

WHAT ARE THE OBSTACLES HINDERING GENUINE ISLAMIC FINANCE PRODUCTS IN THE GLOBAL MODERN MARKET? A UK CASE STUDY

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ABSTRACT

This evaluation of UK Islamic finance products examined laws, contracts, marketing material, and documented discussions with Islamic investment agents. Identifying key areas of non-compliance and the reasons for compromise, the study observed several obstacles to stakeholders adopting genuine Shari'ah compliant products. The objectives of profit-seeking Islamic banks are fundamentally unaligned with Islamic macro-economics. National laws, market competition, and consumer taste for lower risk investments exerts pressure on providers to adopt contractual clauses that ultimately lead to breaches of Shari'ah. A lack of transparency is characteristic of the vague verdicts by bank-backed Shari'ah boards. Coupled with a lack of Islamic knowledge among agents and consumers, the market further facilitated non-compliance. Scholarly criticisms are obscured from most consumers due to a lack of patronage and the difficulty in navigating financial and Islamic jargon. Genuine Shari'ah products are not difficult to implement, but without legal enforcement, they face a hostile marketplace as unethical finance tends to be far more profitable to super-rich banks at the expense of more vulnerable consumers.

Keywords: *Islamic Finance, Shariah Compliance, Islamic Banking, Capitalism, Usury.*

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1. INTRODUCTION

The UK was the first non-Muslim nation to issue modern Islamic finance products, including the sovereign Sukuk (HM Treasury, 2014). With regulations officially encouraging Islamic finance since 2002 CE (Chartered Institute for Securities & Investment, 2022, p. 18), UK has seen a plethora of controversial new products offering Muslim investors and consumers with allegedly usury-free alternatives to conventional banking. While many Muslims currently living in the UK have historically been willing to exploit usurious finance options, compromising their Islamic heritage, there has also been a growing community of committed Muslims in the UK that decline to pay or invest through unislamic banking. Such commitment comes with great hardship as simple human needs such as the purchase of a home, university study, starting a business or driving a car falls out of reach for ordinary UK residents without banking and finance. Interest-free options are conspicuously absent.

For some banks, this represented a new untapped and growing market. Outwardly Shariah compliant alternatives were contrived and sold to many religious Muslims. Many of these early products were highly controversial and their genuine compliance with Shariah was extremely questionable. For new generations of tech-savvy Muslims with increasing commitment to Islam, it is an opportunity to innovate and seek out genuinely compliant alternatives for the benefit of the entire community. However, why has compliance proved so difficult in this industry and can the obstacles to compliance ever be overcome?

2. REVIEW OF LITERATURE

The ICD – LSEG Islamic Finance Development Report 2025 measures the success of the Islamic finance by growth in assets, institutions and value. Estimated in 2024 to boast \$6 trillion in assets across 98 countries, Islamic finance appears to have tripled in value over the past decade alone (LSEG Data & Analytics, 2025, pp. 6-9). IFSB estimates a more conservative, yet still impressive, \$3.8 trillion with a consistent 14.9% annual growth (Islamic Financial Services Board, 2025, p. 8). However, is this truly a measure of success? By emphasising financial growth over ethical compliance, contemporary reporting on the industry sidelines the aims of Shariah compliance and fails to measure the negative impacts of Islamic banking.

While the introduction of standards bodies has reshaped the level of compromise tolerated by the Islamic finance industry, the field remains highly controversial. Founded in the 1960s, forming and innovating in 1970s and 80s, the Islamic banking sector increasingly professionalized into a more sophisticated industry in the 90s. Led on two fronts by Malaysia and the Gulf countries, Islamic banking has spread to majority non-Muslim nations by 2010, including UK, USA, and Australia (Chartered Institute for Securities & Investment, 2022, pp. 15-23). With this growth, regulators and standards bodies have multiplied, paralleling those in conventional banking. This includes The Islamic Financial Services Board (IFSB), The Accounting and Auditing Organisation for Islamic Financial Institutions (Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), 2017), Islamic Fiqh Academy, International Islamic Financial Market, Islamic International Rating Agency, and Islamic Research and Training Institute

(Chartered Institute for Securities & Investment, 2022, p. 25). However, these standards not only disagree with each other but do not attract any scholarly consensus either. Although any scholarship in Fiqh reveals multiple opinions on almost every matter of economic transaction, there is also consensus on several prohibitions in trade, such as Bay' al Eenah and similar contracts that combine two deals in one, and the principles tying risk and liability to profit. These principles are acknowledged by Islamic banking standards, but banks tend to sidestep these principles through a series of common mechanisms that do not track well in Islamic sciences.

