

# AI, Shariah Governance, and Maqasid Shariah in Islamic Finance

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## ABSTRACT

The Islamic banking sector is swiftly advancing due to the growing use of artificial intelligence (AI) in its governance and operational frameworks. While AI can improve the efficiency of Islamic banking, aid in risk management, assure regulatory compliance, and attract more clients, it must be meticulously linked with the fundamental aims of Islamic law, or Maqasid Shariah. This study employs a conceptual framework supported by case analyses from leading Islamic financial institutions. This paper examines the application of AI in Islamic finance, evaluates the role of Shariah governance in overseeing these technologies, and underscores the ethical, legal, and technological challenges that emerge from this intersection. The document offers regulators, Shariah boards, and practitioners techniques to ensure that technological innovations bolster Shariah compliance instead of compromising it. This study offers new insights to the literature and establishes a framework for ethical, sustainable, and innovation-driven Islamic banking by exploring the under-researched connection between AI and Shariah governance.

**Keywords:** Artificial Intelligence (AI), Shariah Governance, Islamic Finance, Maqasid al-Shariah, Ethical Finance

## INTRODUCTION

Islamic finance has attained prominence in the global financial system owing to the principles of Shariah. As of 2023, the sector's assets surpassed \$2 trillion, demonstrating sustained development despite global economic adversities (DinarStandard, 2023). Islamic finance advocates for risk-sharing, social equality, and ethical investment methodologies. It also forbids *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). These unique attributes attract ethically conscious investors; nonetheless, they considerably complicate governance and compliance.

Islamic finance is experiencing heightened pressure from globalization, challenging regulations, and the necessity for financial inclusion. In our changing world, innovative technology is becoming increasingly essential. Artificial intelligence (AI) has emerged as a transformative influence in the financial services industry. Artificial intelligence has the capacity to fundamentally revolutionize the operations of Islamic banks, encompassing the automation of compliance evaluations and the enhancement of client interactions. A crucial question regarding Shariah administration is how AI could enhance the oversight of Islamic financial operations while maintaining the primacy of human interpretation. Can artificial intelligence systems fully adhere to the ethical standards of Islamic jurisprudence? What methods must be adopted to guarantee that improved efficiency adheres to Shariah principles?

There is a lack of comprehensive research on the convergence of AI applications in finance and Shariah governance frameworks, while both subjects have been individually explored in academic literature. The absence of integration signifies a considerable research shortcoming. This study seeks to examine two principal inquiries: (1) In what ways may AI enhance the Shariah administration of Islamic financial institutions? What risks and challenges emerge from the amalgamation of AI with Maqasid Shariah?

The research seeks to investigate these inquiries by examining AI applications in Islamic finance, critically assessing the supervision function of Shariah governance on these technologies, and providing recommendations for Shariah boards, regulators, and practitioners. The study characterizes AI as a dual entity, both a threat and an opportunity for the future of Islamic finance, enhancing ongoing discourse on innovation and compliance.

## LITERATURE REVIEW

### The Application of AI in Finance

Artificial intelligence has revolutionized the worldwide banking industry by enabling automation, utilizing predictive modeling, identifying fraud, and delivering personalized customer service. Artificial intelligence improves the efficiency and accuracy of traditional businesses in areas such as credit evaluation, risk forecasting, and algorithmic trading. McKinsey (2023) posits that the use of AI might improve decision-making and decrease costs in the financial services sector by up to 30%.

In Islamic finance, analogous opportunities may be employed, while supplementary Shariah-compliant rules are also present. AI systems must operate efficiently while guaranteeing that transactions and processes are free from *riba*, speculation, or involvement in haram businesses such as gambling, alcohol, or pork-related firms. The utilization of AI in Islamic banking is compelling but complex, necessitating both efficiency and ethical integrity.

