

## **Value-Based Intermediation in Islamic Finance in Malaysia: An Overview on Strategy, Issues and Challenges**

**Saidatolakma Mohd Yunus<sup>1\*</sup>, Fitra Rizal<sup>2</sup>**

<sup>1</sup> International Islamic University Malaysia, Malaysia

<sup>2</sup> UIN Kiai Ageng Muhammad Besari Ponorogo, Indonesia

E-mail: [akmayunus@iium.edu.my](mailto:akmayunus@iium.edu.my), [fitrarizal@uinponorogo.ac.id](mailto:fitrarizal@uinponorogo.ac.id)

| Article Info                                                                                                                                                                                                                                                                                                                                                                            | Abstract                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Article history:</b><br/>Received October 02, 2025<br/>Revised October 27, 2025<br/>Accepted November 06, 2025</p> <hr/> <p>*Corresponding author email :<br/><a href="mailto:akmayunus@iium.edu.my">akmayunus@iium.edu.my</a></p> <hr/> <p><b>Keywords:</b><br/>Value-Based Intermediation (VBI), Islamic Finance, Maqasid al-Shariah, Sustainable Development Goals (SDGs).</p> | <p><b>Introduction:</b> This study looks into how Value-Based Intermediation (VBI) is framed and implemented in the context of Islamic finance in Malaysia, especially through the efforts of Bank Negara Malaysia (BNM). VBI, which was introduced by BNM in 2017, is an initiative that aims to bring Islamic banking back to its original ethical foundations. It focuses on achieving the higher objectives of Shariah (Maqasid al-Shariah) by promoting practices that generate real, positive impact on the economy, society, and environment without sacrificing financial performance. <b>Research Methods:</b> The research uses qualitative methods, mainly by analysing documents such as the VBI strategy paper and other related guidelines issued by BNM. <b>Results:</b> The study identifies the VBIAF and VBI Scorecard as key instruments that support the integration of value-based principles in Islamic financial institutions. Despite this progress, challenges remain, particularly in shifting the industry's profit-oriented mindset. The findings also confirm that VBI aligns closely with <i>Maqasid al-Shariah</i> and the United Nations Sustainable Development Goals (SDGs). <b>Conclusion:</b> The study highlights VBI's potential to transform Malaysia's Islamic finance landscape toward a more sustainable, value-driven, and impactful system.</p> |
| <p>DOI: 10.21154/etihad.v5i2.12275<br/>Page: 102 - 117</p>                                                                                                                                                                                                                                                                                                                              | <p>Etihad with CC BY license. Copyright © 2025, the author(s)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## INTRODUCTION

Value-Based Intermediation (VBI) is a strategic initiative introduced in Malaysia's Islamic finance industry, aiming to realign banking operations with the overarching objectives of Shariah and sustainable development. Championed by Bank Negara Malaysia (BNM) since 2017, VBI seeks to embed practices, conduct, and offerings that generate positive and sustainable impacts on the economy, society, and environment, without compromising on financial returns ([Surendran, 2017](#)). In principle, VBI encourages Islamic financial institutions (IFIs) to move beyond the narrow focus on profit generation or minimum Shariah compliance. Instead, it calls for a more holistic approach to finance that prioritises value creation in alignment with both Islamic ethical values and contemporary global sustainability frameworks. While the concept bears resemblance to movements such as Environmental, Social, and Governance (ESG), Sustainable and Responsible Investment (SRI), and ethical finance, VBI's distinction lies in its rootedness in Shariah, particularly the values encapsulated in Maqasid al-Shariah ([Surendran, 2017](#)).

The introduction of VBI is closely linked to growing concerns regarding the performance of Islamic banks, which are often criticised for mirroring conventional banking models. Despite operating under the banner of Islamic finance, many institutions have not adequately fulfilled their social mandate. Islamic banking was originally designed to promote equitable wealth distribution and uphold ethical financial conduct, based on principles such as the prohibition of *riba* (usury) and *gharar* (excessive uncertainty). However, according to Mahyuddin & Rosman (2020), in practice, this purpose is often neglected.

Responding to these issues, VBI was conceptualised as a mechanism to bring Islamic finance back to its foundational vision. By leveraging Maqasid al-Shariah as a compass, Islamic banks are expected to demonstrate their commitment to enhancing societal well-being, promoting justice, and ensuring environmental sustainability. As emphasised by the Governor of BNM, Islamic finance must “elevate the fundamentals of Shariah to realise its full promise,” focusing on the dual objectives of preventing harm and maximising benefit in the public interest ([Nor Shamsiah Mohd Yunus, 2018](#)). Moreover, VBI is well-positioned to support the implementation of the United Nations Sustainable Development Goals (SDGs), especially through its emphasis on outcomes that benefit both people and the planet. While studies affirm that VBI is consistent with Shariah principles and reinforces the pursuit of Maqasid al-Shariah by IFIs, it also aligns with the global sustainability agenda ([Khan, 2021](#)). Nevertheless, it is important to recognise that unlike the SDGs, which are human-constructed and subject to change, Maqasid al-Shariah represents divinely revealed, permanent values rooted in Islam. In conclusion, VBI represents a transformative paradigm for Islamic banking, particularly in the Malaysian context. It presents an opportunity to reposition IFIs as agents of balanced and inclusive growth by integrating spiritual, social, environmental, and financial goals.

