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Sustainable finance in the Islamic world: A comparative study of ESG reporting in Indonesia, Malaysia, and Brunei Darussalam

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Abstract

This research examines the sustainability reporting procedures of three Islamic banks located in Indonesia, Malaysia, and Brunei Darussalam. The research methodology employs a comprehensive and dependable descriptive approach, utilising a content analysis framework grounded in established sustainable practices and prior studies. This led to an extensive examination of 302 elements, encompassing environmental, socioeconomic, governance, and sharia compliance dimensions. The findings indicate that all three Islamic banks exhibit a commendable level of transparency and are dedicated to adopting sustainable practices. This signifies substantial transparency regarding governance and minimal disclosure concerning sharia compliance, reflecting the ethical identity of the IBs. Bank Syariah Indonesia has the highest degree of disclosure among all sampled banks. This study examines ESG disclosure in Islamic banks and paves the way for future research to broaden its coverage by include more factors. This may result in a more thorough investigation and further insights in the domain. The study's conclusions and suggestions could substantially influence Islamic banks, regulators, and other stakeholders.

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Introduction

Policymakers globally are increasingly concerned with integrating sustainability considerations, encompassing environmental, social, and governance (ESG) factors, into business and investment decisions ((Agustin et al., 2023); Ramadhan et al., 2023; (Abdullah & Haron, 2022); (Fatemi et al., 2018)). These factors pertain to a company's accountability and effectiveness in managing its operations' social and environmental consequences and maintaining robust and transparent governance practices. ESG evaluation aims to uncover dimensions of a company's performance not captured by conventional accounting metrics (Bassen & Kovács, 2020). Enhanced ESG disclosure and transparency can improve corporate value by mitigating investor information asymmetry and reducing agency costs (Yu et al., 2018). This aligns with (Buallay, 2019) findings that sustainability initiatives positively impact the performance of banks within the European Union (E.U.) and the financial outcomes of firms in China (Zhao et al., 2018).

The relationship between Environmental, Social, and Governance (ESG) principles and Islamic Finance is characterized by shared principles, alignment with sustainability goals, potential overlap in investment approaches, and complementary potentials (Nasution et al., 2022). ESG has relations with Islamic finance, which have commonalities and complimentary potentials. Islamic finance is a method of managing money that follows Islamic moral precepts, known as Sharia. It includes various financial activities such as saving, investing, and borrowing to buy a house. Islamic finance is based on the belief that money should not have any value; instead, it is a way to exchange products and services that do have value. Islamic finance also emphasizes that it should not incur losses and should not invest in forbidden things such as alcohol, tobacco, and gambling (Sakınç, 2021).

ESG factors can significantly affect banks' financial performance and stability. Financial institutions face challenges in retaining customer loyalty; therefore, those that can set themselves apart by integrating ESG factors into their strategies will gain a competitive edge and enhance their reputation. Over the past decade, there has been a surge in investor demand for sustainable products. In the realm of financing, various types of loans, including green mortgages and lines of credit, as well as specialized financing projects tied to ESG criteria, have emerged. Investment strategies now include green and social bonds to support environmentally sustainable projects. Socially responsible investment (SRI) entails considering ESG criteria alongside traditional economic factors like risk, profitability, and liquidity (Gutiérrez-Ponce & Wibowo, 2023).

The study by Chiaramonte et al., (2022), which used a sample of European banks operating in 21 countries during the period 2005-2017, found that ESG reporting had a positive impact on bank stability during periods of financial crisis. The duration of ESG reporting is also influential, where the more extended the ESG reporting, the greater the benefit to stability. This suggests that the level and commitment of banks in ESG engagement is essential, even if such reporting becomes mandatory. Based on banks ' characteristics and operating environment, ESG reporting can impact financial stability differently. In conclusion, ESG reporting is essential for its impact on the environment and society and can strengthen the banking sector's resilience during a financial crisis. Focusing on ESG issues in non-financial reporting also supports regulatory efforts to improve transparency and corporate responsibility.

Empirical research has demonstrated that incorporating Environmental, Social, and Governance (ESG) factors aids companies in effectively managing environmental impacts and addressing climate change, particularly in alignment with Indicator 13 of the Sustainable Development Goals (SDGs). This goal addresses various global challenges, including social, economic, and environmental issues such as poverty, hunger, climate change, and gender disparities (Siregar et al., 2024).

Islamic banks can evaluate their impact on sustainable development by implementing comprehensive sustainability reporting frameworks. For example, the Global Reporting Initiative and religious sustainability indicators can aid in assessing their performance related to the Sustainable Development Goals (SDGs) (Jan et al., 2023). This approach allows banks to monitor their contributions to various SDGs, such as poverty alleviation, education, health, and environmental protection (Umar et al., 2023).

