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Regulatory Frameworks, Product Development and Market Penetration: A Comparative Study of Islamic Finance in Malaysia and Saudi Arabia

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Abstract

This paper presents a comparative analysis of the regulatory frameworks, product development, and market penetration of Islamic finance in Malaysia and Saudi Arabia: two leading players in the global Islamic finance industry. Malaysia adopts a dual system that combines centralized and institutional Shariah oversight, while Saudi Arabia employs a decentralized regulatory approach. In terms of product development, both countries prioritize Shariah compliance and innovation, though Malaysia offers a broader range of Islamic financial products. Market penetration is evaluated using key indicators such as Islamic banking assets, Takaful assets, and Sukuk issuance. The findings reveal that each country excels in different areas: Saudi Arabia leads in the total asset value of Islamic finance, whereas Malaysia shows a higher proportional adoption of Islamic financial products. Overall, the study provides a comprehensive understanding of the factors driving the success and distinct characteristics of Islamic finance in these two nations, offering valuable insights into their evolving financial landscapes and highlighting their respective strengths.

Keywords: Malaysia, Saudi Arabia, Regulatory Framework, Product Development, Market Penetration

Introduction

Islamic finance is an increasingly influential sector in the global financial landscape, driven by its alignment with Shariah principles, ethical investment structures, and the growing demand for financial products that emphasize risk-sharing and social responsibility. This study focuses on Malaysia and Saudi Arabia, two nations at the forefront of Islamic finance, both recognized globally for their commitment to establishing robust regulatory frameworks and offering diverse Shariah-compliant financial products. Despite their leadership in Islamic finance, Malaysia and Saudi Arabia adopt contrasting regulatory approaches, which yield unique strengths and challenges in product development and market penetration. Investigating these differences is crucial as it provides insights into how varying regulatory models influence the efficacy and sustainability of Islamic financial systems, particularly within emerging and developing economies looking to adopt similar frameworks.

The significance of this study lies in its comparative analysis, which addresses the gap in current literature by providing a systematic evaluation of the regulatory and product development landscapes in major Islamic finance hubs. By exploring these aspects, the research not only contributes to a deeper understanding of the factors driving Islamic finance in these regions but also offers guidance for policymakers, financial institutions, and academics seeking to enhance Islamic finance globally. This examination is particularly beneficial for emerging economies interested in establishing or strengthening their own Islamic finance sectors, as it highlights best practices and potential pitfalls in regulatory frameworks and product offerings. Ultimately, the study underscores the broader utility of Islamic finance as an alternative financial system that promotes ethical investment, financial inclusion, and sustainable growth, thereby enhancing its relevance in today's increasingly diverse and resilient global economy.

According to the Islamic Finance Development Indicator Report 2022, Malaysia ranks first, and Saudi Arabia is second in terms of financial performance, governance, sustainability, knowledge, and awareness. The report covered 136 countries, including the Gulf Cooperation Council (GCC), Southeast Asia, South Asia, and other countries that have developed Islamic Finance. The findings indicate that Saudi Arabia and Malaysia were the two leading players in Islamic Finance. Malaysia demonstrates a progressive model by integrating Islamic finance into a modern system. Malaysia has successfully built a strong network of Islamic banks and other institutions that effectively incorporate Islamic values. On the other hand, Saudi Arabia, as the birthplace of Islam, is significant in the Islamic financial industry.

Three factors are analyzed in this study includes the regulatory framework, product development, and market penetration. The regulatory framework, as well as the legal framework, identifies which regulatory bodies are responsible for the structure and Shariah compliance in the Islamic Financial industry in both countries. Next, the product development, based on Shariah compliance requirements, lists all Islamic Financial products and contracts that have been developed and applied in both countries. Lastly, the market penetration in both countries analyzes the market shares of Islamic Finance assets and determines how this affects the government, demographics, and financial literacy. This assessment seeks to ascertain the strengths and differences between these two influential Islamic finance landscapes in order to contribute to a deeper understanding of the evolving financial sector.

The field of Islamic finance is expanding rapidly, particularly in Saudi Arabia and Malaysia, which are at the forefront of the industry. By contrasting market penetration, product development, and laws in the two nations, this study examines the regulations governing Islamic financial institutions, including those in charge of ensuring Shariah compliance and the procedures used to approve new products. Additionally, comparisons are made between Islamic financial products that are available and how easily accessible they are for customers in each nation. Through the analysis of these components, this study offers significant perspectives for individuals navigating the Islamic finance industry. Hence, this study seeks to answer three main questions; how do Saudi Arabia's and Malaysia's regulatory frameworks for Islamic finance differ and are similar, and how does this impact industry growth? Do Saudi and Malaysian Islamic financial institutions (IFIs) approach product development similarly? Why does the market penetration of Islamic finance vary between Saudi Arabia and Malaysia?

Literature Review

Islamic Finance Regulatory Frameworks

Islamic finance follows Shariah principles, which prohibit activities like paying or receiving interest (riba), engaging in speculation or gambling (gharar or maysir), and investing in forbidden industries (haram) such as those involving alcohol, pork, weapons, pornography, or conventional banking (Gheeraert, 2014). Shariah Governance (SG) is a set of mechanisms that IFIs use to ensure Shariah compliance in their operations, concerning their relationships with stakeholders like employees, creditors, the government, and society (IFSB, 2009). According to Malik (2020), the SG framework consists of organizational regulations for effective oversight, responsibility, and accountability of the board of directors, management, and Shariah Supervisory Boards. It involves examining and analyzing Islamic banks' activities and processes to ensure compliance with Islamic law provisions and principles (AAOIFI, 2022).

In 2010, Malaysia's central bank, Bank Negara Malaysia (BNM), introduced the Shariah Governance Framework (SGF) to ensure Islamic banks adhered to Islamic law. Recognizing the growing complexity of Islamic finance, BNM updated the SGF in September 2019 with the Shariah Governance Policy (SGPD 2019), replacing the earlier SGF 2010. Malaysia now implements centralized regulatory frameworks for Shariah monitoring, including a central Shariah supervisory board within the central bank to issue fatwas, provide SG guidelines, appoint institutional Shariah Supervisory Boards (SSBs), and instruct the central bank on Shariah matters (AAOIFI, 2017). The regulatory frameworks for IFIs are categorized into Fully Islamic, Dual Systems, and Neutral (Syarif, 2019). Malaysia's dual system integrates centralized oversight by the SAC with internal committees within each IFI, supported by distinct laws such as the Financial Services Act 2013 and the Islamic Financial Services Act 2013, reflecting a commitment to a robust Shariah supervisory structure (Lee & Oseni, 2015). Researchers, including Laldin & Furqani (2018), highlight that BNM has established a comprehensive framework for governing IFIs to ensure Shariah compliance, and recent research by Kamaruddin et al (2020), suggests that the 2019 SGP is the most comprehensive SGF in Malaysia.

On the other hand, Saudi Arabia is known for its decentralized regulatory frameworks (SAMA 2020). A study by Mahsoon in 2023 stated that risk management and SG in Islamic banking are interconnected, especially in Shariah, where non-compliance risks pose unique challenges. Uniform Shariah standards and specialized knowledge are crucial for boosting shareholder trust. The expansion of Islamic banking and the lack of expertise in the field can be resolved by prioritizing professional education and training in Shariah and banking. By leveraging technological advances and involving various committees, SG can be strengthened to ensure strict adherence to Islamic principles in financial activities.

Grassa (2015), highlights that most OIC members, particularly Saudi Arabia, have inadequate and ineffective Shariah supervisory systems, noting shortcomings in current practices, especially concerning the roles of the institutional Shariah board and the national Shariah authority. Other than that, Bashir and Babiker (2023), interviewed Saudi experts on Shariah Governance (SG), revealing diverse perspectives on its significance and execution in Saudi banks and identifying regulatory, technical, and administrative challenges in implementing the SGF. The study concludes that although Saudi banks comply with international standards for Islamic financial institutions, improvements are needed. Lastly, the study by Alsunaidi & Albakjaji (2023), emphasizes that SG in Saudi Arabia's banking industry is vital for ensuring adherence to Islamic principles, fostering stakeholder trust, and reducing financial and reputational risks. They also stress that Shariah committee members must maintain independence to avoid conflicts of interest. In brief, upholding SG's high standards is crucial for the success of Saudi banks in the Islamic finance sector.

Product Development

The process of developing a new product involves several stages and specific tasks and procedures to turn ideas and concepts into marketable, viable goods and services (Ali & Hussain, 2016). Product development is a key focus for Islamic financial institutions (Jalil & Muda, 2007). To ensure compliance with Shariah, advisors with expertise must always monitor the product creation process in Islamic banks. These banks rely on two key structures to maintain their Islamic character, the Shariah department and the Shariah Supervisory Board (SSB). The Shariah department acts as an internal resource, actively involved in developing products and procedures that adhere to Sharia principles, while the SSB, an independent body of scholars, reviews and issues rulings (fatwas) to ensure alignment with Shariah.

