EQUI

Growth with Purpose: The Untapped Potential of Islamic Finance

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Foreword

This important report from Equi arrives at a pivotal moment for the UK economy and for the future of financial inclusion. As policymakers focus on driving sustainable growth, improving productivity and widening opportunity, this work makes a compelling case for recognising Islamic finance not as a niche offering, but as a significant and underutilised asset for Britain's economic future.

Drawing on a national survey, expert interviews and rigorous policy analysis, the report demonstrates how Islamic finance can support inclusive growth by attracting investment, enabling entrepreneurship, strengthening financial resilience and widening access to essential financial services. It shows clearly that Islamic finance is not simply about meeting religious preference. It is about unlocking participation, innovation and economic contribution that might otherwise remain unrealised.

The findings are striking. The UK is already the leading centre for Islamic finance in the West, home to 85% of Europe's Islamic finance assets and a dynamic ecosystem of banks, FinTechs and investment platforms. Yet the sector's full potential remains untapped. Millions of people still face barriers to accessing financial products that align with their values, while businesses and entrepreneurs struggle to secure suitable forms of finance that would allow them to grow and create jobs.

Crucially, the report highlights the broader relevance of Islamic finance beyond Muslim communities. Public interest in ethical, sustainable and values-driven finance has grown significantly in recent years. The principles underpinning Islamic finance, namely transparency, risk-sharing, social responsibility and the avoidance of harmful industries, resonate widely. At a time when trust in financial institutions is under pressure, this represents a real opportunity to broaden consumer choice and strengthen confidence in the financial system.

The economic case is equally compelling. Expanding access to Islamic pensions could unlock tens of billions in long-term savings. Alternative student finance and further sovereign Sukuk issuances could generate substantial benefits for public finances and the wider economy. Islamic finance has already supported major British infrastructure and housing projects, helping channel international capital into the UK.

But alongside the economic opportunity lies a question of fairness. Too many people remain financially excluded because appropriate products are unavailable, inaccessible or poorly understood. Whether in home ownership, pensions, student finance or business lending, the consequences are significant for individuals, for families and for national productivity. As this report rightly argues, financial inclusion cannot be achieved through a one-size-fits-all approach.

What sets this report apart is its practical focus. Its recommendations, from improving regulatory understanding and ensuring fair tax treatment, to expanding Islamic pensions and alternative student finance, are credible, actionable and aligned with the UK's long-term economic ambitions.

In my capacity as Chair of the All-Party Parliamentary Group on Islamic and Ethical Finance, and as a Trade Envoy for the UK to Indonesia and the Association of Southeast Asian Nations, I have seen the importance of growth that does not leave people behind. This report reminds us that alternative approaches to finance can strengthen the economy while upholding principles of fairness and responsibility. Supporting this agenda is not only the right thing to do. It is firmly in the national interest.

Britain has always succeeded when it has combined openness with innovation, and inclusion with ambition. This report shows how Islamic finance can help advance all three. It provides a clear roadmap for building a more inclusive, resilient and dynamic financial system, and one that reflects the diversity, aspirations and values of a modern Britain.

Naz Shah MP

Chair, All-Party Parliamentary Group on Islamic and Ethical Finance

UK Trade Envoy to Indonesia and the Association of Southeast Asian Nations

Executive Summary

Islamic finance has gained significant traction in the UK since the early 2000s. This report outlines the clear opportunities it presents to the British economy and wider society. In line with the government's Plan for Change,[1] the report shows how the growing Islamic finance market in Britain helps drive inclusive growth through increased investment, financial inclusion and a diversified, more resilient finance industry.

Islamic finance is a form of alternative finance, which refers to any form of finance outside conventional models such as high street banks, including ethical, green and community finance models.[2] Islamic finance represents financial management and transactions that comply with Islamic rules and moral principles. Primarily, this includes the prohibition of interest and of investing in industries such as gambling, alcohol, pornography and arms manufacturing.[3] It can be referred to as Islamic, Shariah-compliant or halal finance.

