



Risk Dynamics and Volatility in Islamic Stock Indices: A Literature Review of Islamic Value-Based Mitigation Models

Dini Selasi^{1✉}, Yourman Gamas Mahesal², Dede Saerozi³

^{1,2,3}Universitas Islam Bunga Bangsa Cirebon

Email : diniselasi@bungabangsacirebon.ac.id, Yourmangamas21@gmail.com,
dherozy2@gmail.com

Received: 2025-10-28; Accepted: 2026-1-30; Published: 2026-3-12

ABSTRACT

Sharia stock indices such as the Jakarta Islamic Index (JII) and the Indonesia Sharia Stock Index (ISSI) face challenges due to the inherent risk and volatility dynamics of the modern capital market, despite the rapid growth of the sharia capital market as an investment alternative based on Islamic moral and spiritual values. The purpose of this literature review is to examine how Islamic principles can contribute to the creation of a risk mitigation model aligned with the values of *maqāṣid al-syarī'ah*. Previous research indicates that most risk studies still focus on technical aspects such as Value at Risk (VaR), the Capital Asset Pricing Model (CAPM), or GARCH, without considering ethical and spiritual aspects, which is unreasonable.

The Islamic approach to risk emphasizes that effort and trust in God must be balanced, and the principle of *al-ghunmu bil-ghurmi*, which means profit is proportional to risk, is the basis of investment justice. In situations like this, risk management is not just an effort to avoid losses; it is a process that ensures integrity, fairness, and well-being. According to research, applying principles such as trust, justice, and public interest can improve market regulations and reduce speculative behavior that causes uncertainty. Additionally, transparency, also known as *Kashf al-Gharar*, and the avoidance of *maysir* are also used as moral instruments to maintain the stability of the Islamic capital market.

In this article, there is little research on how to combine the concept of risk jurisprudence with contemporary quantitative models. There hasn't been much previous research combining Islamic financial theory and behavioral approaches also known as behavioral finance for risk mitigation. Therefore, this article offers a new avenue for research on the concept of the "Islamic Risk Mitigation Model," which is rooted in the *maqāṣid al-syarī'ah* and the principle of distributive justice. The purpose of this project is to strengthen the resilience of the Islamic capital market against global economic changes. Therefore, this research helps build a new paradigm for risk management that is morally good, fair, and spiritually sustainable.

Keywords: *Sharia Risk, Volatility, Sharia Stock Index, Risk Mitigation, Maqāṣid al-Syarī'ah*

INTRODUCTION

Over the past two decades, the Islamic capital market has grown rapidly both in Indonesia and around the world. This growth has been driven by the development of a more inclusive Islamic financial infrastructure and by the growing public awareness of the importance of investments aligned with Islamic values (Elasrag, 2020). The presence of the Jakarta Islamic Index (JII) and the Indonesia Sharia Stock Index (ISSI) has become a crucial pillar in building an ethical and equitable investment environment in Indonesia. Nevertheless, like the conventional capital market, Islamic stock indices are affected by fluctuations and uncertainties that can compromise the stability of investor portfolios. The Islamic capital market faces the challenge of managing such risks without violating sharia in a global environment characterized by economic uncertainty and asset price volatility (Saiti, 2018).

Research on risk in the Islamic capital market has largely focused on conventional quantitative models such as Value at Risk (VaR), GARCH, or the Capital Asset Pricing Model (CAPM). These models examine volatility exclusively from the perspectives of statistics and economic rationality (Majid & Kassim, 2020). Such an approach does not fully reflect Islamic ethical values – such as amanah, tawakkul, and adl – which can serve as a moral foundation for risk management. According to Dusuki and Abozaid (2022), Islamic risk management is a process of maintaining justice and the common good (maslahah 'ammah) in economic activities, beyond merely avoiding financial loss. Consequently, there arises a need for a risk mitigation model grounded in Islamic values that is both spiritually and morally relevant.

According to several sources in the literature, both economic rationality and faith- and spirituality-based motivations contribute to the investment behavior of Muslim investors, and both factors play a crucial role in financial decision-making (Bin-Nashwan & Muneeza, 2023). In this regard, the Islamic behavioral finance approach offers a new perspective: that the moral and psychological imbalances of market participants are, in part, a driver of market volatility. A collective ethic that rejects gharar (excessive uncertainty) and maysir (speculation), according to Ahmed (2019), can help reduce market volatility. In practice, these values function as moral mechanisms capable of curbing speculative behavior, enhancing transparency (kashf al-gharar), and increasing confidence in the Islamic capital market.

