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Islamic FinTech: Pathways for Growth in Saudi Arabia

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Contributed by



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Islamic FinTech: Pathways for Growth in Saudi Arabia

At its core, Islamic FinTech represents the intersection of technology and Islamic finance. It incorporates innovative digital tools—such as blockchain, artificial intelligence, and mobile applications—into the framework of Islamic finance, which prohibits interest (roughly *riba*)¹, certain types and modes of risk and speculation (*gharar*), and investments in unlawful (haram) activities. This integration allows for new modes of financial inclusion, offering services such as peer-to-peer financing, Islamic crowdfunding, digital banking, and sukuk issuance on blockchain platforms.

To reiterate, Islamic FinTech is not just a replication of conventional FinTech but a transformative approach that reimagines financial solutions through the lens of the Shariah, complying with both its technical aspects and its principles. While the market presents immense opportunities, navigating it requires a nuanced understanding of both Islamic finance principles and the technological and regulatory landscapes of various jurisdictions.

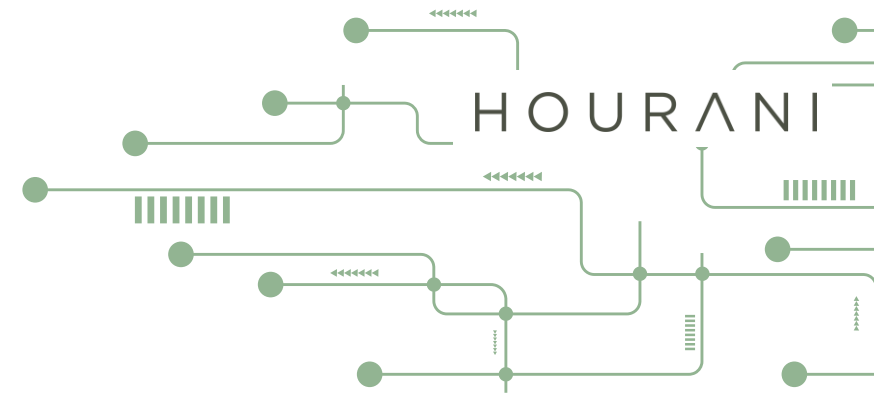
This article provides a practical guide for entrepreneurs interested in entering the Islamic FinTech space. It focuses on the key market of Saudi Arabia, detailing the foundational steps for launching an Islamic FinTech venture. It will cover critical areas such as Shariah governance, market entry, and regulatory compliance. Through this, aspiring entrepreneurs can gain the knowledge and confidence needed to contribute meaningfully to this burgeoning sector and bring their ideas and services to life for all customers seeking better solutions - whether they be Muslim or not. In this era of digital transformation and global connectivity, Islamic FinTech is uniquely positioned to address the unmet needs of communities worldwide.

ISLAMIC FINTECH IS NOT JUST A REPLICATION OF CONVENTIONAL FINTECH BUT A TRANSFORMATIVE APPROACH THAT REIMAGINES FINANCIAL SOLUTIONS THROUGH THE LENS OF THE SHARIAH.

¹ Prudent experts—those with background in Islamic law, finance, and law—should understand that interest, as a term of art, is not exactly equivalent to *riba*, as a term of art. There may be monetary amounts that are referred to as interest under a Western financial model that are not considered *riba*, just as there are forms of *riba* that may not be considered interest.

01

Step-by-step process to launch an Islamic FinTech



1.1 Concept development

The journey of creating an Islamic FinTech begins with a well-defined concept and plan that identifies and addresses a genuine need in the market. At its core, this is the basic task of any entrepreneurial endeavour. In this case, the process involves finding innovative ways to solve financial challenges while staying true to Islamic principles. A successful concept bridges the gap between traditional finance, underserved Muslim communities, and the transformative potential of technology.

Islamic FinTechs have gained significant traction in areas such as payments, alternative finance, and (crowd-) funding solutions. For example, Buy-Now-Pay-Later (BNPL) services and tailored *ijara* models have emerged as popular choices, catering to specific market demands to make purchases, education, and housing available and more accessible in a Shariah-compliant manner.

Meanwhile, deposits, digital assets, enabling technologies, and wealth management represent additional areas where Islamic FinTechs have focused.² As the Islamic FinTech ecosystem evolves, emerging trends suggest that digital assets, capital markets, social finance, and *takaful* (Islamic insurance) will experience rapid growth in the near future.

However, identifying a niche or opportunity is only part of the challenge. Islamic FinTechs must not only comply with the technical requirements of Shariah—such as avoiding interest and linked contracts—but ideally also embody Islamic ethics, emphasizing fairness, risk-sharing between the financier and the client, and service quality that surpasses conventional financial solutions.

It is this dual commitment to compliance and principle that most clearly distinguishes Islamic FinTech from its conventional counterparts. Anyone can make a model that begrudgingly follows the letter of Islamic law, but, often, what Muslims seek is not a mere checkmark from a Shariah advisor, but the feeling that they have done what is right under their faith.

