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## THE INNOVATION CONTRACT EFFECT ON SHARIA CAPITAL MARKET INSTRUMENTS IN THE LENS OF SHARIA COMPLIANCE PRINCIPLES

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### Abstract

This study aims to analyze contract innovation in Islamic capital market instruments and examine the role of religiosity in shaping perceptions of Sharia compliance. The research employs a qualitative library research approach through the analysis of academic literature, DSN-MUI fatwas, Islamic finance regulations, and scholarly discussions related to Islamic financial innovation and investor religiosity. The findings reveal that contract innovation in the Islamic capital market tends to prioritize formal legal compliance over substantive Sharia values such as justice, transparency, and public welfare. Furthermore, the literature suggests that religiosity may influence investor perceptions, as highly religious investors tend to critically assess whether Islamic financial products genuinely reflect Islamic ethical principles. This study highlights the importance of strengthening substantive Sharia compliance and integrating maqāsid al-sharī'ah values into the development of innovative Islamic capital market instruments.

**Keywords:** *contract innovation, hybrid contracts, Islamic capital market, maqāsid al-sharī'ah, religiosity, sharia compliance*

### Abstrak

Penelitian ini bertujuan untuk menganalisis inovasi akad pada instrumen pasar modal syariah serta mengkaji peran religiositas dalam membentuk persepsi terhadap kepatuhan syariah. Penelitian ini menggunakan pendekatan kualitatif dengan metode studi kepustakaan (library research) melalui analisis literatur akademik, fatwa DSN-MUI, regulasi keuangan syariah, dan berbagai kajian ilmiah yang berkaitan dengan inovasi keuangan syariah serta religiositas investor. Hasil kajian menunjukkan bahwa inovasi akad dalam pasar modal syariah cenderung lebih menekankan kepatuhan hukum formal dibandingkan nilai-nilai syariah yang bersifat substantif, seperti keadilan, transparansi, dan kemaslahatan. Selain itu, berbagai literatur menunjukkan bahwa religiositas dapat memengaruhi persepsi investor, di mana investor dengan tingkat religiositas yang tinggi cenderung menilai secara lebih kritis apakah produk keuangan syariah benar-benar mencerminkan prinsip-prinsip etika Islam. Penelitian ini menyoroti pentingnya penguatan kepatuhan syariah yang bersifat substantif serta integrasi nilai-nilai maqāsid al-syarī'ah dalam pengembangan instrumen

pasar modal syariah yang inovatif.

**Kata-kata Kunci:** *inovasi akad, akad hibrida, pasar modal syariah, maqāṣid al-sharī'ah, religiusitas, kepatuhan syariah*

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## INTRODUCTION

In Islamic economics, sharia compliance encompasses not only legal conformity but also the realization of *maqāṣid al-sharī'ah*, such as justice, transparency, and public welfare. Accordingly, this study adopts *Maqāṣid al-Sharī'ah* theory, which emphasizes the promotion of *maslahah* and prevention of *mafsadah*. As noted by Mergaliyev et al. (2021), Islamic financial practices should be assessed through both legal compliance and their contribution to ethical and social welfare objectives. Therefore, innovation in Islamic capital market contracts should be evaluated based on its alignment with the broader objectives of sharia.

In addition to legal and institutional dimensions, religiosity may influence perceptions of sharia compliance in Islamic finance. It reflects the extent to which individuals apply religious values in their economic and investment decisions. More religious investors tend to prioritize ethical consistency and substantive adherence to Islamic principles over mere formal institutional legitimacy.

Previous studies have explored Islamic capital market innovation from various perspectives. For example, Samudra (2025) examined the development and challenges of the Islamic capital market in Indonesia, discussed innovation and governance in Islamic digital finance. In addition, analyzed sharia compliance and governance frameworks in contemporary Islamic financial practices. However, these studies mainly focus on institutional, legal, and performance-related aspects.

Studies on religiosity in Islamic finance have primarily focused on investment preferences and behavioral intentions. Rusanda et al. (2025) found that religiosity influences the adoption of Islamic financial products, while emphasized its role in ethical investment decisions among Muslim investors. However, these studies have not specifically examined the influence of religiosity on perceptions of substantive sharia compliance in innovative Islamic capital market contracts.

A research gap remains in integrating contract innovation, religiosity, and substantive sharia compliance within Islamic capital market studies. While existing research examines these aspects separately, limited attention has been given to how religiosity shapes the evaluation of innovative contracts from a *maqāṣid al-sharī'ah* perspective. Accordingly, this study analyzes contract innovation in Islamic capital market instruments through *maqāṣid al-sharī'ah* theory and explores the role of religiosity in shaping perceptions of sharia compliance, offering a broader framework beyond formal legal compliance.

