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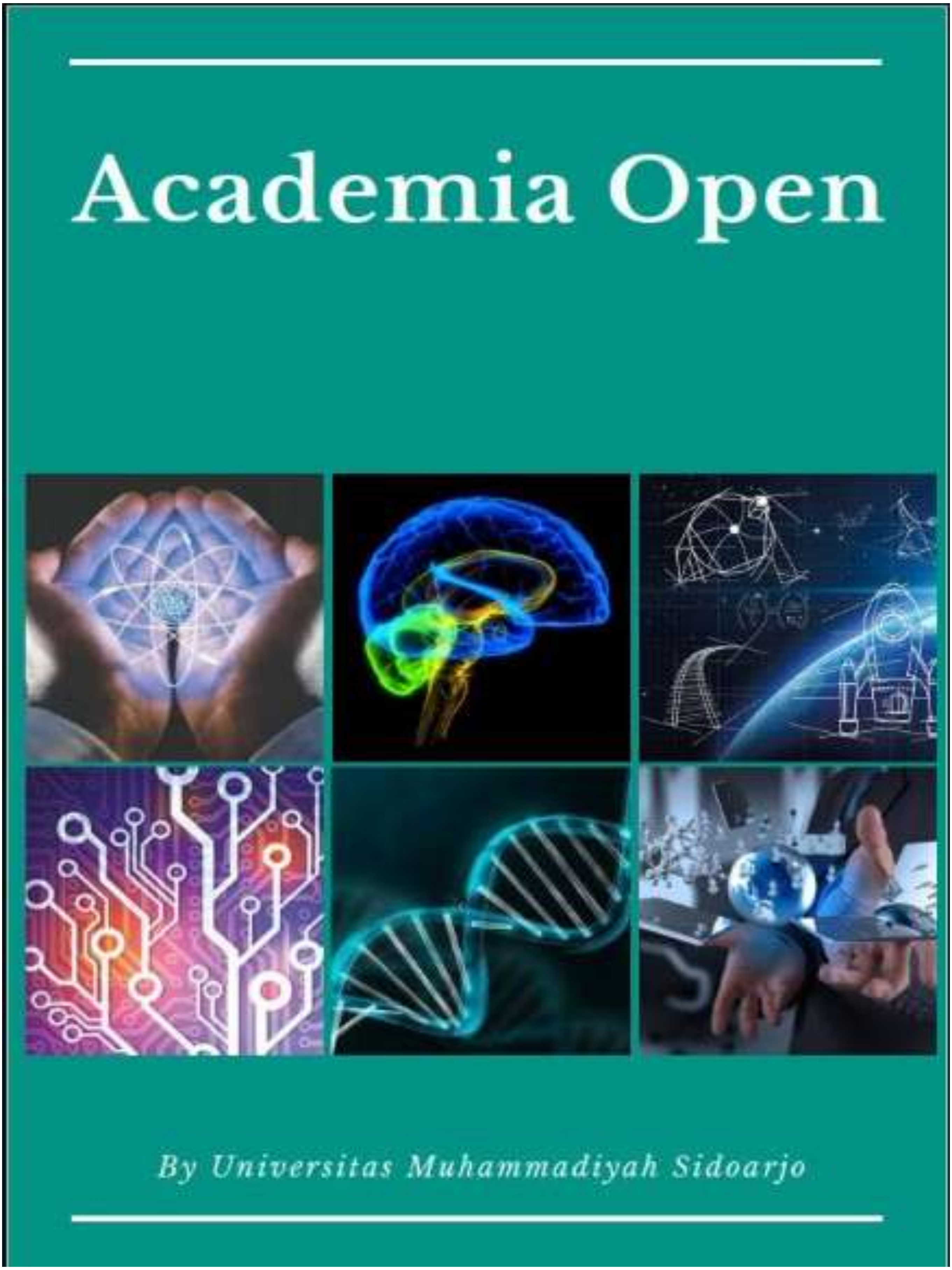

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Governance Risk And Asset-Backed Integrity In Islamic Gold Financing: Risiko Tata Kelola Dan Integritas Berbasis Aset Pembiayaan Emas Syariah

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Abstract

General Background Islamic gold financing products have expanded considerably over the past decade. **Specific Background** However, this rapid growth in Malaysia and Indonesia has been overshadowed by recurrent governance failures causing severe customer losses, alongside similar platform collapses in China. **Knowledge Gap** Current scholarship primarily evaluates the formal contractual validity of these transactions while ignoring whether the financial claims are genuinely supported by physical assets at the operational level. **Aims** This study examines the structural governance risks preventing the realization of maqashid al-Shariah objectives in gold products and proposes the Asset-Backed Integrity framework as a corrective mechanism. **Results** Through a qualitative comparative case study of six institutional failures and reforms, the analysis identifies three universal governance failure patterns across regulatory environments: allocation deficits, self-custody conflicts, and insufficient Shariah Supervisory Board oversight. **Novelty** This research conceptualizes the governance-practice gap and operationalizes the maqashid principle of hifz al-mal into three strictly verifiable institutional pillars encompassing Allocation Integrity, Custodian Integrity, and Delivery Integrity. **Implications** Regulators and Shariah boards must systematically shift their policy focus away from initial ex-ante contract approval toward mandatory and continuous operational verification to ensure customer wealth protection.