ISLAMIC FINTECH ACTS AS A BRIDGE — CONNECTING THE UNDERSERVED MUSLIM MARKET WITH THE TRANSFORMATIVE POWER OF DIGITAL FINANCE.

A critical enabler for growth in the Islamic FinTech sector is accessibility to capital. Startups often struggle to secure funding, particularly when competing with well-established players in the broader FinTech and conventional finance space. Connecting with clients and building trust within Muslim communities are equally vital, as financial services often rely on reputation and credibility. Entrepreneurs must also navigate regulatory environments, which can vary significantly across jurisdictions. Countries with clear and supportive regulatory frameworks for Islamic finance—such as Malaysia or Saudi Arabia, among the leaders of the market today—offer fertile ground for innovation and scalability.

Thorough market research underpins every successful concept. Entrepreneurs need to deeply understand the needs and behaviours of their target audience, analyse competitors, and stay ahead of technological trends. For instance, markets with limited access to Shariah-compliant payment systems or wealth management tools, but with large Muslim populations, present ripe opportunities for innovation. Moreover, the scalability of a concept is crucial—solutions designed with geographic expansion in mind will be better positioned to capitalize on the global growth of Islamic FinTech.

Concept development is just the first step; delivering those solutions in a way that aligns with faith-based values is the fundamental goal of Islamic FinTechs. With a concept in place, then, the next step is to ensure that the basic transactional structure and offerings are fully compliant with Shariah, a process that requires careful planning and expert guidance.

THE SCALABILITY OF A CONCEPT IS CRUCIAL—SOLUTIONS DESIGNED WITH GEOGRAPHIC EXPANSION IN MIND WILL BE BETTER POSITIONED TO CAPITALIZE ON THE GLOBAL GROWTH OF ISLAMIC FINTECH.

1.2 Structuring Shariah-compliant solutions

For an Islamic FinTech to be truly Islamic, its solutions must be firmly grounded in Shariah compliance. This is not merely a branding exercise; it is a foundational and technical requirement. However, achieving Shariah compliance in modern financial contexts is far from straightforward. Shariah, traditionally a juristic legal system, does not have a single unified set of rules but is instead derived from interpretations of the Qur'an, Sunnah (Prophetic traditions), and juristic consensus. Moreover, Islamic jurisprudence is represented by four major schools of law: Hanafi, Maliki, Shafi'i, and Hanbali, each with nuanced approaches.

FOR AN ISLAMIC FINTECH TO BE TRULY ISLAMIC, ITS SOLUTIONS MUST BE FIRMLY GROUNDED IN SHARIAH COMPLIANCE.

Jurisdictions often have preferences for certain schools—Saudi Arabia uses the Hanbali school, while Malaysia frequently applies Shafi'i interpretations, Pakistan follows the Hanafi school, while Morocco follows the Maliki school. However, modern Islamic finance typically synthesizes rulings from all schools to create comprehensive, practical, and universally applicable financial structures in order to smoothly integrate with the modern conventional financial system.

This synthesis must be systematic and principled, and it requires expertise from qualified Shariah scholars to avoid arbitrary or inconsistent interpretations and applications. One of the most important tools for ensuring consistent and credible Shariah compliance is adherence to standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). AAOIFI is widely regarded as the leading Shariah standard-setting organization in the world, influencing Islamic finance practices globally.

Its standards have been adopted into law in countries such as Bahrain, Oman, Pakistan, and Sudan, and are frequently referenced by regulators and institutions in Malaysia, Saudi Arabia, the UAE, and beyond. Even jurisdictions outside the Islamic world, including the UK, South Africa, and France, recognize the importance of AAOIFI standards for internal compliance frameworks.³ For Islamic FinTechs, leveraging these standards as a minimum baseline for Shariah compliance ensures credibility and market acceptance.

Within the scope of AAOIFI standards, the next step is to design specific financial structures. Popular Shariah-compliant models include:

- Murabaha, a cost-plus financing structure;
- Ijara, a lease-based financing model;
- Mudaraba, a limited partnership or equity financing structure where one party provides capital and the other provides expertise, sharing profits according to an agreed ratio; and
- Musharaka, a joint venture where all parties contribute capital and share profits and losses.

Each structure serves different financial needs, from consumer financing to investment, and selecting the right one(s) requires alignment with both Shariah principles and the commercial objectives of the FinTech.

Engaging the right expertise is critical during this phase. Shariah advisers, whether Shariah scholars or legal advisers with deep Shariah expertise, typically take the lead in designing the initial financial structures, ensuring compliance with Islamic principles. Shariah advisory boards then review and certify these structures, lending them credibility. Legal professionals and regulatory experts play a crucial role in confirming that these structures comply with jurisdiction-specific laws and regulations. These processes must, of course, also account for commercial viability; structures must not only be Shariah-compliant but also practical and appealing to customers and profitable for the entrepreneur.

In some cases, a single firm may house expertise in multiple domains—Shariah compliance and legal guidance—but more often, collaboration among specialized parties is required. By starting with a strong Shariah-compliant framework and refining it to meet market demands, Islamic FinTechs can develop solutions that are both principled and profitable. This step lays the foundation for the next phase: refining these structures into commercially viable offerings.

