Emerging trends in Islamic fintech

Over the past two decades, Islamic finance has expanded into a multi-trillion-dollar industry. Yet for much of this period, growth has been somewhat led by conventional players layering Shariah compliance on traditional structures, but that is changing. Today, technology is no longer a support function, it is at the heart of how Islamic finance is delivered, experienced and trusted. KHALED BERJAWI writes.

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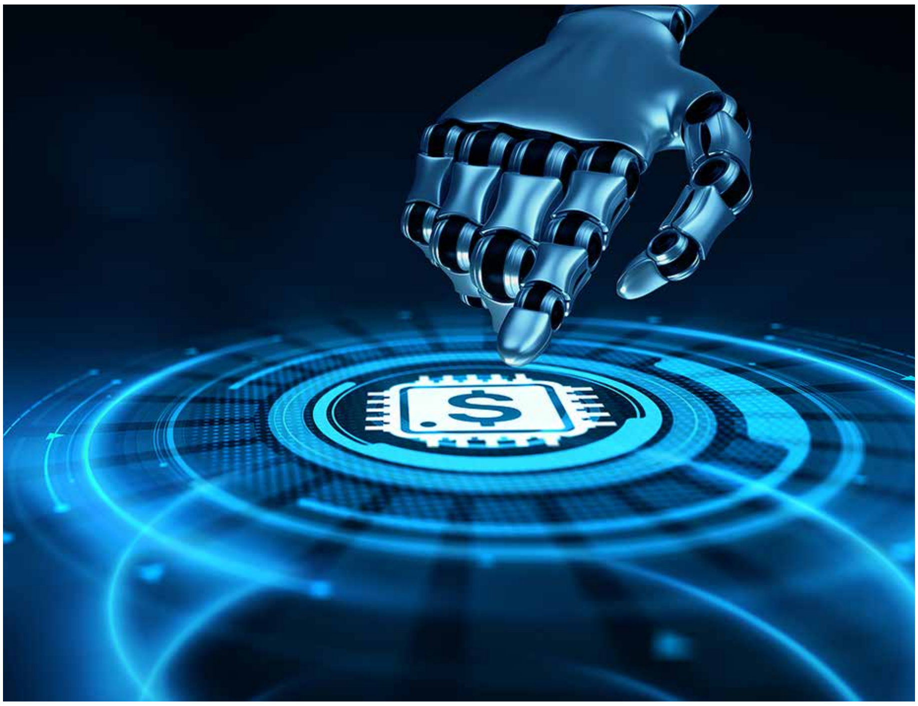

In my role at Azentio, working with banks and regulators across the Middle East, Africa and Asia, I see first-hand how Islamic fintech is shifting from niche initiatives to mainstream adoption. What follows are three themes I believe will define the next phase of Islamic fintech, and the questions we must confront to make it sustainable.

1. Digital-first banking and embedded finance

For years, the Islamic banking conversation revolved around branch expansion and physical reach. Today, the conversation has shifted to digital-first models. New players, from Saudi Arabia's licensed digital banks to Indonesia's Hijra, are building propositions that begin with customer experience and integrate Shariah principles into the core. Without the burden of legacy systems, they can launch faster, scale across markets and adapt products quickly.

But the real inflection point lies in embedded finance. Customers increasingly want Shariah compliant services woven into the platforms they already use, whether that is a Halal e-commerce site offering Murabahah-based Buy Now Pay Later, or a ride-hailing app bundling microTakaful with every trip. This is how financial inclusion will accelerate: not through standalone apps alone, but by meeting people where they are digitally active.

The challenge will be to ensure that convenience does not dilute governance. As products are embedded across ecosystems, Shariah assurance must remain transparent and consistent.

2. Governance, compliance and the role of AI

One of the defining features of Islamic finance is its reliance on rigorous governance. Every product, contract and process must pass Shariah review. In practice, this has often meant bottlenecks. As volumes increase, manual oversight alone is unsustainable.

Here is where technology, particularly AI, can serve as an enabler rather than a replacement. AI tools are beginning to screen contracts for compliance with Murabahah or Ijarah rules, flag transactions that may involve prohibited activities and support real-time monitoring of profit-sharing ratios.

With AI-driven checks and real-time monitoring, we streamline oversight, reduce manual burden and deliver transparency that regulators can trust. This does not replace the judgment of scholars. Rather, it augments their capacity, allowing them to focus on higher-order interpretation while routine checks are automated.

Yet adoption will depend on building trust. Regulators and scholars must be comfortable with how AI reaches its conclusions. Otherwise, we risk creating "black boxes" that undermine rather than strengthen Shariah confidence.

3. Alternative finance and democratization of investment

Another trend gaining momentum is the use of fintech platforms to democratize investment and financing. Across the GCC and Southeast Asia, crowdfunding has emerged as a lifeline for SMEs which remain underserved by traditional banks. Platforms such as Ethis in Malaysia and Beehive in the UAE are enabling entrepreneurs to raise funds through Mudarabah or Musharakah contracts, often with faster turnaround and lower barriers than bank lending.

We are also seeing experiments in fractional ownership of Halal real estate, Sukuk tokenization and digital Waqf management. These are powerful tools for financial inclusion. They open the door for young investors who want to participate with small ticket sizes, while ensuring that funds are deployed ethically and asset-backed.

The question ahead is scale. How do we move from promising pilots to platforms with sufficient liquidity, regulatory oversight and investor confidence to make a systemic impact?

The regulatory dimension

None of these innovations exist in a vacuum. Regulators across the region have played an active role in shaping Islamic fintech. Bahrain's central bank was one of the first to set up a fintech regulatory sandbox; Saudi Arabia and the UAE have followed with frameworks that explicitly cover Islamic models.

But regulation is still uneven. Shariah interpretations can differ between markets, creating friction for cross-border platforms. Greater harmonization, whether through AAOIFI standards or bilateral agreements, will be critical if Islamic fintech is to achieve scale beyond domestic markets.

Regulators also face a balancing act. Too much restriction could stifle innovation; too little could expose customers to risk. The most successful approaches so far have been collaborative, where central banks, scholars and fintechs work together in controlled test environments.

The link to inclusion and sustainability

Finally, we cannot ignore the alignment between Islamic finance and the sustainability agenda. Both are rooted in principles of fairness, responsibility and avoidance of harm. Islamic fintech has an opportunity to channel funds into renewable energy projects, agriculture or SME growth in emerging markets, while making Zakat and Waqf contributions more transparent.

This alignment is not just philosophical, it is commercial. Younger Muslim consumers increasingly want financial services that reflect both their faith and their values. Meeting this demand will be central to the competitiveness of Islamic institutions in the coming decade.

Conclusion

The story of Islamic fintech is still being written. The trends I have highlighted, digital-first models, AI-enabled governance and alternative finance, represent opportunities to redefine how Islamic finance is delivered. But they also raise hard questions about governance, scale and trust. From my vantage point, the way forward lies in collaboration: between regulators and innovators, between scholars and technologists as well as between established banks and new entrants. If we get this right, Islamic fintech will not only expand access and efficiency, it will embody the very principles of fairness and inclusivity that define Islamic finance at its best.