### Shariah Governance in Islamic Finance

Shariah governance underlies Islamic financial institutions. It guarantees that all their actions comply with Islamic jurisprudence. Typical examples of governance systems comprise Shariah Supervisory Boards (SSBs), internal Shariah compliance teams, and external audits. These systems work together to promote accountability, honesty, and ethical propriety (Grassa & Gazdar, 2014). SSBs comprise erudite scholars who are crucial for overseeing financial activities, offering counsel on novel products, and issuing fatwas. The evolution of financial technologies has transformed expectations for Shariah governance. SSBs must have a comprehensive awareness of both emerging technology and *fiqh*, given the ubiquity of fintech platforms, AI-driven goods, and digital transactions. Their capacity to efficiently oversee and regulate technological innovation is impeded by a deficiency of interdisciplinary competence, resulting in oversight and compliance shortcomings.

### Research Gap

Recent research indicates that artificial intelligence in Islamic finance offers both advantages and challenges. Hassan Sain and Adinugraha (2025) examine the capacity of AI to improve customer service and maintain Shariah compliance. In contrast, Arsyad, Kharisma, and Wiwoho (2025) address potential concerns like insufficient transparency, algorithmic bias, and inadequate regulation. Despite the expanding corpus of knowledge, few studies comprehensively examine the relationship between AI and Shariah governance. Insufficient attention has been given to the interaction between Shariah Supervisory Boards and AI, as well as the integration of technological, ethical, and governance components into a unified framework.

Iqbal et al.'s bibliometric analysis from 2025 reveals a deficiency in research concerning Shariah governance in the AI era. This gap highlights the imperative for further exploration into the utilization of AI in enhancing Shariah governance while conforming to ethical, technological, and regulatory standards. This study provides a conceptual analysis that connects these characteristics and offers valuable insights for practitioners and scholars.

## METHODOLOGY

This study utilized a conceptual research design to examine the integration of artificial intelligence (AI) into Shariah governance within Islamic finance, employing critical analysis and thematic synthesis. The research cultivates a comprehensive understanding of contemporary accomplishments and challenges by synthesizing existing scholarly literature, industry reports, and institutional practices, rather than relying on original empirical data.

Data emanates from a multitude of varied sources. Industry insights were obtained from entities including the Islamic Financial Services Board (IFSB), PwC, McKinsey, and S&P Global, while academic contributions were derived from peer-reviewed journals indexed by Scopus. CIMB Islamic, Dubai Islamic Bank, and Al Baraka were chosen as case studies because they are distinguished Islamic institutions that have publicly acknowledged AI-related projects.

The methodology includes a comparative analysis. The study outlines specific Shariah requirements and ethical considerations by comparing the use of AI in traditional banking with practices in Islamic finance. This approach facilitates the identification of trends, opportunities, and governance challenges by situating them within the core objectives of Maqasid al-Shariah.

The paper aims to provide a thorough review of the potential coexistence of AI and Shariah law in this environment. The conceptual approach can serve as a foundation for subsequent practical and empirical research, particularly in a nascent field characterized by a scarcity of existing literature.

## MONITORING AND DELIBERATING

### Utilization of AI in Islamic Finance

Artificial intelligence technology is commencing to revolutionize the operations of Islamic banks and other financial institutions, especially in product development, fraud detection, risk management, regulatory compliance, and customer support. Al Baraka Bank utilizes AI-driven transaction screening technologies that monitor activity in real time to ensure the avoidance of *riba* or *haram* areas. CIMB Islamic Bank utilizes artificial intelligence in capital markets to assess investor behavior and market performance. This decreases the time needed to issue *sukuk* by approximately 30% (S&P Global, 2023). Bank Islam Malaysia has utilized machine learning algorithms to detect problems and diminish fraud-related losses by roughly 40% each year (KPMG, 2023).

The approach firms employ to interact with clients has evolved. Emirates Islamic Bank has created an AI chatbot that can respond to more than 70% of inquiries related to financing choices, such as *murabaha* and *ijarah* (McKinsey, 2023). Wahed Invest is a robo-advisor that use artificial intelligence (AI) to develop tailored Shariah-compliant portfolios. It has more than 300,000 members worldwide. These examples demonstrate how AI can facilitate Shariah compliance, foster diversity, reduce risk, and improve operational efficiency.

