General Council for Islamic Banks and Financial Institutions

CIBAFI

المجلس العام للبنوك والمؤسسات المالية الإسلامية

Global Islamic Bankers' Survey

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Revolutionizing Islamic Banking Operations and Services

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About the General Council for Islamic Banks and Financial Institutions (CIBAFI)

CIBAFI is an international organisation established in 2001 and headquartered in the Kingdom of Bahrain. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC).

CIBAFI represents the Islamic financial services industry (IFSI) globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 130 members from more than 30 jurisdictions, representing market players, international intergovernmental organisations, professional firms, and industry associations, CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

Its mission is to support the IFSI's growth by providing specific activities and initiatives that leverage current opportunities while preserving the value proposition of Islamic finance. CIBAFI is guided by its Strategic Objectives, which are,

1) Advocacy of Islamic Finance Values and Related Policies & Regulations;
2) Sustainability and Innovation Integration;
3) Industry Research and Analysis; and
4) Professional Development.

Contents

Acronyms 8

List of Tables 9

List of Figures 10

Statement by the Secretary General 11

Acknowledgements 12

Executive Summary 13

Introduction 17

Part I. CIBAFI Islamic Banking Confidence Index 23

A Decade of Shifting Sentiments: Global Optimism in the Future of Banking (2015–2025) 24

A Decade of Steady Confidence: The Global Outlook on Islamic Banking (2015–2025) 27

Solid Confidence in Islamic Banks' Revenue Prospects in 2025 29

Islamic Banking Concerns for the Upcoming Years: A Global Perspective 31

Historical trends (2015–2025) 31

Meeting Shareholders' Value and Expectations 33

Consumer Attraction, Relations, and Retention 33

Information Technology: Navigating the Digital Frontier 34

Addressing Risk Management Challenges 35

Responding to Global Economic Shifts 35

Prioritising Human Resources and Talent Development 36

Steady Emphasis on Shariah Standards, Compliance and Governance 37

Regional Concern Variations 39

Strategies Adopted by Islamic Banks to Overcome Top Concerns 42

Information Technology Modernization 42

Competition and Customer-Centric Innovation 43

Political and Macroeconomic Instability 44

Risk Management Practices 44

Shariah Compliance and Ethical Governance 45

Financial Inclusion and Microenterprise Financing 45

Human Resources and Talent Development 46

Part II. CIBAFI Islamic Banking Risk Dashboard 47

Historical Trends (2015–2025) 48

Islamic Banks’ Global Top Risks 49

Technological Risks in Focus 50

Sustained Vigilance on Credit Risk 52

Increase in Liquidity Risk 53

A Slight Increase in Foreign Exchange Risk 54

Slight Decrease in Risk Related to Extreme Disruptive Events such as Pandemic 55

Risk Landscapes of Islamic Banks Across Global Regions 58

A Comparison of Small and Large Banks 61

Conclusions and Recommendations Parts I and II 63

Conclusions 63

Recommendations 65

Part III. Artificial Intelligence (AI) and Data Analytics in Islamic Banking 66

Survey Population 68

Section 1: Current State of Data Analytics and Infrastructure 69

Data Analytics 69

Section 2: Data Analytics Tools and Usage 73

Current Usage of Data Analytics Tools 73

Analytics Capability in Advanced Areas 75

Section 3: Data Analytics Implementation and Impact 75

Implementation and Usage of Data Analytics 76

Frequency of Data Analysis 77

Business Objectives Impacted by the Implementation and Usage of Data Analytics 78

Section 4: AI Adoption Status 79

Current Status of AI Technology Adoption 79

Challenges in Implementing AI within Banking Operations 82

Section 5: AI Use Cases and Strategy 83
AI Use Cases 83
Strategic Importance of AI 85
Section 6: AI and Data Analytics Integration and Future Outlook 86
Integrating AI with Data Analytics 86
Success Factors for AI Integration in Data Analytics 90
Bank Size and Regional Differences 97
Conclusions and Recommendations Part III 98
Conclusions 99
Recommendations 100
Appendix 101
Appendix 1 Total Main Islamic Banking Concern 10 Years 101
Appendix 2 Islamic Banking Risk Dashboard 10 Years 102

Acronyms

AI	Artificial Intelligence
AML	Anti-Money Laundering
CFT	Combating the Financing of Terrorism
CIBAFI	General Council for Islamic Banks and Financial Institutions
CRM	Customer Relationship Management
FinTech	Financial technology
GCC	Gulf Cooperation Council
GDPR	General Data Protection Regulation
GIBS	Global Islamic Bankers' Survey
IFC	International Finance Corporation
IFSI	Islamic Financial Services Industry
KYC	Know Your Customer
ML	Machine Learning
NLP	Natural Language Processing
OIC	Organisation of Islamic Cooperation
PCI-DSS	Payment Card Industry Data Security Standard
RPA	Robotic Process Automation
SQL	Structured Query Language

List of Tables

Table 1. Respondents by Regions and Countries 18
Table 2. Major Concerns of Islamic Banks across Regions 41

List of Figures

Figure 1. Type of Islamic Banking Operation 19
Figure 2. Core Business 20
Figure 3. Size of Total Islamic Assets 21
Figure 4. Overall Banking Industry Optimism Level 26
Figure 5. Islamic Banking Industry Optimism Level 28
Figure 6. Expectations of Islamic Banking Revenue Growth Compared to Conventional Banking 30
Figure 7. Some Main Islamic Banking Concerns 32
Figure 8. Global Islamic Banking Top Concerns (2025) 38
Figure 9. Perceived Risk from Extreme Disruptive Events 56
Figure 10. Global Islamic Banking Risk Dashboard (2025) 57
Figure 11. Major Risks of Islamic Banks Across Regions 60
Figure 12. Global Islamic Banking Risk Dashboard – Small and Large Banks 62
Figure 13. The Current State of The Bank's Data Infrastructure 70
Figure 14. The Current State of the Bank's Usage of Data Analytics Tools 74
Figure 15. Bank's Analytics Capability in The Following Areas 75
Figure 16. Bank's Implementation and Usage of Data Analytics in The Following Functions 76
Figure 17. Frequency of Data Analysis Performed in The Banks 77
Figure 18. Business Objectives Impacted by The Implementation and Usage of Data Analytics 78
Figure 19. The Current Status of AI Technology Adoption in The Banks 80
Figure 20. Challenges in Implementing AI in Banking Operations 82
Figure 21. The Implementation of AI in The Following Use Cases within Banks 84
Figure 22. Strategic Importance of AI in The Following Areas of The Banks 85
Figure 23. The Current Level of AI Integration in Data Analytics in The Following Areas 86
Figure 24. The Current Level of Benefit from AI Integration in The Following Areas 87
Figure 25. Banks' Strategic Investment Priorities for AI Integration in Data Analytics 88
Figure 26. Success Factors for AI Integration in Data Analytics in Banks 89

Statement by the Secretary General

It is with great pleasure that I present the release of the tenth edition of the CIBAFI Global Islamic Bankers' Survey (GIBS) Report. Celebrating a decade since its launch, this milestone reinforces the GIBS Report as a key industry benchmark for assessing the evolving perspectives of Islamic banking executives on the future of the sector. Throughout the years, it has provided a valuable reference point, offering insights into the main concerns, practices, and emerging trends, such as sustainability, financial technology (FinTech), regulatory changes, women's empowerment, talent management, and Islamic social finance.

In this tenth edition, the report turns its attention to one of the most transformative forces in the financial sector: Artificial Intelligence (AI) and Data Analytics. The thematic focus on "AI and Data Analytics: Revolutionizing Islamic Banking Operations and Services" captures the growing recognition of these technologies as strategic enablers of operational excellence, customer-centric innovation, and sustainable growth. While opportunities abound, the report also acknowledges the practical challenges that institutions face, ranging from data governance and quality to infrastructure readiness and regulatory compliance.

The insights gathered this year are particularly noteworthy, given the growing influence of AI and data analytics across the banking sector. While adoption remains at an early stage among Islamic banks, survey responses reflect growing awareness of AI's strategic importance and its transformative impact, especially in areas like compliance and risk management. Strengthening institutional commitment, enhancing regulatory clarity, and addressing Shariah and ethical considerations will be key to advancing responsible and effective implementation.

We hope that this report offers a comprehensive perspective on how Islamic banks are embracing AI and data analytics to redefine their operations and service models. It is intended to serve as a valuable reference for understanding the challenges and opportunities ahead and as a valuable guide for policymakers and practitioners toward the sustained growth and impact of the Islamic banking industry.

Dr. Abdelilah Belatik
Secretary General

Acknowledgements

The Secretariat would like to extend its deepest gratitude to all the member and non-member banks and financial institutions who took the time to participate in the survey and share their valuable insights.

We would also like to express our sincere appreciation to the individuals who have played an instrumental role in the success of this report. Our sincere thanks go to Ameena Ismail, Dr. Muhammad Bilal, Fatima Ashoor, Fatima Buhusain, Nun Maziyyah, Rachid Ettaai, and Zainab Al Owainaty from the CIBAFI Secretariat and Mr. Peter Casey, CIBAFI Consultant, for their efforts in the different phases of this report's production. We would also like to extend our gratitude to Dr. Ahmed Tahiri Jouti, Green For South, Dr. Farrukh Habib, Basil Innovations, Mr. Mehmet Eken, Islamic Development Bank Institute, and Mr. Usama Saleh, TAJBank Limited, for their invaluable feedback and comments throughout the report's preparation.

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In addition, CIBAFI extends its gratitude to DDCAP Group, its "Supporting Partner", for their support in the launch of the GIBS 2025 Report.

We are hopeful that the report will provide valuable insights on the prospects for the Islamic banking industry as we strive together for its development and growth.

Dr. Abdelilah Belatik
Secretary General

Executive Summary

Marking its tenth edition in 2025, the GIBS continues to provide a vital platform for understanding the evolving perspectives of Islamic banking executives worldwide. In an era marked by geopolitical tensions, macroeconomic uncertainties, and rapid digital disruption, Islamic banks face mounting concerns to meet stakeholder expectations. At the same time, advances in Artificial Intelligence (AI) and data analytics are transforming banking operations and services.

This year's theme of the GIBS report explores the practical benefits and challenges faced by Islamic banks in adopting AI and data analytics. The aim is to highlight the growing recognition of these technologies as strategic enablers of operational excellence, customer-centric innovation, and sustainable growth. By shedding light on how Islamic banks navigate these complex implementation barriers, such as data governance, infrastructure readiness, and regulatory compliance.

This tenth edition is especially notable as it offers a comprehensive, decade-long analysis of evolving industry sentiments and risk perceptions. As always, the report begins with the two permanent parts, which offer a comprehensive perspective on the key concerns and risks that Islamic banks will face in the coming years. The first part addresses the primary concerns of the Islamic Banking Confidence Index, while the second part addresses the Islamic Banking Risks Dashboard.

Findings in Part 1 reveal a notable sense of confidence among Islamic banking executives regarding their sector's prospects compared to the optimism level of the global banking industry over the past decade. Regardless of regional dynamics, Islamic banks generally maintain steady and mature confidence in revenue growth and resilience in the face of economic and geopolitical problems. Despite the resilient and strong optimism, Islamic banks executives have assessed that digitalization has emerged as a defining trend over the years, reflected in the rising concern over technological risks, particularly cybersecurity, and the growing demand for digitally skilled talent.

Shareholders' value and expectations remain the forefront concern of Islamic banking institutions during the decade, which emphasize the balance between shareholder expectations and long-term growth while adhering to ethical values. Islamic banks continue to face pressure to prioritize transparent communication, reinforce governance practices, and deliver innovative financial solutions to meet and exceed stakeholder expectations. Maintaining this balance is crucial for ensuring market leadership and long-term success in a landscape shaped by rapid financial and technological change.

Information technology has remained a critical concern for Islamic banking institutions throughout the decade. Emerging technologies, such as generative AI, are providing significant disruption to the banking industry, creating new challenges in automation, data privacy, and cybersecurity, while also offering opportunities for innovation.

In Part 2, the decade-long view of Islamic banking risk perceptions reveals a gradual yet profound evolution in sector priorities. What began as a landscape shaped largely by macroeconomic stressors and credit-related concerns has now been overtaken by technology and operational resilience as defining themes. Cybersecurity now ranks as the leading operational risk globally, underscoring the importance of strengthening digital infrastructure. At the same time, credit and liquidity risk continue to draw the attention of institutions. It is uncertain how much of the increase in liquidity risk is attributable to macroeconomic concerns and how much is the result of regulation, specifically the new liquidity rules implemented by regulators. Nevertheless, Islamic banks undoubtedly require support with liquidity management.

Several risks have also changed over the years. The risk of extreme-disruptive events has slightly decreased, reflecting improved preparedness and a return to normalcy following major crises. Meanwhile, climate-related risks, although slightly downgraded, continue to inform banks' sustainability and risk management strategies.

Findings of Part 3 specifically examine Artificial Intelligence (AI) and data analytics. It begins with an examination of data infrastructure, many Islamic banks continue to rely on on-premise servers and traditional data warehouses, resulting in several difficulties. According to the respondents, Islamic banks encounter issues with data silos, scalability, data quality, and security, which they aim to address through data integration, cloud migration, enhanced data governance, and strengthened security measures. Meanwhile, basic data analytics tools implementation, such as Excel and SQL predominate in daily operations, whereas cloud-based platforms and AI-powered tools are significantly less frequent. Although AI and data analytics are emerging as promising tools in Islamic banking, a significant portion of the industry has not yet fully embraced AI and advanced analytics, and adoption is still in its early stages.

The primary barriers to the full adoption of AI are those related to the technology itself and the resources required for implementation. Despite these challenges, Islamic banks have started to gain current benefits from AI integration in terms of operational efficiency and processing speed. At the same time, Islamic banks are starting to allocate a portion of their investment portfolios to technological upgrades, signalling a shift in strategy toward data-driven decision-making across business lines.

The report concludes by providing strategic recommendations for Islamic banks to evaluate their current AI and data analytics investments in relation to their strategic priorities and competitor benchmarks. Islamic banks should explore various implementation pathways, including in-house development, buying-in solutions, and Fintech partnerships. Concurrently, regulatory authorities must establish or maintain innovation centers and sandboxes to facilitate safe technological experimentation.

In response to the development of banking applications, it is necessary for public authorities to update legal frameworks to address data protection, algorithmic bias prevention, and sharing protocols. Lastly, in order to satisfy the financial services sector's expanding technical workforce requirements, education authorities and industry agencies should enhance IT training programs at both the university and professional development levels.

Through its various sections, the GIBS report offers insights from Islamic banking executives regarding the industry's future, with a particular focus on Islamic banking operations and services in adoption of AI and data analytics.

CIBAFI's Global Islamic Bankers' Survey

Introduction

Celebrating its tenth edition, the Global Islamic Bankers' Survey (GIBS) Report continues to serve as a leading platform for capturing the evolving perspectives of Islamic banking leaders worldwide. This year's report places a special focus on "AI and Data Analytics: Revolutionising Islamic Banking Operations and Services," reflecting the growing importance of technological innovation in shaping the industry's future.

In an era characterised by rapid technological transformation and persistent global uncertainties, Islamic financial institutions are increasingly recognising the strategic role of artificial intelligence and data-driven insights. However, the 2025 findings reveal that much of the industry has yet to fully embrace AI and advanced analytics, and adoption remains at a relatively early stage. The survey responses suggest that Islamic banks recognise the strategic importance of these technologies, but there is a clear need for greater momentum and institutional commitment if they are to catch up with global trends and remain competitive. Therefore, this year's GIBS Report serves as a timely wake-up call, underscoring the urgency for Islamic banks to accelerate their digital transformation journeys.

For this landmark edition, we are pleased to have garnered the participation of 105 executives from Islamic banks and financial institutions across 29 countries. The breadth of responses provides a comprehensive overview of the experiences and perspectives of Islamic banks across diverse regions. It also highlights the variety of practices shaped by the specific development stages of each market. Combined with insights from previous years, the report enables readers to form a clear and informed view of the evolving perspectives of Islamic banking executives on the key challenges and risks facing the industry.

The table below outlines more details on this year's respondents.

Table 1. Respondents by Regions and Countries

Group	Region	Countries of respondents	Number of respondents in this group
Group 1	GCC	Bahrain, Kuwait, Oman, Saudi Arabia, Qatar, UAE	22
Group 2	Middle East ex-GCC	Egypt, Iraq, Jordan, Yemen Palestine, Syria	26
Group 3	Southeast Asia	Malaysia, Indonesia	6
Group 4	West, Central, and South Asia	Afghanistan, Bangladesh, Pakistan, Maldives	14
Group 5	North Africa	Algeria, Libya, Morocco, Sudan, Tunisia	19
Group 6	Sub-Saharan Africa	Kenya, Nigeria, Somalia, Senegal	15
Group 7	Europe, Türkiye, US & Others	Türkiye	3
Total number of countries and respondents		**29 Countries**	**105 Islamic Banks/Financial Institutions**

The respondents encompassed a broad spectrum of Islamic banking operations: approximately 74% represented full-fledged Islamic banks, around 7% were Islamic banking subsidiaries of conventional groups, and about 19% operated as Islamic banking windows.

In terms of business focus, about 45% of participants engaged in a combination of retail and wholesale banking activities, 25% focused primarily on retail banking, roughly 15% specialised in wholesale banking, and another 15% concentrated mainly on investment banking. Notably, none of the respondents indicated engagement in other areas. Regarding the asset size of the respondents, around 55% of institutions reported total assets of less than one billion USD, about 24% between one and five billion USD, 8% between five and ten billion USD, and around 13% exceeding ten billion USD.

Figure 1. Type of Islamic Banking Operation

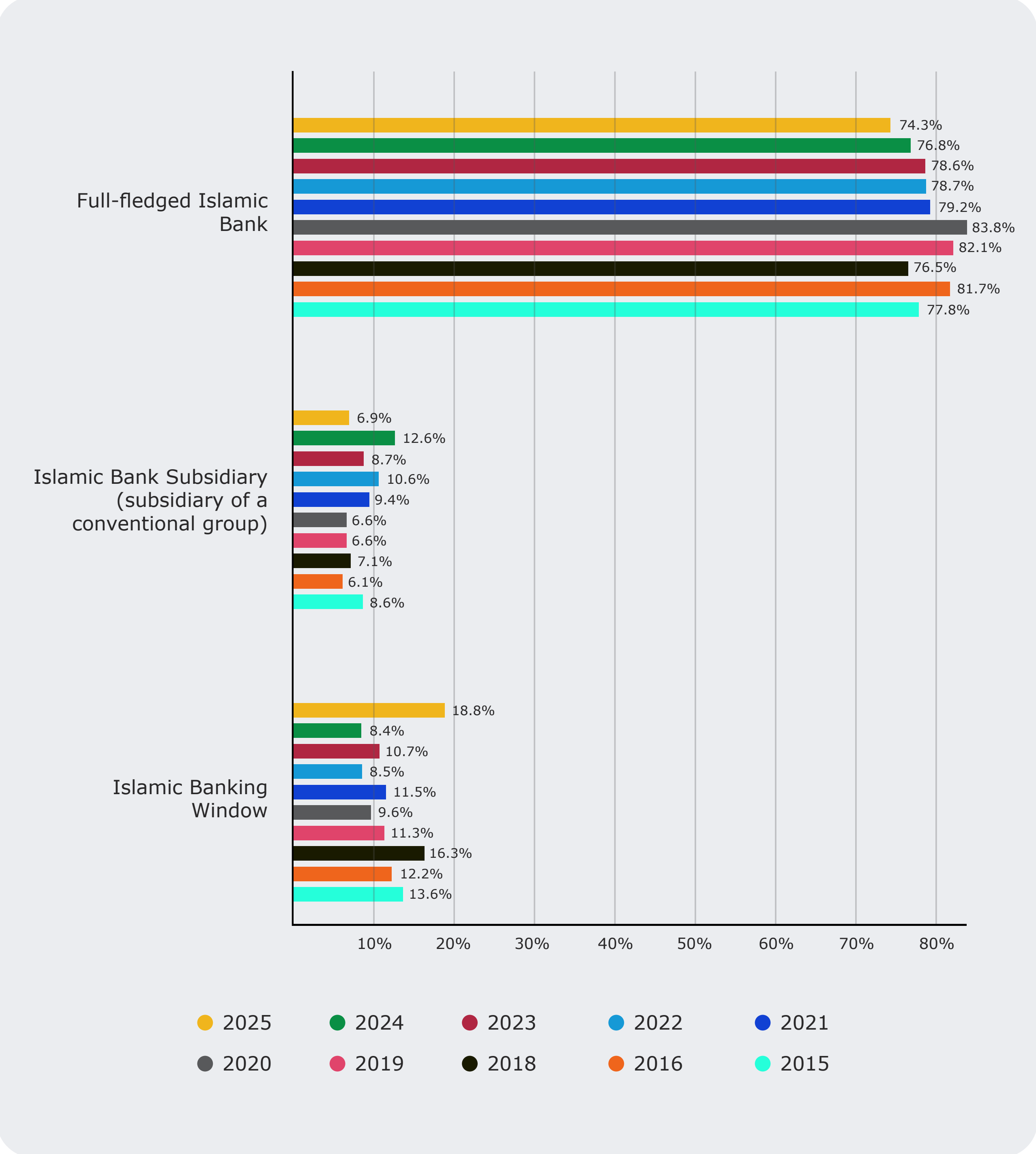


Figure 2. Core Business

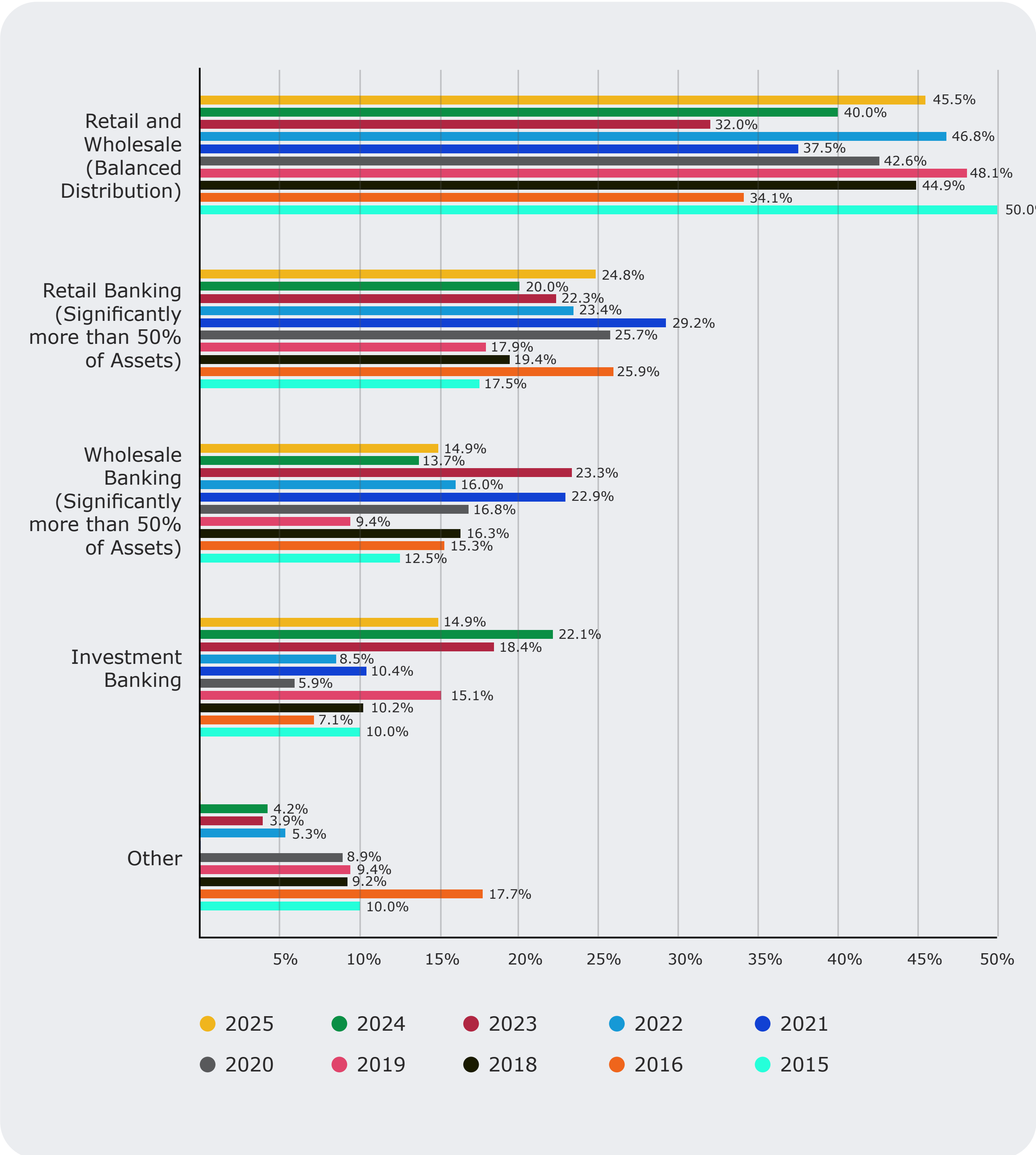
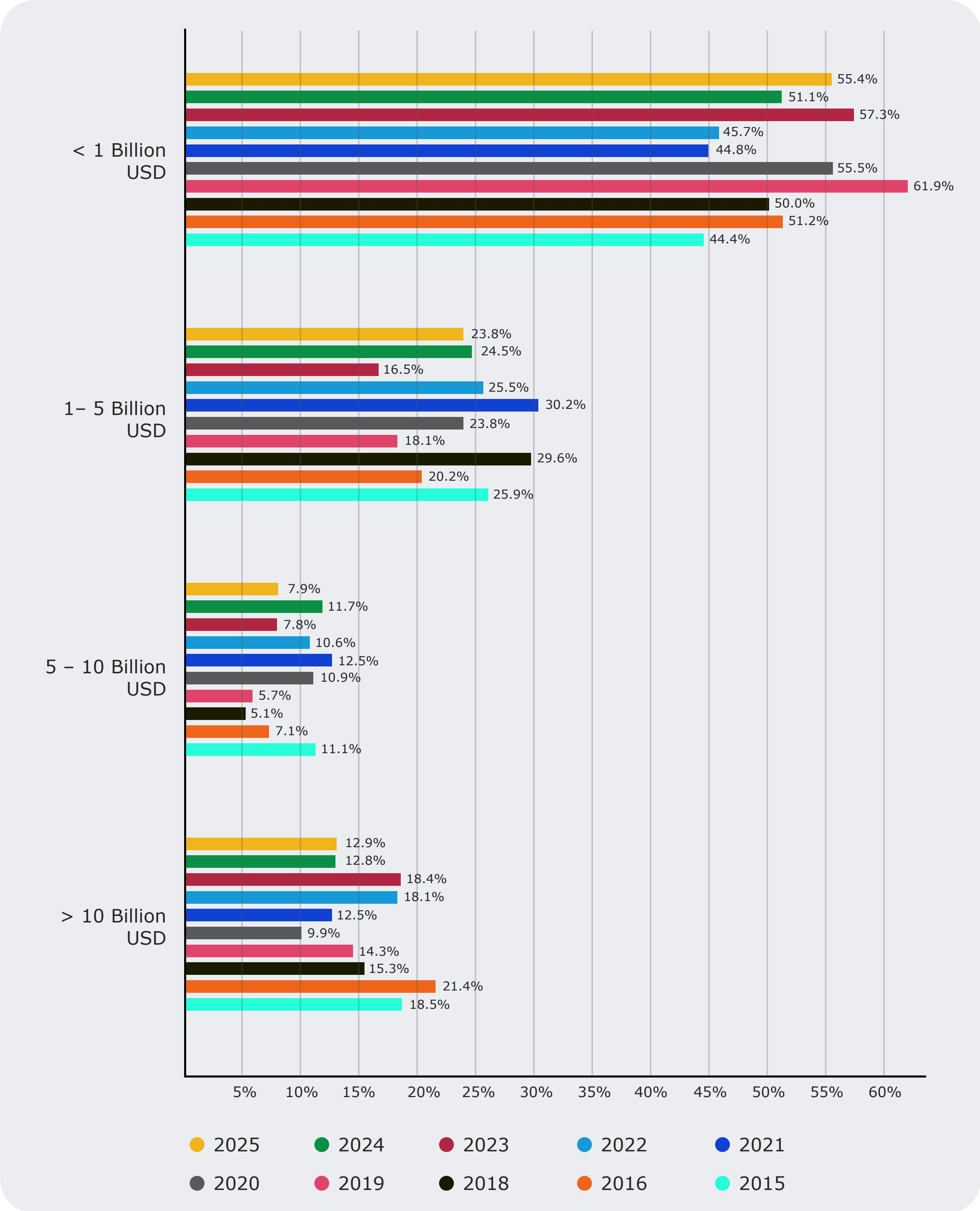


Figure 3. Size of Total Islamic Assets



Compared with the previous year, some changes were observed in the composition of the survey respondents. Specifically, the proportion of Islamic banking subsidiaries of conventional groups declined, while the number of respondents representing Islamic banking windows experienced an increase. Additionally, there was a rise in participants who reported a balanced focus on both retail and wholesale banking activities, as well as an uptick in those primarily engaged in either retail or wholesale banking. Conversely, the number of respondents whose primary focus was investment banking witnessed a decline.