## LITERATURE REVIEW

### The Concept and Innovation of Contracts in the Islamic Capital Market

Contracts (*akad*) are fundamental to *fiqh muamalah*, establishing legal relationships based on mutual consent, justice, and public benefit (Retnowati, M. S., & Al Faruqi, 2023). Beyond legal instruments, they represent sharia values in economic activities and should ensure substantive compliance with *maqāsid al-shari'ah* through fairness, transparency, and socio-economic welfare (Retnowati & Al Faruqi, 2023).

The Islamic capital market has grown significantly through instruments such as sukuk, Islamic mutual funds, and sharia-compliant stocks, reflecting the adaptability of *fiqh muamalah* to modern finance. This growth is driven by demand, regulatory support, and financial innovation while maintaining Sharia compliance (Ahmed et al., 2022; Andespa et al., 2024; Mukhibad et al., 2023).

Several classical contracts applied in Islamic capital market instruments include *mudharabah*, *musyarakah*, *ijarah*, and *wakalah*. These contracts are adapted to modern financial needs through profit-sharing, partnership, asset-based financing, and investment management mechanisms while maintaining the principles of justice, transparency, and risk-sharing in Islamic economics (Fahamsyah et al., 2023). Previous studies suggest that the evolution of *mudharabah* and *musyarakah* reflects Islamic financial institutions' efforts to address asymmetric information, financing risk, and governance challenges in contemporary financial systems (Annizar & Junarsin, 2025).

Modern Islamic capital markets have fostered innovation through hybrid contracts, combining multiple contracts to enhance flexibility and efficiency in Sharia financial products. While supporting product development and competitiveness, such structures raise concerns that excessive formalism may obscure the original contract's substance and weaken Islamic finance's ethical objectives (Faisal, 2025; Musfiqoh et al., 2024; Setiawan, 2022).

Contract innovation is evident in modern sukuk, Islamic mutual funds, and Sharia-compliant stocks through increasingly complex and adaptive structures. This evolution reflects the Islamic capital market's response to global economic and technological changes (Mimouni et al., 2019). Technologies such as blockchain and smart contracts further enhance efficiency, transparency, and contractual certainty (Desky & Hye, 2025; Septiana & Sanjayawati, 2021).

Despite enhancing flexibility and competitiveness, contract innovation often prioritizes legal-formal over substantive Sharia compliance. Some innovations satisfy regulatory requirements but inadequately reflect *maqāsid al-shari'ah*, prompting concerns that commercial interests may overshadow ethical values (Güney, 2024). This may lead to "sharia arbitrage," where formal compliance neglects substantive Islamic economic principles.

Islamic capital market contract innovation should balance financial modernization with Sharia principles. Its evaluation is therefore essential to ensure alignment with *maqāsid al-shari'ah* and the preservation of Islamic ethical values (Harahap et al., 2023). Recent scholarship further highlights *maqāsid al-shari'ah* as

the primary framework for promoting socio-economic justice and public welfare through financial innovation.

### **Sharia Compliance in Islamic Capital Market Instruments**

Sharia compliance is a core principle of the Islamic capital market, encompassing legal, ethical, governance, and socio-economic dimensions. Islamic instruments such as sukuk, Islamic mutual funds, and Sharia-compliant stocks must comply with Sharia standards and remain free from *riba*, *gharar*, and *maysir* (Abdulrahman et al., 2023).

Sharia compliance is commonly divided into legal-formal and substantive approaches. Legal-formal compliance emphasizes adherence to fatwas, contracts, and sharia regulations, considering products compliant if they meet contractual requirements and avoid prohibited transactions. This approach dominates Islamic finance by providing legal certainty, operational flexibility, and supporting standardization, regulatory harmonization, and global expansion (Harahap et al., 2023).

Legal-formal compliance alone is insufficient to achieve the objectives of Islamic economics. Substantive compliance emphasizes *maqāṣid al-sharī'ah* through justice, transparency, accountability, social welfare, and equitable wealth distribution. Therefore, Islamic financial products should reflect Sharia's moral and social objectives, as the sustainability and legitimacy of Islamic finance depend on advancing socio-economic justice and human welfare (Güney, 2024).

Justice ('adl) is a core principle of Islamic capital markets, emphasizing proportional risk-sharing, balanced rights and obligations, and the avoidance of exploitation. Accordingly, *mudharabah* and *musyarakah* are regarded as ideal contracts because they promote partnership, profit-and-loss sharing, fairness, cooperation, and shared economic responsibility among market participants (Gholami et al., 2021; Saleem et al., 2023).

Transparency is essential for Sharia compliance, requiring open and accurate disclosure to prevent information asymmetry and *gharar*. Accordingly, Islamic financial products must provide clear information on contracts, risks, returns, and underlying assets to maintain sharia legitimacy and investor trust while strengthening governance, reducing agency conflicts, and enhancing investor confidence (Jaradat & Oudat, 2025).