² Global Islamic Fintech Report, 2023/24.

³ <https://aaoifi.com/feature/feature2/?lang=en#:~:text=AAOIFI%20Shari%27ah%20standards%20have,Bank%20Group%2C%20a%20multilateral%20institution.>

1.3 Selecting commercially viable structures

Once Shariah-compliant structures are outlined, the next step is to evaluate their commercial viability. While adherence to Islamic principles is crucial, the success of an Islamic FinTech as a business and in the market ultimately hinges on its ability to deliver financial sustainability for the company and tangible value for its consumers. This balance requires a deep understanding of both the financial outcomes of proposed structures and their practical implications.

Constructing a detailed, step-by-step transaction flow for each Shariah-compliant structure is critical. For instance, a Murabaha transaction might involve stages such as asset purchase, profit determination, and deferred payment schedules (these representing the core structure, and they must be considered alone, as well as in light of other risk factors).

These transaction flows not only ensure that the design aligns with Shariah principles but also allow for a clearer analysis of the financial results, enabling entrepreneurs to better assess each option. Potential challenges, such as default scenarios or other risks, should be rigorously tested to determine their impact on both the company and the consumer.

The choice of structure also depends on the FinTech's specific application. For example, peer-to-peer (P2P) lending platforms often rely on Mudaraba or Musharaka models, enabling risk-sharing and profit participation between parties.

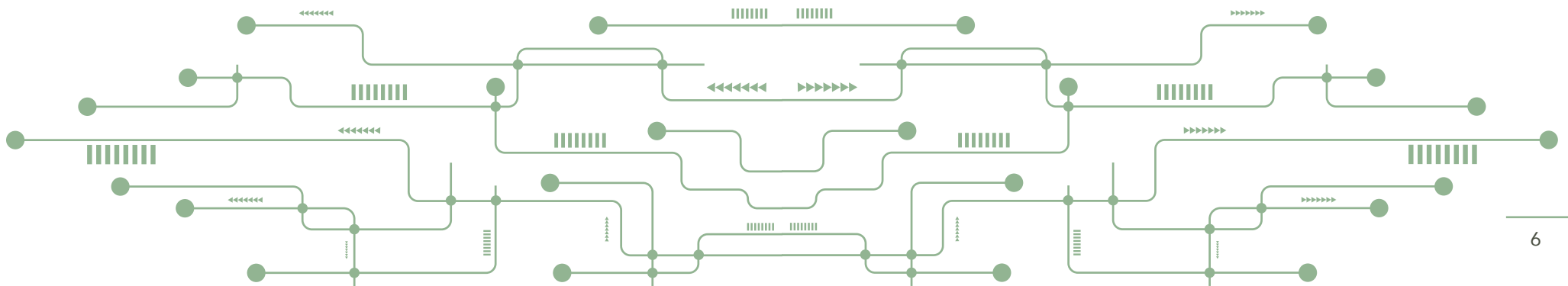
In contrast, crowdfunding platforms may leverage Wakala (agency) arrangements, compound Mudaraba models, or hybrid structures tailored to the needs of the fundseeker and its investors. Matching the right structure to the intended use is vital for ensuring operational efficiency, customer satisfaction, and long-term sustainability.

THE SUCCESS OF AN ISLAMIC FINTECH AS A BUSINESS AND IN THE MARKET ULTIMATELY HINGES ON ITS ABILITY TO DELIVER FINANCIAL SUSTAINABILITY FOR THE COMPANY AND TANGIBLE VALUE FOR ITS CONSUMERS.

By iteratively testing, refining, and selecting the most appropriate structures, Islamic FinTechs can strike the delicate balance between ethical and Shariah compliance and market competitiveness. Of course, while iterating and refining structures is crucial, entrepreneurs must balance this process with cost efficiency. Excessive iterations in pursuit of perfection can lead to exorbitant legal fees and administrative expenses, straining resources before the product even launches.

Moreover, there is no guarantee that additional refinements will yield proportionally better results. Instead, Islamic FinTechs should focus on achieving a structure that meets the core Shariah and commercial objectives. The initial structure can always be refined as the business grows and gains more operational insights. By taking a practical, phased approach, entrepreneurs can minimize costs and speed up their time to market, enabling them to test and adapt more effectively in real-world conditions.

This cost-conscious strategy ensures that resources are preserved for scaling the business, rather than being consumed during the setup phase, setting the foundation for both immediate viability and long-term success.



1.4 Regulatory considerations and compliance

Navigating the regulatory landscape is a pivotal step in launching an Islamic FinTech. Every jurisdiction has its own legal and regulatory requirements for financial services, and from a business perspective, meeting these is as critical as Shariah compliance. Regulatory frameworks often involve obtaining licenses from financial authorities, participating in innovation sandboxes, and adhering to reporting and operational guidelines. These requirements are designed to ensure that FinTechs operate transparently, manage risks effectively, and protect consumers.