Muda & Jalil analyzes the Shariah aspects of product development in Malaysia, highlighting key issues and encouraging further research (Muda & Jalil, n.d.). Mohammed et al (2008), emphasize Shariah compliance as the most important factor in Islamic financial institutions (IFIs) and propose a framework for measuring IFI performance based on Shariah principles. Similarly, Mohamad et al (2016), found that adhering to Shariah can lead to stronger financial performance in Malaysia. Rafay et al (2016), highlight the lack of a universal Shariah code, which can lead to fragmented product acceptability. Norton (2024), suggests that a legalistic approach focusing on structural characteristics might yield a wider range of acceptable products than a macro approach prioritizing social justice (maslahah). Al-Salem (2009), identifies the limited size of the Islamic finance industry and insufficient product development efforts as reasons for the restricted variety of Islamic financial products (IFPs). Despite these challenges, new product development is crucial for better performance (Bendoly et al., 2012). Mansour (2020), stresses the importance of integrating strategic planning with product development, noting the lack of clear corporate strategies in the industry and proposing an intermediate approach that balances Shariah compliance with profitability for optimal IFP development. Additionally, the MENA region's predominantly Muslim population and oil earnings, particularly in the Gulf Cooperation Council (GCC), have made Shariah-compliant financial services more appealing, resulting in positive economic effects in the region (Sherif and Hussnain, 2017).

Market Penetration

Market penetration refers to the level of adoption and utilization of Islamic financial products and services within a market or economy. Due to its unique characteristics, Islamic finance is one of the fastest-growing sectors, drawing the interest of practitioners and policymakers worldwide (Khattak & Khan, 2023). It measures how much individuals, businesses, and institutions engage in Islamic banking, investment, and insurance activities. According to Kumar (2016), market penetration is a quantitative, percentage-based assessment of a product or service's sales relative to the expected total market and can be achieved through product development (new products and existing markets), market development (existing products and new markets), and diversification (new products and new markets). The goals of market penetration can be met with sufficient data on potential markets, including the size of national and regional markets, as well as a cost-effective outreach plan.

As pioneers in Islamic finance, Malaysia and Saudi Arabia have achieved significant market penetration, positioning them as key players globally. While Malaysia ranks third globally with total Islamic finance assets of USD 666 billion, Saudi Arabia comes in second with a significantly higher amount of USD 1,017 billion. This suggests that Islamic financial products and services constitute a larger portion of the overall financial sector in Saudi Arabia compared to Malaysia. (IFDI 2023 Report, n.d.). Although Saudi Arabia has a larger population (around 35 million) compared to Malaysia (around 33 million), Islamic finance might be more widely used proportionally in Malaysia if the assets are distributed across a smaller population. Recent bibliometric research by Tijjani et al (2021), shows that Malaysia plays a significant role in the development of Islamic finance at the national level.

Gani and Bahari (2021), found that Islamic bank deposits and financing significantly contributed to Malaysia's long-term economic growth. Similarly, Bougatef et al. (2020) discovered that Islamic finance boosted industrial production in both the short and long term by analyzing data from 2010 to 2018. Malaysia leads globally in Sukuk issuance, with USD 80 billion issued in 2022, compared to Saudi Arabia's USD 45 billion (Islamic Finance Development Report, 2023). While high Sukuk issuance indicates active engagement in this Islamic finance instrument, it may not fully represent the overall size or state of the Islamic finance industry. Beyond Sukuk, Saudi Arabia's larger Islamic finance asset base suggests a more widespread use of Islamic financial products and services. Ledhem (2022) demonstrated that Sukuk financing boosts economic growth in Southeast Asia, especially in Malaysia, highlighting Sukuk's crucial role in fostering economic expansion.

Methodology

Research Design

Data Collection Methods

This study primarily relied on regulatory documents and central bank reports from the Saudi Arabian Monetary Authority (SAMA) and Bank Negara Malaysia (BNM), focusing on Islamic finance regulations, product development, and market penetration. To gain insights into institutional practices, a thorough analysis of annual reports from key Islamic financial institutions, including Maybank Berhad, Bank Islam Malaysia Berhad, Al-Rajhi Bank, and Alinma Bank, was conducted. The analysis was further supported by secondary sources such as academic journals, reports from institutions like Securities Commission Malaysia (SCM) and the Capital Market Authority of Saudi Arabia (CMA), and industry publications like the Global Islamic Fintech Report and Islamic Finance Development Report (IFDI), providing a broader context and scholarly perspectives on Islamic finance.

Data Analysis Methods

The regulatory framework analysis involved examining regulatory documents, central bank reports, and industry publications from both countries to identify key themes, patterns, and recurring concepts related to licensing, supervision requirements, capital adequacy, internal controls, risk management regulations, and Shariah Governance (SG) structures. This analysis included scrutinizing the language for potential ambiguities or differences in emphasis between the countries.

For product development analysis, content and thematic analysis were used on the annual reports of Islamic financial institutions (IFIs). Content analysis aimed to uncover Shariah-compliant financial products offered by institutions and gather detailed information on their features and target markets. Thematic analysis identified recurring themes in product descriptions and development strategies, including innovation, the role of Shariah scholars, and focuses on specific categories like retail banking and investment products.

Market penetration data, including Islamic banking assets' market share, was analyzed using central bank reports and industry publications. Data visualization techniques, such as bar charts for market share over time and line graphs for trends in market penetration, were employed to present insights in an informative and relatable manner.

Results and Discussion

Regulatory Framework

This section aims to analyze the Shariah Governance Framework (SGF) in Saudi Arabia and Malaysia. According to the IFSB, SG is the system that ensures independent and effective supervision of Shariah compliance in Islamic financial services institutions. (IFSB, 2023 p.81). Our focus will be on examining the regulatory frameworks for banking, capital markets, and takaful. Table 1 outlines the regulatory bodies, acts, and policies related to the SGFs in both countries:

Table 1
Outlines the Regulatory Bodies, Acts, and Policies Related to the SGFs in Both

	SAUDI ARABIA			MALAYSIA		
	Islamic Banking	**Islamic Capital Market**	**Takaful**	**Islamic Banking**	**Islamic Capital Market**	**Takaful**
REGULATORY BODY	Saudi Arabia Monetary Authority (SAMA)	Capital Market Authority (CMA)	Saudi Arabia Monetary Authority (SAMA)	Bank Negara Malaysia (BNM)	Securities Commission Malaysia (SCM)	Bank Negara Malaysia (BNM)
ACT	Saudi Arabia Islamic Banks and Financial Institution Law	Capital Market Law	Cooperative Insurances Companies Control Law (SAMA)	The Development Financial Institutions Act 2002 (DFIA)	Securities Commission Malaysia Act 1993 (SCMA)	Takaful Act 1984 (TA)
				Central Bank of Malaysia Act 2009 (CBA)	Capital Markets and Services Act 2007 (CMSA)	Islamic Financial Services Act 2013 (IFSA)
				The Islamic Financial Services Act (2013)		
POLICIES	Shariah Governance Framework for Local Banks	Institutions for Shariah Governance in Capital Market Institution		Shariah Governance Framework 2010	Shariah Governance Framework 2010	Shariah Governance Framework 2010
				Shariah Governance Policy Document 2019	Shariah Governance Policy Document 2019	Shariah Governance Policy Document 2019
					Guidelines on Islamic Capital Market Products and Services	Takaful Operators Framework (TOF)
						Risk Based Capital Framework for Takaful (RBCT)

*Sources: Complied from official central bank's website: Saudi Arabian Monetary Authority (SAMA), Bank Negara Malaysia (BNM), Capital Market Authority of Saudi Arabia (CMA)*In this analysis, the level of SGF implementation in Saudi Arabia and Malaysia was evaluated using a comparative framework to contrast their regulatory approaches to Islamic finance. Implementation levels are categorized into three tiers: 0 points for non-implementation, 1 for basic implementation, and 2 for comprehensive implementation. By assigning scores to each

SGF element and comparing the results, we can assess implementation in each country and identify areas for improvement. Table 2 shows the scoring system for this analysis.

Table 2
Comparative Framework of The Islamic Finance Regulations

ELEMENTS	SUB INDICATOR	SCORES	
		SAUDI ARABIA	MALAYSIA
Shariah Governance Structures	Existence of Regulations	1	2
	Clarity & Comprehensiveness	1	2
	Shariah Committee Composition	1	2
	Shariah Review Process & Documentation	1	2
Internal Control & Risk Management	Shariah Audit & Independence	1	1
	Risk Management Identification & Mitigation Strategies	1	1
Transparency & Disclosure	Annual Report Disclosures & Transparency	1	2
TOTAL SCORING		**7/14**	**12/14**

The findings presented in Table 2 shows that Malaysia exhibits a superior execution of SGF, achieving an overall score of 12/14, with perfect scores in both Shariah governance structures (6/6) and internal control and risk management (4/4), indicating a thorough strategy for Shariah compliance and risk management. Conversely, Saudi Arabia achieves a score of 7 out of 14, reflecting only partial execution of these components, especially in Shariah governance frameworks (3 out of 6) and internal controls (2 out of 4). Both nations exhibit comparable performance in transparency and disclosure, attaining a score of 2/4, indicating a need for enhancement. This contrast highlights Malaysia's more robust and centralised Shariah governance framework, whilst Saudi Arabia employs a more decentralised and moderate strategy.

