

RESEARCH REPORT ON SHARIAH COMPLIANT DIGITAL FINANCING PRODUCT IN PAKISTAN

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Table of Contents

CHAPTER 1: INTRODUCTION	1
1.1 Executive Summary	1
1.2 Objective of the Report	2
1.3 Research Methodology.....	2
1.4 Research Design.....	3
CHAPTER 2: DESKTOP RESEARCH FINDINGS.....	7
2.1 Pakistan's Digital Financing Market Overview.....	7
2.2 Pakistan's Shariah-Compliant Digital Financing Market Overview	9
2.3 Key Facts for Digital Financing and Shariah-Compliant Digital Financing in Pakistan	10
2.4 Opportunities for Shariah-Compliant Digital Financing in Pakistan.....	11
2.5 Key Drivers of Harnessing Shariah-Compliant Digital Financing in Pakistan.....	13
2.6 Deep Dive Digital Financing Ecosystem in Pakistan	18
2.7 Key Ecosystems Dimension of Digital Financing Ecosystem in Pakistan	20
2.7.1 Regulatory Landscape of Digital Financing in Pakistan	20
2.7.2 Institutions (Key Industry Players) of Digital Financing in Pakistan.....	31
2.7.3 Technology and Infrastructure of Digital Financing in Pakistan	34
2.7.4 People (End-Consumers/End-Users) of Digital Financing in Pakistan.....	37
2.7.5 Products and Services of Digital Financing in Pakistan.....	39
2.7.6 Shariah Compliance and Governance of Digital Financing in Pakistan	45
2.8 Challenges for Shariah Digital Financing in Pakistan	52
CHAPTER 3: MIXED-METHOD FINDINGS	53
3.1 Survey.....	53
3.1.1 Survey Findings (Regulatory)	65

3.1.2 Survey Findings (Key Industry Players)	69
3.1.3 Survey Findings (Products and Services).....	72
3.1.4 Survey Findings (Shariah Compliance).....	75
3.1.5 Survey Findings (Technology & Infrastructure)	78
3.1.6 Survey Findings (People and Consumers).....	81
3.1.7 Survey Findings (Summary).....	84
3.2 Focus Group Discussion (FGD).....	87
3.2.1 FGD Findings (Regulations)	95
3.2.2 FGD Findings (Key Industry Players).....	104
3.2.3 FGD Finding (Products and Services).....	111
3.2.4 FGD Findings (Shariah Compliance).....	120
3.2.5 FGD Findings (Technology and Infrastructure).....	127
3.2.6 FGD Findings (People/Consumers/Users)	133
3.3 Heatmap and Prioritisation Matrix.....	140
CHAPTER 4: KEY RECOMMENDATIONS AND INTERVENTIONS.....	145
4.1 Rationale and Methodology in Constructing Policy, Product, and Ecosystem Recommendations	145
4.2 Systematic Consolidation of Top 12 Problem Statements for Shariah-compliant Digital Financing in Pakistan	148
4.3 International Benchmarking: Leading Generic and Shariah-Compliant Digital Finance from Seven (7) Jurisdictions	151
4.4 Systematic Alignment of International Benchmarks Recommendation to Pakistan’s Shariah-compliant Digital Financing Top 12 Problem Statement and Challenges.....	177
4.5 Key Recommendation (1) - Policy Intervention of the Pillar of Regulatory and Legal Framework, Shariah Governance, and Key Market Players of Islamic NBFC in Pakistan....	200

4.6 Key Recommendation 2 - Product Development and Services (Proposal of Operating Model, Product Structure, Shariah Contract)	218
4.7 Key Recommendation Group 3 - Ecosystem Development in The Pillar of People (Consumer and Talent) and Technology and Infrastructure in Shariah-compliant Digital Financing	271
CHAPTER 5: CONCLUSION	284
REFERENCES	288

CHAPTER 1: INTRODUCTION

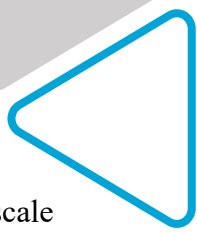
1.1 Executive Summary

Shariah-compliant digital finance has emerged as a significant enabler of inclusion, innovation, and ethical finance across many jurisdictions, particularly in markets where Islamic finance is a central component of the financial system. By combining Shariah principles with technology-driven delivery channels, Shariah-compliant digital financing has the potential to expand access to financing, improve customer experience, and strengthen consumer confidence through transparency and values-based intermediation. In Pakistan, this agenda carries particular strategic importance given the country's commitment to advancing Islamic finance, its sizeable unbanked and underbanked population, and the rapid growth of digital financial services.

Despite increasing attention to Islamic finance and digital transformation, the development of Shariah-compliant digital financing in Pakistan remains uneven and constrained by structural and market-level frictions. Stakeholders continue to highlight issues such as fragmented institutional mandates, gaps in commercialisation pathways, uneven capacity among market participants, persistent trust deficits, and varying levels of consumer literacy. At the same time, growing participation from banks, fintech firms, and other ecosystem actors indicates rising interest and an expanding pipeline of potential solutions.

This report provides an evidence-based analysis of the current state of Shariah-compliant digital financing in Pakistan using a structured six-pillar framework covering: (i) regulations, (ii) industry players, (iii) people and consumers, (iv) products and use cases, (v) technology and infrastructure, and (vi) Shariah governance and assurance. The analysis is grounded in consolidated survey findings and focus group discussions (FGDs) with relevant stakeholders, allowing the report to capture both quantitative sentiment patterns and qualitative insights on constraints, opportunities, and ecosystem readiness.

The primary aim of the report is to establish a clear diagnostic baseline of Pakistan's Shariah-compliant digital financing ecosystem, highlighting where enabling conditions are strengthening, where bottlenecks persist, and how stakeholder perceptions differ across pillars and participant groups. By synthesizing survey and FGD evidence into a coherent narrative across the six pillars, the report supports a shared understanding of ecosystem priorities and informs future discussions



on how Shariah-compliant digital financing can be developed responsibly, credibly, and at scale within Pakistan’s evolving financial landscape.

1.2 Objective of the Report


The main goal of this study is to design practical and Shariah-compliant structures for digital financing products in Pakistan. The study will also illustrate product models, supported by analysis of their financial viability and alignment with the legal and regulatory framework.

Key Areas of Focus:

- Provide an overview of Pakistan’s digital financing landscape, highlighting current challenges, opportunities, and the urgent need for Shariah-compliant alternatives.
- Review and apply core Shariah principles relevant to digital financing products.
- Identify and present widely accepted Shariah-compliant product models suitable for different segments of digital financing.
- Assess legal and regulatory compatibility, alongside financial viability, to highlight potential gaps and barriers.
- Benchmark international best practices in Shariah-compliant digital financing across at least six jurisdictions.
- Recommend feasible product models and structures for non-bank financial institutions in Pakistan.
- Suggest policy measures to support regulatory development, product innovation, and the removal of bottlenecks in the digital financing sector.

1.3 Research Methodology

This study adopts a mixed-methods, exploratory research design, combining both qualitative and quantitative approaches to align with the objectives of Commission of Pakistan (SECP). The approach is designed to (a) map the existing Shariah-compliant digital financing ecosystems, (b) assess the applicability of Shariah structures for non-bank financial institutions of Shariah-



compliant digital financing, and (c) develop Shariah-compliant digital financing recommendations supported by ecosystem development, regulatory, financial, Shariah and legal analysis.

1.4 Research Design

The research design comprises three integrated components tailored to the Shariah-compliant digital financing ecosystem. First, a desktop research, which will be presented in Chapter 2 of the report, establishes a foundational understanding of digital finance models, Shariah-compliant digital financing ecosystem, products, technology development, infrastructure and industry structures, regulatory and supervisory frameworks, and global best practices in Islamic fintech adoption. Second, a mixed-methods consultation process combines quantitative surveys capturing measurable patterns in Shariah-compliant digital financing usage, sufficiency, efficiency, effectiveness, effectiveness accessibility, adoption behavior, and Shariah compliance perception with qualitative Focus Group Discussions (FGDs) and key informant interviews to obtain deeper insights from regulators, Shariah scholars, fintech operators (NBFC), financial institutions, and end-users with regard to the Shariah-compliant digital financing in Pakistan. This part can be found in Chapter 3 of the report. Third, a technical analysis evaluates the Shariah compliance of digital financial structures, product and platform models, legal and regulatory alignment, digital infrastructure readiness, and financial and operational viability, using evidence generated from both quantitative datasets and qualitative stakeholder perspectives, which will be presented in Chapter 4 of the report.

This mixed-methods design enables systematic triangulation of findings, where numerical data from surveys reinforces interpretive insights from FGDs, interviews, and expert inputs. All components are integrated to provide a comprehensive and evidence-based understanding of Shariah-compliant digital financing, consistent with the project objectives and reflective of the ecosystem realities faced by regulators, Islamic financial institutions, non-banking financial companies (NBFC) engaged in Shariah-compliant digital financing, fintech innovators, Shariah advisors, and consumers across Pakistan's digital finance landscape.



Phase 1: Desktop Research and Ecosystem Mapping


A comprehensive desktop research was conducted to establish the current state of digital financing in Pakistan. Sources included academic publications, regulatory circulars, SECP and State Bank of Pakistan (SBP) frameworks, industry reports, Shariah standards (AAOIFI, IFSB), recent news and global case studies from at least six jurisdictions with regard to the Shariah-compliant digital financing. The review examined current practice, sufficiency, challenges, opportunities, and gaps across regulation, institutions, Shariah governance, technology infrastructure, financial products development and innovation, consumers sentiments, and sector-specific dynamics. This phase will be presented in Chapter 2 of the report.

Phase 2: Mixed Method Fieldwork (Surveys and FGDs)

To validate literature findings and obtain stakeholder perspectives, qualitative fieldwork was conducted through (a) open-ended surveys and (b) FGDs with regulators, industry practitioners, Shariah advisors and scholars, and Shariah-compliant digital financing providers.

The survey is distributed to Shariah-compliant digital finance consumers, entrepreneurs and industry players in Pakistan to capture their insights on their inputs, views, challenges, and expectations of this industry. The qualitative survey in this study targeted 40–50 respondents, which is an appropriate and sufficient sample size for exploratory research focused on understanding perceptions, challenges, and behavioral patterns among Shariah-compliant digital financing consumers in Pakistan. As the objective of the survey was not statistical generalisation but thematic validation of insights emerging from the literature review, a medium-sized purposive sample enables adequate diversity while maintaining depth of responses.

In mixed method research, sample adequacy is determined by the richness and relevance of the data rather than numerical volume; thus, 40–50 participants allow saturation of key themes related to user experience, Shariah concerns, product preferences, and access barriers. This size is also consistent with a comparable mixed method of qualitative and quantitative ecosystem studies in emerging markets, where logistical constraints, digital accessibility gaps, and heterogeneous user segments necessitate a focused yet manageable respondent pool. The sample therefore provides credible insights through data triangulation when combined with FGD findings and desktop research.




The first FGD involved SECP as the main project’s implementing partner; the second included regulators from SECP and SBP; and the third involved market players from banking institutions, non-banking financial companies, fintechs, Takaful providers, and industry associations. The three FGDs were structured to ensure comprehensive stakeholder representation and depth of qualitative insights, in line with the objectives of the project. Conducting separate FGDs with SECP, regulators (SECP and SBP), and market players allowed each group to speak freely within their professional contexts, minimising power dynamics and facilitating richer, more candid discussions. A duration of approximately two hours per session is standard for mixed method, policy-oriented FGDs, as it provides sufficient time to explore complex issues such as regulatory bottlenecks, Shariah considerations, operational challenges, and product feasibility without causing participant fatigue. Allowing each participant the opportunity to contribute ensured balanced engagement, reduced dominance bias, and enhanced the reliability and validity of the thematic insights collected. This approach aligns with best practices in mixed-method ecosystem research, enabling triangulation of perspectives across regulators, industry practitioners, and the implementing partner to produce well-rounded, actionable findings. All data were analysed thematically to identify systemic gaps, stakeholder bottlenecks and impediments, practical challenges, and aspirational development in the future with regard to the Shariah-compliant digital financing ecosystem. This phase will be presented in Chapter 3 of the report.

Phase 3: Strategic and Technical Recommendation to Develop Shariah-Compliant Digital Financing Ecosystem in Pakistan

Phase 3 of the research translated the study’s evidence-based findings, international benchmarking insights across seven (7) jurisdictions, and ecosystem development analysis into a coherent set of strategic and technical recommendations for advancing Shariah-compliant digital financing in Pakistan.

The phase consolidated insights from:

1. Pakistan’s market context, regulatory landscape, and empirical findings
2. Structural gaps, constraints, and readiness assessment of the current ecosystem, and
3. Lessons learned from international benchmarking across leading Shariah-compliant digital financing jurisdictions, analysed through a six-pillar ecosystem lens.



Building on this foundation, the study formulated a Six-Pillar Strategic Recommendation Framework to guide coordinated ecosystem development. The framework provides a structured approach to aligning policy direction, Shariah governance, industry participation, product development innovation, consumers inclusion, technology adoption and infrastructure readiness.

Within this framework, Phase 3 delivered three core recommendation layers:

1. Policy and Regulatory Recommendations

Recommendations were developed to strengthen regulatory clarity, supervisory coordination, and Shariah governance standardisation, including the respective roles of regulators, government agencies, and industry institutions.

2. Product-Level Strategic and Technical Recommendations

Priority Shariah-compliant digital financing products were identified and structured across short-, medium-, and long-term horizons, taking into account Shariah suitability, market demand, operational feasibility, and regulatory alignment.

3. Ecosystem Development Recommendations

Strategic interventions were proposed to support market development, partnerships, talent and capacity building, technology and infrastructure enhancement, and consumer education and literacy, enabling sustainable ecosystem growth

Finally, Phase 3 informed the design of a phased implementation roadmap and governance structure with clear milestones, coordination mechanisms, and KPI/OKR-based monitoring and learning system, culminating in an expert judgement on Pakistan's readiness and forward-looking positioning in Shariah-compliant digital financing. This phase will be presented in Chapter 4 of the report.

CHAPTER 2: DESKTOP RESEARCH FINDINGS

2.1 Pakistan's Digital Financing Market Overview

Pakistan's digital finance landscape is undergoing a rapid transformation, driven by an enabling regulatory environment and increasing consumer adoption. As of late 2024 and early 2025, the country's financial inclusion has reached 35% of the adult population, a significant jump from 8% in 2013, though two-fifths of adults remain unbanked (SBP, 2025a).


A key contributor of this growth is the Raast instant payment system, which has facilitated over 160 million transactions since its 2021 inception, processing transactions worth over PKR 8 trillion (SBP, 2025c). SBP has also made strides in developing a Central Bank Digital Currency (CBDC) with the 2024 Digital Currency Regulatory Framework (DCRF) act, which aims to enhance financial inclusion and reduce cash handling costs (Fraz A., 2025). Furthermore, the country's mobile phone penetration is over 82%, providing a robust infrastructure for digital payments. The COVID-19 pandemic acted as a catalyst, with mobile and online transactions surging from 17% in early 2020 to 75% by September 2024 (SBP, 2025a).

Market Size and Potential

The digital financing / lending market in Pakistan, a key component of the country's fintech ecosystem, was valued at an estimated USD 309.84 million in 2024 and is forecasted to increase to USD 360.76 million by 2030, representing a robust compound annual growth rate (CAGR) of 3.09% from 2024 to 2030. This growth has the potential to contribute a 7% increase to the national GDP and generate up to 4 million new jobs.

Low Penetration and the Underserved Market

Despite this immense potential, less than 2% of Pakistan's population has access to formal financings/loans. This low credit-to-GDP ratio is a significant hurdle to economic growth and poverty alleviation. This gap is largely due to the reliance of traditional financial institutions on physical documentation for credit underwriting, which excludes the vast, undocumented informal economy. The market for financing to micro, small, and medium enterprises (MSMEs) is



particularly ripe for disruption, as these businesses constitute 40% of the GDP and employ nearly 80% of the non-agricultural workforce (Codebase Technologies, 2025; SBP, 2023b).

Key Players and Innovation

The ecosystem is a mix of traditional banks and new fintech or non-banking financial company (NBFC) players in Pakistan. Established institutions like United Bank Limited (UBL) and Habib Bank Limited (HBL) offer digital channels for conventional products. However, fintechs like Tez, Haball and CreditFix are driving innovation by using alternative data such as mobile phone usage and utility bills to assess creditworthiness and provide small financing to individuals and MSMEs who lack a formal credit history. Mobile financial service providers like JazzCash have also entered the lending space with offerings like ReadyCash, a short-term instant loans service, and a Buy Now, Pay Later (BNPL) service, leveraging their large user bases to scale rapidly (Jabeen, M., et al. 2025; SBP, 2024b).

Foundational Infrastructure

SBP has established a robust regulatory foundation to support the market's growth. A central pillar is the eCIB (Electronic Credit Information Bureau), a mandatory system that requires all banks, microfinance banks, and financial institutions to submit borrowers' records monthly. This provides a factual credit history for informed financing decisions and allows for reporting of defaulters. Furthermore, foundational national systems such as the National Payment System Strategy (NPSS) and the real-time instant payment system, Raast, are designed to create a unified digital network that accelerates all forms of financial services, including lending (Shahid I., 2025; SBP, 2024b). By February 2022, six fintech-enabled NBFCs had received licenses and collectively disbursed over PKR 6.139 billion through ~859,000 financing to 365,239 customers/borrowers. These ranged from nano-lending to Buy-Now-Pay-Later (BNPL) and peer-to-peer models, with financing sizes of PKR 1,000 to 80,000 (The Nation, 2022). In May 2022, the SECP formally introduced the concept of digital lending for NBFCs, defining it to include technology-driven loan processes with minimal or no human interaction, from application to repayment (Sarfray S., 2022).

2.2 Pakistan's Shariah-Compliant Digital Financing Market Overview

Pakistan is a rising star in Islamic digital finance or commonly known as Islamic fintech, now ranking 9th in the world in the Global Islamic Fintech Report 2024/2025 by DinarStandard. This positioning is a direct result of strong regulatory backing and a clear market signal. The Pakistani government's mandate for a full transition to Islamic banking by January 2028 has created an urgent need for fintech solutions that can facilitate this conversion. Pakistan is home to 19 of the 490 Islamic fintechs globally, placing it 8th in terms of volume by country (SBP, 2023a).

Existing initiatives include digital platforms that offer Shariah-compliant services and the development of a Shariah-compliant CBDC. The demand potential is enormous; over 77% of Pakistani banking customers prefer Shariah-compliant products, yet many remain unbanked. The primary gap is in the development of a comprehensive and integrated ecosystem that can provide all financial services from microfinance to wealth management through a fully Shariah-compliant digital channel, ensuring ethical principles and financial inclusion go hand-in-hand.

Industry Scale vs. Digital Financing Adoption

The Islamic banking sector has achieved significant scale through traditional channels, with its assets surpassing PKR 8 trillion by mid-2023, giving it a 19.9% share of the total banking industry's assets and a 27.6% share of total financing (advances). However, the digital integration of the sector, particularly for financing, has been slow. Most Islamic banks have mobile apps that serve as extensions of their physical branches and do not provide an entirely digital, end-to-end experience for financing. For example, customers are still often required to visit a branch for documentation and verification, which undermines the core benefit of digital financing (SBP, 2023b; Jamal N., 2025).

Trailblazing Shariah-Compliant NBFC Digital Financing by SECP Pakistan

In Pakistan, Shariah-compliant digital financing via NBFCs has gained strong momentum, with the SECP issuing the first Shariah compliance certificate in 2023 to Qist Bazaar, which operates BNPL under the *Musawamah* principle, and Walee Financial Services introducing Islamic nano-financing through its Hakeem platform to serve individuals and micro-enterprises. These milestones align with SECP's 2024–2026 Strategic Action Plan to accelerate Islamic finance

across non-bank sectors and the national commitment to eliminate *riba* by 2027, following the Federal Shariat Court ruling (SBP, 2023a). With Islamic banking assets already surpassing PKR 9.2 trillion and deposits at PKR 6.8 trillion by March 2024, Shariah-compliant NBFCs are positioned to expand financial inclusion through ethical, digitally enabled models that resonate with Pakistan’s Muslim-majority population while reinforcing the country’s broader transition toward a fully Islamic financial system.

New Digital-Native Financier

To address this gap, the SBP issued digital banking licences in January 2023, one of which went to Raqami Islamic Digital Bank, the country's first fully Shariah-compliant digital bank. While Raqami has not yet commenced commercial operations, its mandate is to cater to underserved segments, including SMEs, women, youth, farmers, and freelancers, with tailor-made financial products, including financing, through a purely digital app (Jamal N., 2025; Codebase Technologies, 2025).

2.3 Key Facts for Digital Financing and Shariah-Compliant Digital Financing in Pakistan

Table 1: Pakistan's Digital vs. Islamic Digital Financing - Key Industry Metrics

Metric	Digital Lending/Financing (General)	Shariah Digital Financing
Market Size	USD 309.84 million (2024) (Statista, 2025)	Not specifically quantified, but Islamic banking assets are PKR 8.118 trillion (USD 27 billion) by June 2023 (SBP, 2023b).
Market Potential	USD 360.76 million (2030) (Statista, 2025)	Considered a high-potential market due to demographics and strong consumer demand (SBP, 2023a).

Formal Loan/Financing Access	Less than 2.5% of the population (SBP, 2024c)	Not specifically quantified for digital channel, but Islamic banking is a major contributor to overall advances.
Private Sector Lending/Financing (FY25)	PKR 710 billion in private sector borrowing	Not specifically quantified for digital channel, but Islamic banking is a major contributor to overall advances.
Licensed Digital Banks	5 entities granted licences (Jamal N., 2025)	1 fully Shariah-compliant digital bank (Raqami) licensed to provide financing services (Jamal N., 2025).
Licensed NBFCs engaged in Digital Lending/Financing	25 (SECP, 2025b)	6 (SECP, 2025b)
Global Ranking	Pakistan's fintech ecosystem is considered "promising" and "high growth".	Ranks 9th in the Global Islamic Fintech Index (DinarStandard, 2025).

2.4 Opportunities for Shariah-Compliant Digital Financing in Pakistan

The acceleration of digital financial services and fintech in Pakistan is an urgent, fundamental, and critical national priority. It is not merely a technological upgrade but a strategic necessity for inclusive economic development and social stability. By leveraging digital platforms, Pakistan can overcome the geographical and logistical barriers that have historically excluded millions from the formal financial system, empowering a vast, unbanked population, especially women to participate in the economy. This is the single most effective way to unlock the nation's true economic

potential, create a transparent financial ecosystem, and foster a new era of innovation and growth (SBP, 2025a).

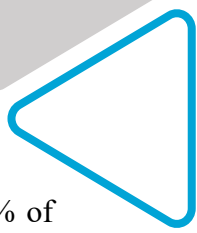
Furthermore, the acceleration of Shariah-compliant digital financial services is of paramount importance, rooted in the nation's unique demographic profile, a supportive regulatory environment, and a clear alignment with its economic future. Pakistan, with the world's second-largest Muslim population, has an inherent and growing demand for faith-based financial products (SECP, 2025a).

This positions the country to become a global leader in Islamic fintech, a potential that is already being realised. According to the Global Islamic Fintech Report (GIFT) 2024/2025 by DinarStandard, Pakistan's current ranking as 9th position at a top ten global ecosystem underscores its immense potential to lead in this high-growth sector (DinarStandard, 2025).

Pakistan's financial landscape is at a turning point, with digitalisation creating space for Shariah-compliant alternatives. The combination of unmet demand, favourable demographics, and supportive regulation highlights clear opportunities for expanding ethical, tech-driven financing solutions.

1. Vast Untapped Market: Pakistan has approximately 100 million unbanked adults and a population that is 96% Muslim, creating a significant demand for ethical, Shariah-compliant financial products. A major portion of the unbanked population may be hesitant to engage with conventional, interest-based financing, creating a specific and compelling need for ethical, Shariah-compliant alternatives (Codebase Technologies, 2025; Siddiqui H., 2025).

2. Massive Market Demand and Favourable Demographic Alignment: Pakistan's demographic profile presents a compelling case for Shariah-compliant digital financial services and digital financing. With 64% of the population under the age of 30 and 75.2% mobile penetration, the country has a young, tech-savvy demographic that is ready to adopt digital services. This digital adoption creates a "rich footprint" of data from transactions, mobile usage, and utility bills that can be used for alternative credit scoring, which in turn unlocks financing to segments previously excluded from formal credit (SBP, 2025a). In addition, with a population of over 240 million that is more than 96% Muslim, there is a natural and immense demand for



financial products that adhere to Islamic principles. A recent survey revealed that over 77% of Pakistani banking customers prefer Shariah-compliant financial products, yet the market's current offerings are limited, creating a "pull factor" for Islamic fintech to provide accessible and ethical digital solutions. Strong demand and favorable demographics are real, but they are background drivers, not explicit policy priorities. Government documents cite them to justify reforms rather than to define programs (KPMG, 2025).

3. Technological Innovation: The adoption of emerging technologies presents a powerful avenue for growth. Artificial Intelligence (AI) and machine learning can be used to revolutionise credit underwriting by assessing risk from alternative data, making financing of individuals and MSMEs without a formal credit history feasible (MarketsAndMarkets, 2025). Beyond financing, AI can also be leveraged for real-time Shariah audits to ensure compliance and increase operational efficiency (Qurban, U., 2023). Blockchain technology can also facilitate direct, peer-to-peer relationships between contracting parties, which aligns with the Islamic principle of risk-sharing and the need for transparency (Rahman, M., 2022).

4. Strategic National Alignment by SBP and SECP: The growth of this sector aligns with the SBP's goal of achieving 75% financial inclusion by 2028 and the government's shift toward long-term, Shariah-compliant debt instruments like *Sukuk*. By integrating with national digital infrastructure like the instant payment system Raast and government-to-person (G2P) benefit disbursement programs, these platforms can rapidly acquire a user base and provide seamless services to a wide segment of the population. In addition, Shariah Digital Financing NBFCs in Pakistan regulated by SECP can tap into a rapidly growing PKR 9+ trillion Islamic finance market by offering ethical, tech-driven microfinance, BNPL, and SME solutions that align with consumer trust, regulatory push for a *Riba*-free economy, and rising demand for inclusive financial access aligned with SECP Strategic Alignment 2024-2026 (SBP, 2023a).

2.5 Key Drivers of Harnessing Shariah-Compliant Digital Financing in Pakistan

This section presents a government-focused ranking of nine key drivers and objectives to accelerate Shariah-compliant digital finance, with each priority substantiated by the most recent public strategies, time-bound targets, and official policy actions.

1. Uplifting Significant Financial Inclusion & Literacy:

- Pakistan faces a massive financial exclusion challenge, with the World Bank's Global Findex Database 2021 reporting that only 21% of adults have a financial account. The issue is particularly acute for women, who are only half as likely as men to have access to formal banking (World Bank, 2021). However, for a significant segment of the population, the barrier is not just access but a religious conviction against conventional, interest-based banking. By offering Shariah-compliant digital wallets and mobile banking, Islamic fintech can onboard millions of previously excluded individuals, fostering both financial inclusion and economic empowerment in a way that aligns with their values.
- The State Bank of Pakistan (SBP)'s new National Financial Inclusion Strategy (NFIS 2024–28) sets headline national targets, 75% adult inclusion and a smaller gender gap by 2028, making inclusion the top policy north star. Recent speeches and national campaigns (e.g., Financial Literacy Week) explicitly foreground inclusion and literacy alongside Raast, Asaan Digital/Mobile Accounts, and digital banks (SBP, 2025a).

2. Capitalising on Rapidly Growing Digital Adoption and Financial Accounts:


- Pakistan has seen a significant surge in formal financial services, with financial institution accounts growing by an impressive 127% between FY19 and FY24. This growth has raised financial inclusion to 35% of the adult population in 2024, up from just 8% in 2013 (Karandaaz, 2025). Despite this progress, two-fifths (2/5) of adults remain unbanked. The dramatic rise in mobile and online transactions from 17% in early 2020 to 75% by September 2024 demonstrates a strong consumer appetite for digital services that the government must continue to nurture to achieve full financial inclusion (SBP, 2025a). This irreversible momentum presents a unique opportunity for the government to implement targeted policies that will ensure sustained growth in the Islamic fintech sector and solidify the country's transition to a digital, ethical, and inclusive economy.
- Pakistan has rapidly expanded account ownership (64% of adults by 2023, per SBP) and is scaling Raast for ubiquitous, low-cost instant payments. Policymakers consistently describe this digital uptake as the core lever to reach NFIS targets (Shahid, I., 2025a).

3. Elevating Shariah-Compliant Digital Finance as a Key Contributor to Economic Growth:

- Digital financial services are no longer a side project but a core pillar of Pakistan's economic future. The digital economy, while still nascent, is growing. The country's e-commerce market reached \$7.7 billion in 2024, with a projected compound annual growth rate (CAGR) of 17% through 2027, according to the Asian Development Bank (Hajra N., 2025). Furthermore, Pakistan's IT exports hit a record high of \$3.8 billion in FY 2024-25, marking an 18% increase over the previous year and positioning the IT sector as the third-largest foreign exchange earner (Kalbe A., 2025). This strong performance highlights the direct economic benefits of a robust digital ecosystem, demonstrating that investing in fintech not only improves inclusion but also Pakistan's proactive stance is positioning it as a key player in the global Islamic fintech landscape.
- The government and SBP have an explicit Islamic finance push: a 2021–25 plan targeting 30% Islamic banking share by 2025 and ongoing moves toward system-wide Islamisation following court rulings by 2028 placing Shariah-compliant finance near the centre of sector strategy (SBP, 2021).

4. Leveraging Conducive Regulatory Support:

- The SBP has established a supportive regulatory environment with frameworks for Electronic Money Institutions (EMIs) and the Raast instant payment system (SBP, 2024a; SBP, 2025b). These initiatives reflect strong government backing for digital finance. Building on this existing foundation is key to creating a secure, structured ecosystem that encourages innovation and investment, while also protecting consumers. On the other hand, the government of Pakistan has made a strong commitment to promoting Islamic finance. The Federal Shariat Court has set a firm deadline for January 2028 for the complete elimination of *riba* from the financial system. This landmark ruling is backed by the State Bank of Pakistan's (SBP) five-year plan (2023-2028), which provides a detailed roadmap for this transition (SBP, 2023a). The SBP has also adopted the AAOIFI Shariah standards, further solidifying its commitment and creating a powerful incentive for fintech firms to develop the digital tools necessary for a full-scale conversion to Islamic banking.


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- Pakistan has rolled out a dedicated digital bank licensing framework (two-stage, DRB/DFB) and a national fintech regulatory sandbox (SECP), signaling a sustained “enablement” posture to spur innovation and inclusion via new entrants and models. (SBP, 2022a; SECP, 2019).

5. Boosting Economic Transparency and Efficiency:

- Fintech solutions are key to promoting a cashless economy, which improves financial transparency and reduces reliance on the informal, cash-based sector. This shift, driven by systems like Raast, is vital for better tracking of financial flow, taxation, and combating illicit activities. When these digital services are designed in line with Islamic principles of ethics, risk-sharing, and social responsibility, they can further enhance trust and consumer confidence (Sriani E. & Mustofa U., 2023). Platforms based on Islamic contracts like *Murabahah*, *Ijarah*, *Mudarabah* and *Musharakah* offer transparent alternatives to conventional lending, reinforcing the government's goal of building a more accountable financial system.
- Raast underpins cheaper, traceable transactions across government, business and consumers; tax-side efforts (FBR Track-and-Trace) target leakage in priority sectors, both are explicit state instruments for transparency and efficiency, even as compliance gaps remain (SBP, 2025).

6. Optimising Shariah Digital Financing as a Tool for Addressing Macroeconomic Challenges:

- In a country facing significant economic challenges, digital financial services offer a powerful tool for building resilience. The World Bank notes that while the economy is stabilising, sustained, and inclusive growth is the key challenge for Pakistan. With a nominal GDP of \$411 billion in 2024 and a forecast for modest growth of 2.5% in 2025, the need for efficiency gains and new revenue streams is paramount (World Bank, 2025). By enabling a more transparent tax base, reducing the cost of transactions, and attracting foreign investment into high-growth sectors like IT, fintech provides a critical mechanism



to bolster the economy. This is particularly relevant as the government seeks to improve fiscal and external buffers, as highlighted by the World Bank's April 2025 report.

- Multilateral advice and government priorities highlight digital public infrastructure (ID, payments, data sharing) to broaden the tax base, formalise activity, and support stabilization, framing DFS as part of the macro tool kit rather than a standalone social programme (World Bank, 2025).

7. Enhancing Creditworthiness, Bankability and Financial Capacity for Economic Growth:

- Digital financial records can help individuals and small businesses build a financial history, thereby improving their creditworthiness and bankability. This is essential for unlocking the country's full economic potential. The digital economy is a core pillar of Pakistan's future; its e-commerce market reached \$7.7 billion in 2024 (Hajra N., 2025), and the IT sector's exports hit a record high of \$3.8 billion in FY 2024-25 (Kalbe A., 2025), positioning it as the third-largest foreign exchange earner. By aligning this digital growth with Islamic principles, Pakistan can tap into its vast domestic market and attract investments into Shariah-compliant digital ventures, directly contributing to national revenue and GDP growth.
- NFIS 2024–28 emphasises access to finance for SMEs, agriculture, housing, and women. Digital rails (AMA/e-KYC, Raast) are policy tools to widen credit access and improve risk assessment, but these are positioned as means to achieve inclusion targets rather than a separate top-line priority (Mettis Link News, 2025).

8. Driving Socioeconomic Development in Alignment to UN SDGs:

- Expanding digital financial services is a critical enabler for broader socioeconomic development. By offering a secure way for people to save, send, and receive money, fintech platforms empower individuals and small businesses. This is particularly important for a country where a large percentage of the population still depends on informal networks for financial transactions.

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- Regulators increasingly link finance to sustainability (e.g., SECP-IFC ESG initiatives), but SDG alignment is framed as a cross-cutting co-benefit within financial-sector reforms, not the leading near-term metric for DFS policy.


9. Leveraging Deregulation and Post-COVID-19 as Catalysts for Innovation:

- The deregulation of Pakistan's financial sector and the introduction of branchless banking have been pivotal catalysts for innovation. By allowing non-traditional entities, like *kiryana* stores, to become financial service agents, the government created a broad network of access points. The COVID-19 pandemic further accelerated this shift pushing consumer behavior toward cashless and mobile banking, with mobile and online transactions rising from 17% in early 2020 to 75% by September 2024 (SBP, 2025a). This irreversible momentum, coupled with the rising market share of Islamic banking, which reached 25% of total banking assets in 2025, presents a unique opportunity for the government to implement targeted policies that will ensure sustained growth in the Islamic fintech sector and solidify the country's transition to a digital, ethical, and inclusive economy.
- Pakistan's big deregulatory moves (EMIs/digital onboarding and digital banks) did catalyse fintech. However, today's policy messaging focuses more on executing current frameworks (NFIS/Raast/digital banks) than on new deregulation waves. (SBP, 2022a).

2.6 Deep Dive Digital Financing Ecosystem in Pakistan

Pakistan's digital financing ecosystem is a rapidly evolving landscape, marked by the transition from traditional lending to technology-enabled credit and Shariah-compliant financing solutions. While notable progress has been made, the sector remains in its early development stage, largely concentrated on short-term consumer financing/loan and limited-scale SME financing/loan. Growth is being driven by non-bank financial companies (NBFCs), emerging fintech financiers/lenders, supportive regulatory reforms, and changing consumer demand for accessible, transparent, and Shariah-aligned financing options (SECP, 2023a).

The ecosystem is shifting from manual credit to app- and API-driven models, underpinned by a fast-maturing SECP rulebook and growing digital reach. On the supply side, SECP continues to tighten standards (e.g., nano-loan pricing caps and borrower-data protections) while expanding



formal market access: its 2023–2024 circulars constrain total cost of credit and mandate transparent Key Fact Statements, and in August 2025 SECP cleared two additional foreign-backed entrants, Foremost Financial Services for digital nano-lending and Instant Finance for SME digital loans, signaling confidence in the regulatory perimeter (SECP, 2023b; SECP, 2024; SECP, 2025a).

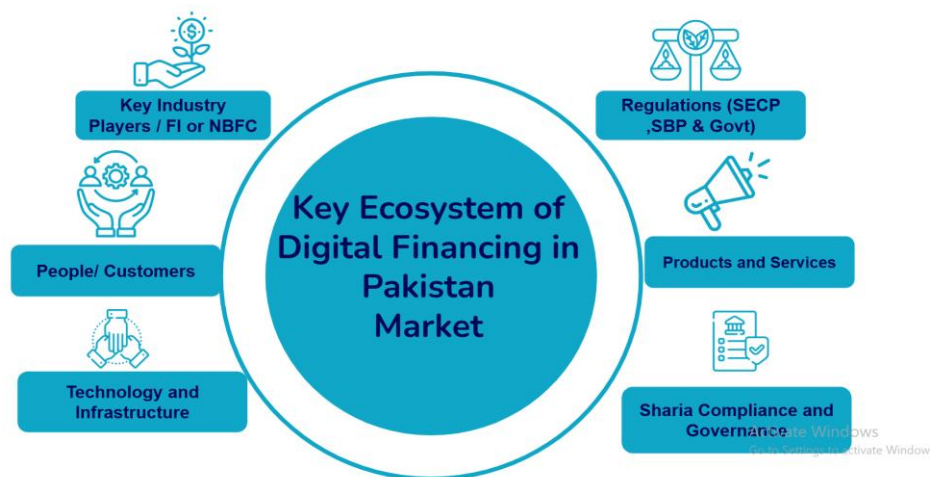
Demand is enabled by widespread connectivity. By January 2025, Pakistan counted approximately 116 million internet users (~45.7% penetration) and mobile broadband coverage reaching ~81% of adults, providing critical rails for low-touch credit onboarding, servicing, and collections (DataReportal, 2025; GSMA, 2025). SECP also curates a whitelist of licensed NBFC digital-lending apps (updated August 2025), helping users and platforms reduce fraud and rogue-app risk (SECP, 2025b). Scientifically, the macro case for digital credit remains strong: Pakistan’s SMEs face chronic under-financing, with only ~7% accessing formal credit and a large national share of the global MSME finance gap, conditions where digital underwriting (cash-flow and device-data models) can measurably improve reach and risk pricing (CCP, 2023).

Within Islamic finance, Shariah-compliant NBFCs are moving from pilots to productization: SECP awarded the first Shariah compliance certificate to a BNPL NBFC operating on *Musawamah*, and Islamic nano-finance launched via Walee’s Hakeem platform, developments that dovetail with Pakistan’s broader transition toward an interest-free system and an Islamic banking sector that continued to expand through Q1 2025 (SECP, 2025a).

Framed against these fundamentals, and a sizable global MSME finance gap now estimated at \$5.7 trillion; the near-term growth frontier is still concentrated in short-tenor consumer and micro-SME tickets. However, the rails, rules, and Shariah governance now in place provide an evidence-based pathway for scale into embedded SME working capital, BNPL for micro-merchants, and earned-wage access, areas where digital financiers can rigorously test for welfare-enhancing outcomes such as lower all-in costs, improved repayment stability, and inclusion of first-time formal borrowers (CCP, 2023).

2.7 Key Ecosystems Dimension of Digital Financing Ecosystem in Pakistan

The digital financing ecosystem in Pakistan is multifaceted, structured across six interconnected dimensions: regulation, institutions (key industry players), technology, people, products, and Shariah compliance. Together, these dimensions underpin a rapidly evolving digital finance landscape.



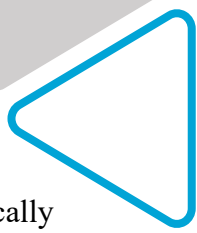
2.7.1 Regulatory Landscape of Digital Financing in Pakistan

a. Regulators

The regulatory landscape for digital financing in Pakistan is primarily shaped by two key bodies, the SBP and the SECP, and other supporting bodies.


1. State Bank of Pakistan (SBP):

- **Role:** The SBP oversees businesses involved in financing/lending and financial intermediation. The SBP also took action by instructing its regulated entities to only authorise payments for licensed financiers, aimed at protecting customers from unlicensed operators.
- **Actions:**
 - **Establishing a Regulatory Framework for Digital Banks:** The SBP introduced the Licensing and Regulatory Framework for Digital Banks in 2022, which is



designed to usher in a new era of banking in Pakistan. This framework specifically allows for the creation of Digital Retail Banks (DRBs) and Digital Full Banks (DFBs), which provide all banking services, including financing/lending, through digital means, without the need for physical branches. By the end of 2022, the SBP had already issued provisional No-Objection Certificates (NOCs) to five prospective digital banks (SBP, 2023d).

- **Broadening Oversight to Financial Intermediation:** The SBP is the primary overseer of businesses involved in financing/lending and financial intermediation. This oversight is crucial for providing a stable and secure environment for digital financing to operate. The SBP's National Payment System Strategy (NPSS) also provides a roadmap for an efficient, safe, and competitive market environment, which includes the provision of credit (SBP, 2019b).
- **Protecting Consumers from Unlicensed Lenders:** The SBP has taken direct action to address the risks posed by unlicensed operators in the digital financing space. In 2023, the SBP instructed its regulated entities to authorise payments only for licensed lenders, a measure aimed at protecting customers/borrowers from predatory and unlicensed lending practices (SECP, 2023a).
- **Developing Foundational Infrastructure:** Although focused on payments, the SBP's development of core digital infrastructure is a fundamental enabler for digital lending. The launch of Raast, Pakistan's instant payment system, is a prime example. Raast facilitates instant payments for online vendors, which is essential for digital lending and helps micro-merchants avoid costly physical infrastructure, thereby boosting the entire digital ecosystem (SBP, 2025a).
- **Enhancing Trust and Security:** The SBP has enhanced its supervisory mechanisms for digital financial services, with a strong focus on cybersecurity, financial soundness, and consumer protection. It has also introduced a comprehensive cyber/information security framework for financial institutions to build resilience against emerging threats. Additionally, in 2023, the SBP provided a framework on risk management for outsourcing to cloud service providers, which helps mitigate risks while financial institutions harness cloud technology for digital services (SBP, 2023c).

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- **Promoting Broader Financial Inclusion through Lending:** The SBP's National Financial Inclusion Strategies (NFIS), such as NFIS 2024-28, have a broader objective to promote digital financial services and increase priority sector lending for areas like agriculture, SMEs, and housing. This strategic focus aims to use digital tools, including lending, to serve segments of the population traditionally excluded from formal finance (SBP, 2025a).

2. Securities and Exchange Commission of Pakistan (SECP):

- **Role:** Regulates the non-bank financial sector.
- **Actions:**
 - The SECP introduced a comprehensive regulatory framework for fintech-based Non-Bank Financial Companies (NBFCs), which specifically covers digital lending and digital investment advisory.
 - This framework was developed with a focus on ensuring consumer protection, robust IT governance, and sound financial risk management.
 - In a move to curb predatory practices in the nano-lending industry, the SECP issued new guidelines in December 2022 that outlawed upfront deductions from financing amounts for service and processing charges.
 - The regulator has imposed exposure limits in August 2023, capping a single digital lending at Rs25,000 and the maximum an individual could borrow across all creditors at Rs75,000 (SECP, 2023c).
 - A major policy shift occurred in September when the SECP prescribed a cap on pricing, mandating that an NBFC shall charge an Annual Percentage Rate (APR) not exceeding ten times the State Bank of Pakistan's Policy Rate.

3. Pakistan Telecommunication Authority (PTA):

- **Role:** Collaborates with SBP and banks on initiatives like Asaan Mobile Account (AMA).
- **Actions:** Critical in ensuring robust telecommunications infrastructure.

4. Other Government Entities:

- **Federal Board of Revenue (FBR):** Responsible for tax revenue collection, leveraging PRAL interface for electronic tax filing and PSID generation.
- **National Institutional Facilitation Technologies (NIFT):** Calculates multilateral net settlement positions for cheque clearing.
- **NADRA (National Database and Registration Authority):** Provider of agent-assisted retail payment services, especially for bill payments, with a network of 10,000 franchised agents.
- **Pakistan Post:** Offers domestic and international remittance services and collects payments for billers and government taxes/fees.


b. Regulatory Framework Journey of Digital Finance in Pakistan

Pakistan's regulatory framework for Digital Financial Services (DFS) and Fintech has evolved significantly, moving from a cautious, traditional approach to a proactive, facilitative one. The State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) are the primary regulators, driving a policy agenda focused on financial inclusion, stability, and consumer protection.

1. Past (Pre-2010s): Foundational Stage and Early Innovation

The regulatory framework for digital financial services (DFS) in Pakistan began with a focus on establishing a legal basis for electronic transactions and supporting basic digital payment. It was characterised by a conventional banking system with limited digital integration. Early regulatory efforts were reactive, primarily focused on safeguarding the traditional financial system. Key milestones included:


- **Electronic Transaction Ordinance of 2002:** gave legal recognition to electronic documents and transactions.

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- Objective: Legally recognise e-documents, e-signatures, digital contracts.
 - Problem Solved: Eliminated ambiguity around digital commerce & online transactions.
 - Link to NPSS/NFIS: Provides the legal backbone for digital transactions envisioned in NPSS (e.g., Raast smart contracts, e-invoices).
 - **Payment Systems and Electronic Fund Transfers Act (2007):** This foundational legislation provided a legal basis for electronic payments and fund transfers, laying the groundwork for digital financial services (SBP, 2007).
 - Objective: Regulate and safeguard payment systems; define consumer rights.
 - Problem Solved: Established SBP's authority over digital payments; ensured consumer trust.
 - Link to NPSS: Basis for SBP's oversight of Raast and digital payment operators.
 - Link to NFIS: Secure payments encourage excluded populations to trust digital finance.
 - **Branchless Banking Regulations (2008):** This was a pivotal moment, enabling banks to use agent networks to provide financial services to the unbanked. It led to the rise of major mobile money platforms like EasyPaisa and JazzCash, which became central to Pakistan's financial inclusion narrative (SBP, 2008).
 - Objective: To enable banks to deliver services through agents and mobile platforms as a low-cost model for expanding outreach.
 - Problem Solved: Addressed low branch penetration and high banking costs, making financial access possible in rural/unbanked areas.

This era was marked by a fragmented legal framework, often adapted from traditional banking laws, and a general lack of a dedicated fintech-specific policy. The focus was on extending the reach of existing financial institutions rather than fostering new, non-bank digital players.


2. Present (2010s-2025): Fostering Ecosystem and Specialisation

The current regulatory phase is characterised by a shift towards creating a more specialised and inclusive ecosystem for fintech. The State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) have introduced targeted regulations to encourage innovation




while ensuring stability. The current phase is defined by the development of specialised frameworks to accommodate and encourage digital innovation. Regulators have shifted from a "control-first" to a "facilitate-first" mindset.


- **Rules for PSOs/PSPs (2014) (SBP, 2014)**
 - Objective: To regulate and oversee payment operators and service providers such as switches, gateways, and aggregators.
 - Problem Solved: Solved systemic risks caused by unregulated intermediaries and brought players like 1LINK and NIFT under SBP supervision.
- **Regulations for Electronic Money Institutions (EMIs) and Digital Onboarding (2019):** These rules enabled non-bank entities to offer digital financial solutions, providing a level playing field and fostering competition in the DFS landscape. The digital onboarding mechanism, also introduced in 2021, facilitates remote account opening for residents and non-resident Pakistanis, including through the Roshan Digital Account (RDA) (SBP, 2019a).
 - Objective: To provide a framework for non-bank entities to issue e-money and enable digital onboarding through e-KYC.
 - Problem Solved: Gave fintechs a legal path to operate, expanding access to digital wallets and payments for underserved populations.
- **National Payment System Strategy (NPSS) (2019):** This strategy provides a roadmap for developing a safe, efficient, and universally accessible national payment system (SBP, 2019b).
 - Objective: Build secure, interoperable, real-time payments.
 - Problem Solved: Cash dependency, fragmented payment systems.
 - Complementary Regulations: Anchored in Payment Systems Act 2007 (for SBP authority), ETO 2002 (digital recognition).
 - The implementation of the National Payment System Strategy (NPSS) will be vital for the sustainable development of the national payment landscape and for achieving national financial inclusion goals.
- **Launch of Raast (2021):** As Pakistan's first instant payment system, Raast promotes widespread interoperability and is expected to drive future growth in the DFS landscape.



It has been launched in phases, covering bulk and Person-to-Person (P2P) payments, with a third phase to include merchants.

- **National Financial Inclusion Strategy (NFIS), revised 2021**
 - Objective: Bring 50% of adults into the financial system by 2025.
 - Problem Solved: High financial exclusion, esp. women, SMEs, farmers.
 - Complementary Regulations: Supported by digital banking security circulars (2023) and Digital Nation Pakistan Act 2025 (for digital IDs and platforms).
- **Licensing and Regulatory Framework for Digital Banks (2022):** The SBP introduced this framework to facilitate the establishment of fully digital, branchless banks in the country. This initiative aims to digitise the banking sector and support DFS growth with prudent oversight (SBP, 2022a).
 - SBP introduced separate norms for Digital Retail Banks (DRBs) and Digital Full Banks (DFBs), with phased capital requirements (initial PKR 1.5B, rising to 4B) and eligibility extended to traditional banks, EMIs, and fintech/IT firms. Enables new digital-first players to provide full-service digital banks.
 - Objective: To establish a licensing regime for branchless, digital-first banks with flexible capital requirements.
 - Problem Solved: Overcame high-cost, slow services of traditional banks by allowing digital banks to offer affordable, innovative products, with five provisional NOCs already granted (SBP, 2023d).
- **Circular 15 (2022):** Set baseline borrower protections, KFS disclosure in Urdu/English, ban on coercive recovery, limits on data access, and licensing transparency (SECP, 2022).
- **Circular 03 (2023):** Strengthened NBFC digital lending rules on licensing, governance, and operations (SECP, 2023a).
- **Circular 15 (2023):** Tightened nano-loan rules, 30-day tenure (max 90 with rollover), APR cap at 10× SBP policy rate, and fee limits (SECP, 2023b).
- **Framework on Risk Management in Outsourcing & Cloud (SBP, 2023c).**
 - Objective: Guide banks/fintechs outsourcing IT or cloud workloads.
 - Problem Solved: Addressed data security & vendor risks in a cloud-first digital finance world.
 - Link to NPSS: Ensures resilient payment infrastructure (cloud-ready).

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- Link to NFIS: Protects customer trust in branchless & mobile banking.
 - **BPRD Circular No. 04 of 2023** (Digital Banking Security) (SBP, 2023e)
 - Mandated that banks and MFBs implement enhanced security controls by end-2023, with compliance monitored by SBP and compensation requirements for fraud victims.
 - Objective: Strengthen cybersecurity, enforce fraud compensation rules.
 - Problem Solved: Mitigated digital fraud risks in banking.
 - Link to NFIS: Builds confidence among first-time users, a key barrier to inclusion.
 - Link to NPSS: Keeps payment rails like Raast safe from fraud.
 - **Banking Channel Use for Digital Lending** (2023, PSP&OD Circular No. 02)(SBP, 2023f)
 - Prohibits banks and PSPs from supporting unauthorised digital lending apps, requiring verification of licensing with SBP/SECP before providing services like payouts or API access.
 - **Circular 08 (2024):** Guidelines for NBFCs Engaged in Digital Lending. SECP establishes ethical marketing and call-centre standards for NBFC digital lenders to curb deceptive practices and strengthen borrower protection (SECP, 2024c).
 - **Circular 12 (2024):** Requirement of NBFCs Engaged in Digital Lending. SECP provides a consolidated digital lending framework enabling NBFCs to launch innovative products (BNPL, APIs, earned-wage access, SME finance) with enhanced cybersecurity and consumer safeguards (SECP, 2024d).
 - **Circular No. 14 of 2024:** Self-Assessment Declaration for Whitelisting of Digital Lending Apps: SECP introduces a self-assessment system for NBFCs to whitelist digital lending apps, streamlining approvals while enforcing strict cybersecurity and borrower privacy controls (SECP, 2024e).
 - **Fintech-Enabled NBFCs:** The SECP introduced a comprehensive regulatory framework for fintech-based Non-Banking Financial Companies (NBFCs), covering digital lending and digital investment advisory. By August 2025, 22 licensed fintech NBFCs have been approved by SECP in their whitelist (SECP, 2025b).
 - **NBFC Regulations Update (2025):** The 2025 amendments to the NBFC Regulations comprehensively modernise the 2008 framework by adopting a digital-first, activity-based



and risk-sensitive approach, formally regulating digital lending models (including BNPL, nano loans, EWA and P2P lending), strengthening consumer protection through mandatory digital borrower disclosures, introducing robust IT, cybersecurity and data protection requirements, enhancing governance and transparency standards, tightening exposure and concentration limits, expanding capital and loss-absorption tools (including callable and contingent capital), explicitly aligning with Shariah governance regulations, and subjecting P2P platforms to full prudential and conduct supervision through equity thresholds, escrow or trust structures, exposure caps, risk disclosures, platform contingency funds and winding-down requirements (SECP, 2025b).


- **Regulatory Sandboxes:** Both the SBP and the SECP have launched regulatory sandboxes. These are controlled environments where fintech can test innovative products and services under relaxed regulatory conditions. This "test-and-learn" approach reduces the regulatory burden for startups and provides valuable data for the regulators to formulate future policies.

The present regulatory landscape is more coherent and forward-looking, with a clear focus on interoperability, consumer data protection, and cybersecurity as core pillars of a stable digital ecosystem.

3. Future (Beyond 2025): Technology Advancement, Integration and Hyper Customization


The future regulatory landscape is expected to focus on deeper integration and addressing new challenges posed by technological advancements. Key areas of focus will likely be:

- **Digital Nation Pakistan Act, 2025**
 - Objective: Comprehensive digital transformation (Pakistan Stack, Data Exchange Layer, digital ID).
 - Problem Solved: Administrative inefficiency, lack of interoperability across government services.
 - Link to NPSS: Provides national digital ID and data infrastructure to plug into Raast & payment systems.
 - Link to NFIS: Streamlines citizen onboarding to finance (KYC via digital ID, easy access to G2P payments).

