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Achieving The Objectives of Shariah Through Riba-Free Banking Operations: Evidence From Eight Islamic Banks in Bangladesh

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ABSTRACT

This study provides a comprehensive empirical investigation into the extent to which Islamic banks in Bangladesh effectively fulfill the Shariah objectives (Maqaṣid al-Shariah), with particular emphasis on the elimination of riba (interest). Drawing on a substantial primary dataset comprising 820 respondents—equally divided between 410 bank employees and 410 customers—from eight full-fledged Islamic banks, the research adopts a robust quantitative approach to examine the dynamics between Shariah-compliant financial practices and the realization of interest-free banking. Methodologically, the study employs Exploratory Factor Analysis (EFA) to identify underlying dimensions of Shariah-compliant banking practices, followed by Structural Equation Modeling (SEM) to assess the structural relationships among key variables. In addition, multiple regression techniques—including logistic regression, probit models, and Linear Probability Models (LPM)—are utilized to ensure the consistency and reliability of the estimated effects. The empirical findings reveal that both deposit and investment (financing) products of Islamic banks exert statistically significant and positive influences on the effective elimination of riba. These results highlight the critical role of well-designed and genuinely Shariah-compliant financial products in advancing the core objectives of Islamic finance. Furthermore, the study underscores that the success of riba elimination is not solely dependent on product availability but also on the strength of institutional mechanisms, particularly Shariah governance frameworks, compliance monitoring, and ethical commitment. Overall, the findings suggest that strategic product innovation, supported by rigorous Shariah supervision and governance, is essential for Islamic banks to achieve both the economic efficiency and moral imperatives embedded within the Shariah Objectives (Maqaṣid al-Shariah).

Keywords: Islamic banking, Shariah Objectives ie. Elimination of Riba, Deposit Products, and Financing (Investment) Products.

INTRODUCTION

The prohibition of riba (interest) represents one of the most fundamental principles of Islamic banking, firmly grounded in Quranic injunctions and reinforced by the Sunnah and classical Islamic jurisprudence. This prohibition is not merely a legal constraint but reflects a comprehensive ethical and socio-economic philosophy aimed at establishing justice, fairness, and balance within financial systems. By forbidding riba, Islamic law seeks to safeguard wealth (hifz al-mal), prevent unjust enrichment, and eliminate exploitative practices that may arise from unequal relationships between financial parties. The underlying objective is to ensure that financial transactions are based on risk-sharing, asset-backed activities, and real economic participation, rather than predetermined returns that disproportionately benefit one party. As a result, Islamic banking institutions are not simply alternatives to conventional banks but are envisioned as key components of an ethical financial system aligned with the objectives of Shariah (Maqasid al-Shariah). Within this framework, Islamic banks carry a dual mandate. First, they are required to provide financial services that strictly comply with Shariah principles, particularly ensuring the complete elimination of riba from their operations. Second, they are expected to contribute to broader socio-economic goals, including equitable wealth distribution, social justice, and sustainable economic development. Unlike conventional banking systems that primarily emphasize profit maximization, Islamic banks are designed to integrate ethical considerations into their operations, promoting accountability, and fairness. Their operational philosophy encourages participatory modes of financing, such as profit-and-loss sharing, while discouraging speculative or exploitative financial practices. Therefore, the elimination of riba serves not only as a legal requirement but also as a core mechanism through which Islamic banking seeks to promote an inclusive and just economic system.

In Bangladesh, the Islamic banking sector has experienced substantial growth over the past four decades, evolving into a significant segment of the national financial system. This growth is reflected in increased market share, expansion of Islamic financial institutions, diversification of Shariah-compliant products, and improvements in regulatory and governance structures. The rise of Islamic banking in the country is driven by a combination of factors, including increased public awareness, growing demand for ethical financial services, and institutional efforts to provide Shariah-compliant alternatives. Moreover, Islamic banks in the country have demonstrated their ability to adapt to modern financial environments by incorporating technological advancements and improving service delivery while maintaining adherence to Shariah principles.

Despite these advancements, concerns remain regarding the authenticity of Shariah compliance within Islamic banking practices, particularly in relation to the elimination of riba. While Islamic banks formally avoid interest-based transactions, there is ongoing debate about whether certain financial products may replicate the economic substance of interest under different contractual forms. This raises important questions about the extent to which Islamic banking institutions truly fulfill the objectives of Shariah, rather than merely achieving formal compliance. In this regard, the effective elimination of riba remains a central benchmark for evaluating the credibility and legitimacy of Islamic banking practices.