FinTech entrepreneurs must carefully consider the allocation of liability and risk among all parties in their transactions. For instance, in a crowdfunding platform using Wakala, understanding the legal implications for agents, investors, and project owners is essential to avoid disputes and regulatory penalties. A deep understanding of both Islamic law and local regulations ensures that the business operates seamlessly within its legal environment while maintaining Shariah integrity.

Certification by a recognized Shariah board is often the final step. This certification not only validates the compliance of the product but also enhances its commercial appeal among the core customer base.

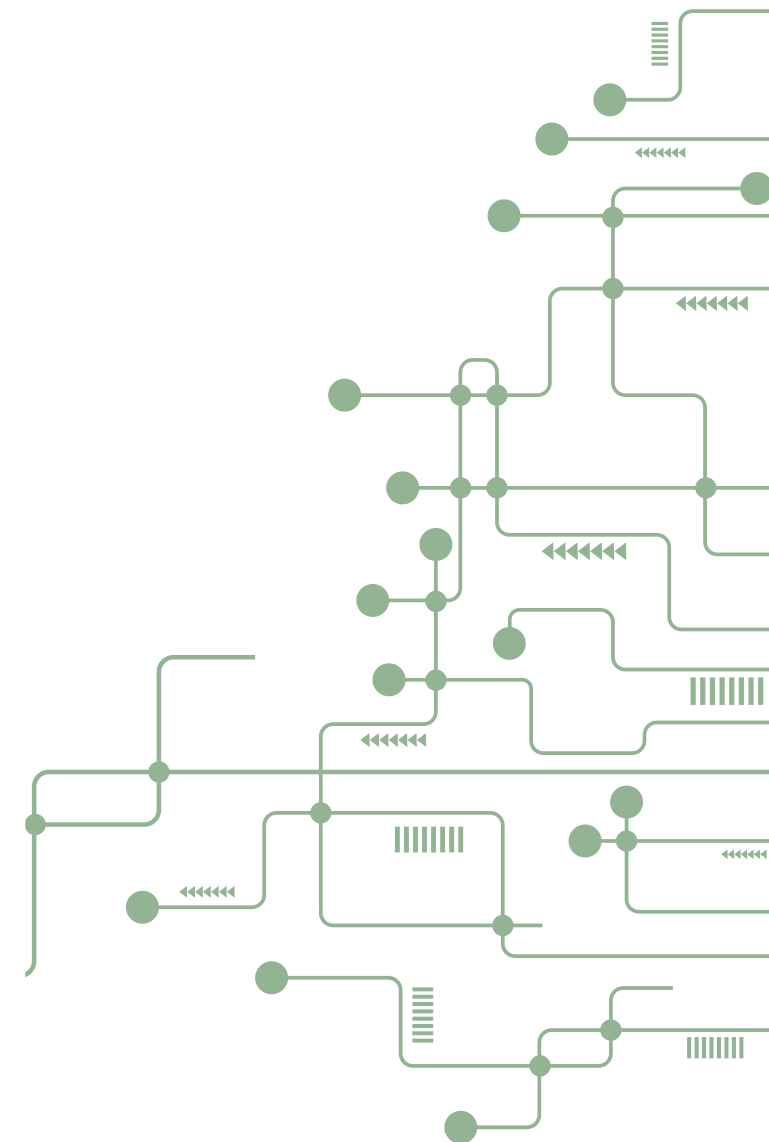
Shariah certifications come in various forms:

- Product-specific certifications affirm the Shariah compliance of a particular offering.
- Governance certifications evaluate the company's adherence to Islamic principles in its overall operations.
- Internal financial certifications ensure that the company's financial practices align with Shariah.

While achieving full Islamic compliance across all aspects is ideal, securing at least a product-level certification is crucial for market entry. Different regions have different certifying authorities—AAOIFI standards may dominate in one region, while local boards may set the rules elsewhere. Aligning with the appropriate certification body based on the target market adds credibility and facilitates smoother regulatory approval.

With regulatory compliance and certification in place, an Islamic FinTech is well-positioned to gain the trust of customers and stakeholders, ensuring its long-term growth and stability.

A DEEP UNDERSTANDING OF BOTH ISLAMIC LAW AND LOCAL REGULATIONS ENSURES THAT THE BUSINESS OPERATES SEAMLESSLY WITHIN ITS LEGAL ENVIRONMENT WHILE MAINTAINING SHARIAH INTEGRITY.



02 | Regulatory Analysis

2.1 General Regulatory Challenges in Islamic FinTech

Regulatory hurdles are among the most significant challenges Islamic FinTechs face. The interplay between Shariah compliance and local financial regulations requires meticulous navigation, as any misalignment can jeopardize both the credibility and legality of operations.

One of the key issues is the lack of unified global standards for Shariah compliance. While organizations like AAOIFI and the Islamic Financial Services Board (IFSB) provide widely accepted guidelines, individual jurisdictions often impose unique interpretations of Shariah principles. This variation creates complexities for FinTechs operating across borders, as they must adapt their models to meet diverse regulatory requirements.