## RESEARCH METHOD

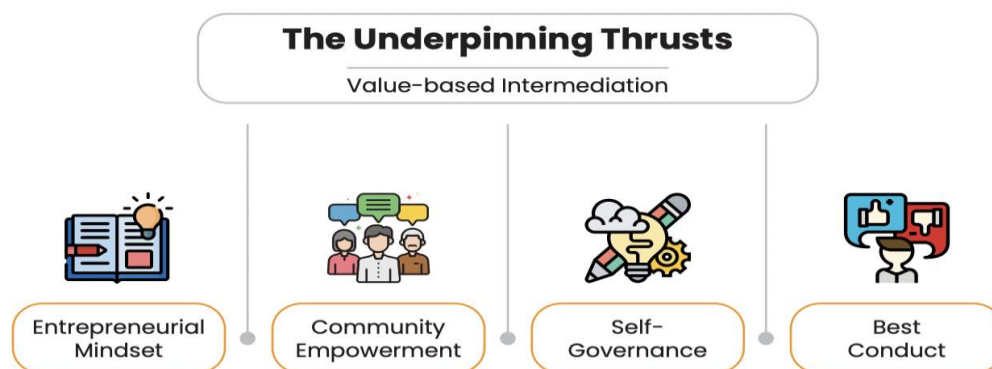
This study adopts a qualitative-descriptive research design using a conceptual and document analysis approach. The purpose of this design is to explore how the Value-Based Intermediation (VBI) framework has been developed and implemented within Malaysia's Islamic finance industry. Rather than testing hypotheses, this study interprets and synthesises secondary data to provide a comprehensive understanding of VBI strategies, issues, and challenges.

The research relies entirely on secondary data sources, including official publications by Bank Negara Malaysia (BNM) such as Value-Based Intermediation: Strengthening the Roles and Impact of Islamic Finance (2017), the VBI Financing and Investment Impact Assessment Framework (VBIAF) (2018), and the VBI Scorecard (2019). In addition, academic works and policy papers related to Value-Based Intermediation, Maqasid al-Shariah, and sustainable finance are reviewed to enrich the analysis (Laldin & Furqani, 2018; Khan, 2021).

Data collection is carried out through document analysis, which involves systematically identifying and interpreting key regulatory documents, institutional reports, and scholarly sources related to VBI. Each document is evaluated for authenticity, credibility, and relevance. The collected materials are then analysed using content analysis to identify recurring themes—such as strategic goals, challenges, and policy implications—and comparative analysis to contrast Malaysia's VBI approach with other global sustainability initiatives like ESG and SRI. To ensure the validity of findings, source triangulation is applied by cross-referencing data from regulatory, institutional, and academic materials. The overall aim of this methodological approach is to provide a clear conceptual understanding of VBI's contribution to developing a more value-driven and sustainable Islamic finance system, while identifying practical and policy implications for its broader implementation.

## RESULTS AND DISCUSSION

### Guiding Principles and Maqasid al-Shariah in VBI Framework



Source: Salihin, 2021

At the core of the VBI framework are a set of guiding principles and values that drive Islamic banks toward holistic outcomes. BNM's VBI Strategy Paper (2017) defined four *underpinning thrusts* of the VBI framework to guide Islamic banking institutions (EtkiYap, 2022; Salihin, 2021). These four key thrusts provide a foundational structure for VBI implementation.

The first is entrepreneurial mindset which emphasizes proactive value creation through entrepreneurship and innovation. Islamic banks are encouraged to facilitate entrepreneurship by providing not just financing but also advisory support and risk-sharing solutions. This mindset entails being initiative-driven, creative and willing to take calculated risks in order to empower businesses and economic activities (Ismail, Hameed, Suhaimi, Jamaludin, & Shahimi, 2020).

Secondly, is community empowerment which focuses on uplifting communities and contributing to social well-being. Under VBI, Islamic banks strive to provide inclusive financial services that support underserved segments (e.g. B40 low-income groups, small entrepreneurs), community development programs, and charitable or waqf-linked initiatives. The goal is to strengthen social equity and enrich the community, reflecting the maqasid imperative of preserving life and welfare. For example, VBI-oriented banks have introduced products like microfinance for low-income households and tailored solutions for women entrepreneurs and SMEs, thereby broadening financial inclusion and shared prosperity as highlighted by the Assistant Governor of the Central Banks Malaysia (Adnan Zaylani Mohamad Zahid, 2019).

Thirdly is good self-governance which stresses internal governance, integrity and accountability within Islamic financial institutions. This thrust ensures that banks uphold the highest ethical standards and robust Shariah governance in their operations. Good self-governance means transparent disclosure, strong risk management that considers social/environmental risks, and a culture of accountability to all stakeholders (not just shareholders) (Salihin, 2021). In essence, it is about Islamic banks "living the values" internally, aligning corporate culture with VBI ideals such as honesty (*amanah*), justice (*'adl*), and public interest (*maslahah*).

Lastly is best conduct which highlights the importance of fair, responsible, and transparent dealings with customers and the public. Islamic banks under VBI are expected to practice *ihsan* (excellence) in service, ensuring fairness in pricing, avoiding harmful products (like excessive debt), and marketing ethically. Best conduct also extends to responsible stewardship of the environment in financing decisions and internal operations. This principle ties back to the *akhlaq* (ethical behavior) promoted in Islam, and ensures that the bank's conduct generates trust and positive impact.

These guiding thrusts are directly linked to the objectives of Shariah (*Maqasid al-Shariah*). They collectively aim to realize *maslahah* (benefit) and prevent *mafsadah* (harm) through finance. For instance, maximising entrepreneurship and community well-being corresponds to protecting and enhancing life and wealth (two of the Maqasid), while strong governance and ethical conduct correspond to preserving faith (through honest, Shariah-

compliant behavior) and intellect (through transparent, informed decision-making) (Adnan Zaylani Mohamad Zahid, 2019). BNM explicitly notes that VBI “*emphasizes value creation and value-based businesses that reflect the true essence of Islamic finance*,” which in practice means focusing on outcomes like socio-economic development, environmental sustainability, and equitable growth in line with Maqasid al-Shariah (Salihin, 2021).

