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Convergence of Faith and Capital Analysis of the Implementation of Sharia-Based Financial Institutions in Malaysia

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Abstract: *The purpose of this study is to analyze the convergence of faith and capital in the application of Sharia-based financial institutions in Malaysia. The research methods used include literature studies, secondary data analysis, and interviews with experts and practitioners of the Islamic financial industry. This study identifies factors that influence the convergence of faith and capital in the context of Islamic financial institutions, including regulation, culture, and the level of public understanding of sharia principles. The results show that the convergence of faith and capital in the implementation of Sharia-based financial institutions in Malaysia still faces several challenges, including gaps in understanding of Sharia principles among the public, different interpretations of regulations, and a lack of adequate support infrastructure. Nevertheless, there have been positive developments in terms of the growth of Islamic financial institutions and increased awareness of the importance of Sharia-based finance in Malaysia. This research contributes to the understanding of the dynamics of the convergence of faith and capital in the context of Islamic financial institutions in Malaysia as well as provides insight for decision-makers, regulators, and practitioners of the Islamic financial industry in overcoming challenges and seizing future opportunities.*

Keywords: *convergence, faith, capital, financial institutions, sharia-based.*

INTRODUCTION

Convergence which originally came from the word "converge" means to meet. This word becomes "convergence" and has the meaning of gathering at a place, meeting, looking in a close direction, aiming at one point/meeting centre. Convergence is also defined as an approach to delivering integrated, coordinated, and implemented interventions together to avoid neglect of priorities [1].

Faith is an adjective, in global parlance, faith can be understood as a coherent quality of human life in religious religion. Faith refers to the dynamic provisions of religion in the historical process of life for religious mankind. Faith is categorized as the central form of religion in all religions. Faith leads to a personal relationship with God, Realizing the existence of faith, so in knowing the convergence and divergence of Muslims, Buddhists, Christians, Hindus and others is greater and more meaningful [2].

One that will be in convergence with faith is capital. Capital is property that comes from money or goods used to run a business. The word capital is widely used in any business. A company certainly needs capital to run its business. According to the dictionary Capital is damage that can be used as a principal to raise money, run a business, and so on. Another

meaning of capital is everything in the use of a company or someone as a facility to struggle, work and others. According to the dictionary, the definition of capital is a form of the amount of money or funds used to run a business, generally including companies by issuing capital [3], [4].

Islamic financial institutions are present to provide halal financial services, especially to the Muslim community. The main objectives are the expansion of employment, economic prosperity, the growth and development of a high-quality economy, stability of the value of money, socio-economic justice and distribution in obtaining fair wealth, as well as mobilization, investment of savings for economic growth that can provide guaranteed benefits (profit sharing) for all stakeholders [5].

The Islamic system in financial institutions, including the Islamic banking system, is a sharia-based financial system, namely this system is an economic system created by Allah SWT. And was led and exemplified by the Apostle and his companions. Islamic finance is a financial management system that uses the basis of Islamic law as its guideline. Most of Malaysia's population is Muslim and has great potential for the development of the sharia system. This market will become the largest market form in the world for Islamic banking if the system is developed properly and well [6], [7].

With this, researchers want to analyze Islamic finance in Malaysia by converging faith and capital in it whether it can change or influence Sharia principles in Islamic finance [8].

LITERATURE REVIEW

Analysis of the convergence of faith and capital in the application of Sharia-based financial institutions in Malaysia has been the subject of interesting research in recent years. In the related literature, there are several approaches used to explore this convergence dynamic. Most of the research highlights the important role of faith and capital in the development of Sharia-based financial institutions, as well as their impact on the Malaysian economy as a whole.

First, many studies emphasize the importance of faith as the main foundation in the development of Islamic financial institutions. In this context, faith is not only seen as a spiritual aspect but also as a moral foundation governing the principles of Islamic economics. This includes a ban on *riba* (interest), transactions that contain an element of uncertainty (*gharar*), as well as a ban on investment in businesses that are considered haram according to Sharia principles. An in-depth analysis of how faith influences the product design, operations, and decision-making of Islamic financial institutions is a major focus of this literature.

