Artificial intelligence in Islamic finance: How the Maqashid Sharia Views it

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Abstract

The application of artificial intelligence (AI) in the field of Islamic finance during the recent years has elicited radical changes in Islamic banking and investment processes. The present paper aims to make an in-depth analysis of the AI application regarding the application of the maqashid sharia (Islamic objectives) which dictate that faith, life, intellect, progeny, and property are to be safeguarded. The use of AI in various Islamic financial services, including Sharia-compliant financial planning applications and risk-assessment systems based on the Sharia principles, robo-advisors, and other tools are analysed through a qualitative, descriptive-analytical approach, which is used by the study. The results show that AI is a highly promising technology capable of supporting the development of maqashid sharia through the improvement of halal investment management and financial literacy. Despite this, the studies also state such are only the main problems that should be considered in the course of the development, such as the transparency of algorithms, fatwas in context and legislation specific to Islamic jurisprudence and the validity of data sets. The paper, therefore, recommends an integrative AI implementation model based on the synergistic partnerships among Islamic academicians, technologists, and financial actors, and the intention to come up with AI systems that are compatible with the concept, maqashid al-sharia.

Keywords: Artificial Intelligence, Islamic Financing, Maqashid al Syariah, Financial planning, Technology ethics.

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Introduction

The rapid development of artificial intelligence (AI) has become a central pillar in driving digital transformation in the era of the fifth Industrial revolution [1], [2]. Artificial intelligence gives the ability to simulate the intellectual functions of a human being through advanced algorithms that enable the machine to learn and process the large volumes of data. In the financial industry, these abilities have been groundbreaking, enhancing more efficiency in operations, as well as increasing the speed of investment choices and enhancing data-driven services including robo-advisors and automated financial helps [3].

The spread of AIs within the financial industry has turned out to be a worldwide phenomenon, defining the local and foreign markets. To this, a host of financial organizations across Southeast Asia have started to incorporate artificial intelligence-based services to enhance their adherence to Sharia, to accelerate the management of halal investments and to assist in individual financial planning using the Islamic jurisprudence and law [3]. As an example, the Dubai Islamic Bank has established an AI-based customer-service system, which helps clients understand and choose Sharia-compliant financial products, and in Malaysia, AIbased customer-advisory systems are launched by Islamic banks to assist people in gaining more access and knowledge about Islamic financial instruments.

The enhanced pace of artificial intelligence creation has fundamentally reshaped the human paradigm concerning perception and management of financial risk, data analytics, and decision-making process. According to a report released by the World Economic Forum in 2023, more than three-quarters of financial institutions across the world today have AI technologies integrated into their operations structure. This application cuts across a wide ranging spectrum of activities such as credit scoring, fraudulent detection, and an automated financial advisory system.The integration of AI has demonstrably enhanced both efficiency and accuracy of financial decision making, while simulaneously broadening access to financial services accross diverse segments of society.

In the context of Islamic financial services, the adoption of artificial intelligence (AI) has witnessed remarkable growth. According to the the Islamic Fintech Report 2020 published by the Islamic Finance Standard Board, approximately 60% of fintech companies in Southeast Asia [3]. They have integrated artificial intelligence to enhance Sharia compliance and expand the accesibility of financial services, including the use of expert intelligent system (EIS) to verify the halal status of investment portfolios, AI powered chatbot to provide the financial consultations based on Islamic principles, and machine learning to detect inconsistencies between products and fatawa issued by the Sharia Advisory Council (DSN MUI).

In Indonesia, the implementation artificial intelligence in digital transformation as part of the digital transformation in Islamic financial institutions has led to the development of various intelligence-based technological mechanism. Several Islamic banks in Indonesia have developed a predictive analytics system to better understand customer behavior and formulate more effective sharia compliant business strategies. In addition, a growing of number of Islamic financial technology (fintech) startups companies, such as *Alami* and *Amanah Ethical*, have integrated credit scoring process and AI based product assessments framework to ensure that financing projects are truly aligned with Islamic principles.

However, this grwoing phenomenon also introduces several new challenges. First, the AI system often operates as "black boxes", making their internal decision making processess difficult to explain, which in turn complicates the Sharia and compliance audit process. Second, the extensive use of big data can raise serious privacy and algorithm bias concerns, potential leading to outcome that contradict the Islamic principles of justice *('adl*) and social welfare in the economic ecosystem (*maslahah*) [4], [5]. Third, there is limited ethical guidelines and regulations related to Sharia finance, thereby increasing the risk of technology misapplication if not properly regulated in clear Islamic legal principles.

