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Product Development in Islamic Financial Institutions (IFIS): An Extensive Literature Review

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Abstract

This paper aims to critically review existing studies related to IFIs products and their instruments, IFIs' product development, and the agenda for IFIs' product development in the future. This study is built upon an extensive literature review of the existing literature on IFIs, revisiting its objectives, its criticism, and looking at the Product Development Process of IFIs from previous studies. Considering IFIs product development, so far the process on IFIs lies on the need to be competitive thus imitating their conventional counterparts. However on the other side, there's a need for developing the instruments without denying the fulfilment of Islamic law (maqasid al sharia) within the process. On the other hand, there are some arguments on to what extent Sharia principles or maqasid al sharia is being fulfilled as so far, the feasible indicators are still limited. As product development in IFIs is complex and demands innovations in many aspects, collaboration among global and Islamic Economy actors is needed. This paper implies that there's a need for a comprehensive approach in formulating an ideal product development process for IFIs and giving urges to global Islamic Economy actors to collaborate.

Keywords : Produk Keuangan Islam Kontemporer; Lembaga Keuangan Islam; Maqasid Al-Syariah; Pengembangan Produk.

INTRODUCTION

For decades, from the virtually unknown, Islamic Financial Institutions (IFIs) have grown fast and become a distinct segment in International Banking and capital markets (Hassan & Lewis, 2007). It reflects the number of IFIs practiced in over 75 countries worldwide, exceeding 550 IFIs in the field (Ayub, 2007). In 2021, despite the unprecedented pandemic COVID-19, also the unstable global conditions

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due to the Russia-Ukraine war resulting global inflation as the increase of oil and commodity prices and disrupting global supply chains, Islamic financial sectors managed and maintained their growth momentum. They had 11.3 % growth year-on-year with the assets reaching USD 3.06 trillion in 2021, to which Islamic banking and capital market had contributed the most on it (Islamic Financial Services Board, 2022). Basically, the aims and presence of IFIs are to exhibit that sharia or Islamic law can regulate daily matters including the economy and financial sector, and to resolve social problems such as poverty and social gap (Nusrate Aziz & Mohamad, 2016; Sairally, 2013). However, in its development, the current growth of IFIs is not stable as there are some criticisms focusing on limited instruments such as credit-based instruments (Siddiqi, 2006). Moreover, there are some researchers that Islamic banking products do not align with Sharia principles and elements that are prohibited by Sharia rules, as they are only replicating their conventional counterparts (Ahmed, 2011a).

The focus on credit-based instruments surely contradicts what IFIs existence have campaigned so far that equity-based instrument which is known as profit-loss sharing (PLS) is the fairest mode of financing. Furthermore, a study has shown that PLS financing tends to affect the growth of the economy within a country than non-PLS financing (Masrizal & Trianto, 2022). Despite the fact that in terms of profitability and its growth, IFIs successfully maintained their resilience in 2021, but looking at how far IFIs have aligned with their initial objectives still needs to be exercised. Besides, due to the unprecedented COVID-19 pandemic year of 2020, which affects the global financial situation, IFIs are not as resilient as in 2008 as the disruptions the pandemic caused impacted the real sectors, which has to be resolved (Akkas & Al Samman, 2022). Also, several studies such as Miah & Suzuki (2020) and recent reports demonstrate that Murabaha still become the most common product used in IFIs, although it is known that merely focusing on credit-based instruments will shed criticism and less support for the aims of IFIs in meeting its socioeconomic objective. Miah and Suzuki argue that the reason IFIs tend to focus on Murabaha rather than equity-based contracts is due to the uncertainty equity-based contracts have (Miah & Suzuki, 2020). Furthermore, the risk of equity-based contracts has also been reflected in the rate of non-performing loans (NPF) of the instruments. Even though in 2021 based on the Islamic Financial Standards Board's report it is still at a tolerable level,

but still IFIs still must be cautious as this can affect the assets quality of IFIs (Islamic Financial Services Board, 2022). This led to the discussion of how Islamic finance instruments should be structured and how further new contracts or innovation of the contracts ought to be developed. One of what IFIs could do is by having a product development process in their instruments.