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- **Consultation Paper on Peer-to-Peer (P2P) & Crowd Lending, June 2025:** SECP issued a consultation paper on regulating Peer-to-Peer and Crowd Lending, proposing amendments to NBFC rules to expand digital finance access.
 - **Interoperability:** Further collaboration among stakeholders is needed to enhance interoperability in the mobile money segment, which is crucial for consumer convenience and merchant payments. Raast, once fully implemented to include businesses, will be a significant step towards end-to-end digitisation.
 - **Open Banking and APIs:** Expect a move towards an open banking framework, enabling third-party fintechs to securely access customer data (with consent) to offer personalised and integrated financial services. This will be facilitated by initiatives like Raast, Pakistan's instant payment system, expanding its functionality to include business-to-consumer (B2C) and person-to-merchant (P2M) payments.
 - **Consumer Protection & Digital Literacy:** Despite existing frameworks for consumer protection and grievance handling, issues like low digital literacy, fear of hidden costs, and cybersecurity risks persist. Future efforts will need to focus on improving financial and digital literacy to encourage greater adoption and trust in DFS (SBP, 2025a).
 - **Cloud Computing and Cybersecurity:** The SBP has already introduced a framework for risk management in cloud outsourcing arrangements. With increasing reliance on digital channels, maintaining robust cybersecurity will remain a top priority to mitigate risks and protect financial institutions and consumers.
 - **Cross-Border Frameworks:** Regulatory collaboration will be crucial for facilitating cross-border payments, remittances, and foreign direct investment into the fintech sector. This will involve harmonising domestic regulations with international standards to build a more globally integrated financial system.
 - **Regulation of New Technologies:** While the regulatory stance on crypto assets and blockchain technology remains conservative due to associated risks, these technologies hold great potential for increased efficiency and transparency. Future frameworks may need to address these emerging areas.

c. Gaps Identified in the Regulatory Landscape of Digital Financing in Pakistan

- **Inaction and Delayed Response to Predatory Lending:** For some time, regulators faced criticism for their slow response to the rise of nano-lending. The SECP initially attributed the problem to unregistered foreign operators, while the SBP maintained that NBFCs were not within its mandate. A more visible and rapid regulatory response was ultimately triggered by a tragic incident involving a victim of financing apps. This delay highlights a gap between the identification of a problem and the swift implementation of protective measures (Khan, M., 2023).
- **Weak Enforcement and Monitoring:** Even after the SECP introduced new guidelines to outlaw upfront loan deductions, cap pricing, and imposing exposure limits, the effectiveness of these measures was challenged by weak enforcement and difficulties in monitoring online activities. Some nano-lenders have reportedly bypassed the Play Store, distributing their apps through APK files on websites and social media, making them difficult for regulators to track and control (Khan, M., 2023).
- **Fragmented Regulatory Oversight:** Shariah digital financing is overseen by multiple authorities, SECP, SBP, NADRA, telecom regulators, and provincial bodies, without a unified coordination mechanism. This fragmentation results in overlapping requirements, inconsistent supervisory expectations, and procedural delays, particularly in eKYC, digital onboarding, and data-sharing approvals. The lack of system-level interoperability among regulators undermines regulatory efficiency, increases compliance costs for providers, and slows market entry and scaling of Shariah-compliant digital financing solutions.
- **Unclear and Insufficiently Communicated Regulations:** Regulatory frameworks governing Shariah digital financing are widely perceived as unclear, complex, and poorly communicated to both industry players and consumers. Weak enforcement further reduces confidence in the system, while low public awareness of licensing status, approved providers, and consumer protection mechanisms increases confusion and mistrust. Overreliance on traditional communication channels limits outreach, particularly to digitally active youth and rural users, weakening the credibility and effectiveness of the regulatory environment.

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- **Sandbox Stagnation:** While regulatory sandboxes enable experimentation, stakeholders highlight the absence of a clear pathway from pilot testing to commercial deployment. Firms often remain stuck after proof-of-concept stages, facing uncertainty over licensing, capital requirements, and supervisory expectations. This stagnation discourages investment, increases regulatory risk, and limits innovation. Unlike more mature jurisdictions, Pakistan’s sandbox framework lacks structured graduation criteria, phased authorisation, and predictable timelines for scaling Shariah digital financing solutions.

2.7.2 Institutions (Key Industry Players) of Digital Financing in Pakistan

The institutional landscape of digital financing in Pakistan is a dynamic mix of traditional financial institutions, specialised microfinance banks, and a growing number of fintech startups. Traditional banks like United Bank Limited (UBL) and Standard Chartered have established robust digital platforms and offer a range of online lending products, from consumer loans to credit cards. Microfinance banks, such as Telenor Microfinance Bank (Easypaisa), have been pioneers in the digital finance space, leveraging their extensive agent networks to reach the unbanked and underbanked populations (PACRA, 2024). A new wave of specialised fintech startups is also emerging as a major force in the market. Companies like JazzCash are disrupting traditional lending by using alternative data and AI-based algorithms to assess creditworthiness, targeting small businesses and salaried professionals. These fintechs often operate as hybrid lenders, collaborating with established banks to disburse loans (IDEO, 2020). SBP’s initiative to license new digital banks is expected to further accelerate the entry of more players, both domestic and international, creating a more competitive and innovative ecosystem. This collaboration and competition between new and old players are driving the expansion of digital lending, bringing financial services to segments of the population that were previously excluded.

a. Institutions & Market Players

- Commercial banks (Meezan Bank Limited, BankIslami Pakistan Limited).
- Microfinance banks (U Microfinance Bank, Khushhali Microfinance Bank).
- Fintech-enabled NBFCs (QisstPay BNPL, Tez Financial Services nano loans, micro insurances)
- Mobile money platforms (EasyPaisa, JazzCash, etc.)

- Fintech startups (Abhi, NayaPay, etc.)
- Central digital finance switch (1Link)

b. Key Industry Players of the Digital Financing in Pakistan


Table 2: Industry Players of Digital Financing and their Products

Institution / Company	Service / Products	Description
Meezan Bank Limited	Full-fledged Islamic commercial banking	Offers Shariah-compliant banking products including current/savings accounts, personal and SME financing, and digital banking services.
Bank Islami Pakistan Limited	Full-fledged Islamic commercial banking	Provides Shariah-compliant banking solutions such as <i>Murabahah</i> , <i>Ijarah</i> , and digital banking for retail and corporate clients.
U Microfinance Bank	Microfinance banking (Islamic window)	Offers microfinancing, savings accounts, and micro-insurance with Shariah-compliant options for low-income populations.
Khushhali Microfinance Bank	Microfinance banking (Islamic window)	Provides microfinancing, savings, and small business financing under Shariah-compliant frameworks.
QisstPay	BNPL (Buy Now Pay Later)	Fintech-enabled NBFC offering Shariah-compliant deferred payment solutions for retail purchases.
Tez Financial Services	Nano financing, micro-takaful	Provides digital short-term microfinancing and micro-takaful services with Shariah-compliant structures.
Easypaisa	Mobile money platform	Branchless banking, mobile wallet, bill payments, and merchant payments; licensed through Telenor Microfinance Bank.

JazzCash	Mobile money platform	Mobile wallet, branchless banking, bill payments, and merchant services; operated by Mobilink Microfinance Bank.
Abhi	Fintech startup	Offers digital financing, micro-savings, and payments solutions through a mobile-first platform.
NayaPay	Fintech startup / EMI	Digital wallet, person-to-person transfers, merchant payments; licensed as an EMI and PSP.
ILINK (Guarantee) Limited	Central digital finance switch	Operates Pakistan’s interbank electronic transaction switch for ATMs, IBFT, bill payments, and card processing.

c. Gaps Identified from Digital Financing Institutions in Pakistan

- **Conservative Business Approach:** Financial institutions, particularly traditional banks, often adopt a conservative approach due to concerns about financial stability and regulatory regimes. This leads them to lag in adopting technological changes and to prefer time-tested business models over innovative ones, which can slow down overall digital lending adoption and innovation in the market (SBP, 2022b).
- **Inefficient Processes for Financing/Lending-Related Payments:** Electronic payments are not yet widely adopted for repetitive transactions like financing/lending reimbursements, which are still predominantly settled in cash or by cheque. This indicates that financial institutions have not fully digitised the end-to-end process of their lending products (SBP, 2022b).
- **Predatory Practices in Nano-Financing/Lending:** Some microfinance banks (MFBs) have faced criticism for charging extremely high Annual Percentage Rates (APRs) for nano-financing/lending, with rates sometimes exceeding 250%. The average value of these loans is often very low, raising questions about their genuine utility for productive purposes and highlighting a potential for exploitative practices within the sector (Khan, M., 2023).
- **Weak product–market fit:** Many Shariah digital financing offerings do not adequately address the real needs of MSMEs, farmers, youth, and informal-sector participants. Products are often designed with urban users in mind and lack relevance for rural




livelihoods, seasonal cash flows, or small-ticket financing needs. Poor distribution strategies and limited on-ground engagement further weaken adoption, resulting in underutilised products despite latent demand.

- **Poor transparency by providers:** Providers often disclose limited information on Shariah governance, contract structures, and fatwa endorsements, relying instead on high-level marketing claims. This opacity fuels consumer distrust and makes product comparison difficult. In the absence of standardised disclosure requirements, transparency varies widely across institutions, weakening market discipline and undermining confidence in the authenticity of Shariah digital financing offerings.
- **Siloed operations:** Internal silos between business, technology, and Shariah teams slow decision-making and execution. Product development cycles are prolonged due to misalignment on priorities, limited cross-functional understanding, and late-stage Shariah reviews. These silos are particularly damaging in digital finance, where rapid iteration, integrated design, and continuous compliance checks are essential for innovation and scalability.
- **Limited ecosystem and real-sector partnerships:** Shariah digital finance providers have limited integration with real-sector ecosystems such as agriculture, halal manufacturing, tourism, and MSMEs. The absence of anchor partnerships with larger Islamic banks, corporates, or government platforms restricts scale, credibility, and distribution. Without ecosystem-based collaboration, many providers struggle to move beyond niche offerings and achieve sustainable growth.

2.7.3 Technology and Infrastructure of Digital Financing in Pakistan

The technology underpinning Pakistan's digital financing ecosystem is built on a foundation of robust and innovative digital solutions. Central to this is the widespread adoption of smartphones and the internet, which provide the primary channels for digital lending applications. Platforms use a combination of technologies to offer seamless and secure services. This includes mobile applications for user-friendly access and secure cloud-based infrastructure to handle high volumes of transactions and data. A crucial element is the use of data analytics and machine learning for automated credit scoring. Instead of relying solely on traditional credit history, these platforms analyse alternative data points, such as mobile usage, utility bill payments, and social media



activity, to create a more comprehensive risk profile for potential borrowers. Additionally, the integration with Pakistan's national identity database (NADRA) through APIs provides a critical layer of security and verification (Center for Global Development, 2025). The SBP's instant payment system, Raast, is also a vital technological enabler, allowing for real-time fund transfers and loan disbursements. This technological infrastructure is not only making digital financing/lending more efficient but is also significantly reducing the cost and time associated with obtaining financing/lending, democratising access to credit for millions.

a. Current Status of Technology & Infrastructure of Pakistan's Digital Financing

- **AI/ML for Credit Scoring:** Pakistan's digital financing/lending sector is leveraging advanced technologies like AI/ML to develop new credit scoring models and peer-to-peer (P2P) financing platforms. This is particularly important for serving individuals and micro, small, and medium-sized enterprises (MSMEs) who are typically excluded from traditional banking. The government has also unveiled a national AI policy, which includes plans to train one million people in AI skills, a foundational step for future AI-based credit scoring solutions.
- **Fintech-Enabled Models:** The infrastructure for digital financing/lending is driven by fintech-enabled Non-Bank Financial Companies (NBFCs) that offer creative models like nano-lending, P2P financing/lending, and Buy-Now-Pay-Later (BNPL). These platforms have grown rapidly, with the nano-lending industry alone growing from a user base of scratch to millions and disbursing over a hundred billion rupees in loans within two years (SBP, 2022b; Khan, M., 2023).
- **Support for Digital Banks:** The regulatory framework for digital banks, which was issued in 2022, is designed to encourage the creation of new institutions that can provide all services, including lending, through digital and electronic means.
- **Cloud Technology:** SBP has provided a framework for risk management in outsourcing to Cloud Service Providers (CSPs) to help financial institutions mitigate risks while harnessing the benefits of cloud technology for their digital services (SBP, 2022b).

b. Gaps Identified from Pakistan's Digital Financing Technology & Infrastructure

- **Lack of Robust Infrastructure for Islamic Digital Financing:** A significant challenge for Islamic digital banks is the lack of a robust, scalable, and secure technological infrastructure. These banks require sophisticated backend systems to manage complex Shariah-compliant financial models, and the absence of such systems has contributed to slow and fragmented progress in this sector (Iqbal, S., 2025).
- **Reliance on Physical Verification:** Despite a move toward digital-first services, a persistent infrastructure bottleneck is the need for customers to visit physical branches for verification and onboarding. This practice contradicts the core principle of digital banking, which is designed to be seamless and convenient (Iqbal, S., 2025).
- **Enforcement and Monitoring Challenges:** Regulators face difficulties in monitoring and enforcing rules for digital lending platforms. Some lenders bypass official app stores and distribute their applications through Android Package Kits (APKs) on websites and social media, making them difficult for regulators to track and control (Khan, M., 2023).
- **Weak interoperability and API connectivity:** Despite the presence of core payment rails and digital ID infrastructure, interoperability across banks, fintechs, NBFCs, and government systems remains weak. Limited API connectivity increases integration costs, restricts data-sharing, and prevents seamless user journeys. Smaller players are particularly disadvantaged, as they lack the scale to build bespoke integrations, limiting competition and innovation in Shariah digital finance.
- **Uneven digital infrastructure:** Internet connectivity, bandwidth, and service reliability vary significantly across regions, with rural and remote areas facing persistent gaps. These limitations disrupt digital onboarding, eKYC, contract execution, and repayment processes. Infrastructure weaknesses increase transaction failures, reduce user confidence, and constrain the geographic reach of Shariah digital financing services.
- **Low and uneven cybersecurity maturity:** Cybersecurity capabilities differ widely across providers, with some lacking robust controls for data protection, fraud prevention, and incident response. Rising digital fraud and privacy concerns heighten user anxiety and erode trust. Inadequate cybersecurity governance also exposes institutions to regulatory and reputational risks, particularly given the sensitivity of personal and financial data in digital Shariah finance.


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- **Data silos and limited shared eKYC adoption:** Data remains fragmented across multiple public and private databases, with limited adoption of shared eKYC platforms. This fragmentation increases onboarding costs, prolongs approval times, and creates inconsistent user experiences. Without standardised data-sharing and identity verification frameworks, scaling Shariah digital financing efficiently and securely remains a significant challenge.

2.7.4 People (End-Consumers/End-Users) of Digital Financing in Pakistan

The "people" dimension of digital financing in Pakistan refers to the consumer base, and the demographics paint a picture of significant opportunity and unique challenges. Pakistan has a large, young, and increasingly tech-savvy population, with a significant portion under the age of 30. This youth bulge represents a prime market for digital financial products. However, the majority of the population remains unbanked or underbanked, with a significant gender gap in financial inclusion. While many have access to mobile phones, a lack of financial literacy and trust in digital systems can be a barrier. Digital lenders are therefore focusing on developing user interfaces that are simple and intuitive and are often building in educational components to help users understand the products and services. The typical digital borrower is often a small business owner, a salaried individual in the informal sector, or a young professional seeking quick access to small-ticket loans for personal or business needs. This segment of the population is often overlooked by traditional banks due to a lack of formal credit history or collateral. The success of digital lending in Pakistan will depend on the ability of institutions to not only provide accessible technology but also to build trust and address the specific needs and digital literacy levels of this diverse and largely untapped demographic (SBP, 2025a).

a. Pakistan's Digital Financing Current Status for People

- **Access to New Financing Models:** Digital financing platforms, primarily from fintech-enabled Non-Bank Financial Companies (NBFCs), provide access to credit for individuals and micro, small, and medium-sized enterprises (MSMEs) who are traditionally overlooked by conventional banks (SBP, 2022b).
- **Technological Advancement in Lending:** New fintechs are leveraging technologies like AI/ML to develop sophisticated credit scoring and peer-to-peer financing models. This has




enabled the rapid growth of the nano-lending industry, which has gone from a standing start to a user base of millions and has disbursed over a hundred billion rupees in loans within two years (Khan, M., 2023).

- **Convenience and Transparency for Businesses:** Digital lending offers significant advantages for small businesses, including simplified borrowing processes, better record-keeping, and improved transparency in their financial transactions.
- **Adoption by Younger Demographics:** Pakistani youth aged 18-30 have shown a higher degree of acceptance for digital financial services, indicating a potential for future growth in digital lending adoption among a key demographic (SBP, 2022b).

b. Gaps Identified among the People

- **Low Digital and Financial Literacy:** A major challenge is the low level of digital and financial literacy among the population. Many consumers, especially in rural areas and among women, find digital services difficult to understand and use, which often leads them to prefer traditional but less efficient methods (SBP, 2022b).
- **Lack of Trust and Security Fears:** Consumers harbor significant trust issues due to concerns about hidden costs, ambiguous contractual terms, complicated application interfaces, and a high incidence of fraud and cybersecurity risks. The predatory practices in nano-lending, which involve harassment and exploitative interest rates, have further eroded public trust (SBP, 2022b).
- **Limited Utility of Micro-Loans:** The very small average value of some nano-loans (as low as PKR 2,667 from some microfinance banks) raises questions about their true utility for productive purposes, with some critics suggesting the amounts are too small to genuinely help with important use cases (Uderani, N., & Khan, M., 2023).
- **Inadequate Physical and Digital Infrastructure:** A persistent gap is the limited physical infrastructure, with only 10.8 commercial bank branches per 100,000 adults in 2022. This is compounded by broader technological issues such as slow internet speeds and frequent electricity outages, which hinder a complete shift to digital-first services for consumers and businesses (SBP, 2022b).
- **Limited adoption and engagement:** Survey results indicate high neutrality and a sizeable group that has never used Shariah digital financing, reflecting low engagement rather than



outright rejection. This suggests uncertainty, lack of familiarity, and weak perceived relevance rather than resistance. Limited everyday use-cases, poor product communication, and insufficient consumer education reduce frequency of interaction, preventing Shariah digital finance from becoming embedded in daily financial behaviour.

2.7.5 Products and Services of Digital Financing in Pakistan

The range of digital lending products in Pakistan is evolving to meet the diverse financial needs of its population, moving beyond traditional personal loans to more specialised offerings. The most common products are microloans for individuals and small businesses, often with short repayment tenures and quick disbursement times. These are typically used for emergency expenses, working capital for a small shop, or to purchase inventory (Rahman, M., 2022). A growing area is "buy now, pay later" (BNPL), which allows consumers to make purchases and pay for them in interest-free installments, particularly for e-commerce transactions (Samsung Pakistan, n.d.). Other products include salary-based loans, where individuals can get credit against their upcoming salary, and agricultural financing for farmers to purchase seeds or equipment. The core value proposition of these products is accessibility and speed. The application process is often entirely digital, requiring minimal documentation and leveraging alternative credit scoring methods to provide instant approvals. The digital nature of these products also allows for flexible repayment schedules and smaller loan amounts, making credit a more manageable option for those who would not qualify for traditional bank loans. This proliferation of products is making financial services more tailored to the specific needs of a previously underserved market.

a. Type of Digital Financing

Pakistan's digital financing landscape can be broadly categorised into consumptive (B2C) and productive (B2B) lending solutions. Each segment offers distinct products designed to address the financing needs of consumers and businesses, leveraging technology-enabled platforms for accessibility, speed, and scale.

B2C Digital Financing (Consumptive Lending / Consumer Financing)

B2C financing solutions primarily target individual consumers, offering convenient and accessible credit options for personal consumption and lifestyle needs. Key product types include:

- **Digital Nano Lending**

Provides very small, instant, and short-term loans, often less than USD 200, delivered via mobile applications. These are primarily used to meet urgent daily expenses.

- **Digital Consumer Financing**

Enables consumers to purchase goods or services such as electronics, household appliances, education packages, or travel services, repayable in structured installments.

- **Buy Now, Pay Later (BNPL)**

A retail financing model where customers purchase items immediately and repay the cost in fixed installments. For consumers, these are often interest-free, while merchants bear associated service fees.

- **Earned Wage Access (EWA)**

Allows employees to withdraw a portion of their already earned but unpaid salary before payday, improving financial liquidity and reducing reliance on high-cost loans.

- **Salary Advance Financing (SAF)**

Provides employees with an advance against their future (unearned) wages. Unlike EWA, this is structured as a credit facility that may carry repayment obligations beyond the upcoming payday.

B2B Digital Financing (Productive Lending / Business Financing)

B2B financing solutions support business entities by providing capital for operations, growth, and supply chain efficiency. Core product offerings include:

- **Working Capital Financing**

Short-term funding provided to businesses to cover operational expenses such as payroll, rent, and utilities, ensuring uninterrupted daily operations.

- **Inventory, Stock, Supply Chain, and Value Chain Financing**

Financing arrangements linked to goods, stock, or invoices within the supply chain, enabling merchants and suppliers to maintain liquidity, improve cash flow, and strengthen trade relationships.

- **Cash-on-Delivery Financing (CODF)**

Offers instant liquidity to e-commerce merchants by advancing funds against pending cash-on-delivery receivables, reducing payment delays and improving working capital cycles.

b. Key Digital Financing Products in Pakistan

Table 3: Shariah-compliant Digital Financing Products in Pakistan

Institution / Platform	B2B / B2C	Product(s)	Shariah Contract(s) / Certification	Description
Walee (Hakeem)	B2C	Nano-financing (small-ticket loans)	<i>Tawarruq</i> <i>Murabahah</i> <i>Salam</i>	Hakeem addresses the gap in healthcare affordability by offering Shariah-compliant instalment and micro-financing for medical expenses, medicines, and wellness services. Built on <i>Murabahah</i> and <i>Salam</i> , it ensures ethical healthcare access for underbanked communities. By combining fintech innovation with Shariah principles, Hakeem promotes both social well-being and financial inclusion.
Muawin	B2B	B2B BNPL for MSMEs	<i>Murabahah</i>	Muawin focuses on enabling retailers and distributors with flexible, Shariah-compliant BNPL solutions. Based on <i>Murabahah</i> , it allows

				businesses to procure inventory and defer payments without interest. This improves cash flow, ensures stock availability, and strengthens supply chains, especially in Pakistan’s fragmented retail sector.
Abhi	B2B B2C	EWA	Not disclosed	Abhi provides Shariah-compliant digital financing to ease liquidity for individuals and businesses such as its Earned Wage Access offers instant, <i>riba</i> -free salary access.
QistBazaar	B2C	BNPL	<i>Musawamahh, Murabahah, Ijarah</i>	QistBazaar offers Shariah-compliant consumer financing through instalment purchases of electronics, appliances, and lifestyle products. Using <i>Murabahah</i> and <i>Ijarah</i> contracts, it provides BNPL solutions in a halal manner, replacing interest with transparent profit margins. This increases affordability for Pakistan’s growing middle class while maintaining ethical financing practices.

EduFi Financial Services (Pvt) Ltd	B2C	Education Financing	Service <i>Ijarah</i>	EduFi provides Shariah-compliant digital financing solutions for education, enabling students to access tuition, skill development courses, and educational expenses. Using contracts like <i>Ijarah</i> , EduFi ensures ethical, interest-free financing.
Taleem Finance Company Ltd	B2B B2C	Working Capital Financing Salary financing Education financing	Sales & Lease Back Diminishing <i>Musharakah</i> (MMQ) <i>Murabahah</i>	Taleem offers Shariah-compliant digital financing products tailored for Pakistan's education sector. Their offerings include fee financing for students, school improvement loans for educational institutions, and working capital loans for edupreneurs.
NeemPaymenow	B2B	EWA COD Financing	Not disclosed	NeemPayMeNow is a Shariah-compliant earned wage access (EWA) solution in Pakistan, enabling employees to access up to 40% of their earned wages before payday. Designed for frontline workers in sectors like retail, healthcare, and logistics, it promotes financial wellness without resorting to debt. The

				platform integrates seamlessly with existing payroll systems and offers gamified financial education.
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c. Gaps Identified in Products and Services of Digital Financing in Pakistan


- Overreliance on conventional product replication:** Most Islamic digital products mirror conventional loans or BNPL structures, re-labelled using Shariah terminology rather than designed from first principles. This limits differentiation, weakens perceived authenticity, and prevents full utilisation of Shariah risk-sharing and asset-based concepts. The lack of digital-native Islamic design reduces competitiveness and undermines the value proposition of Shariah digital financing.
- Insufficient product diversity:** There is a notable shortage of products tailored to micro-enterprises, SMEs, agriculture, and youth, particularly those based on *Salam*, *Istisna'*, *Musharakah*, or *Ijarah*. Embedded finance, supply-chain solutions, and ESG-linked Islamic products remain largely absent. This narrow product range constrains inclusion, limits sectoral impact, and prevents alignment with Pakistan's broader economic and development priorities.
- Poor clarity and comparability:** Terms and conditions are often complex, technical, and inconsistently presented, making it difficult for consumers to understand pricing, obligations, and risks. The absence of unified comparison tools prevents informed choice and weakens competitive pressure among providers. This opacity disproportionately affects less-educated users and contributes to mistrust and low adoption of Shariah digital finance products.
- Weak digital structuring capability:** Many providers lack the technical and operational capability to implement Shariah contracts digitally, including proper sequencing of offer and acceptance, asset ownership transfer, and creation of audit trails. These gaps limit automation, increase operational risk, and constrain innovation in complex structures such as *Salam* or *Musharakah*. As a result, product sophistication and scalability remain limited.

2.7.6 Shariah Compliance and Governance of Digital Financing in Pakistan

Shariah compliance is a critical dimension of the digital financing ecosystem in Pakistan, given the country's large Muslim population. The demand for financial products that adhere to Islamic principles, which prohibit interest (*riba*), is substantial. To address this, many digital lenders are developing parallel Islamic digital financing solutions. These products are based on Shariah-compliant contracts such as *Murabahah* (cost-plus financing), *Ijarah* (leasing), Diminishing *Musharakah* (partnership financing) and other relevant Shariah contracts that are permissible and legitimate to be utilised by financial institutions SBP. For example, digital finance based on *Murahabah* would involve the financial institution purchasing a specific asset on behalf of the customer and then selling it to them at a predetermined, higher price, which is paid back in instalments. The profit is disclosed and agreed upon upfront, and there is no fluctuating profit rate. The SBP's regulatory framework for digital banks explicitly includes the option for an "Islamic Digital Bank" licence, signalling the institutional importance of this sector. To ensure authenticity and trust, these Islamic digital lending platforms employ Shariah scholars to review and approve their products and processes. This commitment to Shariah compliance not only meets a significant market demand but also adds a layer of ethical assurance for consumers, further driving adoption and trust in the digital financing ecosystem (Tamano, N., 2022).

a. Shariah Governance in Pakistan

- **Shariah Governance Key Summary:** A dual-layered system ensures compliance: at the institutional level through Shariah Supervisory Boards (SSBs) and at the regulatory level through Shariah Advisory Committees (SACs). Frameworks mandate clear roles for boards, management, and scholars, with binding rulings, standardised criteria, and conflict-of-interest safeguards.
- **Role of State Bank of Pakistan (SBP):** Primary regulator for Islamic banking; issued Shariah Governance Frameworks (2015, 2018, revised 2024) aligned with global best practices. Leads transformation towards a fully Islamic system by 2028, as mandated by the Federal Shariat Court, while also enabling digital banks via structured licensing.
- **Role of Securities and Exchange Commission of Pakistan (SECP):** Oversees Islamic capital markets, Takaful, Digital Financial Services on NBFC and Modarabas, with




comprehensive Shariah Governance Regulations (2018) and fintech-friendly tools like the regulatory sandbox (2019). Provides guidelines for Shariah-compliant investing on PSX.

- **Practical Applications (SSB & SAC):** SSBs guide and monitor financial institutions, ensuring product compliance with binding fatwas, while SACs at the regulator level standardise rulings and resolve differences. Fit-and-proper criteria govern scholar appointments, with limits on multiple roles to avoid conflicts, strengthening trust in Pakistan’s Islamic finance ecosystem.

b. Recent Development of Shariah Governance and Compliance Journey in Pakistan

- **Federal Shariat Court *Riba* Judgment (2022):** Binding legal directive to eliminate all interest (*Riba*) from Pakistan’s financial system by December 31, 2027, forming the constitutional and regulatory backbone for full conversion (Ghafoor, Z., 2022).
- **SECP Adoption of AAOIFI Standards 2024:** SECP mandated adoption of seven new AAOIFI Shariah, governance, and ethics standards on a “comply or explain” basis, harmonising Pakistan’s Islamic finance practices with international benchmarks and improving investor confidence (SECP, 2024a).
 - **AAOIFI Shariah Standard Enforced:** The Securities and Exchange Commission of Pakistan (SECP) has formally embedded AAOIFI Shariah Standards into its regulatory framework, ensuring that Islamic financial institutions in Pakistan comply with globally recognized benchmarks. This move aligns Pakistan’s Islamic finance industry with international best practices, while also adapting certain clauses to local realities, such as legal enforceability, existing banking practices, and socio-economic conditions. For example, in contracts like *Murabahah*, *Tawarruq*, *Ijarah*, and default in payment, SECP requires adherence to AAOIFI’s essential principles, such as genuine transfer of ownership, disclosure of profit margins, and prohibition of *riba* or fictitious transactions. However, SECP allows contextual adjustments where Pakistan’s legal system, tax structure, or market dynamics differ from the Middle East or other jurisdictions. By enforcing these standards, SECP ensures that Shariah compliance is not only theoretically sound but also practically implementable in Pakistan’s financial system (SECP, 2024a).

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- **Transparent Contract and Control:** Transparency in contracts is a cornerstone of both Shariah and financial governance. SECP's framework mandates clear rules for *Murabahah* and *Tawarruq* contracts, addressing long-standing concerns of artificiality and lack of disclosure in Islamic banking transactions. The regulator now requires:
 - Ownership Transfer: The seller (bank) must genuinely assume ownership and risk of the asset before selling it to the client, ensuring transactions are not mere financing in disguise.
 - Multi-leg Sales: Each leg of *Tawarruq* transactions must be genuine, with proper documentation and without pre-arranged back-to-back agreements that compromise Shariah authenticity.
 - Earnest Money Refunds: Customers' advance payments (*'urbun*) must be transparently managed, with clear rules for refund or forfeiture depending on contract completion.
 - Ban on Artificial Structures: Practices such as circular transactions (buying and selling the same asset without real transfer of risk) are explicitly prohibited.

By embedding these safeguards, SECP strengthens Shariah authenticity, consumer protection, and market discipline, minimising the risk of Islamic finance degenerating into conventional debt-like products (SECP, 2024a).

- **Standardised Documentation:** A persistent challenge in Pakistan's Islamic finance industry has been non-standard documentation, leading to inconsistencies, legal ambiguities, and disputes between financial institutions and clients. To address this, SECP has introduced a Model *Murabahah* Facility Agreement, serving as a standardised contract template across the industry. This ensures uniformity in legal drafting, enhances enforceability in courts, and reduces transaction costs for both banks and customers. Standardisation also boosts investor confidence and cross-institutional transparency, as all parties operate under consistent terms approved by Shariah scholars and regulators. Over time, this harmonisation is expected to facilitate smoother product development, reduce

litigation risks, and bring Islamic finance in Pakistan closer to global best practices (SECP, 2024b).

- **State Bank of Pakistan (SBP) — Shariah Governance Framework (SGF) 2025:** A comprehensive revision effective from January 2025 that strengthens the role of boards, Shariah boards, compliance, internal audit, and product approval processes, ensuring Islamic banks operate under stricter governance and accountability (SBP, 2024d).
 - **Strengthened Governance and Accountability:** SGF 2025 institutionalizes Shariah governance by defining clear roles for Boards, Executive Management, Shariah Boards (SBs), Resident Shariah Board Members (RSBMs), Shariah Compliance Departments (SCDs), and Shariah Audit units. Boards are ultimately responsible for Shariah compliance, with accountability linked to management performance and compensation (SBP, 2024d).
 - **Fit & Proper Criteria & Independence of Scholars:** Revised criteria mandate qualified, experienced Shariah scholars with limits on multiple memberships, transitioning to exclusive SB membership across IBIs by 2028. This strengthens independence, reduces conflicts of interest, and ensures diversity of thought in Shariah decisions (SBP, 2024d).
 - **Robust Oversight and Assurance Mechanism:** The framework embeds multi-layered reviews through internal Shariah audit, external Shariah audit, and SB compliance reporting. These align with AAOIFI standards and SAC rulings, enhancing transparency, consistency, and credibility across the industry (SBP, 2024d).
 - **Pakistan’s Islamic Finance Industry Transformation and Global Alignment:** SGF 2025 underpins Pakistan’s 2028 full Islamic banking transition goal, safeguards depositor trust, and aligns practices with international standards, positioning the country as a credible and competitive hub for Shariah-compliant finance (SBP, 2024d).
- **SECP Strategic Action Plan 2024-2026:** A structured roadmap to convert and expand non-bank financial institutions (mutual funds, modarabas, NBFCs) into Islamic models by 2026, supporting the constitutional mandate of *riba* elimination by 2028 (SBP, 2023a).

- **SBP Vision 2028 & Conversion Guidelines:** A national framework guiding conventional banks to fully transition into Islamic banking by 2027/2028, with clear requirements for governance restructuring, branch conversion, product alignment, capacity building, and customer awareness (SECP, 2024b).

c. Legitimate Shariah Compliance Essentials and Model Agreements for Islamic Modes of Financing in Pakistan

The State Bank of Pakistan (SBP) endorsed Islamic banking and Islamic financial institutions (IFIs) uses 7 Shariah contracts under the State Bank’s Shariah Board Approves Essentials and Model Agreements for Islamic Modes of Financing (SBP, 2005), including the Shariah contract (*aqad*), as the following:


Table 4: Endorsed Shariah Contracts Under SPB

Shariah Contract (<i>Aqad</i>)	Core Concept	Key Features
<i>Murabahah</i> (Cost-Plus Sale)	Bank buys asset, sells to client at cost + profit	Price fixed upfront; asset owned by bank first; no late fee income
<i>Musawamah</i> (Negotiated Sale)	Sale with undisclosed cost, negotiated price	Similar to <i>Murabahah</i> but cost not disclosed; free bargaining
<i>Ijarah</i> (Leasing)	Bank leases asset to client	Bank owns asset; client pays rent; may end with gift/purchase

<i>Salam</i> (Advance Payment)	Full payment now, goods delivered later	Specs & delivery fixed; used for agriculture/trade finance
<i>Istisna''</i> (Manufacturing/ Construction)	Order to produce/manufacture	Price & specs agreed; used in housing, infrastructure, SME finance
<i>Mudarabah</i> (Trust Financing)	Investor (Rab al-Maal) provides capital; manager (Mudarib) runs business	Profit shared; loss borne by investor (unless negligence)
<i>Musharakah</i> (Equity Partnership)	All partners contribute capital & share risk	Profit as agreed; loss by capital ratio; basis for Islamic project finance


d. Shariah Structure and Shariah Contracts That Are Used in Pakistan's Digital Financing

1. **Unorganised *Tawarruq***: Used by some NBFC digital lenders (e.g., Taleem Finance, Hakeem, and smaller fintech-backed NBFCs) to structure consumer financing as commodity-based buy–sell transactions but often criticized for resembling conventional lending.
2. ***Murabahah***: Akhtar Fuiou Technologies (HBL Konnect Islamic window pilot) and NBFCs (e.g., Taleem Finance Islamic, *Tijarah* Finance) offer short-tenor digital *Murabahah* where goods (e.g., mobile phones, appliances) are sold to consumers at a disclosed markup, repayable in instalments.
3. ***Musharakah***: Meezan Bank's digital auto/microfinance pilots and some fintech partnerships structure *Musharakah Mutanaqisah* (diminishing partnership) where both parties jointly own an asset and the consumer gradually buys out the financier's share.

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4. ***Salam / Istisna'' / Musawamah***: Limited usage; Agri-fintech pilots with NBFCs and donor partners explore *Salam* contracts (advance financing for crops) and *Istisna'* for pre-financing SME orders but not mainstream in digital lending yet.
 5. ***Ijarah***: Applied in digital leasing pilots (Meezan Digital Car *Ijarah*, SME equipment lease fintech-NBFC collaborations), where assets are leased digitally with rentals paid via mobile channels.

e. Gaps Identified in Pakistan's Digital Financing Shariah Compliance

- **Absence of a national Shariah standard-setter or repository**: Pakistan lacks a central Shariah authority or repository dedicated to digital financing, resulting in fragmented fatwas, contract templates, and Shariah approvals scattered across institutions. Consumers, regulators, and market participants have no single reference point to verify compliance. This absence weakens standardisation, complicates supervision, and reduces public trust, particularly in digital models where transparency and consistency are critical to scaling Shariah-compliant financial services.
- **Inconsistent Shariah interpretations**: Shariah compliance in digital financing is largely left to individual institutions and their appointed advisors, leading to divergent interpretations and inconsistent practices across the market. Similar products may be structured differently, creating confusion for consumers and uncertainty for regulators. This advisor-dependent model also increases approval delays and costs, inhibits product innovation, and exposes providers to reputational and compliance risks when interpretations conflict or evolve over time.
- **Low transparency in Shariah disclosures**: Shariah governance arrangements, fatwas, and contract structures are rarely disclosed in clear, accessible, and consumer-friendly formats. Most platforms provide minimal information beyond generic claims of Shariah compliance, limiting users' ability to assess authenticity. The lack of public disclosure weakens accountability, fuels scepticism, and prevents informed decision-making, particularly for digitally savvy users who expect on-demand access to detailed product and governance information.
- **Checklist-based compliance culture**: Shariah compliance is often treated as a procedural formality rather than an embedded organisational culture. Institutions focus on meeting



minimum documentation requirements instead of integrating Shariah principles into product design, technology architecture, customer journeys, and risk management. This approach is especially problematic in digital workflows, where automation, contract sequencing, and real-time execution require Shariah considerations to be deeply embedded rather than externally appended.

2.8 Challenges for Shariah Digital Financing in Pakistan

- 1. Regulatory Fragmentation and Compliance Complexities:** The fintech sector is regulated by multiple authorities, including the SBP and the SECP. This fragmented environment can be viewed as an overly restrictive, "one-size-fits-all" framework that stifles innovation, particularly for smaller fintechs. A more fundamental challenge is the lack of standardisation in Shariah governance, with different interpretations and varying quality of Shariah Supervisory Boards (SSBs) across institutions. This inconsistency can lead to legal and ethical liabilities and a loss of investor and public confidence (SBP, 2024b).
- 2. Infrastructure and Human Capital Gaps:** Despite high mobile penetration, weak technological infrastructure, and persistent network connectivity issues, especially in rural and underserved areas, can lead to poor customer experiences and hinder the scalability of digital-only platforms. Furthermore, there is a pronounced deficit in human capital with the specialised expertise required to develop and manage advanced Islamic fintech solutions.
- 3. Public Trust and Market Perception:** A major barrier to adoption is a deep-seated public mistrust of financial institutions. This mistrust has been exacerbated by the rise of unregulated digital lending apps that have been accused of predatory practices, including charging exorbitant annualised interest rates (up to 500%) and employing coercive recovery methods. This "digital debt trap" tarnishes the reputation of the entire sector and makes it difficult for ethical, Shariah-compliant platforms to gain traction. The public's perception that *Murabahah*-based financing is merely a form of disguised interest further complicates the issue and necessitates extensive public education campaigns (Rahman M., 2022; SBP, 2023b).

CHAPTER 3: MIXED-METHOD FINDINGS

3.1 Survey

To complement the qualitative insights derived from desktop research and stakeholder consultations from the FGD with the Shariah-compliant digital financing industry expert, this study employed a dual-survey approach to capture both demand-side and supply-side perspectives of the Shariah-compliant digital financing ecosystem in Pakistan. This survey technique was designed to ensure a balanced, evidence-based understanding of market dynamics, user behavior, institutional readiness, and implementation challenges.

Survey Set 1 (Demand Side) targeted public consumers, entrepreneurs, and business users with experience or interest in Shariah-compliant digital financing. The survey explored respondents' awareness, preferences, motivations, satisfaction levels, trust, and behavioral intentions toward Islamic digital financial products and services, providing insights into adoption drivers and barriers from the user perspective. A total of 65 respondents participated in this survey, conducted between 6th November and 6th December 2025.

Survey Set 2 (Supply Side) focused on representatives from key market players such as Shariah financial institutions, Shariah digital financing providers, and fintech providers actively engaged in Shariah-compliant digital financing in Pakistan. This survey examined business models, operational and technological frameworks, regulatory compliance, Shariah governance practices, product innovation, and implementation challenges, offering an industry and institutional perspective on ecosystem readiness and constraints. A total of 31 respondents participated during the same research period between 6th November and 6th December 2025.

Together, the two survey sets enabled a comprehensive assessment of market demand, institutional capacity, and ecosystem alignment, strengthening the empirical foundation for the report's strategic, policy, and product recommendations aimed at advancing a sustainable and scalable Shariah-compliant digital financing ecosystem in Pakistan.

The survey is quantified into 1-5 Likert scale where 1 shows significant disagreement, 2 indicates normal disagreement, 3 shows neutrality, 4 reflects normal agreement and 5 illustrates significant agreement to the close-ended statements deliberated in the survey statements section.

<p>1. Survey Set 1 (Demand Side of Shariah-compliant Digital Financing)</p>	<ol style="list-style-type: none"> 1. Respondents profile: the survey is designed for public consumers, entrepreneurs, and business users who have experience with or interest in Shariah-compliant digital financing in Pakistan. 2. Survey objective: It explores their awareness, preferences, motivations, satisfaction, trust, and behavioral intentions toward Islamic digital financial products and services. 3. Research respondents: 65 respondents 4. Timeframe: 6 November - 6 December 2025
<p>2. Survey Set 2 (Supply Side of Shariah-compliant Digital Financing)</p>	<ol style="list-style-type: none"> 1. Respondent profile: the survey is designed for respondents representing financial institutions, digital financing industry players, and fintech developers who are actively involved in Shariah-compliant digital financing in Pakistan. 2. Survey objective: It aims to gather insights into their business models, operational frameworks, regulatory compliance, Shariah governance practices, product development and innovation, technological infrastructure, and challenges faced in implementing Shariah-compliant digital financing solutions. 3. Research respondents: 31 respondents 4. Timeframe: 6 November - 6 December 2025

Survey Close Ended Statements to the Respondents (Supply Side)

To support a structured assessment of the Shariah-compliant digital financing ecosystem from a supply side (key industry players of Shariah-compliant digital financing in Pakistan) perspective, the survey statements were organized using a six-pillar analytical ecosystem framework. This framework reflects the principal dimensions that influence institutional readiness, operational effectiveness, regulatory compliance, and ecosystem scalability among providers of Shariah-compliant digital financing in Pakistan.

Each survey statement was examined and classified based on its relevance to institutional and provider level capabilities. Statements related to regulatory adequacy, supervisory consistency, approval processes, and government prioritization were grouped under the Regulations pillar, reflecting the operating environment within which financial institutions and digital financing providers function.

The statements that are addressing Shariah governance structures, regulatory alignment with international standards, enforcement of Shariah review and certification processes, and the need for centralized rulings were consolidated under the Shariah Compliance pillar. This grouping captures the core governance requirements that shape product legitimacy, operational consistency, and market credibility from the provider perspective.

More importantly, the survey statements concerning product breadth, operational efficiency, transparency, and innovation leadership were categorized under the Product and Services pillar. These elements directly affect providers ability to design, approve, and deliver Shariah-compliant digital financing solutions in a timely, succinct and competitive manner.

In addition, survey statements related to institutional capacity, governance frameworks, inter institutional collaboration, and partnership models were assigned to the key industry players pillar. This dimension reflects the extent to which banks, fintech firms, and related entities are structurally prepared to collaborate and scale solutions across the ecosystem.

Technology readiness, infrastructure sufficiency, advanced technology adoption, cybersecurity, and data protection considerations were mapped under the Technology and Infrastructure pillar.

These factors determine the operational resilience, reliability, and scalability of Shariah-compliant digital financing platforms.

Finally, statements addressing the availability of skilled professionals, adequacy of training and professional development programs, and the need for future talent investment were grouped under the Consumers and End Users pillar. From a supply side perspective, this pillar reflects the human capital and capability base required to design, manage, and deliver Shariah-compliant digital financing services effectively.

This mapping provides a consistent analytical structure that links institutional level responses to broader ecosystem pillars. It enables regulators and policymakers to assess supply side readiness, identify structural bottlenecks, and prioritize targeted interventions across regulatory, governance, operational, technological, and human capital dimensions.

The following table presents the finalized classification of supply side survey statements across the six pillars, serving as the foundation for subsequent analysis and policy-oriented evaluation.

Pillar	Statement Number	Supply Side Survey Statement
1. Regulations	1	The current SBP and SECP regulations are adequate and supportive of the Shariah-compliant digital financing ecosystem in Pakistan.
	2	The regulatory enforcement, supervision and coordination for Shariah-compliant digital financing in Pakistan are consistent, efficient, effective, and well-coordinated.
	3	There are a clearer and faster regulatory approvals policy, process and procedure encouraging more

		Shariah-compliant digital financing growth in Pakistan.
	18	The Government of Pakistan and its related stakeholders shall invest and put Shariah-compliant digital financing as priority to develop and advance the ecosystem's scalability in the future.
2. Shariah Compliance	4	The current Shariah governance frameworks already sufficiently address Shariah-compliant digital financing ecosystem development in Pakistan.
	5	There is adequate alignment between Pakistan Shariah governing regulations and AAOIFI and IFSB standards to support Shariah-compliant digital financing ecosystem development in Pakistan.
	6	The Shariah review, audit, certification and endorsement processes are effectively enforced across institutions and Shariah-compliant digital financing providers.
	7	The Pakistan Islamic Finance regulators shall provide more centralized Shariah rulings and clearer fatwa standardization to accelerate Shariah-compliant digital financing in Pakistan.
3. Product and Services	11	The range of Shariah-compliant digital financing products in Pakistan is adequate for market needs comprising both consumer and business segments.

	12	The Shariah-compliant digital financing end to end operational models that entail product approval, review processes and operational disbursement are effective, efficient and not overly time consuming.
	13	The product transparency and consumer disclosures of Shariah-compliant digital financing in Pakistan are well implemented and enforced.
	14	The regulators shall spearhead and advance more innovative Shariah-compliant digital financing product innovation and development in Pakistan going forward.
4. Key Industry Players	19	The institutional capacity and governance frameworks are adequate for Shariah-compliant digital finance implementation.
	20	The collaboration and synergy between Islamic financial institutions and Shariah-compliant digital financing providers or companies is effective, efficient and well-coordinated in delivering solutions.
	21	There must be stronger partnerships and shared innovation platforms to improve Shariah-compliant digital financing ecosystem advancement in the future.

5. Technology and Infrastructure	15	The existing digital and technology infrastructure including Raast, NADRA, electronic KYC and application programming interfaces is sufficient for Shariah-compliant digital financing to run and grow in Pakistan.
	16	The advanced technology adoption including artificial intelligence, machine learning, blockchain and cloud computing in Shariah-compliant digital financing is effective and efficient.
	17	The cybersecurity, technological reliability and data privacy protection frameworks are effectively enforced and implemented in the Shariah-compliant digital financing ecosystem in Pakistan.
6. People (Industry Experts)	8	There are adequate numbers of professionals skilled in both Shariah and digital financing to implement Shariah-compliant digital financing properly, efficiently and effectively in Pakistan.
	9	The current training and professional development programs are sufficient to build a Shariah competent, digitally literate and technically capable workforce.
	10	There must be stronger and robust government led initiatives needed to enhance Shariah-compliant digital financing talent development in Pakistan in the future.

Survey Close Ended Statements to the Respondents (Demand Side)

To support a structured and policy relevant assessment of Shariah-compliant digital financing in Pakistan, the demand side (addressed for direct consumers, entrepreneurs, business owners and adopters) survey statements were organized using a six pillars framework. This framework reflects the key dimensions that influence consumer confidence, adoption behavior, and overall trust in the Shariah-compliant digital financing ecosystem.

Each survey statement was reviewed and classified according to its dominant thematic focus. Statements addressing regulatory adequacy, supervisory effectiveness, approval processes, and government prioritization were grouped under the Regulations pillar. This pillar captures consumer perceptions regarding the strength, clarity, and visibility of the regulatory environment governing Shariah-compliant digital financing activities.

The statements which are related to Shariah governance arrangements, alignment with recognized international standards, enforcement of Shariah review and certification processes, and expectations for centralized rulings were consolidated under the Shariah Compliance pillar. This classification reflects the central role of Shariah compliance and assurance in shaping demand side trust and legitimacy of Shariah-compliant digital financing in Pakistan.

Furthermore, main statements concerning product availability, operational efficiency, transparency, and innovation were mapped under the Product and Services pillar. These aspects reflect how consumers evaluate the suitability, clarity, and accessibility of Shariah-compliant digital financing offerings in meeting real economic needs.

Moreover, the survey statements related and aligned to institutional capacity, governance strength, collaboration between Islamic financial institutions and digital financing providers, and ecosystem level coordination were grouped under the Key Industry Players pillar. This pillar captures consumer perceptions of how effectively industry participants work together to deliver coherent and reliable solutions.

Last but not least, the statements addressing digital readiness, platform reliability, cybersecurity, data protection, and infrastructure sufficiency were classified under the Technology and Infrastructure pillar. This dimension reflects consumer confidence in the operational resilience and safety of Shariah-compliant digital financing platforms.

Finally, statements relating to usage patterns, awareness of risks, information availability, and financial literacy were grouped under the Consumers and End Users pillar. This pillar captures the behavioral and informational factors that influence adoption and sustained usage from the demand side.

This structured mapping establishes a clear analytical linkage between individual survey statements and the broader ecosystem dimensions assessed in this study. It provides a consistent foundation for interpreting survey findings, identifying priority gaps, and formulating evidence-based policy considerations for regulators and industry stakeholders. The following table presents the finalized mapping of demand side survey statements across the six pillars of Shariah-compliant digital financing in Pakistan.

Pillar	Statement Number	Demand Side Survey Statement
1. Regulations	1	The current SBP and SECP regulations are adequate and supportive of the Shariah-compliant digital financing ecosystem in Pakistan.
	2	The regulatory enforcement, supervision and coordination for Shariah-compliant digital financing in Pakistan are consistent, efficient, effective and well-coordinated.
	3	There is a clearer and faster regulatory approvals policy, process and procedure encouraging more Shariah-compliant digital financing growth in Pakistan.

	18	The Government of Pakistan and its related stakeholders shall invest and put Shariah-compliant digital financing as priority to develop and advance the ecosystem's scalability in the future.
2. Shariah Compliance	4	The current Shariah governance frameworks already sufficiently address Shariah-compliant digital financing ecosystem development in Pakistan.
	5	There is adequate alignment between Pakistan Shariah governing regulations and AAOIFI and IFSB standards to support Shariah-compliant digital financing ecosystem development in Pakistan.
	6	The Shariah review, audit, certification and endorsement processes are effectively enforced across institutions and Shariah-compliant digital financing providers.
	7	The Pakistan Islamic finance regulators shall provide more centralized Shariah rulings and clearer fatwa standardization to accelerate Shariah-compliant digital financing in Pakistan.
3. Product and Services	11	The range of Shariah-compliant digital financing products in Pakistan is adequate for market needs covering both consumer and business segments.
	12	The Shariah-compliant digital financing end to end operational models including product approval, review

		processes and disbursement are effective, efficient and not overly time consuming.
	13	The product transparency and consumer disclosures of Shariah-compliant digital financing in Pakistan are well implemented and enforced.
	14	The regulators shall spearhead and advance more innovative Shariah-compliant digital financing product development in Pakistan going forward.
4. Key Industry Players	19	The institutional capacity and governance frameworks are adequate for Shariah-compliant digital finance implementation.
	20	The collaboration and synergy between Islamic financial institutions and Shariah-compliant digital financing providers are effective, efficient and well-coordinated.
	21	There must be stronger partnerships and shared innovation platforms to improve Shariah-compliant digital financing ecosystem advancement in the future.
5. Technology and Infrastructure	15	The existing digital and technology infrastructure including Raast, NADRA, electronic KYC and application programming interfaces is sufficient for Shariah-compliant digital financing growth in Pakistan.

	16	The adoption of advanced technologies including artificial intelligence, machine learning, blockchain and cloud computing is effective and efficient within Shariah-compliant digital financing.
	17	The cybersecurity, technological reliability and data privacy protection frameworks are effectively enforced and implemented in the Shariah-compliant digital financing ecosystem.
6. People (Consumers and End Users)	8	The use of Shariah-compliant digital financing platforms in Pakistan is becoming more common and convenient for consumers.
	9	The risks associated with Shariah-compliant digital financing including scams, system failures and data privacy concerns are increasingly recognized by consumers.
	10	The availability of sufficient information about Shariah-compliant digital financing remains an important consideration for the public.
	11	The importance of education and literacy programs on Shariah-compliant digital financing is widely acknowledged by consumers.

3.1.1 Survey Findings (Regulatory)

3.1.1.1 Regulations from demand-side lens


From the demand side, perceptions of the regulatory environment for Shariah-compliant digital financing in Pakistan reflect moderate acknowledgment but limited confidence. Based on the survey results, 38.9 percent of respondents agree that the government has adequate regulations, policies, and guidelines governing the Shariah-compliant digital financing industry. However, this positive perception is counterbalanced by 20 percent who disagree and a substantial 29.2 percent who remain neutral, indicating that regulatory adequacy is recognized by some consumers but not yet firmly established across the broader public. Views on regulatory enforcement and clarity further reinforce this cautious sentiment. Only 32.3 percent of respondents agree that existing laws and regulations are effectively enforced and easy to understand. In contrast, 36.9 percent express disagreement, while 29.2 percent adopt a neutral position. This distribution suggests that regulatory frameworks may exist, but their practical implementation and accessibility remain insufficiently clear to a significant segment of consumers.

Confidence in regulatory supervision presents a more nuanced picture. While 49.2 percent of respondents agree that the government has ensured licensed Shariah-compliant digital financing providers operate under proper licensing processes and regulatory supervision, 27.7 percent remain neutral and 12.3 percent disagree. This indicates that although regulatory oversight is visible to nearly half of respondents, a considerable proportion of consumers are either unconvinced or uncertain about the effectiveness of supervisory mechanisms. Importantly, demand side expectations regarding regulatory communication are unequivocal. A combined 83.1 percent of respondents agree or strongly agree that regulators and the government need to communicate more clearly about approved Shariah-compliant digital financing platforms. This strong consensus highlights communication and public disclosure as the most critical regulatory gap from the consumer perspective.

