

The Role of Financial technology and Digital Transformation in Advancing Islamic Financial Products

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Abstract:

This research paper discusses the role of financial technology in advancing Islamic financial products. Artificial intelligence has brought about a real revolution in the financial sector, moving it from merely 'task automation' to the stage of 'predictive capability and intelligent decision-making.' It is no longer just about saving time but about transforming big data into strategic insights. The existence of banks that operate according to Islamic law, which are primarily based on the elimination of interest and the avoidance of usury in all transactions, means that these banks play a prominent and important role in the economies of Islamic countries. Today, banks are seeking to find their entry points into Islamic banking due to the rapid development witnessed in Islamic finance and its emergence as an alternative to conventional banks, especially in Islamic countries. Considering their prominent role in driving economic and social development, financial technology (FinTech) and digital transformation are seen as essential drivers for developing Islamic financial products, as they contribute to enhancing efficiency, reducing costs. Modern technologies and artificial intelligence enable the creation of digitally compliant Sharia products, thereby facilitating.

Keywords: Artificial intelligence; financial technology; Islamic windows; blockchain.

1. Introduction:

Financial technology (FinTech) represents the integration of finance and information technology, aiming to streamline, improve, develop, and automate financial processes and services for both companies and individuals (Lam, 2025). Historically, the financial sector relied heavily on human input, leading to high costs, inefficiencies, and an increased risk of errors (Barroso & Laborda, 2022). These processes typically involved extensive document handling and complex communication among various stakeholders—such as agents and clients, supervisors and subordinates, and institutions and regulatory bodies. FinTech, however, leverages electronic devices and advanced technologies to simplify these operations, ensuring round-the-clock functionality with high efficiency and accuracy (Brodny & Tutak, 2025; Li et al., 2023).

The integration of artificial intelligence (AI) into financial technology has had a profound, transformative impact. AI endows machines with cognitive capabilities comparable to human intelligence, enabling the automation of tasks previously exclusive to humans—particularly those involving image recognition, natural language processing, and speech recognition (Jin et al., 2025; Lou et al., 2025). For instance, AI can now convert handwritten documents or printed text into digital formats, thereby facilitating information analysis and storage (Agrawal et al., 2024).

Natural language processing enables the extraction of valuable information from text, while speech recognition technology facilitates the analysis of spoken conversations; together, these advancements enhance the overall efficiency and effectiveness of financial operations (Dubey et al., 2025). The application of artificial intelligence (AI) in financial technology has revolutionized the global banking, financial, and insurance sectors. AI-powered tools and solutions have been developed to address specific needs within this industry, giving rise to specialized fields such as RegTech (regulatory technology), SupTech (supervisory technology), and InsurTech (insurance technology) (Pattnaik et al., 2024; Rizinski & Trajanov, 2025).

RegTech focuses on managing regulatory processes to ensure financial institutions comply with constantly evolving regulations, whereas SupTech deals with regulatory supervision and oversight, utilizing AI to monitor and ensure compliance across the financial sector (Mulyanto, Zaki, Ridho, & Fata, 2024).

Significance of the Study: The importance of this study lies in:

The imperative need to address current issues, given the pivotal role AI plays in automating various financial services—ranging from loan processing to investment management. In the lending sector, AI-driven algorithms can assess applicants' creditworthiness with greater accuracy and efficiency than traditional methods. By analyzing vast datasets, AI can provide comprehensive risk assessments and facilitate lending decisions that align with Sharia principles. This not only accelerates the approval process for Islamic financing but also minimizes the risk of violating Sharia prohibitions, representing a positive advancement for Islamic banks.

In the realm of investment management, AI-powered robo-advisory platforms are gaining increasing popularity. These automated platforms utilize advanced algorithms to analyze market trends, assess risk tolerance, and recommend investment strategies tailored to each individual investor. Furthermore, these platforms can continuously monitor and adjust investment portfolios based on real-time data, thereby ensuring optimal performance and mitigating risk.

Research Methodology: The nature of the subject dictates the methodology to be adopted to comprehensively address its key aspects. Accordingly, this study employs the descriptive-analytical method—suitable for the theoretical dimensions of the topic—as well as the historical method to trace the evolution of both artificial intelligence and financial technology (FinTech), analyzing these theoretical aspects and examining their real-world applications.

Research Problem: In light of the above, the research problem can be formulated as follows:

How do financial technology and digital transformation contribute to the advancement of Islamic financial products?