Islamic capital market instruments must remain free from *riba*, *gharar*, and *maysir* to promote fairness, financial stability, and ethical conduct. Accordingly, Sharia screening mechanisms ensure compliance of securities and investment activities with Islamic principles while reducing speculation and aligning investments with ethical and socially responsible financial practices (Sudarwanto et al., 2023).

Within the broader framework of Islamic economics, sharia compliance is closely connected to *maqāṣid al-sharī'ah*, which emphasizes socio-economic justice, welfare, and sustainable development in Islamic finance. In Islamic capital markets, it requires financial innovation to generate broader social and economic benefits

beyond profit maximization, promoting financial inclusion and ethical investment (Abdulrahman et al., 2023). Rapid Islamic financial innovation has been criticized for commercialization of sharia contracts, where products replicate conventional structures under Islamic labels. This raises concerns of sharia arbitrage, where formal compliance dominates while substantive sharia objectives and ethical values are weakened (Abedifar, 2023).

Criticism of excessive commercialization highlights the need to evaluate Islamic financial products beyond legal-formal aspects, incorporating ethical and substantive considerations. Ensuring alignment with *maqāṣid al-sharī'ah* is essential to balance financial modernization and Islamic ethics, preserving integrity and sustainability in Islamic capital markets (Abdulrahman et al., 2023).

### **Investor Religiosity in the Perspective of Islamic Economics**

Religiosity is an important dimension in Islamic economic behavior, particularly in investment decisions and perceptions of Sharia financial products (Ali et al., 2025). It refers to the extent individuals internalize and practice religious teachings, not only in worship but also in ethical awareness, moral responsibility, and adherence to Islamic economic principles. International studies show that religiosity shapes preferences, ethical judgments, and financial behavior as a moral guideline.

The concept of religiosity has been widely discussed in social and behavioral studies. Glock and Stark conceptualized religiosity as multidimensional, including belief, practice, experience, knowledge, and behavioral consequences (Asutay, 2023). This view extends religiosity beyond theology to its influence on attitudes and socio-economic behavior. Contemporary studies further show that religiosity shapes ethical attitudes, consumer behavior, and financial preferences across contexts.

In the Indonesian context, religiosity is conceptualized as the integration of belief, worship practices, religious experience, moral appreciation, and the application of religious values in daily behavior. This multidimensional religiosity influences not only personal spirituality but also social ethics and economic decision-making. Individuals with higher religiosity tend to incorporate religious values when evaluating financial products and investment decisions, particularly in ethical and Islamic finance contexts (Mulyadi et al., 2023). Contemporary Islamic economic studies also confirm that religiosity strengthens preferences toward ethical and socially responsible investment behavior.

Within Islamic economics, religiosity plays a significant role in shaping economic behavior. Islamic teachings encourage Muslims to conduct economic activities based on honesty, justice, responsibility, and the avoidance of prohibited elements such as *riba*, *gharar*, and *maysir*. Consequently, religiosity influences how individuals perceive financial risks, evaluate investment legitimacy, and determine whether financial products align with Islamic ethical principles. Highly religious investors generally prioritize ethical and sharia considerations alongside financial profitability in making investment decisions. International scholarship similarly argues that religiosity positively affects ethical financial behavior, risk perception,

and socially responsible investment decisions among muslim investors (Lestari et al., 2021).

Religiosity also affects investment decision-making within the Islamic capital market. Recent studies show that investors with strong religious commitment are more likely to select Islamic financial products because they align with their ethical and spiritual values (Asutay, 2023). Islamic investment decisions are therefore not solely driven by profit maximization but also by adherence to sharia principles and avoidance of prohibited transactions. This indicates that religiosity functions as an important psychological and ethical factor shaping investment preferences. Contemporary international studies further confirm that religiosity significantly influences the intention to adopt Islamic financial products by strengthening trust, legitimacy, and moral satisfaction in Islamic investment activities.

In addition, religiosity influences investors' perceptions of Sharia compliance in Islamic capital market instrumen. Investors with higher levels of religiosity tend to critically evaluate whether Islamic financial products genuinely reflect substantive Sharia values or merely fulfill formal legal requirements (Arifin, A. Z., 2025). In this regard, religiosity encourages investors to pay closer attention to ethical aspects, transparency, fairness, and the broader objectives of *maqāṣid al-sharī'ah* in financial transactions. As a result, highly religious investors may demonstrate greater sensitivity toward innovations perceived as excessively commercial or inconsistent with Islamic moral values. International Islamic finance literature also emphasizes that religiosity strengthens ethical awareness and encourages critical evaluation of Islamic financial innovations to ensure substantive Sharia compliance beyond formal contractual legitimacy.

