

Integrating Fiqh, Maqasid Sharīa, and ESG: A Proposed Framework for Risk Management in Islamic Banking

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ABSTRACT

Islamic banks are undergoing rapid digital transformation, yet this shift brings new vulnerabilities and increases exposure to climate-related risks. These challenges indicate that digitalisation is not merely a technological upgrade but a strategic evolution requiring Islamic banks to embed sustainability and resilience at the core of their governance systems. This study aims to explain the integration of Fiqh principles and Maqāsid Sharīa in Islamic bank risk management and explore the relevance of ESG to risk management. It also seeks to develop an ESG framework aligned with Fiqh and Maqāsid Sharīa. Using a qualitative descriptive case study approach, this research examines Bank Syariah Indonesia (BSI) as the primary unit of analysis. Data were collected through triangulation (semi-structured interviews with Sharia authorities and practitioners), document analysis of BSI's 2023–2024 Sustainability Reports, relevant regulations, and direct observation of ESG implementation. The findings reveal that Fiqh provides the legal foundation for risk governance, while Maqāsid Sharīa functions as an ethical and teleological compass guiding decision-making toward public welfare. ESG, in turn, offers operational tools that transform Sharia values into measurable sustainability practices. Evidence from BSI's initiatives in sustainable financing and digital financial inclusion demonstrates that ESG can operate as a vital instrument for risk mitigation while simultaneously generating positive socio-environmental impact. Key implications include the need for regulators to develop ESG reporting standards that are integrated with Islamic law, the importance of capacity building for Sharia Supervisory Boards and risk management teams, and the necessity of industry-wide commitment to sustainability as a driver of long-term competitiveness and institutional resilience.

Keywords: ESG, Fiqh, Maqāsid Sharīa, Risk Management

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INTRODUCTION

Rapid digitalisation is fundamentally and profoundly reshaping the operational landscape of Islamic banking by streamlining processes, accelerating transaction cycles, and expanding access to financial products and services. These efficiency gains, however, simultaneously generate new and increasingly complex risk exposures. A central institutional challenge therefore emerges. For instance, Islamic banks must uphold stringent Sharia compliance while concurrently meeting global Environmental, Social, and Governance (ESG) standards (Widyaningsih et al., 2024).

Sharia compliance is multidimensional, grounded in both *fiqh* (Islamic jurisprudence) and Maqāshid Sharīa (the higher objectives of Islamic law) (Mergaliyev et al., 2019; Ramli et al., 2024). From an operational standpoint, *fiqh* requires the systematic exclusion of *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling) across all financial instruments, institutional procedures, and digital delivery channels (Susanti, 2024). Complementing this, Maqāshid Sharīa directs financial intermediation toward the preservation of five essential human interests: faith, life, intellect, progeny, and wealth. The global Environmental, Social, and Governance (ESG) framework is not an external import but a powerful, contemporary instrument to operationalise and extend Maqāshid Sharīa (Zain et al., 2024). Islamic finance and ESG investing are complementary approaches with many shared principles, such as being good stewards of society and the environment. Both frameworks involve screening out harmful industries and directing capital toward ethical and sustainable ends, positioning Islamic finance as a "natural vehicle" for spreading sustainable finance (Agustin et al., 2023). A specific application by developing an ESG-Maqashid Sharia-based risk assessment framework for Islamic financial products bridges the essential compliance layer of *fiqh* with the teleological goals of Maqāshid (Kusmina et al., 2023). Accordingly, the strategic imperative for Islamic banks is to achieve a coherent integrative alignment, translating these legal-ethical foundations into governance and risk management policies that are simultaneously consistent with ESG frameworks. Such alignment is critical for enhancing institutional assurance, mitigating multidimensional risks, and strengthening competitive positioning. Yet, empirical evidence indicates that the integration of Sharia principles with ESG considerations within Islamic bank risk management remains inadequate (Purwanto, 2024), reflecting a persistent gap in operational synthesis. This pressure for transformation is intensified by the rapid adoption of advanced digital technologies. Islamic financial institutions are increasingly incorporating financial technology, blockchain systems, and artificial intelligence (AI) into their core business architectures (Qudah et al., 2023; Arsyad et al., 2025). These innovations aim not only to enhance efficiency and customer experience but also to reinforce the rigour of Sharia compliance (Rabbani et al., 2023). Concrete applications include Sharia-compliant mobile banking platforms and the deployment of smart contracts to automate sukuk issuance processes (Foglie et al., 2025). Additionally, big data analytics facilitates the construction of investment portfolios that are both financially viable and aligned with ethical and Islamic criteria. Despite these opportunities, Islamic banks continue to face substantial challenges, including regulatory volatility and heightened exposure to cybersecurity risks. Importantly, this digital transformation represents more than a technological upgrade; it constitutes a strategic evolution in which Islamic banking must also cultivate resilience to climate-related risks and embed sustainability principles within its institutional core (Alhammedi, 2024). Consequently, contemporary risk management frameworks must integrate governance mechanisms that are simultaneously consistent with Sharia principles and aligned with international standards to meet the expectations of an increasingly globalised financial market (Hassan et al., 2017; Heravi & Sharofiddin, 2025).