### Artificial Intelligence and Sharia Governance

Artificial intelligence (AI) can substantially improve the supervision and decision-making mechanisms of Shariah governance. AI-assisted techniques can expedite the issuance of fatwas by swiftly examining vast databases of historical rulings, jurisprudential literature, and precedents. This allows Shariah specialists to develop educated preliminary opinions. Nevertheless, human jurists maintain interpretative authority, ensuring the continuation of contextual reasoning and normative evaluation (Ab Rahim et al., 2025).

Artificial intelligence (AI) enhances real-time oversight in compliance monitoring by detecting potentially non-Shariah-compliant transactions, allowing supervisory boards to focus on complex or high-risk scenarios (Arsyad, Kharisma, & Wiwoho, 2025). Despite the data being mostly practical and institution-specific rather than peer-reviewed, entities such as Dubai Islamic Bank have revealed the implementation of AI-enabled chatbots and monitoring technologies to improve Shariah governance functions (DIB, 2024; SalaamGateway, 2025).

Notwithstanding these benefits, considerable risks are still present. The issue of a fatwa requires advanced reasoning that AI cannot replicate. Overdependence on algorithmic results may result in decisions that are just mechanical interpretations lacking legal complexity (Secretary General, International Islamic Fiqh Academy, 2025). Moreover, the "black box problem," defined by the lack of transparency in certain AI systems, hinders researchers' understanding of decision-making processes (Al-Shalhoob & Babiker, 2025). These problems undermine the trust and responsibility essential to Shariah governance.

## Analytical Perspectives

The disparity between Islamic and conventional banking underscores the essential function of Shariah governance in shaping the incorporation of AI. Artificial intelligence is commonly utilized in traditional settings for functions such as automated credit assessment, algorithmic trading, and risk forecasting. These approaches improve productivity; yet, they often include risks and speculation, which violate Shariah law. Islamic finance must revise its methodology regarding artificial intelligence. When assessing applications, it is essential to comply with regulations that forbid inequitable conduct, undue risk-taking, and speculative transactions. Nabilah Wafa' Mohd Najib, Basarud-din, and Fazial (2025) contend that Shariah-compliant governance structures are essential for guiding AI innovation, guaranteeing compliance with legal requirements and the higher moral and spiritual aims of Maqasid Shariah.

Table 1: AI Applications and Shariah Governance Functions

| AI Application        | Shariah Governance Role             | Benefits                         | Risks/Concerns                |
|-----------------------|-------------------------------------|----------------------------------|-------------------------------|
| Compliance Monitoring | Shariah boards review flagged cases | Cost efficiency, accuracy        | Over-reliance, lack of skills |
| Fatwa Issuance        | Supports juristic reasoning         | Speed, scalability               | Risk of superficial rulings   |
| Fraud Detection       | Oversight of fairness               | Trust, reduced fraud losses      | Algorithmic bias              |
| Customer Engagement   | Ensures Shariah-compliant guidance  | Improved satisfaction, inclusion | Risk of misinformation        |

## CHALLENGES AND RECOMMENDATIONS

The effective incorporation of Artificial Intelligence (AI) into Islamic finance depends on a thorough analysis of its ethical, technological, and legal ramifications. Fundamental ethical issues pertain to algorithmic bias, lack of transparency in decision-making, and the potential for actions that could unintentionally contravene Shariah principles, especially regarding speculative elements or non-compliant transactions (Arsyad, Kharisma, & Wiwoho, 2025; Najib, Basarud-din, & Fazial, 2025). This situation highlights an urgent necessity: AI technology must be created and utilized in exact accordance with fundamental Shariah principles.

A significant structural difficulty is the limited comprehension of AI and associated digital subjects among numerous Shariah professionals. The skills gap directly hinders the effective oversight of intricate algorithmic systems and raises significant concerns about the sufficiency of existing Shariah governance frameworks to address emerging technological breakthroughs (Arsyad et al., 2025). In the absence of focused capacity development, supervisory boards may struggle to sustain thorough monitoring in progressively complex technological settings. Moreover, regulatory ambiguities present a substantial risk to compliance, since current governance frameworks frequently lack the capacity to explicitly control AI applications in Islamic banking (Sharofiddin & Azman Mohd Noor, 2025). These regulatory deficiencies pose a danger of inconsistency among institutions and countries, thereby undermining public trust in the sector.

