

CHAPTER 1

INTRODUCTION

1.1. Background of the Study

Islamic wealth management is currently the most recent area in which the Islamic finance industry has expanded. Across Asia, the Middle East, and Europe, there has been a proliferation of Islamic wealth management products tailored to meet the requirements of wealthy Muslim individuals. Moreover, the first movers in Islamic wealth management in European countries have been provided by UBS, BNP Paribas, and Dar al Maal al Islami based in Geneva and Islamic Finance House Universal Holding in Luxembourg (Hashim & Shabana, 2013: 24).

Islamic wealth management has emerged as a crucial aspect of financial services, particularly in predominantly Muslim countries like Malaysia. Malaysia is one of the countries that attempts to expand Islamic wealth management. Islamic wealth management is increasing significantly, providing Muslims with solutions for saving and investment based on Islamic principles. Many do not know how to manage their wealth under Islamic values to attain Allah's blessing (*Barākah*).

Furthermore, Islamic banking has contributed to the development of Islamic wealth management in Malaysia. In the early stage, more specifically from 1960 till the 1990s, Islamic finance offered retail services such as savings in the bank. In the second stage, Islamic wealth management via Islamic banks introduced investment products such as equities and unit trust in 2000. Islamic banking is not the only theme within the scope of Islamic wealth management but also themes such as Zakah, Waqf, and estate planning.

The third stage, Islamic wealth management, covers most needs of HNWI's over the wealth cycle.

The adoption of Islamic wealth management practices is influenced by various factors that stem both contemporary financial services and classical Islamic heritages. Syaibāni, Dimasqi, and Ibn Sina, among other scholars, have contributed significantly to Islamic wealth management and studied by Mohammed (2011), Ismail and Antonio (2012), and Adi (2011). Their insights offer valuable perspective on the principles and practices underlying Islamic wealth management.

In Malaysia, a country with a vibrant Islamic finance industry, the adoption of Islamic wealth management is influenced by a multitude of factors. These factors may include socio-cultural norms, religious belief, regulatory framework, economic conditions, and the availability of Islamic financial product and services. Understanding the factors influencing the adoption of Islamic wealth management is crucial for policy makers, financial institutions, scholars, and practitioners. It helps in designing effective strategies to promote growth and sustainability of Islamic wealth management practice in Malaysia.

The study aims to explore and analyze the factors influencing the adoption of Islamic wealth management in Malaysia, drawing insights from the component of wealth management frameworks proposed by al-Syaibāni, Ibn Sina, and al-Dimasqi. By examining these factors in the Malaysian context, the research seeks to provide valuable insight into the dynamic of Islamic wealth management adoption and contribute the advancement of Islamic finance literature and practice.

1.2. Statement of the Problem

The monetary crisis in Asia in 1997-98 and the global economic crisis in 2008 happened because wealth had not been managed very well. Because of its economic system is based on speculation or uncertainty (gambling and *gharar*), interest, and *haram* trading. The role of ethical and religious motivation in managing wealth was typically ignored. Ethical, cultural, and spiritual motivation is not significant to neo-classical models (Khan, 2010: 7). However, it can be argued that the neglect of religious and ethical factors is main problem of wealth management. Therefore, this gap points to the need for a more comprehensive understanding how religious principles can guide ethical wealth management in practice.

The ignorance of religious factors contributes to the problem of wealth management, as it leads to focus on wealth accumulation by falsehood, greed, and exploitation of others. Mawdudi (2011:9) supports this notions by starting point of the economic problem is selfishness that transgresses the boundaries of boundaries. He also defines addition factors such as greed, stinginess, and dishonesty.

On the contrary, Islam serves as comprehensive guide of life as a way of life, encompassing various aspects including economics and politics. In the realm of economics, wealth holds significant importance in Islam alongside the spiritual dimension. Therefore, it constitutes one of five essentials in the *maqāṣid Shari'ah*: preservation of wealth. Regrettably, Muslims have not always been closed to wealth management and financial planning ideas, even though discussion on planning and managing finances is highly emphasized under Islamic laws.

