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Khawf, Huzn and Sakinah in Islamic finance

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ABSTRACT

This article analyses the way in which Islamic finance incorporates certain psychological and emotional states known in Islamic thought, namely khawf (fear and apprehension in the face of the unknown future) and huzn (sadness and regret for choices made in the past), within a system of well-defined norms and operational structures. This methodology is compared with that of traditional finance and behavioral finance, stating that the Islamic approach proposes a structurally different solution to economic precariousness. The study adopts a qualitative conceptual methodology that combines Qur'anic textual analysis, regulatory examination of Islamic finance standards issued by the Organization of Accounting and Auditing for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), and contextual analysis of macrofinancial data from international institutions. The focus is on institutional design rather than causal inference. The analysis shows that Islamic finance institutionalizes khawf and huzn as economic constraints through prohibitions of gharar and ribā, risk-sharing, and zakāt. In contrast, conventional finance monetizes fear and regret via debt and risk transfer, while behavioral finance remains primarily descriptive. This article contributes to the literature conceptualizing Islamic finance as a normative institutionalization of behavioral insights and promoting sakinah (tranquillity) as a systemic goal of financial design. The study is conceptual and does not empirically test causal relationships. Selected principles of Islamic finance can inform ethical screening, debt regulation, and financial consumer protection frameworks. By structurally addressing debt-related uncertainty and distress, Islamic finance contributes to financial well-being and social stability.

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INTRODUCTION

Contemporary financial systems operate in a context marked by widespread uncertainty, cyclical crises and growing indebtedness of both households and states. These dynamics have not only amplified the perception of anxiety and economic distress but have also put the solidity of current financial structures under the microscope. Although traditional economic theory has long hypothesized a decision-making rationality in the face of risk, recent evidence shows that emotions such as fear, anxiety and regret profoundly influence the behavior of economic actors. It is observed that behind every financial choice there is an emotional dimension, often ignored by classical models, but central to understanding individual and collective reactions in the face of uncertainty.

Behavioral finance has made an essential contribution to this understanding, identifying recurrent cognitive biases such as loss aversion, bias toward the present, and the tendency to avoid regret. However, despite the depth of these insights, the institutional structure that governs modern finance remains largely unchanged. Interest-based debt, leverage, and complex risk transfer mechanisms continue to dominate markets, often aggravating rather than alleviating people's emotional and economic vulnerability. This outlines a framework in which the psychological dimension, while theoretically recognized, does not find an adequate response in the operational architectures of institutions.

In this scenario, Islamic finance emerges as a radically alternative paradigm. Anchored in the Qur'an and Islamic jurisprudence (fiqh al-mu'āmalāt), it directly integrates moral and psychological considerations within the regulatory framework that regulates economic transactions. Rather than relegating emotions to mere behavioral anomalies, Islamic finance recognizes their centrality in human decision-making and disciplines them through institutional rules. This approach, which is rooted in tradition and ethics, proposes a vision in which emotional well-being is an integral part of financial stability.

Two emotional states are of particular importance: khawf, i.e. fear or anxiety about uncertain future outcomes, and huzn, which represents pain and regret for past actions or losses. In finance, khawf manifests itself in the desire to reduce or transfer risk, while huzn is linked to difficulties related to persistent debts and economic suffering. The article argues that Islamic finance addresses these emotional states systematically through institutional design, offering a structural response that not only complements but exceeds the reflections of behavioral finance.

The objectives of the study are threefold: first, to analyze the psychological and economic roots of khawf and huzn; second, to examine how these concepts are translated into the principles and standards of Islamic finance; and third, to compare this approach with that of conventional and behavioral finance, suggesting sakinah as a systemic purpose of financial design. In this way, the article fits into the contemporary debate on stability, well-being, and ethical regulation, offering a perspective that takes into account both the normative and human dimensions.

The study defines an emotional state as institutionally rooted when at least three conditions are met: (i) it is explicitly recognized in the normative foundations of the system; (ii) it generates mandatory contractual constraints, not simple behavioral recommendations; (iii) it exerts an influence on systemic results regardless of individual compliance. This approach makes it possible to distinguish between systems that integrate the emotional dimension into their operating rules and those that relegate it to a marginal factor.

Based on this definition, it is clear that behavioral finance, while offering valuable interpretations, does not institutionalize fear and regret; on the contrary, Islamic finance recognizes and integrates them as structural elements of its system.