Highlights

- Cross-jurisdictional case studies reveal consistent operational failures regarding physical inventory shortages and commingled custody.
- Current Shariah supervisory structures lack the necessary technical mechanisms to continuously verify commodity holdings.
- Continuous operational verification mechanisms successfully enforce wealth protection principles over initial contract certification.

Keywords

Maqashid Al-Shariah; Operational Verification; Shariah Supervisory Board; Commodity Backing; Customer Wealth Protection

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Introduction

Over the past ten years, Malaysia and Indonesia have seen a significant increase in Islamic gold financing products due to the growing demand for wealth protection products that adhere to Shariah. In theory, such expansion ought to be accompanied by strong enough governance systems to protect client assets. In reality, though, the record presents a different picture.

Deep structural flaws in the management of Islamic gold products have been revealed by a string of governance blunders. Crucially, these failures did not arise from flawed contracts. The contracts themselves were generally structured correctly and carried valid Shariah certification. What failed was the operational layer beneath them the actual management of physical assets, custody arrangements, and delivery capacity. This divergence between formal Shariah certification and sustained operational integrity is what this study terms the governance-practice gap.

The record of failures stretching from 2012 to 2025 is instructive. Genneva Malaysia went under in 2012 with losses reaching USD 1.4 billion and more than 35,000 customers left without recourse, despite its murabahah contracts having passed Shariah certification. Quantum Metal Malaysia then spent the period 2023–2025 accumulating delivery backlogs that stretched past 90 days, affecting thousands of investors. Asri and Nordin documented that the company's SSB consultancy agreement had in fact lapsed before the crisis broke, even as Quantum Metal continued to trade on the SSB's name a failure of Shariah governance that went well beyond technical non-compliance. In Indonesia, Zafirota traced substantive Shariah compliance problems in the cicil emas product of PT Pegadaian Syariah Digital, pointing specifically to the absence of personalised gold allocation (ta'yin) from the moment a contract is signed a deficiency that strikes at the heart of both custody integrity and ownership rights. The significance of this finding became impossible to ignore in February 2026, when PT Pegadaian publicly acknowledged an overwhelming surge in physical redemption requests, resulting in lengthy queues and zero stock across all gold denominations. The episode exposed a significant discrepancy between the institution’s declared asset coverage and its actual ability to fulfill obligations. Notably, in each instance, the products had received approval from the Shariah Supervisory Board (SSB) and complied with the formal Shariah standards at the time they were certified.

The key takeaway from these cases is that no matter how sophisticated contract design may be, it alone is insufficient. Islamic gold products also need operational governance mechanisms that continuously verify whether the physical assets backing those contracts truly exist, are held independently, and can be delivered when customers request them. The absence of such mechanisms is the gap this study aims to address.

Bank Negara Malaysia’s Islamic Financial Services Act 2013 already includes a clear asset-backing requirement for Islamic gold products, so the legal foundation is in place. Similarly, in Indonesia, DSN-MUI Fatwa No. 134/2020 mandates that gold must physically exist and be deliverable upon request. However, as demonstrated by the cases mentioned earlier, these requirements are not being effectively enforced at the operational level. The rules exist on paper; what has not existed is a reliable mechanism for verifying, continuously and independently, whether they are being met in practice.

The January 2026 collapse of the JWR Group (JieWoRui) platform in China, which resulted in losses exceeding 10 billion RMB (roughly USD 1.4 billion) and impacting over 22,000 retail investors, is another aspect of this study that is non-Islamic (CNBC Indonesia, 2026). This platform had no SSB, no Shariah certification, and no taqabud requirements at all. However, the failure patterns it generated were essentially the same as those observed in the Islamic finance cases: a lack of independent oversight, self-custody disputes, and almost no physical asset backing. It has important implications. These governance shortcomings do not indicate a peculiar flaw in Islamic finance. They draw attention to a structural problem shared by all financial systems backed by commodities, which is the absence of adequate mechanisms for ongoing operational verification.

In this context, the study proposes the Asset-Backed Integrity (ABI) framework, which applies maqashid principles specifically hifz al-mal (protection of wealth), raf' al-gharar (removal of uncertainty), and maslahah ammah (public interest) into three institutional pillars that can be practically verified: Allocation Integrity, Custodian Integrity, and Delivery Integrity. The practical relevance of this framework is reinforced by its convergence with the standards independently developed by Malaysia's Gold Association Shariah Advisory Council in 2025 and with DSN-MUI Fatwa No. 166/2026, discussed further in the results section.