Additionally, many Islamic FinTechs struggle to secure licenses within traditional financial systems, which are primarily designed for conventional banking and finance. Licensing requirements can be stringent, involving substantial capitalization thresholds, complex approval processes, and detailed reporting obligations. These barriers are particularly daunting for startups with limited resources.

Another challenge lies in navigating liability and risk regulations. Islamic FinTechs must ensure that their structures—whether based on Murabaha (cost-plus sales), Mudaraba (profit-sharing), or Ijara (leasing)—not only comply with Shariah principles but also satisfy the operational risk frameworks imposed by regulators. Balancing these obligations often demands a dual focus: rigorous adherence to Shariah law and full alignment with local financial regulations.

The growing adoption of regulatory sandboxes in various jurisdictions is a positive development, offering FinTechs a controlled environment to test their products. However, participation often comes with its own set of challenges, including time-limited testing windows and post-sandbox compliance hurdles. For Islamic FinTech entrepreneurs, early and continuous engagement with regulators and Shariah advisory boards is critical. This proactive approach not only streamlines the approval process but also minimizes the risk of noncompliance, enabling FinTechs to scale their operations with confidence.

2.2 Saudi Arabia

The Kingdom of Saudi Arabia is at the forefront of Islamic finance innovation, providing a fertile ground for Islamic FinTechs to thrive. With a dual regulatory system involving the Saudi Central Bank (SAMA) and the Capital Market Authority (CMA), the Kingdom has crafted a framework that balances innovation with compliance, fostering growth in the market.

Role of SAMA and CMA

SAMA regulates the banking and financial services sector, overseeing activities such as payments, financing, payment service providers (PSPs) and leasing. This includes FinTechs providing BNPL services, financial leasing, and general financing. SAMA's regulations demand stringent licensing and capitalization requirements, such as a minimum capitalization of SAR 5 million for BNPL providers. These rules are designed to ensure market stability and consumer protection while supporting innovation.

MANY ISLAMIC FINTECHS STRUGGLE TO SECURE LICENSES WITHIN TRADITIONAL FINANCIAL SYSTEMS, WHICH ARE PRIMARILY DESIGNED FOR CONVENTIONAL BANKING AND FINANCE.

The CMA, on the other hand, supervises securities-related activities such as dealing, arranging, managing, advising and taking custody of investment and securities and plays a pivotal role in enabling FinTechs through its FinTech Lab. The lab provides a legislative experimental environment where innovative business models can be tested under predefined criteria and regulatory oversight.

FinTech Activities

In light of the activities outlined above and their respective regulatory coverage, the first question any FinTech company must address is whether the services it plans to offer fall within the regulatory scope of either SAMA or the CMA.

If the activities the FinTech company intends to undertake are explicitly listed in the regulations of either authority, the company will be subject to the regulation of that authority. In cases where the company engages in multiple regulated activities, each may fall under the jurisdiction of both SAMA and CMA, as applicable. It is also important to note that even if an activity is not specifically referenced in the regulatory documents, its nature may still subject the company to regulation by the relevant authority.

Certain FinTech activities, however, do not require approval from SAMA or the CMA. These activities, which are not considered regulated, allow FinTech companies to enter the market quickly without needing regulatory approval.

Examples of such activities include, but are not limited to, gamification, regulatory technology, personal management, customer services, and back-office services.

However, should the FinTech company wish to offer any regulated activities, whether explicitly or implicitly covered by regulation, it will likely need to seek authorization from the relevant authority.

THE FIRST QUESTION ANY FINTECH COMPANY MUST ADDRESS IS WHETHER THE SERVICES IT PLANS TO OFFER FALL WITHIN THE REGULATORY SCOPE OF EITHER SAMA OR THE CMA.

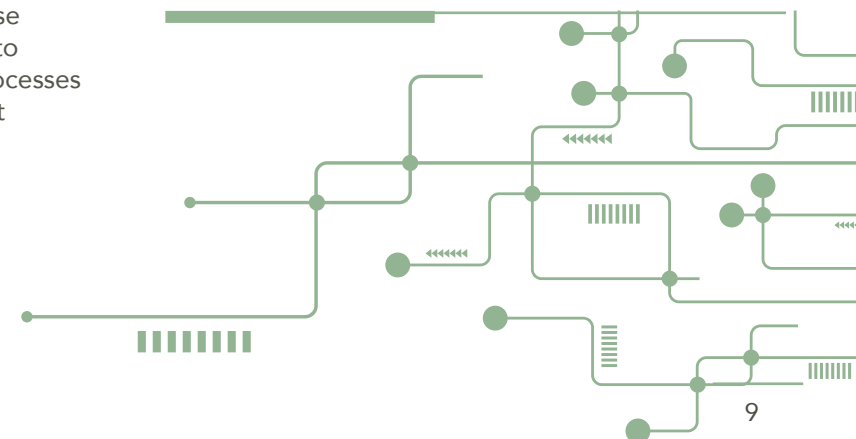
Regulated FinTech Activities

The operation of certain FinTech activities in Saudi Arabia is currently regulated under an established fintech activity license framework. In this regard, the relevant regulatory bodies have issued specific regulations and guidelines governing various types of FinTech operations. For example, SAMA has issued comprehensive guidelines addressing different categories of fintech activities, including Payment Service Providers (PSPs), Digital-Only Banks, and Consumer Microfinancing, among others. These guidelines serve as a roadmap for companies to understand the requisite requirements and processes necessary to obtain approval from the relevant regulatory entity.