The justice of Islamic investment is grounded in the principle of al-ghunmu bil-ghurmi, meaning that every profit must be accompanied by a corresponding risk (Al-Zuhayli, 2003). This principle differs fundamentally from conventional risk theory, which focuses solely on the risk-return trade-off without regard for

ethical considerations. In Islam, risk is regarded as part of a moral responsibility, ensuring justice and equity in the distribution of profit and loss. It is therefore essential to develop a risk mitigation framework that incorporates Islamic values such as *tawakkul* (spiritual trust in Allah) and *ikhtiar* (rational effort) in order to guarantee sustainable stability (Obaidullah, 2015).

The purpose of this study is to qualitatively examine the dynamics of risk and volatility occurring within Islamic stock indices, and to propose a mitigation model grounded in Islamic values. Previous studies have left unresolved the gap between conventional financial approaches and Islamic ethical principles, and this study aims to address that gap. It is hoped that this research will provide a new conceptual framework for scholars and practitioners in developing risk management strategies aligned with *maqāṣid al-syarī'ah*.

Two principal contributions are expected from the findings of this research. Academically, it aims first to broaden the perspective of risk management theory by incorporating Islamic values as a moral factor within the structure of the Islamic capital market. Second, from a practical standpoint, this research is intended to serve as a foundation for the development of more ethical, stable, and inclusive Islamic capital market policies and product innovations, in line with the vision of sustainable Islamic finance being advanced across various countries, including Indonesia (OJK).

METHOD

This study employs a qualitative methodology using a descriptive-analytical literature study approach. This method was chosen because the objective of the research is not to test hypotheses quantitatively, but rather to review and comprehend the findings of a range of prior studies that address risk, volatility, and Islamic value-based mitigation principles in the context of the Islamic capital market. The Systematic Literature Review (SLR) pattern involves a process of selecting, evaluating, and synthesizing data from relevant scientific sources (Snyder, 2019). The analytical focus is on identifying the conceptual gap between Islamic risk principles such as *al-ghunmu bil-ghurmi*, *tawakkul*, and *maslahah* and conventional risk models such as CAPM, GARCH, and Value at Risk (VaR).

All research addressing risk and uncertainty in the Islamic capital market, from theoretical perspectives to practical applications, falls within the scope of this study. Purposive literature selection was employed to determine the research sample. The primary criteria for this selection are as follows: (1) published within the last 10 years (2015–2025); (2) indexed in international databases such as Scopus and Web of Science, as well as national databases such as Sinta; and (3)

directly relevant to issues such as Islamic values in investment or risk management. In addition, the Islamic theoretical framework for discussions of risk draws on classical sources such as Al-Zuhayli (2003) and Obaidullah (2015).

Data collection was conducted using digital resources, including reports from Islamic financial institutions, scientific journals, academic books, and official documents such as OJK's Islamic Capital Market Roadmap 2023–2027. A literature matrix was compiled as a research instrument to classify each source by topic, approach, findings, and relevance to the Islamic risk mitigation model enabling researchers to conduct thematic coding of key concepts such as "sharia volatility," "risk sharing," and "spiritual risk control." Data validity was strengthened through source triangulation and close or critical reading of comparable studies.

Content analysis and thematic synthesis were the methods used for data analysis. Each study was examined with the goal of identifying convergences, patterns, and divergences between conventional approaches and Islamic values in capital market risk management. The findings of this analysis were then incorporated into the "Islamic Risk Mitigation Model," which emphasizes the balance between financial rationality and moral spirituality (*tawazun*). The research findings thereby offer a new paradigm that positions the principles of *maqāṣid al-syarī'ah* as the foundation for just and sustainable investment decision-making, while also describing the dynamics of risk and volatility occurring within Islamic stock indices.