Number of respondents: 65 respondents from demand side

Regulatory Dimension	Strongly Disagree and Disagree	Neutral	Agree and Strongly Agree	Researchers' interpretation
Adequacy of regulations, policies and guidelines	20.0 percent	29.2 percent	49.7 percent	Regulatory framework is partially acknowledged but not decisively convincing
Effectiveness and clarity of regulatory enforcement	36.9 percent	29.2 percent	40.0 percent	Enforcement and clarity remain a significant concern for consumers
Licensing, supervision and surveillance assurance	12.3 percent	27.7 percent	59.2 percent	Regulatory supervision is visible but not universally trusted
Clarity of regulator communication on approved platforms	3.1 percent	13.8 percent	83.1 percent	Strong consensus on the need for clearer regulatory communication of Shariah digital financing providers and platforms

In a nutshell, demand side confidence is shaped less by the existence of regulations and more by their clarity, visibility, and communication. While regulatory structures and supervision are partially acknowledged by the consumers and end users of Shariah-compliant digital financing,



limited understanding and insufficient public communication continue to constrain consumer trust in the Shariah-compliant digital financing ecosystem.

3.1.1.2 Regulations from supply-side lens

From the supply side perspective, perceptions of the regulatory environment for Shariah-compliant digital financing in Pakistan are more positive, supporting, solid and consolidated compared to the demand side. A clear majority of Shariah-compliant digital financing key market players, Shariah-compliant fintech providers and industry stakeholders recognize the adequacy of the existing regulatory framework positively. Based on the survey results, 63.7 percent of respondents agree or strongly agree that the current SECP and SBP regulations are adequate and supportive of the Shariah-compliant digital financing ecosystem. Only 3.2 percent express disagreement, while 32.3 percent remain neutral, suggesting that while the framework is largely accepted, familiarity and depth of engagement vary across institutions.

Views on regulatory enforcement, supervision, and coordination remain constructive but more measured. Approximately 49.2 percent of respondents agree that enforcement and supervisory arrangements are consistent, efficient, and effective. At the same time, 21.9 percent disagree and 29.0 percent remain neutral, indicating that operational execution and inter agency coordination are perceived as areas requiring further strengthening, particularly as the ecosystem scales.


Perceptions of regulatory approval processes follow a similar pattern. A combined 54.5 percent of respondents agree that approval policies, processes, and procedures are clear and sufficiently supportive of Shariah-compliant digital financing growth. However, 35.5 percent maintain a neutral stance and 9.7 percent disagree, reflecting that while approval pathways exist, speed, predictability, and procedural clarity may differ across institutions and business models.

Where the supply side demonstrates the strongest consensus is on the future direction of regulatory coordination. An overwhelming 83.1 percent of respondents agree or strongly agree that greater synergy, collaboration, and coordination among regulators, Islamic banks, Shariah-compliant fintech firms, and government institutions are essential to improve access and accelerate ecosystem development. This strong alignment highlights a shared recognition among providers that

regulatory adequacy alone is insufficient without coordinated implementation and ecosystem level alignment.

Number of respondents: 31 respondents from supply side

Regulatory Dimension	Strongly Disagree and Disagree	Neutral	Agree and Strongly Agree	Researchers' interpretation
Adequacy of SECP and SBP regulations supporting Shariah-compliant digital financing	3.2 percent	32.3 percent	63.7 percent	Supply side shows strong confidence in regulatory adequacy
Effectiveness of regulatory enforcement, supervision and coordination	21.9 percent	29.0 percent	49.2 percent	Enforcement is viewed as generally effective but not without gaps
Clarity and speed of regulatory approval processes	9.7 percent	35.5 percent	54.5 percent	Approval processes are considered supportive but still room for improvement
Need for stronger ecosystem level coordination and collaboration	3.1 percent	12.3 percent	83.1 percent	Near unanimous agreement on the need for stronger cross stakeholder coordination



From the supply side, the regulatory framework is broadly viewed as supportive and enabling. However, continued progress will depend on improving enforcement consistency, approval efficiency, and cross institutional coordination to support scale, innovation, and market confidence in Shariah-compliant digital financing.

3.1.2 Survey Findings (Key Industry Players)

3.1.2.1 Key Industry Players (Demand Side)

From the demand-side perspective, perceptions of key industry players are broadly positive, with a clear majority of respondents expressing confidence in the system's ability to operate effectively, efficiently, and transparently. Specifically, 66.1 percent of respondents agree or strongly agree that the overall Shariah-compliant digital financing system in Pakistan is expected to function well. This suggests that consumers possess a foundational level of trust in institutional arrangements and system design.

At the same time, the presence of a 16.9 percent neutral response indicates that this confidence is not yet fully consolidated. Consumers appear willing to trust the system but remain observant, likely influenced by uneven user experiences or limited exposure to fully integrated digital financing journeys.

Perceptions of collaboration between Islamic banks and Shariah-compliant fintech or digital financing providers are similarly constructive. A combined 64.6 percent of respondents view such collaboration as effective in enhancing Shariah-compliant digital financing. However, a relatively high 23.1 percent neutrality suggests that while collaboration is acknowledged, its tangible impact on accessibility, convenience, or product innovation may not yet be consistently visible at the consumer level.

The strongest and most unambiguous demand-side signal relates to the need for greater ecosystem-level coordination. An overwhelming 83.1 percent of respondents agree or strongly agree that stronger synergy, collaboration, and coordination among Islamic banks, fintech firms, and government stakeholders are essential to improve access to Shariah-compliant digital financing. This finding indicates that consumers clearly associate improved access and trust not merely with individual institutions, but with how effectively those institutions operate as a coherent system.

Consumers are not rejecting existing institutions; rather, they are raising expectations. Confidence is increasingly contingent on visible, coordinated, and seamless delivery across the ecosystem.

Number of respondents: 65 respondents from demand side

Key Industry Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Effectiveness, efficiency, and transparency of the Shariah-compliant digital financing system	16.9%	16.9%	66.1%	Consumers generally expect the system to function effectively, though confidence is not yet universal
Effectiveness of collaboration between Islamic banks and Shariah-compliant fintech providers	12.3%	23.1%	64.6%	Collaboration is positively perceived, but neutrality suggests limited visibility of outcomes
Need for greater synergy and coordination among banks, fintechs, and government	4.6%	12.3%	83.1%	Strong demand-side consensus that ecosystem coordination is essential to improve access

3.1.2.2 Key Industry Players (Supply Side)

From the supply-side perspective, responses reflect a more nuanced and internally differentiated assessment of institutional readiness. Industry stakeholders show strong strategic alignment on the importance of Shariah-compliant digital financing as a national priority, with 80.6 percent agreeing or strongly agreeing that the government should invest in and prioritise ecosystem development.

This indicates a high degree of consensus on the direction of travel and the need for public-sector leadership.

However, views on institutional capacity and governance frameworks are notably more mixed. While 38.8 percent of respondents agree or strongly agree that institutional capacity is adequate, a substantial 35.5 percent remains neutral, and 25.8 percent express disagreement. This dispersion suggests uneven readiness across institutions, reflecting differences in digital maturity, Shariah governance sophistication, and operational scale.

Assessments of collaboration between Islamic financial institutions and Shariah-compliant digital financing providers further reinforce this interpretation. Although 42.0 percent agree that collaboration is effective, nearly half of respondents (45.2 percent) remain neutral. This high neutrality implies that collaboration often exists at a conceptual or pilot level but lacks the consistency, standardisation, or depth required to support ecosystem-wide scale.

Where the supply side demonstrates its strongest convergence is on the need for stronger partnerships and shared innovation platforms. A decisive 87.1 percent agree or strongly agree that deeper collaboration mechanisms are necessary to advance the ecosystem. This near-unanimous agreement signals widespread recognition that current institutional arrangements, while functional, are insufficient to meet future growth, innovation, and inclusion objectives.

The constraint is not institutional absence, but institutional fragmentation. Capacity exists, yet it is uneven and insufficiently integrated.

Number of respondents: 31 respondents from supply side

Key Industry Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Government prioritisation and investment in	9.7%	9.7%	80.6%	Strong industry alignment on the need for

Shariah-compliant digital financing				government-led prioritisation
Adequacy of institutional capacity and governance frameworks	25.8%	35.5%	38.8%	Capacity exists but is uneven, with notable institutional gaps
Effectiveness of collaboration between banks and digital financing providers	12.9%	45.2%	42.0%	Collaboration is acknowledged but remains inconsistent and non-systemic
Need for stronger partnerships and shared innovation platforms	9.7%	3.2%	87.1%	Near-unanimous agreement that deeper collaboration is essential

3.1.3 Survey Findings (Products and Services)

3.1.3.1 Products and Services (Demand Side)

From the demand-side perspective, perceptions of Shariah-compliant digital financing products are mixed and fragmented, indicating partial satisfaction rather than strong endorsement. Only 46.1 percent of respondents agree or strongly agree that existing products adequately meet their financial needs, while a sizable 35.4 percent express disagreement. This split suggests that current offerings may cater to certain consumer segments but fail to address broader or more diverse use cases.

Views on product disclosure and transparency follow a similar pattern. While 43.1 percent of respondents agree or strongly agree that terms, conditions, and profit rates are clearly disclosed, a

combined 30.7 percent disagree, and 26.2 percent remain neutral. This indicates that disclosure practices exist but are not consistently clear, comparable, or easily understood by consumers.

The ability to compare products across providers is perceived somewhat more positively, with 46.2 percent of respondents finding comparisons easy and accessible. However, nearly an equal proportion either disagree (30.8 percent) or remain neutral (23.1 percent), highlighting persistent friction in product comparability and information accessibility.

Consumers are not rejecting Shariah-compliant digital financing products outright, but their confidence is conditional on clearer disclosures, better comparability, and more tailored product offerings.

Number of respondents: 65 respondents from demand side

Product & Service Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Adequacy of available Shariah-compliant digital financing products	35.4%	18.5%	46.1%	Products partially meet consumer needs but lack breadth and fit
Clarity of terms, conditions, and profit rate disclosures	30.7%	26.2%	43.1%	Disclosure exists but is inconsistent and not fully consumer-friendly
Ease of comparing products across providers	30.8%	23.1%	46.2%	Comparability improving, but still fragmented

3.1.3.2 Products and Services (Supply Side)

From the supply side perspective, assessments are more critical and internally reflective, particularly regarding product breadth and operational efficiency. Only 32.3 percent of respondents agree or strongly agree that the current range of Shariah-compliant digital financing products adequately meets both consumer (B2C) and business (B2B) market needs, while a significant 45.1 percent disagree. This indicates clear recognition among providers that existing product portfolios are narrow and insufficiently diversified.

Perceptions of end-to-end operational effectiveness, including product approval, Shariah review, and disbursement processes, are similarly cautious. While 35.5 percent agree that operational models are effective and efficient, 29.0 percent disagree and 35.5 percent remain neutral. This suggests that internal processes are often time-consuming and uneven across institutions.

In contrast, supply-side respondents express relatively stronger confidence in product transparency and consumer disclosure practices, with 58.1 percent agreeing or strongly agreeing that these are well implemented and enforced. Nevertheless, the high neutrality (32.3 percent) indicates variability in implementation and enforcement across providers.

Providers recognise that product limitations and process inefficiencies, rather than regulatory or Shariah constraints alone, are key impediments to scaling Shariah-compliant digital financing.

Number of respondents: 31 respondents from supply side

Product & Service Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Adequacy of product range across B2C and B2B segments	45.1%	22.6%	32.3%	Product breadth is widely viewed as insufficient
Effectiveness and efficiency of end-to-end operational models	29.0%	35.5%	35.5%	Operational processes exist but are slow and uneven
Effectiveness of product transparency and consumer disclosures	9.7%	32.3%	58.1%	Disclosure standards are relatively stronger, though inconsistent

3.1.4 Survey Findings (Shariah Compliance)

3.1.4.1 Shariah Compliance (Demand Side)

From the demand-side perspective, consumer confidence in the Shariah integrity of digital financing platforms is moderate and cautious, shaped by limited visibility into Shariah governance processes rather than outright skepticism.

While 44.6 percent of respondents agree or strongly agree that Shariah-compliant digital financing platforms genuinely adhere to Shariah and Islamic finance principles, a substantial 36.9 percent remain neutral, and 18.4 percent disagree. This distribution suggests that consumers generally expect compliance but lack sufficient assurance to form strong convictions.

Perceptions of availability and adequacy of Shariah-related information, including fatwa, Shariah endorsement, and certification, are similarly mixed. Although 44.6 percent agree that adequate information is available, 27.7 percent remain neutral and 27.7 percent disagree. This highlights a

transparency gap, where Shariah compliance may exist in substance but is not communicated clearly or consistently to consumers.

The most decisive demand-side finding relates to transparency of Shariah contracts and the role of Shariah scholars. An overwhelming 80.0 percent of respondents agree or strongly agree that greater transparency regarding Shariah contracts is necessary and that assurance by Shariah scholars is critical. This strong consensus indicates that consumers increasingly equate Shariah credibility with visibility, explanation, and scholarly assurance, rather than institutional claims alone.

Consumer trust in Shariah compliance is expectational rather than evidential. Confidence strengthens when Shariah principles are clearly explained, endorsed, and made transparent at the product and contract level.

Number of respondents: 65 respondents from demand side

Shariah Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Adherence of platforms to Shariah and Islamic finance principles	18.4%	36.9%	44.6%	Compliance is expected but not decisively confirmed by consumers
Availability of Shariah compliance information and certification	27.7%	27.7%	44.6%	Information exists but lacks clarity and accessibility
Need for transparency of Shariah contracts and scholarly assurance	3.1%	16.9%	80.0%	Strong consumer demand for greater Shariah transparency and assurance

3.1.4.2 Shariah Compliance (Supply Side)

From the supply-side perspective, confidence in Shariah governance mechanisms is stronger but still measured, reflecting internal familiarity with Shariah review processes alongside recognition of implementation gaps.

A majority (54.9 percent) of respondents agree or strongly agree that Shariah review, audit, certification, and endorsement processes are effectively enforced across institutions. However, a sizeable 35.5 percent neutrality suggests uneven enforcement, differences in interpretation, or variability in institutional practice.

Supply-side respondents express even stronger alignment on the need for centralised Shariah rulings and clearer fatwa standardisation. A combined 67.8 percent agree or strongly agree that enhanced standardisation would accelerate Shariah-compliant digital financing, while only 9.7 percent disagree. This indicates broad industry recognition that decentralised rulings and interpretive diversity, while doctrinally legitimate, may hinder scalability and product consistency.

Shariah governance structures are functional, but standardisation and central coordination are increasingly viewed as necessary to support ecosystem-wide scale and credibility.

Number of respondents: 31 respondents from supply side

Shariah Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Effectiveness of Shariah review, audit, and certification enforcement	9.7%	35.5%	54.9%	Enforcement exists but is uneven across institutions
Need for centralised Shariah rulings and fatwa standardisation	9.7%	22.6%	67.8%	Strong industry support for greater Shariah standardisation

3.1.5 Survey Findings (Technology & Infrastructure)

3.1.5.1 Technology & Infrastructure (Demand Side)

From the demand-side perspective, consumer views on technology and infrastructure are generally positive but uneven, reflecting confidence in basic access and institutional trust, alongside concerns around usability consistency and platform reliability.

A combined 43.1 percent of respondents agree or strongly agree that Shariah-compliant digital financing platforms are easy to use and technologically reliable. However, a substantial 30.8 percent neutrality and 26.2 percent disagreement indicate that user experience and platform stability vary across providers, leading to inconsistent consumer perceptions.

Trust in data protection and information security emerges as a significantly stronger dimension. An overwhelming 75.4 percent of respondents agree or strongly agree that protecting user information is an important factor when using Shariah-compliant digital financing platforms. This finding underscores that cybersecurity and data privacy are central to adoption decisions, not secondary considerations.

Perceptions of internet coverage and mobile access are also broadly positive. A combined 60.0 percent of respondents agree or strongly agree that existing connectivity infrastructure is sufficient

to support digital financing usage, although 23.1 percent continue to report access constraints. This suggests that while national coverage is adequate for many users, digital inclusion gaps remain geographically or socioeconomically concentrated.

Trust in Islamic financial institutions as digital service providers remains relatively strong, with 60.0 percent expressing agreement or strong agreement. Nevertheless, the presence of 21.5 percent neutrality signals that institutional trust does not automatically translate into confidence in digital delivery capabilities.

Consumers trust the institutions and infrastructure, but their confidence weakens when confronted with inconsistent platform performance and user experience.

Number of respondents: 65 respondents from demand side

Technology & Infrastructure Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Ease of use and reliability of digital financing platforms	26.2%	30.8%	43.1%	User experience is uneven across platforms
Importance of data protection and information security	9.3%	15.4%	75.4%	Data security is a critical trust determinant
Sufficiency of internet coverage and mobile access	23.1%	16.9%	60.0%	Connectivity is generally adequate but not universal

Trust in Islamic financial institutions' digital services	18.4%	21.5%	60.0%	Institutional trust exists, but digital confidence is still forming
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3.1.5.2 Technology & Infrastructure (Supply Side)

From the supply-side perspective, responses highlight a clear distinction between foundational readiness and advanced digital maturity.

There is strong consensus that regulators should actively spearhead digital innovation, with 74.2 percent agreeing or strongly agreeing that regulatory leadership is necessary to advance Shariah-compliant digital financing innovation. This reflects industry expectations that innovation requires regulatory support, coordination, and signaling.

Assessments of existing national digital infrastructure including Raast, NADRA, e-KYC, APIs, and credit scoring initiatives are moderately positive. A combined 48.4 percent of respondents agree that current infrastructure is sufficient to support ecosystem growth of Shariah-compliant digital financing in Pakistan, although 29.0 percent neutrality and 22.6 percent disagreement indicate uneven utilisation and integration across institutions.

In contrast, perceptions of advanced technology adoption are notably weak. A majority (48.4 percent) disagree that technologies such as AI, machine learning, blockchain, and cloud computing are being adopted effectively and efficiently, while only 22.6 percent agree or strongly agree. This highlights a significant innovation and capability gap beyond basic digitalisation.

Views on cybersecurity, technological reliability, and data privacy enforcement are cautiously positive. While 45.2 percent agree that such frameworks are effectively implemented, 32.3 percent suggests uneven enforcement standards and varying institutional capabilities.

The ecosystem is digitally functional but innovative-constrained, with advanced technologies underutilised and uneven cybersecurity enforcement.

Number of respondents: 31 respondents from supply side

Technology & Infrastructure Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Regulatory leadership in advancing digital innovation	6.5%	19.4%	74.2%	Strong industry demand for regulatory-led innovation
Sufficiency of national digital infrastructure	22.6%	29.0%	48.4%	Infrastructure is adequate but unevenly leveraged
Effectiveness of advanced technology adoption (AI, ML, blockchain, cloud)	48.4%	29.0%	22.6%	Advanced digital maturity remains low
Effectiveness of cybersecurity and data protection frameworks	22.6%	32.3%	45.2%	Cybersecurity exists but enforcement is inconsistent

3.1.6 Survey Findings (People and Consumers)

3.1.6.1 People and Consumers (Demand Side)

From the demand-side perspective, consumer engagement with Shariah-compliant digital financing is gaining traction, supported by rising convenience, awareness, and literacy expectations.

A substantial 69.2 percent of respondents agree or strongly agree that the use of Shariah-compliant digital financing platforms is becoming more common and convenient. This suggests growing acceptance and behavioural normalisation of digital Shariah-compliant financial services.

At the same time, risk awareness is increasing but uneven. While 52.4 percent of respondents recognise risks such as scams, system failures, and data privacy concerns, a combined 24.6 percent disagree, and 23.1 percent remain neutral. This indicates that although awareness is improving, a significant segment of users may still underestimate digital and operational risks.

Demand-side responses show particularly strong alignment on information availability and education. An overwhelming 86.1 percent agree or strongly agree that access to sufficient information about Shariah-compliant digital financing is an important public consideration. Similarly, 67.7 percent acknowledge the importance of education and literacy programmes. These findings indicate that consumers increasingly associate confidence and adoption with knowledge, understanding, and informed decision-making.

Adoption is accelerating, but informed adoption depends on sustained improvements in information access, literacy, and risk awareness.

Number of respondents: 65 respondents from demand side

People Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Growing usage and convenience of Shariah-compliant digital financing	12.3%	18.5%	69.2%	Digital Shariah finance is gaining mainstream traction
Consumer awareness of digital financing risks	24.6%	23.1%	52.4%	Risk awareness is improving but remains uneven

Importance of sufficient information availability	3.1%	10.8%	86.1%	Information access is a key adoption driver
Importance of education and literacy programmes	15.4%	16.9%	67.7%	Consumers strongly value education and literacy

3.1.6.2 People and Consumers (Supply Side)

From the supply-side perspective, responses reveal structural human capital challenges that could constrain the long-term sustainability and quality of Shariah-compliant digital financing.

Only 41.9 percent of respondents agree or strongly agree that Pakistan has adequate numbers of professionals skilled in both Shariah and digital financing domains. In contrast, 38.8 percent disagree, highlighting a tangible talent shortage. This gap reflects the specialised nature of skills required at the intersection of Shariah, finance, and digital technology.

Assessments of training and professional development programmes are even more critical. A combined 45.1 percent disagree that existing programmes are sufficient and effective, while only 19.3 percent express agreement. High neutrality (35.5 percent) further indicates inconsistency in training quality and reach.

Where supply-side views converge most strongly is on the need for robust government-led talent development initiatives. An overwhelming 83.9 percent agree or strongly agree that stronger public-sector intervention is required to build future talent pipelines. This consensus signals industry recognition that market-led training alone is insufficient to meet ecosystem needs.

Human capital is the most binding constraint among ecosystem enablers, requiring coordinated and sustained intervention.


Number of respondents: 31 respondents from supply side

People Dimension	Strongly Disagree & Disagree	Neutral	Agree & Strongly Agree	Researchers' Interpretation
Adequacy of skilled professionals in Shariah and digital finance	38.8%	19.4%	41.9%	Talent supply is insufficient and uneven
Sufficiency of training and professional development programmes	45.1%	35.5%	19.3%	Training pipelines are weak and fragmented
Need for government-led talent development initiatives	3.2%	12.9%	83.9%	Strong consensus on public-sector leadership

3.1.7 Survey Findings (Summary)

The survey findings provide a coherent picture of Pakistan’s Shariah-compliant digital financing ecosystem as one that is structurally established and directionally positive, yet constrained by execution gaps, uneven institutional integration, and capability limitations. Across all six pillars, the evidence suggests that the ecosystem has largely moved beyond questions of foundational legitimacy and is now confronting second-order challenges related to coordination, transparency, scalability, and trust transmission.

From a regulatory perspective, the findings indicate that Pakistan has achieved a reasonable level of regulatory adequacy, particularly from the supply-side viewpoint, where the frameworks of SBP and SECP are broadly regarded as supportive and enabling. However, demand-side responses reveal that regulatory effectiveness is not primarily judged by the existence of rules, but by their clarity, visibility, and communication. Consumers remain uncertain about enforcement consistency and approval transparency, and they overwhelmingly signal the need for clearer public communication regarding approved platforms and regulatory assurances. This divergence suggests




that the ecosystem is no longer facing a regulatory design deficit, but rather an implementation and signalling deficit, where regulatory credibility depends on how clearly and consistently it is communicated and coordinated across stakeholders.

In relation to key industry players, the survey findings demonstrate that institutional presence and intent are not in question. Both consumers and providers acknowledge the role of Islamic banks, fintech firms, and related stakeholders in advancing Shariah-compliant digital financing. Demand-side respondents generally expect the system to function effectively, while supply-side stakeholders confirm that institutional capacity exists. Nevertheless, both sides converge on the view that fragmentation and weak ecosystem-level coordination limit impact. Collaboration is often perceived as uneven, insufficiently visible, or confined to pilot initiatives. As such, confidence in the ecosystem increasingly depends on how well institutions operate collectively rather than individually, highlighting the need for stronger orchestration, shared platforms, and coordinated delivery models.

The Products and Services pillar reveals a more pronounced misalignment between consumer expectations and provider capabilities. Consumers report only partial satisfaction with the adequacy, transparency, and comparability of Shariah-compliant digital financing products, while providers themselves acknowledge that product ranges remain narrow and operational processes are often slow and inconsistent. Importantly, these constraints are not attributed to Shariah permissibility or regulatory barriers, but rather to product design, standardisation, and end-to-end delivery efficiency. This indicates that the ecosystem remains largely compliance-driven, with insufficient emphasis on user-centric design and market responsiveness, limiting broader adoption and scale.

Shariah Compliance emerges as an area where expectation outpaces assurance. Consumers generally assume that Shariah-compliant digital financing platforms adhere to Islamic principles, yet their confidence remains cautious due to limited transparency and insufficient access to Shariah-related information, fatwa, and scholarly endorsement. The strongest demand-side signal is the call for greater transparency in Shariah contracts and clearer scholarly assurance. On the supply side, respondents confirm that Shariah governance mechanisms are in place but recognise uneven enforcement and the constraints posed by decentralised rulings. Collectively, the findings



indicate that the ecosystem faces an assurance gap rather than a compliance gap, where trust depends increasingly on visibility, explanation, and harmonisation of Shariah governance outcomes.

With respect to Technology and Infrastructure, the findings suggest that Pakistan's Shariah-compliant digital financing ecosystem is digitally enabled but not digitally mature. Consumers express reasonable confidence in basic infrastructure, connectivity, and institutional trust, particularly regarding data protection and cybersecurity as key adoption determinants. However, they also report uneven user experience and platform reliability. Supply-side responses reinforce this assessment, acknowledging that while foundational infrastructure such as Raast, NADRA, and e-KYC is adequate, the adoption of advanced technologies, including artificial intelligence, machine learning, blockchain, and cloud computing, remains limited. This points to an ecosystem that can support basic digital operations but lacks the technological depth required for innovation, scalability, and resilience.

Finally, the People pillar highlights the most binding structural constraint across the ecosystem. On the demand side, adoption of Shariah-compliant digital financing is clearly increasing, accompanied by growing awareness of risks and a strong emphasis on information access, education, and literacy. Consumers increasingly associate confidence and usage with knowledge and understanding. In contrast, the supply side reveals significant human capital gaps. There is a shortage of professionals with combined expertise in Shariah and digital finance, and existing training and professional development programmes are widely viewed as insufficient. The near-unanimous call for stronger government-led talent development initiatives underscores the recognition that market-driven capacity building alone will not meet ecosystem needs.

Taken together, the survey findings indicate that Pakistan's Shariah-compliant digital financing ecosystem has reached a critical transition point. Demand is rising, institutional frameworks are present, and foundational infrastructure is in place. However, progress is increasingly constrained by coordination failures, assurance gaps, limited product depth, weak innovation capability, and human capital shortages. The dominant challenge is no longer whether the ecosystem should grow, but whether it can do so coherently, credibly, and sustainably through improved integration, communication, and capability development.

3.2 Focus Group Discussion (FGD)

The research questions for the Focus Group Discussions (FGDs) were structured to assess the development of Shariah-compliant digital financing in Pakistan through a multi-dimensional and ecosystem-based lens. The questions were designed around four analytical dimensions encapsulating the readiness, effectiveness, implementation, and future development and examined across six key industry ecosystem pillars encompassing regulatory, institutional, market, technological, human capital, and Shariah governance aspects.


This approach enabled a comprehensive evaluation of current capabilities, performance gaps, and implementation challenges, while also capturing forward-looking policy and strategic priorities required to support Pakistan's ambition of achieving a fully-fledged Islamic finance ecosystem by 2028. Collectively, the research questions aimed to generate actionable insights to inform regulatory reform, product innovation, ecosystem coordination, and sustainable growth of Shariah-compliant digital financing in Pakistan.

Research Questions Set 1: Regulators (SECP/SBP/Relevant Government Agencies) of Supply Side

Dimension 1 (Readiness, Adequacy and Sufficiency)


1. To what extent are Pakistan's current digital finance infrastructures and current regulatory frameworks equipped to support, harness and accelerate Shariah-compliant digital financing as one of key industry sectors that will contribute toward the ambition of Pakistan in implementing full-fledged Islamic Finance by 2028?
2. To what extent are current ecosystem players positioned to adopt and scale Shariah-compliant digital financing products?
3. What areas within current product development, human capital, institutional governance, ecosystem collaboration and Shariah oversight could be further strengthened and advanced by regulators to enhance the ecosystem?

Dimension 2 (Perception and Current Effectiveness & Efficiency)

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4. To what extent are current/existing regulatory mechanisms (e.g., sandbox testing, licensing, product approval) effective and efficient in facilitating innovation while ensuring Shariah compliance and consumer protection in Shariah-compliant digital financing?
 5. To what extent do regulators and Shariah bodies coordinate effectively to harmonize rulings, standardize fatwas, and maintain consistency across institutions in Shariah-compliant digital financing?
 6. How do regulators evaluate the market performance of Shariah-compliant digital financing solutions in terms of trustworthiness, accessibility, and competitiveness for consumers and businesses?
 7. To what extent are current product review and disclosure processes (e.g., Key Fact Statements, Product Disclosure Sheet and Shariah certifications/pronouncement) effective and transparent from a regulatory perspective in Shariah-compliant digital financing?
 8. To what extent are current capacity-building and training initiatives for regulators and industry personnel sufficient and impactful in strengthening oversight of Shariah-compliant digital financing industry and ecosystem players?

Dimension 3 (Implementation and Enforcement)

9. What are the main challenges of the regulators in aligning financial regulations with Shariah rulings, especially in Shariah-compliant digital finance product approval and operational supervision in the implementation level?
10. How well do financial institutions and fintechs that operate in Shariah-compliant digital financing integrate regulatory compliance and policy framework with Shariah principles, product innovation and development, customer protection, cybersecurity, and data protection?
11. To what extent is the quality of synergy and coordination among regulators and government stakeholders in developing a coherent Shariah-compliant digital financing ecosystem players in Pakistan?
12. How well are regulators and governments supervisory bodies conduct surveillance and audit practices applied to ensure the enforcement of regulatory framework, Shariah compliance and sound risk management in Shariah compliance digital financing operations?

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13. What implementation gaps continue to affect public confidence and trust that lead into digital financial inclusion in Pakistan, including limited digital literacy, low Shariah awareness, or lack of transparency in compliance information with regards to the Shariah-compliant digital financing industry?

Dimension 4 (Future Development Plan)


14. What strategic policy priorities should regulators pursue to accelerate adoption of Shariah-compliant digital financing (for example: regulatory framework and standard-setting development, product innovation, policy harmonization, licensing acceleration, Shariah governance, sandbox reform, cross-border collaboration, and human-capital development)?
15. How can Pakistan's regulatory framework for a robust Shariah-compliant digital financing ecosystem (being ranked 9th globally) evolve to position the country as a top 5 global benchmark learning from Saudi Arabia, Malaysia, Indonesia, Bahrain, UAE and Qatar while ensuring local relevance, strategic national priority of Pakistan and ethical governance?

Research Questions Set 2: Islamic Financial Institutions/Islamic Banks/NBFC in Shariah-compliant Digital Financing Providers

Dimension 1. Ecosystem Readiness – Sufficiency and Adequacy


1. To what extent are the current digital infrastructures and internal systems developed by the government of Pakistan (e.g., APIs, Raast integration, e-KYC mechanisms and other governing technology integration in Pakistan) in supporting the advancement and development of Shariah-compliant digital financing in Pakistan?
2. How prepared are Islamic finance institutions in terms of staff competency, Shariah oversight, and governance structures to develop, manage, and scale Shariah-compliant digital financing solutions in Pakistan?

Dimension 2. Perception and Current Effectiveness

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3. How effective are the current regulatory frameworks (SBP, SECP), including sandbox mechanisms, licensing, and policy guidelines, in enabling innovation and product development, ecosystem robustness and industry credibility for Shariah-compliant digital financing in Pakistan?
 4. How effective are the Shariah governance processes (e.g., review, audit, and board oversight) in ensuring timely and efficient product approval within Shariah-compliant digital financing in Pakistan?
 5. How do consumers perceive Shariah-compliant digital financing in Pakistan in terms of trust, accessibility, and clarity of compliance?
 6. How are the synergy collaborations among banks, fintechs, and Shariah boards working in promoting innovation and ensuring operational effectiveness within Shariah-compliant digital financing in Pakistan?
 7. To what extent are existing internal training, professional development and capacity-building programs in preparing employees to manage both digital and Shariah compliance aspects of Shariah-compliant digital financing in Pakistan?

Dimension 3. Implementation and Enforcement

8. What are the main challenges and bottlenecks in integrating regulatory, technological, and Shariah compliance requirements for advancing and developing Shariah-compliant digital financing in Pakistan and what aspects have worked well so far in this integration process?
9. How consistently and effectively are Shariah review, audits and compliance monitoring conducted for Shariah-compliant digital financing platforms/providers in Pakistan?
10. How are operational risks including but not limited in the area of cybersecurity, data privacy, and consumer protection managed by the industry player institutions while maintaining regulatory compliance and Shariah governance in digital financing in Pakistan?
11. To what extent is existing synergy and collaboration between regulatory bodies and Shariah authorities in addressing compliance dynamics and operational challenges in Shariah-compliant digital financing in Pakistan?

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12. What are the main obstacles limiting public confidence in Shariah-compliant digital financing in Pakistan, such as lack of transparency, limited literacy, or unclear Shariah disclosures?

Dimension 4. Future Development Plan – The Way Forward

13. What strategic initiatives, synergy, collaboration and partnership with Islamic banks, other Islamic fintechs, regulators, associations, universities and Shariah advisory bodies that could strengthen innovation and inclusivity in Shariah-compliant digital financing in Pakistan?
14. How can financial institutions leverage emerging technologies such as AI, Machine Learning, blockchain, and big data analytics to enhance Shariah compliance, institutional strength, operational agility, and consumer trust in Shariah-compliant digital financing in Pakistan?
15. What kind of new products, processes or digital solutions is your institution currently working on or planning to develop the acceleration for Shariah-compliant digital financing in Pakistan in the near future?
16. How are you prioritising innovations that enhance accessibility and sustainability (e.g., for women entrepreneurs, micro-enterprises and alignment with UN sustainable development goal), efficiency (e.g., embedded finance, real-time rails), or transparency (e.g., Shariah certifications, audit logs)?
17. What timeframe and resource commitments have you set for scaling these innovations, and what metrics will you use to judge success and maturity in the Shariah-compliant digital financing space in Pakistan?

FGD Rationale


Pakistan's digital and agricultural financial ecosystem are jointly shaped by regulators, government agencies, and industry players. FGDs with SECP, ministries, govt agencies, Islamic Banks, NBFCs, Islamic Financial Institutions, and fintech actors allow a holistic view of how regulations and market practices align in practice. Since policies evolve through interpretation, coordination, and industry experience, structured discussions offer deeper insights than surveys. These FGDs help identify adequacy, gaps, current action, opportunities, implementation challenges, and aspirational development especially in advancing Shariah-compliant Digital Financing (SDF) in Pakistan.

FGD Objective

1. To assess the readiness, alignment, and clarity of regulatory frameworks governing Shariah-compliant digital finance, NBFC operations, and Islamic finance that support the overall ecosystem development and acceleration
2. To understand regulators' and policymakers' perspectives on enabling Shariah Digital Financing
3. To identify institutional coordination gaps and opportunities between SECP, ministries, govt institutions and industry players.
4. To gather industry-level insights on operational challenges, compliance requirements, market capacity, and technology adoption.
5. To synthesize collective viewpoints across multi stakeholders of the ecosystem that will inform actionable recommendations for accelerating inclusive, Shariah-compliant digital and agricultural financial solutions in Pakistan.

FGD Mechanism

As a fundamental research methodology to obtain practical and real time findings of this study, a Focus Group Discussion mechanism was undertaken to obtain deeper qualitative insights into the development of Shariah-compliant digital financing in Pakistan. The objective of the FGD was to capture institutional perspectives on regulatory readiness, operational realities, and future development pathways within the Shariah-compliant digital financing ecosystem.



The FGD brought together a representative group of key stakeholders involved in the design, regulation, and delivery of Shariah-compliant digital financing. Participants included representatives from the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, relevant government ministries and agencies, non-bank financial companies, Islamic banks, and digital finance and fintech providers operating within the Shariah-compliant segment. This multi stakeholder representation ensured balanced discussion across regulatory, supervisory, and industry perspectives.

Discussions were conducted through semi structured, facilitator led sessions. The discussion format focused on core themes including the effectiveness of existing regulatory frameworks, practical operational challenges faced by providers, and innovation opportunities within the Shariah-compliant digital financing space.

The sessions were structured around four dimensions of industry development, as follows:

1. Dimension 1 - Readiness, Adequacy and Sufficiency
2. Dimension 2 - Perception, Current Effectiveness and Efficiency
3. Dimension 3 - Implementation, Perception and Governance
4. Dimension 4 - Way Forward, Aspiration and Future Development

Those essential dimensions are reflecting different stages of maturity within the Shariah-compliant digital financing landscape in Pakistan. This structure enabled participants to assess current conditions while identifying pathways for future ecosystem development.

To ensure depth and clarity, the FGD was organized into three segments involving regulators, government agencies, and key industry players in both joint and segmented discussions. This approach facilitated open exchange of perspectives while allowing candid discussion of institutional constraints and policy considerations.

The primary output of the FGD was a consolidated thematic summary synthesizing key regulatory insights, identified pain points, and proposed interventions. These outputs informed practical recommendations aimed at strengthening Pakistan's Shariah-compliant digital financing ecosystem, enhancing regulatory effectiveness, and supporting responsible innovation aligned with national financial inclusion and Islamic finance objectives.

FGD Sessions Summary

No	Focus Group Discussion	Date	Time	Participants
1	FGD with SECP Management	27 th November 2025	12.30 p.m to 2.30 p.m	Securities and Exchange Commission of Pakistan cross departmental representatives, management officials, and ISRA Consulting
2	FGD with Government Institutions and Associations	1 st December 2025	1.00 p.m to 3.00 p.m	State Bank of Pakistan, Securities and Exchange Commission of Pakistan, Agriculture Department Government of Khyber Pakhtunkhwa, World Bank consultant, Asian Development Bank consultant, Pakistan Mercantile Exchange, Naymat Collateral Management Company, Pakistan Stock Exchange, Central Depository Company, National Clearing Company, National Rural Support Programme, and ISRA Consulting
3	FGD with Industry Players	1 st December 2025	5.00 p.m to 7.00 p.m	Meezan Bank, Bank Islami Pakistan, Salaam Takaful, Jubilee General Insurance, JazzCash, Walee Financial, Abhi, Qist Bazaar, Pakistan Microfinance Network, Pakistan Fintech Network, Securities and Exchange Commission of Pakistan, and ISRA Consulting

3.2.1 FGD Findings (Regulations)

As part of this study, a series of industry-led Focus Group Discussions (FGD) were undertaken to deepen the understanding of regulatory sufficiency, operational effectiveness, and future development pathways for Shariah-compliant digital financing in Pakistan. The focus group discussion process was designed to move beyond surface level observations and capture structural issues that directly affect scalability, innovation, development, adoption, market confidence, consumers education and Shariah compliance with regard to the Shariah-compliant digital financing.


The regulatory discussion deliberately focused on three interrelated dimensions. First, whether the current regulatory framework is sufficient to support Shariah-compliant digital financing in principle. Second, how effective and efficient this framework is in practice from the perspective of regulators and industry players. Third, what targeted regulatory and institutional interventions are required to enable the next stage of ecosystem development in the future.

The regulators and industry expert participants broadly acknowledged that Pakistan has established many of the foundational regulatory ingredients required for Shariah-compliant digital financing. However, the discussions also revealed that fragmentation, misalignment, and procedural uncertainty continue to constrain execution, innovation, and scale.

Regulatory Framework Sufficiency and Gaps

From a sufficiency perspective, FGD participants generally agreed that Pakistan already has core regulatory elements in place to support Shariah-compliant digital financing. These include licensing regimes, Islamic finance guidelines, sandbox initiatives, Shariah governance requirements, and digital financial technology and infrastructure. However, these elements currently operate in silos.

A recurring concern raised during the FGD was fragmented regulatory control across multiple authorities. The absence of a unified regulatory framework spanning SECP, SBP, telecommunication regulators, NADRA, and tax authorities has resulted in duplicated compliance requirements, inconsistent interpretations, and procedural delays. These issues were particularly evident in electronic KYC processes, digital onboarding journeys, consumer protection, governance and also enforcement.



One senior member of SECP management emphasized this point clearly during the discussion as below:

“SECP has already put in place the foundational regulatory framework and most of the necessary ingredients for Shariah-compliant digital finance. The challenge now is not about starting from zero, but about fine tuning, harmonising, and aligning our regulatory approach across SECP, SBP, and other relevant authorities so the industry can flourish and scale responsibly.”

Participants also noted the absence of a national level coordinating, orchestrating, expediting and accelerating body dedicated specifically and only to Islamic finance and Shariah-compliant digital finance. Unlike peer jurisdictions such as Indonesia and Malaysia, Pakistan does not yet have an institutional platform that aligns policy direction, supervisory expectations, and multi-stakeholders ecosystem development for Islamic finance and also Shariah-compliant digital financing in coordinated, structured, formal and aligned form.

Regulations Perceived Effectiveness and Efficiency

While regulatory sufficiency was acknowledged in principle, effectiveness and efficiency were widely perceived as uneven in practice. Industry participants expressed frustration with regulatory stagnation following sandbox participation. The current sandbox framework was viewed as effective for experimentation and proof of concept but unclear in terms of post testing progression and commercialisation.

Several fintech and NBFC representatives highlighted that after successful pilot phases, firms often face uncertainty regarding licensing pathways, supervisory expectations, and long-term regulatory treatment. Unlike advanced sandbox models observed in Abu Dhabi Global Market or the Monetary Authority of Singapore, Pakistan’s sandbox was perceived as lacking a clear graduation framework.

This sentiment was echoed by an SECP senior leader who noted:

“We recognise that sandbox ideation alone is not sufficient. The next phase must focus on how tested solutions can graduate, scale, and operate sustainably within the regulatory perimeter while maintaining strong Shariah governance and consumer protection to

ensure that Pakistan is ready to transform into a full-fledged Islamic Finance system and ecosystem by the year of 2028.”

Another area of concern related to regulatory terminology. Industry participants highlighted that many regulatory notices and supervisory frameworks rely heavily on conventional finance language. This creates ambiguity when applied to Shariah contracts such as *Murabahah*, *Salam*, or *Musharakah*, particularly in digital environments where contract sequencing, asset ownership, and risk transfer must be clearly documented. This ambiguity increases both reputational and Shariah non-compliance risks for providers.

Regulations Future Development Pathways


The FGD discussions converged strongly on the need for coordinated regulatory reform rather than wholesale regulatory overhaul. Participants consistently emphasized that Pakistan does not need to rebuild its Shariah-compliant digital finance framework from scratch. Instead, it needs structured coordination, standardisation, and institutional alignment.

A key recommendation emerging from the discussions was the establishment of a Joint Regulatory Coordination Council between SECP and SBP, working in close cooperation with the Pakistan Digital Authority and other non-financial regulators. Such a mechanism would enable aligned supervision, harmonised standards, and integrated policy execution across financial and digital domains.

Senior leadership from SBP reinforced this view, noting that infrastructure readiness is no longer the binding constraint:

“From a central banking perspective, the technology and infrastructure are already in place. Almost all banks have mobile platforms, real time payment rails, and digital identity integrations. The focus now is how to scale adoption and encourage institutions to embed Shariah-compliant digital financing within existing digital finance frameworks without reinventing everything.”

Another SBP senior participant added:



“The building blocks for Shariah-compliant digital finance such as digital banking, open banking, digital onboarding, and end to end digital financing already exist. The key question is how to incentivise banks and NBFCs to fully adopt Shariah-compliant digital financing models and integrate them into mainstream digital finance strategies.”

Industry players and Shariah advisors consistently highlighted the need for stronger incentives, standardised product templates, and a unified Shariah aligned regulatory lexicon. They stressed that clear terminology, unified rulebooks, and shared innovation platforms would significantly reduce compliance friction and accelerate product development as one industry representative stated:

“What the industry needs now is not more experimentation, but clarity. Clear incentives, standard templates, a unified playbook, and a sandbox that leads to real market entry.”

Another Shariah-compliant digital financing industry participant concluded:

“A national Islamic Finance and or Shariah-compliant digital finance taskforce, avenue or hubs would allow regulators, industry practitioners, Shariah scholars, technology developers, academia and third-party institutions to discuss, collaborate, coordinate and cocreate problems solving together instead of in isolation of siloed way of work. This is how we move from pilots to real impact and scalability.”

The summary of the key highly analysis with regard to the table are written and summarized in the table as the following:

Sufficiency (Frustration/Gaps)	Perceived Effectiveness and Efficiency (Challenges)	Future Development (Wish List/Way Forward)
<p>Fragmented Regulatory Control: Lack of a unified regulatory framework among SECP, SBP, telco regulators, NADRA, and tax authorities creates duplications, delays, and conflicting requirements. This fragmentation slows down eKYC, digital onboarding, and consumer protection.</p>	<p>Policy & Supervisory Fragmentation: The absence of a "National Islamic Digital Finance Council" (similar to Indonesia's KNEKS, Malaysia's MIFC and JC3) creates significant policy misalignment. There is a lack of clear regulatory inspection, audit, and assurance processes specific to Islamic digital financing.</p>	<p>Joint Regulatory Coordination Council (JRCC) in Islamic Finance and or Shariah-compliant Digital Financing : Establish a JRCC between SECP and SBP in cooperation with the Pakistan Digital Authority (PDA) and also those ecosystem players who are having stakes in the non-financial digital industry regulation (such as Ministry of ICT, Telecommunication Regulators and etc) to align supervision and industry standards of Shariah Digital Financing in Pakistan..</p> <p>Standardized and Unified Rulebook and Playbook for Shariah Digital Financing: Issue a</p>

		<p>comprehensive, standardized Shariah digital financing rulebook with unified templates, contracts, reporting standards, and terminologies.</p> <p>Incentivize New Inception and Conversion: Provide clear incentives (tax breaks, fee discounts, fast-track licensing) for NBFCs new establishment in the space of Shariah fully converting to Islamic models.</p>
<p>Regulatory Stagnation After Testing: Stakeholders express frustration that the current sandbox only allows experimentation and piloting for go-to-market strategy but offers a blurry <i>and</i> unclear path to commercialisation in a sustainable manner.</p>	<p>Sandbox Dissatisfaction: The current sandbox structure lacks post-testing "regulatory graduation" pathways (unlike ADGM or MAS frameworks), leaving firms stuck after the pilot phase.</p>	<p>Mature Sandbox 2.0: Introduce a multi-tier "Sandbox 2.0" with clear stages: concept review > controlled testing > semi-commercial roll-out > full licensing, governed by standard Key Performance Indicators (KPIs) and Objective Key Results (OKRs)</p>

<p>Coordination Gap: Unlike Malaysia’s or Indonesia’s integrated taskforces, Pakistan has no joint committee for Islamic digital finance that brings together regulators, industry players, ministries, fintech associations, technology providers, academia, and third-party development organisations. This fragmentation leads to slow alignment, redundant consultations, and inconsistent implementation</p>	<p>Early-Stage Alignment: Coordination with emerging authorities, such as the Pakistan Digital Authority, remains in very early stages. Federal-level processes, particularly signature approvals, fiscal verifications, and inter-ministerial endorsements often introduce procedural delays, hindering rapid policy execution and slowing digital ecosystem development</p>	<p>Integrated Regulatory Coordination: Stakeholders expect a unified digital finance ecosystem with system-level interoperability between SECP, SBP, NADRA, and telco regulators, enabling seamless eKYC, user verification, integrated security protocols, and cross-platform data harmonization for Shariah-compliant digital finance adoption.</p> <p>Establish a National Islamic/Shariah-compliant Digital Finance Taskforce: Create a high-level Islamic</p>

<p>timelines across agencies and sectors.</p>		<p>Digital Finance / Shariah-Compliant Digital Financing Taskforce comprising regulators, Islamic banks, fintechs, NBFCs, technology providers, academia, and development partners. The taskforce would serve as the central forum for industry alignment, joint problem-solving, co-creation of standards, cross-agency decision-making, Shariah harmonization, and ecosystem development similar to Indonesia’s Fintech Innovation Hub and Malaysia’s Joint Committee on Islamic Finance/ Malaysia Islamic Finance Council (MIFC).</p>
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<p>Conventional Industry Terminology Mismatch: Regulatory terminologies (such as regulatory notice by SECP for lending activities engaged by NBFC) for Shariah Digital Financing players are often borrowed from conventional finance, creating a mismatch and uncertainty when applied to Shariah concepts that causes the credibility issues experienced by Shariah digital financing players/NBFCs exposed to the customers or users. .</p>	<p>Ambiguity in Regulatory Definition & Shariah Alignment: Because regulatory texts rely heavily on conventional financial terminology (e.g., “interest-bearing lending,” “credit exposure,” “loan recovery”), Shariah-compliant NBFCs struggle to map these terms onto Islamic contracts such as <i>Murabahah</i>, <i>Salam</i>, and <i>Musharakah</i>. This creates operational ambiguity, inconsistent Shariah interpretations, and difficulty aligning supervisory reporting with Shariah transaction flows especially in digital environments where contract sequencing and ownership transfer must be explicitly documented. Hence that could lead to reputation risk and</p>	<p>Develop a Unified Shariah-Aligned Regulatory Terminology and Lexicon: Create a national Shariah Digital Finance Terminology Framework that standardizes language used in laws, guidelines, reporting formats, and supervisory notices. This framework should replace or reinterpret conventional finance terms with Shariah-equivalent terminology (e.g., “financing exposure” instead of “loan exposure,” “asset transfer” instead of “disbursement”), ensuring consistency across SECP, SBP, NADRA, and other regulators. The framework should be embedded into rulebooks, sandbox guidelines, licensing manuals, and supervisory reporting templates to eliminate ambiguity and strengthen public trust.</p>
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	<p>Shariah non-compliance risk experience by Shariah digital financing NBFCs players in Pakistan</p>	
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The FGD confirmed that Pakistan’s Shariah-compliant digital financing ecosystem specifically in the regulatory frameworks spectrum pillar stands at growing to matured point. The foundations are largely in place, infrastructure readiness is high, and institutional commitment is evident. However, fragmentation, terminology misalignment, sandbox limitations, and coordination gaps continue to slow progress.

The discussions strongly support a shift from fragmented regulatory management toward integrated governance, standardisation, alignment, harmonisation, campaign, encouragement, enforcement and incentive driven development. Addressing these issues will be critical to enabling scale, strengthening Shariah assurance, enhancing consumer trust, and positioning Pakistan as a competitive Shariah-compliant digital finance hub in the coming years.

3.2.2 FGD Findings (Key Industry Players)

In the second part, this FGD segment was designed to assess whether existing industry capabilities are sufficient to deliver scalable, trusted, and inclusive Shariah-compliant digital financing in practice specifically from the spectrum of key financial players such as Islamic Banks, Islamic NBFC and Shariah-compliant Digital Financing providers.

The discussion was structured around three dimensions: the sufficiency of current industry practices, the effectiveness and efficiency of execution, and the future development pathways required to transition from early-stage experimentation toward sustainable market scale.

Sufficiency of Key Industry Players

FGD participants broadly agreed that the industry has succeeded in developing a wide range of Shariah-compliant digital financing products. However, this product availability has not translated into strong market adoption. Industry players consistently highlighted poor product market fit, limited outreach, and weak marketability as the primary constraints. Many products were perceived as insufficiently adapted to consumer behavior, digital usage patterns, and sector specific realities.

A senior industry participant from the takaful (Islamic insurance) summarised this challenge succinctly as the following:

“The Shariah-compliant digital financing industry does not suffer from a lack of products. The real issue is product market fit (PMF), adoption, outreach, and marketability. Many offerings are not designed for how people actually live, transact, and access digital services today.”


Participants also noted that product design often failed to adequately account for broader externalities such as climate risks, the digital divide, and inclusion gaps between urban and rural communities. As a result, even technically sound Shariah products struggled to achieve relevance beyond narrow market segments.

Perceived Effectiveness and Efficiency of Key Industry Players

From an execution standpoint, FGD participants identified structural inefficiencies within firms themselves. A recurring theme was the siloed operation of business, technology, and Shariah teams. This disconnect was widely acknowledged as a key source of product delays, inconsistent implementation, and weak digital user experience.

One industry practitioner belongs to the Shariah expert and advisors of the Shariah-compliant digital financing industry ecosystem stated:

“There is a real disconnect between business teams, technology teams, and Shariah teams. Until these functions work together from day one, Shariah-compliant digital financing will continue to face execution delays and credibility challenges.”



Talent asymmetry emerged as a critical constraint. Many Islamic fintech founders and Shariah digital NBFCs were described as having strong Islamic finance foundations but limited exposure to digital product development, automation, and user experience design. Conversely, technology driven fintech teams often lacked sufficient understanding of Shariah principles, Shariah financial contract sequencing, and end to end Shariah implementation. This imbalance increased internal friction and heightened the risk of Shariah non-compliance (SNC) in digital execution.

This observation was reinforced by a regulatory perspective shared during the FGD:

“There is a clear incongruence in skills. Some teams are strong in Shariah but weak in digital execution, while others are digitally advanced but have limited understanding of Shariah. Bridging this gap is essential for sustainable growth.”

Innovation was further constrained by capital adequacy requirements, limited access to funding, and unclear scaling pathways. NBFCs undergoing conversion to Shariah-compliant models reported particular difficulty due to unclear guidelines and limited advisory support, resulting in prolonged and costly transition processes.

Future Development of Key Industry Players

The FGD discussions strongly converged on the need to shift from isolated product development toward ecosystem-based growth models. Industry participants emphasized that sustainable scale would not be achieved through standalone products but through integrated partnerships with real sector industries and anchor institutions.

A leading industry voice highlighted this shift:

“Innovation is not only about launching new products. It is about building the right ecosystem around those products. Ecosystem based selling and anchor-based partnerships will determine who scales and who does not, specifically in this Shariah-compliant digital financing ecosystem.”

Participants also expressed appreciation for SECP’s existing regulatory initiatives while calling for more structured collaboration platforms. There was strong support for establishing national

level product innovation labs, shared Shariah contract libraries, and regular industry working groups to co create digital native Shariah structures.

One industry representative noted:

“The steps taken by SECP have been positive and encouraging. What the industry needs now are shared platforms and innovation hubs where we can build, test, and scale together rather than in an isolated and siloed manner.”

From a governance perspective, industry players also stressed the importance of stronger inspection, assurance, and Shariah audit mechanisms to reinforce trust, professionalism, and credibility across the ecosystem.