Another key aspect of the VBI framework is its performance orientation. Rather than measuring success solely by financial metrics, VBI calls for evaluating the *impact* of Islamic banking activities. In fact, BNM pointed out that the outcomes aspired by VBI in terms of people, planet and prosperity, closely mirror global sustainability frameworks. What differentiates VBI is that these outcomes are pursued *through the lens of Shariah*. As the central bank articulated, with VBI, practitioners must consider the impact of their actions not only on financial consumers, but on a wider range of stakeholders (Surendran, 2017). This stakeholder-oriented approach is deeply rooted in Islamic ethics of social justice and compassion. The VBI framework thus operationalizes Maqasid al-Shariah by ensuring that every financial product or practice is assessed for its contribution to societal good and avoidance of harm. In summary, the VBI framework provides Islamic banks with a clear set of principles those are entrepreneurial mindset, community empowerment, good governance, and best conduct. All anchored in Maqasid al-Shariah, to reshape their business models for sustainable and inclusive impact.

### **The benefits of VBI towards Financial Institutions, regulator and government**

Value-Based Intermediation (VBI) benefits financial institutions by driving innovation, efficiency, and the development of effective ecosystems. Through an impact-driven mindset, institutions are able to create new market opportunities by offering innovative financial solutions that address the needs of underserved and unserved communities, such as affordable home financing. This not only expands their market reach but also strengthens their role as enablers of socio-economic development. At the same time, VBI promotes efficiency by encouraging institutions to adapt existing practices in order to enhance impact and productivity. This includes optimizing the use of resources, employees, and business partners, ensuring that financial institutions remain competitive and sustainable in the long run. By embedding such practices, banks can align their business objectives with the broader goals of society, making their operations more relevant and impactful.

In addition, VBI fosters the creation of an effective ecosystem by enhancing skills, improving supply chains, and supporting institutional development that addresses the common challenges faced by communities and stakeholders. This results in stronger, more resilient partnerships that lead to long-term business success. For instance, Bank Islam’s *Al-Waqf Home Financing-i* enabled the construction of residential and commercial properties to address housing needs, while CIMB’s *Journey Mapping Tool* improved customer experience by re-engineering business processes and reducing waiting times. Similarly, Agrobank’s *Program Rakan Ladang BERNAS* helped farmers increase productivity and living standards through financing and technical support (BNM, 2017). These examples highlight

how VBI not only benefits communities but also enhances the branding, reputation, and credibility of Islamic banking institutions over time, reinforcing their position as socially responsible and sustainable financial intermediaries.

|                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Bank Islam Malaysia Berhad:<br/>Affordable Housing<br/>Development</b>                                                                                                                                                                                                                                                                                             | <b>CIMB Group Holdings<br/>Berhad:<br/>Journey Mapping (CJM) Tool</b>                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Agrobank:<br/>Program Rakan Ladang<br/>BERNAS</b>                                                                                                                                                                                                                                                                                                           |
| <p><i>Al-Waqf Home Financing-i</i> by Bank Islam resulted in the construction of 76 residential and 9 commercial lots on a 9-acre plot in Penang. This project (RM24 mil) was in partnership with Jabatan Agama Islam Pulau Pinang and a property development company.</p> <p><i>Source: Sustainability Report 2016 of BIMB Holding Berhad, Upholding Values.</i></p> | <p>It is a structured process to analyse a customer's step by step journey in using CIMB's products and services. CIMB Group conducted 10 CJMs which resulted in 14 business process re-engineering projects and lesser customer's waiting time.</p> <p><i>Source: <a href="https://www.cimb.com/content/dam/cimbgroup/pdf-files/annual-reports/corporate-report-300317.pdf">https://www.cimb.com/content/dam/cimbgroup/pdf-files/annual-reports/corporate-report-300317.pdf</a></i></p> | <p>Agrobank, in collaboration with BERNAS launched an initiative to improve productivity of paddy and farmers' standards of living. Agrobank provides working capital (RM50 mil) to farmers while BERNAS provides free technical consultation.</p> <p><i>Source: Agrobank allocates RM50mil for PRL BERNAS next year, Berita Harian Online, 7 Dec 2016</i></p> |

Source: BNM (2017)-Examples of how VBI benefits financial Institutions.

As for the regulator and government, VBI allows for better realignment of business focus with the national agenda, which ensures that financing flows into sectors that are most needed for socio-economic development (BNM, 2017). For regulators, this means that the financial sector can support policy directions such as the SME Masterplan, the 11th Malaysia Plan, the Economic Transformation Programme, and the UN Sustainable Development Goals. Such alignment results in the optimal allocation of resources to targeted sectors, such as small and medium enterprises (SMEs), green technology, and sustainable development initiatives. This helps the government in achieving its broader policy goals while ensuring that financial practices contribute positively to long-term national growth.

Secondly, VBI promotes greater integration and effective collaboration across financial institutions, government bodies, and other stakeholders to achieve shared objectives. This enhances policy implementation and strengthens the resilience of the Islamic banking industry. From a regulatory perspective, a stronger and more sustainability-focused banking sector contributes to greater financial stability and inclusiveness. In particular, sustainability-focused banks (SFBs) tend to generate more stable profitability and inclusive growth compared to global systemically important financial institutions (G-SIFIs). This outcome not only supports regulatory objectives of stability and resilience but also enhances the government's credibility in steering the financial sector toward a model that balances profitability with social and environmental responsibilities.

