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Comparative financial performance of Islamic banks under diverse legal and regulatory systems in Southeast Asia

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ABSTRACT

Introduction

Islamic banking has become an integral component of financial systems in many Muslim-majority and non-Muslim countries, yet its performance varies considerably across jurisdictions. These variations are closely linked to differences in legal frameworks, regulatory regimes, and institutional arrangements governing Islamic finance. In Southeast Asia, Indonesia, Malaysia, and Singapore represent three distinct regulatory models—hybrid Shariah-based, fully institutionalized Shariah-based, and conventional legal systems accommodating Islamic banking. Understanding how these differing environments shape the financial performance of Islamic banks remains an important and underexplored issue in comparative Islamic finance research.

Objectives

This study aims to analyze and compare the financial performance of Islamic banks operating in Indonesia, Malaysia, and Singapore within the context of their respective legal and regulatory environments. Specifically, it seeks to examine differences in profitability, operational efficiency, intermediation activity, and capital adequacy, while interpreting these differences through an institutional and legitimacy-based perspective.

Method

The study employs a quantitative, descriptive–comparative research design using secondary data drawn from audited annual reports of selected Islamic banks during the 2021–2023 period. Financial performance is measured using Return on Assets, Return on Equity, Financing-to-Deposit Ratio, Operating Expenses to Operating Income Ratio, and Capital Adequacy Ratio. The analysis is conducted through ratio-based comparison at both intra-country and inter-

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country levels to capture institutional and regulatory influences on performance outcomes.

Results

The findings indicate that Indonesian Islamic banks demonstrate relatively high profitability, largely driven by niche strategies such as microfinance, but exhibit heterogeneous efficiency and conservative intermediation in some cases. Malaysian Islamic banks show stable profitability, strong intermediation, and balanced capital adequacy, reflecting regulatory coherence and mature Shariah governance. Islamic banking units in Singapore achieve superior operational efficiency and improving profitability despite operating within a conventional legal framework, supported by advanced technology and scale economies.

Implications

The results highlight that Islamic banking performance is strongly shaped by institutional context rather than by a single optimal regulatory model. Regulators and practitioners should therefore design adaptive frameworks that balance prudential oversight, efficiency, and growth, while remaining responsive to local market conditions.

Originality/Novelty

This study contributes to the literature by providing a tri-country comparative analysis that integrates institutional and legitimacy perspectives, offering new empirical insights into how Islamic banks perform under hybrid, fully Shariah-based, and conventional legal systems in Southeast Asia.

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INTRODUCTION

Over the past decade, Islamic banking has experienced substantial global expansion, positioning itself as a significant component of the international financial system. By 2023, total Islamic banking assets exceeded USD 3 trillion, with strong growth concentrated in the Gulf Cooperation Council and Southeast Asia (Anagnostopoulos et al., 2020; Majeed & Zainab, 2021). This expansion is not merely demand-driven but is closely associated with the diversity of legal and regulatory frameworks governing Islamic financial institutions. Unlike conventional banks, Islamic banks operate under a dual imperative: compliance with standard financial regulations and adherence to Shariah principles. Consequently, variations in legal infrastructures have become a critical determinant of how Islamic banks perform, compete, and sustain financial stability across jurisdictions (Al-Hunnayan, 2020; Mateev et al., 2022; Saadaoui & Hamza, 2020; Salih et al., 2019).

Recent literature increasingly emphasizes that regulatory and legal environments are not neutral backdrops but active institutional forces shaping Islamic banking outcomes. Countries with well-defined Shariah governance, regulatory clarity, and supervisory enforcement tend to exhibit stronger profitability, resilience, and capital adequacy in their Islamic banking sectors (Danlami et al., 2023; Muhsyaf, 2024). Empirical studies further suggest that macroeconomic stability, political governance, and regulatory quality interact with Shariah-based financial principles, influencing risk-taking behavior and operational efficiency (Ajizah & Widarjono, 2023; Mohammed & Muhammed, 2017). As Islamic banking increasingly aligns itself with sustainability agendas and ethical finance, scholars argue that adaptive and coherent legal frameworks are indispensable for maintaining both legitimacy and competitiveness in global financial markets (Basalma, 2024; Kamarudin et al., 2022).

Despite this growing body of research, comparing the financial performance of Islamic banks across countries remains analytically challenging. Scholars have identified persistent methodological and conceptual difficulties, particularly when financial indicators such as Return on Assets (ROA) and Return on Equity (ROE) are measured across heterogeneous regulatory systems (Hamid et al., 2017; Majeed & Zainab, 2021). Differences in accounting standards, Shariah governance structures, and supervisory mandates complicate the comparability of performance outcomes (Hidayat et al., 2021; Jibrin et al., 2023). Moreover, the coexistence of Islamic and conventional banks within dual banking systems introduces institutional asymmetries that are not fully captured by conventional performance metrics (Anagnostopoulos et al., 2020; Hanif & Ayub, 2022).

In response to these challenges, the literature has proposed several general analytical solutions. Cross-country comparative frameworks that standardize financial ratios while accounting for institutional context are widely recommended (Harun et al., 2018; Johnes et al., 2017). Ratio-based performance analysis remains a dominant approach, particularly when combined with qualitative assessments of legal and regulatory environments (Gani & Bahari, 2021; Jarbou et al., 2024). Additionally, institutional and regulatory perspectives have been advanced to explain how legal origins, governance quality, and supervisory effectiveness condition the financial outcomes of Islamic banks beyond firm-level characteristics (El-Mubarak et al., 2020; Syarif, 2019).

Beyond general approaches, prior empirical studies have offered more specific solutions by examining how legal systems, regulatory governance, and Shariah supervision influence Islamic banking performance. Evidence suggests that Islamic banks operating within strong regulatory regimes exhibit higher efficiency and improved profitability, as reflected in ROA and ROE (Mohd Noor et al., 2020; Tashkandi, 2022). Robust governance mechanisms, particularly effective Shariah supervisory frameworks, enhance managerial discipline and align operational practices with both legal and ethical expectations (Abdallah & Bahloul, 2021). These findings reinforce the view that governance quality is integral to translating Shariah principles into measurable financial performance.

Further empirical research highlights the role of legal and regulatory environments in shaping efficiency and capital adequacy. Supportive regulatory structures facilitate better risk-sharing mechanisms and capital utilization, thereby strengthening financial resilience (Allen et al., 2018; Mohd Isa & Abdul Rashid, 2018; Saci & Mansour, 2023). Studies also demonstrate that Shariah governance is positively associated with capital adequacy ratios and risk management effectiveness, particularly in jurisdictions with clear supervisory mandates (Imran & Khan, 2023; Nawaz, 2017). Collectively, this body of evidence provides strong justification for employing financial performance indicators—such as ROA, ROE, efficiency ratios, and capital adequacy—in comparative analyses of Islamic banks across different legal contexts.