Research Gap

Scholarship on Islamic gold financing has tended to cluster around three distinct concerns. The first is the fiqh validity of gold transaction structures principally whether contracts such as murabahah adequately address the classical prohibitions on riba and gharar. The second pillar focuses on the governance of the Shariah Supervisory Board within Islamic financial institutions. The third pillar involves applying maqashid al-Shariah as a framework for evaluating outcomes in Islamic finance.

The more fundamental question of whether the financial claims made by Islamic gold products are actually supported by verifiable physical assets at the operational level has not yet been addressed by any of these strategies. If the gold supporting the contract is either nonexistent or cannot be delivered in person, a product may be formally Shariah-compliant in all contractual aspects but still fail to safeguard customer wealth. The main goal of this research is to close this gap.

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This study addresses that gap by constructing the Asset-Backed Integrity (ABI) framework, which operationalises maqashid principles into measurable institutional governance mechanisms designed for use by regulators, Shariah Supervisory Boards, and Islamic financial institutions alike.

Research Questions

Three research questions guide this study: (1) What weaknesses in the design and implementation of Shariah governance create the conditions for divergence between formal Shariah compliance and the substantive realisation of maqashid objectives in Islamic gold products? (2) How do asset-backed integrity failures present themselves across different regulatory environments, even where Shariah certification is in place? (3) What institutional governance mechanisms are needed to ensure a verifiable and ongoing correspondence between financial claims and physical assets in commodity-based Islamic finance?

Contributions of the Study

This study contributes to the literature in four ways:

1. Conceptual contribution. This study introduces the governance-practice gap as an analytical construct that accounts for why Islamic gold products can satisfy every formal Shariah requirement and yet still fail, systematically, to protect customer wealth in practice.

2. Theoretical contribution. The ABI framework brings together fiqh jurisprudence, Shariah governance analysis, and maqashid philosophy into a single operational architecture connecting three strands of literature that have, until now, developed largely in isolation from one another.

3. Empirical Contribution: The first cross-jurisdictional comparison of governance shortcomings in Islamic gold financing is presented in this study. In addition to a non-Islamic comparator case from China, it looks at five cases from Malaysia and Indonesia over a fourteen-year period (2012–2025).

4. Policy Contribution: This study converts maqashid principles into quantifiable governance mechanisms that can be implemented and audited in actual institutional settings by regulators, Shariah Supervisory Boards (SSBs), and Islamic financial institutions.

Literature Review

Islamic Gold Financing: Fiqh and Contractual Structure

Much of the existing literature on Islamic gold financing is preoccupied with the fiqh validity of gold transactions. Kamali establishes the foundational point: gold is a ribawi commodity under Islamic jurisprudence, and its exchange therefore demands immediate delivery in equal quantities to guard against riba and speculative excess. Working from this foundation, contemporary scholars of Islamic finance developed murabahah structures to accommodate instalment gold purchases arrangements in which the financial institution purchases gold on a spot basis and resells it to the customer at a disclosed markup, with payments spread over time.

Ismal turned his attention to the practical application of gold murabahah in Islamic banking and flagged price risk and liquidity risk as the primary vulnerabilities in this product category. His analysis, however, remains within the contractual risk domain and does not probe the more fundamental question of whether institutions actually hold the physical gold needed to honour their obligations. The fiqh and contractual risk literature is thus effective at identifying failure modes within a functioning system, but takes the structural adequacy of that system's foundations its physical asset backing largely for granted.

Khalil examined the practical use of murabahah gold financing in Indonesian Islamic banks and pawnshops, finding the product widely adopted but highlighting that its operational risks particularly delivery capacity are still poorly understood in the literature. Building on this, Maghyereh, Awartani, and Hassan demonstrated that gold serves as a meaningful hedging instrument within Islamic financial portfolios, emphasizing the strategic importance of gold-backed products for Islamic investors.

Shariah Governance and the SSB

A second strand of scholarship focuses on the Shariah Supervisory Board and its function within Islamic financial institutions. Grassa shows that SSB governance arrangements vary considerably across OIC member states in terms of board independence, technical expertise, and the scope of their oversight mandates and that these structural variations produce meaningfully different compliance outcomes. Farook and Farooq add a further dimension to this picture: SSBs are composed predominantly of fiqh scholars, a composition that may leave boards ill-equipped to assess financial risk management, accounting, or the operational logistics that underpin product delivery.

These limitations have tangible consequences. In their detailed analysis of the Quantum Metal case, Asri and Nordin discovered that the company's Shariah Supervisory Board (SSB) consultancy contract had expired, yet the firm continued to portray itself as operating under SSB supervision highlighting a failure of institutional integrity rather than just a technical oversight. Zakir et al. pinpoint Quantum Metal's failures more precisely to inadequate management of the physical gold supply and a total lack of independent custody verification.