While existing research on Islamic bank risk management has predominantly focused on avoiding Sharia-prohibited elements (*riba*, *gharar*, *maysir*), this study identifies a critical gap: the lack of integration between core Islamic principles and modern global sustainability frameworks like Environmental, Social, and Governance (ESG). Maqashid Sharia, which emphasises the protection of faith, life, intellect, progeny, and wealth, aligns closely with ESG objectives (Sheikh, 2025). Previous studies (e.g., Fauzan et al., 2024) suggest that merging these principles enables Islamic banks to go beyond profit, enhancing their social and environmental impact while boosting accountability, reputation, and global competitiveness. To address this integration gap, the research is structured around three key aims. It seeks to analyse the application of Fiqh and Maqashid Sharia in risk management, identifying digital-era implementation gaps and Sharia compliance challenges. Then, this study also explores the integration of ESG principles by evaluating their relevance to the operational sustainability of Islamic banks and develops a practical integrative framework that synthesises Fiqh, Maqashid Sharia, and ESG. This framework aims to help Islamic banks navigate contemporary challenges, improve operational efficiency, and strengthen their role in the digital age.

Specifically, this study takes one qualitative case study conducted at Bank Syariah Indonesia. This approach is interesting because the context of Islamic banking in Indonesia offers unique dynamics. The industry is in a phase of rapid growth, operates in an evolving regulatory environment, and faces demands to balance Sharia compliance with global sustainability expectations. An in-depth

analysis of a single institution allows this study to capture internal complexities that are often not revealed in quantitative studies or cross-country analyses, ranging from decision-making processes and *fiqh*-based risk management practices to how the principles of Maqashid Sharia and ESG are actually interpreted and implemented at the operational level. Furthermore, this case study provides an opportunity to identify contextual challenges specific to Islamic banks in Indonesia, such as digital technology integration, sharia compliance governance, and adaptation to ESG requirements that are increasingly being considered by regulators, investors, and the public. Thus, this qualitative case study approach not only enriches theoretical understanding but also generates practical insights relevant to the development of an integrative framework between Fiqh, Maqashid Sharia, and ESG.

The contribution of this study is twofold, addressing the theoretical and practical gaps in the existing literature. This study synthesises and expands the theoretical underpinnings of Islamic finance by proposing a novel integrative paradigm. Its core theoretical output is the development of a conceptual model for the integration of Fiqh principles, Maqashid Sharia, and the ESG framework. The primary practical output is the development of a robust, actionable integrative framework for risk management, derived directly from the conceptual model. This framework is designed to serve as a strategic blueprint for Islamic bank boards, Sharia committees, and risk officers. It aims to enhance banks' resilience, improve their sustainability reporting, and strengthen their appeal to a new generation of ethically conscious investors and customers.

METHOD

Research Design

This study employs a qualitative approach with a descriptive case study design. The purpose is to explore and deeply describe how *fiqh* principles, Maqāshid Sharia, and the ESG framework are integrated into risk management practices within Islamic banking. Bank Syariah Indonesia (BSI) is selected as the unit of analysis, representing a major Islamic bank operating in Indonesia's digital and regulatory environment. The case boundaries are defined around BSI's organisational context, risk management processes, and sustainability-related initiatives that involve the application of Fiqh, Maqāshid Sharīa, and ESG principles. The study focuses specifically on policies, governance mechanisms, operational procedures, and decision-making practices relevant to risk management during the digital era.