Shariah Governance Structure
(i) Existence of Regulations
Malaysia and Saudi Arabia approach Islamic finance regulation differently. Unlike Saudi Arabia, Malaysia has earned high marks for its centralized SG system established in 2010, ensuring comprehensive Shariah compliance across IFIs (Kamaruddin et al., 2020). The Islamic Financial Services Act (IFSA) 2013 further strengthened this framework, providing a dedicated legal foundation for IFIs (Grassa, 2015). This thorough approach has positioned Malaysia as a global leader in Islamic finance, extending to regulations on Islamic banking, accounting practices, SGFs, takaful, Sukuk issuance, and Islamic investment funds (LSEG, 2023). In September 2019, BNM released the SGPD, following an exposure draft issued in 2017, enhancing the roles of the board, management, and the Shariah committee (Kamaruddin et al. 2020). Under this latest SGPD, the Shariah committee must assume greater responsibility than the SGF. The latest system demonstrates the critical importance regulators place on SG within IFIs.

Prior to, Saudi Arabia's Islamic finance sector lacked a unified regulatory framework for SG within IFIs, relying instead on internal guidelines and advice from individual banks, leading to inconsistencies and a lack of comprehensive standards (Tahani, 2023). To address this, SAMA introduced the SGF in 2020, providing specific guidelines to ensure Shariah compliance and enhance sector integrity, transparency, and accountability (SAMA, 2020). Despite these improvements, some areas still require enhancement, earning Saudi Arabia a score of 1 (Alsunaidi & Albakjaji, 2023). In 2021, the SGF expanded to include additional financial activities such as real estate, asset financing, SME financing, lease financing, credit cards, and consumer financing, clarified the roles of Shariah committees, and emphasized the importance of training and audits, though further improvements are still needed (CMA, 2021).

(ii) Clarity and Comprehensiveness of Islamic Finance Regulation

Malaysia and Saudi Arabia diverge significantly in their approaches to SG and regulation, with Malaysia offering a more established and centralized system. This distinction directly impacts the clarity and comprehensiveness of regulations in Islamic finance for each country. Malaysia's strength lies in its well-defined legal framework, scoring 2 points as the IFSA of 2013 acts as a cornerstone that provides a single, streamlined set of regulations (Jalil & Osman, 2019). This eliminates ambiguity and ensures that all Islamic financial products and processes adhere to consistent and well-defined standards. Further enhancing clarity, the IFSA offers precise definitions, guidelines, and procedures for Islamic financial instruments (Jalil & Osman, 2019). This transparency benefits both institutions and customers, fostering a clear understanding of Shariah-compliant financial instruments and promoting a more efficient Islamic financial ecosystem. Additionally, the Shariah Advisory Council (SAC) serves as the central Shariah authority, issuing rulings that provide clear and binding guidance for institutions (Oseni & Ahmad, 2016). These rulings offer additional clarity and ensure that all financial products adhere to Islamic law.

In contrast, Saudi Arabia's regulatory framework for Islamic finance is still evolving, with the SGF established by SAMA scoring lower than Malaysia's. The framework sets minimum standards for Shariah compliance, clarifies roles, and establishes qualifications for Shariah board members (SAMA, 2020). However, inconsistencies in member criteria, independence, and disclosure (Alsunaidi & Albakjaji, 2023) result in Saudi Arabia receiving a score of 1. While the Capital Market Authority (CMA) provides more extensive guidelines that enhance shareholder rights and transparency, these only apply to the Capital Markets sector.

(iii) Shariah Committee Composition

Malaysia's well-defined structure, with clear guidelines, earns it 2 points over Saudi Arabia in this sub-indicator. The SGPD 2019 mandates that every IFI must have an independent Shariah committee that reports directly to the board (Sundra & Low, 2023). BNM approval is required for committee appointments, and all Shariah-compliant products and services must be approved by the IFI's committee (SGPD, 2019). This centralized oversight is reinforced by the SAC at the central bank, which can issue rulings that override those of individual IFI committees (Muhamad Sori et al., 2015). The SGPD 2019 also specifies that IFI committees must have at least five members, with a majority possessing the necessary Shariah qualifications, ensuring strong Shariah oversight in Malaysia's Islamic financial sector.

The Shariah Committee, guided by the SGF, is crucial for ensuring compliance within IFIs. In Saudi Arabia, the SGF outlines the key aspects of committee composition and qualifications by qualified experts (SAMA, 2020). However, the regulations lack clarity, leading to issues like inconsistent member classification, absence of a minimum number of scholars, unclear rules on dismissal and resignation, potential conflicts of interest from dual roles, lack of remuneration guidelines, and undefined independence standards. Alsunaidi & Albakjaji (2023) mentioned that these gaps undermine the committee's effectiveness and integrity, therefore, resulting in Saudi Arabia scoring 1 point on Shariah Committee composition.

(iv) Shariah Review Process and Documentation

Malaysia and Saudi Arabia diverge in their approaches to Shariah review within IFIs. Malaysia boasts a more comprehensive and well-defined process that allows the country to score 2 points over Saudi Arabia in terms of the Shariah review process and documentation. BNM emphasizes Shariah review as a critical function for assessing IFI operations against Shariah principles. Malaysian IFIs are required to maintain a dedicated Shariah review department responsible for evaluating and monitoring IFI activities for Shariah compliance (Masruki et al. 2018). This department plays a proactive role in identifying non-compliance issues and proposing corrective actions.

The review process is structured, encompassing planning, documentation, communication, and rectification. It involves defining clear objectives, scope, and follow-up procedures to ensure a thorough assessment (BNM, 2019). This detailed documentation safeguards the review process and facilitates communication of findings to the Shariah Committee, management, and Board of Directors. The focus on communication ensures that all stakeholders are aware of any non-compliance issues. Most importantly, the process emphasizes rectification, requiring IFIs to take corrective actions to ensure future adherence to Shariah principles (Bank Negara Malaysia, 2010). SGPD 2019 further strengthens Shariah oversight by improving the Shariah Committee's role in supervising and enforcing effective Shariah compliance procedures within IFIs (Isa et al. 2020). This focus on continuous improvement through a well-defined and documented review process highlights the strength of Malaysia's Shariah review system.

In Saudi Arabia, compliance with Islamic principles in banking operations is ensured through the SGF established by the SAMA and CMA. The Shariah Committee, mandated by this framework, holds regular meetings to review and oversee compliance matters. Given the limited information available, Saudi Arabia is awarded 1 point. The Shariah compliance function involves regular evaluations of compliance for the board of directors and the Shariah Committee. If the Shariah Control Department lacks independence, it will affect Shariah audit reports, compliance, and overall governance effectiveness (Mahsoon, 2023).

Internal Control & Risk Management

(i) Shariah Audit & Independence

While Malaysia boasts a more detailed Shariah audit framework than Saudi Arabia, limitations lead to both countries receiving the same score in Shariah audit independence. Malaysia prioritizes Shariah compliance through dedicated Shariah audit structures. The Islamic Financial Services Board (IFSB), established in 2010, serves as a specialized accounting and auditing body for IFIs (BNM, 2019). Furthermore, BNM mandates internal Shariah audit units within Islamic banks, staffed by qualified auditors, to ensure ongoing monitoring and promote a culture of Shariah adherence within IFIs. However, there is no directive initiative to make it mandatory for IFIs to employ proficient and experienced auditors (Khatib et al. 2022). Despite the structured review process, key areas like the absence of independent Shariah audit reports and a standalone audit framework hinder transparency and accountability (Isa et al., 2020). Additionally, concerns exist regarding the limited pool of Shariah auditors with the necessary expertise to effectively conduct these audits (Isa et al. 2020). The SGF 2010 also lacks specific guidance for internal auditors, potentially hindering their ability to perform efficient Shariah audits (Abdul Rahman, 2014).

In the case of the Shariah audit, the framework of the SGF for local banks in Saudi Arabia includes a routine internal Shariah audit that is conducted to assess the compliance of Islamic banking activities with Shariah principles (SAMA, 2020). This process is crucial for maintaining IFI credibility and integrity, requiring skilled, independent auditors, ongoing training, and collaboration with external auditors. While support from the audited entity is helpful, it does not significantly impact audit success. These factors, in short, are critical to ensure compliance and good governance (Mustika, 2015). However, despite structured audit processes and internal audit units in both countries, Malaysia’s lack of mandatory auditor proficiency requirements and Saudi Arabia's potential gaps in internal auditor guidance contribute to challenges in achieving higher Shariah audit independence.

(ii) Risk Management Identification & Mitigation Strategies

Given Malaysia's well-defined structure, reporting requirements, and focus on continuous monitoring, its approach to Shariah risk management appears more robust than Saudi Arabia's current framework. However, limited information on Saudi Arabia's implementation details prevents a definitive judgment. Consequently, both countries receive a score of 1, indicating a basic level of Shariah risk management implementation.

