

FINASTRA



Solution

Enabling Islamic Financial Services with the Right Technology

What does the right technology look like?



INNOVATING
FINANCE
TOGETHER

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Executive summary

Despite tracing its origins back more than half a century, the modern Islamic Financial Services Industry (IFSI) is still in its infancy.



In 2024 the industry was worth an estimated
USD \$3.88 trillion
and growing at 14.9% year on year

Relatively young, but certainly not small – in 2024 the industry was worth an estimated USD 3.88 trillion and growing at 14.9% year on year. Large and growing, but to put it in context, the global IFSI is approximately the same size as the revenue of the US banking sector alone. Clearly there is tremendous room for growth.

What is holding the industry back?

Many initiatives around standardization in accounting, compliance, regulation, processes, legal documentation, and information systems have taken place. Knowledge of the industry is evolving, Sharia awareness is being enhanced – albeit taking into consideration the differences in interpretation. While the industry is expanding into new markets, consolidating existing markets and increasing individual awareness, in many cases it is too slow and not effective enough.

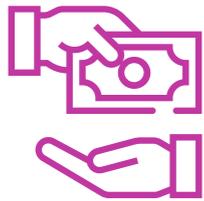
Financial services is a technology-driven industry and so is the IFSI. While technology is rapidly transforming financial services all over the world, its impact on the IFSI has been less pronounced. Why?

The lack of readily available, mature information technology systems in the market that comprehensively address the IFSI business model and its operational framework create many challenges – and risks. Ineffective technology is one of the main reasons for the modest growth and expansion of the IFSI. Poor system design leads to systems that are incapable of tackling the pressing challenges of the operating model – severely inhibiting the ambitions of the Islamic financial institutions (IFIs).

It doesn't have to be this way.

Technology is transforming financial services – why not the Islamic Financial Services Industry?

Technology continues to transform financial services all over the world. New channels, new products, and new competitors abound. Is the IFSI lagging behind? Can it catch up and overtake?



USD \$808b

Global Bank IT spending
in 2025 – Gartner

Neobanks, challenger banks, digital start ups – they go by many names, but they all share a mission to leverage advanced technology and innovative business models to deliver customer delight to their carefully selected market segments. Established players are radically transforming their IT landscapes using a combination of new and existing systems. When designing a banking system, starting from a blank sheet of paper might seem attractive, but banking is sophisticated and banking is nuanced, so the systems needed to serve customers require deep, rich and broad banking functionality. It is little wonder that the providers of established systems have spent decades building out their functional footprints.

However, when it comes to the intricacies of the IFSI, the majority of systems' providers seem to have gotten it wrong.

Many misunderstood the basic principles or guidelines of the industry. Many misunderstood, the business and operating models.

As financial services ecosystems, open banking, AI and machine learning become more prevalent through the industry, the implications for banks running inflexible, legacy systems will increase. In short, the old playbook needs to evolve for banks to survive and thrive.

As McKinsey puts it “the new winners will operate like tech companies, with advanced data capabilities, a cutting-edge tech stack and an agile operating model”.

Gartner estimates that banks will spend USD \$808b on technology in 2025.

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McKinsey



The financial services industry was one of the first to adopt technology systems. With each successive wave of technology banks added to their IT landscape.

Today most banks have hundreds of systems, barely connected with a fragile, spiderweb of interfaces. The result is a bespoke IT infrastructure that is expensive to operate, difficult to support and almost impossible to upgrade. Little wonder then that most banks spend 70% of their IT budgets on “run-the-bank” initiatives. With a further 15% spent on regulatory changes, this leaves a paltry 15% for “change-the-bank” initiatives.

New entrants – neo banks and digital start-ups – don’t have these issues. They don’t have legacy technical debt to overcome. They can pick and choose from the best technology on the market, knowing they

don’t have to worry about how to connect it to their existing systems. Until recently this gave them an almost unassailable technological edge.