In the framework of *maqashid al shariah,* preservation of religion *(din),* soul *(nafs),* intellect *(aql),* lineage *(nasl),* and property *(mal)* consitutes the primary objetive of Islami law.

Every innovation, including financial technology, must not only aim for efficiency and profitability, but also uphold the principles of justice *(‘adl)*, social welfare *(maslahah)*, and compliance with Shari’ah values [6].

The emergence of “black box” AI system, whose decisien making process are often difficult to explain present a serious challenge for sharia audit and governance. Such opacity, combined with the use of extensive biometric and big data, may lead to unintended bias or unfair financial decisions, thereby contradicting the ethical of islamic finance. The lack of transpareny and accountability of the algortihmic process of sharia compliace verification threaten to undermine of the principle of justice *(‘adl*), which is the heart of islamic economic ethics. In addition, the potential for data bias and inequality in digital access lead to injustice that contrary to the islamic values.

Therefore, there is need for an analytical framework that analyze the opportunities for ethical and normative challenges of artificial intelligence for decision making. Hopefully, the implementations of artifical intelligence are being transparancy and full explanation of its internal processes. This study aims to examine the Sharia perspective in assessing the implementation and governance of artificial intelligence within islami financial institution.

Literature Review

The rapid development of science and technology demands a multidisciplinary approach to examine the relationship between technology innovation and religious-ethical values within the context of Islamic finance. The theory for understanding artificial intelligence can be explored from various perspectives, including theory of intelligent system, technological innovation theory, and Islamic ethics theory based on maqashid al sharia.

2.1 Theory of Artificial Intelligence Accceptance

From the perspective of theory of intelligent systems, artificial intelligence is a system that has the ability to imitate human abilities in the cognitive function, such as reasoning, learning, and decision making. Based on information and logical algorithms, artificial intelligence provide recommendation for accurate decision making. In the financial context decision making, this theory posit that AI as a decision support tool capable of optimizing processes in financial planning and management. However. the integration of intelligent systems in the financial sector cannot rely solely on the algorithm efficiency. Decision making processes must also align with Shari’a principles to ensure that the decision making process is in accordance with the islamic principles. Hence, the theory of intelligent systems should be integrated with of Islamic ethics so that decision making serves as a means of achieving the social welfare [6], [7].

Furthermore, the theory of technological innovation, particularly theory of diffusion of innovation explains that the adoption of technology is influenced by various factors such as perceived ease of use and compatibility with socio-cultural values. In the context of Islamic finance, digital innovations such as AI can be accepted when it aligns with Islamic values such as transparency, justice and the prohibition of gharar practices. Therefore, the technological innovation framework provides an analytical lens for understanding the dynamics of tehcnology acceptance within Islamic financial institutions and society. Using *maqashid al sharia* framework, the integration of digital transformation should be in accordance with Islamic principles.

2.2 The concept of Artificial Intelligence

Artificial intelligence is a computer system that possess the ability to learn, analyze, and make decisions in ways that imitate human cognitive processes. These systems are based on data patterns, logic algorithms and past information to outline predictive models. Artificial intelligence operates in the financial sphere as an automated system that is able to provide automated inquiries, assert financial risks, and detect fraud cases [8].

On the personal level, AI has the potential of analyzing personal financial patterns and generating information-driven insights and personalized financial recommendations.. These

innovation have contributed significantly to improve efficiency, reduce operational costs, and accelerate the decision-making process in financial management. Nevertheless, AI also presents several challenges, including lack of algorithmic transparency, potential bias in data processing, and and ethical issues in the use and privacy of personal information [9].

In the field of implementation of Artificial intelligence in Islamic finance, the are four primary areas of implementation such as, (a) automatic sharia screening systems, is an algorithm used to identify or filter the financal instruments or investments, (b) fatwa management systems, AI powered database that assist sharia institutions in retrieving fatawa and classical jurisprudence, and (3) Islamic fintech, a digital financing platform that utilizes artificial intelligencee in verifying the halal status of projects and manage peer to peer financing, and (4) customer service automation, is a chatbots and virtual assistant that provides financial recommendation, consultations based on Islamic principles [10].