Malaysia mandates that Islamic banks establish dedicated Shariah risk management functions under the SGPD 2019. These functions follow traditional risk management processes for identifying, measuring, monitoring, and controlling Shariah non-compliance risks. Additionally, IFIs must report potential Shariah non-compliance events to BNM, including those under Shariah committee investigation, on a monthly basis (Hassan et al., 2017). This reporting provides BNM with an up-to-date picture of Shariah risk, enabling trend monitoring and broader risk mitigation. Despite this, a comprehensive Shariah risk management framework is still lacking, which is essential for consistent practices and effective Shariah audits (Ariffin, 2022). This aligns with institutional theory, which underscores the importance of standardized rules for effective Shariah risk management.

In Saudi Arabia, under the SGF established by SAMA and CMA, Risk Management Identification and Mitigation Strategies are key for ensuring Shariah compliance and risk management in Islamic banking. SAMA outlines Shariah Compliance, Non-Compliance Risk Management, and Internal Shariah Audit in Chapter 7 Articles 16-18. These include regular assessments, systematic risk identification, and independent audits to uphold Shariah principles. Islamic banks use Value at Risk and Shariah-compliant mitigation strategies but face challenges like limited options and data scarcity. Despite these obstacles, effective risk practices ensure financial stability through Shariah compliance. As such, improving regulations and products is key to better risk management in Islamic finance (Tahani, 2023).

Transparency and Disclosure

(i) Annual Report Disclosures & Transparency

Malaysia's two-tiered SG structure, mandated by BNM, underpins its strong transparency and disclosure in Islamic finance. BNM requires IFIs to detail their SG policies, practices, and compliance in annual reports, allowing stakeholders to assess their commitment to Shariah principles. While Malaysian Islamic banks may not prioritize formal Shariah audits as highly as others (Abdul Rahim et al. 2024), their focus on Shariah risk disclosure is commendable. By extensively disclosing Shariah risk information, these institutions promote transparency and enable stakeholders to make informed decisions. The Securities Commission Malaysia (SCM) also plays a crucial role. Their regulations for the Islamic Capital Market ensure that entities provide detailed disclosures. For instance, SCM's guidelines on Sukuk issuance mandate issuers to provide comprehensive information about their Sharia-compliant financial instruments. In addition, many Malaysian Islamic banks exceed the minimum requirements by presenting a comprehensive overview of their financial performance, governance structure, and Shariah compliance within their annual reports. This additional transparency further strengthens stakeholder confidence. In conclusion, the combination of BNM's mandatory disclosure requirements, the focus on Shariah risk disclosure by Islamic banks, robust regulations from the Securities Commission Malaysia (SCM), and the proactive transparency efforts of many institutions solidify Malaysia's position as a leader in transparent and informative reporting within Islamic finance.

In contrast, Saudi Arabia received a score of 1. Both SAMA and CMA promote transparency and disclosure, with SAMA's SGF setting guidelines for banks regarding public disclosures and the CMA requiring written policies and procedures for timely and equitable information dissemination. Articles 87-90 of the CMA's regulations stress the importance of transparency in Islamic banking for informed stakeholder decisions. While Saudi Islamic banks use online platforms, annual reports and accurate information provision for disclosures covering profit distribution, governance, risk policies, and organizational structures in line with AAOIFI standards, however undeniable deficiencies in transparency, particularly in profit allocations and governance, highlight the need for improvements to protect investors and enhance management practices (Hassan, 2021).

Product Development

The global Islamic fintech market is booming, with projections to reach RM 603.65 billion (US$128 billion) by 2025. This growth, with a 21% Compound Annual Growth Rate (CAGR), is expected to surpass the conventional fintech sector's 15% CAGR. Opportunities for innovation within Islamic fintech include Shariah-compliant investment funds, mobile banking tailored to Islamic finance regulations, online trading platforms adhering to Islamic principles, and platforms that enhance financial education and literacy. Additionally, Shariah-compliant social finance solutions, such as crowdfunding and microfinance, are anticipated to experience significant growth (Malaysia Fintech Report, 2023).

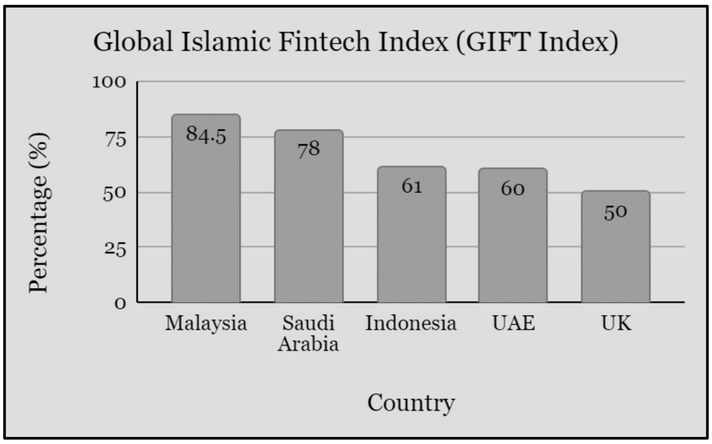


Figure 1: Global Islamic Fintech (GIFT) Index from Global Fintech Report

According to the Global Islamic Fintech Report 2023/2024, Malaysia ranked first and Saudi Arabia second out of 64 OIC and non-OIC countries on the Global Islamic Fintech (GIFT) Index, which measures a country's environment for Islamic fintech growth. Malaysia scored 84.5, while Saudi Arabia scored 78.

Table 3
Comparative Framework of Product Development

CRITERIA	**SCORES**	
	MALAYSIA	**SAUDI ARABIA**
Islamic Finance Market Share	5	5
Regulations	4	5
Shariah Compliance	4	4
Access for International Finances	5	5
Proximity to Customers	5	5
Talent	5	4
Capital	3	4
Banks Participation	5	5
Total Scoring	**36**	**37**

Source: Global Fintech Report 2023/2024

Saudi Arabia scored 37, slightly higher than Malaysia's 36, reflecting its strong performance and leadership in Islamic fintech. This high score highlights Saudi Arabia's robust Islamic finance market, supportive regulatory environment, excellent access to foreign finance, and active bank engagement. Although Saudi Arabia has a solid foundation in talent and capital, there are opportunities for further improvement to maintain and grow the country's leadership in Islamic fintech.

In contrast, Malaysia's top ranking, according to the Malaysia Fintech Report 2023, is driven by a strong regulatory environment that ensures stability, government policies that actively support the industry's growth and a rich pool of talented professionals. Additionally, Malaysia boasts advanced infrastructure to facilitate financial activities and a dynamic capital market that fuels innovation. To conclude, both countries have shown their commitment to preserving and continuously growing the Islamic fintech market.

Islamic Banking Institutions Product

Malaysia and Saudi Arabia both have a range of Islamic banking institutions, with Malaysia hosting 17 and Saudi Arabia 12. These institutions offer similar products such as deposit accounts, credit and debit cards, and financing, though product structures differ due to market priorities and regulatory frameworks. Malaysia's stricter Shariah compliance regulations and advanced digital banking infrastructure might contribute to its more developed online and mobile banking services.

In response to the Covid-19 pandemic, BNM introduced a framework on December 31, 2020, for up to five new digital bank licenses in Malaysia, aiming for innovative business models that specifically cater to the underserved and unbanked segments of the Malaysian population. Applications for these licenses were open to both existing banks and new players in the financial sector until June 30, 2021 and license winners were announced in early 2022 (Malaysia Fintech Report, 2021). Among these, Bank Islam launched Be U in July 2022, Malaysia's first cloud-native digital banking platform. Built on Mambu's technology and AWS cloud, Be U offers a user-friendly, personalized banking experience.Be U also benefits from Bank Islam's established reputation for trust, innovation, and customer focus. To cater to younger, tech-savvy customers, Bank Islam partnered with Kestrl, a UK-based Islamic fintech company, to integrate innovative personal financial management (PFM) features (Gateway, 2024). This collaboration reflects Bank Islam's commitment to digital transformation and expanding its digital offerings.

Similarly, in Saudi Arabia, Alinma Bank introduced an innovative service in 2020 for digital issuance of its Alinma Mada (debit) and Alinma Traveller (credit) cards. This move is part of Alinma Bank's broader digital transformation efforts, allowing customers to access and manage their cards instantly via the bank's online platform and digital wallets.The adoption of digital cards by Alinma Bank provides various benefits to its consumers. Primarily, it eliminates the waiting period associated with a physical card, allowing for rapid use after issuance. Furthermore, this convenience supports contactless payments, reflecting the growing demand for digital financial solutions, especially post-COVID-19. Alinma Bank's project demonstrates its commitment to using technology to improve customer satisfaction and operational efficiency. Overall, while Malaysia currently leads in digital Islamic banking with a more established framework, Saudi Arabia's rapid digitalization and government support indicate potential for significant growth in the near future.