The scope of this research is limited to internal practices and frameworks within BSI. It does not extend to comparative analysis with other Islamic banks or measurement of quantitative performance indicators. The case study approach is selected because it enables an in-depth understanding of a complex, multifaceted phenomenon within its real operational setting (Annamalāh, 2024). By doing so, this research aims to produce a practical and applicable integrative risk management model that can support Islamic banks in addressing contemporary sustainability and digitalisation challenges.

Data and Informants

Primary data were obtained from semi-structured interviews with two key informants:

- 1) P1 (Male) acts as a chairman of the West Java MUI (2015–2025), representing sharia authority.
- 2) P2 (Male) serves as Micro Relationship Manager at BSI (active since 2012), representing operational practice in Islamic banking.

Secondary data were collected through document analysis, consisting primarily of BSI's 2023 and 2024 Sustainability Reports, downloaded from the official corporate website, as well as academic literature, BSI internal policies (when accessible), and relevant regulatory frameworks. In addition, direct observations of ESG-related practices at BSI were conducted to complement and contextualise the interview and document data. Triangulation was implemented through the following steps:

- 1) Cross-checking interview claims with documents. Statements from informants regarding ESG practices, sharia compliance processes, and risk management procedures were compared with BSI's sustainability reports, internal policies, and regulatory guidelines to confirm factual accuracy.
- 2) Comparing perspectives across informants. Insights from the sharia authority (MUI) were compared with the operational perspective (BSI practitioner) to identify convergence and divergence in the interpretation and implementation of Fiqh, Maqāshid Sharīa, and ESG principles.
- 3) Validating observed practices with formal documentation. On-site observations were contrasted with reported procedures to assess whether ESG and sharia-based risk management were implemented as formally described.

- 4) Iterative validation. Emerging themes were repeatedly re-evaluated against all data sources to refine interpretations and eliminate inconsistencies. This process ensured that conclusions were built on mutually reinforcing evidence.

This systematic triangulation process strengthens the credibility, dependability, and confirmability of the findings.

Data Analysis Technique

All collected data were analysed using qualitative thematic analysis. The analysis followed an iterative, multi-step process: (1) familiarisation with the data, (2) coding of relevant segments, (3) identification of recurring patterns, and (4) construction of thematic clusters aligned with the research objectives. Data from interviews, observations, and documents were compared across sources to identify consistencies, contradictions, gaps, and synergies in the integration of Fiqh, Maqāṣid Sharīa, and ESG within the risk management practices of BSI. The results of the thematic analysis are presented through three interrelated themes:

- 1) Integration of Fiqh and Maqāṣid Sharīa in risk management. This theme explores how foundational prohibitions (*riba*, *gharar*, and *maysir*) and universal Sharia objectives guide risk identification, mitigation, and governance processes within Islamic banking.
- 2) ESG relevance to Islamic bank risk management. Data are analysed to reveal how environmental, social, and governance dimensions influence operational, strategic, and reputational risks in Islamic banks, particularly in the digital era.
- 3) Development of a Sharia–ESG integrative framework. Findings from the first two themes are synthesised to formulate an integrated, practical framework in which ESG indicators are aligned with *fiqh* principles and Maqāṣid Sharīa. This framework constitutes the basis for a sustainable and sharia-compliant risk management model.

RESULTS AND DISCUSSION

Integration of Fiqh Principles and Maqasid Sharia in Bank Risk Management

Risk management in Islamic banking possesses distinctive characteristics because it is grounded in *fiqh* principles and the objectives of Maqāṣid Sharīa. Every risk-related decision must uphold Sharia compliance by avoiding prohibited elements such as *riba*, *gharar*, and *maysir*, which form the core prohibitions in Islamic commercial jurisprudence. These principles require Islamic banks to refrain from financing speculative activities or sectors that contradict Islamic ethical norms. Consequently, Islamic banks avoid involvement in industries considered harmful to society, such as gambling, weapons manufacturing, or environmentally destructive operations, in alignment with the prohibition of '*haram*' activities in Islamic law (Muslim et al., 2025).

Beyond *fiqh*-based prohibitions, Maqāṣid Sharīa further shapes the risk posture of Islamic banks by emphasising *Maslahah*, justice, and the protection of essential human interests. Scholars highlight that Maqasid-orientated financial decision-making shifts Islamic banks away from purely profit-driven behaviour toward long-term stability, social welfare, and ethical governance (Dusuki & Bouheraoua, 2011; Chapra, 2008). This orientation encourages Islamic banks to avoid excessively risky investments or financing with limited social value, thereby protecting asset quality and safeguarding community interests. Integrating Maqasid principles into risk management also strengthens the bank's ability to mitigate key risks, such as liquidity risk, credit risk, and Sharia non-compliance risk, through a governance structure rooted in justice, transparency, and accountability (Sheikh et al., 2023; Yadiati et al., 2022).