As a result of these parallels, Islamic finance has developed into a natural vehicle for disseminating components of green financing. Islamic finance and ESG investing are complementary capital-raising and investment strategies that share several principles, including being accountable to society and the environment. However, both principles were established in different historical and cultural settings. Both provide products that appeal to Muslim and non-Muslim investors and have top-notch procedures and rules from which they can benefit (Muhamad et al., 2022).

The expansion of the Islamic finance sector offers a distinctive prospect for the intersection of Islamic finance and ESG, fostering sustainable investments worldwide. Islamic finance and ESG investment represent complementary approaches to fundraising and investment, sharing fundamental principles. Core to Islamic finance is sustainability endeavors grounded in principles of justice, ethical conduct, stakeholder empowerment, and social responsibility (Abdullah & Haron, 2022). Given the increasing global demand for sustainable investments, Islamic banks can leverage this trend to attract investors prioritizing ethical values and sustainability. Furthermore, ethical practices and social responsibility, including ESG disclosure, are anticipated from Islamic banks. (Srairi, 2019) highlighted the significance of transparency and accountability in Islamic banking for upholding credibility and public trust.

Unlike financial disclosures, ESG information needs a standardized format, leading to significant variations (Elzahar et al., 2015). Regulations of ESG disclosure requirements differ among companies and countries, influenced by the discretion of management in determining information content and adopting non-uniform formats (Ioannou & Serafeim, 2017). Simultaneously, studies have underscored persistent deficiencies in accountability within Islamic banking (I.B.), particularly in social responsibility (El-Halaby & Hussainey, 2016; Grassa et al., 2019). Hence, it becomes crucial to investigate the variations in sustainability reporting (ESG) practices among Islamic banks across different countries.

This study focused on various Southeast Asian nations, including Indonesia, Malaysia, and Brunei Darussalam, which have a long history of Islamic economic development, particularly in the Islamic banking industry. Despite their common background, these countries exhibit distinct characteristics and challenges in implementing sustainability report disclosures (ESG) within Islamic banks. In Indonesia, a regulatory mandate requires Islamic banks to submit sustainability reports, established by the Financial Services Authority Regulation No. 51/POJK.03/2017 since 2017 (IDX, 2021). However, challenges persist in ensuring the quality and adherence to reporting standards (Dayan, 2020)(Arini, 2021). In contrast, Malaysia has rigorous requirements and programs that encourage Islamic banks to incorporate ESG and Sustainable Development Goals (SDGs) into their strategy and offerings. Nonetheless, there is a need for harmonization and coordination among regulators and stakeholders (Shahrom & Kunhibava, 2023)(Yee, 2022). In Brunei, there is a robust commitment to realizing a sustainable vision for the country. However, there is still a requirement for further development and capacity-building in implementing ESG practices within Islamic banks((Prime Minister’s Brunei Darussalam, 2023)

The significance of this research lies in its potential to offer a comprehensive understanding of sustainability practices and performance evaluation, encompassing Environmental Performance Reporting, social aspects, governance (ESG), and shariah compliance within Islamic banks across Indonesia, Malaysia, and Brunei Darussalam. Sharia compliance is being discussed in this study to assess the alignment of sustainability practices and their reporting with Sharia compliance within the banks. Sustainability practices are linked to ethical issues for IBs, and IBs are distinguished by their adherence to Islamic norms, hence analysing Sharia compliance is required. A previous study assessing Sharia compliance of the bank as part of the ethical identity index was done by Belal et al. (2015) taking Islami Bank Bangladesh as the object of the study. The findings are anticipated to generate valuable insights and recommendations for Islamic banks, regulators, and stakeholders to enhance sustainability reporting (ESG) in Islamic banking. Additionally, the research seeks to address challenges and capitalize on existing opportunities in this domain.

Moreover, the study aspires to contribute notably to the literature and policies related to sharia-based Sustainable Finance. By shedding light on the current state of ESG practices in Islamic banks and providing guidance for improvement, the research endeavors to foster positive developments in sustainability reporting within the Islamic finance sector. Ultimately, the outcomes of this research can shape future practices, policies, and academic discourse in Sharia-based sustainable finance.