Some scholars simply equate the investing needs of wealthy Muslims with eating pork in a famine to permit clearly compromised finance contracts. This analogy is clearly flawed. The truth is that the most destitute and desperate members of society have little capital or collateral to invest with and would not be offered loans, mortgages, investment opportunities by any bank. Those in comfortable circumstances with disposable wealth beyond their necessities are the target market of Islamic finance. Other controversial mechanisms include the concept of *Wa'd* (promise). Seeking to avoid the prohibited 'two deals in one' and reciprocal sales contracts, new products conflate the non-commercial concept of promise-keeping with contractual trade deals by introducing a 'binding promise' in place of an official contract. 'Promises' are used in *Ijaarah* finance leases, Forward foreign exchange contracts, swaps, Diminishing *Musharakah*, *Muraabahah*, Fund Asset management, *Sukuk*, and more (Chartered Institute for Securities & Investment, 2022, pp. 89-136). Muhammad Hisyam Mohamed (2014) demonstrated the incompatibility between promises and

contracts in Shariah through a thorough comparative investigation of the two considering Islamic scripture (Mohamad, 2014).

Judging contracts by their substance over their form is an important principle in taxation, accounting, and in the Shariah. This refers to judging matters according to the true reality, not by the labels given to them. In fact, there are prophetic traditions warning of a future where "People among my Ummah will drink Khamr (intoxicants), calling it by another name." (al-Nasā'ī, 302AH, p. Hadith 5658) and many of the trade transactions prohibited by Islam were designed to close the door to disguised usury. However, modern standards bodies such as AAOIFI do not always consider substance as overriding, likely because this would render most Islamic banking products as non-compliant. In contrast, Haddad (2016) controversially argued to permit interest-based UK Student loans by considering them partnerships in substance, not loans despite its wording and form. In another mechanism, Shariah board approvals often include a confirmation that prohibited wealth earned in the process of banking has been donated to charity, purifying the remaining income. While charity is admirable, it is not a substitute for *Shari'ah* compliance. Reviewing classical Fiqh on trading in comparison to modern banking standards, Shariah compliance can be summarized as one of four levels, listed in Table 1 with a few examples.

Table 1. Example of Levels of Compliance Assessment

Clearly Shari’ah Compliant	Legitimate Difference of Opinion	Not compliant due to correctable conditions	Clearly not compliant
Family loans	Leasing farmland	Crowdfunding house loans	Student Loans
Interest free crowd funding	Salam	Takaful	Conventional Bank Accounts
Community ‘committee’ loans	Brokers	Diminishing <i>Mushaarakah</i>	Conventional Mortgage
Genuine Partnerships	Auctions	<i>Mudaarabah</i>	Insurance
		<i>Muraabahah</i> contracts	Debentures
			Preference Shares
			Bonds

Source: The author(s) own work.

2.1 History of Islamic Banking

Starting in 1960s CE, Islamic banking was designed to compete with conventional western banking. Attempting to mimic the perceived success of conventional banking, the Islamic banking puzzle centred around the strict prohibition of usury, which persisted in the Muslim consumer culture despite periods of secularization. This emphasis on solving the Shariah objection to banking can easily blinker both consumers and innovators from the root purpose of the Islamic hostility to usury and risks framing the Shariah through a Eurocentric lens that sees it as a backwards obstacle to progress. This line of thinking presents conventional banking as a positive force for economic growth without scrutiny. It is true that much of the Muslim world in the mid-20th century were comparatively weak economies in need of rapid development. Newly formed secular governments of the age turned to western banking to grow their economies.

The founding of the Mit Ghamr Saving Project developed by Dr el Najjar in 1963, Egypt (Chartered Institute for Securities & Investment, 2022, p. 16), sparked a new industry of Islamic banking across the world that would evolve into a very small but not insignificant share of the banking market.

However, the wider history around banking in the Muslim world is just as relevant to measures of financial success. While many Muslim nations grew economically in the 20th century with banking as a key feature, it is untrue to suggest that they had previously been held back by Shariah opposition to banking. Much of the Muslim world had been incredibly prosperous and represented among the most successful and ethical economies for over a millennium. The Islamic empires were among the leaders of the world academically, technologically, economically, and culturally. This prosperity was followed by military invasion and destructive colonial rule that siphoned resources and wealth to European settlers in a well-documented process of imperial rule. The last Ottoman caliphate was abolished in 1924 CE as part of the aftermath of World War One (WW1), which devastated the whole world, not just Muslim economies. Colonial rule and World War Two (WW2) further devastated economies and the whole world began rebuilding a second time. The 1950s saw newly formed nation states in the Muslim world, constructed, not on Islamic, but on secular European models. Arguably, it was not the banking sector, but periods of relative post-world-war peace that was the greatest driver to economic growth in the latter half of the 20th century.