Furthermore, *fiqh* principles provide a distinctive framework for risk mitigation. The principle of *al-ghunm bil-ghurm*:

أَلْغُنْمُ بِالْغُرْمِ

“No reward without risk” encourages Islamic banks to use profit-sharing and partnership schemes rather than fixed-interest lending so that project risks and returns are equitably shared between the bank and the client (Kim, 2025). This risk-sharing model contrasts with conventional banks, which transfer all risk to borrowers; as a result, default risk can be minimised because both parties are committed to the project's success. The principle of *la darar wa la dirar*:

لَا ضَرَرَ وَلَا ضِرَارَ

“Do not harm yourself or others” is also reflected in Islamic risk management by avoiding products or activities that may harm clients or the wider society.

The classical *fiqh* maxim '*al-ghunm bi al-ghurm*' (no risk, no return) establishes that profit is only justified when accompanied by the assumption of risk, forming the foundation of equitable financial transactions in Islamic banking. Contemporary scholarship affirms that this maxim underpins the prohibition of guaranteed returns and reinforces the principle of fair profit-and-loss sharing, thereby preventing *riba*-based practices (Ghazali et al., 2024). Complementing this, the maxim '*la dharar wa la dharar*' (do not harm and do not reciprocate harm) serves as a critical ethical safeguard in digital financial transactions, helping prevent fraud, exploitation, and consumer harm. Other legal maxims, such as *al-'ibrah bil maqasid* (consideration is based on objectives), enable scholars and practitioners to adapt fatwas and policies so that digital innovations remain aligned with Sharia while preserving public welfare. In this regard, *maqasid*-orientated financial literacy and governance frameworks have been shown to enhance the ability of Islamic financial institutions to manage emerging risks and protect stakeholders in the digital era (Dusuki & Bouheraoua, 2011). From a Maqasid Sharia perspective, effective risk management must safeguard the five essential objectives of Islamic law: protection of religion, life, intellect, progeny, and wealth. Among these, *hifz al-mal* (protection of wealth) is directly linked to banking practices that ensure customer funds are preserved and invested in safe, halal sectors. Empirical studies on *maqasid*-based performance demonstrate that excessive risk-taking tends to undermine social welfare and economic justice, whereas prudent risk behaviour enhances alignment with *maqasid* outcomes (Antonio et al., 2014; Muhammed & Taib, 2015). These findings reinforce the Sharia prudential principle that aggressive, speculative risk-taking deviates from the objective of *maslahah* (public interest). Moreover, strong Sharia governance, particularly through the effective oversight of the Sharia Supervisory Board, has been shown to strengthen compliance, mitigate risk, and support the long-term socio-economic goals of Islamic finance (Sheikh et al., 2023).

The implementation of the ESG concept in Islamic banks provides a contemporary framework for identifying non-financial risks that have material implications for financial stability. Environmental risks, such as climate change, are increasingly recognised as influencing financing portfolios, while social risks relate to consumer protection and corporate responsibility, and governance risks involve transparency, accountability, and fraud prevention. A growing body of literature affirms the natural alignment between ESG values and Islamic ethical principles. ESG's emphasis on environmental and social sustainability resonates strongly with the Islamic concept of *maslahah* (public welfare).

Sairally (2015) demonstrates that ESG factors are inherently compatible with Maqasid Sharia, positioning Sharia compliance as complementary rather than contradictory to ESG criteria. Similarly, Hadi et al. (2025) highlight that ESG practices promote social welfare and ethical governance, although reporting standards in Islamic banking remain uneven across jurisdictions. Enhanced transparency in ESG implementation is therefore expected to strengthen competitiveness, attract ethically orientated investors, and accelerate progress toward the Sustainable Development Goals (SDGs). Regulatory support and industry initiatives further reinforce this integration. CIBAFI (2022) has introduced sustainability principles grounded in Maqasid Sharia, aligning traditional objectives such as the protection of life, wealth, environment, society, and governance with ESG pillars. This framework encourages Islamic banks to evaluate their sustainability performance not only through financial indicators but also through ESG metrics that reflect Islamic ethical values. Empirical evidence also supports the positive impact of ESG adoption on Islamic banking performance. Paltrinieri et al. (2020) found a significant positive relationship between Islamic finance development and ESG scores, particularly in the social dimension. Likewise, improved ESG disclosures have been shown to enhance bank performance and public trust while reducing long-term reputational risks. Nevertheless, challenges persist, including the absence of ESG reporting standards tailored specifically for Islamic banks and the need to strengthen institutional capacity for sustainability assessment, as highlighted by recent comparative analyses of Islamic bank sustainability models (Ammar et al., 2023; Alhammadi, 2026).