In terms of institutional size, the 2025 survey shows some increase in the proportion of respondents from banks with total Islamic assets below one billion USD, rising to around 55% from 51% in 2024. This marks a reversal of the previous year's slight decline and suggests that smaller institutions remain highly represented in the survey sample. The proportion of banks in the one to five billion USD asset range remained largely unchanged from the previous year, showing only a marginal shift. In contrast, there was a decrease in the number of respondents reporting assets between five and ten billion USD, continuing a trend observed intermittently in previous years. Meanwhile, the representation of banks with assets exceeding ten billion USD saw a slight increase compared to 2024. It is important to emphasise, however, that these variations may reflect changes in the survey sample composition rather than signifying definitive trends across the broader Islamic financial services industry.

The findings presented in this report were derived from a comprehensive questionnaire distributed to the chief executive officers (CEOs) of Islamic financial institutions, including both CIBAFI members and non-members, starting from mid-December 2024, with data collection concluding in April 2025. As in previous years, the survey featured both closed and open-ended questions, allowing respondents to provide detailed quantitative and qualitative feedback.

Through this latest edition of the Global Islamic Bankers' Survey (GIBS) Report, we seek to shed light on how Islamic financial institutions are approaching emerging technologies such as artificial intelligence (AI) and data analytics. The GIBS Report indicate that while there is growing recognition of the potential of these tools, their adoption across the industry remains at a relatively early stage. Moreover, this year's report highlights the critical need for Islamic banks to accelerate their digital strategies in order to remain competitive and relevant in an increasingly data-driven financial landscape.

PART I:
CIBAFI ISLAMIC BANKING CONFIDENCE INDEX

Part I. CIBAFI Islamic Banking Confidence Index

A Decade of Shifting Sentiments: Global Optimism in the Future of Banking (2015–2025)

The 2025 survey results highlight a modest shift in sentiment toward the future of the banking sector. The global optimism score dipped slightly to 3.6, down from 3.7 in 2024. While this change appears minor, it breaks the stability observed last year and signals growing caution in the sector. This decline may be influenced by persistent economic uncertainty and geopolitical tensions. At the regional level, the picture is more complex. West, Central, and South Asia remains among the most optimistic regions, posting a score of 3.7, down slightly from 4.0 in 2024. This region continues to benefit from reforms, digital expansion, and increased banking access. Southeast Asia, which had maintained a strong optimism score of 4.2 in both 2023 and 2024, experienced a notable decline to 3.5 in 2025, reflecting regional shifts in regulation and growth expectations.

In North Africa, optimism fell from 3.9 to 3.5, while Sub-Saharan Africa recorded a small decrease from 4.2 to 3.7, though both regions remain above the global average. These results suggest sustained but slightly more cautious confidence in banking developments, especially in the context of expanding digital services and inclusive finance efforts.

GCC countries reported a nearly unchanged level of optimism, at 3.5, reflecting stable expectations amid broader economic diversification. In contrast, Middle East ex-GCC countries recorded a rise in optimism, moving from 3.3 to 3.5, a sign of renewed confidence in financial modernization efforts and regulatory adaptation. Europe, Türkiye, US & Others experienced a modest rebound, increasing from 3.4 to 3.7, perhaps driven by early signs of stabilization and gradual digital integration in mature banking environments.

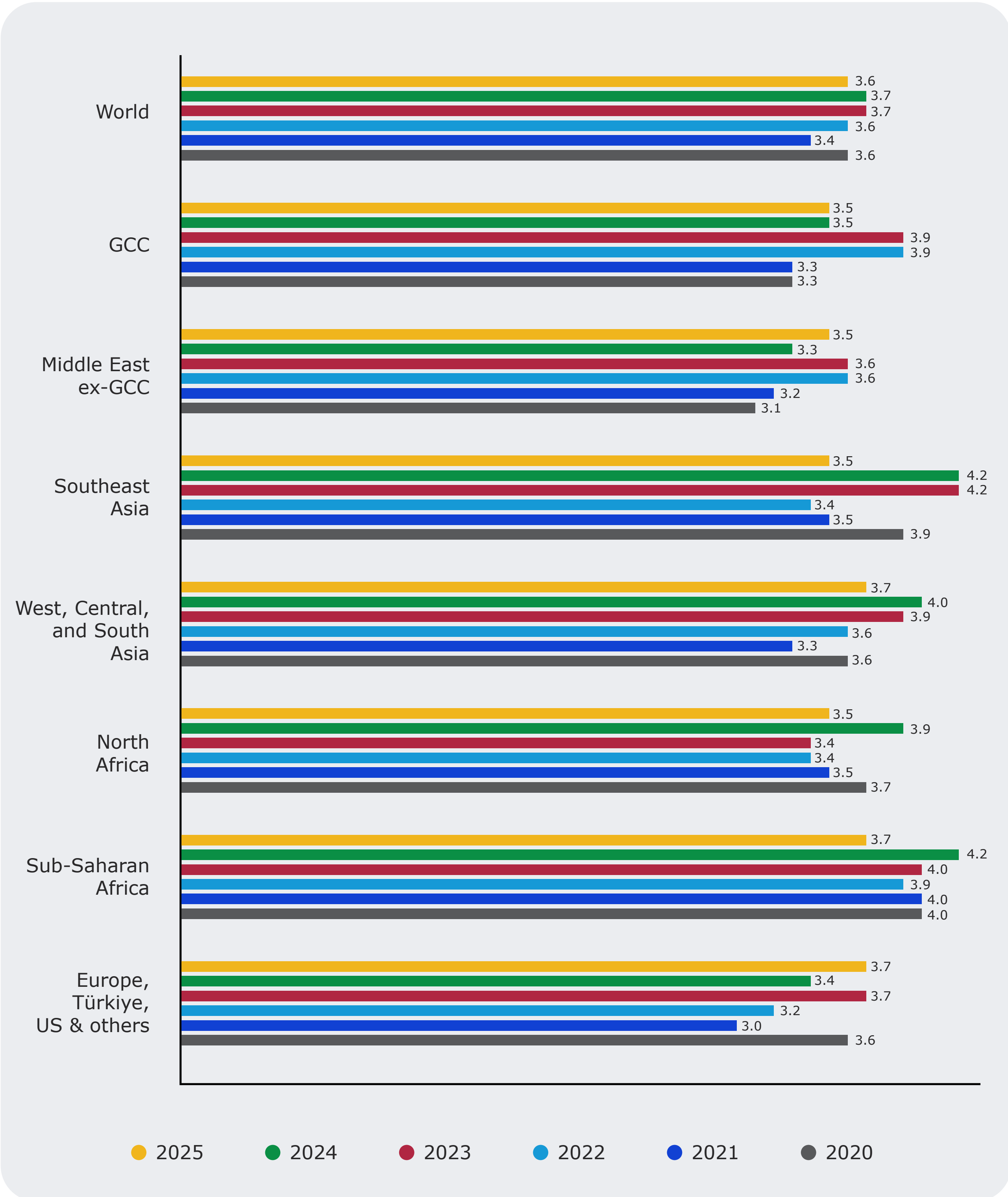
Over the past decade, optimism toward the future of banking has experienced several phases. Between 2015 and 2018, optimism rose steadily due to post-crisis recovery, financial sector reform, and the rise of fintech. During 2019 and 2020, optimism levelled off as global financial systems encountered increased regulation and then the pandemic, which temporarily disrupted banking operations and confidence.

From 2021 to 2022, optimism surged again, particularly in emerging markets, fuelled by innovation and widespread adoption of digital banking tools. The years 2023 and 2024 marked a period of stability, as optimism reached high levels in regions embracing digital transformation, while developed markets showed steady, if slower, confidence.

In 2025, a slight retreat in the global average marks the end of that stability, suggesting that while confidence remains, banks are entering a more cautious phase. However, strong regional scores—especially in parts of Asia and Africa—reveal an ongoing belief in the sector's long-term evolution. Optimism is increasingly linked not just to macroeconomic trends but to strategic transformations, regulatory reform, and technological progress.

> **Global optimism in banking remains positive but is showing signs of caution in 2025.**

Figure 4. Overall Banking Industry Optimism Level



A Decade of Steady Confidence: The Global Outlook on Islamic Banking (2015–2025)

The global perception of the future of Islamic banking remains firmly optimistic in 2025, with a recorded optimism score of 3.9. This marks a continuation of the strong positive sentiment seen in recent years and reaffirms the sector's reputation as one of the most resilient and trusted components of the global financial system. Islamic banking continues to distinguish itself not only by its adherence to ethical financial principles but also by its capacity to grow across diverse markets despite economic headwinds and geopolitical uncertainty.

While the global score shows stability, regional dynamics reveal nuanced developments. The GCC region remains a pillar of strength with a score of 3.8, slightly down from 4.1 in 2023 but still reflective of sustained confidence in the sector's role within national diversification agendas. Southeast Asia holds a stable 3.7, lower than the 4.2 peak seen in 2023, but consistent with the region's vibrant Islamic finance ecosystem. A notable standout in 2025 is West, Central, and South Asia, with an optimism score of 4.2, the highest among all regions, reflecting strong growth momentum and increasing market penetration.

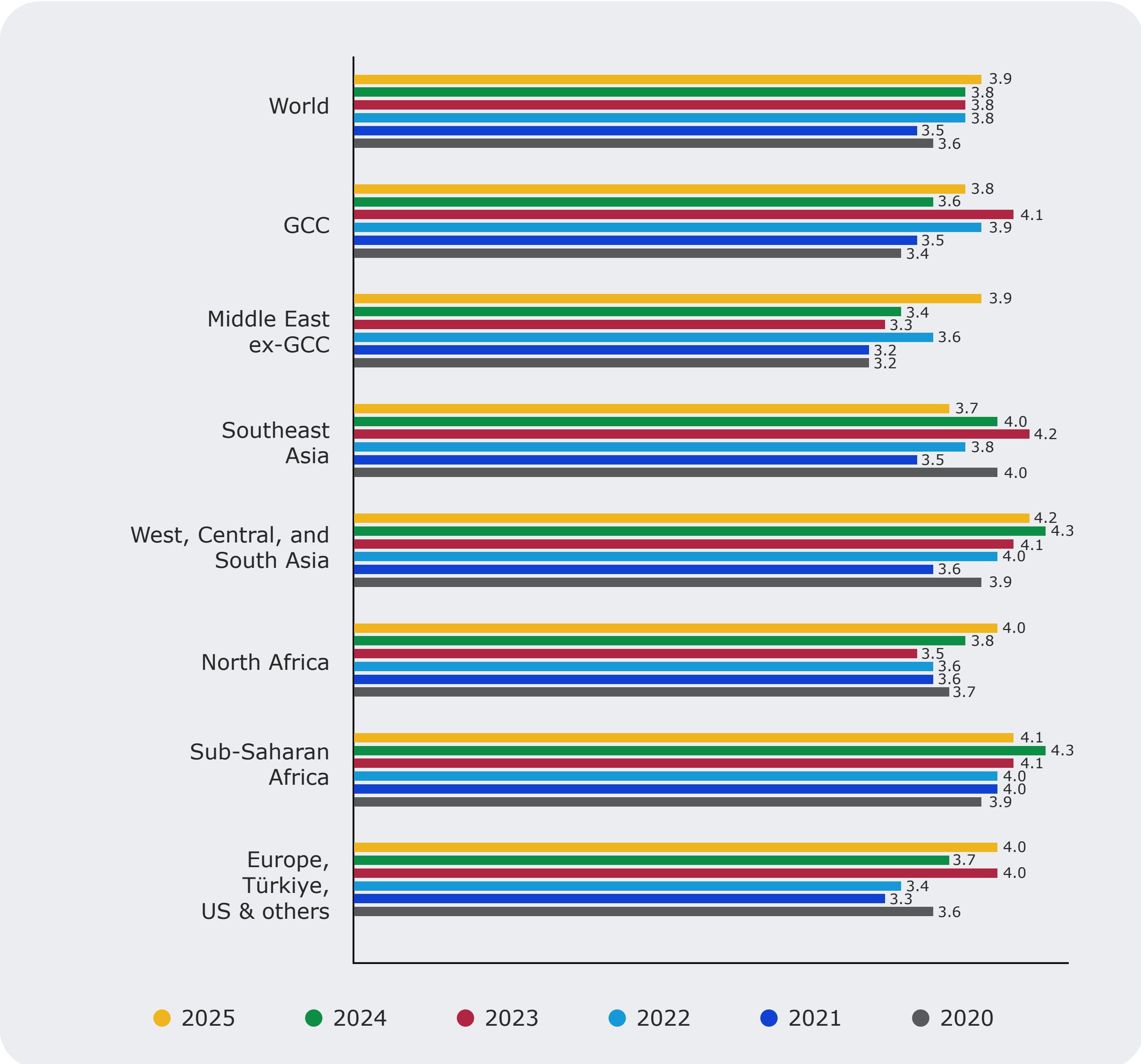
North Africa and Sub-Saharan Africa also display solid optimism levels, both scoring 4.0 and 4.1, respectively. These figures suggest a broadening of Islamic finance's geographic reach and a growing appetite for Sharia-compliant financial solutions in African markets. On the other hand, Europe, Türkiye, US & Others recorded a slightly softened outlook at 4.0, down from 4.2 in 2018, which may be attributed to shifting regulatory landscapes and macroeconomic constraints.

Looking back over the decade, the data tells a story of steady and resilient confidence. From 2015 to 2018, optimism hovered between 3.5 and 3.8, driven by post-crisis recovery and the expansion of Islamic finance into new jurisdictions. The industry's structural conservatism and asset-backed approach offered a compelling alternative that gained traction even outside traditionally Islamic markets. In 2019 and 2020, optimism was sustained at 3.8 and 3.6, respectively, despite global uncertainty and the onset of the COVID-19 pandemic. The year 2021 saw a brief dip to 3.5, likely reflecting the transitional phase of economic reopening and shifts in consumer behavior.

Recovery resumed in 2022, with scores returning to 3.8 globally. The years 2023 and 2024 further affirmed confidence, particularly in regions like the GCC, Sub-Saharan Africa, and Southeast Asia. In 2025, the sector enters a new phase with optimism at its highest recorded global level, underpinned by continued investment in digital transformation and regulatory support.

Global optimism in Islamic banking remains strong and resilient in 2025.

Figure 5. Islamic Banking Industry Optimism Level



Solid Confidence in Islamic Banks' Revenue Prospects in 2025

In 2025, Islamic banks reported a global revenue growth expectation score of 3.5, slightly down from 3.6 in 2024 but consistent with the trend observed over the past decade. This steady range, fluctuating between 3.3 and 3.6 since 2015, reflects a mature and grounded optimism among Islamic banking professionals, rooted in the sector's ethical appeal and increasing global reach. The repeated highs in 2019, 2021, and 2024 indicate that Islamic banks often perceive comparative strength in periods of uncertainty.

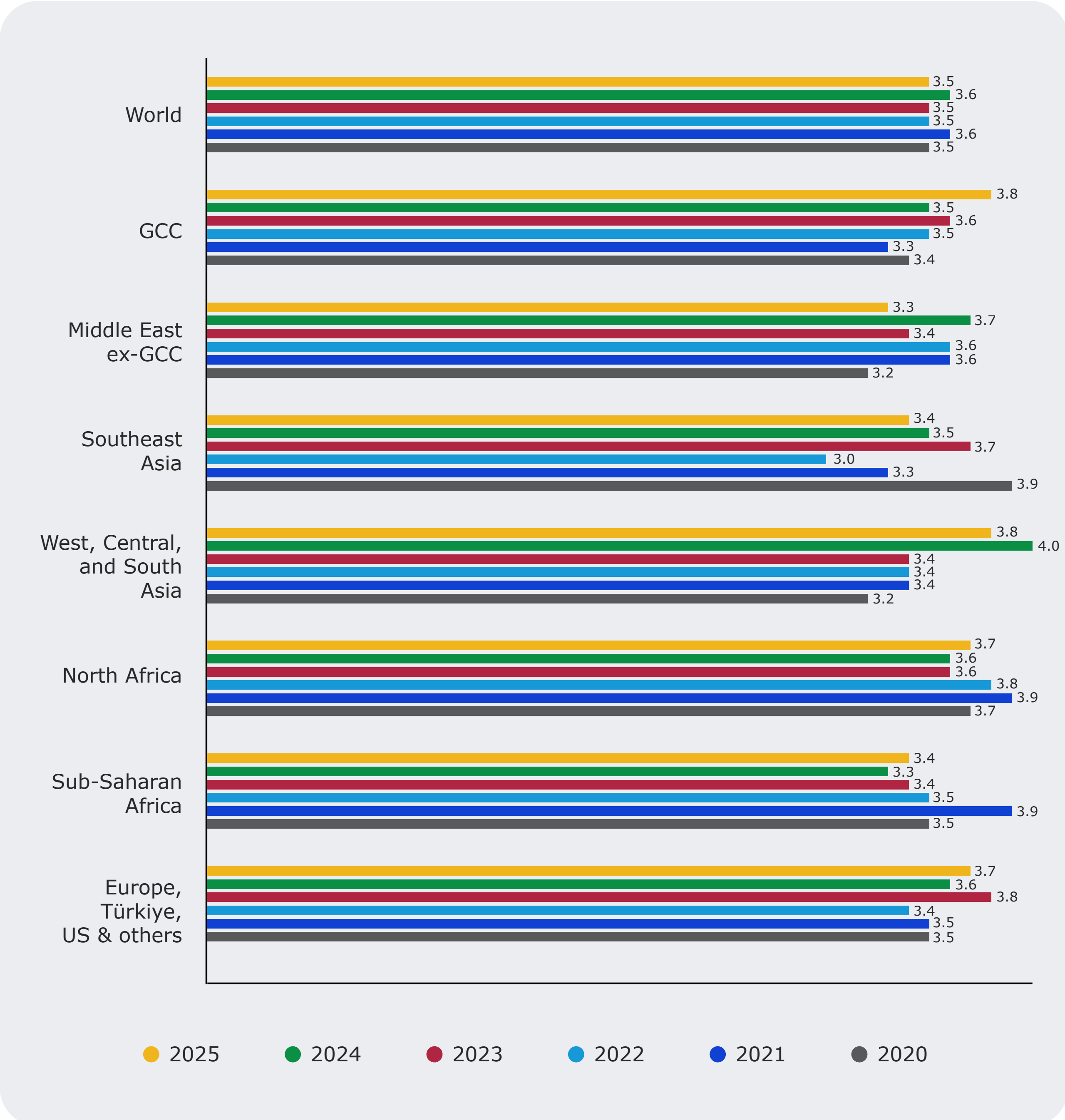
From a regional standpoint, the GCC and West, Central, and South Asia led the optimism in 2025, both scoring 3.8. These regions continue to benefit from regulatory support, digital transformation, and rising consumer interest in Islamic financial products. North Africa followed with 3.7, suggesting ongoing confidence in its growth trajectory. Meanwhile, Southeast Asia and Sub-Saharan Africa posted more moderate expectations at 3.4, reflecting cautious optimism as they navigate local economic challenges.

A few regions saw declines in 2025. Middle East ex-GCC dropped to 3.3, potentially due to instability or limited sector development in certain jurisdictions. Europe, Türkiye, US & Others maintained a steady 3.7, reflecting long-term consistency and increasing institutional presence.

Overall, the 2025 results confirm that Islamic banking remains confident in its ability to grow faster than conventional counterparts. With decade-long stability in growth expectations, the industry continues to position itself as a credible, resilient, and forward-looking force within the global financial ecosystem.

In 2025, Islamic banks maintain steady and mature confidence in revenue growth, with strong regional expectations.

Figure 6. Expectations of Islamic Banking Revenue Growth Compared to Conventional Banking



Islamic Banking Concerns for the Upcoming Years: A Global Perspective

The second section of the confidence index highlights the key concerns of Islamic banking executives for the upcoming years. The survey provided industry leaders with a list of 25 potential challenges and asked them to rate the severity of each challenge their institution might face in the next one to three years. The scores ranged from 1.0 to 5.0, with 1.0 indicating "not at all important" and 5.0 indicating "extremely important."

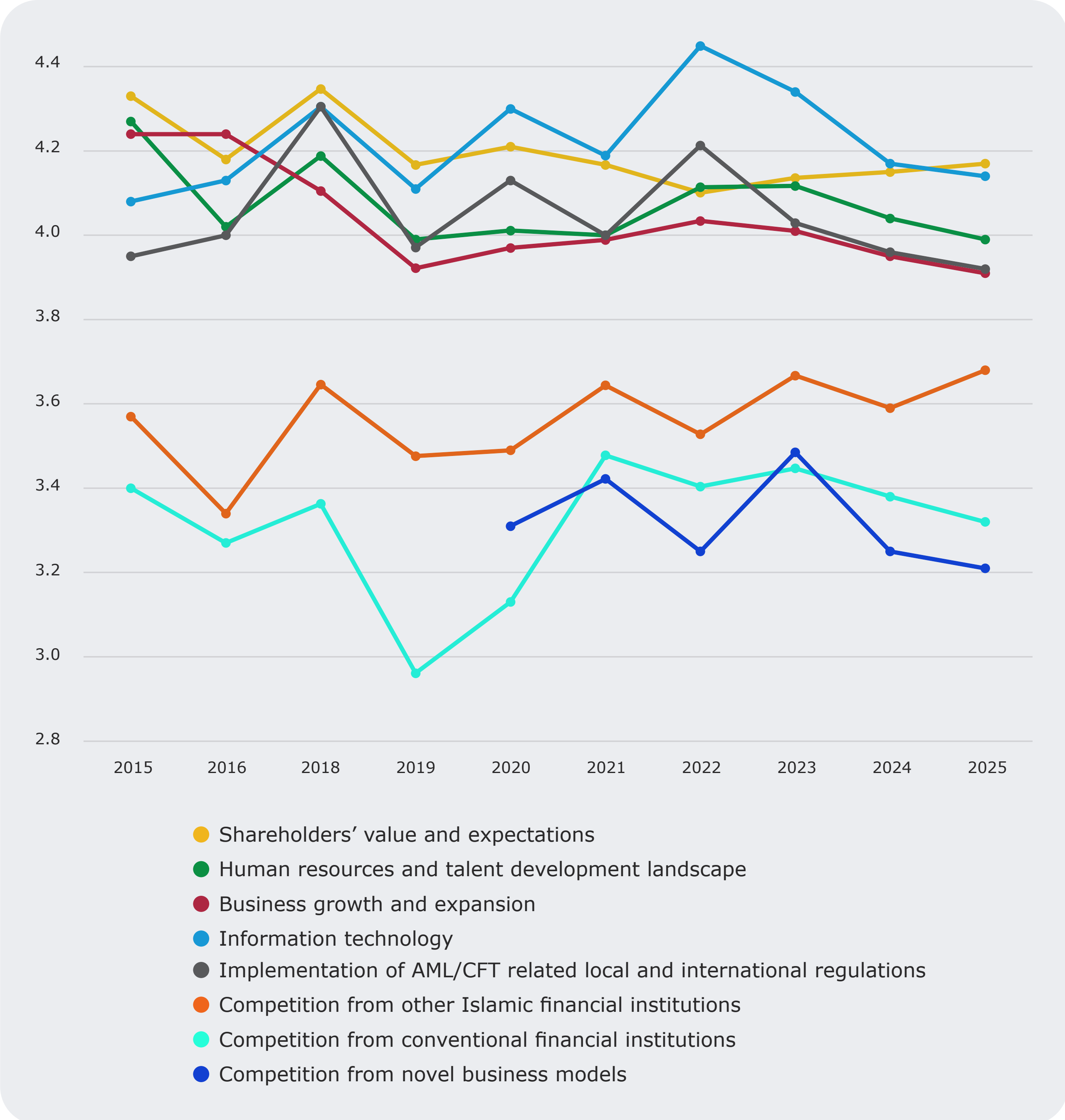
Historical Trends (2015–2025)

The hierarchy of Islamic banking concerns has remained consistent over the past decade, with only minor fluctuations in relative importance. In 2015, shareholders' expectations and value, as well as service quality, have consistently occupied the forefront of the agenda, with a score of just above 4.0 and a steady range of approximately 4.1 to 4.2 through 2025. External competitive pressures, such as those from novel business models (3.3 in 2019; 3.2 by 2025), conventional banks (3.4 in 2015; 3.3 in 2025), and peer Islamic institutions (3.6 in 2015; 3.7 in 2025), have remained in the mid 3-range. In addition, regulatory concerns have remained consistent at approximately the 4.0 level, with AML/CFT implementation decreasing from 4.0 in 2015 to 3.9 in 2025 and Shariah governance decreasing from 4.1 in 2015 to 3.9 in 2025.

Simultaneously, internal strategic priorities have maintained high scores, rather than surpassing the agenda. The continued prominence of consumer allure, relation, and retention is underscored by the fact that it began at 4.3 in 2015, peaked at 4.4 in 2022, and moderated slightly to 4.1 by 2025. Human resources and talent development decreased from 4.3 in 2015 to 4.0, while information technology increased from 4.1 in 2015 to a maximum of 4.4 in 2022 before settling back at 4.1 in 2025. The overall stability of 2025 is indicated by the fact that all top-tier issues are approximately 0.1 point lower than their 2024 levels. This suggests that banks are gradually overcoming long-standing challenges, despite the fact that modest increases in areas such as competition and consumer focus underscore the need for new attention.