RESULTS AND DISCUSSION

1. Risk Dynamics and Volatility in the Islamic Capital Market

The Islamic capital market, as a component of the Islamic financial system, offers financing and investment based on the principles of justice (*'adl*), transparency (*shafafiyah*), and the common good (*maslahah*). In Indonesia, Islamic stock indices such as the Jakarta Islamic Index (JII) and the Indonesia Sharia Stock Index (ISSI) serve as important instruments for evaluating the performance of sharia-compliant stocks. Both indices have shown increases in market capitalization and retail investor participation. However, growth brings with it risk dynamics and uncertainties that must be carefully managed in order to remain compliant with Islamic financial principles (Saiti, 2018; Majid & Kassim, 2020).

From a theoretical standpoint, stock market volatility refers to the degree of uncertainty associated with changes in stock prices over a given period of time. The Islamic capital market experiences volatility for two primary reasons: first, price movements driven by economic factors; and second, the reduced scope for

asset diversification permitted under sharia principles. The prohibition of *riba*, *gharar*, and *maysir* instruments narrows the investment space compared to conventional markets, causing Islamic indices such as JII or ISSI to have a more limited sectoral base. As a result, they tend to be more sensitive to shifts in specific sectors, such as infrastructure, consumption, or energy (Yusof & Majid, 2017). Accordingly, the uncertainty that occurs in the Islamic capital market is more often structural and sectoral in nature than speculative.

In the long term, Islamic stock indices are generally more stable than their conventional counterparts, according to empirical research. For example, Saiti's (2018) study of Islamic capital markets in Malaysia and Indonesia found that Islamic stock volatility is lower, largely because Islamic investors tend to focus on the long term and avoid short-term speculation. Hassan and Lewis (2021) reach a similar conclusion, arguing that the sharia screening of listed companies' operations helps reduce exposure to high-risk industries. Nonetheless, cross-market contagion effects have led Islamic indices to experience significant fluctuations during several global crises the 2008 financial crisis and the COVID-19 pandemic being notable examples. This demonstrates that the Islamic capital market remains connected to the global financial system and is not entirely immune from external threats.

Beyond structural factors, investor behavior is one of the main contributors to uncertainty in the Islamic capital market. From a behavioral finance perspective, investment decisions are often not fully rational, but are instead more heavily influenced by social psychology and religious perception. Muslim investors particularly retail investors frequently exhibit herding behavior, meaning they follow market trends without conducting thorough analysis (Bin-Nashwan & Muneeza, 2023). Such behavior can amplify volatility by generating disproportionate buying and selling pressure relative to the fundamental value of companies. From an Islamic perspective, this behavior reflects a weakening of the values of *amanah* and *tawakkul*, since investment decisions ought to be made on the basis of knowledge, justice, and spiritual awareness not emotion or speculation.

Information asymmetry is an additional factor contributing to instability in the Islamic capital market. Islamic investors typically have limited access to information about a company's performance and sharia compliance status. Uncertainty arises which can trigger extreme price swings when transparency (*kashf al-gharar*) is not achieved. According to research by Dusuki & Abozaid (2022), the Islamic principle of transparency is not merely a technical requirement but a moral obligation to maintain fairness among all parties involved in financial transactions. Therefore, improving the corporate governance and information

disclosure of sharia issuers is an important step in preserving the stability of Islamic stock prices and reducing market risk.

The volatility of the Islamic capital market can also be observed through the lens of geopolitics and the global macroeconomy. Because many sharia-compliant companies operate in the energy and commodity sectors, Islamic stock indices are often directly affected by changes in global oil prices. Research by Yusof and Majid (2017) found that Islamic stock markets across ASEAN countries, including Indonesia, are influenced by oil price movements. Furthermore, the inflows and outflows of capital in the domestic Islamic capital market are also influenced by global monetary policy, such as interest rate increases by the US Federal Reserve. While such macroeconomic pressures cannot be entirely avoided, risks can be minimized through risk-sharing mechanisms and broader diversification of Islamic instruments, including sukuk, Islamic mutual funds, and ESG-oriented (Environmental, Social, Governance) stocks.