Within Southeast Asia, comparative studies have predominantly focused on Indonesia and Malaysia, reflecting their status as major Islamic banking markets. Research consistently finds that Malaysian Islamic banks outperform their Indonesian counterparts in several performance dimensions, largely due to Malaysia's comprehensive regulatory framework and centralized Shariah governance (Azzahra et al., 2023; Mohd Asri et al., 2020). Malaysia's integrated approach to Shariah supervision and corporate governance has been linked to stronger capital adequacy and profitability (A. F. S. Hassan et al., 2021). However, this regional literature remains incomplete, as it often excludes jurisdictions operating under non-Shariah-based legal systems, particularly Singapore, where Islamic banking functions within a predominantly conventional regulatory framework (Ainun & Santoso, 2022).

The limited inclusion of Singapore in comparative Islamic banking research represents a significant gap in the literature. While Singapore offers Islamic financial services, its regulatory environment does not provide a dedicated Shariah-based legal framework, relying instead on conventional financial regulation supplemented by internal Shariah governance mechanisms. Existing studies rarely examine how such a setting influences financial performance, efficiency, and capital adequacy relative to fully Shariah-based or hybrid systems. Consequently, the interaction between legal context and Islamic banking performance in Southeast Asia remains underexplored, particularly in comparative analyses that integrate Indonesia, Malaysia, and Singapore within a single analytical framework.

The present study aims to conduct a comparative analysis of Islamic banks operating under three distinct legal environments: a hybrid Shariah-based system (Indonesia), a fully institutionalized Shariah regulatory framework (Malaysia), and a conventional legal system accommodating Islamic banking (Singapore). By examining key financial performance indicators—ROA, ROE, financing-to-deposit ratios, efficiency, and capital adequacy—this study seeks to assess how differences in legal and regulatory contexts shape Islamic banking outcomes. The study contributes to the literature by extending comparative analysis to a tri-country framework rarely examined together, thereby offering empirical insights into the role of legal environments in Islamic banking performance and addressing a clear gap in Southeast Asian Islamic finance research.

LITERATURE REVIEW

Theoretical Foundations of Islamic Banking Performance

The financial performance and governance of Islamic banks have been widely examined through several complementary theoretical frameworks, most notably agency theory, stakeholder theory, legitimacy theory, and institutional theory. These perspectives provide analytical tools for understanding how Islamic banks reconcile profit-oriented objectives with Shariah compliance and ethical obligations. Agency theory highlights the distinctive principal–agent relationships in Islamic banking, where managers are accountable not only to shareholders but also to depositors and Shariah authorities (Alam et al., 2022; Archer et al., 1998; A. Hassan et al., 2022; Obid & Naysary, 2014; Safieddine, 2009). The presence of Shariah Supervisory Boards (SSBs) introduces an additional governance layer that reshapes agency dynamics and influences financial performance (Nadiah & Filianti, 2022; Rahmatika et al., 2024).

Stakeholder theory further extends this analytical lens by emphasizing the broader social responsibilities embedded in Islamic banking. Unlike conventional banks, Islamic banks are expected to balance the interests of multiple stakeholders, including customers, employees, regulators, and the wider community, in accordance with Shariah principles (Hakimi et al., 2024; Humairah et al., 2023; Salsabilla & Jaya, 2024). Empirical studies suggest that effective stakeholder engagement enhances governance quality, transparency, and trust, which in turn positively affects profitability and efficiency (Nawaz et al., 2021). This perspective aligns closely with the ethical foundations of Islamic finance, reinforcing the argument that performance cannot be evaluated solely through shareholder-centric metrics.

Legitimacy and institutional theories complement these perspectives by situating Islamic banks within their broader socio-legal environments. Legitimacy theory posits that Islamic banks must continuously demonstrate conformity with societal norms and Shariah expectations to maintain stakeholder confidence (Abdallah & Bahloul, 2021; Tashkandi, 2022). Institutional theory further explains how regulatory structures, cultural norms, and legal traditions shape governance practices and performance outcomes (Arslan & Alqatan, 2020; Filatotchev et al., 2013; Garcia & Orsato, 2020; Zattoni et al., 2020). Together, these theories establish a multidimensional foundation for analyzing Islamic banking performance across different legal and regulatory contexts.

Legal and Regulatory Environment as a Determinant of Performance

A substantial body of empirical literature identifies the legal and regulatory environment as a critical determinant of Islamic banks' financial performance. Cross-country studies consistently show that Islamic banks operating in jurisdictions with strong legal frameworks and regulatory clarity tend to achieve higher profitability, efficiency, and stability (Naseh & Ghalia, 2024; Zaiane & Moussa, 2021). These findings underscore the importance of aligning national legal systems with Shariah principles to ensure operational consistency and financial sustainability. In particular, regulatory environments that explicitly recognize Islamic banking practices facilitate better market penetration and institutional development.

Regulatory quality has also been shown to influence key financial performance indicators such as Return on Assets (ROA) and Return on Equity (ROE). Empirical evidence from OIC and MENA countries suggests that effective regulatory institutions enhance bank profitability, particularly during periods of economic stress (Yimam, 2024; Zaiane & Moussa, 2021). However, some studies caution that the relationship between legal enforcement and profitability may be non-linear, as overly rigid regulations can impose compliance costs that offset performance gains. Nonetheless, the prevailing consensus highlights regulatory quality as a net positive contributor to Islamic banking performance.

Beyond profitability, the legal environment plays a vital role in shaping efficiency and capital adequacy. Governance quality and legal enforcement are positively associated with improved efficiency ratios and stronger capital buffers (Kamarudin et al., 2022; Majeed & Zainab, 2021). Supportive legal frameworks enable Islamic banks to manage risks more effectively and maintain adequate capital levels, reinforcing financial resilience. These findings collectively justify the inclusion of legal and regulatory variables as central explanatory factors in comparative analyses of Islamic banking performance.