In many parts of the world, the seemingly endless flow of venture capital funds into the fintech world has paused or stopped completely. Driven by evolving economic conditions and the changing competitive landscape, many VCs are evaluating their investment strategies.

Does this mean that the pressure is off? That banks can sigh in relief and go back to business as usual? It may have receded, but the threat has not gone away. The customer expectations that drove the fintechs to such rapid growth are still there. The pace of change of technology is still there. Many of the barriers to entry continue to fall.

The financial services world is being reshaped by technology. Established players need to take advantage of the opportunity to ensure that they thrive in the digital future.

IFIs are faced with all of these challenges and more – due to the increased sophistication of the Islamic Banking business model.



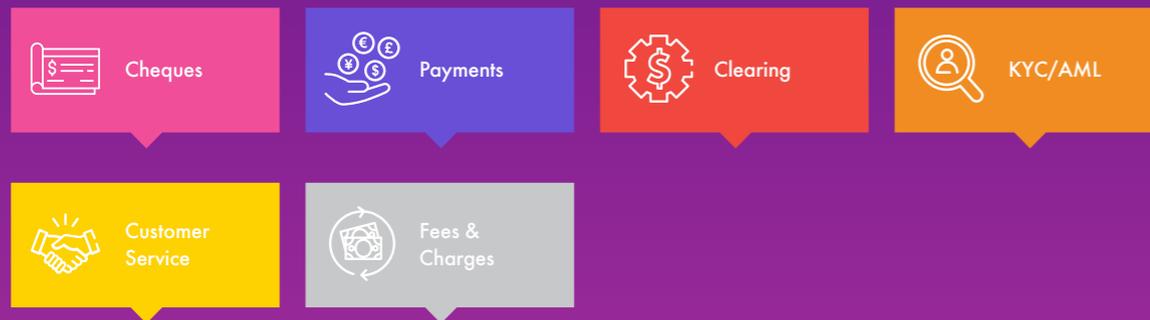
70%

Percentage of Bank’s IT budget spent on ‘run-the-bank’ initiatives – McKinsey

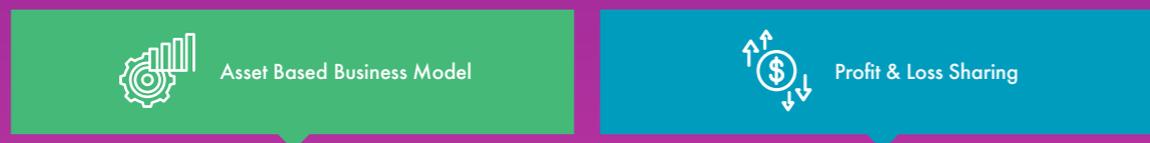
Brilliant basics and super sophistication

The IFSI's ethical principles are increasingly attractive to a growing share of the population. This provides a strong opportunity for growth. To capitalize on that opportunity, IFIs need to address several challenges.

Similarities



Differences



Similarities & Differences

With terms such as *riba*, *murabaha*, *ijarah*, and *gharar* it could be assumed that Islamic banking is completely different from conventional banking. The reality is more complex as the two banking models share both similarities and differences.

From a growth perspective, it is vitally important to get the foundational products and services right. Today's customers expect their financial services provider to deliver cost-effectively and efficiently.

For example, IFIs must (like conventional banks) issue and process cheques and manage the clearing process for these cheques. They also need to interface with standard settlement mechanisms such as SWIFT or other local settlement hubs or switches. IFIs must conduct "Know Your Customer" reviews by their regulatory authority (e.g., central bank). They must service their customers via various delivery channels (e.g., ATM, Call Centre, Branch, Internet, etc.). Customers expect to be able to access their financial information at a time and a place of their choosing.

IFIs must also levy and impose fees and charges on their customers – as long as there is no consideration that would constitute interest. None of these processes raise Sharia issues or violations nor do they have implications or risks in running an IFI business.

IFIs must deliver outstanding services in all of these areas. Put another way, to grow, the IFSI needs to execute the basics of banking brilliantly.

