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**Impact of Regulatory Technology, Shariah Regulations and Shariah Audit on Islamic Banking Performance: Mediating Role of Maqasid E Shariah and Financial Inclusion**

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**Abstract**

***Purpose-*** *This paper will discuss the effects of the Shariah governance mechanisms on Islamic banking performance.*

***Design/Methodology****- The study uses to analyze the data through PLS-SEM approach and SPSS.*

***Findings****- The findings affirm that regulatory technology, Shariah regulations, and Shariah audit have a positive effect on performance. Also, these relationships are mediated significantly by financial inclusion and Maqasid al-Shariah.*

***Practical implications-*** *Regulators need to come up with robust Shariah frameworks and promote the use of Regtech. These governance tools can be used by policy makers to promote the objectives of financial inclusiveness.*

***Managerial implications-*** *Bank managers ought to make investments in Shariah audit and Regtech. They also need to balance business objectives with Maqasid al-Shariah policies, because, ethical performance is how financial success is achieved.*

***Originality/value-*** *The study presents a new model that demonstrates the manner in which Shariah governance operates using both financial inclusion and Maqasid al-Shariah to improve performance.*

***Keywords-*** *Islamic banking performance, Shariah governance, regulatory technology, Shariah audit, Maqasid al-Shariah and financial inclusion.*

**Introduction**

Over the past several years, the financial sector has been experiencing significant change due to the development of technology (Amiri, Hakimi, & Rajaee, 2024), and the shift in regulatory regimes, the implementation of which by financial institutions, including Islamic Financial Institutions (IFIs), has become a fundamental requirement to guarantee compliance (Harahap, Risfandy, & Futri, 2023). This has led to breakthrough innovations like Regulatory Technology (RegTech) who attempt to enhance performance, to satisfy not only regulatory conditions but also ethical principles in the field of compliance with the Shariah law in the Islamic Finance setting (Firiza, Lutfiani, Zahra, & Rahardja, 2024). This research study aims to investigate how three primary independent variables, including RegTech in the case of Islamic finance industry, Shariah Regulations, and Shariah Audits, affect theactive development of the financial industry, and in particular, the Islamic Banking.

RegTech refers to the application of technology to help facilitate improved, quicker, smarter, more uniform, and more open control, compliance, and risk administration in the regulatory and compliance contexts of the financial services sector. (Obeng, Iyelolu, Akinsulire, & Idemudia, 2024).According to Firiza et al. (2024), These are tools that facilitate the auditing process as stressed on and therefore assist the financial institutions to demonstrate what they provide in terms of compliance with the Shariah regulations (Iqbal & Kassim, 2024).Furthermore, Islamic financial markets have been developing considerably, and global demand for Shariah-compliant financial services has growing (Latifannisa, Rahmi, & Afdal, 2025). Shariah regulation ensures that Islamic banking adheres to Islamic principles based on the Quran, Hadith (Prophet Mohammad's sayings and actions), and Islamic scholars' interpretations (Musaada[1] & Muttaqin, 2025). Although the Shariah audits still play a significant role in the governance frameworks of Islamic finance,while making sure that the operations of the Islamic banking are in line with the Shariah principles, thus increasing the level of stakeholder trust and positively affecting the general financial performance of the Islamic financial institutions (Asif & Akhlaq, 2024).

Moreover, financial inclusion increases the access to financial services, which foster economic growth and stability.Islamic finance financial inclusion is not limited to credit or other financial services availability; rather, it believes that the services develop economically and socially communities (Syaputri & Sigid, 2024).In the Islamic finance, financial inclusion cannot be merely the provision of access to financial products, but also the fulfillment of financial products in terms of the ethical and social objectives of the Shariah law (Nizam, 2025).Additionally, the concept of Maqasid-Shariah (the higher goals and objectives of Shariah law), which reinforces the importance of Shariah audits in the governance of IFIs, the preservation of wealth, life, religion, intellect, and ancestry (Katili, Kadir, Polapa, & Gobel, 2025). Islamic finance activities are guided by a range of ethical values contained in Maqasid-Shariah(Meskovic, Kozarevic, & Avdukic, 2024).

This research study attempts to bridge a critical research gap in the Islamic finance literature by offering an integrative analysis that explains how these distinct forces (technology, regulation, audit, ethics, and social inclusion) are implicated in Islamic finance's progress(Abdul Rahim, Shaharuddin, & Mohd Suki, 2024).Implementation of RegTechs including transaction tracking and e-KYC remains entrenched in the compliance agenda of Islamic financial institutions. Finances, time, and Shariah integration are the major challenges to these technologies use (Meiryani, Soepriyanto, & Audrelia, 2023).Additionally, the existing literature on the connection between Shariah compliance and financial performance of Islamic banking is quite nascent (Abdul Rahim et al., 2024).However, there is a lack of understanding as to how Shariah advisory Committees and Shariah Advisory Boards influence the way technological and operational practices of Islamic banks can be crafted (Al Thnaibat, Al-Hajaya, & Alshhadat, 2024). Moreover, MaqasidShariah, financial inclusion, and the performance of Islamic banks integration has not been addressed exhaustively in the literature (Hussain, 2025). The study provides the policy suggestions on the enhancement of the regulatory frameworks in the context of Islamic banking by including the insights on cost-efficiency, fraud prevention, and ethical standards.

**Research Objectives**

- To examine the Impact of Regulatory Technology, Shariah Regulations, Shariah Audit on Islamic Banking performance.
- To investigates the two mediating roles of Maqasid al-Shariah and financial inclusion on the nexus between the principal regulatory variables, RegTech, Shariah audit and Shariah regulation, and the performance of Islamic banking institutions.

**Literature Review and Theoretical Development**

**Agency Theory and Shariah Governance**

The Agency theory (AT) concept is borrowed under economics and organizational theory whose focus is on the principal-agent relationship(Santoso, Qizam, Jusoh, & Viktorovna, 2023). It relates to the issues that arise when the ruling agent (the governing agent) transfers the decision-making authority or the decision-making capacity to a second agent (the agent) who is supposed to represent the first agent(Kismawadi, 2025). Moreover, the AT also proposes its own ideas on how these issues could be resolved such as performance-based pay, surveillance and rewards that would harmonize the agent's interests and that of the principal(Tumewang, Supriani, Dewi, & Alam, 2025).In the context of applicability in the Shariah governance is specific to financial institutions in the Islamic economies, or those with Shariah compliant financial products(Salman, Djunaedi, & Ardianto, 2024). The concept of AT in the Islamic finance extends the agency of maximizing shareholder wealth to agency that is ethical and moral to all stakeholders (to employees, customers and the society at large)(M. Q. Ali, 2025).