LITERATURE REVIEW

Emotions and financial decisions

The literature on behavioral finance highlights how, in concrete reality, people do not approach risk and return with the coldness of a calculator but filter every decision through the prism of their emotions and subjective perceptions. The prospectus theory clearly shows that losses weigh on the heart and mind more than equivalent gains, generating often unbalanced risk preferences. Subsequent studies confirm that emotional states such as fear and uncertainty tend to increase risk aversion, especially in periods of recession, while the fear of regret can push individuals and families to remain immobile in their choices or, on the contrary, to make impulsive and frequent movements in the financial markets.

In the context of family finance management, research shows that stress related to economic problems is not just a matter of numbers, but profoundly affects mental clarity, reducing the ability to evaluate and pushing towards hasty decisions oriented exclusively to the present. These elements lead to the recognition that emotions do not represent an accessory or marginal component but constitute the beating heart of economic choices and often determine their outcomes.

However, despite the recognized importance of emotional states, behavioral finance tends to focus on individual reactions and market anomalies, leaving in the background the reflection on how financial institutions and contracts should be rethought to protect people from the systematic exposure and exploitation of their emotional vulnerabilities.

Debt, hardship, and financial well-being

A large body of literature links debt to psychological distress, including anxiety, depression, and a reduction in life satisfaction. Empirical studies show that debt stress

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persists even when objective repayment capacity improves, indicating that debt functions as both a psychological and economic burden.

Despite these findings, traditional finance treats debt as a neutral instrument for the intertemporal allocation of resources. Interest is conceptualized as the price of time, with limited consideration of its long-term social and psychological consequences.

Islamic finance and ethical constraints

Research on Islamic finance emphasizes the prohibition of ribā, the avoidance of gharar, and the promotion of justice (ʿadl) and the public interest (maṣlaḥah). These principles are commonly discussed in terms of ethical superiority or social justice. However, little attention has been given to their psychological foundations and behavioral implications.

Despite extensive discussion of justice, ethics, and stability, the literature on Islamic finance has rarely conceptualized its fundamental prohibitions as responses to identifiable psychological states. As a result, the emotional logic of Islamic financial rules remains implicit, limiting dialogue with behavioral and institutional economics.

This paper addresses this gap by interpreting Islamic financial principles as institutional responses to emotional states explicitly recognized in Islamic theology.

Table 1. Treatment of Fear (Khawf) and Regret (Huzn) in Financial Paradigms

SIZE	CONVENTIONAL FINANCE	BEHAVIORAL FINANCE	ISLAMIC FINANCE
Role of emotions	Implicit, external to templates	Central but descriptive	Explicitly recognized and regulated by law
Treatment of uncertainty	Price and exchange	Source of the bias	Regulated by the prohibition of gharar
Debt treatment	Neutral intertemporal instrument	Source of discomfort	Ethically Constrained Relief Mechanisms
Institutional response	Risk transfer and leverage	Push, revelation	Contractual restrictions and redistribution
Systemic objective	Efficiency, profitability	Bias mitigation	Sakinah (tranquility, stability)

Source: Author himself

Table 1. illustrates that the key distinction between paradigms lies not in the recognition of emotions, but in the fact that these emotions generate binding institutional constraints.

RESEARCH METHODOLOGY

The study presented here is oriented towards a qualitative and conceptual research methodology, a choice that harmonizes with the intention of exploring regulatory frameworks and psychological-economic mechanisms, rather than focusing on the rigor of statistical causality. This methodological approach is based on interpretative institutional analysis and economic comparison, enhancing the complexity of the phenomena observed and the richness of the contexts in which they occur.

The research is developed on three distinct but complementary analytical levels, which allow a multifaceted and in-depth view of the topic.

First, a **textual analysis of Qur'anic sources** is carried out, aimed at identifying those principles that play a fundamental role in the issues of uncertainty, debt, transparency and redistribution. The selected verses are interpreted not as isolated norms, but as integral parts of a coherent ethical-economic system. Attention is paid to the prohibition of the ribā (Qur'an 2:275), relief and suspension for the debtor (2:280), contractual transparency and documentation (2:282), as well as redistribution through zakāt, which includes support for those in debt (9:60). The interpretation of these verses is inspired by both classical and contemporary Islamic economic thought, offering a dynamic perspective that is attentive to historical and social evolutions.

Subsequently, we proceed with a **regulatory-institutional analysis**, aimed at understanding how the identified principles are operationally translated into contemporary Islamic finance. This survey makes use of the standards issued by the Organization of Accounting and Auditing for Islamic Financial Institutions (AAOIFI) and the prudential guidelines proposed by the Islamic Financial Services Board (IFSB). The focus focuses on the rules relating to uncertainty (gharar), risk management, types of

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contracts and social objectives, highlighting the link between doctrine and practice.