An industry participant remarked:

“Regular inspections, Shariah assurance, Shariah maturity framework and audit frameworks from SECP and SBP are critical to embed strong governance and integrity within Shariah-compliant digital financing providers.”

Sufficiency (Frustration/Gaps)	Perceived Effectiveness/Efficiency (Challenges)	Future Development (Wish List/Way Forward)
<p>Poor Product-Market Fit (PMF): Industry players have many Islamic products, but they suffer from poor PMF, weak outreach, and low marketability. Existing products lack suitable distribution channels.</p>	<p>Execution Delays and Siloed Teams: A disconnect between business teams, technology teams, and Shariah teams creates significant execution delays.</p>	<p>National Collaboration Platform: Establish a national collaboration platform hosted quarterly with working groups on tech, Shariah, and ecosystem innovation to facilitate regular engagement.</p>

<p>Conversion Bottleneck: NBFCs feel overwhelmed by unclear Shariah guidelines and limited advisory capacity, making conversion roadmaps long, costly, and non-standardized.</p>	<p>Innovation Constraints: Innovation is heavily constrained by capital adequacy requirements, lack of funding access, and weak scaling pathways.</p>	<p>Shariah Compliance Maturity Roadmap: Mandate a Shariah compliance maturity roadmap for each digital NBFC, including governance upgrades, digital audits, and training.</p>
<p>Perception Problem: Some Islamic offerings are seen as "window dressing," fueling distrust due to a lack of transparent Shariah understanding, practice and disclosures.</p>	<p>Underestimation of Rural Realities: Fintechs feel regulators underestimate rural operational realities, such as low literacy, poor internet, and high device costs. Urban success is not translating to underserved regions.</p>	<p>Product Development Lab: Build a National Shariah Digital Finance Product Development Lab to co-create product structures, train NBFCs, and provide a contract library and templates.</p>
<p>Legacy Product Mindset: Many industry players continue redesigning conventional products or banking-based Islamic products instead of building digital-native Shariah structures. This legacy mindset limits innovation,</p>	<p>Talent Asymmetry in Islamic Fintech or Shariah Digital NBFCs: Most Islamic fintech founders and Shariah digital NBFC teams originate from Islamic banking backgrounds that have strong capacity in Islamic finance</p>	<p>Integrated Talent Development Program and Pipeline: Establish a national Islamic Digital Finance Talent Program combining Islamic finance fundamentals with digital product management, API architecture, UI/UX, cybersecurity, and Shariah-</p>

<p>creates inefficiencies in digital workflows, and prevents the development of product models that fully leverage platform technology, alternative data, embedded finance, and real-time Shariah compliance capabilities.</p>	<p>fundamentals but lacking deep technology, UI/UX, digital product, and automation capabilities. Conversely, technology-driven fintech talents possess strong digital skillsets but often have zero exposure to Islamic finance principles, leading to gaps in contract structuring, sequencing, and Shariah auditability. This asymmetry creates internal friction, slows product cycles, and increases the risk of Shariah non-compliance in digital execution.</p>	<p>tech automation. This program should be jointly developed by regulators, industry associations, leading Islamic banks, fintechs, and universities. The initiative would certify “dual-competency” professionals equipped to design digital-native Shariah products, accelerate innovation cycles, and strengthen Shariah-compliant digital ecosystem integrity.</p>
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<p>Lack of Integrated Partnerships: There is a lack of integrated partnership and ecosystem models for Shariah-compliant digital financing players to collaborate with real-sector industries such as Food & Beverage, Tourism, Hospitality, Agriculture, Smallholder Farmers, Cosmetics and “big brother” institutions like larger and maturer Islamic banks. This fragmentation limits product relevance, reduces credibility, and restricts access to broader value chains.</p>	<p>Go-to-Market & Scalability Barriers: Many Islamic fintechs and Shariah digital NBFCs struggle with developing sustainable go-to-market strategies. While growth traction may be visible in the early phase, players face scalability constraints, operational instability, and difficulty progressing toward road to firm profitability, especially without strong ecosystem partnerships or anchor institutional collaborations</p>	<p>Ecosystem-Based Growth Models & Anchor Partnerships: Develop structured ecosystem-based partnership frameworks linking Islamic fintechs and Shariah digital NBFCs with major real-sector industries and anchor Islamic banks. This includes creating vertical-specific financing corridors (e.g., Halal F&B, agriculture value chains, tourism/hospitality, cosmetics, smallholder financing and other Shariah-compliant or Halal sectors) and enabling co-designed digital products with shared KYC, unified onboarding flows, and integrated Shariah-compliant contract automation. Such anchored partnerships can accelerate market entry, provide immediate scale, strengthen unit economics, and enable sustainable</p>
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		profitability beyond early growth traction.
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The FGD in the aspects of Key Industry Players confirmed that the next phase of Shariah-compliant digital financing in Pakistan will be determined less by regulatory sufficiency and more by execution capability, talent integration, and ecosystem depth acceleration. Addressing product market fit, breaking internal silos, developing dual competency talent, and enabling ecosystem-based partnerships will be essential to unlock scale, inclusion, and long-term sustainability. Participants consistently emphasized that Pakistan has the potential to move beyond replication of conventional products toward truly digital native Shariah solutions. Achieving this will require coordinated action by regulators, industry, and academia to build shared platforms, aligned incentives, and integrated development pathways for industry.

3.2.3 FGD Finding (Products and Services)

As part of the thorough qualitative assessment, the third items of Focus Group Discussion examined the readiness of Shariah-compliant digital financing in Pakistan from a product, ecosystem, service and solution of innovation perspective. The discussion was designed to move beyond regulatory sufficiency and explore whether existing products, structures, and delivery models are capable of meeting real market needs, scaling sustainably, and remaining credible in a rapidly evolving digital industry in Pakistan and global Islamic finance landscape.



The FGD focused on three interrelated dimensions: the sufficiency of current product and ecosystem arrangements, the effectiveness and efficiency of execution in digital environments, and future development pathways required to position Pakistan's Shariah-compliant digital financing ecosystem for long-term relevance and competitiveness

Sufficiency of Products and Services

FGD participants consistently highlighted that while Shariah-compliant digital financing products exist, the surrounding ecosystem remains underdeveloped. Products are often offered in isolation, with weak online-to-offline enablement, limited augmented services, and immature end-to-end user journeys. This has constrained adoption, reduced repeat usage, caused churns and weakened overall product market fit.

Industry participants noted that digital journeys struggle to balance seamless agility, operational efficiency with Shariah documentation requirements. While Shariah compliance necessitates proper contracts, disclosures, and auditability, these processes are still largely paper-based or manually replicated in digital form, resulting in friction and poor user experience.

A representative from the industry remarked:

“The product may be Shariah-compliant, but the ecosystem around it is missing. Without strong digital journeys, supporting services, and community onboarding, the product alone cannot scale.”

Another recurring concern was the overreliance on conventional product replication. Many Islamic fintechs and Shariah-compliant NBFCs were observed to be adapting bank-centric *Murabahah* structures or conventional buy now pay later templates, rather than designing products that are digital-native and Islamic-first. This approach has limited differentiation, reduced alignment with real sector value chains, and diluted the perceived authenticity of Islamic digital finance offerings.

Perceived Effectiveness and Efficiency of Products and Services

From an effectiveness perspective, participants identified limited capability in advanced Shariah structuring for digital use cases as a critical bottleneck. Most fintech teams were perceived to lack the technical depth required to design and automate complex Shariah contract flows such as *Salam* for agriculture, *Ijarah* for MSME assets, or *Musharakah* for enterprise financing.

Key gaps were identified in digital contract sequencing, multi-step asset transactions, embedded Shariah audit trails, and value-chain integration. These shortcomings have restricted innovation and prevented the emergence of a distinct Islamic digital finance identity.


This observation was echoed by a regulatory participant:

“Even within Islamic fintech scope, the Shariah-compliant digital finance ecosystem still heavily mirrors conventional structures. There is a need to move toward Islamic-first product structuring rather than continuously adapting and mimicking conventional designs like the predecessors do.”

Participants also highlighted fragmented access to product information and the absence of unified product development pipelines. Smaller NBFCs, in particular, face high costs and uncertainty due to the lack of standardized guidance on digital contract classification, Shariah risk assessment, and Shariah-compliant digital financing product structuring.

In addition, the absence of Islamic embedded finance and Shariah-based open banking solutions was viewed as a major missed opportunity. Industry players agreed that Pakistan’s current ecosystem lacks the structural and technical readiness required for embedded finance, including modular architectures, standardized APIs, interoperable KYC systems, and Shariah-aligned API governance.

Participants representing B2C Shariah-compliant digital financing providers further emphasized that the absence of clearly defined Islamic or Shariah-compliant structures for Embedded Finance and Open Banking represents a major long-term constraint for the industry to flourish in the long run. While embedded finance and open banking are rapidly shaping digital finance ecosystems globally, Pakistan’s Shariah-compliant digital financing segment currently lacks the structural,



contractual, and regulatory guidance required to operationalize these models in a Shariah-compliant manner.

B2C Shariah-compliant digital financing industry participants highlighted that without Shariah aligned embedded finance frameworks, NBFCs engaged in digital financing face difficulties integrating their products into e-commerce platforms, merchant ecosystems, digital marketplaces, and lifestyle applications. This limitation restricts distribution channels, weakens product visibility, and constrains scalability, particularly for consumer-focused Shariah-compliant digital financing solutions.

One B2C industry participant noted:

“Embedded finance and open banking are shaping the future of digital finance, but there is no clear Shariah-compliant structure to implement these models in Pakistan. Without guidance, NBFCs cannot confidently integrate Shariah-compliant digital financing into platforms and ecosystems.”

Participants further stressed that the absence of Shariah based open banking frameworks limits data sharing, interoperability, and product personalization. Without standardized Shariah-compliant APIs, contract sequencing models, and audit trails, industry players are unable to leverage open banking capabilities while maintaining Shariah integrity and regulatory confidence.

Future Development of Products and Services

The FGD discussions converged strongly on the need for ecosystem-driven innovation rather than isolated product launches. Participants emphasized bundled services, augmented offerings, behavioral nudges, and community-based onboarding as essential elements to improve product market fit and inclusion outcomes.

There was strong agreement among participants that regulatory guidance is a critical enabler in the area of developing embedded finance (EF) and open banking (OB) in Shariah-compliant manner. Industry players indicated that while they are prepared to implement embedded finance and open banking solutions, they require regulators to provide clear Shariah-compliant structures, standardized contractual guidance, and supervisory expectations.



As expressed by an industry participant during the FGD as the following:

“The industry is ready to implement Shariah-compliant embedded finance and open banking, but regulators need to provide the structure and guidance. Without this, growth will remain limited and fragmented.”

This feedback reinforces the broader FGD conclusion that advancing Shariah-compliant digital financing in Pakistan requires coordinated regulatory leadership combined with industry execution. Clear guidance on Islamic embedded finance and Shariah based open banking would unlock new distribution models, strengthen product market fit, and support the long-term sustainability of both B2C and B2B Shariah-compliant digital financing providers.

In addition, from the other aspects of product guidelines and frameworks of Shariah-compliant digital financing, there was broad consensus on the need to develop a Shariah digital financing product structuring framework, playbook, and guidelines to support industry players in designing digital-native Islamic products in a consistent and scalable manner. Such guidance would reduce ambiguity, lower development costs, and strengthen Shariah credibility across the ecosystem.

An industry participant stated:

“What the industry needs is a unified product structuring playbook. Without standardized guidance, every player is reinventing the wheel, which slows innovation and increases Shariah risk.”

Participants also emphasized the importance of developing a distinct Islamic digital finance identity through next-generation products. These include digital *Salam* and parallel *Istisna'* for agriculture and supply chain financing, *Ijarah*-based asset financing for MSMEs, Shariah-aligned BNPL frameworks, and *Musharakah*-based profit-sharing models for enterprises.

Another industry voice highlighted the broader relevance of this shift:

“Islamic digital finance must move beyond replication and address real issues like sustainability, climate risk, inclusion issues, the digital divide, and socio-economic gaps. Products must reflect Islamic values in form and substance.”

Looking outward, FGD participants expressed concern that Pakistan’s Shariah digital financing products are lagging behind global trends that integrate climate resilience, sustainability, and ESG considerations. The absence of ESG-enhanced Islamic digital products was seen as limiting competitiveness, investor appeal, and alignment with modern consumer expectations.

To address this, participants supported the introduction of sustainability-linked Shariah digital financing solutions such as green *Salam* for agriculture, energy-efficient *Ijarah*, ESG-linked *Murabahah*, and responsible *Musharakah* financing. These products were viewed as essential to aligning Pakistan’s Islamic digital finance ecosystem with global Islamic finance developments.

Sufficiency (Frustration/Gaps)	Perceived Effectiveness/Efficiency (Challenges)	Future Development (Wish List/Way Forward)
<p>Missing Ecosystem: Products exist, but the ecosystem around the product is missing, characterized by poor O2O enablement, weak augmented services, and low user journey maturity.</p>	<p>Operational Efficiency vs. Shariah Paperwork: The market lacks robust digital journeys that successfully balance the need for Shariah paperwork with demands for operational efficiency.</p>	<p>Ecosystem-Driven Innovation: Prioritize bundled services, augmented offerings, community onboarding, and sustainability-linked features. Enhance product market fits (PMF) of Shariah digital financing through data-driven outreach and behavioral nudges.</p>

<p>Overreliance on Conventional Product Replication: The digital finance ecosystem still heavily mirrors conventional structures, with Islamic fintechs and NBFCs primarily adapting bank-based <i>Murabahah</i> or conventional BNPL templates rather than creating innovative, digital-native Shariah products. This lack of original product identity weakens differentiation, constrains value-chain alignment (especially in agriculture and MSMEs), and diminishes the perceived authenticity and competitiveness of Islamic digital finance in Pakistan.</p>	<p>Limited Capability in Advanced Shariah Structuring for Digital Use Cases: Most fintech teams lack the technical capability to design complex Shariah contract flows such as <i>Salam</i> for agriculture, <i>Ijarah</i> for MSME equipment, or <i>Musharakah</i> for enterprise financing in fully digital and automated forms. Key gaps include: (1) digital sequencing of contracts (offer–acceptance–ownership transfer), (2) structuring multi-step asset transactions, (3) integrating Shariah audit trails, and (4) embedding value-chain linkages. This capability shortfall restricts the development of innovative Islamic-first digital products and inhibits the emergence of a distinct Islamic digital finance identity</p>	<p>Islamic Novel Identity / Islamic-First Future Product Structuring: Focus on developing next-generation Shariah-compliant digital products such as digital <i>Murabahah</i> and <i>Salam</i> and <i>Istisna</i>’ parallel for agriculture and digital supply chain financing, Shariah-aligned BNPL frameworks, <i>Ijarah</i>-based asset financing for MSMEs, and <i>Musharakah</i>-based profit-sharing models for enterprises to establish a distinct Islamic digital finance identity and move beyond conventional product replications.</p>
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<p>Fragmented Information:</p> <p>Information on Shariah digital products is fragmented, making it costly and difficult for small NBFCs players to scale.</p>	<p>Limited Product Development Pipeline:</p> <p>There are weak product development pipelines and no unified guidelines for product risk assessment or digital contract classification.</p>	<p>Shariah Digital Financing Product Structuring Framework, Playbook and Guidelines: Develop a framework for product development and Shariah-structural alignment with regard to the Shariah digital financing in digital manner, supporting NBFCs in designing Islamic digital offerings from the strategic, technical and operational manner.</p>
<p>New Digital Products Missing: There is an absence of Islamic embedded finance (EF) solutions and Shariah-based open banking (OB) products within Pakistan’s current digital financing ecosystem. This lack of innovation limits integration with platforms, weakens interoperability, and</p>	<p>Structural & Technical Readiness Gaps: The industry lacks the technical and regulatory readiness required for Islamic embedded finance and Shariah-based open banking. Most fintechs and Shariah NBFCs do not have modular product architectures, standardized APIs, or digital Shariah-compliant contract</p>	<p>Develop an Islamic EF–OB Product Innovation Framework:</p> <p>Establish a national innovation framework to accelerate Islamic embedded finance and Shariah-based open banking. This includes (1) creating Shariah-aligned API standards for contract initiation, asset transfer, verification, and audit</p>

<p>restricts the development of digital-native Shariah products tailored to real-sector needs.</p>	<p>sequencing that embedded finance requires. Additionally, the absence of shared data rails, interoperable KYC systems, and Shariah-aligned API governance frameworks hinders the operationalization of open banking in Islamic contexts.</p>	<p>trails; (2) enabling integrated partnerships between fintechs, banks, NBFCs, and platform-based businesses; and (3) launching pilot programs in key sectors such as halal commerce, agriculture value chains, tourism, and logistics. The framework should be supported by regulatory guidance, standardized digital Shariah contracts, and incentive schemes to drive large-scale adoption of EF and OB solutions.</p>
<p>Lagging Behind Global Practice: Shariah digital financing products in Pakistan are not keeping pace with global Islamic finance trends that now integrate climate considerations, sustainability goals, and ESG principles. This makes local products appear outdated and</p>	<p>Lack of Alignment with Global Trends: Current Shariah digital financing products are not aligned with emerging global priorities such as climate resilience, sustainability standards, and ESG principles. This misalignment reduces competitiveness, limits access to international</p>	<p>ESG-Enhanced Shariah Digital Financing Products: Introduce Shariah-compliant digital financing solutions and products that include sustainability and ESG elements such as green <i>Salam</i> for agriculture, digital <i>Murabahah</i> for women-entrepreneur halal business, energy-efficient</p>

<p>limits their appeal to modern users and investors.</p>	<p>funding, and prevents the ecosystem from meeting the expectations of modern consumers and investors.</p>	<p><i>Ijarah</i>, ESG-linked <i>Murabahah</i>, and responsible <i>Musharakah</i> financing. This will align Pakistan’s Islamic digital finance ecosystem with global trends and attract wider market and investor interest.</p>
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The FGD clearly indicated that the future of Shariah-compliant digital financing in Pakistan depends not only on regulatory enablement, but on the industry’s ability to build ecosystems, innovate beyond conventional templates, and align with global sustainability and digital finance trends. Establishing Islamic-first product identities, standardized digital Shariah frameworks, and ecosystem-based innovation models will be critical to unlocking scale, credibility, and long-term impact.

3.2.4 FGD Findings (Shariah Compliance)

As part of the Focus Group Discussion process, specific attention was given to Shariah governance, advisory practices, and supervisory oversight within Pakistan’s Shariah-compliant digital financing ecosystem. The objective was to assess whether existing Shariah governance, compliance and arrangements are sufficient to support digital financial innovation while preserving Shariah integrity, consumer confidence, and regulatory credibility in alignment to international standard, commonalities and frameworks.

The discussion was structured around three dimensions of Shariah compliance aspects namely: the sufficiency of current Shariah governance practices, their effectiveness and efficiency in a digital context, and the future development measures required to strengthen consistency, accountability, and scalability across Shariah-compliant digital financing providers.



Sufficiency of Shariah Compliance

FGD participants widely agreed that Shariah governance in the digital financing space remains highly dependent on individual Shariah advisors. While advisory involvement is essential, excessive reliance on decentralized interpretations has led to significant inconsistency across Shariah-compliant NBFCs (non-banking financial companies) and Islamic fintech operators. This advisory incongruence has resulted in mixed rulings, varied product structures, inconsistency and uncertainty for both market participants and consumers.

A Shariah advisor participating in the FGD observed:

“Shariah matters in digital NBFCs are heavily dependent on individual Shariah advisors appointed to the Shariah-compliant digital NBFCs. This creates asymmetry in interpretations and makes Shariah compliance highly variable across institutions.”

Participants also highlighted that Shariah compliance is often treated as a checklist or minimum requirement, rather than as an embedded organizational responsibility. This box-ticking approach has limited the development of a genuine Shariah compliance culture within institutions and weakened internal accountability beyond the advisory function.

Governance inconsistencies were further reflected in outdated or non-standardized Shariah certificates, disclosures, and contract templates. The absence of a national Shariah standard setter dedicated to Shariah-compliant digital financing was identified as a critical gap, particularly when compared to peer jurisdictions such as Malaysia and Indonesia.

Perceived Effectiveness and Efficiency of Shariah Compliance

From an effectiveness perspective, FGD participants noted that decentralized Shariah oversight has led to inconsistent operational execution across digital financing providers. Product structuring, digital workflow sequencing, contract documentation, and Shariah audit practices vary significantly among NBFCs, creating operational uncertainty and elevating the risk of Shariah non-compliance in digital transactions.

An industry participant remarked:

“Because each NBFC / digital financing provider follows its own Shariah interpretation, the same digital product can look very different across providers. This confuses customers and complicates supervision.”

Participants also identified misalignment between regulatory Islamic finance departments, Shariah advisors, and product oversight units. This lack of coordination has reduced supervisory clarity and made it difficult for regulators to benchmark Shariah practices consistently across the sector.

Training gaps were another recurring concern. Many Shariah advisors and internal compliance teams were perceived to lack sufficient exposure to digital finance, fintech models, and technology-driven contract execution. This gap has contributed to delays in Shariah approvals and limited confidence in the governance of complex digital products.


Future Development of Shariah Compliance

The FGD discussions converged strongly on the need for SECP-led leadership in Shariah governance for digital financing. Participants supported the development of a Unified Shariah Governance Framework tailored specifically for Shariah-compliant digital financing NBFCs. Such a framework would provide standardized interpretations, contract templates, digital sequencing guidelines, disclosure requirements, and Shariah audit protocols, while complementing the role of individual Shariah advisors.

A Shariah advisor of Shariah-compliant digital financing industry in Pakistan emphasized:

“Without a unified Shariah governance framework, Shariah compliance risks becoming a checklist exercise. We need mandatory programs, standardized contracts, and digital repositories to ensure consistency.”

There was also strong support for establishing a Centralized Shariah Advisory Board for the Shariah-compliant NBFC and Islamic fintech sector. Participants viewed this as a critical mechanism to reduce advisory incongruence, accelerate approvals for digital products, and provide authoritative guidance on emerging structures such as nano-financing, *Tawarruq* applications, and digital contract innovations.



Participants further recommended the creation of a Unified Digital Shariah Contract Repository, including translated contracts, guidance notes, and a repository of rulings and dispute resolutions. This would support industry players in designing compliant digital workflows and strengthen transparency for consumers and supervisors.

On capacity building, participants called for mandatory training, inspection, and assurance mechanisms. This includes requiring Shariah advisors to undergo digital finance training, instituting regular SECP inspections and Shariah audits, and embedding Shariah compliance culture programs within institutions.

An industry participant concluded:

“There is room for SECP to lead Shariah governance more clearly. Standardized contracts, clear product guidance, inspections, review, and assurance will strengthen trust and professionalism across Shariah-compliant digital financing ecosystem.”

Sufficiency (Frustration/Gaps)	Perceived Effectiveness/Efficiency (Challenges)	Future Development (Wish List/Way Forward)
<p>Advisory Incongruence: Significant inconsistency among Shariah advisors ("advisory incongruence") leads to mixed rulings and uncertainty for market players. The latency of Shariah approval is high due to the new concept of digital products.</p>	<p>Checklist Compliance Culture: Shariah compliance is often treated as a "checklist minimum" or a box-ticking exercise, rather than an embedded culture or management responsibility.</p>	<p>Unified Shariah Governance Framework (SGF): Develop SECP's SGF for digital NBFCs, incorporating unified standards (AAOIFI + national adaptation), audit cycles, and disclosure requirements for Shariah digital financing industry players.</p> <p>Centralized Sharia Advisory: Establish a Centralized Shariah Advisory Board for the Shariah-compliant NBFC/Islamic fintech sector.</p> <p>Mandatory Shariah Compliance Culture Program: Introduce a sector-wide requirement for Shariah-compliant NBFCs to institutionalize a strong Shariah compliance culture across all levels of operations. This includes mandatory staff</p>

		<p>training, ongoing internal Shariah awareness programs, built-in Shariah checks within digital workflows, and annual competency certifications. Embedding Shariah values into governance, product design, technology development, customer service, and risk management will ensure that compliance is not advisor-dependent but becomes a core organizational identity and operational standard.</p>
<p>Governance Inconsistencies: NBFCs interpret Shariah compliance differently, leading to market confusion and reputational risks. Shariah certificates, governance disclosures, and contract templates are outdated or inconsistent.</p>	<p>Misaligned Oversight: There is a misalignment between regulators' Islamic departments, advisors, and product oversight units.</p>	<p>Digital Shariah Contract Repository: Develop a Unified Digital Shariah Contract Repository with translations and guidance notes. Implement a unified dispute resolution and rulings repository.</p>

<p>No National Standard Setter: Absence of a national-level Shariah standard setter for Shariah-compliant digital financing / Islamic fintech (unlike SAC-BNM in Malaysia or DSN-MUI in Indonesia). SECP is still "working on it," showing it remains a major impediment.</p>	<p>Specific Product Guidance Gaps: Lack of clear guidance for the use of <i>Tawarruq</i>-based nano-financing and other new digital contract types, especially concerning <i>darurah</i> (necessity).</p>	<p>Training, Inspection and Assurance: Mandate Shariah advisors to undergo mandatory digital finance and fintech training. Implement SECP inspection, assurance, and Shariah audit mechanisms for digital NBFCs.</p>
<p>Decentralized Shariah Oversight: In Shariah-compliant NBFCs engaged in digital financing, Shariah matters are fully left to each institution's Shariah advisor, resulting in wide variations in interpretations and practices. Industry players believe SECP has room to provide clearer, more structured, and standardized guidance to ensure consistency,</p>	<p>Inconsistent Shariah Interpretations and Operational Execution: Because Shariah oversight is handled independently by each NBFC with minimal standardized regulatory direction, product structures, digital workflow sequencing, contract documentation, and audit practices vary significantly across the industry. This</p>	<p>SECP-Led Shariah Governance Framework for Digital Finance: Develop and implement a unified Shariah Governance Framework tailored for digital financing NBFCs, including standardized Shariah interpretations, contract templates, digital sequencing guidelines, disclosure requirements, and Shariah audit protocols. This framework would complement the role of individual Shariah advisors, ensure consistency across the sector, enhance consumer confidence, and</p>


credibility, and alignment across the ecosystem	inconsistency creates operational uncertainty, increases the risk of non-compliance in digital transactions, confuses customers, and makes it difficult for SECP to supervise and benchmark Shariah practices effectively.	support SECP in establishing a transparent, credible, and harmonized Shariah-compliant digital finance ecosystem.
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The FGD clearly indicated that strengthening Shariah governance is central to the sustainable growth of Shariah-compliant digital financing in Pakistan. While advisory expertise remains essential, over-reliance on decentralized interpretations has created inconsistency and operational risk. Moving forward, SECP-led Shariah governance frameworks, centralized advisory mechanisms, standardized digital contracts, and mandatory compliance culture programs will be critical to enhancing credibility, consumer confidence, and supervisory effectiveness in the digital Islamic finance ecosystem.

3.2.5 FGD Findings (Technology and Infrastructure)

The Focus Group Discussion examined the readiness of Pakistan’s digital and technology infrastructure to support the sustainable growth of Shariah-compliant digital financing. While participants widely acknowledged that Pakistan has made meaningful progress in digital finance encompassing digital payments, mobile banking, and financial technology infrastructure, the discussion revealed that infrastructure readiness alone has not translated into seamless implementation, scalability, or trust across the ecosystem.

The FGD focused on three dimensions: the sufficiency of existing digital infrastructure, the effectiveness and efficiency of its implementation for Shariah-compliant digital financing, and



future development priorities required to enable interoperability, trust, and inclusive nationwide scale.

Sufficiency of Technology and Infrastructure

FGD participants generally agreed that core digital infrastructure components already exist. These include payment rails, mobile banking applications, basic digital identity systems, and emerging shared KYC platforms. However, the ecosystem remains fragmented, with weak interoperability between systems and limited participation by smaller NBFCs and fintech players.

Industry participants highlighted that smaller Shariah-compliant digital financing providers struggle to achieve economies of scale because systems are not designed to interoperate seamlessly. Instead, many institutions are required to build standalone applications or custom integrations, increasing costs and slowing innovation.

An industry participant noted:


“The infrastructure is there, but systems do not talk to each other. Smaller players cannot scale when every integration requires a separate build.”

Participants also pointed to the limited adoption of shared KYC platforms. While shared KYC initiatives exist, uptake among banks and NBFCs remains uneven, data standards differ, and onboarding processes are slow. As a result, digital onboarding remains costly and inconsistent, particularly for new or smaller market entrants.

Perceived Effectiveness and Efficiency of Technology and Infrastructure

From an effectiveness perspective, the FGD revealed a gap between technology readiness and implementation capability. Participants reported system performance issues, fragmented databases, and repeated development of similar applications to solve the same problems. This duplication has led to inefficiencies, higher operational costs, and slower time to market.

A recurring concern was the absence of shared customer relationship management and incident reporting systems. Without centralized mechanisms for reporting incidents, complaints, or system



failures to regulators, market transparency remains limited and supervisory response becomes reactive rather than proactive.

An industry representative emphasized:

“Licensing, sandbox participation, and registration queries should be seamless. What we lack today is a shared CRM and communication mechanism that allows swift coordination between industry and regulators.”

Cybersecurity, data privacy, social engineering and digital identity risks were also highlighted as critical issues in the digital industry. Participants noted growing public sensitivity toward data misuse, fraud, and emerging risks such as AI-driven manipulation. These concerns directly affect trust in Shariah-compliant digital financing platforms, particularly when identity verification and contract execution are conducted digitally.


Regulators, consultants and industry observers further pointed out that data silos across government and financial institutions remain a major constraint. Databases are often not standardized or interoperable, making integration slow and costly. This fragmentation undermines confidence in digital systems and reinforces mistrust toward digital processes.

Future Development of Technology and Infrastructure

Looking ahead, FGD participants strongly supported a shift toward interoperable digital infrastructure and shared systems. This includes the development of interoperability standards, API gateways, and shared platforms that enable seamless integration across banks, NBFCs, fintechs, and government agencies.

Participants encouraged benchmarking against international models where interoperable digital infrastructure has enabled rapid scale and rural penetration. The focus, however, was not on replication but on adapting such principles to Pakistan’s institutional and socio-economic context.

There was also strong support for creating shared industry systems, including a centralized CRM and incident reporting platform with direct regulator access. Such systems would improve transparency, enable faster issue resolution, and strengthen supervisory oversight.



On data and cybersecurity, participants emphasized the need for national data standardization, expanded cloud adoption, and stronger cybersecurity frameworks. Encouraging interoperable platforms rather than standalone applications was seen as essential to reducing fragmentation and improving resilience.

Digital connectivity emerged as a critical enabling factor. Participants highlighted that uneven mobile penetration, limited broadband coverage, and unreliable internet access in rural and semi-urban areas continue to hinder digital onboarding, e-KYC, and contract execution. These infrastructure gaps perpetuate the digital divide and limit the inclusiveness of Shariah-compliant digital financing.

A multinational development bank consultant participating in the FGD observed:

“Digital connectivity, database integration, and infrastructure quality must be strengthened not only for digital finance, but for Pakistan’s digital economy as a whole. Without this, trust and adoption will remain limited.”

Participants supported accelerating nationwide connectivity through expanded mobile broadband, fiber deployment, and incentives for telecom operators to extend coverage. They also highlighted the importance of designing offline-first, low-bandwidth digital finance applications and assisted or agent-based service models for areas with persistent connectivity gaps.

Sufficiency (Frustration/Gaps)	Perceived Effectiveness/Efficiency (Challenges)	Future Development (Wish List/Way Forward)
<p>Weak Interoperability: Digital infrastructure exists (payment rails, mobile banking apps), but interoperability is weak, and smaller players cannot achieve economies of scale.</p>	<p>Weak Implementation Capability: Tech readiness exists, but implementation capability is weak. Digital financing experiences system performance problems.</p>	<p>Interoperable Digital Infrastructure: Develop and implement interoperability standards and API gateways. Benchmark with successful models like India's UPI + Aadhaar for rural penetration.</p>
<p>Missing CRM/Incident Reporting: CRM systems for incident reporting to regulators are largely absent, limiting market transparency.</p>	<p>Limited Shared KYC Adoption: Shared KYC platforms (e.g., Windows Hub) face limited adoption, data inconsistencies, and slow onboarding of banks/NBFCs.</p>	<p>Shared Systems: Create a shared industry CRM/incident reporting system with direct regulator access. Accelerate shared KYC adoption and NADRA-integrated eKYC.</p>


<p>Data Silos & Fragmentation: Multiple government and financial databases lack standardized formats, making integration slow and costly. Repetitive development of "new apps for old problems" creates unnecessary fragmentation.</p>	<p>Cybersecurity and Trust Risks: High sensitivity toward digital identity, privacy, and cybersecurity risks (fraud, AI-driven manipulation) reduces trust in digital Shariah financing.</p>	<p>National Data Standardization: Promote national data standardization and expand cloud adoption and cybersecurity frameworks. Encourage interoperable platforms rather than standalone apps.</p>
<p>Digital Connectivity Gaps Limiting Shariah Digital Finance: Mobile penetration, fiber-optic coverage, and reliable internet connectivity remain uneven across Pakistan especially in rural, suburban, and remote areas. These gaps hinder onboarding, digital KYC, e-contract execution, and continuous use of Shariah-compliant digital finance services, perpetuating the digital</p>	<p>Infrastructure Limitations Hindering Scale: Despite progress in digital payments and mobile networks, Pakistan’s infrastructure still lacks the stability, bandwidth, and nationwide penetration required to support seamless Shariah digital finance operations. Many rural and semi-urban users rely on outdated devices, 2G/3G networks, or intermittent internet access, making it difficult to complete digital KYC, authenticate contract steps,</p>	<p>Nationwide Digital Connectivity & Infrastructure Strengthening for Shariah Digital Finance: Accelerate the expansion of mobile broadband, fiber-optic networks, and 4G/5G coverage into rural, suburban, and remote regions to enable inclusive access to Shariah digital finance. This includes supporting national digital infrastructure programs, incentivizing telecom operators to extend coverage, enabling offline-</p>

<p>divide and slowing inclusive participation.</p>	<p>or engage in continuous repayment cycles. These limitations raise operational risks, increase failed transactions, reduce trust, and impede the scalability of Shariah digital financial services across the country.</p>	<p>first and low-bandwidth Shariah digital finance applications, and creating assisted-service or agent-based models for areas with persistent gaps. Strengthening nationwide connectivity will reduce the digital divide, support financial inclusion goals, and allow Shariah-compliant digital finance to reach underserved populations at scale.</p>
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The FGD highlighted that Pakistan’s challenge is no longer the absence of digital infrastructure and integrated technology solutions, but the lack of interoperability, implementation capability, and inclusive reach. Fragmented systems, data silos, and uneven connectivity continue to constrain the scalability and trustworthiness of Shariah-compliant digital financing. Addressing these challenges will require coordinated regulatory leadership, shared industry platforms, standardized data frameworks, and sustained investment in nationwide digital connectivity. Strengthening these foundations will not only enable Shariah-compliant digital finance to scale responsibly but also support broader digital inclusion and economic development objectives across Pakistan.

3.2.6 FGD Findings (People/Consumers/Users)

The Focus Group Discussion examined consumer readiness, public trust, and literacy as critical demand-side enablers for the sustainable growth of Shariah-compliant digital financing in Pakistan. While regulatory frameworks and digital infrastructure form the backbone of the



ecosystem, participants emphasized that consumer understanding, confidence, and capability ultimately determine adoption and long-term usage.

The discussion focused on three dimensions: the sufficiency of current consumer awareness and literacy, the effectiveness of existing outreach and education efforts, and future development priorities required to build trust, inclusion, and informed participation in Shariah-compliant digital finance.

Sufficiency of People Dimension

FGD participants consistently highlighted significant gaps in financial and Shariah literacy among consumers. Many users, particularly from underserved and informal segments, misinterpret “interest-free” financing as implying zero cost, zero margin, or no risk. This misunderstanding leads to unrealistic expectations, dissatisfaction, and disengagement when profit margins or contractual obligations are later explained.

Industry participants observed that knowledge of Shariah contracts, such as *Murabahah*, *Salam*, or *Musharakah*, remains limited, especially when these contracts are delivered through digital platforms. The problem is more pronounced in rural and remote areas, where digital literacy constraints, limited connectivity, and lower smartphone penetration further restrict understanding and access.

One industry participant noted:

“Many people still think that interest-free economy and finance means free of cost. Before adopting Shariah-compliant digital financing, users need to understand the essence of Islamic finance itself.”

Participants also described a negative reinforcement cycle affecting inclusion. Low literacy reduces adoption, and low adoption in turn limits exposure and learning, reinforcing exclusion from formal Shariah-compliant digital finance channels.

Perceived Effectiveness and Efficiency of People Dimension

From an effectiveness perspective, FGD participants highlighted a persistent trust deficit among consumers. Past experiences with financial institutions and concerns about data misuse have made users cautious about sharing personal information digitally. In some cases, poorly explained Islamic offerings have reinforced skepticism rather than building confidence.

Digital divide constraints were identified as a major barrier to expanding Shariah-compliant digital financing beyond urban centers. In rural and semi-urban areas, limited internet connectivity and penetration, lack of smartphones, and low digital skills hinder onboarding, e-KYC completion, and ongoing usage. These challenges reduce the effectiveness of purely digital outreach strategies and constrain the inclusiveness of Shariah digital finance.

Participants emphasized that without addressing trust and access simultaneously, efforts to scale Shariah-compliant digital financing will remain limited to already-served segments.

Future Development of People Dimension

Looking ahead, the FGD discussions strongly supported a coordinated national approach to consumer education and awareness. Participants emphasized the need for a SECP-led Islamic Digital Finance Awareness Campaign, designed with clear segmentation between urban and rural audiences and delivered through digital media, workplaces, mosques, community organizations, and local networks.

There was broad agreement that literacy efforts must go beyond one-off campaigns. Instead, participants called for integrated short-, medium-, and long-term programs that build foundational understanding of Islamic finance principles, Shariah contracts, and digital financing mechanisms.

A regulator as part of the FGD participant noted:

“People need to be educated first about the essence and fundamental of Islamic finance before they can meaningfully adopt Shariah-compliant digital financing.”

Participants also emphasized embedding education directly into digital journeys. Integrating Shariah mini-modules, simple explanations, and visual guidance within onboarding flows was seen

as an effective way to improve understanding at the point of use. Benchmarking successful models from other jurisdictions, such as regulator-supported onboarding education, was encouraged.

In addition, participants highlighted the importance of community-based approaches for underserved and informal sectors. Rural workshops, assisted onboarding, and partnerships with cooperatives, employers, and sector associations were viewed as essential to reach agriculture, fisheries, livestock, gig economy, and other informal segments.


An industry participant summarized this approach:

“Literacy programs need to be bundled with incentives and technical assistance. When education is linked directly to livelihoods and real use cases, it becomes more effective.”

Sufficiency (Frustration/Gaps)	Perceived Effectiveness/Efficiency (Challenges)	Future Development (Wish List/Way Forward)
<p>Financial & Shariah Literacy Gaps: Customers misinterpret "interest-free" as "free product". Users lack understanding of Shariah contracts and digital financing mechanisms. Rural regions lag behind due to significant digital divide constraints.</p>	<p>Negative Reinforcement of Inclusion: Adoption lags because low literacy limits adoption, and low adoption limits financial inclusion, creating a negative feedback loop.</p>	<p>National Awareness Campaigns: Launch a SECP-led Islamic Digital Finance Awareness Campaign via digital media, workplaces, and community networks (urban vs. rural segmentation)</p>

<p>Trust Deficit: Due to previous experiences, people exhibit low trust in data-sharing. Some Islamic offerings reinforce negative perceptions.</p>	<p>Digital Divide Constraints: Rural and remote areas lack adequate connectivity, smartphone access, and digital literacy, hindering expansion to underserved populations.</p>	<p>Embedded Literacy and Education for Shariah Digital Finance: Integrate Shariah mini-modules and education into the onboarding flows (benchmarking BNM & OJK models).</p> <p>Implement rural workshops and community-based models.</p>
<p>Unclear Consumer Protection: Consumer protection mechanisms are unclear, and there is no Shariah-based grievance handling system.</p>	<p>Market Conduct Challenges: Challenges include low trust, limited transparency in complaint handling, and insufficient consumer governance and legal protections for Islamic products.</p>	<p>Mandatory Disclosures: Require mandatory Shariah product disclosure sheets, advisor names on websites, and clear explanation of pricing to boost transparency and trust. Enhance complaint handling systems.</p>

<p>Low Adoption of Digital Payments in Everyday Life: Many consumers, especially in rural and semi-urban areas, rarely use digital payment channels because digital literacy remains low, cash remains dominant, dominated by informal sectors and digital finance is not embedded in daily public services. Without visible and practical use-cases such as paying for transport, utilities, or government services, hence Shariah-compliant digital finance struggles to gain acceptance, limiting inclusion and slowing mass adoption.</p>	<p>Behavioral Resistance and Limited Ecosystem Integration: Even when digital channels are available, many users remain hesitant to shift from cash due to unfamiliarity, mistrust, or the absence of Shariah-aligned digital payment options integrated into public systems. Islamic fintechs and NBFCs also face difficulty connecting with government-led ecosystems such as transport networks, municipal systems, or public-sector service providers, reducing opportunities to introduce high-volume, high-frequency digital payment use-cases.</p>	<p>Literacy and Inclusion Through Mandated Use-Cases: Promote nationwide digital literacy and financial inclusion by integrating Shariah-compliant digital finance into essential public services starting with public transportation payments. By making Shariah digital wallets or payments a primary or preferred mode of payment for metro systems, buses, rail services, tolls, and other transport channels, Pakistan can create high-frequency, everyday usage that accelerates adoption, builds user familiarity, and strengthens trust. This policy-driven approach also encourages the ecosystem encapsulating fintechs, NBFCs, telcos, and public agencies to</p>
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		collaborate on secure, user-friendly, and accessible digital payment solutions.
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The FGD underscored that consumer understanding and trust are foundational to the success of Shariah-compliant digital financing in Pakistan. Financial and Shariah literacy gaps, combined with digital divide constraints and trust concerns, continue to limit adoption and inclusion. Addressing these challenges will require coordinated regulatory leadership, embedded education within digital platforms, and community-based outreach tailored to diverse user segments. Strengthening consumer literacy and trust will not only support broader adoption of Shariah-compliant digital financing, but also reinforce financial inclusion, social equity, and long-term ecosystem sustainability.

3.3 Heatmap and Prioritisation Matrix

Methodology

The priority heatmap was developed as an evidence-based decision support tool to systematically identify, assess, and rank strategic intervention areas for Shariah-Compliant Digital Financing (SDF) adoption. The methodology integrates stakeholder-driven insights with regulatory and market validation to ensure analytical rigor, contextual relevance, and policy alignment.

First, primary data inputs were derived from the synthesis of structured surveys and Focus Group Discussions (FGDs), covering all six pillars across four analytical dimensions. These inputs capture institutional, operational, Shariah, and user-level perspectives influencing the adoption and scalability of SDF. To strengthen validity and mitigate perception bias, the findings were externally triangulated with the broader ecosystem context, including public and regulatory references from the State Bank of Pakistan (SBP) (sandbox initiatives and policy directions), Securities and Exchange Commission of Pakistan (SECP) Islamic finance guidelines, NADRA's digital identity and e-KYC infrastructure, World Bank analytical work on Islamic fintech and financial inclusion, as well as market reporting on digital payments adoption and trust dynamics.

Second, a multi-criteria scoring framework was applied to each pillar to assess relative strategic priority. Each pillar was evaluated along three axes: Impact on SDF adoption, measuring the expected contribution to accelerating market uptake and effectiveness; Urgency, reflecting the immediacy of the issue based on current gaps, risks, and bottlenecks; and Feasibility, capturing regulatory readiness, institutional capacity, and practical implementability. Each axis was scored on a scale of 1 to 3, where 3 represents the highest level. A composite Priority Score was calculated using the formula $\text{Impact} \times \text{Urgency} \times \text{Feasibility}$, with a maximum possible score of 27 to support intuitive interpretation and strategic sequencing.


Finally, the aggregated scores were translated into a colour-coded priority from 16–27 were classified as Red (Top Priority), indicating critical, high-impact, and readily actionable intervention areas for advancing Shariah-Compliant Digital Financing. Scores of 10–15 were categorized as Amber (High Priority), representing significant initiatives requiring near-term policy or operational attention, while scores of 6–9 were labelled Yellow (Medium Priority), reflecting enabling or sequential interventions that support longer-term SDF ecosystem development.

Heatmap Priority Table

Pillar	Impact (1-3)	Urgency (1-3)	Feasibility (1-3)	Score (I×U×F)	Colour/ Priority
Regulations	3	3	2	18	● Top
Industry Players (Banks/Fintech/NBFCs)	3	3	2	18	● Top
People / Consumers / Users	3	3	2	18	● Top
Products & Services	3	2	2	12	● High
Shariah Compliance (governance, fatwas, repositories)	3	3	1	9	● Medium– High
Technology & Infrastructure	3	2	1	8	● Medium– High

Interpretation

A score of 18 reflects pillars with the highest combined urgency and impact, where constraints are well understood and moderate feasibility allows for immediate, coordinated action. A score of 12 indicates high-impact opportunities that are strategically important but less time-critical, often requiring prior regulatory clarity or industry capacity before full-scale execution. A score of 9 highlights structurally critical issues that face lower short-term feasibility or higher institutional, technical, or political complexity, and therefore require phased, longer-term approaches despite their importance to ecosystem sustainability.



The heatmap provides a concise visual synthesis of priority areas for advancing Shariah-Compliant Digital Financing (SDF), translating quantitative scores into clear strategic signals for sequencing policy and market interventions.

Pillars classified under the ● Top Priority band (Score 16–27) represent areas requiring immediate action due to their high combined impact and urgency, alongside feasible near-term gains. These include Regulations, Industry Players, and People (Consumers/Users). Interventions in this band should focus on regulatory coordination and clarity, strengthening consumer trust and literacy, and rapidly building industry execution capacity. Progress in these pillars is expected to unlock ecosystem-wide momentum and enable subsequent reforms.

The ● High Priority band (Score 10–15) captures Products and Services, where the primary need is product re-design, standardisation, and market-enabling tools. While the potential impact on adoption is significant, effective implementation depends on prior improvements in regulatory coherence and industry capability. Targeted action in this band should therefore follow foundational reforms and focus on improving relevance, transparency, and comparability of Shariah-compliant digital products.

Pillars in the ● Medium – High Priority band (Score 6–9) namely Shariah Compliance and Technology & Infrastructure are structurally critical but more complex and resource-intensive. These areas require institutionalised Shariah standards, governance mechanisms, and major infrastructure upgrades, which are typically longer-term in nature. While not yielding immediate adoption gains, sustained investment in these pillars is essential to ensure long-term credibility, scalability, and resilience of the SDF ecosystem.

Overall, the heatmap underscores the importance of sequenced reform: prioritising coordination, trust, and capacity in the short term, followed by product innovation and, ultimately, deeper institutional and infrastructural consolidation.



Short Rationales for Heatmap Results

1. Regulations scored 18 (Top Priority).

Fragmented supervisory mandates across the State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP), NADRA, and the telecom regulator together with sandbox limitations and unclear commercialisation pathways were consistently highlighted in both the survey and FGDs as major bottlenecks. While SBP has recently formalised and enhanced its regulatory sandbox framework, signalling regulatory momentum, Pakistan's Shariah digital finance ecosystem remains in a framework-building phase. Stronger regulatory harmonisation is therefore critical to unlock end-to-end eKYC, licensing clarity, and cross-platform trust for Shariah-Compliant Digital Financing (SBP, 2023a; World Bank, 2020).

2. Industry Players (Banks / Fintech / NBFCs) scored 18 (Top Priority).


Market execution challenges particularly weak products market fit (PMF), siloed organisational structures, and talent asymmetries between incumbent Islamic financial institutions and technology-driven fintechs continue to slow innovation and scaling. Although SECP's recent guidance on offering Islamic financial services reflects a regulatory push towards conversion and standardisation, coordination gaps and limited institutional capacity remain binding constraints for industry players (SECP, 2023a; World Bank, 2020).

3. People / Consumers / Users scored 18 (Top Priority).

Findings indicate low levels of Shariah digital finance literacy, persistent trust deficits, and limited active usage, despite rising awareness. Global and local evidence shows that while digital payments adoption is accelerating, fraud risks, scams, and weak consumer protection mechanisms can rapidly erode trust and stall adoption. Strengthening literacy, transparency, and consumer recourse mechanisms therefore offers immediate and high-impact gains for Shariah Digital Financing uptake (World Bank, 2022; Reuters, 2023).

4. Products & Services scored 12 (High Priority).

The market exhibits clear product gaps, particularly in digital-first *Salam* and *Musharakah* structures, Islamic BNPL, embedded Islamic finance, ESG-linked supply-chain financing, and Shariah-compliant MSME solutions. International evidence suggests that the absence of



standardised product frameworks and comparison tools increases information asymmetry and suppresses adoption. While developing a coherent product playbook would materially improve relevance, effective scaling remains contingent on regulatory clarity and stronger industry execution capacity (World Bank, 2020; IFSB, 2022).

5. Shariah Compliance scored 9 (Medium Priority).

Stakeholders express strong demand for greater transparency in Shariah governance, including public access to fatwas, rulings, and standardised interpretations. While recent SECP initiatives signal progress, international experience demonstrates that establishing a centralised national Shariah standard-setting body or repository is institutionally complex and typically requires phased implementation and broad stakeholder consensus (SECP, 2023a; AAOIFI, 2021).

6. Technology & Infrastructure scored 9 (Medium Priority).

Core technology enablers such as API interoperability, seamless eKYC integration, and reliable rural connectivity are essential to Shariah digital finance adoption but are capital-intensive and longer-term in nature. NADRA's digital identity and eKYC infrastructure provides a strong foundational enabler; however, integration challenges, privacy concerns, and data-governance trust issues continue to constrain rapid and uniform roll-out across the ecosystem (NADRA, 2022; World Bank, 2022).

CHAPTER 4: KEY RECOMMENDATIONS AND INTERVENTIONS

4.1 Rationale and Methodology in Constructing Policy, Product, and Ecosystem Recommendations

(Phase 3: Final Phase of the Research)

Phase 3 represents the culminating and final stage of the research, translating empirical evidence through desktop research (phase 1), stakeholder insights through survey and focus group discussion (phase 2), and international best practices benchmarking (phase 3) into a structured set of strategic and technical recommendations for the development of a robust Shariah-compliant digital financing (SDF) ecosystem in Pakistan. This phase was designed to ensure that all proposed interventions and recommendations are evidence based, contextually grounded, Shariah aligned, and operationally feasible within Pakistan's regulatory and market environment.


The rationale for Phase 3 is anchored in the need to move beyond diagnostic findings toward actionable solutions that address identified structural gaps while supporting long term ecosystem sustainability. Given the multi-dimensional nature of Shariah-compliant digital finance, the recommendation methodology adopted a systems-based approach that integrates policy, product, and ecosystem development considerations in a coherent and mutually reinforcing manner.

The methodology for constructing recommendations followed a five-step sequential process, as outlined below.

Step 1: Consolidation of Gaps, Challenges, and Problem Statements

The first step involved a structured consolidation of findings from desktop research, nationwide survey responses, and focused group discussions with key stakeholders. These inputs were analysed through a six-pillar ecosystem lens covering regulation and policy, Shariah governance, institutional readiness in key Islamic NBFC players, product and operational models, technology and infrastructure, and people development (consumers and talent).

From this triangulated analysis, twelve priority problem statements were derived. Each pillar was represented by a maximum of two interrelated problem statements to ensure focus and policy relevance. These problem statements reflect the most binding constraints affecting the growth,



scale, and integrity of Shariah-compliant digital financing in Pakistan, as validated across multiple data sources.

Step 2: International Benchmarking Across Selected Jurisdictions

The second step involved benchmarking Pakistan's identified challenges against international practices across a minimum of seven relevant jurisdictions with established experience in Shariah-compliant digital finance. The selected jurisdictions include Singapore, Indonesia, Malaysia, Saudi Arabia, United Kingdom, Qatar and United Arab Emirates. These jurisdictions were chosen based on regulatory maturity, diversity of institutional models, innovation in generic and digital Islamic finance, and relevance to emerging and global market contexts.

For each problem statement, international practices were reviewed to identify regulatory frameworks, institutional arrangements, product structures, and ecosystem interventions that have demonstrably addressed similar challenges. The benchmarking focused on strengths and enabling mechanisms rather than direct replication.


Step 3: Alignment of International Lessons with Pakistan's Context

In the third step, international benchmarking insights were systematically aligned with Pakistan's legal, regulatory, institutional, and market realities. This alignment process assessed the transferability of global practices by considering Shariah compatibility, regulatory mandates of SECP and other authorities, market readiness, and institutional capacity constraints.

The objective of this step was to extract practical lessons learned rather than prescriptive models. Each lesson was evaluated based on its relevance to the specific problem statement faced by Pakistan and its potential to be adapted within the local ecosystem without creating regulatory or operational friction.

Step 4: Design of Recommendations and Interventions Across Policy, Capacity, and Operational Dimensions

Building on the aligned lessons, recommendations were formulated across three complementary dimensions.



First, policy formulation related recommendations address regulatory, Shariah, and legal development aspects. These include formulation level measures such as regulatory clarity, harmonisation of Shariah standards, supervisory coordination, and enabling legal provisions for digital Islamic finance.

Second, capacity related recommendations focus on strengthening institutional, supervisory, and market capabilities. This includes human capital development, Shariah advisory capacity, technology readiness, and governance competencies across regulators, financial institutions, and market intermediaries.

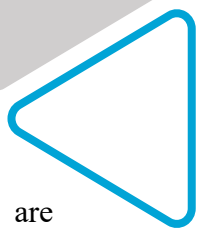
Third, operational recommendations translate policy intent into implementable actions. These include operational models, process, procedures, product structuring approaches, Shariah contract application, risk management practices, and implementation sequencing aligned with institutional capabilities specifically in the Islamic NBFCs offering Shariah-compliant digital financing.

Step 5: Consolidation and Structuring of Final Recommendations

The final step consolidated all recommendations into an integrated framework linked directly to the twelve problem statements and corresponding international benchmarking insights. This consolidation ensures traceability between identified gaps, global lessons, and proposed interventions.

