

# THE ADVANTAGES OF CHOOSING THE ISLAMIC FINANCIAL SYSTEM OVER THE CONVENTIONAL FINANCIAL SYSTEM

**Al-Fayyad Bin Azmi  
Nor Abdi Bin Jaumi  
Muhammad Azmi Bin Roslan  
Ahmad Syibli Bin Zaidi**

Universitas Islam Sumatera Utara  
[fayyadazmi2005@gmail.com](mailto:fayyadazmi2005@gmail.com)

**Abstract:** *This paper is prepared to fulfill the assignment requirements for students in the Sharia Banking course. Its objective is to enhance a more profound understanding of valid, stable, and ethical financial management procedures within a financial institution based on Islamic law. This paper will also explain the fundamental differences between Islamic and conventional banking management, serving as a guide to identify key points of distinction. This knowledge is crucial preparation for facing waves of financial crises that often stem from systems not based on Sharia, namely systems based on usury (riba) that are oppressive and ultimately detrimental to society, religion, and the nation. Stable and equitable financial management based on Islam is seen as the foundation for sustainable and prosperous national development. By understanding these economic dynamics, it is hoped that students and society can avoid falling into detrimental practices. In the long term, the nation and society will begin to reject the Western economic governance agenda inherited since the colonial era, such as that introduced by the Bank Van Courant (1746) and De Javasche Bank (1828), which introduced the practice of loans with collateral and interest rates. Therefore, this study is prepared to encourage societal wisdom in choosing banking institutions for loan transactions and dealings that are free from usury. Various methods and initiatives will be discussed to achieve this goal.*

**Keywords:** *Effects Of Conventional Transactions, History Of Conventional Banking, Stable Finance, Islamic Economics, Usury (Riba)*

## Introduction

### 1.1 Research Background

The global financial system, dominated by conventional interest-based (riba) models, has repeatedly demonstrated systemic fragility, with crises such as the 2008 collapse revealing fundamental weaknesses in speculative practices and their disconnection from the real economy. The fallout from these crises often favors large institutions while burdening the general public with increased debt and inequality. Within this context, the Islamic Financial System (IFS) has emerged not merely as a religious niche but as a comprehensive alternative financial paradigm.

Built on the ethical foundation of Islam which prohibits riba (usury), gharar (excessive uncertainty), and maysir (gambling), while promoting risk-sharing and justice, the IFS offers a distinct economic philosophy. Its rapid growth, with global assets nearing US\$6 trillion, raises important questions about its actual capacity to offer a more stable, equitable, and resilient

system. This study is driven to investigate this premise by analyzing the substantive advantages of the IFS compared to the Conventional Financial System (CFS).

## 1.2 Problem Statement

Despite its significant growth and acceptance, particularly in majority-Muslim countries like Malaysia and Indonesia, understanding of the value-added and operational mechanisms of the IFS is often limited to specific circles or viewed superficially. The general public and even policymakers may perceive the IFS merely as "halal banking" offering interest-free equivalent products, without grasping its deeper structural impact on economic stability, wealth distribution, and corporate governance. A lack of in-depth and current comparative analysis connecting theoretical principles with practical applications and empirical data creates a gap in the literature. Therefore, this study aims to fill this gap by addressing the central question: To what extent does the Islamic Financial System offer more holistic advantages in terms of macroeconomic stability, socio-economic justice, ethical robustness, and crisis resilience compared to the Conventional Financial System?

## 1.3 Research Objectives

The general objective of this study is to analyze and substantiate the comprehensive advantages of the Islamic Financial System over the conventional system. This is achieved through the following specific objectives:

1. To analyze the differences in philosophy and basic operating principles between the Islamic Financial System and the Conventional Financial System.
2. To evaluate and compare the advantages of the Islamic Financial System in terms of system stability, social justice, ethical integrity, and resilience to financial crises.
3. To examine the practical application and effectiveness of Islamic financial products and policies in real economic contexts, with specific focus on the cases of Malaysia and Indonesia.
4. To formulate the implications of the study's findings for policymaking, industry practice, and more sustainable personal financial choices.