As for the communities, Value-Based Intermediation (VBI) provides significant benefits to both the community and customers by promoting long-term empowerment and

sustainability. Instead of merely offering short-term financing, VBI helps communities become self-reliant by supporting initiatives such as the establishment of small businesses, which improves productivity and raises the standard of living. At the same time, VBI ensures fair and transparent treatment through ethical business conduct and open channels for feedback or complaints, which builds trust and confidence among customers. Furthermore, its impact-focused approach reduces harmful externalities by discouraging activities that may damage society or the environment, such as pollution or deforestation. As a result, customers and the wider community benefit not only economically but also socially and environmentally, leading to greater overall well-being. Examples of how VBI benefits the community

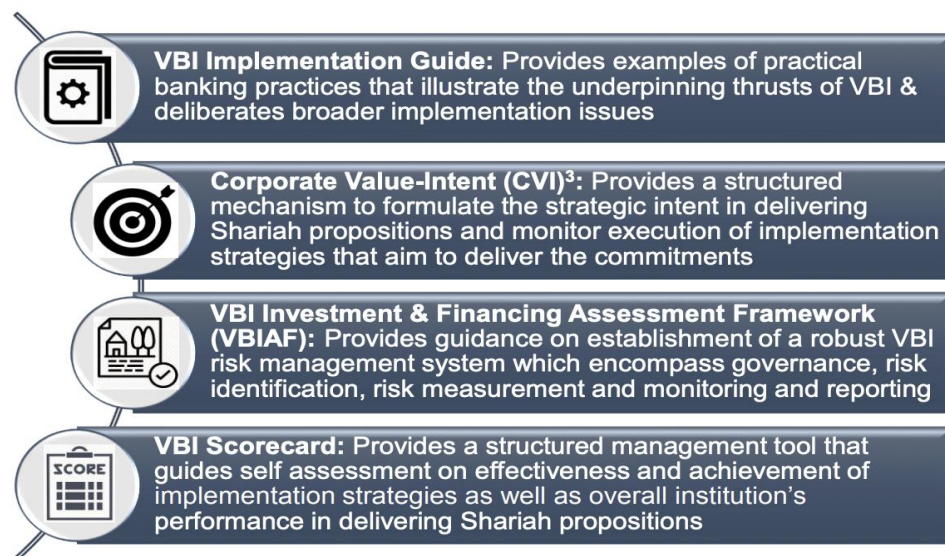
|                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|   <p><b>Agrobank:<br/>AgroBakti</b></p>                                                                                                                                                                       |   <p><b>Vancity:<br/>Social Accountability Report</b></p>                                                                                                                                                                                                                                    |   <p><b>Banco Santander:<br/>Reducing Deforestation</b></p>                                                                                                                                                                             |
| <p>Provides working capital financing for person with disabilities to run their agricultural related business, thereby increases income level and provides jobs for persons with disabilities.</p> <p>Source:<br/><a href="http://www.agrobank.com.my/en/product/agro-bakti-financing-programme/">http://www.agrobank.com.my/en/product/agro-bakti-financing-programme/</a></p> | <p>Vancity has been adopting a triple bottom line approach to its business - measuring financial, social and environmental performance and reporting these results.</p> <p>Source:<br/><a href="https://www.vancity.com/AboutVancity/News/MediaReleases/Archives/MediaArchive2002/Oct15VancitysSocialAccountabilityReport/">https://www.vancity.com/AboutVancity/News/MediaReleases/Archives/MediaArchive2002/Oct15VancitysSocialAccountabilityReport/</a></p> | <p>Banco Santander decided to not renew funding to APRIL, a paper firm, until the company implements measures to ensure safety of the environment.</p> <p>Source:<br/><a href="http://www.greenpeace.org.uk/blog/forests/result-santander-stops-financing-forest-destroyer-april-20150226">http://www.greenpeace.org.uk/blog/forests/result-santander-stops-financing-forest-destroyer-april-20150226</a></p> |

Source: BNM (2017)

### Implementation Strategy by Bank Negara Malaysia

Bank Negara Malaysia (BNM) has played a pivotal role in driving the implementation of VBI across the Islamic finance industry. Recognizing that industry-wide buy-in was essential, BNM adopted a collaborative and phased approach in its strategy. In July 2017, BNM released a consultative Strategy Paper on VBI, titled *“Value-based Intermediation: Strengthening the Roles and Impact of Islamic Finance.”* This paper, developed jointly with Islamic banking players and other stakeholders, set out the definition of VBI and the underpinning thrusts, and proposed an implementation roadmap. The strategy emphasized that BNM would serve as a *facilitator*, creating an enabling environment for Islamic Banking Institutions (IBIs) to adopt VBI practices that yield positive and sustainable impacts to society and the environment, *“without compromising the financial returns to shareholders.”* (BNM, 2017). Importantly, the approach was voluntary and phased where each Islamic bank would determine its own timeline based on readiness, rather than being forced into a one-size implementation (BNM, 2017). This encouraged buy-in and allowed banks to integrate VBI at a practical pace internally, while moving the whole industry gradually towards the VBI vision. Following the strategy paper, BNM in 2018 rolled out three key guidance documents

to translate VBI from concept into practice ([Salihin, 2021](#)). The three guidance documents are illustrated below.



Source: BNM, 2018

Firstly, BNM provided Implementation guide for VBI (2018) that provides practical guidance and examples of *value-based banking practices*, serving as a reference for Islamic financial institutions embarking on VBI ([Salihin, 2021](#)). It outlines phases of implementation (from initiating VBI to full integration) and discusses key implementation challenges along with pragmatic solutions. The guide essentially helps banks internalize VBI, for instance, how to articulate a *Corporate Value Intent* (a statement of the bank's VBI commitment) and realign their governance, product development, risk management, and performance measurement with VBI principles.