The conceptual model (Figure 1) presents an integrated risk management framework for Islamic banking that interlinks Sharia foundations with contemporary sustainability goals. At its core, *fiqh* principles, such as the prohibitions of *riba* and *gharar*, establish the non-negotiable legal boundaries ensuring Sharia compliance. Building upon this foundation, Maqasid Sharia serves as the ethical compass, guiding risk management toward achieving broader societal benefit (*maslahah*) and preventing harm (*mafsadah*), including the protection of wealth (*hifz al-māl*) and life (*hifz al-nafs*). These ethical objectives are then translated into actionable practice through the ESG framework, which provides measurable, globally recognised criteria. For instance, governance (G) policies on transparency and anti-corruption operationalise *hifz al-māl*, while social (S) policies on consumer protection reflect *hifz al-nafs*. The entire integration is monitored and reinforced by a dedicated Sharia governance & compliance framework, ensuring alignment through ongoing evaluation and risk mitigation. This integrative approach is already being applied in practice, as demonstrated by Bank Syariah Indonesia (BSI). In 2024, BSI issued Indonesia's first ESG-themed

Sukuk, channelling proceeds into green and social projects that align with both *maqāsid* objectives and international ESG standards. By the end of that year, the bank had expanded its sustainable financing portfolio to IDR 66.4 trillion (23.9% of total financing), supported by a dedicated ESG unit and a formal climate-risk assessment framework. These initiatives illustrate how Islamic banks can effectively embed Sharia principles within modern sustainability-oriented operations, thereby enhancing their resilience, credibility, and contribution to broader societal well-being.

