

INSTRUMENTS AND PRODUCTS OF ISLAMIC WEALTH MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS

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Abstract

Islamic Wealth Management (IWM) is an approach that integrates Sharia principles into the management of wealth for individuals and institutions. This journal discusses various instruments and products offered by Islamic financial institutions in the context of IWM. The study aims to identify and analyze products that comply with Sharia principles and evaluate the effectiveness of these instruments in meeting customer needs. The research method employed includes a literature review and secondary data analysis from Islamic financial institutions in Indonesia. The findings reveal a variety of instruments, such as Sukuk, Islamic mutual funds, and Takaful (Islamic insurance), which can be utilized for Sharia-compliant wealth management. Additionally, the journal highlights the challenges and opportunities faced by Islamic financial institutions in developing innovative and competitive IWM products. These findings are expected to contribute to the development of the Islamic finance industry and raise public awareness of the importance of wealth management aligned with Islamic principles.

Keywords: *Instruments, Wealth Management, Islamic Finance*

A. INTRODUCTION

Islamic Wealth Management (IWM) has gained prominence in recent years, offering a holistic approach to financial management based on Maqasid Shariah principles (Basah & Tahir, 2019). IWM encompasses five stages: wealth accumulation, consumption, purification, distribution, and protection (Cahyani et al., 2021). Research on IWM has been growing globally, with Malaysia, Indonesia, and the United States leading in publications (Uula & Devi, 2021). IWM emphasizes not only financial gains but also the balance between worldly needs and the afterlife, making it relevant for both Muslims and non-Muslims (Basah & Tahir, 2019). During crises like the COVID-19 pandemic, IWM principles, particularly wealth distribution through alms, grants, and waqf, can help mitigate social and economic impacts (Cahyani et al., 2021). At the household level, implementing IWM principles can lead to better financial management and potentially reduce economic-related issues such as divorce (Maharani & Putra, 2023).

Islamic financial institutions play an important role in the global financial system, offering financial products and instruments that comply with Islamic principles (Soemitra, 2009). The existence of these institutions has been recognised in the dynamics of the world economy and provides an opportunity to increase market share in the free market era (Suadi, 2018). Despite facing challenges such as the need for quality human resources and comprehensive infrastructure, Islamic financial institutions have great potential with a vast and growing market (Hakim, 2021). The integration of the Islamic economy in the global financial system has contributed to stability and sustainability, but still faces challenges such as a lack of understanding and international regulatory coordination (Muharam, 2023). To overcome this, it is necessary to increase Islamic financial literacy and cross-border cooperation to create a conducive environment for the growth of the Islamic economy at the global level (Muharam, 2023).

Recent studies highlight the opportunities and challenges facing Islamic financial institutions in an evolving global market. The integration of fintech and blockchain technology presents significant potential for transforming Sharia-compliant products, offering ethical and inclusive financial solutions (Fasya, 2022). However, Sharia compliance remains a major challenge for Islamic fintech organizations (Darma, 2023). The development of Sharia-based investment instruments in capital markets faces unique challenges but also offers potential

opportunities for growth (Atikah & Sayudin, 2024). To increase efficiency, transparency, and customer satisfaction, Islamic financial institutions must adopt fintech innovations and partner with fintech companies (Darma, 2023). The free market era presents both opportunities for Islamic financial institutions to expand their market share and challenges in providing high-quality human resources and comprehensive infrastructure (Suadi, 2018). These insights are valuable for policymakers, industry practitioners, and academics in developing innovative Islamic financial products that meet contemporary societal needs.

This literature review explores Islamic financial instruments and products in Indonesia, focusing on mudharabah principles and their application in Islamic banking (Yurista & Ardi, 2020). The integration of Islamic economics into the global financial system highlights Indonesia's potential role in the growth of Islamic finance internationally (Muharam, 2023). Research indicates that product understanding and service quality significantly influence public interest in saving with Islamic banks in Indonesia (Husna, 2020). To maintain and increase customer satisfaction, Islamic financial institutions are developing innovative products such as syndicated financing, trade finance, cash management services, startup financing, and business development initiatives (Yozika & Khalifah, 2017). These studies emphasize the importance of Islamic finance in Indonesia, given its large Muslim population, and suggest that continued innovation and education are crucial for the sector's growth and integration into the global financial system.

