





## Inherent Money Laundering Risk and Maqashid Sharia Interactions on Internal Control in Islamic Banking

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Inherent Risk, Internal Control, Islamic Banking, Maqashid Sharia, Money Laundering

### Abstract

Money laundering risk in Indonesia's banking industry has trended upwards, while suspicious transaction reporting (LTKM) by Islamic commercial banks shows a distinctive and volatile pattern, with reported values declining sharply. The interplay between inherent money laundering risks, maqashid sharia principles, and the internal control of the AML/CFT programme in Islamic banking remains underexplored. This study examines the influence of four inherent money laundering risks and maqashid sharia principles on the internal control of the AML/CFT programme, and tests maqashid sharia as a moderating variable. Using a quantitative approach, data from 170 respondents representing the three lines of defence in 13 Indonesian Islamic commercial banks were analysed with PLS-SEM. The results show that customer risk, product/service/transaction risk, and delivery channel risk each significantly influence internal control, whereas country risk does not. Maqashid sharia significantly influences internal control as an independent variable but does not act as a moderator, indicating that it operates as a stable ethical foundation rather than an amplifier of risk effects. The novelty of this study lies in integrating maqashid sharia into the AML/CFT internal control model, implying that Islamic banks should implement maqashid sharia simultaneously with risk-based controls, particularly the detection of customer risk.

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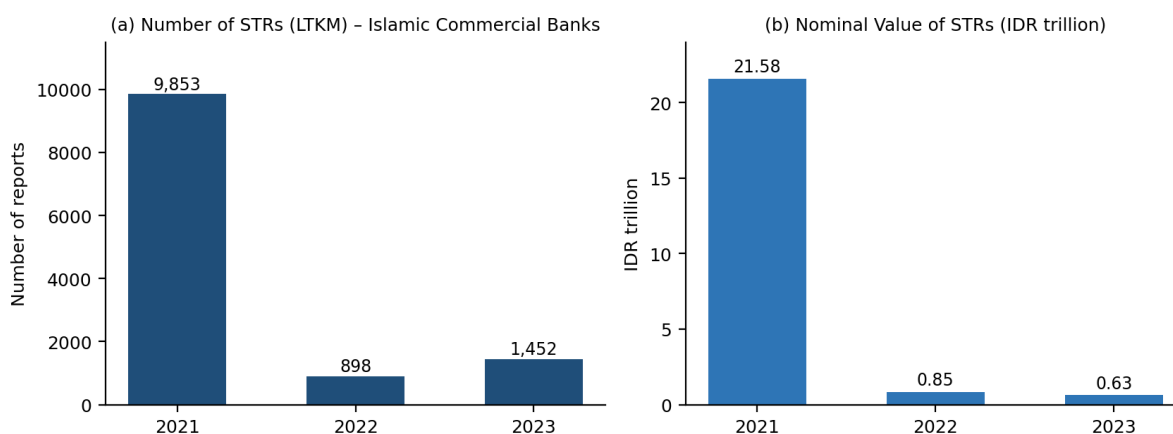


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### Introduction

Money laundering risk within the national banking industry in Indonesia has shown an increasing trend over the past five years, while Islamic banking displays the opposite pattern.

Based on suspicious financial transaction report (LTKM) data obtained by PPATK from reporting parties during 2021–2023, the number of LTKMs submitted by the 13 Islamic commercial banks (BUS) declined by 90.89% in 2022 — from 9,853 to 898 reports — before rising by 61.7% to 1,452 reports in 2023. The nominal value of LTKMs reported by BUS fell even more drastically, from IDR 21.58 trillion in 2021 to IDR 853.01 billion in 2022 (a 96.05% decline) and to IDR 629.09 billion in 2023 (a further 26.03% decline). Meanwhile, the nominal value of LTKMs reported by national banking overall rose by 46.23%, so that the Islamic banking contribution in 2022–2023 amounted to only 0.01% of national totals.<sup>1</sup> Figure 1 visualises this trend.



**Figure 1. Suspicious Transaction Reports (LTKM) of Islamic Commercial Banks, 2021–2023**

Source: PPATK (2023), processed by the researcher

Large LTKM volumes and values can indicate the occurrence of money laundering in the respective institutions; conversely, very low reporting cannot automatically be interpreted as evidence of tight internal control, since it may instead reflect weak detection and reporting quality. This phenomenon may be partly attributed to the implementation of maqashid sharia principles in Islamic banking operations realised through education and training so that operations consistently avoid a purely profit-oriented focus, ensure that customers use halal funds, and emphasise halal products and services.<sup>2</sup> Nevertheless, the relationship between inherent money laundering risks, maqashid sharia, and the internal control of the AML/CFT programme in Islamic banking has not been examined empirically in an integrated model.