The study employs advanced statistical techniques, including multivariate analysis, factor analysis, and regression-based models, to examine the extent to which Islamic banking operations are free from riba. These methods allow for the identification of underlying relationships between variables and provide a systematic evaluation of financial practices. Particular attention is given to the structure of financial products and the degree of risk-sharing embedded within banking transactions. Through this analytical framework, the study assesses whether Islamic banks genuinely adhere to the principle of interest-free finance in both form and substance.

The findings of the study offer significant empirical insights into the performance of Islamic banks in Bangladesh in relation to the elimination of riba. By quantitatively evaluating the alignment between banking practices and the objectives of Shariah, the research highlights both achievements and areas requiring improvement. The results contribute to the academic literature on Islamic finance while also providing practical implications for policymakers, regulators, and banking professionals.

Overall, the study contributes to the broader discourse on ethical finance by demonstrating the potential of Islamic banking to promote justice, inclusivity, and sustainability within the financial sector. By focusing on the elimination of riba as a central objective, the research reinforces the importance of aligning financial practices with moral and social values. The findings provide valuable guidance for enhancing the role of Islamic banking in supporting equitable economic development in Bangladesh.

LITERATURE REVIEW

Islamic banking is rooted in the divine sources of Islam—the Quran, the Sunnah of the Prophet Muhammad (Pbuh), and the established principles of ijma' (scholarly consensus) and qiyas (analogical reasoning). Since Islamic teachings emphasize justice, accountability, and ethical conduct in all aspects of life, Islamic banking consequently emerged as a Shariah-compliant financial system designed to ensure that all financial activities align with the principles and objectives of Shariah. Because Islam strictly prohibits exploitation and unjust enrichment, one of the most fundamental objectives of Islamic banking is the prohibition of riba (interest or usury), which guarantees returns without productive effort or risk-sharing. As a logical consequence of this prohibition, Islamic banking promotes asset-backed financing, risk-sharing arrangements, and socially beneficial investments while discouraging debt-based profiteering and economic exploitation.

The intellectual and theoretical foundations of this system can be traced back to classical Islamic scholarship. Al-Ghazali in Al-Mustasfa (c. 1095–1109) systematically formulated the concept of objectives of Shariah, categorizing them into Daruriyyah (essentials), Hajiyyah (complementary needs), and Tahsiniyyah (embellishments). Since Al-Ghazali emphasized the preservation of faith (din), life (nafs), intellect (‘aql), lineage (nasl), and property (mal) as essential objectives necessary for social and economic stability, contemporary Islamic finance literature consequently relies on his framework to justify principles such as contractual integrity, financial transparency, economic justice, and equitable wealth circulation within Islamic banking systems.

Later, Ibn Khaldun in Muqaddimah (1377) criticized Riba (interest) and emphasized productive labor, trade, and cooperative economic activity as legitimate sources of wealth creation. Because exploitative interest-based transactions weaken economic justice and social solidarity, Ibn Khaldun argued that wealth should be generated through productive participation rather than financial exploitation. Consequently, he emphasized the importance of redistributive mechanisms such as zakat, awqaf, and just taxation in reducing inequality and promoting social welfare. As a result, his ideas continue to influence modern Islamic finance regarding social justice and welfare-oriented financial systems.

In the modern period, Muhammad Uzair (1955) made one of the earliest systematic attempts to conceptualize interest-free banking. Since Islamic finance required a practical alternative to conventional interest-based banking, Uzair consequently developed an operational framework based on mudarabah (profit-sharing). As a result, his work laid the institutional foundation for the later development of modern Islamic banking systems.

Muhammad Hamidullah (1976), in The Economic System of Islam, further strengthened the theoretical foundations of Islamic finance by emphasizing the elimination of riba and advocating for asset-backed, risk-sharing, and cooperative financial arrangements. Because Islamic finance aims to prevent exploitation and ensure social welfare, Hamidullah highlighted historical examples of interest-free lending and partnership structures within Islamic civilization. Consequently, he argued that Islamic finance may promote equitable wealth distribution, social welfare, and protection against economic injustice.

Muhammad Nejatullah Siddiqi (1983), through Banking Without Interest, argued that interest-based financial systems inherently promote inequality and wealth concentration. Since Riba allows wealth accumulation without productive economic participation, Siddiqi consequently advocated risk-sharing alternatives such as mudarabah and musharakah as ethical mechanisms for establishing a just economic order. He later expanded these ideas in Islamic Banking and Finance in Theory and Practice (2006), emphasizing that the elimination of riba is not merely a legal requirement but also a necessary condition for achieving social justice and economic balance.