The research findings indicate that behavioral, structural, and spiritual factors are the primary sources of risk and uncertainty in the Islamic capital market. In other words, the uncertainty that arises in the Islamic capital market is multidimensional, encompassing factors such as investor sentiment, the constraints imposed by market structure, and the moral values that shape behavior. Consequently, in the sharia context, a risk mitigation approach must incorporate the values of *maqāṣid al-syarī'ah* as a moral foundation, rather than relying solely on statistical analysis and mathematical models. Principles such as *al-ghunmu bil-ghurmi* meaning profit proportional to risk and *maslahah 'ammah* must be applied as the basis for crafting just and sustainable Islamic capital market policies. Risk dynamics and uncertainty are therefore understood not merely as threats, but as part of a system of moral trials and responsibilities aimed at building financially just stability in accordance with Islamic values.

2. Limitations of the Conventional Approach to Islamic Risk Mitigation

This review found that the majority of studies on risk management in the Islamic capital market still rely on conventional models such as Value at Risk (VaR), Generalized Autoregressive Conditional Heteroskedasticity (GARCH), and the Capital Asset Pricing Model (CAPM). According to Majid and Kassim (2020), these models are highly effective for measuring and predicting market uncertainty in contemporary economies. However, they fail to account for moral, ethical, and equity-based principles, which are the very foundations of Islamic finance. Risk management in Islam constitutes a moral and social responsibility to maintain balance among parties in transactions (*mu'amalat*), rather than a

mere technique for avoiding loss. Consequently, the exclusive use of conventional models creates an epistemological rift between Western risk theory and sharia principles grounded in *maqāṣid al-syarī'ah*.

The conventional approach to risk places greater emphasis on the risk-return trade-off – where higher risk implies higher potential returns – based on assumptions of economic rationality and market efficiency. From an Islamic standpoint, however, this relationship is not linear, since returns are always contingent upon divine blessing, honesty, and justice. The Islamic concept of *al-ghunmu bil-ghurmi* – meaning profit must be commensurate with risk – prohibits speculation and exploitation, and requires that all parties involved in a transaction assume risk proportionally (Al-Zuhayli, 2003). This stands in contrast to conventional finance, which typically employs derivative instruments such as options, futures, and swaps to transfer risk – practices regarded in Islam as *gharar* (excessive uncertainty) or even *maysir* (financial gambling). The Islamic principle of justice is therefore at odds with risk mitigation approaches that rely heavily on derivative models.

Furthermore, a key limitation of the conventional approach lies in its exclusive focus on quantitative elements, while neglecting the behavioral, ethical, and belief dimensions of investors. Models such as VaR or GARCH can calculate the probability of loss under extreme conditions, but they cannot explain why such fluctuations occur – whether due to information asymmetry, speculative behavior, or collective panic. These phenomena have a moral root in the Islamic capital market: a weakening of *amanah* (honesty) and *tawakkul* (spiritual conviction) in decision-making. According to Dusuki and Abozaid (2022), an Islamic risk mitigation system must incorporate moral variables as controllers of economic behavior, rather than relying solely on mathematical algorithms. Put differently, because Islamic market risk encompasses social, economic, and spiritual dimensions, a model for mitigating it must also be holistic in character.

It is also frequently the case that Modern Portfolio Theory (Markowitz) is applied in sharia research without taking into account Islamic investment principles. This theory treats diversification as the optimal method for reducing portfolio risk. However, because Islamic capital markets are restricted to sectors deemed *halal* and ethical, free diversification is not possible. Research by Obaidullah (2015) argues that sharia portfolio management must balance worldly returns with spiritual sustainability (*al-falah*). When conventional theory is applied without regard for Islamic values, an epistemic bias arises that can distort the conclusions of analysis. The reconstruction of risk theory in the Islamic context must therefore be undertaken with ethical values as the primary consideration.

The individualistic and competitive paradigm underpinning capitalist economics represents an additional weakness of the conventional approach. Without regard for broader social impact, this system encourages market participants to pursue personal gain. The Islamic concept of risk, by contrast, protects society from structural injustice as well as individuals from loss. As stated by Ahmed (2019), Islamic risk management must be directed toward achieving *maslahah 'ammah* (the general welfare), not merely protecting private interests. A risk mitigation approach grounded in Islamic values must therefore move beyond self-interested risk avoidance and embrace a framework of equitable risk sharing, where each party bears a proportionate and just responsibility for the outcomes of transactions, in accordance with the principle of distributive justice.