This year's results (2025) reflect overall stability in the set of top concerns compared to the previous year, with severity levels remaining largely unchanged. Minor shifts are observed: some issues show slight declines – indicating incremental improvements in how banks are managing them – while others have experienced modest increases, highlighting areas where emerging challenges are drawing greater attention. Nevertheless, the fundamental concerns continue to rank high in importance, reinforcing the need for Islamic banks to stay agile in navigating an evolving landscape of risks and opportunities.

Figure 7. Some Main Islamic Banking Concerns



Strategic Priorities Have Shifted Inward Toward Talent, Technology, and Customer Focus.

Meeting Shareholders’ Value and Expectations

In an era of evolving market dynamics, Islamic banks must navigate the complex terrain of meeting shareholder expectations while ensuring sustainable growth and profitability. The focus on shareholder value necessitates a strategic balance between delivering consistent financial performance and upholding the ethical and social principles inherent in Islamic banking.

Shareholders’ value and expectations remain a top-tier concern, with the score holding steady at 4.3 in both 2024 and 2025 (up from 4.2 in 2023). This sustained high level underscores the ongoing emphasis on addressing shareholder-related issues. Islamic banks continue to face pressure to prioritize transparent communication, reinforce governance practices, and deliver innovative financial solutions to meet and exceed stakeholder expectations. Maintaining this balance is crucial for ensuring market leadership and long-term success in a landscape shaped by rapid financial and technological change.

Viewed over the longer term, this concern has consistently ranked among the most pressing since 2015. Executive surveys as early as that year already placed shareholder expectations above 4.0, indicating a long-standing pressure on banks to satisfy investor demands. While minor fluctuations have occurred –including a notable peak around 2018 followed by a slight dip – the current plateau at 4.3 represents one of the highest sustained levels recorded. This persistent prominence is driven by increasing calls for profitability and dividends, intensified competition within the Islamic finance sector, and growing expectations for accountability in corporate governance. Today, Islamic banks face heightened scrutiny to deliver value in a manner that aligns with Shariah-compliant principles, making shareholder expectations a pivotal and continually evolving challenge.

Consumer Attraction, Relations, and Retention

Attracting and retaining consumers remains a central focus for Islamic banks. While the perceived severity of this challenge has tempered slightly in recent years, it continues to rank among the top strategic priorities. In 2024, the concern’s score stood at 4.1, reflecting a gradual decline from 4.3 in 2023 and 4.4 in 2022. In 2025, the score remains steady at 4.1, indicating that while the urgency has not increased, the issue retains its strategic importance. This stabilization suggests that banks may have made some progress in addressing customer-related challenges, though continued vigilance and innovation remain necessary.

A decade ago, customer retention and acquisition were considered moderate concerns, scoring in the high-3 range in 2015. Since then, this issue climbed steadily to around 4.5 by the early 2020s as competition in Islamic banking intensified. The gradual decline to 4.1 in 2024 and its stabilization at the same level in 2025 reflect a maturing response by banks, likely driven by improved digital engagement and tailored offerings. Still, the sustained high score underscores the enduring significance of this challenge.

In summary, even after a decade of steady focus and improvement, winning and retaining customers remains a cornerstone of Islamic banks' strategic efforts—highlighting its continued relevance in shaping the future of the industry.

Information Technology: Navigating the Digital Frontier

Information technology remains among the foremost challenges for Islamic banks as they look to the future. In today's rapidly evolving environment, the banking industry is at the forefront of disruptions fuelled by emerging technologies – such as generative AI – that are transforming customer experiences and operational efficiencies. These advancements offer vast potential for innovation and optimization but also bring heightened complexity and risk, particularly around automation, data privacy, and cybersecurity. Navigating these dynamics requires Islamic banks to adopt robust and forward-looking digital strategies that leverage fintech trends while proactively addressing emerging vulnerabilities.

Historically, the importance of technology has increased significantly over the past decade – from a score of around 3.8 in 2015 to a peak near 4.5 in the early 2020s, as digital transformation became a defining force in the financial sector. The current score, though slightly lower, remains close to historically high levels, underscoring the ongoing significance of this issue. This sustained prominence is driven by the relentless evolution of fintech, the increasing frequency and sophistication of cyber threats, and the pressure on Islamic banks to remain agile, competitive, and digitally capable in an interconnected global market.

Addressing Risk Management Challenges

Over the past decade, risk management has remained a top industry concern. Since the mid-2010s, concern scores for risk have consistently stayed around 4 to 4.5, reflecting a persistently high level of apprehension. There were notable spikes around periods of global volatility – for instance, during 2020–2021 when the COVID-19 pandemic and economic turbulence pushed risk concerns to peak levels (roughly in the 4.3–4.4 range). While improved stability in recent years has seen the score ease back to 4.0 in 2025, this level is only marginally lower than those peaks. The fact that Risk Management remains among the top five concerns in 2025 underscores its critical importance. This enduring high ranking is driven by the need to manage a spectrum of risks: from credit and market risks to liquidity challenges, operational issues, and the unique requirements of Shariah compliance. Additionally, as Islamic banks expand globally and face new market dynamics, they must contend with cross-border regulatory differences and economic uncertainties. All these factors ensure that building strong risk management capabilities and cultures is a continuous priority for the industry, vital for protecting assets and maintaining stakeholder trust.

> **Meeting shareholder value demands and maintaining strong risk management frameworks are enduring top-tier priorities.**

Responding to Global Economic Shifts

In early 2025, the macroeconomic environment continues to be a significant concern for Islamic banks, with the perceived severity of related challenges remaining stable compared to the previous year. The macroeconomic challenge score holds steady at 4.0 in both 2024 and 2025, indicating a sustained level of concern without further escalation in perceived risk.

The International Monetary Fund (IMF) projects global growth at 3.3% for both 2025 and 2026, broadly unchanged from earlier forecasts. However, this growth rate remains below the pre-pandemic average of 3.7%, highlighting persistent structural issues in the global economy.

Inflationary pressures are gradually easing, with global headline inflation expected to decline to 4.2% in 2025 and further to 3.5% in 2026. While this downward trend is positive, inflation remains above target levels in many economies, continuing to pressure monetary policy and financial conditions.

Geopolitical tensions, including ongoing conflicts and trade disputes, persist as major risks to global economic stability. These tensions fuel market volatility and uncertainty, which can adversely affect investment flows and undermine confidence.

Prioritising Human Resources and Talent Development

Over the past decade, the level of concern regarding human resources and talent development in Islamic banking has remained consistently high. In 2015, the issue was rated at 4.3, indicating a significant degree of concern among executives. Although there was a slight dip to 4.0 in 2016, the rating rebounded to 4.2 in 2018 and then stabilized at 4.0 through most subsequent years. Minor increases were noted in 2022 and 2023, when the score edged up to 4.1, but by 2024 and 2025, it returned to 4.0.

This persistent elevation – never falling below 4.0 after 2016 – demonstrates that talent development remains a top priority for the industry. The 2023 GIBS report, with its focus on talent development, highlighted several drivers behind this sustained concern: the need for continuous upskilling due to rapid technological change, expansion into new markets requiring local expertise in both banking and Shariah, and increasingly stringent regulatory demands calling for qualified compliance and risk professionals. Together, these factors underscore why human resources and talent development have evolved from a purely HR concern to a core strategic issue for Islamic banks seeking long-term resilience and competitiveness.

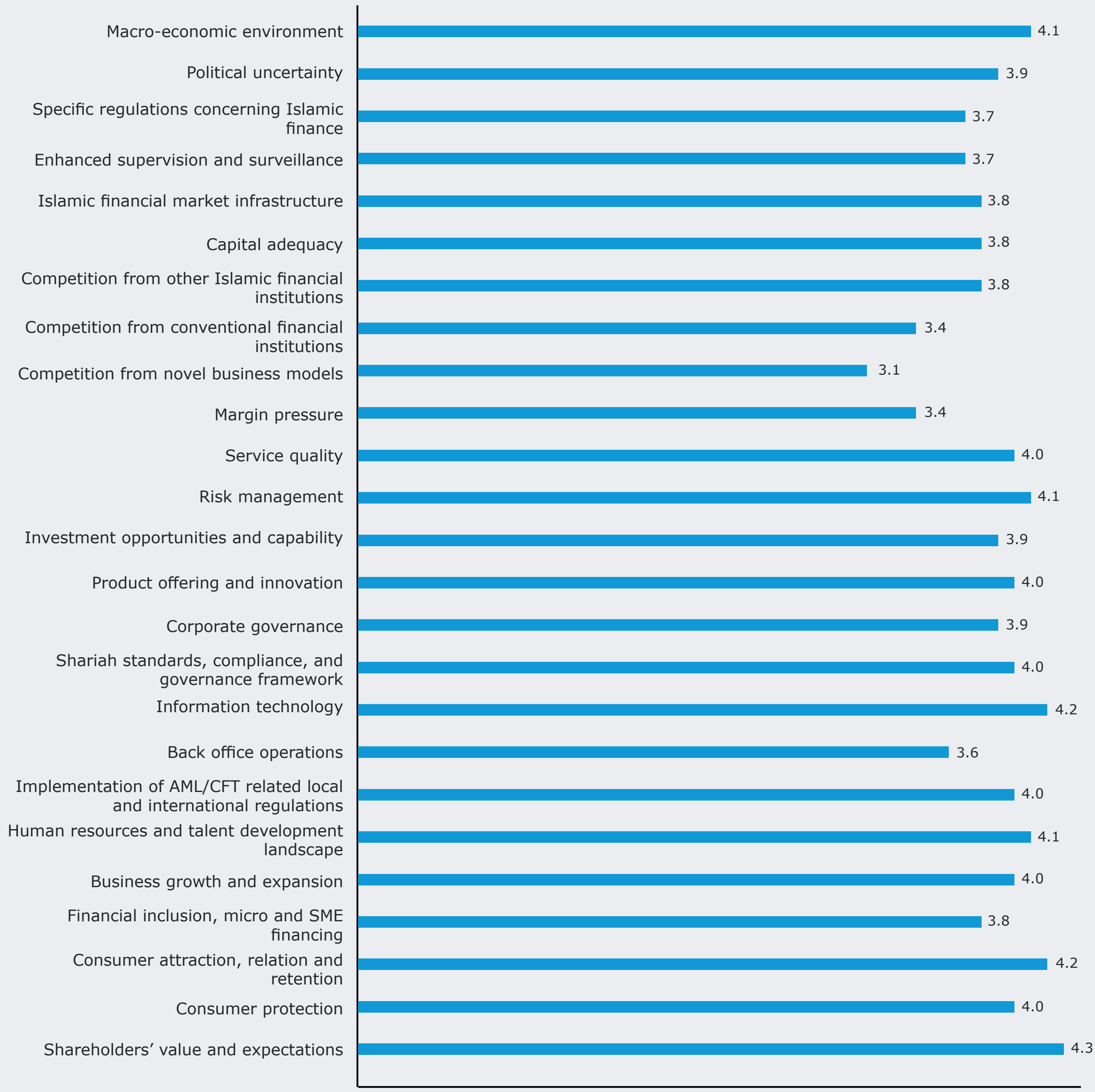
Steady Emphasis on Shariah Standards, Compliance and Governance

In 2025, the concern surrounding Shariah standards, compliance, and governance frameworks remains high, with a score of 3.9 – identical to the level recorded in 2024. This consistency highlights the continued importance of these issues among Islamic banking institutions, even as other priorities may shift.

Historically, the significance of Shariah issues has shown some fluctuation. Starting at a moderate 3.8 in 2015, it peaked above 4.1 in 2016 and 2018, reflecting moments of heightened focus, before stabilizing at just under 4.0 in recent years. The current steady score suggests that Islamic banks maintain a firm commitment to upholding Shariah principles, even in the absence of a perceived increase in urgency.

Despite evolving industry dynamics, Shariah compliance, ethical governance, and regulatory alignment remain central to Islamic banking's identity and operational integrity.

Figure 8. Global Islamic Banking Top Concerns (2025)



1: Extremely unimportant; 2: Not important; 3: Fairly important;
4: Very important; 5: Extremely important

Regional Concern Variations

Across different regions, banks share many similar concerns, yet the emphasis placed on each issue varies depending on local economic, political, and competitive dynamics. Analysing the scores assigned to various concerns alongside banks' open-ended reflections reveals clear patterns of both convergence and divergence among regions.

Information technology continues to stand out as a critical concern, notably in the GCC, Southeast Asia, Sub-Saharan Africa, and North Africa. The GCC banks rank information technology among their top concerns, reflecting ongoing strategic investments in digital innovation and operational efficiency. Banks in this region emphasize technological advancement as essential to maintaining competitiveness and meeting evolving customer expectations. In Southeast Asia, the importance of digital transformation persists, driven by the need to simplify products and enhance customer experiences through digital platforms. Sub-Saharan African banks, while similarly prioritizing digital advancement, underscore technology's role in overcoming infrastructure limitations and promoting financial inclusion. North African banks, such as those in Egypt, highlight ongoing upgrades to technological infrastructure to improve service delivery and competitiveness.

Consumer attraction and relationship management remain significant concerns across regions, particularly in the GCC, North Africa, and Southeast Asia. The GCC's emphasis on consumer attraction highlights intense regional competition, with banks continuously innovating to enhance service quality and customer loyalty. In North Africa, banks connect consumer attraction to rebuilding trust and expanding outreach, using branch modernization, staff training, and technology-driven strategies. Southeast Asian banks continue leveraging digital channels and personalized offerings to meet heightened customer expectations effectively.

Macroeconomic instability and political uncertainty persist as significant concerns, especially pronounced in the Middle East ex-GCC, North Africa, West, Central, and South Asia, and Sub-Saharan Africa. Banks in the Middle East ex-GCC emphasize these issues due to ongoing political and economic volatility, significantly impacting investment opportunities and operational risks. Similarly, North African banks express concerns over macroeconomic and political instability, recognizing these factors' direct impact on economic growth and profitability. Banks in Sub-Saharan Africa and regions such as Iraq and Palestine highlight political instability's disruptive effects, underscoring the necessity of robust risk management strategies to mitigate these challenges.

Competition from conventional and Islamic financial institutions has grown significantly, notably impacting banks in Türkiye, North Africa, and increasingly, the Middle East ex-GCC. In Türkiye, the intensified competition from conventional banks and fintech firms is viewed as a substantial threat, requiring continuous innovation and differentiation. North African banks, particularly in Algeria and Tunisia, also face intense competition from both Islamic and conventional institutions, driving them to enhance product innovation, service quality, and customer relationships.

Margin pressure continues to challenge banks, especially in the GCC, North Africa, and Türkiye. Banks in these regions face squeezed profitability due to rising regulatory costs, competitive market dynamics, and customer demands for attractive pricing. Banks from GCC countries explicitly mention the structural disadvantage compared to conventional banks regarding profitability. Turkish banks highlight ongoing macroeconomic factors influencing margin pressures, while North African banks underline regulatory restrictions limiting their capacity to adjust pricing flexibly.

In summary, while core industry concerns—including digital transformation, customer engagement, economic stability, and competitive pressures—remain universally relevant, their relative prioritisation varies significantly across regions based on local market conditions. Institutions operating in more stable environments, such as the GCC and Southeast Asia, can afford to prioritise advanced digital transformation initiatives and market leadership strategies. Conversely, banks in regions experiencing greater volatility – including the Middle East ex-GCC, North Africa (which encompasses markets ranging from conflict-affected areas like Sudan and Libya to more stable economies such as Morocco and Tunisia), and Sub-Saharan Africa – must address fundamental challenges related to macroeconomic and political risk management, regulatory compliance frameworks, and foundational infrastructure development. These regional distinctions underscore the critical importance of adopting context-specific strategic approaches rather than one-size-fits-all solutions to successfully navigate the complex and evolving global Islamic banking landscape.

Regional differences shape how banks prioritize shared global concerns, with strategies tailored to local economic, political, and competitive conditions.

Table 2. Major Concerns of Islamic Banks across Regions[1]

	Top Concerns	Score
Group 1 GCC	Financial inclusion, micro and SME financing	4.5
	Shariah standards, compliance, and governance framework	4.4
	Consumer protection	4.4
Group 2 Middle East ex-GCC	Political uncertainty	4.3
	Macro-economic environment	4.3
	Shariah standards, compliance, and governance framework	4.2
Group 3 Southeast Asia	Macro-economic environment	4.4
	Financial inclusion, micro and SME financing	4.4
	Consumer protection	4.2
	Service quality	4.2
Group 4 West, Central, and South Asia	Investment opportunities and capability	4.3
	Macro-economic environment	4.3
	Service quality	4.3
Group 5 North Africa	Consumer protection	4.3
	Service quality	4.3
	Implementation of AML/CFT related local and international regulations	4.1
	Human resources and talent development landscape	4.1
Group 6 Sub-Saharan Africa	Shariah standards, compliance, and governance framework	4.1
	Margin pressure	4.0
	Back office operations	4.0
	Investment opportunities and capability	4.0
Group 7 Europe and Türkiye, US & Others	Competition from conventional financial institutions	5.0
	Competition from other Islamic financial institutions	4.7
	Macro-economic environment	4.7
Global	Shareholders' value and expectations	4.2
	Consumer attraction, relation and retention	4.1
	Information technology	4.1

1: Extremely unimportant; 2: Not important; 3: Fairly important;
4: Very important; 5: Extremely important

1. For every group, the top three concerns are identified, including all concerns with the same score, even if that means that more than three are listed in total.

Strategies Adopted by Islamic Banks to Overcome Top Concerns

Islamic banks are responding to a rapidly shifting environment through targeted strategies that reflect both their local realities and broader global trends. Below, the strategies are outlined by major areas of concern, reinforced with direct insights from banks across various regions.

Information Technology Modernization

The urgency to modernize technological capabilities is evident across Islamic banks globally. A bank from the Middle East ex-GCC reported that it had "activated a new and competitive system, with ongoing updates to meet evolving business requirements," underscoring that operational agility is no longer optional but essential. Another bank from the same region emphasized that to survive in an era of fintech disruption, it is critical to innovate collaboratively, stating: "The bank's strategic plan focuses on collaborating and integrating with fintech firms to foster an innovative ecosystem that promotes mutual growth and development."

The ambition to modernize is not confined to system upgrades alone. Another bank from the Middle East ex-GCC described its focus on "upgrading the bank's core system to an advanced one" as fundamental for enhancing efficiency, scalability, and customer responsiveness. Meanwhile, in a GCC bank, the focus is placed on ensuring that the technological leap remains within the bounds of Shariah principles, achieved through "continuous oversight and auditing of all operations" to safeguard compliance during the digital transition.

Banks in North Africa have similarly recognized that technology is a lever for service excellence, noting that "modern technology and leveraging data analytics" are pivotal in offering faster and more accurate banking services. Reinforcing this technological shift, a bank from Southeast Asia underlined that "the ability to fully digitalise, simplify most product offerings, and to do meaningful and timely data mining/analysis is crucial as we strive to attract customers who are more technically savvy and retain customers by offering personalised services via digital means." Similarly, another bank from Southeast Asia focused its efforts purely on "strengthening digital banking capabilities" as a central pillar of its growth.

Across regions, the commitment to technology is clear: Islamic banks are preparing to lead, not lag, in the next era of financial services.

Competition and Customer-Centric Innovation

Competition from both Islamic and conventional financial institutions is forcing Islamic banks to rethink their customer strategies. A bank from North Africa articulated this reality directly, explaining: "We are developing innovative Islamic financial products that better meet customer needs. We are also focusing on improving customer experience by providing fast and personalized services," reflecting a clear shift towards tailoring offerings and deepening client relationships.

Meanwhile, in the Middle East ex-GCC, financial inclusion has become a strategic imperative. A bank emphasized that "enhancing micro and small-scale financing services and developing accessible banking channels" are now core pillars of its competitive strategy, indicating that outreach to underserved populations is seen not only as a social good but as a vital business opportunity.

In Sub-Saharan Africa, the operational focus is firmly on understanding and retaining clients. A bank reported that it regularly conducts "surveys to measure client satisfaction and identify their needs," thereby ensuring that service evolution is closely aligned with customer expectations.

From Southeast Asia, a bank noted that success will depend heavily on "ensuring that product offerings are holistic and on par with competitors," while also "monetizing sustainability initiatives" to align with evolving customer values, particularly those tied to ethical and environmental concerns.

In Türkiye a bank highlighted the increasingly fierce competitive environment within participation banking, stating: "Competition in the participation banking sector will continue to increase, especially in the digital field, and the ones emphasizing digital channels will become prominent." Banks from this region are therefore focusing on building superior digital customer journeys to secure market leadership in an increasingly crowded landscape.

The pursuit of customer-centricity is transforming Islamic banks across regions. From product innovation to enhanced loyalty programs and service personalization, institutions are moving beyond transactional models to forge deeper, more resilient client relationships.

Political and Macroeconomic Instability

Operating under conditions of political instability and economic uncertainty demands a heightened degree of flexibility and foresight. A bank from the Middle East ex-GCC candidly stated that “political crises can lead to economic uncertainty, affecting trust in the banking system,” and emphasized the development of “flexible investment structures” as a mechanism to safeguard the interests of both investors and depositors.

In North Africa, a bank from Sudan reported that the Sudanese economy has been “significantly impacted” by ongoing instability and conflict since 2023, necessitating operational models that can withstand prolonged turbulence—a challenge specific to Sudan within the region. Elsewhere in North Africa, banks have responded to economic pressures by diversifying into more stable sectors, such as agriculture and renewable energy, and by strengthening their governance practices. Meanwhile, institutions in Europe, Türkiye, and other regions have also acknowledged macroeconomic pressures, with a bank from this group noting the ongoing tight monetary policies affecting profitability and growth prospects, highlighting the need for prudent risk and balance sheet management.

Through proactive planning, portfolio diversification, and resilient capital management, Islamic banks are striving to insulate themselves from the external shocks that have become a recurring feature of the global financial landscape.

Risk Management Practices

Risk management has evolved from a procedural obligation to a core strategic priority. A bank from North Africa described how it “implemented a comprehensive strategy, including thorough assessment of customer files, diversifying financing mechanisms, and continuous monitoring of client portfolios” to mitigate the growing risks of non-payment and operational volatility. Similarly, in West, Central, and South Asia, institutions are reinforcing risk controls through intensified monitoring and more frequent credit portfolio reviews.

Banks in the Middle East ex-GCC are embedding forward-looking methodologies such as stress testing into their regular planning cycles, ensuring that potential vulnerabilities are identified before they can threaten stability. This transition towards dynamic, predictive risk management ensures that Islamic banks are not merely reacting to crises but are actively preparing for them, fostering a culture of resilience that supports sustainable growth.

Shariah Compliance and Ethical Governance

The maintenance of Shariah compliance remains fundamental to the identity and legitimacy of Islamic banks, even as innovation accelerates. A bank from the GCC underlined this by asserting the need for "continuous supervision and auditing of all operations" to ensure that rapid technological change does not undermine adherence to Islamic principles.

In the Middle East ex-GCC, institutions are expanding their Shariah governance frameworks, with one bank noting that "scaling up Shariah training programs and enhancing pre-approval processes for financial products" is vital to maintaining credibility and customer trust.

North African banks are taking similar steps, integrating Shariah compliance mechanisms into the development of new digital banking services to ensure that innovation remains firmly anchored in ethical practices.

Across all regions, Islamic banks are reaffirming that Shariah compliance is not merely a regulatory requirement but a strategic asset that enhances reputation, strengthens client loyalty, and differentiates Islamic finance from conventional banking models.

Financial Inclusion and Microenterprise Financing

Financial inclusion and support for microenterprises are becoming central strategic themes for Islamic banks, particularly in regions facing socio-economic imbalances. A bank from the Middle East ex-GCC emphasized that "financial inclusion is crucial for supporting the economy and helping small businesses sustain their operations," framing it not just as a social responsibility but as a fundamental pillar of economic resilience.

In North Africa, another institution noted the development of "specialized financing programs for small and micro-enterprises," designed to overcome the risk that strict client qualification standards might exclude the very populations that Islamic finance aims to serve.

Across these regions, the focus is not merely on extending credit but on creating accessible channels, simplifying account openings, and offering flexible financial products tailored to the unique needs of SMEs and underserved communities.

Through these efforts, Islamic banks are embedding financial inclusion into their growth strategies, broadening their impact and positioning themselves as catalysts for inclusive, sustainable development.

Human Resources and Talent Development

Recognizing that technology and innovation require capable leadership and technical expertise, Islamic banks are also prioritizing the development of their human resources. A bank from North Africa pointed to a structured approach, explaining that it is "assessing the current situation, setting objectives and priorities, identifying training needs, and implementing effective specialized training programs" to address skill gaps.

Meanwhile, a bank from the Middle East ex-GCC stressed the importance of "investing in humans as bank assets," highlighting initiatives around structured career development, leadership training, and hiring global consultants to reshape the human resources landscape.

Across regions, partnerships with universities and specialized Islamic finance training institutions are being forged to ensure that future leaders possess not only conventional banking expertise but also deep knowledge of Islamic financial principles.

By investing in their people, Islamic banks are building internal capabilities that are as critical to future success as any digital system or market expansion plan.

PART II:

CIBAFI ISLAMIC BANKING RISK DASHBOARD

Part II. CIBAFI Islamic Banking Risk Dashboard

The CIBAFI Islamic Banking Risk Dashboard offers a distinct lens through which the potential risks facing Islamic banks over the next one to three years are assessed. As a longstanding component of the GIBS Report, the dashboard continues to serve as a vital tool for monitoring and understanding the evolving risk landscape at both global and regional levels. While the Islamic Banking Top Concerns in Part I address global issues within their respective environments, the Islamic Banking Risk Dashboard focuses primarily on operational risks faced by banks. Broader categories such as political, macroeconomic, and other broad risks have been excluded to better understand the operational risks impacting banks in the coming years.

Each bank was requested to score 22 categories of risks on a scale where 1.0 represents "no risk at all" and 5.0 signifies "extreme risk.". The risk dimensions remain consistent with previous years to maintain comparability. The detailed risk dashboard for this year appears in Figure 10, while detailed 10-year comparisons appear in Appendix 2.

Historical Trends (2015–2025)

The decade-long view of Islamic banking risk perceptions from 2015 to 2025 reveals a gradual yet profound evolution in sector priorities. What began as a landscape shaped largely by macroeconomic stressors and credit-related concerns has now been overtaken by technology and operational resilience as defining themes.

Throughout the period, credit risk has maintained its position as a consistently top-rated concern, with scores fluctuating narrowly between 3.2 and 3.7. This consistency underscores its central importance across all market cycles and geographies. Likewise, liquidity risk has shown a stable trajectory, typically ranging between 3.1 and 3.4, reflecting persistent funding concerns even as market access mechanisms have improved in some jurisdictions.

However, the most significant upward trend belongs to cybersecurity risk, which was first introduced in 2019. Although not distinctly measured in the earlier years, it has surged to the top in recent editions, reaching a high of 4.2 in 2022 and holding at 3.8 in 2025. This shift illustrates the growing digital exposure of Islamic banks and the urgent focus on safeguarding critical infrastructures.

Technology risk followed a similar trajectory, peaking at 4.0 in 2022 and continuing to score high in subsequent years, showing that digital transformation is both a strategic priority and a risk domain in itself.

Foreign exchange risk and rate of return risk have remained moderately elevated across the years, while climate change risk and pandemic-related disruption have only more recently entered the risk radar. The inclusion and steady rise in scores of climate change risk (from 2.6 in 2021 to 3.0 in 2025) and pandemic risk (hovering around 3.3–3.9 between 2021–2025) demonstrate growing awareness of non-financial risks.