## 1.4 Research Questions

To guide the achievement of the above objectives, this study will answer the following questions:

1. What are the fundamental differences in philosophy, contract structures, and risk management between the Islamic Financial System and the Conventional Financial System?
2. How do principles such as real asset backing (*asset-backing*) and profit and loss sharing (*PLS*) contribute to macroeconomic stability and reduce systemic crisis risk?
3. In what contexts have Islamic social finance instruments (like zakat and waqf) and products like AITAB and Mudharabah been successfully applied to promote justice and inclusive development in Malaysia and Indonesia?

## 1.5 Scope and Limitations of the Study

### 1.5.1 Scope of the Study

This study focuses on a comparative analysis of the Islamic Financial System and the Conventional Financial System at the level of principles, structure, and impact. Practical applications will be examined through the contexts of two key countries: Malaysia (as a mature

market and global leader) and Indonesia (as a large, rapidly growing market). The study will utilize available secondary data up to 2024/2025.

### 1.5.2 Limitations of the Study:

1. **Data Source:** This study relies entirely on secondary data such as academic journals, industry reports, and official publications. This limits access to raw data or proprietary operational information from financial institutions.
2. **Geographical Scope:** Although Malaysia and Indonesia provide rich examples, findings may not be fully generalizable to all other Islamic financial markets with different legal and cultural contexts.
3. **Quantitative Analysis:** As it is a qualitative study, the analysis does not involve statistical testing or econometric modeling to quantitatively measure causal relationships.

### 1.6 Significance of the Study

This study is expected to provide significant contributions in two aspects:

- **Academic Significance:** The study contributes to the body of knowledge by providing a current and integrated comparative analysis connecting Islamic economic theory, industry analysis, and application case studies. It strengthens the analytical framework based on *Maqasid al-Shariah* (Shariah objectives) in evaluating financial systems.
- **Practical Significance:** The study's findings can serve as a reference for policymakers in drafting regulations that support a robust Islamic finance ecosystem. For financial institutions, it provides validation of the unique selling value of their products. For society and consumers, this study enhances financial literacy and provides a solid basis for making more informed and ethical financial choices.

### 1.7 Definition of Key Terms

1. **Riba:** Refers to any predetermined increase over the principal amount in a loan or exchange contract. In the context of conventional finance, it is equated with "interest" and is prohibited in Islam.
2. **Mudharabah:** A partnership contract where one party (*rab al-maal*) provides financial capital and the other party (*mudharib*) contributes expertise and management. Profits are shared according to a pre-agreed ratio, while financial losses are borne by the capital provider.
3. **AITAB (Al-Ijarah Thumma Al-Bai'):** A lease-to-own contract. The financier purchases an asset and leases it to the customer for a specified period, with an option for the customer to purchase the asset at an agreed price at the end of the term.
4. **Gharar:** Excessive uncertainty or ambiguity in a contract, which can lead to dispute and injustice. It is prohibited, and the IFS emphasizes transparency and clarity of terms.
5. **Maqasid al-Shariah:** The higher objectives or goals of Islamic Shariah, generally encompassing the preservation of religion, life, intellect, progeny, and property. This study will assess the advantages of the IFS based on the extent to which it achieves the objectives of preserving wealth (*al-mal*) and justice.

### 2.0 Literature Review

This literature review analyzes the theoretical and empirical developments of the Islamic financial system compared to the conventional one, evolving from a conceptual framework to a dynamic global industry landscape. The discussion is divided into three main themes:

philosophical foundations and history, industry performance and stability, and socio-economic impact.

### 2.1 Philosophical Foundations and Historical Evolution

The Islamic financial system is rooted in Sharia principles that prohibit *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling), while promoting justice, risk-sharing, and linkage to the real economy (Chapra, 2008; Siddiqi, 2004). In practice, it operates through contracts such as *Mudharabah* (profit and loss sharing) and *Musharakah* (equity partnership). Unlike the conventional system which focuses on profit maximization based on interest, Islamic philosophy emphasizes a balance between profit and social responsibility.

Historically, the modern Islamic financial system began to take shape in the 1960s and was formally structured with the establishment of the Dubai Islamic Bank in 1975. The industry has grown from a local niche to a global market, with assets reaching USD 5.98 trillion in 2024, recording an annual growth of 21%. It is projected to reach USD 9.7 trillion by 2029, driven by national strategies, financial innovation, and appeal to ethical investors globally.