Finally, a contextual economic analysis is proposed, which places Islamic finance in the broader panorama of the global financial system. In this context, macrofinancial data provided by international institutions such as the Bank for International Settlements, the International Monetary Fund, the World Bank and sector reports on Islamic finance are used. These data, used for descriptive purposes, make it possible to highlight the structural differences that characterize the various financial paradigms, offering a concrete representation of the dynamics at play.

The methodological choice, therefore, reflects the nature of the research issues, which focus on institutional logic, economic psychology and regulatory design, preferring theoretical and comparative in-depth study to mere econometric estimation. In this way, the work aims to offer an articulated and human understanding of the dynamics that govern Islamic finance, without ever losing sight of academic rigor and scientific coherence.

ECONOMIC AND PSYCHOLOGICAL ANALYSIS

Uncertainty, fear, and financial behavior

Uncertainty is an intrinsic feature of economic life. Investment, entrepreneurship, and innovation necessarily involve incomplete information and unpredictable outcomes. However, the way uncertainty is institutionalized within a financial system significantly influences economic behavior and psychological responses.

Table 2. Emotional states and corresponding Islamic financial mechanisms

EMOTIONAL STATE	ECONOMIC EVENT	ISLAMIC PRINCIPLE	INSTITUTIONAL MECHANISM
Khawf	Anxiety about uncertainty	Prohibition of gharar	Contractual clarity, asset guarantee
Khawf	Desire to eliminate risk	Risk sharing	Mushārakah, muḍārabah
Huzn	Regret due to debts	Prohibition of ribā	Uncompounded bonds
Huzn	Persistent pain	Social relief	Zakāt, suspension of the debtor

Source: Author himself

Table 2. shows that Islamic finance does not eliminate fear or regret, but redistributes them among contracts and institutions, preventing their concentration at the individual level.

The psychological literature highlights how uncertainty can arouse states of fear and anxiety that profoundly influence cognition and individual choices. When a person is faced with outcomes that they cannot predict, they tend to experience heightened levels of stress, a reduced ability to process complex information, and an increased reliance on mental shortcuts, the so-called heuristics. In the financial field, this often translates into extreme behavior: some prefer to avoid risk excessively, ending up investing too little; others, on the other hand, push themselves towards risky choices in the hope of escaping uncertainty, chasing high returns as if it were an escape route.

Khawf, a central concept in Islamic thought, represents precisely this dimension of anxiety in the face of the unknown of the future. It is significant to note that, within Islamic reflection, khawf is not stigmatized as an irrational manifestation; on the contrary, it is considered a natural reaction to the human condition of fragility and unpredictability. Only when this emotion is inadequately managed or exploited for improper purposes, can it turn into a destructive obstacle for the individual.

Behavioral finance scholars have identified similar mechanisms under the names of uncertainty aversion and loss aversion. Although this discipline helps to clarify how fear can alter decision-making, it rarely questions the financial structures that, in fact, accentuate these emotions. In other words, behavioral finance describes the effects of fear but does not address the systemic causes that fuel and amplify the psychological distress of financial agents.

Conventional finance and economic amplification of the khawf

In dealing with uncertainty, contemporary financial systems have progressively developed specific markets dedicated to risk transfer and assessment. Through instruments such as derivatives, securitizations and structured products, financial operators can protect themselves, transfer or even speculate on the uncertainty itself. If, on the one hand, these mechanisms offer individuals the opportunity to limit their exposure, on the

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other hand they contribute to generating an increasing complexity and opacity that involves the entire system. In this scenario, the individual — whether an institutional investor or a small saver — often finds himself immersed in a reality where the perception of risk becomes more difficult to decipher, fueling anxiety and insecurity.

As evidence of this trend, the Bank for International Settlements reports that, in 2025, the theoretical value of global derivatives traded over-the-counter exceeded 846 trillion US dollars. This impressive figure shows how uncertainty has now become a real "commodity" on which one can invest or speculate. From an economic point of view, this translates into the creation of income streams linked not so much to productive activity, but rather to the volatility of the markets themselves. In other words, the wealth produced no longer depends only on the real economy but is increasingly linked to the fluctuations and fears that agitate operators.