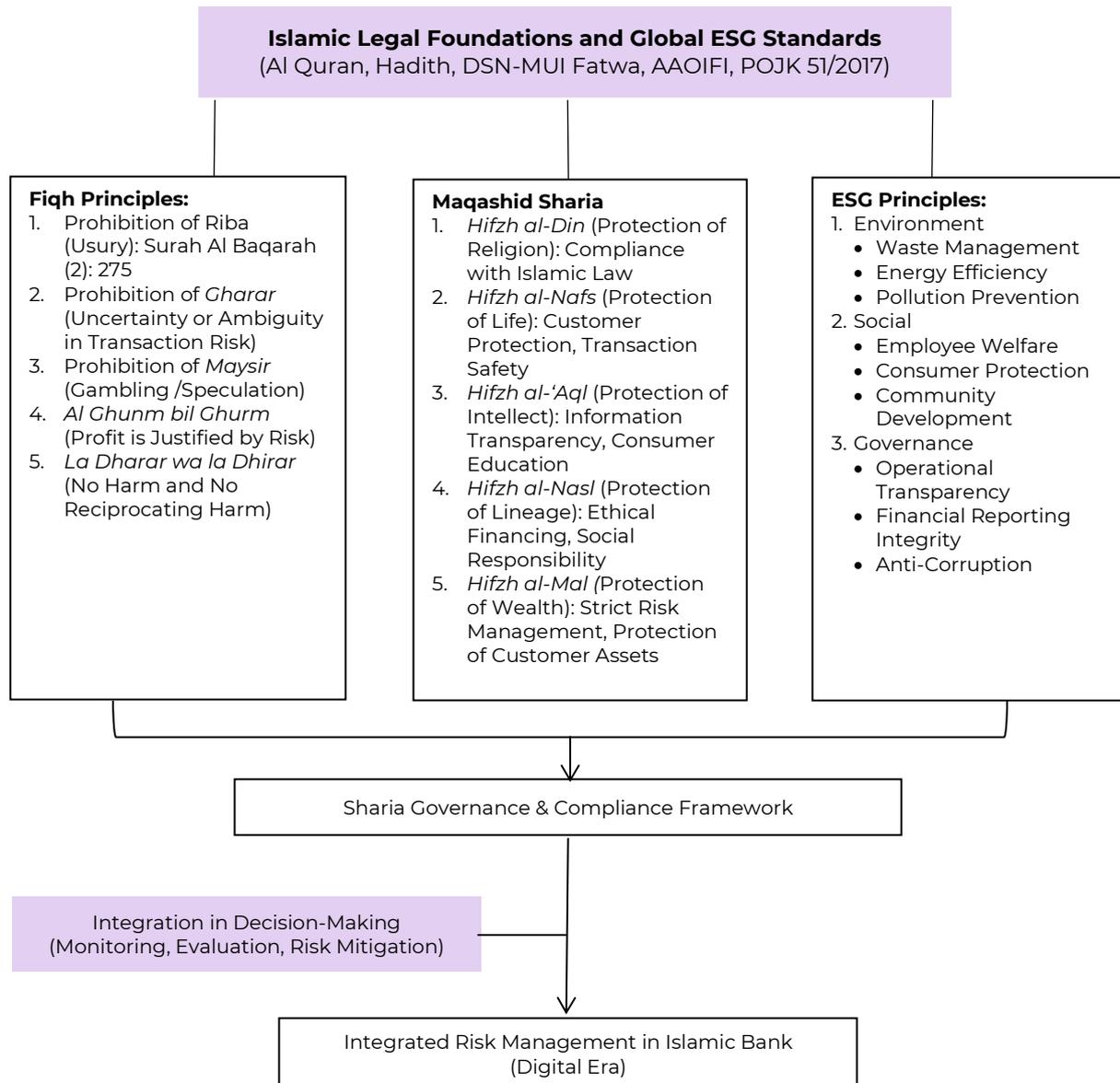


Figure 1. Conceptual Model of the Integration of Fiqh Principles, Maqashid Sharia, and ESG
Source: Compiled by authors

Relevance of ESG to Risk Management in Islamic Banks in the Digital Era

The concept of Environmental, Social, and Governance (ESG) provides a holistic lens for identifying and mitigating risks, making it increasingly relevant for Islamic banks in the digital era. Environmental (E) factors require banks to assess risks related to climate change, pollution, and ecological degradation that may affect the long-term viability of financed businesses. Social (S) factors highlight risks arising from poor labour practices, inequality, or negative community impacts. Governance (G) factors address vulnerabilities linked to weak compliance, corruption, and ineffective internal controls. Empirical studies show that strong ESG performance is positively associated with financial stability, as institutions with robust ESG practices tend to adopt long-term strategies and

are less exposed to hidden costs such as environmental penalties, litigation, or reputational damage (Al Hawaj & Buallay, 2023; Buallay et al., 2023; Paltrinieri et al., 2020).

Islamic banks have begun integrating ESG principles into their operational and risk management frameworks. Bank Syariah Indonesia (BSI), the largest Islamic bank in the country, reported in its 2023 Sustainability Report that it had disbursed IDR 57.7 trillion to green and inclusive sectors, including MSME empowerment, education, and the halal industry, aligned with several Sustainable Development Goals (SDGs) such as quality education (SDG 4), industry and innovation (SDG 9), and sustainable cities (SDG 11). BSI has also developed a Sustainability Sukuk Framework aligned with the Green Bond Principles and integrated with Maqasid Sharia objectives. This demonstrates that ESG principles can coexist with Islamic values, as green and inclusive financing supports environmental stewardship (*hifzh al-bi'ah*) and social justice within *maqasid* framework.

In the digital era, technology accelerates ESG integration in risk management. Digital banking enables more accurate collection, monitoring, and analysis of ESG-related data. BSI has advanced this approach through digital financial inclusion initiatives, including app-based Sharia microfinance services that reach unbanked and vulnerable communities. Beyond expanding market reach, this strategy mitigates portfolio concentration risk and aligns with Islamic social objectives such as poverty alleviation and wealth protection (*hifzh al-mal* and *hifzh al-nafs*). From a risk perspective, diversification through inclusive digital platforms broadens the customer base and distributes credit risk across previously underserved micro-segments, while simultaneously fulfilling the Social (S) dimension of ESG.