So, while this history helps explain why secular Arab states might have sought to emulate western banking in the 1960s, it

should not be assumed that establishing banking is an imperative or a necessary condition for success or growth. In this light, this study argues that assessing Shariah compliance through the ages should be less forgiving of compromise than is often argued by its petitioners. Should there be any room at all for permitting usurious banking transactions on an individual, banking or state level? This paper assumes Shari'ah compliance should be absolutely usury free without compromise, ignoring local laws, but will assess different levels of compromise currently employed in the banking sector, with some focus on the UK market.

3. RESEARCH METHODOLOGY

3.1 Primary Data

This qualitative study collated new primary data through a review of contracts and informal discussions with Islamic finance salespersons from a sample of seven prominent UK based banks and lenders. Sales calls were not recorded due to legal and technological constraints relating to phone recording in the UK. Calls involved a "mystery shopper" approach, with no script but organic discussion with salespersons as a genuine customer. Meetings were all held either online via video call or by telephone and focused on understanding the framework and construction of the contracts offered in detail, as well as requesting an explanation of how the contract complies with Shari'ah rules. Detailed notes were taken during calls.

Further investigation was conducted by reviewing marketing materials provided by each seller and examining official company websites. Written contracts, where available, were

also reviewed. Open-source financial reports such as shareholder reports, annual accounts filed with the UK Companies House were studied from an accounting perspective utilizing the researcher's professional capacity as a practicing accountant. Products and their claims to compliance were evaluated only after all available evidence was consulted. To ensure the ethical preservation of participant's reputation, the names of each company have been anonymized for this study. Where it is necessary to distinguish between providers, a pseudonym has been adopted for each.

3.2 Secondary Data

Further secondary research contextualized and supported interpretation of this new data in the form of a review of literature, public discourse and reference to Qur'an, Sunnah and early predecessors in scholarship were also consulted to verify and evaluate the methodology and approach of the banking sector. No particular *Madhab* (school of legal thought) was adopted or rejected for this evaluation. As the purpose of this study is to uncover the obstacles to compliance, greater interest is focused on the reasons for compromises and any jurisprudential justifications offered. It is also important to maintain professional scepticism when approaching institutions.

3.3 Limitations

Banking and investment in the modern finance environment is a competitive market. Institutes seeking to remain at the cutting edge of the market are reluctant to release all information on their novel ideas or to display their detailed contracts openly to

the public. There is also a danger of sales-patter, puffery and jargon disguising the true nature of a contract. It was also clear that salespersons were not typically familiar with shariah finance rules and relied on salesmanship when dealing with consumers as opposed to being informed defenders of shariah compliance. This limitation also forms an important part of the findings of this study. Conversely, strict government regulation and requirements of transparency enforce objective reporting, free from deception or bias. Whether this is for tax purposes or consistency in reporting for investors, financial reporting can tell a different story to the public marketing image of Islamic banks. The fast-paced evolution of new Islamic finance products also limits the findings of this study to products available for review at the time of this study or earlier. Use of ambiguous jargon and mixing between Islamic terminology and conventional banking verbiage can often lead to confusion and veiling of the true nature of a transaction. While assuming the best of others is vital to justice and community cohesion, it is not appropriate to presume compliance, based on good intentions or ambiguous wording. This is especially true when contradictory messaging is found within contracts and marketing materials that publicly give rise to suspicion of usury. Stricter objective evaluation is more ethical and promotes stronger reputations in the sector.

4. ANALYSIS

4.1 Summary Features of Products Reviewed

Table 2. Anonymised list of products/institutions reviewed

Institution	Type	Products reviewed
Bank A	Dedicated Islamic bank	[1] Diminishing Musharakah house loan [2] Profit sharing deposit/current account
Bank B	Conventional Bank offering Islamic products alongside conventional products	<i>Muraabahah</i> house loan
Broker C	Conventional Property investment broker	Shariah compliant investment option – <i>Musharakah</i>
Broker D	Conventional Property investment broker	Shariah compliant investment option – <i>Musharakah</i>
Broker E	Private broker offering Islamic products only	Crowd lending house loan
Broker F	Private broker offering Islamic products only	[1] Crowd lending house loan [2] Special Investor product
Loan Company - G	Student Loans	Interest based loan

Source: The author(s) own work.

4.1.1 Bank A - [1] *Diminishing Musharakah house loan*

This product has been sold in the UK since the early 2000s. A detailed phone call with the bank and reviewing marketing material revealed that this deal builds on two Islamic contracts: *Musharakah* - partnership and *Ijarah* – Leasing. The deal involves a customer entering a partnership with the bank to co-own a house in the market. Before purchasing the house, the bank simultaneously enters into a lease agreement with the customer (partner), who is obliged to live in the house and pay rent on the bank's share of the property. The

customer/partner/tenant is also contracted to pay administration fees to the bank outside of rent and must also purchase the bank's share of the property in monthly increments until the customer fully owns the house alone. Failure to make any of these payments risks repossession of the house.