From a psychological point of view, this financial architecture does not eliminate the emotional dimension of khawf — the fear of uncertainty — but rather tends to shift it elsewhere. The increasing complexity of products and hedging mechanisms reduces transparency, making it difficult for citizens and even many institutions to understand the true extent of the risks assumed. Empirical research shows that, in environments characterized by information opacity, the level of perceived uncertainty and anxiety increases, even in the presence of tools that are formally supposed to offer protection. Thus, the individual often finds himself at the mercy of forces that he struggles to control, with the feeling of sailing on sight in troubled waters.

A further critical element lies in the concentration of sophisticated risk management tools at large financial institutions. This phenomenon generates profound asymmetries in the distribution of risk: fear and the consequences of uncertainty are in fact transferred to less informed or less protected entities, such as small investors or marginal operators. In times of high turbulence, this imbalance contributes to making the system more fragile and vulnerable, since the overall resilience also depends on the ability of the weakest actors to cope with shocks. Ultimately, the management of uncertainty in modern financial markets appears to be a chess game in which not all players have the same resources or knowledge to defend themselves.

Islamic finance and the discipline of uncertainty

Islamic finance offers a distinctive perspective that places the individual at the center of a fairer and more transparent system. It clearly distinguishes between ontological uncertainty — an inevitable component of human existence, linked to the unpredictability of the future — and contractual uncertainty — that which emerges from economic relationships and which, on the other hand, can be regulated and reduced. The prohibition of gharar thus assumes a central role: it aims to protect people from ambiguous, deceptive or excessively indeterminate contracts, especially when uncertainty is not distributed fairly between the parties. In this way, Islamic finance seeks to protect the dignity and psychological serenity of the subjects involved, recognizing that contractual clarity fosters greater mutual trust.

From an economic point of view, this approach translates into the limitation of speculative practices that generate financial demands unrelated to a real productive activity. Transactions are designed to be guaranteed by tangible, clearly identifiable and transparent assets, thus favoring a direct link between finance and the real economy. This orientation not only reduces the risk of abuse, but also contributes to making financial results more predictable and consistent with the actual performance of production activities.

On a psychological level, the environment thus regulated helps to mitigate khawf — the fear of uncertainty — by offering individuals greater predictability and clarity of information. When people are faced with transparent contractual obligations and payment structures closely linked to observable assets, the perception of control increases. This feeling of mastery reduces the space for unjustified anxieties and favors more serene and thoughtful decisions, enhancing the human dimension of economic choice.

Risk-sharing contracts, such as mushārakah and muḍārabah, further embody this vision. Such tools do not shift risk to one party, but distribute it among all participants, promoting a sense of solidarity and shared responsibility. In this context, fear is not focused on a single individual, but is addressed collectively, fostering cooperative behaviors and building relationships based on mutual trust.

In summary, Islamic finance does not limit itself to managing risk as a mere technical variable but reformulates it as a shared moral responsibility. In doing so, it transforms the experience of uncertainty into an opportunity to strengthen social ties and promote collective well-being, without ever losing sight of methodological rigor and respect for the complexity of the human soul.

Debt, regret and time asymmetry

If the khawf represents fear that is projected towards the future, the huzn instead inhabits the territory of the past. In real life, regret takes shape when the individual feels that the decisions made yesterday have left a shadow that is difficult to dissolve, sometimes experienced as a wound that time cannot heal. In this scenario, financial systems take on a decisive function: they can help make regret a temporary feeling, which fades over time, or transform it into a constant presence, almost a silent companion of daily economic choices.

Interest-based debt, in fact, institutionalizes regret: every past act of consumption, every failed investment, is transformed into an obligation that is renewed day after day. Compound interest acts as a lever that amplifies this

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mechanism, ensuring that debt grows even in the absence of new errors or productive activities. Numerous surveys on household finance underline how this spiral of debt is often accompanied by chronic stress, persistent anxiety and a perception of lower personal well-being.

On the economic level, high levels of private debt compress consumption possibilities, inhibit the propensity for entrepreneurial initiative and increase the vulnerability of the entire social fabric to sudden shocks. From a psychological perspective, the huzn that accompanies debt restricts the breadth of cognitive resources, inducing individuals to focus on immediate urgencies and thus increasing the risk of further poorly considered financial choices.

The behavioral finance literature recognizes these dynamics but tends to interpret them as difficulties limited to the individual, without fully grasping the structural matrix inherent in the architecture of financial systems.

Islamic Finance and the Ethical Regulation of the Time

The prohibition of ribā is not only a legal rule but embodies a profound ethical vision of the relationship between time, value and collective responsibility. In Islamic economic thought, time does not legitimize the right to a guaranteed return: true value arises only when wealth is accompanied by real economic activity and a shared assumption of risk. In this way, finance is brought back to its social function, reducing the distance between the numbers of transactions and the stories of those who, every day, experience the consequences.