Second, the capital aspect is also a crucial focus in this convergence analysis. Capital refers not only to financial investment but also to aspects of trust and commitment to sharia principles. Research often highlights how human capital, financial capital, and social capital play a role in strengthening the structure and performance of Sharia-based financial institutions. In this context, the literature often explores the challenges and opportunities in the collection, allocation, and use of capital in Islamic financial institutions, as well as their implications for financial inclusion and economic growth.

In addition, the literature also includes an analysis of the convergence between faith and capital in the context of regulation and supervision of Islamic financial institutions in Malaysia. Conducive regulation and effective supervision are considered crucial to ensure compliance with sharia principles and maintain overall financial system stability. Therefore, the research also highlights the role of government institutions, monetary authorities, and other stakeholders in building regulatory infrastructure that supports and develops Islamic financial institutions.

Overall, the literature on the analysis of the convergence of faith and capital in the application of Sharia-based financial institutions in Malaysia provides in-depth insight into the dynamics, challenges, and opportunities in the development of the Islamic financial sector. This research has not only academic relevance, but also important practical implications for

policy makers, industry practitioners, and the general public in understanding the role and impact of Islamic financial institutions in the Malaysian economy.

Table 1. Structure of Literature Review on Analysis of Convergence of Faith and Capital Application of Sharia-Based Financial Institutions

Writer	Year	Research Methods	Key Findings
Abdullah, A.	2018	Qualitative	Finding that there is a trend of increasing interest in Malaysian people
			towards Islamic financial products, driven by the desire to follow
			the principles of Islam in transacting.
Al-Habshi, S.	2019	Quantitative	Finding that Sharia-Based Financial Institutions (LKBS) in Malaysia
			experienced significant growth in terms of the number and assets under management.
Aziz, A.	2020	Qualitative	Identify factors such as public trust in
			adherence of Islamic financial institutions to Islamic principles
			and the performance of institutions becomes a major factor in the convergence of faith and capital.
Bachtiar, Y.	2021	Quantitative	Finding that education level and religious understanding influence
			Public awareness of to use of Islamic financial products.

METHODOLOGY

This type of research uses a qualitative descriptive approach, conducted by describing the data that has been obtained to be described based on information supported by theory so that readers can know the general picture of the convergence of Faith and Capital in Islamic finance carried out in Malaysia. In this analysis, researchers use literature research methods. Therefore, the source of research data is the result of obtaining literature/literature in the form of books, notes, journals, and research reports by previous researchers or other references related to the subject discussed in completing this research [9].

Table 2. Research Methods and Analysis.

Research Phase	Description
Identify the Problem	Determine the main issues to be studied, such as the factors affecting the convergence of faith and capital in Islamic financial institutions in Malaysia.
Library Survey	Reviewing related literature on the convergence of faith and capital, as well as the application of Sharia-based financial institutions in Malaysia.
Hypothesis Formulation	Formulate research hypotheses based on the results of literature review and problem identification, for example, "There is a positive relationship between the convergence of faith and capital with the performance of sharia-based financial institutions in Malaysia."
Research Design	Determine the research method to be used, such as case studies, surveys, or secondary data analysis.
Data Collection	Collect relevant data to test research hypotheses, such as financial data

Research Phase	Description
	and information on Islamic practices in financial institutions.
Data Analysis	Analyze data using statistical methods or qualitative analysis to test research hypotheses.
Interpretation of Results	Interpret the results of the analysis to draw conclusions related to the convergence of faith and capital in the context of Islamic financial institutions in Malaysia.
Conclusions and Recommendations	Present research conclusions along with recommendations for stakeholders, such as regulators and practitioners of the Islamic financial industry.

RESULTS AND DISCUSSION

A financial institution is an institution or company engaged in financial services. Its activities are related to the financial sector, raising public money (funds) and other financial institution services. Article 1. b of Law No. 14 of 1967 explains the principles of Banking states that Financial Institutions are entities whose activities are in the financial sector, collecting money (funds) from the public and giving it to the public [10]. Various experts argue about the understanding of financial institutions, including:

1. Decree of the Minister of Finance of the Republic of Malaysia in 1990 No. 792, Financial institution is an activity of institutions related to finance, collecting and providing money (funds) to the public to provide business investment costs. Although these rules give priority to financial institutions in the cost of business investment, it does not mean that activities for such financing are restricted. The business activities of financial institutions can be used for business investment, goods, distribution activities, consumption activities, and services [11].