**Innovation Theory**

Innovation theory (IT) is based on the principle of continuous improvement and disruptive creativity in the organizations and is often inspired by the need to solve the existing problems, enhance the level of competitiveness and add value(Liaqat, Sair, & Sohail, 2025). In addition, the IT is more about the process through which new ideas, products, services and practices are taken through in the establishment while the introduction of innovation as a value creating process, as a way of enhancing efficiency as well as responding to market forces(Mohd Haridan, Sheikh Hassan, Mohammed Shah, & Mustafa, 2023).When the concept of innovation is applied in the context of governance in the Shariah, it make sure that the innovation is morally responsible and ethically correct as per and in line with the Islamic principle(Grassa, El-Halaby, & Khlif, 2025).For instance, in Islamic finance innovation must comply with Shariah principles including banning Riba (interest), gharar (excessive uncertainty) and maysir (gambling)(Abdul Rahim et al., 2024).

**Regulatory Technology**

Regulatory Technology (RegTech) this is the application of new technologies, including AI and data analytics, to assist Control and comply effectively with regulatory obligations. It improves transparency, risk reduction and decreases the compliance cost(Adeniran et al., 2024). Moreover, various regulations can vary and can change quite often, an offense can attract hefty fines, reputational damage or even legal action (Obeng et al., 2024). RegTech provides solutions to help monitor, track, and react in real time to changes in regulatory requirements, making it harder to fail to comply and also reduce risk(Nguyen, Sermpinis, & Stasinakis, 2023).Additionally, basic regulatory processes are anti-money laundering (AML) and know your customer (KYC) compliance that financial institutions must undertake to keep illegal activities like money laundering and fraud in check(Iyelolu, Agu, Idemudia, & Ijomah, 2024). Furthermore, AI, machine learning algorithms, can be used to analyze large datasets (such as public records, transaction histories) and other forms of identity verification, to automate the work of customer verification enabling institutions to bring in customers much faster and with less cost and risks of fraud (Masan, 2025).

**Shariah Regulations**

The Shariah regulation (SR) ensures that Islamic banking operates in compliance with Islamic principles which rely on the Quran, the Hadith (sayings and actions of Prophet Mohammad), as well as Islamic scholar's interpretations, commonly known as the Fiqh, which form a cohesive paradigm for the way in which Muslims are to behave and engage in both their private and public lives (Hasan, 2023). The objective of SR is to achieve justice, advancement of public interest, prevention of harm (mafsada) to individual rights and society. In Islamic finance, riba or interest or usury is one of the foundational principles of Shariah compliant finance in which interest is deemed exploitative and unjust since it's charging forces the enrichment of the lender at the expense of the borrower unfairly (Musaada[1] & Muttaqin, 2025). Furthermore, major facet of Shariah compliant finance involves the ban on uncertainty or ambiguity (gharar) in excess which is the contracts in traditional financial markets involve a great deal of uncertainty, especially when we deal with contract instruments such as derivatives, futures and options (Ridwansyah & Mujahid, 2025). Moreover, another key principle of Shariah regulations is that gambling (maysir) is prohibited as it prevents the action that has chance or luck and results in unknowable financial harm (Tumewang et al., 2025).

**Shariah Audit**

The Shariah audit (SA) is an essential process of ascertaining that financial institutions, companies and organizations are practicing Shariah principles (Alabdullah, 2023).According to Nizam (2025), an extremely important instrument for determining that financial institutions and firms operate according to Islamic principles are Shariah audits.Additionally, SA in the Islamic finance context is crucial in ensuring that organizations operate with ethical, due diligence and with highest stake holders in the interest namely shareholders, employee, customer and all, including the broader community(Mohammed, Alomari, & Yousif, 2024). Furthermore, SA process also includes review of the Shariah governance structures of financial institution and business (Sehen Issa & Abbaszadeh, 2023). A Company's portfolio gets evaluated by Shariah auditors to verify it has no investments in haram sectors (Kamaldeen, 2024). In addition, the SA area is to ascertain that companies, and/or financial institutions are not engaging in any transaction that would result into excessive vagueness and uncertainty in that transaction, a known concept in Islamic terminology of Gharar(Nabila, Rochayatun, & Madina, 2023).

**Financial Inclusion**

Financial inclusion (FI) is the provision and access to a wide scope of financial services by households and individuals and businesses at a cost affordable to them. (Tawfik, Ahmed, & Elmaasrawy, 2024). It has the vision of assisting people regardless of their income, geographical position or social status in the financial ecosystem. FI is the accessibility of affordable and useful financial products and services such as savings, credit, insurance, payments, and transfers required by everyone, and particularly the poor (Fazeel, Saleem, & Fiaz, 2025). According to Sukmana and Trianto (2025), FI can be described as ensuring that there are minimal barriers that limit access of people or businesses to the financial system. Additionally, important component of FIare access to credit(S. A. Ali & Salman, 2025), access to insurance (Rakhmawati & Nizar, 2023), access to financial products. Although these are also a part of FI, however, it is not only about this as it also incorporates financial literacy. (Elfi Barus, Syahrial, Muchtar, & Trianto, 2024). Therefore, organizations like World Bank and the OECD have recognized the role of financial literacy in FI and so have launched initiatives for increasing financial literacy around the world (Das, 2024).

**MaqasidShariah**

Aims of the Islamic law, called Maqasid al-Shariah (MS), are to conserve religion, life, intellect, lineage, and wealth (Katili et al., 2025). Additionally, MS is a term derived from the Arabic root maqsad, meaning goal, purpose, or objective, and aims at deciding the aim of Shariah in order to guide the formulation of legal rules which enhance the well-being of humanity in spiritual and temporal sense (Aisah, Utomo, & Setyawan, 2024).At the core of MS lies promotion of human welfare which is done by safeguarding the fundamental values of life. Five goals (Al-Daruriyyat ) were spelled out in the classical Islamic jurisprudence and these are: Protection of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al- aql) progeny (hifz al-nasl) and wealth (hifz al-mal) (Norman & Ruhullah, 2024). Moreover, another pillar of MS is the safeguard of life (hifz al-nafs). In the case of Islam, it is sacred and human life should be preserved at all the cost. Following Islam, actions that merely cause or cause harm to or threaten life such as murder, self-damage, etc. are prohibited. (Nyange & Jonas, 2024).