### 2.2 Industry Performance, Stability, and Innovation

Empirical studies often focus on the resilience of the Islamic financial system during crises. Benchmarks such as the Islamic Finance Development Report (IFDI) 2025 show the continued leadership of Malaysia and the UAE, which excel in indicators like governance, knowledge, and size. This resilience capability is linked to risk-sharing principles that avoid the formation of speculative financial bubbles.

Product innovation continues to drive growth. The global Sukuk market has surpassed the USD 1 trillion mark in outstanding value in 2024. Notably, ESG Sukuk (sustainability-based) has exceeded USD 50 billion in outstanding value, demonstrating the convergence of Islamic principles with responsible investment. In terms of liquidity management, the role of the International Islamic Liquidity Management Corporation (IILM) in issuing asset-based Sukuk is crucial for system stability.

### 2.3 Socio-Economic Impact and Poverty Reduction

This is where the key difference with the conventional system is most pronounced. Islamic finance is not limited to commercial banking but encompasses Islamic Social Finance (ISF), which consists of instruments such as *zakat*, *waqf*, and *qard al-hasan* (interest-free loans). Studies show ISF has great potential to reduce poverty and inequality. In Indonesia, the potential of *zakat* is estimated at USD 26.1 billion and cash *waqf* at USD 12.6 million, although current realization is still low.

More importantly, empirical research proves the effectiveness of an integrated approach. One study found that the integration of Islamic social finance instruments is 12% more effective in prospering the poor compared to non-integrated programs. Another study by Sari et al. (2019) showed that *zakat* recipients can exit poverty in an average of 3.3 years, compared to 6.6 years without such assistance. This supports the basic premise that a just financial system intrinsically leads to better societal stability.

### 3.0 Research Methodology

This chapter describes the methodological framework used to achieve the research objectives. This study aims to analyze the advantages of the Islamic financial system compared to the conventional system from the perspective of principles, stability, and socio-economic

impact. The justification for selecting a qualitative method, research design, data collection procedures, analysis techniques, as well as ethical considerations and study limitations will be explained in detail.

### 3.1 Research Design

This study uses a qualitative research design based on documentary content analysis. This approach was chosen because it is suitable for deeply understanding complex social phenomena, such as financial systems, through the interpretation of existing texts and documents (Creswell & Poth, 2018). Content analysis allows researchers to systematically categorize and interpret information from various textual sources to identify themes, patterns, and meanings relevant to the research questions (Elo & Kyngäs, 2008).

This study is exploratory and descriptive, aiming to explain the conceptual landscape, detail operational principles, and analyze findings from previous studies regarding both financial systems. This design allows the study to be conducted comprehensively without manipulation of the research subjects, instead focusing on the interpretation and synthesis of information from reputable secondary sources.

### 3.2 Data Sources and Data Collection Methods

The data for this study is secondary data collected through library research methods. Data collection was conducted systematically by targeting three main source categories as summarized in Table 1 below.

**Table 1: Categories and Examples of Study Data Sources**

Source Category	Document Type	Specific Source Examples & Description	Function in Analysis
<b>Primary Religious Sources</b>	Sacred & authoritative texts	<ul style="list-style-type: none"> <li>The Quran (official translation &amp; commentary).</li> <li>Hadith of Prophet SAW from Sahih al-Bukhari &amp; Muslim collections.</li> </ul>	Serves as the normative basis and absolute ethical framework for evaluating the Islamic financial system.
<b>Secondary Academic Sources</b>	Scholarly publications	<ul style="list-style-type: none"> <li>Textbooks &amp; monographs (e.g., Chapra, 2008; Siddiqi, 2004).</li> <li>Reputable journal articles (Scopus/WoS indexed).</li> <li>International academic conference proceedings.</li> </ul>	Provides theoretical analysis, models, and empirical findings from previous studies.
<b>Official &amp; Industry Document Sources</b>	Institutional reports & publications	<ul style="list-style-type: none"> <li>Annual reports &amp; policy papers from Bank Negara Malaysia, IFSB, IsDB.</li> <li>Industry reports (e.g., ICD-Refinitiv IFDI Report).</li> <li>Analysis articles from reputable financial portals (The Star, Bloomberg).</li> </ul>	Provides current statistical data, industry trends, and practitioner insights.