Prior studies have addressed fragments of this problem. Mohd-Sanusi et al. found that professional commitment, customer risk, and independence pressure significantly influence money laundering risk judgement among bank analysts, including a significant interaction effect between customer risk and independence pressure.<sup>3</sup> Riccardi et al. developed regional money laundering risk indicators across 110 Italian provinces, emphasising geographic risk components,<sup>4</sup> while Xue and Zhang confirmed empirically that customer risk is the most

<sup>1</sup> Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK), Statistik Pelaporan Laporan Transaksi Keuangan Mencurigakan 2021–2023 (Jakarta: PPATK, 2023).

<sup>2</sup> Nofrianto et al., “Implementation of Maqashid Sharia in Islamic Banking” (2021).

<sup>3</sup> Z. Mohd-Sanusi, Y. Mat-Isa, A. H. Ahmad-Bakhtiar, Y. H. Mat-Jusoh, and T. Tarjo, “Interaction Effects of Professional Commitment, Customer Risk, Independent Pressure and Money Laundering Risk Judgment among Bank Analysts,” *Journal of Money Laundering Control* 25, no. 3 (2022): 493–510, <https://doi.org/10.1108/JMLC-05-2021-0046>.

<sup>4</sup> M. Riccardi, R. Milani, and D. Camerini, “Assessing Money Laundering Risk across Regions: An Application in Italy,” *European Journal on Criminal Policy and Research* 25, no. 1 (2019): 21–43, <https://doi.org/10.1007/s10610-018-9399-9>.

important inherent risk factor, followed by geographic and business risk.<sup>5</sup> None of these studies, however, incorporated internal control variables into their research models.

From the Islamic legal perspective, Hoque et al. explored money laundering through the maqāshid al-Sharī'ah lens of wealth preservation (*hifz al-māl*), concluding that sharia restrictions on laundering proceeds are stricter than conventional law,<sup>6</sup> and Alias et al. showed that the regulatory approach to combating money laundering and terrorism financing aligns with *hifz al-mal* within the higher objectives of Islamic law.<sup>7</sup> These qualitative contributions reinforce the conjecture that an understanding of maqashid sharia can strengthen the capacity of bank personnel to mitigate money laundering risk and, simultaneously, reinforce internal control.

Two gaps therefore emerge from the literature. First, the lack of integration of internal control variables into money laundering research models leaves unanswered how internal controls interact with previously identified inherent risk factors. Second, although maqashid sharia has been linked conceptually to anti-money laundering, no study has tested it empirically as a moderating variable in the relationship between inherent money laundering risks and internal control in Islamic banking. This study aims to fill both gaps by examining the influence and interaction of four inherent money laundering risks (customer, country, product/service/transaction, and delivery channel risk) and maqashid sharia principles on the internal control of the AML/CFT programme in Indonesian Islamic banking. The originality of this research lies in bridging the AML/CFT regulatory framework which is predominantly based on secular law with Islamic values through a quantitative model built on primary data from all three lines of defence in the 13 BUS participating in the Financial Integrity Rating (FIR) assessment.

The remainder of this article is organised as follows. Section two reviews the literature on money laundering inherent risk, internal control and the COSO framework, and maqashid sharia, and develops the research hypotheses. Section three describes the research methodology, including sampling adequacy criteria and the PLS-SEM procedure. Section four presents the results and discusses them against prior studies. Section five concludes and offers recommendations.

## Literature Review and Hypothesis Development

### *Money Laundering and Its Inherent Risks*

Money laundering is the process by which the proceeds of crime are converted into assets that appear to have a legitimate origin so that they can be retained permanently or recycled into further criminal enterprise.<sup>8</sup> It is typically executed through three stages: placement of illicit cash into the financial system, layering through transfers between institutions to obscure the audit trail, and integration of the funds into legitimate business activity.<sup>9</sup> The FATF Recommendations require countries to criminalise money laundering and terrorism financing

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<sup>5</sup>Y. W. Xue and Y. H. Zhang, "Research on Money Laundering Risk Assessment of Customers – Based on the Empirical Research of China," *Journal of Money Laundering Control* 19, no. 3 (2016): 249–263, <https://doi.org/10.1108/JMLC-01-2015-0004>.