Literature Review

Environmental, Social, and Governance (ESG)

In general, ESG is one of the elements of corporate social responsibility or voluntary corporate sustainability reporting (Baron, 2014). ESG information aims to create long-term value for the company and its environment by considering non-financial factors such as environmental, social, and good governance (Bassen & Kovács, 2020). Concern for the environment includes the preservation of nature and the handling of climate change. Social factors include employment, politics, and labor relationship management. Governance issues involve the responsibility of the board of directors and broader governance factors in decision-making. Every company must disclose its ESG-related activities related to each company's social construction and background (Ramadhan et al., 2023).

ESG information is essential for investors, industry regulators, company management, and decision-makers. For investors, a company's ESG report can determine its value and risk. For regulators, disclosing ESG information can help stabilize and stimulate sustainable development in capital markets (Zhao et al., 2018). Based on Stakeholder Theory (Freeman, 1984), sustainability (ESG) can increase the company's value. With sustainability reporting, companies can increase their value, maintain their reputation, and attract investors, clients, and other stakeholders (Yu et al., 2018).

ESG Reporting and Islamic Banks

Financial institutions, particularly banks, play an essential role in sustainable development by managing savings and expenses ranging from the financial system to investments (Chang et al., 2019). Banks ' investment and funding decisions should consistently incorporate sustainability factors with lower environmental and social risks, thus optimizing the relationship between financial risk and environmental and social risk (Abdullah & Haron, 2022). Islamic financial institutions must take a proactive stance in fostering the establishment of a Shariah-compliant green investment framework aimed at environmental support (Sarea, 2020). In this regard, ESG principles align with investments based on Islamic values, prioritizing maximizing social benefits and minimizing adverse impacts, especially on the environment (Niswah & Falikhatun, 2021).

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The integration of ESG principles with Maqasid Shari'ah creates a robust framework for sustainable practices within Islamic finance, ensuring that financial activities are not detrimental to the environment (Boudawara et al., 2023; Mohd Zain et al., 2024). This synergy reinforces ethical finance, as both ESG and Maqasid Shari'ah frameworks emphasize the importance of transparency, ethical conduct, and social responsibility. Aligning these principles with Islamic values is crucial for fostering a more equitable and compassionate financial system (Mohamad Ariff et al., 2024).

Therefore, Islamic banks need a sustainable performance measurement that depicts their actual performance in achieving their mission and vision since they have different concepts and practices from conventional banks (Kolsi & Al-Hiyari, 2023). Islamic banks need sustainable performance measurement that could cater to the sustainability agenda by integrating both shareholder's and stakeholder interest in the forms of financial and non-financial ratios while maintaining the Maqasid Shari'ah since the debate on the ideal measurement of Islamic banks' performance has been prolonged for many years. Therefore, with the apparent relation between Maqasid Shari'ah, ESG, and Islamic banks, this study reviews the application of these elements explicitly relating to the development of performance measurements of Islamic banks. The integration of ESG principles in Islamic banking plays a crucial role in promoting the welfare of society by fostering social responsibility, ethical investment practices, stakeholder engagement, effective risk management, and sustainable development initiatives. By aligning their operations with ESG considerations, Islamic banks can enhance their positive impact on society and contribute to a more sustainable and equitable future (Muhamad et al., 2022).

Islamic banks are expected to perform well in the environmental dimension of ESG, as they offer a variety of sustainable financial instrument products such as green Sukuk, SRI Sukuk, and sustainability Sukuk, whose funds are committed to projects that have an environmental and social impact (Abdullah & Haron, 2022). In addition, the prohibition of riba (interest), profit/loss, risk sharing, and the guarantee of social justice, equity, and inclusion through zakat and other similar schemes make Islamic banks strong advocates of social responsibility. Islamic banks also have more robust governance mechanisms and higher institutional quality than conventional banks, thanks to independent sharia boards (Qoyum et al., 2022). Increasingly independent directors within a board can affect performance and sustainability reporting (Jamil et al., 2021).

The study by Gutiérrez-Ponce & Wibowo (2023) examines the relationship between ESG reporting and financial performance in Indonesian banks, including Islamic banks. The findings reveal a negative association between ESG activities and financial metrics such as ROA, ROE, and T.Q. The study suggests that Indonesian banks, including Islamic banks, should prioritize environmental, social, and governance aspects to enhance long-term profitability and company value. These insights contribute to understanding the dynamics of ESG reporting in the banking sector and offer valuable implications for stakeholders and policymakers.