As Islamic financial institutions' problems and intriguing disputes recline on their instruments, the product development process becomes fundamental to preceding IFI development. To date, the discourses on the product development process of IFIs have also varied (Ahmed, 2011b; Al-Salem, 2009; Arbouna, 2007; Dinc, 2020). The discourses of the product development process are also seen in the innovation levels of Islamic financial institutions, which are low owing to the development of Islamic finance as a new activity (Al-Salem, 2009). Dinc (2020) study classifies that the attitudes towards the product development process in IFIs could be divided into two: (1) the product development that replicates conventional counterpart's products and (2) the demands of product development, which should meet its full-fledged Shariah compliant. The first attitude is that that IFIs should adapt and compete due to global and market demands. The second classification looks at the gap and phenomenon that IFIs are still far from their initial objective, making there needs to be an effort to make IFI products fully Shariah compliant without denying other aspects by using the product development process.

Even while Islamic Financial Institutions (IFIs) have proliferated, most of their financial product development is still based on modifications of traditional structures, which raises concerns about the legitimacy of Shariah and its compatibility with maqasid al-shariah. There is a dearth of integrative analysis that maps, contrasts, and evaluates the various conceptual and operational models of IFI product creation that have been put forth in disjointed research. By performing a thorough literature review on product development in IFIs, this study seeks to close that gap. This review aims explicitly to (i) categorize IFI products according to their ethical orientation and adherence to Shariah, (ii) examine and contrast important product development frameworks and models in the literature on Islamic finance, and (iii) pinpoint the institutional, regulatory, and strategic elements affecting innovation in IFIs. The paper lays the groundwork for further empirical and theoretical research by combining

different viewpoints and advancing a more organized understanding of how IFIs might balance financial innovation and their ethical obligations.

LITERATUR REVIEW

Definition and Role of Islamic Financial Institutions (IFIs)

Various financial institutions that conform to Shariah, or Islamic law, are called Islamic Financial Institutions (IFIs). These comprise Islamic banking establishments and non-banking financial organizations, including Islamic capital markets, sukuk (Islamic bonds), and takaful (Islamic insurance). The founding of the Mit Ghamr Saving Bank in Egypt in 1963, which was created in reaction to the unpredictability and injustice of the global financial system, signaled the beginning of IFIs (Chapra, 2008). IFIs seek to provide ethical financial options based on risk-sharing, asset-backing, and actual economic activity, in contrast to the traditional systems frequently typified by excessive leverage and debt dependency.

IFIs have expanded dramatically over the years in both Muslim and non-Muslim nations, positioning themselves as a substitute for socialist and capitalist systems. In addition to being economic, their development is also moral and spiritual, and they need to establish a financial system that promotes justice and societal well-being (Haniffa et al., 2007).

Importance of Product Development in IFIs

Even though IFIs have expanded internationally, a large portion of their product development is still dependent on debt-based structures, particularly murabaha, similar to traditional instruments. As a result, some have criticized IFIs for probability of reproducing the practices they intended to change (Ahmed, 2011b; Dinc, 2020; Rahman, 2007). According to research by Miah & Suzuki (2020) murabaha-type contracts account for more than 90% of IFI financing in GCC nations.

This development raises concerns over the sincerity and effect of IFIs on socioeconomic objectives. Despite being more in line with Islamic economic principles, profit and loss sharing (PLS) contracts like mudharabah and musyarakah are underutilized because of their perceived dangers and complexity (Al-Amine, 2015). Nonetheless,

research indicates that PLS funding favors economic growth, as Masrizal & Trianto (2022) have shown in the Indonesian setting.

El Mallouli & Sassi (2022) point out that the limited adoption and acceptance of IFI products in some markets, like Morocco, highlights the need for focused and socially impactful product development strategies that take into account not only legal compliance but also consumer behavior, innovation, marketing ethics, and risk management (Aman, 2020; Tafri et al., 2011).

Maqasid al-Shariah and Ethical Orientation

Maqasid al-shariah, the greater goals of Islamic law, which include the protection of religion, life, intellect, lineage, and money, is the foundation of Islamic finance. These goals serve as a roadmap for creating financial products that are both socially and legally sound (Ayub, 2007). Prohibiting riba (interest), gharar (undue uncertainty), and maysir (gambling) while advancing justice, welfare, and equity are important ethical requirements in Islamic finance (Grais & Pellegrini, 2006).