**Hypothesis Development**

Regulatory technology (RegTech) has been a transformative force in financial industry that particularly is facing its challenges from regulatory and compliance perspective, often having distinctive operations and ethical framework of Islamic banking (Obeng et al., 2024).Unlike conventional banking, Islamic banking works per principles of Shariah law, which prohibits all of the above, including 'riba', which is charging interest that may accumulate and grow; 'maysir', gambling and participating in unethical investment practices (Firiza et al., 2024). Additionally, IB financial transactions are demanded not to violate the ethical and legal waypoints laid by Shariah scholars and regulatory bodies (Kunhibava, Muneeza, Mustapha, Karim, & Sa'ad, 2024).Moreover, implementing RegTech tools in Islamic banking systems allows the banks to monitor transactions more effectively, screen for contraventions of Shariah principles, and have confidence that the banks practices are in compliance with both internal and external regulatory standards (Ajmal et al., 2025). The most important advantage of RegTech for Islamic banking is that it allows to improve risk management processes (Lasmiatun & Manteghi, 2025).

**H1**: **There is a significant Impact of regulatory technology on Islamic Banking performance.**

Emerging literature that suggests that SR is the determinant of the success and the growth of Islamic banking establishments and hypothesis that SR has a profound effect on the performance of Islamic banking is confirmed

(Minaryanti & Mihajat, 2024). Additionally, Islamic banks performance is ineluctably associated with maintaining Shariah compliance and to obtain financial profitability and sustainability (Abdul Rahim et al., 2024). SR are an essential element in developing the special characteristics in Islamic banking, above all, risk management, customer loyalty and social responsibility (Malik, 2025). In addition, Shariah compliance is also inextricably linked to the moral dimension of the Islamic banking that is geared towards aligning the financial action to the larger goals of the society in fostering social justice, economic growth and the overall wellbeing of the society (Ab Ghani, Mohd Ariffin, & Abdul Rahman, 2024). The Islamic finance is founded on fairness transparency and equity in all financial transactions., as per the principles mentioned in the Quran and Hadith (Wijaya et al., 2024).

**H2: There is a significant Impact of Shariah Regulations on Islamic Banking performance.**

SA is very important because it helps in performing Islamic banks to high performance by contributing to making their operations, transactions and financial products lines compatible with Shariah law (Khelassi, Ayad A, Halali, & Lutfi, 2024). In addition, the scope of SA transcends verification of conformance with Islamic financial principles, and it furthers the success of IB by protecting reputation, facilitating regulatory compliance, and maintaining public confidence (Yusoff et al., 2024). Moreover, SA maintain Islamic banks' financial ventures in terms of Islamic law (Shariah), which prohibits practices like interest (riba), excessive uncertainty (gharar) and gambling (maysir) (Haikal, Efendi, & Ramly, 2024). Therefore, the role of Shariah auditors is to review and assess internal operations, financial products and transactions of IB to establish that the same are consistent with these principles (Mishref & Sa'ad, 2024).Perhaps the most important benefit of SA is the improvement of governance for Islamic banks (Al Astal, Ateeq, Milhem, & Shafie, 2024). Besides assisting in promotion of ethical governance, SA also assist Islamic banks in risk management (Jaradat & Oudat, 2025).

**H3: There is a significant Impact of Shariah Audit on Islamic Banking performance.**

Generally, FI involves making available and accessible (financial) services to all strata of society and is a key variable in improving the overall performance of IB. RegTech is also an enhancement in Islamic finance, introducing more sophisticated tools and procedures that can help banks to comply with regulations more effectively (Mishref & Sa'ad, 2024). These technologies can be used to do real time monitoring and reporting that can help in Shariah compliance or the legal framework of the regulatory authorities (Kateb, Nafti, & Zeddini, 2023). According to (Abikoye, Umeorah, Adelaja, Ayodele, & Ogunsuji, 2024; Kismawadi, 2024), the nexus between RegTech, SA, SR, and banking performance is mediated by FI because the variables serve to boost the availability and efficiency of the banking system. RegTech enable banks to comply with the requirements of the statutory requirements, thus breeding market confidence (Ashraf, Amir, & Osman, 2025). Strict SA makes sure that services of Islamic banking are based on Shariah principles, therefore bringing about ethically oriented customers (Abikoye et al., 2024). Additionally, the use of clear SR is essential towards boosting customer trust and market penetration of the Islamic banking (Ononiwu, Onwuzulike, Shitu, & Ojo, 2024).

**H4: Financial inclusion mediates the relationship between Regulatory Technology and Islamic Banking performance.**

**H5: Financial inclusion mediates the relationship between Shariah audit and Islamic Banking performance.**

**H6: Financial inclusion mediates the relationship between Shariah Regulation and Islamic Banking performance.**

MS mediates the effect of regulatory technology, SA, SR, and Islamic banking performance, all for reasons due to the fine dynamics of Islamic banking which works under the rules of Shariah law, yet should cope with intricate financial systems and technical modifications (Ibrahim, Jamaludin, Muflih, & Hashim, 2024). Islamic banking differs from what we call conventional banking due to a set of ethics based on Shariah law. The basic principles guiding IB operations stem from the Islamic concept of justice, equity, fairness, transparency and ethics, which is reflected at the operational level and in the financial products and services offered by these banks (Abikoye et al., 2024). However, these principles cannot be effectively implemented without the existence of regulatory frameworks, RegTech and S mechanism for IB to conduct business within the ambit of Shariah Law (Lutfiyah, Nazih, Fatmawati, Hakim, & Fanani, 2024). Integrating MS into Islamic banks' operational, regulatory, and auditing processes would greatly improve their performance; by bringing its business model closer to the realization of the higher goals of Shariah and fostering a social responsibility and ethical business conduct (Khelassi et al., 2024). Therefore, MS functions as a mediator between the impact of SA, SR, and RegTech on the banking performance, guaranteeing that all efforts undertaken under these areas are consistent with the global purpose of achieving societal welfare and justice (Minaryanti & Mihajat, 2024).