As a general matter, entities engaged in FinTech business activities are typically required to establish a legal presence within Saudi Arabia and subsequently obtain the necessary licenses or regulatory approvals from the relevant authorities. However, the specific requirements to obtain such licenses depend upon the nature of the FinTech services being offered and the corresponding regulations or guidelines that apply to those services.

SAMA and the CMA have established separate regulatory testing frameworks. SAMA has established the Regulatory Sandbox while the CMA established the FinTech Lab. These frameworks create a virtual environment that allows FinTech companies to test innovative products prior to being subject to the applicable licensing requirements, whether under existing or newly introduced regimes.

THE RELEVANT REGULATORY BODIES HAVE ISSUED SPECIFIC REGULATIONS AND GUIDELINES GOVERNING VARIOUS TYPES OF FINTECH OPERATIONS



The CMA FinTech Lab

The FinTech Lab offers a FinTech ExPermit,⁴ granting startups a two-year period to test their products. Upon completing this testing phase, participants can either exit or scale their offerings based on a regulatory-compliant strategy. To qualify, FinTechs must meet several criteria:

- Involvement in securities-related activities.
- Promotion of FinTech innovation.
- Advanced product development ready for live testing.
- Contribution to growth, efficiency, or competition in the capital market.
- Enhancement of compliance, risk management, or client welfare.⁵

Current FinTech Lab initiatives include equity crowdfunding platforms, robo-advisory services, social trading, and investment in debt instruments. These experiments highlight Saudi Arabia's commitment to diversifying its financial market and embracing cutting-edge technologies.⁶

Companies applying to the FinTech Lab initiative must adhere to the following process:

Permit Requirements

To qualify for the Fintech ExPermit, applicants must meet specific requirements, both in terms of resources and operational readiness:

- The applicant must have adequate and appropriate resources, including financial resources, to develop the FinTech product.
- The applicant must act with integrity, skill, care, and diligence. This includes:
 - Communicating clear, fair, and non-misleading information to clients.
 - Treating clients fairly and safeguarding their interests.
 - Ensuring confidentiality of client information.
- The applicant must have conducted thorough due diligence, including understanding the relevant rules and regulations for deploying the proposed fintech product.
- The applicant must disclose any material event or change in its business model to the CMA.
- The applicant must be able to meet all additional regulatory requirements that the CMA may impose during the testing phase.

Additionally, the applicant must demonstrate that the proposed FinTech product meets certain criteria before submitting an application:

- It must involve securities activity (i.e., it falls within CMA's regulatory scope).
- It must promote FinTech innovation, contribute to the growth, efficiency, or competition in the capital market, and improve the choices and welfare of clients.
- It must be sufficiently developed to support live testing.

Application Process

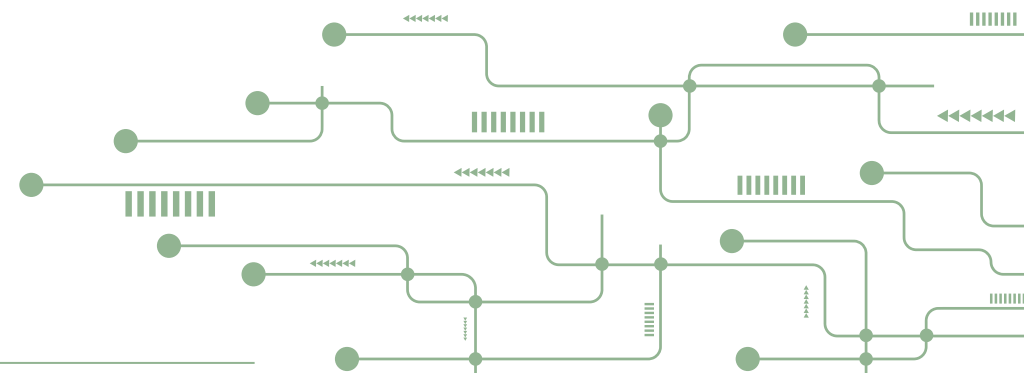
Once an applicant meets the above requirements, they can submit an application for the FinTech ExPermit through the FinTech Lab's designated web page. The CMA will review the application and notify the applicant of their eligibility. If the application meets the necessary criteria, the CMA will grant the permit, allowing the applicant to begin testing the product under the established regulatory requirements.

CURRENT FINTECH LAB INITIATIVES INCLUDE EQUITY CROWDFUNDING PLATFORMS, ROBO-ADVISORY SERVICES, SOCIAL TRADING, AND INVESTMENT IN DEBT INSTRUMENTS.