Secondly is VBI Financing and Investment Impact Assessment Framework (VBIAF, 2018-2019). The VBIAF is a comprehensive framework to facilitate impact-based risk management in financing and investment decision ([Salihin, 2021](#)). Prepared by BNM in collaboration with industry practitioners, the VBIAF guides banks on assessing not just financial risk-return of a financing, but also the environmental, social and governance impacts. In November 2019, BNM issued the VBIAF as a Guidance Document, providing banks a structured approach to evaluate financing applications and investment opportunities in line with VBI commitments ([Adnan Zaylani Mohamad Zahid, 2019](#)). Again, according to [Adnan Zaylani Mohamad Zahid \(2019\)](#), the VBIAF encourages banks to incorporate ESG risk considerations into their risk management systems, effectively merging conventional risk assessment with impact assessment. To operationalize this further, sector-specific *VBIAF Sectoral Guides* were developed (through 2020–2021) for industries like palm oil, renewable energy, energy efficiency, oil & gas, manufacturing, and construction. These guides offer step-by-step methodologies for evaluating projects in those sectors, aligning with Malaysia's Climate Change and Principle-based Taxonomy (CCPT) and ensuring that *climate and sustainability risks* are systematically considered by Islamic banks.

Thirdly is VBI Scorecard (2018, consultative) which was introduced as a tool to measure and monitor the performance of Islamic banks in implementing VBI. The consultative document on the VBI Scorecard provides an overview of its purpose, key components of assessment, and a proposed measurement methodology (Salihin, 2021). Essentially, the scorecard is a structured management tool that sets out metrics and KPIs through which a bank can self-assess and report how well it is delivering on VBI objectives. BNM's intention was for the scorecard to serve as a *common yardstick* across the industry, complementing existing financial metrics with value-based metrics. By tracking these measures annually, banks can be more accountable for tangible outcomes of their VBI initiatives. As of 2021, the scorecard remained a voluntary disclosure tool, with Islamic banks beginning to publish VBI related performance information in annual reports and sustainability reports (EtkiYap, 2022).

Parallel to issuing these frameworks, BNM fostered active industry engagement and a community of practice. In 2017, the VBI Community of Practitioners (CoP) was established, initially comprising 9 Islamic banks committed to piloting VBI. The CoP serves as a collaborative platform for banks to share experiences, identify challenges, and coordinate industry-wide initiatives for VBI. By October 2021, the CoP had expanded to 15 member banks (covering 58% of Islamic banks in Malaysia). The CoP has mandates to spur collective action for example, identifying impediments to VBI, driving knowledge exchange, expanding expertise, and developing shared tools. BNM's role in the CoP is that of a catalyst and facilitator. It nurtures "*potential champions or leaders to showcase success stories,*" encourages greater disclosure of VBI strategies and KPIs, and promotes strategic collaborations with external partners and value-based communities (EtkiYap, 2022). This engagement with industry players, including direct involvement of several bank CEOs in crafting the initiative, has been critical in securing leadership buy-in and commitment (Ismail, Hameed, Suhaimi, Jamaludin, & Shahimi, 2020).

Moreover, BNM has worked in tandem with other stakeholders to embed VBI within the broader financial ecosystem. The central bank co-chairs (with the Securities Commission) a Joint Committee on Climate Change (JC3), which includes members from VBI CoP banks, to harmonize climate and sustainable finance efforts across the banking and capital markets. BNM's VBI initiative thus complements national agendas such as Malaysia's commitment to the SDGs and the Paris Agreement on climate change (Adnan Zaylani Mohamad Zahid, 2019). For instance, elements of VBI have been mirrored in the *VBI for Takaful* framework (extending the value-based approach to Islamic insurance), and the government's *Shared Prosperity Vision 2030*. Such multi-stakeholder coordination ensures VBI is not siloed within Islamic banking but is part of a concerted movement towards sustainable finance in Malaysia. This strategic approach has positioned Malaysia's Islamic banking sector as a pioneer in embracing "finance beyond profit", making significant strides in re-orienting finance towards positive impact, under the guidance of Islamic values.

### Issues and Challenges in VBI Adoption

Implementing VBI across Islamic financial institutions has not been without significant challenges. While the vision is compelling, the shift to value-based, impact-driven banking requires changes in mindset, culture, knowledge, and systems that cannot occur overnight. One fundamental challenge is transforming the entrenched compliance-driven and conservative culture of Islamic banks. Traditionally, many Islamic banks have focused on ensuring Shariah compliance (avoiding prohibited elements), rather than proactively pursuing socio-economic outcomes. Introducing an *entrepreneurial mindset* and creativity in such environments can be daunting. Bankers and management are accustomed to prioritizing prudence and regulatory compliance, so encouraging innovation and risk-taking (for example, financing untested green technologies or startups for community benefit) often meets internal resistance (Mahyudin & Rosman, 2020). Overcoming this requires not just new policies but a deep mindset shift among bankers to see themselves as agents of positive change, not just financial intermediaries. Achieving buy-in for the VBI philosophy at all levels of the institution from the board and CEO to front-line officers is an ongoing challenge.

Closely related is the challenge of reconciling VBI's broader objectives with the industry's traditional profit-maximization motive. Banking, including Islamic banking has historically been driven by shareholder expectations of financial returns. Aizurra Haidah Abdul Kadir et al. (2024) argue that although Value-Based Intermediation (VBI) is promoted by BNM, it has not been fully accepted by all Islamic banks in Malaysia. The notion of "maximising shareholder wealth" is deeply ingrained as the primary goal of a bank's existence. VBI, in contrast, calls for banks to move beyond profit maximization to creating value for all stakeholders. While VBI does *not* ask banks to forego profits (indeed, financial sustainability is necessary), it does require a shift to a "*triple bottom line*" mindset (people, planet, profit). This shift has proven difficult in practice. A survey of Islamic bankers at the Global Islamic Finance Forum 2018, a year after VBI's launch, revealed that a majority still remain at the profit maximization mind-set, viewing profit as the primary *raison d'être* and fearing that focusing on social or environmental goals might contradict profit goals (Mohamed Miras, 2025). In reality, VBI aims for profitable outcomes that also deliver social good but convincing stakeholders (especially shareholders and senior executives) of the long-term financial *and* reputational benefits of VBI remains a challenge (Tok & Yesuf, 2022). This tension must be managed through clear communication that VBI can enhance sustainability and business resilience for instance, by tapping new markets, improving risk profiles, and strengthening customer trust, as some studies on value-based banks' performance suggest.