Religiosity contributes to trust in Islamic capital market products (Amin et al., 2014). Recent studies show that religiosity strengthens investor trust, as individuals with higher religious commitment perceive Islamic financial products as more ethical, transparent, and sharia-compliant (Lubis et al., 2025). Trust is essential for the sustainability of Islamic financial institutions because it increases participation in markets viewed as reliable and aligned with Islamic principles. Thus, substantive sharia compliance is crucial for maintaining trust, legitimacy, and long-term loyalty.

Religiosity is increasingly important in Islamic financial innovation, as investors must assess not only performance but also ethical legitimacy. It serves as a moral framework for evaluating whether innovative Islamic capital market contracts align with Islamic values and *maqāṣid al-sharī'ah*. Thus, religiosity influences acceptance of contract innovation and understanding of substantive sharia compliance. Recent studies also stress that sustainable Islamic finance requires balancing modernization with ethical integrity and *maqāṣid*-oriented objectives.

## **RESEARCH METHOD**

### **Research Design**

This study employs a qualitative approach using a library research method, focusing on the analysis of contract innovation in Islamic capital market instruments and the role of religiosity in shaping perceptions of Sharia compliance. This

approach is adopted because the object of the study is not based on empirical field data, but rather on conceptual discourse, academic literature, Sharia regulations, and scholarly discussions related to Islamic capital market practices. A qualitative approach enables the researcher to obtain a comprehensive and in-depth understanding of the relationship between contract innovation, religiosity, and substantive Sharia compliance through the interpretation of textual and conceptual data (Creswell, 2014).

In addition, this study employs a structured literature search procedure to ensure the relevance and reliability of the selected academic sources. The literature was collected from reputable databases, including Scopus, Google Scholar, and ScienceDirect. The keywords used in the search process include “Islamic capital market,” “contract innovation,” “sharia compliance,” “religiosity,” and “*maqāṣid al-sharī‘ah*.” The search was limited to articles published between 2021 and 2026 in both English and Indonesian languages. After the initial screening process, duplicate, irrelevant, and non-peer-reviewed articles were excluded. A total of 35 relevant articles were selected and analyzed using thematic analysis.

Furthermore, this study applies a normative approach combined with the framework of *maqāṣid al-sharī‘ah* as the primary analytical perspective in evaluating the conformity of innovative contracts used in Islamic capital market instruments. The normative approach is used to examine the extent to which financial innovations comply with Islamic legal principles, while the *maqāṣid al-sharī‘ah* framework is employed to assess whether such innovations fulfill core Islamic objectives, including justice, transparency, public welfare, and ethical financial conduct. In addition, this study integrates the perspective of religiosity to analyze how religious values influence investor perceptions of the legitimacy and Sharia compliance of modern Islamic financial products.

### **Instruments**

The primary instrument of this study is documentation analysis through the examination of various relevant written sources, including both primary and secondary data. Primary sources include fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), regulations concerning Islamic capital market instruments, and classical as well as contemporary fiqh muamalah literature discussing contracts such as *mudharabah*, *musyarakah*, *ijarah*, *wakalah*, and hybrid contracts. Secondary sources consist of recent academic journal articles, Islamic economics literature, books related to Islamic finance and religiosity, as well as institutional reports discussing the development of Islamic capital markets (Zed, 2014).

The literature was selected based on its relevance to the themes of contract innovation, Islamic capital market instruments, religiosity, sharia compliance, and *maqāṣid al-sharī‘ah*. Sources that did not directly discuss Islamic financial innovation, Islamic investment behavior, or sharia compliance issues were excluded from the analysis. This selection process aims to ensure that the data used in the study remain focused, credible, and aligned with the research objectives.

## Data Analysis

Data analysis in this study employs thematic content analysis, involving systematic examination of documents and literature to identify patterns, concepts, arguments, and relationships relevant to the research focus. The analytical process consists of data reduction, data display, and interpretative conclusion drawing (Miles et al., 2014).

The data reduction stage was conducted by selecting literature directly related to contract innovation in Islamic capital market instruments and the role of religiosity in understanding sharia compliance. The data display stage involved organizing the findings into several analytical themes, including the concept of contracts in *fiqh muamalah*, innovation in sukuk, Islamic mutual funds, and Sharia-compliant stocks, legal-formal and substantive sharia compliance, *maqāsid al-sharī'ah*, investor religiosity, and perceptions of sharia legitimacy in Islamic financial innovation.

The conclusion drawing stage was carried out by interpreting these themes critically in order to assess whether innovations in Islamic capital market contracts remain aligned with substantive sharia principles and *maqāsid al-sharī'ah*. In addition, this study analyzes how religiosity influences investor acceptance of contract innovation and their perceptions regarding the ethical legitimacy of Islamic financial products.