The Islamic finance sector in the UK has an estimated value of £6 billion and the global industry has seen growth levels of over 20% in recent years.[4] British Islamic finance assets constitute a staggering 85% of the European Islamic finance market.[5] Policies to enable the sector's growth so far have shown the potential of an emerging Islamic finance industry.

Through the expansion of Islamic finance, we predict the government could benefit from annual savings and additional income of nearly £2.5 billion. This figure includes additional income through another issuance of sovereign Sukuk (Shariah-compliant bonds), increased access to higher education through a Shariah-compliant student finance system and the prevention of pensioner poverty amongst those Muslims who currently opt out of saving for a pension.[6] By increasing access to Islamic pension plans for employees, the economy could also benefit from an additional £54.4 billion in pension savings over the lifetimes of the current British Muslim population.[7]

This report draws on insights from 31 interviews, conducted with a broad range of industry experts, as well as national polling that assesses the potential growth of the domestic alternative finance industry.[8] The survey compares the responses of British Muslims (1,000 respondents) to those of the general population (2,000 respondents).

The findings reveal a unique opportunity to establish the UK as a key location for Islamic finance, with benefits for both national growth and inclusion. This complements the government's current plans for the economy, which aim to achieve the highest sustained growth out of the G7 countries through higher employment, better living standards and productivity growth.[9]

There is a clear demand for Islamic finance. Our polling indicates that 64% of the UK's four million Muslims have a preference for Islamic finance over other alternative finance services. This is a significant number that represents the untapped potential of Islamic finance in the UK. Many Muslims also forego banking, pensions and higher education entirely, because of the lack of Shariah-compliant financial options, which often contributes to financial exclusion and missed opportunities in employment. In order to meet the demand for alternative finance and promote sustainable growth, it is imperative for government to support an environment that allows Britons of all backgrounds to access financial services and products.

An expansion of ethical finance stands to benefit Britons of all faiths and none. The alignment of values between Islamic finance and other forms of alternative finance, like ethical, non-interest and ESG finance, offers significant potential for people of all faiths to also make use of Islamic finance services. Equi's polling shows 24% of the general population prefer non-interest finance out of a choice of alternative finance services (28% for Muslims) and 16% have a preference for ethical finance (22% for Muslims). This represents an opportunity to integrate these forms of finance to widen appeal beyond the Muslim community who share these financial values.

Mainstream financial services often adopt a one-size-fits-all approach to finance, to the detriment of consumers with an interest in alternative financial services that prioritise principles of justice, fairness and positive social impact. The multiple benefits of alternative financial products create the potential to increase financial inclusion and investment, reduce debt, increase productivity and ultimately drive growth throughout the economy.

Key Findings

1. With targeted policy support, Islamic finance could make a much bigger contribution to UK growth by supporting innovation, raising productivity and attracting foreign investment into British infrastructure.

- The UK Islamic finance sector is estimated to be worth £6 billion, while the global industry has grown by more than 20% in recent years.

- Islamic finance could generate £2.5 billion a year for government through lower pensioner-poverty costs among British Muslims (£1.9 billion), a further sovereign Sukuk issuance (£125 million) and alternative student finance (ASF, £450 million) – more than the £2.3 billion expected from the Australia free trade deal.

• Islamic finance has supported investment in major London landmarks, including the Shard and Battersea Power Station. Islamic banks have also helped channel foreign investment into UK housebuilding, particularly from Gulf-based investors, for whom London remains a leading real-estate destination.

• The Islamic Finance Council UK (UKIFC) estimates that the total addressable residential property market related to Islamic finance is £45 billion, based on outstanding residential mortgage balances adjusted for the Muslim population share.

• The UK has the fifth-highest number of Islamic FinTech companies in the world. By developing new products and technology for British consumers, these firms have helped address gaps in the domestic finance market.

• Government policy has aimed to level the playing field between conventional and alternative finance through equal tax and regulatory treatment. This has supported the sector's growth, but Islamic finance organisations still face important tax and regulatory disadvantages.

2. Demand for Islamic finance is strong but unmet, and this gap carries significant costs for government.

• Our survey found that 64% of Muslims prefer Islamic finance over other alternative finance products and services.