For the IFSI there are added complexities, driven by the differences between Islamic and conventional banking.

Islamic Banking is similar to conventional banking in many

While sharing some features with conventional banking there are fundamental differences.

With an asset-based business model, the financing process in Islamic Banking is addressed in a fundamentally different manner to the way lending is handled in conventional banking.

Interest is strictly forbidden in Islam, as Muslims believe that it promotes unfairness in financial transactions, which leads to social inequality and injustice. IFIs therefore use equity participation, which means that the IFI shares in the profits and losses associated with the account. For depositors this means that their funds are invested in ethical, Sharia compliant trading activities in order to generate a profit. Funds are never invested in any activity that is not in keeping with the values of Islam – such as any activity connected to gambling, alcohol, pornography, arms, tobacco or any interest-bearing activity – or any speculative activity.

The Islamic Finance operating model tends to be more complex in nature when compared with that of conventional banking. It has stricter and more specific procedural controls. These are required to ensure and invoke compliance with Sharia – and to address the cycle in providing the right financing product. This is tremendously important because in some instances, violations during the financing process would impact Sharia-compliance and could cause significant risks.

Implications for technology

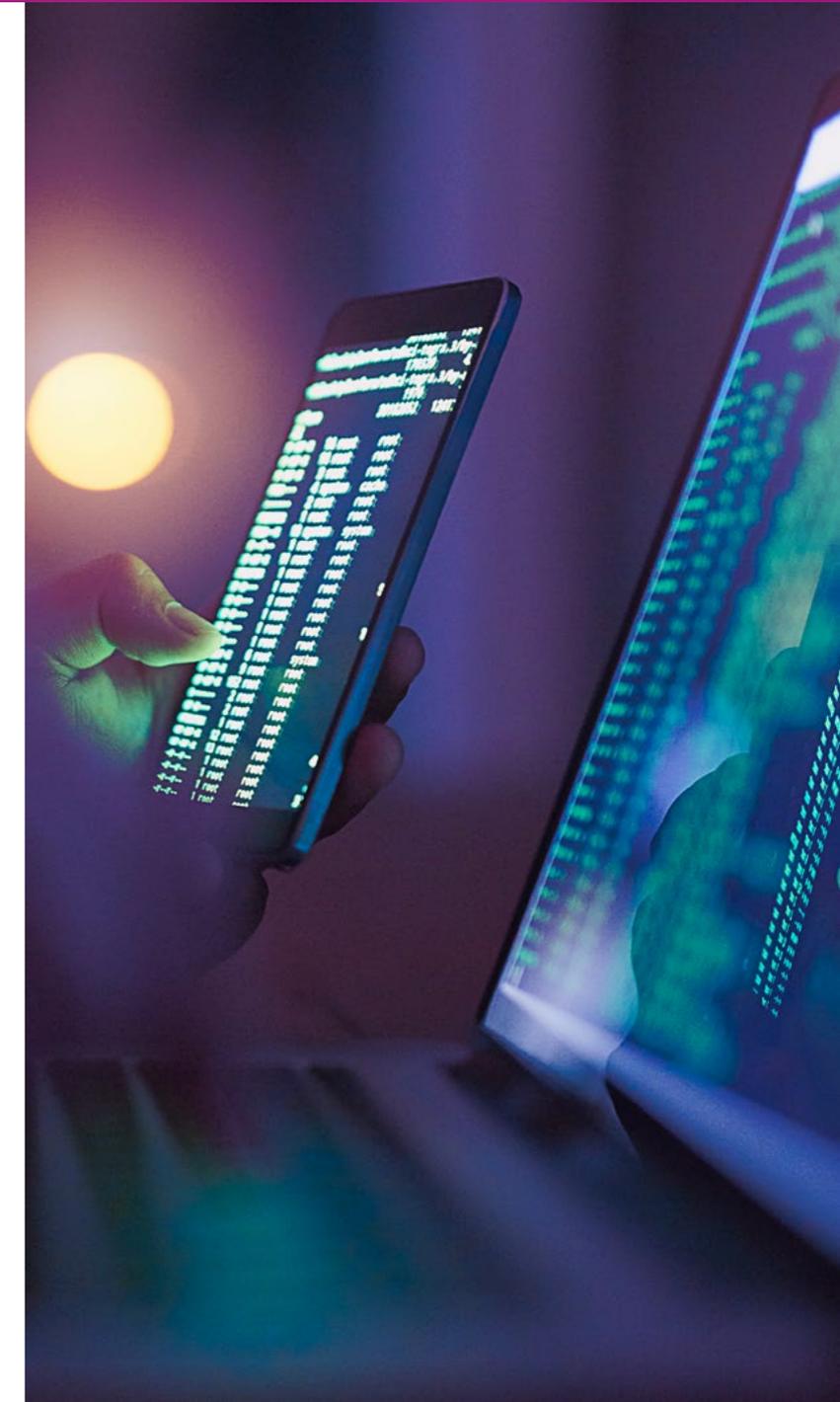
Financial services, whether conventional or Islamic, runs on technology. As previously noted many vendors made minor modifications or used workarounds to adapt their conventional core banking systems to support Islamic Banking. Most misunderstood what needed to be done.