**H7: Maqasid E Shariah mediates the relationship between Regulatory Technology and Islamic Banking performance.**

**H8: Maqasid E Shariah mediates the relationship between Shariah audit and Islamic Banking performance.**

**H9: Maqasid E Shariah mediates the relationship between Shariah Regulation and Islamic Banking performance.**

**Hypothesized Conceptual Model**

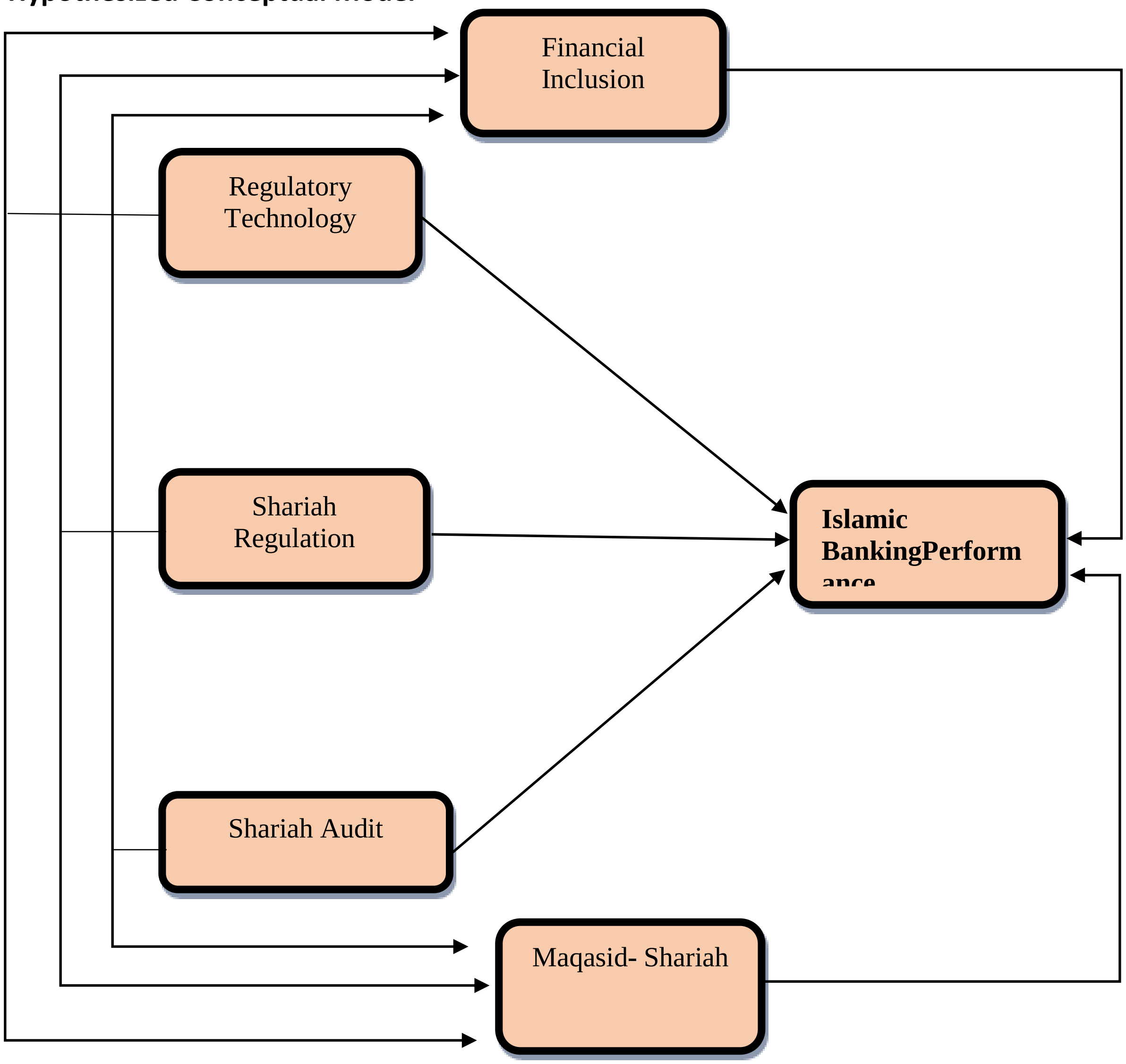


**Figure 1 Conceptual Framework**

## Methodology

This research relies on positivist paradigm of research, which focuses on objective reality that can be identified using empirical data and which explores using systematic scientific procedures and quantifiable data to test hypotheses. The study evaluates the causal relationship that exists between the performance of Islamic banks, use of technology and compliance with the Shariah principles. It uses a deductive approach, which consists of a comprehensive survey of the available literature and testing propositions with the help of empirical data obtained in six Islamic banking organizations located in Lahore. This study uses quantitative methods and the structured questionnaires sent to the managerial staff to collect numerical data, which makes statistical analysis of the variables possible. It involves the use of a cross-sectional design to represent the current situation of technological adoption, Shariah compliance, and banking performance at a particular point in time.

**Measuring Instrument**

In this study, data was collected through completion of a structured questionnaire, which was done among managerial employees of Islamic banks based in Lahore, Pakistan. For this research, a 5-point Likert scale is created. The scales range from 1, indicating Strongly Agree, to 5, indicating multiple Strongly Disagree.

**Sample and Data Collection**

The research aims at getting the experiences of experienced bank managers, thus giving quantitative data on the operational trends and issues that Islamic banks in the area face. These results will form a foundation of the analysis of the trends, approaches of strategies, and managerial views in the sphere of the Islamic banking in Lahore. Questionnaires were used to gather information from an entire population of 870 managerial staff members spanning 422 branches of 6 Islamic banks situated in Lahore. In order to capture each managerial level in the population, stratified random sampling was applied to each level in the hierarchy (Area Managers, Branch Managers, Branch Service Managers, and Shariah Scholars).