• Each year, 6,000 students forgo higher education because there is no alternative student finance (ASF), costing government £450 million per cohort. Because the main concern for these students is the lack of non-interest student finance, this also reflects unmet demand for Islamic finance.

• While 86% of British Muslims want an Islamic banking provider, only just over half currently hold an Islamic bank account.[10]

• Muslim respondents to our survey were generally more aware of alternative finance products than the wider population, but that awareness does not always translate into use. This suggests that the main problem is supply and delivery, not lack of demand.

• Low awareness and persistent misconceptions remain major barriers. For example, only 30% of non-Muslims are aware of Islamic finance products, and 30% of people believe they are only for Muslims.

3. Islamic finance could help millions of financially excluded adults in the UK by offering an alternative to interest-bearing debt.

• Difficulty accessing alternative finance, including Islamic finance, has increased financial stress. Our polling found that 30% of the general population and 26% of Muslims reported this experience.

• Forty-four per cent of adults in the UK either lack access to financial tools or struggle to cover basic living costs. Financial exclusion has serious consequences for individuals, the economy and the Treasury through its effects on wellbeing, productivity and employment. Lower-income households also face a "poverty premium," paying more for essential goods and services, at a national cost of £2.8 billion a year.

• Islamic finance products can particularly benefit financially vulnerable people because they avoid interest-bearing debt. Non-interest loans can provide emergency support without forcing people into high-cost credit, while Islamic home finance can support home ownership without large debt and interest payments.

• Despite this potential, faith is not mentioned in the government's Financial Inclusion Strategy,[11] which is a significant oversight.

• The economy could lose £54.4 billion in missing pension savings over the lifetimes of the current British Muslim population, while government could face an estimated £1.9 billion in public-service costs linked to pensioner poverty because halal pension funds are not widely available.

4. Islamic finance has strong potential to converge with ethical, ESG and non-interest finance.

• British Muslims are helping drive demand for ethical and green finance more broadly. 72% of Muslims are aware of green finance, compared with 42% of non-Muslims, and Muslims are 20% more likely to use green finance products.

• The overlap between ESG and Islamic finance, together with rising demand for both, creates an opportunity to reach a wider group of values-driven consumers. Estimates suggest that sustainable Islamic finance has a global potential of £298 billion, underlining the scale of this opportunity.

• Among the general population, 24% of respondents preferred non-interest finance and 16% preferred ethical finance when choosing between alternative finance options. Although only 4% selected Islamic finance as their first choice, its alignment with non-interest and ethical finance suggests the market could be wider if these features were better understood.

• People beyond the Muslim community have expressed a willingness to use Islamic finance services. 30% of non-Muslims said they would be willing to switch to Islamic finance products if they were offered a service comparable to conventional products.[12] In 9 of 11 interviews with providers serving British consumers, organisations said their products appealed to non-Muslim as well as Muslim customers.[13] As well as signifying a broader appeal for these services, integration of Islamic finance with other forms of alternative finance could be attractive to people of all faiths and none.

Policy Recommendations at a Glance

Encouraging Investment

1. Government to establish a bespoke Islamic Finance Unit: Create a dedicated unit to support sector growth, improve coordination across government, and ensure Islamic finance contributes to economic growth and financial inclusion.

2. Launch a sovereign Sukuk (Shariah-compliant bonds) programme: Introduce a regular Sukuk programme, with specific issuances for sustainable projects, to strengthen the UK's position in global Islamic finance and support net-zero commitments.

Enabling Financial Inclusion

3. Embed faith-sensitive design in the government's Financial Inclusion Strategy: Ensure the strategy recognises the importance of Islamic banking and insurance and include Islamic finance providers in the proposed Industry-Led Inclusive Design Working Group.

4. Improve public information and financial education on alternative finance: HM Treasury, the Department for Education and the Money and Pensions Service should ensure financial education in schools and adult learning covers alternative and Islamic finance, with targeted efforts to address the gender gap in awareness.

5. Update home finance legislation to ensure parity: Reform Stamp Duty Land Tax and relevant housing legislation so Islamic home-finance users and providers do not face taxes or charges that do not apply to conventional mortgages.

