR expenditures and environmental policy statements without substantively integrating sustainability into strategic decision-making or performance measurement (Ammar et al., 2023). The alignment of ESG principles with *Maqasid al-Shariah* which mandates the preservation of life, intellect, wealth, and social welfare provides a conceptually coherent framework for Islamic banking sustainability that is largely unrealized in practice.

International best practices from Malaysian Islamic banks and GCC institutions include dedicated sustainability committees at the board level, third-party verified integrated reports, and *Maqasid*-aligned performance scorecards (Ammar et al., 2023; Muhamad et al., 2022). The development of a standardized Islamic Banking Sustainability Performance Index (IBSPI) that operationalizes both financial and *Maqasid*-based indicators would provide Indonesian banks with a practical benchmarking tool and strengthen stakeholder accountability.

4.1.9. Innovation Capacity and Product Development

Innovation in Indonesian Islamic banking is constrained by interrelated barriers: regulatory uncertainty, shortage of qualified Islamic finance professionals, cultural conservatism, and limited R&D investment at both the institutional and sectoral levels (Chaudhry et al., 2020). Product development cycles are lengthy due to the need for SSB approval at each stage, and the absence of industry-wide innovation labs or collaborative R&D platforms limits knowledge spillovers.

International best-practice Islamic banks particularly in Malaysia and the UAE have established dedicated innovation units, partnered with fintech startups through accelerator programmes, and participated in cross-border regulatory harmonization initiatives that reduce the cost of product adaptation (Chaudhry et al., 2020). Human capital development emerges as the foundational enabling condition for innovation capacity: investment in specialist training programmes in Islamic finance, fintech, and ESG reporting is a prerequisite for narrowing the innovation gap.

4.1.10. Cultural Influences and Cross-Country Adaptability

Religious norms and cultural values profoundly shape consumer behaviour and institutional practice in Indonesian Islamic banking. Research on trust in Islamic versus conventional banks finds that religious identity, ethical reputation, and community embeddedness are significant loyalty drivers in Muslim-majority contexts (Purnamasari et al., 2024). However, the same cultural embeddedness that strengthens domestic market positioning can constrain cross-border adaptability, as products and practices calibrated to Indonesian *fiqh* (jurisprudence) norms may not be transferable to other jurisdictions with different *madhab* (jurisprudential school) traditions.

Cross-country adaptability is increasingly recognized as a strategic imperative for Islamic banking internationalisation. Research on Shariah-compliant fintech in Indonesia and the Philippines highlights the need for culturally sensitive product design that accommodates diverse jurisprudential traditions while maintaining a coherent Islamic ethical identity [20]. Legal harmonization and mutual recognition agreements between Islamic banking regulators in ASEAN and GCC countries would facilitate market entry and product portability, reducing the cultural and legal transaction costs of international expansion.

4.2. Discussion

The comparative findings show that the differences among the business models of Islamic banks in Indonesia, Malaysia, and the Gulf Cooperation Council (GCC) countries are tied not only to industry scale but also to governance, product strategy, risk management, service quality, and the ability to adapt to a changing business environment. Across the ten research dimensions, these differences indicate that developing Islamic banking involves links among institutional, operational, technological, and Shariah-objective aspects. Cross-country comparison should therefore be read as a way of identifying practices worth developing in Indonesia, not as an assumption that one country is always ahead of the others in every respect.

One institutional factor behind these differences is Shariah governance and supervision. The literature shows that Indonesia still struggles to apply governance consistently across institutions, whereas Malaysia supervises through the Shariah Advisory Council and the GCC countries use various centralized supervisory models along with disclosure of Shariah compliance (Hijriah et al., 2021; Roziq & Ahmad, 2024; Tashkandi, 2023). This suggests that governance is effective not merely because a Shariah supervisory board exists, but because of consistent standards, institutional coordination, and transparent reporting. The quality of governance, in turn, affects how well a bank can develop products that are Shariah-compliant while still meeting market needs.

In product development, the literature shows that Islamic bank financing in Indonesia is still dominated by *murabahah* contracts, while studies on the GCC countries also note the use of instruments such as Ijarah and *Musharakah Mutanaqisah* in certain contexts (Belkhaoui et al., 2020; Suzuki et al., 2019). This difference in product composition does not simply reflect a choice of contract. It also relates to risk considerations, cash flow certainty, customer capacity, and the bank's operational readiness. Product diversification in Indonesia therefore needs adequate governance and business feasibility assessment. The more varied the products a bank develops, the more important it becomes for the bank to identify and control the risks that come with each type of financing.