Furthermore, the *maqāsid al-sharī'ah* framework is operationalized through several evaluative indicators, including justice ('adl), transparency, avoidance of *riba*, *gharar*, and *maysir*, ethical investment orientation, and the realization of public welfare (*maṣlaḥah*). These indicators are used to evaluate whether contract innovations in Islamic capital market instruments continue to reflect the fundamental objectives of Islamic law rather than merely fulfilling formal legal requirements.

## Trustworthiness

To ensure the trustworthiness of the study, the researcher applied source triangulation by comparing information obtained from various authoritative references, including DSN-MUI fatwas, *fiqh muamalah* literature, academic journal articles, Islamic finance regulations, and scholarly discussions on religiosity and Islamic investment behavior. The use of multiple credible sources aims to provide a comprehensive understanding of both the conceptual and practical dimensions of contract innovation in Islamic capital markets (Zed, 2014).

In addition, the researcher maintained consistency in data interpretation by focusing only on literature directly relevant to the research objectives and analytical framework. The analysis process was conducted systematically and critically to minimize subjective bias and strengthen the credibility, dependability, and confirmability of the findings. This process is expected to produce a more comprehensive understanding regarding the relationship between religiosity, contract innovation, and substantive sharia compliance in contemporary Islamic capital market practices.

## RESULTS

### Contract Innovation in Islamic Capital Market

The development of the Islamic capital market demonstrates a significant transformation in the application of contracts (*akad*) as the operational foundation of Islamic financial instruments. Literature suggests that classical contracts in *fiqh muamalah* have been adapted to meet the requirements of modern financial systems while maintaining reference to Sharia principles. This development can be observed in instruments such as sukuk, Islamic mutual funds, and sharia-compliant stocks, which reflect the adaptive nature of Islamic finance in responding to contemporary economic dynamics.

Contract innovation in sukuk is widely discussed in the literature through the use of more complex structures that combine multiple contracts within a single instrument. Modern sukuk are often structured using combinations of *ijarah*, *mudharabah*, *musyarakah*, and *wakalah* contracts to enhance flexibility in structuring investment products. Studies indicate that such combinations are intended to improve asset management efficiency, profit distribution mechanisms, and risk allocation in Islamic financial instruments, thereby increasing their competitiveness in global financial markets.

In Islamic mutual funds and sharia-compliant stocks, contract innovation is generally associated with fund management mechanisms and sharia screening processes. The application of *wakalah* and *mudharabah* contracts provides flexibility for fund managers in managing investments in accordance with sharia guidelines. In addition, the development of sharia stock indices reflects growing investor demand for investment products that combine financial objectives with ethical considerations derived from Islamic principles.

Overall, the literature indicates that contract innovation in the Islamic capital market is driven by multiple factors, including regulatory requirements, market efficiency considerations, and industry development. These conditions have encouraged the emergence of hybrid or multi-contract structures aimed at improving product flexibility. However, studies also note that increasing complexity in contract design should be carefully understood as part of the ongoing evolution of Islamic financial engineering rather than as evidence of a definitive shift in ethical orientation.

### Sharia Compliance in Islamic Capital Market Instruments

The implementation of sharia compliance in Islamic capital market instruments is generally understood as a system designed to ensure that financial products operate in accordance with Islamic principles through supervisory mechanisms, screening processes, and contract structuring. Literature explains that compliance is not only related to legal-formal aspects but also linked to efforts to incorporate ethical considerations within investment activities. Instruments such as sukuk, Islamic mutual funds, and sharia-compliant stocks are commonly designed with reference to principles such as justice, transparency, and avoidance of *riba*, *gharar*, and *maysir*.

In practice, sharia compliance is implemented through screening processes that evaluate business activities and financial ratios of listed companies. Companies operating in sectors considered non-compliant with sharia principles are excluded from Islamic indices. Supervisory mechanisms are also used to assess contract structures, profit distribution, and investment management practices to ensure conformity with sharia guidelines. These mechanisms indicate that Sharia compliance plays an important role in maintaining the legitimacy of Islamic capital market instruments.

The literature suggests that sharia compliance in Islamic capital markets is often perceived as being more strongly associated with legal-formal dimensions compared to substantive dimensions. While many financial products meet regulatory and fatwa requirements, some studies argue that their alignment with broader *maqāṣid al-sharī'ah* objectives may still require further examination. This perspective does not imply non-compliance, but rather highlights an ongoing academic debate regarding the depth of ethical alignment in Islamic financial innovation.