Role of Shariah Governance and Supervision

Shariah governance mechanisms constitute a distinctive feature of Islamic banking and are widely recognized as key determinants of performance and risk management. The Shariah Supervisory Board (SSB) serves as the cornerstone of internal governance, ensuring that financial products and operations comply with Islamic principles. Empirical studies indicate that effective SSB oversight is positively associated with improved ROA and ROE, as compliance with Shariah principles enhances stakeholder trust and market credibility (AlAbbad et al., 2019; Alam et al., 2021). The composition, expertise, and independence of SSB members are therefore critical factors influencing financial outcomes.

In addition to SSBs, Shariah audits play a crucial role in reinforcing compliance and operational efficiency. Regular Shariah audits provide systematic evaluations of banking practices, helping institutions identify and rectify non-compliance risks (Abdullah et al., 2022). Evidence suggests that robust audit mechanisms contribute to greater efficiency by streamlining processes and reducing governance failures (Haddou & Mkhinini, 2023). Through enhanced internal controls, Shariah audits indirectly support financial performance and risk mitigation.

Regulatory Shariah oversight further strengthens governance frameworks by establishing standardized guidelines and supervisory benchmarks. Institutions such as AAOIFI and IFSB provide regulatory reference points that enhance accountability and transparency within Islamic banks. Studies demonstrate that well-defined regulatory Shariah frameworks are associated with improved performance and reduced risk exposure (Tashkandi, 2022). Collectively, these governance mechanisms underscore the importance of integrating non-financial variables into performance analysis, as Shariah compliance and governance quality are inseparable from financial outcomes in Islamic banking.

Comparative Studies and Methodological Approaches

Comparative analyses of Islamic banks across countries have employed diverse methodological approaches, each offering distinct insights and limitations. Ratio analysis remains the most widely used method, relying on indicators such as ROA, ROE, efficiency ratios, and capital adequacy to assess performance (Gustianti et al., 2023; Zarrouk et al., 2016). While this approach facilitates straightforward comparisons, it often oversimplifies complex institutional and regulatory differences, limiting its explanatory power. Ratio-based studies may fail to capture contextual factors that shape banking behavior across jurisdictions.

Panel data analysis has gained prominence as an alternative method, enabling researchers to account for heterogeneity across banks and over time. Studies employing panel regression techniques provide more robust statistical inferences and allow for the examination of dynamic performance patterns (Hidayat et al., 2021). However, the effectiveness of panel data methods is constrained by data availability and consistency, particularly in cross-country settings where accounting standards and disclosure practices vary significantly.

Cross-country comparative approaches offer broader institutional insights by examining how legal origins, cultural contexts, and economic conditions influence Islamic banking performance (Ali et al., 2021; Mohammed & Muhammed, 2017). Despite their analytical value, such studies often assume homogeneity among Islamic banks and may inadequately control for contextual disparities. These methodological limitations highlight the need for integrated frameworks that combine financial metrics with institutional and governance variables in comparative Islamic banking research.

Regional Focus and Unresolved Research Gaps in Southeast Asia

The literature on Islamic banking in Southeast Asia has predominantly focused on individual country analyses, particularly Indonesia and Malaysia, reflecting their status as regional leaders in Islamic finance (Kurniawan et al., 2023; Ledhem & Mekidiche, 2021). Comparative studies between these two countries reveal performance differences driven by variations in regulatory structures and Shariah governance. However, such analyses remain limited in scope and rarely extend beyond bilateral comparisons, leaving broader regional dynamics insufficiently explored.

A significant gap lies in the limited examination of how different legal systems—fully Shariah-based, hybrid, and conventional—shape Islamic banking performance within Southeast Asia. While regulatory environments are frequently acknowledged, few studies systematically analyze their operational implications across diverse legal contexts (Suripto et al., 2023). Moreover, non-financial dimensions such as social impact, customer trust, and reputational capital are often overlooked, despite their relevance to Islamic banking resilience (Butt et al., 2022; Hamidi & Worthington, 2021; Kamla & G. Rammal, 2013; Tok & Yesuf, 2022).

The exclusion of Singapore from most comparative studies further accentuates this gap. Operating under a predominantly conventional legal framework, Singapore provides a unique setting to examine how Islamic banks adapt Shariah compliance within secular regulatory structures. Incorporating Singapore into comparative analyses alongside Indonesia and Malaysia enables a more comprehensive understanding of Islamic banking performance across heterogeneous legal systems. Addressing this gap contributes not only to academic discourse but also to policy debates on regulatory harmonization and the future development of Islamic finance in Southeast Asia.

METHOD

Research Design and Approach

This study adopts a quantitative research design with a comparative and descriptive-analytical approach to examine the financial performance of Islamic banks operating under different legal and regulatory environments. The comparative design is particularly suitable for addressing cross-country variations, as it enables systematic evaluation of similarities and differences in performance indicators across jurisdictions. The analysis focuses on Islamic banks in Indonesia, Malaysia, and Singapore, which represent three distinct regulatory settings: a hybrid Shariah-based system, a fully institutionalized Shariah framework, and a predominantly conventional legal system accommodating Islamic banking.

The study is structured as a multi-country case analysis rather than a causal econometric investigation. This approach allows for an in-depth examination of financial performance patterns within their institutional contexts, consistent with prior comparative Islamic banking studies. By emphasizing descriptive and comparative analysis, the study aims to provide empirically grounded insights into how regulatory and legal environments shape Islamic banking performance without imposing restrictive causal assumptions that may not hold across heterogeneous settings.

Population, Sample Selection, and Unit of Analysis

The population of this study consists of Islamic banking institutions operating in Indonesia, Malaysia, and Singapore during the observation period. A purposive sampling technique is employed to ensure the inclusion of banks that meet specific criteria relevant to the research objectives. These criteria include: (1) formal operation as an Islamic bank or Islamic banking unit, (2) availability of audited annual financial statements, and (3) consistency of financial disclosure over the study period.

Based on these criteria, the final sample comprises four Islamic banks from Indonesia, three from Malaysia, and four Islamic banking entities or units from Singapore. The inclusion of Singaporean banks is particularly important, as Islamic banking in Singapore operates within conventional regulatory frameworks, providing a contrasting institutional context. The unit of analysis is the individual bank, with financial performance evaluated annually. This sampling strategy enhances comparability while maintaining sufficient variation in regulatory environments to support cross-country analysis.

Data Sources and Period of Observation

The study relies exclusively on secondary data obtained from publicly available sources. Financial data are collected from audited annual reports, official bank disclosures, and regulatory publications issued by financial authorities in each country. The use of audited reports enhances data reliability and ensures consistency with internationally accepted accounting and reporting standards applicable to Islamic banks.