For example, while conventional and Islamic Banking share the need for workflow, some core banking systems' providers use a workflow engine to manage the financing process. While it might address part of the challenge it does not tackle the end-to-end process and may put the Sharia compliance of the financing process at risk.

Even where the solution truly supports the Islamic Banking business model there can be challenges. Consider the situation where a company operates both conventional and Islamic Banking business models. Regardless of whether it is operated as a standalone business or via an Islamic banking window, the typical solution is to have two core banking systems. One for the conventional business and the other for the Islamic business.

Putting aside the costs in money, effort and time to acquire a second core banking system there are a range of other major issues, including:

- Delivering an inconsistent customer experience
- Deploying two tech stacks, increasing costs and the skills needed for support
- Complicating DR and business continuity plans
- Increasing system fragility
- Amplifying credit and operational risks
- Hampering reconciliations and consolidations
- Inhibiting data analysis
- Raising operating costs and reducing profit margins





Finastra understands Islamic Finance & Technology

Finastra has been serving the IFSI for more than 40 years. We have witnessed the industry's development and progress. We understand the details, nuances and specifics of the IFSI.

Not only do we understand the business of banking, but, for decades we have leveraged the right technology to deliver the solutions that help our customers thrive.

At the outset we recognized that conventional banking systems did not comprehensively address the needs and challenges of the industry. Consequently, we embarked on a major R&D program, backed by significant investment to build the components needed by the industry. We created a solution that addresses Sharia guidelines, the challenges and indeed the opportunities in the industry. We have successfully deployed our solutions in many regions and jurisdictions to a variety of institutions including local, national and regional champions.

Our solutions are not based on workarounds, changed wording or modifications to existing functionality. We designed our banking platform to comprehensively address the specific needs of the IFSI, placing special focus on

what makes it comply with Sharia guidelines and principles, namely:

1. How financing is managed
2. How profit calculation and distribution for depositors are performed

We know that replacing interest with profit, or removing the word interest, does not address the substance of what Islamic Banking is about. We know that simply changing terminology – renaming conventional processes in lending functions – inserting Murabaha or ijarah and maintaining the conventional functionality “as is”, does not achieve what is needed. We know that there is a lot more to consider in Islamic financing. We know how the financing process or functionality is addressed. We know how profits or returns on investment on assets or activities in the “unrestricted” asset pool is calculated and allocated to each investor holding – unrestricted investment account based upon the mudarabah contract. We know Islamic Banking.

Not only is the Finastra Islamic Banking solution Sharia compliant but it is also a modern, proven, resilient and functionally rich digital platform. Uniquely, it combines rich, broad and deep banking functionality with advanced technology.