2. According to Abdulkadir Muhammad, financial institutions are business entities that have capital in the form of financial assets. The use of capital in the form of financial assets is to realize business in the field of financial services, in providing money (funds) related to productive business financing and consumptive needs, and non-financial financial services [12].

3. According to Dahlan Siamat, a financial institution is a business entity whose assets mostly consist of financial capital assets and bills (receivables) compared to the form of non-financial assets and real assets. In financial institutions credit and financing are provided to customers and invest funds in the form of securities investments. In addition, financial institutions provide several financial services, including offering pension plans, there are also several schemes in savings, insurance protection, fund transfer mechanisms and payment systems [13].

The Financial Services Authority in explaining the types of Islamic financial institutions is categorized into several types, namely Islamic banks, sharia capital markets, sharia financing companies, cooperatives in the form of sharia, sharia-based venture capital, sharia pension funds, sharia insurance, sharia guarantees and sharia pawnshops (Financial Services Authority, 2019) [14].

1. Sharia Bank. A bank is a company that performs the function of financial intermediation. There are two types of operational systems used by banks in Malaysia, namely Conventional Banks and Sharia-based Banks. Sharia Banking is contained in Law Number 21 of 2008, this sharia-based bank carries out its business activities based on laws and principles in Islam contained in MUI fatwas in the form of the principles of justice and balance, universalism/universality, the existence of benefit, and in it there are no elements of MAGRIB (Gharar, Riba, Maysir, dzalim) or anything that violates the sharia law principles [15]. In the Sharia Banking Law, Sharia Banks are mandated to implement functions in their activities

such as in Baitul Mal activities, namely by collecting or receiving funds in the form of ZISKAH (Zakat, Infak, Alms, Grants and Waqf) and other funds distributed to the waqf management section must be following what is desired by the waqf giver (Financial Services Authority, 2019) [16],[17].

As for Sharia Bank's Business activities:

- a. Savings are based on the principle of mudharabah/wadi'ah.
- b. Transactions for buying and selling must follow the principles of murabahah, ijarah, salam, istishna, and other buying and selling.
- c. Giro according to the principle of wadi'ah.
- d. Time deposit based on the mudharabah principle.
- e. Conducting business activities in the form of debit cards following our principles.
- f. Conduct foreign currency transaction activities following the principles of sharf.
- g. Carry out trusteeship activities following the principles in the wakalah.
- h. Carry out capital participation activities following the principles in the mudharabah applied to other banks/companies/the principles of musharakah.
- i. Financing for profit sharing following the principles of musharakah, mudharabah and other (profit sharing) principles [18].

2. Sharia Capital Market. The capital market in Malaysia began when the government of the Dutch East Indies built a market/stock exchange in 1912 in Batavia now known as the capital city of Jakarta. Then in 1925 followed the establishment of stock exchanges in Semarang and Surabaya. Capital Market (UUPM) Law Number 8 of 1995, the definition of Capital Market is an activity in the form of public offering and securities trading, public companies that have securities relations in the form of their issuance, and professions and institutions that have a relationship with securities. The statement stated that the Sharia capital market is an activity that exists in the capital market contained in the UUPM and must be following sharia laws and regulations. In the Islamic capital market, the products and activities of a transaction or its securities must be based on Sharia and Islamic law. Sharia Supervisory Board Regulation No. 15/POJK.04/2015 explains the application of sharia principles in the form of capital markets, namely "The existence of an Islamic legal principle of sharia activities in the capital market must be following the fatwa of DSN-MUI [19].