Furthermore, the increasing complexity of Islamic financial products and the use of hybrid contracts have introduced new considerations in the implementation of sharia compliance. While such structures provide flexibility and innovation in financial design, some literature notes that they may also create interpretive challenges in distinguishing between formal compliance and substantive objectives. Therefore, several studies emphasize the importance of continuous evaluation to ensure that Islamic capital market instruments remain aligned with both regulatory requirements and broader ethical principles.

### **Investor Religiosity in Islamic Capital Market Perception**

Investor religiosity is widely discussed in the literature as an important factor influencing perceptions of Islamic capital market instruments. Religiosity refers to the degree to which individuals internalize and apply religious values in their decision-making processes. Studies suggest that investors with higher levels of religiosity tend to consider not only financial returns but also ethical considerations, including compliance with Islamic principles in investment activities.

The literature indicates that religiosity may influence investment preferences in instruments such as sukuk, Islamic mutual funds, and sharia-compliant stocks. Religiously committed investors are generally more inclined to select products perceived as consistent with Islamic teachings and free from elements of *riba*, *gharar*, and *maysir*. In addition, religiosity is often associated with greater attention to transparency, contract clarity, and ethical considerations in investment decision-making.

Religiosity is also discussed in relation to investor perceptions of contract innovation in Islamic finance. Some studies suggest that highly religious investors may evaluate financial innovations more critically, particularly when complex structures such as hybrid contracts are involved. However, this evaluation is generally understood as an ethical sensitivity rather than rejection of innovation.

Investors tend to assess whether such innovations remain aligned with perceived Islamic values and broader ethical expectations.

In addition, literature highlights that religiosity may contribute to investor trust in Islamic capital market instruments. Higher levels of religiosity are often associated with stronger confidence in financial products perceived as ethically and religiously appropriate. This trust is not only based on formal compliance but also on perceived alignment with moral and religious values. Overall, studies suggest that religiosity plays a significant role in shaping perceptions, preferences, and trust in Islamic financial markets, although its effects may vary across different investor contexts.

## **DISCUSSION**

### **Critical Analysis of Contract Innovation in the Islamic Capital Market**

The development of contract innovation in the Islamic capital market reflects the dynamic adaptation of *fiqh muamalah* principles within the evolving global financial system. Literature suggests that classical contracts have been modified to accommodate modern financial requirements while maintaining reference to Sharia principles. Instruments such as sukuk, Islamic mutual funds, and Sharia-compliant stocks indicate the continuous effort of Islamic finance to remain relevant in complex global financial markets. The use of hybrid contracts (*uqūd murakkabah*) is widely discussed as one of the strategies to enhance flexibility and competitiveness (Musfiqoh et al., 2024). From a theoretical perspective, this development can be understood as part of financial innovation theory, where adaptation is necessary for market survival and efficiency rather than a purely normative transformation. International studies also indicate that such innovation contributes to market expansion, diversification, and integration into the global financial system. However, these developments should be interpreted as ongoing structural adaptation rather than definitive evidence of ethical transformation.

The development of contract innovation in the Islamic capital market reflects the dynamic adaptation of *fiqh muamalah* principles within the evolving global financial system (Azwar, 2024). Literature suggests that classical contracts have been modified to accommodate modern financial requirements while maintaining reference to sharia principles. Instruments such as sukuk, Islamic mutual funds, and Sharia-compliant stocks indicate the continuous effort of Islamic finance to remain relevant in complex global financial markets. The use of hybrid contracts (*uqūd murakkabah*) is widely discussed as one of the strategies to enhance flexibility and competitiveness (Al., 2025). From a theoretical perspective, this development can be understood as part of financial innovation theory, where adaptation is necessary for market survival and efficiency rather than a purely normative transformation. International studies also indicate that such innovation contributes to market expansion, diversification, and integration into the global financial system. However, these developments should be interpreted as ongoing structural adaptation rather than definitive evidence of ethical transformation.

The use of hybrid contracts represents one of the most debated

developments in Islamic finance literature. From a functional perspective, hybrid contracts are considered financial engineering tools that allow institutions to respond to market complexity and liquidity needs. However, some studies suggest that excessive reliance on contract combination may create interpretive ambiguity regarding the substantive nature of transactions. Within *maqāṣid* theory, this can be understood as a potential challenge in maintaining clarity between form and substance in Islamic financial contracts. In certain interpretations, concerns about *hilah* arise when legal structuring is used primarily for formal compliance purposes (Fageh & Ihsan, 2022). Nevertheless, this phenomenon should be understood within the broader context of institutional development and regulatory adaptation rather than as a definitive deviation from sharia objectives. International literature also notes that increasing complexity requires stronger governance mechanisms to ensure transparency and accountability.