Research by Hasan and Dridi (2021) found that businesses implementing a Sharia management framework exhibit more stable risk behavior compared to conventional businesses. This suggests that sharia value-based governance can be effective in reducing risk without the use of derivative instruments. The Islamic capital market system can reduce information asymmetry and control stock price volatility by strengthening the role of the Sharia Supervisory Board (DPS) and enhancing information transparency. In this context, risk mitigation becomes a manifestation of *amanah* and *adl* two core Islamic values that help balance economic efficiency with social justice.

It can therefore be concluded that one of the main limitations of the conventional approach to Islamic capital market risk mitigation lies not merely in its technical tools, but in its epistemological paradigm, which is at odds with Islamic values. What is required is not simply a new statistical model, but a conceptual model that incorporates morality and spirituality as genuine economic factors. This approach would produce a new paradigm in risk management an ethico-spiritual paradigm which views risk as a means of upholding moral and social responsibility in financial transactions.

3. Integration of Islamic Values into the Risk Mitigation Model

Risk management within the Islamic finance framework is not regarded solely as a means of avoiding loss; it is also considered an *amanah* a moral responsibility and part of the spiritual effort to align human endeavor with God's decree (*tawakkul*). This concept adds a new dimension to the understanding of risk: risk is not only an economic event, but also a moral trial that tests the integrity, justice, and will of an economic actor (Dusuki & Abozaid, 2022). It is therefore necessary to incorporate Islamic values into the risk mitigation process

in order to make the Islamic capital market fair, transparent, and socially equitable.

a. The Concepts of Tawakkul and Amanah as the Spiritual Foundation of Risk Management

In confronting challenges, the principle of tawakkul meaning surrendering oneself to Allah after making every effort functions as a spiritual foundation. In the context of Islamic investment, tawakkul means striking a balance between rational effort and the spiritual conviction that the ultimate outcome is in God's hands it does not imply passivity in the face of risk (Ahmed, 2019). A Muslim investor who practices tawakkul refrains from excessive speculation, recognizing the limits of their ability to predict the market. This value promotes cautious and ethical investment behavior, which can dampen market volatility caused by emotional and speculative conduct.

Amanah, in turn, means being honest and accountable in managing funds, as well as disclosing information openly. In capital markets, the principle of amanah is implemented through the practice of honest disclosure and transparent sharia violation reporting, which reduces information asymmetry between issuers and investors. Gharar (uncertainty) can be reduced when relevant and reliable information is openly communicated. This is consistent with the findings of Hasan & Dridi (2021), who demonstrate that companies implementing sharia governance exhibit more stable market risk levels, as investor confidence increases.

b. Social Mechanisms for Risk Reduction through the Principles of Adl (Justice) and Maslahah (Common Good)

The primary principle in reducing Islamic risk is the value of adl (justice). In the capital market, adl is realized through the practice of proportional risk sharing among all parties. Islam emphasizes that every profit must be accompanied by an equivalent risk a principle that differs from conventional systems, which often promote risk transfer (the shifting of risk to another party) (Al-Zuhayli, 2003). Contractual concepts such as mudharabah and musyarakah therefore become practical instruments for equitable investment channeling. When risk and return are shared proportionally, the relationship between investors and fund managers becomes more balanced, which reduces conflicts of interest and promotes systemic financial stability.

The principle of maslahah also known as the general welfare is, in addition to justice, an essential component of Islamic risk mitigation. One of the primary objectives of the Islamic financial system is to generate broader social benefits, not merely to prevent individual losses. Green sukuk and ESG

oriented (Environmental, Social, Governance) Islamic mutual funds are examples of socially sustainability-oriented financial instruments through which *maslahah* can be applied in the capital market. This approach transforms the function of the capital market from a mere investment vehicle into a means of achieving the general welfare (*al-falah*). Obaidullah (2015) argues that the stability of the Islamic capital market cannot be achieved without taking into account the prosperity of the community that is part of the Islamic economic environment.

c. Transparency and the Prohibition of *Gharar* as Ethical Pillars of Risk Mitigation

Information asymmetry a condition in which one party possesses more information than another is one of the greatest sources of risk in capital markets, and is frequently exploited for short-term speculation in conventional financial systems. *Gharar* (excessive uncertainty) and *maysir* (speculation) are prohibited in Islam because both undermine the fairness of transactions (Dusuki & Abozaid, 2022). Consequently, transparency (*kashf al-gharar*) constitutes a vital ethical principle for reducing Islamic risk.