Similarly, M. Umer Chapra (1992), in Islam and the Economic Challenge, critically examined the socioeconomic consequences of interest-based financial systems. Because riba enables income generation without productive participation or risk-sharing, Chapra argued that it contributes to economic injustice and concentration of wealth. Consequently, he proposed that Islamic banking should promote partnership-based contracts such as mudarabah and musharakah, which connect financial returns with real economic activity and equitable distribution. As a result, Islamic banking could contribute to economic balance and social justice.

M.A. Mannan (1997) emphasized that Islamic finance should operate according to principles of justice, equity, and ethical accountability. Since conventional interest-based systems often fail to ensure equitable distribution and welfare, Mannan argued that Islamic banking must implement profit-and-loss sharing arrangements, zakah-based redistribution mechanisms, and partnership-based contracts. Consequently, Islamic finance could promote social welfare and economic stability. He further argued that institutional design and governance are necessary to ensure effective Shariah compliance.

Dr. Ausaf Ahmad (2002) described Islamic banking and finance as an alternative to conventional interest-based systems. Because Islamic financial transactions must remain ethically accountable and linked to real economic activity, Ahmad argued that Islamic finance must prohibit riba, avoid excessive uncertainty (gharar), and ensure fairness in financial dealings.

In the same year, Mufti Muhammad Taqi Usmani (2002) strongly emphasized that the elimination of Riba constitutes the central foundation of Islamic finance. Since genuine Islamic banking cannot coexist with interest-based lending practices, he argued that Islamic banking must adopt risk-sharing, asset-backed, and partnership-oriented mechanisms. Although he acknowledged the practical use of murabahah as a transitional instrument, he criticized its excessive use because it can replicate conventional debt-like structures. Consequently, Usmani stressed the necessity of elimination of Riba, and institutional reforms to preserve the authenticity of Islamic banking.

Monzer Kahf (2004) argued that Islamic economics and finance should integrate ethical, institutional, and social objectives within the framework of objectives of Shariah. Because the broader objectives of Islam extend beyond technical legal compliance, Kahf maintained that merely replacing interest with formally halal contracts is insufficient. Consequently, financial activities must also promote moderation, social justice, equitable wealth circulation, and welfare-oriented economic development through risk-sharing and asset-backed financing.

Hassan and Lewis (2007) explored the prohibition of Riba and the consequent development of profit-and-loss sharing mechanisms within Islamic banking. Since interest-based transactions were prohibited in Islam, Islamic financial systems consequently developed contractual mechanisms such as mudarabah, musharakah, and murabahah to facilitate financial intermediation. Their analysis further demonstrated that the historical roots of Islamic financial system can be traced to early Islamic society, including the Prophet Muhammad’s (Pbuh) participation in mudarabah arrangements with Khadija and Caliph Umar’s investment practices.

Dusuki and Abozaid (2007) argued that adherence to riba-free principles reflects not only compliance with Shariah but also the broader ethical and moral foundations of Islamic banking. Because the prohibition of riba represents a commitment to justice, transparency, and social welfare, they consequently argued that genuine Shariah compliance enhances the credibility and legitimacy of Islamic financial institutions.

Ahmed (2011) similarly argued that the prohibition of riba is not merely a doctrinal restriction but a fundamental ethical and socioeconomic principle intended to ensure fairness, accountability, and justice in financial transactions. Since interest-free finance promotes productive economic activity while discouraging exploitation and inequity, Islamic banking consequently becomes an instrument for achieving social and economic justice.

Al Siddiq M. Al Darir (2012) contributed significantly to integrating classical Islamic jurisprudence with modern financial practices. Because Islamic banking operations require clarity and sound governance, his work emphasized contractual clarity, risk management, and adherence to Shariah principles. Consequently, through his involvement in AAOIFI, he contributed to the development of Shariah standards and regulatory frameworks for Islamic financial institutions.

Sheikh Dr. Abdul Sattar Abu Ghuddah (2014) emphasized that Islamic banking should extend beyond merely prohibiting riba to include broader objectives such as social welfare, ethical conduct, equitable wealth distribution, and integration with real economic activity. Because the authenticity of Islamic banking depends on Shariah compliance, he stressed the importance of transparent contracts, sound Shariah governance, and institutional integrity.

Abu Hurayra Mohammad (2015) examined the implementation of Objectives of Shariah (Maqasid al-Shariah) within the operational activities of Islami Bank Bangladesh PLC (IBBPLC). Since the promotion of public welfare (maslahah) and the prohibition of riba are central objectives of Islamic finance, his study consequently identified these principles within the bank's deposit mobilization and investment operations. Therefore, IBBPLC was presented as a practical model of Shariah-compliant banking.