The ESG reporting requirements for Islamic banks necessitate the alignment of ESG principles with the foundational tenets of Islamic finance while addressing stakeholders' expectations. Several techniques have been presented to help Islamic banks integrate ESG standards. These include the establishment of comprehensive ESG frameworks, enhanced reporting and disclosure practices, active stakeholder engagement, fostering collaboration among all stakeholders, offering Sharia-compliant sustainable financial products, investing in capacity building, and ensuring regulatory support (Sendi et al., 2024). Additionally, the development of an Islamic Financial and Social Reporting (IFSR) index seeks to encourage more robust disclosure practices among Islamic banks by encompassing financial, social, auditing, and governance dimensions (Wai-Khuen et al., 2023).

The implementation of ESG reporting in Islamic banks faces several challenges, including a shortage of adequately qualified Shariah auditors, a lack of commitment from Islamic banks to key components of the Shariah governance framework, legislative gaps, and insufficient educational resources in Shariah auditing (Chopra et al 2024). However, the study also highlights the potential benefits of overcoming these challenges, such as improved financial reporting and increased transparency. The importance of a unified approach that involves global standard-setting bodies, Islamic finance experts, and regulators is underscored, as it can lead to the development of comprehensive standards that promote consistency, transparency, and reliability in financial reporting (Sun et al., 2024).

Impact of ESG Reporting on the Performance of Islamic Banks

ESG activities have been found to have an overall positive impact on banks' efficiency. Environmental initiatives have a good impact on both conventional and Islamic banks' efficiency, however social activities only benefit regular banks**.** The quality of integrated reporting has a significant adverse effect on the cost of equity capital and a positive and significant impact on the financial performance of Islamic banks in the MENA region (Camilleri, 2017). The Islamicity Performance Index and Islamic Social Reporting have been found to significantly affect financial performance in Islamic Banking in Indonesia post-COVID-19 (Sulkowski & Jebe, 2022). In conclusion, the ESG reporting requirements for Islamic banks involve aligning ESG principles with Islamic finance principles, and challenges in implementation include the lack of adequately qualified Shariah auditors and legislative gaps. It is clear that developing comprehensive standards is not just a necessity, but an urgent one, to ensure consistency, transparency, and reliability in financial reporting for Islamic banks.

Methodology

The research method used in this study is descriptive with a content analysis approach. Content analysis is used to analyze the level of ESG disclosure and Sharia compliance in Islamic banks. The research indicators used in this study are environmental, social, governance, and Sharia compliance obtained from several sources (AAOIFI, 2020; Haniffa & Hudaib, 2007; IFSB, 2022; Maali et al., 2006). The type of data used in this study is secondary data, namely the annual reports and sustainability reports for 2019-2022 contained on each Islamic bank website. These banks include Bank Syariah Indonesia (BSI), Bank Islam Malaysia Berhad (BIMB), and Bank Islam Brunei Darussalam (BIBD). This study observed Islamic banks by taking one bank each in Indonesia, Malaysia, and Brunei Darussalam. Thus, it has limitations in terms of the representativeness of each country. However, it could be taken as an example in those countries.

This framework is formed based on existing frameworks and previous studies such as Belal et al. (2015), Haniffa & Hudaib (2007) GRI standard, AAOOFI Governance standard number 6, AAOIFI CSR standard, which then compiled into environmental, social, governance and sharia compliance indicators, resulting in having 305 items. The content analysis was conducted by analyzing the annual reports and sustainability reports available from the company. Then, from the items of the index, the availability of the data is checked to determine whether the information is available in the report or not. This study uses 1 and 0 scores to confirm the availability of the data. The result would demonstrate the number of items available in each indicator from the constructed index, which implies that if the overall score reaches one, the formed framework with the data being informed by the company is available.

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Result and Discussion

Disclosure of Environmental Aspects

Figure 1 contains environmental disclosure scores for three Islamic banks from three countries, namely Indonesia, Malaysia, and Brunei Darussalam. The disclosure results state that Bank Syariah Indonesia (BSI) has a whole disclosure level with a score of 1 in 2019-2022. This score of 1 means that BSI disclosed all proposed aspects of the environment from the indicators used in this study, which is superior to other banks. The second-ranking is Bank Islam Malaysia Berhad, with the highest score of 0.88 in 2021-2022 and the lowest of 0.63 in 2020. In the last ranking, there is Bank Islam Brunei Darussalam, with the highest score of 0.75 in 2022 and the lowest of 0 in 2019