Criticism of Islamic capital market innovation is also present in discussions on sukuk structures and investment instruments. Some studies indicate that certain sukuk models exhibit characteristics similar to conventional fixed-income instruments, particularly when risk-sharing elements are reduced through contractual guarantees. From an institutional trust perspective, investor confidence is influenced not only by regulatory approval but also by perceived alignment with Islamic ethical principles. These debates highlight that legitimacy in Islamic capital markets is multi-dimensional, involving legal, ethical, and perceptual dimensions. International literature similarly discusses the convergence risk between sukuk and conventional bonds when profit-and-loss sharing mechanisms are weakened (Balli et al., 2022; Setiawan & Suwandaru, 2024). Recent studies further argue that insufficient implementation of risk-sharing principles may affect the sustainability and resilience of Islamic financial systems (Boukhatem, 2022). Therefore, these findings should be interpreted as analytical concerns within financial structure evolution rather than normative failure.

From the perspective of Islamic economics, contract innovation can be theoretically positioned within the dual objectives of efficiency and *maqāṣid* realization. *Maqāṣid al-sharī'ah* provides an evaluative framework to assess whether financial innovation contributes to justice, transparency, and public welfare. The literature suggests that maintaining balance between competitiveness and ethical objectives remains a key challenge in Islamic finance development. Rather than indicating ethical decline, this tension may reflect the inherent complexity of integrating modern financial systems with normative Islamic principles (Harahap et al., 2023). International scholarship emphasizes that sustainability in Islamic finance depends on the integration of ethical governance and *maqāṣid*-based evaluation frameworks.

### **Religiosity and Substantive Sharia Compliance in the Islamic Capital Market**

Religiosity is widely recognized in the literature as a significant factor shaping investor perceptions toward Islamic financial products. In Islamic finance theory, religiosity can be conceptualized as an internalized value system that influences

ethical judgment and financial behavior. Investors with higher religiosity levels are generally understood to incorporate both economic and ethical considerations in their investment decisions. Recent studies suggest that religiosity is associated with ethical sensitivity, investment behavior, and socially responsible financial decision-making (Asutay, 2023). Within Islamic finance, this relationship can be interpreted through behavioral finance theory, where beliefs and values shape risk perception and investment preferences.

The findings of this study indicate that religiosity may influence how investors differentiate between legal-formal and substantive Sharia compliance. Legal-formal compliance is generally associated with regulatory and fatwa-based approval, while substantive compliance relates to *maqāṣid al-sharī'ah* realization. From a theoretical perspective, religiosity may function as an ethical filter that increases sensitivity toward this distinction. Consequently, highly religious investors tend to evaluate whether financial innovation aligns with broader Islamic ethical principles. Recent international literature also highlights that religiosity strengthens ethical evaluation in financial decision-making (Shahid et al., 2022) further argue that legitimacy in Islamic finance extends beyond legal compliance and incorporates ethical and religious considerations in investor behavior.

Religiosity also contributes to ethical awareness regarding transparency, fairness, and risk-sharing principles. Rather than being interpreted as rejection of innovation, this sensitivity reflects a normative expectation toward ethical consistency in financial practices. Therefore, religiosity can be positioned as an important moderating factor in investor behavior theory. Recent studies suggest that it influences trust formation and ethical evaluation in Islamic financial markets (Asutay, 2023; Shahid et al., 2022). Governance mechanisms and Sharia supervision are therefore essential institutional components in maintaining perceived legitimacy.

The interaction between religiosity and contract innovation becomes particularly relevant in the context of hybrid financial structures. Literature suggests that increasing complexity may create interpretive challenges for investors in assessing substantive compliance. From a behavioral perspective, religiosity may increase caution in evaluating such innovations. However, this should be interpreted as heightened ethical scrutiny rather than rejection of financial modernization (Jalari et al., 2023). International studies also indicate that complexity in Islamic financial products requires stronger governance and disclosure mechanisms.

From an Islamic economics perspective, religiosity may function as an informal ethical governance mechanism that complements formal regulation. It strengthens demand for transparency, fairness, and accountability in financial markets. The sustainability of Islamic capital markets can therefore be understood as dependent on the interaction between institutional regulation and individual ethical commitment. Recent international scholarship further supports the view that the long-term sustainability of Islamic finance requires the integration of profitability, innovation, ethical values, and *maqāṣid*-oriented governance (Harahap et al., 2023).

## **Analysis of Maqāṣid al-Sharī'ah toward Contract Innovation in the Islamic Capital Market**

The application of *maqāṣid al-sharī'ah* in Islamic capital market innovation provides an evaluative framework for assessing financial legitimacy beyond formal compliance. In Islamic economic theory, *maqāṣid* serves as a multidimensional framework encompassing justice, transparency, and public welfare. Literature suggests that financial innovation should not only avoid prohibited elements but also contribute to socio-economic development (Satyakti, 2023). Recent studies further position Islamic finance as a value-based economic system in which social justice, sustainability, and public welfare constitute core objectives.