As a result, it is expected that IFIs engage in moral business practices that promote economic and social justice, reduce inequality, and promote cooperation. However, according to criticisms like those made by Nusrate Aziz & Mohamad (2016) many IFI products today prioritize legal form over moral content, deviating from the original intent of Islamic banking.

Furthermore, Ahmad et al. (2022) argue that in the current global environment, financial institutions must link their operations with broader ethical responsibilities—a value fundamental to the ethos of IFIs—because it is no longer enough for them to pursue profit-related objectives solely.

Classification of IFI Products

Al-Amine (2015) expands on these moral precepts by suggesting a three-tiered categorization of IFI products according to their conformity to Shariah and maqasid al-shariah:

1. Pseudo-Islamic products: Legally, these are compliant, but not morally. Tawarruq is one example; it lacks social benefits but uses legal structuring to resemble traditional loans.

2. Shariah-compliant products: These meet Islamic law's formal and substantive requirements but frequently disregard Shariah's social and economic goals.
3. Shariah-based products: Besides meeting legal criteria, these are inclusive, equitable, and have a positive social impact to attain maqasid. This would include, for example, reasonably priced house finance available to different socioeconomic groups.

Despite this ideal typology, most IFI services today are Shariah-compliant, with just a few products being founded on Shariah. This disparity calls into question the long-term social efficacy of IFIs and their standing and uniqueness compared to their traditional equivalents (Al-Amine, 2015).

Summary of Reviewed Studies on Product Development in IFIs

Table 1
Summary of Literature in Product Development in IFIs

Researchers	Methods	Summary and Aspects being Concerned	Implication	Lessons learned
(Arbouna, 2007)	Conceptual Paper	The discourses lie in whether combining contracts in IFIs products are permissible or not. The study concludes that combining new contracts is permissible if the contracts do not contradict sharia law.	In combining contracts in the product development process, should ensure the Shariah legality in the transaction and should not contradict Islamic law or forbidden events in contracts, therefore there is a need of sharia supervisory board role	• Discoursing product development in IFIs also means considering the legality of the product development, especially sharia compliant product
(Al-Salem, 2009)	Qualitative Research	Product development in IFIs is categorized	There is a need for IFIs to meet	• As IFIs should satisfy market

	methodology using interviews of practitioners	as low and still needs to be further developed in accordance with market demand and its compliance with Sharia. This is due to IFIs sector is regarded as still developing.	market demand and enhance its innovativeness due to IFIs survival and profitability, providing more innovative products, especially of investment nature rather than credit-based loans	demand, innovative engineering is needed on IFIs products, not denying the Sharia supervision
(Ahmed, 2011b, 2014)	Conceptual Framework	Product Development in IFIs can be done by executing innovative engineering which consists of idea generation, converting the concept into product, and the commercialization of the product.	The ability of IFIs industry that come up with new products but still satisfy Sharia requirements. Therefore, the Sharia governance framework and the quality of Sharia supervision becoming vital in IFIs	• There should be a governance and Sharia supervision framework in IFIs, in addition to developing products
(Al-Amine, 2015)	Critical Review	Al Amine contends that sharia compliance of products in IFIs needs to be re-classified as there are ambiguity concerns such as for example classifying maqasid sharia in operational procedure which is still limited, and also the views of overusing debt contracts. Another point	As there is still debate over *maqasid Sharia* discourses among Sharia scholar and Muslim economists, having a direct interaction among different stakeholders is necessary	• Collaborating and having a consensus among stakeholders is necessary, to discuss which Sharia law that is permissible, and what kind of products can be developed in IFIs other than financing

		argued is that developing new products in IFIs is not about embracing merely PLS products and then ignoring debt-based products which is permissible, but it could be about developing equity-based instruments for instance with having venture capital, asset management, private equity which is still unexplored further.		products
(Dinc, 2020)	Conceptual Research	As the attitudes toward product development in IFIs are categorized into two: 1) imitating its conventional counterparts for meeting market demands 2) the model for the full-fledged Sharia-based products, Dinc proposed two different product development models that involve Sharia expertise in it	In line with developing products in IFIs on its innovativeness, the process should cover Sharia point of view over the development process	
(Mansour, 2020)	Conceptual Framework	The author uses a nine-zone matrix in conducting strategies for product development in IFIs and results that the ideal strategy should have a trade-off between shariah compliance and should combine simultaneously with profitability	IFIs should combine two dimensions when developing their product for long-term survival: their profitability and compliance with Sharia	