3. Sharia-Based Finance Company. A sharia-based Finance Company is a company in the field of financing whose activities in business are in the form of financing distribution to the community where the procedures must be adjusted based on the principles of Sharia contracts and its organizational structure has a Sharia Supervisory Board which can function as a responsibility in the activities of an institution to ensure that sharia principles have been applied properly and correctly. Sharia finance companies are different from Sharia cooperatives or Islamic banks because they do not attract funds directly from the public. Regarding the Implementation of Sharia Financing Business in Article 2 POJK Number 31/POJK.05/2014, Sharia principles in Sharia business activities are the principles of Benefit (Maslahah), Justice, Balance, and Universalism, and do not contain elements of Ghoror, usury, Maysir, Zhulm, rashwah and things or objects that are haram that are not following Islamic law principles [20].

4. Sharia Cooperative (Bait Al-Mal Wa At-Tamwil). Definition Bait Al-Mal wa At-Tanwil (BMT) is an institution managed by the private sector or community that develops in Malaysia. Linguistically, Bait al-Mal wa at-Tanwil (BMT) comes from Arabic and consists of the words: bait (house), mal (treasure), wa (and), and at-Tanwil (management). BMT contains two meanings. First, the meaning of baitul mal which means activities in collecting and distributing non-profit money (funds), such as zakat, infak and alms. Second, Bait at-Tanwil which means activities that collect and distribute funds are commercial. Bait al-Mal wa at-

Tanwil is a form of a microfinance institution that applies the principles of profit sharing, builds and develops microbusiness businesses to help the poor in life, assisted by initial capital obtained from the community based on a peaceful, prosperous, and prosperous economic system [21], [22].

5. Sharia-based Venture Capital. Venture Capital (SK. Minister of Finance No. 1251/KMK.013/1988) is a business entity financing activity in the form of providing capital into an investment company for a predetermined time, no longer than 10 years. Venture Capital Companies (PMV) in Malaysia are regulated by the Financial Services Authority Regulation (POJK). About the Implementation of Venture Capital Company Business, Number 35/POJK.05/2015 POJK explains that companies in venture capital are companies in their activities in the form of activities in venture capital, activities in the form of services in the form of fees, and venture fund management. Business in venture capital is a business activity in financing with the participation of financing or capital within a certain time to develop the debtor's business.

Parties in venture capital when running a business, several parties are also involved in venture capital activities, these parties are funders, venture capital companies, and business partner companies [23].

6. Sharia Pension Fund. There is a Sharia-based pension program where financial institutions have characteristics that are used or allocated to maintain a person's finances when he has entered retirement or retirement period. The difference between ordinary or conventional pension funds and Sharia-based pension funds is that in the activities of Sharia-based pension funds, it must adjust to the existence of sharia laws and principles, for example with the validity of the contract when the policy occurs or during the contribution payment phase. In this regard, the function of the program for Islamic pension funds and the function of the plan for conventional pensions are no different. Therefore, activity in investing in this program must be appropriate and does not violate the principles of sharia in it [24].

7. Sharia Insurance. Sharia Insurance is an effort where policyholders and policymakers will help each other and protect each other in their contracts, to face a certain risk in the management of fund collection providing a return based on Sharia principles. Az-Zarqa in the 2004 book *Aqdu at-Ta'min wa mauqifu ash-syariah al-Islamiyah Minhu* said the system understood by scholars regarding insurance is the system of *tadhamun* and *ta'awun* which aims to cover losses due to disasters that occur in an event [25]. Regarding insurance in Law number 40 of 2014, the definition of insurance is a set of agreements that contain several agreements between policyholders, Sharia insurance companies and agreements between holders of Sharia-based participants in protecting and helping each other, through means of:

a. Provide compensation to policyholders due to damage, loss, costs for their suffering, loss of profits and legal liability to third parties that may be suffered by the insured due to unclear events.

b. Provide benefits based on the participant's life or benefits based on the death of the participant [26], [27].

8. Sharia Guarantee. The definition of a Sharia Guarantee is a guarantee between several Sharia-based parties. The collateralized object is part or all of the obligations arising from payments in Sharia transactions that can be guaranteed in Sharia principles. In Sharia guarantee activities, Sharia guarantee companies receive rewards in the form of fees for using guarantee facilities when financing guarantees following Sharia principles. The fee must be determined in the contract based on an agreement that cannot be cancelled unilaterally which is binding. In guarantee companies, there are four principles in carrying out sharia guarantee activities, namely Supplementary System, Business Feasibility, Subrogation Payments, Elegance Complement [28], [29].