Mukhibad and Setiawan provide quantitative evidence supporting this concern, showing that SSB attributes such as board size, member qualifications, and meeting frequency are significantly correlated with risk-taking behavior in Islamic banks. Their findings confirm that the quality of SSB governance has measurable downstream effects on the institutions' risk profiles. Safiullah takes this further by finding that higher educational attainment among SSB members specifically doctoral qualifications is positively associated with funding liquidity in Islamic banks. This result highlights how the composition of the SSB influences operational outcomes beyond mere religious certification. This research is extended by Mukhibad, Setiawan, Aryani, and Falikhatun, who show that diversity characteristics in SSBs, such as cross-institutional membership experience, affect several risk dimensions at once, including credit risk, insolvency risk, and operational risk. In a sharp critique, Ayub, Hassan, and Saba summarize these results and contend that the current Shariah governance model places too much emphasis on product approval up front and pays too little attention to confirming operational compliance once products are on the market. Hassan et al. arrive at a similar conclusion in their systematic review, finding that operational and Shariah compliance risks are still undertheorized within the broader Islamic banking governance literature.

Hassan and Aliyu place these findings within a broader context: their comprehensive survey of Islamic banking literature identifies risk management and governance as some of the field's most persistently contested issues, highlighting that much remains to be understood about how governance structures influence risk outcomes in practice.

What emerges from this body of research is a clear structural imbalance: as currently structured in most jurisdictions, SSB governance is far more effective at approving products during the design phase than at overseeing their operational management over time. This limitation is particularly significant for gold-based products, where Shariah compliance hinges not only on having the correct contract but also on the actual existence of physical gold behind the contract, its custody by an independent party, and the practical ability to deliver it to customers upon request.

Maqashid al-Shariah Frameworks

A third body of research uses maqashid al-Shariah to assess the results of Islamic finance. Auda argues that maqashid al-Shariah should be viewed as a dynamic framework for evaluating whether financial practices actually serve the goals of Islamic law, such as hifz al-mal (wealth protection), raf' al-gharar (removal of uncertainty), and maslahah ammah (public welfare). Laldin and Furqani build on this argument by asserting that the legitimacy of any Islamic financial product cannot be determined solely by its contractual form; instead, it must be assessed based on the actual outcomes the product delivers for customers and society at large.

Al-Shatibi divided the maqashid into three categories: tahsiniyyat (perfective or enhancement-level concerns), Daruriyyat (essential necessities) and hajiyyat (complementary needs), with the protection of wealth being centrally important). Ibn Ashur added economic stability and systemic welfare to Al-Shatibi's framework. This dimension is particularly important for comprehending how institutional governance failures can have wider repercussions than just the immediate victims.

The limitation of this strand, however, is that it operates almost entirely at the normative level. Maqashid-based studies illuminate what Islamic finance should aspire to and why, but they have not yet produced the operational indicators that would allow an SSB or a regulator to determine whether those aspirations are in fact being met in any given institution. Bridging this operationalisation gap is what this study attempts.

Summary of Literature Gaps

The review above points to three compounding gaps in the existing literature. First, fiqh and contract-oriented scholarship focuses on whether product designs are valid in principle, without interrogating whether institutions have the operational capacity to actually honour what those contracts promise. Second, SSB governance research has mapped structural limitations without producing commodity-specific oversight standards for products whose compliance depends on physical asset verification. Third, maqashid frameworks offer normative direction but have not been converted into operational indicators that practitioners can use. This study addresses all three through the ABI framework.

The Asset-Backed Integrity (ABI) Framework

Conceptual Basis

The Asset-Backed Integrity (ABI) framework rests on a straightforward diagnostic: Islamic gold financing has not failed because the underlying Shariah principles are inadequate, but because those principles have not been operationally enforced. The governance-practice gap the space between what a Shariah certificate attests to and what an institution actually does with customers' money is what this framework is designed to close.

DSN-MUI Fatwa No. 134/2020 already articulates the core of what is needed: gold must physically exist, ownership must be unambiguously established, and physical withdrawal must be executable on demand. The problem is not that the principles are absent from the rulebooks they are not. The problem is that the institutional mechanisms for verifying compliance with those principles at the operational level have never been adequately developed. The ABI framework does not replace existing Shariah requirements; it provides the architecture for enforcing them in practice.

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Pillar One: Allocation Integrity

Allocation Integrity gives institutional form to hifz al-mal at the daruriyyat level by requiring verifiable correspondence between customer ownership claims and physical gold assets. Across the cases studied, the same problem keeps showing up: a shortfall between what's actually backing customer holdings and what's been promised. Zafirota's findings showed Genneva had physical gold covering only 10–15% of customer claims, while Quantum Metal fared somewhat better at an estimated 50–70%. Meanwhile, PT Pegadaian Syariah Digital doesn't disclose specific gold bar serial numbers to individual customers, which means there's no real ta'yin (personalized allocation) happening at the point the contract is made. In practice, this leaves customers' ownership rights on genuinely shaky ground.