<sup>6</sup>M. N. Hoque, J. Said, M. F. Abdullah, and A. U. F. Ahmad, "Money Laundering from Maqāshid al-Sharī'ah Perspective with a Particular Reference to Preservation of Wealth (Hifz al-Māl)," *Journal of Legal, Ethical and Regulatory Issues* 24, Special Issue 1 (2021): 1–10.

<sup>7</sup>R. M. R. Alias, N. M. Yasin, B. H. Ibrahim, and M. Y. Z. Kepli, "Combating Money Laundering and Terrorism Financing: Perspectives from Maqāshid al-Sharī'ah," in *Emerging Issues in Islamic Finance Law and Practice in Malaysia* (2019), 130–144, <https://doi.org/10.1108/978-1-78973-545-120191014>.

<sup>8</sup>M. Islam, *From Dirty Money to Luxury Goods: Money Laundering in UK Luxury Goods Sectors* (PhD thesis, University of Leeds, 2022), drawing on the UK Proceeds of Crime Act 2002.

<sup>9</sup>P. He, "A Typological Study on Money Laundering," *Journal of Money Laundering Control* 13, no. 1 (2010): 15–32, <https://doi.org/10.1108/13685201011010182>.

and to apply a risk-based approach in supervising financial institutions.<sup>10</sup> From the Islamic perspective, the Ijtima' Ulama of the Indonesian Fatwa Commission affirms that all forms of money laundering contradict sharia because they contain elements of crime and deception.<sup>11</sup> Inherent money laundering risk refers to factors intrinsically attached to a financial institution that increase the probability of money laundering before controls are applied. Indonesian regulation and the sectoral risk assessment identify four inherent risk factors:<sup>12</sup> (a) *customer risk*, covering customer characteristics such as involvement in international transactions, complexity of ownership structures, and adverse compliance reputation; (b) *country or geographic risk*, where certain jurisdictions carry higher risk due to weak regulation and enforcement; (c) *product/service/transaction risk*, requiring institutions to assess and document the risks posed by each product offered; and (d) *delivery channel risk*, arising from the mechanisms through which business relationships are initiated and conducted, especially non-face-to-face channels such as internet and mobile banking, ATMs, and prepaid instruments, where the intensity of customer due diligence (CDD) must be proportionate to the perceived risk.<sup>13</sup>

#### *Internal Control and the COSO Framework*

The conceptual foundation of internal control in this study is the *Internal Control – Integrated Framework* developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework defines internal control as a process, effected by an entity's board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance, and articulates five interrelated components: (1) the control environment, which establishes integrity, ethical values, and the “tone at the top”; (2) risk assessment; (3) control activities including authorisation and approvals, security of assets, reconciliation and review, segregation of duties, and documentation; (4) information and communication; and (5) monitoring activities.<sup>14</sup> The framework stresses that an ethical corporate culture and effective oversight are preconditions for all other components a point that is directly relevant when sharia values are embedded in a bank's control environment. Complementing COSO, the *three lines of defence* model assigns control responsibilities to operational management (first line), compliance and risk management functions (second line), and internal audit (third line). In the Indonesian AML/CFT context, this conceptual framework is operationalised by POJK No. 8 of 2023, which obliges financial service providers including Islamic commercial banks — to implement the AML/CFT/CPF program through at least five pillars: active supervision by the board of directors and board of commissioners; policies and procedures; internal control; management information systems; and human resources and training. Providers must maintain board-approved policies to manage and mitigate identified risks, monitor and enhance their

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<sup>10</sup>Financial Action Task Force (FATF), *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations* (Paris: FATF, 2023).

<sup>11</sup>I. Sam and A. Sholeh, *Ijtima' Ulama Komisi Fatwa Se-Indonesia IV: Masalah-Masalah Fikih Kontemporer* (2012).

<sup>12</sup>Otoritas Jasa Keuangan (OJK) and PPAK, *Penilaian Risiko Sektor TPPU/TPPT Sektor Jasa Keuangan* (Jakarta, 2017).

<sup>13</sup>E. S. Mekpor, “Anti-Money Laundering and Combating the Financing of Terrorism Compliance: Are FATF Member States Just Scratching the Surface?,” *Journal of Money Laundering Control* 22, no. 3 (2019): 451–471.

<sup>14</sup>Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework: Executive Summary* (2013); A. A. Gramling, E. O'Donnell, and S. D. Vandervelde, “An Experimental Examination of Factors That Influence Auditor Assessments of a Deficiency in Internal Control over Financial Reporting,” *Accounting Horizons* 27, no. 2 (2013): 249–269.

implementation, and take deeper measures where higher risks are identified.<sup>15</sup> Internal control of the AML/CFT programme in this study is therefore measured as the implementation of these five pillars, anchored theoretically in the COSO components.