Research Hypotheses: This study is based on the following hypotheses:

Financial technology plays a significant role in the development of Islamic financial products. Financial technology, with its modern innovations, poses no threat to Islamic finance. Previous Studies: We present some previous studies relevant to our research:

1- A study by (Aysan et al., 2023) titled " Fintech , Digitalization , and Blockchain in Islamic Finance: Retrospective Investigation". The study aimed to highlight the importance of financial technology in advancing Islamic finance and its role in disseminating products and increasing the number of branches and companies based on financial technology. It also addressed how Islamic banking operations are subject to Sharia supervisory board oversight, the development of human resources to understand the nature of Islamic banking and its Sharia-compliant parameters, and the development of programs that operate in accordance with Islamic Sharia principles.

2- A study by (NESRINE, 2025) titled “ Islamic Windows as a Bridge Towards Islamic Banking in Algeria: An Inductive Study of Organizational and Operational Obstacles and Proposed Solutions”. The study aimed to shed light on the progress made by conventional banks in Algeria in offering Islamic banking operations through the opening of “Islamic windows,” and to identify the obstacles and challenges hindering these banks from transitioning to providing Islamic banking services. It emphasized the fundamental need to amend and enact various laws supporting Islamic banking operations—such as tax laws, commercial law, and insurance regulations—given the significant role these laws play in shaping the development of Islamic banking in Algeria.

3- A study by (NESRINE, 2025) titled “Islamic Finance in the Digital Age: Fintech as a Civilizational Tool”.The study analyzed financial technology and digitalization in Malaysia and their impact on the country’s predominantly Islamic financial sector. It sought to highlight the relationship between financial technology and the Islamic banking industry, ultimately concluding that current Sharia-compliant regulations and legislation remain insufficient to encompass the technological advancements taking place within the financial sector.

2. Financial Technology and Islamic Banking:

Amidst the growing challenges facing humanity, expanding financial technology (FinTech) innovations have begun to transform traditional models, broaden access, and reshape conventional banking and financial services. These innovations enhance the effectiveness of core FinTech models- such as digital payments, lending platforms, Insurtech, and wealth management tools for portfolio optimization- by leveraging the flexibility of enhanced deep learning alongside the reliability and efficiency of hierarchical risk models (Gaviyau & Godi, 2025).

2.1 Concept of Financial Technology:

Financial technology -or "FinTech"- is a term describing mobile applications, software, and other technologies that enable users and institutions to access and manage their funds digitally (Rao et al., 2024).

2.2 Concept of Financial Technology (abbreviated as FinTech):

This refers to the application of innovative technologies to products and services within the financial sector. The term encompasses a range of technological advancements in financial services, including mobile banking, online lending platforms, digital payment systems, robo-advisors, and blockchain-based applications such as cryptocurrencies (Rao et al., 2024).

The term "FinTech" is also used synonymously with "FinTech startup"- a company whose core capability lies in developing and delivering financial technology products and services. With the rising popularity of smartphones and other digital devices, the use cases for financial technology have steadily increased.

Popular mobile applications assist individuals in setting financial goals, applying for mortgages, filing taxes, and much more. Financial technology (Fintech) is an emerging financial sector that leverages technology to enhance financial activities (Mogaji, 2023).

Banks originally used the term "fintech"- a blend of the words "finance" and "technology"- to describe the technology enabling them to track and manage customer accounts. In recent years, however, the term has evolved to encompass a broader range of consumer-facing services, such as applications and software used for budgeting, tracking spending, and trading stocks (Vijayagopal et al., 2024).

The term "fintech" can be used to describe technologies, services, and companies within the financial sector that focus on a variety of capabilities, including retail banking, financial education, cryptocurrency integration, investment management, and more and the social progress of Islamic peoples and societies (Wu et al., 2026).

3. Theoretical framework of Islamic banking:

3.1 The Concept of Islamic Banking:

Definitions and concepts regarding Islamic banking vary across different studies; below, we review some of these definitions:

- 3.1.1 Islamic Banking:** Refers to a banking system or activity that complies with the provisions of Islamic Sharia (Mukhibad et al., 2023).
- 3.1.2 Islamic Banking:** The application of banking operations based on principles consistent with the tolerant tenets of Islamic Sharia, conducted in a manner that avoids interest-based transactions—whether receiving or paying interest- as this constitutes *riba* (usury) in Islam (Franzoni & Ait Allali, 2018).
- 3.1.3 Islamic Banking:** Encompasses all forms of banking services based on Islamic principles that prohibit the receipt or payment of usurious interest and are founded on the principle of profit and loss sharing (Alwi et al., 2021)
- 3.1.4 Islamic Banks:** Islamic banking is considered a relatively modern phenomenon compared to conventional banking. Many researchers have found it difficult to arrive at a precise definition of an Islamic bank; however, despite the variety of definitions, the underlying essence remains the same. Below is a selection of these definitions (Setiawan, 2023).