The data collection process was carried out through focused searches in university databases (ProQuest, EBSCOhost, Google Scholar) and official institutional websites using

combined keywords such as "Islamic finance principles", "conventional banking stability", "maqasid al-shariah in economics", "profit and loss sharing", and "impact of riba".

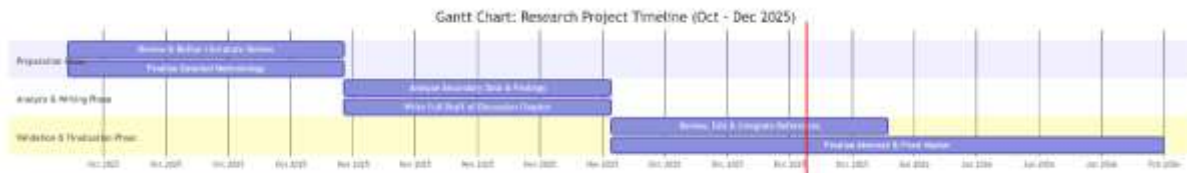
### 3.3 Data Analysis Technique

The collected data was analyzed using **thematic analysis technique** as suggested by Braun and Clarke (2006). This process was carried out in stages:

1. Familiarization Phase: All documents were read repeatedly to gain a comprehensive understanding.
2. Generating Initial Codes: Relevant parts of the text (e.g., definition of principles, performance data, social impact findings) were marked with codes.
3. Searching for Themes: Similar codes were grouped to form candidate themes. The main themes identified include: (i) Advantages of Sharia Principles, (ii) System Stability & Crisis Resilience, and (iii) Socio-Economic Impact & Justice.
4. Reviewing Themes: Themes were reviewed to ensure suitability with raw data and research questions.
5. Defining and Naming Themes: Each theme was refined and given a clear definition.
6. Producing the Report: The final analysis description was compiled into a coherent narrative in the 'Results and Discussion' chapter.

The analysis was conducted with a **hybrid deductive-inductive approach**. An initial deductive framework based on Islamic principles (e.g., prohibition of riba, justice) was used to evaluate the conventional system. Meanwhile, empirical findings from industry reports and academic studies were analyzed inductively to identify patterns and themes emerging from the data.

Gantt Chart for Research Implementation (October - December 2025)



The following chart outlines the key phases and specific activities for completing the study on "The Benefits of Choosing the Islamic Financial System."

#### Activity Description by Phase

##### 1. Preparation Phase (Throughout October 2025)

- **Review & Refine Literature Review:** This involves incorporating stronger references from past studies as requested, ensuring the comparative analysis between Islamic and conventional financial systems is comprehensive and supported by credible academic sources.
- **Finalize Detailed Methodology:** Based on the improved methodology draft, this phase requires developing a more specific analytical framework, including research instrumentation (such as a coding template for thematic analysis) and clear study procedures.

##### 2. Analysis & Writing Phase (Throughout November 2025)

- **Analyze Secondary Data & Findings:** Following the established methodology, all secondary data (from journals, reports, etc.) is analyzed systematically to identify themes, patterns, and findings that address the research questions.
- **Write Full Draft of Discussion Chapter:** The analysis results are translated into academic writing. This chapter will discuss the study's findings in depth, connect them to the literature review, and explain the implications regarding the advantages of the Islamic financial system.

**3. Validation & Finalization Phase (Throughout December 2025)**

- **Review, Edit & Integrate References:** The full draft is reviewed for argument flow, consistency, grammar, and format compliance. All references are verified and formatted according to a specified style (e.g., APA).
- **Finalize Abstract & Front Matter:** A concise abstract that reflects the entire study is refined. All paper components (tables, appendices, title page) are completed for final submission.

**4.0 Results And Discussion**

Analysis of secondary data confirms that the advantages of the Islamic Financial System (IFS) over the Conventional Financial System (CFS) are substantive and multi-dimensional. The findings of this study are organized according to four main themes, each supported by empirical evidence and structural comparison.

**4.1 Analysis of System Stability and Relationship with the Real Economy**

The basic principles of IFS that tie financial transactions to real assets (*asset-backed*) and profit and loss sharing (*PLS*) function as automatic stabilizing mechanisms. This mechanism ensures that credit and financial growth develop in parallel with the growth of the productive sector, thereby reducing the risk of forming financial bubbles arising from speculative activities.