### *Maqashid Sharia*

Maqashid sharia denotes the higher objectives of Islamic law, whose essence is the realisation of human welfare (*maslahah*). Al-Juwaini first articulated levels of necessity, and his student al-Ghazali systematised the five essentials by attaching the term *al-hifz* (preservation): preservation of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), progeny (*hifz al-nasl*), and wealth (*hifz al-mal*).<sup>16</sup> Contemporary scholarship has operationalised these objectives into measurable dimensions and elements, notably the maqashid index of Mohammed and Razak for evaluating Islamic bank performance,<sup>17</sup> demonstrating that maqashid principles can be translated into observable organisational behaviour. In the AML/CFT domain, *hifz al-mal* prohibits the ownership and circulation of illicit wealth, so sharia restrictions on money laundering are stricter than conventional law (Hoque et al., 2021; Alias et al., 2019). It is therefore plausible that the internalisation of maqashid sharia by bank personnel strengthens the internal control of the AML/CFT programme and may condition how inherent risks translate into control responses.

### *Hypothesis Development*

Based on the gaps identified above, the direct hypotheses posit that each inherent risk drives the intensity of internal control. Higher customer risk demands deeper CDD and enhanced due diligence (Mohd-Sanusi et al., 2022; Xue and Zhang, 2016); exposure to high-risk jurisdictions should trigger counter-measures (Riccardi et al., 2019); diverse products and channels require tailored control activities (Mekpor, 2019). Maqashid sharia, as an internalised value system, is expected to influence internal control directly and to moderate the risk–control relationships, consistent with the moderation logic in which a third variable alters the strength or direction of a relationship between an independent and a dependent variable.<sup>18</sup> The hypotheses are: H1: customer risk influences the internal control of the AML/CFT programme (PI); H2: country risk influences PI; H3: product/service/transaction risk influences PI; H4: delivery channel risk influences PI; H5: maqashid sharia principles influence PI; H6–H9: maqashid sharia moderates the effect of customer risk, country risk, product/service/transaction risk, and delivery channel risk, respectively, on PI. Figure 2 depicts the research model.

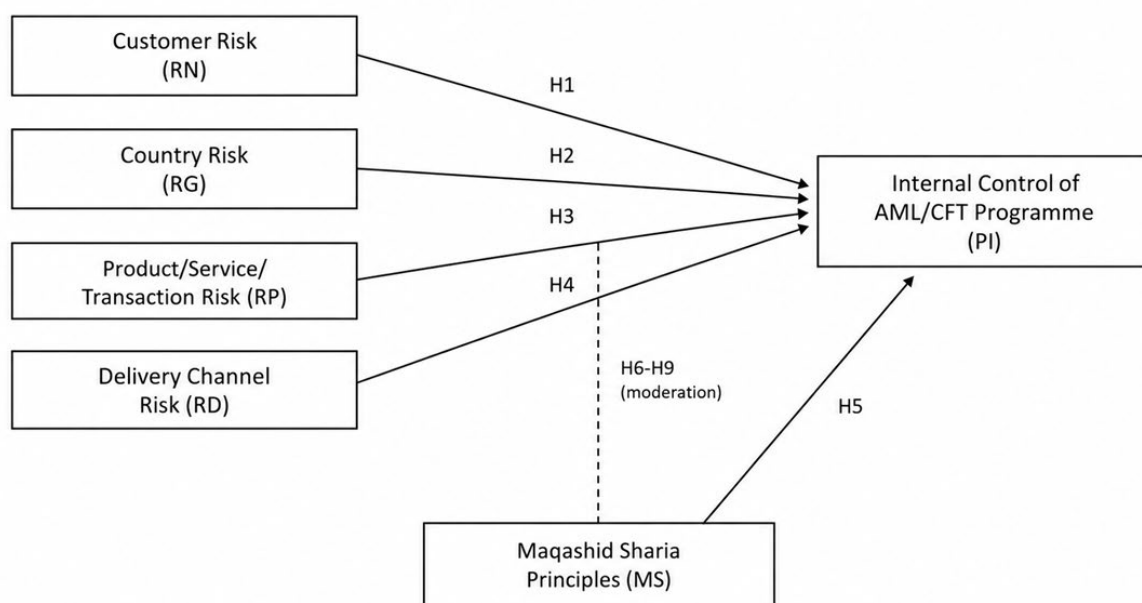
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<sup>15</sup>Otoritas Jasa Keuangan, Peraturan OJK Nomor 8 Tahun 2023 tentang Penerapan Program Anti Pencucian Uang, Pencegahan Pendanaan Terorisme, dan Pencegahan Pendanaan Proliferasi Senjata Pemusnah Massal di Sektor Jasa Keuangan, Pasal 3.