Four essential components are necessary for Allocation Integrity to function: (1) a minimum 100% publicly disclosed allocation ratio that guarantees each customer claim is matched with specifically allocated physical gold; (2) a digital registry that links each customer account to specific bullion bars by serial number; (3) independent physical audits carried out at least quarterly; and (4) the public release of audit results in a format that is accessible to both customers and regulators.

Pillar Two: Custodian Integrity

Custodian Integrity operationalises the principle of raf' al-gharar at the hajiyyat level, requiring that the entity holding physical gold assets be entirely independent of the selling institution. In all cases examined in this study, governance failures were associated with self-custody arrangements in which the seller simultaneously acted as custodian a structural conflict of interest that allowed internal manipulation to proceed undetected.

Custodian Integrity rests on five operational requirements. First, gold investment products above a certain threshold must go through mandatory third party custody. Second, custodians need to meet professional standards: minimum capital of USD 5 million, full insurance coverage, and ISO 27001 certification. Third, customer assets must be fully segregated from the institution's own balance sheet. Fourth, legal protection through trust structures should safeguard customer assets in case the institution becomes insolvent. Fifth, customers, auditors, and regulators must have verified access to independently confirm that assets exist and are properly segregated.

Pillar Three: Delivery Integrity

Delivery Integrity operationalises maslahah ammah. It requires verified operational capacity to actually deliver physical assets to customers within an acceptable timeframe. The redemption crisis at PT Pegadaian in February 2026 when zero stock was available across all gold denominations, notwithstanding the institution's formal 1:1 asset backing claims and the 90+ day delays at Quantum Metal were not logistics problems. These were symptoms of deeper allocation failures: institutions were unable to deliver because, in practice, they had neither held nor individually allocated the gold their contracts implied they possessed.

Delivery Integrity depends on four operational conditions. First, Service Level Agreements must guarantee physical delivery within seven business days at most, with automatic financial penalties if that deadline is missed. Second, institutions need to run quarterly capacity stress tests proving they can handle monthly redemption volumes of 10 to 30 percent. Third, logistics infrastructure must be properly certified. Fourth, standard operating procedures must be documented and auditable.

Integration of Three Pillars

The three pillars are not meant to be used as stand-alone, selectively adopted measures, but rather as an integrated architecture. Without independent custody, the organization making the allocation could manipulate it internally. Under normal circumstances, independent custody without verified delivery capacity will hold, but when redemption pressure increases, it will collapse. Furthermore, if the underlying allocation ratios are inadequate, delivery capacity cannot be maintained over time. The efficacy of each of the three pillars depends on the other two working together.

The requirements of the ABI framework closely align with the standards independently developed by Malaysia's Gold Association Shariah Advisory Council in 2025 and by DSN-MUI in Fatwa No. 166/2026. This alignment serves as a meaningful validation. Both regulatory bodies developed similar requirements independently through practitioner consultation and regulatory experience, without referencing the ABI framework. This convergence confirms that the ABI pillars reflect genuine structural necessities rather than merely theoretical preferences.

Methods

Research Design

This study employs a qualitative comparative case study design with abductive reasoning. Abductive reasoning, as Dubois and Gadde describe it, is appropriate where the researcher encounters phenomena that sit awkwardly within existing theoretical frameworks and where new constructs need to be developed from the patterns observed in the data. Eisenhardt and Graebner note that case study methodology is particularly well suited to building theory from patterns that cut across multiple empirical instances. Yin adds that case study design is the appropriate choice when research questions are structured around how and why, and when the phenomena under investigation cannot be adequately captured by a limited set of measurable variables.

The abductive process in this study moved through five stages: (1) identifying the anomaly why Shariah-certified gold products could fail catastrophically despite formal compliance; (2) seeking an explanatory account what structural features of the certification process allowed these failures to go undetected; (3) constructing the theoretical concept of the governance-practice gap to name and explain the pattern; (4) subjecting that construct to testing across additional cases; and (5) refining the construct into the actionable governance mechanisms that constitute the ABI framework.

Case Selection

Five documented governance failure cases were chosen through purposive theoretical sampling. Alongside these, one case of institutional reform (Malaysia's MGA SAC 2025) was included, not as another failure case, but as a kind of validation check against the pattern. Cases were selected based on four criteria. First, each had to involve either a documented governance failure in a gold related financial product, or a documented reform response to such a failure. Second, there needed to be enough institutional and regulatory documentation available to support meaningful cross case comparison. Third, for the Islamic finance cases specifically, formal Shariah certification had to be present, so the gap between certification and actual outcomes could be examined directly. Fourth, the cases needed to span different regulatory environments, in order to test whether the findings point to a broader structural pattern or are simply tied to jurisdiction specific conditions.