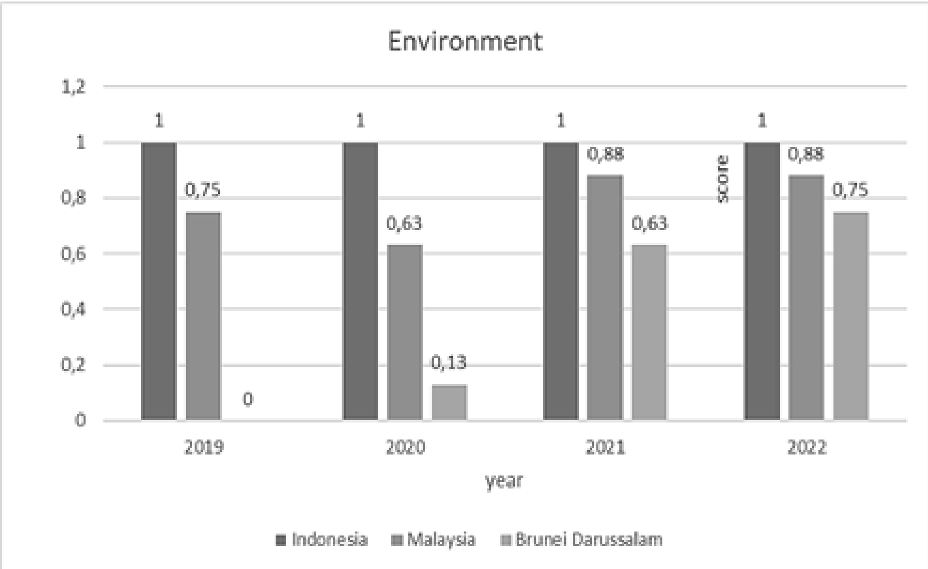

Figure 1. Environmental disclosure scores at Sharia Banks in Indonesia, Malaysia, and Brunei Darussalam

In line with research conducted by (Niswah & Falikhatun, 2021), sustainability reporting practices in financial institutions in Indonesia are higher than in other countries. The practice of environmental reporting includes using renewable energy sources, energy-saving initiatives, carbon emissions, creating campaigns related to environmental improvement, investment policies in the sustainability sector, and so on. BSI has fulfilled these aspects and published them in the annual sustainability report.

Despite the volatile disclosure trend, Bank Islam Malaysia Berhad has started implementing sustainability practices. BIMB focuses on the policy practice of using renewable resources, but BIMB has yet to move to invite its employees to participate in sustainability program campaigns. Although the environmental disclosure score in Malaysia is lower than in Indonesia, the score is relatively high. This is inversely proportional to research conducted by (Amran et al., 2017).

The environmental disclosure of Bank Islam Brunei Darussalam (BIBD) is lower than the other two banks. In 2019, BIBD did not disclose related to environmental disclosure, so the score obtained is 0. However, in the next year, the trend of environmental disclosure in Brunei Darussalam has begun to practice sustainability, so in 2022, BIBD will show its commitment by getting a score of 0.75.

Disclosure of Social Aspects

Figure 2 reveals the social disclosures of the three banks. All three banks have different scores. BSI is superior in 2019-2021 and has a fluctuating trend where the highest score is in 2021, with a score of 0.8, and the lowest is in 2022, with a score of 0.68. The Malaysian State, Bank Islam Malaysia Berhad, has a volatile trend, with the highest score in 2022 of 0.73 and the lowest of 0.5 in 2020. Similarly, Bank Islam Brunei Darussalam has an explosive trend, with the highest score of 0.65 in 2020 and 2021 and the lowest of 0.5 in 2019.

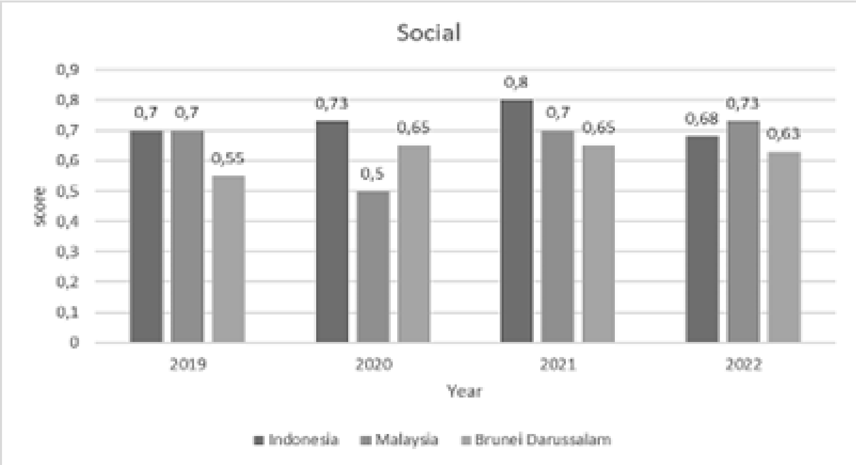

Figure 2. Social disclosure scores at Sharia Banks in Indonesia, Malaysia, and Brunei Darussalam