At the same time, more traditional concerns such as commodity price risk, collateral risk, and Shariah non-compliance risk have remained stable or modestly declined, suggesting better institutional control and growing market familiarity in managing these exposures. Similarly, strategic risk and reputational risk have remained within a tight range of 3.0–3.2 throughout the decade, reflecting their enduring but controlled significance.

In sum, the 2015–2025 data reflects a broader structural transformation in Islamic banking risk dynamics – from conventional credit and liquidity focus to a multi-dimensional landscape dominated by cyber, tech, climate, and operational disruption risks. The sector's ability to maintain vigilance across both legacy and emerging risks will define its resilience in an increasingly complex financial environment.

Islamic Banks' Global Top Risks

The 2025 survey findings reaffirm that Islamic banks maintain a steady grip on their risk management priorities, with most risk scores showing only marginal shifts compared to 2024. As in previous years, cybersecurity, technology, and credit risk remain at the forefront, highlighting the sector's recognition of long-standing challenges while navigating ongoing digital transformation and economic pressures.

This year, however, there were a few noticeable upticks in the perceived severity of some risks. Liquidity risk, foreign exchange risk, and money laundering and terrorism financing risk all saw a modest rise in scores, reflecting greater caution amid global financial market fluctuations, compliance pressures, and evolving regulatory expectations. Additionally, transactions and operational disruption risk edged higher, reinforcing banks' sensitivity to business continuity vulnerabilities in an increasingly interconnected environment.

Although the general risk environment is perceived as manageable, these incremental increases in risk severity signal that banks are proactively adjusting their risk management practices to reflect emerging realities. As the external environment continues to evolve, a careful and forward-looking approach will be crucial to ensure that nascent risks are neither underestimated nor overlooked.

> **Islamic banks remain confident in their risk management capabilities, although some risks have shown a slight increase in severity.**

Technological Risks in Focus

In the 2025 survey, technology-related risks once again dominate the Islamic banking risk landscape, maintaining their position at the forefront of operational concerns. Cybersecurity risk was ranked highest, scoring 3.8, followed by technology risk at 3.5 (see Appendix 2). The results of cybersecurity risk reinforce the sector's recognition of the critical importance of safeguarding digital infrastructures as Islamic banks accelerate their digital transformation journeys.

The 2025 survey results suggest that banks are not only recognising technology-related risks but also reassessing their digital resilience strategies in response. Several institutions highlighted, through open-ended feedback, their specific concerns and the measures they are implementing to strengthen cybersecurity and ensure operational continuity:

A bank from the GCC highlighted that: "The Bank works continuously on updating its security measures, as well as applying the highest international standards to prevent technology and cybersecurity risks. Furthermore, the Bank is actively campaigning with the Central Bank to educate the audience regarding such risks. These campaigns contain essential technology and cybersecurity risks, how to detect them, and how to act once a customer comes across them." Similarly, a bank from the Middle East ex-GCC reported: "Specialised information security teams have been established under the guidance of the Central Bank and the Board of Directors, implementing best practices through the development and installation of security software and supportive systems to minimise risks."

Further detailed approaches were shared by another bank in the Middle East ex-GCC, which outlined comprehensive cybersecurity strategies including:

- Regular system updates and software monitoring,
- Encryption of sensitive data during storage and transmission,
- Employee training and cybersecurity awareness programs,
- Active IT systems monitoring to detect irregular activities, and
- Development of robust emergency response plans.

Another example comes from a bank in the Middle East ex-GCC, which stressed the growing significance of cybersecurity amid digital transformation: "The bank has invested significant efforts in cybersecurity, achieving major milestones in infrastructure development, system security, and implementation of robust security policies. Several internal and external awareness programs have been launched to combat evolving cyber threats." In addition, a bank from Europe, Türkiye, US & others shared its practical initiatives:

- Regular employee cybersecurity training,
- Routine system audits,
- Implementation of multi-factor authentication,
- Continuous system monitoring, and
- Securing APIs and third-party integrations to reduce potential breaches.

Across different regions, institutions are adopting multi-layered defence strategies, combining technological upgrades, governance enhancements, and human capital development. The open-ended feedback strongly indicates that Islamic banks are no longer treating cybersecurity and technology risk as isolated IT issues, but rather as core elements of enterprise-wide risk management. Given the pace of technological evolution and the growing complexity of cyber threats, technology-related risks are expected to remain a central focus for Islamic banks' strategic and operational agendas in the coming years.

Islamic banks are intensifying their cybersecurity strategies as digital transformation accelerates operational risks.

Sustained Vigilance on Credit Risk

In the 2025 survey, credit risk retained its position as one of the top operational concerns for Islamic banks, continuing a multi-year trend. Although the score recorded a slight decline from 3.6 to 3.5, this marginal shift does not signal reduced importance. Instead, it reflects a continued pressure from global economic challenges, rising inflation, political instability, and financial market volatility, which collectively affect borrowers' repayment capabilities.

Over the past decade, credit risk has consistently ranked among the highest risks in the Islamic banking sector, with scores remaining in the moderate to high range across all years. This long-term pattern highlights the sector's enduring sensitivity to lending exposures, borrower repayment capacity, and market volatility. The fluctuations in the credit risk score over time – rising in years of elevated uncertainty and stabilising during calmer periods – underscore the close relationship between credit concerns and global financial developments.

Islamic banks are becoming increasingly vigilant towards managing credit exposures, especially in regions facing heightened geopolitical and economic uncertainty. Institutions are reinforcing their credit assessment frameworks, adopting stricter underwriting standards, and expanding risk mitigation strategies to navigate the evolving environment. Several banks shared insights into how they are responding to these risks through their open-ended feedback. A bank from the Middle East ex-GCC noted: "The risk of non-repayment is a major challenge due to political and economic instability. To mitigate this, we have adopted strict credit evaluation processes starting with comprehensive Know Your Customer (KYC) policies and continuous monitoring mechanisms. We [Bank] ensure full compliance with international standards and regulatory guidelines."

Similarly, another bank from the Middle East ex-GCC emphasised proactive risk management strategies: "We [Bank] are strengthening credit evaluation standards by using advanced risk analysis systems, including AI-based tools. Our policies now require expanded collateral guarantees and updated credit assessments using accurate, real-time data." A bank from West, Central, and South Asia also highlighted a comprehensive risk management approach: "Credit risk is critical for our institution's stability.

We [Bank] ensure due diligence of counterparties, require collateral, and regularly review credit policies to adapt to changing market conditions. Training credit officers on advanced evaluation practices is a key component of our strategy.” Moreover, a bank from GCC shared: “We [Bank] are diversifying financing portfolios across sectors and client profiles to minimise concentration risk and utilising systematic credit registries to enhance client creditworthiness assessment.”

Overall, the 2025 results indicate that Islamic banks are not only aware of credit risk pressures but are actively enhancing their internal systems and policies to fortify resilience. As the global economic environment remains uncertain, maintaining robust credit risk management will continue to be a critical focus for Islamic banks in the coming years.

Increase in Liquidity Risk

The 2025 survey results show a noticeable increase in the perceived severity of liquidity risk, with the score rising to 3.4 from 3.1 in 2024. Liquidity risk has now firmly positioned itself among the top operational concerns for Islamic banks. This rising concern may reflect ongoing global financial volatility, tightening monetary conditions, and heightened funding pressures; it could also reflect more demanding national regulatory regimes based on the liquidity standards of the Basel Committee. Looking across the past decade, liquidity risk has remained consistently elevated, generally scoring between 3.3 and 3.4, except for brief dips. This underscores its status as a long-standing structural concern rather than a temporary issue.

Islamic banks, in particular, are navigating a complex liquidity environment characterised by limited access to diversified Shariah-compliant liquidity management instruments, fluctuating deposit bases, and regulatory shifts. These factors are prompting banks to strengthen their liquidity frameworks, diversify funding sources, and enhance real-time liquidity monitoring capabilities. Several banks, through open-ended responses, shared how they are responding to these emerging liquidity challenges. A bank from North Africa reported: “Amid the ongoing instability, we [Bank] are exposed to liquidity and default risks. To mitigate these risks, we have developed a comprehensive strategy aimed at maintaining financial resilience and ensuring business continuity in these challenging times.”

Similarly, another bank from North Africa noted: "Despite improvements, the financial market still lacks sufficient Shariah-compliant instruments like Sukuk. Islamic banks must intensify efforts to develop new financial products to enrich the market and ensure alternative liquidity management tools." From the Gulf region, a bank based in the GCC said: "High dependence on a concentrated deposit base is a key challenge. Measures are being taken to broaden the funding base by focusing on retail infrastructure and diversifying liquidity sources." Additionally, a bank from West, Central, and South Asia shared: "We [Bank] are strengthening our Asset-Liability Management (ALM) practices to manage mismatches between assets and liabilities, ensuring adequate liquidity buffers are maintained to meet short-term obligations."

It is evident from the survey responses that Islamic banks are adopting a more proactive approach to liquidity risk management. Strategies range from diversifying funding sources, expanding the use of digital platforms, and developing new Shariah-compliant liquidity instruments. Given the volatile global environment and the unique challenges faced by Islamic financial institutions, maintaining robust and agile liquidity management frameworks will remain a critical priority for banks in the coming years.

A Slight Increase in Foreign Exchange Risk

This year's findings reveal that foreign exchange risk has slightly increased in significance among Islamic banks, rising from 3.3 in 2024 to 3.4 in 2025 (see Appendix 2). This makes it one of the top five risks in 2025. The rise in concern reflects persistent global economic volatility, ongoing geopolitical tensions, and shifting monetary policies, all contributing to heightened currency fluctuations and financial instability. Foreign exchange rate volatility directly impacts Islamic banks by increasing exposure to potential losses on cross-border transactions and foreign-denominated assets. Moreover, these fluctuations can trigger secondary risks, including liquidity shortages, inflationary pressures, credit deterioration, and transaction failures. Looking back over the past decade, foreign exchange risk has remained consistently elevated, rarely dropping below 3.1. This long-term trend underscores its persistent relevance in the Islamic banking risk landscape, driven by macroeconomic unpredictability and market integration.

In response, Islamic banks are strengthening their foreign exchange risk management frameworks and investing in proactive mitigation measures. A bank from the Middle East ex-GCC outlined its approach: "We [Bank] manage foreign exchange risks by utilising hedging contracts such as options and forward contracts, diversifying the investment portfolio across multiple currencies, and continuously monitoring market trends and associated risks." Similarly, a bank from West, Central, and South Asia detailed strategic initiatives: "We [Bank] actively use Shariah-compliant hedging instruments like forward contracts to manage FX exposures, enhance daily monitoring of open positions, and diversify our foreign exchange portfolio to minimise reliance on highly volatile currencies." A bank from the Middle East ex-GCC also shared that: "We [Bank] apply appropriate Shariah-compliant hedging policies through currency contracts and exchanges to manage the impact of exchange rate fluctuations on operations."

These examples highlight the sector's growing sophistication in foreign exchange risk mitigation. Banks are adopting a mix of financial instruments, portfolio diversification, enhanced real-time monitoring, and regulatory compliance to build resilience against currency shocks. Given the increasing interconnectedness of global markets and persistent macroeconomic uncertainties, Islamic banks' sustained vigilance and strategic management of foreign exchange exposures will remain crucial for maintaining financial stability in the years ahead.

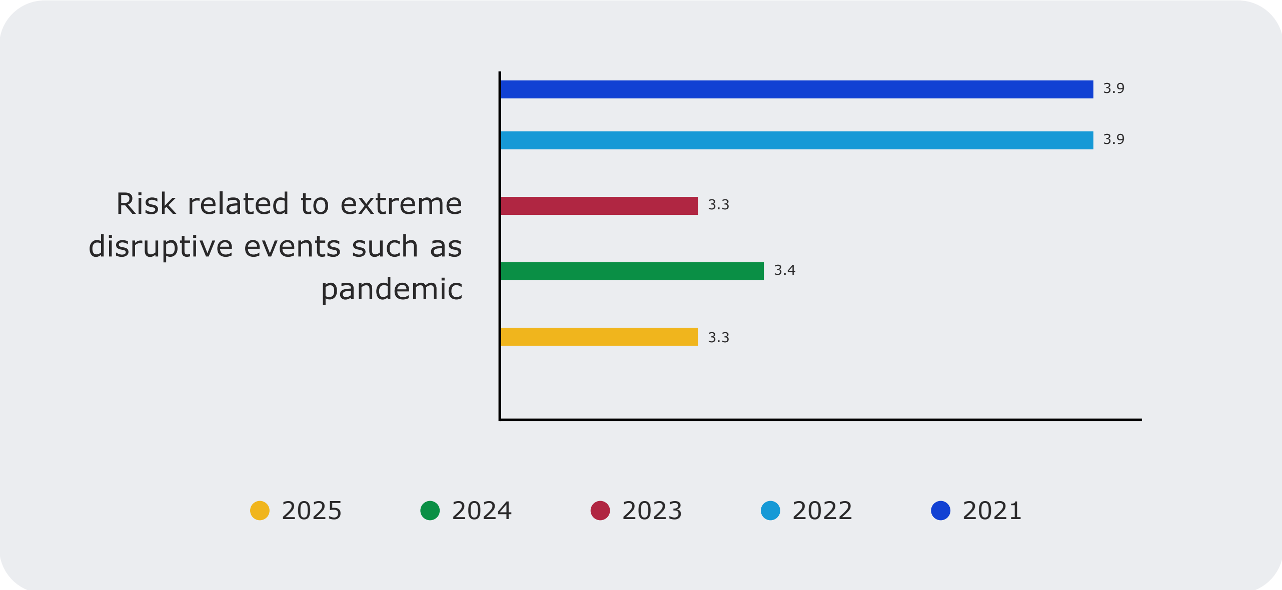
Islamic banks are enhancing foreign exchange risk strategies to counter rising currency market volatility.

Slight Decrease in Risk Related to Extreme Disruptive Events such as Pandemic

In recent years, extreme disruptive events have profoundly shaped the risk landscape for Islamic banks, prompting a lasting shift in their approach to resilience and continuity planning. While the shock of the COVID-19 pandemic has gradually faded, banks remain cautious about the potential impact of similar future disruptions. The 2025 survey findings show a modest decline in the perceived severity of this risk, with the score easing from 3.4 in 2024 to 3.3 in 2025. This slight decrease signals growing confidence among Islamic banks in their enhanced risk preparedness, even as the threat of unexpected disruptions remains firmly on the radar.

Over the years, this category has consistently received high attention, especially following the COVID-19 crisis. The elevated scores in 2021 and 2022 highlight how the pandemic fundamentally shifted risk awareness. Although perceptions have moderated since then, Islamic banks continue to integrate lessons learned into their risk frameworks, investing in stronger continuity planning, digital capabilities, and crisis response mechanisms.

Figure 9. Perceived Risk from Extreme Disruptive Events



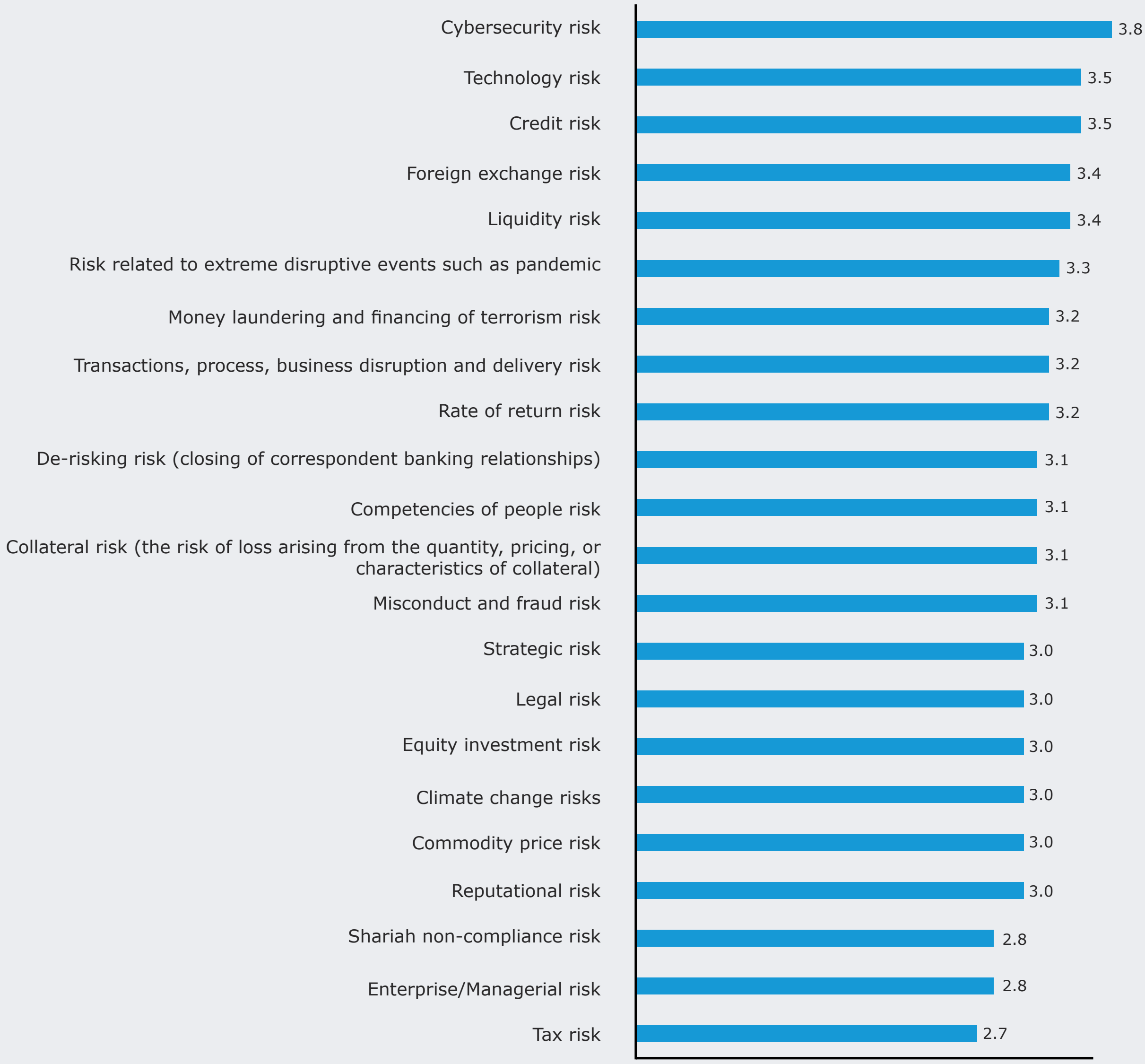
Given that, Islamic banks have significantly reinforced their risk management structures, placing greater emphasis on business continuity, crisis response frameworks, and digital transformation to ensure operational resilience. Several banks highlighted their experiences and mitigation strategies. A bank from North Africa stated: "Following the COVID-19 pandemic, it has become evident that pandemics and emerging disruptions are among the key challenges that can have a direct impact on the financial sector, particularly on borrowers' ability to meet their financial obligations. To address this challenge, the bank has adopted a flexible strategy to manage such crises, including diversifying its customer portfolio, enhancing risk management frameworks, and implementing proactive measures to ensure financial stability and business continuity."

Similarly, another bank from North Africa said: "Given the ongoing instability, we [Bank] have developed a comprehensive strategy to manage risks related to disruptions, focusing on liquidity management, credit monitoring, and ensuring operational continuity."

Another institution from the Middle East ex-GCC shared: "Crisis management teams coordinate closely with regulatory authorities to ensure a swift and organised response to emerging disruptions, ensuring minimal impact on operations and customer trust."

The declining risk score suggests that Islamic banks are taking these lessons seriously, proactively integrating risk management practices across all business areas. Investments in technology, employee training, contingency planning, and regulatory coordination have all contributed to enhancing the sector's resilience. However, as global uncertainties continue to evolve, banks must remain vigilant and agile in updating their response strategies to maintain operational resilience and customer trust in the face of future disruptions.

Figure 10. Global Islamic Banking Risk Dashboard (2025)



1: No risk at all; 2: Low risk; 3: Medium risk; 4: High risk; 5: Extreme risk

Risk Landscapes of Islamic Banks Across Global Regions

The regional data breakdown provides a detailed insight into the leading risks identified by Islamic banks across various geographical areas. While commonalities in risk perception continue to dominate, there are also notable regional nuances that reflect the specific economic, political, and technological environments in which these banks operate (see Figure 11).

Across most regions, cybersecurity risk once again emerged as a top concern. It was ranked among the top three risks in all regions, reaffirming the ongoing challenges banks face as they continue to digitise services and enhance online banking platforms. High scores were observed in North Africa (3.9), West, Central, and South Asia (3.7), and the Middle East ex-GCC (3.8), underscoring the sector's ongoing focus on safeguarding digital infrastructure. In Sub-Saharan Africa, cybersecurity was again the top-ranked risk (3.5), demonstrating its cross-regional significance even in markets with less mature digital ecosystems.

Technology risk remains closely linked with cybersecurity, and it features prominently in Southeast Asia (3.5), North Africa (3.8), and the Middle East ex-GCC (3.6). Islamic banks are increasingly aware that as digitalisation accelerates, operational resilience and tech governance must keep pace. This concern is reflected in Southeast Asia, where technology risk shares the top position with business disruption risk (both at 3.5), indicating a dual focus on innovation and operational continuity.

Credit risk also continues to be a major theme across regions, especially in Europe, Türkiye, and others (4.0) and West, Central, and South Asia (3.8), and North Africa (3.8). The elevated scores suggest persistent credit portfolio pressure stemming from inflation, geopolitical tensions, and global economic headwinds. The GCC also reported notable concern at 3.5, up from 3.2 in 2024, pointing to increasing awareness of borrower vulnerability in a shifting financial landscape.

Liquidity risk surfaced more strongly in 2025 compared to the previous year, particularly in the GCC (3.7), and Sub-Saharan Africa (3.2). Southeast Asia (3.2) also recorded liquidity risk among the top concerns, indicative of increasing attention to funding sustainability and contingency planning.

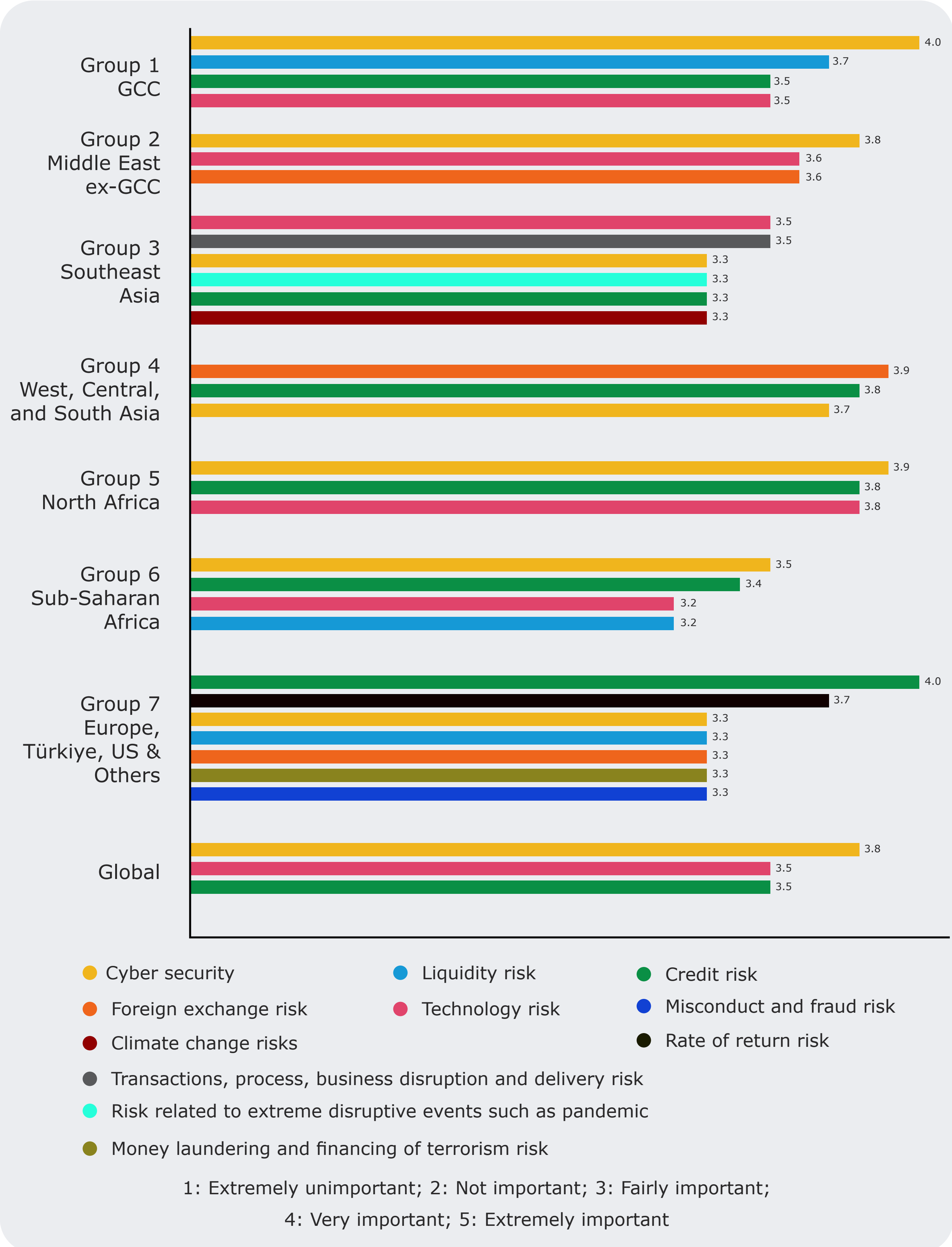
Foreign exchange risk continues to weigh heavily in regions highly sensitive to external shocks, such as West, Central, and South Asia (3.9) and North Africa (3.7). Heavy reliance on commodity exports, political uncertainty, and global market volatility contribute to the elevated perception of currency-related risks in these markets. Similar concerns surfaced in the Middle East ex-GCC and Europe, Türkiye & others (3.3 each), suggesting that foreign exchange volatility is being closely monitored by banks with cross-border operations.

Several regions also highlighted specific operational concerns. In the Middle East ex-GCC, a broader range of operational risks were cited, including money laundering and financing of terrorism risk, risk related to extreme disruptive events, and de-risking risk, each scoring 3.4. This reflects heightened awareness of compliance and geopolitical challenges within the region. Moreover, in Southeast Asia, transactions, processes, business disruption and delivery risk topped the list at 3.5, pointing to a regional focus on operational resilience and continuity planning. Climate change risk also emerged at 3.3 in the region, pointing to growing environmental considerations. In Sub-Saharan Africa, although cybersecurity leads, reputational and Shariah non-compliance risk were not listed among the top four this year, suggesting a shift in focus toward more immediate technological and liquidity concerns.

Overall, the 2025 data reflects a global Islamic banking sector that is aligned in prioritising core risks, but also responsive to local dynamics. The continued dominance of technology and cybersecurity risks across all regions confirms that while digital transformation presents opportunities, it also brings persistent vulnerabilities that banks must manage with increasing sophistication. At the same time, credit and liquidity concerns remain deeply rooted in economic realities, requiring constant vigilance as market conditions evolve.

Cybersecurity, credit, and liquidity risks dominate Islamic banks' regional landscapes, reflecting shared global challenges and local market realities.

Figure 11. Major Risks of Islamic Banks Across Regions[2]



2. For every group, the top three risks are identified, including all risks with the same score, even if that means that more than three are listed in total.

