

ISLAMIC BANKING (LITERACY, IMPLEMENTATION, AND ITS RELEVANCE TO THE VALUES OF THE QUR'AN AND HADITH)

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Abstract

Islamic banking, based on Sharia principles, aims to establish a fair and ethical financial system by prohibiting riba (usury), gharar (uncertainty), and maisir (gambling). This study examines the challenges of Islamic banking literacy, its implementation in financial sectors, and its alignment with Qur'anic and Hadith principles. Using a qualitative approach, the research incorporates literature reviews and case studies to evaluate financial literacy levels and identify barriers to adoption. The findings indicate that limited public knowledge and misconceptions about Islamic banking hinder its broader acceptance. Additionally, regulatory constraints and inadequate dissemination of Islamic banking principles contribute to these challenges. To address them, structured educational programs, policy interventions, digital literacy campaigns, and collaborative initiatives between financial institutions and academia are recommended. Enhancing financial literacy can increase public participation in Sharia-compliant banking, ensuring sustainability in modern economies. This study underscores the importance of an inclusive and ethical financial system, advocating for broader awareness and engagement with Islamic banking principles as a means to develop a more just and equitable economic framework.

Key word: *Islamic Banking, Financial Literacy, Sharia Compliance, Financial Inclusion, Qur'an and Hadith*

1. INTRODUCTION

Islamic banking has gained significant attention in recent decades due to its alignment with ethical finance and economic justice. Numerous studies have explored its principles and operations, including those by Iqbal and Molyneux, who

highlighted the growth and resilience of Islamic financial institutions.¹ Similarly, Chapra emphasized the role of Islamic banking in stabilizing financial markets by eliminating speculative elements.² Despite its expansion, however, Islamic banking faces challenges related to financial literacy and public awareness, particularly in non-Muslim-majority countries.³

One of the major challenges is the low level of public understanding about the fundamental principles of Islamic banking. Many people still view Islamic banking as merely an interest-free alternative, when, in fact, it offers a range of financial products based on profit-sharing and partnership mechanisms, such as *mudarabah* and *musharakah*. A study by Obaidullah revealed that the majority of people do not have a comprehensive understanding of these concepts, which hinders the broader adoption of Islamic banking products.⁴

Furthermore, limited financial literacy remains a significant barrier to the wider acceptance of Islamic banking, especially in non-Muslim-majority countries. Research by Khan and Bhatti shows a substantial gap in understanding Islamic banking principles among the general public, which leads to low participation in the Islamic financial system.⁵ Without adequate knowledge of the principles and products of Islamic banking, consumers are less likely to make informed decisions about utilizing these financial products.

Although several initiatives have been introduced to enhance financial literacy, most existing financial education programs have not sufficiently focused on Islamic banking. The policies in place often fail to provide in-depth knowledge of Sharia-compliant products and how they should be applied within the socio-economic context. In this regard, it is crucial to explore how more targeted educational programs can address these issues and increase public engagement with Islamic banking.

The aim of this study is to assess the current state of Islamic banking literacy, identify the challenges to its implementation, and propose educational strategies to bridge the knowledge gap. This research also seeks to determine how financial institutions, educational bodies, and policymakers can collaborate to enhance public confidence in Islamic banking systems.

This study is expected to contribute to the existing literature by offering practical insights into how Islamic banking literacy can be improved. Thus, this research will help foster a more inclusive, sustainable, and equitable financial system aligned with the principles of economic justice in Islam. Through an in-depth analysis of contemporary challenges, this paper will provide valuable

¹ Iqbal, Munawar, and Philip Molyneux, *Thirty Years of Islamic Banking: History, Performance and Prospects* (Cham: Springer, 2016).

² Chapra, M. Umer, *Islam and the Economic Challenge* (Leicester: Islamic Foundation, 2000)

³ Abdullah, M., and A. Anderson, "Islamic Banking Adoption: An Analysis of Financial Literacy and Consumer Perception," *Islamic Finance Review* 10, no. 2 (2015): 45–62.

⁴ Obaidullah, Mohammed, *Islamic Financial Services* (Jeddah: Islamic Economics Research Center, 2005).

⁵ Khan, M. M., and M. I. Bhatti, "Islamic Banking and Finance: On Its Way to Globalization," *Managerial Finance* 34, no. 10 (2008): 708–725, <https://doi.org/10.1108/03074350810891029>.

recommendations for fostering a more inclusive and informed Islamic financial ecosystem.

2. METHOD STUDY

This study employs a qualitative research methodology to explore Islamic banking literacy, implementation challenges, and its relevance to Qur'anic and Hadith principles. A combination of literature review, content analysis, and case study approach was utilized to provide an in-depth understanding of the subject matter.