**Table 1 Sample of the Study**

| Name of Banks | No. of Branches in Lahore | No. of Managerial Employees in Lahore branches | References |
|---|---|---|---|
| Meezan Bank LTD | 140 | 289 | Interaction Center |
| Faysal Islamic Bank LTD | 123 | 254 | Interaction Center |
| Bank Islami LTD | 60 | 124 | Interaction Center |
| Dubai Islamic Bank LTD | 35 | 72 | Interaction Center |
| Al Baraka Islamic Bank LTD | 22 | 46 | Interaction Center |
| MCB Islamic Bank. | 42 | 85 | Interaction Center |
| Total Branches & Managerial staff | **422** | **870** | |

**Respondents' Demographics**

The demographic view of the respondents provides the vital information on the salient features of these respondents which includes sex, income, experience, age, and the organizational level thus significantly informing the suitability and representativeness of the data gathered. Out of the 870 respondents, the gender imbalance was quite high with 625 (72%) male and 245 (28%) female. Annual income distribution shows that 510 (59%) respondents were between 10 and 15 lakh, 221 (25%) were between 5 and 10 lakh income earners and 139 (16%) earned more than 15 lakh, implying that it is a mainly middle-income group. The respondent of 26 years and above showed a more positive response of 64% compared to 22% by respondents of 20 years to

25 years and thus a difference in critical thinking and reasoning skills is also seen among the age groups. There was observed a balanced format of response among the young respondents as compared to the old respondents, with most of them having years of working experience that were quite impressive, thus reflecting a well-trained workforce. In general, the demographic data state that the sample of the respondents is mostly male, middle-aged, experienced, and holds the managerial positions, thus guaranteeing the high level of information and the ability of the respondents to give valuable information concerning the study.

**Table 2 Respondents' Profile**

| Variable | Category | Frequency (n) | Percentage (%) |
|---|---|---|---|
| Gender | Male | 625 | 72% |
| | Female | 245 | 28% |
| Annual Income | 05 lakhs to 10 lakhs | 221 | 25% |
| | 10 lakhs to 15 lakhs | 510 | 59% |
| | Above 15 lakhs | 139 | 16% |
| Experience | Less than 5 Years | 15 | 2% |
| | 5 – 10 Years | 320 | 37% |
| | Above 10 Years | 535 | 61% |
| Age | Less than 25 Years | 42 | 5% |
| | 26 – 40 Years | 386 | 44% |
| | Above 40 Years | 442 | 51% |
| Job Position | Operation Manager | 418 | 48% |
| | Branch Manager | 408 | 47% |
| | Area Managers, Shariah Scholars | 44 | 5% |

**Analysis Technique**
For the analysis, the researcher utilize the Hayes Process Macro-Model 4 for mediation analysis, which evaluates complex relationships between independent variables, a mediator, and dependent variables to understand their interactions. The study also employs SPSS for descriptive and regression analysis, summarizing data characteristics and examining predictive relationships. Additionally, Partial Least Squares Structural Equation Modeling (PLS-SEM) is used to analyze mediating effects within small to medium sample sizes, allowing for the exploration of multi-variable interactions and relationships in the mediation model.

**Results and Analysis**

**Descriptive Statistics**
The descriptive analysis in Table 3 depicts the perception of respondents about Regulatory Technology, the mean of which is 3.90 (SD=0.66), which is of high perception (scale of 1.00 to 5.00). The greatest mean was 4.10 (SD=0.49) which represents great agreement on the importance of Shariah Regulation. The average score of Shariah Audit was 3.69 (SD=0.72), indicating that there were positive perceptions of the effectiveness of audit with low variance. The mean of the Islamic Banking Performance was 3.89 (SD=0.59) indicating that Islamic Banking Performance was perceived positively with low variability. The mean of Maqasid-e-Shariah indicated financial inclusion with 3.59, and financial stability 3.92 in terms of differences in the perceptions about the promotion of these issues in Islamic Banking.

**Table 3 Descriptive Analysis**

| Variable | Mean | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|
| Regulatory Technology | 3.90 | 0.66 | 1.00 | 5.00 |
| Shariah Regulation | 4.10 | 0.49 | 1.00 | 5.00 |
| Shariah Audit | 3.69 | 0.72 | 1.00 | 5.00 |
| Islamic Banking Performance | 3.89 | 0.59 | 1.00 | 5.00 |
| Maqasid E Shariah | 3.59 | 0.81 | 1.00 | 5.00 |
| Financial Inclusion | 3.92 | 0.70 | 1.00 | 5.00 |

**Discriminant validity and reliability**

All findings as outlined in Table 4, are related to a normality analysis that is aimed at determining reliability and validity of constructs in different modules. All constructs portray acceptable levels of internal consistency with Cronbach Alpha scores of between 0.728 and 0.87 that spearhead good reliability. Also, rho A and Composite Reliability exceed the 0.7 mark, which also proves internal consistency. Nevertheless, some of the values of the AverageVariance Extracted (AVE) of certain constructs like MaqasidShariah (0.327), ShariahRegulations (0.344) are less than 0.5 indicating no convergent validity. Nevertheless, the general evaluation proves the validity of the measurement model.

**Table 4Normality Analysis**

| | Cronbach's Alpha | rho_A | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|---|
| Cost and Time | 0.728 | 0.741 | 0.821 | 0.482 |
| Electronic Know Your Customer | 0.764 | 0.798 | 0.842 | 0.523 |
| Financial Inclusion | 0.81 | 0.825 | 0.85 | 0.399 |
| Implications of Shariah Audit | 0.775 | 0.779 | 0.834 | 0.42 |
| Islamic Banking Performance | 0.87 | 0.877 | 0.891 | 0.407 |
| MaqasidShahriah | 0.794 | 0.791 | 0.84 | 0.327 |
| Perception of Shahriah Audit | 0.87 | 0.925 | 0.894 | 0.546 |
| Shariah Audit Challenges | 0.791 | 0.794 | 0.856 | 0.544 |
| Shariah Regulations | 0.822 | 0.83 | 0.86 | 0.344 |
| Transaction Monitoring | 0.849 | 0.852 | 0.892 | 0.625 |

**Common Method Bias**

To determine Common Method Bias (CMB) in behavior research with self-reported surveys, the experiment established that a single variable only accounted 31.8% of the total variance which is less than the critical value of 50 percent which is a sign of possible CMB problems. The results support the fact that the common method bias is low, and the relationships observed can be held as valid and credible in the framework of Islamic financial institution, the Reg Tech implementation, and the Shariah audit relevance to the MaqasidShariah and performance.

**Table 5 Harman's Single-Factor Test (Common Method Bias)**

| Component Extracted | Total Variance Explained (%) |
|---|---|
| Single Factor | 31.8% |

**Fornell-Larcker criterion**

In Fornell-Larcker criterion, it is ascertained that the constructs in the model are different. The square root of average variance extracted of each construct is greater than correlations with other constructs, which show their distinct variance. The top ones are: Cost and Time (AVE = 0.694), Electronic Know Your Customer (AVE = 0.723), and Financial Inclusion (AVE = 0.633) where all AVE values are high compared to their corresponding correlations. The constructs concerning Shariah audit such as the Islamic Banking Performance (AVE = 0.646) and the Perception of Shariah Audit (AVE = 0.739) also are held to the discriminant validity despite the high correlations. The two outliers AVE of Regulatory Technology is 1.00, although it fits the validity criteria. Finally, it can be emphasized in the analysis that all constructs are independent enough even though some of them are highly correlated, and recommends improvements in constructs with the same themes to ensure accuracy of measurements in future studies.