It was unclear from marketing materials whether repossession resulted in a simple split of assets and profits according to the latest equity share owned by the bank, but a phone call clarified that following repossession, the bank would reclaim any outstanding "amount of the original loan" (A, 2011).

4.1.2 Bank A - [2] Profit sharing deposit/current account

Bank A also offered a 'Shariah compliant' deposit or current account, this was described as a profit-sharing scheme as opposed to interest. Deposits attracted a profit rate instead of an interest rate. These rates were said to be without guarantee as they were dependent on profit generation by the bank but were expected to consistently be met by the bank. It was also openly accepted that the 'profit rate' was calculated in the same way and generally tracked with that offered by conventional banks as interest rates. The alleged difference was in the fact that the Islamic bank operated as a type of *Mudaarabah* partnership, utilizing the investment of account holders to invest in ethical Shari'ah compliant ways, generating profits shared between the bank and the account holder.

4.1.3 Bank B - Muraabahah house loan

Bank B is a conventional non-Muslim owned bank that also began offering a Shariah compliant mortgage in the UK in the

early 2000s. Based on the concept of *Muraabahah*, the customer finds a house for sale in the public market and approaches Bank B for finance. Bank B then enters a contract selling the house to the customer with an agreed fixed mark up to be paid on credit, with a house lien as collateral. The bank then purchases the house at the original price and simultaneously hands possession to the customer. No increase is accrued on the debt over time, even if paid late, but failure to pay can result in repossession of the house.

4.1.4 Broker C - Shariah compliant investment option - Musharakah

This portfolio investment product is packaged as a type of partnership (*Musharakah*) in that you purchase a special class of shares issued by a private limited company. These are redeemable preference shares with a pre-determined “dividend” that is not based on the performance of the underlying asset. 11-13% is paid after corporation tax is deducted as a net 8.25-9.75%. A parent holding company offers a guaranteed redemption of the original capital invested should the issuer fail to do so. This is essentially a conventional preference share contract which is a loan in substance not a partnership.

4.1.5 Broker D - Shariah compliant investment option - Musharakah

Similar to the above, a separate broker or property investment product offered preference shares in one of the specific property projects under a Special Purpose Vehicle (SPV), as a method to raise funds. It is marketed as an equity-based

partnership (*Musharakah*) and not a loan in the form of preference shares. Shareholders have no voting rights, and a set redemption date is set, after which an equivalent share of profits will be paid in addition to the original investment amount. There was no capital guarantee offered in the event of bankruptcy, and the wording of the contract is vague, not fully explaining what happens to the capital sum, but it implies that the deal includes a fixed return of the original amount invested with the only variable amount being an additional profit share on top.

4.1.6 Broker E - Crowd lending house loan

This newer product was reviewed in 2022 and appears to have made improvements to early products offered by Bank A and similar institutions. This product puts together investors in a partnership much closer to a genuine Islamic partnership, with different investors pooling their wealth into a single property. One designated investor will have a completely independent tenancy agreement with the partnership, paying rent on the share of all other partners. Periodically, the tenant will have the option to purchase further shares of the property from the partners based on the current value of the business. The lease and options to purchase shares are independent of the partnership and are not conditional in any way. However, all costs and expenses relating to capital renovation, repair, and improvement fall upon the tenant alone, to the exclusion of the partnership. These costs are typically the responsibility of owners, not tenants, as they affect the value of the underlying fixed asset.

4.1.7 Broker F - [1] Crowd lending house loan

Broker F, reviewed in 2024, also offered a similar crowd lending partnership as Broker E, however greater responsibility was placed on the property-owning company for repairs and renovations. This was still a point of contention for this contract however, and the company adopted a series of contrived mechanisms to avoid taking direct responsibility for the property repairs, which includes a return of allegedly 'gifted' shares that the company adds as a buffer for such purposes, in the event of necessary repairs being carried out, initially paid by the tenant. This product is more complex than Broker E with many complicated caveats designed to create greater security for investors and reduce any potential expense besides the initial property purchase.

4.1.8 Broker F - [2] Special Investor product

The other side of Broker F's crowd-lending product involves the sale of two classes of shares in the SPV. The share of the property remains valued at the acquisition price and does not increase with the value of the property. When purchased by the tenant-partner, share prices are calculated as the Original Price + Collected Dividends, even if the underlying assets have increased in value. Higher yield shares were also offered with a greater return than ordinary shares, but these were preference shares much like any conventional preference share contract, which are not Shariah compliant.