This need is evident in the risk management dimension. The reviewed literature points to non-performing financing and risk concentration as matters requiring attention in Indonesia, while studies on the GCC discuss enterprise risk management, capital adequacy, and more structured risk measurement frameworks (Aspiranti et al., 2019; Belkhaoui et al., 2020). The comparison suggests that risk management should cover monitoring of financing quality, identification of potential losses, and strengthening the bank's resilience to changing economic conditions. However, these findings cannot be generalized as proof that all banks in Indonesia manage risk less well than all banks in the GCC. Better risk control should ultimately show up in financial performance and operational efficiency, so the two aspects need to be assessed together.

On financial performance and efficiency, business scale, operating costs, and non-performing financing are identified as relevant factors for the development of Indonesian Islamic banking (Siddiqui, 2008). The literature also links governance with financial performance, which indicates that performance depends not only on cost control but also on the quality of decision-making and institutional oversight (Roziq & Ahmad, 2024). Performance improvement should therefore be pursued through operational efficiency, risk management, and evaluation of financing quality in an integrated way. The results of industry consolidation should likewise be judged by measurable performance indicators, not merely by growth in institutional size. Efficiency and profitability matter, but the success of an Islamic

banking business model also depends on its ability to deliver service that builds trust and retains customers.

As for service quality and customer engagement, trust, religious commitment, and service quality are important in the relationship between Islamic banks and customers in Indonesia (Bonang et al., 2025). Studies on Malaysia, meanwhile, stress the importance of digital services, transparent information, and customer education in supporting the growth of Islamic financial services (Maniam, 2024). This comparison suggests that products that conform to Shariah principles also need easy access, clear information, and a consistent service experience. Strengthening service thus means combining trust in Shariah compliance with better quality of interaction between the bank and its customers. To sustain this improvement in service quality, the use of technology is a strategic capability that needs to be developed.

On financial technology, the literature describes digital service development in Indonesia as still facing challenges in human resource competence, regulatory readiness, and the use of advanced technology. Studies on Malaysia and the GCC also show that fintech, including blockchain, is being developed and piloted, although the extent of adoption is uneven across institutions (Čiković & Keček, 2025; Maniam, 2024). This indicates that digitalization should go beyond offering online transactions and also support system integration, data security, operational efficiency, and better decision-making. For Indonesia, such development needs to be accompanied by stronger digital competence and an assessment of what the technology brings to banks and customers. Yet the adoption of technology and innovation depends not only on a bank's internal readiness but also on regulatory certainty governing how it is developed and used.

On regulation and the legal framework, the literature identifies challenges of coordination and regulatory consistency in Indonesia, whereas Malaysia has the Islamic Financial Services Act 2013 as one of the foundations for regulating the Islamic financial industry (Fidhayanti et al., 2025). This comparison underlines the importance of aligning banking regulation, Shariah compliance, customer protection, and innovation. For Indonesia, stronger regulation could focus on clearer implementation of provisions, coordination among institutions, and certainty for developing new products and services. Even so, differences in legal systems and institutional structures between countries must be taken into account so that practices from elsewhere are not applied without adjustment. Regulatory certainty is also relevant to innovation that aims not only at business growth but also at social responsibility and sustainability.

On sustainability and ESG, the reviewed literature points to the need to strengthen the link between performance reporting by Islamic banks, social responsibility, and Shariah values. The *Maqasid al-Shariah* approach makes room for evaluating performance beyond profitability and efficiency, taking into account the achievement of social objectives and environmental responsibility (Ammar et al., 2023; Muhamad et al., 2022; Nurkhin et al., 2023). Indonesian Islamic banks therefore need to develop indicators that connect financial performance, the exercise of social responsibility, and sustainability impact. Such measurement requires clear operational definitions so that results can be evaluated consistently. This need to connect business performance with social goals further reinforces the importance of product and service innovation that brings real benefits to society.

On innovation, the literature identifies several barriers, including regulatory uncertainty, limited expertise, and difficulties in developing new products (Chaudhry et al., 2020). Studies on practice in Malaysia and the United Arab Emirates describe innovation units and technology partnerships that Indonesia could learn from. Nevertheless, innovation

should be developed in line with market needs, business feasibility, and compliance with Shariah principles, while still considering risk and operational readiness. In other words, innovation cannot be measured only by the number of new products or technologies adopted; it should also be judged by its relevance and benefit to customers and the productive sectors of the economy. For innovation to genuinely meet society's needs, its development must also consider the cultural characteristics and market conditions in which the bank operates.