**Table 6 Validity Analysis (Fornell-Larcker)**

| | CT | EKYC | FI | ISA | IBP | MS | PSA | RT | SA | SAC | SR | TM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cost and Time (CT) | 0.694 | | | | | | | | | | | |
| Electronic Know Your Customer (EKYC) | 0.323 | 0.723 | | | | | | | | | | |
| Financial Inclusion (FI) | 0.342 | 0.31 | 0.633 | | | | | | | | | |
| Implications of Shariah Audit (ISA) | 0.246 | 0.249 | 0.263 | 0.648 | | | | | | | | |
| Islamic Banking Performance (IBP) | 0.263 | 0.275 | 0.258 | 0.647 | 0.646 | | | | | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MaqasidShariah (MS) | 0.402 | 0.611 | 0.637 | 0.408 | 0.402 | 0.576 | | | | | | |
| Perception of Shariah Audit (PSA) | 0.315 | 0.237 | 0.214 | 0.315 | 0.5 | 0.254 | 0.739 | | | | | |
| Regulatory Technology (RT) | 0.668 | 0.622 | 0.381 | 0.429 | 0.559 | 0.536 | 0.73 | 1 | | | | |
| Shariah Audit (SA) | 0.31 | 0.299 | 0.393 | 0.705 | 0.561 | 0.727 | 0.231 | 0.395 | 1 | | | |
| Shariah Audit Challenges (SAC) | 0.242 | 0.253 | 0.23 | 0.615 | 0.613 | 0.342 | 0.453 | 0.54 | 0.409 | 0.737 | | |
| Shariah Regulations (SR) | 0.48 | 0.342 | 0.283 | 0.317 | 0.367 | 0.357 | 0.52 | 0.72 | 0.281 | 0.336 | 0.587 | |
| Transaction Monitoring (TM) | 0.551 | 0.679 | 0.271 | 0.236 | 0.286 | 0.457 | 0.346 | 0.731 | 0.261 | 0.265 | 0.418 | 0.79 |

**Heterotrait-Monotrait Ratio**

Heterotrait-Monotrait Ratio of Correlations (also known as HTMT) is a stringent approach of measurement used in the analysis of discriminant validity in structural equation modelling. HTMT has a widely used criterion of 0.90, but a safer cut-off of 0.85 can be adopted in order to guarantee construct distinctions. A difference between two constructs should measure greater than this threshold to indicate any possibility of overlap or absence of distinctness. On the contrary, low values do not argue against discriminant validity, which implies that constructs are distinct in a conceptual sense even though theoretically close.

**Table 7 Validity Analysis HTMT**

| | CT | EKYC | FI | ISA | IBP | MS | PSA | RT | SA | SAC | SR | TM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cost and Time | | | | | | | | | | | | |
| Electronic Know Your Customer | 0.417 | | | | | | | | | | | |
| Financial Inclusion | 0.396 | 0.439 | | | | | | | | | | |
| Implications of Shariah Audit | 0.314 | 0.324 | 0.303 | | | | | | | | | |
| Islamic Banking Performance | 0.322 | 0.332 | 0.281 | 0.68 | | | | | | | | |
| MaqasidShahriah | 0.514 | 0.715 | 0.769 | 0.53 | 0.491 | | | | | | | |
| Perception of Shahriah Audit | 0.387 | 0.27 | 0.236 | 0.365 | 0.498 | 0.263 | | | | | | |
| Regulatory Technology | 0.776 | 0.702 | 0.405 | 0.501 | 0.594 | 0.57 | 0.778 | | | | | |
| Shariah Audit | 0.365 | 0.346 | 0.403 | 0.759 | 0.601 | 0.874 | 0.213 | 0.395 | | | | |
| Shariah Audit Challenges | 0.31 | 0.32 | 0.261 | 0.739 | 0.696 | 0.435 | 0.488 | 0.607 | 0.455 | | | |
| Shariah Regulations | 0.613 | 0.419 | 0.343 | 0.398 | 0.427 | 0.42 | 0.657 | 0.712 | 0.307 | 0.414 | | |
| Transaction Monitoring | 0.675 | 0.542 | 0.335 | 0.293 | 0.329 | 0.51 | 0.384 | 0.793 | 0.285 | 0.321 | 0.5 | |

**Collinearity statistics**

Analysis Variance Inflation Factor (VIF) is an instrumental diagnostic tool that can be used to establish multicollinearity in regression. The observations lead to the validity and the strength of the model overall and structural integrity of the model that enables to address the additional interpretations of the additional statistical findings. In progressing the nature of the model further, the researchers will make a return visit to the most collinear items in future research in a move to correct or minimize the redundancy of the item.

**Table 8Variance Inflation Factor**

| | VIF |
|---|---|
| Cost and Time | 0.728 |
| Electronic Know Your Customer | 0.764 |
| Financial Inclusion | 0.81 |
| Implications of Shariah Audit | 0.775 |
| Islamic Banking Performance | 0.87 |
| MaqasidShariah | 0.794 |
| Perception of Shariah Audit | 0.87 |
| Shariah Audit Challenges | 0.791 |
| Shariah Regulations | 0.822 |
| Transaction Monitoring | 0.849 |

**Predictability of the model**

The value of R square 0.789 and the adjusted R square 0.769 of the dependent construct Islamic Banking Performance has good statistical evidence on the explanatory power of the model. The facts mean that the effect of the combination of Regulatory Technology and Shariah Regulations and Shariah Audit can help explain about 78.9 percent of the variance in Islamic Banking Performance when mitigated by the activity of Maqasid al-Shariah and Financial Inclusion. Adjusted R Square, which minimizes the R Square a little bit to consider the number of predictors in the model, remains a strong 76.9 percent thus again confirming that the model explains the performance outcome in the Islamic banking institutions in a very sound manner.