4.1.9 Loan Company G - Interest based loan

Government backed student loans offered to students enrolling on university courses are conventional interest accruing loans

with conditions on repayment. Graduates do not start repayment until reaching a minimum income threshold and only pay a fixed percentage of their monthly income. Debts, including any interest accrued, are guaranteed by the government, such that any balance is fully paid off by tax funds after a fixed term e.g. 30 years. This is a conventional loan by all definitions, but some Fatāwá have been issued to justify this loan as Shari'ah compliant, arguing that it is more like a partnership investment by the government or that it is permitted as a necessity. These arguments were not found to be credible upon closer examination.

4.2 Compliance Findings

All products reviewed by this study were found not to be compliant with Shari'ah rules of finance. There was a chronological trend in the levels of non-compliance. Older products tended to be clearly non-compliant with multiple major flaws in the contract, while some of the newest products on the market appear to have made strident attempts to address the mistakes of early Islamic banks and were closer to a genuine Islamic finance product than their predecessors. However, they too contained clauses or conditions in their contracts that render the contract non-compliant. These clauses served important purposes in guarding investors against risk but were not intrinsic to the contract itself. Therefore, it would be entirely feasible to exclude these clauses without materially altering the deal at hand to bring the contract into compliance. To illustrate these differences, each product was ranked as either:

- a. Clearly Shari’ah compliant
- b. Shari’ah compliant based on legitimate differences of opinion supported by Islamic texts
- c. Not compliant due to specific clauses in the deal that could be corrected to bring the product into compliance.
- d. Clearly not compliant without a realistic prospect of correction without drastically altering the nature of the contract. For example, it would not be feasible to convert a loan agreement into a business partnership as this materially alters the intent and nature of the deal itself.

Table 3. Product Compliance ranked 1-4

1. Clearly Shari’ah Compliant	2. Legitimate Difference of Opinion	3. Not compliant due to correctable clauses	4. Clearly not compliant
		Broker E – Crowd funding partnership	Bank A – Deposit account
		Broker F – Crowd funding partnership	Bank A - Diminishing Musharakah
		Broker F – Special Investor product	Bank B – <i>Muraabahah</i> loan Student Loans
			Broker C – <i>Musharakah</i>
			Broker D - <i>Musharakah</i>

Source: The author(s) own work.

4.3 Summary of Key Violations

Each of the products fell into one or more of the following violations of the Shari'ah.

4.3.1 *Two deals in one contract*

Bank A explained that for their house loan, "Simultaneously the bank enters into two agreements with the customer; the first is the Diminishing Musharakah (Diminishing Ownership) ... The second is the *Ijaarah* (Lease)" (Bank A, 2011). While some banks attempt to disguise the combination of these contracts through jargon such as 'binding promises' and 'purchase undertakings,' ultimately these are equal in substance to a contract. Bank B also utilizes two deals in one by agreeing to both buy the house from the seller and sell it back to the customer in one deal. Al-Tirmidhi (1152) narrated that Abu Hurayrah (ra) said: "The Messenger of Allah ﷺ forbade two transactions in one." (Hanbal, 241AH; al-Nasā'ī, 302AH; al-Albaanee, 1420AH).

The Prophet ﷺ said: "It is not permissible to sell something on condition that the purchaser lend you something, and it is not permissible to have two contracts in one transaction, and no profit is permissible unless possession has been taken of the goods, and you cannot sell what is not in your possession." (Hanbal, 241AH; al-Nasā'ī, 302AH, p. 4631; al-Albaanee, 1420AH, p. 203). Broker E also utilizes an 'undertaking' as a binding joinder to combine the second deal of compulsory sale of investors' shares (Broker E, 2022).

4.3.2 Sale with a reciprocal condition

Bank A's house loan adds multiple conditional contracts such that the customer must enter a partnership, and pay additional administration fees and lease the house to live in. Abdullah ibn Umar said, "*the Prophet ﷺ forbade the conditional sale.*" Additionally, Bank A places a condition removing *al-Haq al-Tasarruf*, the right of disposal over the home. The contract has a condition that if payments for rent and shares stop, the borrower loses all rights of disposal for the house through repossession, even if he was the majority owner of the house. The partner is also prevented from selling or leasing the house to others. When Aisha (ra) made a purchase that included a condition restricting her right of disposal, the Prophet ﷺ ordered her to ignore this condition and said, "*Any condition not in the book of Allah is invalid.*" (Saheeh Muslim) Brokers E and F also place conditions on the tenancy removing the landlord's responsibility and risk in the event of damage to the property.

4.3.3 Sale without ownership / possession

Bank A does not own the house at the time it enters a lease agreement with its own partner. This is because the bank does not risk buying the house until the borrower has already contracted to both buy shares of the business from the bank at a higher price and to pay a lease to live in the house. Bank B, similarly, sells the house at an agreed higher price before purchasing or taking possession of the property. This problem does not appear to have been completely replicated in more recent products such as that offered by Broker F, but there is still ambiguity around their possible employment of 'promises'.