The period of observation spans three consecutive years, from 2021 to 2023. This period is selected to capture recent performance trends while minimizing distortions associated with structural changes or extraordinary events outside the scope of the study. A three-year window also allows for the identification of short-term performance stability and variation across banks and countries. By focusing on a recent and uniform observation period, the study ensures temporal comparability and relevance to contemporary regulatory and institutional conditions.

Variables and Measurement of Financial Performance

Financial performance is measured using a set of widely recognized banking ratios that reflect profitability, efficiency, liquidity, and capital adequacy. Profitability is assessed using Return on Assets (ROA) and Return on Equity (ROE), which indicate management effectiveness in generating earnings from assets and shareholders' equity, respectively. Operational efficiency is measured using the operating expense to operating income ratio (Rasio Biaya Operasional terhadap Pendapatan Operasional abbreviated BOPO in Bahasa Indonesia), which captures cost management efficiency.

Liquidity and financing performance are evaluated using the Financing-to-Deposit Ratio (FDR), reflecting the extent to which customer deposits are utilized for financing activities. Capital strength is assessed through the Capital Adequacy Ratio (CAR), which indicates the bank's ability to absorb potential losses and maintain financial stability. These ratios are selected due to their extensive use in Islamic banking literature and regulatory assessments, enabling meaningful comparison across banks and jurisdictions despite institutional differences.

Analytical Techniques and Comparative Framework

The analysis employs descriptive statistical techniques to summarize and compare financial performance indicators across banks and countries. Mean values, trends, and inter-bank comparisons are used to identify performance patterns and structural differences. Rather than applying advanced inferential models, the study emphasizes transparent ratio-based comparison to maintain interpretability and comparability across heterogeneous regulatory contexts.

Comparative analysis is conducted at two levels. First, intra-country comparisons evaluate performance variation among Islamic banks within the same regulatory environment. Second, inter-country comparisons assess differences across Indonesia, Malaysia, and Singapore. This two-tiered framework allows the study to distinguish between firm-level characteristics and institutional influences. The analytical approach is consistent with prior comparative Islamic banking research that prioritizes institutional interpretation alongside numerical indicators.

Validity, Reliability, and Methodological Considerations

Several measures are taken to enhance the validity and reliability of the study. Data validity is supported through the use of audited financial statements and official disclosures. Ratio definitions are applied consistently across all banks to ensure measurement reliability. Where accounting or reporting practices differ across countries, ratios are recalculated using standardized formulas to maintain comparability.

Nevertheless, the study acknowledges inherent methodological limitations. The descriptive nature of the analysis does not permit causal inference, and the relatively small sample size may limit generalizability. Additionally, non-financial factors such as governance quality and customer behavior are not directly quantified. Despite these limitations, the methodological design remains appropriate for the study's objective of providing a structured comparative assessment of Islamic banking performance within distinct legal and regulatory environments.

RESULTS

Overview of the Research Objects

Islamic Banks in Indonesia

Indonesia is the country with the largest Muslim population in the world, exceeding 230 million people. Within its financial system, Indonesia adopts a dual banking system, where conventional banking and Islamic banking operate side by side. This institutional arrangement provides the public with alternative financial products and services that align either with Shariah principles or conventional interest-based mechanisms. The coexistence of these two systems reflects Indonesia's accommodative regulatory approach toward financial pluralism and enhances financial inclusion by catering to diverse religious and economic preferences. As Islamic banking continues to expand, its role within the national financial architecture has become increasingly significant, particularly in supporting ethical finance, microfinance, and inclusive growth. The dual banking framework also allows Islamic banks to compete directly with conventional institutions while maintaining their distinct operational and governance principles rooted in Shariah compliance.

Islamic banks in Indonesia are regulated and supervised by the Financial Services Authority (Otoritas Jasa Keuangan abbreviated OJK in Bahasa Indonesia), while Shariah compliance is overseen through religious rulings issued by the National Shariah Council of the Indonesian Ulema Council (DSN–MUI). The regulatory framework for Islamic banking was significantly strengthened with the enactment of Law No. 21 of 2008 on Islamic Banking, which formally recognizes the legal status and institutional role of Shariah-compliant financial institutions within the national financial system. This legal foundation provides clarity regarding permissible contracts, governance structures, and supervisory mechanisms. As a result, Islamic banks in Indonesia operate within a hybrid legal environment that integrates religious principles with modern financial regulation, enabling them to expand their operations while ensuring compliance with both prudential standards and Shariah norms.

In this study, four Islamic banks in Indonesia are selected as research objects based on differences in business models, asset size, and market positioning, allowing for meaningful comparison within the national Islamic banking landscape.

Table 1

Islamic Banks in Indonesia

Bank Name	Year Established	Brief Profile	Total Assets 2023
Bank Muamalat	1992	The first Islamic bank in Indonesia, operating fully under Shariah principles without a conventional banking unit.	IDR 66.9 trillion
Bank Mega Syariah	2004 (spin-off)	Initially an Islamic business unit of Bank Mega, now a full-fledged Islamic commercial bank focusing on consumer and SME segments.	IDR 14.57 trillion
BTPN Syariah	2014	Focuses on empowering productive women and unbanked communities through microfinance.	IDR 21.44 trillion
BCA Syariah	2010	Subsidiary of Bank BCA, emphasizing retail services and digitalization based on Shariah principles.	IDR 14.5 trillion

Source: Secondary data. Authors' estimation.

Table 1 presents an overview of the four Islamic banks in Indonesia examined in this study: Bank Muamalat, Bank Mega Syariah, BTPN Syariah, and BCA Syariah. These institutions represent diverse characteristics within the national Islamic banking industry, ranging from the oldest pioneer bank (Bank Muamalat) to a microfinance-oriented institution (BTPN Syariah) and a technology-driven private bank subsidiary (BCA Syariah). The variation in establishment years—from 1992 to 2014—illustrates the evolutionary trajectory of Islamic banking in Indonesia, from its formative stage to the era of digital transformation. In terms of asset strength in 2023, BTPN Syariah records the largest asset base among the sample, followed by Bank Muamalat and BCA Syariah. Although Bank Mega Syariah holds relatively smaller assets, it continues to play an important role in serving consumer and MSME segments.

Islamic Banks in Malaysia

Malaysia is widely recognized as a pioneer in developing a formal, structured, and integrated legal and governance framework for Islamic finance within its national financial system. This approach is reflected in the proactive role of Bank Negara Malaysia (BNM) and the establishment of the Shariah Advisory Council (SAC), which functions as the highest authority on Shariah matters in the financial sector. Malaysia's regulatory strength is further institutionalized through the Islamic Financial Services Act (IFSA) 2013 and the Shariah Governance Framework (SGF) 2010, which collectively provide a comprehensive legal foundation and ensure nationwide consistency between financial practices and Shariah principles. This regulatory architecture has contributed significantly to Malaysia's position as a global hub for Islamic banking and finance.

