

When Shariah compliance meets AI: Innovation must know its limits

Islamic finance has never been short of innovation. From the development of modern Islamic banking structures to Sukuk markets, digital banking and Islamic fintech, the industry has repeatedly demonstrated that innovation and Shariah principles do not have to exist in opposition. MAHNOOR ZAFAR explores.



Mahnoor Zafar is founder and CEO of Daeson Technologies. She can be contacted at contact@daesontechnologies.online.

Yet the next wave of innovation presents a different challenge. AI is beginning to influence how financial institutions analyze information, manage risk, serve customers and build products. Inevitably, it will also influence how Shariah compliance is supported.

The important question is not whether AI will enter Shariah governance. It is how it should enter. The danger of making compliance is a technology problem. There is a temptation whenever a new technology appears to ask: What can we automate?

For Islamic finance, that may be the wrong starting point. Shariah compliance is not simply a document-checking exercise. It involves interpretation, context, jurisprudential reasoning and institutional responsibility. An AI system may identify a clause that deserves attention.

It may compare language across documents or help a team locate relevant material. But identifying something unusual is not the same as determining its Shariah status. That distinction must remain clear.

Technology can assist the process. It should not quietly become the authority. This is particularly important as AI systems become increasingly capable of producing convincing answers. Confidence in an output should never be confused with scholarly validity.

From one-time review to continuous governance

There is another issue that deserves greater attention. Modern financial products are not static. A structure can be approved, but its implementation may involve technology, operational procedures, customer journeys, payment processes



and subsequent modifications. A change in any of these areas can potentially introduce a new question.

This suggests that Shariah governance needs to be considered throughout the lifecycle of a product rather than only at its initial approval. Recent research is similarly moving towards lifecycle-based and embedded approaches to digital Shariah governance, rather than treating compliance purely as an end-stage review.

That shift could become particularly important as Islamic financial institutions adopt increasingly digital operating models.

The overlooked part: What happens after a flag?

Technology discussions often focus on detection. But detection is only the beginning. Suppose a potential Shariah concern is identified in a product document. What happens next?

- A scholar needs to assess it.
- The relevant team may need to make a correction.
- The revised material needs to be reviewed again.

- The institution needs to know what was changed and why.
- The appropriate governance record needs to remain available.

In other words, a useful system cannot stop at: "We found something." It needs to support the broader governance process around that finding. This is where technology can become genuinely useful not by replacing scholarly judgment, but by helping institutions manage the work surrounding it with greater structure and traceability.

A better division of responsibility

The industry should establish a very simple principle for AI in Shariah governance: Machines can assist. Scholars decide. Institutions remain accountable. That may sound obvious, but it has significant implications for product design.

AI can potentially help with information retrieval, document analysis, classification, comparison and identifying areas that deserve human attention. Scholars should retain responsibility for interpretation and determination.

Institutions should remain responsible for implementation, governance and oversight.

This human-in-the-loop approach is not a limitation of AI. It is a strength. Recent research on generative AI governance in Islamic financial institutions has likewise emphasized transparency, accountability and the importance of Shariah oversight alongside AI governance.

How Shariah knowledge is digitized

There is a deeper opportunity beyond AI itself. Islamic finance has accumulated an enormous body of knowledge through standards, resolutions, scholarly opinions, institutional practices and regulatory frameworks. Much of this knowledge is valuable but difficult to use computationally.

The opportunity is not to reduce Shariah scholarship to a database. It is to create better digital infrastructure around it. If structured responsibly, technology could help institutions navigate complex information more efficiently while preserving the context and authority behind that information.

This could eventually support a more connected relationship between scholars, product teams, compliance professionals and technology teams.

An example of where this could lead

The interest is not in building an 'AI scholar'. It is in exploring how technology can support the journey around Shariah review from identifying areas that require attention to helping teams organize corrections, subsequent review and governance records. It is deliberately approaching the problem from the governance side first. That distinction matters. A technology company entering Islamic finance should not begin by asking how much of the scholar's work it can automate. It should begin by asking: Where can technology reduce friction without reducing responsibility?

Innovation should make governance stronger

Islamic finance has a significant opportunity ahead. The global financial system is becoming more digital, more automated and increasingly dependent on AI. Islamic financial institutions cannot remain outside that transformation. But neither should they adopt technology simply because everyone else is doing so. The industry has an opportunity to demonstrate something more valuable: that technological progress can coexist with strong ethical and Shariah governance. That requires dialogue.

Scholars need to understand the capabilities and limitations of emerging technologies. Technology companies need to understand that Shariah governance cannot be treated as a software requirement to be checked off a list. Financial institutions need to bring both sides together. And regulators have an important role in encouraging responsible innovation without creating unnecessary barriers to it.

The real opportunity

Perhaps the most important question for Islamic fintech over the next decade will not be: "How much AI can we put into Islamic finance?" It will be: "How can we use AI while preserving the principles, accountability and human judgment that give Islamic finance its identity?"

That is a much harder question. It is also a much more important one. The future should not be Shariah versus technology. Nor should it be technology quietly taking over areas where human expertise remains essential. The opportunity lies between the two – technology that makes institutions more capable, scholars better-supported and governance more transparent without confusing automation with authority. That is where meaningful innovation in Islamic finance should begin. ☺





CLASSROOM SEMINARS AND ONLINE PROGRAMS

Leaders in financial, technical and
product training for the financial
services industry