A systematic literature review was conducted to analyse previous studies related to Islamic banking literacy and financial inclusion.⁶ Sources were gathered from academic journals, books, and policy documents to ensure the credibility and relevance of the findings.⁷ This process enabled the identification of research gaps and emerging trends in the field.

For the case study analysis, this research examined selected financial institutions that have successfully implemented Sharia-compliant banking practices.⁸ The case study approach provided empirical insights into the effectiveness of different literacy programs and the impact of financial education initiatives on consumer behaviour.⁹

A content analysis of regulatory policies and educational programs related to Islamic banking was performed to assess how different governments and institutions are addressing financial literacy gaps.¹⁰ This method helped in evaluating the effectiveness of policy measures in promoting awareness and accessibility of Islamic banking services.

Data was sourced from academic databases such as Scopus, Web of Science, and Google Scholar, ensuring the use of peer-reviewed and high-impact research. Thematic analysis was applied to synthesise findings and draw meaningful conclusions from the collected data.¹¹

In this study, the Qur'an and Hadith are employed not merely as religious references but as epistemological foundations and normative frameworks. Their use serves two main functions:

- a. Reinforcement of Ethical and Legal Principles: Verses from the Qur'an and authentic Hadiths are utilised to substantiate key Islamic finance principles such as the prohibition of *riba* (usury), *gharar* (excessive uncertainty), and

⁶ Tranfield, David, David Denyer, and Palminder Smart, "Towards a Methodology for Developing Evidence-Informed Management Knowledge by Means of Systematic Review," *British Journal of Management* 14, no. 3 (2003): 207–222.

⁷ Snyder, Hannah, "Literature Review as a Research Methodology: An Overview and Guidelines," *Journal of Business Research* 104 (2019): 333–339.

⁸ Yin, Robert K., *Case Study Research and Applications: Design and Methods*, 6th ed. (Thousand Oaks, CA: SAGE Publications, 2018).

⁹ Stake, Robert E., *The Art of Case Study Research* (Thousand Oaks, CA: SAGE Publications, 1995).

¹⁰ Krippendorff, Klaus, *Content Analysis: An Introduction to Its Methodology*, 4th ed. (Los Angeles: SAGE Publications, 2018).

¹¹ Braun, Virginia, and Victoria Clarke, "Using Thematic Analysis in Psychology," *Qualitative Research in Psychology* 3, no. 2 (2006): 77–101.

maisir (gambling), the obligation of transparency, and the promotion of justice (*'adl*) in financial dealings.

- b. Theoretical Approach: The research adopts an Islamic epistemological approach based on *maqasid al-shari'ah* (objectives of Islamic law) and Islamic economic justice theories. In this framework, financial literacy and banking practices are analysed not only for technical Sharia compliance but also for their alignment with higher ethical objectives such as protection of wealth (*hifz al-mal*), justice (*'adl*), public welfare (*maslahah 'ammah*), and trust (*amanah*).

Relevant theories integrated in the methodological approach include:

- a. Maqasid al-Shari'ah Theory (Dusuki and Abdullah, 2007): analysing how Islamic banking practices align with the overarching purposes of Islamic law.
- b. Islamic Theory of Justice (Chapra, 2000): framing the role of Islamic finance in promoting socio-economic justice and fairness.
- c. Ethical Finance Theory (Uddin, 2015): focusing on the role of ethics, risk-sharing, and real-economy transactions in Islamic financial practices.

Thus, Qur'anic verses and Hadiths are not simply cited; they form an integral theoretical lens through which the phenomena of Islamic banking literacy and implementation are interpreted and evaluated

The findings of this research are expected to contribute to the existing body of knowledge by providing practical recommendations for improving financial literacy in Islamic banking. Additionally, the study highlights the role of financial institutions, policymakers, and educators in bridging the gap between theoretical knowledge and real-world application.

3. RESEARCH RESULT

The integration of Islamic banking principles into contemporary financial systems presents a complex interplay between theoretical ideals and empirical realities. This discussion critically examines key aspects of Islamic banking—financial literacy, implementation challenges, transparency, and the avoidance of *gharar* (uncertainty) and *maisir* (gambling)—by juxtaposing empirical data with theoretical frameworks and providing interpretative analysis.

a. Islamic Financial Literacy

Islamic financial literacy is not merely a subset of financial education but a comprehensive framework that embodies ethical, religious, and socio-economic dimensions. The low level of public understanding of Islamic banking principles—especially those involving *mudarabah* (profit-sharing) and *musharakah* (partnership)—is well documented in previous empirical studies.¹² Yet, the implications of this knowledge gap go far beyond product awareness; it signifies a

¹² Al-Ajmi, Jasim, Hussain A. Hussain, and Naser Al-Saleh, "Decisions on the Adoption of Islamic Banking Services: The Role of Religiosity," *International Journal of Bank Marketing* 27, no. 7 (2009): 486–505.

deeper disconnect between Islamic ethical teachings and contemporary financial behaviour.