(Alamad, Hidayah, et al., 2021)	Conceptual Paper	The authors argue that ethical-faith-based in IFIs should be put in a flexible way, not static in meeting the diverse atmosphere of the finance industry. However, this doesn't mean putting aside the Sharia principles, but rather recommends that to formulate that, there needs collaboration among global actors in intersecting faith-based values, logic, and interests in making IFIs products compatible	IFIs should reflect on their product development patterns and implementation and should collaborate with other actors in the field.
(Akkas & Al Samman, 2021)	Research Paper	The authors investigate the impact of the COVID-19 outbreak on IFIs, conventional financial institutions, and Islamic windows in Gulf Cooperation Council (GCC) countries. The authors found that IFIs were affected by the pandemic however less exposed compared to conventional and Islamic windows counterparts.	As IFIs are not as resilient as the 2008 financial crisis during the pandemic, there should be regulatory reforms related to innovative products, research and development, and human capital to be executed by regulatory authorities, financial institutions, and key policymakers.

Source: Authors own data analysis

A summary of the most important research on product development in IFIs is shown in Table 1. It highlights how the conversation has changed from early Shariah compliance concerns to more strategic and innovation-focused talks by outlining each effort's breadth, methodologies, and significant contributions. This synthesis supports the theme analysis in the next part.

Synthesis Of Literature

Typology of IFI Products

In order to evaluate how well Islamic Financial Institution (IFI) products conform to Shariah principles particularly the goals of maqasid al-shariah, these products must be classified. IFI items are divided into three categories by Al-Amine, 2015): Shariah-based, Shariah-compliant, and pseudo-Islamic. This typology makes it easier to distinguish between goods that actively advance the moral and financial objectives outlined in Shariah and those that only satisfy the formal requirements of Islamic law.

Products that embrace Islamic legal frameworks but fall short of Shariah's fundamental principles and moral goals are known as pseudo-Islamic products. Tawarruq is a well-known example frequently used to imitate traditional interest-based lending. Despite being technically acceptable, these items are frequently criticized for not creating real value and going against the goals of fairness and equal income distribution (Al-Amine, 2015; El-Gamal, 2006). These products prioritize legal form over ethical substance, which puts the integrity and credibility of the Islamic finance industry in danger.

On the other hand, Shariah-compliant products are designed to fulfill Islamic law's formal and substantive requirements. However, they frequently fail to meet more general social goals. A prime example is the extensive usage of murabaha (cost-plus sale contracts) which predominates in Islamic bank portfolios across different countries. For example, (Miah & Suzuki (2020) discovered that murabaha and other credit-based contracts account for around 90% of Islamic bank funding in the Gulf Cooperation Council (GCC) nations. Similarly, (Ishak & Asni, 2020) noted that although Malaysian Islamic banking products are officially Shariah-compliant, many mimic traditional procedures. These results, which are emphasized in the literature review (refer to Table 1),

show that IFIs tend to put financial viability ahead of ethical distinction and innovation.

Last, Shariah-based products adhere to maqasid al-shariah and meet legal and procedural standards. These products are made to accomplish goals like social fairness, risk-sharing, and financial inclusivity. Mudharabah-based SME financing and musharakah mutanaqisah for affordable housing are two examples. Profit-and-loss sharing (PLS) contracts were determined to favor Indonesia's economic growth by Masrizal & Trianto (2022), indicating that Shariah-based goods can significantly contribute to actual economic development. Furthermore, researchers such as Siswantoro (2022) advocate incorporating Islamic social financing into product development to increase outreach and impact.

Shariah-based products are notably under-represented in the current IFI landscape despite their potential. There has been criticism of Islamic finance's lack of creativity and ethical distinction due to the prevalence of Shariah-compliant models, especially those that mimic traditional debt-based products (Ahmed, 2011b; Aman, 2020). In addition to limiting the revolutionary potential of IFIs, this over-reliance on compliant but unethical products may also undermine public confidence in their value offer. Therefore, shifting towards Shariah-based development is becoming increasingly important, and strong product design procedures and moral standards back it.