Table 2

Islamic Banks in Malaysia

Bank Name	Year Established	Brief Profile	Total Assets 2023
Bank Muamalat Malaysia	1999	A full-fledged Islamic bank resulting from the merger of Bank Bumiputera and Bank of Commerce, focusing on retail and corporate banking.	RM 39.06 billion
Maybank Islamic Berhad	2008	The Islamic banking arm of Maybank Group and the largest Islamic bank in Malaysia, serving retail, corporate, and global sukuk markets.	RM 286.73 billion
Bank Islam Malaysia Berhad (BIMB)	1983	The first Islamic bank in Malaysia, now a public entity focusing on consumer finance, SMEs, and Shariah-based digital services.	RM 90.96 billion

Source: Secondary data. Authors' estimation.

Table 2 outlines the profiles of three major Islamic banks in Malaysia that serve as the research sample: Bank Muamalat Malaysia, Maybank Islamic Berhad, and Bank Islam Malaysia Berhad (BIMB). Together, these banks represent key pillars of Malaysia's Islamic banking system in terms of historical development, business orientation, and asset strength. BIMB, established in 1983, demonstrates long-term institutional continuity as Malaysia's first Islamic bank. Maybank Islamic dominates the sector in asset size, reflecting its strategic position within the country's largest banking group. Meanwhile, Bank Muamalat Malaysia, though comparatively younger, remains significant as a consolidated entity with a comprehensive service scope.

Islamic Banks in Singapore

Although the Muslim population in Singapore is relatively small compared to Indonesia and Malaysia, the country has demonstrated sustained interest in developing Islamic finance as part of its strategy to strengthen its position as a global financial hub. Unlike Indonesia and Malaysia, Singapore does not host locally established full-fledged Islamic banks. Instead, Islamic banking activities are conducted through dedicated Islamic windows or divisions within conventional banking institutions. Under this model, Shariah-compliant operations are embedded within larger banking structures, allowing Islamic finance to function within a predominantly conventional legal and regulatory framework. This pragmatic approach enables Singapore to offer Islamic financial services without establishing a separate Shariah-based banking system.

Table 3

Islamic Banking Institutions in Singapore

Bank Name	Year Established	Brief Profile	Total Assets 2023
Maybank Singapore	1960 (group)	Branch of Maybank Group Malaysia, providing Islamic services through a dedicated unit, including financing and sukuk.	SGD 39.26 billion
CIMB Islamic Bank Berhad	2005	Islamic banking arm of CIMB Group operating across borders, including Singapore, with a focus on Islamic financing and capital markets.	SGD 159.67 billion
OCBC Al-Amin	2008	Islamic division of OCBC Group offering Shariah-compliant financing and deposit products in Malaysia and Singapore.	SGD 19.62 billion
HSBC Amanah	2008	Islamic finance unit of HSBC Group providing global Islamic financial services, with an emphasis on sustainability and sukuk.	SGD 21.25 billion

Source: Secondary data. Authors' estimation.

Table 3 presents four financial institutions that actively conduct Islamic banking operations in Singapore: Maybank Singapore, CIMB Islamic Bank Berhad, OCBC Al-Amin, and HSBC Amanah. Their total assets in 2023 indicate substantial operational scale, with Maybank and CIMB Islamic recording the largest asset bases. The presence of these institutions reflects Singapore's strategic and measured integration of Shariah principles into its conventional financial system, demonstrating a distinctive model of Islamic finance development grounded in regulatory pragmatism and global financial positioning.

Results of Ratio Calculations

Return on Assets (ROA)

The following table presents Return on Assets (ROA) data for selected Islamic banks in three countries over the 2021–2023 period. ROA is used as a primary indicator of asset utilization efficiency, reflecting the ability of banks to generate profits from their total asset base. Higher ROA values indicate more effective asset management, while persistently low ROA may signal structural inefficiencies, conservative asset allocation, or weak profitability. By comparing ROA across different national and regulatory contexts, this study provides insights into how business models, market focus, and legal environments influence asset productivity within Islamic banking institutions.

Table 4

ROA of Islamic Banks in Indonesia, Malaysia, and Singapore (2021–2023) (%)

Country	Bank	2021	2022	2023
Indonesia	Bank Muamalat	0.02	0.04	0.02
	Bank Mega Syariah	3.83	1.45	1.64
	BTPN Syariah	7.90	8.41	5.04
	BCA Syariah	0.82	0.93	1.06
Malaysia	Bank Muamalat Malaysia	0.58	0.71	0.54
	Maybank Islamic Berhad	1.19	1.05	0.83
	Bank Islam Malaysia Berhad	0.67	0.55	0.61
Singapore	Maybank Singapore	0.44	0.43	0.38
	CIMB Islamic Bank	0.71	0.70	0.56
	OCBC Al-Amin	0.49	1.07	1.27
	HSBC Amanah	0.25	1.09	1.68

Source: Secondary data. Authors' estimation.

Analysis and Comparison

1) Indonesia: BTPN Syariah consistently records the highest ROA, exceeding 5 percent throughout the observation period, indicating strong efficiency in managing microfinance-oriented assets. This performance reflects its focused business model and high-margin financing strategy. In contrast, Bank Muamalat exhibits persistently low and stagnant ROA values, suggesting limited profitability and challenges in optimizing asset utilization despite its long-standing presence in the industry.
2) Malaysia: The three Malaysian Islamic banks display relatively stable but modest ROA levels. Maybank Islamic Berhad performs slightly better during 2021–2022, although a decline is observed in 2023. This pattern suggests conservative managerial practices and large asset bases that generate moderate margins rather than aggressive profitability.
3) Singapore: ROA levels remain generally low but show a notable upward trend, particularly for HSBC Amanah and OCBC Al-Amin during 2022–2023. This improvement may reflect gradual expansion of Shariah-compliant services under Singapore's flexible regulatory environment.

Return on Equity (ROE)

The table below presents Return on Equity (ROE) data for Islamic banks across the three countries from 2021 to 2023. ROE measures a bank's effectiveness in generating profits from shareholders' equity and is widely used as an indicator of managerial efficiency and capital productivity. High ROE values indicate strong profitability relative to equity, while low or volatile ROE may signal inefficiencies, excessive capital buffers, or unstable earnings. Comparative ROE analysis across countries provides insight into how different regulatory frameworks and business strategies influence equity utilization in Islamic banking institutions.