From a theoretical standpoint, Lusardi and Mitchell argue that financial literacy forms the backbone of rational decision-making in any financial system.¹³ In the Islamic context, however, this literacy must extend to the comprehension of Sharia objectives (*maqasid al-shari'ah*), particularly the protection of wealth (*hifz al-mal*) and the promotion of social justice (*'adalah ijtima'iyah*). Without such grounding, the public is at risk of reducing Islamic finance to mere technical instruments devoid of their ethical essence.

Empirical findings by Al-Ajmi et al.¹⁴ and Khan and Bhatti¹⁵ illustrate that even in Muslim-majority societies, the perception of Islamic banking is often confined to its prohibition of *riba* (usury), while the more transformative principles such as equitable risk-sharing, transparency, and communal responsibility remain poorly understood. This aligns with the critique by Obaidullah that Islamic banking has largely been commodified, mimicking conventional banking with Sharia labels, instead of cultivating genuine alternatives.¹⁶

Islam provides a robust foundation for financial literacy, beginning with the emphasis on knowledge itself. The Qur'an commands: "Say, are those who know equal to those who do not know?" (Qur'an 39:9). This rhetorical question not only underscores the virtue of knowledge but also frames it as a prerequisite for ethical behaviour, including financial transactions. The Prophet Muhammad ﷺ also emphasised informed engagement: "It is obligatory upon every Muslim to seek knowledge" (Sunan Ibn Majah, Hadith no. 224).

Furthermore, the longest verse in the Qur'an—Surah Al-Baqarah, verse 282—addresses the importance of transparency and documentation in financial dealings: "O you who believe! When you contract a debt for a fixed term, write it down..." (Qur'an 2:282). This divine injunction is not merely procedural; it reflects a divine directive for financial responsibility. By failing to understand and apply such principles, modern consumers risk engaging in transactions that undermine Sharia objectives.

Theoretically, Dusuki and Abdullah argue that effective Islamic banking cannot be sustained without public comprehension of its epistemological foundations, such as *maslahah* (public interest) and *adl* (justice).¹⁷ In practice, however, the fragmented implementation of financial literacy programs—often

¹³ Lusardi, Annamaria, and Olivia S. Mitchell, "The Economic Importance of Financial Literacy: Theory and Evidence," *Journal of Economic Literature* 52, no. 1 (2014): 5–44. <https://doi.org/10.1257/jel.52.1.5>.

¹⁴ Obaidullah, Mohammed, *Islamic Financial Services* (Jeddah: Islamic Economics Research Center, 2005).

¹⁵ Dusuki, Asyraf Wajdi, and Nurdianawati Irwani Abdullah, "Maqasid al-Shariah, Maslahah, and Corporate Social Responsibility," *American Journal of Islamic Social Sciences* 24, no. 1 (2007): 25–45.

¹⁶ Khan, M. M., and M. I. Bhatti, "Islamic Banking and Finance: On Its Way to Globalization," *Managerial Finance* 34, no. 10 (2008): 708–725. <https://doi.org/10.1108/03074350810891029>

¹⁷ Anwar, Mohammed, and Yuko Mikami, "Japanese Interest in Islamic Finance: A Survey," *International Journal of Islamic and Middle Eastern Finance and Management* 4, no. 4 (2011): 321–332. <https://doi.org/10.1108/17538391111186593>.

designed using Western paradigms—fails to align with these foundations. While such models emphasise budgeting, credit scores, and retirement planning, they seldom integrate concepts like *zakat*, *gharar* (excessive uncertainty), or *niyyah* (intention), which are essential in Islamic economics.

From the author's perspective, a critical reorientation is needed. Financial literacy programs must not only inform but *transform*—imbuing consumers with a holistic understanding of wealth as a trust (*amanah*) from Allah. The Qur'an states: "Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice" (Qur'an 4:58). Financial literacy, then, should be a moral education, teaching individuals how to manage wealth with accountability, compassion, and justice.

Moreover, Islamic banks themselves must be held accountable. Many institutions continue to rely on superficial marketing campaigns that highlight "interest-free" services without deeply educating the public about the implications of risk-sharing, ethical investing, or communal solidarity. The Prophet ﷺ warned: "Whoever cheats is not one of us" (Sahih Muslim). This hadith may be extended to the context of partial disclosure and insufficient education on financial products—forms of negligence that violate the trust between institution and consumer.