6. Promote Islamic pensions options: The Pensions Commission should encourage employers to offer Shariah-compliant pension funds as standard options within workplace schemes.

Creating a Level Playing Field

7. Equalise tax treatment for equity-based finance: HM Revenue and Customs should introduce tax deductions for equity-based Islamic finance products equivalent to those available for debt finance, ensuring genuine parity between Islamic and conventional structures.

8. Ensure local business support includes Islamic-compliant options: Local authorities offering loans or financial advice should provide Shariah-compliant alternatives and ensure business-support services include information on Islamic finance.

9. Regulate equity-based Islamic finance products: Expand the Financial Conduct Authority's remit to cover equity-based Islamic products and provide regulator training on Islamic finance structures, delivered in partnership with sector experts.

10. Remove the requirement for Sukuk to be listed: HM Revenue and Customs should withdraw statutory listing requirements for alternative finance investment bonds to allow Islamic finance institutions to issue Sukuk without incurring unnecessary listing costs.

Introduction

> ***"A robust Islamic finance market enhances the UK's reputation for financial innovation and inclusivity, reinforcing its status as a global financial hub. The country's leadership in Islamic finance demonstrates regulatory flexibility and cultural openness, making it an appealing destination for global investors seeking Shariah-compliant products."***
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> *TheCityUK,[14] an industry-led body representing UK-based financial services*

The Islamic finance industry has grown into a rapidly expanding global phenomenon. It was valued at £4.5 trillion in 2024 – a 21% increase compared to the previous year.[15] The sector is set to grow further, estimated to reach £7.3 trillion by 2029 if current trends continue.[16] The UK, as a global hub for financial services, can play a key role in the industry's expansion, reaping the economic and infrastructural benefits brought by this fast-growing sector. The work done by policymakers on Islamic finance has so far cemented the UK's leading position as the Western centre for Islamic finance, as British Islamic finance assets constitute 85% of the European Islamic finance market. Islamic finance assets in the UK have an estimated market value of £4.5-8.6 billion. Expanding on this trend and maintaining the UK's position will further open gateways for investment, growth and entrepreneurial opportunity, benefitting the country as a whole.

The economic potential of Islamic finance is significant. Through Islamic pensions alone, the economy could benefit from an additional £54.4 billion in pension savings. We estimate that by alleviating the costs of Muslims foregoing higher education and pension savings, as well as implementing a regular Sukuk programme, the government could gain nearly £2.5 billion per year. This is just a snapshot of the potential impact of a thriving Islamic finance industry on the British economy, as there are potential savings through financial inclusion, foreign investment and increased entrepreneurship that have not been quantified.

This report explores how Islamic finance services benefit the UK's growth trajectory, opportunities for further growth and how the government can enable Islamic finance to compete equally with conventional services. It shows how Islamic finance bolsters economic growth in the UK by encouraging FDI, increasing financial inclusion and providing an ethical alternative to mainstream banking services. The report also details how Islamic finance can benefit British consumers beyond solely Muslim customer bases. By compiling insights from 31 in-depth interviews with key experts and stakeholders and a nationwide survey, the report presents new opportunities to grow the Islamic finance sector in the UK.

Fundamental to Islamic finance is the belief that money has no intrinsic value, so it is forbidden to make money from money.[17] Wealth can only be created by trading and investing in tangible assets, meaning the practice of charging or receiving interest payments (Riba) is prohibited in Islam. Furthermore, money should not cause harm by investing in industries such as weapons manufacturing, alcohol or gambling.[18] Where possible, Islamic finance encourages sharing risks and profits across actors engaging in a transaction. For example, a bank may invest the money within a savings account in ethical industries and pay the account holder a part of the profits accrued.[19] While many Muslims prioritise religious values in choosing financial services, Islamic finance can be used by anyone regardless of faith.