Despite these innovation, there are critical challenges persist such as the explainability of the AI algorithm process to prive decisions making recommendation. For that, the integration of technology and Islamic insight is mechanism to minimize inconsistencies between outputs technology and the fatawa issued by sharia scholars.

2.3 Islamic Financial Ethics

The theory of *Maqashid al sharia,* initially developed by Al Ghazali has evolved into a modern normative framework to evaluate the policy and innovation of economics and public governance in islamic context. Aaccording to previous research, sharia becomes the basis for assesing justice, accountability, and social responsibility in Islamic financal system. In the era of networked technologies and artificial intelligence, sharia continues to provide guidance, esnruing that Tehcnological advancements remain aligned with Islamic moral principles and oriented towards the welfare (*maslahah*) of society. The Sharia based ethical approach fills a significant gap left by western framework , by incorporating the elemen of accountability and social ethics [6].

Within the Islamic principles framework, every technological advancements, including artificial intelligence, must be assesed to what extent its contribution to the *maqashid al sharia* such as preservation of religion, life, intellect, lineage, and property. This framewrok thus serves a guideline to assess the extent to which the application of artificial intelligence in Islamic finance contribute to realization of these religious objectives.

Research Methodology

This study employs an argumentative qualitative approach, utilizing descriptivenormative analytical method [3], [11]. This means that the research does not only evaluate the empirical performance of AI technology but also examines its ethical compatibility with islamic principles and values. The objective is to ensure that the development of artificial intelligence system remain consistent with human centered goals envisioned by shariah.

This argumentative qualitative approach allows the integration of rational, scientific-based analysis with Islamic normative reasoing, allowing conclusions to be drawn based on conceptual arguments that reflect the compatibility of AI practices with Sharia principles. The interaction analysis of two dimension, technological and sharia rationality ensured that technology acceptance based on sharia evaluation.

3.1 Data Analysis Method

The maqashid Syariah analytical framework, explains the purpose of sharia is to preserve five essential objectives, namely preserve religion, life, intellect, progeny, and wealth. This framewok as ethical foundation for assesing modern innovation. In the contemporary contexts, this framework provides moral and evaluative basis to ensure that tehcnological innovation do not violate sharia principles. Therefore, maqashid sharia is used as benchmark to evaluate the extent to which the implementation of AI in islamic financial planning.

This approach was chosen for its holistic and humanistic orientation, as it asseses not only the legal compliance of technology but also its moral, social, and spiritual dimension. This paper is in line with the idea of responsible innovation that anticipates transparency, fairness and moral flexibility in technology application. Thus, the maqashid based analysis provides a framework for determining the degree to which AI application in islamic finance support the preserverane of sharia objectives.

Results 4.1 The general overview of Findings

The general results have shown that artificial intelligence implementation of Islamic financial planning has been a crucial factor in the evolution of the Islamic financial services especially in increasing differentiation of financial products and customer experience to be more personalized. Various Islamic financial institutions accross Malaysia, Indonesia and the Middle East have integrated artificial intelligence to assist in decision-making process, financing risk analysis, and monitoring of Islamic principles compliance.

However, the results also reveal a disparity between technological advancement and the readiness of a conceptual and ethical frameworks to evaluate its consistent with Islamic principles. In general, the implementation of AI activities within Islamic financial institutions has not fully reflected the *maqashid* oritend decision-making framework.

The findings of this research are assessement of the suitability of AI in islamic financial pallning through the lens of five dimensions, preservation of religion *(din),* soul *(nafs),* intellect *(aql),* lineage *(nasl),* and property *(mal).*

4.2 The preservation of religion *(hifz din)*

The principle of preservation of religion, emphasizes the preservation of religious values and compliance with Islamic law in the context of Islamic finance. It ensures that all transactions, recommendations, and decisions of artificial intelligence remain free from elements of usury *(riba)*, uncertainty *(gharar)*, and gambling *(maysir)*. The findings of the study indicate that most of the intelligence systems used in Islamic finance lack of an automatic detection mechanism for Islamic transactions. For instance, the algorithm used by the some AI primarily relies on technical parameters rather than fiqh based consideration [3], [12].