With the prohibition of interest, Islamic finance works to protect people from the burden of a past that would otherwise risk exercising automatic and infinite claims on their future. When debt is admitted, it finds space only within concrete commercial exchanges or operations guaranteed by real goods, always under the watchful eye of ethical principles. This choice prevents the huzn — that regret that arises from mistakes and missed opportunities — from turning into a perpetual chain, leaving room instead for the possibility of redemption and new trust.

Qur'anic injunctions reinforce this perspective, offering concrete instruments of compassion and justice. For example, the command to grant a deferment to debtors in difficulty (2:280) introduces a flexibility that considers the vicissitudes of life, while the allocation of zakāt to indebted people (9:60) testifies to the desire to offer a second chance and a path to social reintegration. These provisions assume that economic failure should never become a definitive condemnation but can represent an opportunity for learning and relaunching.

From an economic perspective, these mechanisms act as automatic stabilizers: they reduce the social costs generated by debt crises and protect community cohesion. From a psychological point of view, they represent a way out of the impasse of regret, offering individuals the possibility of closing a chapter and regaining confidence in their decision-making abilities. Ultimately, Islamic finance shows how the rigor of the rules can go hand in hand with attention to the human experience, valuing the dignity and hope of each person.

Intertemporal Choice and Financial Well-Being

Intertemporal choice lies at the intersection of economics and psychology. Research shows that individuals under financial stress experience higher discount rates, prioritizing immediate relief over long-term well-being. This dynamic perpetuates cycles of vulnerability.

Islamic finance addresses intertemporal bias by limiting mechanisms that exacerbate short-termism, such as interest capitalization and speculative leverage. By anchoring financial claims to real assets and shared outcomes, it encourages longer planning horizons and more sustainable economic behaviors.

In this sense, Islamic finance can be interpreted as an institutional response to what modern psychology describes as scarcity-induced cognitive exhaustion.

Towards an economic-psychological balance

The integrated regulation of uncertainty and debt in Islamic finance is not limited to a mere application of technical principles but reflects a profoundly human vision of the balance between economic well-being and psychological health. Instead of pursuing a maximization of returns based on an abstract and impersonal rationality, Islamic finance aims to protect people from the anxiety and regret that can arise from financial instability. The goal thus becomes that of creating an environment in which individual and collective serenity is not sacrificed on the altar of profit, enhancing an ethical dimension that allows economic actors to live their choices with greater confidence and awareness.

This balance is centred on the concept of sakinah, a stillness that arises from justice, transparency and shared responsibility. On the economic side, sakinah translates into stable expectations and a decrease in volatility, giving economic actors a solid basis for making informed decisions. Psychologically, it fosters mental clarity, confidence in the future and the ability to plan with serenity, allowing individuals to face financial complexity without being overwhelmed by fears or doubts.

From a conceptual point of view, sakinah approaches modern ideas of psychological security, stability of expectations and lightening of cognitive load. This parallelism suggests concrete opportunities for dialogue between the Islamic tradition and institutional economic theories, as well as financial regulatory policies oriented towards social well-being. In this way, Islamic finance not only protects the material aspects, but also cares about the emotional and relational dimension of economic protagonists, recognizing the value of the person beyond numbers.

Contrary to what happens in systems oriented exclusively towards efficiency or profit maximization, sakinah

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becomes a qualitative criterion for evaluating the success of a financial structure. It offers a perspective where the overall well-being, dignity and hope of individuals are considered an integral part of economic effectiveness, thus giving the financial system an authentically human and inclusive dimension.

EMPIRICAL CONTEXT AND COMPARATIVE DISCUSSION

The empirical evidence presented in this section does not aim to test causal hypotheses, but to demonstrate the structural scale at which uncertainty and debt are rooted in contemporary finance, thus contextualizing the psychological mechanisms discussed.

Empirical context: global financial structures and vulnerabilities

The conceptual arguments explored in the previous sections find concrete confirmation when they are observed within the empirical reality of the contemporary global financial system. In recent decades, men and women from all latitudes have seen increasingly complex financial markets grow around them, mainly based on debt and risk transfer. This transformation, while on the one hand has facilitated access to financial intermediation tools, has also generated a significant intensification of systemic vulnerability and the stress that families experience in their daily lives. Behind the numbers and statistics, there are stories of people who are confronted with the uncertainty and psychological pressure induced by economic structures that sometimes seem to privilege complexity over stability.