Interest payments are central to the financial market in the UK, historically limiting options available for British Muslims and others who wish to avoid interest-based transactions. The use of interest also prevents foreign investment in the UK from Muslim investors. ESG considerations measure the social and environmental impact of a business and highlight the importance of transparency and accountability to consumers in business practices.[20] As almost three quarters of the British public want financial institutions to consider social and environmental impacts of investments, Islamic finance can offer an ethical alternative to Britons of all faiths and none.[21] 64% of Muslim respondents to our survey expressed a preference for Islamic finance out of alternative finance services, while 40% of the general population expressed a preference for non-interest and ethical finance. As there is a values-based alignment between these forms of finance, there is an opportunity here to meet demand through integrating Islamic, non-interest and ethical finance services.

The foundations of the industry's growth in the UK were arguably laid in 2000, when the government established an Islamic finance working group.[22] In 2014, the UK became the first Western country to issue sovereign Sukuk, an Islamic financial instrument that mirrors traditional bonds but represents shared ownership of an asset rather than debt.[23] The London Stock Exchange (LSE) also remains a global centre for Sukuk listings.

Despite these welcome developments, the growth potential of Islamic finance has not been fully realised. Islamic banks only represent 0.1% of the UK's banking assets and differential tax and regulatory rules on Islamic finance remain.[24] The 2021 sovereign Sukuk is set to mature in July 2026 and attracted demand of £625 million, yet the government is not planning to issue a new one, despite the potential to raise at least £625 million, or an annual £125 million over 5 years by issuing

another sovereign Sukuk.[25] Barriers to accessing Islamic finance have also resulted in some British Muslims facing financial exclusion, which refers to a lack of access to basic financial products and services that can impact quality of life.[26] Part of the problem is a lack of awareness about how alternative finance more broadly might suit individual circumstances. Awareness is lower among the general population than among Muslims, and lower among women than men in both sample groups. Expanding access to Islamic finance for all British consumers can help build financial resilience, avoid cycles of debt and bolster productivity.

The findings of our research have important policy implications. Our recommendations to the government highlight the need to proactively create a tax and regulatory environment that enables Islamic finance to play its role in stimulating economic growth. The report emphasises that the Islamic finance industry must be supported to serve British consumers of all faith backgrounds and none, by offering attractive alternative finance options. By lowering costs, increasing awareness and investing in non-interest-based community finance initiatives, government can make a real difference for the country as a whole. By unlocking the full potential of Islamic finance, we can drive inclusive growth in the UK. “

Unleashing the Potential of Islamic Finance for Economic Progress in the UK

Islamic finance in the UK is a growing sector with immense potential. At the moment, it is constituted by Islamic banking, investments, Sukuk, wealth management, digital banking, property and more. Investment funds (which are pooled assets for investors) represent the largest segment of the Islamic finance market with assets under management of £31.8 billion, the third highest globally.[27] The majority of the funds are invested in equities (shares of ownership) with a small proportion invested in commodities (physical goods).[28] Banking is also a large segment of Islamic finance in the UK, with five Islamic banks currently operating in the UK: Al Rayan, Gatehouse Bank, Qatar Islamic Bank (QIB), Bank of London and Middle East (BLME) and Kuwait Finance House PLC. The LSE is the largest listing venue for hard-currency Sukuk with a share of over 40% of the market.[29] These trends exemplify the rising importance of Islamic finance in fostering investment and growth in the British economy.

The Islamic finance industry began in the UK with the launch of the first British Islamic Bank, Al Baraka International, in 1982.[30] During this period, investment banks in the UK started offering Shariah-compliant products to clients based in the Middle East. But it was only in 2000 that the UK cemented its position as the West's hub for Islamic finance, as key political and regulatory developments began to encourage the sector's growth. A government working group on Islamic finance was established and this paved the way for a series of changes in the sector, including the abolition of double stamp duty on mortgages, which relieved consumers of Islamic mortgages of extra costs not charged to conventional homebuyers. The working group also supported the launch of the UK's first high street Islamic bank, the Islamic Bank of Britain (now Al Rayan Bank) in 2004.[31] These changes were made with a view to increasing socioeconomic inclusion for British Muslims and attract Islamic finance investment from economies in the Gulf, particularly in the City of London.