Using our platform, IFIs can shift their focus from running a series of “keep the lights on” initiatives to concentrating on innovating for customers. They can spend time collaborating, dedicating their attention on delivering differentiated value for their customers and growing their business. Finastra's platform equips customers with accelerated agility – paving the way to set the pace in their respective markets.

As previously mentioned, many banks that operate both conventional and Islamic banking businesses have been forced to deploy two core banking systems. One system for their conventional business and another system for the Islamic business or Islamic banking window.

With Finastra's Islamic Banking solution, customers can support both the conventional and Islamic Banking operations on a single instance of the core banking platform. There is no need to deploy to instances or two environments.

| | Others | Finastra – single solution |
|-------------------------|---|---|
| #Core Banking Systems | 2 | 1 |
| Acquisition | Higher cost, multiple vendors | Lower cost, single partner |
| Integration | Multiple points, duplication | Single point |
| Customer Experience | Inconsistent, disjointed | High quality integrated experience |
| Customer identification | Complicated as 1 customer has 2 CIFs | Single source of truth |
| Support | 2 IT teams with different skills | 1 team, industrystandard skills |
| Resilience | Multiple points of failure | Single, integrated system |
| Continuity | 2 x DR plans & environments | 1 x DR plan & environment |
| Upgrade | Upgrade two systems (in parallel), increasing cost & complexity | Single system reduces cost & complexity |
| Enhancement | Standardization results in lowest common denominator or inconsistent capabilities | High quality products & services rolled out quickly |
| Risk | 2 x systems = more than 2 x risk | Single system reduces risk |
| Reconciliation | Complex, time consuming and error-prone | Single source of truth reduces burden |
| Financial impact | Higher operating costs, reducing profitability | Lower operating costs improving profitability |

Helping Customers Succeed

For more than 40 years we have helped institutions of all types, including local, national and regional champions. We are proud to have helped established players, start-ups and new entrants achieve their business goals.

Focusing on the IFSI we are proud to support customers in APAC, Europe, the Middle East and Africa. Our customers include both focused Islamic banks and those running Islamic windows.

Agricultural Development Fund – Saudi Arabia

The Agricultural Development Fund (ADF) is Saudi Arabia's government institution dedicated to advancing the Kingdom's agricultural industry. Established in 1962 and headquartered in Riyadh, the Fund supports more than 400,000 recipients through over 60 offices across the country. ADF provides rapid, reliable, Sharia-compliant financial solutions that empower farmers and agricultural businesses to operate sustainably and competitively.

The Fund focuses on eliminating manual, time-consuming credit processes by delivering fully digital services that make it easier for citizens and enterprises to access government support. ADF also contributes to the goals of Saudi Vision 2030 by promoting a thriving, technology-driven agricultural sector and enabling measurable year-on-year growth in national agricultural output.

By working closely with experts and leveraging advanced innovations, the ADF continues to strengthen Saudi Arabia's food production ecosystem, helping small, medium, and large agricultural enterprises obtain essential development funding while supporting the country's long-term economic and environmental ambitions.

**“
Essence is one of the
perfect platforms to
manage our products
efficiently and in
keeping with the
values of Islam.”**

Muhammad S. Al-Dhuwaiyan
Chief Information Officer,
The Saudi Agricultural Development Fund

AB Bank PLC - Bangladesh

Founded in 1982, AB Bank PLC is Bangladesh's first private-sector bank, known for innovation and customer-focused service. Powered by Finastra's core banking platform, the bank has built a strong 40-year legacy of technology-led growth. With Finastra Islamic Banking, AB Bank offers the latest Islamic banking products and services to its communities. Expanding from its first Islamic Banking Branch in 2004, to eight 'Islamic Banking Windows' in divisional branches launched in 2024. Within a year, these windows generated Mudarabah investments exceeding Taka 200 Crore, reflecting customer satisfaction and confidence.