According to the Bank for International Settlements, in 2025 the notional value of global over-the-counter derivatives exceeded 846 trillion US dollars. Although this figure does not correspond to the actual net exposure, it represents the extent to which uncertainty and volatility are traded and managed in the global economic fabric. This dimension reveals how modern finance is structurally oriented not so much to mitigate uncertainty, but rather to transform it into a commodity, with a direct impact on the perception of security and serenity of the people involved.

In parallel, analyses by the International Monetary Fund and the World Bank document historically high levels of public and private debt in both advanced and emerging economies. Household debt appears to be closely linked to greater financial fragility and reduced resilience in the face of income shocks. The results of the World Bank's stress tests of households indicate that a significant share of indebted households remain vulnerable even in moderately adverse scenarios, highlighting that debt is not just an economic variable, but an element that introduces long-term instability into people's lives.

Psychological research further strengthens these findings, highlighting the impact that debt has on the personal and relational dimensions of individuals. Studies on financial stress show that debt is strongly associated with higher levels of anxiety, depression and cognitive difficulties. These effects manifest themselves across income, suggesting that debt acts as a real psychological burden, and not just as a material constraint. Empirical evidence, therefore, confirms that concepts such as khawf (fear) and huzn (sadness) do not remain confined to theory, but are expressed as measurable phenomena with macroeconomic and human repercussions, making even more evident the need for approaches that consider the person beyond numbers.

Empirical context of Islamic finance

Unlike the broader financial system, Islamic finance has expanded in a more constrained contractual environment. According to the Islamic Financial Services Board, global Islamic financial assets reached approximately $3.88 trillion in 2024, recording steady annual growth. The sukūk market has surpassed $1 trillion in circulation, demonstrating the scalability of asset-backed instruments and risk-sharing.

While Islamic finance accounts for a smaller share of global finance, its growth trajectory suggests a sustained demand for financial arrangements aligned with ethical and social considerations. Importantly, Islamic finance institutions operate under regulatory frameworks that limit contractual uncertainty and interest-based leverage, thereby limiting some of the mechanisms that amplify systemic risk in conventional finance.

While Islamic finance is not immune to challenges—such as issues of standardization and the spread of debt-like instruments—it nevertheless offers an empirical counterpoint to the dominant debt-based paradigm.

DISCUSSION

Islamic Finance as a Normative Extension of Behavioral Finance

The analysis presented offers a look that, while maintaining the necessary scientific rigor, restores the profoundly human dimension underlying financial phenomena. In this framework, Islamic finance is recognized as a normative extension of behavioral finance: it does not limit itself to statistically describing the errors and deviations of individuals but questions the root causes that generate them. Several studies in the field of behavioral finance have now shown how emotions such as fear, anxiety and regret shape the daily economic choices of real men and women. However, the conventional perspective tends to treat these emotional reactions as "noise" to be eliminated, or at most to be corrected, by relying on information tools and market mechanisms.

On the contrary, Islamic finance stands out for a position that we could define as more radical and at the same time more attentive to the vulnerability of the person. It integrates emotional and psychological dynamics directly

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into the design of norms and institutions: instead of asking individuals to adapt to a system that remains unchanged, it proposes to redesign the rules of the system itself to prevent the exploitation of emotional fragility. In this perspective, the protection of serenity and personal dignity takes on central value, transforming psychosocial risks into the object of regulation.

The difference between the two approaches emerges clearly, for example, in dealing with uncertainty and debt: behavioral finance analyses and explains why many people tend to react disproportionately to uncertainty or underestimate the risks associated with debt; Islamic finance, on the other hand, introduces stringent limits on contractual practices that could exacerbate these trends, thus placing an institutional barrier on sources of emotional distress and social instability.

Uncertainty, volatility and systemic stability

From a systemic perspective, unlimited uncertainty trading contributes to volatility clustering and pro-cyclicality. During periods of expansion, risk transfer markets favor leverage and speculative positioning; during lows, the same mechanisms amplify fear and liquidity shortages.

By limiting gharar, Islamic finance limits the proliferation of opaque and highly leveraged instruments. While this may reduce short-term financial innovation, it improves long-term stability by anchoring financial claims to real economic activity.

The emphasis on transparency and asset support reduces information asymmetries, which are a key source of panic in the market. In this sense, Islamic finance prioritizes robustness over efficiency as traditionally defined.

Debt, exclusion and social cost

The discussion on huzn highlights a critical divergence between financial paradigms. Conventional finance treats debt as a neutral instrument of intertemporal allocation. However, empirical evidence shows that widespread borrowing generates social costs, including reduced labor mobility, lower entrepreneurial activity, and increased mental health burdens.