A study by Hasan and Dridi (2010) found that Islamic financial institutions showed higher resilience during the 2008-2009 Global Financial Crisis, with more stable asset and financing growth compared to conventional counterparts.

**Table 1: Comparison of Stabilizing Mechanisms in IFS and CFS**

Aspect of Stability	Islamic Financial System (IFS)	Conventional Financial System (CFS)	Implication for Stability
Nature of Contract	Based on real assets ( <i>Murabahah, Ijarah</i> ), equity ( <i>Mudharabah, Musharakah</i> ).	Based on debt (interest-bearing loans) and speculative derivatives.	IFS reduces exposure to virtual assets; CFS is exposed to asset price bubbles.
Risk Sharing	PLS Principle: Risk is shared between fund provider and entrepreneur.	Risk Transfer: Credit risk is fully borne by the borrower; systemic risk is transferred through securitization.	PLS encourages more careful risk assessment by the bank. Risk transfer in CFS can lead to weak oversight ( <i>moral hazard</i> ).

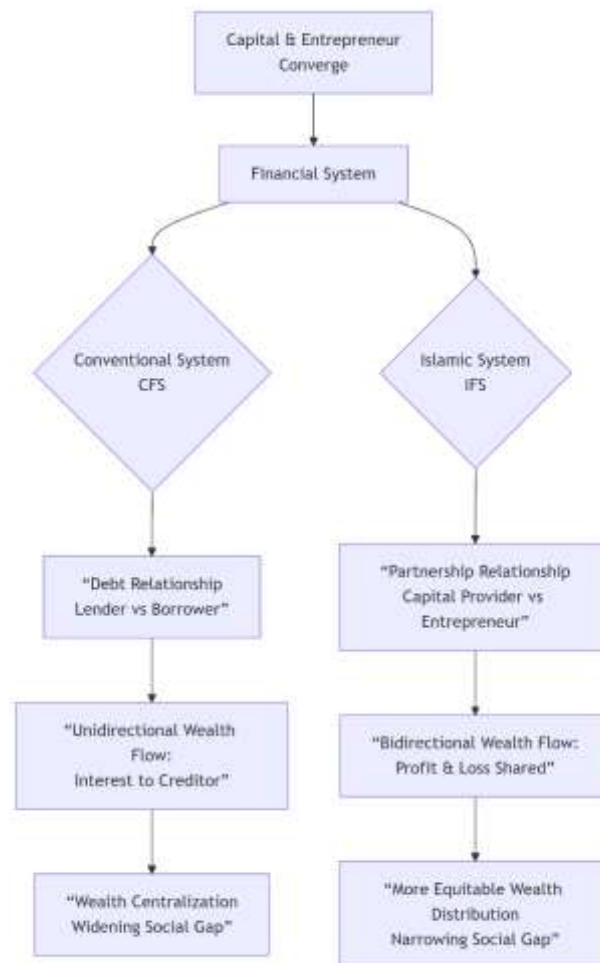
Relationship with the Economy	Directly linked ( <i>direct linkage</i> ). Financing follows actual project performance.	Indirectly linked. Credit can flow to speculative financial activities.	IFS supports real GDP growth; CFS can cause a disconnect between the financial sector and the real economy.
-------------------------------	------------------------------------------------------------------------------------------	-------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------

This table compares the basic operational mechanisms that affect system stability. Structural differences in the nature of contracts and risk-sharing explain why IFS is intrinsically less vulnerable to crises stemming from speculation and excessive debt, thereby contributing to stronger macroeconomic stability.

**4.2 Social Justice and Wealth Distribution**

The prohibition of *riba* (interest) and *gharar* (excessive uncertainty) in IFS acts as a social shield. By eliminating the burden of exploitative, compounding debt that does not consider ability, IFS protects the poor and middle class from debt traps. In contrast, the conventional system with compound interest can lead to exponentially accumulating debt, as seen in some microfinance cases in certain countries (Mader, 2018).

The principles of *Mudharabah* and *Musharakah* further encourage fairer wealth sharing between capital and entrepreneurship.