This collection of papers highlights the importance of Islamic financial literacy and its impact on society. Research indicates a low level of Islamic financial literacy in Indonesia, with only 8-16% of the population considered financially literate from an Islamic perspective (Triani & Mulyadi, 2019; Rurkinantia, 2021). To address this issue, studies emphasize the need for effective education programs, particularly targeting young people and students as potential agents of change (Rurkinantia, 2021; Triani & Mulyadi, 2019). The role of personal financial experiences and parental guidance in improving Islamic financial literacy among youth is also explored (Triani & Mulyadi, 2019). Additionally, bibliometric analysis of Islamic finance literature reveals significant contributions to the field's development and its potential to promote financial inclusion (Jamaluddin Majid et al., 2024). Efforts to enhance Islamic financial literacy, spiritual intelligence, and perceptions are crucial in shaping consumer behavior and decision-making regarding Islamic banking products (Susriyanti et al., 2022).

B. LITERATURE REVIEW

Islamic Wealth Management (IWM) is a holistic approach to financial planning and asset management that integrates Shariah principles, ethical values, and social responsibility (Sarimah Basah & Putri Rozita Tahir, 2019). It encompasses various aspects, from financial planning to asset management, aiming to achieve financial well-being in line with Islamic teachings (Budiantoro et al., 2021). IWM emphasizes the lawful acquisition, productive utilization, and responsible distribution of wealth, including zakat, infaq, and alms (Ihsan et al., 2022). The process involves five stages: wealth accumulation, consumption, purification, distribution, and protection (Cahyani et al., 2021). During crises like the COVID-19 pandemic, IWM principles can help mitigate economic impacts through Islamic social finance mechanisms and household-level financial planning (Cahyani et al., 2021). By adhering to Shariah principles such as siddiq, amanah, tabligh, and fathanah, IWM promotes transparency, integration, and accountability in wealth management practices (Ihsan et al., 2022).

Investment in Islam is a recommended activity, but it must be in accordance with sharia principles (Sakinah, 2015). The main principle of sharia investment is the prohibition of usury, gharar, maysir, and activities that contain haram elements (Totok, 2023; Zuhdi & Risnaeni, 2021). Shariah investments must be made in permissible sectors such as halal food, health, and education (Sakinah, 2015). Transparency and clarity regarding risks and rewards are important in Islamic investment products (Totok, 2023). Other principles that must be considered in Islamic investment include justice, mutual benefit, and no fraud (Rohman, 2012). The foundation of Islamic investment is found in the Qur'an and Sunnah of the Prophet Muhammad, who once ran a business and became an investor partner in Mecca (Zuhdi & Risnaeni, 2021).

Islamic wealth management offers various instruments and products that comply with Sharia principles. Sukuk, an Islamic financial instrument functioning as interest-free debt securities, provides returns based on real assets. Sukuk ijarah, using property as underlying assets, is particularly popular among investors. Islamic mutual funds are another option, allowing collective investment in halal portfolios (azzarqa & Dja'akum, 2014). These funds undergo screening and cleansing processes to ensure Sharia compliance, avoiding investments in alcohol, pork, tobacco, conventional finance, and other non-halal industries (azzarqa & Dja'akum, 2014). The integration of sukuk and waqf (endowment) in Sukuk Al Intifa'a aims to maximize productivity in Islamic capital markets and waqf sectors (M. Syairozi & Cahya, 2017). When choosing Islamic investment instruments like stocks, sukuk, or

mutual funds, investors should consider their financial goals, risk profile, and investment timeframe (Hilman, 2022).

C. METHOD

In this study, the type of research employed is a literature review, which is used in compiling this journal. A literature review is a research strategy that involves a systematic framework and adopts a top-down approach. This means that documents synthesized are identified through a systematic search of relevant scholarly journals or scientific databases. For various research questions, literature reviews can serve as the best methodological tool to provide answers. This approach is particularly useful, for example, when a researcher evaluates theories or evidence in a specific field or examines the validity or accuracy of a certain theory or competing theories.

In addition, this study also adopts a descriptive approach to illustrate actual events. The study is conducted using a qualitative research approach. This method presents findings in a narrative form and emphasizes the exploration of meanings, concepts, and interpretations, or describes a particular phenomenon. In this qualitative approach, the author uses relevant literature, including books and documents from published sources. The author then analyzes and draws conclusions from the collected sources to describe issues related to monetary policy in Islamic economics. Data collection techniques adhere to these publication sources. The descriptive approach means that the research results are described as clearly as possible based on the collected data without drawing any conclusions from the research.

D. RESULT & DISCUSSION

Types of Islamic Financial Instruments

Below are 11 types of financial instruments within Islamic financial institutions:

1. Mudharabah (Business Partnership)

Mudharabah is a partnership where one party provides capital, and the other contributes labor or expertise. Profits generated are shared based on a pre-agreed ratio, while losses are borne solely by the capital provider unless they result from the negligence or misconduct of the managing party. This concept fosters equitable and productive cooperation between capital owners and business managers while ensuring transparency at every stage. In Islamic banking, mudharabah is often applied in savings and investment products, such as mudharabah deposits. Customers deposit funds into the bank, which invests them in halal and productive ventures. Profits are shared between the bank and customers based on a pre-agreed ratio.