Effective adoption of VBI requires new knowledge and skill sets that many Islamic banks are still developing. Bank staff and management need to understand complex issues like environmental sustainability, social impact measurement, and how these intersect with finance. A noted challenge is the lack of sufficient knowledge among Islamic banking personnel about SDGs, climate change, and other sustainability issues (Aizurra Haidah Abdul

Kadir et al., 2024). For example, to design green financing products or assess the environmental impact of a project, bankers must be aware of issues like carbon emissions, renewable energy technologies, or social impact metrics, areas traditionally outside the finance curriculum. There is evidence that many employees are not well-versed in the foundational issues underlying VBI and SDGs (Ahmad Yani Ismail et al., 2020). If, for instance, a credit officer does not personally appreciate why reducing plastic pollution or deforestation is important, they may not fully buy into the need for conditions or covenants promoting such outcomes in financing agreements.

In addition to previously discussed, several notable challenges persist in the implementation of Value-Based Intermediation (VBI) among Islamic financial institutions. One such challenge is the tension between regulatory requirements and market-driven pressures. Given that VBI adoption remains voluntary, institutions that allocate substantial resources toward value-based initiatives such as long-term investments in environmentally sustainable projects may encounter difficulties in maintaining short-term profitability when compared to peers that pursue more conventional, return-oriented strategies (Mahyudin & Rosman, 2020). There is also the question of how to prevent “impact washing”, ensuring that claims of value creation are backed by real outcomes, which hinges on developing robust verification and reporting (a challenge that BNM’s scorecard and VBIAF aim to address) (AIBIM, 2022; Bank Negara Malaysia, 2018; Bank Negara Malaysia, 2019; Talib, Iskandar, & Muda, 2023). Another issue is that, the gradual development of stakeholder trust. Customers, investors, and the wider community may require tangible and sustained evidence of VBI's effectiveness before aligning their preferences with VBI-compliant institutions. As such, Islamic banks must demonstrate long-term commitment and resilience in upholding VBI principles, despite initial setbacks in stakeholder perception and internal cultural resistance.

Table 1: Challenges in Adopting Value-Based Intermediation (VBI)

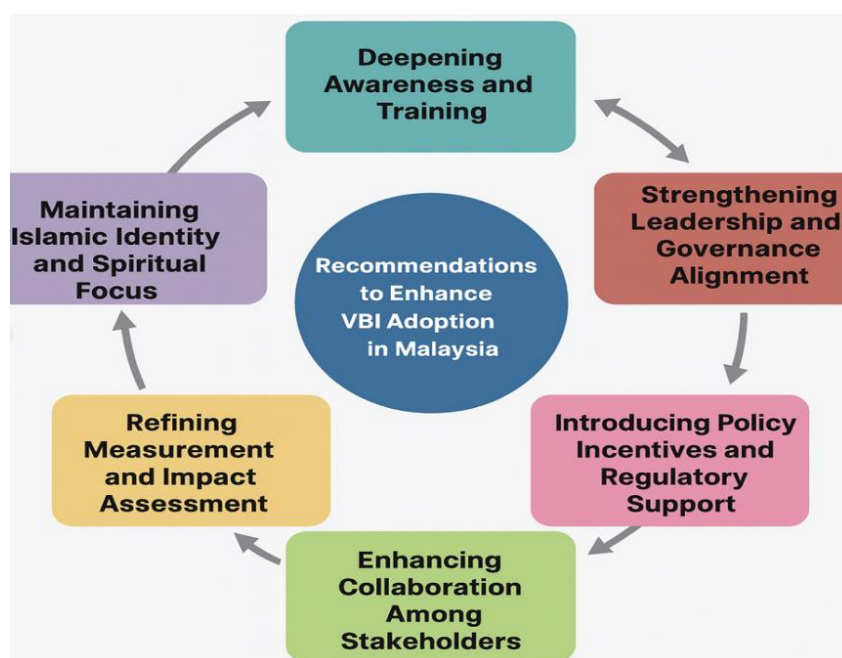
| No. | Challenge                                      | Description                                                                                                                                                                                                                                     |
|-----|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.  | Cultural and Mindset Transformation            | Resistance from a conservative, compliance-driven banking culture where Shariah adherence is seen mainly as avoiding prohibited elements, rather than pursuing socio-economic outcomes. Innovation is often stifled by fear of risk and change. |
| 2.  | Entrenched Profit-Maximization Mentality       | Difficulty in shifting from the conventional profit-first model to a triple bottom line approach (people, planet, profit). Many bankers still view financial return as the primary goal.                                                        |
| 3.  | Lack of Knowledge and Skills on Sustainability | Bankers often lack awareness and understanding of sustainability concepts such as SDGs, climate change, green technologies, etc., which limits effective implementation of                                                                      |

|    |                                                   |                                                                                                                                                                                     |
|----|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    |                                                   | VBI-aligned products and services.                                                                                                                                                  |
| 4. | Tension Between Regulation and Market Competition | Since VBI is not mandatory, institutions that invest in long-term, value-based projects may struggle to remain competitive with peers focusing on short-term financial performance. |
| 5. | Risk of Impact Washing                            | The risk that banks may claim VBI alignment without delivering real social or environmental value due to weak verification and reporting frameworks.                                |
| 6. | Stakeholder Trust Building                        | Customers and investors may remain skeptical or indifferent unless VBI institutions demonstrate consistent and meaningful outcomes. Building trust requires time and transparency.  |

## Recommendations

To enhance the implementation of Value-Based Intermediation (VBI) in Malaysia's Islamic finance sector, collaboration among Shariah scholars, researchers, regulators, and financial institutions is essential. The following key strategies are suggested to overcome existing challenges and promote alignment with Maqasid al-Shariah and national development goals.