3.2 The Concept of Islamic Banking:

- 3.2.1 Islamic Bank:** is a banking institution that mobilizes funds and employs them within the framework of Islamic Sharia, serving to build a society based on Islamic mutual solidarity, achieve equitable distribution, and channel capital along Islamic lines (Salman & Nawaz, 2018).
- 3.2.2 Islamic Bank:** It is a monetary and financial institution that mobilizes financial resources from members of society and employs them in accordance with the provisions of Islamic Sharia- ensuring their growth while achieving the goals of economic development and social progress for Islamic peoples and societies (Harahap et al., 2023).
- 3.2.3 Islamic Bank:** A banking institution that adheres to Sharia principles and objectives- as well as the goals of the Islamic community, both domestically and internationally- across all its transactions, investment activities, and business operations (Wijayanti & Setiawan, 2023).
- 3.2.4 Islamic Bank:** An Islamic financial institution with an economic and social mission operating within the framework of Islamic teachings; it is a mission-driven bank rather than a mere commercial entity—a bank that seeks out the most beneficial projects, not simply the most profitable ones. The Islamic bank aims not merely to implement an Islamic banking system, but to contribute to building a holistic Islamic society based on doctrinal, ethical, and economic foundations—driven, in essence, by zeal for the religion of God (Harrieti et al., 2024).

The agreement establishing the International Association of Islamic Banks, in Article 5, Paragraph 1, defines Islamic banks as follows: “For the purposes of these statutes, Islamic banks are defined as those banks or institutions whose founding legislation and bylaws explicitly stipulate adherence to Sharia principles and a prohibition on dealing in interest—whether receiving or paying it” (Gaviyau & Godi, 2025).

Islamic banks can also be defined as “monetary financial institutions with economic, social, and ethical objectives that seek to mobilize resources and deploy them in projects compatible with Islamic Sharia principles. They are committed to avoiding “riba” (usury/interest)- whether receiving or paying it- and aim to achieve economic development and well-being for the Islamic community.” Based on the foregoing, an institution’s designation as an “Islamic bank” does not rest solely on its avoidance of interest; rather, it must adopt Sharia-compliant foundations and guidelines across all its transactions. Its goal is to achieve comprehensive economic development and broad social solidarity, while simultaneously embedding the principles of the true faith and spreading Islamic awareness (Alwi et al., 2021).

3.3 Islamic Windows:

- 3.3.1 Definition 1:** According to the Islamic Financial Services Board (IFSB), an Islamic window is defined as a part of a conventional financial services institution- specifically a specialized unit or division within that institution- that provides fund management, financing, and investment services in compliance with Sharia principles. Generally, Islamic windows involve a conventional bank designating a

specific area or section within a conventional branch to offer Islamic banking services alongside the branch's existing conventional services (Tanin et al., 2025). This aims to meet the needs of certain customers seeking banking transactions that comply with Sharia provisions.

3.3.2 Definition 2: Islamic windows are defined as segments of conventional financial services institutions- which may take the form of a branch- that provide fund management services (including investment accounts), financing, and investment activities in accordance with Sharia provisions and principles. In principle, these windows operate independently regarding Sharia-compliant intermediation, as funds are invested in Sharia-compliant assets. Consequently, Islamic windows raise supervisory issues largely similar to those faced by institutions whose services are primarily dedicated to Islamic financial operations (Gök et al., 2025).