In practice, Islamic wealth management has emerged as a new industry as part of the expansion efforts of Islamic finance. Malaysia is among the countries that have been actively developing and promoting Islamic wealth management in industry to cater the needs of Muslim through products and services. Nonetheless, the report also indicated that the population of affluent individuals has experienced significant growth in Asia, with Malaysia leading at 35%, followed closely by Indonesia at 34% (The Wealth Report, 2024: 12). The highest growth rate was observed in India at 50%, followed by the Chinese mainland at 47%. This substantial number present a significant opportunity for Islamic banks and others Islamic financial institutions to meet the requirements of HNWI's in managing their wealth using Islamic principles and values.

Currently, Islamic economic and financial institutions are playing a significant role in assisting individuals in enhancing, protectiong, and distributing wealth. Muslim clients seek Shari'ah-compliant products and services, while non-Muslim clients aim to diversify risk and achieve better return on investments. The necessitates Islamic economic and financial institutions to respond to client's demands by developing new wealth management products that adhere to Shari'ah principles and offer superior performance compare to conventional one.

Indeed, it is not only Islamic wealth management products and services that must comply with Shari'ah principles, but also a comprehensive understanding of Islamic wealth management that is essential for providers and users. This knowledge ensures the proper implementation of Islamic wealth management practices. Therefore, raising awareness among the Muslim community about adopting Islamic wealth management practices is crucial for their effective implementation in the world and the hereafter.

Arief and Mohamad (2013) indicate that wealth management in Islam is strictly guided by the dictates of Shari'ah and comprises the (i) components of wealth generation, (ii) accumulation, (iii) protection, (iv) purification, and (v) distribution (<http://labuanibfc.com/>). Knowledge of Islamic wealth management is not only oriented towards life in the world, but also the hereafter. Because, epistemologically, the integration of knowledge about wealth management and Islamic knowledge cannot be separated.

Then, the knowledge of wealth from the Qur'an and Sunnah were expanded to the concept of wealth management by early Muslim scholars, either related to public wealth management or household wealth management. Unfortunately, the study of wealth management based on early Muslim scholars' work practically does not exist, and not much research has been conducted in this regard. Three works produced by early Muslim scholars are most associated with wealth management: Al-Syaibani, Ibn Sina, and Abu Ja'far al-Dimasyqi.

The works of three Muslim scholars: Al-Syaibani, Ibn Sina, and Abu Ja'far al-Dimasyqi, provide valuable insight into how wealth management was conceptualized and practiced in the early Islamic civilization. By studying their contributions of Islamic wealth management helps us understand the fundamental concept of Islamic wealth management derived from the Qur'an and Sunnah. Another significance of studying the ideas of wealth management from three Muslim scholars can serve as a source of knowledge of Islamic wealth management in the contemporary time. Hence, studying the Islamic classical works of wealth management helps us ensure that modern practice align with Islamic values and principles.

Their wealth management ideas are still relevant in the contemporary of wealth management compared to others. The perspectives on wealth management from Islamic tradition are essential in providing the philosophical foundation for Islamic wealth management practices. Currently, the development of Islamic wealth management often mirrors conventional approaches but integrates Islamic values derived from the Qur'an and the Sunnah. In contrast, the early Muslim scholars have made it into a whole concept of wealth management.

In summary, the problem statement identifies several research gaps and unique aspects related to the role of ethics, religion, and knowledge of wealth management from early Muslim scholars' work that are associated to the implementation of Islamic wealth management in Malaysia. Therefore, this study will analyse the influence of religiosity and knowledge of wealth management components derived from the ideas of earlier Muslim scholars based on their works, combined with the practices in Malaysia.

1.3. Rationale and significance of the study

One of the main problems facing the modern world's environment is humans' inability to understand the position that material wealth should take vis-à-vis intrinsic values (Dien, 2000: 142). Many Muslims seem to preserve the materialistic worldview when accumulating and spending wealth. Wealth are regarded as humans' ultimate happiness rather than viewed as a means in achieving the akhîrah (after world) . It is needed to give full insight into managing wealth from an Islamic worldview. Therefore, the research highlights the religious factor have been neglected in the behavior of people in managing wealth.

Islamic economics and finance have expanded enormously in Muslim and non-Muslim societies in more recent years. Consequently, Islamic wealth management has become the most recent niche in the Islamic finance and banking industry. Besides that, IWM also became a study that became of interest to many researchers worldwide. Malaysia is one of the countries concerned about developing Islamic wealth management. In 2017, Malaysia introduced its first Islamic Fund and Wealth Management Blueprint (IFWMB), and it is the first of its kind globally (IFWMB, 2017). Also, Malaysia has the infrastructure of Islamic economics and finance to support Islamic wealth management development.