As covered in the next section, this typology provides a critical lens through which to assess the creation of IFI products. It forms the basis for examining the structure and the use of product development frameworks.

Frameworks & Models for IFI Product Development

Product development becomes a crucial component of IFIs' development since the contracts of IFIs are the subject of fascinating discussion. Currently, rather than concentrating on the originality of the underlying contracts themselves, the development process in IFIs primarily emphasizes the innovativeness of the delivery method—for instance, how technology makes it easier to obtain IFI products (Dinc, 2020). Islamic finance's identity and value proposition are weakened by the disparities resulting from this focus on form over content. IFIs

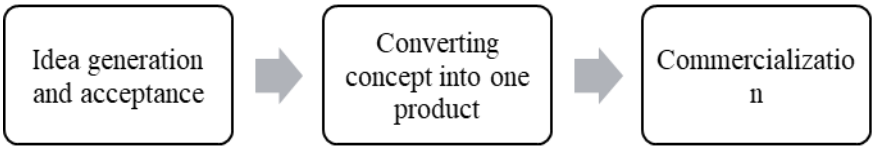
emphasize process innovation more than true product innovation, as Dinc (2020) noted.

According to Ahmed (2011b), Islamic banks alter conventional products, combine several Shariah-compliant contracts to produce new instruments, or incorporate old contracts into contemporary financial transactions as part of their product development initiatives. Likewise, (Iqbal & Mirakhor, 2011) differentiate between two engineering approaches in product development: reverse engineering, which modifies traditional tools within an Islamic context, and innovative engineering, which creates new tools based on Islamic principles.

After examining several IFIs, (Dinc, 2020) found that product development typically belongs into three categories: (i) new product creation, (ii) business model innovation, and (iii) conversion products. The main goal of conversion products is to modify traditional offers, usually credit-based instruments. Innovations in business models have drawn criticism since they resemble traditional institutions. New product ideas are more inventive but still in their infancy, particularly regarding fund-raising instruments like sukuk. According to these categories, a large number of IFIs place a higher priority on market performance and operational sustainability than on adhering to maqasid al-shariah. As a result, there is growing support for proposals to reevaluate the core goals of IFIs.

This knowledge is enhanced by other investigations included in Table 1. Ahmed (2014) outlines a methodical approach to product development in Islamic banks, starting with ideation and progressing through Shariah assessment, design, and commercialization (as depicted in fig 1). This model, which corresponds with the stages described in traditional product lifecycle theories, has established itself as a foundation in the literature.

Figure 1. Product Development Process in Islamic Banks



Source: (Ahmed, 2014)

The development of IFIs product development is furthered by Dinc, (2020), who presents two different models; one centered on developing new products and the other on conversion-based development. From research and conceptualization to technological development and final approval, Shariah's expertise is essential in both models. The first model is practical and designed to modify traditional products while adhering to stringent Shariah regulations. Though more complicated and resource-intensive, the second model encourages the production of new products that are, in theory, more by maqasid. Continuous Shariah monitoring is essential to both regimes.

However, there are still implementation issues. According to Tafri et al. (2011), IFIs in Malaysia frequently lack the human resources, IT systems, and risk management skills necessary to enable the creation of innovative products, particularly for equity-based contracts. This explains why murabaha and related products are still used by the majority of IFIs. Furthermore, emphasizing the significance of Islamic marketing principles in product development, Aman (2020) adds another dimension. Reputational damage might result from overmarketing conventional-like products or failing to convey the true ethical aspects of IFI offerings.

Meanwhile, according to Siswantoro (2022) and Masrizal & Trianto (2022), product offerings can have a greater social impact if integrated with Islamic social finance, such as zakat, waqf, or PLS-based financing. These findings reaffirm that IFI product development must shift from compliance to inclusive, ethical, and strategic innovation. In addition, Alamad et al. (2021) emphasize the necessity of more extensive multi-stakeholder collaboration in product development, going beyond individual models, particularly since static interpretations of Shariah find it challenging to keep up with changes in the global financial landscape. Similarly, Mansour (2020) suggests that IFIs should follow product development paths that maximize profitability and Shariah compliance by introducing a nine-zone strategy matrix.