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As a pioneering financial organization committed to modern, ethical Islamic banking and strict adherence to Shariah principles, AB Bank's operations leverage Finastra's Islamic Banking solution, strengthened by a trusted 40-year core banking partnership."

Sheikh Monirul Islam

EVP & Head of Core Business Team,
AB Bank PLC

"Our Islamic banking framework consists of two key components: Islamic Investment and Islamic Profit Distribution (IPD). This comprehensive and innovative solution enables us to offer a diverse range of Shariah-compliant financial products. Finastra's Islamic Banking stands out for its exceptional flexibility, reliability, and robust automation of Islamic Profit Distribution. The platform supports multiple pools and product types, along with customizable distribution rules, and fully automated IPD processes. This flexibility ensures seamless compliance with local laws and international standards, positioning the system as a leader in Islamic banking technology." - says Sheikh Monirul Islam, EVP & Head of Core Business Team, AB Bank PLC





Al Rayan Bank – United Kingdom

Pioneering British Islamic banking since 2004, today Al Rayan Bank is the UK's largest Sharia compliant bank. The bank serves over 90,000 personal, business and premier customers, providing them with Sharia compliant savings, finance and current account services. It was the first Islamic bank in the UK to receive a public rating. The bank's majority shareholder is Al Rayan, a Qatar-based Islamic bank providing banking, financial, investment and brokerage services. Al Rayan is the second largest bank in Qatar by market value.

Al Rayan Bank – Qatar

Al Rayan Bank (formerly Masraf Al Rayan) is one of Qatar's largest Sharia-compliant financial institutions, established in 2006. The bank offers a comprehensive suite of Islamic banking, financing, investment, and asset management services across retail, corporate, wholesale, and private banking segments. With a network of 17 branches and over 100 ATMs, Al Rayan Bank serves a broad and growing customer base of more than 200,000 accounts.

In 2025, the institution rebranded to Al Rayan Bank Q.P.S.C., reinforcing its position as a leading Islamic financial institution in Qatar. The bank continues to focus on ethical banking principles, digital innovation, and an expanding international presence, including a footprint in the UK, France, and the UAE.

Today, Al Rayan Bank is progressing through a major digital transformation to deliver faster, fully Sharia-compliant services and enhanced functionality to its customers in Qatar. This includes a core conversion to Essence Islamic, migration to cloud-ready infrastructure based in Qatar, and banking functions aligned with Islamic principles across origination, lending, and back-office operations. Through these initiatives, the bank aims to deliver a seamless, digital-first experience while maintaining strong regulatory compliance and operational excellence.



The Right Technology Will Accelerate Growth

Technology has transformed financial services, radically reducing costs while delivering customer delight. It can and will do the same for the IFSI.

The IFSI has established a strong position in many markets around the world. The industry's ethical principles are increasingly attractive to a growing share of the population. This provides a strong opportunity for growth. To capitalize on that opportunity, IFIs need to combine their business expertise with the right technology partner.

Banking is sophisticated, banking is specialized, and the needs of the IFSI are even more sophisticated and specialized. To create banking platforms that meet these needs requires deep domain expertise, not just in banking but in Islamic finance. It is not about workarounds such as deleting the word interest, it requires a deep understanding of the principles and practices.

But it takes more than that. The pace of change of technology continues to accelerate. Customer expectations continue to evolve. To deliver a technology platform to provide a competitive edge today and tomorrow requires technology expertise and a vision for the future.

Finastra is that partner.

At Finastra we know Islamic Banking. We have supported IFIs of all kinds for decades. At Finastra we know technology. We have created an Islamic Banking solution for today and tomorrow.

Finastra can help you accelerate your growth.

INNOVATING FINANCE TOGETHER

Finastra partners with customers to deliver reliable and secure mission-critical financial services software shaped by their needs and driven by innovation.

Contact us

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ID-87718 / 0225

Corporate Headquarters

Four Kingdom Street
Paddington
London W2 6BD
United Kingdom
T: +44 20 3320 5000

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