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Islamic Fintech, AI & Digital Banking: Driving the next wave of financial innovation

Banking as a Service (BaaS)

Definition, roles, regulatory position and Shari'ah considerations

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UAE leading the wave of Islamic financial innovation

1

Al Hilal Bank

2022: The first traditional full-fledged Islamic bank to convert into a fully digital Islamic bank in the world.

2

Ruya Community Islamic Bank

2024: The first digital full-fledged Islamic bank to operate in the world.

3

Mal Bank

2026: received in principle approval from CBUAE with ambition to be after the launch the world's first AI-native Islamic digital bank. AI is intended to be integrated into the bank’s core operations and customer experience.

4

Wio Bank

2026: the first world conventional digital bank to decide to launch Islamic window after its successful conventional operation.

What is BaaS?

BCBS

Basel Committee on Banking Supervision

The provision of banking services by banks through non-bank intermediaries (e.g. fintechs, big techs and other firms) that serve as the interface to clients.

World Bank

Business model definition

A model in which licensed financial and payment institutions connect their systems with non-banking businesses, so third parties can offer banking and financial services digitally, without licensing or compliance obligations.

Common thread: a licensed bank provides the service, while a non-bank partner owns the customer interface.

Key parties and roles

1

Bank

Provides the regulated banking products and services: holding deposits, processing payments and extending financing / credit.

2

BaaS Partner

Non-bank intermediary that provides the customer-facing interface and embeds banking services in its own proposition.

3

Technology Integration

APIs or other infrastructure connect the parties, giving the partner access to agreed banking capabilities.

4

Customer Relationship

The customer mainly deals with the partner, but the underlying product is provided by the licensed bank, subject to the contract structure.

Regulatory position

The Bank remains the licensed provider and retains responsibility for:

1. **KYC validation**
2. **AML/CFT compliance**
3. **Transaction monitoring**

The BaaS partner acts primarily as the customer acquisition and digital interface layer.

Outsourced activities

Where any activity is outsourced to the partner, the Bank remains fully responsible for the associated risks and regulatory compliance under the CBUAE Outsourcing Regulation for Banks, Circular No. 14/2021.

- **Materiality assessment**
- **Due diligence**
- **Ongoing monitoring**
- **Prior CBUAE non-objection for material arrangements**

Shari'ah approval before onboarding

1 Business team

Briefs the ISCD on the partner's business model, products, services and principal activities.

2 ISCD

Internal Shari'ah Control Department assesses the partner and the arrangement from a Shari'ah perspective.

3 ISSC

Internal Shari'ah Supervision Committee reviews and approves before the arrangement proceeds.

Material changes

Any material change to the partner's business model or activities goes back to the ISCD for assessment and, where required, to the ISSC for approval.

Approved products only

Products and services offered through the BaaS arrangement are limited to those already approved by the ISSC.

Partner role and customer-facing materials

1 The BaaS partner's role

- Acts solely as the customer interface and acquisition / referral party
- Facilitates collection of required customer documents through its application
- May receive a referral commission for these services

2 ISCD review of materials

The ISCD reviews wireframes, the customer journey and marketing materials to:

- Ensure accurate representation of the Bank's products and services
- Avoid any implication that the Bank or the ISSC endorses partner products or activities not approved from a Shari'ah perspective

When the partner activities are not Shari’ah compliant

The partner conducts a mix of activities (Shari'ah-compliant and non-compliant) or pure Shari’ah non-compliant.

Facilitation risk
Risk of facilitating Shari'ah non-compliant activities.

Reputational risk
Potential reputational risk for the Islamic Bank.

Seven specific conditions and controls apply:

1. **No financing**
2. **No account use**
3. **Limited integration**
4. **Customer-led transfers**
5. **No related fees**
6. **Co-branded cards**
7. **No promotion**

Controls 1 to 4: financing, accounts, scope, transfers

1

No financing

The Bank must not finance any Shari'ah non-compliant products or services offered by the partner.

2

No use of accounts

The partner must not use any accounts with the Bank (administrative, transactional or customer accounts) for automated buying, selling, settlement or other activities related to non-compliant products.

3

Limited integration

Integration is limited to permissible activities, including account opening and helping the Bank obtain customer documents such as KYC and KYB.

4

Customer-initiated transfers

External transfers must be initiated by customers themselves, via the Bank's channels or the partner's app acting merely as an integrated interface to the Bank's systems.

Controls 5 to 7: fees, co-branding, promotion

5

No related fees

The Bank must not collect fees, commissions or other consideration from the partner that are specifically attributable to Shari'ah non-compliant products or services.

6

Co-branded cards

No Shari'ah objection, provided the Terms and Conditions state that the ISSC is not responsible for the Shari'ah compliance of the partner's offerings and that customers should seek independent Shari'ah advice where appropriate. If the company’s activities are all non-Shari’ah compliant, no co – branded cards shall be issued.

7

No promotion

The Bank should not promote or endorse the partner's non-compliant products or services through media, social media, marketing campaigns or other promotional channels.

Key takeaways

1. The Bank stays the licensed provider and remains accountable for KYC, AML/CFT, transaction monitoring and any outsourced activity.

2. The ISSC assess and approve the partner and arrangement up front, and only ISSC-approved products are offered.

3. The partner is limited to customer interface and referral, with firm controls against financing, facilitating or promoting non-compliant activity.