Combined, these observations demonstrate that although there are conceptual frameworks for product development, their implementation in IFIs is still unequal. Operational and regulatory requirements constrain most institutions' capacity to innovate beyond compliance. According to the literature, creating models that are not only Shariah-compliant but also

morally revolutionary, socially inclusive, and financially viable represents the next frontier in IFI product creation.

In order to create a more solid and maqasid-aligned framework for product development in Islamic financial institutions, this review emphasizes the significance of combining Shariah governance, cross-functional cooperation, ethical marketing, and strategic foresight.

RESEARCH METHOD

This study examines the evolution of financial products within Islamic Financial Institutions (IFIs) using a narrative and theme literature review methodology. Instead of using a methodical or meta-analytic approach, the review concentrates on finding, combining, and critically assessing the most important contributions that are most pertinent to the goals of this work.

Two primary criteria served as the basis for the literature selection. To ensure that only research that specifically addressed IFI product creation, Islamic finance ethics, Shariah compliance, and related conceptual models were included. In addition, topical relevance was given top priority. Then, the sources' credibility and intellectual caliber were considered, favoring academic publications, peer-reviewed journal articles, and authoritative reports from respectable Islamic finance institutions and organizations.

Various scholarly databases, including Scopus, ScienceDirect, Emerald Insight, and Google Scholar, were used to source the literature. Both contemporary advancements (mainly from the last 20 years) and classic basic works were included to provide a thorough grasp of the area. The review attempts to map, compare, and synthesize the many viewpoints in the body of extant Islamic finance literature, focusing on theoretical models and real-world product development difficulties.

RESULTS AND DISCUSSION

Theoretical Contributions

From the preceding discourses and the summary of previous literature, the analysis can be inferred into theoretical implications. First, based on the preceding literature, developing products requires scientific

and comprehensive effort, which is not easy to execute, especially in IFIs. As one of the recommendations of IFIs is related to product development, it is not difficult to formulate and implement, proofing that so far, the literature on product development is mostly still conceptual, finding the most ideal one, and remains a few in empirical that turns product development into real practice. On one side, there is tawarruq, which is acknowledged as product development output in IFIs. However, its implementation still brings a different view of tawarruq, specifically on its sharia arbitrage over it. This implies a theoretical gap in designing a maqasid-aligned product innovation that integrates legal form and ethical substance.

Second, the previous literature has different views on putting sharia principles guidance in the product development process of IFIs. Some argue that despite the rapid development of global conditions, which convey diverse challenges, statically putting Islamic law would bring a boundary object in product development of IFIs (Alamad, et al., 2021; Al-Amine, 2015). The universality of Sharia principles should be applied in a malleable way with still in according with Sharia law. Furthermore, based on the preceding literature, the maxims of the product development process should aim to meet the demands with a linearity in profit-generating purpose and in accordance with Sharia principles which could be accomplished by Sharia and moral screening (Dinc, 2020; Kahf, 2006) which therefore intersecting each other. Not stopping in accordance with sharia guidance and profitability, (Ahmed, 2014) emphasizes that IFIs product development should also aim to meet its social objectives; fulfilling the spirit of maqasid sharia rather than replicating conventional counterparts or doing reverse engineering, IFIs should aim in innovative engineering which surfaces on sharia-based principles. In order to guarantee that IFI product models develop in tandem with global financial ecosystems, future theoretical frameworks should aim to incorporate Shariah governance, social impact orientation, and digital-age innovation.

Practical Implications for IFIs

IFIs have obstacles when attempting to go beyond simply replicating traditional products. Prior literature remarks on the overuse of debt-based products of IFIs, which is also being contended by Al-Amine (2015) that the problems not on debt-based contracts as it is permissible by sharia if it

is not excessive and for primary needs, but rather than on how equity-based financing should be further innovated. The equity-based products, though it has positive impacts on economic growth (Masrizal & Trianto, 2022), also contain uncertainty and high risk that the firms mostly avoid, and its uncertainty could lead to gharar; thus, there is a need for innovations (Al-Amine, 2015; Miah & Suzuki, 2020). Innovations that could be made corresponding to Al-Amine (2015) could be in the form of venture capital, private equity, asset management, etc. On the other hand, Bacha (2022) adds that venture capital can be illustrated by having risk-sharing instruments by linking it to sukuk and keeping it anchored in real sector returns, which will lead to reducing moral hazard and better resource allocation.