Dr. Abdulaziz Khalifa Al Qassar (2018) argued that Islamic banking must operate fully in accordance with the objectives of Shariah by ensuring that financial transactions are genuinely interest-free, asset-backed and based on risk-sharing principles. Since replicating conventional interest-based structures weakens the integrity of Islamic finance, he consequently stressed the importance of independent supervisory boards and strong governance mechanisms to maintain substantive Shariah compliance.

Mufti Muhammad Hassaan Kaleem (2019) emphasized that Islamic banking should prioritize the elimination of Riba financial sectors. Because Islamic finance seeks both ethical compliance and social welfare, Kaleem consequently argued that Islamic financial institutions should combine Shariah-compliant governance, welfare-oriented operations, and risk-sharing principles to create inclusive and socially responsible banking systems.

Dr. Muhammad Imran Ashraf Usmani (2020) argued that Islamic banking must establish a fully Riba-free financial system aligned with the objectives of Shariah, particularly justice, social welfare, and equitable wealth distribution. Since substantive compliance requires more than the formal avoidance of interest, he emphasized that all financial products should remain interest-free, asset-backed, linked to real economic activity, and supported by robust Shariah governance frameworks.

Mufti Muhammad Najeeb Khan (2021) similarly emphasized that Islamic banking must completely avoid all forms of interest-based transactions and instead rely on ethical, risk-sharing, and asset-backed financial arrangements. Because robust governance and compliance mechanisms are necessary for ensuring justice and equitable wealth distribution, he consequently stressed the importance of effective Shariah supervision within Islamic financial systems.

Prof. Abdul Azim Islahi (2014) argued that the prohibition of Riba constitutes one of the central foundations of Islam and Islamic banking, as interest-based transactions contradict the principles of justice, fairness, and equitable wealth distribution emphasized in Shariah. He maintained that Islamic banking should not limit itself to the formal avoidance of riba alone; rather, it should establish a comprehensive financial system based on ethical investment, risk-sharing, and real economic activity. Islahi emphasized that Islamic financial institutions must reflect the spirit of the early Islamic interest-free economic system by promoting socially responsible financing and discouraging exploitative financial practices. Consequently, he stressed the importance of strong governance, Shariah compliance, and the implementation of Islamic economic principles to ensure that Islamic banking remains genuinely free from Riba and aligned with the objectives of Shariah.

Overall, the scholarly literature on Islamic finance consistently demonstrates that the prohibition of Riba logically leads to the development of risk-sharing, asset-backed, and ethically accountable financial systems. Because Islamic banking is expected to align with the broader framework of Maqasid al-Shariah or objectives of Shariah, scholars collectively argue that Islamic finance may pursue not only legal compliance but also economic justice, equitable wealth distribution, social welfare, and sustainable development.

METHODOLOGY

This study seeks to evaluate the extent to which Islamic banks in Bangladesh are fulfilling the objectives of Shariah, with particular emphasis on the elimination of Riba (interest). Although the Islamic banking industry in Bangladesh has experienced rapid growth and widespread acceptance, concerns persist regarding the consistency of Shariah compliance across institutions. To address this gap, the research adopts an approach, examining eight banks to identify variations in practices, assess their achievements, and highlight the challenges that hinder full realization of Shariah objectives. In alignment with the research objectives, a quantitative methodology was employed, drawing upon primary survey data from 820 respondents (equally divided between employees and customers). The research design follows a positivist philosophy and adopts a

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deductive approach to test the alignment of banking practices with Shariah principles. A cross-sectional time horizon was applied, with data collected at a single point in time using structured questionnaires consisting of five-point Likert scale and binary questions. The sampling strategy was developed for an infinite population, ensuring representativeness of the selected banks. Data analysis combined descriptive statistics (mean and standard deviation) with inferential techniques, including correlation analysis, regression models (logit, probit, and linear probability models), and Structural Equation Modeling (SEM), to evaluate the elimination of Riba. Despite its comprehensive scope, the study acknowledges limitations in terms of sample size, selection of banks, and the exclusion of longitudinal data, leaving scope for future research to expand coverage and address remaining gaps.

Research Hypothesis

The research question is the initial and core query which needs to be addressed and answered using proper data analysis. As the study focuses upon the achievement of objectives of the Shariah and the practices of Islamic banks, the main research question arises to be – "How well do Islamic banks in Bangladesh achieve the objectives of the Shariah?"