Nevertheless, several positive development such as carried out in Malaysia and the United Arab Emirates which have contributed to creation of fatwa database in the ASEAN region and have guided investments recommendations. These initiatives demonstrate that artificial intelligence has potential to support the protection of religion when its function are directed through historical data and verified by competen shariah authorities. Therefore, it can be argued that implementation AI are potentially concistent with the principle of protecting religion.

4.3 The Preservation of the Life *(hifz nafs)*

This aspect emphasizes the central role played by the protection of human welfare and human security matters in the implementation of artificial intelligence [5], [13]]. It includes the elements of digital safety, data confidentiality, and securing the users against economic exploitation. The results of the current study indicate that the existing artificial-intelligence systems used to conduct Islamic finance do not offer a consistent data-protection framework that can be compatible with the Islamic ethic.

Numerous systems that are in place still use traditional data-analyze frameworks that look like predatory systems like uninvolved processing of individual data about their clients and the vulnerable nature of data uploaded by users. The general security of financial technology has not been entirely unified with the values of user security and ethical management. As a result, the current implementation is not sufficient to cover ethical and privacy aspects in a proper manner to guarantee human protection.

4.4 The Preservation of Intelligence *(Hifz 'aql)*.

This principle argues that the applicability and use of technology can never be a functional technology but must equally protect the rationality of humans [14], [15]. In this respect, it is

necessary to make sure that all financial decisions created by algorithmic systems are clear and easy to understand by people. It has been found out that the majority of AI systems used in the Islamic finance are based on a black box model, making it hard to explain the decision-making process by their developers and users alike, especially when it comes to the field of financial planning. This transparency can undermine human cognition and free will in their personal financial choice, and, by definition, challenge ethical and practical consideration as great challenges.

That notwithstanding, a number of Islamic financial institutions have started the creation of planning systems, which contribute to better understanding of the users by making known the logic behind financial advice. Such projects are part of the promotion of financial-literacy education and sound decision making. To this end, one can say that the principle is implemented, albeit, to a limited degree, at the moment, but should be extended to the larger Islamic-financial ecosystem and generalized.

4.5 The Preservation of Lineage *(Hifz Nasl)*

This dimension emphasizes the intergenerational social sustainability concept in the context of the preservation of the lineage [16]. It requires that the use of technology in the Islamic finance should not lead to or enhance digital inequality but rather should be a means of providing equitable access by all the segments of the society. Its findings also suggest that in the Islamic financial sector technological innovation is mainly concentrated in the UAE, Malaysia and Saudi Arabia. Conversely, the developing countries still face significant obstacles connected with the digital literacy and infrastructure, with the possibility of the social inequality therein.

The point of this argument is that artificial intelligence must not only aim at economic efficiency, it must also serve as a source of distributive justice and economic empowerment of the broad. Normatively, thus, the present forms of AI application have not been entirely adhering to the principle of lineage preservation.

4.6 The Preservation of Wealth *(Hifz mal)*

The Islamic financial planning is particularly related to the concept of wealth preservation. The main task of it is to keep assets outside of misappropriation and to provide a non-violent allocation of wealth [3], [12].The discussion shows that AI has a huge potential of facilitating asset security by effective investment control, risk avoidance, and large-scale fraud detection. This way, AI can help Islamic financial institutions to spot anomalous transactions and improve the overall financial outcome security.

But taking into consideration that there are challenges when using algorithms only to boost profitability without paying enough attention to such aspects ethical and sustainability. By way of example, biased credit -scoring algorithms that target certain demographic groups may lead to economic injustice. Perhaps the main point is that although AI could be beneficial to achieve Sharia goals, this process should be strictly controlled by Sharia supervisory boards to capture compliance with ethical and legal values.

From perspective of *maqashid al sharia,* artificial intelligence may be regarded as a positive and value netral technology. It means that technology can serve as an instrument of benefit when properly directed. The overall suitability of AI to *maqashid al sharia* can be categorized into three dimension, such as potential suitability, implementaion gap, and normative integration.

Conclusion

In conculsion, this study indicates that artificial intelligence should not be viewed as a threat to the integrity of islamic finance [13], [17], [18]. Rather, it is a neutral technological instruments that hold the potential to enhance the islamin financial ecosystem. To realize this potential, AI integration must embody the values of Islam. Finally, artificial intelligent (AI)

should be regarded as a conditional instrument. Its values is inherently positive when governed by ethical value and legal principles of Islam in both policy formulation and practical application.

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