3.4 Motives for Establishing Islamic Windows:

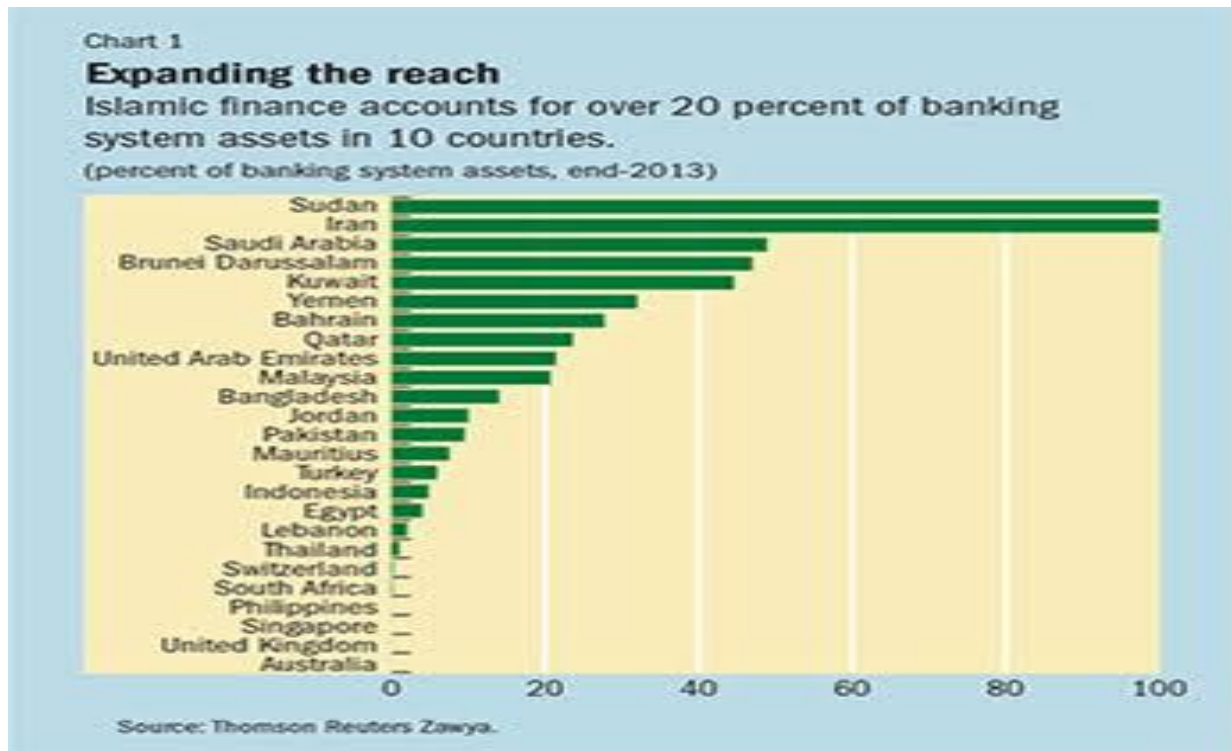
The motivations for establishing Islamic banking windows within conventional banks vary, but generally, they can be summarized as follows: (Bitar et al., 2020; Louati et al., 2015)

- The desire of conventional banks to maximize profits and attract more Islamic capital- thereby capturing a significant market share- in response to the substantial and growing demand for Islamic banking services, given that a large segment of individuals in many Islamic societies is reluctant to deal with interest-based banks;
- Retaining existing conventional bank customers and preventing them from switching to Islamic banks;
- A drive for competition and emulation, coupled with an unwillingness to let the bank's name be absent from this emerging sector;
- The ease with which the parent bank can control the window compared to controlling a separate, independent bank, alongside the simpler legal procedures required to set up a window versus establishing a new bank.

3.5 The Origins of Islamic Windows:

The concept of establishing Islamic windows within traditional banks dates back to the early emergence of Islamic banking. When the idea of Islamic banking began to transition from theory to practice, some traditional banks initially opposed the concept, questioning the credibility of its operations and the investment methods employed. Some traditional banks proposed opening subsidiary units to offer Islamic banking services; however, this proposal did not materialize until traditional banks recognized the significant public interest in Islamic banking and the growing demand for such services across various segments of society. It was then that some traditional banks decided to venture into this field by establishing their own subsidiary units (Ariss, 2010; El Mallouli & Sassi, 2021).

Figure .1: shows the evolution of the total assets of Islamic banks



Source: (Macnevin, 2019)

The assets of Islamic banks stood at \$1.700 trillion at the end of March 2018, then declined to \$1.652 trillion by the end of June 2018. They subsequently rose to \$1.692 trillion by the end of September 2018 and continued to increase, reaching \$1.754 trillion.

3.6 The Importance of Islamic Banking:

The importance of Islamic banking lies in achieving the following: (Wijayanti & Setiawan, 2023)

- Establishing banking channels free from *riba* (usury/interest-based) dealings
- Applying Sharia (Islamic law) to financial transactions.
- Putting the principles of the Islamic economy into practice.
- The desire of Muslim communities to transition to Islamic banking.

3.7 Types of Islamic Banks:

These are for-profit financial institutions that adhere to Sharia and its objectives in their investment, service, and financing activities. Despite variations in how Islamic banks are defined or how their roles are perceived, they share a fundamental criterion: adherence to Sharia. They also share a noble objective—the Islamization of financial transactions and the avoidance of any suspicion of *riba* (whether in receiving or paying it) (Okumuş, 2024). They are typically categorized in various ways, with the functional classification being the most common, dividing them into:

3.7.1 International Development Banks: These banks are owned by multiple nations. Their primary mission is to foster development in those countries by participating in development projects and financing productive programs in both the public and private sectors through the

provision of **Qard al-Hasan** (interest-free benevolent loans). They also establish and manage funds, such as funds dedicated to supporting Muslim communities (Bany issa et al., 2025).

3.7.2 Social Banks: This type of bank focuses its activities on the social sphere. An example is the Nasser Social Bank, whose main objective is to strengthen bonds of cooperation and social solidarity among individuals by granting interest-free benevolent loans and providing aid and subsidies, in addition to collecting and distributing **Zakat** (obligatory almsgiving) in accordance with agreed-upon protocols (Stavropoulou et al., 2023).