The recommendations are structured into three core layers for clarity and implementation focus:

- **4.5 Key Recommendation 1: Policy Intervention**
Covering regulatory, Shariah, and legal development measures aimed at strengthening governance, regulatory certainty, and supervisory effectiveness.
- **4.6 Key Recommendation 2: Product Development**
Focusing on operational models, priority product development pathways, and appropriate Shariah contract structures across short, medium, and long term horizons.
- **4.7 Key Recommendation 3: Ecosystem Development**
Addressing capacity building, financial literacy, inclusion initiatives, industry collaboration, technology enablement, and education programs necessary to support sustainable ecosystem growth.



Through this structured methodology, Phase 3 ensures that the final recommendations are coherent, evidence driven, and strategically aligned with Pakistan’s development priorities. The outcome is a practical key recommendation and intervention that supports SECP and ecosystem stakeholders in advancing a robust, innovative, resilient, inclusive, and Shariah-compliant digital financing ecosystem in Pakistan

4.2 Systematic Consolidation of Top 12 Problem Statements for Shariah-compliant Digital Financing in Pakistan

The first step of Phase 3 involved a structured consolidation of findings derived from desktop research, nationwide survey responses, and focused group discussions with key public and private sector stakeholders. These inputs were analysed using a six-pillar ecosystem framework encompassing regulation and policy, Shariah governance, institutional readiness of key Islamic NBFC players, product and operational models, technology and infrastructure, and people development, including both consumers and industry talent.

Through this triangulated analysis, twelve priority problem statements were identified. Each pillar is represented by a maximum of two interrelated problem statements to ensure analytical focus, policy relevance, and practical applicability. Collectively, these problem statements reflect the most critical constraints limiting the growth, scalability, and integrity of Shariah-compliant digital financing in Pakistan. The findings are consistently validated across multiple data sources and stakeholder perspectives.


Pillar 1: Regulation, Policy

Problem Statement 1

Fragmented regulatory oversight across SECP (Securities and Exchange Commission of Pakistan), SBP (State Bank of Pakistan), NADRA (National Identification and Registration Authority), PTA (Pakistan Telecommunication Authority), PDA (Pakistan Digital Authority), and digital ecosystem players and enablers that has resulted in regulatory misalignment. This fragmentation creates challenges for Shariah-compliant digital financing players, particularly in areas related to licensing, data governance, digital identity, and platform integration.

Problem Statement 2

There is a lack of clear regulatory direction and practical guidance for the establishment of Shariah-



compliant NBFCs, as well as for conventional digital NBFCs seeking to transition into fully Shariah-compliant business models. This uncertainty discourages market entry and delays institutional transformation.

Pillar 2: Key Islamic NBFC Players

Problem Statement 3

The current ecosystem lacks targeted incentives to attract new Islamic NBFC entrants and to support the conversion of conventional NBFCs into Shariah-compliant institutions. Existing players also face structural challenges in achieving scale, profitability, and measurable impact within the current regulatory and market environment.

Problem Statement 4

There is a lack of structured platforms for collaboration, co-creation, and collective problem solving among Islamic banks, Islamic NBFCs, fintech companies, telecom operators, and digital platforms. This absence of coordinated engagement has contributed to slow ecosystem development and limited innovation.

Pillar 3: People Development (Consumers and Talent)

Problem Statement 5

Shariah-compliant digital financing literacy, awareness, campaign, education, and public communication remain limited. This has led to low trust, weak adoption, and limited active usage, while also increasing exposure to fraud and scam risks that undermine confidence in Shariah-compliant digital financial solutions.

Problem Statement 6

There is a talent asymmetry gap between Islamic finance professionals and technology driven fintech talent. Capacity constraints are further compounded by siloed working practices across technology, digital, business, product, risk, legal, and Shariah functions, reducing organisational effectiveness and innovation capability in Shariah-compliant digital financing.



Pillar 4: Products and Services

Problem Statement 7

There is limited innovation in product development and operating models for Shariah-compliant digital financing solutions that are specifically tailored to Pakistan's market context and value proposition. Existing offerings often replicate and mimic conventional models that become impediment in reflecting the distinctive features of Shariah-compliant digital finance.

Problem Statement 8

The Shariah-compliant digital financing ecosystem lacks interconnectedness, clear guidance, and a shared development direction. This has resulted in fragmented product offerings and limited integration across platforms, institutions, and service providers.

Pillar 5: Shariah Governance and Compliance

Problem Statement 9

Shariah governance, compliance, supervisory, and oversight functions are insufficiently coordinated across the ecosystem. As a result, many industry participants adopt a checklist-based approach to compliance rather than embedding Shariah principles into governance, operations, and risk management practices.

Problem Statement 10

There is a lack of practical Shariah framework, technical guidance, regulatory directives, standardised disclosure templates, Shariah contract workbooks, and operational manuals that translate Shariah requirements into day-to-day operational processes for digital financing institutions.

Pillar 6: Technology and Infrastructure

Problem Statement 11

Interoperability among core digital infrastructure components remains limited. Gaps persist in the integration of platforms related to mobile payments, digital identity, tax identification, and Shariah-compliant digital financing systems, resulting in inefficiencies and higher operational costs.

Problem Statement 12

Digital infrastructure connectivity remains uneven, particularly in terms of smartphone access and mobile broadband penetration. This disparity limits access to Shariah-compliant digital financial platforms and undermines financial inclusion objectives, especially in underserved and rural areas.

4.3 International Benchmarking: Leading Generic and Shariah-Compliant Digital Finance from Seven (7) Jurisdictions

4.3.1 Benchmarking Methodology and Criteria


To ensure that the final recommendations for Pakistan are grounded in proven practices and informed by global experience, the study undertook a structured international benchmarking exercise covering seven leading jurisdictions in Shariah-compliant and digital finance.

Six jurisdictions were selected from the top ranked countries in the Global Islamic Fintech Report 2024/2025 published by Dinar Standard, namely Saudi Arabia, Indonesia, Malaysia, the United Arab Emirates, Qatar, and the United Kingdom. These countries were selected due to their regulatory maturity, institutional depth, product innovation, and demonstrated progress in Shariah-compliant digital finance.

In addition, Bahrain was included due to its established role as a regional Islamic finance hub with advanced regulatory and Shariah governance frameworks, while Singapore was incorporated as a global benchmark for digital finance leadership. Although Singapore is not a Shariah finance dominant market, it is internationally recognised for its advanced digital financial infrastructure, fintech regulation, supervisory technology adoption, and ecosystem orchestration. Insights from Singapore were used specifically to inform digital architecture, regulatory enablement, interoperability, and innovation governance.

Collectively, these seven jurisdictions represent diverse legal systems, regulatory models, market structures, and stages of Islamic digital finance development. This diversity allowed the study to draw balanced lessons applicable to Pakistan's emerging Shariah-compliant digital financing ecosystem.

The benchmarking exercise was conducted using a structured and comparative methodology designed to extract practical lessons rather than theoretical or prescriptive models. The objective was to identify how leading jurisdictions have addressed challenges similar to those faced by



Pakistan and to assess which practices can be realistically adapted within Pakistan’s institutional and regulatory environment.

Benchmarking Framework

Each jurisdiction was analysed across six core pillars of the Shariah-compliant digital financing ecosystem:

- Regulation and Policy
- Shariah Governance and Compliance
- Key NBFC and Islamic Digital Finance Industry Players
- Products and Services
- People Development, including Consumers and Talent
- Technology and Infrastructure

The analysis focused on the latest regulatory developments, institutional arrangements, market practices, and ecosystem initiatives observed over recent years. Particular attention was given to reforms, regulatory instruments, supervisory approaches, and ecosystem programmes that have directly supported the growth of Shariah-compliant digital finance.

Criteria for Assessment

For each pillar, the benchmarking assessed the main 3 aspects of policy formulation, operation and capacity fundamentals following these criteria:

- Clarity and consistency of regulatory and supervisory frameworks
- Integration of Shariah governance into policy, operations, and supervision
- Institutional readiness and role of Islamic NBFCs, fintechs, and market enablers
- Depth, diversity, and scalability of Shariah-compliant digital products
- Effectiveness of consumer literacy, trust building, and talent development initiatives
- Maturity of digital infrastructure, interoperability, and platform integration

Strengths and limitations observed in each jurisdiction were documented to ensure balanced learning.

4.3.2 Use of Benchmarking in Addressing Pakistan's Challenges

The international benchmarks were not treated as models for direct replication. Instead, they were used as structured best practice references to address the twelve problem statements identified in Section 4.2.

As part of Step 3: Alignment of International Lessons with Pakistan's Context, benchmarking insights were systematically aligned with Pakistan's legal, regulatory, institutional, and market realities. This alignment process assessed the transferability of global practices by considering Shariah compatibility, the statutory mandates of SECP and other relevant authorities, market readiness, and institutional capacity constraints.

Each lesson was evaluated based on its relevance to a specific problem statement faced by Pakistan and its potential to be adapted without creating regulatory complexity, operational burden, or Shariah inconsistency. Where necessary, practices were recalibrated to reflect Pakistan's regulatory architecture, market size, financial inclusion priorities, and digital maturity.


The outcome of this process is a set of contextually grounded lessons learned that directly inform the policy, product, and ecosystem recommendations presented in Phase 3. This ensures that all proposed interventions are practical, credible, and aligned with Pakistan's long-term objectives for developing a resilient and inclusive Shariah-compliant digital financing ecosystem.

4.3.2.1 Saudi Arabia

Regulatory Framework

Saudi Arabia has developed a highly centralised and state-led regulatory architecture for digital finance, underpinned by strong coordination between the Saudi Central Bank (SAMA) and the Capital Market Authority (CMA). Since 2020, regulatory sandboxes operated by both authorities have functioned not merely as innovation spaces but as structured market-entry pipelines, with clear expectations for graduation into full licensing. This design reduces regulatory uncertainty and signals policy commitment to commercially viable fintech models, including Shariah-compliant offerings (SAMA, 2023).

Between 2024 and 2025, regulatory emphasis shifted decisively from ecosystem formation to market discipline and consumer protection, particularly in response to rapid BNPL growth. SAMA



strengthened conduct requirements, disclosure obligations, and affordability assessments for digital credit providers, including Shariah-compliant BNPL platforms, to mitigate risks of over-indebtedness (Fintech Saudi, 2023). Parallel developments in open banking regulation and data-sharing frameworks enhanced fintech access to consumer financial data while maintaining strict supervisory oversight.

From a Shariah perspective, regulatory frameworks remain principles-based rather than prescriptive. While Shariah compliance is expected for Islamic offerings, regulators rely on institutional Shariah boards rather than centralised Shariah standard-setting for digital finance. This approach prioritises speed and certainty but implicitly favours conservative contract structures and limits jurisprudential diversity in digital product design (DinarStandard, 2025).

Key Industry Players

Saudi Arabia's Islamic digital finance ecosystem is characterised by concentration, scale, and strong public-sector participation. Large Islamic banks, most notably Al Rajhi Bank, continue to dominate retail Islamic finance while rapidly digitising onboarding, financing, and payments. These incumbents benefit from extensive customer bases, established Shariah governance, and privileged access to national payment infrastructure.

At the fintech layer, a small number of systemically significant platforms have emerged. BNPL providers such as Tabby and Tamara have achieved mass-market adoption, while Shariah-compliant P2P and digital financing platforms such as MoneyMoon focus on consumer and SME segments (Finextra, 2024). These fintechs are typically well-capitalised, venture-backed, and closely supervised, reflecting Saudi Arabia's preference for controlled scaling over fragmented experimentation.

A defining feature of the ecosystem is the active catalytic role of the state. Initiatives such as Fintech Saudi, supported by SAMA, CMA, and the Public Investment Fund (PIF), provide funding, regulatory coordination, and talent development. While this accelerates market formation and investor confidence, it also contributes to relatively homogeneous business models and limited competitive differentiation across Islamic fintech offerings (Fintech Saudi, 2023).



Products and Services

Saudi Arabia's Shariah-compliant digital finance products are predominantly trade-based and consumption-oriented, reflecting regulatory caution and market demand. BNPL has emerged as the flagship Islamic digital finance product, typically structured through *Murabahah* or *Tawarruq*-based deferred sale mechanisms. These structures ensure formal Shariah compliance while closely replicating the economic profile of conventional instalment credit (SAMA, 2023).


In the SME segment, digital financing platforms focus on short-tenor working capital, invoice financing, and merchant-linked credit. Products are designed to integrate seamlessly with point-of-sale systems and e-commerce platforms, leveraging Saudi Arabia's advanced payment infrastructure. However, the scope of innovation remains incremental rather than structural, with limited adoption of equity-based, partnership, or profit-and-loss sharing digital models (DinarStandard, 2025).

Notably, product development prioritises scalability and risk containment, often supported by anchor investors or implicit government backing. While this has enabled rapid uptake, it reinforces a narrow set of Shariah contracts and constrains experimentation with more participatory Islamic finance models aligned with *maqasid al-Shariah* beyond transactional permissibility.

Shariah Governance

Shariah governance in Saudi Arabia is institution-centric and jurisprudentially conservative. Islamic banks and fintech firms are required to maintain internal Shariah boards responsible for product approval, monitoring, and compliance. Regulatory authorities do not impose a unified Shariah framework specifically for digital finance, instead relying on existing Islamic finance governance arrangements (SAMA, 2023).

This decentralised approach promotes consistency and predictability, as institutions rely on well-established contracts and scholarly opinions. However, it also limits diversity in Shariah interpretation and discourages innovation in digital-native contract design. Shariah compliance is typically applied as an ex-ante approval and ex-post audit function, rather than as a driver of user experience, platform architecture, or financial inclusion objectives.



The absence of a centralised digital Shariah standard-setting mechanism means that Shariah-by-design principles are weakly embedded. As a result, most Islamic digital products mirror conventional fintech offerings in substance, differentiated primarily by contract form rather than risk-sharing logic or ethical value proposition (DinarStandard, 2025).

Technology and Infrastructure

Saudi Arabia benefits from one of the most advanced digital public infrastructures in the region, which provides strong foundations for Islamic digital finance. Smartphone penetration exceeds 95%, national digital identity systems enable remote onboarding, and interoperable payment rails support real-time transactions across platforms. By 2024, over 70% of retail payments were cashless, significantly lowering barriers for embedded finance solutions (World Bank, 2024).


Open banking initiatives further enhance data accessibility for licensed fintechs, enabling personalised financing, credit scoring, and merchant-linked offerings. However, API access and interoperability remain regulator-mediated, reinforcing a top-down architecture prioritising security and systemic stability over decentralised innovation.

From an Islamic finance perspective, the technological environment supports scale but not necessarily differentiation. Platforms optimise efficiency and reach, while Shariah logic remains largely external to system design. The result is a technologically sophisticated ecosystem where Islamic digital finance rides on robust infrastructure without fundamentally reshaping financial relationships.

Consumer Engagement and Financial Inclusion

Consumer adoption of Shariah-compliant digital finance in Saudi Arabia has been strong but uneven. Uptake is driven primarily by convenience, trust in regulated institutions, and alignment with Islamic norms, particularly among younger and urban consumers. BNPL has functioned as a gateway product, introducing first-time users to formal digital credit without explicit interest charges (Fintech Saudi, 2023).

However, inclusion outcomes are limited in depth and breadth. Most platforms target salaried consumers and established SMEs, with relatively little penetration into micro-enterprises, informal businesses, or rural segments. Financial inclusion gains are therefore incremental rather than



transformative, reflecting the broader orientation toward market efficiency rather than social finance objectives.

Consumer engagement strategies emphasise user experience and speed rather than Shariah literacy or ethical differentiation. This reinforces adoption but weakens the potential of Islamic digital finance to function as a distinctive inclusion and development tool beyond compliance.

4.3.2.2 Malaysia

Regulatory Framework


Malaysia is widely regarded as operating the most institutionally mature and Shariah-integrated regulatory framework for Islamic digital finance globally. Regulatory oversight is jointly exercised by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC), with clearly delineated mandates covering Islamic digital banks, P2P financing, equity crowdfunding (ECF), and Islamic capital market activities. Unlike jurisdictions that rely heavily on regulatory sandboxes, Malaysia embeds innovation directly within formal licensing regimes, providing certainty from pilot to commercialisation (BNM, 2024).

Between 2024 and 2025, regulatory developments focused on scaling and deepening Islamic digital finance rather than experimentation. BNM operationalised its digital bank framework through the licensing of Islamic digital banks, while the SC refined ECF and P2P rules to strengthen disclosures, investor protection, and Shariah screening requirements. Importantly, regulatory expectations explicitly integrate Shariah governance into prudential supervision, ensuring that Shariah compliance is not treated as a parallel or optional layer (SC Malaysia, 2025).

This regulatory clarity reduces approval latency, enhances investor confidence, and enables fintech firms to design products with predictable supervisory outcomes. Malaysia's framework thus exemplifies a rules-based, Shariah-aware regulatory architecture capable of supporting sustainable Islamic digital finance at scale (DinarStandard, 2025).

Key Industry Players

Malaysia's Islamic digital finance ecosystem is characterised by a diversified and well-coordinated mix of incumbents, fintech platforms, and state-linked enablers. Islamic banks such as Bank Islam,



CIMB Islamic, and Maybank Islamic remain central players, progressively digitising retail and SME offerings while partnering with fintechs for distribution and analytics.

A defining development was the launch of AEON Bank in 2024 as Malaysia's first Islamic digital bank, signalling the transition from experimental Islamic fintech to full-stack, deposit-taking digital Islamic banking (The Edge Markets, 2025). Alongside digital banks, licensed Islamic P2P and ECF platforms play a critical role in SME and startup financing, often operating either as fully Islamic entities or through Islamic windows under SC supervision.

Government-linked institutions function as ecosystem stabilisers. The Malaysia Co-Investment Fund (MyCIF), managed by the SC, co-invests alongside retail investors on P2P and ECF platforms, mitigating early-stage risk and encouraging participation. This multi-actor structure creates a resilient ecosystem where competition, collaboration, and public policy objectives are closely aligned (DinarStandard, 2025).

Products and Services

Malaysia offers one of the broadest and most structurally diverse portfolios of Shariah-compliant digital finance products. These include SME-focused P2P financing, equity crowdfunding, Islamic digital banking, robo-advisory services, and takaful technology. Unlike jurisdictions that rely predominantly on trade-based debt replication, Malaysia actively deploys risk-sharing and partnership-based contracts, particularly *Musharakah* and *Wakalah*, in digital SME financing (BNM, 2024).

P2P platforms finance working capital, invoice discounting, and expansion capital for SMEs, while ECF platforms support startup equity participation through Shariah-screened issuers. Digital Islamic banks complement these offerings with fully online onboarding, savings, payments, and consumer financing products. Wealthtech platforms enable retail investors to access Shariah-compliant portfolios, including *Sukuk* and screened equities, through automated digital interfaces.

Crucially, product design reflects a Shariah-by-design philosophy. Contract logic, investor disclosures, platform workflows, and risk-sharing mechanisms are integrated into the digital architecture from inception, rather than applied as post-hoc compliance checks. This enables greater differentiation from conventional fintech models and reinforces the ethical value proposition of Islamic digital finance (DinarStandard, 2025).



Shariah Governance

Shariah governance in Malaysia is highly institutionalised, centralised, and standardised, providing a critical foundation for scalability. Both BNM and the SC operate central Shariah Advisory Councils whose rulings are binding on regulated entities. These councils provide authoritative guidance on product structures, dispute resolution, and emerging fintech use cases.

A key innovation is the Shariah Screening Assessment Toolkit for ECF and P2P platforms, issued by the SC. The toolkit standardises issuer screening criteria and documentation requirements, significantly reducing uncertainty, approval delays, and interpretive divergence across platforms (SC Malaysia, 2021). At the institutional level, Islamic banks and fintechs are required to maintain internal Shariah committees, supported by ongoing Shariah audits and compliance reporting.


This layered governance framework ensures consistency, credibility, and efficiency. Shariah compliance is embedded across the product lifecycle, design, execution, monitoring, and disclosure, rather than treated as a symbolic or transactional requirement. As a result, Malaysia demonstrates how strong Shariah governance can coexist with innovation and speed (BNM, 2024).

Technology and Infrastructure

Malaysia's Islamic digital finance ecosystem is supported by robust and interoperable digital public infrastructure. High smartphone penetration, reliable broadband coverage, and mature payment systems provide a conducive environment for fintech adoption. The national real-time payment platform, DuitNow, enables instant transfers and merchant payments, facilitating seamless integration of financing products into daily transactions (World Bank, 2024).

Regulatory support for e-KYC and digital onboarding has significantly reduced friction in customer acquisition for digital banks and fintech platforms. In parallel, emerging open API frameworks enable controlled data sharing between banks and fintechs, supporting alternative credit assessment and personalised financial services within a regulated environment.

From a Shariah perspective, technological infrastructure is leveraged not only for efficiency but also for transparency and traceability. Digital workflows allow clearer documentation of contracts, profit calculations, and investor reporting, reinforcing Shariah compliance and consumer trust.



Malaysia thus demonstrates how technology can function as an enabler of governance and ethics, not merely scale (DinarStandard, 2025).

Consumer Engagement and Financial Inclusion

Islamic digital finance in Malaysia has achieved mainstream adoption, supported by high Islamic finance literacy and strong trust in regulatory institutions. Digital platforms are widely used by SMEs and retail investors, not as substitutes for Islamic banks but as complementary channels that expand access and choice.

SME inclusion outcomes are particularly strong. P2P and ECF platforms provide financing to small businesses that may lack collateral or credit history, while MyCIF co-investment reduces perceived risk for retail investors. This has broadened participation on both sides of the market, enhancing financial inclusion without undermining prudential stability (BNM, 2024).


Consumer engagement strategies emphasise transparency, education, and alignment with Islamic values. Platforms frequently provide Shariah disclosures, educational content, and risk explanations, reinforcing informed participation. As a result, Malaysia illustrates how Islamic digital finance can function not only as a compliance-driven alternative, but as a credible and trusted component of the national financial system (World Bank, 2024).

4.3.2.3 Indonesia

Regulatory Framework

Indonesia has adopted an inclusion-driven and prudentially recalibrated regulatory framework for Shariah-compliant digital finance, led by the Financial Services Authority (Otoritas Jasa Keuangan, OJK). The regulatory landscape underwent a significant consolidation with the issuance of POJK No. 40/2024, which strengthened governance, capital adequacy, and consumer protection requirements for fintech lending while explicitly accommodating Shariah-compliant business models (OJK, 2024).

A notable regulatory innovation is the introduction of dual-operation models, allowing fintech firms to operate both conventional and Shariah units within a single legal entity, subject to segregation of funds, governance, and reporting. This approach lowers entry barriers for Shariah fintech expansion by leveraging existing platforms, while maintaining supervisory oversight. At



the same time, OJK has tightened enforcement, revoking licenses of non-compliant platforms and signalling a shift from growth-at-all-costs to market discipline (World Bank, 2024).

Regulatory coordination with national Islamic economy initiatives, particularly through the National Committee for Islamic Economy and Finance (KNEKS), ensures alignment between fintech regulation, MSME development, and Islamic finance policy objectives. Overall, Indonesia's framework prioritises financial inclusion, market integrity, and Shariah legitimacy, albeit with increasing supervisory stringency.

Key Industry Players


Indonesia hosts the largest number of Islamic fintech platforms globally, reflecting both market size and unmet financing demand among MSMEs. The ecosystem is dominated by Shariah-compliant P2P lending platforms, such as ALAMI, Ammana, Danasyariah, and Qazwa, which specialise in MSME working capital and trade-related financing (ALAMI, 2024).

Unlike Malaysia or Saudi Arabia, Islamic banks play a more complementary than dominant role. Bank Syariah Indonesia (BSI) and other Islamic banks increasingly partner with fintechs for origination, distribution, and data analytics, rather than competing directly in the digital lending space. This division of roles reflects structural constraints within the banking sector and the agility of fintech platforms in serving smaller borrowers.

Industry development is supported by fintech associations and Shariah advisory networks, though venture capital participation remains selective. The ecosystem is therefore characterised by high platform diversity but uneven scale, with a small number of leading players accounting for the majority of disbursements (DinarStandard, 2025).

Products and Services

Indonesia's Shariah-compliant digital finance products are strongly anchored in real-sector financing, particularly for MSMEs engaged in trade, agriculture, and services. P2P platforms predominantly offer short-term working capital, purchase order financing, and invoice-based financing, structured using *Murabahah*, *Musharakah*, *Salam*, and hybrid multi-*aqad* arrangements (OJK, 2024).



A distinguishing feature is the use of multi-contract (multi-akad) structures, combining *Wakalah*, *Murabahah*, and *Qard* to meet operational needs while remaining Shariah-compliant. This reflects jurisprudential flexibility endorsed by national Shariah authorities and allows fintechs to adapt Islamic contracts to modern digital workflows (DSN-MUI, 2023).

Consumer-facing digital finance products remain limited relative to SME offerings, with less emphasis on BNPL or unsecured consumer credit. This product orientation reflects regulatory caution and a policy preference for productive, rather than consumptive, financing. As a result, Indonesia's Islamic fintech sector demonstrates strong alignment with *Maqasid al-Shariah*, though scalability and profitability remain ongoing challenges (DinarStandard, 2025).

Shariah Governance

Shariah governance in Indonesia is highly centralised and authoritative, anchored by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). DSN-MUI issues binding fatwas governing Islamic financial products, including specific rulings on fintech lending, electronic transactions, and digital contracts (DSN-MUI, 2023).

All Shariah-compliant fintech platforms are required to appoint internal Shariah Supervisory Boards (Dewan Pengawas Syariah) approved by DSN-MUI. These boards oversee product design, transaction execution, and ongoing compliance. OJK integrates Shariah governance into licensing and supervision, including fit-and-proper assessments for Shariah board members (OJK, 2024).

This centralised model ensures high legitimacy and public trust, particularly in a jurisdiction with diverse Islamic jurisprudential views. However, it can also introduce approval latency and limit experimentation, as new digital structures must align closely with established fatwas. Nevertheless, Indonesia's approach provides a strong foundation for Shariah authenticity in digital finance.

Technology and Infrastructure

Indonesia's Islamic fintech growth is enabled by widespread mobile penetration and national digital payment infrastructure, despite geographic fragmentation. Smartphone usage exceeds 75% of the adult population, and national payment initiatives such as QRIS (Quick Response Code Indonesian Standard) facilitate low-cost digital transactions across urban and semi-rural areas (World Bank, 2024).

Digital identity systems (e-KTP) and remote onboarding capabilities allow fintech platforms to serve users nationwide, including those without prior banking relationships. Fintechs increasingly leverage alternative data, such as transaction histories, e-commerce activity, and mobile usage, to assess creditworthiness of thin-file MSMEs within Shariah-compliant parameters.

However, infrastructure gaps persist in rural and remote regions, limiting platform reach and increasing operational costs. Unlike Malaysia or Saudi Arabia, open banking frameworks remain nascent, constraining data interoperability. Technology thus acts as a partial enabler, supporting scale where connectivity exists but reinforcing geographic disparities (DinarStandard, 2025).

Consumer Engagement and Financial Inclusion

Islamic digital finance in Indonesia plays a material role in MSME financial inclusion, particularly for micro-entrepreneurs excluded from bank financing. P2P platforms have expanded access to capital for small traders, farmers, and service providers, often through community-based networks and partnerships with cooperatives (ALAMI, 2024).

Consumer engagement is driven more by necessity than convenience. Borrowers are motivated by access to halal financing rather than digital experience alone. Platforms frequently combine digital interfaces with offline outreach, education, and community trust-building, reflecting Indonesia's socio-economic diversity.

While inclusion outcomes are significant in the MSME segment, retail consumer adoption remains limited, and financial literacy challenges persist. Nevertheless, Indonesia demonstrates how Islamic digital finance can function as a developmental instrument, closely aligned with inclusion and real-economy objectives rather than purely commercial expansion (World Bank, 2024).

4.3.2.4 United Arab Emirates (UAE)

Regulatory Framework


The UAE's regulatory environment for Shariah-compliant digital finance is best understood as a multi-regime architecture: (i) federal prudential oversight led by the Central Bank of the UAE (CBUAE) for banking and retail payment activity, and (ii) financial free-zone regimes in DIFC (DFSA) and ADGM (FSRA), which provide internationally recognised rulebooks and innovation pathways. This structure creates a policy advantage for the UAE as a regional fintech hub, but it also requires active coordination to avoid fragmentation between federal and free-zone regulatory approaches.

A major 2024 milestone was the issuance of the CBUAE Open Finance Regulation, establishing a formal framework for licensing and supervising open finance services and enabling cross-sector data sharing and payment initiation under regulated conditions (Central Bank of the UAE, 2024). This is strategically important for Islamic digital finance because open finance infrastructure reduces onboarding friction, supports alternative data credit assessment, and enables embedded Islamic financing journeys in e-commerce and merchant environments.

In parallel, the UAE reinforced prudential expectations for Islamic financial institutions through strengthened Shariah governance standards (Central Bank of the UAE, n.d.-a) and a complementary standard on Shariah compliance functions (Central Bank of the UAE, n.d.-b). Taken together, these initiatives signal a regulatory stance that prioritises system integrity, consumer protection, and enforceable governance, while still leveraging free-zone experimentation channels to accelerate innovation.

Key Industry Players

The UAE ecosystem is anchored by large Islamic banking incumbents, such as Dubai Islamic Bank (DIB), Abu Dhabi Islamic Bank (ADIB), and Emirates Islamic, which provide scale, balance-sheet capacity, and established Shariah governance. These banks increasingly pursue fintech partnerships to accelerate digital origination, automate Shariah documentation, and embed Islamic financing within merchant ecosystems. The incumbent-led nature of the market tends to stabilise consumer trust, but can slowly disrupt product design when innovation remains tied to traditional credit economics.



Alongside banks, the UAE hosts a diverse set of fintechs operating across DIFC and ADGM, many structured as regional platforms with GCC scalability ambitions. The DIFC Innovation Testing Licence regime provides a structured pathway for fintech experimentation under supervisory oversight, enabling firms to test new models with temporary modifications to regulatory requirements (Dubai Financial Services Authority, 2025). Similarly, ADGM's RegLab provides a controlled environment for fintechs to develop and test innovations, including cross-border scaling through regulatory networks (Abu Dhabi Global Market, n.d.).

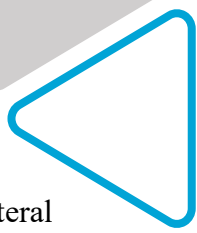
A defining feature is the UAE's hub role: platforms often use the UAE as a base to raise capital, obtain credible regulatory status, and expand into regional markets. This creates a sophisticated, internationally connected ecosystem, though it can also mean that product development priorities are shaped by regional scale economics rather than local inclusion gaps.

Products and Services

Islamic digital finance product offerings in the UAE are broad and increasingly multi-segment, spanning consumer finance, SME financing, wealthtech, and crowdfunding. Unlike ecosystems where BNPL is the dominant Islamic fintech proposition, the UAE market is more diversified and reflects the financial centre function of DIFC and ADGM. Products typically include digital instalment and merchant financing, SME working capital solutions (including invoice-related structures), and Islamic investment propositions packaged through digital interfaces.

In practice, many Islamic digital financing products continue to rely on trade-based and fee-based Shariah contracts that replicate conventional cash-flow profiles while maintaining Shariah permissibility. This is not inherently negative, such structures support scalability and operational clarity, but it does mean that differentiation from conventional fintech is often more contractual than economic. Where innovation is more visible is in the delivery and integration layer: embedded Islamic financing at checkout, automated Shariah documentation, and digital fulfilment linked to e-commerce and merchant point-of-sale environments.

The Open Finance Regulation materially expands the design space for product innovation by enabling regulated data access and transaction initiation, which can support digital-native underwriting and personalised Islamic financing offers (Central Bank of the UAE, 2024). Over the medium term, this infrastructure is likely to encourage more sophisticated Islamic finance



propositions, particularly for SMEs, where alternative data can reduce dependency on collateral and conventional credit histories.

Shariah Governance


The UAE's Shariah governance regime is a distinctive strength due to its combination of centralised oversight and enforceable institutional controls. At the apex, the Higher Shariah Authority (HSA) under the CBUAE establishes supervisory expectations and minimum requirements for Shariah governance across Islamic financial institutions (Central Bank of the UAE, n.d.-a). This central anchoring addresses a key constraint observed in many markets: inconsistent Shariah interpretation and uneven disclosure practices that undermine consumer trust and slow product approvals.

At the institutional level, the UAE requires internal governance mechanisms that include Shariah supervisory functions, internal controls, and compliance monitoring. The Standard on Shariah Compliance Function reinforces expectations for continuous monitoring, assurance, and alignment with HSA resolutions, strengthening operational accountability rather than relying solely on periodic Shariah board approvals (Central Bank of the UAE, n.d.-b). This moves the ecosystem toward a more audit-ready and risk-managed Shariah compliance posture.

For digital finance specifically, this governance model has two important implications. First, it increases credibility and reduces “fatwa shopping” risks, which is critical for scaling digital Islamic finance across a diverse consumer base. Second, it can increase implementation burden for new entrants, particularly fintechs that must operationalise internal Shariah controls at a level comparable to banks. The net effect is a governance regime that supports trust and systemic integrity, while requiring careful calibration to preserve innovation velocity.

Technology and Infrastructure

The UAE's digital public infrastructure is advanced and designed to support fintech scaling through regulated experimentation and high interoperability potential. DIFC and ADGM provide internationally benchmarked regulatory frameworks and innovative environments, but the most structurally significant development for the broader market is federal-level progress in open finance. The Open Finance Regulation creates a pathway for regulated providers to access and share consumer-permissioned data and initiate transactions, spanning open banking and potentially



open insurance use cases (Central Bank of the UAE, 2024). This directly supports embedded finance models and lowers switching costs for consumers, which is strategically relevant for Islamic digital finance adoption.


At the innovation layer, DFSA's Innovation Testing Licence mechanism supports controlled experimentation with new technologies and business models under close supervision (Dubai Financial Services Authority, 2025). ADGM's RegLab similarly provides a controlled environment while connecting fintechs to global regulatory networks, enabling cross-border testing and scaling (Abu Dhabi Global Market, n.d.). This dual-track arrangement (federal infrastructure + free-zone experimentation) enhances both stability and innovation capacity.

From an Islamic finance perspective, the UAE's infrastructure supports not only scale but also governance: digitisation of documentation, contract execution, audit trails, and disclosure can strengthen Shariah transparency. The strategic risk is less about infrastructure adequacy and more about interoperability across regimes and ensuring that open finance adoption translates into practical market-wide integration, rather than remaining concentrated in well-capitalised incumbents.

Consumer Engagement and Financial Inclusion

Consumer engagement in the UAE reflects a high-adoption, convenience-driven market, shaped by a digitally mature population and strong trust in regulated financial institutions. Islamic digital finance adoption is supported by the credibility of major Islamic banks and by regulatory signalling that Shariah governance is centrally supervised and enforceable (Central Bank of the UAE, n.d.-a). For many consumers, the combination of Islamic permissibility and regulated safety is more important than product novelty, which explains why contract-conservative products can still achieve strong uptake when delivered seamlessly.

Inclusion dynamics differ from Indonesia or Pakistan. The UAE's primary policy challenge is not basic access, but rather ensuring that digital finance is competitively priced, transparent, and aligned with consumer protection expectations in an increasingly embedded-finance environment. Open finance creates a mechanism to enhance consumer choice and portability, which can improve outcomes by reducing information asymmetries and enabling better matching between consumers and Islamic financial offerings (Central Bank of the UAE, 2024).



For SMEs, engagement is increasingly shaped by platform-based financing linked to trade flows and merchant ecosystems. The UAE’s hub characteristics also mean that many offerings target regional SMEs and mid-market clients rather than microenterprises. Consequently, the UAE provides a benchmark of how Islamic digital finance can scale through trust, governance discipline, and infrastructure maturity, even where inclusion is not the central market failure being addressed.

4.3.2.5 United Kingdom (UK)


Regulatory Framework

The UK operates a religion-neutral, principles-based regulatory regime that accommodates Islamic digital finance without a dedicated “Islamic fintech law.” This has two strategic implications: first, Islamic fintech is regulated through the same consumer protection and market conduct frameworks as conventional firms; second, Shariah compliance is treated as a product attribute rather than a regulatory category. In 2024–2025, the most material regulatory driver affecting digital Islamic finance has been the continued implementation of the FCA’s Consumer Duty, which sets higher standards of consumer outcomes across product design, pricing, communications, and customer support (Financial Conduct Authority, n.d.). Importantly, while Consumer Duty applied to new and existing products from 31 July 2023, it extended to “closed” or “back book” products from 31 July 2024, tightening expectations across legacy portfolios as well (UK Finance, 2023).

For Shariah-compliant digital financing, this regulatory posture tends to encourage strong disclosure discipline: marketing claims such as “interest-free” and “ethical returns” must be supported by clear explanations of contractual mechanics, fees, risks, and expected outcomes. This is a meaningful constraint on superficial “Islamic re-labelling,” but it also increases compliance overhead for smaller Islamic fintechs. Overall, the UK benchmark is not about Shariah standardisation by the state; it is about high baseline consumer protection and outcomes-based supervision that Islamic fintechs must meet on equal footing (Financial Ombudsman Service, n.d.).

Key Industry Players

UK Islamic digital finance is characterised by niche scale but high product specialisation, with platforms that address specific faith-based market gaps, particularly SME financing and ethical fixed-income-like investment access. A prominent example is *Qardus*, which positions itself as an



ethical, Shariah-compliant SME financing platform and investor marketplace (*Qardus*, 2025). The ecosystem also includes Islamic challenger banks, Shariah-compliant property and SME-focused platforms, and halal investment/wealth apps, typically operating with lean balance sheets and targeted segment strategies.

A defining dynamic is that UK Islamic fintech growth is often constrained not by permissibility, but by distribution and cost of compliance. Firms must build credibility simultaneously with regulators, Shariah scholars, and a consumer base that is sensitive to both ethics and risk. Many platforms therefore rely on partnerships, either with intermediaries, institutional investors, or international Islamic finance stakeholders, to access capital and broaden reach. As a benchmark, the UK demonstrates that Islamic fintech can operate effectively under a mainstream regulatory system, but scale is typically achieved via focused propositions rather than broad ecosystem dominance.


Products and Services

The UK's Shariah-compliant digital financing products tend to concentrate in areas where conventional offerings create persistent faith-based frictions. Two clusters are most visible: (i) SME financing structured to avoid *riba*, and (ii) digital ethical investment propositions for retail investors seeking Shariah-aligned returns. SME financing products often take the form of trade-linked or asset-backed structures and are marketed around ethical business support and transparency (*Qardus*, 2025).

From a design standpoint, a common challenge is managing consumer expectations created by phrases like “interest-free.” Under Consumer Duty, firms must communicate clearly that “interest-free” does not equate to “cost-free,” and that investor returns reflect risk and performance rather than guaranteed outcomes. This pushes UK Islamic fintech product design toward high disclosure quality, explicit risk statements, and careful affordability considerations, making the ecosystem an instructive benchmark for consumer-facing communication discipline (Financial Conduct Authority, n.d.).

Shariah Governance

Shariah governance in the UK is market-led and decentralised. There is no state Shariah board that standardises Islamic finance contracts for fintech. Instead, firms typically appoint Shariah scholars



or advisory committees and align with widely referenced international standards (e.g., AAOIFI) as a credibility mechanism. In practice, Shariah governance strength depends on the transparency of (i) the advisory process, (ii) the documentation of contract structures, and (iii) ongoing compliance monitoring.

This approach has two implications as a benchmark for Pakistan. On the positive side, decentralisation enables agility and innovation. On the risk side, it can produce inconsistency across platforms and generate consumer confusion when products are marketed as “halal” without sufficient comparability. The UK addresses this risk less through Shariah regulation and more through general consumer protection frameworks that penalise misleading communications and poor outcomes (Financial Ombudsman Service, n.d.). The net result is a governance model in which trust is enforced via conduct supervision rather than central Shariah harmonisation.


Technology and Infrastructure

The UK is a mature fintech jurisdiction with deep enabling infrastructure: digital onboarding norms, established payment systems, and strong capabilities around fraud monitoring and analytics. While open banking is widely recognised as a foundational enabler for fintech product design, the distinctive point for this benchmark is that technology adoption is mediated through outcomes-focused regulation rather than permissive experimentation. The FCA’s posture encourages innovation where firms can demonstrate good consumer outcomes, adequate controls, and credible risk management (Financial Conduct Authority, n.d.).

For Islamic digital finance specifically, technology functions as a scaling layer, improving origination, underwriting, and servicing, rather than a Shariah differentiator. Platforms often use data analytics to assess SME risk and automate eligibility checks, but Shariah logic still depends on contract structuring and governance transparency. As a benchmark, the UK highlights that infrastructure maturity is necessary but not sufficient; consumer trust and compliance outcomes remain decisive for sustainable scale.

Consumer Engagement and Financial Inclusion

Consumer engagement in the UK Islamic digital finance segment is largely driven by faith-based inclusion rather than broad-based financial exclusion. The core market is typically Muslim consumers and ethically motivated investors who seek Shariah alignment, transparency, and



credible governance. Engagement strategies frequently emphasise education, explaining how returns are generated, how contracts function, and why a product is Shariah-compliant, to manage expectations and reduce misinterpretation of “interest-free” claims.

The Consumer Duty increases the importance of clear communications and fair value, which in turn pressures Islamic fintechs to demonstrate that their products do not exploit religious preferences via excessive pricing, opaque fees, or poorly supported claims (Financial Conduct Authority, n.d.). As a benchmark, the UK demonstrates how Islamic fintech can scale trust through strong conduct standards, even when Shariah governance is decentralised.

4.3.2.6 Bahrain


Regulatory Framework

Bahrain is a recognised Islamic finance hub with a regulatory posture that combines innovation enablement with standards anchoring, led by the Central Bank of Bahrain (CBB). The CBB has maintained a dedicated FinTech & Innovation function and has long positioned regulation as a competitive asset for digital finance growth (Central Bank of Bahrain, n.d.). A particularly material development for 2024 was the codification and publication of Open Banking requirements within the CBB Rulebook, including a dedicated open banking module dated 26 May 2024 (Central Bank of Bahrain, 2024). Public reporting also indicated implementation requirements for regulated entities to adhere to open banking obligations by 1 September 2024, highlighting Bahrain’s push from policy to operational adoption (The Paypers, 2024).

For Islamic digital finance, the regulatory benchmark is Bahrain’s ability to align enabling fintech rules (sandboxing, open banking, e-KYC readiness) with the country’s deep Islamic finance regulatory infrastructure. The CBB’s approach supports controlled experimentation while maintaining clear expectations on governance, risk management, and consumer protection, features essential for sustaining trust in digital financing markets.

Key Industry Players

Bahrain’s industry structure reflects its role as a regional testbed and standards nexus rather than a large domestic retail market. Islamic banks and investment institutions form the core of the ecosystem, complemented by fintech startups that often target GCC-wide scalability. Bahrain’s



value proposition for industry players is the ability to operate in a jurisdiction that offers credible regulation, relatively fast innovation pathways, and proximity to Islamic finance standard-setting institutions.

The broader ecosystem is supported by innovation and industry coordination initiatives, including the CBB's fintech programme positioning and the wider Bahrain fintech community. In practical terms, Bahrain's players tend to prioritise solutions that can be piloted locally and then exported regionally, particularly in open banking-enabled services, digital onboarding, and Islamic investment platforms (Central Bank of Bahrain, n.d.). This creates an ecosystem where the commercial model often depends on cross-border scaling rather than purely domestic adoption.


Products and Services

Bahrain's Islamic digital finance product landscape is shaped by two forces: (i) its strong Islamic banking base, and (ii) regulatory investments in open banking and digital rails. Products frequently cluster around digital account services, SME financing facilitation, investment distribution, and platform models (including marketplace-style propositions) that can benefit from interoperable data access and payment initiation.

The product benchmark is not necessarily volume, given Bahrain's small population, but regulatory and standards readiness for advanced products. Open banking creates the technical and compliance environment for embedded Islamic financing journeys, streamlined onboarding, and enhanced affordability assessments. Consequently, Bahrain is less a model of mass retail BNPL penetration and more a model of infrastructure-led product capability that can be scaled across the GCC once proven.

Shariah Governance

Bahrain's most strategic benchmark advantage is its proximity and alignment with global Islamic finance standards, particularly through AAOIFI, headquartered in Bahrain. This enables a standards-forward ecosystem and supports consistency in Shariah governance expectations. In 2024, AAOIFI's Governance and Ethics Board approved the issuance of multiple governance standards on Shariah governance, including GS 1 (2024) "Shari'ah Governance Framework" and related standards addressing Shariah supervisory board composition, functions, and reporting (Islamic Finance News, 2024). In 2025, AAOIFI's Governance and Ethics Board also advanced



governance standard development related to applying Shariah governance principles to Islamic finance windows (AAOIFI, 2025).

For Islamic digital finance, this standards environment helps mitigate a common fintech risk: “checklist Shariah” that is not audit-ready or disclosure-consistent. Bahrain’s benchmark value therefore lies in how a digital finance ecosystem can be anchored to evolving international Shariah governance standards, strengthening credibility for cross-border products and investors.

Technology and Infrastructure


Bahrain has deliberately positioned technology infrastructure, particularly open banking, as a foundational enabler of fintech competitiveness. The CBB Rulebook publication of open banking requirements (26 May 2024) indicates a move beyond policy statements toward operational modules that firms must implement (Central Bank of Bahrain, 2024). This supports a range of use cases relevant to Islamic digital finance: consent-based data sharing for underwriting, transaction initiation for embedded financing, and standardised API connectivity that reduces integration costs for smaller players.

Bahrain’s infrastructure approach is also notable for being regulator-driven and rulebook-embedded, which helps reduce ambiguity and improve implementability. As a benchmark, Bahrain demonstrates how a smaller market can achieve outsized fintech influence by building interoperability and governance readiness, enabling firms to pilot locally and scale regionally.

Consumer Engagement and Financial Inclusion

Bahrain’s consumer and inclusion outcomes must be interpreted in the context of a small, relatively banked population. The strategic benchmark is less about basic access and more about trust, transparency, and adoption of regulated digital services that can serve as proof points for GCC scaling. Consumer engagement is supported by confidence in the CBB’s regulatory posture and Bahrain’s longstanding Islamic finance ecosystem.

Open banking implementation can improve consumer outcomes by increasing portability and competition, enabling consumers to access better-priced Islamic products and improving transparency around product suitability. In this sense, Bahrain serves as a benchmark for how digital infrastructure and Shariah governance standards can jointly strengthen trust and enable



more sophisticated Islamic digital finance, especially for SME and wealth segments, without relying on mass-scale retail credit expansion.

4.3.2.7 Singapore

Regulatory Framework


Singapore adopts a principles-based, activity-neutral regulatory framework for both conventional and Islamic digital finance under the oversight of the Monetary Authority of Singapore (MAS). There is no dedicated Islamic finance or Islamic fintech legislation; instead, Shariah-compliant activities are regulated within the same prudential, conduct, and licensing perimeter as conventional financial services. MAS has long ensured tax neutrality and legal clarity for Islamic finance contracts, enabling *Murabahah*, *Ijarah*, and *Sukuk* structures to operate without regulatory disadvantage (MAS, 2024).

Fintech innovation is actively supported through the MAS Regulatory Sandbox and Sandbox Plus frameworks, which allow firms, including Islamic fintechs, to test innovative products in a controlled environment with defined exit pathways to licensing and commercialisation (MAS, 2023). This approach prioritises regulatory certainty and market discipline over bespoke exemptions. Shariah compliance is treated as an internal governance responsibility rather than a regulatory classification, positioning Singapore as a jurisdiction where Islamic digital finance operates within a robust, mainstream financial regulatory system rather than a parallel Islamic framework.

Key Industry Players

Singapore's Islamic digital finance ecosystem is fintech- and asset-management-led, reflecting its role as a regional and global financial hub rather than a mass retail Islamic finance market. Traditional Islamic retail banking presence is limited; however, global and regional banks with Islamic windows, fintech startups, and asset managers use Singapore as a base for regional headquarters, product development, and capital markets structuring.

Islamic fintech activity is concentrated among digital wealth platforms, halal investment marketplaces, and B2B fintech infrastructure providers that serve clients in Southeast Asia, the GCC, and beyond. Many platforms operating from Singapore do not target domestic retail



customers directly but instead leverage Singapore's regulatory credibility, talent pool, and connectivity to scale cross-border (DinarStandard, 2025). This ecosystem structure emphasises quality, governance, and international reach over domestic volume.

Products and Services

Islamic digital finance products in Singapore are predominantly investment-led and asset-backed, rather than consumer credit-driven. Digital wealth management platforms, Shariah-compliant private market investment vehicles, *Sukuk* structuring services, and Islamic fund administration dominate the product landscape. These offerings align with Singapore's strengths in capital markets, asset management, and cross-border finance.

Between 2024 and 2025, Singapore increasingly positioned itself as a testbed for advanced Islamic finance innovation, including tokenised *Sukuk*, Shariah-compliant digital assets, and ESG-linked Islamic investment products. These initiatives reflect MAS's broader agenda around digital assets, sustainability, and programmable finance, within which Islamic finance is treated as a complementary ethical finance segment (MAS, 2024; World Bank, 2024). Retail Islamic digital lending remains limited, reflecting both market size and a regulatory preference for prudence in consumer credit.

Shariah Governance

Shariah governance in Singapore is fully decentralised and market driven. There is no central Shariah authority equivalent to Malaysia's Shariah Advisory Council or Indonesia's DSN-MUI. Each institution offering Shariah-compliant products is responsible for appointing its own Shariah advisors or boards and ensuring internal Shariah compliance.

Credibility is therefore derived from the reputation of Shariah scholars, alignment with internationally recognised standards such as those issued by AAOIFI, and the quality of disclosures provided to investors and users (AAOIFI, 2021). This governance model offers flexibility and innovation space but can result in variability in interpretation and disclosure practices, particularly in fintech contexts where products are novel and digitally mediated. In practice, Singapore relies on strong conduct regulation and disclosure standards to mitigate consumer confusion and maintain trust, rather than centralised Shariah harmonisation.

Technology and Infrastructure

Singapore offers one of the most advanced digital finance infrastructures globally, providing a strong foundation for Islamic fintech development. Nationwide digital identity systems (SingPass), high API readiness, extensive cloud adoption, and robust cybersecurity and data governance frameworks enable sophisticated fintech operations. MAS has also been actively involved in distributed ledger technology, tokenisation, and programmable money initiatives, some of which explicitly explore Islamic finance use cases (Bank for International Settlements, 2024; MAS, 2023).

These technological enablers make Singapore particularly attractive for Islamic fintech infrastructure development and cross-border platform deployment, even when end-users are located outside the jurisdiction. Technology in Singapore functions as a governance and scale enabler, supporting transparency, auditability, and operational efficiency in Shariah-compliant digital finance rather than acting as a substitute for Shariah governance itself.

Consumer Engagement and Financial Inclusion

Consumer engagement with Islamic digital finance in Singapore is institutional and cross-border in nature, rather than mass-market and domestic. Local retail adoption remains modest due to the small Muslim population and the availability of conventional alternatives. However, Singapore plays a critical role in enabling Islamic digital finance for regional markets by providing a trusted base for platform development, governance design, and talent aggregation.

Islamic finance expertise exists but remains specialised, leading many fintechs to rely on regional Shariah advisory networks. As a result, Singapore's primary contribution to Islamic digital finance lies not in domestic financial inclusion, but in demonstrating how strong regulatory governance, advanced digital infrastructure, and international connectivity can support Shariah-compliant digital finance innovation at scale (World Bank, 2024).

4.4 Systematic Alignment of International Benchmarks Recommendation to Pakistan's Shariah-compliant Digital Financing Top 12 Problem Statement and Challenges

This section presents a structured and problem centric alignment of international benchmarking insights with Pakistan's twelve priority challenges in Shariah-compliant digital financing. For each problem statement, practices across all seven benchmark jurisdictions Saudi Arabia, Indonesia, Malaysia, United Arab Emirates, Bahrain, United Kingdom, and Singapore were reviewed. This approach ensured that lessons were drawn from a wide range of regulatory traditions, market maturities, and institutional settings.

Following this comprehensive mapping, the analysis identified the strongest reference jurisdictions whose approaches demonstrated the highest degree of relevance and transferability to Pakistan. Finally, each problem statement was contextualised into Pakistan specific interventions across policy, product, and ecosystem dimensions, with clear distinctions between formulation, operationalisation, and capacity development.

Pillar 1: Regulation and Policy

Problem Statement 1: Fragmented regulatory oversight across multiple authorities, resulting in misalignment for Shariah-compliant digital financing

a. Systematic Alignment Across Seven (7) International Benchmarks

Across the seven benchmark jurisdictions, regulatory coordination for Shariah-compliant digital finance is achieved through functional alignment rather than institutional consolidation. Malaysia and Indonesia rely on structured coordination mechanisms that align financial regulators with payment system operators and digital identity authorities, ensuring coherent supervisory outcomes. Saudi Arabia, the United Arab Emirates, and Qatar operate under more centralised regulatory architectures, enabling faster licensing decisions and clearer supervisory direction, albeit within governance contexts that differ from Pakistan's. Bahrain benefits from a compact regulatory ecosystem closely aligned with international standards, while the United Kingdom relies on conduct-based supervision to coordinate outcomes without sectoral silos. Singapore demonstrates a whole-of-government approach to digital governance, integrating financial regulation with national digital identity, data sharing, and interoperable payment infrastructure through activity-based regulation.



b. Strongest Reference Jurisdictions (with justification)

Malaysia, Indonesia, and Singapore are the strongest reference jurisdictions because they demonstrate effective coordination without statutory consolidation, directly reflecting Pakistan's regulatory constraints. Malaysia is particularly relevant due to its ability to align multiple regulators through formal mechanisms while preserving distinct mandates. Indonesia reinforces this lesson by showing that coordination with digital and identity infrastructure agencies remains essential even under a unified financial regulator. Singapore adds a complementary perspective by demonstrating that coordination can be achieved through activity-neutral regulation and whole-of-government digital governance rather than Islamic-specific regulatory silos.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

At the policy formulation level, Pakistan should establish formal coordination protocols and joint working arrangements among SECP, SBP, NADRA, PTA, PDA, and key infrastructure providers without altering statutory mandates. Operationalisation should focus on aligning regulatory processes for licensing, sandbox participation, digital onboarding, and supervisory reporting to reduce duplication and uncertainty. Capacity development should prioritise inter-agency expertise in digital finance supervision, data governance, and Shariah-aligned regulatory interpretation to sustain coordination over time.