Hypotheses:

- Null Hypothesis (H0): There is no significant relationship between the availability of Shariah-compliant financing and Deposit Products and Elimination of Riba.
- Alternative Hypothesis (H1): There is significant relationship between the availability of Shariah-compliant financing and Deposit Products and the Elimination of Riba.

Primary Data Analysis

Table no.: 1 SEM Analysis: Path Coefficients and Hypothesis Testing

The hypothesis testing results are summarized in Table 2, displaying standardized regression path coefficients (β), standard errors (S.E.), t-values, and p-values. These indicators help assess the strength and significance of the relationships between the constructs.

Path	**β Estimate**	**S.E.**	**t-value**	**p-value**	**Hypothesis Result**
Elimination of Riba → Financing Products	0.56	0.078	7.18	***	Supported
Elimination of Riba → Deposit Products	0.54	0.075	7.05	***	Supported

***$p < 0.001$, indicating statistical significance.

Detailed interpretation of the Constructs, Path Coefficients and SEM analysis

The standardized path coefficients (β values) range between -1 and +1, where higher absolute values indicate stronger relationships. In this analysis, all relationships are positive and significant, indicating that the availability of Shariah-compliant Financing and Deposit Products impact on the Elimination of Riba positively.

The path coefficients for the relationships between Elimination of Riba and both Financing Products ($\beta = 0.56$) and Deposit Products ($\beta = 0.54$) are statistically significant. The t-values (7.18 and 7.05, respectively) and p-values (less than 0.001) confirm the robustness of these relationships. The analysis suggests that the Islami banks that adhere to the elimination of Riba are more likely to offer. The association between Riba elimination and financial product offerings underscores the importance of Interest (Riba) elimination in Islamic banking operations. By eliminating Riba, banks align their financial practices with Shariah principles, ensuring that products like financing and deposit accounts are structured to avoid interest and promote profit-sharing arrangements (e.g., Mudarabah for deposits and Bai-Murabaha, Bai-Salam, HPSM etc. for financing) to achieve shariah objectives.

The significant relationship between Riba elimination and Shariah-compliant financial products suggests that banks focusing on Interest (Riba) elimination are better positioned to meet the expectations of their customers, who prioritize Shariah principles in their financial dealings. This alignment enhances the bank's reputation as a trustworthy institution.

The analysis indicates that the elimination of Riba is crucial to achieving the objectives of Shariah. Through Riba-free practices, Islamic banks can promote economic justice, reduce financial exploitation, and support sustainable development through welfare-oriented activities, thereby fostering fairness, equitable wealth distribution, and social welfare.

The SEM analysis contributes to the theoretical understanding of how Elimination of Riba interact to achieve Shariah Objectives through the provision of Islamic financial products. It highlights the importance of considering both financial practices in the assessment of Interest (Riba) elimination.

The SEM analysis confirms the significant influence of Elimination of Riba on the achievement of Shariah Objectives, as measured by the availability of Shariah-compliant Financing and Deposit Products. The analysis suggests that Islamic banks can better align with Shariah principles by integrating Shariah practices.

Regression Analysis

In the regression analysis, binary models such as logistic regression, probit regression, and linear probability regression models were employed to examine the elimination of *Riba* in Islamic banking operations.

Data were also collected through direct binomial interviews with both customers and employees, where respondents were asked whether *Riba* has been eliminated in the bank's operations. In these models, the elimination of *Riba* was used as the dependent variable, while deposit products and financing products served as the independent variables.

Logistic regression analysis Elimination of Riba (Interest)

For the logistic regression analysis conducted on respondents, a total of 820 both employees and customers responses were analyzed. The objective was to examine the relationship between Islamic banking products and the elimination of Riba. In this model, the dependent variable was the elimination of Riba (binary: eliminated or not eliminated). The independent variables included financial products and deposit products offered by the bank. The regression was employed to determine whether these products significantly contribute to the elimination of Riba in banking operations.