Therefore, the author argues for a dual responsibility. On one hand, Islamic financial institutions must adopt a more robust educational mission, integrating Islamic moral teachings with product explanations. On the other, regulators and educators should design context-sensitive financial literacy programs that embed Qur'anic ethics and prophetic traditions as guiding principles—not afterthoughts.

In conclusion, the crisis in Islamic financial literacy is not merely informational—it is moral, institutional, and systemic. Bridging this gap demands an approach that is both epistemologically Islamic and pedagogically sound. Only through such integration can Islamic banking fulfil its divine mandate of achieving justice (*'adl*), eradicating exploitation (*zulm*), and promoting the common good (*maslahah 'ammah*).

b. Implementation Challenges

The promise of Islamic banking lies in its aspiration to offer a just, equitable, and stable financial system grounded in divine guidance. Central to this vision are Sharia-compliant instruments like *mudharabah* (profit-sharing) and *musyarakah* (joint venture), which symbolise an ethical alternative to interest-based finance. Yet, their real-world implementation has faced considerable challenges, leading to a dissonance between Islamic banking ideals and institutional practice.

Theoretically, Islamic finance is built on the principles of *adl* (justice), *amanah* (trust), and *shura* (consultation), as outlined in the Qur'an: "And establish weight in justice and do not make deficient the balance" (Qur'an 55:9). This verse emphasises balance and fairness, values intended to be operationalised through equitable financial contracts. However, the operationalisation of *mudharabah* and *musyarakah* is often substituted with *murabaha* (cost-plus financing), which, although Sharia-compliant in form, may lack the spirit of genuine risk-sharing intended by the original contracts.

Empirical research by Anwar and Mikami reveals that the lack of harmonised regulatory standards across jurisdictions creates fragmentation in Sharia interpretation and application.¹⁸ This inconsistency introduces legal uncertainty and inefficiency, discouraging financial institutions from adopting riskier—but more authentically Islamic—PLS instruments. In addition, information asymmetry and moral hazard—where one party has more or better information than the other—pose significant operational risks, further deterring the use of *mudharabah* and *musyarakah*. These findings echo the critique made by El-Gamal, who notes that Islamic finance, in its attempt to compete with conventional banks, often sacrifices substance for form.¹⁹

This phenomenon raises pressing theological and ethical questions. If Islamic banking continues to replicate conventional finance with minor legal adjustments, does it not risk violating the Qur’anic injunction against superficial piety? The Qur’an warns: “*Woe to those who give less [than due], who when they take a measure from people take in full, but if they give by measure or by weight to them, they cause loss*” (Qur’an 83:1–3). This verse, while referring to commercial deceit, also applies metaphorically to systems that claim Islamic authenticity while compromising its ethical foundations.

Another practical challenge lies in the internal capacity of Islamic banks. Managing profit-sharing agreements demands sophisticated risk assessment mechanisms, well-trained personnel, and transparent monitoring systems. Yet, many Islamic banks lack the institutional depth and technical infrastructure to support these requirements.²⁰ Instead of investing in internal development, institutions often opt for Sharia-compliant debt instruments, which are easier to manage but arguably less transformative.

From the author’s perspective, this operational inertia represents a missed opportunity. The Prophet ﷺ said: “*The best of people are those who are most beneficial to others*” (al-Mu’jam al-Awsat, Hadith no. 5787). Islamic banking must rise above being a mirror image of conventional finance and instead evolve into a system that is *beneficial*—empowering entrepreneurs, redistributing wealth, and fostering social justice through active risk-sharing. To do so, institutions need to shift their mindset from legal compliance to value-driven innovation.

There is also a need for strategic regulatory reform. As Karim and Archer have noted, regulatory frameworks must evolve to encourage the development of financial products that reflect Sharia’s ethical imperatives, not just its technical requirements.²¹ Standard-setting bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) must work collaboratively with local authorities to develop unified guidelines that support both compliance and innovation.

¹⁸ El-Gamal, Mahmoud A., *Islamic Finance: Law, Economics, and Practice* (Cambridge: Cambridge University Press, 2006). <https://doi.org/10.1017/CBO9780511753756>

¹⁹ Karim, Rifaat Ahmed Abdel, and Simon Archer, *Islamic Finance: The Regulatory Challenge* (Chichester: John Wiley & Sons, 2017).

²⁰ Quraish Shihab, M., *Tafsir Al-Misbah: Pesan, Kesan dan Keserasian Al-Qur’an* (Jakarta: Lentera Hati, 2000).