3.7.3 Investment and Financing Banks: These are institutions established primarily as financial entities, while also providing certain standard banking services (Gaviyau & Godi, 2025).

3.7.4 Multi-purpose banks: As the name implies, these are Islamic banks that engage in a wide range of banking, commercial, financial, and investment activities- such as Dubai Islamic Bank in the UAE or Faisal Islamic Bank in Saudi Arabia (Farag et al., 2018).

3.8 Stages of Establishing Islamic Banks:

Islamic banks accept deposits- similar to those found in conventional banks- but instead of using interest rates to compensate depositors, they offer a share of the profits. Islamic banks also deploy these deposits into sectors permitted by Sharia, utilizing methods that are likewise compliant with Islamic law. The process of establishing an Islamic bank involves several fundamental, logical stages. While these ten key stages are not rigid standards, they are essential steps that must be undertaken, even though some may be expedited or combined (Gök et al., 2025). They are as follows:

3.8.1 Promoting the idea: This stage relies on a group of individuals interested in the concept of establishing an Islamic bank. Proponents of the idea champion the cause by promoting the bank to the public and building a grassroots base of supporters and adopters who possess both the financial means and the desire to establish the bank (Salman & Nawaz, 2018).

3.8.2 Approaching local authorities for approval: Once the feasibility study for the Islamic bank is complete, the founders contact banking and monetary authorities to secure approval for the bank's establishment. They also seek to understand the rules and conditions set by these authorities regarding the bank's formation, ensuring compliance with relevant laws, customs, and regulations governing the establishment of banks in general, and Islamic banks in particular (El-Hawary et al., 2007).

3.8.3 Fulfilling required conditions and data submission, and issuing the decree and articles of association: Publishing these in the state's Official Gazette. In this instance, the founders fulfill the requisite conditions and submit the documents and data specified by the country's banking and monetary authorities (Babina et al., 2025).

3.8.4 Offering additional bank shares for public subscription: At this stage, the founders offer additional shares of the bank's capital for public subscription to cover the portion not subscribed to by the founders themselves. This aims to secure sufficient resources for the Islamic bank to commence operations, accept funds from depositors, and deploy them in accordance with sound Islamic principles (Lange et al., 2024).

3.8.5 Designing the bank's organizational structure and classifying its positions: An Islamic bank cannot perform its functions without a suitable organizational structure (Alam & Miah, 2024).

3.8.6 Establishing operational systems, technical and executive regulations, and specific job duties: During this stage, the founders formulate the Articles of Association, internal operational systems, technical and executive regulations, and the specific duties associated with each position (Meslier et al., 2020).

3.8.7 Announcing staffing requirements: This involves identifying the human resources needed to perform the bank's functions, as well as selecting, training, preparing, and assigning personnel to their designated roles. The bank advertises vacancies- ranging from leadership and supervisory roles (filled by experienced professionals from other banks) to executive positions (filled by recent graduates from specialized institutions) (Ngando et al., 2024).

3.8.8 Conducting operational trials and practice runs: These serve as a comprehensive test to identify and rectify any shortcomings before the bank opens to the public. It is essential to test all functions and ensure the operational competence of every employee assigned to a position within the bank (Babina et al., 2025).

3.8.9 Conducting appropriate promotional campaigns to coincide with the opening: promotion serves as a vital and effective tool for marketing Islamic banking services and stimulating customer engagement with the bank's offerings. These promotional campaigns encompass a range of activities, including: (Alsheikh, 2023)

- Advertising the Islamic bank's services.
- Personal selling of the Islamic bank's services.
- Business development, outreach, and public relations activities.

3.8.10 Opening the bank and commencing actual operations: This is the most critical stage. However, it does not mark the end of the process; rather, it is a unique phase that spans the entire lifespan of the Islamic bank.

Islamic banking assets have experienced significant growth, reaching \$1 trillion by 2014- an annual growth rate of 19%, which is far more rapid than that of conventional banks.

Furthermore, central banks across various countries have begun to focus on the Islamic banking sector, issuing specific regulations to govern the operations of Islamic banks.

3.9 Opportunities and the Future of Islamic Banks:

It is worth noting that the presence of Islamic banks is not limited to Arab and Islamic countries; rather, they have spread worldwide. London, for instance, has become a major financial hub for Islamic finance, hosting three fully Sharia-compliant banks established since 2004 (Ahmed et al., 2023), alongside twenty other banks offering Islamic services through dedicated windows or Islamic branches. Significant growth indicators within the Islamic banking industry have prompted several other Western nations to seriously consider entering this promising market- particularly following the global economic crisis, which exposed the fragility of the Western capitalist model. This interest persists despite the recognition of the Islamic finance sector as a key component of the global banking industry by major international bodies like the World Bank (Riaz et al., 2025), the International Monetary Fund's stated intention to incorporate Islamic banking services into its regulatory framework, and frequent

post-crisis discussions regarding the sector's role in bolstering global financial stability. Experts often highlight the high transparency and lower risk profile of Islamic finance transactions compared to conventional finance, noting that the financial crisis might have been averted had Islamic finance- which funds the real economy- been adopted (Hassan et al., 2019). Nevertheless, the performance of the Islamic banking sector- even in the six countries that hold 80% of Islamic banking assets- remains disproportionate to existing ambitions and opportunities, let alone achieving the status of an "alternative global financial system" (Izzeldin et al., 2021).