The cases selected for this study are: Genneva Malaysia (2012), Quantum Metal Malaysia (2023–2025), PT Pegadaian Syariah Digital Indonesia (2025–2026), Malaysia Gold Association Shariah Advisory Council (MGA SAC) governance reform (2025, serving as a validation mechanism), and Jie Wo Rui China (2025) as a non-Islamic comparator. It is important to note that the MGA SAC 2025 case is treated here as confirmatory evidence for the ABI framework rather than as an instance of governance failure.

The inclusion of Jie Wo Rui adheres to the comparative reasoning presented by Ragin: the researcher can differentiate governance mechanisms that are structurally universal from those unique to Islamic finance by looking at a case that operates completely outside of the Islamic institutional framework but displays similar failure patterns. It might have been tempting to blame characteristics specific to Islamic finance if only Islamic gold products had shown these failures. China's evidence, however, disproves that theory.

Data Sources and Analysis

Data were gathered from three source categories. First, regulatory documents, including IFSA 2013, Securities Commission Malaysia enforcement actions against Quantum Metal, DSN-MUI fatwas (No. 77/2010, No. 134/2020, No. 166/2026), and AAOIFI Shariah Standards. Second, academic literature including peer-reviewed studies on Quantum Metal governance and Pegadaian Syariah Digital compliance, as well as IFSB stability reports. Third, institutional reports including the MGA SAC announcement.

Primary data collection was conducted between January and March 2026, focusing on documentation produced or disclosed during that period. This was supplemented by archival materials covering the period 2012–2026. Five iterative phases were used in the analysis process: (1) open coding to catalog specific governance failure incidents across cases, creating a systematic record of instances in which formally certified products failed at the operational level; (2) constant comparison to group incidents into conceptual categories; (3) abductive inference to construct the governance-practice gap as a theoretical concept; (4) cross-case synthesis using the comparison matrices shown in Tables 1-3; and (5) framework validation by treating the MGA SAC reforms, DSN-MUI Fatwa No. 166/2026 and associated standards, using them as natural experiments to evaluate the predictions made by the ABI framework. The study used triangulation across three categories of sources—academic literature, institutional reports, and regulatory documents—to guarantee validity. The likelihood that these errors resulted from overt criminal intent rather than more profound structural flaws in governance was one of the alternative possibilities that the study meticulously ruled out. Additionally, the results were cross-jurisdictional replicated using cases from China, Malaysia, and Indonesia to assess their robustness. The convergent patterns across jurisdictions, and the presence of the same failure mechanisms in the non-Islamic Jie Wo Rui case, provide the strongest evidence against rival explanations rooted in features specific to Islamic finance.

Results and Discussion

Empirical Findings: Three Universal Governance Failure Patterns

Cross-case analysis reveals three governance failure patterns that appear with remarkable consistency across the cases, regardless of regulatory framework, institutional size, or whether Islamic oversight structures were in place. These three patterns are: allocation deficits, self-custody conflicts, and SSB oversight gaps. Table 1 presents the comparative evidence.

Table 1. *Universal Governance Failure Patterns Across Cases*

Case	Regulatory Framework	Allocation Deficit	Self-Custody Conflict	SSB Oversight Gap	Documented Impact
Genneva Malaysia	IFSA 2013, BNM, SSB	Physical gold 10–15% of	Seller = custodian; no	Affiliated advisor; no	USD 1.4 bn; 35,000 victims

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Case	Regulatory Framework	Allocation Deficit	Self-Custody Conflict	SSB Oversight Gap	Documented Impact
(2012)		claims	segregation	operational verification	
Quantum Metal Malaysia (2023–25)	IFSA 2013, SC Malaysia, SSB	Est. 50–70% of claims	Self-custody; asset commingling	Annual audit only; SSB lacked technical expertise	Delays >90 days; thousands affected
PT Pegadaian Syariah Digital, Indonesia (2025–2026)	OJK regulations; DSN-MUI Fatwa No. 77/2010 and No. 92/2014	No ta'yin (personalised gold allocation) at time of akad; serial numbers not disclosed (Zafirota, 2025)	Pegadaian as both seller and custodian; no third-party segregation	SSB approval focused on contract structure; no operational verification of asset personalisation or custody segregation	Ownership uncertainty documented academically (Zafirota, 2025); physical redemption queues and zero stock acknowledged by Pegadaian, Feb 2026
Malaysia MGA SAC (2025)	Voluntary industry standards	Transparent ratio mandated	3rd-party custody mandated	Industry SAC with technical advisors	POSITIVE: voluntary adoption by major operators
Jie Wo Rui China (2025) Non-Islamic Comparator	No Islamic finance framework	Near-zero physical backing	No independent custody	No SSB; no oversight framework	Est. >10 billion RMB (~USD 1.4 bn); 22,000+ retail investors (CNBC Indonesia, 2026)

Source: Regulatory documents, academic literature, and institutional reports (2012–2025).