Further advances in the Islamic finance sector were made in subsequent years. In 2021, the UK issued its second sovereign Sukuk valued at £500 million.[32] In the same year, the Bank of England opened an Alternative Liquidity Facility (ALF), which provided UK Islamic banks with more flexibility in meeting liquidity requirements for banks. The 2024 Autumn Budget also saw an amendment to prevent a tax charge on the use of alternative finance in using existing assets to raise capital.[33] This amendment is consistent with the general policy approach of successive UK governments to create a level playing field between conventional and alternative financial models, so that the taxation and regulatory environment of the UK does not favour or punish a particular sector. These policy changes indicate the government's willingness to encourage the growth of the sector and leverage Islamic finance to enable greater socioeconomic inclusion.

While the UK created an attractive financial environment for investors from the Gulf, the increase in new and competing actors in the market means that Britain must take a more proactive approach to maintaining its dominance in the sector. At the moment, Euronext Dublin, Frankfurt Stock Exchange and Nasdaq Dubai are serious competitors with the LSE as listing venues for Sukuk.[34]

"The UK is on a knife edge at the moment. Islamic finance organisations will just set up in other jurisdictions that are more progressive and accepting [of Islamic finance] like the US, Dubai, Turkey, Malaysia and Indonesia. That's the risk the UK is facing right now."

Omar Khaliel
CEO and Founder of Riba Free Foundation[35]

Islamic Finance Organisations in the UK: From Banks to FinTech Companies

Islamic finance in the UK is often associated with Islamic banks. British Islamic banking assets constitute 85% of the European Islamic banking market, so Islamic banking is a core market segment that promotes the UK's position as a global financial centre. The five Islamic banks based in the UK all have shareholders based in the Gulf Cooperation Council (GCC) and primarily provide real estate finance, wealth management and banking services to clients in the Gulf. However, banks are not limited to serving clients in the Middle East. Islamic retail banking customers in the UK have increased by 20% annually between 2020-2025, showing strong domestic growth potential for Islamic banking.[36] Domestic demand for Islamic banking comes from non-Muslim consumers as well. In 2013, 87% of people who opened a fixed term deposit account at Al Rayan were not Muslim.[37] Islamic banking therefore appeals to broad societal groups, as demand is driven by religious and ethical alignment as well as high returns on savings.

In addition to Islamic banks, the FinTech industry is another core sector of growth, which has often been adapting to the changing demands of consumers more quickly than traditional banks. The UK ranks fifth on the Global Islamic FinTech Index, which measures whether countries have a conducive ecosystem for the growth of the Islamic FinTech industry. There are 52 FinTech companies in the UK, the fifth highest in the world and the most outside Organisation of Islamic Cooperation (OIC) countries.[38] The UK's positive technological and regulatory environment for new FinTechs has enabled its leading position and its thriving Islamic FinTech market.[39] However, much of the government's approach to levelling the playing field has been targeted at Islamic banks, so the approach has not always adapted to the requirements of the FinTech industry.[40]

Islamic FinTech Sectors in the UK

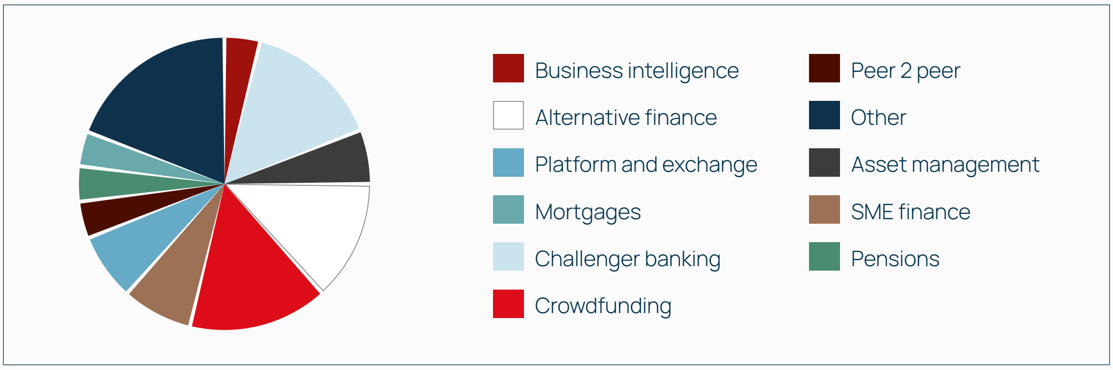


Figure 1: Pie chart showing the relative proportion of different sectors of the Islamic FinTech market in the UK by number of organisations.[41]