The internal issues are exacerbated by substantial disparities in AI deployment across various Islamic finance locations, requiring highly tailored strategic approaches. In the Gulf Cooperation Council (GCC), adoption is significantly expedited by government-driven digital transformation programs, bolstered by considerable financial investment and conducive legislative frameworks (Albous, AlKandari, & Anouze, 2025). Southeast Asian centers like as Malaysia and Indonesia adopt a more cautious approach, wherein innovation is rigorously regulated and conforms to established Shariah governance frameworks and national digital rules (Sharofiddin & Azman Mohd Noor, 2025). In South Asia and Africa, adoption is still in its early stages, largely impeded by infrastructural inadequacies and inconsistent regulatory alignment (Ichsan, Despileny, Jannah, & Albahi, 2024). This discrepancy fundamentally contests universal models, highlighting that regional adaptability is essential for aligning AI with local settings and key Shariah principles.

A diversified approach focused on strong governance is required to simplify this complex issue. The persistent dangers of algorithmic bias and unclear decision-making necessitate a thorough structure that systematically

combines technical protections with Shariah-compliant supervision. Najib, Basarud-din, and Fazial (2025) emphasize that the implementation of fairness, accountability, and transparency (FAT) is essential for aligning AI applications with the overarching goals of Maqasid Shariah. This requires the utilization of culturally diverse datasets to reduce inherent bias, the regular execution of Shariah-compliant audits on algorithms, and the implementation of Explainable AI (XAI) models that allow supervisory boards to accurately evaluate system outputs (Kannike & Fahm, 2025). Embedding Shariah experts directly into the technical design and evaluation phases through formal ethical review systems is essential for the previous integration of religious and ethical considerations, rather than retrofitting them (Zulkifli & Sori, 2021).

Long-term success fundamentally depends on cultivating significant, obligatory multidisciplinary collaboration. Shariah experts should possess digital literacy and specialized training in AI, whereas technologists must enhance their comprehension of Islamic business law and Maqasid Shariah (Ichsan et al., 2024). Regulatory entities, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), must therefore develop innovative and clear regulations aligned with Shariah principles to oversee the ethical and transparent application of AI (Sharofiddin & Azman Mohd Noor, 2025). Moreover, institutions must proactively mitigate the risk of overreliance on AI, ensuring that over dependency on technology does not undermine the interpretive authority of Shariah monitoring boards (Abdul Samad, 2025).

## FUTURE RESEARCH

Future research on AI and Shariah governance in Islamic finance should concentrate on several essential elements. The primary focus is the uniformity of AI integration across various jurisdictions. Comparative investigations among Southeast Asia, the Middle East, and Europe may yield significant insights into optimal practices and adaptable governance frameworks, given that Islamic finance functions within diverse legislative and cultural contexts.

Secondly, empirical investigations are essential for advancing conceptual work. Case studies must examine client perceptions of AI-driven Shariah compliance systems and assess if these technologies enhance trust in Islamic financial organizations. Collaboration among Shariah scholars, computer scientists, ethicists, and regulators is crucial for the advancement of this field.

## CONCLUSION AND RECOMMENDATION

An overreliance on AI could undermine the interpretive authority of Shariah monitoring entities, which are essential for ensuring conformity and fostering confidence.

Shariah boards, regulators, and AI practitioners must enhance their collaboration to tackle these challenges. Multi-stakeholder governance frameworks, interpretable AI models, regulatory innovation, and targeted training can attain a balance between innovation and compliance. Islamic finance may harness the benefits of AI while upholding its ethical and religious tenets through targeted initiatives. The integration of AI into Islamic finance presents both governance challenges and technological transformations. To create a successful, ethical, and technologically advanced Islamic financial system, it is essential that innovation adheres to Shariah principles rather than violates them. Effective AI-Shariah integration requires structured collaboration between technologists and Shariah experts. Joint capacity-building initiatives, such as AI literacy programs for Shariah scholars and fiqh-oriented training for data scientists, would foster a shared vocabulary and interdisciplinary competence. This collaborative approach ensures that AI tools not only comply with technical standards but also embody the higher objectives of Maqasid Shariah.

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