A Comparison of Small[3] and Large[4] Banks

The 2025 survey results reveal both consistent patterns and important contrasts in the way small and large Islamic banks perceive risk. While both groups continue to align on the overall hierarchy of risk priorities, the intensity of concern varies, reflecting underlying structural and operational differences (see Figure 12). Cybersecurity risk stands out as the highest-rated concern for both small and large banks, with scores of 3.7 and 3.9, respectively. This underscores a growing consensus that, regardless of size, banks are facing increasing exposure to digital threats amid continued digital transformation and growing reliance on online service platforms.

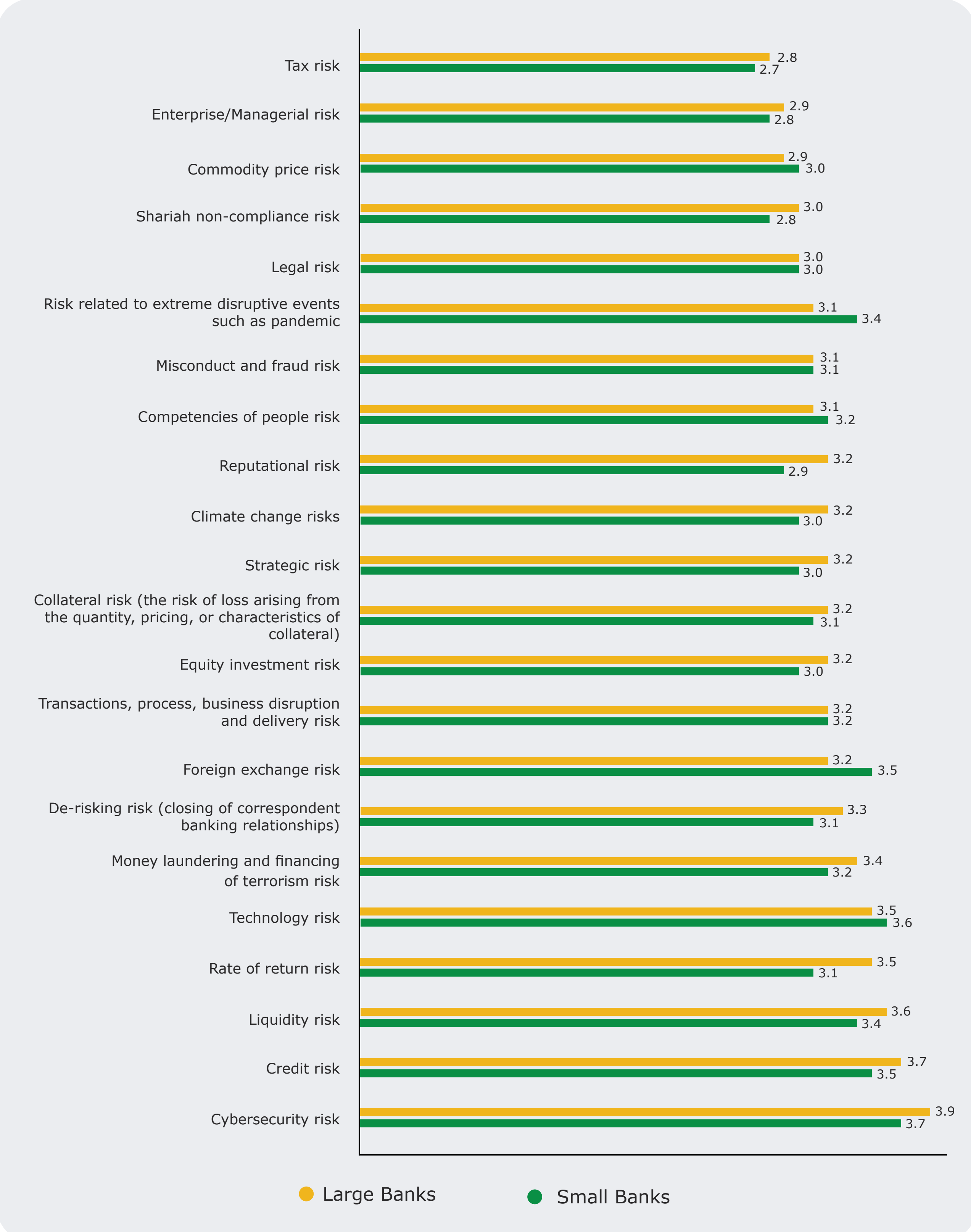
Credit risk also remains a shared top priority, with small banks assigning it a score of 3.5 and large banks even higher at 3.7. The elevated concerns reflect persistent economic uncertainties and the growing complexity of managing credit quality in dynamic market environments. Notably, liquidity risk and technology risk were also perceived as significant by both groups. Small banks scored these risks at 3.4 and 3.6, respectively, while large banks reported 3.6 and 3.5.

Where differences become more apparent is in the perception of foreign exchange risk and rate of return risk. Small banks rated foreign exchange risk at 3.5 compared to 3.2 for large banks, suggesting heightened sensitivity to currency volatility, particularly in markets with less stable macroeconomic conditions. In contrast, large banks viewed rate of return risk (3.5) more seriously than the small banks (3.1), likely due to their broader investment portfolios and exposure to diverse market-based funding instruments.

Overall, while small and large Islamic banks share a common understanding of core risks, the variation in scoring highlights size-specific pressures. Small banks often show heightened concern in areas tied to operational capacity and resilience, whereas large banks demonstrate greater sensitivity to market-linked and strategic risks, reflecting their broader scale and more diversified operations.

3. Small banks are those with total Islamic assets not exceeding USD 5 billion.
4. Large banks are those with total Islamic assets exceeding USD 5 billion.

Figure 12. Global Islamic Banking Risk Dashboard – Small and Large Banks



Conclusions and Recommendations Parts I and II

Conclusions

In a year in which the responses to the core parts of the survey have shown no radical changes from the previous year, though there have been modest shifts in sentiment on some important issues, it appears appropriate to take advantage of the longer perspective offered by comparisons over a longer period.

Over this period, the population responding to the survey has changed materially. There are multiple reasons for these changes, including political turmoil, mergers and acquisitions, growth in Islamic finance, and several others. The changes do not in themselves suggest conclusions, but they do serve as a warning against drawing simplistic inferences from the aggregate data. Some basic figures like, for example, the balance between retail and wholesale banking, change over time in ways which do not suggest real temporal shifts but changes in the sample accessed.

That said, it is perhaps surprising that over time, there is no sign of any increase in the proportion of larger banks in the survey. While this could be due to increasing numbers of smaller banks, as one might expect in jurisdictions new to Islamic finance, it suggests that the ambitions of a few years ago to develop regional, and even global, champions have somewhat stalled. However, the experience of multiple business sectors suggests that attempts by national or multilateral bodies to create national or regional champions are rarely successful (outside industries, like defence, where government is the primary customer). Our recommendation on this point is therefore deliberately couched in somewhat negative terms.

The survey covered the years of the COVID-19 pandemic and, unsurprisingly, this hit confidence both during the pandemic and for a couple of years afterwards, when economists were concerned about the effects of winding down the various economic measures introduced by governments during the pandemic. In fact, this appears to have been accomplished better than might have been feared, and it appears that banks' sentiments and concerns are returning to a "business as usual" pattern.

That does not, however, mean that there are no temporal shifts. The longer-term patterns of the survey appear to be dominated by the move to digitalisation. This is most clearly seen in the rising trends of concern about technology risks, including cybersecurity, for which later years show separate data. But, on the evidence of the special survey on talent development (GIBS 2023), it is also seen in rising concern about the availability of staff with the necessary skills for a digital age. On the other hand, the concerns once expressed about competition from new business models seem to have faded somewhat. The threat of major incursions into the banking area by the major technology firms has receded, partly in response to regulatory concerns, while some other new business models have faded or, at least, settled down into relatively small niches. At the same time, it has become clear that many Fintech companies have no interest in directly challenging the banks and are happy to find ways of collaborating with them or selling technology to them.

Nevertheless, the challenges of digitalisation remain, as analysed by CIBAFI elsewhere[5]. It is almost inevitable that new technologies will come into prominence, some to flourish and others to fade. The relatively small sizes of many Islamic banks mean that they will need to find strategies to monitor developments and to decide what kind of engagement they need to maintain with each of them.

Over the period, there appears to have been a slight reduction in the levels of concern about regulation, in the wide sense. It is difficult to be certain about the reasons, though it may reflect a gradual emergence from the period of relatively rapid regulatory change that followed the Global Financial Crisis. Concerns continue, however, around Shariah standards and Shariah governance. It is unclear how far these derive from new technology and business models posing new issues and how far from continuing disagreements about how different Islamic and conventional finance should be. It may also be that they reflect the continuing expansion of Islamic finance into new territories where the levels of Shariah resources are less developed.

One specific area of concern which appears to have grown is liquidity risk. It is unclear how far this stems from changing regulation, in particular the implementation by regulators of new liquidity standards, and how far from broader macroeconomic concerns. However, it is clear that Islamic banks do seek more help in managing their liquidity.

Having said all these things, the continuing growth of Islamic banking at rates higher than conventional banking, its expansion into new geographies and the generally high confidence levels shown in successive surveys all suggest that something is going right somewhere.

5. CIBAFI. (2025). The Digital Momentum: Impact on Islamic Banks and Guidelines for Adaptability.

Recommendations

For Islamic banks, the dominant current issue is digitalisation. Islamic banks need to develop strategies to monitor technical developments and determine how to engage with them. They also need to focus on talent acquisition, development and retention and to work together to encourage national authorities to enhance training and development provision.

The continuing concerns of Islamic banks around regulation, Shariah standards and governance, liquidity, etc, suggest that many of them see weaknesses in the supporting infrastructure for Islamic banking. The specific weaknesses will differ from jurisdiction to jurisdiction; they may be in the development of Islamic money markets, in prudential regulation, in the development of relevant Shariah scholarship, or in other areas.

What they have in common is that national authorities have sometimes been slow to recognise the need to consider the wider environment if Islamic banking is to flourish. Therefore, national authorities should work with Islamic banks to identify and remove local obstacles to their development and to create a supportive environment.

Islamic banks, for the most part, remain relatively small, and there are few that are important regionally or globally. While we do not recommend specific steps to counter this, for the reasons given above, if the natural dynamics of the industry would favour the emergence of such banks, national authorities should not obstruct this by deliberately restrictive licensing or change of control regulation.

PART III:

Artificial Intelligence (AI) and Data Analytics in Islamic Banking

Part III. Artificial Intelligence (AI) and Data Analytics in Islamic Banking

The special theme of the 2025 Survey was artificial intelligence (AI) and data analytics. These are distinct, though overlapping, concepts.

AI has been defined as "a technical and scientific field devoted to the engineered system that generates outputs such as content, forecasts, recommendations or decisions for a given set of human-defined objectives"[6]. AI technologies, such as machine learning and deep learning (based on neural networks), enable systems to analyse large volumes of data, recognize patterns, and make informed decisions autonomously.

Data analytics is the process of examining data sets to discover patterns, trends, and other useful insights. It involves collecting, cleaning, and analysing data using statistical and other techniques to extract meaningful information. Data analytics can be used for a wide range of purposes, including business intelligence, market research, and scientific research. (These and other technical definitions were quoted in the questionnaire, to ensure that respondents were working from a common understanding of the subject matter. The other definitions are repeated, in substance, in the footnotes.)

Data analytics does not necessarily imply the use of AI, or even of an IT system. A bank investment manager who looked up share prices in a newspaper, analysed them on paper and made investment decisions as a result would have been undertaking (fairly rudimentary) data analytics. However, the ability of modern IT systems to capture, store and process large amounts of data have transformed what is possible, and recent developments in AI offer the prospect of still further transformation, as a result of their ability to process not only structured data but semi-structured and even unstructured data, to extract patterns and to recommend or even take decisions as a result.

The concept of AI is also not new[7]. However, the field has made rapid progress in recent years, and captured the public imagination in the present decade with the development and release of large language models such as Generative Pre-trained Transformer 3 (GPT-3) which demonstrated an ability to analyse large amounts of natural language material and to respond to questions in a broadly human-like way. However, underlying these large language models were technical approaches which could be applied to other data analytical contexts, for example, making investment or marketing decisions.

6. Derived from ISO/IEC 22989. (2022). Information technology – Artificial intelligence – Artificial intelligence concepts and terminology. Available at: https://www.iso.org/standard/74296.html

7. See, for example, History of artificial intelligence - Wikipedia.

There is a great deal of literature available on both data analytics and AI in banking, and it would be neither possible nor appropriate to attempt a full account here. Recent papers from the Financial Stability Board and the Bank for International Settlements give helpful summaries of the practical uses of AI, and the issues that may be posed for regulators in particular[8]. There are also useful surveys on the extent of penetration within advanced banking systems[9]. Whereas the papers cited tend to focus largely on financial stability issues, some of the discussions on data analytics in particular touch on issues of consumer protection, for example, bias and discrimination, the quality of financial advice, and the protection of personal data[10].

There were earlier concerns about whether increased data dependency would lead to a more prominent role in financial markets for firms – for example, those in social media and online shopping – which have access to large amounts of personal data about individuals. Those concerns seem to have receded somewhat, as it has become clearer that these firms are reluctant to be subject to the levels of regulation associated with the provision of financial, and especially banking, services.

There is, however, very limited information on the uses of AI and data analytics in Islamic banking specifically, and this part of the Survey was therefore designed to provide possibly the first information in this area.

Survey Population

As with past GIBS, materially fewer Islamic banks answered this section of the questionnaire than answered the earlier sections. For most of the closed-ended questions, some 75-80 banks responded; this suggests a degree of self-selection, with a possible bias towards the technically more advanced banks. For some of the more detailed closed-ended questions, however, numbers dropped to 42-43 respondents. This further reduction in response rates may reflect the specialized nature of these topics within banking organizations.

8. The Financial Stability Implications of Artificial Intelligence and Regulating AI in the financial sector: recent developments and main challenges

9. See, for example, Special topic – Artificial intelligence | European Banking Authority and Artificial intelligence in UK financial services - 2024 | Bank of England.

10. One relevant discussion is Final Report on Big Data and Advanced Analytics.pdf from the European Banking Authority.

As usual, there were some open-ended questions. On this occasion, many of the responses were generic in nature rather than specific to the bank's own situation, and some responses were not directly aligned with the questions asked. Given the technical nature of this subject matter, it is understandable that some respondents may have provided more general industry perspectives rather than institution-specific insights.

The proportion of larger versus smaller banks among the respondents to this section was somewhat greater than for the survey as a whole. However, given the smaller numbers in general, we have been cautious about drawing quantitative conclusions. A broadly similar effect can be seen in the regional breakdown. In both cases, some brief qualitative comments appear towards the end of this analysis.

With these considerations in mind, we turn to the survey responses.

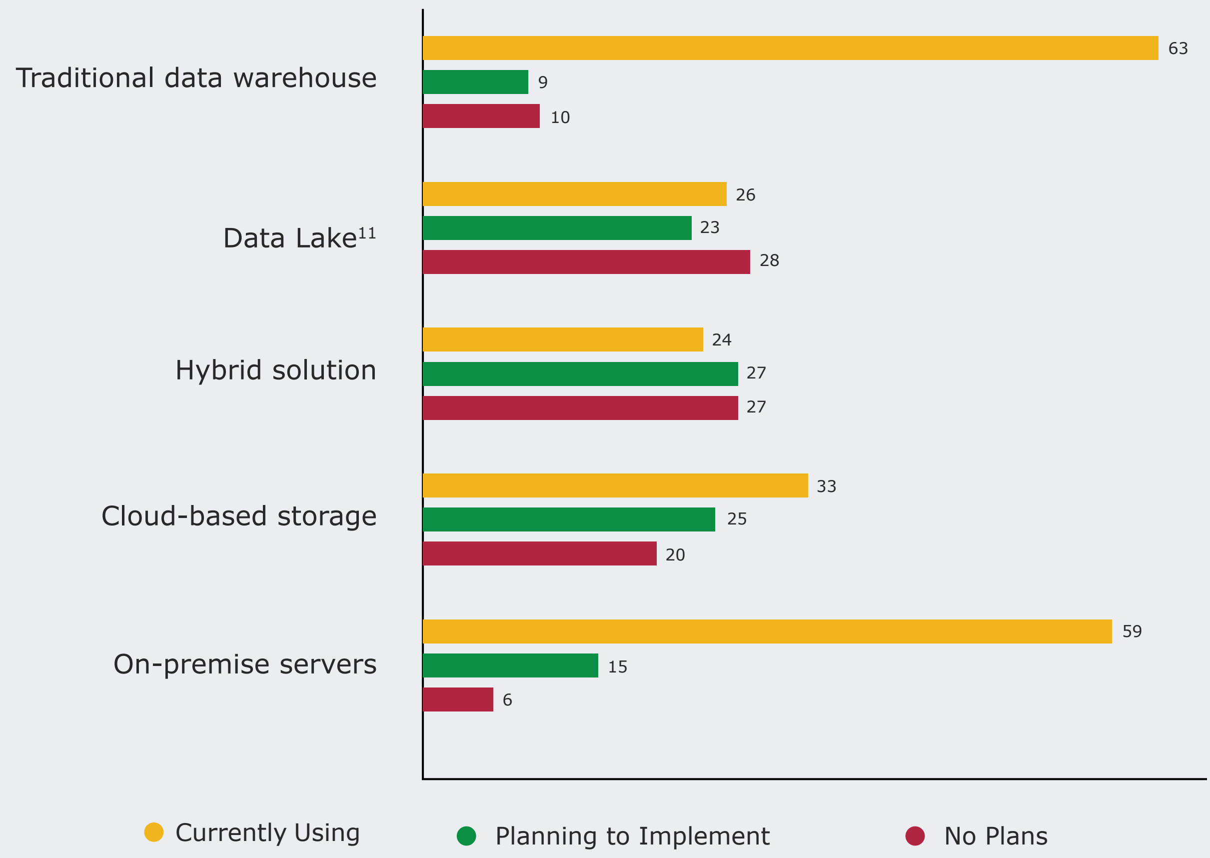
Section 1: Current State of Data Analytics and Infrastructure

In this section, we asked respondents a series of closed-ended questions to rate their views on various aspects related to the topic, from a scale of 1.0 (not at all) to 5.0 (to a very great extent). We also gave them the opportunity to share more details through open-ended questions. This section assesses the foundational elements of data infrastructure within Islamic banks, such as the types of data storage and processing systems in use (e.g., data warehouses, data lakes, cloud platforms). It seeks to understand both the current deployment and future plans for infrastructure enhancements, along with associated challenges and strategies for improvement.

Data Analytics

We asked first about data analytics and data infrastructure, asking about the current state of the bank's infrastructure. It is convenient to present the responses to this question in terms of absolute numbers responding (which varied from line to line).

Figure 13. The Current State of the Bank's Data Infrastructure



The relatively high figures for on-premise servers and traditional data warehouses are perhaps unsurprising, but rather more surprising are the relatively low numbers either using cloud-based or hybrid solutions or planning to implement them.

When we asked banks about their plans to leverage data infrastructure improvements, many of the responses were relatively generic, though some did convey more detailed thinking about strategy. For example, one bank said, "[Bank] has its own instance of a country data lake. The data lake pulls in data from various systems across the bank.

11. Defined as a centralised repository designed to store, process and secure large amounts of structured, semi-structured and unstructured data, able to store data in its native format and process any variety of it.

The goal is to perform all regulatory reporting via data from the data lake. Further, we are connecting our data lake to business analytics tools to utilise the data and create meaningful dashboards for business segments. We [Bank] are also aspiring to create a self-service layer data platform via which non-technical business users can create reports from raw data."

One theme that did recur in a number of responses was that banks feel themselves constrained by regulations, especially when it comes to using cloud-based or hybrid approaches. This point was made by banks from several different countries, making it difficult to identify the specific regulatory obstacles.

It was clear that many banks felt constrained by their current data infrastructures. These are a few of the comments they made on the challenges and limitations they faced:

"The challenges facing our institution regarding data infrastructure include:

- **Data Silos:** Data is stored in isolated systems, making it difficult to aggregate and analyze comprehensively and systematically. By establishing a centralised data warehouse, we will be able to unify data across different systems and provide a holistic view.

- **Data Quality Issues:** Variations in data formats lead to inaccurate results. To overcome this challenge, we have begun implementing tools to enhance data quality and establishing standards to ensure accuracy and consistency.

- **Lack of AI-Driven Analytical Tools:** The current infrastructure does not support advanced analytics powered by AI and machine learning. We [Bank] plan to integrate AI-driven analytical frameworks and Big Data systems to enhance predictive analytics and decision-making capabilities."

"There are noticeable challenges related to on-premises server storage, primarily increased maintenance costs and the need for continuous support from the bank's IT infrastructure teams. Additionally, setting up such storage requires a higher capital investment compared to other data storage solutions. Overcoming these challenges involves continuously exploring alternative data storage methods and assessing the feasibility of adopting them, such as cloud storage, which the bank is currently utilising."

"[The bank] faces challenges with data silos, scalability, data quality, and security, and plans to address them through data integration, cloud migration, enhanced data governance, and strengthened security measures."

Technical Challenges:

- Data distribution across multiple systems and formats creates complexity in system integration.
- Large data volumes slow down processing and analysis.

Security Challenges:

- Risk of data breaches or leaks during storage or processing.
- Strict regulatory requirements related to data governance, such as the General Data Protection Regulation (GDPR) and the Payment Card Industry Data Security Standard (PCI-DSS).

Data Quality Challenges:

- Inaccurate or duplicate data leads to unreliable analytics.
- Outdated data affects decision-making speed and efficiency.

Planned Solutions in the Near Future:

- Adopting standardised data formats for seamless integration.
- Enhancing IT infrastructure and server performance to improve speed and responsiveness.
- Implementing security measures such as data encryption, identity management, and access control.
- Deploying data management systems with tracking and auditing features.
- Applying data quality management solutions and automated data cleansing algorithms to detect and correct errors.
- Using real-time data collection and analytics technologies to enhance decision-making."

Similar comments could be quoted from other respondents. Some, however, found it difficult to make changes, commonly citing lack of financial resources and, even more commonly, lack of skilled human resources. In some countries, the state of the national infrastructure was also considered to be a constraint, extending in some cases to the physical infrastructure of the ports through which equipment would need to be imported.

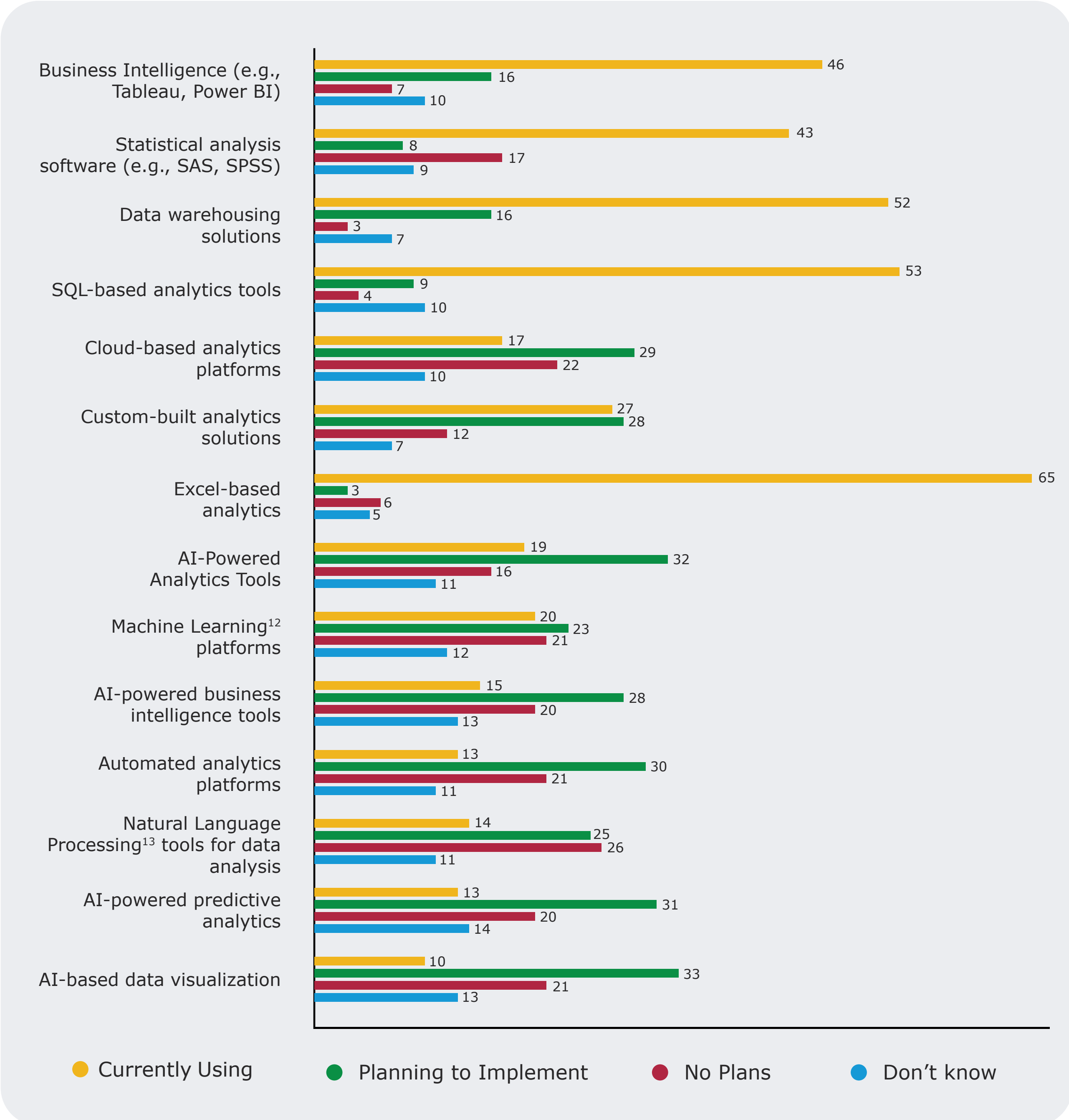
Section 2: Data Analytics Tools and Usage

This section explores the types of analytics tools currently employed or planned by banks, including business intelligence platforms, machine learning tools, and AI-powered analytics. It also evaluates the institution's proficiency in applying analytics for various functions like visualisation, modelling, and governance.

Current Usage of Data Analytics Tools

The next question asked about banks' current usage of data analytics tools. Again, the responses are presented as absolute numbers:

Figure 14. The Current State of the Bank's Usage of Data Analytics Tools



The figures are dominated by well-established tools such as Excel and SQL, with AI-based approaches trailing by a long way.