The graph above shows that the sectors with the highest number of Islamic FinTech organisations are challenger banking and crowdfunding. Challenger banking describes new digital banks, often without physical branches, and crowdfunding allows businesses to raise capital from investors providing small amounts of capital. Both of these sectors had eight companies operating in the UK in 2025. Other Islamic FinTech sectors that only have one actor competing in the UK market include student finance, trade finance and Sukuk or capital markets.

A mature FinTech industry indicates greater innovation, efficiency and growth. 98% of the UK's FinTechs have a positive impact on economic productivity, driving economic growth and job creation.[42] British Muslims are key drivers of the FinTech industry, as 14% of Muslims have a FinTech as their main bank account, compared to 6% of ethnic minorities and 2% of white British people.[43] As the domestic UK Islamic finance industry is increasingly focused on the growth of FinTech, the Islamic finance industry has significant potential to contribute to economic growth in the UK by driving productivity, new technologies and job creation. The UK is the only European market in the top ten of the Global Islamic FinTech Index, with the sector as a whole witnessing fast-paced growth with over 417 Islamic FinTechs around the world.[44]

Case Study: Wahed Invest[45]

Wahed Invest is the UK's first automated, Shariah-compliant investment platform, launched in 2018.[46] Since then, it has expanded its services significantly from solely investments. Wahed now offers its own self-invested personal pension, workplace pension, will-writing services, real estate investment and venture capital in ethical startups.

Wahed serves approximately 40,000 users in the UK looking to prioritise values-driven investment. The simple and accessible process Wahed offers to grow wealth attracts both beginner and seasoned investors. However, operating within the nascent Islamic finance industry in the UK does not come without its challenges. For example, raising awareness of Islamic investment options and how they work can be a struggle. According to Wahed's Chief Risk Officer, Umer Suleman, "financial literacy is generally very low in the UK, especially in lower socioeconomic groups... Islamic financial literacy is even lower."

There is also often a limited understanding of Islamic finance amongst regulators, which hinders the potential growth of Islamic finance organisations. As mentioned by Suleman, "the regulator doesn't necessarily understand our products or the desire by Muslims to be willing to take more risk if it meets their religious needs."[47]

Attracting Investment and Trade Opportunities

Islamic finance is a key source for foreign investment in the UK, particularly in the real estate sector. Shariah-compliant finance has already been used to invest in iconic London landmarks, including the Shard, the Olympic Park athlete's village and Battersea Power Station. Amongst overseas investors in London's residential market, UAE and Malaysian nationals, two majority-Muslim states, were the fourth and sixth highest funding sources respectively.[48] Al Rayan Bank's insights from 150 GCC investors with a net worth of over £10 million shows that the UK remains an attractive centre for foreign investment in real estate.[49] 97% of respondents had invested in UK property in the past 5 years.[50] 99% planned to increase or make new investments in the UK in the next 5 years, showing the importance of GCC investment in the UK.[51] London has been the most popular location for property investment for the past 3 years amongst GCC investors, but only 1% of investors stated they would only consider investing in London.[52] By cultivating its Islamic finance sector, the UK can successfully capitalise on investment interest from the GCC.

"Our main stream of business is structured real estate financing and private banking services for high net worth clients, mainly Qatari clients... When someone is looking to buy a property in the UK, they need funding. That helps the UK in receiving inflows in terms of its balance of payments, attracting foreign investment. When we finance a property for £10 or £20 million, there could be other plans to convert them into student accommodation or hotels. This kicks off the supply chains, such as the construction industry and transportation. It's not just about receiving funds, it links to the whole economy and creates employment."