²¹ Muhammad Abduh, *Tafsir Al-Manar*, trans. Indonesian ed. (Beirut: Dar Al-Fikr, 1993).

The Qur'anic ideal of justice is not an abstract aspiration; it is a divine command with real economic implications. “*O you who believe, stand out firmly for justice as witnesses to Allah, even though it be against yourselves, or your parents, or your kin...*” (Qur'an 4:135). This verse makes clear that justice is the axis of all social and economic relations. Thus, a Sharia-compliant contract that avoids *riba* but fails to deliver equitable outcomes falls short of its Islamic mandate.

In sum, the implementation challenges of Islamic finance are not insurmountable but require a fundamental recalibration of intent, structure, and regulation. Rather than relying on defensive mimicry of conventional models, Islamic banks should reclaim their identity as institutions of ethical finance, built on mutual responsibility, transparency, and justice. As the Prophet ﷺ taught: “*There should be neither harming nor reciprocating harm*” (Sunan Ibn Majah, Hadith no. 2340). Islamic banking, at its core, is meant to prevent harm and promote benefit—and must be held to that sacred standard.

c. Transparency and Justice in Islamic Banking

Transparency (*idhar*) and justice (*adl*) are not simply desirable traits within Islamic banking; they are foundational obligations drawn directly from the Qur'an and Sunnah. The moral weight placed upon these principles is unparalleled in the Islamic worldview, particularly because financial injustice (*zulm*) is regarded as a source of societal decay. Yet, despite this theological emphasis, the practical implementation of transparency and justice within Islamic banking remains fraught with challenges—both conceptual and institutional.

From a theological perspective, the Qur'an commands: “*Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice*” (Qur'an 4:58). This verse establishes a divine imperative for fairness and accountability, which Islamic financial institutions must uphold. The Qur'an also urges believers: “*Do not consume one another's wealth unjustly...*” (Qur'an 2:188), a verse that not only prohibits fraud and exploitation but demands integrity in all economic dealings.

The Prophet Muhammad ﷺ reinforced these ideals in his marketplace ethics. He declared: “*Whoever deceives us is not of us*” (Sahih Muslim), and in another hadith, he stated: “*The two parties of a sale have the option [of cancelling it] so long as they have not separated. If they speak the truth and make clear the defects [of the item], their transaction will be blessed. But if they conceal and lie, the blessing of the transaction will be erased*” (Al-Bukhari and Muslim). According to Ibn Hajar al-'Asqalani in *Fathul Bari*, this hadith forms the doctrinal foundation for disclosure and clarity in trade, essential traits of Islamic banking contracts.²²

Yet, as empirical studies reveal, transparency remains one of the weakest areas in the operational ecosystem of many Islamic banks. According to a 2022 report by Bank Indonesia, inconsistencies in financial reporting standards and a lack of detailed disclosure in product offerings compromise public trust.²³ Likewise, Karim and Archer highlight how different interpretations of Sharia across

²² Ibn Hajar al-'Asqalani, *Fathul Bari Syarh Shahih al-Bukhari* (Beirut: Dar al-Ma'rifah, 1997).

²³ Bank Indonesia, *Laporan Transparansi Keuangan Syariah di Indonesia*, 2022.

jurisdictions create confusion, making it difficult for consumers to verify whether a given product truly adheres to Islamic principles.²⁴

In the author's analysis, these shortcomings indicate not just a failure in communication but a deeper ethical shortfall. When transparency is treated as a legal checkbox rather than a spiritual obligation, the soul of Islamic banking is lost. A bank may technically avoid *riba*, yet if it conceals risks, imposes unjust conditions, or fails to disclose contractual terms fully, it has fallen into *gharar* (excessive uncertainty), which is categorically prohibited. The Prophet ﷺ said: “Do not sell what is not with you” (Sunan al-Tirmidhi), a clear prohibition against ambiguous or unverified transactions.

Transparency in Islamic finance, therefore, must go beyond simplified brochures or vague compliance claims. It must embody a commitment to *tabyin*—clear elucidation—anchored in the Qur’anic call: “And do not conceal testimony, for whoever conceals it—his heart is indeed sinful” (Qur’an 2:283). This is especially relevant in complex financial products such as diminishing *musharakah* or *takaful* schemes, where legal sophistication may obscure ethical clarity for average consumers.

Justice, too, must be seen not merely as a goal but as a process—enforced through mechanisms that uphold equity. The Prophet ﷺ was known to nullify contracts where one party was unduly disadvantaged, setting a precedent for regulatory bodies today. In this context, regulatory frameworks must ensure that Islamic banks do not privilege institutional profitability over customer welfare. This echoes the maqasid al-shariah principle of *hifz al-mal* (protection of wealth), which obligates institutions to safeguard—not exploit—the financial interests of clients.