Table 5

ROE of Islamic Banks in Indonesia, Malaysia, and Singapore (2021–2023) (%)

Country	Bank	2021	2022	2023
Indonesia	Bank Muamalat	0.48	0.91	0.43
	Bank Mega Syariah	19.20	6.10	6.18
	BTPN Syariah	27.86	26.04	14.71
	BCA Syariah	6.80	6.71	6.87
Malaysia	Bank Muamalat Malaysia	4.91	5.69	4.25
	Maybank Islamic Berhad	13.11	11.01	8.15
	Bank Islam Malaysia Berhad	5.92	4.70	4.60
Singapore	Maybank Singapore	3.29	3.19	2.77
	CIMB Islamic Bank	7.90	7.31	5.39
	OCBC Al-Amin	4.00	7.44	8.91
	HSBC Amanah	1.43	7.23	10.27

Source: Secondary data. Authors' estimation.

Analysis and Interpretation

1) Indonesia: BTPN Syariah again stands out with exceptionally high and consistent ROE, indicating superior efficiency in equity utilization. Although ROE declined in 2023, it remained significantly higher than all other banks. Bank Muamalat shows low and fluctuating ROE, reflecting unstable profitability and limited returns to equity holders.
2) Malaysia: Maybank Islamic Berhad records the highest ROE among Malaysian banks, albeit with a declining trend over time. Bank Islam Malaysia and Bank Muamalat Malaysia maintain ROE below 6 percent, indicating conservative strategies and relatively large capital bases.
3) Singapore: A strong upward ROE trend is observed for HSBC Amanah and OCBC Al-Amin, with values more than doubling between 2021 and 2023. This suggests positive outcomes from Islamic finance expansion and localized market strategies.

Financing to Deposit Ratio (FDR)

The Financing to Deposit Ratio (FDR) reflects the extent to which Islamic banks perform their intermediation function by channeling collected funds into productive financing. A higher FDR indicates more active utilization of deposits for real-sector financing, while excessively high levels may signal increased liquidity risk. The table below presents FDR data for Islamic banks across three countries during 2021–2023.

Table 6

FDR of Islamic Banks in Indonesia, Malaysia, and Singapore (2021–2023) (%)

Country	Bank	2021	2022	2023
Indonesia	Bank Muamalat	50.92	52.93	51.14
	Bank Mega Syariah	71.34	63.75	86.60
	BTPN Syariah	88.42	95.83	93.82

Country	Bank	2021	2022	2023
	BCA Syariah	81.38	80.28	82.32
Malaysia	Bank Muamalat Malaysia	89.44	91.25	86.44
	Maybank Islamic Berhad	105.14	102.19	108.59
	Bank Islam Malaysia Berhad	101.42	106.91	113.22
Singapore	Maybank Singapore	78.68	79.98	70.27
	CIMB Islamic Bank	77.77	92.18	93.64
	OCBC Al-Amin	80.14	84.51	89.36
	HSBC Amanah	88.20	86.51	90.94

Source: Secondary data. Authors' estimation.

Analysis and Interpretation

1) Indonesia: Indonesian Islamic banks show significant variation in FDR. BTPN Syariah records the highest and most consistent FDR above 88 percent, reflecting highly active intermediation. In contrast, Bank Muamalat exhibits very low FDR values, indicating limited financing activity relative to deposits. BCA Syariah maintains stable FDR near the ideal threshold, suggesting balanced fund mobilization and financing.
2) Malaysia: All three Malaysian Islamic banks consistently report FDR above 100 percent, particularly Bank Islam Malaysia Berhad, which reaches 113.22 percent in 2023. This reflects aggressive financing strategies supported by IFSA 2013's structured risk management framework.
3) Singapore: FDR levels remain relatively stable. Although Maybank Singapore falls slightly below the lower threshold, HSBC Amanah and OCBC Al-Amin exceed 88 percent in 2023, indicating effective intermediation despite operating under a conventional legal system.

Operating Expenses to Operating Income Ratio (OER/BOPO)

The BOPO ratio measures operational efficiency by comparing operating expenses to operating income. Lower ratios indicate greater efficiency. The following table presents BOPO data for Islamic banks across three countries.

Table 7

BOPO of Islamic Banks in Indonesia, Malaysia, and Singapore (2021–2023) (%)

Country	Bank	2021	2022	2023
Indonesia	Bank Muamalat	99.29	96.62	99.41
	Bank Mega Syariah	39.28	57.64	65.29
	BTPN Syariah	39.36	55.24	74.08
	BCA Syariah	44.46	42.86	62.37
Malaysia	Bank Muamalat Malaysia	64.40	63.40	64.80
	Maybank Islamic Berhad	16.63	29.77	41.66
	Bank Islam Malaysia Berhad	46.95	46.02	45.31
Singapore	Maybank Singapore	70.51	65.13	66.09
	CIMB Islamic Bank	24.23	21.63	17.45
	OCBC Al-Amin	24.40	23.72	22.56
	HSBC Amanah	36.56	30.17	33.32

Source: Secondary data. Authors' estimation.

Analysis and Interpretation

1) Indonesia: Bank Muamalat consistently records extremely high BOPO values, indicating low efficiency. Other banks show healthier ratios, though rising trends may signal cost pressures or suboptimal expansion strategies.
2) Malaysia: Maybank Islamic Berhad shows a sharp increase in BOPO but remains efficient relative to peers. Bank Islam Malaysia maintains stability, while Bank Muamalat Malaysia operates within moderate efficiency levels.
3) Singapore: Singaporean Islamic banking units exhibit very low BOPO ratios, particularly CIMB Islamic and OCBC Al-Amin, reflecting lean cost structures and effective technology utilization.

Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) reflects a bank's ability to absorb losses and sustain financial stability. The table below presents CAR data for Islamic banks during 2021–2023.

Table 8

CAR of Islamic Banks in Indonesia, Malaysia, and Singapore (2021–2023) (%)

Country	Bank	2021	2022	2023
Indonesia	Bank Muamalat	23.76	32.70	29.42
	Bank Mega Syariah	25.59	26.99	30.86
	BTPN Syariah	58.27	53.66	51.60
	BCA Syariah	41.43	36.72	34.83
Malaysia	Bank Muamalat Malaysia	17.35	17.57	17.24
	Maybank Islamic Berhad	20.08	17.84	17.82
	Bank Islam Malaysia Berhad	18.60	19.40	16.87
Singapore	Maybank Singapore	13.52	13.60	12.48
	CIMB Islamic Bank	18.85	17.08	15.55
	OCBC Al-Amin	20.78	20.23	24.58
	HSBC Amanah	19.60	18.99	21.56

Source: Secondary data. Authors' estimation.