The Prophet ﷺ said to Hakeem ibn Hizaam, “Do not sell that which you do not have.” Narrated by al-Tirmidhi, 1322; And he ﷺ said: “... you cannot sell what is not in your possession.” Narrated by Ahmad and the authors of *al-Sunan* with a Saheeh isnaad. Al-Daaraqutni and Abu Dawood (3499) narrated from Zayd ibn Thaabit that “the Prophet ﷺ forbade selling goods when they have been bought, until the merchants had added them to their own goods.”

4.3.4 Loans disguised as invalid partnerships

Any genuine Islamic partnership requires sharing of both risk and reward. Should a partnership be dissolved, all assets, profits, losses and liabilities are shared between partners, and it is impossible to guarantee a return of capital invested. This distinguishes a partnership from a loan. A contract cannot be both at the same time. House loans and Deposit accounts by Bank A, Preference Share agreements by Broker C and D, and crowd lending products by Broker E and F all claim to be Islamic partnerships.

Bank A presents its diminishing *Musharakah* house loan as a partnership but retains sole legal ownership of the allegedly shared house until bought out in full by the tenant. In the case of a default, Bank A recovers its original capital instead of its equity share. Bank A shares none of the expenses, repairs and costs of the property and accepts no responsibility as a landlord, yet receives full rent for its share, instead of sharing net profit. Furthermore, Bank A forcibly charges its business partner monthly administration fees outside of the partnership's profits. These fees serve no purpose in a partnership and amount to extortion or embezzlement from the shared company.

However, combining these facts suggests that this product is not a partnership at all, but a disguised loan, with administration fees and rent payments considered compound interest on the capital.

Bank A presents its deposit account as a profit-sharing partnership. However, the substance of this arrangement belies its form and label. 'Profits' are not based on equity shares of the business, but track with conventional banking interest rates. Account holders cannot hold the bank to account as partners either. Furthermore, true Islamic partners cannot withdraw or increase their share of a business at will without consultation with other partners. The deposit account arrangement guarantees and permits holders to withdraw their original capital at will along with any 'profit share' distributed. Furthermore, an examination of Bank A's official annual accounts reveals that payments distributed to account holders are listed as revenue expenditure reducing its calculated profits. The accounting implications of this mean the payments cannot be a profit-share as they are paid before calculating gross profit and are treated as a business expense, not as dividends or drawings by partners. It is also paid out before corporation tax (Bank A, 2024). This means that Bank A has presented its account holders to the government, not as partners, but as creditors. The alleged 'profit-share payments' are clearly reported to the tax office as interest paid for credit. It is not permitted in UK law to distribute profit shares (dividends) to equity owners until after corporation tax is deducted. This is further corroborated by examining the website of Bank A, where its deposit accounts are marketed as being eligible for tax savings under the UK Personal Savings Allowance. "The

profit earned on a savings account is classed as income...Under the new allowance, however, basic rate taxpayers (20%) will be able to earn £1,000 in savings income tax free” (Bank A, 2025). This carefully worded explanation disguises the simple fact that this allowance is for interest income. Official tax advice explains, “You may also get up to £1,000 of interest and not have to pay tax on it, depending on which Income Tax band you’re in. This is your Personal Savings Allowance.” (Gov.uk, 2025). While it is possible that Bank A is deceiving the UK government to reduce its tax burden, this is highly unlikely considering the high regulation of banking in UK and severe penalties demanding honest and objective accounting based on ‘substance over form’. It is more feasible to conclude that Bank A’s customers have been paid interest disguised as profit-sharing.

Brokers C and D also present their ‘equity-share’ agreement as a partnership, but these fail to meet the conditions of Islamic *Musharakah*. They also chose to use jargon to disguise their loan. Contracts, marketing material and tax reporting declare these shares as preference shares. In the finance industry, these are considered loans in substance, not as true equity. This is because capital is guaranteed in the event of a loss, payments are calculated before corporation tax and are treated as a form of interest for accounting purposes. It could be argued that these terminologies are exclusively used for UK customary legal reporting, but this is not entirely true. Most small businesses in the UK legally operate as unincorporated sole traders or partnerships (Gov.uk, 2023). These businesses share the same characteristics as an Islamic partnership and cannot issue preference shares or similar interest-based mechanisms. There

is no legal imperative to compel the incorporation of a limited liability company or to utilize usurious mechanisms such as preference shares or debentures, this is a choice made by the financial institution. In fact, the concept of limited liability is itself problematic in Shariah. A truly Islamic economic model would not adopt such a concept. True partners in Islam are jointly and severally liable for all debts without limitation to initial capital contributions. This is also the case in UK unincorporated businesses, but not for incorporated companies.