In addition, to facilitate the creation of equity-based or impact-driven products, IFIs must address practical internal obstacles, including those related to human resources, IT systems, and risk management tools ((Tafri et al., 2011). Ethical marketing techniques should be prioritized to guarantee that product offerings are openly disclosed and consistent with Islamic principles (Aman, 2020).

Most importantly, from the previous discourses addressing to the product development process in IFIs which needs a complex and comprehensive approach, could not be borne by IFIs alone but it needs collaboration among global actors. The aims of bringing social impacts and welfare also need a collaboration of other parties within the scope of the Islamic Economy. Other sectors that could also be included in the collaboration of product development for IFIs such as the integration of social finance, halal industry, fintech, inclusive standardization, ESG, etc, which are aligned in recent reports (DinarStandard, 2021; S & P, 2021) revealing those potential accelerators are expanding onwards. The reason why it needs collaboration is also due to the need for product development in IFIs, not only on the products that need to be innovated but also on the standards and marketing approach of IFIs which should also be concerned (Aman, 2020; Mohammed et al., 2019). Another study by Siswantoro (2022) also demonstrates that the collaboration of Islamic social finance and commercial finance, such as IFIs, would have a greater impact in alleviating poverty in the short or long term, making collaboration one of the keys to impacting economic growth.

Policy and Regulatory Implications for IFIs

This study also led to essential implications for policymakers and regulators. First, the government should establish stable regulations and necessary infrastructure to address the issues in IFIs before proceeding with the development process of IFIs (Rulindo & Rifqi, 2022). Incentives for institutions that pursue maqasid-aligned innovation should be offered, and governments and standard-setting organizations should think about publicly acknowledging tiered categories of IFI products—for instance, differentiating between Shariah-compliant and Shariah-based products.

Furthermore, having a standardized role of Shariah boards across authorities would contribute in minimizing inconsistencies of product approval and ensuring a deeper Sharia involvement within the product lifecycle. The recent global disruptions such as COVID-19 pandemic highlighted the needs of income diversification and product innovation in terms of resiliency. According to studies, IFIs were vulnerable during the pandemic (Akkas & Al Samman, 2022; Fakhry & Nuriyah, 2022). Proactive measures, including promoting equity-based or mixed finance instruments, can lessen these adverse effects (Le et al., 2022).

In summary, this study offers policy insights, describes practical gaps and directions, and provides a comprehensive overview of the academic landscape in IFI product development—all of which may help shape the future of Islamic financial innovation.

CONCLUSION

In conclusion, despite the rapid development and never-ending criticisms around IFIs, replicating conventional counterparts makes the product development process in IFIs essential. After reviewing the literature, this study finds that the discourses of product development in IFIs lie in the innovativeness of IFIs in meeting the global demand, which should be by Sharia principles and also meeting socioeconomic objectives as there have been many criticisms in demanding full-fledged Sharia products in IFIs. However, clarifying to what extent Sharia principles are acceptable and fulfilled in the product development of IFIs is still debatable as it relates to how further IFI products could be developed.

This study identifies that most current practices of IFI products are mainly dominated by debt-based, reverse-engineered products, while few are on equity-based and socially impactful instruments. Although

academics like Ahmed and Dinc's theoretical models offer fundamental direction, institutional limitations and a dearth of empirical support continue to restrict their use. In practice, IFIs must deal with risk management, ethical marketing, and internal capacity, while regulators need to standardize Shariah governance positions and provide tiers for product classifications.

By combining several viewpoints and frameworks on IFI product development and suggesting a more integrated and maqasid-aligned approach, this study adds to the body of literature. According to the review's conclusions, the Islamic economic ecosystem—which includes the halal sector, fintech, social finance, and regulatory agencies—must work together to promote innovation. Future studies should examine the operationalization of such partnerships and how IFI product creation can more effectively satisfy socioeconomic impact and ethical requirements. IFIs' long-term relevance and resilience will depend heavily on their capacity to innovate while maintaining Islamic principles as the sector changes.

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