Analysis and Interpretation

1) Indonesia: CAR levels are exceptionally high, especially for BTPN Syariah, indicating strong capitalization but potentially suboptimal capital utilization. Slight declines remain within safe limits.
2) Malaysia: CAR remains stable between 16–20 percent, exceeding regulatory requirements. A decline at Bank Islam Malaysia in 2023 warrants monitoring.
3) Singapore: Greater variation is observed. OCBC Al-Amin and HSBC Amanah strengthen capital positions, while Maybank Singapore approaches minimum thresholds, reflecting rising risk pressures within a conventional legal framework.

DISCUSSION

Profitability Differences under Diverse Legal Environments

The findings of this study reveal clear cross-country differences in profitability among Islamic banks, as reflected in ROA and ROE indicators. Indonesian Islamic banks, particularly those with microfinance-oriented business models, demonstrate superior profitability compared to their counterparts in Malaysia and Singapore. This outcome is largely driven by focused financing strategies, higher margins in micro-lending, and strong domestic demand for Shariah-compliant products. Malaysian Islamic banks, by contrast, exhibit relatively stable but moderate profitability, reflecting their large asset bases and conservative management approaches. In Singapore, profitability indicators remain lower in absolute terms but show a consistent upward trend, suggesting gradual strengthening of Islamic banking activities within a predominantly conventional financial system.

These findings are broadly consistent with prior empirical studies highlighting the role of regulatory environments and business focus in shaping profitability. Studies comparing Indonesia and Malaysia indicate that Indonesia's Islamic banks tend to achieve higher ROA due to niche market penetration, while Malaysia's banks benefit from regulatory stability that supports consistent ROE performance (Fathiyyah & Muflih, 2023; Mulyany & Ariffin, 2018). Research on hybrid systems such as Singapore further suggests that profitability gains are often incremental, driven by innovation and integration with conventional banking infrastructure rather than scale alone (Ishak & Mohammad Nasir, 2024). However, some studies caution that higher profitability in less mature regulatory systems may involve greater exposure to risk and volatility.

From a theoretical perspective, these results reinforce institutional and legitimacy-based explanations of Islamic banking performance. Regulatory quality and legal clarity shape not only profitability outcomes but also stakeholder perceptions of legitimacy (M. K. Hassan et al., 2022). Practically, Islamic banks are encouraged to align profitability strategies with their regulatory environments, leveraging niche markets or scale efficiencies as appropriate. From a policy standpoint, regulators should balance prudential oversight with flexibility to support innovation, ensuring that profitability growth does not compromise long-term stability.

Operational Efficiency and Cost Structures

This study demonstrates substantial variation in operational efficiency across countries, as measured by BOPO/OER ratios. Islamic banking units in Singapore consistently display the lowest BOPO levels, indicating highly efficient cost structures supported by advanced technology and integration within large conventional banking groups. Malaysian Islamic banks exhibit moderate efficiency, reflecting economies of scale alongside rising operational costs associated with system-wide Shariah governance requirements. In contrast, Indonesian Islamic banks show heterogeneous efficiency outcomes, with some institutions maintaining relatively healthy ratios while others face persistent cost inefficiencies, particularly legacy banks with complex organizational structures.

These findings align with existing literature emphasizing the role of technology adoption, scale efficiency, and governance quality in determining operational efficiency. Prior studies highlight that digitalization and centralized infrastructure significantly reduce operating costs, a pattern particularly evident in Singapore's banking sector (Al-Hunnayan, 2020; Anagnostopoulos et al., 2020). Malaysian banks benefit from scale economies but also face transitional inefficiencies as markets mature (Mateev et al., 2022). Indonesian banks, meanwhile, encounter governance and coordination challenges that limit efficiency gains (Majeed & Zainab, 2021).

Theoretically, these results strengthen institutional efficiency arguments, suggesting that cost efficiency is closely tied to regulatory coherence and technological readiness (Danlami et al., 2023). Practically, Islamic banks—especially in developing markets—must prioritize digital transformation and process optimization to remain competitive. Policymakers can support efficiency improvements by fostering innovation-friendly regulations and encouraging shared infrastructure, thereby enhancing the operational sustainability of Islamic banking institutions.

Intermediation Function and Liquidity Risk

The analysis of Financing-to-Deposit Ratios (FDR) reveals distinct intermediation patterns across the three countries. Malaysian Islamic banks consistently record FDR values exceeding 100 percent, reflecting aggressive financing strategies supported by a robust regulatory framework. Indonesian Islamic banks show considerable variation, with some institutions actively channeling funds into the real sector while others maintain conservative liquidity positions. Singaporean Islamic banking units display relatively stable FDR levels, indicating balanced intermediation within the constraints of a conventional regulatory environment.

These patterns are consistent with prior studies emphasizing the trade-off between intermediation efficiency and liquidity risk in Islamic banking. Research suggests that high FDR levels may enhance economic contribution but increase liquidity risk if not accompanied by effective risk management instruments (Bougatef & Korbi, 2018; Jedidia, 2020). Malaysia's IFSA-based framework is often cited as a model for mitigating such risks through structured liquidity tools and supervisory oversight (Haris et al., 2024). In contrast, heterogeneous outcomes in Indonesia reflect varying institutional capacities and market conditions (Rusydiana & Marlina, 2019).

The implications are significant for system stability and prudential regulation. From a theoretical standpoint, the findings support the notion that effective intermediation in Islamic banking depends on institutional design rather than financing intensity alone. Practically, banks must align financing growth with liquidity management capabilities. Policymakers should enhance Shariah-compliant liquidity instruments and supervisory coordination to ensure that high intermediation activity does not undermine financial stability.

Capital Adequacy and Risk Management

The study identifies notable cross-country differences in capital adequacy. Indonesian Islamic banks maintain exceptionally high CAR levels, indicating strong capitalization but also potential underutilization of capital for productive financing. Malaysian banks exhibit CAR levels within an optimal range, balancing regulatory compliance with growth objectives. Singaporean Islamic banking units display more varied CAR outcomes, reflecting diverse strategies and risk exposures within a conventional legal framework.