Problem Statement 2: Absence of clear regulatory direction for establishing Islamic NBFCs and transitioning conventional NBFCs to Shariah-compliant models

a. Systematic Alignment Across Seven (7) International Benchmarks

Benchmark jurisdictions address Islamic institutional establishment and conversion through explicit transition frameworks rather than discretionary supervision. Malaysia and Bahrain provide clear regulatory regimes for licensing Islamic institutions and managing conversion processes, supported by defined governance and disclosure requirements. Indonesia adopts a phased transition model that allows hybrid operations under regulatory safeguards, balancing flexibility with Shariah integrity. Saudi Arabia, the UAE, and Qatar emphasise upfront Shariah readiness prior to market entry, while the United Kingdom and Singapore contribute governance discipline and transition management practices through strong conduct and disclosure frameworks rather than Shariah-specific rules.

b. Strongest Reference Jurisdictions (with justification)

Malaysia, Indonesia, and Bahrain are the strongest reference jurisdictions because they explicitly manage transition risk, which is the central challenge for Pakistan's NBFC sector. Malaysia provides clarity on the regulatory end-state for Islamic institutions, reducing uncertainty for boards and investors. Indonesia offers flexibility through phased and hybrid models suitable for uneven institutional readiness. Bahrain demonstrates how detailed supervisory guidance anchored to international standards can support conversion while maintaining Shariah credibility. These jurisdictions are selected for their operational relevance rather than scale.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation


For Pakistan, policy formulation should focus on issuing explicit SECP guidance on Islamic NBFC licensing criteria, conversion pathways, transitional governance arrangements, and disclosure expectations. Operationalisation should introduce defined supervisory milestones during conversion periods, including Shariah governance benchmarks and reporting requirements. Capacity development should support boards, senior management, and Shariah committees through structured toolkits, operational manuals, and applied training programmes, ensuring that conversion is treated as a managed transformation rather than a compliance exercise.

Pillar 2: Key Islamic NBFC Industry Players

Problem Statement 3: Limited incentives and constrained scalability pathways for Islamic NBFCs

a. Systematic Alignment Across Seven (7) International Benchmarks

Across benchmark jurisdictions, the scalability of Islamic non-bank financial institutions is enabled less through direct subsidies and more through ecosystem design, partnership structures, and regulatory clarity. Indonesia demonstrates how Islamic digital financing platforms can scale through partnership-driven MSME models that leverage banks, cooperatives, and value-chain actors without heavy balance-sheet expansion. Malaysia complements this with regulatory incentives, innovation grants, and clearly defined sandbox graduation pathways that allow Islamic NBFCs to transition from experimentation to sustainable commercial operations. Saudi Arabia and



the United Arab Emirates illustrate scaling through anchor institutions and ecosystem partnerships, although these models are typically capital intensive. Qatar, Bahrain, the United Kingdom, and Singapore place greater emphasis on innovation enablement and governance quality rather than sector-specific incentives, relying on market discipline to determine scale outcomes.

b. Strongest Reference Jurisdictions (with justification)

Indonesia and Malaysia are the strongest reference jurisdictions for Pakistan because they demonstrate capital-efficient scaling pathways aligned with MSME-driven economies. Indonesia is particularly relevant as it shows how Islamic NBFCs can achieve scale through platform-based partnerships rather than balance-sheet growth, a critical consideration given Pakistan's capital constraint. Malaysia reinforces this approach by demonstrating how regulatory incentives and structured sandbox graduation can translate innovation into institutionally sustainable models. Capital-intensive Gulf models are less suitable for Pakistan's fiscal and market conditions, while the UK and Singapore focus more on governance than sector-specific scale enablement.

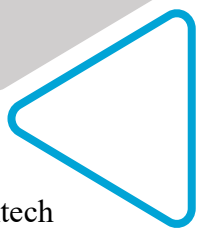
c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

At the formulation level, Pakistan should prioritise non-fiscal incentives for Islamic NBFCs, linked to inclusion outcomes, partnership formation, and demonstrated impact rather than asset size. Operationalisation should focus on enabling platform-based collaboration between Islamic NBFCs, banks, fintechs, and telecom operators, including co-origination and risk-sharing arrangements. Capacity development should strengthen institutional capabilities in partnership management, digital operations, and scalable business model design to support sustainable growth beyond pilot stages.

Problem Statement 4: Limited collaboration and ecosystem co-creation among Islamic finance stakeholders

a. Systematic Alignment Across Seven (7) International Benchmarks

International benchmarks show that Islamic digital finance ecosystems scale most effectively where collaboration is actively facilitated rather than left to market forces alone. Malaysia institutionalises collaboration through regulator-facilitated platforms, structured industry dialogues, and coordinated pilot programmes. Indonesia supports ecosystem co-creation through



community-based financing models and value-chain partnerships that integrate MSMEs, fintech platforms, and Islamic financial institutions. Saudi Arabia and the United Arab Emirates promote collaboration through national digital initiatives and shared infrastructure programmes. Singapore provides neutral innovation platforms that encourage cross-sector engagement among banks, fintechs, and technology providers, while Bahrain and Qatar rely more heavily on market-led coordination within compact financial ecosystems.

b. Strongest Reference Jurisdictions (with justification)

Malaysia, Indonesia, and Singapore are the strongest reference jurisdictions because they demonstrate intentional ecosystem design rather than passive coordination. Malaysia is particularly relevant for its regulator-led orchestration mechanisms, which align industry actors without distorting competition. Indonesia provides a complementary model through bottom-up, value-chain-driven collaboration that resonates with Pakistan's MSME landscape. Singapore adds value by showing how neutral, non-sector-specific innovation platforms can facilitate collaboration across industries and technologies, an approach well suited to Pakistan's diverse stakeholder environment.


c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

For Pakistan, policy formulation should support the creation of SECP-facilitated collaboration platforms dedicated to Islamic digital finance, with clear mandates for ecosystem development rather than firm-level regulation. Operationalisation should include joint pilots, shared infrastructure initiatives, and structured knowledge exchange programmes involving Islamic banks, NBFCs, fintechs, and infrastructure providers. Capacity development should focus on building trust, collaborative problem-solving skills, and ecosystem-level thinking across public and private sector stakeholders.

Pillar 3: People (Consumers and Talents)

Problem Statement 5: Low Shariah digital finance literacy, limited trust, and heightened exposure to fraud

a. Systematic Alignment Across Seven (7) International Benchmarks



Across the benchmark jurisdictions, consumer adoption of Shariah-compliant digital finance is supported by coordinated approaches that combine literacy, disclosure, and trust enforcement. Malaysia integrates Shariah literacy with consumer protection requirements and clear disclosure standards, ensuring that product permissibility is matched by user understanding. Indonesia complements digital outreach with community-based education models, particularly for MSMEs and informal market participants. The United Kingdom contributes a conduct-based supervisory approach that emphasises fair outcomes and accountability for misleading claims. Singapore demonstrates advanced digital trust frameworks through cybersecurity awareness, coordinated fraud prevention, and national digital identity systems. Gulf jurisdictions tend to rely more heavily on disclosure and reputational trust, reflecting higher baseline financial literacy and institutional confidence.

b. Strongest Reference Jurisdictions (with justification)

Malaysia, Indonesia, the United Kingdom, and Singapore are the strongest reference jurisdictions because they collectively address both demand-side understanding and system-level trust enforcement, which are Pakistan's core challenges. Malaysia and Indonesia are particularly relevant for literacy and inclusion strategies tailored to Muslim-majority populations and MSME segments. The UK and Singapore add value by demonstrating how strong conduct supervision, fraud prevention, and digital trust frameworks can discipline market behaviour and protect consumers, even in the absence of Islamic-specific regulation.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

At the formulation level, Pakistan should integrate Shariah literacy, digital finance education, and consumer protection objectives into a unified policy framework rather than treating them as separate initiatives. Operationalisation should standardise disclosure formats, communication practices, and contract explanations across platforms, with particular emphasis on clarity around “interest-free” claims. Capacity development should strengthen regulatory and industry capabilities in consumer protection, fraud detection, ethical communication, and complaint handling to rebuild trust and support sustained adoption.

Problem Statement 6: Talent asymmetry and siloed functional structures across Shariah, technology, and business teams



a. Systematic Alignment Across Seven (7) International Benchmarks

Benchmark jurisdictions address talent constraints through structured competency development rather than ad hoc hiring. Malaysia and Bahrain have established formal Islamic finance and Shariah training pipelines that professionalise Shariah governance and compliance roles. Singapore demonstrates advanced cross-functional talent development, integrating finance, technology, data, and governance expertise within fintech and asset management ecosystems. Indonesia complements formal training with market-aligned capacity-building programmes that respond directly to operational needs. Saudi Arabia and the UAE invest heavily in fintech accelerators and skills development, while the UK embeds governance and compliance competencies across functional teams.

b. Strongest Reference Jurisdictions (with justification)

Malaysia, Bahrain, and Singapore are the strongest reference jurisdictions because they explicitly address dual-competency development, which is the central talent challenge in Pakistan. Malaysia and Bahrain provide depth in Shariah professionalism and governance, ensuring technical credibility. Singapore adds a critical dimension by demonstrating how cross-functional digital talent can be developed and deployed within integrated organisational structures. These models are particularly relevant to Pakistan, where talent exists but remains fragmented across silos.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

Policy formulation in Pakistan should promote cross-disciplinary competency standards encompassing Shariah, finance, technology, and data governance. Operationalisation should encourage integrated team structures within institutions, supported by incentives for collaboration across functions. Capacity development should focus on joint training programmes, professional certification, and rotational exposure across Shariah, technology, and business units, enabling institutions to move from siloed execution to integrated delivery.

Pillar 4: Products and Services

Problem Statement 7: Limited product and operating model innovation tailored to Pakistan's economic and market context

a. Systematic Alignment Across Seven (7) International Benchmarks


Across benchmark jurisdictions, innovation in Shariah-compliant digital finance products is driven by alignment with real economic activity rather than replication of conventional credit structures. Indonesia and Malaysia demonstrate Shariah-by-design product development closely linked to MSME financing, trade flows, and value-chain participation. In these jurisdictions, digital platforms operationalise *Salam*, *Musharakah*, *Wakalah*, and hybrid contract structures to meet working capital and growth needs while preserving Shariah integrity. Saudi Arabia and the United Arab Emirates contribute insights on scale and embedded finance, particularly through Islamic BNPL and merchant-linked financing models. Bahrain reinforces product consistency through alignment with international Shariah standards, while Singapore provides lessons on operating model efficiency, asset-backed innovation, and the use of advanced digital infrastructure to support complex Islamic finance products.

b. Strongest Reference Jurisdictions (with justification)

Indonesia and Malaysia are the strongest reference jurisdictions because they embed Shariah principles directly into product logic and operating models that serve MSME-dominated economies, closely mirroring Pakistan's economic structure. Indonesia's relevance lies in its practical application of Shariah contracts to real-sector financing through flexible structures suited to capacity-constrained environments. Malaysia strengthens this benchmark by demonstrating how regulatory clarity and institutional support can translate such innovation into scalable, compliant products. Gulf models, while effective at scale, are less directly applicable due to higher capital requirements, while Singapore's contribution is primarily operational rather than market structural.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

At the formulation level, Pakistan should issue structured guidance on Shariah-compliant digital product design, focusing on real-sector alignment rather than contract replication. Operationalisation should encourage modular, partnership-based operating models that allow



Islamic NBFCs and fintechs to collaborate with banks, agribusinesses, and supply-chain actors. Capacity development should strengthen skills in product innovation, risk management, Shariah structuring, and digital delivery, enabling institutions to design products that are both compliant and economically relevant.

Problem Statement 8: Weak ecosystem interconnectedness and limited product guidance across platforms

a. Systematic Alignment Across Seven (7) International Benchmarks

International benchmarks show that product innovation and adoption depend heavily on ecosystem interconnectedness and clear guidance. Malaysia and Indonesia illustrate integrated platform approaches, where financing products are embedded within broader digital ecosystems that include payments, onboarding, and value-chain data. Singapore demonstrates advanced interoperability through open architecture, API readiness, and clear governance frameworks that allow multiple providers to interconnect securely. Bahrain contributes standardisation and consistency through alignment with international documentation and disclosure standards. Saudi Arabia and the UAE rely on centralised platforms to enable interoperability, while the UK reinforces comparability and transparency through conduct-based disclosure requirements.

b. Strongest Reference Jurisdictions (with justification)

Malaysia and Singapore are the strongest reference jurisdictions because they directly address information architecture and interoperability, which are central constraints in Pakistan. Malaysia demonstrates how integrated platforms and standardised guidance reduce fragmentation and improve user understanding. Singapore complements this by showing how interoperability can be achieved through governance-led open architecture rather than fragmented bilateral integrations. These models are particularly relevant for Pakistan's multi-provider ecosystem and diverse user base.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

Policy formulation in Pakistan should clarify expectations around interoperability, product comparability, and ecosystem integration for Shariah digital finance. Operationalisation should support shared platforms, standardised interfaces, and common product documentation to reduce

fragmentation. Capacity development should enhance technical integration skills, systems governance, and information architecture capabilities across regulators and industry participants, enabling interconnected and user-centric product ecosystems.

Pillar 5: Shariah Governance and Compliance

Problem Statement 9: Fragmented Shariah governance resulting in checklist-based compliance and weak supervisory integration

a. Systematic Alignment Across Seven (7) International Benchmarks

Across the benchmark jurisdictions, Shariah governance effectiveness is determined by how deeply Shariah oversight is integrated into regulatory supervision and institutional processes. Malaysia operates a centralised and binding Shariah governance framework in which rulings issued by the Shariah Advisory Council are embedded directly into regulatory expectations and supervisory review. Indonesia similarly anchors Shariah legitimacy through a central fatwa authority, ensuring consistency while allowing operational flexibility for fintech platforms. Bahrain aligns its supervisory practices with AAOIFI standards, providing international consistency and auditability. Saudi Arabia integrates Shariah oversight institutionally within financial supervision, while the UAE reinforces governance through formal Shariah compliance functions. The United Kingdom and Singapore adopt decentralised models, relying on disclosure discipline, conduct supervision, and internal governance accountability rather than centralised Shariah rulings.

b. Strongest Reference Jurisdictions (with justification)

Malaysia and Bahrain are the strongest reference jurisdictions because they demonstrate enforceable and scalable Shariah governance without impeding innovation. Malaysia is particularly relevant due to its ability to integrate Shariah review into prudential supervision, preventing Shariah compliance from becoming a parallel or symbolic process. Bahrain complements this by anchoring governance to AAOIFI standards, which enhances consistency, auditability, and cross-border credibility. These models are most applicable to Pakistan's need to move beyond checklist-based compliance while preserving scholarly diversity.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

At the formulation level, Pakistan should strengthen coordinated Shariah governance under regulatory oversight, ensuring alignment between Shariah rulings and supervisory processes. Operationalisation should integrate Shariah review into licensing, product approval, and ongoing supervision rather than treating it as a separate compliance layer. Capacity development should focus on enhancing Shariah audit capabilities, regulatory review skills, and institutional governance frameworks to support Shariah-by-design implementation.

Problem Statement 10: Absence of technical Shariah guidance, operational manuals, and standardised documentation

a. Systematic Alignment Across Seven (7) International Benchmarks


International benchmarks indicate that effective Shariah compliance depends not only on rulings but also on practical implementation guidance. Malaysia and Bahrain provide detailed Shariah standards, operational manuals, contract templates, and disclosure requirements that translate jurisprudence into executable processes. Indonesia supports implementation through structured guidance accompanying fatwas, while Saudi Arabia and the UAE rely on institutional governance frameworks reinforced by regulatory oversight. The United Kingdom and Singapore depend on internal governance and disclosure discipline, placing responsibility on institutions to operationalise Shariah requirements consistently.

b. Strongest Reference Jurisdictions (with justification)

Malaysia and Bahrain are the strongest reference jurisdictions because they convert Shariah principles into practical, operational artefacts. Malaysia's comprehensive toolkits reduce ambiguity and accelerate product development, while Bahrain's alignment with AAOIFI ensures international consistency and ease of supervision. These jurisdictions are particularly relevant for Pakistan, where the absence of operational manuals and standardised documentation constrains both innovation and compliance.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

Policy formulation in Pakistan should support the development of practical Shariah operational manuals, contract libraries, and disclosure templates applicable to digital finance.



Operationalisation should standardise documentation, reporting formats, and compliance workflows across institutions. Capacity development should focus on practitioner training and applied implementation skills, ensuring that Shariah compliance is embedded operationally rather than addressed ex post.

Pillar 6: Technology and Infrastructure


Problem Statement 11: Limited interoperability across digital platforms, payment systems, and identification infrastructure

a. Systematic Alignment Across Seven (7) International Benchmarks

Across benchmark jurisdictions, interoperability is treated as a governance and coordination challenge rather than a purely technical one. Malaysia and Indonesia demonstrate effective integration of payment systems and e-KYC frameworks through coordinated regulatory mandates that align financial institutions with national digital identity and payment infrastructures. Singapore provides advanced lessons on open architecture and API-led interoperability, supported by strong data governance and cybersecurity frameworks that enable multiple platforms to interconnect securely. Saudi Arabia, the United Arab Emirates, and Qatar rely more heavily on centralised national platforms to achieve interoperability, ensuring scale and consistency but within more centralised governance contexts. Bahrain complements these approaches through standardisation aligned with international norms and regulatory clarity that supports cross-platform connectivity. The United Kingdom reinforces interoperability indirectly through conduct-based requirements that emphasise transparency and portability rather than mandating specific technical architectures.

b. Strongest Reference Jurisdictions (with justification)

Malaysia and Singapore are the strongest reference jurisdictions because they demonstrate interoperability with governance discipline, which is Pakistan's core challenge. Malaysia's model is particularly relevant due to its ability to integrate payments, e-KYC, and financial services across multiple providers under coordinated regulatory oversight. Singapore adds value by illustrating how open architecture and API readiness can coexist with robust data governance, an



approach well suited to Pakistan’s diverse and multi-provider digital ecosystem. Centralised Gulf models, while effective, are less directly transferable due to differences in institutional structure and scale.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

At the formulation level, Pakistan should define clear interoperability standards and governance frameworks for Shariah-compliant digital finance, covering payments, identity verification, data sharing, and platform connectivity. Operationalisation should enable shared digital rails and standardised interfaces across Raast, NADRA-based e-KYC, and financial service providers to reduce fragmentation. Capacity development should strengthen regulatory and industry capabilities in systems integration, API governance, and technical supervision, ensuring interoperability functions as a sustainable ecosystem capability.

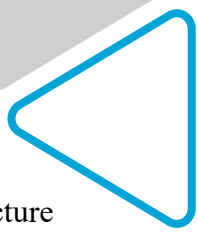
Problem Statement 12: Uneven digital infrastructure access limiting inclusion and scalable outreach

a. Systematic Alignment Across Seven (7) International Benchmarks

Benchmark jurisdictions address uneven digital access through coordinated infrastructure planning and hybrid delivery models rather than reliance on purely digital channels. Indonesia effectively expands inclusion through mobile-first platforms complemented by agent-assisted and community-based service delivery, ensuring reach beyond urban centres. Malaysia supports coordinated infrastructure rollout aligned with financial inclusion strategies, integrating digital finance initiatives with national connectivity programmes. Singapore contributes long-term planning insights, demonstrating how sustained investment in digital infrastructure and identity systems can enable future scalability, even though its domestic inclusion challenges differ. Gulf jurisdictions leverage centralised infrastructure to ensure consistency, while the United Kingdom focuses on accessibility and fairness through service design rather than infrastructure expansion.

b. Strongest Reference Jurisdictions (with justification)

Indonesia and Malaysia are the strongest reference jurisdictions because they explicitly address inclusion under infrastructure constraints, closely paralleling Pakistan’s rural–urban divide. Indonesia’s relevance lies in its practical use of hybrid delivery models that combine digital



platforms with human intermediaries, while Malaysia demonstrates how coordinated infrastructure policy can align digital finance with inclusion objectives. These models offer actionable lessons without assuming universal connectivity.

c. Systematic and Contextual Alignment in Pakistan Policy Recommendation

Policy formulation in Pakistan should align Shariah digital finance initiatives with broader financial inclusion and digital connectivity objectives. Operationalisation should support hybrid digital delivery models, including agent-assisted onboarding and offline-to-online integration, to extend reach into underserved areas. Capacity development should enhance inclusive service design and implementation skills across institutions, ensuring that technological progress translates into broad-based access rather than deepening existing divides.

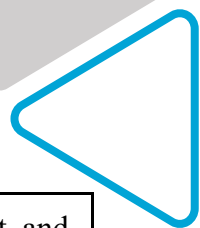
Table 4.4: Consolidated Table of Integrated Policy Recommendation from Systematic Alignment of International Benchmarks to Pakistan’s Shariah-Compliant Digital Financing – Consolidated Assessment

Pillar	Problem Statement of Shariah-compliant Digi Financing	Consolidated Gaps (Policy, Operational, Capacity)	Strongest Reference Country from 7 Benchmarked Jurisdictions (Rationale)	Integrated Policy Formulation, Operational Development & Capacity Building Recommendations
1. Regulation & Policy	Fragmented regulatory oversight causing misaligned supervision	<p>Policy: No formal coordination architecture across regulators.</p> <p>Operational: Overlapping licensing, sandbox, onboarding, and reporting processes.</p> <p>Capacity: Limited shared expertise in digital finance supervision and Shariah interpretation across agencies.</p>	<p>Malaysia: formal inter-regulatory coordination without mandate consolidation.</p> <p>Indonesia: coordination with payments and digital identity agencies remains critical even under a unified regulator.</p> <p>Singapore: whole-of-government, activity-based digital governance</p>	<p>Policy formulation: Establish formal inter-agency coordination protocols among SECP, SBP, NADRA, PTA, PDA;</p> <p>Operational development: Harmonise licensing, sandbox, onboarding, and reporting processes; and</p> <p>Capacity Building: build sustained inter-agency capacity in digital finance supervision, data governance, and Shariah-aligned regulatory interpretation.</p>



			integrating finance, identity, and data.	
2. Regulation & Policy	Lack of clear regulatory direction for Islamic NBFC establishment and conversion	<p>Policy: No defined end-state or transition framework.</p> <p>Operational: Discretionary, case-by-case conversion supervision.</p> <p>Capacity: Boards and Shariah committees lack practical readiness for conversion.</p>	<p>Malaysia: clear Islamic institutional end-state and licensing clarity.</p> <p>Indonesia: phased and hybrid transition models under regulatory safeguards</p> <p>Bahrain: detailed supervisory guidance anchored to international standards.</p>	<p>Policy formulation: Issue explicit SECP guidance on Islamic NBFC licensing and conversion pathways;</p> <p>Operational development: Introducing milestone-based supervisory oversight during transition;</p> <p>Capacity Building: provide structured toolkits, manuals, and applied training for</p>





				boards, management, and Shariah committees.
3. Islamic NBFC Industry	Limited incentives and constrained scalability pathways	<p>Policy: Incentives not aligned with inclusion or ecosystem outcomes.</p> <p>Operational: Dependence on balance sheet growth.</p> <p>Capacity: Weak expertise in partnership- and</p>	<p>Indonesia: platform-based MSME scaling without balance-sheet expansion</p> <p>Malaysia: regulatory incentives and sandbox graduation translating innovation into sustainability.</p>	<p>Policy formulation: Design non-fiscal, outcome-linked incentives tied to inclusion and partnerships;</p> <p>Operational development: Enable co-origination, risk-sharing, and platform-based collaboration; and</p> <p>Capacity Building:</p>





		platform-led scaling.		strengthen institutional capabilities in partnership management and scalable digital business models.
4. Islamic NBFC Industry	Weak ecosystem collaboration and co-creation	<p>Policy: No explicit mandate for ecosystem development.</p> <p>Operational: Fragmented pilots and isolated initiatives.</p> <p>Capacity: Low collaboration maturity and trust.</p>	<p>Malaysia: regulator-led ecosystem orchestration.</p> <p>Indonesia: value-chain and community-based collaboration.</p> <p>Singapore: neutral, cross-sector innovation platforms.</p>	<p>Policy formulation: Establish SECP-facilitated Islamic digital finance collaboration platforms;</p> <p>Operational development: promote joint pilots, shared infrastructure, and structured industry dialogue; and</p> <p>Capacity building: build ecosystem-level thinking, trust, and</p>





				collaborative execution skills.
5. People (Consumers)	Low Shariah digital finance literacy, trust deficits, and fraud exposure	<p>Policy: Fragmented literacy and consumer protection initiatives.</p> <p>Operational: Inconsistent disclosures and communication.</p> <p>Capacity: Limited fraud response and conduct supervision capability.</p>	<p>Malaysia & Indonesia: Shariah literacy and inclusion-focused education.</p> <p>UK & Singapore: strong conduct supervision, fraud prevention, and digital trust frameworks.</p>	<p>Policy formulation: Integrate Shariah literacy, digital finance education, and consumer protection into a unified framework;</p> <p>Operational development: standardise disclosures and communication; and</p> <p>Capacity building: strengthen fraud detection, ethical marketing, and complaint-handling capabilities.</p>



6. People (Talent)	Talent asymmetry and siloed functional structures	<p>Policy: No cross-disciplinary competency standards.</p> <p>Operational: Fragmented organisational design.</p> <p>Capacity: Shortage of dual-competency professionals.</p>	<p>Malaysia & Bahrain: strong Shariah professionalism pipelines.</p> <p>Singapore: integrated cross-functional digital talent development.</p>	<p>Policy formulation: Define cross-disciplinary competency frameworks;</p> <p>Operational development: encourage integrated team structures and collaboration incentives; and</p> <p>Capacity building: implement joint training, certification, and rotational programmes across functions.</p>
7. Products & Services	Limited product and operating model innovation	<p>Policy: Insufficient Shariah-by-design product guidance.</p> <p>Operational: Replication of conventional credit structures.</p> <p>Capacity: Weak applied innovation</p>	<p>Indonesia: – practical Shariah contracts for real-sector financing.</p> <p>Malaysia: regulatory clarity supporting scalable innovation.</p>	<p>Policy formulation: Issue structured guidance on real-sector-aligned Shariah digital products;</p> <p>Operational development: support modular, partnership-based operating models; and</p>

		and structuring skills.		Capacity building: build capabilities in product innovation, risk structuring, and Shariah design.
8. Products & Services	Weak ecosystem interoperability and product guidance	<p>Policy: Lack of interoperability and comparability standards.</p> <p>Operational: Disconnected platforms and documentation.</p> <p>Capacity: Limited systems integration expertise.</p>	<p>Malaysia: – integrated platforms and standardised guidance.</p> <p>Singapore: governance-led open architecture and API readiness.</p>	<p>Policy formulation: Define interoperability and comparability standards;</p> <p>Operational development: enable shared platforms, APIs, and standard documentation; and</p> <p>Capacity building: strengthen systems governance and information architecture skills.</p>

9. Shariah Governance	Fragmented Shariah governance and checklist-based compliance	<p>Policy: Weak linkage between Shariah rulings and supervision.</p> <p>Operational: Parallel, non-integrated compliance processes.</p> <p>Capacity: Limited Shariah audit and supervisory review skills.</p>	<p>Malaysia: – Shariah governance embedded in supervision.</p> <p>Bahrain: AAOIFI-aligned, auditable governance.</p>	<p>Policy formulation: Strengthen coordinated Shariah governance under regulatory oversight;</p> <p>Operational development: embed Shariah review into licensing and supervision; and</p> <p>Capacity building: enhance Shariah compliance, Shariah risk management, Shariah review, Shariah audit and regulatory review capabilities.</p>
10. Shariah Governance	Absence of operational Shariah guidance and documentation	<p>Policy: No operational manuals or templates.</p> <p>Operational: Inconsistent contracts and workflows.</p>	<p>Malaysia: comprehensive operational toolkits on Shariah governance documented through Shariah Governance Policy Document (SGPD) by Central Bank of Malaysia.</p>	<p>Policy formulation: Develop Shariah operational manuals, contract libraries, and disclosure templates;</p> <p>Operational development:</p>


		Capacity: Limited applied implementation expertise.	Bahrain: standardisation aligned with AAOIFI.	standardise documentation and workflows; and Capacity building: focus on practitioner-oriented Shariah implementation training.
11. Technology & Infrastructure	Limited interoperability across platforms, payments, and identity	Policy: No overarching interoperability governance. Operational: Fragmented digital rails and integrations. Capacity: Weak API and technical supervision capability.	Malaysia: – coordinated integration of payments and e-KYC. Singapore: API-led interoperability with strong data governance.	Policy formulation: Establish interoperability and data governance standards; Operational development: enable shared digital rails linking Raast and NADRA e-KYC; and Capacity building: build regulatory and industry capability in systems integration and technical oversight.

12. Technology & Infrastructure	Uneven digital infrastructure access limiting inclusion	Policy: Digital finance not aligned with inclusion strategy. Operational: Urban-centric delivery models. Capacity: Limited inclusive service design expertise.	Indonesia: hybrid digital–agent delivery models. Malaysia: coordinated infrastructure and inclusion policy alignment.	Policy formulation: Align Shariah digital finance with national inclusion and connectivity agendas; Operational development: promote hybrid digital– agent delivery; and Capacity building: strengthen inclusive design and last-mile implementation capabilities.
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4.5 Key Recommendation (1) - Policy Intervention of the Pillar of Regulatory and Legal Framework, Shariah Governance, and Key Market Players of Islamic NBFC in Pakistan

Key Policy Intervention Recommendations Pillar 1: Regulatory Frameworks, Policy, and Legal Development

This pillar addresses two structurally linked challenges that currently constrain the orderly development of Shariah-compliant digital financing in Pakistan: fragmented regulatory oversight across multiple authorities, and the absence of clear regulatory direction for establishing Islamic NBFCs and transitioning conventional NBFCs into Shariah-compliant models. International experience consistently shows that these challenges are not resolved through regulatory



centralisation or ad hoc approvals, but through deliberate policy design that aligns mandates, clarifies institutional pathways, and builds execution capability over time.

At the regulatory level, Pakistan should move decisively from fragmented oversight toward structured, functionally aligned coordination, without pursuing institutional consolidation. This entails formalising inter-agency coordination among SECP, SBP, NADRA, PTA, PDA, and relevant infrastructure providers through standing protocols, joint working arrangements, and shared supervisory processes. International benchmarks demonstrate that effective coordination, rather than centralisation, is the dominant success factor in jurisdictions with complex institutional landscapes. The policy objective should therefore be to ensure that licensing, sandbox participation, digital onboarding, supervisory reporting, and enforcement actions operate within a coherent Shariah digital finance regulatory pathway, reducing approval latency and regulatory uncertainty.

Legally, Pakistan must address the absence of clear frameworks for Islamic NBFC establishment, conversion, and operation. Explicit legal and regulatory guidance should be issued covering Islamic NBFC licensing criteria, phased conversion pathways for conventional NBFCs, transitional governance requirements, and disclosure obligations. This legal clarity is essential to manage transition risk, attract investment, and enable boards and management to pursue Shariah transformation with confidence. International experience shows that jurisdictions which codify conversion and transitional arrangements achieve higher compliance quality and faster ecosystem development than those relying on discretionary approvals.

The following recommendations are structured across policy formulation, operational development, and capacity building, reflecting how successful jurisdictions have translated regulatory intent into functioning Islamic digital finance ecosystems. Each recommendation is grounded in practices observed in Malaysia, Indonesia, Bahrain, and Singapore, while being calibrated to Pakistan's legal, institutional, and market realities.

Policy Domain	Strategic Focus	Key Policy Intervention Recommendation (Consolidated)	Why This Is Well-Fitted for Pakistan
Policy Formulation	Regulatory coherence and institutional clarity	<p>Establish a formal inter-agency coordination framework for Shariah-compliant digital financing among SECP, SBP, NADRA, PTA, PDA, and relevant infrastructure providers, without altering existing statutory mandates.</p> <p>In parallel, issue explicit regulatory guidance defining permissible models for Islamic NBFC/Shariah-compliant digital financing establishment and conversion, including regulatory end-state clarity, transitional governance arrangements, Shariah oversight expectations, and disclosure requirements.</p>	<p>Pakistan’s challenge lies in fragmented oversight rather than regulatory absence. Functional coordination avoids complex legal restructuring while materially improving regulatory coherence.</p> <p>Clear guidance on Islamic NBFC licensing and conversion reduces uncertainty for boards, investors, and supervisors, creating confidence for long-term participation in Shariah-compliant digital finance.</p>

<p>Operational Development</p>	<p>Predictable and aligned supervisory execution</p>	<p>Translate policy coordination into harmonised regulatory processes, including aligned licensing workflows, sandbox entry and exit criteria, digital onboarding and e-KYC standards, and supervisory reporting requirements.</p> <p>Introduce milestone-based supervisory oversight for Islamic NBFC conversion, treating transition as a managed operational journey with defined checkpoints rather than a one-off approval decision.</p>	<p>Operational misalignment is a major friction point for digital Islamic finance in Pakistan. Process harmonisation shortens time-to-market, reduces duplication, and improves supervisory transparency.</p> <p>Milestone-based conversion oversight balances Shariah integrity with institutional readiness, avoiding both excessive rigidity and discretionary uncertainty.</p>
<p>Capacity Building</p>	<p>Sustained regulatory effectiveness and industry credibility</p>	<p>Invest in inter-agency capacity development for Shariah-compliant digital finance supervision through joint training, shared analytical frameworks, and structured knowledge exchange.</p> <p>Complement this with industry-facing toolkits, operational manuals, and applied training programmes for boards, senior management, and Shariah</p>	<p>Without shared expertise, coordination mechanisms risk becoming procedural rather than effective.</p> <p>Targeted capacity building ensures consistent regulatory interpretation, improves compliance quality, and reduces supervisory friction.</p> <p>Strengthening board- and Shariah-level capability</p>


		committees involved in Islamic NBFC establishment or conversion.	ensures that conversion and licensing are treated as strategic transformations, not compliance exercises.
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A. Policy Formulation: Establishing Regulatory Coherence and Institutional Clarity

At the policy formulation level, Pakistan’s primary challenge is not regulatory absence, but regulatory fragmentation without a unifying architecture. Shariah-compliant digital financing sits at the intersection of securities regulation, banking supervision, payments, digital identity, telecommunications, and data governance. In the absence of a formal coordination framework, regulatory signals become inconsistent, supervisory expectations diverge, and institutions face uncertainty regarding permissible structures and long-term regulatory outcomes.

The first policy intervention should therefore focus on formalising inter-agency coordination for Shariah-compliant digital finance without altering statutory mandates. This approach is particularly well-suited to Pakistan, where constitutional and institutional arrangements make mandate consolidation impractical. Internationally, Malaysia demonstrates how formal coordination mechanisms, anchored in joint policy instruments rather than new laws, can align regulators while preserving institutional independence. Indonesia reinforces this lesson by showing that even under a unified financial regulator, coordination with payments and identity authorities remains essential.

For Pakistan, this implies the articulation of a clearly defined policy coordination framework involving SECP, SBP, NADRA, PTA, and data protection authorities, explicitly scoped to



Shariah-compliant digital financing activities. Such a framework should clarify regulatory leadership by activity type, set common principles for Shariah-sensitive digital finance supervision, and provide a shared interpretive reference for institutions and supervisors alike. This reduces regulatory ambiguity without requiring legislative overhaul.


Closely linked to coordination is the need for explicit policy direction on Islamic NBFC establishment and conversion pathways. At present, the absence of a clearly articulated regulatory end-state forces institutions to rely on case-by-case supervisory discretion, which increases execution risk and discourages serious market entry. Benchmark jurisdictions demonstrate that policy clarity is critical at this stage. Malaysia defines the regulatory end-state for Islamic institutions with precision, Indonesia provides structured flexibility through phased transition models, and Bahrain anchors conversion within detailed supervisory guidance aligned with international standards.

For Pakistan, policy formulation should therefore articulate, at a minimum, the permissible models for Islamic NBFC establishment and conversion, the expected governance and Shariah oversight arrangements during transition, and the disclosure standards applicable at each stage. By defining the destination and the acceptable routes to reach it, regulators enable boards and investors to make informed, long-term commitments rather than tactical compliance decisions. This clarity is foundational for scaling Shariah-compliant digital finance in a credible and sustainable manner.

B. Operational Development: Translating Policy into Aligned Regulatory Practice

Policy coherence only delivers value when translated into aligned and predictable regulatory operations. In Pakistan's current landscape, operational fragmentation manifests through duplicative licensing processes, inconsistent sandbox participation requirements, unaligned digital onboarding standards, and parallel supervisory reporting obligations. These inefficiencies increase compliance costs and delay innovation, particularly for Islamic digital finance providers that already operate under additional Shariah governance requirements.

Operational development should therefore prioritise harmonisation of regulatory processes across the lifecycle of Shariah-compliant digital financing activities. This does not imply uniformity of regulation, but consistency of process where regulatory responsibilities intersect. Malaysia and



Singapore provide strong evidence that harmonised licensing touchpoints, coordinated sandbox governance, and aligned supervisory reporting materially reduce time-to-market while improving supervisory visibility. Importantly, these jurisdictions achieve alignment through process design rather than regulatory dilution.


In the Pakistani context, operational alignment should focus on synchronising licensing and approval workflows for Islamic NBFCs and fintechs, standardising sandbox entry and exit criteria, and aligning digital onboarding and e-KYC expectations across regulators. When institutions encounter a single, coherent supervisory journey rather than fragmented checkpoints, regulatory certainty improves and supervisory effectiveness increases. This is particularly important for Shariah-compliant digital finance, where product structures often span multiple regulatory domains.

Operational clarity is equally critical for NBFC conversion. International experience shows that successful transitions are managed through milestone-based supervisory engagement, rather than open-ended discretion. Indonesia's phased conversion approach demonstrates how supervisory milestones, combined with transparent reporting expectations, preserve Shariah integrity while accommodating institutional readiness. Malaysia further shows that operational guidance reduces supervisory friction and enhances compliance quality.

For Pakistan, operational development should therefore embed defined supervisory milestones for Islamic NBFC conversion, including governance readiness, Shariah oversight arrangements, and progressive segregation of Islamic and non-Islamic activities. Treating conversion as a structured operational journey, rather than a binary approval event, reduces regulatory risk and strengthens market confidence in Shariah-compliant institutions.

C. Capacity Building: Sustaining Regulatory Effectiveness and Market Credibility

Even well-designed policies and processes will not endure without institutional and human capability to implement them. One of Pakistan's most significant structural constraints is the uneven distribution of expertise across regulators in digital finance supervision, data governance, and applied Shariah interpretation. Without deliberate capacity development, coordination mechanisms risk becoming procedural rather than substantive.



Capacity building should therefore be treated as a core policy intervention, not a supplementary activity. Benchmark jurisdictions demonstrate that sustained regulatory coordination depends on shared understanding and mutual trust among agencies. Malaysia invests heavily in joint training and cross-institutional engagement, while Singapore embeds capability development through interdisciplinary exposure and continuous professional development in digital finance and governance. These investments enable regulators to engage constructively with complex, evolving business models.

For Pakistan, capacity development should prioritise inter-agency capability in Shariah-compliant digital finance supervision, including joint training programmes, shared analytical frameworks, and structured knowledge exchange between regulators. Building a common language around digital risk, Shariah governance, and data usage enables more consistent regulatory interpretation and reduces supervisory fragmentation over time.

Equally important is capacity building within the industry, particularly for boards, senior management, and Shariah committees navigating Islamic NBFC establishment or conversion. International evidence indicates that conversion failures often stem from governance and execution weaknesses rather than regulatory barriers. Bahrain's experience shows that detailed operational manuals and applied training significantly improve compliance outcomes, while Malaysia demonstrates the value of practitioner-oriented guidance in accelerating credible market entry.

In Pakistan, regulators should therefore support capacity development through structured toolkits, operational guidance, and applied training programmes that translate regulatory expectations into executable practice. This approach strengthens industry capability while reducing supervisory burden, creating a virtuous cycle of improved compliance and regulatory trust.

Why This Intervention Set Fits Pakistan

Collectively, this policy, operational, and capacity interventions are well-fitted to Pakistan Shariah-compliant digital financing regulatory pillar because they work with existing institutions rather than against them, draw on proven international practice, and directly address the structural bottlenecks facing Shariah-compliant digital finance. Rather than imposing new layers of

regulation, they focus on alignment, clarity, and capability, three conditions consistently associated with successful Islamic digital finance ecosystems.

By strengthening regulatory coherence, clarifying institutional pathways, and building execution capacity, Pakistan can move from fragmented supervision and discretionary approvals toward a predictable, credible, and scalable Shariah-compliant digital financing framework, capable of supporting innovation while safeguarding Shariah integrity and financial stability.

Key Policy Intervention Recommendations Pillar 2: Shariah Governance and Compliance


From a Shariah governance perspective, policy intervention should prioritise Shariah-by-design integration over checklist-based compliance. This requires strengthening coordinated Shariah governance under regulatory oversight while preserving scholarly diversity. Rather than immediate centralisation of fatwa authority, Pakistan should adopt a phased approach that enhances transparency, standardisation, and supervisory integration. This includes the development of public repositories of approved Shariah structures, standard disclosure templates, and regulator-endorsed Shariah operational guidance. Over time, this framework can evolve toward greater harmonisation as institutional capacity and trust mature.

Policy Domain	Strategic Focus	Key Policy Intervention Recommendation (Consolidated)	Why This Is Well-Fitted for Pakistan
Policy Formulation	Integrated Shariah governance	Strengthen regulatory oversight of Shariah governance, ensuring alignment between Shariah rulings and supervisory expectations. Develop practical Shariah operational standards rather than relying solely on high-level fatwas.	Pakistan’s challenge is not lack of Shariah scholarship, but weak integration into supervision and operations. Integrated governance improves consistency without

			undermining scholarly diversity.
Operational Development	Embedded Shariah supervision	Embed Shariah review into licensing, product approval, and ongoing supervision, supported by standardised documentation, workflows, and reporting formats.	Embedding Shariah oversight reduces duplication and ensures compliance is proactive rather than ex post.
Capacity Building	Audit and supervisory depth	Enhance capacity in Shariah audit, regulatory review, and institutional governance, focusing on implementation quality and risk-based supervision.	Strong Shariah governance depends on people and processes, not rulings alone. Capacity building ensures sustainability and credibility.

A. Policy Formulation: Reconnecting Shariah Rulings with Regulatory Oversight

Pakistan’s Shariah governance framework is institutionally well-established and intellectually rich, yet its impact is diluted by fragmentation between Shariah rulings and regulatory supervision. In practice, Shariah governance often operates in parallel to prudential and conduct oversight rather than being structurally integrated into the regulatory architecture. This separation has gradually shifted Shariah compliance toward a form-driven, checklist-oriented exercise, weakening its role as a substantive driver of ethical finance and risk discipline.



The primary policy challenge, therefore, is not the absence of Shariah standards, but the absence of a coherent mechanism linking Shariah rulings to supervisory expectations and regulatory enforcement. International experience consistently demonstrates that Shariah governance delivers its intended outcomes only when it is embedded within the broader regulatory framework. Malaysia provides a clear illustration of this approach, where Shariah governance is treated as a supervisory domain rather than a purely institutional responsibility. Bahrain similarly anchors Shariah compliance within regulatory review processes, ensuring consistency between scholarly interpretation and market practice.


For Pakistan, policy formulation should focus on explicitly positioning Shariah governance as an integral component of regulatory oversight for Islamic digital finance. This requires the development of practical Shariah operational standards that translate high-level rulings into implementable supervisory expectations. Such standards should not replace scholarly deliberation, but rather complement it by providing regulators and institutions with a shared interpretive reference for product design, operational workflows, and ongoing compliance.

By articulating how Shariah rulings interface with licensing conditions, product approvals, and supervisory reviews, policymakers can reduce ambiguity and move the market away from discretionary interpretation toward predictable, principle-based compliance. This alignment is particularly critical in digital finance, where rapid product iteration and automated processes magnify the consequences of unclear Shariah expectations.

B. Operational Development: Embedding Shariah Review into the Regulatory Lifecycle

Policy clarity must be reinforced through operational integration. In Pakistan's current framework, Shariah review frequently functions as a parallel process, conducted by institutional Shariah committees with limited visibility or interaction with regulatory supervision. This separation creates duplication, inconsistent interpretations, and delays in product approval, particularly for digitally delivered financial services that span multiple regulatory domains.

Operational development should therefore prioritise embedding Shariah review directly into the regulatory lifecycle. International benchmarks show that when Shariah considerations are integrated into licensing, product approval, and ongoing supervision, compliance quality improves



while supervisory friction declines. Malaysia's experience demonstrates that structured integration enhances consistency across institutions, while Bahrain shows that operational guidance and standardised documentation significantly improve supervisory effectiveness.

In the Pakistani context, operational integration should involve aligning Shariah review checkpoints with existing regulatory processes rather than creating new procedural layers. Shariah compliance should be assessed alongside prudential soundness, consumer protection, and operational resilience during licensing and product approval. Similarly, ongoing supervision should incorporate Shariah compliance as a dynamic risk dimension, informed by actual operational practices rather than static documentation.


This integrated approach ensures that Shariah governance informs decision-making throughout the product lifecycle, from design to delivery, rather than being retrofitted after commercial decisions have already been made. For digital Islamic finance, where automation limits ex-post correction, such integration is not merely desirable but necessary.

C. Capacity Building: Strengthening Shariah Audit and Supervisory Review Capability

Even the most well-designed governance frameworks will fail without sufficient institutional capability to implement them. One of Pakistan's most persistent constraints is the limited capacity for applied Shariah audit and regulatory review, both within institutions and among supervisors. This gap reinforces reliance on formal compliance indicators rather than substantive assessment of Shariah implementation.

Capacity building should therefore be treated as a core pillar of Shariah governance reform. International experience highlights the importance of equipping regulators and institutions with the skills to evaluate Shariah compliance in operational contexts, particularly within digital environments. Malaysia invests heavily in Shariah audit development and supervisory training, while Bahrain's emphasis on practitioner-oriented guidance has materially improved compliance outcomes.

For Pakistan, capacity development should prioritise strengthening Shariah audit functions, enhancing supervisory review methodologies, and building applied understanding of how Shariah



principles translate into digital workflows, data usage, and automated decision-making. Joint training initiatives shared analytical frameworks, and structured engagement between regulators and industry practitioners can gradually build a common language around Shariah risk and compliance quality.

Importantly, capacity building should extend beyond technical knowledge to include judgement, proportionality, and risk-based assessment. Without these competencies, Shariah governance risks becoming either overly rigid or inconsistently enforced, both of which undermine market confidence.


Why This Intervention Set Fits Pakistan

This intervention set is particularly well-suited to Pakistan because it strengthens Shariah governance without disrupting existing institutional arrangements or scholarly authority. By focusing on alignment, integration, and capability rather than centralisation or over-regulation, it respects Pakistan's Shariah heritage while addressing the execution gaps that limit effectiveness.

By reconnecting Shariah rulings with regulatory supervision, embedding Shariah review into operational processes, and strengthening audit and supervisory capacity, Pakistan can shift Shariah governance from a formal compliance obligation to a credible, value-adding pillar of Islamic digital finance. This transition is essential for sustaining innovation, protecting consumers, and preserving the integrity of Shariah-compliant digital financing as the sector continues to scale.

Key Policy Intervention Recommendations Pillar 3: Key Islamic NBFC Industry Players

The development of a resilient and scalable Shariah-compliant digital financing market in Pakistan depends critically on the strength and strategic orientation of its Islamic NBFC sector. Islamic NBFCs are uniquely positioned to bridge gaps left by the banking system, particularly in MSME financing, micro-enterprise support, and digitally enabled last-mile delivery. However, despite their strategic relevance, the sector has not yet achieved the scale, sustainability, or ecosystem integration required to serve as a true engine of Islamic digital finance growth.



This underperformance is not primarily the result of weak demand or insufficient institutional intent. Rather, it reflects structural misalignments in how growth is incentivised, how collaboration is operationalised, and how institutional capabilities are developed. Current policy and supervisory signals tend to implicitly reward balance-sheet expansion and standalone institutional growth, while offering limited recognition or structured support for partnership-led, platform-based, and ecosystem-integrated models of scale. In a capital-constrained environment such as Pakistan's, this bias toward asset-heavy growth limits innovation and constrains outreach.

International experience across peer jurisdictions demonstrates that sustainable scale in Islamic non-bank finance is increasingly ecosystem-driven rather than institution-centric. Digital platforms, value-chain integration, co-origination arrangements, and risk-sharing partnerships allow Islamic NBFCs to expand impact without proportionate increases in capital or balance-sheet risk. These models are particularly well suited to MSME-dominated economies, where financing demand is fragmented, data is distributed across platforms, and scale is achieved through integration rather than size.

For Pakistan, advancing Islamic NBFC-led digital finance therefore requires a deliberate policy recalibration. The focus must shift from enabling isolated institutional growth toward cultivating an ecosystem in which Islamic NBFCs operate as integrators within broader digital, commercial, and sectoral networks. This involves aligning policy incentives with developmental outcomes, operationalising collaboration as a norm rather than an exception, and strengthening institutional capability to manage complexity at scale.

The policy intervention recommendations that follow are structured across three mutually reinforcing domains, policy formulation, operational development, and capacity building. Together, they provide a coherent, implementable pathway for deepening market scale, improving incentive alignment, and strengthening ecosystem depth within Pakistan's Shariah-compliant digital financing landscape, while remaining fully grounded in the country's institutional realities and development priorities.

Policy Domain	Strategic Focus	Key Policy Intervention Recommendation (Consolidated)	Why This Is Well-Fitted for Pakistan
Policy Formulation	Incentive alignment and sustainable scale	Reframe Islamic NBFC policy incentives away from balance-sheet expansion toward outcome-linked and ecosystem-oriented objectives, including MSME inclusion, partnership formation, and value-chain participation. Policy signals should clearly recognise platform-based, partnership-led scaling models as legitimate growth pathways for Islamic NBFCs.	Pakistan’s Islamic NBFC sector faces capital constraints and cannot rely on asset-heavy growth. Outcome-linked incentives encourage capital efficiency, innovation, and inclusion, while aligning institutional growth with national development priorities.
Operational Development	Partnership-driven execution	Enable co-origination, risk-sharing, and platform-based collaboration between Islamic NBFCs, Islamic banks, fintechs, telcos, and sectoral aggregators. Regulatory processes should explicitly support partnership models rather than treating them as exceptions.	Pakistan already has fragmented but active financial and digital players. Operationalising collaboration unlocks scale without duplicating infrastructure, while preserving Shariah integrity through clearly defined roles and risk-sharing arrangements.


Capacity Building	Institutional scalability readiness	Strengthen institutional capabilities in partnership management, digital operations, and scalable business model design, including governance for shared platforms and third-party risk management.	Many Islamic NBFCs struggle not with intent but with execution. Targeted capability development enables institutions to move beyond pilots into sustainable, repeatable scaling pathways.
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A. Policy Formulation: Reorienting Incentives toward Ecosystem-Enabled Scale

Pakistan’s Islamic NBFC sector occupies a strategically important position in the Shariah-compliant digital financing ecosystem, particularly in serving MSMEs, micro-entrepreneurs, and segments that remain beyond the effective reach of the banking system. Yet despite this strategic relevance, the sector’s growth trajectory has been constrained by policy signals that implicitly prioritise balance-sheet expansion over ecosystem participation, partnership formation, and real-economy integration.

The central policy challenge is not a lack of regulatory support, but a misalignment between incentives and the forms of scale that are most appropriate for Pakistan’s economic structure. International evidence consistently shows that in MSME-dominated economies, sustainable scale in Islamic non-bank finance is achieved less through capital accumulation and more through network effects, platform integration, and partnership-led delivery models. Indonesia’s experience demonstrates how Islamic NBFCs can scale outreach and impact by embedding financing within MSME value chains and digital platforms, while Malaysia reinforces this approach by linking regulatory support to innovation outcomes rather than asset size.

For Pakistan, policy formulation should therefore explicitly recognise capital-efficient, partnership-based scaling models as legitimate and desirable pathways for Islamic NBFC growth. Regulatory incentives, guidance, and developmental signalling should be recalibrated to prioritise outcomes such as MSME inclusion, value-chain participation, and demonstrable socio-economic



impact, rather than balance-sheet growth alone. This shift aligns Islamic NBFC development with national priorities around financial inclusion and economic formalisation, while reducing pressure on institutions to pursue capital-intensive strategies that may be unsustainable given Pakistan's funding constraints.


Clear policy recognition of platform-based and partnership-led models also plays a critical signalling role for boards, investors, and management teams. When policy frameworks explicitly acknowledge these models, institutions gain confidence that innovation-driven scale will be supported rather than penalised through supervisory uncertainty. This clarity is essential for encouraging long-term investment in digital infrastructure, partnerships, and operating model transformation within the Islamic NBFC sector.

B. Operational Development: Enabling Partnership-Led Execution at Scale

Policy intent must be translated into operational practices that actively enable collaboration rather than treating it as an exception to traditional supervisory norms. In Pakistan's current environment, Islamic NBFCs often face uncertainty when entering co-origination arrangements, risk-sharing structures, or platform partnerships with banks, fintech firms, and telecom operators. This uncertainty increases transaction costs and discourages institutions from pursuing collaborative models, even when these models are economically and Shariah-aligned.

Operational development should therefore focus on embedding partnership enablement within supervisory processes. International benchmarks demonstrate that when regulators provide clear expectations around partnership governance, data sharing, and risk allocation, collaboration becomes a scalable operating norm rather than a bespoke arrangement. Indonesia's platform-based Islamic financing models illustrate how operational clarity allows NBFCs to extend reach without assuming disproportionate balance-sheet risk, while Malaysia shows that proportionate oversight of partnerships improves supervisory visibility without stifling innovation.

In the Pakistani context, operational alignment should ensure that co-origination, risk-sharing, and embedded finance arrangements are supported through transparent approval processes and consistent supervisory treatment. Clear guidance on partnership structures, third-party risk management, and accountability mechanisms reduces execution risk and accelerates time-to-



market. This operational clarity enables Islamic NBFCs to embed financing within real economic activity, such as trade, agriculture, and services, rather than operating as isolated credit providers.

By shifting operational focus from standalone pilots to repeatable, partnership-based models, regulators can support a transition toward scalable delivery mechanisms that are both commercially viable and Shariah-consistent. This approach is particularly well-suited to digital finance, where scale is driven by integration and interoperability rather than institutional size.

C. Capacity Building: Building Institutional Readiness for Sustainable Scale

Regulatory enablement alone is insufficient if institutions lack the capability to execute partnership-led and digitally enabled business models. One of the structural constraints facing Pakistan's Islamic NBFC sector is uneven institutional readiness in areas such as partnership management, digital operations, and scalable business model design. Without targeted capacity development, even well-designed policy reforms risk limited uptake or inconsistent execution.