Islamic Capital Market Product

To boost Islamic social finance, the Securities Commission Malaysia (SCM) launched a groundbreaking framework in November 2020 that integrates charitable giving (waqf) with investment opportunities. It widens the variety of Islamic financial products and lets the public invest in funds that dedicate a portion of their returns to social good through waqf This framework applies to both new and existing unit trusts and wholesale funds, ensuring transparency in waqf donations and aiming to bridge commercial and social goals. The SCM has long advocated for using Islamic capital markets to develop waqf endowments, allowing investments to benefit society as well as individuals.

The Malaysia Fintech Report 2023 highlights several government initiatives contributing to the boom in Malaysia's Islamic fintech sector. The Shared Prosperity Vision 2030 (SPV 2030) aims to make Malaysia a leading Islamic finance hub by recognizing Islamic finance and digital economy as key growth drivers. In August 2021, the SCM introduced the Shariah Screening Assessment Toolkit for Equity Crowdfunding (ECF) and Peer-to-Peer (P2P) financing platforms to assess the Shariah compliance of small and medium businesses, facilitating easier access to Shariah-compliant financing. The toolkit uses a set of assessment questions based on a Shariah screening methodology approved by the SCM's SAC. The SCM is also exploring the potential of digital assets, with a Shariah Advisory Council resolution permitting their trading. Additionally, rulings from Bank Negara Malaysia and support from government ministries and research institutions are paving the way for innovation (Securities Commission Malaysia (SCM), n.d.).

In 2021, SCM, in collaboration with The United Nations Capital Development Fund (UNCDF), launched the FIKRA Islamic Fintech Accelerator Programme. The FIKRA Islamic Fintech Accelerator Programme (FIKRA) aims to identify and nurture promising start-ups by providing mentorship, regulatory guidance, and access to funding. FIKRA is a one-of-a-kind accelerator program in Malaysia, designed explicitly for Islamic fintech start-ups in the Islamic Capital Market (ICM), primarily through a 3-month accelerator program. It fosters innovation by connecting promising start-ups with mentors, investors, and industry experts. The program offers valuable resources, including regulatory guidance, all within a collaborative environment. FIKRA focuses on identifying and nurturing solutions that address key challenges in the ICM, such as developing innovative new offerings, improving accessibility, and integrating social finance. The program also benefits the broader Islamic fintech ecosystem by raising awareness of career opportunities in this field and creating a pipeline of skilled talent. In short, FIKRA serves as a launchpad for the growth of cutting-edge Islamic fintech solutions. Additionally, in late 2022, the Securities Commission Malaysia (SCM) issued new guidelines for Islamic Capital Market Products and Services (ICMPS). These guidelines, known as the ICMPS Guidelines, emphasize the potential of Islamic fintech to promote financial inclusion, social impact, and sustainability. The SCM's guidelines are expected to be the go-to source for all Islamic capital market offerings, catering to experienced and everyday investors (Securities Commission Malaysia (SCM), n.d.).

The Government of Malaysia introduced a brand-new type of digital Sukuk, Sukuk Prihatin, which is open to retail and corporate investors through digital platforms on September 22, 2020 (Mustapha et al., 2023). Both individuals and businesses were eager to contribute to the country's recovery from the COVID-19 pandemic, and Sukuk Prihatin offered a unique solution. Launched in response to this public desire to help, this Islamic bond allowed easy subscription through popular digital platforms like JomPAY and DuitNow, provided by all participating banks (Mustapha et al. 2023). Sukuk Prihatin proved highly successful. Initially, they aimed to raise up to RM500 million, but due to overwhelming demand, the issuance amount was increased by RM166,417,500. By its maturity in September 2022, over 2,436 investors, including individuals and corporations, had subscribed for a total of RM666,417,500 (Mustapha et al., 2023). The fund raised by the Sukuk Prihatin went directly to the COVID-19 Fund to support crucial areas, such as public healthcare costs associated with the pandemic, special financial assistance for students in higher education, e-commerce initiatives to help small and micro businesses and microloans provided by Bank Simpanan Nasional and TEKUN

Nasional. The Sukuk Prihatin's innovative approach, combining digital accessibility, broad investor participation (retail), and a charitable purpose, garnered widespread recognition. It secured several prestigious awards, including "Overall Deal of the Year 2020," "Malaysia Deal of the Year 2020," and "Most Innovative Deal of the Year 2020" from Islamic Finance News. Additionally, it was named "Best Digital Sukuk" at the 2020 Best Deal/Solution Awards by Alpha Southeast Asia (Saidi, 2022).

Saudi Arabia stands out from other countries in that it has the first technological business to issue Sukuk. *Sukuk Capital Company achieved a big milestone with its maiden Sukuk issued in May 2021.* This event marked the start of the platform's major growth trajectory. By *January 2022, the number of Sukuk programs issued had reached a staggering 300 million.* This rapid development reflects the growing acceptance and demand for Sukuk as Islamic financial certificates that are comparable to bonds but are governed by Sharia law.

The first issuance in May 2021 laid the groundwork for Sukuk Capital Company's future success. Sukuk are especially attractive to investors looking for Shariah-compliant investment alternatives, and their outstanding performance demonstrates their increasing popularity. The achievement of a 300 million volume in such a short period illustrates Sukuk's effective strategies for attracting and retaining investors, as well as the market's strong demand for such financial instruments. This success not only strengthens Sukuk Capital Company's reliability but also helps to build and diversify the Islamic finance market as a whole.

Takaful Product

Malaysia's takaful market offers a range of basic takaful products for homes, medical needs, vehicles, travel, and savings & investments. However, with 15 takaful operators offering similar products and financial institutions such as banks also providing takaful products under their umbrella, innovation may be limited. To address this, BNM introduced a *licensing and regulatory framework for digital insurers and takaful operators (DITOs) in November 2022.* Initially proposed in January 2022, this framework aims to encourage innovation within the takaful industry. By issuing only 5 DITO licenses, BNM seeks to ensure a high standard while fostering a competitive environment. Ultimately, the goal is to protect consumers, promote financial stability, and make digital innovation a core principle for these new DITO players (Malaysia Fintech Report, 2023).

In Saudi Arabia, the takaful market has special applications that set it apart from other markets, in both general and family takaful. Saudi Arabia offers specialized coverage in the general takaful category, including aviation, marine, engineering, and workers's compensation. These are regarded as rare items in the global takaful landscape because of their uniqueness and the risks' intricacy. Aviation and maritime takaful address the needs of the growing transport and logistics industries, which are critical for a country that spends heavily on infrastructure and economic diversification. Engineering takaful supports large-scale construction projects under schemes such as Vision 2030, whereas workers's compensation serves the labor-intensive businesses that are critical to Saudi Arabia's economy.

Saudi Arabia has taken many steps to introduce and promote these distinctive takaful products. For example, SAMA is critical in building a regulatory framework that promotes innovation while adhering to Shariah principles. SAMA's laws establish clear criteria for takaful operators, creating a stable environment for the development of specialized products. Furthermore, public awareness initiatives and educational programs have been established to inform customers about the benefits and mechanics of takaful. Collaborations between takaful providers and other financial institutions, such as banks, have also been promoted in order to incorporate takaful products into more comprehensive financial planning and risk management solutions. These programs aim to increase takaful penetration and acceptance to position Saudi Arabia as a global Islamic insurance industry leader. While Malaysia's takaful sector innovation may be limited due to similar products, Saudi Arabia continuously promotes distinctive takaful offerings that can foster innovation within its takaful sectors.

In a nutshell, product development in Malaysia is better than in Saudi Arabia due to various initiatives to continuously expand the Islamic Fintech market, despite Malaysia being ranked first globally. Malaysia's ongoing initiatives, like the Shariah screening toolkit and FIKRA accelerator program, highlight their commitment to expanding this market. In contrast, information about product development in Saudi Arabia is scarce, making it difficult to assess their efforts. Additionally, the Malaysia Fintech Report's detailed discussion of key developments suggests a more transparent approach compared to Saudi Arabia's limited information in the Global Fintech Report.

Market Penetration

Market penetration refers to how extensively a product or service is adopted by customers in a specific market. In a study comparing Islamic finance in Malaysia and Saudi Arabia, the growth in outstanding Sukuk values, Takaful assets, and Islamic banking assets clearly shows how well these financial products are being adopted and utilized in each country. High growth rates in these values suggest strong market penetration, reflecting the effectiveness of market strategies and consumer demand for Shariah-compliant financial products.