Diagram 1: Enhancing the VBI Adoption in Malaysia



### 1. Increase Awareness and Training

There is a need for more education and training on VBI and sustainability at all levels within Islamic financial institutions. Bank Negara Malaysia (BNM) and industry players

should design structured training programmes to teach bank staff the principles of VBI, environmental issues (like climate change and green technology), and social impact assessments. These programmes should also include Maqasid al-Shariah modules in banking education ([AIBIM, 2023](#)). Improving knowledge in these areas will help employees adopt the right mindset and skills to apply VBI effectively in their work.

## 2. Strengthen Leadership and Governance

Strong leadership is crucial for implementing VBI successfully. Senior management and board members must commit to VBI and include it in their bank's governance and strategy. One approach is to publish a Corporate Value Intent (CVI), a document endorsed by the board that outlines specific VBI goals like green financing or social investment ([Bank Negara Malaysia, 2018](#)). Top managers should be evaluated not only based on profit but also on how well they meet VBI goals. Shariah Advisory Councils and Committees should also support this process by framing VBI as part of Islamic obligations through fatwas and religious guidance. Banks should regularly report their VBI activities and social/environmental impacts, either through annual VBI reports or as part of financial disclosures for public transparency. This promotes accountability and continuous improvement.

## 3. Introduce Incentives and Regulatory Support

To promote wider VBI adoption, regulators can offer financial incentives. For example, banks working on green projects or affordable housing could receive government guarantees or preferential financing terms. BNM can also include VBI elements in their bank assessments, or introducing awards for high-performing VBI banks. Furthermore, adjusting regulations such as offering lower risk weights for eco-friendly assets or tax incentives can encourage banks to adopt VBI more confidently. Regulators could also expand VBI beyond Islamic banks to include conventional banks, encouraging a whole-of-industry approach to ethical and sustainable finance.

## 4. Foster Collaboration Among Stakeholders

VBI requires strong engagement with government agencies, NGOs, investors, and the public. Formal dialogues such as roundtables on Islamic finance and SDGs can help banks align their VBI projects with real community needs and gain valuable feedback. Islamic investors and waqf institutions should be encouraged to fund impactful Islamic investments like green sukuk and social bonds. Meanwhile, consumer awareness campaigns can motivate the public to choose VBI-aligned financial products. Within the industry, the Community of Practitioners (CoP) should be empowered to exchange best practices and collaborate on innovative solutions, including partnerships with takaful operators, asset managers, and fintech firms.

## 5. Improve Measurement and Impact Assessment

It is important to measure the success of VBI initiatives. Tools like the VBI Scorecard and VBI Assessment Framework (VBIAF) offer a good foundation. All Islamic banks should adopt standardized VBI performance indicators, coordinated by BNM or AIBIM, to ensure consistency and transparency. An industry-wide VBI report or dashboard can help track metrics like number of SMEs supported, carbon emissions reduced, and zakat disbursed for social causes. These reports can be used to identify gaps and promote peer learning among banks.

## 6. Keep the Islamic Identity and Maqasid Shariah Focus

VBI must remain rooted in its Islamic foundation. All efforts should be linked back to the Maqasid al-Shariah. For example, BNM and Shariah councils can help develop a Maqasid Performance Index to evaluate banks' social and ethical outcomes like reducing poverty or increasing access to education. By aligning VBI goals with Islamic principles, financial institutions can ensure they are not simply following a trend, but are truly reviving the spirit of Islamic finance.

## CONCLUSION

The introduction of Value-Based Intermediation (VBI) by Bank Negara Malaysia marks an important shift in Malaysia's Islamic finance. It aims to bring Islamic banking back to its original goal that is to serve the public good in line with the Maqasid al-Shariah. VBI encourages banks not just to follow Shariah rules in form, but to ensure that their financial activities also bring positive social and environmental impacts while remaining financially sound. However, implementing VBI is not easy. There are still challenges, such as changing profit-focused mindsets, building new skills, and aligning with global sustainability goals. Real progress takes time and effort. For VBI to succeed, all stakeholders, regulators, banks, and the public must work together. Islamic banks must go beyond compliance and truly embed values in their operations. At the same time, customers and regulators should reward banks that take ethical and impactful actions. Encouragingly, some Islamic banks in Malaysia have already started offering green financing, social projects, and transparency reports under VBI. Early results suggest that banks can still do well financially while doing good for society and the environment. It is a movement to bring back the spiritual and social essence of Islamic finance. If all parties remain committed, Malaysia's Islamic banking sector can become a global example of how financial institutions can succeed by balancing profit with purpose. Through VBI, the Islamic finance industry can lead the way in promoting justice, sustainability, and ethical development.