Capacity building should therefore be treated as a foundational pillar of Islamic NBFC development. International experience highlights that successful scaling requires strong governance frameworks for third-party relationships, shared platforms, and outsourced technology. Indonesia's ecosystem-driven models underscore the importance of institutional capability in managing complex partnerships, while Malaysia demonstrates how structured capacity development supports the transition from experimentation to sustainable operations.

For Pakistan, capacity development efforts should prioritise strengthening competencies in partnership governance, data-driven operations, and digital risk management. Boards and senior management must be equipped to oversee platform-based models, while operational teams require skills in integration, process automation, and performance monitoring. These capabilities should be treated as core institutional functions rather than peripheral compliance requirements.

By investing in institutional capability alongside regulatory reform, Pakistan can cultivate an Islamic NBFC sector that scales responsibly and competitively, without compromising Shariah integrity or financial stability. This balanced approach reduces supervisory burden over time, as stronger institutions require less corrective intervention.

Why This Intervention Set Fits Pakistan

This intervention set is well-fitted to Pakistan's current Shariah-compliant digital financing landscape because it aligns regulatory intent, operational practice, and institutional capability with the realities of Pakistan's economy. Rather than importing capital-intensive models from jurisdictions with fundamentally different market structures, it draws on proven approaches from peer economies where MSMEs, informal enterprises, and digital platforms play a central role. By reorienting incentives toward ecosystem participation, enabling partnership-led operations, and strengthening institutional readiness, Pakistan can unlock sustainable scale within its Islamic NBFC sector. This approach allows Islamic NBFCs to function as integrators within the digital economy rather than isolated lenders, accelerating financial inclusion while preserving Shariah objectives. In doing so, it strengthens the overall Islamic digital finance ecosystem and positions Islamic NBFCs as credible, scalable, and impact-oriented market participants.

4.6 Key Recommendation 2 - Product Development and Services (Proposal of Operating Model, Product Structure, Shariah Contract)

Key Policy Intervention Recommendations Pillar 4: Products and Services - From Permissible Offerings to Purpose-Driven, Scalable Shariah-Compliant Solutions

Products and services are where Shariah principles, regulatory intent, technology, and consumer behaviour ultimately converge. Regardless of how robust the regulatory framework or digital infrastructure may be, the credibility and impact of Shariah-compliant digital finance are determined by the relevance, usability, and integrity of the products offered to end users.

In Pakistan, Shariah-compliant digital financing products remain largely concentrated in narrow formats, often mirroring conventional structures with limited adaptation to sectoral needs, value-chain dynamics, or digital delivery realities. Product development has tended to prioritise contractual permissibility over functional suitability, resulting in offerings that are technically Shariah-compliant but insufficiently responsive to MSME cash-flow cycles, informal sector dynamics, or digitally mediated commerce.

International experience consistently demonstrates that Islamic digital finance scales not through replication of conventional products, but through contextualised design anchored in real economic activity. Malaysia’s value-chain-based Islamic financing, Indonesia’s community-embedded digital micro-finance, and Bahrain’s structured product approval regimes all highlight the importance of aligning Shariah contracts with use-case specificity and delivery channels.

For Pakistan, strengthening the products and services pillar therefore requires a deliberate shift from contract-centric design toward use-case-driven, digitally native, and sector-aligned Shariah-compliant offerings. This shift must be supported through coherent policy signals, enabling operational frameworks, and sustained product development capability.

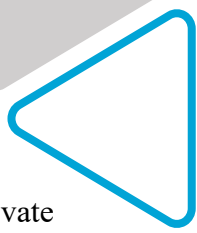
Policy Domain	Strategic Focus	Key Policy Intervention Recommendation (Consolidated)	Why This Is Well-Fitted for Pakistan
Policy Formulation	Shariah-by-design innovation	Issue structured regulatory guidance that prioritises real-sector-aligned Shariah product design over replication of conventional credit. Guidance should explicitly support <i>Salam</i> , <i>Musharakahh</i> , <i>Wakalah</i> , and hybrid structures in digital formats.	Pakistan’s economy is MSME- and trade-driven. Shariah-by-design guidance provides clarity while preserving flexibility for innovation tailored to local economic realities.
Operational Development	Modular and partnership-based delivery	Encourage modular product architectures and partnership-based operating models that integrate financing with payments, trade flows, and supply-chain data.	Modular models reduce cost, improve speed to market, and allow Islamic finance products to be embedded into existing

			economic activity rather than operating in isolation.
Capacity Building	Applied product innovation skills	Build institutional capability in product innovation and development of Shariah-compliant digital financing, risk structuring, Shariah implementation, and digital delivery, with emphasis on applied use cases rather than theoretical compliance.	Product stagnation is largely a capability issue. Practical skills enable institutions to translate Shariah principles into commercially viable digital products.

A. Policy Formulation: Reorienting Product Policy Toward Use-Case and Value-Chain Alignment

At the policy formulation level, Pakistan’s primary challenge lies in the absence of explicit guidance that links Shariah-compliant product development to real-sector use cases and development priorities. While permissibility is addressed through Shariah rulings, there is limited policy articulation on ‘what types of products’ are strategically needed to support MSMEs, agriculture, trade, and platform-based commerce in a digital environment.

Policy intervention should therefore focus on reorienting product guidance toward use-case and value-chain alignment rather than contract typology alone. International benchmarks show that when regulators provide thematic direction, such as prioritising supply-chain finance, asset-linked



working capital, or community-based financing, institutions are more likely to innovate responsibly while remaining within Shariah boundaries.

Malaysia offers a relevant example, where regulatory guidance encourages Islamic banks and NBFCs to structure financing around specific economic activities, supported by standardised Shariah parameters. Indonesia further demonstrates how policy recognition of sector-specific Islamic financing models enables rapid digital deployment without repeated interpretive uncertainty. These approaches are particularly applicable to Pakistan, where MSMEs and informal value chains dominate economic activity.


For Pakistan, policy formulation should therefore articulate priority product domains for Shariah-compliant digital finance, clarify acceptable contract combinations for common use cases, and provide high-level design principles for digital delivery. Such guidance reduces ambiguity, accelerates product approval, and shifts innovation effort toward solving real economic problems rather than navigating interpretive risk.

B. Operational Development: Embedding Product Integrity into Digital Delivery

Operationally, even well-designed products can fail if delivery mechanisms undermine Shariah integrity or user trust. In Pakistan, operational challenges include inconsistent digital documentation, unclear disclosure of Shariah structures, and weak linkage between financing flows and underlying economic activity. These gaps are amplified in digital environments where automation replaces human explanation.

Operational development should therefore focus on embedding product integrity into end-to-end digital workflows. This includes standardising digital documentation, ensuring traceability between financing and assets or services, and integrating Shariah compliance checkpoints into automated processes. International experience shows that operational clarity reduces mis-selling risk and strengthens supervisory confidence.

Bahrain's experience with structured product approval and Malaysia's emphasis on operational manuals demonstrate how detailed implementation guidance enhances consistency without stifling



innovation. Indonesia further shows that operational alignment between platforms and financiers is critical for value-chain-based Islamic products to function effectively.

For Pakistan, operational development should prioritise repeatable product templates for common digital financing use cases, supported by clear disclosure standards and auditable digital records. Treating product delivery as an operational system, rather than a contractual abstraction, allows Shariah-compliant digital finance to scale without erosion of trust or compliance quality.

C. Capacity Building: Developing Applied Product Design and Execution Capability

Sustainable product innovation ultimately depends on human and institutional capability. In Pakistan, product development capacity in Islamic finance is uneven, with limited expertise at the intersection of Shariah, digital technology, and sectoral economics. As a result, institutions often rely on external advisors or replicate existing products rather than building internal innovation capability.

Capacity building should therefore focus on developing applied product design skills that integrate Shariah reasoning, digital delivery, and real-sector understanding. International benchmarks indicate that jurisdictions investing in practitioner-oriented training and applied guidance achieve more consistent and scalable product innovation.

Malaysia's practitioner toolkits and Indonesia's ecosystem-based learning models illustrate how regulators and industry bodies can jointly support capability development. These initiatives move beyond theoretical Shariah knowledge toward executable product design and lifecycle management.

For Pakistan, capacity development should target product teams, Shariah committees, and senior management, equipping them to design, evaluate, and scale digital products aligned with Shariah objectives and market needs. Strengthening this capability reduces dependency on ad-hoc interpretations and supports a more resilient innovation pipeline.



Why This Intervention Set Fits Pakistan's Context

This products and services intervention set is well-fitted to Pakistan's Shariah-compliant digital financing landscape because it directly addresses the gap between permissibility and practicality. Pakistan's economic structure, dominated by MSMEs, informal value chains, and emerging digital platforms, requires products that are adaptable, asset-linked, and digitally executable.

By shifting policy emphasis toward use-case relevance, strengthening operational delivery integrity, and building applied product capability, Pakistan can move beyond incremental product replication toward purpose-driven Islamic digital finance. This approach preserves Shariah authenticity while enabling scale, inclusion, and real-economy impact.


In doing so, products and services become not just compliant instruments, but effective vehicles for translating Shariah principles into tangible economic and social outcomes within Pakistan's evolving digital economy.

Proposed Model Shariah-compliant Digital Financing Product Development, Operating Model and Shariah Structure

A. Proposed Model of Shariah-Compliant Digital B2C Financing in Pakistan

Pakistan's rapidly evolving digital ecosystem, coupled with strong public demand for Shariah-compliant financial solutions, presents a strategic opportunity to scale Shariah-Compliant Digital Financing as a core driver of financial inclusion, MSME growth, and real-sector development. With a large unbanked and underbanked population, a predominantly cash-based economy, and increasing smartphone and internet penetration, digital Islamic finance can play a transformative role in bridging structural financing gaps while preserving strict Shariah compliance.

This section presents a proposed model for Shariah-Compliant Digital Financing in Pakistan, structured around two complementary pillars: Digital B2C Financing and Digital B2B Financing. The proposed model is designed to respond to Pakistan's key market challenges, including limited access to affordable consumer and MSME financing, lengthy approval processes in traditional



Islamic banking, information asymmetry, and insufficient integration between financial institutions, digital platforms, and real-sector value chains.

The proposed product development framework emphasizes an end-to-end digital financing value chain, covering digital onboarding (e-KYC), credit assessment using alternative data, Shariah-compliant contract digitization, automated disbursement, real-time monitoring, and digital collections. This approach aims to enhance operational efficiency, reduce transaction costs, improve risk management, and expand outreach to underserved segments such as micro-entrepreneurs, informal businesses, women-led enterprises, and rural communities.

Definition


Digital B2C Financing (Business-to-Consumer Financing/Leasing) refers to a range of Shariah-compliant financial arrangements where businesses provide financing directly to individual consumers through digital means. These arrangements are based on permissible Islamic contracts and must exclude elements of *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation) in accordance with Shariah principles.

In the context of Pakistan's Islamic financial ecosystem, B2C Financing includes digital nano financing, Buy Now Pay Later (BNPL), Earned Wage Access (EWA), education financing, product financing/leasing, and advance against salary, all structured through Islamic contracts such as *Murabahah* (cost-plus sale), *Ijarah* (leasing), *Tawarruq* (commodity-based transaction), *Musharakah* (joint partnership), or *Qard Hasan* (benevolent financing) (State Bank of Pakistan [SBP], 2008).

Regulatory and Shariah Governance Framework in Pakistan

Overview

Pakistan's dual regulatory structure for Islamic and digital finance is governed primarily by two authorities:



The State Bank of Pakistan (SBP), which regulates Islamic banking institutions, and The Securities and Exchange Commission of Pakistan (SECP), which oversees non-bank financial companies (NBFCs) including digital lenders and Islamic financial service providers.

Together, these frameworks ensure that both Shariah compliance and digital consumer protection are upheld within the B2C financing landscape.

In Pakistan, Non-Banking Finance Companies (NBFCs) engaged in Digital Financing are regulated by the Securities and Exchange Commission of Pakistan (SECP) under the *NBFC and Notified Entities Regulations, 2008*, and the *Circular 15 of 2022 on Digital Lending*. SECP mandates that all digital financing entities must:

- Obtain an NBFC-DL (Digital Lending) license;
- Maintain robust consumer protection, data privacy, and product disclosure standards;
- Disclose Shariah compliance frameworks, contracts, and risk-sharing structures when offering Islamic products.


Under the Islamic Financial Services Framework, Shariah-compliant NBFCs are required to establish:

- A Shariah Supervisory Board (SSB) or Shariah Advisor approved by SECP;
- Internal Shariah review and audit mechanisms;
- Shariah-compliant product documentation vetted by the SSB.

This dual oversight ensures that both regulatory compliance and Shariah governance are maintained across product design, operations, and consumer interface.

SBP Framework for Islamic Financing

The SBP provides comprehensive guidance through its *Essentials of Islamic Modes of Financing* (2008), outlining the operational and Shariah conditions for contracts such as *Murabahah*, *Ijarah*, *Mudarabah*, and *Musharakah*. The framework requires that every Islamic financing transaction be asset-backed, free of interest, and based on genuine economic activity (SBP, 2008).



Additionally, the *Shariah Governance Framework for Islamic Banking Institutions* (2021) mandates institutional Shariah boards, internal Shariah compliance functions, and annual audits to ensure adherence to Islamic principles (SBP, 2021).

The Federal Shariat Court (FSC) reinforced this commitment through its 2022 judgment directing the government and SBP to eliminate interest-based banking by December 2027, signaling Pakistan's full transition toward an Islamic financial system (FSC, 2022).

SECP Framework for NBFCs and Digital Financing

To regulate digital B2C financing, SECP has implemented a series of reforms under the *Non-Banking Finance Companies (NBFC) Regulations* and Digital Lending Framework.

Licensing and Oversight: NBFCs engaged in digital financing activities must be licensed under SECP's regulatory regime and operate through registered mobile applications. Amendments to the *NBFC & Notified Entities Regulations, 2008* (SECP, 2023) facilitate digital fund management, embedded financing, and consumer fintech integration, promoting financial inclusion (ProPakistani, 2023).

Digital Lending/Digital Financing Standards: In 2022, SECP issued Standards for Digital Lending, requiring full borrower transparency, mandatory *Key Fact Statements (KFS)* in Urdu and English, clear disclosure of profit rates and tenors, prohibition of undisclosed fees, and restrictions on coercive recovery practices (Dawn, 2022). Further refinements were made through Circular 12 of 2024, which enables new digital financing models such as BNPL, EWA, and embedded consumer financing through APIs, while tightening data protection and cybersecurity requirements (SECP, 2024a). To safeguard users, SECP introduced Circular 14 of 2024, mandating NBFCs to submit a *Self-Assessment Declaration* for their apps to be whitelisted on SECP's approved digital-lending platforms (SECP, 2024b).

Islamic Financial Services Guidelines: The SECP also released the *Guidelines for Offering Islamic Financial Services* (2023), extending Shariah compliance requirements to NBFCs and digital lenders. The guidelines encourage conversion to Islamic operations, establishment of internal Shariah governance, and elimination of *riba*, *gharar*, and *maysir* in all financial products (SECP,

2023). Moreover, the SECP Strategic Action Plan 2024–2026 outlines a roadmap to expand Islamic finance across all non-bank sectors by 2026, underscoring the regulator’s support for ethical and Shariah-compliant financial innovation (Pakistan Today, 2024).

International Benchmark of Shariah-compliant Digital Financing Players/Islamic Fintech Financing Players Worldwide

Primary Use Case	Country	Provider / Platform	Product Category	Shariah Structure	Why It Is Considered Best Practice	Official Website
Consumer & MSME Cash-Flow Management	Saudi Arabia	Tabby	Buy Now Pay Later (BNPL) for consumers and businesses, including working capital and supply-chain use cases	<i>Murabahah</i>	SAMA-licensed BNPL with independent Shariah certification (Shariyah Review Bureau); explicitly discloses <i>Murabahah</i> mechanics for deferred payments, setting a rare benchmark for fintech Shariah transparency.	https://tabby.ai

MSME Financing & Market Access	UAE	Beehive	SME P2P Lending / Crowdfunding	Commodity <i>Murabahah</i>	First regulated P2P platform in MENA offering a Shariah-compliant option; channels funding directly into productive SMEs under a clear regulatory framework.	https://www.beehive.ae
Income Smoothing & Financial Inclusion	Malaysia	Paywatch	Earned Wage Access (EWA)	Not publicly disclosed (employer-funded fee model)	Avoids <i>riba</i> by allowing access only to earned wages, with fees borne by employers; strong example of Shariah-aligned product design without debt-based structures.	https://paywatch.com

MSME & Value-Chain Financing	Indonesia	ALAMI	Shariah P2P Financing for MSMEs	<i>Murabahah, Musharakah, MMQ, MMBT, Wakalah bil Ujrah, Ijarah</i>	OJK-licensed Shariah fintech with strong governance; demonstrates scalable, contract-appropriate financing linked to real MSME needs.	https://alami.id
Ethical Investment & Asset Ownership	United Kingdom	Yielders	Property Crowdfunding (Equity-based)	Not publicly disclosed (equity-based, Shariah-certified)	FCA-authorized and Shariah-certified; enables retail participation in real assets with high regulatory and governance standards.	https://yielders.co.uk
Digital Microfinance & Inclusion	Bahrain	Bede (Zain Bahrain)	Mobile-based Microfinance	Not publicly disclosed	CBB-authorized Shariah-compliant digital microfinance embedded within telecom infrastructure; strong inclusion-led model.	https://www.bede.com.bh

Implications for Shariah-Compliant B2C Financing

The integration of SBP and SECP frameworks provides a robust foundation for Islamic digital consumer financing in Pakistan. All B2C financing activities must meet dual compliance requirements:

- Regulatory: NBFC licensing, digital-lending standards, data protection, and consumer transparency.
- Shariah: Use of permissible contracts (*Murabahah, Ijarah, Qard Hasan*), prohibition of interest, fair profit margins, and disclosure of all fees.

This ensures that Shariah-compliant B2C financing is ethically grounded, legally sound, and digitally secure, aligning with national goals to promote Islamic and inclusive finance.


Application of Shariah-Compliant B2C Financing Models in Pakistan

Pakistan's growing fintech landscape is creating new opportunities for Shariah-compliant Business-to-Consumer (B2C) financing models that align with both Islamic ethical values and digital innovation. Under the regulatory supervision of SECP and SBP, these models are increasingly integrated into the country's digital finance ecosystem to enhance financial inclusion, consumer protection, and Shariah authenticity.

The following sub-sections elaborate on the 6 key models currently emerging in Pakistan's Islamic digital financing market: digital nano financing, digital consumer financing (including education, product financing, and leasing), Buy Now Pay Later (BNPL), Earned Wage Access (EWA), and salary financing.

1. Digital Nano Financing

Digital nano financing represents a rapidly growing segment of Pakistan's digital lending ecosystem. It involves providing small-ticket, short-term Shariah-compliant financing to individuals through mobile and fintech platforms. These solutions are designed for low-income or




underbanked populations who require immediate liquidity to meet personal needs or support micro-business activities.

In current market practice, a significant portion of Shariah-compliant digital nano financing in Pakistan is structured using unorganised *Tawarruq* or commodity *Murabahah* arrangements, whereby a commodity is purchased and immediately sold to generate cash for the customer. This approach is exemplified by platforms such as Walee Financial Services' Hakeem platform, which utilizes a commodity-based structure to provide nano-scale liquidity. While this structure has gained acceptance due to its operational simplicity and scalability in digital environments, it has also attracted Shariah discussions related to economic substance, proximity to cash-based lending, and limited linkage to real economic activity.

From a Shariah structuring perspective, digital nano financing can alternatively be designed using asset-based and service-linked contracts that strengthen real-sector linkage and reduce reliance on cash-generating mechanisms. For asset acquisitions such as mobile phones, laptops, tools, or basic business equipment, financing may be structured using *Ijarah* or *Murabahah*. Under *Ijarah*, the Islamic Financial Institution (IFI) retains ownership of the asset and leases it to the customer against periodic rental (*ujrah*), with an optional ownership transfer at maturity through *Ijarah Muntahiyah bit Tamlik* (IMBT). In *Murabahah*-based structures, the IFI purchases the asset and sells them to the customer at a disclosed cost-plus profit margin, payable in instalments.

For non-asset-based or service-related needs such as school fees, medical expenses, or rental payments, nano financing may be structured using *Qard* combined with *Wakalah bil Ujrah*, where the financing is extended as a benevolent loan and the IFI acts as an agent to make payments to service providers for a separate, pre-agreed and fixed fee, which is not linked to the financing amount and its tenure. In cases where customers already own tangible assets, *Musharakah Mutanaqisah* (MMQ) may be used to provide asset-backed refinancing without resorting to cash-based debt structures.

Regulatorily, nano financing providers operate under the SECP Digital Lending Standards (2022) and the NBFC Regulations (2023), which emphasize transparency, borrower consent, fair pricing, and data protection. SECP Circular No. 12 of 2024 further enables NBFCs to offer embedded nano-financing solutions within digital marketplaces through open APIs, allowing instant approval and disbursement while maintaining effective regulatory oversight.



Overall, while unorganised *Tawarruq* and commodity *Murabahah* currently dominate the digital nano financing landscape in Pakistan due to ease of execution, the adoption of asset-backed, service-linked, and partnership-based Shariah contracts presents an opportunity to enhance Shariah authenticity, strengthen alignment with *Maqasid al-Shariah*, and promote genuine financial inclusion and social welfare. These alternative structures are particularly well-suited for empowering micro-entrepreneurs, informal workers, and gig-economy participants through ethical, transparent, and impact-oriented digital financing solutions.

2. Digital Consumer Financing (Education, Product Financing, and Leasing)


Digital consumer financing in Pakistan covers a broad range of B2C arrangements, including education financing, product financing, and leasing services, offered by Islamic financial institutions and NBFCs via digital channels.

These models typically employ asset-backed Islamic contracts such as:

- *Murabahah* (deferred payment sale) for goods and appliances,
- *Ijarah* (leasing) for vehicles, equipment, or housing, and
- *Salam* or *Istisna'* for pre-paid financing in specific use cases such as education or service-based financing.

For example, Islamic fintech startups and NBFCs have begun offering education financing solutions where tuition fees are financed through a *Murabahah* contract, allowing students to repay in manageable, interest-free installments. Similarly, digital product financing platforms partner with merchants and e-commerce providers to offer halal consumer financing for electronics, home goods, and mobility assets through *Murabahah* or *Ijarah* structures, ensuring transparent ownership and risk-sharing.

The SECP's Guidelines for Offering Islamic Financial Services (2023) mandate NBFCs to maintain internal Shariah review systems and ensure clear contract disclosure. These digital models are also aligned with the SBP's Essentials of Islamic Modes of Financing (2008) and Shariah Governance Framework (2021), which emphasize asset-backed structures and Shariah board oversight.



As a result, digital consumer financing in Pakistan is transforming into a digitally enabled, ethically governed, and socio-economically inclusive financing ecosystem, bridging access gaps for education, essential goods, and housing needs across underserved populations.

3. Buy Now Pay Later (BNPL)

Buy Now Pay Later (BNPL) models have gained strong traction in Pakistan's digital commerce sector as consumers seek convenient, short-term payment flexibility. Under conventional models, BNPL often involves interest-bearing deferred payments; however, Shariah-compliant BNPL models utilize permissible sale-based contracts to replace interest with transparent trade-based profit.

The most common Islamic structures applied are:


- *Murabahah* (cost-plus sale) – where the financier purchases the item and sells it to the consumer at a disclosed profit, payable later;
- *Tawarruq* (monetization through commodity trade) – for liquidity needs when the consumer receives cash equivalent instead of goods.

The SECP Circular 12 of 2024 recognizes BNPL as a legitimate digital financing product under NBFC regulation, provided that all consumer disclosures, profit rates, and payment terms are transparent and pre-agreed. BNPL providers are also required to integrate *Key Fact Statements (KFS)* and avoid predatory pricing or coercive collection practices (Dawn, 2022).

When implemented with proper Shariah governance, BNPL serves as a halal consumer credit alternative, encouraging responsible consumption, financial literacy, and inclusivity while aligning with Islamic economic ethics that prohibit exploitation and uncertainty (*gharar*).

4. Earned Wage Access (EWA)

Earned Wage Access (EWA), also known as Salary Advance Financing, allows employees to access a portion of their earned wages before the official payday through digital platforms integrated with employers or payroll systems.



In Pakistan, Shariah-compliant EWA is gaining recognition as an ethical alternative to payday loans, which are typically interest-based. Islamic EWA models are commonly structured through:

- *Qard Hasan* (benevolent financing) – where the financier advances wages without charging interest, recovering only the principal upon salary disbursement, or
- *Wakalah* (agency) – where the employer or NBFC acts as an agent to facilitate early wage access for a service fee not linked to time or amount of financing.

Regulatorily, EWA falls under the Digital Lending Standards (SECP, 2022) and NBFC Circular 12 of 2024, which permit fintech and NBFC partnerships with employers for payroll-linked financing, subject to borrower consent and transparent fee disclosure.

This model aligns with Islamic social finance objectives, addressing short-term liquidity challenges of salaried workers while avoiding *riba* and *gharar*. Moreover, it enhances employee well-being and productivity, fostering economic stability and ethical workplace finance practices.

5. Salary Financing / Salary Advance Financing (SAF)

Salary financing or advance-against-salary financing is a closely related model to EWA but usually involves larger, structured, and longer-term consumer financing based on the borrower's stable salary stream.

Shariah-compliant salary financing operates under *Qard Hasan* or *Murabahah* structures:

- *Qard Hasan*, the NBFC provides benevolent financing to be repaid through salary deductions without any profit or interest component.
- *Murabahah*, the financier purchases a requested asset (such as home electronics or education service) and sells it to the employee at a disclosed profit payable through salary installments.

Under SECP Digital Lending Regulations, licensed NBFCs may collaborate with employers and fintech platforms to implement salary-based digital financing. The framework ensures that repayments are fully transparent, data sharing complies with cybersecurity standards, and profit rates are disclosed upfront (SECP, 2024a; SECP, 2024b).

In Islamic terms, salary financing promotes responsible consumption, financial discipline, and social welfare, contributing to *Maqasid al-Shariah* objectives of preserving wealth (*hifz al-mal*) and human dignity (*karamah insaniyyah*).

Proposed Product Development Model of Shariah-Compliant Digital B2C Financing in Pakistan

The following models reflect the integration of Shariah principles with SECP’s Digital Lending Framework (Circular No. 08 of 2022) and relevant amendments (Circulars 12 & 14 of 2024). Each model applies Shariah-permissible contracts (*Aqad*), transparent disclosures, and technological efficiency while maintaining consumer protection and regulatory compliance.

Framework Emphasis

The Digital B2C Financing Framework in Pakistan emphasizes three key pillars to ensure sustainable, responsible, and Shariah-aligned digital financing practices:

Regulatory Compliance that means adherence to SECP’s rules on digital financing, disclosures, consumer protection, and fair pricing;

- Shariah Governance – Oversight by approved Shariah advisors, ensuring products eliminate *riba*, *gharar*, and *maysir*, and adhere to legitimate contracts;
- Consumer Protection and Transparency – Promoting responsible finance through product calculators, disclosure sheets, transparent restructuring mechanisms, and redressal systems.

1. Digital Nano Financing Proposed Product Structure and Operating Model

Short-term micro-scale financing for consumers with limited credit history, aimed at addressing emergency liquidity needs. In a Shariah-compliant model, this replaces conventional “lending” with benevolent (*Qard Hasan*) or trade-based (*Murabahah*) financing, while maintaining SECP disclosure and consumer protection standards.

Parameter	Description
Financing Name	Shariah-Compliant Digital Nano Financing
Financing Purpose	<ol style="list-style-type: none"> 1. Immediate small-ticket liquidity for personal or micro-enterprise needs 2. Asset-Based (objective: buy sewing machine, buy phone, buy kitchen supplies, buy school supplies, buy home appliances, buy laptop and etc) 3. Non-Asset based (objective: service based, to pay for rental fees, school fees, cover health expense and pay for halal tourism)
Aqads Used	<ol style="list-style-type: none"> 1. Asset Based: <i>Ijarah, Murabahah</i> with <i>Wakalah</i> and <i>Murabahah</i> 2. Non Asset Based: <i>Qard</i> and <i>Ijarah al-khadamat</i>, (ring-fenced) and <i>Musharakah Mutanaqisah</i> - Pledged Asset Refinancing for Service Purpose 3. Typical Shariah contract/akad used in Pakistan: Unorganised <i>Tawarruq</i> (Commodity <i>Murabahah</i>)
Financing Amount Range	PKR 1,000 – 100,000 (USD 4 – 360)
Rate / Margin / APR	Profit $\leq 0.75\%$ per day (for <i>Murabahah</i> only); no markup for <i>Qard Hasan</i>
Fees	Processing and verification fees allowed; no compounding
Tenure	≤ 90 days
Rollover / Restructuring	Once only, within 90 days maximum; treated as continuation
Late Repayment / Penalties	Charity; no profit escalation

Transparency & Consumer Protection	Urdu/English disclaimer, repayment calculator, Key Facts Sheet (KFS)
Other Technical Aspects	AI scoring, API integration, instant disbursement
Other Shariah Aspects	No <i>riba</i> , <i>gharar</i> , or <i>maysir</i>
Regulatory Reference	SECP Circular 08 / 2022, Clauses 2(a)(i–xii)
Sample Providers	Walee Hakeem Shariah Compliant Digital Nano Financing, Muawin Digital Finance, Tez Financial Services (Shariah segment)

2. Digital Consumer Financing (Education, Product, Leasing) Proposed Product Structure and Operating Model

Designed for individuals financing education, consumer goods, or vehicles through Islamic contracts. NBFCs can partner with digital platforms and merchants to provide transparent, asset-backed financing.

Parameter	Description
Financing Name	Shariah-Compliant Digital Consumer Financing
Financing Purpose	Purchase of education services, vehicles, or consumer assets
Aqads Used	<i>Murabahah, Ijarah, Salam, or Istisna'</i>
Financing Amount Range	PKR 50,000 – 2,000,000 (USD 180 – 7,200)
Rate / Margin / APR	Fixed profit margin disclosed upfront

Fees	Processing / documentation fees only
Tenure	6 – 36 months
Rollover / Restructuring	Allowed once per facility; total tenor ≤ 36 months
Late Repayment / Penalties	Charity; no compounding
Transparency & Consumer Protection	Product Disclosure Sheet (PDS), repayment calculator, cost simulation
Other Technical Aspects	API integration with merchants; automated collection system
Other Shariah Aspects	Shariah board validation for pricing & risk structure
Regulatory Reference	SECP Circular 08 / 2022; Circular 12 / 2024
Sample Providers	Alif Bank (Pakistan), HBL Islamic Digital, Akhuwat Digital Microfinance

3. Buy Now Pay Later (BNPL) Proposed Product Structure and Operating Model

BNPL allows consumers to acquire products with deferred payments, based on trade-backed Islamic structures such as *Murabahah* or *Tawarruq*. All charges must be disclosed, with ethical data use and no hidden markup.

Parameter	Description
Financing Name	Shariah-Compliant Buy Now Pay Later (BNPL)
Financing Purpose	Deferred purchase of goods and services

Aqads Used	<i>Murabahhh (deferred sale) / Tawarruq</i>
Financing Amount Range	PKR 5,000 – 200,000 (USD 18 – 720)
Rate / Margin / APR	Fixed margin; disclosed upfront
Fees	Processing fees allowed; no penalty interest
Tenure	Up to 6 months
Rollover / Restructuring	Not encouraged; if any, within original term limits
Late Repayment / Penalties	Charity only
Transparency & Consumer Protection	BNPL calculator, bilingual disclosure sheets
Other Technical Aspects	Merchant APIs, repayment alerts, eKYC verification
Other Shariah Aspects	Real asset-based sales, transparent ownership transfer
Regulatory Reference	SECP Circular 08 / 2022; Circular 12 / 2024
Sample Providers	KalPay Islamic, KistPay Islamic, QisstPay Halal BNPL

4. Earned Wage Access (EWA) Proposed Product Structure and Operating Model

Provides early access to accrued but unpaid salary, structured as a *Qard Hasan* with nominal service fees. Integrated with employers' payroll systems, it promotes financial wellness without creating debt traps.

Parameter	Description
Financing Name	Shariah-Compliant Earned Wage Access (EWA)
Financing Purpose	Early access to earned but unpaid salary
Aqads Used	<i>Qard Hasan / Wakalah</i>
Financing Amount Range	PKR 5,000 – 300,000 (USD 18 – 1,080)
Rate / Margin / APR	Zero profit; nominal service fee allowed
Fees	Fixed platform fee only
Tenure	15–30 days
Rollover / Restructuring	Not applicable; repayment from next salary
Late Repayment / Penalties	None
Transparency & Consumer Protection	Salary-access disclosure sheet, digital receipt
Other Technical Aspects	Employer API for payroll synchronization
Other Shariah Aspects	Benevolence-based; non-debt structure

Regulatory Reference	SECP Circular 08 / 2022, Clause 2(b)
Sample Providers	Abhi Islamic (EWA), Neem Digital Finance, Safepay EWA Islamic

5. Salary Financing (Advance Against Salary) Proposed Product Structure and Operating Model

Formalized salary-linked financing facility that transforms employer-led advances into structured, Shariah-compliant financing for employees' consumption or emergency needs.

Parameter	Description
Financing Name	Shariah-Compliant Salary Financing
Financing Purpose	Structured financing against verified salary
Aqads Used	<i>Qard Hasan / Murabahah</i>
Financing Amount Range	PKR 20,000 – 1,000,000 (USD 72 – 3,600)
Rate / Margin / APR	Fixed profit disclosed upfront
Fees	Processing fee on actual cost only
Tenure	3–12 months
Rollover / Restructuring	Allowed once; total tenor \leq 12 months
Late Repayment / Penalties	Charity only

Transparency & Consumer Protection	Salary-based risk assessment, KFS, cost calculator
Other Technical Aspects	Payroll-deduction model, direct debit authorization
Other Shariah Aspects	No <i>riba</i> or speculative terms; charity penalty governance
Regulatory Reference	SECP Circular 08 / 2022; Circular 12 / 2024
Sample Providers	Abhi Islamic (Salary Advance), Meezan Digital Partner Program


B. Proposed Model of Shariah-compliant Digital B2B Financing in Pakistan

Definition

B2B Digital Financing (Business-to-Business Digital Financing) refers to a range of Shariah-compliant digital financing arrangements where fintech platforms, NBFCs, or Islamic banks provide liquidity, asset or inventory support, trade financing or supply-chain financing to business clients (SMEs, traders, distributors) using permissible Islamic contracts and digital technologies, avoiding *riba* (interest), *gharar* (excessive uncertainty) and *maysir* (speculation). Examples include digital working-capital financing, stock/inventory financing, cash-on-delivery (COD) financing for e-commerce/trade, and embedded supply chain financing across supplier-buyer ecosystems.

Regulatory & Shariah Governance Framework in Pakistan

In Pakistan, B2B digital financing falls under the jurisdiction of the Securities & Exchange Commission of Pakistan (SECP) for NBFCs and digital finance platforms through its NBFC & Notified Entities Regulations and digital-lending circulars, as well as under the State Bank of Pakistan (SBP) for Islamic banking/SME finance regimes.



SECP's amendments to the NBFC Regulations (May 2023) enable digital fund management, lending platforms and embedded financing.

SECP's Digital Lending Standards (including Circular 12 of 2024) expand to B2B embedded lending and supply chain financing.

SBP has issued Islamic working capital refinance schemes for SMEs under Shariah contracts.

Shariah governance requires approval of each product by a Shariah Supervisory Board, clear contract (*Aqad*) structure (e.g., *Murabahah*, *Ijarah*, *Musharakah*, *Salam*, *Istisna'*), and assurance of transparency, asset-backing and risk-sharing.


Shariah-Compliant B2B Digital Financing in Pakistan

1. Digital Working Capital Financing

Digital Working Capital Financing refers to Shariah-compliant short- to medium-term financing solutions provided to micro, small, and medium enterprises (MSMEs) for managing daily liquidity needs, such as purchasing raw materials, paying suppliers, or covering operational expenses. In Pakistan, digital platforms and Non-Banking Finance Companies (NBFCs) increasingly utilize alternative data, supply chain analytics, and open APIs to extend such financing to businesses underserved by traditional banks (SECP, 2023a).

From a Shariah perspective, Working Capital Financing is commonly structured through *Murabahah*, *Tawarruq*, or *Mudarabah* contracts. Under *Murabahah*, the financier purchases the goods required by the business and sells them at a disclosed markup, payable over time. *Tawarruq* may be applied in liquidity-based structures, subject to genuine commodity transactions to ensure compliance with Islamic commercial law. *Mudarabah* structures enable shared risk and reward between the financier and entrepreneur, aligning with Islamic finance principles of profit-and-loss sharing (AAOIFI, 2022).

Regulatorily, this financing type operates under SECP's NBFC Regulations (2023) and Digital Lending Standards (Circular No. 12 of 2024), which allow NBFCs to deliver digital financing to SMEs under fair disclosure and consumer protection rules (SECP, 2024a). Moreover, the Islamic



Finance Regulatory Sandbox launched in 2024 promotes Shariah-compliant digital working capital models focused on productive inclusion (SECP, 2024b).

This segment advances *Maqasid al-Shariah*, specifically *tahqiq al-nama'* (productive growth) and *maslahah* (public benefit), by enabling ethical liquidity access to small businesses and supporting Pakistan's SME digitization agenda (SBP, 2023).

2. Digital Stock / Inventory Financing

Digital Stock or Inventory Financing provides MSMEs with short-term liquidity secured by stock-in-trade or raw materials as collateral. This allows retailers, traders, and manufacturers to maintain operations without liquidating inventory. Digital verification through IoT systems and supply chain platforms enhances monitoring and risk management (KPMG Pakistan, 2024).


In Shariah-compliant settings, inventory financing can be structured under *Murabahah*, *Salam*, or *Ijarah* contracts. *Murabahah* structures involve financiers purchasing goods and selling them to businesses at a profit margin, payable on deferred terms. *Salam* applies to producers who receive upfront payments for future delivery of goods, while *Ijarah* is relevant where equipment or inventory is leased rather than sold (AAOIFI, 2022).

Under Pakistan's regulatory regime, SECP's NBFC and Modaraba Regulations (2023) and the Islamic Financial Services Framework (2024) enable such asset-backed financing models, provided that ownership transfer, risk-taking, and documentation align with Shariah principles (SECP, 2023b). Additionally, the Digital Asset Registry pilot by SECP enhances the transparency of pledged asset transactions, thereby reducing fraud risk (SECP, 2024b).

This model fulfills *Maqasid al-Shariah* by encouraging trade-based productivity and reducing dependency on interest-bearing working capital loans (IFSB, 2023).

3. Digital Cash-on-Delivery (CoD) Financing

Digital Cash-on-Delivery (CoD) Financing is a short-term Shariah-compliant facility designed for e-commerce merchants who face delayed cash flow due to payment cycles. It allows merchants



and delivery partners to access liquidity against verified CoD transactions via digital lending platforms (Pakistan Fintech Association, 2024).

The Shariah structure typically relies on *Murabahah* or *Qard Hasan* contracts. Under *Murabahah*, the financier purchases the goods and sells them to the merchant at cost-plus terms, payable once the CoD payment is received. In *Qard Hasan*, a benevolent loan is extended without any profit or interest, with the borrower repaying the principal at maturity. The transparency and documentation of CoD verification are critical to avoid *gharar* (uncertainty) and ensure compliance (AAOIFI, 2022).

Regulatorily, SECP's Circular No. 12/2024 on Digital Lending Operations allows embedded financing within e-commerce ecosystems, while SBP's Electronic Money Institutions (EMI) Regulations (2023) facilitate seamless fund disbursement and settlement (SBP, 2023).


This segment aligns with *maqasid* values by promoting *adl* (justice) and *maslahah* (public benefit), empowering SMEs in the rapidly growing Pakistani e-commerce economy.

4. Digital Supply Chain Financing (SCF)

Digital Supply Chain Financing (SCF) involves providing liquidity to suppliers, distributors, and vendors based on verified trade invoices or purchase orders. Shariah-compliant SCF leverages digital platforms, blockchain, and data integration with anchor corporates to support financing flow across entire value chains (McKinsey Pakistan, 2024).

The financing can be structured under *Murabahah*, *Wakalah bil Ujrah*, *Musharakah* or *Mudarabah* arrangements. *Murabahah* enables cost-plus trade financing, *Wakalah bil Ujrah* establishes an agent-based model where the fintech acts as an intermediary between investors and suppliers, while *Musharakah* and *Mudarabah* support equity-based collaboration between funders and entrepreneurs (AAOIFI, 2022).

The SECP NBFC Regulations (2023) govern these B2B activities, complemented by the National Financial Inclusion Strategy (NFIS 2024–2028), which prioritizes Shariah-compliant SME and supply chain finance (SECP, 2024b; SBP, 2024).



This model advances supply chain resilience and strengthens Pakistan's *halal value chain financing ecosystem*, ensuring ethical, traceable, and inclusive access to business finance


5. Digital Invoice Financing (IF)

Digital Invoice Financing and Invoice Factoring represent emerging segments within Pakistan's B2B digital financing landscape, aimed at improving MSME liquidity through early payment against outstanding invoices. These models enable suppliers and service providers to convert receivables into immediate cash flow, reducing their dependence on conventional debt or interest-bearing credit lines (SECP, 2024a).

In a Shariah-compliant structure, invoice financing must avoid *riba* (interest) and speculative trading of debt (*bai al-dayn*). Therefore, permissible models rely on *Wakalah*, *Murabahah*, or *Mudarabah* contracts, where the financier either (a) acts as an agent to collect receivables on behalf of the business for a disclosed fee (*Wakalah bil Ujrah*), (b) purchases the underlying goods or services at cost-plus before resale (*Murabahah*), or (c) engages in profit-sharing arrangements (*Mudarabah*) with shared risk and return (AAOIFI, 2022).

In contrast to conventional invoice factoring where receivables are sold at a discount, Islamic invoice financing prohibits the outright sale of debt. Instead, the transaction must involve a tangible underlying trade, valid agency, or service provision relationship (IFSB, 2023). Shariah advisory boards emphasize that such transactions must be clearly documented to ensure ownership transfer and risk participation align with the principles of *al-milkiyyah* (lawful ownership) and *tahqiq al-'adl* (justice).

Regulatorily, the Securities and Exchange Commission of Pakistan (SECP), under NBFC Regulations 2023 and Circular No. 12 of 2024, permits NBFCs and digital platforms to operate invoice-based financing models, provided that data security, consent, and disclosure standards are upheld (SECP, 2024b). The Electronic Credit Scoring and Digital Factoring Platform Framework (Pilot 2024) further enables automated matching of MSME invoices with financiers through e-invoicing databases and supply chain systems (SECP, 2024c).



Moreover, the Islamic Financial Services Sandbox (2024) by SECP has approved at least three Shariah-compliant invoice financing models leveraging blockchain and smart contract automation for invoice verification and payment settlement (SECP, 2024c). These innovations enhance transaction traceability, reduce manual fraud risk, and build investor confidence in Islamic fintech.

This financing model supports Maqasid al-Shariah principles of *maslahah* (public welfare) and *tahqiq al-nama'* (productive growth), promoting fair trade, ethical financing, and financial inclusion among SMEs that form the backbone of Pakistan's economy.

Proposed Models for Shariah-Compliant B2B Digital Financing in Pakistan

Shariah-compliant Business-to-Business (B2B) digital financing has emerged as a crucial enabler of Pakistan's SME and MSME ecosystem, addressing working capital gaps, supply chain inefficiencies, and liquidity constraints that hinder business growth. According to SECP (2024), over 90% of enterprises in Pakistan fall under the SME category, yet less than 10% have access to formal financing channels. The development of Shariah-compliant B2B digital financing models therefore offers a powerful solution for enhancing financial inclusion, supporting Islamic value chains, and reducing dependence on conventional, interest-bearing instruments.

The SECP has introduced an enabling environment through the NBFC Regulations (2023), Digital Lending Standards (2022), and Circular No. 08 of 2022, which permit Non-Banking Finance Companies (NBFCs) to engage in innovative digital credit models, including Shariah-compliant structures, subject to Shariah Governance Regulations (2018) and fair disclosure requirements.

These frameworks emphasize three key governance pillars:

- Regulatory Compliance – ensuring that NBFCs and digital lenders adhere to SECP's rules on disclosure, pricing, data protection, and risk management.
- Shariah Governance – ensuring compliance with Islamic principles, eliminating *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation), while maintaining oversight by certified Shariah Supervisory Boards.
- Business Protection and Transparency – promoting responsible and ethical financing through digital calculators, standardized disclosure sheets, restructuring mechanisms, and

security/payment guarantees to protect both financiers and SMEs.

The following tables present the proposed product development models for five key categories of Shariah-compliant B2B digital financing applicable to Pakistan’s evolving Islamic fintech ecosystem. Each model includes practical features, Shariah contracts, regulatory bases, and examples of potential Islamic digital finance providers.

1. Digital Working Capital Financing Proposed Product Structure and Operating Model

Shariah-compliant digital working capital financing in Pakistan refers to technology-enabled financial solutions that provide businesses especially MSMEs with short-term liquidity or cash flow support through Islamic financing principles (e.g., *Murabahah*, *Mudarabah*, or *Wakalah*), without interest (*riba*). These solutions are delivered via digital platforms regulated by Pakistan’s Islamic banking and fintech frameworks, ensuring Shariah, regulatory, and technological compliance.

Parameter	Description
Financing Name	Shariah-Compliant Working Capital Financing
Purpose	To provide short-term liquidity for operational expenses, procurement, and trade cycles of SMEs.
Aqad Used	<i>Murabahah</i> (cost-plus sale), <i>Tawarruq</i> (monetization), or <i>Mudarabah/Musharakah</i> (profit sharing)
Financing Value/Nominal	PKR 500,000 – PKR 10 million (\approx USD 1,800 – USD 36,000).
Rate/Margin	12%–18% annual profit margin.

Fees	Processing fee 0.5%–1% of facility amount.
Tenure	3–12 months.
Rollover/Restructuring	One-time rollover (max. 90 days) with Shariah Board approval.
Security Payment/Guarantee	Digital collateral registry (SECP Secured Transaction Registry), personal or third-party guarantees.
Consumer/Business Protection	E-KYC, SECP grievance redressal, and digital consent verification.
Transparency Requirements	Product disclosure sheet, calculator, Shariah compliance certificate.
Shariah and Regulatory References	SECP Circular No. 08/2022; NBFC Regulations (2023); Shariah Governance Regulations (2018).
Sample Providers	Muawin Islamic NBFC, Kashat Pakistan (pilot).

2. Shariah-Compliant Stock Financing /Inventory Financing Proposed Product Structure and Operating Model.

Shariah-compliant stock or inventory financing refers to Islamic financial solutions that enable businesses to purchase, manage, or finance their inventory or goods without involving interest (*riba*). In Pakistan’s context, this is typically structured through contracts such as *Murabahah* (cost-plus sale) or *Ijarah* (leasing), where a bank or Islamic fintech buys the goods and sells or leases them to the client at an agreed markup. The process is fully digitalized and regulated to ensure transparency, asset-backing, and Shariah compliance.

Parameter	Description
Financing Name	Shariah-Compliant Inventory Financing
Purpose	To enable Halal businesses and SMEs to purchase inventory, raw materials, or finished goods ethically.
Aqad Used	<i>Murabahah</i> (cost-plus sale) and <i>Ijarah</i> (leasing)
Financing Value/Nominal	PKR 300,000 – PKR 7 million (\approx USD 1,100 – USD 25,000).
Rate/Margin	10%–16% annual margin.
Fees	Processing fee 0.75%.
Tenure	3–9 months.
Rollover/Restructuring	Allowed once, up to 60 days, for verifiable business reasons.

Security Payment/Guarantee	Warehouse receipts, inventory pledge, or supplier-backed guarantee.
Consumer/Business Protection	Supplier verification, Shariah audit of goods, invoice matching.
Transparency Requirements	Online calculator, product sheet, Shariah audit trail.
Shariah and Regulatory References	SECP NBFC Regulations (2023); Circular No. 08/2022; Digital Lending Standards (2022).
Sample Providers	Tez Islamic Finance, ALFAA Digital Islamic NBFC.

3. Shariah-Compliant Cash on Delivery (COD) Financing Proposed Product Structure and Operating Model.

Shariah-compliant Cash on Delivery (COD) financing in Pakistan’s digital financing context refers to an Islamic fintech solution that provides short-term liquidity to e-commerce sellers awaiting customer payments from COD transactions. Structured using *Murabahah*, and *Tawarruq* principles, it enables sellers to access funds without interest (*riba*), while ensuring all transactions are asset-backed, transparent, and Shariah-compliant, under Pakistan’s Islamic finance and fintech regulatory framework.

Parameter	Description
Financing Name	Shariah-Compliant Cash on Delivery Financing
Purpose	To pre-finance delivery, logistics, or e-commerce merchants awaiting COD settlements.

Aqads Used	Commodity <i>Murabahah</i> (<i>Tawarruq</i>) <i>Murabahah</i>
Financing Value/Nominal	PKR 100,000 – PKR 3 million (\approx USD 360 – USD 10,800).
Rate/Margin	8%–12% annualized service fee.
Fees	Processing fee 0.25%.
Tenure	15–45 days.
Rollover/Restructuring	One-time extension up to 30 days with COD proof.
Security Payment/Guarantee	Delivery confirmation, invoice assignment, escrow guarantee.
Consumer/Business Protection	Digital verification via SECP/NADRA APIs.
Transparency Requirements	Disclosure sheet and Shariah compliance display.
Shariah and Regulatory References	SECP Circular No. 08/2022; Digital Lending Standards (2022).
Sample Providers	PostEx Islamic, Rider Fintech (pilot), TCS Finserve Islamic.

4. Shariah-Compliant Supply Chain Financing Proposed Product Structure and Operating Model

Shariah-compliant supply chain financing in Pakistan refers to Islamic financing solutions that provide liquidity to businesses at different points of the supply chain that encapsulate suppliers, manufacturers, and distributors without involving interest (*riba*). Structured through *Murabahah*, *Mudarabah*, *Wakalah*, or *Ijarah*, it enables timely payments, improves cash flow, and strengthens supply chain efficiency. In the digital context, these solutions are delivered via technology platforms that ensure Shariah compliance, transparency, and regulatory adherence.

Parameter	Description
Financing Name	Shariah-Compliant Supply Chain Financing
Purpose	To provide liquidity along B2B supply chains (supplier–distributor–retailer).
Aqads Used	<i>Murabahah</i> , <i>Musawamah</i> , or <i>Wakalah</i> -based receivables
Financing Value/Nominal	PKR 1 million – PKR 25 million (\approx USD 3,600 – USD 90,000).
Rate/Margin	10%–15% annual profit margin.
Fees	0.5% arrangement fee.
Tenure	30–180 days.
Rollover/Restructuring	Allowed based on supplier re-evaluation (max. 60 days).
Security Payment/Guarantee	Supplier guarantees, escrow accounts, or trade insurance.

Consumer/Business Protection	Digital onboarding, SECP e-sign validation, AML/KYC checks.
Transparency Requirements	Disclosure sheet, profit-rate calculator, Shariah audit.
Shariah and Regulatory References	SECP Circular No. 08/2022; Shariah Governance Regulations (2018).
Sample Providers	Muawin B2B Islamic, HBL Konnect Business (Islamic pilot).

5. Shariah-Compliant Digital Invoice Financing Proposed Product Structure and Operating Model

Shariah-compliant digital invoice financing in Pakistan refers to an Islamic fintech solution that allows businesses to convert outstanding invoices into immediate liquidity without charging interest (*riba*). Structured using *Murabahah*, *Tawarruq*, or *Wakalah* contracts, it provides short-term working capital while ensuring transactions are asset-backed, transparent, and fully Shariah-compliant. Digital platforms facilitate fast approval, disbursement, and repayment, aligning with Pakistan’s Islamic finance and fintech regulatory framework.

Parameter	Description
Financing Name	Shariah-Compliant Digital Invoice Financing
Purpose	To provide early payment to SMEs by financing trade invoices on a Shariah-compliant basis.
Aqads Used	<i>Tawarruq (Commodity Murabahah)</i> <i>Wakalah and Qard</i>

Financing Value/Nominal	PKR 500,000 – PKR 15 million (\approx USD 1,800 – USD 54,000).
Rate/Margin	10%–18% annual profit rate.
Fees	Platform fee 0.75%.
Tenure	14–180 days.
Rollover/Restructuring	One-time rollover (max. 45 days).
Security Payment/Guarantee	Buyer payment guarantee, digital invoice validation, or insurance-backed protection.
Consumer/Business Protection	Digital invoice tracking, SECP complaint redressal.
Transparency Requirements	Shariah disclosure sheet, calculator, audit summary.
Shariah and Regulatory References	SECP Circular No. 08/2022; Factoring Companies Rules (2023); Shariah Governance Regulations (2018).
Sample Providers	Haball Islamic Factoring, Sadapay SME Finance (pilot).

6. Shariah-compliant Digital Ecosystem Anchor Based Financing / Community Business Financing

Shariah-compliant Digital Ecosystem Anchor-Based Financing (also referred to as Community Business Financing) in Pakistan refers to an Islamic digital financing model where a strong anchor entity, such as an agribusiness off-taker, halal processor, cooperative, platform operator, NGO, or large buyer, acts as the nucleus of a digitally connected business ecosystem. Financing is extended to MSMEs, farmers, micro-suppliers, or community entrepreneurs linked contractually to the anchor.

Structured using *Murabahah*, *Salam*, *Istisna'*, *Musharakah*, or *Wakalah* principles, this model reduces credit risk through transaction visibility, off-take assurance, and cash-flow anchoring, while ensuring all financing remains asset-backed, risk-shared, and free from *riba*. Digital platforms enable end-to-end traceability, from onboarding and contract execution to disbursement, settlement, and Shariah reporting, aligned with Pakistan's Islamic finance, fintech, and cooperative regulations.

This financing model is particularly suitable for agriculture, halal MSMEs, fisheries, livestock, retail distribution networks, and platform-based community enterprises, where collective strength and ecosystem linkages substitute for traditional collateral.

Parameter	Description
Financing Name	Shariah-Compliant Digital Ecosystem Anchor-Based / Community Business Financing
Purpose	To finance MSMEs, farmers, and community businesses linked to a verified anchor (off-taker, buyer, cooperative, or platform) within a digital ecosystem.
Aqads Used	<i>Murahabah</i> (input financing), <i>Salam</i> (pre-harvest financing), <i>Istisna'</i> (production-based), <i>Musharakah</i> (profit-sharing), <i>Wakalah</i> (agency-based disbursement).