Islamic Banking Asset

Table 4

Islamic Banking Asset

Islamic Banking Asset			
Country/Year	**2020**	**2021**	**2022**
Saudi Arabia ($ billion)	578	606	723
Malaysia ($ billion)	252	262	278

Source: Islamic Finance Development Report

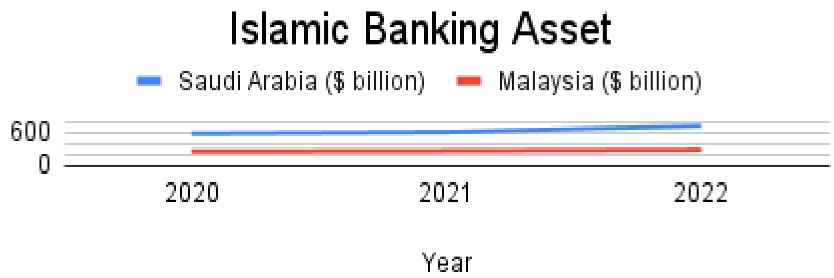


Figure 2: The Value of Islamic Banking Assets in Saudi Arabia and Malaysia

From 2020 to 2022, Saudi Arabia's Islamic banking assets saw substantial growth, increasing by 5.2% in 2021 to reach $608 billion and then jumping by 18.9% in 2022 to $723 billion. Overall, this represents a 51.6% growth over the two-year period. This growth, driven by favorable regulations under SAMA, Vision 2030 initiatives, high oil revenues, and demand for Shariah-compliant products, indicates strong market penetration.

In contrast, Malaysia's Islamic banking assets showed a more volatile pattern. Assets increased to $262 billion in 2021 and $278 billion in 2022, reflecting growth rates of 4.0% and 6.1%. However, the overall growth from 2019 to 2022 was approximately -6.4%, suggesting initial challenges in market penetration, followed by gradual recovery and stabilization supported by regulatory efforts and initiatives to enhance financial inclusion.

Table 5

The Value of Financing of Shariah-Compliant Contract of Islamic Banking Assets in Saudi Arabia and Malaysia

SAUDI ARABIA			
	2020	**2021**	**2022**
Murābahah	1,351,391.8	1,880,246.9	2,424,069.6
Commodity Murābahah/ Tawwaruq	434,099.5	511,135.7	584,914.5
Salam	0.0	0.0	0.0
Istisnā`	0.0	0.0	0.0
Ijārah / Ijārah Muntahia Bittamlīk	283,628.9	309,747.3	336,617.0
Muḍārabah	1,955.1	3,563.3	3,746.4
Mushārakah	6,871.8	6,077.7	4,909.3
Diminishing Mushārakah	0.0	0.0	0.0
Wakālah	0.0	0.0	0.0
Qarḍ Hassan	0.0	0.0	0.0

MALAYSIA			
	2020	**2021**	**2022**
Murābahah	1,098,202.60	809,449.30	414,077.20
Commodity Murābahah / Tawwaruq	0.00	741,314.30	1,698,661.90
Salam	0.00	0.00	0.00
Istisnā`	4,962.00	3,641.50	2,600.30
Ijārah / Ijārah Muntahia Bittamlīk	325,611.30	365,465.00	427,729.40

Muḍārabah	274.90	895.00	621.70
Mushārakah	238,144.20	258,591.70	282,329.00
Diminishing Mushārakah	0.00	0.00	0.00
Wakālah	0.00	433.30	368.50
Qarḍ Hassan	0.00	5,568.00	12,404.60

Source: Islamic Financial Service Board

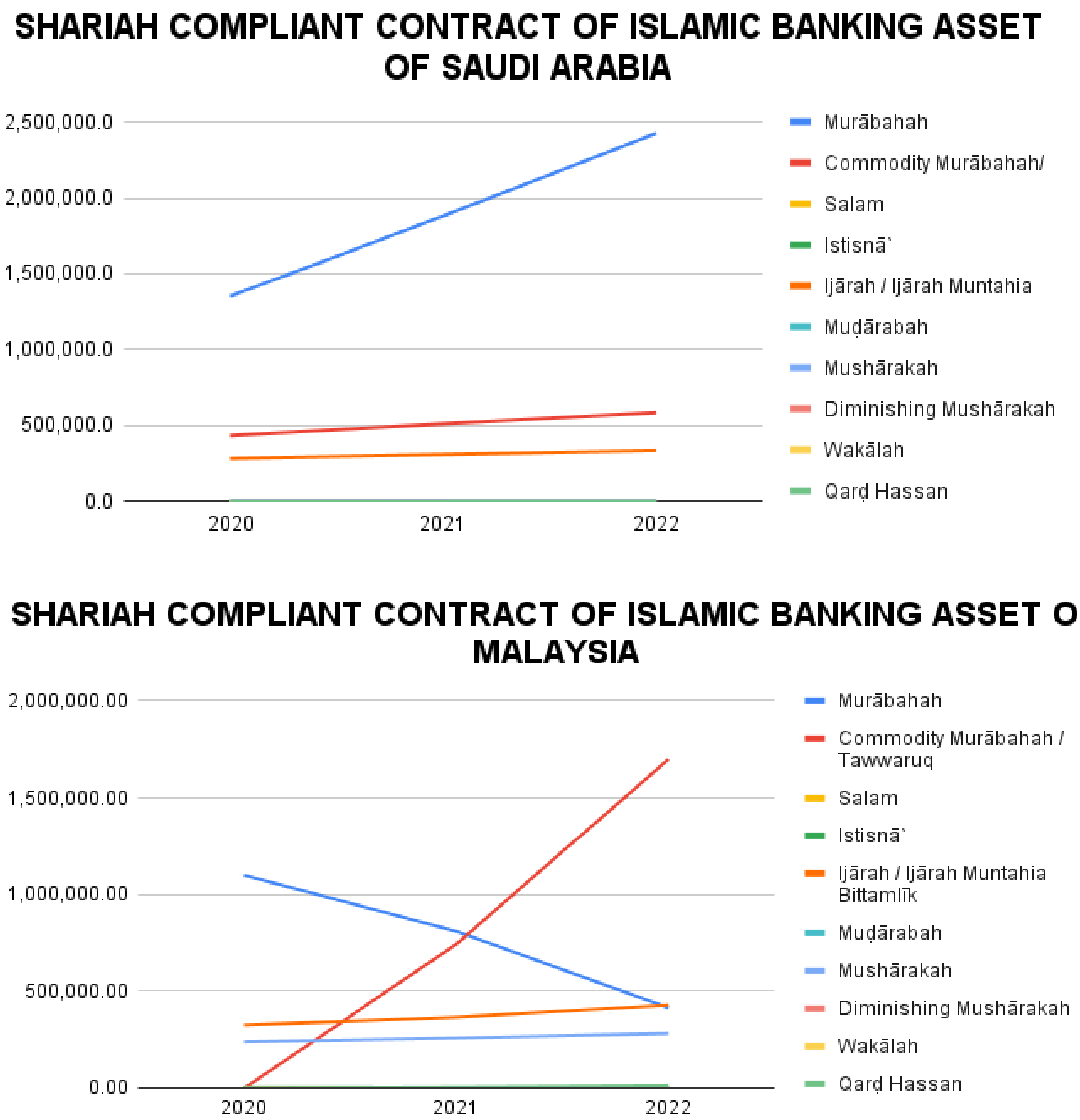


Figure 3: The Value of Financing of Shariah Compliant Contracts of Islamic Banking Assets in Saudi Arabia and Malaysia

The comparative analysis of market penetration in Saudi Arabia and Malaysia's Islamic banking sectors from 2020 to 2022 reveals distinct trends and strategies. In Saudi Arabia, the Islamic banking asset values show robust growth, particularly in traditional contracts like Murabahah, which grew significantly from $1,351.4 billion in 2020 to $2,424.1 billion in 2022. Commodities Murabahah/Tawarruq also demonstrated consistent growth. This indicates strong market penetration, driven by consumer preference for well-established financial products and supported by favorable regulatory frameworks under initiatives like Vision 2030.

In Malaysia, the Islamic banking sector exhibited dynamic shifts and a more diversified approach to market penetration. While Murabahah saw a decline from $1,098.2 billion in 2020 to $414.1 billion in 2022, there was a substantial increase in Commodity Murabahah/Tawarruq, which grew from non-existent in 2020 to $1,698.7 billion in 2022. Additionally, there was growth in Ijarah and Musharakah contracts, and the introduction of newer products like Salam and Qard Hassan. This suggests a strategic realignment towards new financial products to capture different market segments, reflecting a responsive and innovative market strategy.

Overall, Saudi Arabia's strategy focuses on deepening engagement with traditional contracts, ensuring steady growth. In contrast, Malaysia emphasizes diversification and adaptation, responding dynamically to market demands. These approaches highlight each country's strengths and growth opportunities in Islamic finance, shaped by their regulatory environments and consumer preferences.