Social and human rights aspects include the company's contribution to social conditions, community engagement, charities, and social investment. CSR at Islamic banks is part of moral fulfillment related to Sharia maqashid (Lui et al., 2021). Islamic banks have a higher social contribution level than conventional-based companies. In some literature reviews, Islamic banks have a higher social contribution level than conventional-based companies. This is reflected in the study results, which show that the level of social disclosure in the three banks is quite good. In several studies, CSR publications mentioned that it would positively impact company performance (Kramer & Porter, 2011). The company's decision to engage in CSR-related activities is considered a strategic initiative carried out by the company and can also improve the company's reputation.

Bank Syariah Indonesia (BSI) disbursed IDR 187.57 billion to 147,556 beneficiaries as a form of social responsibility undertaken in 2022. BSI distributes these funds for various social activities, such as village empowerment, MSME training, BSI scholarships and other activities. In addition, BSI also pays attention to its employees by making policies related to occupational safety and a fair work environment and holding various kinds of training to improve employee skills. BSI is very committed to always paying attention to its employees' welfare.

Bank Islam Malaysia Berhad (BIMB) distributed RM 7.3 Million to 31,608 beneficiaries in 2022 for social activities initiated by Sadaqa House, which were requested for various social sectors, including community empowerment, financing orphans, education scholarships, and also the health sector. In addition, BIMB also focuses on empowering employees by conducting several trainings. BIMB distributed RM 9.7 Million for employee empowerment. In line with (Santhirasegar et al., 2018), banks in Malaysia are focusing CSR more on philanthropy and charity activities.

Bank Islam Brunei Darussalam (BIBD) committed to disburse $2 Billion by 2030 for sustainability funding. In 2023, BIBD conducted various social programs such as

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entrepreneurship empowerment, education scholarships, community empowerment, health programs, and employee job training. In line with (Hamdan, 2013), the results show that BIBD has a positive direction towards CSR, but the results are still lower than those of Indonesia and Malaysia. As can be concluded in this social aspect, both three IBs have disclosed social indicators above 0.5 from the proposed index; this is reflected in social activities such as community empowerment, education scholarship and CSR-related activities.

Disclosure of Governance Aspects

Figure 3 reveals the governance disclosure in 3 Islamic banks in Indonesia, Malaysia, and Brunei Darussalam. Based on the analysis results, the disclosure scores in the three banks differ slightly. The highest disclosure was obtained by Bank Syariah Indonesia (BSI), with a score of 0.79 in 2022. In contrast, the lowest score was obtained by Bank Islam Malaysia Berhad (BIMB) in 2020-2021. Governance disclosure includes governance structure, code of conduct, risk management system, details related to the Board of Directors, Sharia Supervisory Board, Management, Internal audit, and external audit—accountability and Control, communication with stakeholders, etc.

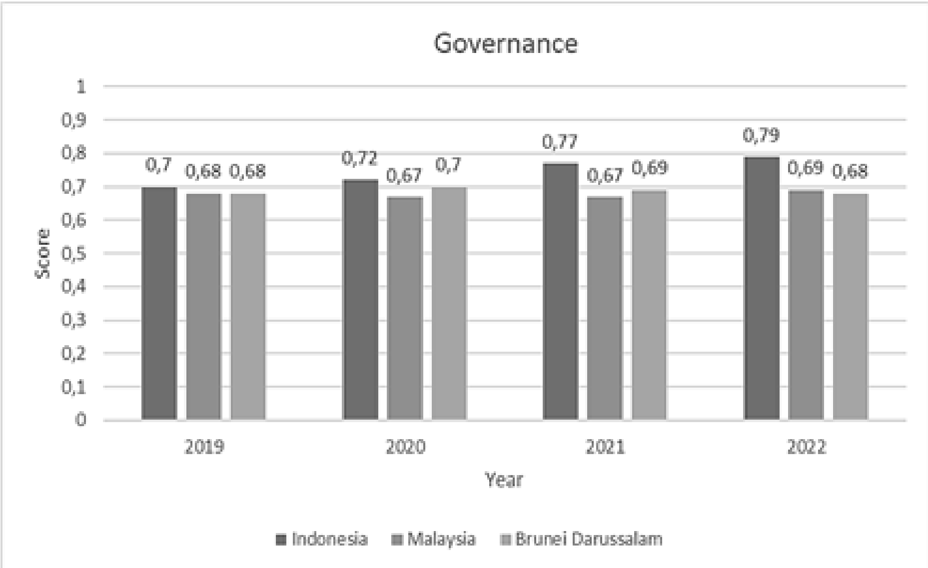

Figure 3. Governance disclosure scores at Sharia Banks in Indonesia, Malaysia, and Brunei Darussalam