Financing Value / Nominal	PKR 200,000 – PKR 10 million per participant (\approx USD 720 – USD 36,000), scalable at portfolio level.
Rate / Margin	8%–14% annualized profit margin depending on aqad type and risk profile.
Fees	Platform/service fee 0.5%–1%; no compounding charges.
Tenure	3–12 months (aligned with production, trade, or sales cycles).
Rollover / Restructuring	Allowed based on anchor confirmation and revised cash-flow projections (max. 90 days).
Security Payment / Guarantee	Anchor off-take agreement, purchase order assignment, escrow settlement account, takaful coverage (where applicable).
Consumer / Business Protection	Digital onboarding, SECP registration validation, NADRA-linked KYC, consent-based data sharing.
Transparency Requirements	Clear disclosure of aqad, profit margin, use of funds, settlement waterfall, and Shariah certification on platform.
Shariah & Regulatory References	SECP Circular No. 08/2022; Shariah Governance Regulations (2018); Cooperative & Agri-Finance Guidelines.
Sample Providers	ALAMI Shariah Indonesia, Akhuwat Digital (community-based), Zarai Taraqati Bank Islamic pilots, Islamic fintech–NGO anchor models, Bank–platform partnerships (pilot stage).

7. Shariah-Compliant Digital Embedded Financing (EF)

Shariah-compliant Digital Embedded Financing in Pakistan refers to an Islamic financing model where Shariah-compliant financial products are seamlessly integrated into non-financial digital platforms such as e-commerce marketplaces, agri-input platforms, mobility services, ERP systems, halal supply platforms, or utility payment applications, at the point of user interaction. Rather than being offered as standalone financial products, financing is contextual, triggered by real economic activity, and embedded within the customer journey.

Structured using *Murabahah*, *Salam*, *Istisna'*, *Ijarah*, *Wakalah*, or *Musharakah* principles, embedded financing ensures that all transactions remain asset-backed, purpose-specific, and free from *riba* and *gharar*. The digital platform acts as a distribution and data-enablement layer, while the Islamic financial institution or licensed fintech retains balance-sheet risk, Shariah accountability, and regulatory responsibility. This model enhances access, reduces friction, and improves risk assessment through real-time transaction data.

Embedded Islamic financing is particularly effective for MSMEs, micro-entrepreneurs, farmers, gig workers, and platform-based merchants who require instant, use-case-driven financing without navigating separate application processes.

Parameter	Description
Financing Name	Shariah-Compliant Digital Embedded Financing
Purpose	Contextual, point-of-need Shariah-compliant financing embedded within non-financial digital platforms (e-commerce, agri-inputs, halal marketplaces, mobility, ERP, utilities).
Aqads Used	<i>Murabahah</i> , <i>Salam</i> , <i>Istisna'</i> , <i>Ijarah</i> , <i>Wakalah</i> , <i>Musharakah</i> (depending on underlying transaction).
Financing Value / Nominal	Indicative only; transaction-sized and use-case driven (micro to MSME level).
Rate / Margin	Contextual and dynamically determined based on aqad, transaction economics, and risk profile.
Fees	Embedded platform service fee or merchant discount rate, disclosed upfront.
Tenure	Aligned with transaction lifecycle (days to 12 months).
Rollover / Restructuring	Generally discouraged; allowed only with Shariah justification and re-execution of aqad.
Security Payment / Guarantee	Underlying asset linkage, transaction lock-in, platform controls, escrow or net settlement.
Consumer / Business Protection	Consent-based data sharing, digital contracts, SECP-compliant disclosures, grievance mechanism.

Transparency Requirements	Real-time disclosure of aqad type, profit margin, and repayment terms at point of transaction.
Shariah & Regulatory References	SECP Circular No. 08/2022; Digital Lending Standards (2022); Shariah Governance Regulations (2018).
Sample Providers	Islamic bank–platform partnerships, agri-input platforms with embedded Islamic financing, halal marketplace pilots.

Business Flow and Shariah Structure of Proposed Shariah-compliant Digital Financing Product Structure and Operating Model

(Learning from Pakistan and Global Islamic Fintech Leading Countries Model & Synthesis of Researchers)

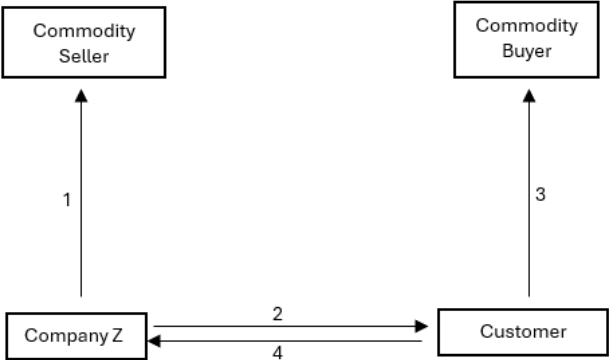
Shariah-Compliant Digital B2C Financing Business Flow and Shariah Structure

1. Digital Nano Financing (Asset-Based/Tangible Goods)

i. Commodity Murabahah

Flow:

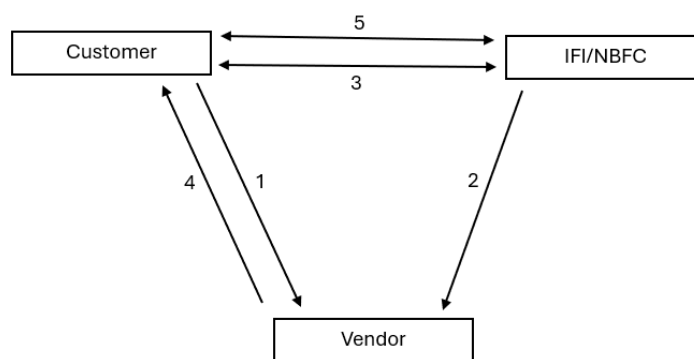
- Company Z purchases commodity from commodity seller on cash.
- Company Z sells the commodity to the customer on deferred price (cost + profit).
- Customer sells the commodity to a commodity buyer at market price and receives cash.
- Customer pays Company Z in instalments.



Source: Hakeem, Pakistan

ii. Ijarah (lease) and/or modified with Ijarah Muntahiyah Bit Tamlik (IMBT)

- a. The customer selects the required asset (e.g. laptop or mobile phone) through a digital platform.
- b. The Islamic Financial Institution (IFI) / Islamic NBFC Shariah-compliant digital financing provider purchases the asset directly from the vendor and remains the legal owner of the asset.
- c. An *Ijarah* agreement is executed digitally, allowing the customer to use the asset.
- d. The asset is delivered to the customer, who pays periodic rental (*ujrah*) for its usage.
- e. At the end of the lease period, ownership may optionally be transferred to the customer through *hibah* or sale under an *Ijarah Muntahiyah bit Tamlik (IMBT)* arrangement

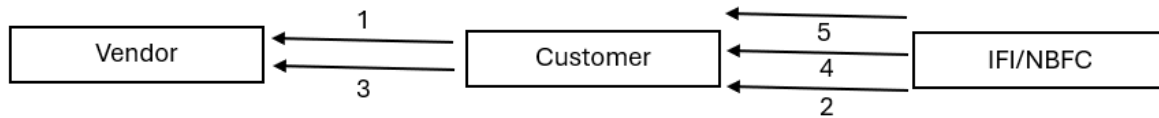


Source: Researcher's findings from practice of various IFIs.

iii. Murabahah with Wakalah Arrangement

1. The customer selects the required asset (e.g. laptop, mobile phone, or business equipment) through a digital or generic platform (digital platform is strongly encouraged).
2. The Islamic Financial Institution (IFI) / Islamic NBFC appoints the customer as its agent (*wakil*) to purchase the asset from the vendor. For the avoidance of doubt, the IFI may appoint the customer as its purchasing agent at the outset upon subscription to the platform.
3. Acting as an agent / *wakil*, the customer purchases the asset on behalf of the IFI, and ownership temporarily rests with the IFI.

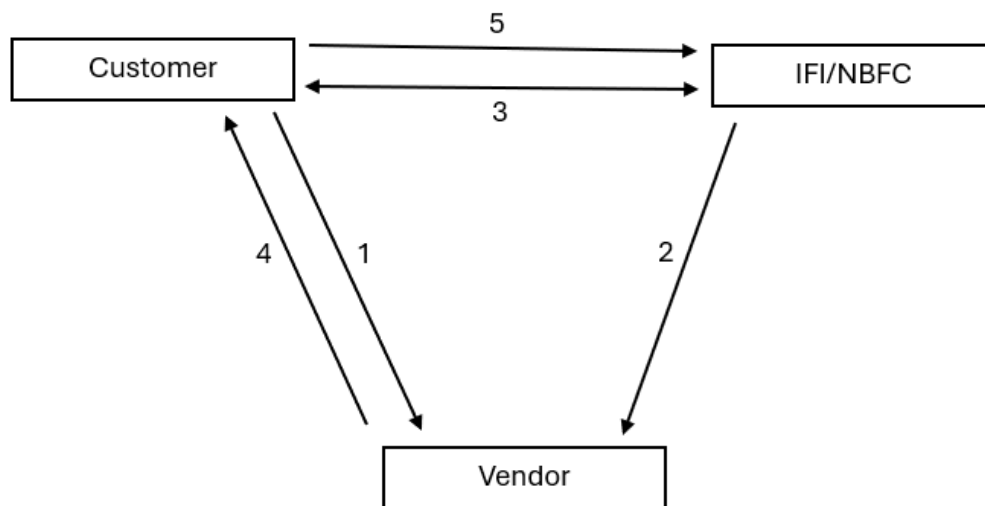
4. The IFI sells the asset to the customer under a *Murabahah* contract at a disclosed cost plus profit margin.
5. Ownership of the asset is transferred to the customer, who pays the *Murabahah* price in agreed installments.



Source: Researcher's findings from practice of various IFIs.

iv. *Murabahah* without *Wakalah* Arrangement

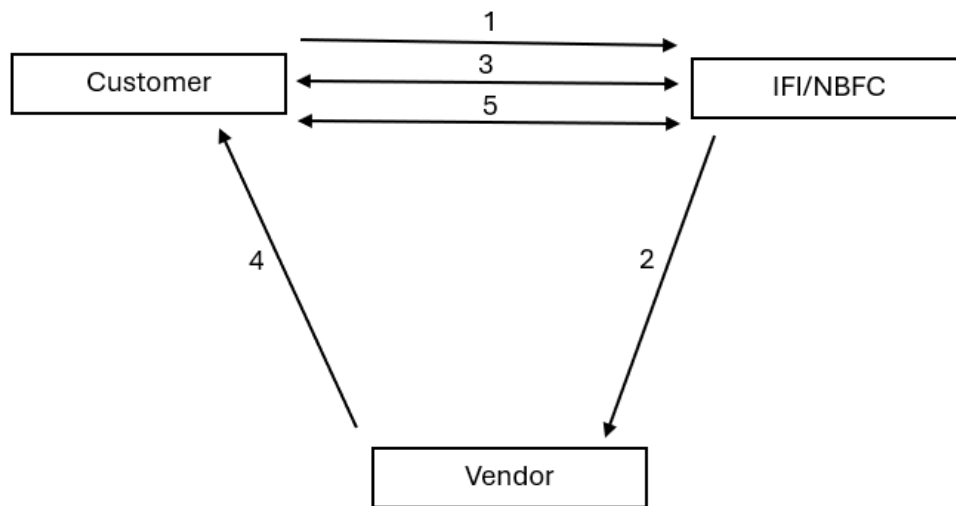
1. The customer selects the required asset through a digital or generic platform.
2. The Islamic Financial Institution (IFI) purchases the asset directly from the vendor and assumes ownership.
3. A *Murabahah* contract is executed, clearly disclosing the cost and profit margin.
4. The asset is delivered to the customer and ownership is transferred to the customer.
5. The customer pays the *Murabahah* price to the IFI in agreed instalments.



Source: Researcher's findings from practice of various IFIs.

v. **Murabahah Purchase Order (MPO) with Wa'd Arrangement**

1. The customer submits a purchase order (PO) and a binding promise (*wa'd*) to buy the specified asset through the digital or generic trading platform.
2. Based on the purchase order, the Islamic Financial Institution (IFI) purchases the asset from the vendor and assumes ownership.
3. A *Murabahah* contract is executed at a disclosed cost plus profit margin.
4. The asset is delivered to the customer and ownership is transferred to the customer.
5. The customer settles the *Murabahah* price through agreed instalment payments.



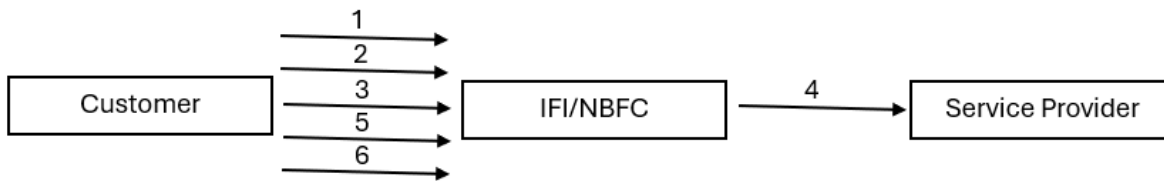
Source: Researcher's findings from practice of various IFIs.

2. Digital Nano Financing

i. *Qard* and *Ijarah Al-Khadamat* (suitable for health fees, rental fees, utility fees purpose)

1. The customer applies financing through a digital platform to cover specific service-related expenses.
2. The Islamic Financial Institution (IFI) provides a *Qard* (benevolent loan) to the customer for the approved amount with ring fenced term and conditions.
3. The Customer appoints the IFI as a service provider, under *Ijarah al-Khadamat* to execute payment on the Customer's behalf directly to the designated payee, including verification of the relevant bill or invoice and administrative works.
4. The IFI pays the school, hospital, or landlord directly on behalf of the customer.

5. The customer repays the *Qard* amount to the IFI in agreed installments.
6. The IFI charges a separate and fixed flat pre-agreed *ujrah* strictly for the service, not linked to the loan amount or tenure.

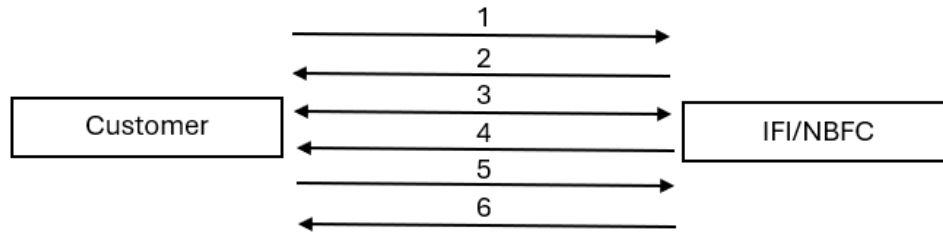


Source: Researcher's findings from practice of various IFIs.

Disclaimer on Qard: Qard is recognised under Shariah as a benevolent, non-commercial contract; however, its application, particularly in financing or structured arrangements, may be subject to regulatory, supervisory, and Shariah governance sensitivities in certain jurisdictions. Any reference to Qard herein is indicative and subject to jurisdiction-specific legal, regulatory, and Shariah review. Adoption, if any, should be assessed in light of local regulatory frameworks and appropriate governance safeguards.

ii. Musharakah Mutanaqisah (MMQ) Asset-Backed Refinancing (objective: pledge the asset own by customers to the IFI and use the funds for service-based purpose, use case by CIMB Niaga Syariah Indonesia for Nano Financing Xtra Syariah)

1. The customer contributes an existing tangible asset as capital, which is jointly valued and accepted.
2. The Islamic Financial Institution (IFI) contributes cash as its capital contribution.
3. A *Musharakah Mutanaqisah* agreement is executed, establishing joint ownership of the asset.
4. The IFI leases its share of the asset to the customer under an *Ijarah* arrangement.
5. The customer gradually purchases the IFI's ownership share over time through periodic payments.
6. Upon completion, full ownership of the asset is transferred back to the customer.



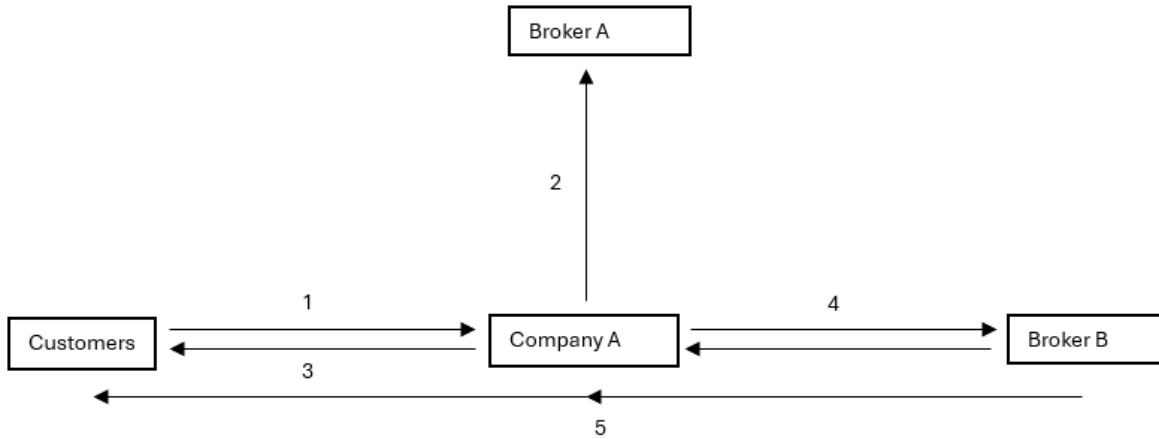
Source: Researcher's findings from practice of various IFIs.

3. Digital Consumer Financing - *Tawarruq*

Flow:

1. Dual *Wakalah* (Agency) arrangement whereby the Customer appoints the Bank as an agent to execute and conclude all the sale and purchase contracts for the buying and selling of the Shariah-compliant commodities at a specified time on behalf of the Customer through an approved Commodity Trading Platform (“CTP”) and the Customer hereby waives the right to take physical delivery of the commodity.
2. Company A buys a commodity from a supplier at cost price.
3. Company A, as buying agent on behalf of the customer, buys the commodity from itself, at a marked-up price which is known to the buyer on a deferred payment basis. (Ownership of commodity is transferred from Company A to customer).
4. Company A, as selling agent, sells the commodity to a commodity buyer at cost price on spot basis.
5. After the completion of the sale and purchase contracts, proceeds of the commodity sale will be credited into the Customer's Savings Account as the disbursement of the facility amount approved by the Bank and agreed by the Customer as per stipulated in the Terms and Conditions.
6. The buying and selling of commodities are done in an automated process.
7. The commodity is in the form of Crude Palm Oil (“CPO”) or any other Shariah-compliant commodities made available in the CTP system and as approved by the Bank’s Shariah Committee.

8. The commodity trading is carried out via a CTP such as Bursa Suq Al-Sila' or any other CTP which facilitates *Tawarruq* transactions and as approved by the Company's Shariah Committee.

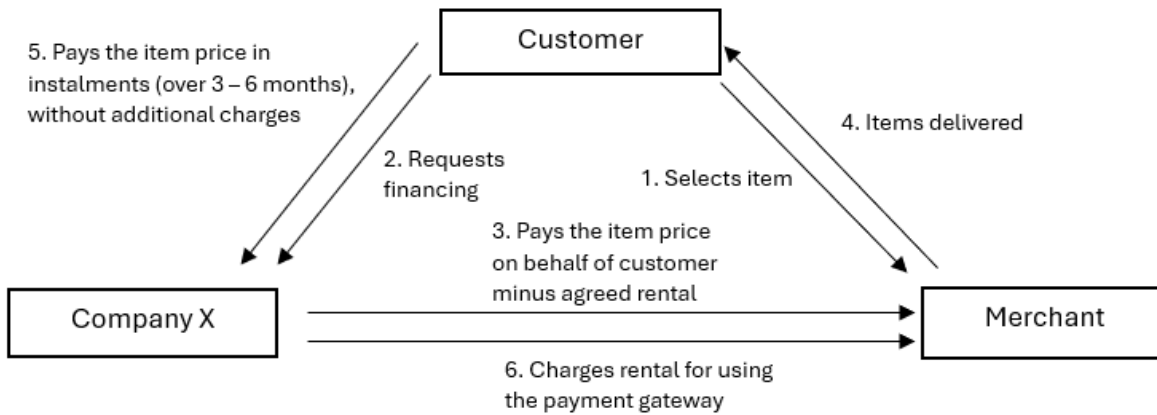


Source: AEON Bank, Malaysia

4. BNPL

Flow:

1. Customer selects item
2. Customer requests financing from Company X
3. On behalf of the customers, Company X pays the item price to the merchant (minus agreed service rental)
4. Items delivered by merchant to customer
5. Customer pays the item price (without any additional amount) in instalments (3-6 months)
6. Company X charges the merchant a rental amount for the use of their payment gateway
7. Customer pays instalments digitally, collections handled by platform.



Source: Tabby, UAE.

5. EWA – *Wakalah*

Flow:

1. The employee (worker) earns wages by completing shifts. These wages are a receivable (dayn) from the employer to the worker.
2. The worker appoints Company Y as their *wakil* (agent) to facilitate early access to earned wages.
3. Company Y, on behalf of the worker, requests and advances part of the wages from the system before payday.
4. Acting as *wakil*, Company Y advances up to 90% of the earned wages directly into the worker's bank account. This is not a loan, but an advance against the worker's receivable. A flat facilitation fee (£2.50) is charged for the service, not interest. The flat fee shall not be linked to the amount and tenure of the loan.

On payday, the employer pays the full wages to Company Y (as *wakil*). Company Y then reconciles:

- Deducts any amount already advanced, plus the service fee.
- Credits the net balance into the worker's account



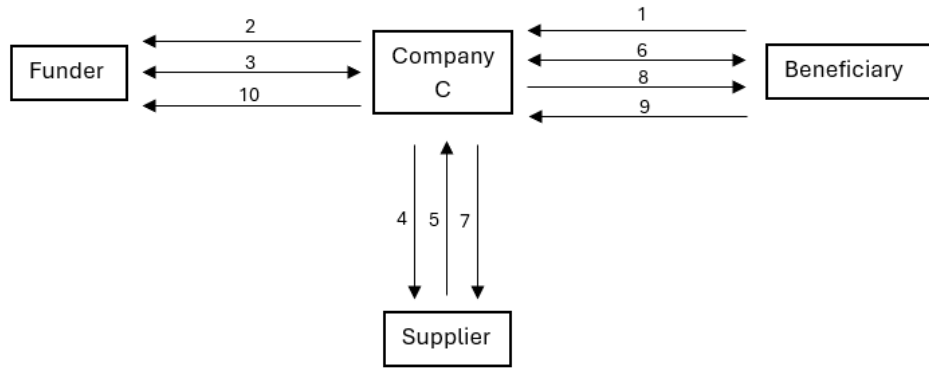
Source: GPOD, United Kingdom

Proposal of Shariah-Compliant Digital B2B Financing Business Flow and Shariah Structure

1. Working Capital Financing - *Murabahah* Financing Scheme with Promise to Purchase (Wa'd) on Non-Cash Basis without *Wakalah*

Flow:

1. Beneficiary applies for *Murabahah* financing with promise to purchase (wa'd) to Company C.
2. Company C offers funding project to Funder
3. In the event of Funder's approval of the project, an Agency with fee or without fee contract will be executed, where the Funder acts as *Muwakkil* (principal) and Company C as the *Wakil* (agent).
4. Company C, as the wakil, purchases assets from supplier on a non-cash basis.
5. Asset is transferred from the supplier to Company C either by actual possession (*Qabdh Haqiqi*) or constructive possession (*Qabdh Hukmi*).
6. Company C and beneficiary execute *Murabahah* contract.
7. Company C make payments to supplier within agreed period.
8. Asset ownership is transferred to beneficiary either by actual possession (*Qabdh Haqiqi*) or constructive possession (*Qabdh Hukmi*).
9. Beneficiary make payments to Company C.

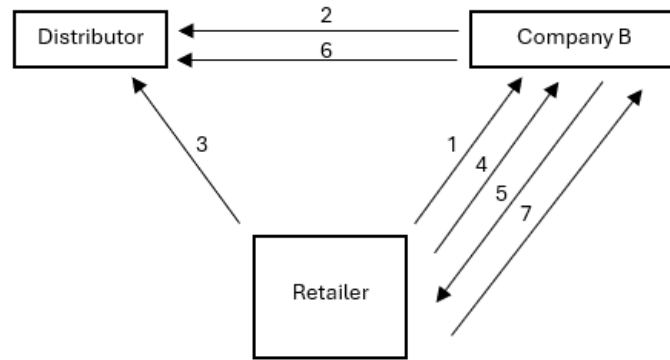


Source: ALAMI, Indonesia

2. Stock Financing – *Murabahah*

Flow:

1. Retailer registers with Company B, agrees to abide by the terms and conditions.
2. Company B purchases goods as requested by Retailer from Distributor and will be paid upon confirmation of possession of goods by the Retailer.
3. Retailer takes possession of goods on behalf of Company B from Distributor. The ownership of the good is transferred to Company B.
4. Retailer chooses tenure, invoice amount and invoice number to proceed with transaction in the application with the option to pay through Company B by choosing the financing option.
5. Company B sell the goods to Retailer at *Murabahah* sale price (cost + profit) on a deferred basis, and the ownership of the goods will be transferred to the Retailer.
6. Upon confirmation of possession of goods by retailer, Company B makes payment to the Distributor via the Distributor's account.
7. Retailer pays Company B the *Murabahah* sale price (cost + profit) at agreed period.

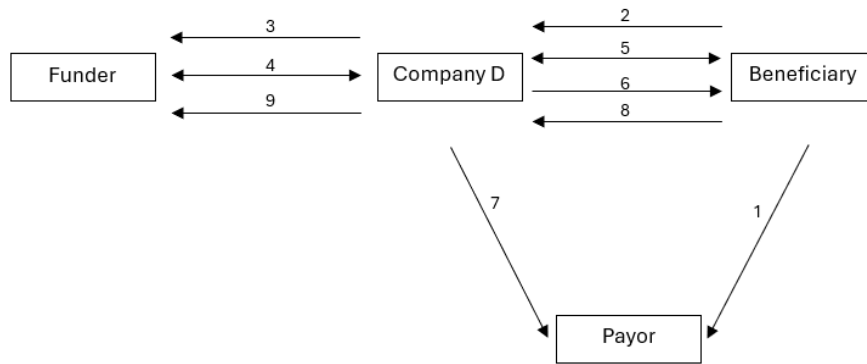


Source: ALAMI, Indonesia

3. Invoice Financing - *Wakalah bil Ujrah* and *Qard* Financing Scheme

Flow:

1. There is an agreement that creates a debt relationship between the Beneficiary and the Payor, as evidenced by an invoice issued by the Beneficiary to the third party (Payor), which serves as the basis for services and/or financing provided by the Payor.
2. Beneficiary, having the invoice, applies for service and/or financing to Company D.
3. Company D offers project funding to Funder.
4. In the event of Funder's approval of the project, contract of Agency with fee or without fee will be executed, where the Funder acts as *Muwakkil* and Company D as the *Wakil*.
5. Company D, as an agent to Funder, executes *Wakalah bil Ujrah* contract with Beneficiary for the service of debt collection; Company D as *Wakil* and Beneficiary as *Muwakkil*
6. Company D gives financing with *Qard* to Beneficiary.
7. Company D makes payment to the third party (Payor) for the Beneficiary's debt.
8. The Beneficiary pays the fee for the *Wakalah bil Ujrah* contract, and payment of the *Qard* contract to Company D.
9. Company D distributes returns to the Funder.

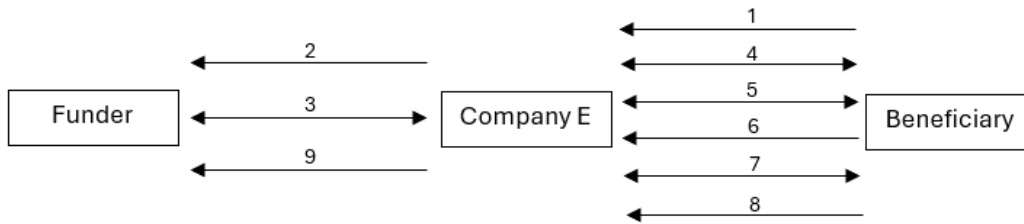


Source: ALAMI, Indonesia

4. Supply Chain Financing - *Musharakah* Financing Scheme

Flow:

1. Beneficiary applies for *Musharakah* financing to Company E.
2. Company E offers funding project to Funder
3. In the event of Funder's approval of the project, a contract of Agency with fee or without fee will be executed, where the Funder acts as *Muwakkil* and Company E as the *Wakil*.
4. Company E, on behalf of Funder, executes *Musharakah* contract with Beneficiary
5. Beneficiary and Company E (on behalf of Funder) injects their capital for the business (subject matter of *Musharakah*).
6. Beneficiary, with authorisation from Company E, runs the business.
7. The profit/loss is divided between Company E and Beneficiary as agreed in the *Musharakah* contract.
8. Beneficiary returns Company E's capital at the end of financing term.
9. Company E distributes the return to Funder.




Source: ALAMI, Indonesia

4.7 Key Recommendation Group 3 - Ecosystem Development in The Pillar of People (Consumer and Talent) and Technology and Infrastructure in Shariah-compliant Digital Financing

While regulatory and legal reforms provide the structural backbone of the ecosystem, the analysis makes clear that human, institutional, and societal capacity constraints represent equally binding limitations on adoption and sustainability. Low Shariah digital finance literacy, limited consumer trust, talent asymmetry, siloed organisational structures, and uneven digital access collectively undermine the effectiveness of policy reforms unless addressed through a coordinated capacity-building agenda.

At the institutional level, capacity building must focus on dual-competency development. Pakistan does not lack Shariah scholars, finance professionals, or technologists in isolation; rather, it lacks integrated capability across these domains. Regulatory authorities, Islamic NBFCs, fintech firms, and Shariah governance bodies should be supported through structured training programmes, certification pathways, and applied toolkits that combine Shariah principles, digital finance operations, data governance, and risk management. International benchmarks demonstrate that ecosystems which professionalise Shariah governance and embed cross-functional expertise achieve higher compliance quality and faster innovation cycles.

Consumer-facing literacy and trust-building initiatives must be treated as core policy instruments rather than ancillary outreach. The empirical findings show that confusion around “interest-free” claims, fear of fraud, and weak understanding of Shariah digital products materially suppress adoption. A national Shariah digital finance literacy framework should therefore be established, integrating consumer education, standardised disclosures, and ethical communication requirements. This framework should prioritise clarity, local language accessibility, and practical



understanding over abstract jurisprudence, ensuring that consumers can make informed decisions and develop confidence in regulated Shariah-compliant platforms.

Inclusion initiatives should explicitly recognise Pakistan's uneven digital infrastructure and socio-economic diversity. Capacity building in this domain should support hybrid delivery models that combine digital platforms with agent-assisted onboarding, offline-to-online integration, and community-based engagement, particularly for MSMEs and rural users. International experience confirms that purely digital models do not achieve inclusive scale in environments with connectivity and literacy gaps; instead, inclusion requires adaptive service design and institutional readiness.

Finally, ecosystem-wide capacity building should emphasise collaboration and trust rather than isolated skill development. Joint training programmes, regulator-industry knowledge exchanges, and shared innovation initiatives can help break institutional silos and foster a common understanding of Shariah digital finance objectives. Over time, this shared capacity will enable Pakistan's ecosystem to transition from fragmented experimentation to coordinated execution.

In combination, these capacity-building, literacy, and inclusion initiatives ensure that policy and regulatory reforms translate into real-world adoption, institutional resilience, and sustainable impact, anchoring Shariah digital finance as a credible and inclusive component of Pakistan's financial system.

Key Policy Intervention Recommendations Pillar 5: Trust, Literacy, and Human Capital

Policy Domain	Strategic Focus	Key Policy Intervention Recommendation (Consolidated)	Why This Is Well-Fitted for Pakistan
Policy Formulation	Trust, literacy, and competency standards	Integrate Shariah literacy, digital finance education, consumer protection, and ethical conduct into a unified policy framework. In parallel, define cross-disciplinary competency standards covering Shariah, finance, technology, and data governance for industry professionals.	Pakistan’s trust deficit is systemic, not product-specific. A unified framework reduces fragmentation, while competency standards address the root cause of talent silos across Shariah, business, and technology domains.
Operational Development	Consistent consumer experience and integrated teams	Standardise disclosure formats, terminology, and communication practices across digital platforms. Encourage integrated organisational structures that bring Shariah, technology, and business teams into shared delivery models.	Clear communication reduces mis-selling and confusion around “interest-free” claims. Integrated teams improve speed, accountability, and product quality in digital Islamic finance delivery.


Capacity Building	Trust enforcement and talent depth	Strengthen regulatory and industry capacity in fraud detection, ethical marketing, complaint handling, and cross-functional professional development through joint training, certification, and rotational exposure.	Consumer trust and talent readiness are mutually reinforcing. Building enforcement and professional depth ensures that growth does not outpace integrity or capability
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Re-centering People in Pakistan’s Shariah-Compliant Digital Finance Ecosystem

The long-term sustainability of Shariah-compliant digital finance in Pakistan depends not only on regulatory clarity or product innovation, but fundamentally on the people who use, design, govern, and supervise the system. Consumer trust and institutional human capital form the social infrastructure of any financial ecosystem. Where trust is weak and talent is fragmented, even well-designed regulations and products struggle to achieve scale or credibility.

In Pakistan, Shariah-compliant digital finance operates in an environment characterised by low financial and digital literacy, persistent confusion around Shariah permissibility, and rising exposure to digital fraud. At the same time, the supply side faces a structural talent asymmetry: Shariah scholars, technologists, and business professionals often operate in functional silos, with limited shared understanding of each other’s constraints and responsibilities. This fragmentation weakens product integrity, slows execution, and increases operational and reputational risk.

International experience demonstrates that successful Islamic digital finance ecosystems treat consumer trust and talent development as mutually reinforcing objectives. Jurisdictions such as Malaysia and Indonesia combine Shariah literacy with consumer protection, while Singapore and the United Kingdom reinforce trust through strong conduct supervision and professional competency standards. On the talent side, leading ecosystems invest deliberately in cross-functional capability, ensuring that Shariah governance, technology, and business strategy evolve in tandem rather than in isolation.




For Pakistan, addressing people-related constraints therefore requires a unified approach. Consumer literacy, ethical conduct, fraud prevention, and professional competency development must be addressed as an integrated policy agenda rather than as fragmented initiatives. The recommendations below outline how policy formulation, operational development, and capacity building can collectively strengthen trust, improve consumer outcomes, and build the integrated human capital necessary to support the next phase of Shariah-compliant digital finance growth.

A. Policy Formulation: Integrating Trust, Literacy, and Human Capital Development

At the policy formulation level, Pakistan's primary challenge lies in fragmentation rather than absence. Consumer education, Shariah literacy, digital finance awareness, and consumer protection are often addressed through parallel initiatives led by different institutions, with limited coordination or shared objectives. This fragmentation weakens impact and leaves consumers vulnerable to misunderstanding, mis-selling, and fraud.

Policy intervention should therefore focus on integrating Shariah literacy, digital finance education, and consumer protection into a single, coherent framework for Shariah-compliant digital finance. Such integration ensures that claims of Shariah permissibility are consistently matched by clear explanations, fair disclosure, and enforceable conduct standards. International evidence shows that when literacy and protection are treated together, consumer confidence improves and market discipline strengthens. Malaysia's approach is particularly instructive in this regard, where Shariah education is embedded within broader consumer protection architecture rather than treated as a standalone religious matter.

In parallel, policy formulation must address the structural roots of talent fragmentation. Pakistan possesses a deep pool of Shariah scholars and a growing cohort of digital and fintech professionals, but the absence of cross-disciplinary competency standards allows functional silos to persist. Policy should therefore articulate baseline competency expectations that span Shariah knowledge, financial acumen, technological literacy, and data governance. These standards need not be prescriptive, but they should provide a common reference point for regulators, institutions, and training providers.



By defining what “fit for purpose” human capital looks like in a Shariah-compliant digital finance environment, policy can guide institutional investment in talent development and signal the importance of integrated capability. This approach shifts talent development from an ad hoc, institution-specific concern to a systemic enabler of market integrity and innovation.

B. Operational Development: Delivering Consistency in Consumer Experience and Institutional Execution

Policy intent only translates into trust when reflected in consistent operational practice. In Pakistan’s digital finance landscape, consumer confusion often arises not from product complexity alone, but from inconsistent terminology, unclear disclosures, and varying interpretations of Shariah concepts across platforms. In a digital environment where face-to-face explanation is limited, such inconsistency materially increases mis-selling risk and erodes confidence.

Operational development should therefore prioritise standardisation of disclosure formats, terminology, and communication practices for Shariah-compliant digital finance products. Clear, plain-language articulation of Shariah structures, rights, and obligations is essential to ensure that consumers can make informed decisions. International benchmarks show that standardised disclosures improve comparability, reduce disputes, and strengthen conduct supervision without constraining innovation.

Within institutions, operational incentives should be recalibrated to encourage integrated team structures. Too often, Shariah review, technology development, and business strategy operate sequentially rather than collaboratively, resulting in delays, redesigns, and diluted accountability. Experience from leading jurisdictions demonstrates that embedding Shariah expertise within product and technology teams rather than positioning it as an external checkpoint, improves speed, coherence, and Shariah integrity.

For Pakistan, operational development should therefore promote delivery models in which Shariah scholars, technologists, and business leaders share responsibility for outcomes across the product lifecycle. This integration reduces execution risk and helps institutions respond more effectively to evolving market and regulatory expectations.



C. Capacity Building: Deepening Trust Enforcement and Professional Depth

Sustaining trust and integration requires deliberate investment in capability. Capacity building must address both the demand side, through stronger consumer protection and fraud mitigation, and the supply side, through development of professionals equipped to operate at the intersection of Shariah and digital finance.


On the consumer side, regulatory and industry actors need enhanced capability in fraud detection, ethical marketing oversight, complaint handling, and redress mechanisms. As digital channels expand, fraud risks evolve rapidly, and trust can be undermined quickly if enforcement capacity lags innovation. International experience, particularly from Singapore and the UK, shows that strong trust enforcement is a prerequisite for sustained digital finance adoption.

On the talent side, capacity development should focus on building dual- and multi-competency professionals rather than narrow specialists. Joint training programmes, professional certification pathways, and structured rotational exposure across Shariah, technology, and business functions can gradually dismantle silos and build shared understanding. Malaysia and Bahrain demonstrate that professionalising Shariah governance through structured training significantly improves compliance quality, while Singapore illustrates the value of interdisciplinary exposure in digital finance ecosystems.

For Pakistan, targeted capacity-building initiatives, supported by regulators, industry associations, and academic institutions which can accelerate the emergence of a professional class capable of delivering Shariah-compliant digital finance with both technical excellence and ethical integrity.

Why This Intervention Set Fits Pakistan's Context

This integrated approach is well fitted to Pakistan's Shariah-compliant digital finance landscape because it addresses foundational constraints rather than surface symptoms. It recognises that trust deficits and talent fragmentation are systemic issues that cannot be resolved through isolated campaigns or ad hoc training. By aligning literacy, conduct, and competency development within



a coherent framework, Pakistan can strengthen consumer confidence while building the human capital required for scale.

Importantly, these interventions work within Pakistan's existing institutional realities. They do not rely on sweeping legal reform or unrealistic assumptions about capacity, but instead focus on coordination, standardisation, and capability development, areas where international evidence shows high impact at manageable cost. By investing in people as a core pillar of ecosystem development, Pakistan can create the social and professional foundations necessary for Shariah-compliant digital finance to grow credibly, inclusively, and sustainably.

Key Policy Intervention Recommendations Pillar 6: Enabling Interoperability, Inclusion, and Scalable Digital Rails for Shariah-Compliant Finance

Technology as the Enabling Layer, Not the Binding Constraint

Technology and infrastructure form the invisible backbone of Shariah-compliant digital finance. While products, institutions, and regulation shape market behaviour, it is digital rails, payments, identity, data, and platform connectivity, that ultimately determine whether Shariah-compliant finance can scale efficiently, reach underserved populations, and maintain integrity in a digital environment.

In Pakistan, the core challenge is not the absence of digital infrastructure, but uneven interoperability, fragmented governance, and misalignment between financial regulation and national digital systems. Platforms such as Raast, NADRA-based e-KYC, and a growing fintech ecosystem represent significant progress. However, these assets are not yet fully orchestrated to support seamless, Shariah-compliant digital financing across institutions, sectors, and geographies.

International benchmarks consistently show that successful digital Islamic finance ecosystems treat interoperability as a governance challenge rather than a purely technical one. Malaysia and Indonesia demonstrate how coordinated mandates can align payment systems, digital identity, and financial supervision. Singapore illustrates how open architecture and API-led connectivity can

coexist with strong data governance and cybersecurity. These lessons are particularly relevant for Pakistan, where institutional plurality and infrastructure heterogeneity are structural realities.

For Pakistan, strengthening the technology and infrastructure pillar therefore requires a shift from platform-by-platform development toward ecosystem-level coordination. Policy formulation, operational development, and capacity building must work together to ensure that digital rails support does not constrain the scale, inclusion, and Shariah integrity of digital finance.

Policy Domain	Strategic Focus	Key Policy Intervention Recommendation (Consolidated)	Why This Is Well-Fitted for Pakistan
Policy Formulation	Interoperability and inclusion governance	Define clear interoperability and data governance standards covering payments, e-KYC, data sharing, and platform connectivity, aligned with national inclusion and connectivity strategies.	Fragmented infrastructure is a governance issue, not merely technical. Clear standards align innovation with inclusion and system stability.
Operational Development	Shared digital rails and hybrid delivery	Enable shared digital rails linking Raast, NADRA-based e-KYC, and financial service providers, while promoting hybrid digital-agent delivery models for underserved areas.	Pakistan’s connectivity gaps require pragmatic hybrid solutions. Shared rails reduce costs and accelerate ecosystem integration.

Capacity Building	Technical supervision and inclusive design	Build regulatory and industry capability in systems integration, API governance, cybersecurity oversight, and inclusive service design.	Without supervisory and design capability, interoperability and inclusion initiatives will underperform or fragment further.
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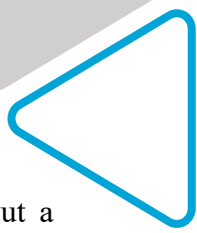
A. Policy Formulation: Establishing Interoperability Governance and Digital Alignment

At the policy formulation level, Pakistan’s principal challenge is the absence of a unified governance framework for interoperability across payments, identity, data, and digital financial services. While individual systems have matured in isolation, the lack of clear policy direction on how these systems interconnect creates uncertainty for institutions and limits ecosystem-wide efficiency.

Policy intervention should therefore focus on defining clear interoperability principles and governance expectations for Shariah-compliant digital finance. This includes articulating how payment systems, e-KYC, data sharing, and platform connectivity should align across regulators and infrastructure providers. Importantly, this does not require mandating a single technical architecture. International experience demonstrates that interoperability is most effective when policy defines outcomes and governance responsibilities, leaving implementation flexibility to industry.

Malaysia provides a relevant reference, where coordinated regulatory mandates align payments, identity, and financial supervision without forcing institutional consolidation. Singapore further demonstrates that activity-based regulation and open architecture can support interoperability while preserving competition and innovation. These approaches are well suited to Pakistan’s context, where multiple regulators and infrastructure providers must coexist.

In parallel, policy formulation should explicitly link Shariah-compliant digital finance objectives with national digital inclusion and connectivity strategies. Too often, financial inclusion and digital infrastructure planning proceed on parallel tracks. Aligning these agendas ensures that Shariah-



compliant digital finance does not become an urban or platform-specific phenomenon, but a scalable tool for inclusive economic participation.

B. Operational Development: Translating Interoperability into Usable Digital Rails

Operationally, the value of policy coherence is realised only when institutions can connect, transact, and onboard users seamlessly. In Pakistan, operational fragmentation manifests through inconsistent e-KYC requirements, limited API standardisation, and partial integration between payment systems and financing platforms. These frictions increase cost, slow deployment, and disproportionately affect smaller Islamic NBFCs and fintech providers.

Operational development should therefore prioritise enabling shared digital rails across payments, identity verification, and data exchange. Aligning operational standards between Raast, NADRA-based e-KYC, and financial service providers can significantly reduce duplication and onboarding friction. International benchmarks show that such alignment improves both user experience and supervisory oversight, as regulators gain clearer visibility into end-to-end transaction flows.

Singapore's experience with API-led interoperability demonstrates how clear governance and technical standards enable diverse providers to interconnect securely. Malaysia and Indonesia further show that operational coordination across regulators and infrastructure operators accelerates adoption without compromising control. These lessons suggest that Pakistan's focus should be on harmonising interfaces and processes rather than building new platforms.

Operational attention is also required to address uneven infrastructure access. Hybrid delivery models, combining digital platforms with agent-assisted or offline-to-online mechanisms, have proven effective in Indonesia and Malaysia. For Pakistan, operationalising such models ensures that digital finance expansion does not exacerbate existing rural–urban divides, particularly in Shariah-compliant financing targeted at MSMEs and informal sectors.

C. Capacity Building: Strengthening Technical, Supervisory, and Integration Capabilities

Even with coherent policy and aligned operations, interoperability cannot be sustained without institutional and human capability. Capacity constraints, both within regulators and industry, remain a significant barrier to effective technology governance in Pakistan. Technical supervision, API governance, cybersecurity oversight, and systems integration expertise are unevenly distributed.

Capacity building should therefore be treated as a strategic investment. Regulatory agencies require enhanced capability to supervise interconnected systems, assess digital risk, and oversee data governance in a Shariah-sensitive context. International experience shows that jurisdictions that invest early in technical supervisory capacity are better positioned to manage innovation without resorting to restrictive controls.

Within industry, capacity development should focus on systems integration, platform governance, and third-party risk management. As Islamic NBFCs and fintechs increasingly rely on shared infrastructure and partnerships, the ability to manage dependencies, ensure data integrity, and maintain Shariah compliance across digital workflows becomes critical.

Targeted training, cross-sector knowledge exchange, and applied technical guidance can gradually build these capabilities. Singapore's emphasis on continuous professional development in digital governance and Malaysia's regulator–industry engagement models offer practical lessons for Pakistan in embedding capacity development into ecosystem growth.

Why This Intervention Set Fits Pakistan's Context

This technology and infrastructure intervention set is well aligned with Pakistan's institutional and market realities. It recognises that Pakistan already possesses key digital assets, but lacks the orchestration needed to unlock their full value for Shariah-compliant digital finance. By focusing on governance, alignment, and capability, rather than new platforms or heavy capital investment, the approach is both realistic and scalable.

Crucially, these interventions support inclusion without assuming universal connectivity or technical maturity. Hybrid delivery models shared digital rails, and capacity-led integration allow

Pakistan to expand Shariah-compliant digital finance while managing risk and preserving Shariah integrity.

By treating technology as an enabling layer rather than a standalone solution, Pakistan can build a resilient digital infrastructure foundation that supports innovation, supervision, and inclusion in equal measure, positioning Shariah-compliant digital finance as a credible and scalable component of the national financial system.


CHAPTER 5: CONCLUSION

Shariah-compliant digital financing represents one of the most strategically significant intersections between Pakistan's Islamic finance transformation agenda and its broader digital financial inclusion objectives. As demonstrated throughout this report, Pakistan possesses many of the foundational elements required to build a credible, scalable, and values-based Shariah-compliant digital financing ecosystem. These include strong constitutional and judicial momentum toward a *riba*-free financial system, a rapidly expanding digital payments infrastructure, growing participation by fintech-enabled NBFCs, and a large and underserved population with a clear preference for Shariah-aligned financial solutions. However, the evidence presented across the six analytical pillars confirms that the ecosystem remains transitional rather than mature, characterised by fragmented coordination, uneven execution capability, and persistent trust and literacy gaps.

The central conclusion of this study is that the primary constraint facing Shariah-compliant digital financing in Pakistan is not the absence of regulation, demand, or institutional participation, but rather the lack of systemic alignment across policy formulation, operational implementation, ecosystem integration, and human capital development. While individual initiatives and institutions have demonstrated progress, these efforts remain largely siloed and insufficiently orchestrated to generate sustained scale, innovation, and credibility. As a result, the ecosystem continues to operate in a compliance-driven mode rather than a genuinely digital-native and value-driven Islamic finance paradigm.

Consolidated Insights Across the Six Pillars

From a regulatory perspective, the findings indicate that Pakistan has achieved baseline regulatory sufficiency for digital financing, particularly through SECP's digital lending frameworks for NBFCs and SBP's enabling digital infrastructure initiatives. Nevertheless, the absence of a formalised coordination architecture for Shariah-compliant digital financing has resulted in fragmented supervisory expectations, duplicative processes, and uncertainty regarding long-term regulatory end-states. International benchmarking demonstrates that leading jurisdictions have not relied solely on new legislation, but instead on structured inter-agency coordination, clear policy signalling, and predictable supervisory pathways. Without similar coherence, Pakistan risks




slowing innovation while increasing compliance friction for both new entrants and converting institutions.

The analysis of key industry players confirms that institutional presence is no longer the binding constraint. Islamic banks, fintech firms, NBFCs, telecom operators, and digital platforms are all active within the ecosystem. However, their interaction remains limited, opportunistic, and largely pilot based. The lack of anchor-led ecosystem partnerships and sector-specific value chain integration has constrained scalability, profitability, and real-sector impact. Evidence from FGDs consistently highlights that the next phase of growth will depend less on regulatory permissions and more on execution capability, ecosystem depth, and the ability to move from isolated products toward integrated financing solutions embedded within real economic activity.

With respect to people and consumers, the report identifies this pillar as the most binding structural constraint across the ecosystem. On the demand side, awareness of Shariah-compliant digital financing is increasing, but understanding remains shallow, particularly regarding Shariah contracts, pricing mechanisms, and risk-sharing principles. Misinterpretation of “interest-free” financing continues to undermine trust and satisfaction. On the supply side, the talent asymmetry between Islamic finance expertise and digital technology capability remains pronounced. Siloed organisational structures, limited cross-functional training, and insufficient industry-wide capacity-building initiatives restrict innovation and weaken governance outcomes. Without a coordinated national effort to address both consumer literacy and professional talent development, adoption and scale will remain uneven and fragile.

The products and services pillar reveals that existing offerings, while Shariah-permissible, remain narrow in scope and largely derivative of conventional financing models. BNPL, nano-financing, and basic working capital solutions dominate the landscape, with limited progression toward digital-native Islamic products that meaningfully differentiate on value, risk-sharing, or socio-economic impact. The absence of structured guidance for Shariah-compliant embedded finance and open banking further constrains distribution, personalisation, and ecosystem integration. International experience suggests that regulatory clarity in these areas is a critical enabler of next-generation product innovation, particularly for MSMEs and value-chain-based financing.

Shariah governance and compliance emerge as an area where expectation exceeds assurance. While most institutions have formal Shariah structures in place, governance practices remain



uneven, decentralised, and often checklist-oriented. Consumers assume Shariah compliance but express low confidence due to limited transparency, inconsistent disclosure, and lack of accessible scholarly assurance. The findings suggest that Pakistan faces an assurance gap rather than a compliance gap. Closing this gap will require moving beyond episodic Shariah approvals toward embedded, auditable, and operationally integrated Shariah governance frameworks supported by standardised documentation, disclosures, and supervisory expectations.


Finally, the technology and infrastructure pillar confirms that Pakistan is digitally enabled but not digitally mature. Foundational systems such as Raast, NADRA, and e-KYC provide a strong base for digital financing, yet interoperability remains limited and the adoption of advanced technologies is uneven. Connectivity gaps, particularly in rural and underserved areas, further constrain inclusion outcomes. The ecosystem is therefore capable of supporting basic digital operations but lacks the depth, resilience, and integration required to support sophisticated, scalable Shariah-compliant digital financing models.

Strategic Implications for Pakistan’s Shariah-Compliant Digital Finance Agenda

Taken together, these findings imply that Pakistan stands at a critical inflection point. The convergence of regulatory intent, market demand, and technological capability creates a narrow but powerful window to shape the future trajectory of Shariah-compliant digital financing. If current fragmentation persists, growth is likely to remain incremental, compliance-oriented, and vulnerable to trust erosion. Conversely, if policymakers and industry stakeholders act in a coordinated and deliberate manner, Pakistan has the potential to emerge as a regional reference point for inclusive, digital-native Islamic finance.

The report’s policy and ecosystem recommendations emphasise a phased and pragmatic approach rather than wholesale reform. At the policy level, establishing formal inter-agency coordination mechanisms and articulating clear end-state pathways for Islamic NBFC establishment and conversion are essential to reduce uncertainty and align incentives. Operationally, harmonising supervisory processes, licensing workflows, and digital onboarding standards can materially reduce time-to-market and compliance friction without compromising Shariah integrity.

Equally important is the shift toward ecosystem-based growth models anchored in real-sector integration. Structured partnerships between Islamic banks, fintechs, NBFCs, and sectoral value



chains can unlock scale, improve unit economics, and ensure that Shariah-compliant digital financing delivers tangible socio-economic impact. These partnerships should be complemented by national-level capacity-building initiatives that address both consumer literacy and professional talent development, recognising that trust and adoption are fundamentally knowledge-driven.

From a product and governance perspective, the development of practical Shariah digital financing playbooks, embedded finance frameworks, and standardised disclosure templates would significantly lower innovation costs and reduce Shariah risk. Such tools can help the industry move beyond replication toward genuinely Islamic-first digital solutions aligned with the objectives of Shariah (Maqasid al-Shariah), including financial inclusion, fairness, and real-economic value creation.

Concluding Observations

In conclusion, Shariah-compliant digital financing in Pakistan is no longer a conceptual aspiration but an emerging reality. The ecosystem has progressed beyond experimentation, yet it has not fully transitioned into a coherent, scalable, and trusted system. The evidence presented in this report underscores that future success will depend not on isolated reforms, but on systemic alignment across regulation, industry execution, human capital, and technology.

Pakistan's commitment to a *riba*-free financial system provides a powerful normative anchor. Harnessing this commitment through digital innovation offers an opportunity not only to expand access to finance, but to redefine how Islamic finance is delivered, experienced, and trusted in the digital age. Achieving this vision will require sustained leadership, coordinated action, and a deliberate shift from compliance-centric thinking toward ecosystem-centric development. If these conditions are met, Shariah-compliant digital financing can become a cornerstone of Pakistan's inclusive and ethical financial future rather than a peripheral alternative within it.

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