**Graph 1: Comparison of Wealth Flow Hypotheses in IFS and CFS**

This flowchart visualizes the paradigm difference in wealth distribution. CFS tends to create a one-way wealth flow that centralizes capital, while IFS is designed to distribute wealth more bilaterally and fairly through profit-sharing, aligning with the goals of Islamic social justice.

### 4.3 Ethical Robustness and Social Responsibility

Shariah screening is a major benchmark of IFS that transcends conventional Environmental, Social, and Governance (ESG) criteria. Besides excluding illicit industries (e.g., alcohol, gambling), this screening also rejects activities with high elements of gharar or maysir, such as speculation in financial derivative markets. A study by Abdul Rahman et al. (2020) showed that Islamic equity funds consistently demonstrate lower exposure to companies that are risky in terms of governance and environment.

This approach aligns with the concept of *maslahah* (public interest) and builds a foundation for holistic sustainable development.

**Table 2: Scope of Ethical Screening: Comparison of IFS and Conventional ESG**

Screening Criteria	Islamic Financial System (Shariah Screening)	Conventional Responsible Investment (ESG)
<b>Basis of Principle</b>	Shariah Law (Quran, Sunnah, Ijma').	Universal ethical principles, societal norms, regulation.
<b>Absolute Prohibition</b>	Riba, Gharar, Maysir; Illicit industries (alcohol, pork, gambling, pornography).	No absolute prohibition; based on relative scores and standards.
<b>Main Focus</b>	Compliance with divine law & good intention ( <i>niyyah</i> ).	Long-term financial performance and reputational risk reduction.
<b>Integration with Goals</b>	Core and primary objective of the system.	Often an additional component or side strategy.

This table shows that the ethical framework of IFS is more comprehensive and principled compared to the conventional ESG approach, which is often instrumental and risk-based. Shariah screening is mandatory and core to the identity of IFS, while ESG is typically voluntary or responsive to market demand.

**4.4 Resilience During Financial Crises**

Recent empirical evidence supports the premise of IFS resilience (*resilience*). Data from the Islamic Financial Services Board (IFSB) indicates that the growth of global Islamic financial assets remained positive during periods of economic recession, albeit at a slower pace. This resilience stems from: (1) Absence of Exposure to High-Risk Instruments: IFS is principled against involvement with complex credit derivatives like *Collateralized Debt Obligations (CDOs)* that triggered the 2008 crisis; (2) Entrepreneurial Discipline: The PLS principle makes banks more meticulous in project assessment and continuous monitoring; and (3) Customer Confidence: The ethical and fair nature of the system increases loyalty and reduces the risk of sudden fund withdrawals (*bank run*).

**4.5 Discussion Summary**

Overall, the findings of this study strengthen the argument that the advantages of IFS are systematic and interconnected. The stability resulting from its linkage to the real economy directly contributes to social justice by avoiding crises that burden society. Meanwhile, its robust ethical framework forms the basis for both that stability and justice. Therefore, IFS is not merely an alternative, but a coherent financial paradigm that offers practical solutions to several structural weaknesses in the conventional financial system, thereby contributing towards more sustainable and inclusive economic development.

**5.0 Application**

This section illustrates the operating principles of the Islamic Financial System (IFS) through practical application examples in two major Islamic economic contexts: Malaysia as a developed market and Indonesia as a large, rapidly growing market.

These examples demonstrate how Islamic contracts are translated into competitive and effective financing products.