Islamic finance explicitly recognizes these costs. The prohibition of ribā prevents the accumulation of obligations that grow independently of productive capacity, while relief mechanisms for debtors mitigate the long-term consequences of financial failure.

This approach is in line with contemporary political debates on debt restructuring and financial inclusion, suggesting that Islamic finance offers relevant insights beyond its religious context.

Sakinah, maslahah and system performance

The concept of sakinah provides a lens through which to evaluate the performance of the financial system beyond conventional metrics. While standard economic indicators focus on growth, efficiency, and profitability, sakinah emphasizes tranquility, trust, and social cohesion.

Closely related is the principle of maṣlaḥah (public interest), which serves as a criterion for assessing whether financial arrangements contribute to collective well-being. A system that systematically generates anxiety and regret, even if effective in narrow terms, does not pass this test.

By integrating sakinah and maṣlaḥah into financial planning, Islamic finance promotes a multidimensional conception of stability that encompasses psychological and social dimensions.

Critical reflections and internal tensions

A balanced discussion requires recognition of internal tensions within Islamic finance. In practice, many Islamic financial institutions rely heavily on debt-like instruments such as the murah, which, while Shari 'ah-compliant, can replicate some features of interest-based finance.

This raises questions about how much Islamic finance in practice fully realizes its normative potential. However, the existence of such tensions does not undermine the conceptual framework; rather, it highlights the need for continued reform and alignment between theory and practice.

Moreover, comparative analysis suggests that even partial adoption of Islamic finance principles could reduce some systemic vulnerabilities.

Implications for comparative financial theory

The results contribute to comparative financial theory by showing that financial systems embody implicit psychological assumptions. Conventional finance assumes that markets can manage fear and regret through pricing and diversification. Islamic finance assumes that these emotions require regulatory restraint.

This contrast invites us to reconsider fundamental economic assumptions and opens the way for an interdisciplinary dialogue between economics, psychology and ethics.

POLICIES AND ECONOMIC IMPLICATIONS

Implications for financial regulation and risk governance

The results of this study offer relevant food for thought for those involved in financial regulation and risk governance. In the current landscape, regulators tend to focus on capital adequacy, liquidity management and market discipline, often trusting that diversification and the use of quantitative models are sufficient tools to deal with risk. Yet, concrete experiences show that these approaches risk neglecting the psychological dimensions that contribute to financial instability: anxiety, risk perception and confidence are factors that profoundly affect the behavior of operators and the resilience of financial systems.

Islamic finance, in this context, proposes an alternative regulatory perspective: instead of relying exclusively on ex post measures, it limits risk directly in contracts. The prohibition of gharar – i.e. excessive contractual uncertainty and opacity – is a concrete example of how prevention can become an effective tool. By limiting the emergence of ambiguous or purely speculative financial instruments, the system aims to reduce collective anxiety and volatility before they can lead to crises, favoring transparency and clarity in the relationship between the parties.

These insights are not limited to the Islamic realm but are also valuable for Western financial jurisdictions. Regulators, who question market stability daily, can benefit from adopting gharar-based screening mechanisms to assess complex financial instruments. This approach is useful when the payoff structures of a product are difficult to decipher even for the most experienced traders. In this way, greater awareness of hidden risks is fostered and a financial culture more attentive to collective well-being, as well as technical soundness, is promoted.

Debt regulation, consumer protection and financial inclusion

Huzn's analysis of the concept highlights how important it is to reconsider the role that debt plays in contemporary economies. Although current regulatory frameworks aimed at consumer protection focus primarily on transparency of information and assessments of financial sustainability, they assume that a well-informed borrower is always able to rationally manage long-term obligations. However, psychological research suggests a more complex picture: financial stress and cognitive biases that influence people's decisions often undermine these rational assumptions at their roots. In other words, the reality experienced by debtors is marked by a set of emotional pressures and psychological obstacles that traditional regulations tend to underestimate.

In the model of Islamic finance, debt is not interpreted simply as a neutral financial instrument, but as a contract involving profound social responsibilities. The prohibition of ribā — or interest on money — prevents the transformation of time into a mere economic income and emphasizes the protection of the debtor. Of particular importance is the focus on debt relief and restructuring: this recognizes that the burden of prolonged indebtedness is not only economic but also translates into psychological and social costs that weigh on individuals and families, affecting their quality of life and social cohesion.