**Table 9 R Square**

| | R Square | R Square Adjusted |
|---|---|---|
| Islamic Banking Performance | 0.789 | 0.769 |

**Outer loadings**

The outer loading values of this table represent the strong relationship between each indicator with its related latent construct in the measurement model. Such values play a critical role when establish reliability and validity of the constructs involved in the analysis. The widely used criterion is 0.70 referring to outer loading which shows that the item makes a significant contribution to the construct that it is measuring. Other items that have loading values that are below 0.70 can be acceptable, provided that he or she has a strong construct validity overall or the item has significant theoretical content.

**Table 10 Outer Loadings**

| | CT | EKYC | FI | ISA | IBP | MS | PSA | RT | SA | SAC | SR | TM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CT1 | 0.72 | | | | | | | | | | | |
| CT2 | 0.715 | | | | | | | | | | | |
| CT3 | 0.546 | | | | | | | | | | | |
| CT4 | 0.777 | | | | | | | | | | | |
| CT5 | 0.692 | | | | | | | | | | | |
| EKYC1 | | 0.749 | | | | | | | | | | |
| EKYC2 | | 0.479 | | | | | | | | | | |
| EKYC3 | | 0.699 | | | | | | | | | | |
| EKYC4 | | 0.836 | | | | | | | | | | |
| EKYC5 | | 0.8 | | | | | | | | | | |
| FI1 | | | 0.754 | | | | | | | | | |
| FI2 | | | 0.372 | | | | | | | | | |
| FI3 | | | 0.689 | | | | | | | | | |
| FI4 | | | 0.417 | | | | | | | | | |
| FI5 | | | 0.744 | | | | | | | | | |
| FI6 | | | 0.518 | | | | | | | | | |
| FI7 | | | 0.678 | | | | | | | | | |
| FI8 | | | 0.805 | | | | | | | | | |
| FI9 | | | 0.563 | | | | | | | | | |
| IBP1 | | | | | 0.663 | | | | | | | |
| IBP10 | | | | | 0.705 | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| IBP11 | | 0.495 | | | | | |
| IBP12 | | 0.552 | | | | | |
| IBP2 | | 0.721 | | | | | |
| IBP3 | | 0.716 | | | | | |
| IBP4 | | 0.697 | | | | | |
| IBP5 | | 0.59 | | | | | |
| IBP6 | | 0.568 | | | | | |
| IBP7 | | 0.673 | | | | | |
| IBP8 | | 0.653 | | | | | |
| IBP9 | | 0.668 | | | | | |
| ISA1 | 0.644 | | | | | | |
| ISA2 | 0.662 | | | | | | |
| ISA3 | 0.599 | | | | | | |
| ISA4 | 0.658 | | | | | | |
| ISA5 | 0.709 | | | | | | |
| ISA6 | 0.705 | | | | | | |
| ISA7 | 0.542 | | | | | | |
| MS1 | | | 0.56 | | | | |
| MS10 | | | 0.517 | | | | |
| MS11 | | | 0.43 | | | | |
| MS2 | | | 0.649 | | | | |
| MS3 | | | 0.465 | | | | |
| MS4 | | | 0.624 | | | | |
| MS5 | | | 0.621 | | | | |
| MS6 | | | 0.63 | | | | |
| MS7 | | | 0.759 | | | | |
| MS8 | | | 0.567 | | | | |
| MS9 | | | 0.414 | | | | |
| PSA1 | | | | 0.721 | | | |
| PSA2 | | | | 0.754 | | | |
| PSA3 | | | | 0.742 | | | |
| PSA4 | | | | 0.733 | | | |
| PSA5 | | | | 0.799 | | | |
| PSA6 | | | | 0.719 | | | |
| PSA7 | | | | 0.699 | | | |
| SAC1 | | | | | | | 0.692 |
| SAC2 | | | | | | | 0.736 |

| | | | |
|---|---|---|---|
| SAC3 | 0.734 | | |
| SAC4 | 0.744 | | |
| SAC5 | 0.779 | | |
| SR1 | | 0.471 | |
| SR10 | | 0.509 | |
| SR11 | | 0.515 | |
| SR12 | | 0.43 | |
| SR2 | | 0.497 | |
| SR3 | | 0.679 | |
| SR4 | | 0.7 | |
| SR5 | | 0.68 | |
| SR6 | | 0.607 | |
| SR7 | | 0.636 | |
| SR8 | | 0.693 | |
| SR9 | | 0.537 | |
| TM1 | | | 0.796 |
| TM2 | | | 0.717 |
| TM3 | | | 0.758 |
| TM4 | | | 0.825 |
| TM5 | | | 0.849 |

**Hypothesis testing**

According to this research, the nine hypotheses (H1-H9) that consider factors affecting the Islamic Banking Performance are statistically validated. The most notable direct drivers whose levels of impact are strong are Shariah Audit (Beta=0.57), and Regulatory Technology (Beta=0.352). Moreover, the findings affirm that there are strong mediation effects. Financial Inclusion is a powerful intermediary of Regulatory Technology, Shariah Audit and Shariah Regulations. On the same note MaqasidShariah is a proven intermediary to Shariah Audit and Shariah Regulations, but the direction through Shariah Audit is especially good (Beta=0.444). The t-statistic values and low p-values ($p<0.05$ or $p=0.000$) always indicate the strength of the results. Overall, Islamic banks have direct and indirect improvements in the performance through strong Shariah governance, effective regulation and regulatory technology running through the wing of financial inclusion and the concept of MaqasidShariah.

**Table 11 Direct Effect**

| | | Beta | Mean | STDEV | T Statistics | P Values | Results |
|---|---|---|---|---|---|---|---|
| H1 | Regulatory Technology -> Islamic Banking Performance | 0.352 | 0.366 | 0.042 | 8.442 | 0 | Supported |
| H2 | Shariah Regulations -> Islamic Banking Performance | 0.153 | -0.159 | 0.031 | 4.959 | 0.001 | Supported |
| H3 | Shariah Audit -> Islamic Banking Performance | 0.57 | 0.568 | 0.051 | 11.265 | 0 | Supported |
| H4 | Regulatory Technology -> Financial Inclusion -> Islamic Banking Performance | 0.37 | 0.349 | 0.027 | 13.661 | 0 | Supported |
| H5 | Shariah Audit -> Financial Inclusion -> Islamic Banking Performance | 0.268 | 0.272 | 0.027 | 10.107 | 0 | Supported |
| H6 | Shariah Regulations -> Financial Inclusion -> Islamic Banking Performance | 0.117 | 0.105 | 0.029 | 4.053 | 0.002 | Supported |
| H7 | Regulatory Technology ->MaqasidShahriah -> Islamic Banking Performance | 0.164 | 0.174 | 0.03 | 5.483 | 0 | Supported |
| H8 | Shariah Audit ->MaqasidShahriah -> Islamic Banking Performance | 0.444 | 0.443 | 0.025 | 18.072 | 0 | Supported |
| H9 | Shariah Regulations ->MaqasidShahriah -> | 0.06 | 0.064 | 0.025 | 2.367 | 0.039 | Supported |

| | |
|---|---|
| Islamic Banking Performance | |

**Discussion of the Study**

**H1**: The results of the analysis demonstrated that Regulatory Technology had a great influence on the performance of Islamic Banking. Yudaruddin (2023)found that this relationship is motivated by the fact that regulatory technology improves the efficiency of operations and real-time compliance of Shariah.