3.10 Reasons for the Lag in Islamic Banking:

Regarding the reasons behind the unstable performance of the Islamic banking sector, the elements the sector lacks, and the opportunities that must be seized to drive its growth, Mohamed Damak, Global Head of Islamic Finance at S&P Global Ratings, stated to **Al-Bayan Al-Iqtisadi**: "The Islamic banking sector has achieved strong growth over the past few decades and attracted significant attention (Hanif, 2025).

However, amidst a weakening economic environment in some of its key markets, the sector has experienced a slowdown in growth. Under current operating conditions, the sector faces opportunities for future growth, though this requires meeting several fundamental prerequisites (Chen et al., 2025).

There is a natural alignment between Islamic finance principles and certain UN Sustainable Development Goals; both aim to foster financing that is more responsible and equitable, while being directed toward the real economy. Multilateral lending institutions aim to guide the market on standardizing specifications- whether through the adoption of standard structures, the harmonization of documentation, or the definition of steps issuers should follow- to make the **Sukuk** issuance process easier and more efficient (Daly & Jarboui, 2025).

This substantial growth and the promising future awaiting the Islamic banking sector—combined with a desire to avoid interest-based banking—have led some nations to fully 'Islamize' their banking systems. Consequently, all banking institutions in these countries operate in accordance with Sharia principles, eschewing interest-based transactions (both paying and receiving interest), as is the case in Sudan, Pakistan, and Iran" (Raimi & Bamiro, 2025).

4. The Sharia Perspective on FinTech:

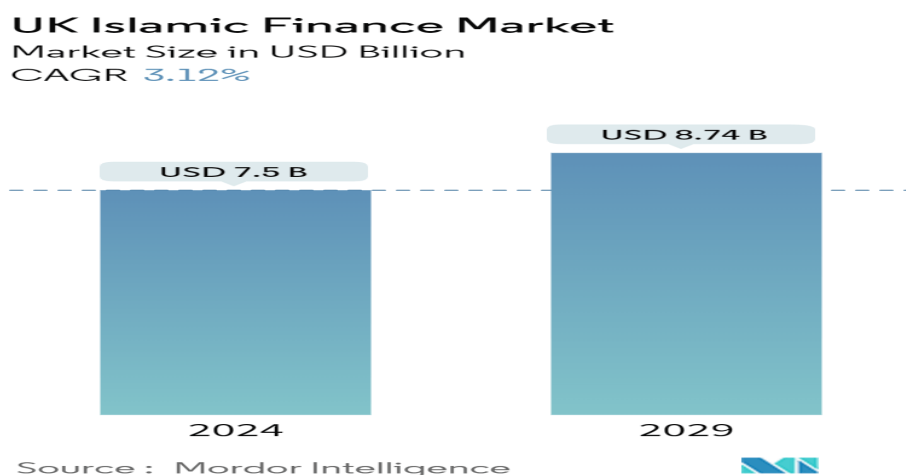
FinTech acts as an enabler for modern financial activities. From a Sharia perspective, its use in Islamic financial activities is permissible, provided it avoids prohibited practices- specifically **riba** (usury/interest), **qimar** (gambling), **maysir** (speculative gambling), and **gharar** (excessive uncertainty/ambiguity)- thereby safeguarding the public interest of the parties involved (Jin et al., 2025). Fundamentally, the Sharia view of FinTech is one of permissibility and encouragement, as it serves as a modern means to advance financial transactions, provided it adheres to Sharia guidelines and avoids prohibitions. These means are governed by the ruling of the ends they serve; if the objective is permissible and the means are legitimate, the practice is not only permissible but also encouraged due to the convenience, speed, and financial inclusion it fosters (Pattnaik et al., 2024).