Takaful Assets

Takaful Assets			
Country	**2020**	**2021**	**2022**
Saudi Arabia ($ billion)	17	18	22
Malaysia ($ billion)	12	12	13

Source: Islamic Finance Development Report

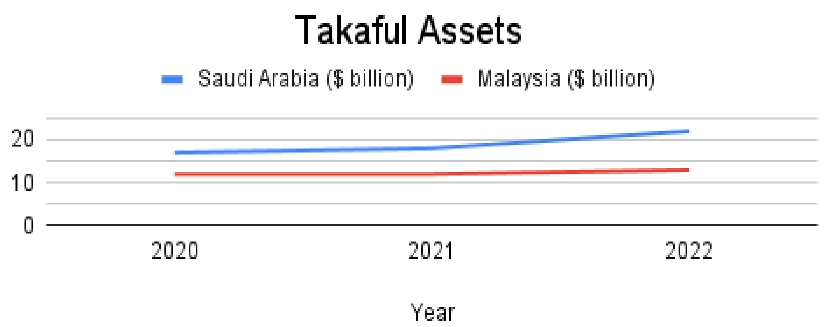


Figure 4: The Value of Takaful Assets in Saudi Arabia and Malaysia

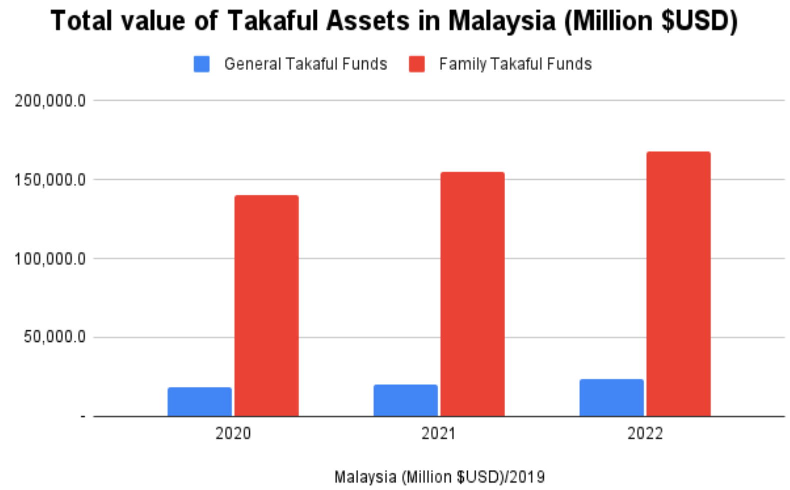
The Takaful market in Saudi Arabia showed steady growth, with assets holding at $17 billion in 2020, increasing slightly to $18 billion in 2021, and then surging to $22 billion in 2022. This progression, particularly the significant rise in 2022, reflects a 29.4% overall growth, indicating strong market penetration over these years. This surge can be attributed to strategic initiatives like Vision 2030, which aim to diversify the economy and promote Islamic finance, coupled with increased consumer awareness and favorable regulatory frameworks.

In contrast, Malaysia's Takaful assets remained stable at $12 billion in 2020 and 2021, before rising to $13 billion in 2022, reflecting a 30% growth. While Saudi Arabia's market showed more dynamic expansion, Malaysia's steady growth highlights consistent demand for

Shariah-compliant insurance products, supported by its strong regulatory framework and BNM's role in fostering the sector.

Malaysia (Million $USD)	**2020**	**2021**	**2022**
Total value of Takaful assets in General funds (General)	*18,247.4*	*20,535.0*	*23,239.6*
Total value of Takaful assets in Family funds (Family)	*140,044.7*	*155,056.0*	*168,326.9*
Saudi Arabia (Million $USD)	**2020**	**2021**	**2022**
Total value of Takaful assets in General funds (General)	*169,483.6*	*176,210.0*	*207,324*
Total value of Takaful assets in Family funds (Family)	*16,170.6*	*19,233.8*	*20,023*

Source: Islamic Financial Service Board



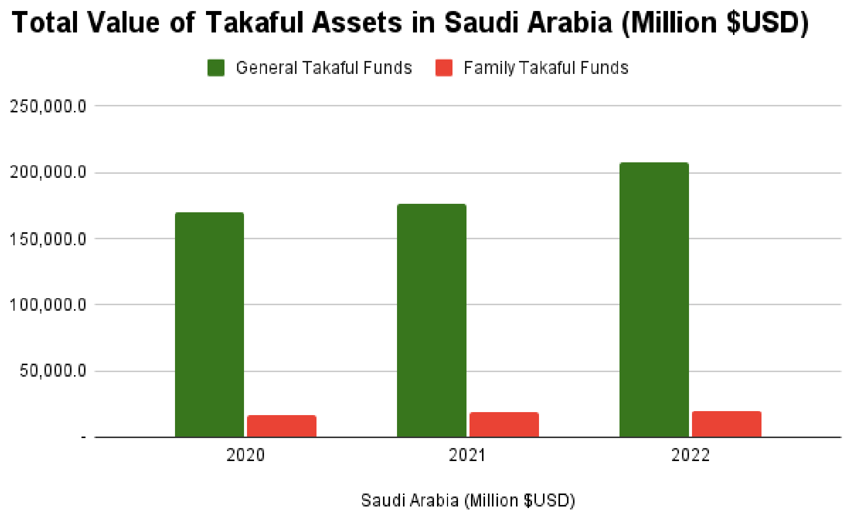


Figure 5: The Value of Assets of Takaful General Fund and Takaful Family Fund in Saudi Arabia and Malaysia

The comparative analysis of Takaful fund assets between Saudi Arabia and Malaysia highlights significant differences in market penetration and asset allocation. In Saudi Arabia, General Takaful assets have grown substantially, increasing from $169.5 billion in 2020 to $207.3 billion in 2022, reflecting a strong market focus on comprehensive risk coverage and high-value insurance products due to the country's economic and regulatory environment that supports broad-risk management strategies. Family Takaful assets also increased, but more slowly, from $16.2 billion to $20.0 billion, suggesting a lesser emphasis on long-term savings and protection plans compared to General Takaful.

In contrast, Malaysia shows a different trend, with Family Takaful assets far exceeding General Takaful assets. Family Takaful grew from $140.0 billion in 2020 to $168.3 billion in 2022, driven by cultural preferences for long-term financial planning and strong regulatory support. Meanwhile, General Takaful assets increased from $18.2 billion to $23.2 billion, reflecting a steadier but less aggressive market penetration. This indicates Malaysia's preference for family-focused financial products aligned with long-term savings and protection.

Sukuk Outstanding Value

Sukuk Value Outstanding			
Country	**$ (billion) 2020**	**$ (billion) 2021**	**$ (billion) 2022**
Saudi Arabia	158	194	222
Malaysia	262	279	300

Source: Islamic Finance Development Report

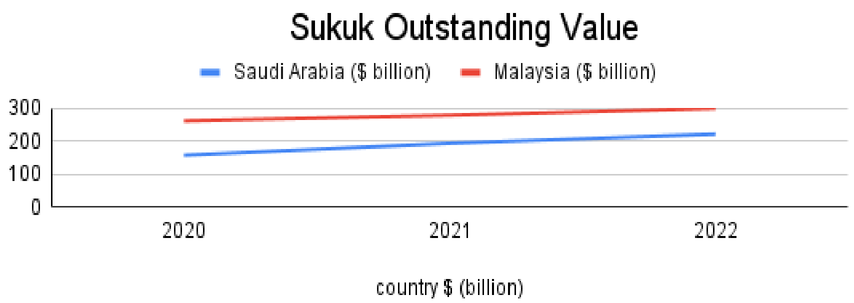


Figure 6: The Value of Sukuk Outstanding Value in Saudi Arabia and Malaysia

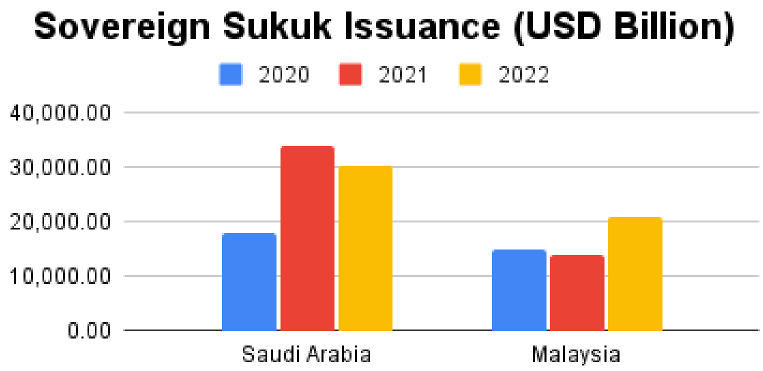
The comparative analysis of Sukuk market penetration in Saudi Arabia and Malaysia demonstrates distinct growth patterns and market dynamics. In Saudi Arabia, the value of outstanding Sukuk surged from $158 billion in 2020 to $222 billion in 2022, representing robust year-on-year growth rates of approximately 22.8% and 14.4%. This rapid expansion suggests strong market penetration, driven by investor confidence, favorable economic conditions, and strategic initiatives under Vision 2030 to diversify the economy and bolster the Islamic finance sector. The continued rise in Sukuk values indicates sustained market interest and the successful introduction of new Sukuk issuances, reflecting the kingdom's ongoing efforts to diversify its financial offerings.

In contrast, Malaysia shows a steady but slower growth, increasing from $262 billion in 2020 to $300 billion in 2022, with year-on-year growth rates of 6.5% and 7.5%. This reflects a mature and stable market, supported by a strong regulatory framework, a well-established

Islamic finance infrastructure, and a broad base of issuers and investors. Malaysia's higher absolute values and consistent growth underscore its leadership in the global Sukuk market, driven by strategic initiatives and continuous regulatory and infrastructure enhancements. Both countries exhibit robust Sukuk market penetration, albeit through different growth strategies and economic conditions.