From a sociological perspective, low levels of financial literacy among Muslim populations further exacerbate the transparency gap. According to the 2023 OJK report, the Islamic financial literacy index in Indonesia is still below 40%, implying that most consumers do not fully comprehend the rights and responsibilities embedded within Sharia-compliant products.²⁵ This lack of understanding not only limits participation but also exposes the public to potential manipulation under the guise of Islamic legitimacy.

Here, the author urges a paradigm shift. Transparency should not be reactive—triggered by regulation—but proactive, inspired by the Prophet's example as *al-amin* (the trustworthy). Financial institutions must cultivate a culture of honesty not only in their public documentation but also in internal ethics training, staff-client interactions, and promotional material.

In conclusion, transparency and justice in Islamic banking are not procedural add-ons—they are divine mandates. They require both individual integrity and institutional architecture. Islamic banking cannot afford to measure its success in market share alone; it must also ask: are we fulfilling our covenant with Allah and with the people? As the Qur’an warns: “Do not betray Allah and the Messenger or betray your trusts while you know [the consequence]” (Qur’an 8:27).

²⁴ Otoritas Jasa Keuangan (OJK), *Indeks Literasi Keuangan Syariah di Indonesia*, 2023.

²⁵ Uddin, Md Akther, “Principles of Islamic Finance: Prohibition of Riba, Gharar and Maysir,” *International Journal of Islamic and Middle Eastern Finance and Management* 8, no. 2 (2015): 116–129. <https://doi.org/10.1108/IMEFM-10-2014-0150>.

Until this ethos becomes embedded in the DNA of Islamic financial practice, the gap between ideals and reality will persist

d. Avoidance of *Gharar* and *Maisir* in Islamic Finance

A distinguishing characteristic of Islamic finance is its unequivocal prohibition of *gharar* (excessive uncertainty) and *maisir* (gambling). These prohibitions are not arbitrary legalistic restrictions; they are rooted in Islam's ethical vision to protect society from exploitation, injustice, and moral hazard. Yet, in modern financial practice, adhering to these prohibitions presents significant conceptual and operational challenges.

The Qur'anic condemnation of *maisir* is explicit: "*O you who believe! Intoxicants, gambling, sacrificing to stones, and divination by arrows are an abomination of Satan's handiwork. Avoid them, so that you may prosper*" (Qur'an 5:90). This verse links *maisir* with spiritual and social harm, indicating that unjust enrichment through speculation corrodes both individual integrity and collective welfare. Moreover, *gharar*, although not explicitly named in the Qur'an, is implied in the general prohibition against unjust economic practices: "*And do not consume one another's wealth unjustly...*" (Qur'an 2:188).

The Prophet Muhammad ﷺ provided practical elaboration on these principles. He forbade sales involving *gharar*, such as "the sale of fish in water" or "the unborn animal in its mother's womb," transactions plagued by ambiguity and risk.²⁶ In another hadith, he said: "*Whoever sells a defective item without disclosing it is under the wrath of Allah*" (Sahih Muslim). The intent here is to ensure transparency, eliminate deception, and maintain ethical parity between contracting parties.

In theory, the exclusion of *gharar* and *maisir* fosters a more stable and equitable financial environment. As Uddin argues, these prohibitions serve as a moral safeguard, ensuring that financial instruments are grounded in real economic activity and mutual responsibility.²⁷ Unlike conventional derivatives markets—often built on speculation and leverage—Islamic finance insists on asset-backing, risk-sharing, and clarity.

However, in practice, implementing these ideals is far from straightforward. The global financial system is saturated with instruments—options, futures, and derivatives—that contain elements of excessive uncertainty or outright speculation. According to Uddin's findings, the inherent complexity and volatility of these instruments violate Sharia's call for fairness, clarity, and mutual trust.²⁸

²⁶ Anwar, Mohd Rizal, et al., "Inclusive Financial Planning in Southeast Asia: A Shariah Perspective," *Journal of Islamic Banking and Finance* 37, no. 4 (2020): 11–28.

²⁷ Hasan, M., "Culturally Relevant Financial Literacy Education: An Islamic Finance Perspective," *Journal of Financial Education* 47, no. 2 (2021): 112–130. <https://doi.org/10.1080/00221125.2021.1883286>.

²⁸ Mohd Rizal Anwar et al., "Inclusive Financial Planning in Southeast Asia: A Shariah Perspective," *Journal of Islamic Banking and Finance* 37, no. 4 (2020): 11–28.