## REFERENCE

- Abdul Kadir, A. H., Syed Alwi, S. F., Abd Halim, F., Mat Nor, N., & Saiful Fikri, A. A. H. (2024). Realisation of *Maqasid Al-Shariah* using Value-Based Intermediation in Islamic banks: Acceptance or refusal. *Management and Accounting Review*, 23(1).
- AIBIM. (2022). *Value-Based Intermediation Report 2022: Emerging to engaging*. Association of Islamic Banking and Financial Institutions Malaysia (AIBIM). <https://aibim.com/value-based-intermediation/VBI-Report-2022.pdf>
- AIBIM. (2023). *Value-Based Intermediation Report 2023: Maqāsid al-Sharī'ah in Islamic banking*. Association of Islamic Banking and Financial Institutions Malaysia (AIBIM).
- Adnan Zaylani Mohamad Zahid. (2019, December 3). *Sustainability and the challenges ahead* [Speech]. IFN Green and Sustainable Finance Forum, Kuala Lumpur, Malaysia. Bank for International Settlements. <https://www.bis.org/review/r191204b.htm#:~:text=create%20greater%20synergy%20in%20development,A>
- Bank Negara Malaysia (BNM). (2017). *Value-Based Intermediation: Strengthening the roles and impact of Islamic finance*. Kuala Lumpur: Bank Negara Malaysia.
- Bank Negara Malaysia (BNM). (2018). *Value-Based Intermediation scorecard: Consultative document*. <https://www.bnm.gov.my/documents/20124/759040/Value-based%2BIntermediation%2BScorecard%2B%28Consultative%2BDocument%29.pdf>
- Bank Negara Malaysia (BNM). (2018). *Bank Negara Malaysia Value-Based Intermediation Scorecard: Consultative document*.
- Bank Negara Malaysia (BNM). (2019, November 1). *Value-Based Intermediation Financing and Investment Impact Assessment Framework: Guidance document (BNM/RH/DP028-8)*. [https://www.bnm.gov.my/documents/20124/761679/VBIAF\\_Final%2Bguidance%2B1.1.2019.pdf?](https://www.bnm.gov.my/documents/20124/761679/VBIAF_Final%2Bguidance%2B1.1.2019.pdf?)
- EtkiYap. (2022, October 14). *Initiative for Islamic banks intermediating beyond profits: Value-Based Intermediation*. <https://www.etkiyap.org/en/initiative-for-islamic-banks-intermediating-beyond-profits-value-based-intermediation/#:~:text=BNM%20issued%20VBI%20Strategy%20Paper,In%202018%2C%20CoP>
- Ismail, A. Y., Hameed, L. B. M., Suhaimi, A. F. M., Jamaludin, N. I., & Shahimi, S. (2020). Value-Based Intermediation and interconnection of Sustainable Development Goals in Islamic banking framework. *International Journal of Islamic Economics and Finance Research*, 3(1), 1–16.
- Khan, F. (2021). Value-Based Intermediation and sustainable finance: The Malaysian experience. *Journal of Islamic Finance*, 10(2), 45–58.
- Khan, M. B. (2021). A study on the need for VBI in Malaysian Islamic financial industry and its Shari'ah perspective. *El-Barka: Journal of Islamic Economics and Business*, 4(2), 134–155.\* [https://www.researchgate.net/publication/362871001\\_A\\_Study\\_on\\_the\\_Need\\_for\\_VBI\\_in\\_Malaysian\\_Islamic\\_Financial\\_Industry\\_and\\_its\\_Shari'ah\\_Perspective](https://www.researchgate.net/publication/362871001_A_Study_on_the_Need_for_VBI_in_Malaysian_Islamic_Financial_Industry_and_its_Shari'ah_Perspective)
- Laldin, M. A., & Furqani, H. (2018). Value-Based Intermediation: An alternative approach to financial intermediation. *ISRA International Journal of Islamic Finance*, 10(2), 158–164.

- Mahyudin, W. A., & Rosman, R. (2020). Value-Based Intermediation and realisation of *Maqasid al-Shariah*: Issues and challenges for Islamic banks in Malaysia. *Advanced International Journal of Banking, Accounting, and Finance*, 2(5), 1–10.\*  
<https://gaexcellence.com/aijbaf/article/view/947#:~:text=The%20expectation%20of%20stakeholders%20towards,in%20deciding%20the%20underlying%20value>
- Mahyudin, W. A., & Rosman, R. (2020). Value-Based Intermediation and realisation of *Maqasid al-Shariah*: Issues and challenges for Islamic banks in Malaysia. *Advanced International Journal of Banking, Accounting, and Finance*, 2(5), 34–44.\*
- Mohamed Miras. (2025, September 11). *Value-Based Intermediation: A framework for ethical Islamic finance*. Global Alliance for Banking on Values.  
<https://www.gabv.org/opinion/value-based-intermediation-a-framework-for-ethical-islamic-finance>
- Nor Shamsiah Mohd Yunus. (2018, October 3). *Value-Based Intermediation – Beyond profit* [Keynote address]. Global Islamic Finance Forum 2018 (GIFF), Kuala Lumpur, Malaysia. Bank Negara Malaysia.
- Salihin. (2021, September). *Value-Based Intermediation (VBI): Should it be mandatory?* Knowledge & Iqra' Series.  
[https://www.salihin.com/dist/SALIHIN\\_VBI\\_Paper\\_for\\_Publication.pdf#:~:text=BNM%20stresses%20that%20Islamic%20banks,in%20turn%20lead%20to%20greater](https://www.salihin.com/dist/SALIHIN_VBI_Paper_for_Publication.pdf#:~:text=BNM%20stresses%20that%20Islamic%20banks,in%20turn%20lead%20to%20greater)
- Surendran, S. (2017, July 20). *BNM releases strategy paper on Value-Based Intermediation for Islamic banks*. *The Edge Markets*. <https://theedgemalaysia.com/article/bnm-releases-strategy-paper-valuebased-intermediation-islamic-banks>
- Talib, S. A., Iskandar, T. M., & Muda, R. (2023). Assessment of value-based principles on Islamic banking practices in Malaysia: An explorative study using banks' disclosure. *Journal of Nusantara Studies (JONUS)*, 8(3), 429–452.
- Tok, E., & Yesuf, A. J. (2022). Embedding value-based principles in the culture of Islamic banks to enhance their sustainability, resilience, and social impact. *Sustainability*, 14(19), 9616.