The findings indicate that *maqāṣid* implementation is often interpreted through regulatory compliance mechanisms. However, several studies suggest that market-driven innovation may prioritize profitability and efficiency. From a *maqāṣid* perspective, this creates an analytical tension between form-based compliance and value-based objectives. This does not imply failure of Islamic finance but reflects the complexity of operationalizing ethical objectives in modern financial systems. Recent international literature similarly highlights the growing tension between commercialization and the realization of *maqāṣid*-oriented objectives in Islamic finance (Harahap et al., 2023). *Maqāṣid*-based performance evaluation has therefore been proposed as an alternative assessment framework.

The principle of *ḥifẓ al-māl* (protection of wealth) provides a theoretical foundation for assessing contract innovation. From this perspective, financial innovation should enhance wealth protection, fairness, and stability. However, hybrid contract structures may create interpretive ambiguity regarding substantive alignment with *maqāṣid* objectives. Recent literature suggests that this requires stronger governance, risk management, and ethical supervision mechanisms to ensure consistency between financial innovation and *maqāṣid al-sharī'ah* objectives (Harahap et al., 2023)

*Maqāṣid al-sharī'ah* also emphasizes balancing profit generation with moral responsibility. Therefore, financial instruments should contribute to equitable distribution and social welfare. Studies suggest that public trust is closely linked to perceived ethical authenticity rather than only regulatory compliance (Umar & Wahab, 2025). International research similarly emphasizes the importance of ethical governance in maintaining financial system credibility.

Finally, *maqāṣid*-based analysis highlights that Islamic capital market innovation should contribute to *maṣlaḥah* and prevent harm. Literature suggests that sustainability depends on balancing innovation, competitiveness, and ethical objectives. Without this balance, financial innovation may be perceived as formal adaptation rather than substantive transformation. Recent studies emphasize the importance of *maqāṣid*-oriented governance in ensuring the long-term sustainability of Islamic finance (Umar & Wahab, 2025).

## CONCLUSION

This study demonstrates that contract innovation in the Islamic capital market reflects the dynamic adaptation of classical *fiqh muamalah* principles to the development of the modern financial industry. Innovations in instruments such as sukuk, Islamic mutual funds, and Sharia-compliant stocks indicate that Islamic finance possesses flexibility in responding to contemporary market demands through the use of various contractual structures, including hybrid contracts. These innovations contribute to improving the competitiveness and attractiveness of Islamic financial products within the global financial market. However, the findings also reveal that the increasing complexity of financial innovation raises challenges regarding the preservation of substantive Sharia values within modern Islamic financial practices. Theoretically, this study contributes to the Islamic finance literature by positioning *maqāsid al-sharī'ah* as an evaluative framework for assessing contract innovation beyond legal-formal compliance and by linking financial innovation with the ethical dimensions of Islamic moral economy.

The study further finds that the implementation of sharia compliance in the Islamic capital market tends to be more dominant in legal-formal aspects than in substantive dimensions. Most Islamic financial products have fulfilled regulatory standards and contractual requirements administratively, yet some innovations still demonstrate strong similarities with conventional financial mechanisms, particularly in terms of commercial orientation and profit maximization. This condition indicates that substantive Sharia compliance based on justice, transparency, ethical responsibility, and *maqāsid al-sharī'ah* has not been fully realized within several contemporary Islamic capital market instruments. These findings imply that regulators, sharia supervisory boards, and Islamic financial institutions should strengthen *maqāsid*-oriented evaluation mechanisms to ensure that innovative financial products contribute not only to market efficiency but also to broader social and ethical objectives.

In addition, religiosity plays an important role in shaping investor perceptions toward Islamic financial products and sharia compliance. Investors with higher levels of religiosity tend to evaluate Islamic capital market instruments not only from the perspective of financial profitability but also from ethical and spiritual considerations. Religiosity encourages investors to critically assess whether financial innovations genuinely reflect Islamic values or merely fulfill formal legal requirements.

From the perspective of *maqāsid al-sharī'ah*, contract innovation in the Islamic capital market should ideally function as a means of realizing justice, public welfare, transparency, and equitable wealth distribution. Therefore, the sustainability of the Islamic capital market depends not only on financial innovation and regulatory compliance but also on the ability of Islamic financial institutions to preserve the substantive objectives of Islamic law. Nevertheless, this study is limited by its library research approach, which relies exclusively on secondary sources and does not incorporate empirical evidence from investors or practitioners. Future research may employ quantitative, qualitative, or mixed-method approaches to examine how

religiosity influences perceptions of substantive sharia compliance across different Islamic financial sectors and jurisdictions.

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