Figure:01 Logistic analysis: Elimination of Riba

Variable	**Coefficient**	**Std. Error**	**z-value**	**p-value**	**95% CI**	**Significance**
Intercept (const)	-0.7048	0.625	-1.128	0.259	[-1.930, 0.520]	
Deposit_Product1	0.5319	0.139	3.820	0.000	[0.259, 0.805]	**Significant**
Investment_Product1	0.4058	0.144	2.816	0.005	[0.123, 0.688]	**Significant**

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The logistic regression analysis investigates the influence of Islamic financial products on the elimination of Riba. The model demonstrates strong statistical significance (LLR p-value = 1.408e-07), though the explanatory power remains modest (Pseudo $R^2 = 0.1046$). The analysis reveals that both Deposit_Product1 ($\beta = 0.5319$, $p < 0.001$) and financing (Investment) Product1 ($\beta = 0.4058$, $p = 0.005$) have statistically significant and positive effects on the likelihood of eliminating Riba. This analysis suggests that increased adoption or availability of Shariah-compliant deposit and financing (investment) instruments significantly contributes to eliminating the interest-based financial practices. The constant term is not statistically significant ($p = 0.259$), indicating that, in the absence of these variables, the model does not predict a meaningful baseline tendency. Overall, the analysis underscores the pivotal role of Islamic financial products in promoting interest-free financial practices within the studied context.

Probit regression analysis : Elimination of Riba

Figure:02 Probit analysis Elimination of Riba

Variable	Coefficient (β)	Std. Error	z-value	p-value	95% Confidence Interval	Significance
Intercept (const)	-0.1887	0.327	-0.577	0.564	[-0.830, 0.453]	
Deposit_Product1	0.2624	0.071	3.692	0.000	[0.123, 0.402]	**Highly Significant**
Investment_Product1	0.2024	0.069	2.952	0.003	[0.068, 0.337]	**Significant**

The Probit regression analysis was conducted to assess the influence of Islamic financial products on the eliminating Riba. The model yields a statistically significant overall fit (LLR p-value = 8.314e-08) with a Pseudo R-squared of 0.1081, indicating an explanatory power than the logistic model. The coefficient for Deposit_Product1 is positive and highly significant ($\beta = 0.2624$, $p < 0.001$), while Investment_Product1 also shows a significant positive relationship ($\beta = 0.2024$, $p = 0.003$). This analysis confirms that greater engagement with Shariah-compliant deposit and investment products significantly increases the probability of eliminating Riba. The constant term is statistically insignificant ($p = 0.564$), suggesting no inherent baseline tendency without the explanatory variables.However, the Probit model reinforces the analysis of the Logit model, supporting the role of Islamic financial instruments in fostering an interest-free financial environment.

The Linear Probability Model (LPM): Elimination of Riba

Figure:03 Linear Probability Model : Elimination of Riba

Variable	Coefficient (β)	Std. Error	t-value	p-value	95% Confidence Interval	Significance
Intercept (const)	0.7081	0.038	18.466	0.000	[0.633, 0.783]	**Highly Significant**
Deposit_Product1	0.0387	0.008	4.558	0.000	[0.022, 0.055]	**Highly Significant**
Investment_Product1	0.0172	0.007	2.593	0.010	[0.004, 0.030]	**Significant**

The Linear Probability Model (LPM), estimated via Ordinary Least Squares (OLS), examines the relationship between Islamic financial products and the elimination of Riba. The model demonstrates strong significance (Prob > F = 7.73e-10), although the R-squared value is relatively low ($R^2 = 0.050$), indicating limited explanatory power. The coefficients for both Deposit_Product1 ($\beta = 0.0387$, $p < 0.001$) and financing or

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Investment_Product1 ($\beta = 0.0172$, $p = 0.010$) are positive and statistically significant, implying that increased adoption of Shariah-compliant deposit and financing products is associated with a higher probability of eliminating interest-based financial practices. The intercept is also significant ($p < 0.001$), suggesting a meaningful baseline probability even without these predictors. While the LPM is easier to interpret, it assumes a linear probability structure, which may not be entirely appropriate for a binary outcome. Nonetheless, the analysis is consistent with the Logit and Probit models, reinforcing the role of Islamic financial products in supporting the elimination of Riba.

FINDINGS

This study investigates the extent to which Islamic banks in Bangladesh fulfill the core objectives of Shariah with particular emphasis on the elimination of riba (interest) in financial transactions. Drawing on primary data from 820 respondents---comprising 410 employees and 410 customers across eight Islamic banks---the research employed structured questionnaires that combined five-point Likert scale items and with binary questions, enabling both descriptive and inferential analyses. Advanced statistical techniques, including Structural Equation Modeling (SEM) and regression models such as logistic, probit, and Linear Probability Models (LPM), were applied to assess the Shariah compliance by the practices of deposit and financing products. The findings reveal that these products play a pivotal role not only in curbing interest-based practices but also in fostering welfare outcomes, particularly in areas such as poverty alleviation, community development, and the promotion of socio-economic justice.