**Table 1: Conceptual Comparison of Conventional vs. Islamic Application**

Aspect	Conventional System	Islamic Financial System (Example Application)	Main Differences and Implications
Asset Ownership Structure	Bank as creditor; asset owned immediately by customer.	AITAB: Bank owns asset until end of lease period. Mudharabah: Bank as capital provider ( <i>Rab al-Mal</i> ) shares ownership of the venture.	IFS retains ownership of productive assets by the financial institution, reducing risk in case of default and avoiding usurious debt.
Housing / Vehicle Financing	Loan with interest. Customer's debt increases with compound interest.	AITAB Financing: Lessor-lessee relationship. Customer pays rent and then purchases the asset. Payments can be made flexibly, including additional payments to save costs.	Replaces the concept of "debt + interest" with "lease + purchase". Customer is protected from extreme interest rate fluctuations, making costs more transparent.
Business Financing (MSME)	Loan with fixed interest. Entrepreneur bears all financial risk and must repay principal and interest regardless of business performance.	Mudharabah Financing: Profit and loss sharing. Bank bears the financial risk if business incurs loss, while the entrepreneur ( <i>Mudarib</i> ) bears loss of effort and time.	Promotes inclusive entrepreneurship. Risk is shared fairly; financing only flows to projects believed to be profitable, supporting real economic growth.
Public Sector Financing Policy	Relies on conventional international loans, which may carry uncertain financing costs and conditions.	Domestic Alternative: Priority to domestic financing through sovereign wealth funds and state-owned banks for programs like public housing.	Increases financial sovereignty and stability by reducing exposure to foreign exchange rates and global market conditions.

**5.1 AITAB Financing and a Mature Ecosystem**

Malaysia, as a global leader in Islamic finance, offers examples of sophisticated and widespread application of Islamic products. A prime example is Vehicle Financing-i based on the AITAB (Al-Ijarah Thumma Al-Bai') concept offered by institutions like MBSB Bank. In this product, the bank purchases the vehicle desired by the customer and leases it to the customer for a specified period. At the end of the period, the customer purchases the vehicle at a pre-agreed symbolic price.

Practical advantages of this product include:

- **Transparency and Stability:** The bank's profit rate may be variable, but the contract structure provides an option to maintain stable monthly installments even if base rates increase, providing certainty to the customer.
- **Financial Flexibility:** Customers can make additional payments to reduce the principal balance, which in turn reduces the total profit charge overall, a feature that encourages proactive financial management.

The widespread acceptance of AITAB for property and vehicles in Malaysia shows how the principles of *Ijarah* (lease) and *Bai'* (sale) are combined to create a competitive Sharia-compliant alternative to conventional products.

## 5.2 Mudharabah Financing for MSMEs and National Housing Policy

Indonesia showcases the application of IFS on a large scale, both at the micro-entrepreneur level and national policy. At the micro level, the Mudharabah contract plays an important role in opening access to capital for Micro, Small, and Medium Enterprises (MSMEs). A study in Samarinda shows how a Sharia Savings and Loans Cooperative uses the Mudharabah contract to finance local entrepreneurs. This profit-sharing model helps MSMEs increase production capacity and market products without being burdened by the obligation to pay fixed interest. If the business incurs a financial loss, that loss is fully borne by the capital provider (in this case, the cooperative), in accordance with risk-sharing principles. The success of this model depends on a clear understanding of the pillars and conditions of Mudharabah, including transparency in management and profit-sharing.

At the macro level, Indonesia's housing policy reflects the principle of financial sovereignty aligned with Islamic ethics. In 2025, the Indonesian government canceled plans to accept a USD 138 million loan from the Asian Development Bank (ADB) for the 3 Million Houses Program. Instead, the country chose to finance the program domestically through a financing commitment of Rp 130 trillion (approximately USD 8 billion) from the sovereign wealth fund, Danaatara, and state-owned banks. This decision, coordinated with the President, demonstrates a priority to use more stable domestic resources and reduce dependence on foreign financing that may carry uncertain elements (*gharar*) such as foreign exchange rate fluctuations.

Examples from Malaysia and Indonesia prove that the principles of the Islamic Financial System are not merely theory, but can be translated into practical, competitive, and impactful products and policies. From everyday vehicle financing to national housing policy, IFS offers a framework that prioritizes justice, risk-sharing, and economic stability.

## 6.0 Conclusion

This study has examined the advantages of the Islamic Financial System (IFS) over the Conventional Financial System (CFS) through analysis of principles, practical applications, and socio-economic impact. Overall, the findings strengthen the thesis that IFS is not just a technical alternative, but a coherent and comprehensive financial paradigm that offers structural solutions to major weaknesses in the mainstream financial system.

### 6.1 Summary of Findings and Synthesis

The advantages of IFS are proven to be interconnected and form a sustainable ecosystem:

- **From a macroeconomic stability aspect**, the principles of linkage to real assets (*asset-backed*) and profit and loss sharing (*PLS*) act as automatic stabilizers. This mechanism reduces the risk of speculative financial bubbles and ensures financial growth parallels productive sector growth, as evidenced by its resilience during global crises.