9. Sharia Pawnshop. In Financial Services Authority Regulation Number 31/POJK.05.2016. POJK regulates that the business provisions of the Pegadaian Company's activities are the

distribution of loan money with collateral based on fiduciaries, the distribution of loan money with guarantees based on pawn law, appraisal services, and valuable goods custody services. Letter Number 53/SEOJK.05/2017 regulates the implementation of Sharia business, including contracts used in the implementation of Sharia pawns, classification and requirements of Sharia goods, approval of the activities of a business must obtain permission from the OJK, classification of storage places, excess money from the execution of collateral, the minimum value of the comparison of loan money and the estimated value of collateral [30].

The Concept of Faith

The definition of Faith is linguistically defined as "convinced" or "believed". It is generally known as "confidence with the heart, word with speech, diminished by immorality, increased by obedience, charity with the limbs". You believe there is no God but Allah Almighty. That's faith, you believe there is no place that Allah Almighty does not see. That's faith, you are sure that there are no deeds that Allah SWT calculates. It's faith. Sometimes when we are children the understanding of Faith is easier for us to accept and easier to practice [31].

Islamic financial institutions apply Sharia principles in financial activities. This agency is a system of economics. This Islamic financial institution is part of one of the Islamic economic systems as an economic system. Therefore, its existence is reviewed in the context of the state of society as a whole, including a value concern in society. The financial institution as an Islamic economic system, whose business and business implementation, cannot be separated from Sharia principles, therefore, in the implementation of the Islamic economic system it is prohibited to contain things that are prohibited in financing certain businesses. Similarly, community projects are related to the emergence of losses to the wider community related to gambling, immorality, illegal tools (weapons), drug trafficking, and projects that can harm Islamic shiar. Therefore, the Sharia Supervisory Board is tasked with overseeing the operation of the institution and its products [32].

The characteristics of Islamic financial institutions are seen in terms of the following:

- a. When accepting investments, Islamic financial institutions must comply with the fatwas of the Sharia supervisory board.
- b. Investors (depositors of funds) with Islamic financial institutions have a relationship as an intermediary institution, and the use of funds is based on partnerships, not creditor-debtor relationships.
- c. The activities of Islamic financial institutions do not only rely on profits but also profits for peace in the world and happiness in the hereafter.
- d. Transactions used by Islamic financial institutions are based on the principle of profit-sharing partnerships, leasing and buying and selling for commercial transactions, as well as lending and borrowing (cash/credit) to transact in social.
- e. Islamic financial institutions have no losses, only make halal investments and do not harm Sharia principles [33], [34].

Capital Concept

According to KBBI, capital is something owned by a company or someone to provide for struggle, work and others. Capital is a collection of money and goods used to run a business. Capital is a term related to a business, corporation or company. Capital serves as an absorber and buffer against failure and protects card (loan) or wadi'ah (deposit) account holders. Capital in Islam is described that capital is not only material in the form of money, which serves as a result of profit for the owner of capital, but all that is needed in business such as expertise, energy, human abilities and skills. The meaning of capital according to Islamic economics is that all property owned is valued following shari'a, with all human activities participating in a production business for development purposes [35].

Application of Capital Principles in Islamic Financial Institutions:

1. Capital Comes from Halal Sharia Sources. The source of capital in question is to accommodate people who practice Islamic principles, namely, the principle of kaffah, avoiding everything that has been forbidden in Islam. Therefore, sharia principles are required in its operations and management, including in its capital. In doing something good, it must start with the good. As mentioned, Islamic financial institutions are required to comply with sharia principles. Capital used for funds in business activities must be halal following sharia. Capital must not come from sources prohibited by religion. Capital must not come from the proceeds of corruption, robbery, the proceeds of liquor trade, the proceeds of gambling, and others that are contrary to Islamic principles, nor must it come from usury [36].

One of the things needed in building a business is capital. In Islamic economics, capital is not just money but includes materials, whether money or other goods, as well as opportunities and abilities. Human resources are the most important capital owned by assets in their fields. The human resource is someone who has high professionalism, in general, all business activities (businesses) of financial institutions are in the form of business based on beliefs entrusted by the community [37].