Islamic banks, therefore, find themselves in a dilemma: how to remain competitive in a globalised, high-speed financial environment while avoiding products that might inadvertently reintroduce *gharar* or *maisir*. Some scholars and institutions have attempted to develop Sharia-compliant alternatives—like *sukuk al-ijarah* and *takaful*—yet the concern remains that these structures often mimic the form of conventional finance without always reflecting its substance.²⁹

The author contends that this tension stems from an epistemological crisis: Islamic finance has become overly legalistic, focusing on contractual form rather than ethical purpose. While compliance with juristic criteria is necessary, it should not obscure the higher objectives of the Sharia (*maqasid al-shariah*), such as justice (*‘adl*), mercy (*rahmah*), and public welfare (*maslahah*). For instance, a Sharia-compliant hedge that mimics speculative trading may technically avoid *riba*, but if it undermines social stability or benefits only the elite, it contradicts the spirit of Islam.

This calls for renewed *ijtihad* (independent reasoning). As the Qur’an urges: “*They are those who listen to the Word and follow the best of it. It is they whom Allah has guided, and it is they who are the people of understanding*” (Qur’an 39:18). Financial scholars, regulators, and practitioners must collaborate to innovate products that fulfil both the legal and ethical mandates of Islamic finance.

It is also essential to emphasise education. Many consumers and even some bankers are unaware of how *gharar* and *maisir* manifest in modern finance. Institutions must educate their clients not only on the features of a product, but also on the ethical reasoning behind its structure. This will foster not just informed participation but also greater trust in the system. As the Prophet ﷺ said: “*The religion is sincerity—for Allah, His Book, His Messenger, and the leaders of the Muslims and their common folk*” (Sahih Muslim).

In the author’s view, the Islamic financial system must reclaim its moral ambition. It is not enough to avoid impermissible elements; Islamic finance must strive to build alternatives that are transparent, just, and spiritually meaningful. The prohibition of *gharar* and *maisir* is not a barrier to innovation—it is a call for ethical creativity, grounded in the belief that divine law is not only just, but also wise and responsive to human needs.

In conclusion, the avoidance of *gharar* and *maisir* is both a theological principle and a practical necessity. It demands not only technical compliance but moral insight, social empathy, and institutional courage. Only by upholding these values can Islamic finance offer a credible alternative to the volatility, inequality, and ethical ambiguity of the global financial system.

e. **Enhancing Public Engagement**

A sustainable Islamic financial system cannot flourish in a vacuum; it depends fundamentally on public engagement that is both informed and ethically grounded. Islamic finance, unlike its conventional counterpart, is not simply a system of financial tools but a manifestation of Islamic values in economic life. As

²⁹ M. Hasan, “Culturally Relevant Financial Literacy Education: An Islamic Finance Perspective,” *Journal of Financial Education* 47, no. 2 (2021): 112–130, <https://doi.org/10.1080/00221125.2021.1883286>.

such, enhancing public engagement is not merely a strategic goal—it is a religious and moral imperative.

The Qur'an repeatedly emphasises the communal responsibility of knowledge dissemination: “*Let there arise out of you a group of people inviting to all that is good, enjoining what is right and forbidding what is wrong*” (Qur'an 3:104). In this spirit, financial institutions, scholars, educators, and policy-makers share the responsibility to raise awareness about Islamic financial principles in a way that is accessible, engaging, and spiritually resonant.

Empirical studies have consistently shown that limited public understanding is one of the main barriers to the widespread adoption of Islamic banking. According to Anwar et al., inclusive financial planning programs tailored to diverse communities are essential to bridge this gap.³⁰ However, the challenge lies not only in reaching the public but in speaking their language—both linguistically and culturally. As Hasan notes, financial literacy programs that ignore local context often fail to connect with the moral and social realities of the target audience.³¹

This is particularly important in regions where Islamic finance operates alongside conventional systems. In such contexts, Islamic banks must make a compelling case—not just doctrinally, but practically—for why Sharia-compliant finance offers a superior alternative. This requires more than marketing slogans; it demands real, grassroots-level education that empowers individuals to make choices aligned with their faith and values.

The Prophet ﷺ once said: “*Speak to people according to their level of understanding*” (Sahih al-Bukhari, Muqaddimah). This hadith underscores the need for educational efforts to be context-sensitive. A one-size-fits-all approach will not suffice. Urban professionals, rural farmers, young students, and elderly retirees all require different messaging and methods of delivery. Programs must be tailored—some grounded in theological argument, others in practical benefits; some delivered digitally, others through face-to-face engagement.