One strategic step that can be taken to reduce risks arising from data uncertainty is to improve the quality of financial reporting, sharia auditing, and the oversight system of the Sharia Supervisory Board (DPS). The Islamic Capital Market Roadmap 2023–2027 requires transparency to build investor trust (OJK, 2023). When information is clear, investors can make decisions rationally and ethically, thereby enabling the control of market volatility. Transparency here is not only a legal responsibility but also a moral *amanah*.

d. Integration of Spirituality and Rationality in Risk Decision-Making

Integrating Islamic values into risk mitigation does not mean rejecting economic rationality; rather, it means harmonizing spirituality and rationality within a consistent framework (*tawazun*). The concept of "spiritual financial behavior" is an approach that combines the notion of investment behavior with Islamic moral principles (Bin-Nashwan & Muneeza, 2023). In this approach, the profit motive is not the sole determinant of investor behavior; *niyyah* (intention) and *taqwa* (moral consciousness) also play a role. Ideally, Muslim investors act not out of speculation, but to participate in the building of a just and sustainable economy.

This spiritual approach can help stabilize capital markets by reducing fluctuations driven by greed and fear. In the context of *maqāṣid al-syarī'ah*, integrating spirituality into risk mitigation produces the protection of wealth (*hifz al-māl*), the preservation of reason (*hifz al-'aql*), and the protection of societal well-being (*hifz al-nafs*). In this way, the Islamic capital market can

become an economic space that is not only financially profitable but also socially and spiritually beneficial.

e. Practical Implications of Integrating Islamic Values into Risk Mitigation

In the context of risk mitigation, the application of Islamic values has concrete implications for the formation of regulations and the management system of the Islamic capital market. First, the Sharia governance framework must be strengthened so that values such as *adl* and *amanah* are genuinely internalized into business practices. Second, a sharia-based risk assessment system must be developed by supervisory institutions such as OJK and DSN-MUI, combining both ethical and financial metrics. Third, investors must be educated to enhance their moral and spiritual awareness in the process of making investment decisions. When every component of the Islamic capital market operates in accordance with these values, systemic stability will improve, speculative risk will diminish, and public confidence will increase.

4. A Proposed Risk Mitigation Model Based on *Maqāṣid al-Syarī'ah*

In order to develop a risk mitigation system consistent with Islamic principles, a conceptual model is needed that can integrate moral and spiritual values with economic rationality. This study proposes the Islamic Risk Mitigation Model, grounded in *maqāṣid al-syarī'ah* the overarching objectives of Islamic law which emphasize the balance between the protection of wealth (*hifz al-māl*), economic justice (*adl*), and social well-being (*maslahah*). Beyond avoiding financial loss, this model ensures that risk management is conducted in an ethical, transparent manner that benefits society as a whole (Dusuki & Abozaid, 2022). The core of this model is Islamic economic rationality, which combines the principles of Islamic justice with contemporary analytical methods. Instruments such as Value at Risk (VaR), GARCH, and stress testing can still be used to assess market risk; however, their interpretation must be adjusted to align with Islamic principles meaning that risk analysis must function to enhance market stability and fairness rather than to encourage speculation. Majid & Kassim (2020) note that a hybrid approach combining quantitative models with risk-sharing principles can produce results more consistent with *maqāṣid al-syarī'ah*. For example, companies may use stress analysis to measure market exposure while still employing risk-sharing systems such as *musyarakah* or *mudharabah*.

The second pillar centers on the spiritual ethics of investors, specifically the principles of *tawakkul*, *amanah*, and *ikhlas* as the foundation of investment decision-making. This principle holds that every economic action must be accompanied by the spiritual awareness that its outcome is God's decree

following maximum effort not solely the product of rational calculation. Investors who invest according to these values will be more cautious and rational when facing uncertainty, thereby suppressing the volatility that stems from emotional behavior. As stated by Bin-Nashwan and Muneeza (2023), integrating spiritual financial behavior with Islamic risk management has been shown to improve investment discipline and reduce tendencies toward herding or panic selling. These spiritual values serve as a moral compass that keeps market behavior stable.