Figure 2. the integrative framework of *Fiqh*, *Maqasid* Sharia, and ESG
Source. Compiled by authors

The shared region (Figure 2) illustrates the convergent values that underpin sustainable risk practices in Islamic banking, including social justice (*ihsan*, *'adl*), environmental stewardship rooted in the khalifah role, and governance grounded in trust and transparency. In this conceptual architecture, Sharia-specific attributes appear on the left, while ESG focus areas appear on the right. Sharia ensures operational compliance with Islamic law while guiding institutions toward *maqasid* outcomes. Core *fiqh* rules prohibiting *riba* and *maysir* restrict engagement in non-real, exploitative financial transactions, thereby reducing exposure to speculation-driven market bubbles. Furthermore, Sharia contracts based on profit-and-loss sharing promote proportional risk and return distribution, preventing unfair risk transfers. Unlike conventional interest-based lending where the borrower bears most of the risk, Islamic contracts distribute risks more equitably, reducing the likelihood of cascading defaults.

Maqasid Sharia complements this legal foundation by offering an outcome-oriented approach to risk management. Its five pillars (protection of religion, life, intellect, lineage, and wealth) are translated into sustainability objectives within Islamic banks. Protection of life (*hifzh al-nafs*) encourages banks to mitigate social risks by ensuring that financed projects do not endanger public safety and instead enhance welfare, such as access to essential services and healthcare. Protection of

wealth (*hifzh al-mal*) guides banks to avoid financing industries that damage natural resources or shared environmental assets, thereby safeguarding intergenerational well-being. Protection of intellect and lineage (*'aql* and *nasl*) requires avoiding investments in activities that undermine morality or social order, aligning closely with the social (S) pillar of ESG. Digital platforms that promote financial literacy and ethical giving, such as online zakat education, further reinforce these objectives (Auda, 2008; Sairally, 2015).

Integrating *maqasid* into risk management ensures that Islamic banks pursue long-term public interest rather than short-term financial gains. Insights from interview with the chairman of MUI of West Java Province (P1) confirm that:

Maqasid requires transparent governance and careful attention to social and environmental impacts. This operationalises the dual principles of *jalb al-masalih* (promoting benefits) and *dar' al-mafasid* (preventing harms).

Consequently, Islamic banks should embed ESG policies into their risk management frameworks, performance metrics, and compliance culture to ensure that public welfare is achieved sustainably and consistently with Islamic ethical objectives. The ESG component within this integrative framework provides practical tools and measurable indicators that help Islamic banks operationalise their ethical and Sharia-based values. ESG offers globally recognised standards that can be adopted without compromising Islamic principles. Under the Environmental (E) dimension, banks may apply exclusion policies for high-carbon industries or conduct climate-risk stress tests on financing portfolios, an approach that aligns with the Islamic concept of human stewardship (*khalifah*) over the Earth. The Social (S) dimension encourages banks to assess social risks, such as compliance with labour rights and the prohibition of child labour, reflecting the Islamic values of *ihsan* and justice. Meanwhile, the Governance (G) dimension emphasises transparency, accountability, and anti-corruption, mirroring the Islamic principle of *amanah* (trust and integrity).

Integrating ESG with Sharia principles creates a dual-control system: internal control grounded in religious ethics and external control based on sustainability standards. Findings from data analysis and case studies indicate that this integrative framework is feasible, but its implementation requires several key prerequisites. First, Islamic banks must develop performance indicators that merge ESG key performance indicators (KPIs) with *maqasid*-based KPIs. Sustainability reports, for example, should include metrics such as the volume of financing contributing to poverty alleviation (*hifzh an-nafs*) and the percentage of portfolios allocated to environmentally responsible sectors (*hifzh al-mal*).

Second, capacity building and internal collaboration are essential. Internal stakeholders, including the Sharia Supervisory Board (DPS), must be involved from the earliest stages of sustainable risk policy formulation. This study highlights the need for ESG-focused training for DPS members so they can evaluate financial products not only from a *halal-haram* perspective but also in terms of ethical and sustainability impact. Conversely, risk managers and sustainability teams must deepen their understanding of Sharia principles to ensure coherent integration.

Third, regulatory and industry support is crucial. Regulators such as OJK, DSN-MUI, and international standard-setting bodies can collaborate to develop integrated reporting standards that accommodate both ESG and *maqasid* values. Such standardisation is necessary to prevent fragmentation and to provide investors with clear, reliable information regarding the ESG performance of Islamic banks.