In light of these reflections, it seems plausible that policymakers engaged in the fight against household over-indebtedness can benefit from the integration of principles of flexibility, temporary suspension and rehabilitation within debt regulation. Mechanisms inspired by Islamic finance — such as the structured reduction of debt burdens, the restructuring of debts without the application of interest and the provision of specific social safety nets for those in difficulty — represent potentially effective tools to promote greater financial inclusion and strengthen economic resilience in the long term. In this perspective, the centrality of the person and his psychological vulnerabilities emerge as an essential element in the design of fairer and more sustainable policies.

Implications for financial well-being and measurement

A crucial element that emerges from this study concerns the way in which the performance of financial systems is evaluated. While traditional metrics continue to prioritize growth, efficiency and profitability, they risk overshadowing equally fundamental aspects such as the financial well-being and psychological stability of the people involved. The concept of sakinah, introduced by Islamic finance, calls for a rethinking of the valuation framework, expanding it beyond quantitative parameters and including dimensions that reflect serenity, trust and social cohesion.

It is evident that financial systems, while achieving high levels of efficiency, can generate anxiety, regret and exclusion among their participants, thus undermining social cohesion and a sense of belonging. Considering indicators that measure financial stress, debt-related difficulties and the degree of consumer confidence would allow us to obtain a more complete and authentic view of the real performance of the system, restoring dignity and centrality to the human experience.

Islamic finance clearly shows that ethical constraints can go hand in hand with economic sustainability. This perspective challenges the often taken for granted idea that moral considerations are an obstacle to efficiency and instead argues for the importance of integrating well-being metrics into financial regulation. In this way, performance appraisal is enriched, becoming more adherent to the complexity of the reality experienced by individuals and communities.

Ethical screening and sustainable finance

The growing importance of environmental, social and governance (ESG) frameworks reflects a growing recognition that financial systems need to account for broader social impacts. Islamic finance provides a long-standing ethical screening model that operates ex ante rather than ex post.

Sharīʿah-based screening of contracts and activities illustrates how ethical criteria can be integrated directly into financial design. This approach offers valuable insights for the development of sustainable finance frameworks that aim to prevent damage rather than just mitigate its consequences.

By integrating psychological and social considerations into ethical screening, policymakers and market participants can increase the credibility and effectiveness of sustainable finance initiatives.

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CONCLUSION

The article offers an in-depth look at how Islamic finance can welcome and enhance psychological and emotional states, such as khawf (fear) and huzn (sadness), within a structured regulatory and institutional framework. Through a rigorous comparison with conventional and behavioral finance, the author highlights how Islamic finance proposes a distinctive response to financial vulnerability, placing the person and his or her emotional fragility at the center.

If behavioral finance recognizes fear and regret as drivers of suboptimal choices, Islamic finance stands out for the inclusion of safeguards directly in contracts and institutions. The prohibition of gharar limits uncertainty and lack of transparency, while the prohibition of ribā and attention to the protection of the debtor prevent regret from turning into a systemic phenomenon, such as that of perpetual debt. These mechanisms, instead of exploiting emotional vulnerability, elevate it to ethical responsibility, transforming the financial relationship into a path of protection and respect.

Retracing the criteria of institutionalization outlined at the beginning of the analysis, it can be observed that Islamic finance satisfies the three fundamental conditions: khawf and huzn are explicitly recognized in the normative bases, translated into effective contractual constraints and embodied in systemic results that do not require individual self-discipline. In this way, Islamic finance does not limit itself to recognizing the emotional aspects of economic behaviour but elevates them to a pillar of its legal and economic architecture.

The concept of sakinah, understood as serenity and stability, turns out to be a unifying ideal that connects economic stability, psychological well-being and social cohesion. Unlike pure profit maximization or efficiency correction, the sakinah becomes a qualitative reference point that orients the evaluation of financial systems towards the promotion of trust, transparency and resilience, essential elements for a harmonious and inclusive society.

While acknowledging the internal challenges and practical limitations facing Islamic finance, the proposed conceptual framework offers valuable insights that transcend the religious dimension. In a context where financial systems are increasingly exposed to uncertainty, indebtedness and psychological strain, the principles analysed contribute to a broader and more topical debate on ethical finance, regulatory reform and sustainable economic development, inviting decision-makers to a deep reflection on human priorities.

Future research perspectives could empirically investigate the relationship between risk-sharing mechanisms and financial well-being, deepen the psychological and behavioral effects of debt-free financing models, and evaluate the possibility of applying the principles of Islamic finance in broader regulatory contexts. In this way, new avenues would open for finance that truly serves the person and the community.

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