BSI has a disclosure trend that continues to increase every year. This reflects that governance practices at the bank continue to progress. BSI expresses the description related to BOD, DPS, Management, etc. However, BSI needs to be more optimal in disclosing related to the code of ethics and customer complaint details. BIMB has a volatile trend from 2019-2022. In the disclosure practice, BIMB has been quite good in transparency related to the governance structure. BIMB does not have a governance committee in the governance structure, so BOD, Management, etc, manage all governance mechanisms. Like BSI, BIMB lacked disclosure of the code of ethics and customer complaints. BIBD has a volatile disclosure trend. The highest disclosure was found in 2020, with a score of 0.7, and the lowest in 2019 and 2022, with a score of 0.68. Like the other two banks, BIBD has good disclosure regarding governance structure and does not have a governance committee. BIBD also requires more transparency on the code of ethics and customer complaints.

Disclosure of Shariah Compliance Aspects

Figure 4 describes the disclosure of Shariah compliance. Aspects of Shariah compliance include a Shariah Supervisory Board, Islamic commitment, Zakat, Quardh Hassan, Late Payment and Bankrupt Clients, and Sharia legitimacy related to the products launched. BSI obtained the highest score associated with Shariah compliance in 2021-2022. The BSI disclosure trend is continually increasing every year. This reflects that BSI continues to show its commitment as The Best Islamic bank in Indonesia.

Meanwhile, the disclosure of BIMB and BIBD decreased every year. BIMB had the most significant score of 0.44 in 2019-2020 and the lowest of 0.4 in 2022. In contrast, BIBD has the highest score of 0.39 and the lowest of 0.3 in 2022.

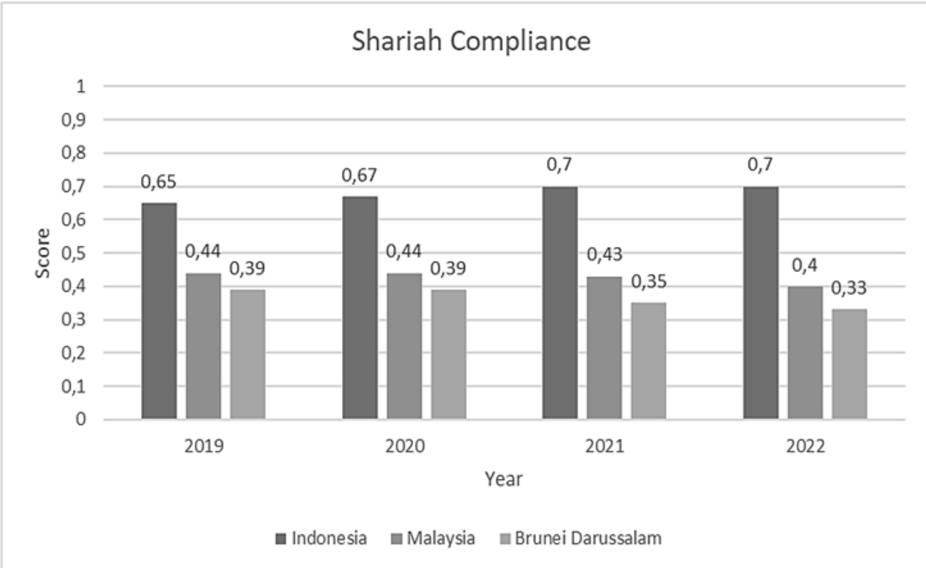

Figure 4. Shariah Compliance disclosure scores at Sharia Banks in Indonesia, Malaysia, and Brunei Darussalam

Shariah compliance is a form of commitment and ethical identity of Islamic banks, a differentiator from conventional banks. All three banks have good disclosures regarding the Sharia supervisory board, where each bank has its own Sharia supervisory board report that explains the Shariah compliance practices. All three banks still have limitations related to late payment disclosure.

BSI, in practice, has implemented several pillars of Shariah, such as zakat and guard Hassan. But not optimal in the management of Waqf. This result aligns with research (Salman, 2023), which found that BSI has good practices in zakat, card Hassan, and Islamic governance. In contrast, BIMB has not implemented Quard Hassan's practice and is still very minimal in the management of Waqf. The BIBD, in practice, has not disclosed any prohibited or haram transactions to Quard Hassan and the management of the Waqf. It reflects that BIBD still needs to implement the practice. Whereas zakat, Waqf, and guards Hassan are pillars in the practice of shariah compliance in a company.