4.1 General Sharia Guidelines for FinTech:

For FinTech applications to be Sharia-compliant, they must adhere to the following: (Šeho et al., 2020; Zainuldin & Lui, 2020)

- Absence of **Riba**: Avoiding any form of interest (usurious interest) in lending or investment operations.
- Absence of **Gharar** and **Jahalah** (Ambiguity and Ignorance): Contracts must be clear, financial information transparent, and high-risk activities resembling gambling avoided.
- Avoidance of Prohibited Ruses: Technology must not be used to circumvent Sharia rulings (such as using it to evade an obligation or legitimize a prohibited act).
- Legitimacy of the Activity: The subject of the transaction (currency, commodity, or service) must be permissible under Sharia and unrelated to prohibited activities such as alcohol or gambling. Jurists view financial technology (FinTech) as a tool for achieving financial inclusion and facilitating access to financial services for vulnerable communities—aligning with Sharia objectives regarding the preservation and circulation of wealth.
- FinTech as a Neutral Tool: Financial technology is a neutral tool that derives its legitimacy from how it is utilized. Its modern applications (FinTech) offer significant opportunities to advance Islamic finance, provided they operate within the framework of Sharia-compliant guidelines.
- Blockchain and Smart Contracts: Enabling the efficient and secure recording of transactions and the development of financing based on real assets.
- Digital Wallets and Legitimate Cryptocurrencies: Facilitating digital payments and enhancing financial inclusion.
- Artificial Intelligence and Data Analytics: Enabling accurate credit decisions and the provision of automated advisory services.
- Digital Transformation of Banks: Integrating smart applications to manage banking operations and services remotely, eliminating the need for physical presence.

Figure. 2: Market share of Islamic banks and Islamic finance in the United Kingdom

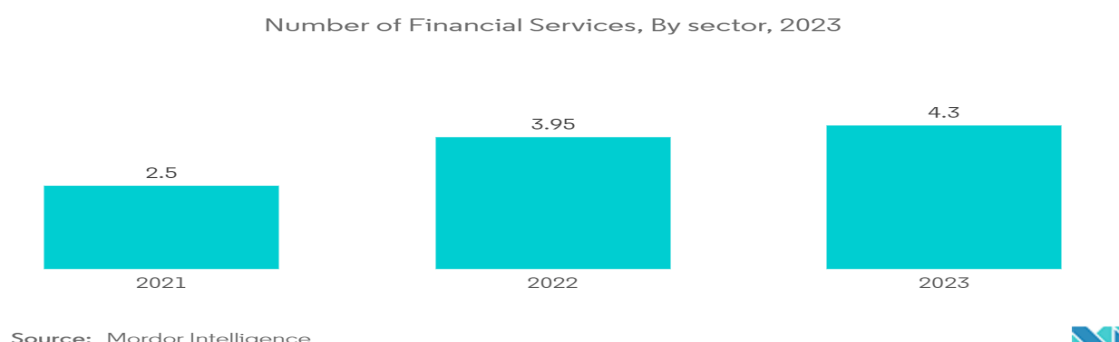


Source: (Riaz et al., 2025)

The UK Islamic finance market is estimated at US\$7.5 billion in 2024 and is projected to reach US\$8.74 billion by 2029, growing at a compound annual growth rate (CAGR) of 3.12% during the forecast period. While the UK is a relatively small player in terms of global Islamic banking assets, it is a key player within Europe, accounting for 85% of all European Islamic banking assets and holding the largest volume of such assets in the region (excluding Turkey). The UK has experienced rapid growth in Islamic finance over the past decade, driven by a government highly active in fostering and promoting the sector.

The UK was home to the country's first Islamic financial institution and holds the largest volume of Sharia-compliant assets of any non-Muslim nation in the region. Government initiatives to encourage Islamic finance have borne fruit; notably, a second sovereign Sukuk issuance took place last year, with the securities sold to institutional investors across the UK, the Middle East, and Asia. The sector is expected to continue growing over the coming decade.

Figure. 3: Market share of Islamic banks and Islamic finance in the United Kingdom



Source: (Riaz et al., 2025)

Five years ago, Western economies witnessed a surge in fintech startups offering more effective and efficient services through the innovative application of software. Consequently, traditional financial institutions now compete with rival brands and new banks to attract consumers, investors, and businesses.

The scale and pace of digital disruption- initially driven by startups- focused on the delivery of traditional financial services. The success of this first wave of fintech encouraged a new generation of startups to apply technology in delivering products and services tailored to specific demographics.