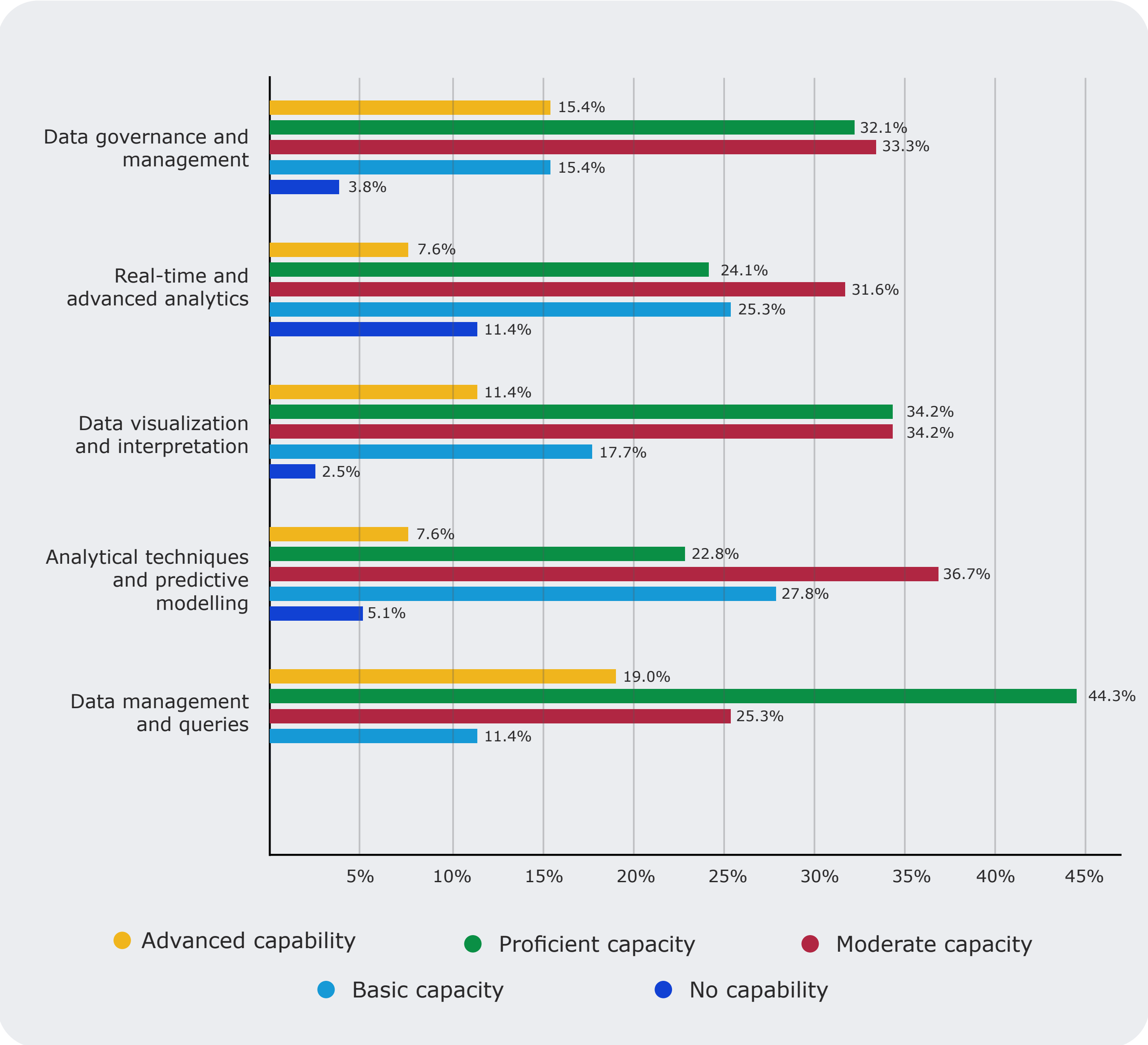
12. Machine Learning is a type of artificial intelligence that allows machines to learn from data without being explicitly programmed. It does this by optimizing model parameters (i.e. internal variables) through calculations, such that the model's behaviour reflects the data or experience.

13. Natural Language Processing focuses on the interaction between computers and human language. It involves the ability of a computer system to analyse, interpret and generate human language in a way that is both meaningful and useful.

Analytics Capability in Advanced Areas

Asked to rate their banks' analytics capability in a number of areas, banks were perhaps cautious of placing it at either end of the scale, but were notably more confident in their abilities in data governance, management and queries than in more advanced areas of analytics.

Figure 15. Bank's Analytics Capability in the Following Areas



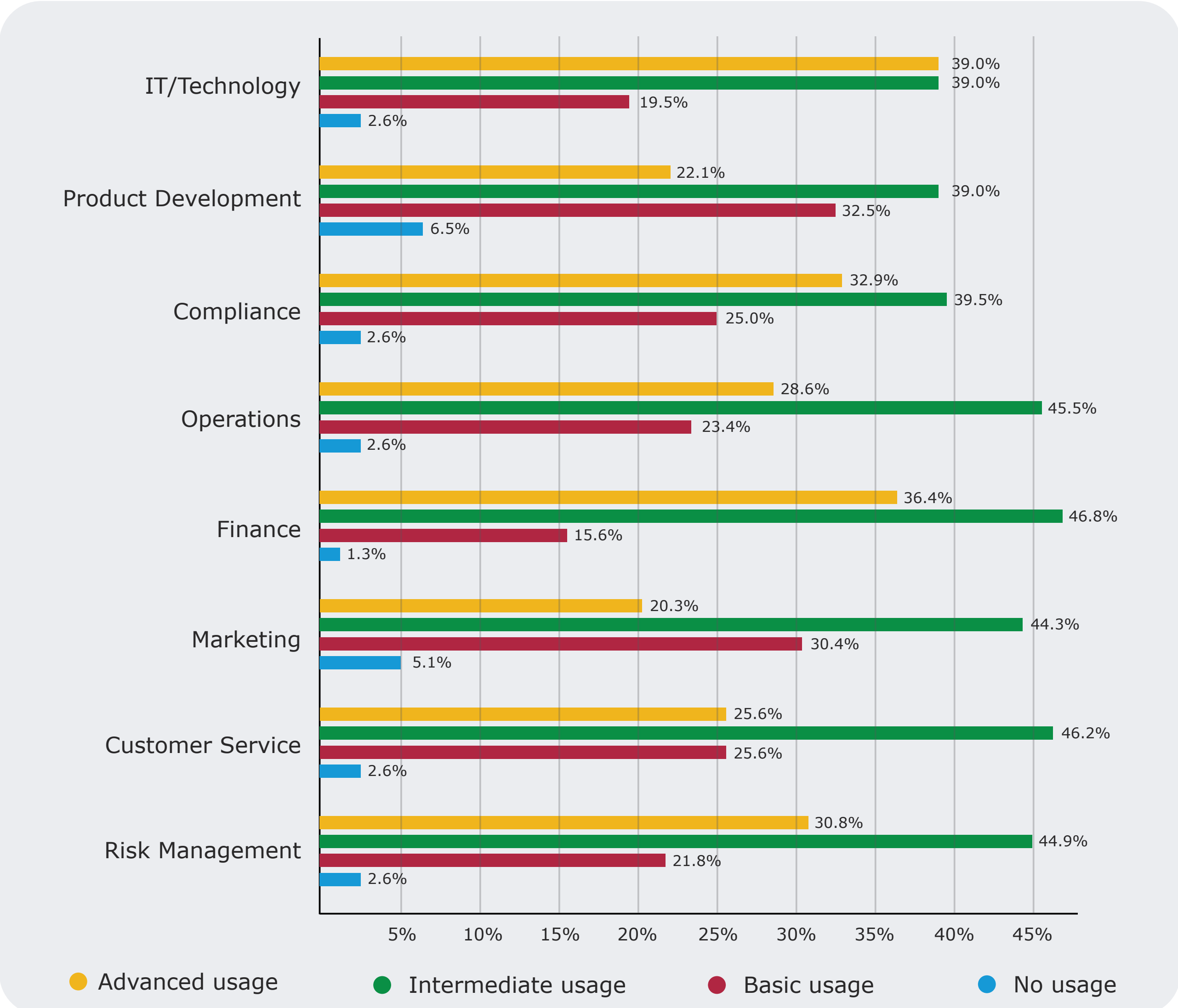
Section 3: Data Analytics Implementation and Impact

In this section, the survey delves into how data analytics is being integrated across different banking operations, such as marketing, compliance, and risk management. It also measures how frequently different data types are analysed and the overall impact analytics has on business outcomes like customer satisfaction, decision-making, and profitability.

Implementation and Usage of Data Analytics

The areas in which data analytics were most used were led by IT and finance. Product development and marketing were at the lower ends of usage. This is perhaps surprising, especially as regards marketing, since one of the most discussed possible impacts of big data has been the ability to target consumers selectively based on their known personal characteristics. It has been this possibility that has underlain much of the concern about moves into financial services by the big data companies.

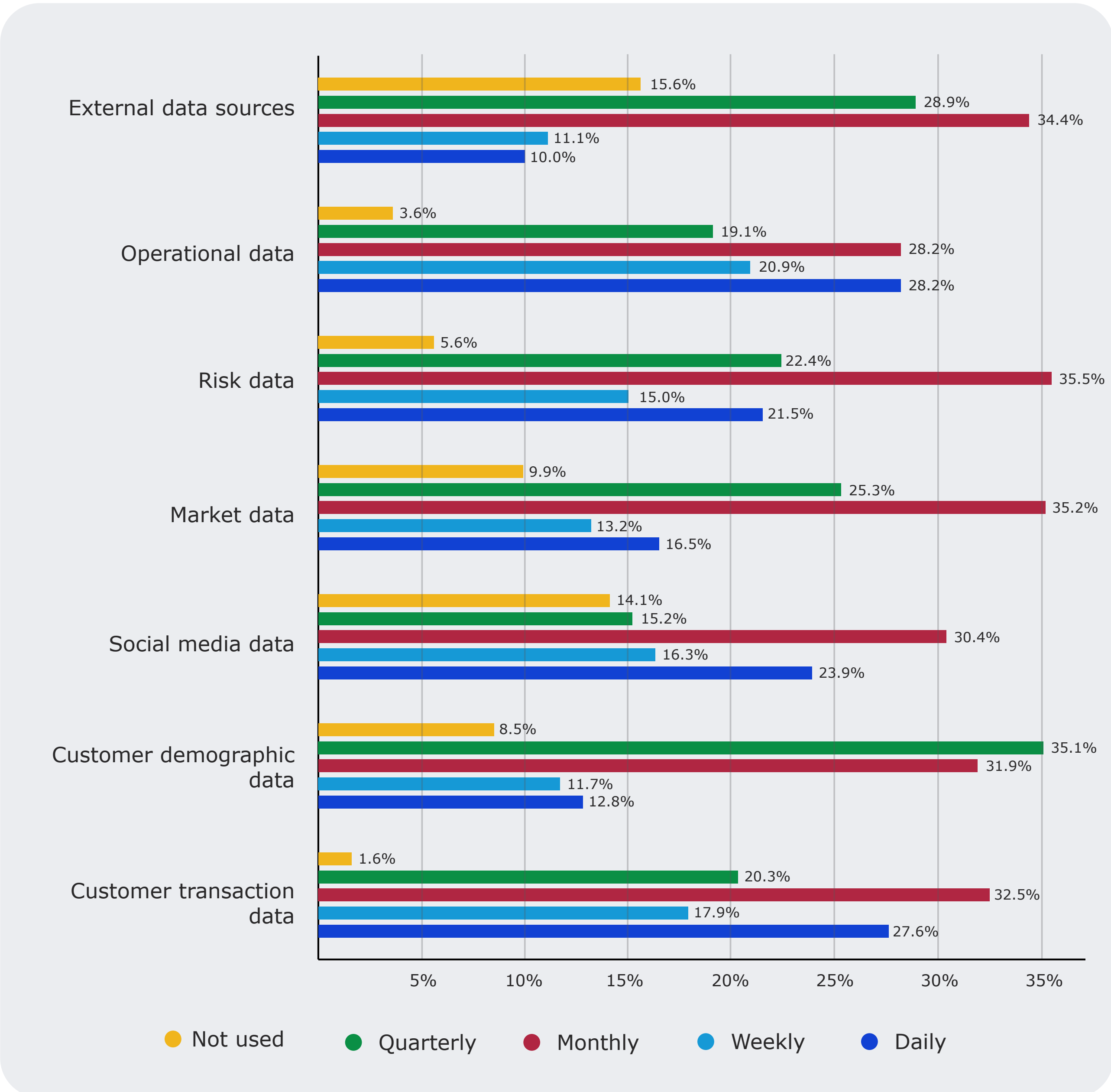
Figure 16. Bank's Implementation and Usage of Data Analytics in the Following Functions.



Frequency of Data Analysis

We also asked how frequently data of various kinds was analysed. The responses are difficult to interpret, because the question allowed multiple answers. However, the most common frequency of analysis was monthly. Only for operational data and customer transaction data did even a quarter of responses say that analysis was performed daily.

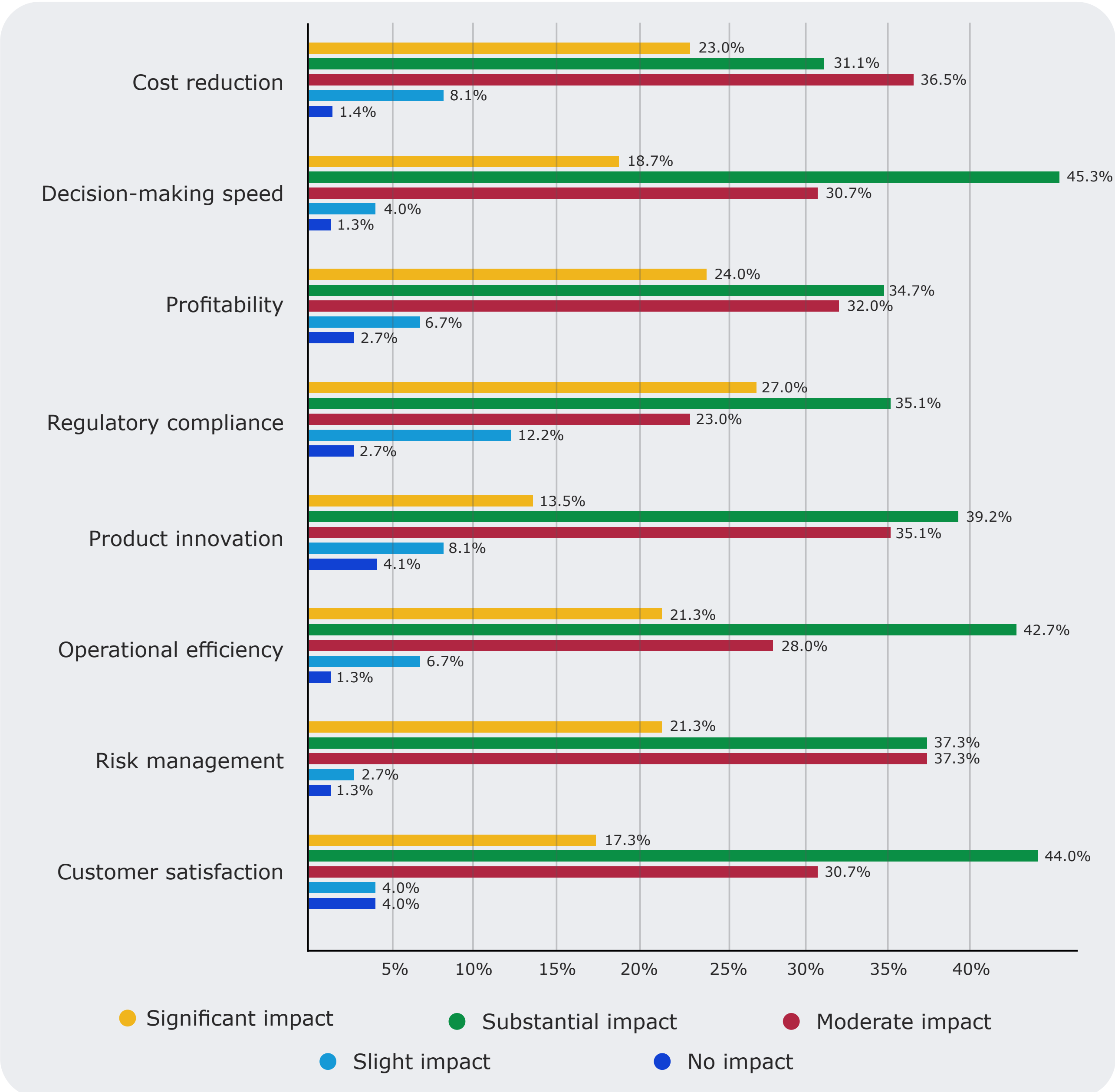
Figure 17. Frequency of Data Analysis Performed in the Banks



Business Objectives Impacted by the Implementation and Usage of Data Analytics

As to the business objectives impacted by data analysis, a number of areas scored relatively highly, including regulatory compliance, risk management, and the linked areas of cost reduction, efficiency and profitability. Product innovation was perhaps the least impacted.

Figure 18. Business Objectives Impacted by the Implementation and Usage of Data Analytics



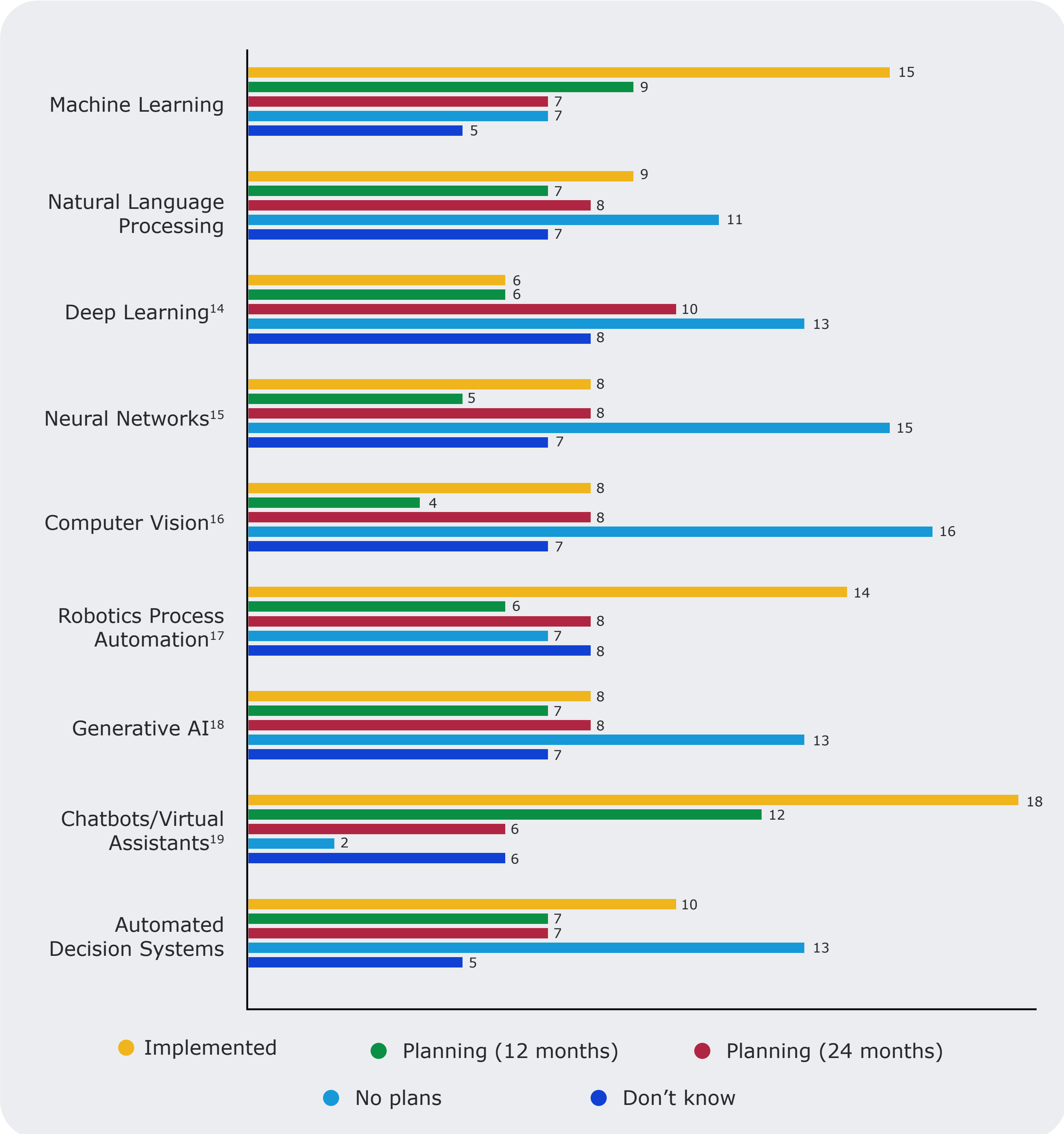
Section 4: AI Adoption Status

The following section investigates the extent to which AI technologies are being adopted in Islamic banks, from machine learning and chatbots to generative AI. It also identifies Shariah compliance considerations and implementation challenges such as costs, integration, and regulatory uncertainty.

Current Status of AI Technology Adoption

Similarly to the approach to data analytics, we asked about the current status of AI technology adoption. Again, the data are presented in absolute numbers. It is noteworthy that the number of responses to this question dropped sharply, but it increased again for subsequent questions. This suggests that some respondents were not sufficiently confident about the details of the technology to answer this particular question.

Figure 19. The Current Status of AI Technology Adoption in the Banks



14. Deep learning is a subset of machine learning and artificial intelligence: a technique of training computers to mimic the way neurons in the human brain process and learn information – it is quite literally an artificial neural network.
15. Neural networks are a type of machine-learning algorithm inspired by the structure and functioning of the biological brain. They are composed of interconnected nodes, known as neurons. In AI, neurons are pieces of software which work together to process and analyse complex data.
16. Computer Vision is a field of AI that uses machine learning and neural networks to teach computers and systems to derive meaningful information from digital images, videos and other visual inputs - and to make recommendations or take actions when they see defects or issues.
17. Robotics Process Automation, also known as software robotics, uses intelligent automation technologies to perform repetitive office tasks of human workers, such as extracting data, filling in forms, moving files and more.
18. Generative AI refers to a category of AI algorithms that generate new outputs based on the data they have been trained on. It uses a type of deep learning called generative adversarial networks and has a wide range of applications, including creating images, text and audio.
19. A chatbot is a computer program that simulates a human conversation with an end user.

We asked banks to tell us what Shariah considerations they had encountered when using AI. Relatively few banks had any comments to offer in this area and some of those we did receive appeared to have been generated with the help of some AI system. However, one bank pointed out explicitly that they used AI only in areas where Shariah issues were unlikely to arise, specifically AML/CFT and fraud detection. A few others had encountered, or were thinking about, specific Shariah questions. One flagged the following issues:

- **Fairness and Transparency:** AI systems must be transparent in their decision-making processes, ensuring fair and just standards that align with Shariah principles, especially in areas such as credit evaluation and risk management.

- **Avoiding Gharar (Uncertainty) and Ambiguity:** Algorithm design should eliminate uncertainty by ensuring that data used is accurate and complete, preventing decisions based on incomplete or misleading information.

- **Protecting Customer Privacy:** AI applications should respect customer privacy and ensure data protection in line with Shariah principles, restricting data usage to permissible limits and implementing necessary safeguards.

- **Avoiding Support for Prohibited Activities:** AI-driven systems should ensure that no financing or support is directed toward prohibited sectors, such as alcohol trade, gambling, or non-halal industries.

Another said,

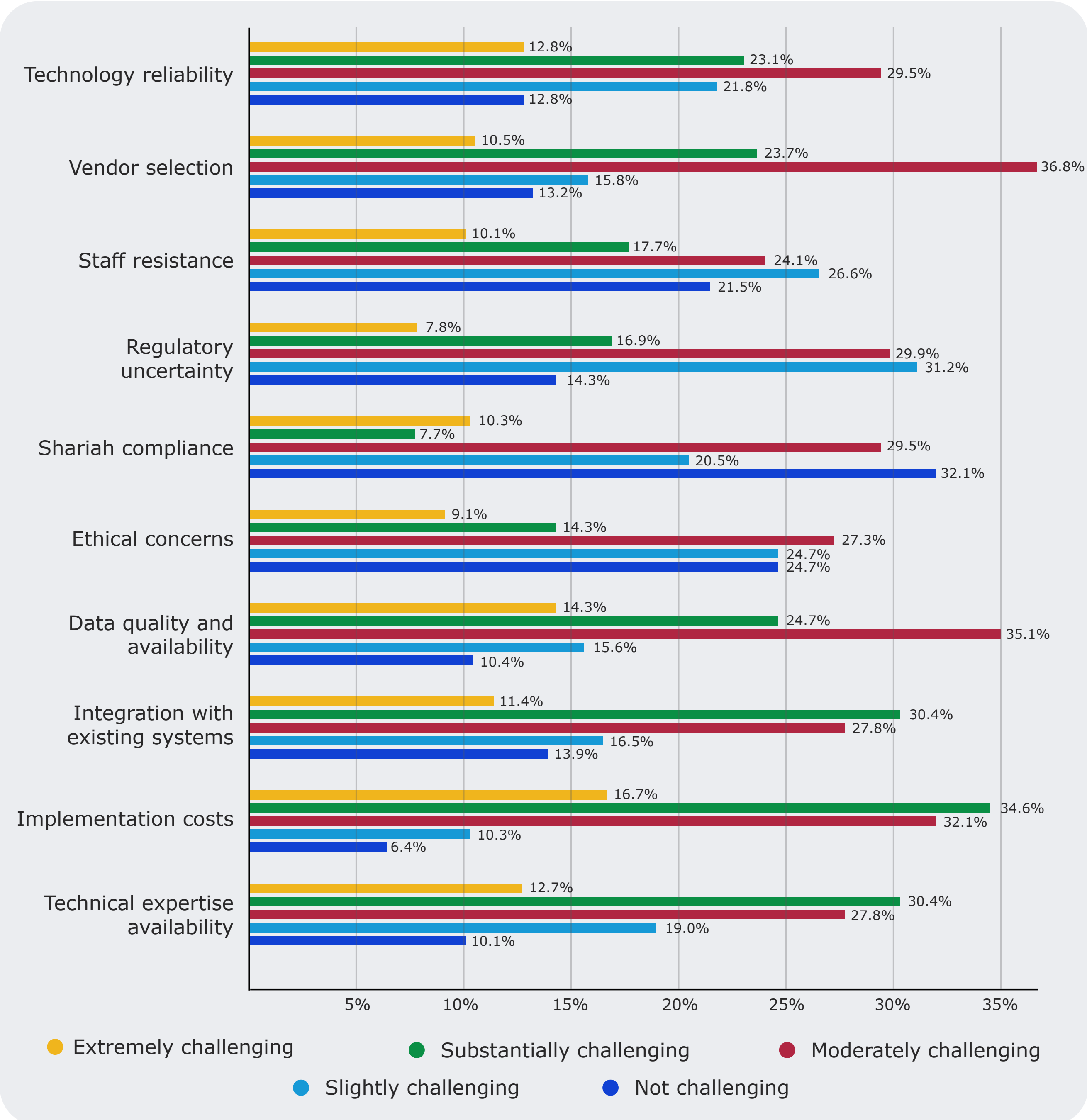
"Key considerations include the ethical collection, storage, and processing of data, avoiding biases that conflict with Islamic values, and ensuring AI applications serve purposes aligned with Maqasid al-Shariah, such as promoting fairness, transparency, and societal welfare. These are addressed through robust governance frameworks and regular Shariah reviews of AI tools and applications."

Some others made broadly similar responses. One interesting response, from part of a banking group having both Islamic and conventional operations was this: "Given we are a global bank using global applications shared across different markets, creating an Islamic banking specific cut needs a client level parameter to be used to distinguish IB Vs non-IB clients, which is a very granular parameter that can cause efficiency challenges."

Challenges in Implementing AI within Banking Operations

We asked about the challenges banks had faced in implementing AI within their operations. The results are shown below:

Figure 20. Challenges in Implementing AI in Banking Operations



Shariah compliance and ethical concerns generally scored relatively low, as did regulatory uncertainty and staff resistance. The biggest issues were those around the technology itself and the resources needed for implementation.