Conclusion

This article examines the sustainability reporting frameworks of Islamic banks, including environmental performance, social concerns, governance, and sharia compliance. The research includes one Islamic bank from Indonesia, Malaysia, and Brunei Darussalam. All three Islamic banks exhibit exemplary sustainability reporting, with Bank Syariah Indonesia at the forefront

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of transparency. These findings support prior research demonstrating that Indonesian financial institutions have enhanced sustainability disclosure relative to their peers. Bank Islam Malaysia Berhad, as Malaysia's representative, attains a comparable score. Bank Islam Brunei Darussalam attains third position. The sustainability scores of all three banks rise each year, reflecting their commitment.

Between 2019 and 2022, governance constituted the predominant disclosure among three Islamic banks, indicating that the revelation of governmental policies on metrics affected both the quality and volume of disclosures, as governance emerged as a necessity in annual reports. Despite variations in environmental and social conditions, Bank Syariah Indonesia identified the two most critical elements. This study confirms earlier findings that Islamic banks offer enhanced transparency concerning community service, training, and development programs. This study demonstrates that sustainability reports improve the transparency of ESG operations, with Bank Syariah Indonesia attaining the top score in sustainability report disclosure.

The Shariah compliance disclosure procedures of Bank Islam Malaysia Berhad and Bank Islam Brunei Darussalam are deteriorating, which is concerning. Islamic banks (IBs) should improve and publicly assert their Sharia compliance in light of the increasing trend of ESG disclosure in annual reports. This report underscores the importance of ESG transparency and the advancement of CSR initiatives. The ESG disclosures of Islamic Financial Institutions highlight their actions and bolster stakeholder confidence, hence increasing their value. This study just investigates the ESG disclosures of Islamic banks; however, subsequent research may include additional variables for a more thorough analysis.

However, the disclosure protocols for shariah compliance, specifically for BIMB and BIBD, are declining and require revision. Sharia compliance is crucial for Islamic finance. Thorough disclosure. The documentation and implementation of Zakat, qardul hassan, and waqf administration in BIMB and BIBD are insufficient. ESG practices are increasingly incorporated into the annual reports of Islamic Banks; nevertheless, they must also reveal their sharia compliance, as it is essential to their classification as Islamic Banks and their ethical integrity.This study had several ramifications.

The focus on governance suggests that legal or regulatory changes have enhanced governance reporting. Islamic banks must improve accountability and transparency by emphasising governance in their public disclosures. Secondly, social and environmental disclosures are progressing but continue to be uneven, especially for BIMB and BIBD. Consistent sustainability reporting in Islamic banks requires thorough and standardised reporting procedures across national borders. Third, reduced disclosure scores, especially in BIMB and BIBD, indicate that banks must improve their sharia compliance reporting. Islamic banks are characterised by their compliance with Sharia law.

The ethical characteristics of Islamic banks and their ability to involve Sharia-compliant stakeholders depend on progress in this area. The social disclosures reveal that all three banks are complying with maqashid sharia through corporate social responsibility and community development programs. Improving reporting and staff engagement could enhance the effectiveness of these programs and institutional performance. Our extensive sustainability reporting and leadership in all disclosure areas provide BSI with a competitive edge. By prioritising thorough ESG and sharia compliance disclosures, Islamic banks can improve long-term profitability, reputation, and stakeholder satisfaction.

This study solely investigates ESG disclosure in Islamic banks, focussing on one Islamic bank per country. Subsequent research could integrate other variables and a larger sample of Islamic banks throughout the nation for a more thorough analysis. This study's limitation is that, although it thoroughly examines governance, environmental, and social aspects, it observes a decline in sharia compliance disclosure practices for BIMB and BIBD without exploring the underlying causes or suggesting concrete solutions for enhancement. Consequently, future research may investigate the factors contributing to the decline in sharia compliance disclosures at BIMB and BIBD and suggest practical strategies for mitigating these concerns.

Author Contribution

Fitranty Adirestuty: Creating and designing analyses; Collecting data; Contributing data or analysis tools; performing analysis; Writing paper.
Ririn Tri Ratnasari: Supervision, Conceptualization, Review & editing of the draft and result discussion.
Egi Arvian Firmansyah, Rumaisah Azizah Al Adawiyah: Supervision, Methodology, Review & editing of the draft and result discussion.
Indah Nur Chazanah, Tia Yuliawati: Collecting data; Contributing data or analysis.

Declaration of Competing Interest

We declare that we have no conflict of interest.

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