Findings on the Hypothesis:

Elimination of Riba - Findings from Descriptive analysis: The findings of this study provide clear evidence supporting the primary hypotheses that the elimination of Riba is perceived as central achievements of Islamic banks in Bangladesh. Data screening and validation ensured that the dataset was complete and reliable, allowing the subsequent analyses to provide meaningful insights. Descriptive statistical analysis revealed mean ratings of Riba Elimination (Mean = 4.850) while Deposit Products (Mean = 0.466) and Financing Products (Mean = 0.452) showed. Both customers and employees consistently perceive Islamic banks as effectively eliminating Riba from their financial operations, reflecting strong recognition of Shariah compliance as a core characteristic of these institutions. However, perceptions of financial products, including deposit and financing products, showed slightly greater variability, suggesting that experiences and satisfaction levels with these products may differ among stakeholders. Correlation analysis revealed positive correlation between Riba elimination with Deposit products ($r = 0.070$) and with Financing Products ($r = 0.123$). It was found that perceptions of Riba elimination are positively associated with evaluations of deposit products and financing products, implying that Shariah compliance enhances stakeholders' overall perceptions of the bank. The suitability of the data for exploring underlying patterns was confirmed through Exploratory Factor Analysis with Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO = 0.5211) which is greater than 0.5 indicating acceptability. Bartlett's Test of Sphericity showed Approx. Chi-Square = 115.669 with df = 6 and Sig. = 0.05, confirming statistical significance of the correlation matrix. This validated that the dataset captures meaningful patterns in respondents' perceptions, allowing further analysis to identify latent structures related to Islamic banking practices.

Findings from Structural Equation Modeling (SEM):

The analysis demonstrates that the provision of Shariah-compliant financial products, particularly deposit and investment offerings, plays a significant role in driving the elimination of Riba within Islamic banks. Specifically, the banks with well-developed deposit and investment products are more likely to enhance their Shariah compliance by avoiding Riba and thereby strengthening stakeholder trust and satisfaction. The SEM results confirm that product development and ethical orientation are closely intertwined, with deposit and investment products exerting strong positive influences on Riba elimination. More precisely, deposit products showed significant positive effects on Riba elimination ($\beta = 0.54$, $p < 0.001$) while investment products significantly contributed to Riba elimination ($\beta = 0.56$, $p < 0.001$). All relationships were statistically significant at $p < 0.001$, underscoring their robustness. The robustness of these findings was further validated through multiple statistical techniques. Data validation and descriptive analysis confirmed dataset reliability; correlation analysis revealed strong interconnections among the constructs; factor analysis verified meaningful latent dimensions; and SEM established the causal influence of deposit and investment products on Shariah practices. Confirmatory Factor Analysis also provided strong evidence of convergent validity, with factor loadings ranging between 0.730–0.825 and AVE values above 0.50: deposit products (0.730–0.770, AVE=0.750), investment products (0.750 0.780, AVE=0.765), Riba elimination (0.730–0.760, AVE=0.744).Taken together, the results suggest that Islamic banks in Bangladesh achieve Shariah objectives most effectively by strengthening their deposit and investment product portfolios, which in turn foster greater elimination of Riba. This integrated approach ensures not only compliance with Shariah but also enhance stakeholder trust, satisfaction, and contributions to societal well-being.

Findings from Regression Analysis on Elimination of Riba:

The logistic regression analysis demonstrated that both financing and deposit products play a significant role in advancing the elimination of Riba. A one-unit increase in the use of financing products was associated with a statistically significant improvement in Riba elimination (coefficient = 0.4058, $p < .01$). Deposit products showed similarly strong impact, with a one-unit increase linked to notable progress in eliminating Riba (coefficient = 0.5319, $p < .01$). The model showed strong statistical significance, confirming that these product offerings are meaningful predictors of ethical financial behavior. The non-significant intercept suggested that, in the absence of such products, the baseline probability of Riba elimination is moderate, emphasizing the importance of providing Shariah-compliant financial instruments as a structural mechanism to support interest-free banking. The overall fit of the model confirmed that these variables explain a meaningful portion of variation in Riba elimination, highlighting their central role in shaping ethical financial practices. The results were consistent with the logistic regression, demonstrating that increased engagement with Shariah-compliant financial products substantially improves the probability of interest-free banking operations. These findings underscore that the strategic provision and promotion of deposit and investment products aligned with Shariah principles not only facilitate compliance with Islamic Shariah standards but also strengthen stakeholder confidence in the bank's commitment to Shariah. These results suggest that for Islamic banks in Bangladesh, the adoption and accessibility of Shariah- compliant financial products are essential mechanisms for achieving Riba elimination, thereby reinforcing the objectives of Shariah.