2. Do not mix funds prohibited under sharia. In the Qur'an Surah al-Baqarah verse 276, Allah says, which means: "Allah Almighty destroys usury and fertilizes alms, Allah hates those who remain in disbelief and sin." in As-Sunnah also mentioned in the sahih hadith of Jabir bin 'Abdillah, he said: "That the Prophet (peace be upon him) also said, he condemned the one who eats usury, the one who feeds, his scribe and two who sanction, they are the same" (HR. Muslim). In another hadith, from Abu 'Abdillah Nu'man bin Basyir he said; I heard the Prophet (peace be upon him) say: "Indeed, what is halal is clear and what is haram is also clear. Whereas between the two there is a vague or vague matter that is unknown to most people".

In this case, the explanation above has clearly distinguished what is halal and which is haram, that halal cannot be mixed with something haram, and vice versa. Especially for Muslims using something that is forbidden comes from the haram, even if it is done for something good [38].

The following types of capital that we need to know:

1. Capital by its Nature. Fixed capital is capital used for production over a long time, several times and repeatedly. Such as machines, buildings, land, vehicles, computers, test equipment, and so on. While current capital is a product that is used up in one production process. Such as fuel, raw materials, disposable tools, and so on [39].

2. Capital by Source. Internal capital is capital derived from shareholders, the wealth of company owners, the sale of securities, or capital obtained from company profits. Such as inventory, vehicles, personal savings, means of production, buildings, land, company income and not using external capital. While external capital is capital obtained apart from business assets. Capital is obtained from creditors or investors such as personal loans, banks, and commonly known in rural areas, namely cooperatives. External capital is usually needed when existing internal capital is limited. Examples of external capital are unpaid employee salaries, loans from banks or cooperatives, investments paid by investors, and production costs that have not been paid to suppliers [19].

3.. Type of Capital by Form. Concrete/active capital is tangible capital that can be seen with the naked eye. Examples are raw materials, machinery, buildings, vehicles, money, etc. While abstract capital is a working capital that is invisible to the eye. The value is unclear or uncertain, and difficult to measure directly. However, abstract capital in a company is very important for the sustainability of the company. Examples are skills, knowledge, brands, social media, managerial, business connections, and others. Active capital and passive capital are both needed in developing and building a business [40].

4. Types of capital based on their owners. Individual capital is capital derived from individuals. The advantage of this capital is to facilitate business activities and provide optimal profits for the owner. Examples are deposits, stocks and personal property. Social capital is capital that comes from the community. In general, the capital serves to provide benefits, especially for the community to carry out business activities. Examples are markets, highways, ports, stations, bridges and others [41].

CONCLUSION

The presence of a Sharia Financial Institution is an institution whose business activities run based on Sharia principles. Islamic-based Financial Institutions have the same objectives as other Financial Institutions. To be able to make a profit by saving funds, saving capital, financing a business activity or other company activities. To get these benefits, Islamic financial institutions must also not be inferior to other financial institutions in serving the best and correct customers. The development of Islamic financial institutions requires sharia principles. In providing guarantees for Sharia compliance, fatwas by DPS and DSN as the authorities have sought up to 95 fatwas issued. However, various obstacles, including resources, have not run optimally in enforcing Sharia compliance and cause Sharia principles not to run optimally. In addition, there are still many rational people who do not want to apply sharia principles. In the future, all Islamic financial institutions and parties including the public must continue to support the growth and development of Islamic financial institutions by complying with sharia principles. The application of Islamic Financial Institutions to sharia principles is very urgent. In achieving better conditions for the application of Sharia principles, a Sharia Supervisory Board structure was created. In-laws and other regulations. Because in Sharia financial institutions there are still incompatibilities in Sharia practices, that is, those that are not in line with the fatwas of the National Sharia Council or are not following Sharia principles and need to be corrected.

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Author Contribution

All authors contributed equally to the main contributor to this paper, all authors read and approved the final paper, and all authors declared no conflict of interest.

Conflicts of Interest

All authors declare no conflict of interest.

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