These findings correspond with empirical literature that debates the implications of overcapitalization in Islamic banking. While high CAR enhances resilience, it may also signal inefficiencies and constrained growth (Asmar et al., 2023; Hadibowono & Munandar, 2023; Khairunnisa et al., 2024; Nisa' et al., 2023). Studies further emphasize the importance of aligning Basel III and IFSB standards to ensure risk-sensitive capital management (Mateev et al., 2021). Singapore's variation reflects flexible regulatory accommodation within international banking norms (Lebdaoui & Wild, 2016).

Theoretically, these results highlight the dual role of capital as both a stabilizing buffer and a growth constraint. Practically, Islamic banks should optimize capital deployment to support financing expansion without compromising risk management. From a policy perspective, regulators must calibrate capital requirements to encourage efficient asset utilization while safeguarding systemic resilience.

Integrated Institutional Interpretation and Regional Contribution

Synthesizing the findings across profitability, efficiency, intermediation, and capital adequacy reveals that Islamic banking performance is deeply embedded in institutional and legal contexts. Fully or strongly Shariah-based systems emphasize stability and compliance, hybrid systems balance growth and legitimacy, while conventional systems integrating Islamic finance prioritize efficiency and innovation. These differences underscore that no single performance model dominates across all contexts.

The findings contribute to the broader academic debate between institutional and performance-driven explanations. Institutional perspectives stress the role of regulation, legitimacy, and governance in shaping outcomes (Ajizah & Widarjono, 2023; Jedidia, 2020; Sutrisno & Widarjono, 2018), while performance-driven views emphasize efficiency and competitiveness (Toumi et al., 2019). This study demonstrates that both perspectives are complementary rather than contradictory.

Theoretical contributions lie in integrating institutional and legitimacy frameworks into comparative Islamic banking analysis. Practically, banks must tailor strategies to their regulatory environments. Policymakers are encouraged to pursue regional harmonization, enhance transparency, and promote adaptive regulation to support sustainable Islamic banking development across Southeast Asia.

CONCLUSION

This study provides a comparative assessment of Islamic banks operating under three distinct legal and regulatory environments in Southeast Asia: Indonesia's hybrid Shariah-based system, Malaysia's fully institutionalized Shariah framework, and Singapore's conventional legal system accommodating Islamic finance. The findings demonstrate that differences in profitability, efficiency, intermediation, and capital adequacy are closely associated with variations in regulatory structure and institutional design. Indonesian Islamic banks exhibit relatively high profitability driven by niche market strategies, particularly microfinance, while Malaysian banks show stable performance supported by strong regulatory coherence. Singaporean Islamic banking units, although operating within a conventional system, achieve high operational efficiency and demonstrate gradual profitability improvements.

The discussion highlights that no single regulatory model dominates across all performance dimensions. High profitability in less mature systems often coincides with elevated risk exposure, whereas regulatory stability supports consistency but may constrain aggressive growth. Efficiency outcomes are strongly influenced by technological integration and scale economies, favoring banks embedded within advanced financial infrastructures. Similarly, intermediation intensity and capital adequacy reflect regulatory priorities that balance growth, risk management, and financial stability. These findings underscore the importance of contextualizing Islamic banking performance within institutional environments rather than applying uniform benchmarks across jurisdictions.

Overall, this study contributes to the existing literature by integrating institutional and legitimacy-based perspectives into a multi-country comparative analysis of Islamic banking performance. By examining Indonesia, Malaysia, and Singapore simultaneously, the study extends empirical understanding of how Islamic banks adapt to diverse legal settings. The findings offer practical insights for regulators and practitioners seeking to design adaptive regulatory frameworks that promote both efficiency and stability. In doing so, the study reinforces the view that sustainable Islamic banking development depends on institutional alignment, regulatory flexibility, and strategic responsiveness to local market conditions.

Limitations of the Study

Despite its contributions, this study is subject to several limitations that should be acknowledged when interpreting the findings. First, the analysis relies on a relatively small sample of Islamic banks drawn from three countries, which may limit the generalizability of the results beyond the Southeast Asian context. The focus on selected banks, although purposively justified, may not fully capture the heterogeneity of Islamic banking institutions operating in other regions or under different regulatory regimes. Additionally, the study employs a descriptive and comparative analytical approach, which does not allow for causal inference regarding the relationship between regulatory environments and performance outcomes.

Second, the study is based exclusively on secondary financial data and quantitative performance indicators. While ratios such as ROA, ROE, FDR, BOPO, and CAR provide valuable insights, they do not capture qualitative dimensions such as governance effectiveness, managerial capability, customer trust, or Shariah compliance quality. Moreover, the observation period of three years may not fully reflect longer-term structural trends or cyclical economic effects. External shocks, macroeconomic conditions, and regulatory changes occurring outside the study period may also influence performance but are not explicitly modeled in this analysis.

Recommendations for Future Research

Future research could extend this study in several meaningful directions. Expanding the geographical scope to include Islamic banks from the Middle East, South Asia, or Africa would enable broader cross-regional comparisons and enhance the generalizability of findings. Incorporating a longer time horizon and applying econometric techniques such as panel data analysis could also provide deeper insights into the dynamic relationship between regulatory frameworks and Islamic banking performance. Such approaches would allow researchers to examine causality and assess the long-term effects of regulatory reforms.

In addition, future studies may benefit from integrating qualitative methodologies, including interviews with regulators, bank executives, and Shariah scholars, to capture institutional and governance nuances that are not reflected in financial ratios alone. Exploring non-financial performance indicators—such as social impact, financial inclusion, and Shariah compliance quality—would further enrich understanding of Islamic banking effectiveness. Finally, research that examines regulatory harmonization and cross-border supervisory coordination could offer valuable policy insights for strengthening Islamic finance ecosystems in increasingly interconnected global markets.

Author Contributions

Conceptualization	R., & D.W.R	Resources	R., D.W.R., F.N., & M.I.F
Data curation	R	Software	R., D.W.R., F.N., & M.I.F
Formal analysis	R., & D.W.R.	Supervision	R.
Funding acquisition	R., & D.W.R	Validation	R., D.W.R., F.N., & M.I.F
Investigation	R., D.W.R., F.N., & M.I.F	Visualization	R.
Methodology	R., & D.W.R	Writing – original draft	R.
Project administration	R., D.W.R., F.N., & M.I.F	Writing – review & editing	R.

All authors have read and agreed to the published version of the manuscript.

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Informed Consent Statement

Informed consent was not required for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work, the authors used ChatGPT, DeepL, Grammarly, and PaperPal to translate from Bahasa Indonesia into American English and improve the clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and took full responsibility for the content of the published article.

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