The cultural and cross-country adaptability dimension shows that the development of Islamic banking is shaped by public trust, religious identity, customer characteristics, and the local legal and institutional context (Purnamasari et al., 2024). Practices used in Malaysia or the GCC countries therefore cannot simply be transplanted into Indonesia without adjustment. Cross-country learning should concentrate on principles that can be adapted, such as supervisory transparency, digital service development, product diversification, and value-based performance measurement, and then align them with the characteristics of the Indonesian market and its institutional capacity. Considering all of these dimensions together, the priorities for developing Indonesian Islamic banking should be framed as an integrated strategy, not as a set of separate fixes.

Strategically, strengthening the business model of Indonesian Islamic banking should include greater consistency in Shariah governance and supervision, product diversification accompanied by risk control, better financial efficiency, improved service quality, faster digitalization, regulatory alignment, and the integration of sustainability into performance measurement. These priorities are interrelated: product diversification requires adequate governance and risk management; digitalization requires human resource readiness, data security, and regulatory certainty; and integrating ESG and *Maqasid al-Shariah* requires indicators that can be applied consistently. With an integrated approach, business model development can aim at a balance among financial performance, service quality, innovation capability, and the achievement of Shariah objectives.

Based on these links, the contribution of this study lies in a comparative synthesis of ten dimensions within a single discussion framework that connects institutional, operational, technological, and sustainability aspects. This framework extends the evaluation of Islamic banking business models beyond an approach focused only on financial performance or formal compliance, toward one that integrates financial indicators, digital capability, and the achievement of *Maqasid al-Shariah*. Such integration can serve as a basis for developing a more comprehensive evaluation framework, although defining operational indicators and testing them will still require further empirical research. Because this study is a comparative literature review, its results describe patterns reported in the selected sources and neither establish causal relationships nor produce a full quantitative ranking of the countries compared.

5. Conclusion

This comparative literature review identifies differences between Indonesian Islamic banking and practices in Malaysia and the GCC across ten dimensions. The findings indicate that Indonesia has established foundations in Shariah compliance and customer trust but continues to face challenges in product diversification, risk management, technological integration, regulatory coordination, and sustainability reporting. These findings contribute an integrated comparative framework for understanding the institutional and strategic gaps in Indonesian Islamic banking.

The study implies that regulators and banking institutions should prioritize stronger Shariah governance, product diversification, improved risk management, digital capability development, and the integration of *Maqasid al-Shariah* into sustainability assessment. However, the findings are limited by the synthesis of 20 selected academic sources and should not be interpreted as a comprehensive assessment of all Islamic banks in the countries examined. Future research should use broader empirical evidence and longitudinal or cross-country analyses to validate these findings and assess the effectiveness of potential reforms.

5.1. Conflict of Interest Statement

The author declares no financial or personal relationships that could be perceived as competing interests in connection with this article. No bank, regulatory authority, or commercial entity had any role in the design, analysis, or preparation of this manuscript.

5.2. Author Contributions

All works solely done by the author, covering conceptualization, methodology, literature search and screening, bibliometric and thematic analysis, synthesis and interpretation, visualization, writing – original draft, review and editing, and project administration.

5.3. Funding Statement

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5.4. Informed Consent

Not applicable. The study is a comparative literature review based entirely on published academic sources and does not involve human participants, primary data collection, or the use of personal data.

5.5. Ethical Approval

Not applicable. The research synthesizes publicly available peer-reviewed literature and involves no human or animal subjects, no fieldwork, and no primary data collection requiring ethical clearance.

5.6. Data Availability

The analysis is based on 20 peer-reviewed sources selected through the PRISMA procedure described in the Methods section; all are cited in full in the reference list. The bibliographic records and the screening log documenting the identification, exclusion, and inclusion of records (100 retrieved, 15 duplicates removed, 55 excluded at screening, 10 excluded at eligibility) are available from the corresponding author upon reasonable request. No new empirical datasets were generated.

5.7. Declaration of Generative AI and AI-assisted Technologies

During the preparation of this manuscript, the author utilized Claude (Anthropic) for language editing and clarity improvement. All outputs generated with the assistance of the tool were critically reviewed and revised by the author to ensure factual accuracy, faithfulness to the cited sources, and adherence to academic standards. The author assumes full responsibility for the integrity and content of this manuscript.

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