Broker F offers two classes of shares, one of which is a preference share and therefore not compliant. But otherwise, it is fair to say that many of the complications listed above have been resolved in products by Brokers E and F. Crowd lenders do appear to be closer to a true Islamic partnership in these products. However, some objections remain. In both contracts, there is one partner that is presumed to be the 'buyer' of the house, who is expected to purchase the shares of his/her 'investor' partners periodically. While this is not a binding condition as in Bank A's model, there is still a clear attempt to mitigate the risk for investor partners by placing the financial expense of maintaining, renovating, improving and repairing the property on tenant partners while still receiving gross rent based on their equity share. This brings suspicion upon the entire contract, as it suggests that the investors are not true partners but closer to lenders. In a true partnership, full rent should be paid by the tenant and all expenses expected of a landlord or property owner should be deducted before distributing profits to all partners fairly. The value of the partnership also needs to be based on the current book value

of the property and profits, not based on acquisition price, otherwise this is suggestive of a repayment of the capital sum. The crowd funding model does appear to be the closest to a shariah compliant product available in the UK, and with some corrections to these highlighted clauses, they realistically could become compliant.

4.3.5 Student Loans

A fatwa permitting UK students loans has also argued that these loans are closer to partnerships between the government and students. The argument being that the government invests in the students' education to share the profits of their work later in life. The fatwa cites the following facts as evidence: (1) the notion that repayments are performance based as (2) repayments only begin after earning a minimum threshold, and (3) are a fixed percentage of monthly income, and (4) The fact that the debt is 'written off' after a time limit or death.

These arguments are not credible for the following reasons: The conditions placed on the repayment schedule does not equate to profit sharing as a partnership at all, nor does it negate the contract as being a loan. The ultimate facts of the contract remain. The student was paid a sum of money as a binding loan to be repaid in full, regardless of 'profit/loss' with interest accruing from the first day. The compounding interest charged on the loan is not performance based at all and accrues even as the student studies, long before they graduate or earn any income, and is still repaid if they fail to graduate (Gov.uk, 2025).

Furthermore, if the loan amount and interest is paid outside of the standard income deductions, the debt is considered settled.

Had this been a partnership, such a method would be impossible, and the silent partner would not be entitled to such a 'repayment of capital.' It is also a misnomer to suggest that forgiveness of a debt changes its reality from a loan to a partnership. Moreover, if the government was a partner with the student, it would be liable for other expenses and debts accrued by the student. Partners are only entitled to a share of profit after expenses, not a fixed percentage of revenue. As such the UK student loan cannot be considered a Shari'ah compliant finance product either.

5. RESULTS AND DISCUSSION: OBSTACLES TO COMPLIANCE

It can be frustrating for those committed to avoiding usury to find that all finance products on the market consistently exhibit controversy on Shari'ah compliance. Our study analysed the reasons behind banks compromises on compliance and identified 8 key obstacles genuinely usury-free product design.

5.1 Laws

The biggest obstacle to Shariah finance is secular laws in the modern world. Western governments have built their empires on capitalist economic ideals, including the interest-based banking system that is the key source of modern finance. Local laws protect this system by design. For example, the creation of non-fiat currencies is largely criminalized, sale of gold is taxed, which makes spot gold exchanges near-impossible without suffering a loss. Inflation is closely linked to national interest rates set by the Bank of England, reducing the purchase power of savings and debts unless interest is paid on them. Banks are

heavily regulated, with protection of richer capital owners prioritized over the weaker and vulnerable in society. Courts enforce usury, and tax laws offer savings for interest-based transactions. When the law of the land encourages and protects unethical banking practices, Islamic banks attempting to navigate local laws are forced to fit into existing models.

5.2 Profit incentives

Shari'ah compliance seeks to discourage the rich from hoarding or exploiting the poor through usury. Usury ultimately results in the circulation of wealth predominantly among the rich in society and preventing the poor from economic progression. Under an Islamic society, usury is criminalized, and hoarding is penalized, with compulsory Zakat redistributing a share of savings to the poor annually. In Islam, wealthy investors are restricted in their choices to ethical spending, benevolent lending, or investing with full risk as a partner. In contrast, given the legality of usury in the UK and similar secular countries, consumers and investors have multiple unethical choices. While interest-free finance is favourable to debtors, particularly among the poor, usury offers greater worldly utility to those with surplus wealth. The ability to grow wealth through interest-accruing savings, and other low risk investment options makes higher risk ethical investments unattractive. It is an unavoidable fact that the nature of banking is to seek profit through the sale and lease of money, which is anathema to Islamic finance. Profiting from loans or money markets is a natural enemy to shariah compliance but is the primary goal and motivation of banks non-compliance.