**H2:** The results proved the strong impact of Shariah Regulations on the Islamic Banking Performance. Kateb, Nafti, and Zeddini (2025)determined that this relationship is also enhanced by the fact that regulations help in creating a systemic trust and a fixed and standardized system of operation.

**H3:** The findings revealed a strong impact of Shariah Audit in the Islamic Banking Performance. Khelassi et al. (2024)revealed that this is mainly enabled by the role of the audit in alleviating non-compliance risks, as well as, strengthening religious credibility.

**H4:** The significance of financial Inclusion was established in mediating Regulatory Technology and Performance. Amnas, Selvam, and Parayitam (2024)revealed that regulatory technology promotes performance because it facilitates the production of innovative low-cost products that facilitate increased financial access.

**H5:** The research indeed confirmed the existence of the relationship between Performance and Shariah Audit mediated by Financial Inclusion. Abdul Rahim et al. (2024)established that strict audits boost customer confidence which consequently draws in more customers hence is an improvement in performance.

**H6:** A substantial mediating value of Financial Inclusion between Shariah Regulations and Performance was found. In the study, the clear regulations were also emphasized to establish a stable environment which favors new participants in the banking sector, the unbanked(Aisyah, Pratikto, Wardoyo, & Restuningdiah, 2024).

**H7:**Maqasid Al-Shariah was provided to mediate significantly between Regulatory Technology and Performance. Dasmadi, Hadi, Junchu, Wahyuningtyas, and Wedadjati (2024)clarified that the real worth of technology can and will be achieved when it is properly coordinated with the goals of the Shariah which is justice and public welfare.

**H8:** The results of the analysis proved that Maqasid Al-Shariah mediates between Shariah Audit and Performance. Taufik, Muhammad, and Nugraheni (2023)established that the process of auditing is an important tool that can be used to convert the ethical principles into the actual results of operations.

**H9:** There was a significant mediating role of the Maqasid Al-Shariah on the Performance of Shariah Regulations. Subekti (2024) also made clear that regulations have their impact through institutionalization of the main purpose of Shariah like the promotion of social well-being.

**Conclusion**

This research paper provides solid support that good Shariah governance, which includes regulatory technology, Shariah regulations as well as Shariah audit, significantly boosts the performance of the Islamic banks. The results show that these variables do not only have such strong direct impact on performance but are also provided to work in two important indirect ways. To begin with, they enhance financial inclusion through trust-building and providing easy access to the services and consequently improve performance. Second, and much deeper, they have a positive influence that is highly mediated by accomplishment of Maqasid Al-Shariah. This brings out the fact that excellent performance is closely tied to the realization of the higher goals of Islam, which include justice and social welfare. Finally, the study confirms that the combination of technological progress and strict governance and ethical and spiritual intentions are the most important in maintaining the development and integrity of Islamic banking.

**Practical Implications**

The research study under consideration has a lot of impacts in the new area of research in the field of Islamic banking since it explores the multidimensionality of regulatory technology (RegTech), Shariah rules, and Shariah audit and their complementary effect on the performance of Islamic banking. The study provides a comprehensive conceptual framework, by coming up with the mediating variants of Maqasid e Shariah (objectives of Shariah) and inclusion of finance that do not just complement the theoretical knowledge, but also provide practical recommendations to the policy makers and practitioners. The paper articulates the aims of Shariah, e.g. justice, equity, socio-economic wellbeing and therefore explicates the moral and ethical demands that draws the differences between Islamic banking and conventional systems. Shariah audit, Shariah regulation too their relation with Islamic banking performance and the moderating effect of MaqasidShariah that guide these components towards high banking performances (Ichsan, Syahbudi, Barus, & Nst, 2024).

**Managerial Implications**

The relevance of the current research is based on the fact that it also addresses the nexus of Regulatory Technology (RegTech), Shariah regulations and Shariah audit, in the context of their influence on the performance of Islamic banking. Besides that, a new view is also constructed by incorporating Maqasid-e-Shariah as a mediator construct and financial inclusion. This is followed by a two-fold brokering in an attempt to provide a comprehensive picture of how Islamic banking may be streamlined in line with Shariah principles and superior regulatory instruments and be inclusive. Besides, the findings are also strategic to policy makers and regulators. The report illustrates the value proposition that RegTech can bring in to enable compliance, on a regulatory footing and maintain operational agility, and urges regulatory frameworks that would seek to facilitate the use of a new compliance technologies. These insights can be used by policymakers to create favorable conditions in which they combine enabling regulatory control with technological innovation to create sustainable growth within the Islamic banking sector.

**Limitations and future research directions**

This study can be significant in the research concerning the effect of regulatory technology, Shariah regulations and Shariah audit on the performance of Islamic banking through the mediation of the Maqasid-e-Shariah and financial inclusion. The limitation of our strategy, however, is that our empirical research is based on cross sectional data which may omit certain dynamics of the underlying variables over time. Trends and causality analysis through a longitudinal equation may determine more significant long-term effects of the changing regulatory technology on the performance of the Islamic banking. A longitudinal or panel data approach should be considered to determine how impact of regulatory technology of the Islamic banking performance change and sustain within a specified span of time. The inclusion of moderating variables like the market rivalry and customer loyalty will further refine the performance outcome. In addition, the emphasis should be shifted further on developing standard measurements of the Islamic compliance auditing and Shariah compliance review practices. Finally, the newly constructed structures should incorporate the new developments such as blockchain and artificial intelligence with the view of learning more about their revolutionary nature to the Islamic finance system and their connection to the Shariah principles.

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