<sup>16</sup>J. Auda, *Maqasid Al-Shariah as Philosophy of Islamic Law: A Systems Approach* (London: IIIT, 2008).

<sup>17</sup>M. O. Mohammed, D. A. Razak, and F. M. Taib, “The Performance Measures of Islamic Banking Based on the Maqasid Framework,” paper presented at the IIUM International Accounting Conference (INTAC IV), Putrajaya, 2008.

<sup>18</sup>R. M. Baron and D. A. Kenny, “The Moderator–Mediator Variable Distinction in Social Psychological Research,” *Journal of Personality and Social Psychology* 51, no. 6 (1986): 1173–1182.



**Figure 2. Research Model**

### Research Methodology

This study applies a quantitative approach with a survey design. The unit of analysis is the individual employee of Islamic commercial banks, and the model is analysed using Partial Least Squares – Structural Equation Modelling (PLS-SEM) with SmartPLS 4.0, which permits the simultaneous testing of multiple relationships among latent constructs, including moderating effects, and is robust for complex models.<sup>19</sup>

#### *Population, Sampling Technique, and Sample Size*

The population comprises employees of the 13 Islamic commercial banks (BUS) included in the 2022 Financial Integrity Rating (FIR) assessment who work within the three lines of defence of the AML/CFT programme. Because the exact population size cannot be identified, a non-probability sampling approach with a *purposive sampling* technique was applied. Respondents had to satisfy the following criteria: (a) employed at one of the 13 BUS; (b) assigned to a first, second, or third line of defence function related to the AML/CFT programme; and (c) possessing a minimum of five years of working experience in that function, ensuring adequate familiarity with the questionnaire items. Following Hair et al., when the population size is unknown the minimum sample is 5–10 times the number of indicators; with 34 indicators in this study, the minimum sample is  $34 \times 5 = 170$  respondents.<sup>20</sup>

Sample adequacy was further verified against the statistical power criteria of Cohen as adapted for PLS-SEM, which specify the minimum sample size as a function of the maximum

<sup>19</sup>J. F. Hair, G. T. M. Hult, C. M. Ringle, M. Sarstedt, N. P. Danks, and S. Ray, *Partial Least Squares Structural Equation Modeling (PLS-SEM) Using R* (Cham: Springer, 2021); H. Latan and I. Ghozali, *Partial Least Squares: Concept, Technique and Application Using SmartPLS* (Semarang: Universitas Diponegoro, 2015).

<sup>20</sup>Hair et al., *Partial Least Squares Structural Equation Modeling (PLS-SEM) Using R*.

number of arrows pointing at a construct, the significance level, and the minimum  $R^2$  to be detected (Table 1).<sup>21</sup>

**Table 1. Minimum Sample Size in PLS-SEM (5% Significance, 80% Statistical Power)**

Maximum arrows pointing at a construct	$R^2$ min 0.10	$R^2$ min 0.25	$R^2$ min 0.50	$R^2$ min 0.75
2	110	52	33	26
5	147	70	45	36
9	181	88	57	46
10	189	91	59	48

Source: Cohen (1992), adapted from Hair et al. (2017)

In the present model, the dependent construct (PI) receives a maximum of nine arrows (four direct risk paths, one maqashid sharia path, and four interaction terms). At the conservative threshold of  $R^2$  min 0.25, the required minimum is 88 respondents, and at  $R^2$  min 0.50 it is 57; the realised sample of 170 therefore exceeds both. As an additional check, the inverse square root method estimates the minimum sample as  $n > (2.486/|\beta_{\min}|)^2$  at 5% significance and 80% power; assuming a minimum path coefficient of 0.20, the requirement is approximately 155 respondents, which the sample also satisfies.<sup>22</sup>

#### *Data Collection and Instrument*

Primary data were collected through a structured questionnaire in the form of a Google Form distributed online via WhatsApp and e-mail between the second and fourth quarters of 2024. The instrument consists of 34 reflective indicators measured on a Likert scale, operationalising six constructs derived from the KPIAPUPPT dimensions of POJK No. 8/2023: customer risk (RN), country/geographic risk (RG), product/service/transaction risk (RP), delivery channel risk (RD), maqashid sharia principles (MS), and internal control of the AML/CFT programme (PI). Prior to fieldwork, the instrument was validated in four stages — pra-test, pre-test, qualitative evaluation, and pilot test — including a pre-test administered to 40 bank employees with at least five years of AML/CFT experience who were not part of the final sample, to confirm the validity and reliability of the items.