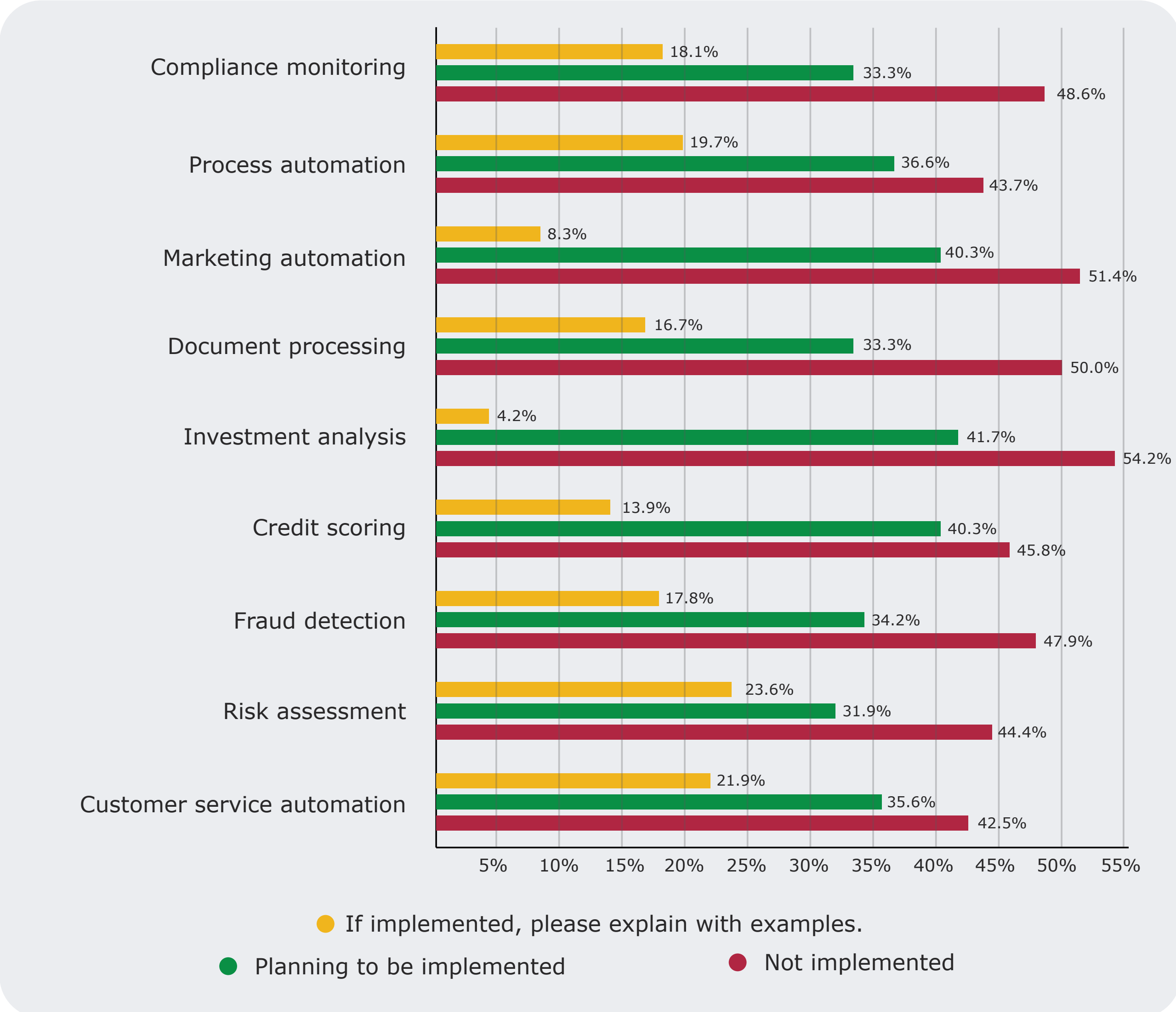
Section 5: AI Use Cases and Strategy

This section focuses on practical applications of AI within banking operations, including customer service, credit scoring, and compliance monitoring. It also evaluates how strategically important AI is across various domains like customer experience, operational efficiency, and market competitiveness.

AI Use Cases

We then asked about the actual implementation of AI in particular use cases within the bank. The main areas of actual implementation were risk assessment and process implementation, with investment analysis and process implementation near the bottom of the list.

Figure 21. The Implementation of AI in the Following Use Cases within Banks



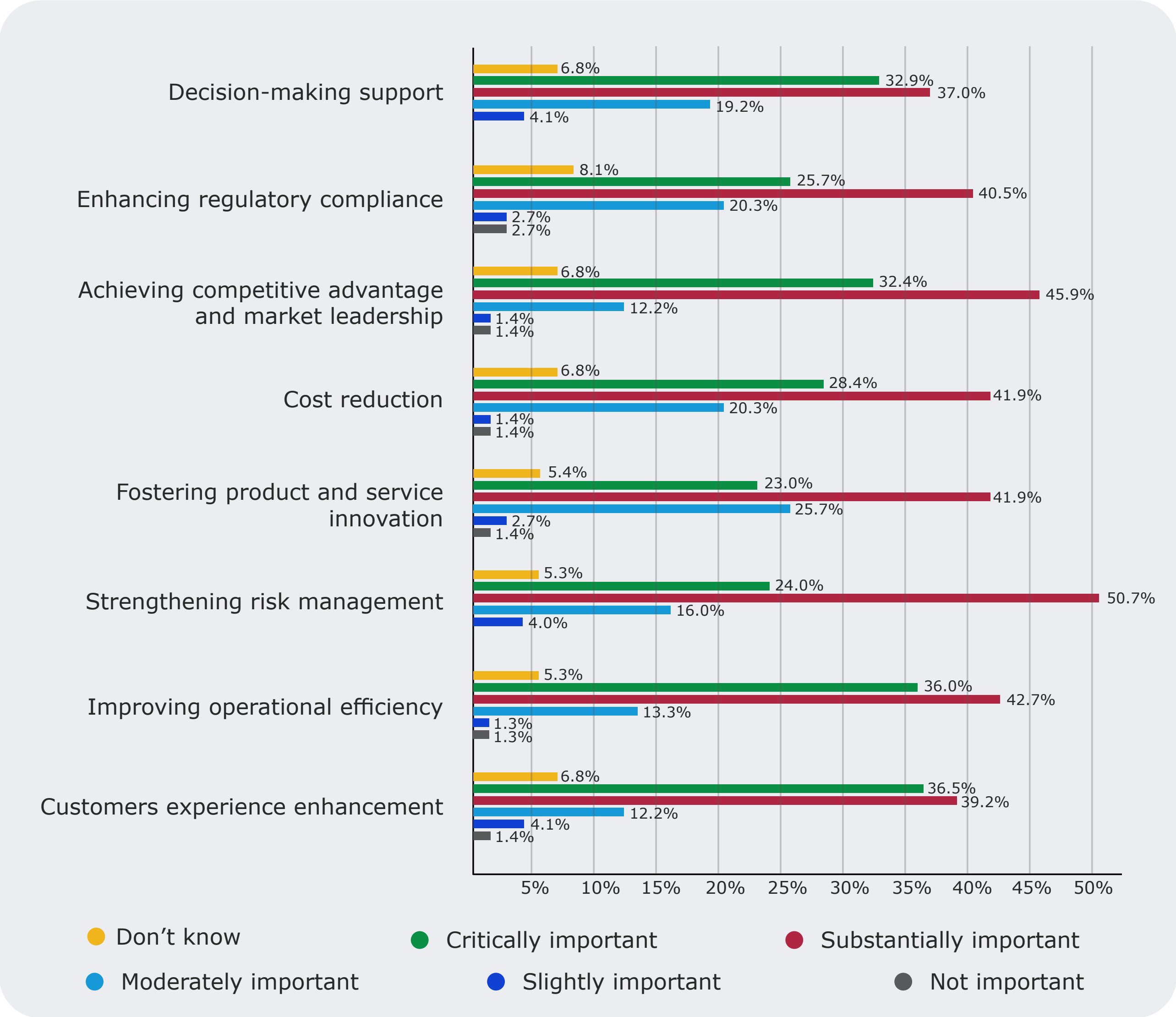
These figures for adoption seem to be well behind those in some areas of conventional banking. Although direct comparisons between the surveys are difficult, it appears that over 75% of banks in the EU are already using AI in some areas[20], almost 70% are using it for fraud detection, and some 66% are using it for customer support. The figures for the closely comparable use cases in the Figure above lag well behind the EU numbers.

20. Derived from European Banking Authority. (2024). Special Topic on Artificial Intelligence. Figures 74 and 73b. Available at: https://www.eba.europa.eu/publications-and-media/publications/special-topic-artificial-intelligence.

Strategic Importance of AI

It is also interesting to compare the information with the banks' ratings of the strategic importance of AI in different areas.

Figure 22. Strategic Importance of AI in the Following Areas of the Banks



Banks tended to rate AI as either "critically important" or "substantially important" across a wide range of areas, yet not necessarily to be planning for implementation in those areas. For example, 75% of respondents said that AI was either critically or substantially important to risk management, yet only 55% had either implemented AI for risk management or were planning to do so. This suggests a rather worrying disconnect between the banks' words and their actions.

Section 6: AI and Data Analytics Integration and Future Outlook

The final section evaluates the degree of integration between AI and data analytics, highlighting areas like predictive modelling and real-time analytics. It further addresses the benefits being realised, future investment priorities, critical success factors, and expected long-term transformations in Islamic banking.

Integrating AI with Data Analytics

Asked whether their bank was actively integrating AI with data analytics, only 38% of respondents said that they were. A number of the follow-up questions were addressed only to those who claimed to be actively integrating, and these attracted only 32 or 33 responses each. The data, therefore, need to be read against this background and, because of this, they are presented without comment.

Figure 23. The Current Level of AI Integration in Data Analytics in the Following Areas

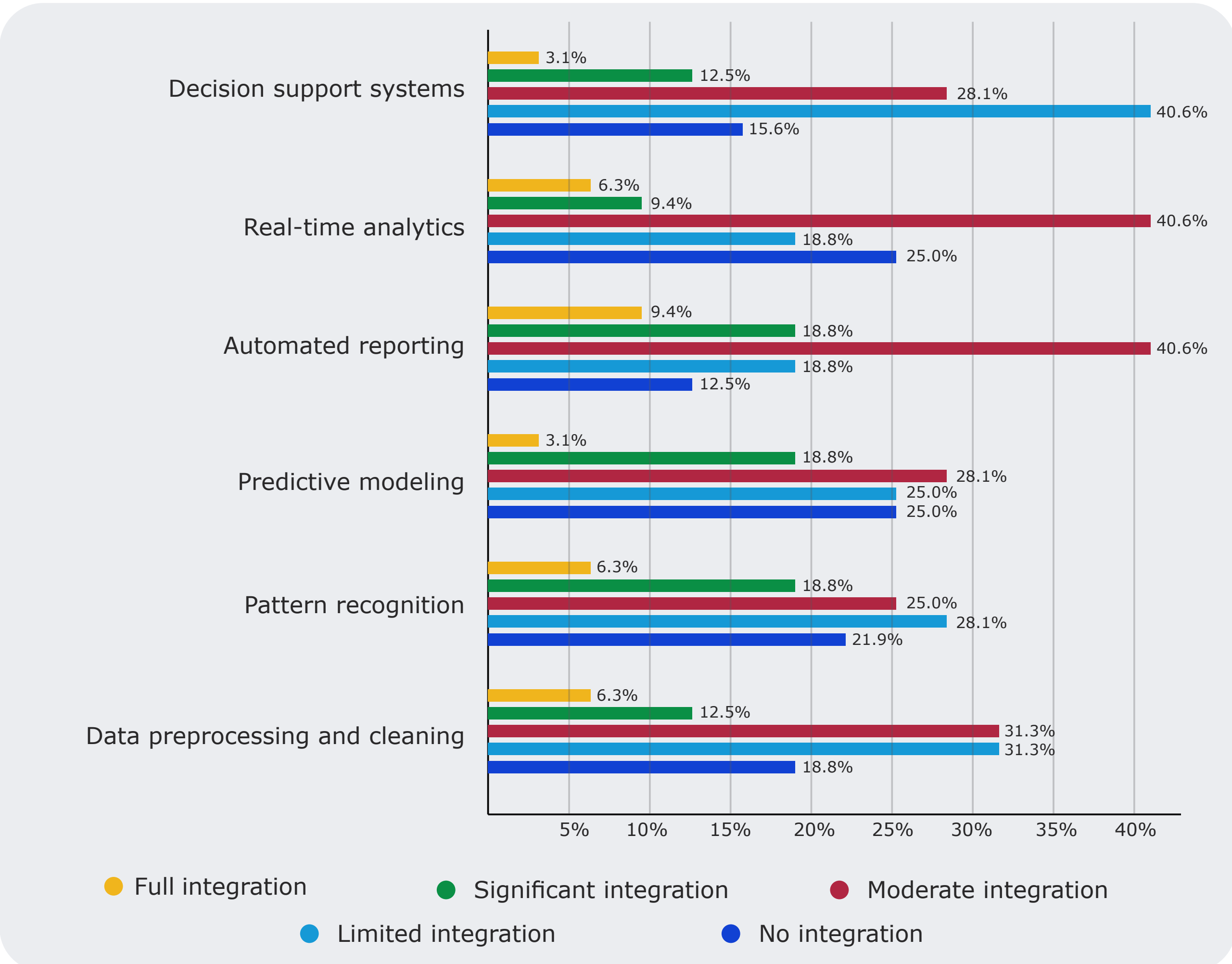


Figure 24. The Current Level of Benefit from AI Integration in the Following Areas

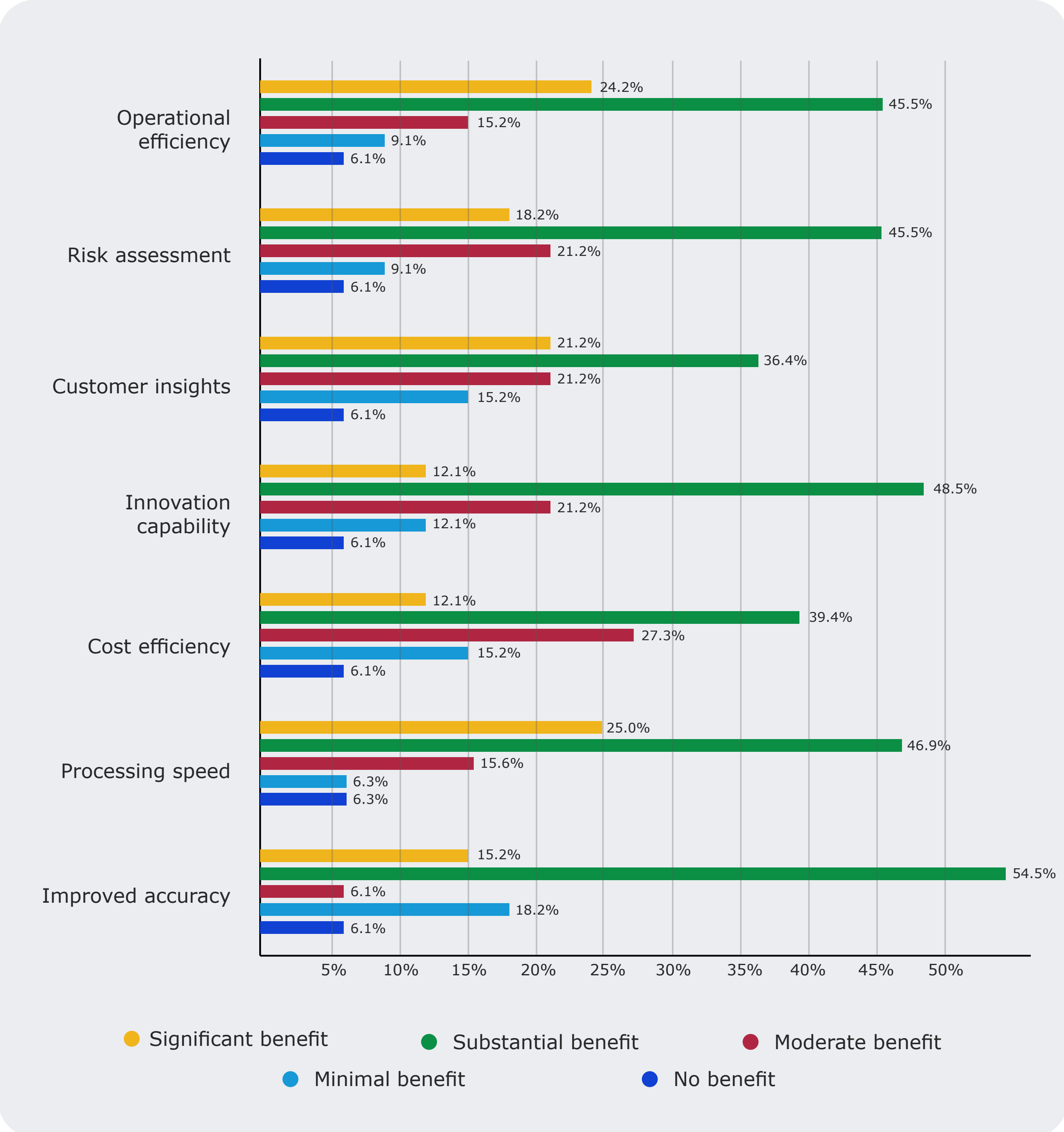


Figure 25. Banks' Strategic Investment Priorities for AI Integration in Data Analytics

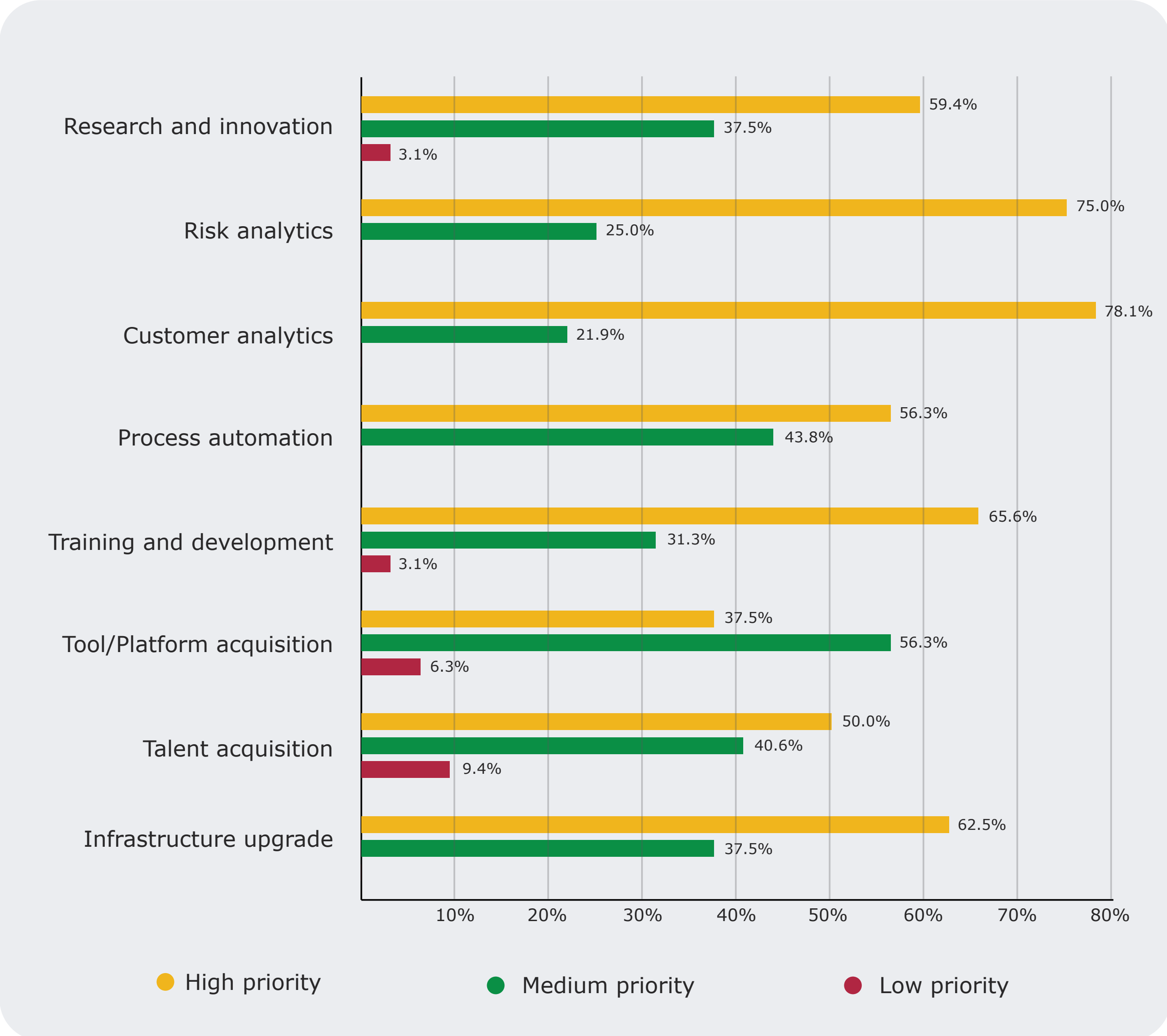
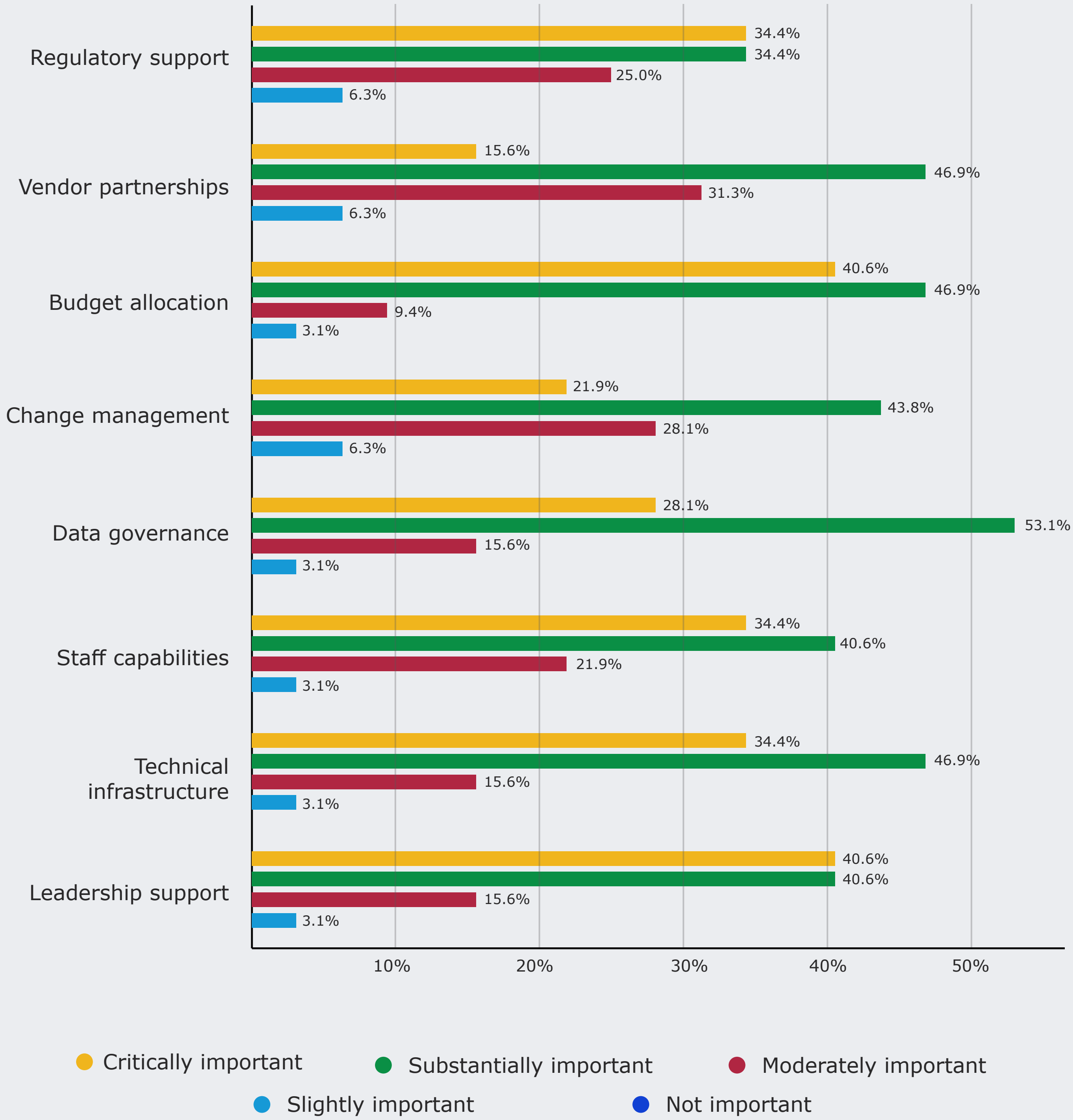


Figure 26. Success Factors for AI Integration in Data Analytics in Banks



Success Factors for AI Integration in Data Analytics

We asked banks to describe their most successful AI integration in data analytics to date and its impact. Some of the answers to this question were unspecific and appeared to be describing impacts in general rather than in the specific respondent bank. However, one bank gave the specific answer of ATM optimisation to decrease idle cash in ATMs, automate the operation process and enhance customer experience. Another pointed to its AI-driven transaction monitoring and fraud detection system, which it considers to have significantly enhanced the bank's ability to detect and prevent fraud, reduce operational risks, and ensure compliance with regulatory and Shariah standards. A third said that it had implemented a predictive analytics model using machine learning to identify potential credit risks, which resulted in a 25% reduction in non-performing facility and improved overall portfolio quality, while a fourth said that its AI-driven Data Management Solution has significantly transformed the bank's data handling and analytics processes leading to increased operational efficiency, risk mitigation and enhanced customer experience.

When asked about the challenges in integrating AI into data analysis, and how they have been addressed, one bank pointed to the problems of managing large volumes of data that require cleansing and structuring, ensuring secure storage of sensitive data and preventing breaches, particularly concerning customers' financial information, and overcoming integration challenges with legacy systems, concerns echoed by others, along with the difficulty of acquiring and managing suitable talent. One bank said, "Several challenges were encountered. However, strategic measures were taken to overcome these hurdles, ensuring successful implementation.

- **Data Quality and Integration:** Automated data cleansing and integration together with robust data governance practices have ensured data quality is maintained.
- **Skill Set and Expertise Gaps:** Dedicated data analytics team built together with vendor partnerships.
- **Technological Infrastructure:** Deployed high-performance data processing platforms and advanced storage solutions.
- **Change Management and Cultural Resistance:** Encouraged collaborative involvement from business units in testing and utilising predictive results. This has resulted in enhanced productivity, operational efficiency and decision-making."

We asked banks how they saw AI and data analytics transforming Islamic banking over the next 5 years, with examples of specific application areas or use cases. A couple of reasonably typical responses were as follows:

"AI and Data Analytics are expected to significantly influence the development of the Islamic financial industry over the next five years through:

Personalised Services: Enhancing customer experience by offering tailored financial solutions based on client data analysis and behavioural insights.

Risk Analysis: Utilising AI models to accurately assess risks, leading to improved investment portfolio management.