Bank Syariah Indonesia (BSI) serves as a leading example of this integration. In 2025, BSI received the World's Best Islamic Bank for ESG award from Euromoney, reflecting advancements in innovation, governance, sustainable product design, and organisation-wide ESG awareness. As expressed by P2 (BSI micro relationship managers):

Our bank's strategy aims not only for financial returns but also for social, environmental, and spiritual outcomes, an expression of *ihsan* and *tawhid* that views banking as a form of worship orientated toward public benefit.

In practice, these values inspire continuous service innovation, such as green zakat initiatives and waqf-linked sukuk, which align sustainability objectives with religious commitments. This orientation also enhances the bank's reputation; institutions perceived as socially and spiritually responsible tend to enjoy greater public trust and regulatory goodwill. Ultimately, the ESG-Sharia integration provides a holistic risk-management architecture that preserves doctrinal integrity while

enabling Islamic banks to navigate digital-era challenges. Combining ESG disciplines with *maqasid* and *fiqh* yields dual benefits: strengthened Sharia conformity and enhanced international competitiveness through sustainable practices. The findings support the view that ethical and sustainability-driven orientations reinforce business resilience. Through this integrated framework, Islamic banks can adopt a more comprehensive risk posture that addresses financial, social, and environmental dimensions while advancing sustainable development and maintaining their Islamic identity. This model can guide Indonesia's Islamic banking sector in formulating future risk policies that balance profit, people, planet, and faith across all operational activities.

CONCLUSION

This study proposes a holistic, integrative framework for modern Islamic banking risk management. Within this framework, Fiqh principles serve as a non-negotiable legal foundation, ensuring all bank activities adhere to Sharia boundaries. Maqasid Sharia subsequently functions as an ethical and teleological compass, directing risk management objectives toward public welfare (*maslahah*). Concurrently, the ESG framework operates as a contemporary, operational instrument that translates these Sharia values into measurable practices aligned with global sustainability standards. The implementation of this framework demonstrates tangible potential for strengthening business resilience and generating Sharia-compliant value added. However, its effectiveness critically depends on an institution's capacity to harmonise dynamic ESG regulations with immutable Sharia stipulations through adaptive and innovative governance.

In this context, the relevance of ESG for Islamic bank risk management in the digital era lies in its ability to complement and strengthen both conventional and Sharia risk frameworks. ESG introduces a long-term sustainability perspective, reinforces social responsibility, and embeds environmental stewardship into risk strategy. In practice, this study finds that Bank Syariah Indonesia's (BSI) initiatives in sustainable finance and digital financial inclusion are not only aligned with Maqasid Sharia but also function as vital operational tools for managing risk while creating positive socio-environmental impact. Thus, this integrative framework paves the way for Islamic banking to evolve from being merely Sharia-compliant into institutions that actively contribute to sustainable development in harmony with Islamic values, while simultaneously strengthening their reputation, global competitiveness, and long-term resilience.

The study implies that integrating Fiqh principles, Maqāsid Sharīa, and ESG is not merely theoretical but can practically shape a more resilient and ethical risk management system in Islamic banking. The primary implications include (1) for regulators, formulating guidelines and incentives supporting integrated (ESG-Maqasid) reporting standards; (2) for practitioners, the necessity of building internal capacity so that Sharia Supervisory Boards and risk teams can adopt this holistic approach; and (3) for the industry, commitment to Sharia values and sustainability can become a source of competitive advantage and long-term business resilience, as demonstrated by Bank Syariah Indonesia's initiatives.

This study has several important limitations. Methodologically, the findings are contextual, relying on a qualitative approach and the Bank Syariah Indonesia case study; thus, they cannot be generalised to the entire Islamic banking industry across different countries. Regarding data, the research has not yet succeeded in formulating a quantitative, standardised set of integrated key performance indicators (KPIs) to measure the integration of normative *maqāsid* principles with operational ESG metrics. Furthermore, the analysis does not fully test the resilience of this integrative framework against rapid external dynamics, such as technological disruption or global regulatory changes, and has not explored critical perspectives from a more diverse set of stakeholders, such as customers or affected communities. Consequently, certain aspects of implementation or impact may remain undisclosed. Future research should develop integrated key performance indicators (KPIs) that operationally combine *maqāsid* targets (e.g., *hifz al-mal*) with ESG metrics (such as carbon intensity). Comparative studies are also needed to analyse the long-term impact of this integration on the financial performance, stability, and reputation of several Islamic banks across different countries.

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