⁴ <https://cma.org.sa/en/Market/Fintech/Pages/Default.aspx>

⁵ https://cma.org.sa/en/Market/Documents/FAQ_EN.pdf "What are FinTech Product Criteria?"

⁶ Ibid. "Are there any examples of Business Models that are currently experimented within the Fintech Lab?"



Additional Regulatory Requirements

During the testing period, the CMA may impose additional regulatory requirements on the applicant. These could include:

- Limitations on the number and types of clients.
- Restrictions on the types and sizes of transactions.
- Requirements regarding client suitability, protection of client assets, and the handling of confidential client information.
- Specific financial promotion guidelines and disclosures.
- Capital and financial reporting requirements.

The CMA reserves the right to modify or impose new criteria as needed during the experimentation phase.

Commencement of Business Requirements

If the CMA grants the ExPermit, the applicant must meet certain conditions before beginning business operations, such as:

- Establishing a commercial entity in Saudi Arabia and submitting the necessary incorporation documents.
- Presenting policies to manage conflicts of interest and comply with anti-money laundering laws.
- Meeting information security requirements and undergoing technology tests.
- Providing the CMA with key agreements and policies governing external contracts.

Applicants may request an extension of the deadline for meeting these requirements, subject to CMA approval.

Business Commencement and Suspension

Once the applicant satisfies the commencement requirements, they may begin their business operations. However, the CMA may suspend operations if the FinTech company fails to meet certain regulatory obligations or requires corrective action. In case of suspension, the FinTech company must notify the CMA and provide a plan for resumption. If the suspension exceeds three months, the ExPermit may be revoked.

Incentives and Loss Sharing

The CMA prohibits FinTech companies from offering incentives to clients that could create conflicts of interest or lead to unethical behavior. Companies are also prohibited from participating in or sharing in any losses incurred by clients.

ExPermit Validity and Extension

The ExPermit is valid for up to two years from the start of business operations. If additional time is needed to complete the experiment, the FinTech company may apply for an extension. The extension is granted only in exceptional circumstances and must be requested at least three months before the permit expires.

At the end of the testing period, the applicant can either execute an exit strategy or deploy the product on a larger scale, provided they comply with CMA regulations. If the testing is unsuccessful or the product presents unintended risks to the market, the CMA may prohibit further deployment and require the company to execute its exit strategy.

Cancellation of Approval

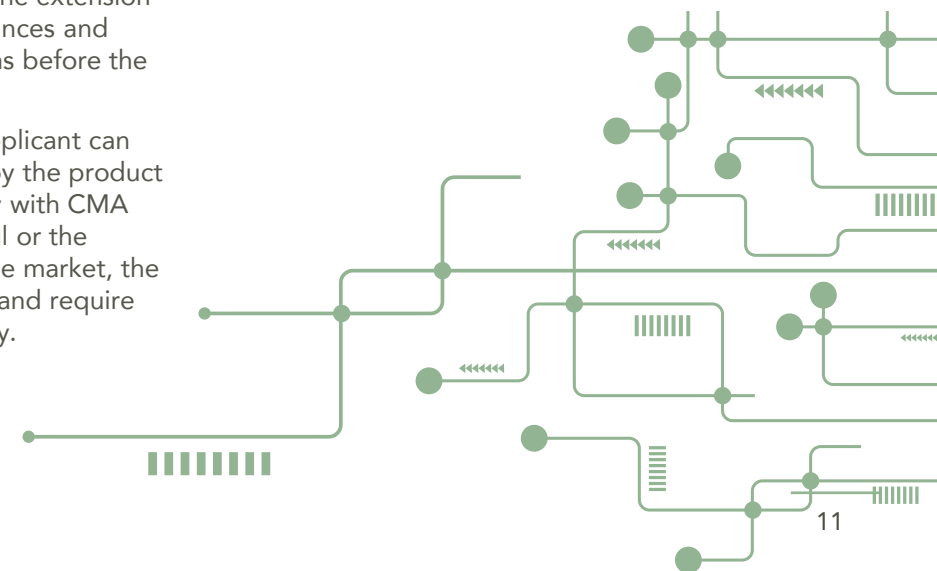
The CMA has the authority to cancel an ExPermit at any time during the experimentation phase if the FinTech company:

- Fails to meet the intended goals or regulatory requirements.
- Discovers flaws in the product that cannot be resolved within the experiment.
- Breaches any regulatory or legal requirements.

Upon cancellation, the FinTech company must immediately execute its exit strategy.

SAMA's Regulatory Sandbox

SAMA complements the CMA's initiatives through its Regulatory Sandbox, which is designed to nurture innovation in areas not covered by existing regulations. The sandbox provides a controlled environment for live testing of new business models, relaxing traditional requirements like capitalization thresholds, governance rules, and liquidity standards.



The sandbox is accessible to a wide range of participants, including:

- Licensed and non-licensed local FinTechs.
- International FinTechs, either directly or through partnerships with SAMA-licensed entities.