In direct investments, investors provide capital to entrepreneurs to run a business. All mudharabah practices must adhere to Shariah principles:

- The capital must be provided in cash, not as debt.
- The profit-sharing ratio must be clear and agreed upon before starting the business.
- Business management must be conducted honestly and responsibly by the manager (mudharib).
- The business must be halal and comply with Islamic principles, avoiding activities such as interest (riba), gambling, or prohibited goods.

Mudharabah reflects the principle of justice in Islamic economics, where both parties share risks and benefits equitably.

2. Musharakah (Capital Partnership)

Musharakah is a contract based on partnership or cooperation between two or more parties who pool their capital into a specific venture. Profits are shared based on a pre-agreed ratio, while losses are distributed in proportion to each party's capital contribution. This concept promotes mutual cooperation, where each party contributes financially or with expertise and shares risks and results fairly.

Types of Musharakah include:

- **Diminishing Musharakah:** A partnership in asset ownership where one party gradually buys out the other's share.
- **Permanent Musharakah:** A partnership with indefinite joint ownership unless mutually terminated.
- **Active Partnership:** All parties contribute capital and actively manage the business.
- **Silent Partnership:** One party provides capital without managing the business, leaving management to the other.

3. Murabahah (Cost-Plus Financing)

Murabahah is widely used in financing for homes, vehicles, or other capital goods. It involves a sale contract where the seller discloses the cost of the item and adds a profit margin agreed upon by both parties.

4. Ijarah (Leasing)

Ijarah refers to leasing contracts where financial institutions purchase and lease assets to clients for a fixed term and rental fee. At the end of the lease, the client may renew the lease or buy the asset at a predetermined price.

Types of Ijarah include:

- **Benefit Ijarah:** Leasing the benefits of a property or item.
- **Service Ijarah:** Leasing services or labor.
- **Ijarah Muntahiyah Bi Tamlik (IMBT):** A lease that ends with asset ownership transfer to the lessee.

5. Sukuk (Islamic Bonds)

Sukuk are Shariah-compliant investment certificates representing ownership in an asset or project. Unlike conventional bonds based on interest, sukuk provide returns derived from profits generated by the underlying asset.

Types of Sukuk include:

- Sukuk Ijarah, Mudharabah, Musharakah, Istisna, Wakalah, and Salam.

6. Wakalah (Agency)

Wakalah involves one party delegating authority to another to act on their behalf. It operates within Shariah law and fosters trust and transparency in various transactions.

7. Takaful (Islamic Insurance)

Takaful is a cooperative system where members contribute funds to assist each other during financial risks. It eliminates elements of interest, uncertainty, and gambling.

Types of Takaful include:

- **Family Takaful**
- **General Takaful**
- **Hajj and Umrah Takaful**

8. Shariah-Compliant Stocks

These stocks comply with Shariah principles by avoiding businesses involved in prohibited activities, such as gambling or interest. They emphasize transparency, fairness, and ethical practices.

9. Islamic Deposits

Islamic deposits operate on profit-sharing principles rather than interest.

10. Islamic Mutual Funds

These funds pool resources to invest in Shariah-compliant assets, such as halal stocks or bonds.

11. Wadiah (Custody)

Wadiah refers to a safe-keeping contract where customers entrust their funds or goods to Islamic banks for safekeeping. It emphasizes trust and accountability.

Each of these instruments reflects the ethical and equitable principles of Islamic finance, aiming to balance profit-making with social justice and compliance with Shariah law.

E. CONCLUSION

This study highlights the importance of financial literacy, Islamic investment behavior, fintech in wealth management, and the social-gender perspectives in financial planning. The findings indicate that while Islamic financial literacy plays a crucial role in improving financial decision-making, there are significant gaps in both individual and institutional knowledge, especially regarding Islamic investments and financial technologies. The research also underscores the need for gender-sensitive approaches to ensure equal financial planning opportunities for women, particularly in developing regions. However, the study is limited by the scope of literature reviewed,

particularly in exploring the practical applications of Islamic fintech in diverse cultural contexts. Future research should focus on expanding these areas, integrating empirical data to validate the findings, and considering regional variations in financial behaviors and technologies. Strengthening policies and educational frameworks is critical to overcoming the existing barriers and promoting inclusive, sustainable financial practices. The study's findings are particularly supported by evidence of increasing female entrepreneurship in developing countries and the growing adoption of fintech solutions for Islamic wealth management.

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