Table 1 demonstrates that all three failure patterns are present across the Islamic finance cases, ranging from the acute collapse of Genneva in 2012 to the prolonged delivery challenges at Pegadaian in 2025–2026. What lends particular analytical weight to these findings is that the same three patterns also appear in the Jie Wo Rui case in China, a platform operating entirely outside any Islamic finance framework. This convergence suggests that the issues are not specific to Islamic finance but rather indicate a structural weakness common to commodity-backed financial systems lacking adequate operational verification, regardless of the religious or regulatory framework applied.

This finding also confirms that Malaysia's IFSA 2013 and Indonesia's DSN-MUI fatwa framework already contain the correct substantive requirements. The problem is not the rules; it is the absence of institutional mechanisms capable of verifying compliance with those rules continuously not just at the moment a product is approved, but throughout its operational life.

Governance Interpretation: Maqashid Violations and ABI Validation

The patterns identified above are not merely operational failures; they translate directly into violations of maqashid al-Shariah objectives. Al-Shatibi classifies wealth protection (hifz al-mal) as a daruriyyat an essential human need whose violation strikes at the foundations of individual and social welfare. Table 2 traces the transmission mechanisms through which each governance failure pattern produces a corresponding maqashid violation.

Table 2. *Maqashid Risk Transmission Mechanisms*

Governance Failure	Maqashid Objective Violated	Priority Level	Manifestation in Cases
Allocation Deficit (inventory < claims)	Hifz al-Mal (wealth protection)	Daruriyyat	Genneva: 85–90% of customer wealth lacked physical backing. Quantum Metal: 30–50% shortfall. Indonesia: no ta'yin (personalised allocation); zero physical stock at redemption (Feb 2026).
Verification Gaps in Self-Custody	Raf' al-Gharar (elimination of uncertainty)	Hajiyyat	Consumers cannot ascertain actual ownership. Contractual ambiguity is exacerbated by institutional lack of transparency.
SSB Oversight Gap (no operational supervision)	Maslahah Ammah (public welfare)	Hajiyyat	An undetected systemic risk. The collapse of Genneva not only caused losses for those directly involved but also eroded broad public confidence in the Sharia-compliant gold sector, with negative repercussions dragging down other market players who were actually conducting legitimate business.
All three present	Multiple maqashid	Daruriyyat	Total wealth loss (Genneva, Jie Wo Rui);

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Governance Failure	Maqashid Objective Violated	Priority Level	Manifestation in Cases
simultaneously	violated at once	(systemic)	chronic operational distress (Indonesian delivery crisis).

Source: Developed from case analysis, with reference to Al-Shatibi and Ibn Ashur.

Table 2 shows that allocation deficits constitute a direct violation of hifz al-mal at the daruriyyat level. When 85–90% of Genneva customers' savings had no physical gold behind them, this was not a technical shortfall or an accounting irregularity. It was a direct repudiation of the very purpose for which Shariah-compliant gold products are meant to exist. The self-custody problem generates institutional gharar that violates raf' al-gharar at the hajiyyat level, because customers are structurally unable to independently verify whether their assets exist and are protected. The SSB oversight gap, for its part, allows systemic risk to accumulate beneath the surface, ultimately threatening maslahah ammah because when a major institution fails, the credibility damage is not confined to that institution but spreads across the sector as a whole, as the aftermath of the Genneva collapse demonstrated.

The results also show that the ABI framework finds independent validation in actual regulatory developments in both jurisdictions. Table 3 maps the convergence between the framework's requirements and the standards developed separately by Malaysia's Gold Association SAC and DSN-MUI Fatwa No. 166/2026.

Table 3. *ABI Framework Validation Through Institutional Innovation*

ABI Pillar	Theoretical Requirement	Malaysia SAC (2025)	DSN-MUI Fatwa 166/2026	Convergence
Allocation Integrity	100% asset backing; quarterly independent audit; public disclosure	Quarterly allocation disclosure required; digital registry; independent audit	'Prudent' activity guidelines require asset-backing verification	ALIGNED
Custodian Integrity	Third-party independence; ISO 27001; full asset segregation	Self-custody prohibited; approved custodian registry; standard agreements	'Transparent' guidelines require clear custody arrangement	ALIGNED
Delivery Integrity	SLA max 7 business days; quarterly stress-test; automatic compensation	Maximum delivery timeframe set; capacity demonstration required	Operational guidelines for bullion banks include delivery capacity	ALIGNED

Source: Malaysia Gold Association (2025); DSN-MUI (2026).