#### *PLS-SEM Procedure*

The analysis followed five stages: (a) model conceptualisation, defining constructs, reflective indicators, and hypothesised causal paths; (b) selection of the algorithm analysis method; (c) determination of the resampling method, for which *jackknifing* was chosen because it yields stable parameter estimates and is more effective than bootstrapping when data contain outliers;<sup>23</sup> (d) construction of the path diagram; and (e) model evaluation, covering the measurement model (outer model: indicator reliability, convergent validity, discriminant validity, composite reliability) and the structural model (inner model:  $R^2$ , predictive relevance, and goodness of fit). The structural equation is:  $PI = b_0 + b_1RN + b_2RG + b_3RP + b_4RD + b_5(MS \cdot RN) + b_6(MS \cdot RG) + b_7(MS \cdot RP) + b_8(MS \cdot RD) + e$ . Hypotheses are accepted when the t-statistic exceeds 1.96 at a 5% significance level ( $p < 0.05$ ).

<sup>21</sup>J. Cohen, "A Power Primer," *Psychological Bulletin* 112, no. 1 (1992): 155–159; J. F. Hair, G. T. M. Hult, C. M. Ringle, and M. Sarstedt, *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)*, 2nd ed. (Thousand Oaks: SAGE, 2017), Exhibit 1.7.

<sup>22</sup>N. Kock and P. Hadaya, "Minimum Sample Size Estimation in PLS-SEM: The Inverse Square Root and Gamma-Exponential Methods," *Information Systems Journal* 28, no. 1 (2018): 227–261.

<sup>23</sup>W. Knock and A. Paramylish, "Jackknifing as an Alternative to Bootstrapping in PLS Path Modeling" (2011).

## Result and Discussion

### *Respondent Characteristics*

Of the 170 respondents, 89 (52%) are male and 81 (48%) female (Table 2). By job function, the majority work in the second line of defence (96 respondents; 56%), followed by the first line (60; 35%) and the third line (14; 8%), as shown in Table 3. This composition mirrors the structure of AML/CFT responsibilities in banks, where compliance and risk management units carry the heaviest day-to-day program burden.

**Table 2. Respondent Characteristics by Gender**

Gender	Number	Percentage
Male	89	52%
Female	81	48%
Total	170	100%

Source: processed by the researcher, 2024

**Table 3. Respondent Characteristics by Job Function**

Job Function	Number	Percentage
First Line of Defence (Customer Service, Teller, Marketing/Account Officer, Financing Analyst, Financing Legal)	60	35%
Second Line of Defence (Compliance Work Unit, AML/CFT Division, Risk Management, Corporate Legal)	96	56%
Third Line of Defence (Internal Audit, Internal Audit Work Unit)	14	8%
Total	170	100%

Source: processed by the researcher, 2024

### *Measurement Model (Outer Model)*

Convergent validity was assessed through indicator reliability: all 34 indicators of the four inherent risk constructs, the maqashid sharia construct, and the internal control construct have loading factors exceeding the 0.70 threshold, and are therefore valid. Discriminant validity is satisfactory: cross-loading tabulation shows each indicator correlates more strongly with its own construct than with others, and the square root of the Average Variance Extracted (AVE) of every construct exceeds its correlations with other constructs. AVE values range from 0.652 (customer risk) to 0.780 (delivery channel risk), all above the 0.50 minimum. Composite reliability values for all constructs exceed 0.70, confirming satisfactory construct reliability. The outer model therefore meets all measurement criteria recommended for PLS-SEM.<sup>24</sup>

### *Structural Model and Hypothesis Testing (Inner Model)*

The coefficient of determination shows that customer risk, country risk, product/service/transaction risk, delivery channel risk, and maqashid sharia principles jointly explain 70.5% of the variance of the internal control construct ( $R^2 = 0.705$ ), a substantial level; the remaining 29.5% is explained by constructs outside the model, such as political-year risk and strategic corporate actions of Islamic banks (mergers, acquisitions, and spin-offs). The

<sup>24</sup>Hair et al., A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM).

results of hypothesis testing based on the path coefficients, t-statistics, and p-values are summarised in Table 4.