Sovereign Sukuk Issuance (USD Billion)			
	2020	**2021**	**2022**
Saudi Arabia	18,099.80	33,935.60	30,248.40
Malaysia	14,895.50	13,860.50	20,941.20
Corporate Sukuk Issuance (USD Billion)			
	2020	**2021**	**2022**
Saudi Arabia	8,585	21,647.30	15,961.80
Malaysia	28,596.60	34,184.10	38,438.70

Source: Islamic Financial Service Board



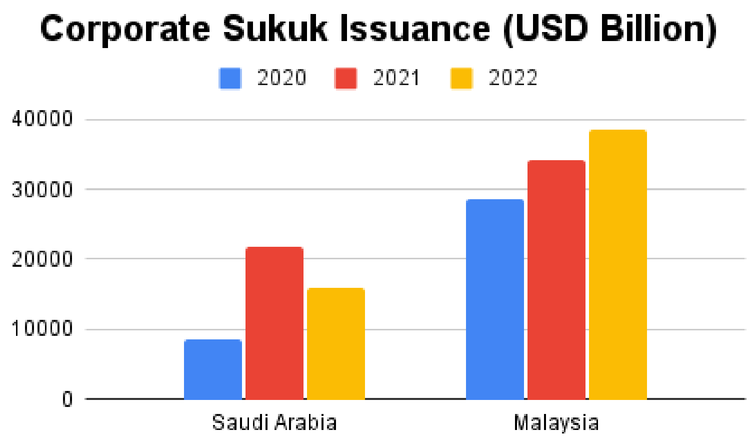


Figure 7: The Value of Sukuk Issuance of Sovereign and Corporate in Saudi Arabia and Malaysia

The analysis of Sukuk issuance in Saudi Arabia and Malaysia relates directly to the trends in outstanding Sukuk values observed in both countries. In Saudi Arabia, the substantial increase in sovereign and corporate Sukuk issuances, especially the dramatic rise from $180.9 billion in 2020 to $339.4 billion in 2021 for sovereign Sukuk, explains the rapid growth in outstanding Sukuk values from $158 billion in 2020 to $222 billion in 2022. This dynamic expansion, driven by Vision 2030 initiatives and strong corporate activity, continued despite a slight decrease in issuance in 2022.

In contrast, Malaysia's Sukuk market shows steady growth, with sovereign Sukuk issuances fluctuating slightly but overall increasing, while corporate Sukuk issuances rose steadily from $286.0 billion in 2020 to $384.4 billion in 2022. This stable growth pattern is reflected in the consistent rise in outstanding Sukuk values from $262 billion in 2020 to $300 billion in 2022. Malaysia's mature market, supported by a robust regulatory framework and continuous innovation in Sukuk products, maintains its leadership position in the global Sukuk market, demonstrating sustained demand and confidence among investors.

Overall Summary Comparative Analysis of the Findings

The regulatory frameworks in Malaysia and Saudi Arabia display both strengths and areas for improvement in Islamic finance. Malaysia, under BNM, has a comprehensive SG structure with strict transparency and disclosure requirements, ensuring that IFIs report Shariah non-compliance events, which enhances transparency and stakeholder confidence. Conversely, Saudi Arabia, guided by SAMA and CMA, also emphasizes transparency but needs improvements in profit allocations and governance transparency. Both countries focus on transparency, with Malaysia's two-tiered SG structure and Saudi Arabia's CMA regulations playing key roles, although Malaysia's structured approach is more advanced.

In terms of product development, Malaysia's robust regulatory framework and proactive approach to Shariah compliance fosters continuous innovation and steady growth in Sukuk issuance, maintaining its strong trajectory in Islamic finance. Meanwhile, Saudi Arabia has seen a significant rise in sovereign and corporate Sukuk issuances, driven by Vision 2030 and strong corporate activity, indicating a dynamic market.

When comparing market penetration, Malaysia ranks third globally in total Islamic finance assets and leads in Sukuk issuance. The high level of market penetration of Islamic financial products in Malaysia contributes to long-term economic growth and higher industrial production. In contrast, Saudi Arabia holds a larger portion of global Islamic finance assets and ranking second, reflects a high level of usage and penetration of Islamic financial products and services within the country. In conclusion, Malaysia's structured regulatory framework has driven steady market growth and robust product development, while Saudi Arabia's rapid expansion is fuelled by government initiatives, though it could improve in transparency and governance. Both countries are key players in global Islamic finance, with distinct strengths shaping their leadership.

Recommendations

The findings highlight various strengths and limitations within each nation’s approach. To further support the growth and sustainability of Islamic finance, two key recommendations are proposed.

Centralizing the SGF in Saudi Arabia

A key recommendation for improving the SGF in Saudi Arabia is to centralize the framework. Adopting a centralized system like Malaysia's would ensure consistent Shariah compliance standards across all IFIs, eliminating ambiguity and promoting high-level transparency while establishing uniform guidelines for SG practices. A central Shariah authority with the power to issue binding rulings and guidelines would provide robust oversight, maintain industry integrity, and enhance the sector's credibility both domestically and internationally, instilling trust among stakeholders. This approach would also streamline regulatory processes, facilitate easier implementation for IFIs, and support talent development by strengthening the pool of Shariah scholars and auditors. Ultimately, centralizing the SGF in Saudi Arabia would align its regulatory approach with global best practices, bolstering the sector's growth and competitiveness on a broader scale.

Enhancing Transparency and Disclosure

Improving transparency and disclosure practices is essential for a comprehensive and efficient SGF. Enhanced transparency involves providing clear, detailed reporting on IFI operations, financial performance, risk management, and adherence to Shariah principles. This openness allows stakeholders to better understand an IFI's practices and performance, boosts investor confidence, and upholds market integrity. Comprehensive reporting goes beyond regulatory compliance by presenting information in a way that stakeholders can easily assess an IFI's financial health, risk exposure, and ethical conduct. Strong transparency practices also help identify conflicts of interest, ensure fair treatment of stakeholders, and demonstrate a commitment to ethical business practices. Moreover, transparent and comprehensive reporting can enhance market stability, attract more investors, and promote sustainable growth within the Islamic finance sector. Therefore, by strengthening these practices, IFIs can build stronger relationships with stakeholders, promote market stability, and contribute to the overall development and credibility of the Islamic finance industry.

Conclusion

In conclusion, the analysis of Islamic finance in Malaysia and Saudi Arabia reveals distinct approaches to Shariah governance, product development, and market penetration. Malaysia excels in well-defined regulations, transparency, and innovative product offerings, positioning itself as a global leader in Islamic finance. Additionally, the centralized Shariah governance structure, diverse product range, and continuous market penetration strategies showcase Malaysia's commitment to growth and sustainability in the Islamic finance sector. Conversely, Saudi Arabia showcases significant progress in Shariah compliance, market expansion, and financial product innovation, driven by strategic initiatives like Vision 2030. This has led to notable growth in Islamic banking, Takaful assets, and Sukuk values. While Saudi Arabia's focus on traditional financial products and regulatory frameworks has enhanced market penetration and investor confidence, its decentralized SG system may result in variability that affects comparability in SG practices.

Both countries have unique strengths and growth opportunities in Islamic finance, with Malaysia excelling in regulatory clarity, product innovation, and transparency, while Saudi Arabia emphasizes market expansion, Shariah compliance, and strategic initiatives for economic diversification. By leveraging their respective strengths and addressing areas for improvement, both Malaysia and Saudi Arabia can continue to drive growth and innovation in the global Islamic finance landscape, catering to diverse market needs and fostering financial inclusion within their economies.

This study makes several significant contributions to understanding the dynamics of Islamic finance of Malaysia and Saudi Arabia. By contrasting Malaysia's centralized Shariah governance model under Bank Negara Malaysia (BNM) with Saudi Arabia's decentralized approach, the findings underscore how Malaysia's robust, transparent oversight structure strengthens regulatory consistency, while Saudi Arabia's flexible framework, although adaptable, reveals challenges in uniformity. The analysis of product development highlights Malaysia's diverse range of Shariah-compliant offerings as indicative of a competitive and innovation-oriented market landscape, whereas Saudi Arabia's product approach, though strategically focused, is comparatively narrower. Market penetration metrics further reveal Malaysia's higher proportional adoption of Islamic financial products and Saudi Arabia's leadership in total asset value.

The study also contributes to the literature in Islamic finance. Compared to prior literature, which lacks an in-depth comparative view of regulatory and product landscapes across Islamic finance markets, this study addresses this gap and provides practical recommendations, including the potential benefits of a centralized Shariah governance structure in Saudi Arabia to enhance consistency, and the need for improved transparency in both nations to build stakeholder trust. These insights offer critical perspectives for policymakers and financial institutions aiming to refine regulatory and market strategies in Islamic finance, ultimately strengthening its global role and sustainability.

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