The principle of distributive justice is applied through risk-sharing mechanisms as the third pillar. In conventional systems, risk is frequently transferred to another party through derivative instruments or speculative insurance a process referred to as "risk transfer." This mechanism is prohibited in Islam because it contains elements of maysir and gharar that can generate injustice. Islam instead promotes risk-sharing mechanisms, in which all parties involved in a transaction share risks and profits proportionally. This concept aligns with the principle of al-ghunmu bil-ghurmi meaning no profit without risk which serves as the moral foundation for the stability of the Islamic financial system (Al-Zuhayli, 2003). In practice, this concept can be realized through instruments such as musyarakah sukuk, mudharabah-based financing, and Islamic partnership institutions that emphasize joint participation in both outcomes and risks.

Furthermore, because it creates a reciprocal relationship between investors and issuers, risk-sharing mechanisms also function as a tool for reducing systemic risk. Market stability increases when losses are shared proportionally, as no single party bears an excessive burden. Research by Hasan & Dridi (2021) found that companies employing profit-based contracts exhibit more stable earnings and lower stock price volatility compared to those using debt-based contracts. This indicates that equitable risk sharing enhances both financial stability and confidence in the Islamic capital market.

In the Fourth Pillar, transparency and accountability are the primary ethical components of risk mitigation. Transparency is not merely an administrative obligation, but a moral duty rooted in the principle of amanah. When issuers, financial institutions, and regulators openly disclose their activities, information asymmetry and gharar (uncertainty) are reduced. To strengthen investor confidence, OJK (2023) affirms in the Islamic Capital Market Roadmap 2023–2027 that a comprehensive sharia reporting system is necessary. In the Islamic financial system, transparency serves as a moral instrument for maintaining sustainability (istidamah) and enhancing market confidence.

Adherence to fatwas and sharia principles is also included in this pillar. The Sharia Supervisory Board (DPS) bears a strategic responsibility for ensuring that every investment product meets sharia requirements. Moral and reputational risks can be significantly reduced when this compliance is strictly maintained. Consequently, spiritual accountability in the Islamic capital market functions to uphold not only regulatory compliance but also the justice and trust that form the foundation of a stable market.

Social well-being and economic sustainability constitute the final pillar. Within the framework of *maqāsid al-syarī'ah*, every economic policy must be directed toward the improvement of the community's welfare (*al-falah*). Risk mitigation must therefore consider the impact on social and environmental stability in addition to individual returns. This approach is consistent with the concept of sustainable Islamic finance, which incorporates ethical, social, and environmental dimensions in the development of Islamic investment instruments (OJK, 2023). Products such as green sukuk, social sukuk, and zakat-linked investments are concrete examples of the application of *maslahah* values in risk mitigation. The Islamic capital market has the capacity to contribute to inclusive and sustainable development through this social orientation.

This *maqāsid al-syarī'ah*-based risk mitigation model exerts a profound influence on policy, governance, and market behavior. First, regulators must develop sharia risk metrics that account for ethical and spiritual dimensions, rather than relying solely on statistical figures. Second, Islamic financial institutions must implement value-based governance, meaning that every investment decision will be evaluated from the perspectives of *maslahah* and *adl*. Third, this model can serve as a foundation for the development of a globally competitive and distinctive Islamic financial theory and therefore investors and academics must actively participate in advancing research that integrates *fiqh muamalah*, human behavior, and economics

CONCLUSION

This research demonstrates that the Islamic capital market is characterized by risk dynamics and volatility that differ in certain respects from those of the conventional capital market. Although high-risk sectors are prohibited, Islamic stock indices such as JII and ISSI generally exhibit greater stability; nonetheless, volatility cannot be entirely eliminated. The causes include limited asset diversification, integration with international markets, and investor behavior still influenced by information asymmetry and emotional decision-making. Islamic risk management therefore requires a more comprehensive approach one that considers Islamic moral and spiritual values alongside economic rationality.

For quantitative risk measurement, conventional approaches such as Value at Risk (VaR), GARCH, and CAPM are useful; however, they are value-neutral and do not fully embody the principles of justice and the common good in Islam. In Islamic finance, risk is regarded not only as the possibility of financial loss, but also as a moral test and a trust (amanah). The principles of al-ghunmu bil-ghurmi (profit proportional to risk), adl (justice), and collective responsibility must therefore serve as the foundation of Islamic risk mitigation models. This approach safeguards the market from speculative practices such as maysir and gharar, and builds more sustainable stability because it is grounded in ethics and transparency.