**Table 4. Hypothesis Testing Results**

No	Path	t-statistic	p-value	Decision
H1	Customer Risk → Internal Control of AML/CFT Programme	2.751	0.006	Accepted
H2	Country Risk → Internal Control of AML/CFT Programme	0.653	0.514	Rejected
H3	Product/Service/Transaction Risk → Internal Control	5.173	0.000	Accepted
H4	Delivery Channel Risk → Internal Control	3.675	0.000	Accepted
H5	Maqashid Sharia Principles → Internal Control	2.081	0.038	Accepted
H6	Maqashid Sharia × Customer Risk → Internal Control	0.140	0.889	Rejected
H7	Maqashid Sharia × Country Risk → Internal Control	0.286	0.775	Rejected
H8	Maqashid Sharia × Product/Service/Transaction Risk → Internal Control	0.482	0.630	Rejected
H9	Maqashid Sharia × Delivery Channel Risk → Internal Control	0.566	0.571	Rejected

Source: SmartPLS 4.0 output (jackknifing), processed by the researcher, 2024;  $t > 1.96$ ,  $p < 0.05$

## Discussion

Customer risk significantly influences internal control ( $t = 2.751$ ;  $p = 0.006$ ). This confirms that customer characteristics and behaviour occupational profile, source of income, transaction patterns, and politically exposed person status critically determine the intensity and complexity of due diligence procedures. High-risk customers require enhanced due diligence, deeper source-of-funds verification, more intensive transaction monitoring, and data updating at least once a year, supported by system-based suspicious transaction parameters in the management information system. This finding is consistent with Mohd-Sanusi et al. (2022), who found customer risk significantly shapes money laundering risk judgement among bank analysts, and with Xue and Zhang (2016), who identified customer risk as the most important inherent risk factor; the present study extends both by demonstrating that the effect carries through to the design of internal control in the specific context of Islamic banking.

Country risk does not significantly influence internal control ( $t = 0.653$ ;  $p = 0.514$ ). This result contrasts with Riccardi et al. (2019), whose Italian provincial analysis placed geographic risk at the centre of money laundering risk assessment, and partially with Xue and Zhang (2016), who ranked geographic risk second. The divergence is explicable by mitigation mechanisms that absorb geographic exposure before it reaches the control function: Islamic banks deploy real-time alert systems for cross-border transfers involving high-risk jurisdictions, and POJK No. 8/2023 obliges counter-measures including clarification to PPATK for foreign nationals from high-risk countries opening accounts in Indonesia. Automated monitoring of this

kind is increasingly standard in commercial banks.<sup>25</sup> The finding also suggests that country risk assessment in the Indonesian context requires a more localised approach rather than a wholesale adoption of cross-country risk hierarchies.

Product/service/transaction risk significantly influences internal control ( $t = 5.173$ ;  $p = 0.000$ ), the strongest direct effect in the model. The strength of this path reflects the complexity and diversity of Islamic banking contracts: products such as *mudharabah*, *murabahah*, *ijarah*, and *sukuk* each carry unique risk profiles. Profit-sharing products, for instance, demand more intensive monitoring of fund utilisation and business performance, while foreign-currency transactions require additional verification. Internal control must therefore be adapted through product-specific anomaly detection, specialised staff training, and risk assessment of new products and features (risk of new enhancement) as part of the continuing risk-based approach, in line with the requirement that institutions assess and document the risks of every product they offer (Mekpor, 2019). Rapid technological change keeps this risk dynamic, which explains why it remains a dominant driver of control intensity.

Delivery channel risk significantly influences internal control ( $t = 3.675$ ;  $p = 0.000$ ). The way a bank distributes its products has important implications for control effectiveness: branch networks, agents, ATMs, cash deposit machines, mobile and internet banking, and online account opening each present distinct vulnerabilities. Non-face-to-face onboarding through applications and web services complicates CDD because verification occurs virtually, consistent with the heightened CDD intensity required for non-face-to-face mechanisms (Mekpor, 2019). Banks consequently develop channel-specific strategies differentiated identity-verification technology, tailored onboarding procedures, and channel-specific monitoring — which this finding shows are reflected in the overall internal control of the AML/CFT programme.