Table 3 demonstrates that the three pillars of the ABI are fully aligned with both the MGA SAC standards and DSN-MUI Fatwa No. 166/2026. What makes this alignment analytically significant is that the MGA SAC formulated its requirements based on direct field experience, rather than by referencing this study. The fact that these two distinct paths converge on the same governance architecture serves as compelling evidence that the ABI framework genuinely captures real structural requirements, rather than merely representing theoretical preferences that exist only on paper.

The issuance of Fatwa No. 166/2026 by DSN-MUI, despite the existence of two earlier fatwas on gold transactions (No. 77/2010 and No. 134/2020) itself confirms the study's central finding: general contract-level regulations are insufficient for commodity-backed Islamic finance; product-specific operational standards are necessary. Notably, Fatwa No. 166/2026 was developed through a joint review process involving OJK and industry practitioners, including Bank Syariah Indonesia and Pegadaian a multi-stakeholder approach that embodies the kind of operational verification the ABI framework advocates..

Three structural gaps account for the persistent failure of existing governance frameworks. The first is an orientation problem: regulatory review is focused on the moment of product approval, with little attention to what happens operationally thereafter. The second issue lies in the competency gap within the SSB. Despite possessing strong religious authority, SSB members generally lack the technical expertise to physically inspect inventories, analyze storage schemes, or assess an institution's logistical capabilities. The third issue is the gap in the enforcement of principles. While requirements such as the physical availability of gold are clearly stipulated in the fatwa, these provisions lack measurable verification standards, fail to establish a clear audit frequency, and do not entail strict consequences for non-compliance.

The ABI framework is designed to close all three gaps. Allocation Integrity tackles the timing problem by requiring continuous quarterly verification instead of one-time approval. Custodian Integrity addresses the competence gap by mandating independent third-party custodians who meet professional standards beyond the typical expertise of SSBs. Delivery Integrity resolves the principle-enforcement gap by translating normative commitments into specific Service Level Agreements (SLAs), regular stress-testing requirements, and automatic compensation mechanisms that establish enforceable accountability.

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Conclusion

This study yields four main conclusions.

First, governance failures in Islamic gold financing are not rooted in flaws in Shariah principles themselves. Rather, they stem from a governance-practice gap the divergence between what formal Shariah certification attests to and what institutions actually do operationally. The regulatory frameworks in IFSA 2013 and the series of DSN-MUI fatwas already contain the substantive requirements. What has been missing are the mechanisms to verify compliance with those requirements on a continuing basis.

Second, three governance failure mechanisms recur consistently across all cases: allocation deficits, self-custody conflicts, and inadequate SSB oversight. These patterns are not unique to Islamic finance, as the Jie Wo Rui case in China demonstrates. Their universal character confirmed by academic research on Quantum Metal in Malaysia and Pegadaian Syariah Digital in Indonesia points to a structural problem in commodity-backed financial systems generally, not a peculiarity of Islamic institutional arrangements.

Third, the Asset-Backed Integrity (ABI) structure converts maqashid principles into three verifiable institutional pillars that can be put into practice and audited: Allocation Integrity, Custodian Integrity, and Delivery Integrity. This framework's alignment with the criteria independently created by Malaysia's MGA SAC and DSN-MUI Fatwa No. 166/2026 attests to the fact that it reflects actual regulatory requirements that practitioners and regulators in both jurisdictions have independently identified.

Fourth, shifting regulatory focus from one-time contract approval to ongoing operational verification is the main policy effect. Fatwa No. 166/2026 and the MGA SAC changes are early indicators that this change is taking place. A specific architecture for advancing it is provided by the ABI framework.

There are a few restrictions to be aware of. First, structured interviews with regulators, SSB members, and senior practitioners would probably reveal internal dynamics and tacit knowledge that documentation do not capture. This is because the analysis is based on documentary sources. Second, the ABI framework has been constructed and validated analytically but has not yet been tested in a live institutional setting; its real-world performance under varying market conditions remains to be established. Third, while the MGA SAC standards and Fatwa No. 166/2026 represent significant regulatory progress, they remain relatively new. The alignment of these standards and the fatwa with ABI requirements indicates regulatory support rather than proof of consistent, successful implementation on the ground. Therefore, longitudinal studies tracking customer experiences and outcomes over time are needed to determine whether this regulatory convergence truly yields tangible practical benefits. Fourth, this study focuses on Southeast Asia, limiting the generalizability of its findings to other regions. Future research should examine both the concept of the gap between governance and practice and the ABI framework itself within other Islamic finance jurisdictions particularly the Gulf, the Middle East, and South Asia to further strengthen the robustness and external validity of the proposed framework. Finally, future research could expand the scope of this study by investigating whether the gap between formal compliance and operational integrity also exists in other segments of the Islamic finance industry, such as *takaful* institutions and Sharia-compliant investment funds.

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