Transaction Security: Strengthening security systems by detecting suspicious activities early through Data Analytics techniques.

Smart Financing: Developing AI-driven credit assessment systems to evaluate borrowers' creditworthiness with greater accuracy.

Market Analytics: Leveraging Big Data Analytics to better understand market trends and identify investment opportunities."

"**Enhancing Shariah Compliance Processes:** Data Analytics systems that monitor transactions and generate real-time reports on non-compliant activities, facilitating adherence to Shariah requirements.

Personalising Financial Services: Offering personalised financial products, such as savings and investment accounts, based on customer data and transaction history, enhancing customer experience and loyalty.

Fraud Detection and Risk Analysis: Data analysis models that monitor unusual transaction patterns, enabling faster fraud detection and minimising financial losses.

Developing Financial Forecasting Models: Predictive models that help banks make more accurate investment decisions based on economic and social trend analysis, improving competitiveness.

Automating Internal Operations: Using Robotic Process Automation (RPA) to handle requests and ensure compliance, saving time and resources while increasing efficiency.

Big Data Analytics: Analysing market and competitor data to optimise marketing and investment strategies, enabling institutions to adapt to rapid changes.

Fostering Innovation and Developing New Products: Creating new financial applications, such as Islamic crowdfunding platforms or Shariah-compliant lending systems, opening new markets and attracting a broader customer base."

It is clear that respondents expect major impacts over large areas of Islamic banking and, as before, one of the most surprising points is the gap between what banks hope for from AI and data analytics and what they are already doing or planning to do.

We asked about the regulatory support that would be helpful to banks in developing their AI and data analytics capabilities. Some of the responses seemed to misunderstand the question – possibly an issue of language. However, there were some comprehensive and thoughtful responses, including these:"

The key areas of regulatory support:

- Establishing clear guidelines for the use of AI in financial services.
- Standardising regulations related to data privacy protection.
- Enhancing explainable AI in customer-facing applications to improve transparency and trust.
- Promoting secure data-sharing initiatives between institutions and sectors to support advanced analytics.
- Providing dedicated regulatory sandboxes to test and develop innovative AI-driven applications.

Key Application Areas for Regulatory Support:

- **Credit Risk Assessment:** Establishing clear guidelines for using AI in decision-making for credit evaluation.
- **Fraud Detection:** Supporting AI-powered fraud detection models that enable real-time monitoring and prevention.

- **Customer Experience Enhancement:** Encouraging the use of data-driven personalisation to improve financial services tailored to customer needs.
- **Operational Efficiency:** Promoting AI adoption to enhance service delivery and streamline banking operations."

"To achieve effective AI integration, regulatory support should focus on:

- **Legal and regulatory framework:** Issuing clear guidelines for AI use in Islamic finance, ensuring Shariah compliance and alignment with international anti-financial crime standards.
- **Improving technical infrastructure:** Supporting cloud computing and advanced analytics platforms to overcome infrastructure and connectivity limitations.
- **Data availability and management:** Developing policies that allow secure data sharing among financial institutions to improve the accuracy of predictive analytics.
- **Human capital development:** Providing specialised training and certifications in data analysis and AI for bank employees.
- **Cybersecurity and data protection:** Developing regulations to safeguard banking data and ensure the safe use of AI amid growing security concerns. These areas would collectively improve analysis accuracy, compliance, and operational efficiency in the future."

"Shariah-Compliant AI Guidelines: Clear regulatory frameworks for AI-driven compliance automation, ensuring consistency in Shariah interpretations.

Data Governance and Open Banking Regulations: Enabling secure data sharing for AI-driven personalisation while maintaining customer privacy.

AI Sandboxes and Innovation Hubs: Providing a controlled environment to test AI applications in credit scoring, risk management, and fraud detection.

Ethical AI and Bias Mitigation Standards: Ensuring fairness in AI-driven decision-making, particularly in credit approvals and investment recommendations.

Cybersecurity and AI Risk Management Regulations: Strengthening AI-driven fraud detection and cybersecurity measures in digital Islamic banking."

Some common themes which emerged across a number of responses included:

- Acceptance by regulators of AI and data analytics approaches in areas such as AML/CFT, risk management and compliance.
- Support for testing of new approaches, particularly through innovation hubs and/or regulatory sandboxes.
- Creation of appropriate infrastructure, both human (through training and development initiatives) and technical. The technical infrastructure needed varies from jurisdiction to jurisdiction. In some cases, it may include server parks and communications infrastructure; in many, cybersecurity standards and support appear to be priorities.
- Creation of a considered regulatory environment for data protection and data sharing. Since the use of personal data, often of a sensitive kind, is fundamental to training and using AI, and to large-scale data analytics, there is a need for a clear and considered data protection environment, and also for data sharing provisions, particularly in the creation of open banking environments.
- Ethical guidelines on the use of AI, for example, on the avoidance of bias.

We also asked what industry-wide initiatives would be most helpful for Islamic banks.

One particularly comprehensive response was as follows:

A. Shariah Compliance and Ethical Standards

1. Shariah-Compliant AI Frameworks

o **Application Areas:** Risk Management, Investment Screening, Product Development

o **Impact:** Developing AI frameworks that align with Shariah principles ensures that all AI-driven processes comply with Islamic law. This includes designing algorithms for Shariah-compliant investment screening, risk evaluation, and product development.

2. Ethical AI Guidelines

o **Application Areas:** Compliance, Customer Trust

o **Impact:** Establishing ethical AI principles helps ensure fairness, transparency, and the absence of bias in AI systems. These guidelines enhance customer trust and ensure alignment with Islamic ethical standards.

B. Innovation and Product Development

3. Collaborative Research and Development

- **Application Areas:** Innovation, Product Development, Compliance
- **Impact:** Collaboration between Islamic financial institutions, tech firms, and academia can lead to customised AI innovations that meet the unique needs of Islamic finance, including compliance and ethical use cases.

4. Regulatory Sandboxes

- **Application Areas:** Pilot Projects, New Product Testing
- **Impact:** Establishing sandboxes allows Islamic banks to test AI-driven products in a controlled regulatory environment, promoting innovation while managing risk and regulatory uncertainty.

C. Talent and Capacity Building

5. AI Training and Certification Programs

- **Application Areas:** Workforce Development, Talent Retention
- **Impact:** Offering specialised training and certification in AI equips employees with the skills necessary to build and manage AI solutions. This supports workforce development and enhances staff retention by opening career advancement opportunities.

D. Operational Efficiency and Customer Engagement

6. AI-Driven Customer Service Solutions

- **Application Areas:** Customer Relationship Management (CRM), 24/7 Support
- **Impact:** Deploying AI tools such as chatbots and virtual assistants enables Islamic banks to deliver personalised and continuous support, improving customer satisfaction and engagement.

7. Data Sharing Initiatives

- o **Application Areas:** Fraud Detection, Customer Insights
- o **Impact:** Encouraging data-sharing among Islamic financial institutions enhances fraud detection and enables better customer profiling. Aggregated data can reveal trends that individual institutions may not detect on their own.

E. Global Reach and Collaboration

8. Cross-Border Collaboration

- o **Application Areas:** Global Expansion, Market Penetration
- o **Impact:** Promoting collaboration across borders allows Islamic banks to access new markets and share AI solutions and best practices. This facilitates smoother and more scalable international operations.

More generally, there was some overlap between this question and the previous one. This is unsurprising, since development of certain types of guidelines could sometimes be done by regulators or, at least in the first instance, by industry bodies; training initiatives could be taken by either type of body, and so on. A number of other responses focused on the technologies or applications that banks would like to see developed.

One recurring theme was that some banks at least believe that Shariah guidelines on the use of AI are needed, though in general, they did not identify the specific issues where they believed there was uncertainty. Although in responses to earlier questions, banks had identified the Shariah requirements with which AI systems needed to comply – for example, the avoidance of forbidden activities - and the importance of ensuring that they did, for the most part, the difficulties appeared to be technical.

That is, they involved implementing known requirements within a difficult, and possibly not transparent, technical environment. It was unclear from the responses where, if at all, there were questions about what Shariah requires in some particular respect, and therefore what Shariah guidelines might be needed; this appears to be an area for further research.

Bank Size and Regional Differences

Although numbers are relatively low, a comparison between smaller and larger banks across the whole span of the questionnaire reveals smaller differences between the two populations than might have been expected in the area of data analytics, but the differences become greater as one moves into the more advanced applications of AI, with the larger banks having higher implementation rates. There are, however, some interesting differences when it comes to perceived difficulties in implementing AI, with larger banks more likely than smaller ones to see substantial difficulty with respect to technical expertise availability, implementation costs and integration with exiting systems, while smaller ones were more likely than larger ones to see difficulty with ethical and Shariah issues.

Regional comparisons are difficult because of low response numbers to this part of the questionnaire from three of the seven regions (Southeast Asia, Sub-Saharan Africa, and Europe, Türkiye, US and others). For the remaining regions, it can be said that reported patterns of AI adoption in the banks were generally higher in North Africa and in the Middle East ex-GCC than in the other regions, but North Africa also reported higher levels of concern for most of the implementation factors, and especially for Shariah compliance and ethical concerns. Reasons for these differences are not obvious.

Conclusions and Recommendations

Conclusions and Recommendations Part III

Conclusions

AI and the enhanced data analytics that it makes possible are transforming some aspects of banking. The technologies having the most impact to date are not the generative AIs, which have attracted so much publicity recently, although chatbots in particular are being widely deployed in the more basic customer-facing roles. The bigger impacts so far are broadly in back-office functions, particularly around KYC activities and the related ones of AML, CFT and fraud detection – all falling within the area of classification of customers and transactions. Other aspects of risk management are also making significant use of AI and big data, but some of the visions of AI are being able to tap into vast amounts of unstructured data on world events and use it to make investment decisions appear some way from fulfilment.

Taking into account the response patterns observed, this survey indicates that Islamic banks are at an earlier stage of AI and data analytics implementation compared to banks in Europe and other developed markets, and relative to their own stated assessment of these technologies' strategic importance. Several responses highlighted internal organizational factors that could accelerate adoption, including the need for enhanced funding allocation and stronger institutional commitment from senior leadership.

As to what can be done by organisations above the level of the individual bank – and leaving aside direct subsidies – there was widespread support for innovation hubs and regulatory sandboxes, though how these might benefit established businesses was unclear. They might, however, serve as test environments for fintech start-ups with which established banks might ally in one way or another. There is also a clear role for the public authorities – possibly shared with industry bodies – in education and training. Beyond this, regulatory authorities need to have sufficient knowledge of the relevant technologies to be able to respond to Islamic banks' wishes to use them in areas such as KYC, AML, credit assessment, etc; there are at present strong suggestions that some regulatory authorities are unnecessarily conservative. Finally, it also appears that, in many jurisdictions at least, there is a need for better defined legal frameworks for data sharing, data protection, and the avoidance of bias, to give some degree of certitude for both developers and users of data analytics programs and AI.

As already noted, the roles of industry bodies may, in some places, overlap with those of the public authorities, notably in education and training, but possibly also in considering the ethics of data analytics and AI. Another possible role lies in considering what, if any, Shariah issues there may be around the use of AI in particular. The extent to which banks believed there might be such issues varied from place to place, and there were some hints that those most experienced in AI use saw the fewest problems. The first stage of any work on this might be to ask respondents to articulate more clearly the Shariah issues they foresaw, and the preliminary views on them of their own Shariah advisors; it might then be possible to define the issues requiring consideration by the Shariah community more generally.

Recommendations

Islamic banks should review the level of their investment in AI and advanced data analytics against their own convictions about its importance and the investments being made by other banks. They should also consider the options available for accessing these technologies, including in-house development, buying-in solutions, and collaboration with Fintechs.

Regulatory authorities should implement or continue innovation hubs and regulatory sandboxes, including coverage of these topics.

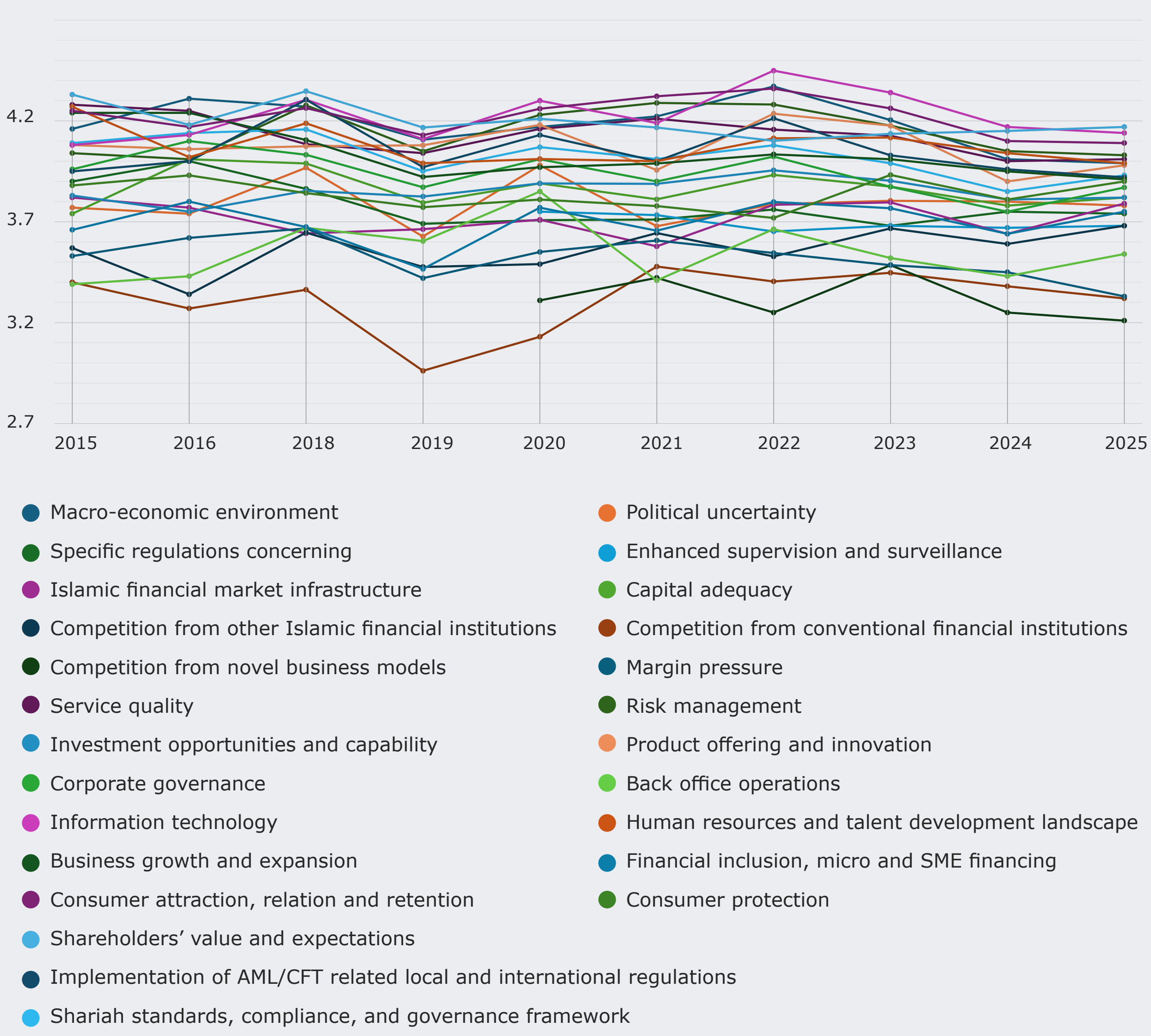
The appropriate public authorities in each jurisdiction should review the legal frameworks for data protection, data sharing and the avoidance of bias in automated systems, in the light of the current and potential uses within financial services and banking in particular.

Appropriate public authorities, together with industry bodies where appropriate, should review the levels of education and training in IT, both at university level and in professional development, in the light of the increasing requirements of the financial services industry.

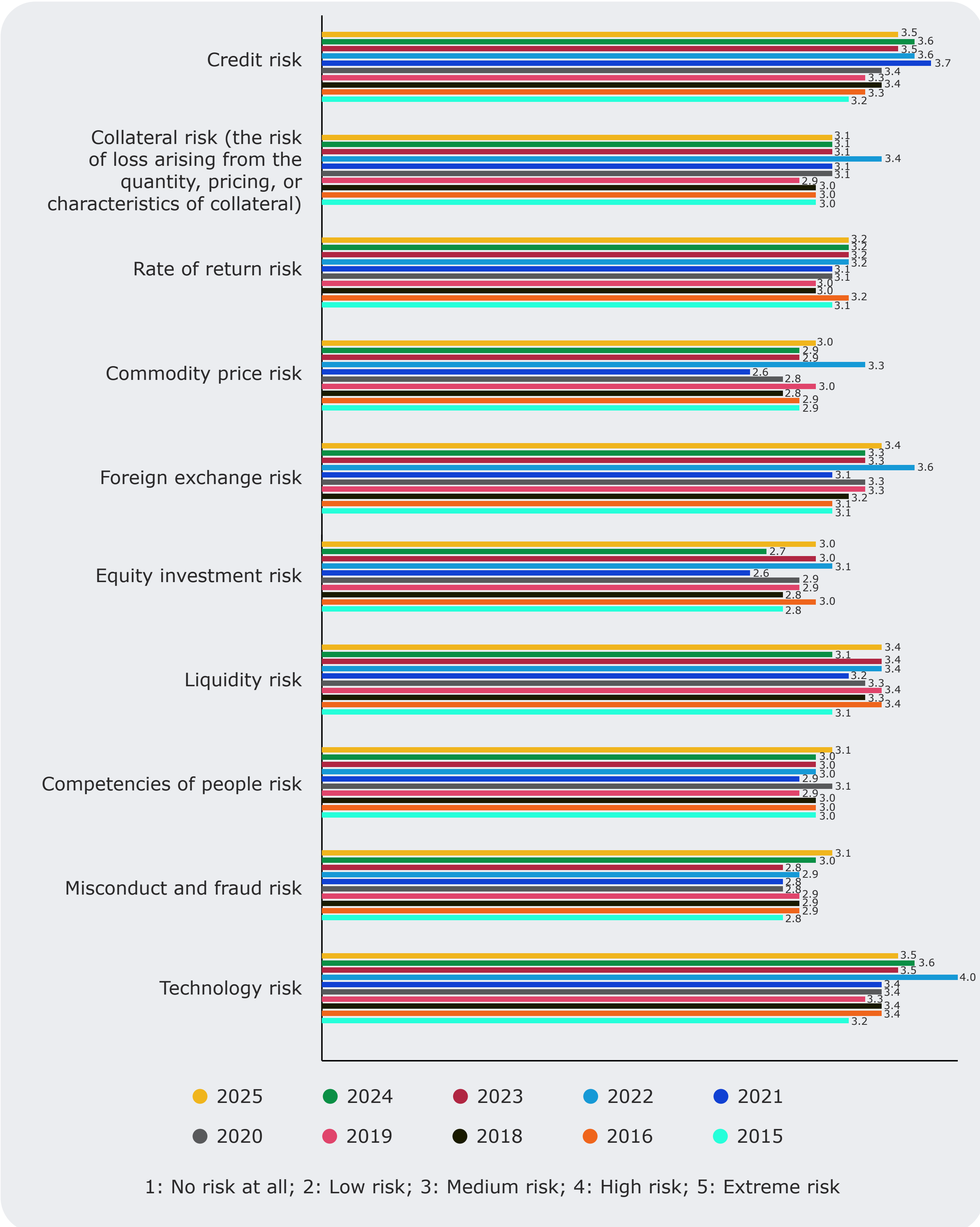
CIBAFI should, and will, investigate further the perceived Shariah issues in the use of AI to determine whether there is a definable project to be presented to the Shariah scholarship community.

Appendix

Appendix 1 Total Main Islamic Banking Concern 10 Years



Appendix 2 Islamic Banking Risk Dashboard 10 Years



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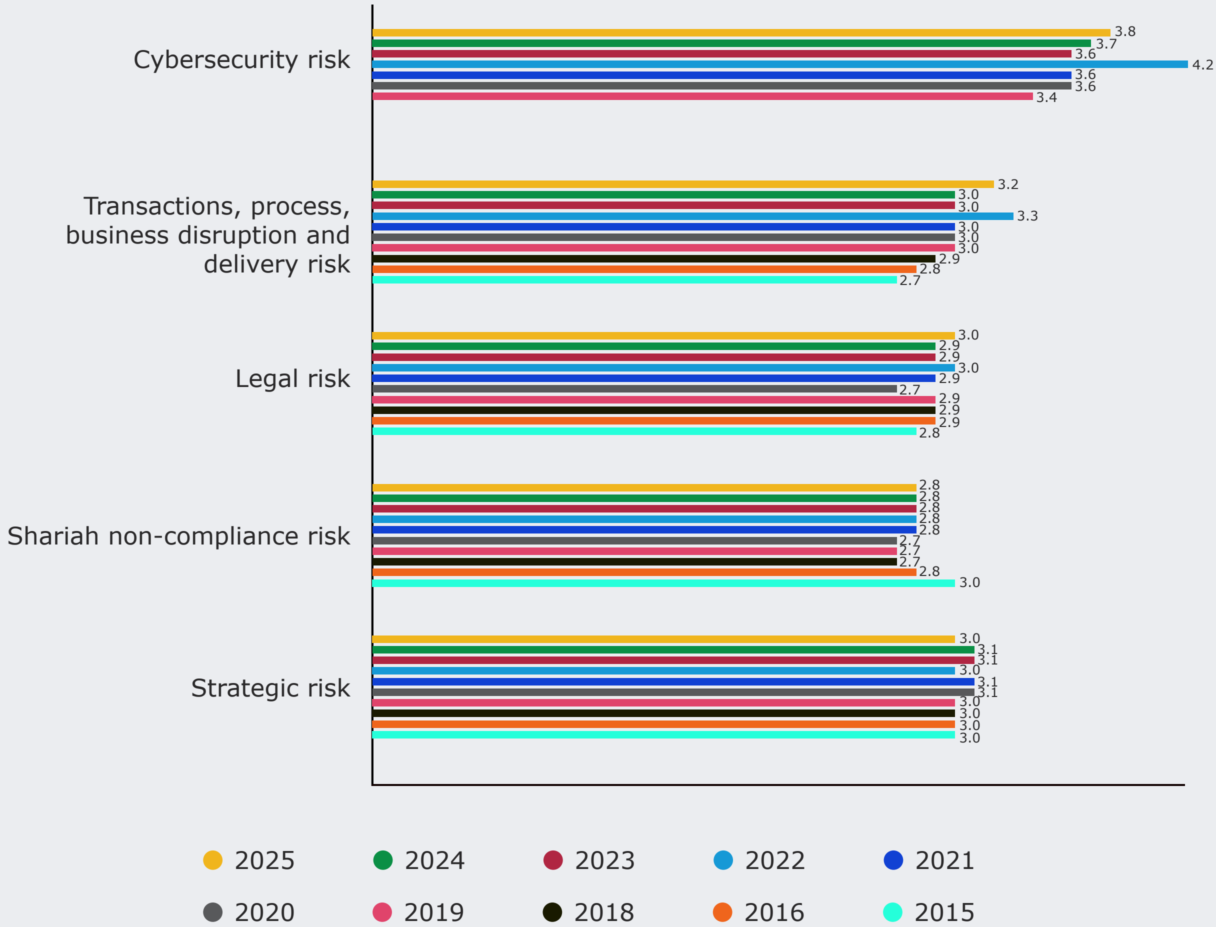

1: No risk at all; 2: Low risk; 3: Medium risk; 4: High risk; 5: Extreme risk

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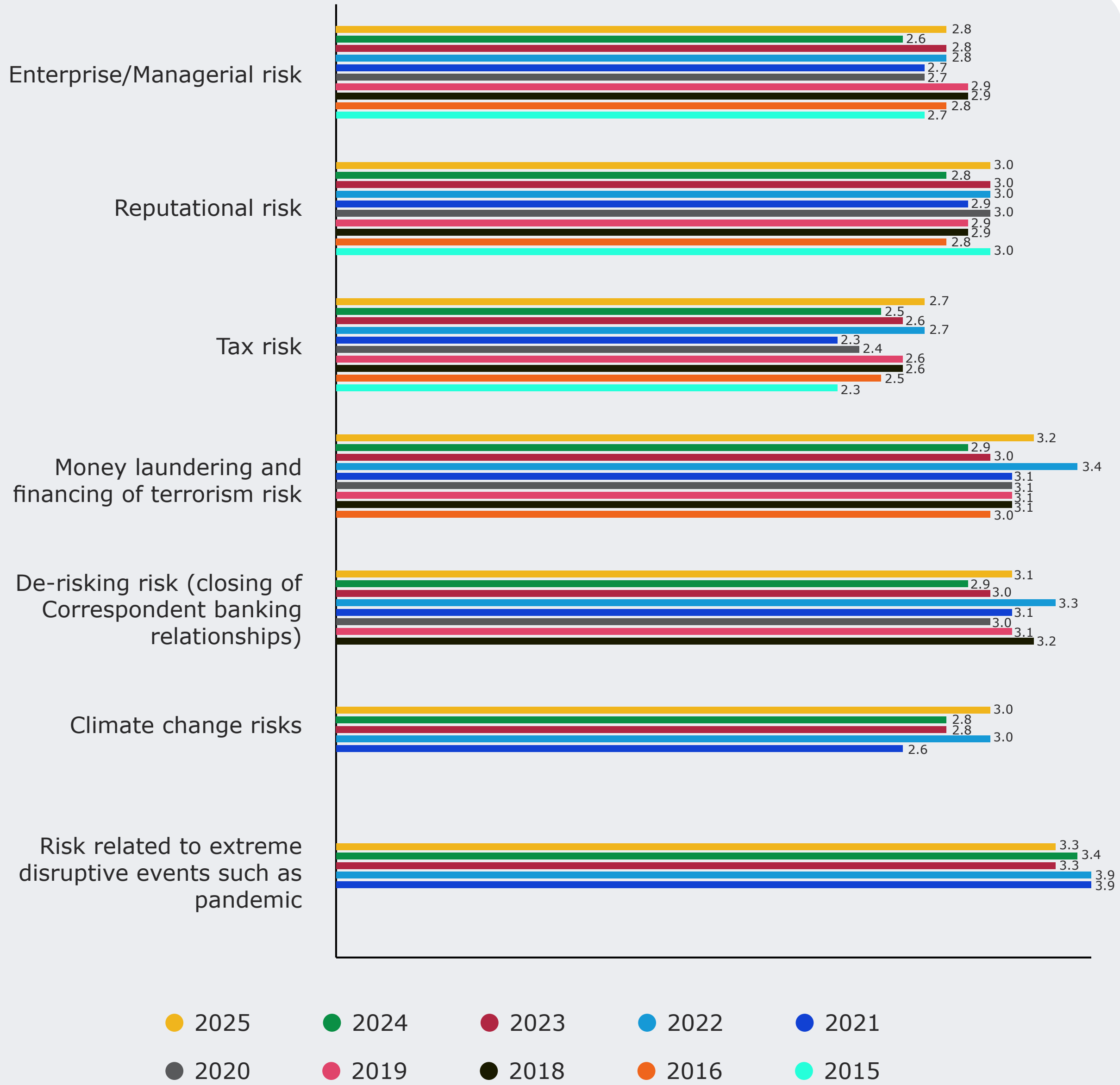

1: No risk at all; 2: Low risk; 3: Medium risk; 4: High risk; 5: Extreme risk