To gain acceptance, applicants must demonstrate genuine innovation, clear consumer benefits, risk mitigation, and a well-defined roadmap with an exit strategy. The sandbox's testing phase typically lasts between 6 and 12 months, during which startups work closely with SAMA to refine their offerings and ensure compliance.⁷

The testing process is structured into four main stages:

1. **Application Stage (30 Days):** Companies must application within 30 days of the application window opening.
2. **Evaluation Stage (60 Days):** During this period, SAMA will review the application and assess if it meets the eligibility criteria. Companies will need to collaborate with SAMA to finalize the testing plan, ensure customer protections, and agree on any necessary regulatory tools. If accepted, companies will receive a Letter of Acceptance (LoA) to move forward.
3. **Testing Stage (Up to 6 Months):** The actual testing takes place over six months. The testing phase may be extended or shortened depending on various factors (such as delays or non-compliance).

4. **Exit Stage:** After testing, SAMA and the innovator will assess whether the solution is ready to be fully launched in the market or if further testing or development is needed.

During the Regulatory Sandbox phase, SAMA provides several tools to help the innovators, including the no enforcement action clause which means that SAMA will not take enforcement actions during the testing phase if the innovators comply with the agreed terms and the regulatory flexibility pursuant to which SAMA may waive or adjust regulations to allow testing, as long as the necessary consumer safeguards are in place.

Once the testing is complete, the innovators will need to have an exit strategy which could include launching the solution more broadly, selling or transferring the solution or discontinuing the solution if the testing shows that it is not viable.

Shariah Compliance

Saudi Arabia's legal system operates on Shariah principles, which adds another layer of complexity for FinTechs. While there is no centralized Shariah certification requirement, courts in Saudi Arabia have the authority to invalidate agreements deemed non-compliant with Shariah.

To mitigate this risk, FinTechs are encouraged to adhere to AAOIFI standards, seek certifications from reputable Shariah boards, and avoid superficial compliance measures. Aligning with best practices in this way not only ensures legal validity but also enhances market credibility.

Challenges and Opportunities

Operating in Saudi Arabia's regulated environment presents challenges, including high capitalization requirements, intricate licensing processes, and the dual need for Shariah and regulatory compliance. Startups must also navigate potential conflicts between SAMA and CMA jurisdictions, depending on their business models.

However, these challenges are balanced by significant opportunities. Initiatives like the CMA's FinTech Lab and SAMA's Regulatory Sandbox provide FinTechs with the tools to innovate, test, and scale their products in a supportive ecosystem. By fostering collaboration between regulators and innovators, Saudi Arabia is positioning itself as a global leader in Islamic FinTech, and this is reflected in their meteoric growth in the market.

THERE IS NO CENTRALIZED SHARIAH CERTIFICATION REQUIREMENT, COURTS IN SAUDI ARABIA HAVE THE AUTHORITY TO INVALIDATE AGREEMENTS DEEMED NON-COMPLIANT WITH SHARIAH.

⁷ https://www.sama.gov.sa/en-US/Regulatory%20Sandbox/Documents/Regulatory_Sandbox_Framework_English-NOV2020.pdf

03

Conclusion

Islamic FinTech in Saudi Arabia is a dynamic interplay between regulation, innovation, and Shariah compliance. The Kingdom offers distinct pathways and opportunities for growth, and it has positioned itself as a rising Islamic FinTech hub, leveraging its commitment to digital transformation and Shariah principles.

A key takeaway for innovators in this region is the importance of integrating both Shariah and regulatory considerations early in the development process. Navigating these complexities requires collaboration between legal and Shariah experts to ensure that products and services meet compliance standards while staying true to Islamic principles. Shariah compliance should not be treated as a feature limited to specific products; rather, it should serve as a systemic framework guiding the company's operations, governance, and ethos from inception to execution. This holistic approach strengthens credibility, builds consumer trust, and enhances long-term sustainability.

The future of Islamic fintech is bright, underpinned by adaptability, flexibility, and the growing demand for alternatives to conventional financial systems. The expanding Muslim population and the increasing appeal of ethical and inclusive financial solutions position Islamic FinTech for exponential growth.

Moreover, the digital revolution and the rise of blockchain, AI, and other transformative technologies provide new opportunities for innovators to redefine Islamic financial services.

However, the path forward requires a concerted effort by regulators, practitioners, and innovators. Regulators must continue fostering innovation through sandbox environments and clearer guidelines tailored to Islamic finance. Practitioners must bridge the gap between Shariah and legal expertise to provide comprehensive solutions that address both faith-based and operational challenges. Innovators, for their part, must focus on building scalable, inclusive, and technology-driven solutions that resonate with the diverse needs of Muslim consumers worldwide.

In conclusion, Islamic FinTech in Saudi Arabia is uniquely positioned to lead the global financial industry toward a more equitable, ethical, and sustainable future by providing access to non-bank, decentralised products and services. By embracing innovation and being unhindered by contemporary banking regulation frameworks designed for interest-based financing, there is greater potential for compliance with the core principles of truly Islamic financing. Accordingly, it has the potential to not only address the needs of Muslims but also contribute meaningfully to the global ethical finance ecosystem.

04 | Your Contacts

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