Moreover, the development of Islamic wealth management is still immature. It requires a strong foundation of concepts or theories that will make it possible to benefit people accessing the holistic of wealth management. Therefore, it is essential to explore wealth management ideas from those three Muslim scholars; Syaibani, Ibn Sina, and Al-Dimasqi. The relevance of the ideas of three Muslim scholars will provide philosophical understanding of Islamic wealth management theoretically and its practical implication.

Developing Islamic wealth management theoretically and practically will significantly contribute to Muslims' literacy in managing wealth in Islamic ways. This study will also benefit academicians and researchers whose focus is Islamic wealth management when they conduct further research about Islamic wealth management as a future reference. This study gives a fundamental concept of wealth management from an Islamic perspective that is very important for developing other Islamic wealth management research. Moreover, this study will provide recommendations on how

Islamic wealth management in Malaysia can grow and be well understood by Malaysia's people.

Moreover, this study will help the industries of Islamic wealth set their objectives, policies, and strategies by Shari'ah, customer needs, and government economic programs. Significantly, this research will help clients' literacy decide whether an Islamic wealth management industry is fulfilling its responsibility to the community or just showing off to promote its business. The sources of Islamic economic thought are used to develop genuine Islamic wealth management in practice. Their works are still rarely touched when explaining Islamic wealth management's ideas and components; the researcher prefers to take from Quran verses and hadiths only.

Studies on the factors influencing the adoption of Islamic wealth management in Malaysia are still very limited. Most studies related to the significant factors on the adoption of IWM are in Malaysia, which is also part of the Islamic wealth management paradigm. It can be said that the study represents an component in Islamic wealth management and not a holistic approach. Therefore, it is essential to examine what factors determine the adoption of Islamic wealth management in Malaysia.

1.4. Research Aim and Objectives

The research aims to analyze the relationship of religion and knowledge of Islamic wealth management component from three Muslim scholars, al-Syaibāni, Ibn Sina, and al-Dimasqi, in adopting Islamic wealth management in Malaysia. This study's findings are used to develop policy recommendations to improve Islamic wealth management development in Malaysia. The main objectives of the study are:

1. To analyze the effect of religiosity on the adoption of Islamic wealth management in Malaysia.
2. To analyze the effect of knowledge of Islamic wealth management on the adoption of Islamic wealth management in Malaysia.
3. To analyze how knowledge of Islamic wealth management, with religiosity as mediating factor, influences the adoption of Islamic wealth management in Malaysia.

1.5. Research Questions

The objectives of the study, this research intends to answer the following questions:

1. What is the influence of religiosity on the adoption of Islamic wealth management in Malaysia?
2. What is the influence of knowledge of Islamic wealth management on the adoption of Islamic wealth management in Malaysia?
3. How does knowledge of Islamic wealth management, with religiosity as mediating factor, affect the adoption of Islamic wealth management in Malaysia?

1.6. Structure of Research

This study is organized in the following way to ensure an in-depth review of the sources of Islamic and current conventional practices of wealth management are discussed in detail.

Chapter One presents the introduction, including background, problem statement, scope and limitation, detailed review, objective, contribution, significance, methodology, and study outline.

Chapter Two on conceptual framework of wealth management from an Islamic perspective and includes definition, objective, and the elements of wealth management based on the thought of early Muslim scholars; Syaibani, Ibn Sina, and Ja'far al-Dimasqi.

Chapter Three discusses the overview of Islamic wealth management practice in Malaysia. It addresses Malaysia's development of Islamic wealth management on its prospects and challenges.

Chapter Four focuses presents a literature review of the wealth management concept, which consists of the definition, history, development, principles, and components of wealth management and some issues in its development. This chapter explores the basic idea of wealth management to simplify what wealth management is all about clearly.

Chapter Five focuses on the methodology, which consists of an introduction, research design, data collection method, data analysis, and conclusion.

Chapter Six focuses on analyzing factors influencing the adoption of Islamic wealth management in Malaysia. All questions are integrated from the view of Muslim thinkers and the current practice of Islamic wealth management.

Chapter Seven is the conclusion and recommendations that will critically assess previous studies by giving an overall summary of all chapters.