Maqashid sharia principles significantly influence internal control as an independent variable ( $t = 2.081$ ;  $p = 0.038$ ). This effect can be elaborated across the five maqashid aspects and mapped onto the COSO components. First, *hifz al-din* (preservation of religion) embeds sharia compliance and integrity into the control environment, reinforcing the “tone at the top” that COSO identifies as the foundation of all controls. Second, *hifz al-nafs* (preservation of life) motivates the bank’s commitment to detecting and reporting transactions that may finance terrorism or other crimes harmful to society. Third, *hifz al-‘aql* (preservation of intellect) is realised through continuous education and training of officials and employees one of the five pillars of POJK No. 8/2023 and through customer awareness of money laundering risk. Fourth, *hifz al-nasl* (preservation of progeny) orients the institution toward long-term sustainability and reputation, discouraging short-term profit-seeking that tolerates illicit funds. Fifth, and most directly, *hifz al-mal* (preservation of wealth) demands strict verification that customer funds are halal in both financing and disbursement, operationalised through CDD/EDD and source-of-funds checks; this is precisely the dimension highlighted by Hoque et al. (2021) and Alias et al. (2019). The significant path coefficient indicates that these values are not merely declaratory but are reflected in stricter ethical policies, more comprehensive due diligence procedures, and ethics-oriented staff training.

Maqashid sharia does not moderate any of the four risk–control relationships (H6–H9:  $t = 0.140$ – $0.566$ ;  $p > 0.05$ ). In moderation terms (Baron and Kenny, 1986), maqashid sharia neither amplifies nor dampens the effect of inherent risks on internal control. This contrasts with Mohd-Sanusi et al. (2022), who documented a significant interaction between customer risk and

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<sup>25</sup>S. Klimova, N. Zhampeiis, and A. Grigoryan, “Contemporary Approaches to Money Laundering/Terrorism Financing Risk Assessment and Methods of Its Automation in Commercial Banks,” *Procedia Computer Science* 169 (2020): 380–387.

independence pressure, indicating that not every contextual variable in the AML domain functions as a moderator. A plausible interpretation and a finding that challenges the existing paradigm — is that maqashid sharia has been so deeply internalised in Islamic commercial banks that its effect has become constant: it operates as a stable ethical and moral foundation that sustains control effectiveness regardless of fluctuations in the independent variables, rather than as a contingency that switches controls on or off. Practically, this means that maqashid sharia complements, but cannot substitute for, risk-based controls: protection of wealth, integrity, and transparency reduce the residual impact of customer risk; value-based controls are resilient to country risk; sharia-aligned product governance addresses product risk; and although delivery channel risk is more technical and operational in nature, it must still be managed through dedicated controls to preserve the integrity of the overall system.

Taken together, the findings refine the inherent-risk hierarchy of prior literature for the Islamic banking context: customer and product/service/transaction risks remain dominant (supporting Xue and Zhang, 2016, and Mohd-Sanusi et al., 2022), geographic risk loses significance once regulatory counter-measures are in place (qualifying Riccardi et al., 2019), and the maqashid sharia perspective advanced qualitatively by Hoque et al. (2021) and Alias et al. (2019) is confirmed quantitatively as a direct though not moderating determinant of internal control.

## **Conclusions**

This study examined the influence and interaction of four inherent money laundering risks and maqashid sharia principles on the internal control of the AML/CFT programme in Indonesian Islamic banking, using PLS-SEM on data from 170 three-lines-of-defence respondents in 13 Islamic commercial banks. The results of this study are customer risk, product/service/transaction risk, and delivery channel risk significantly and directly strengthen internal control, whereas country risk does not; the effectiveness of country risk assessment in the Indonesian context therefore requires a more localised approach, and other unidentified factors — the model explains 70.5% of internal control variance open avenues for further research. Second, maqashid sharia principles significantly influence internal control as an independent variable, confirming quantitatively the qualitative propositions of the maqāshid literature. Third, maqashid sharia does not act as a moderating variable; its absence of moderation suggests the principles have been internalised to the point of operating as a constant ethical foundation, which opens an important discussion on how to operationalise and measure the application of maqashid sharia in risk management and internal control.

## **Recommendations**

For Islamic commercial banks, the priority is to implement maqashid sharia simultaneously with the strengthening of detection capabilities for customer risk the risk most directly within the bank's control through enhanced due diligence, periodic data updating, and system-based suspicious transaction parameters, while maintaining product-specific and channel-specific controls. For regulators, the findings support integrating maqashid-based indicators into supervisory tools such as the Financial Integrity Rating. Future research may broaden the study object beyond the 13 BUS, incorporate additional variables suggested by the unexplained variance (such as political-year risk and strategic corporate actions), explore the operationalisation of maqashid sharia in the prevention of money laundering, terrorism financing, and proliferation financing, and employ qualitative or mixed designs to explain why the moderating mechanism does not materialise at the individual-perception level.

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