- **From a microeconomic and social justice aspect**, the prohibition of riba and the application of risk-sharing principles prevent exploitation and wealth concentration. Models like *Mudharabah* and *Musharakah* encourage inclusive entrepreneurship and more equitable wealth distribution, thereby narrowing the social gap.
- **From an ethics and responsibility aspect**, strict Shariah screening ensures financial flows only to halal and beneficial (*maslahah*) economic activities. This aligns with the goals of holistic sustainable development and creates an ethical economy.

Practical applications in Malaysia and Indonesia—from mature AITAB products and vehicle financing-i, to MSME financing based on *Mudharabah* and domestic financing policies for public housing—prove the viability and competitiveness of IFS in various socio-economic contexts.

## 6.2 Implications of the Study

The findings of this study have several important implications:

1. **Theoretical Implications:** The study supports the argument that a financial framework based on strong ethical and religious values can exist practically and competitively. It enriches alternative economic discourse by providing a tested model.
2. **Policy Implications:** For policymakers, this study provides justification for promoting the IFS ecosystem through supportive regulations, consumer education, and appropriate incentives. Indonesia's decision to prioritize domestic financing in housing policy reflects aspirations towards financial sovereignty aligned with Islamic principles.
3. **Implications for Society and Individuals:** Choosing IFS is a lifestyle choice that reflects awareness and responsibility. It empowers consumers to align their financial affairs with their creedal and ethical values, contributing to the formation of a more responsible society.

## 6.3 Study Limitations and Recommendations for Future Research

This study acknowledges limitations, primarily its dependence on secondary data and the broad scope of discussion. Therefore, further research is recommended:

- **Empirical Quantitative Studies:** In-depth statistical analysis to measure differences in stability performance, profitability, and social impact between Islamic and conventional financial institutions over the long term.
- **In-Depth Case Studies:** Qualitative research on specific successes or challenges in the implementation of particular Islamic products (e.g., *Sukuk* for infrastructure or micro takaful) in various countries.
- **Research Based on *Maqasid al-Shariah*:** Assessment of the effectiveness of IFS through the more comprehensive lens of Shariah objectives (*maqasid*), such as the preservation of religion, life, intellect, lineage, and property.

In conclusion, choosing the Islamic Financial System transcends mere banking affairs; it is an engagement with a value system that integrates finance with ethics, justice, and universal well-being. The dissemination of knowledge, enhancement of Islamic financial literacy, and strengthening of its supporting ecosystem are crucial to enabling more individuals and societies to make wise choices. Through this choice, a contribution can be made towards building not only a stable and advanced economy, but also a prosperous civilization blessed by the Divine.

## 7.0 References

- Abou Elfetouh, N. (2004). Reading in Islamic banking system. \*Journal of King Abdulaziz University-Islamic Economics, 17\*(1), 105–116.
- Franzoni, S., & Allali, A. A. (2018). Principles of Islamic finance and principles of corporate social responsibility: What convergence? *Sustainability, 10*(3), 637. <https://doi.org/10.3390/su10030637>
- Kazi, M. I. (2021). Islamic banking, a potential banking system for India. *Shanlax International Journal of Arts, Science and Humanities, 8*(S1-Feb), 196–201.
- Kholid, K., & Adam, S. M. (2025). Islamic banking. \*Al-Thiqah : Jurnal Ilmu Keislaman, 8\*(1), 435. <https://doi.org/10.56594/althiqah.v8i1.352>
- Khotib, A. M., & Siddiqi, M. A. (2025). How can Islamic banking thrive in a dual banking system? \*Al-Insiroh: Jurnal Studi Keislaman, 11\*(1), 211–235.
- Lodhi, S. A., & Kalim, R. (2005). Strategic directions for developing an Islamic banking system. *Pakistan Development Review, 44*(4II), 1003–1020.
- Noor, M. A., & Bagrecha, C. (2024). Islamic banking: An approach towards alternative banking system in India. *International Journal of Research Publication and Reviews, 5*(4), 6090–6096
- Zaharuddin Abd Rahman. (2025). *Ensiklopedia fiqh muamalat dan kewangan Islam*. Karya Bestari.