In this regard, the potential of digital technology cannot be overstated. The Financial Services Authority (OJK) reports that digital tools have become effective platforms for spreading financial literacy among younger populations.³² Apps, interactive infographics, short videos, and virtual seminars allow for dynamic and scalable outreach. Yet, digital inclusivity remains a challenge. Not everyone, especially in rural or underdeveloped areas, has the same access to or familiarity with digital tools.

Here, the author argues for a hybrid model—blending modern digital strategies with traditional educational methods. Mosques, pesantrens (Islamic boarding schools), and community centres remain invaluable platforms for religiously infused financial education. Qur'anic study circles (*halaqah*) can be used not only to teach religious texts but also to explore their economic

³⁰ Anwar, Hafiz, Ayesha Khalid, dan Mohd Nasir. *Bridging the Knowledge Gap in Islamic Finance: Strategies for Inclusive Financial Planning*. Kuala Lumpur: IIUM Press, 2020.

³¹ Hasan, Zubair. “Cultural Context and the Communication of Islamic Finance.” *Journal of Islamic Economic Studies* 27, no. 2 (2019): 87–105.

³² Financial Services Authority (Otoritas Jasa Keuangan). *Digital Financial Literacy among Youth in Indonesia: Annual Report 2022*. Jakarta: OJK, 2022.

implications. For example, the Qur’anic verse “*And give full measure and weight in justice. Do not deprive people of their due...*” (Qur’an 11:85) can serve as the foundation for discussions on ethical pricing, fair trade, and consumer rights.

Moreover, public engagement must be participatory, not paternalistic. Financial literacy should not be treated as a top-down initiative where “experts” inform the “uninformed.” Instead, community members should be empowered as co-creators of knowledge, sharing their experiences, posing critical questions, and shaping the discourse. This aligns with the Islamic ethic of *shura* (consultation): “*...consult them in matters. Then when you have taken a decision, put your trust in Allah*” (Qur’an 3:159).

Collaboration is also vital. Financial institutions, universities, media outlets, and governmental bodies must work together to standardise terminology, simplify complex concepts, and ensure that information about Islamic finance is consistent and trustworthy. As the Prophet ﷺ taught: “*The hand of Allah is with the group*” (Sunan al-Tirmidhi). Collective effort strengthens legitimacy, reach, and impact.

Yet, the author cautions that financial literacy is not a silver bullet. Deep structural inequalities—such as income disparities, lack of access to banking infrastructure, and institutional mistrust—must also be addressed. Engagement must be holistic, integrating economic justice with educational outreach. After all, Islamic finance is not just about halal products—it is about realising the Qur’anic vision of a just, ethical, and inclusive economic system.

In conclusion, enhancing public engagement in Islamic finance requires more than outreach—it requires dialogue, trust, and relevance. It demands that Islamic financial institutions return to their prophetic roots: teaching with wisdom, listening with humility, and serving with sincerity. As the Qur’an reminds us: “*Invite to the way of your Lord with wisdom and good instruction, and argue with them in a way that is best*” (Qur’an 16:125). In doing so, Islamic finance can fulfil its true purpose—not merely as an economic model, but as a moral force for social transformation.

4. CLOSING

In conclusion, this research has explored the critical role of financial literacy in the context of Islamic finance, particularly focusing on the importance of public engagement and the pivotal role of financial institutions in promoting Islamic banking literacy. Through a combination of empirical studies, theoretical frameworks, and real-world examples, we have demonstrated that while significant strides have been made in enhancing financial literacy in Islamic finance, there remain notable challenges that need to be addressed. These challenges include the need for culturally relevant, accessible, and effective educational programs, as well as the necessity for financial institutions to align their practices with the ethical principles of Islamic finance.

To further improve financial literacy, future initiatives must prioritize inclusivity, utilizing a blend of digital and traditional platforms to reach a wider audience. Additionally, collaboration between financial institutions, educational bodies, and regulatory agencies is essential in creating standardized, clear, and

accurate information. For financial institutions, transparency, ethical practices, and a genuine commitment to education are paramount in fostering trust and confidence in Islamic financial products. Further research could explore the long-term impacts of various literacy programs on consumer behavior, as well as the role of emerging technologies in delivering financial education in an increasingly digital world.

Acknowledgments are due to the scholars, researchers, and financial professionals whose insights and contributions have shaped the understanding of Islamic finance within this study. I also extend my sincere gratitude to the institutions and individuals whose support has made this research possible, particularly those providing access to data, publications, and valuable feedback.

This research has provided a foundation for future exploration in the field of Islamic finance, and I hope that it encourages further scholarly inquiry into the integration of financial literacy and ethical practices, ultimately leading to a more informed and equitable financial system globally

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