A comprehensive risk mitigation system integrates Islamic values such as tawakkul, amanah, and maslahah. The principle of tawakkul teaches the balance between rational effort and spiritual trust, while amanah and adl ensure honesty and fairness in risk management. By improving information transparency and sharia governance, investor confidence can increase and risks arising from uncertainty (gharar) can be reduced. Spiritual values thus function not only as normative standards, but also as moral instruments for regulating conduct in the market.

This study proposes an Islamic risk mitigation model based on maqāṣid al-syarī'ah comprising five main pillars: (1) Islamic economic rationality, (2) spiritual investor ethics, (3) distributive justice and risk sharing, (4) transparency and sharia compliance, and (5) social well-being and economic sustainability. Islamic finance is viewed as a moral instrument for achieving the general welfare (al-falah). Such an approach can enhance the stability of the Islamic capital market, increase public confidence, and attract ethically principled, long-term-oriented investors.

Overall, this research demonstrates that the Islamic approach to risk involves the integration of spiritual values and economic rationality an approach that necessitates a paradigm shift in risk theory. Ultimately, the objective is not merely to minimize financial loss but to ensure sustainability, justice, and social equilibrium. The practical implications of this research include: policy reforms required of regulators such as OJK and DSN-MUI; improved investor education regarding sharia risk; and the strengthening of value-based governance among sharia issuers. The Islamic capital market has the capacity to become a resilient, ethical, and sustainable financial pillar in the face of global economic dynamics by employing a risk mitigation model grounded in maqāṣid al-syarī'ah.

REFERENCES

- Ahmed, H. (2019). *Islamic Financial Management: Principles and Practice*. Kuala Lumpur: Islamic Research and Training Institute (IRTI).
- Al-Zuhayli, W. (2003). *Financial Transactions in Islamic Jurisprudence* (Vol. 1–2). Damascus: Dar al-Fikr.
- Bin-Nashwan, S. A., & Muneeza, A. (2023). Behavioral dimensions of Islamic investment decisions: A review and future research agenda. *International Journal of Islamic and Middle Eastern Finance and Management*, 16(2), 312–329. <https://doi.org/10.1108/IMEFM-06-2022-0279>
- Dusuki, A. W., & Abozaid, A. (2022). The ethical foundation of Islamic financial transactions: A maqasid al-shariah perspective. *Journal of Islamic Accounting and Business Research*, 13(4), 573–589. <https://doi.org/10.1108/JIABR-03-2022-0085>
- Elasrag, H. (2020). *Islamic Capital Markets and Sustainable Development: A Global Perspective*. Munich Personal RePEc Archive (MPRA Paper No. 103843).
- Hassan, M. K., & Lewis, M. K. (2021). *Islamic Capital Markets: Principles and Practices*. Cheltenham: Edward Elgar.
- Hasan, M., & Dridi, J. (2021). The effects of governance and Shariah compliance on the risk behavior of Islamic firms. *Journal of Risk and Financial Management*, 14(7), 327–341. <https://doi.org/10.3390/jrfm14070327>
- Majid, M. S. A., & Kassim, S. H. (2020). Volatility behavior of Islamic and conventional stock markets: Evidence from ASEAN countries. *Pacific-Basin Finance Journal*, 62, 101347. <https://doi.org/10.1016/j.pacfin.2020.101347>
- Obaidullah, M. (2015). *Islamic Financial Services*. Jeddah: Islamic Development Bank-IRTI.
- Otoritas Jasa Keuangan (OJK). (2023). *Roadmap Pasar Modal Syariah Indonesia 2023–2027*. Jakarta: OJK.
- Saiti, B. (2018). The risk and return characteristics of Islamic equity funds. *Journal of Islamic Monetary Economics and Finance*, 4(2), 235–252. <https://doi.org/10.21098/jimf.v4i2.936>
- Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. *Journal of Business Research*, 104, 333–339. <https://doi.org/10.1016/j.jbusres.2019.07.039>
- Yusof, R. M., & Majid, M. S. A. (2017). Stock market volatility transmission in Malaysia: Conventional and Islamic perspective. *Economic Modelling*, 64, 368–382. <https://doi.org/10.1016/j.econmod.2017.03.002>