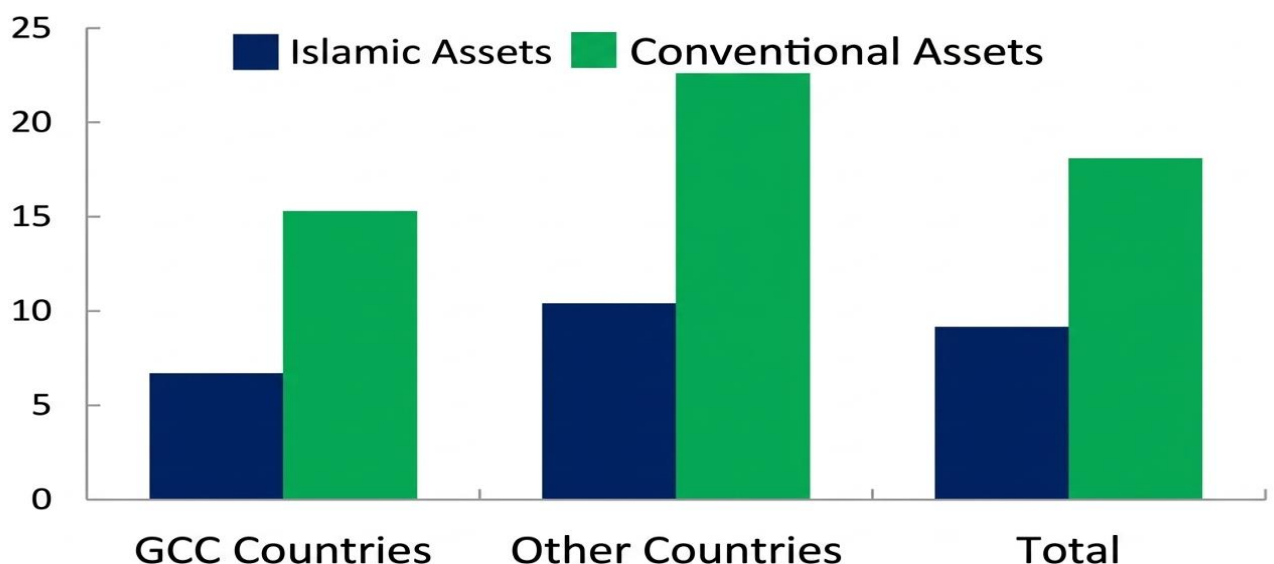
5. The Role of Financial Technology (FinTech) in the Expansion of Islamic Banking:

FinTech plays a pivotal role in boosting the reach of Islamic banks by digitizing services and introducing innovative, Sharia-compliant products- such as those utilizing crowdfunding, blockchain, and artificial intelligence. These technologies enhance operational efficiency, reduce costs, improve the customer experience, and foster financial inclusion by reaching broader market segments, thereby strengthening competitive advantage (Rabbani et al., 2021).

Factors Driving the Expansion of Islamic Banking: (Daly & Jarboui, 2025; Raimi & Bamiro, 2025)

- Demand for Sharia Compliance: The desire among a large segment of Muslims for banking services that avoid **riba** (usury) and other prohibited practices.
- Flexibility and Financial Inclusion: Offering diverse financing products (such as **Murabaha**, **Ijara**, and **Mudaraba**) tailored to the needs of both individuals and corporations.
- Stability and Risk Profile: Islamic banks are considered less risky during times of crisis because financing is linked to real assets, which instills greater confidence.
- Increased Awareness and Knowledge: Growing understanding of Islamic banking and the provision of modern, competitive financial solutions.

Figure .4: Islamic Assets and Conventional Assets



Source: (Addi et al., 2025)

Digital applications and smart solutions enable Islamic banks to extend their services to broader customer segments, particularly in areas lacking physical branches. They also facilitate the development of innovative Islamic products; technologies such as blockchain and smart contracts have contributed to creating new Sharia-compliant financial products and enhancing operational efficiency. Furthermore, the integration of financial technology (FinTech) alleviates pressure on staff and reduces operational costs, allowing for the delivery of faster, more cost-effective services to customers. FinTech empowers Islamic banks to offer innovative services that rival conventional banks in quality and speed- as evidenced by experiences in Malaysia and the Gulf- by providing modern tools to promote and introduce bank products quickly and effectively.

6. Conclusion:

The financial sector has undergone immense transformations driven by technological advancements. The fintech sector, in particular, has experienced significant growth and widespread adoption, leading to radical changes in the delivery of financial services- shifts that have profoundly impacted Islamic banking as well. Fintech plays a pivotal role in enhancing digital services for Islamic banks- which strive to offer distinctive, convenient services aligned with Islamic principles- by fostering technical innovations that streamline financial operations and facilitate the delivery of fast, efficient, Sharia-compliant financial solutions. Indeed, Islamic banks have increasingly turned to fintech to bolster their digital offerings through the development of mobile applications, online banking platforms, and innovative electronic payment services.

Through these advancements, Islamic banks have sought to improve customer experiences and expand the reach of their banking services. Fintech has enabled the introduction of new financial products- such as participatory financing (*Mudaraba*), international financing services, and Sharia-compliant wealth management- thereby making Islamic financial services more accessible and efficient for customers. Ultimately, fintech serves as a vital tool for enhancing digital services in Islamic banking; it expands access to financial services, improves customer experiences, and fosters financial development in accordance with Sharia principles. Striking a balance between technology and Islamic guidelines remains essential to ensure the delivery of innovative financial services that remain fully aligned with Islamic religious values.

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