5.3 Market competition

Even sincere Islamic institutions must deal with market conditions. While consumers would gladly accept an interest free loan, investors are far less likely to fund such loans without any return, particularly as there are ample profitable opportunities available in the usurious market. Recognizing this dynamic, it was evident in all our mystery shopper calls that salespersons fiercely emphasized the competitive levels of low investment risk in their products more than shariah compliance. Each of the violations and offending clauses added to the products were demonstrably designed to lower the risk for investors at the expense of consumers, indicating the pressure on banks to breach compliance for the sake of market competitiveness.

5.4 Gatekeeping through Jargon

Islamic banks and institutions often hide behind complex undefined jargon. Use of Islamic words like *Mushaarakah*, *Mudaarabah*, *Muraabahah*, and *Ijaarah* without scrutiny in an environment lacking Islamic education gives the impression to unknowing consumers that the field is too complex to navigate. Similarly, the use of financial terminology such as 'undertaking', 'preference shares,' 'profit shares,' 'preferential dividends,' and 'capital guarantees' without explaining the conceptual implications on the contract can be deceptive. Sometimes, mixing Islamic and secular concepts in vague or even contradictory terms can make comprehension or deconstruction of finance products impossible for lay investors and consumers. The fact that the above jargon is defined differently in modern Islamic banking compared with classical

scholarship is also rarely explained to consumers, and indeed, we found that salespersons were themselves not well versed in their meanings.

5.5 Lack of Islamic education

Most Muslim consumers in the UK have been educated in secular schools and are unlikely to have a strong Islamic education. Finance is a particularly niche field in both secular and Islamic schooling. Even educated consumers are therefore vulnerable to manipulation when navigating products presented as Shariah compliant.

5.6 Internal non-binding SSB regulation

Shariah compliance is not enforceable by law. As evident with Bank A, UK banking laws do not object to banks marketing their interest payments as profit sharing with partners, provided they are correctly accounted for as loan interest for tax purposes. While Bank A has a Shari'ah Board that signed off their business model as compliant (Bank A, 2024), such boards are not credible for the following reasons: A. Shariah board recommendations are not binding or enforceable. Thus, they serve more as a reputational aid to the business. B. The Shariah board is usually an internal body not subject to wider scrutiny. C. Shariah board decisions are often 'rubber stamps,' or blanket vague approvals without any transparency or explanation of clear controversies. D. Scholars on a Shari'ah board are typically selected by the banks, whether paid or unpaid. Stricter scholars that have consistently disapproved of non-compliant banking products are unlikely to be selected. If selected, they are unlikely to remain selected on the board.

5.7 Marketing power

Banks tend to have large marketing budgets. They are able to promote and market usurious products as Shariah compliant without any legal impediment or scrutiny. Scholars that approve of their products based on weak or dubious opinions are effectively promoted as authorities. On the other hand, independent dissenting scholars have typically had neither patronage nor expensive marketing to promote their objections. Public debate is thereby diminished, and scholarly objections remain concealed to most of the lay public.

5.8 Hindering creativity

The tendency to make allowances for banks under the guise of 'Hiyal' and 'Necessity' is itself an obstacle to creativity. The existence of pseudo-Islamic products that present as Shari'ah compliant reduces the motivation to innovate truly compliant investment opportunities. It is therefore imperative to hold banks to account on the strictest of terms without compromise, publicly highlighting every flaw wherever possible to motivate the next generation toward change.

6. CONCLUSION

While Islamic banks globally are succeeding financially and achieving consistent growth, suspicion around true Shariah compliance continues to haunt the industry. Ultimately, modern Islamic banking and finance represent a bridge of compromise between Islamic principles of trade and modern western capitalist models of banking. Sampling allegedly Shariah compliant products offered in the UK, a strict analysis of Shariah compliance reveals an industry struggling to compete with conventional banks pressured into compromising Shariah

principles. Market competition, local regulation and a risk averse consumer base pushes Islamic banking to obstruct itself from true compliance through a series of common justifications. Departing from traditional legal theory on economics, the industry has innovated new ideas to try to bypass the Shariah controls and safeguards. These includes the ideas of permitted usury out of 'necessity' and introducing 'promises' in place of contracts, exploiting the lack of legal regulation. Protecting its reputation through appointing carefully curated Shariah Boards, glossy marketing, and confusing jargon to dismiss criticism, the Islamic banks facilitate their own compromises and disguise their operations. This case study found most salespersons in the industry knew very little about Shariah rules and were more concerned with reassuring customers against risk. None of the sampled products were found to be fully Shariah compliant. This calls the value of the industry into question. Does the growth of this compromised industry hinder true innovation that might lead to genuinely shariah compliant finance? This study argues that it does. It could be argued that consistent scholarly opposition to non-compliant products since the earliest introduction of Islamic finance in the UK has led to newer innovation in the industry. In our case studies, the younger Brokers E and F have successfully addressed many of the mistakes of older Banks A and B and have brought the industry closer to Shariah compliance than ever before. Continued criticism and challenge toward the sector is an important motivator for change.

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