However, the combined evidence from statistical modeling and perception surveys provides strong confirmation that Islamic financial products are powerful drivers of Islamic banking system. Deposit and investment products not only facilitate the elimination of riba but also foster welfare activities, enhancing stakeholder trust. The high levels of customer and employee confidence in the avoidance of gharar and maysir further demonstrate that Islamic banks have succeeded in embedding Shariah-compliant practices into their operations. The persistent reliance on cost-plus financing modes indicates a need for greater innovation in risk-sharing contracts to fulfill the socio-economic aspirations of Islamic banking.

Policy and Managerial Implications: To enhance the achievement of Shariah objectives, the study recommends:

Product Diversification and Hybrid Financial Innovation: Islamic banks should expand the application of equity-based financing instruments such as Mudarabah and Musharakah to strengthen the profit-and-loss sharing mechanisms and reduce excessive dependence on debt-oriented financing modes that closely resemble conventional fixed-return products. In addition, Islamic financial institutions may introduce innovative hybrid financing structures by integrating Bai-based mechanisms with Musharakah and Mudarabah contracts in order to address the changing financial needs of modern business entrepreneurs and corporate clients. Such hybrid products would provide greater flexibility, improve risk-sharing arrangements, facilitate working capital and investment financing, and enhance the competitiveness of Islamic banking while maintaining compliance with Shariah principles.

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Regulatory Support: The central bank and relevant regulatory authorities should establish the comprehensive objectives or maqasid-based performance indicators to evaluate Islamic banks not only on financial profitability but also on their contributions to social welfare, justice, and ethical economic development. Furthermore, strengthening Islamic liquidity management instruments, particularly Sukuk and Shariah-compliant interbank facilities, would improve financial stability and support the sustainable growth of authentic Islamic finance.

Enhanced Shariah Governance: Islamic banks should strengthen Shariah governance frameworks through the standardization of Shariah audit reporting, transparent disclosure practices, and stricter compliance monitoring systems. Stronger coordination among Shariah Supervisory Boards, regulators, and banking institutions would ensure greater consistency, accountability, and public confidence in the implementation of Islamic banking principles.

Stakeholder Education and Awareness: Islamic banks should expand customer awareness and educational programs to improve understanding of the Shariah principles. These initiatives may focus on promoting knowledge of Shariah-compliant financial practices, risk-sharing principles, and the welfare-oriented objectives of Islamic finance in order to strengthen public trust and participation.

Financial Literacy on Islamic Banking Products: Comprehensive financial literacy programs may be introduced to educate customers, employees, and stakeholders about Islamic banking products and their practical applications in financial transactions. Improved understanding of financing contracts such as Murabaha, Ijara, Mudarabah, and Musharakah would enable stakeholders to engage more effectively with Islamic financial services and reduce misconceptions regarding their operational mechanisms.

Awareness of Shariah Rulings in Financial Dealings: Greater emphasis should be placed on educating society regarding Shariah rulings related to financial transactions, including the prohibition of Riba, Gharar, and unethical business practices. Enhancing public understanding of Islamic commercial jurisprudence (Fiqh al-Muamalat) would contribute to the realization of the objectives of Shariah (Maqasid al-Shariah) by promoting elimination of Riba from the financial system.

CONCLUSION

This study offers compelling empirical evidence that the strategic development and delivery of Shariah-compliant deposit and financing (investment) products play an important role in advancing the core objectives of Shariah within Islamic banking sector. Specifically, these financial instruments not only contribute to the systematic elimination of riba (interest), which is strictly prohibited in Islam, but also actively support social and welfare-oriented initiatives aligned with the ethical and distributive justice principles of the of the objectives of Shariah or the maqasid al-Shariah.

Furthermore, the study reveals a profound level of trust among both customers and employees in the banks' adherence to Islamic Shariah standards—particularly their consistent avoidance of gharar (excessive uncertainty) and maysir (speculative or gambling-like activities). This high degree of confidence reflects a strong belief in the authenticity and integrity of the operational and governance frameworks adopted by Islamic banks in Bangladesh.

Collectively, these findings demonstrate that the Islamic banking system in Bangladesh has made remarkable strides in achieving objectives of Shariah, which encompass the protection of wealth (hifz al-mal). Nonetheless, the study emphasizes that further progress requires continued innovation in product structuring, stronger implementation of risk-sharing mechanisms such as mudarabah and musharakah, and enhanced Shariah governance oversight. Strengthening these dimensions will be essential for realizing the full transformative potential of Islamic banking as a just, inclusive, and welfare-driven alternative to conventional finance in Bangladesh.

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