Imran Zaidi

Head of Financial Institutions and ESG Coordinator at QIB (UK)[53]

Another way that Islamic finance attracts capital to the UK is through the use of British suppliers in global trade deals. UK Export Finance (UKEF) has played a positive role by providing Islamic finance for international deals that use UK suppliers, supporting British businesses and exports to drive growth in the UK. By guaranteeing the sale of Airbus aircraft to Emirates through Sukuk in 2015, UKEF became the first export credit agency to guarantee a Sukuk issuance which benefitted over 3,000 British companies.[54] In 2024, UKEF guaranteed Islamic financing for $700 million for the Six Flags Qiddiya City theme park in Saudi Arabia.[55] The agreement between Saudi Arabia's public investment fund and UKEF to facilitate Saudi Arabian companies to procure goods and services from British businesses provides a strong opportunity for economic growth and employment in the UK. The use of Islamic finance by UKEF to facilitate British exports supports the UK's position as a centre for Islamic finance.[56] To encourage this further, the UK should actively seek foreign investment and leverage the existing Islamic finance infrastructure to enable this. This could be done by including Islamic finance experts in trade deal discussions to provide more confidence in the British Islamic finance industry. There are many more opportunities for investment in the UK, such as through sovereign wealth funds and pension funds in Muslim countries globally, which Britain could access by proactively seeking Islamic finance investment and export opportunities.

Factors Enabling the Islamic Finance Industry

The two issuances of sovereign Sukuk by the government and the LSE's position as the largest listing venue for hard-currency Sukuk are important for the UK's global position in the Islamic finance market. There are currently 68 Sukuk listed on the LSE, which have raised over £37 billion.[57] The London Stock Exchange Group (LSEG) also played a pivotal role in shaping the 2024 Green, Social and Sustainability Sukuk Guidelines, showing the UK's leadership in sustainable Islamic finance.[58] Global green and sustainability Sukuk was set to reach a record year, as compared to more modest growth in the broader ESG market, with an issuance worth $11.9 billion achieved in the first nine months of 2024.[59] This reflects an important commitment towards sustainability at a time when climate change remains one of the world's greatest threats. Green and sustainability Sukuk also attracts a broader group of investors who prioritise ESG over Shariah-compliance.[60]

British Islamic finance organisations have also used Sukuk successfully for investments or to raise funds. Cordoba Capital Markets, for example, uses asset-backed Sukuk (profit participating notes) to allow investors to invest in specific trade activities in medium-sized enterprises, who can access working capital without diluting their equity.[61] These securities are rooted in real trade, rather than debt, encouraging risk-sharing.[62] In 2025, StrideUp issued a Residential Mortgage-Backed Security (RMBS), which allows lenders to raise funds through investments in a collection of mortgages, in Sukuk form, so investors hold "profit-bearing certificates" rather than debt.[63] This £308 million transaction represents a landmark deal in the UK as the first RMBS Sukuk issued by a non-bank lender. The deal allows StrideUp more funding to offer more customers essential home finance. StrideUp's innovative use of Sukuk shows the growth potential of the industry through leveraging Sukuk as a financial instrument, bringing the benefits of a risk-sharing financing model.

The UK's second sovereign Sukuk attracted over £625 million worth of orders and was sold to investors globally.[64] As the only non-Muslim country to issue sovereign Sukuk, this signals active support from the UK government to creating an inclusive environment for Islamic finance, attracting investment from Islamic finance actors.[65] A regular Sukuk programme would ensure the government could continue to benefit from this thriving global market. The benefits of sovereign Sukuk could be leveraged further by selling to UK-based Islamic finance organisations, ensuring greater support for the industry. Sukuk are required to be listed on a recognised listing venue, which incurs added costs for firms looking for interest-free financing methods.[66] This requirement is not placed on conventional bonds, so those using Sukuk have less flexibility in financing.[67]

"A benchmark-sized sovereign Sukuk issuance would typically be at least half a billion dollars... £200 million is what a medium-sized corporation would issue. The industry was wondering, why don't they go for at least a billion? At the time, the government chose international banks and didn't choose a single British Islamic bank, which meant they didn't support their own industry."

Harris Irfan

CEO and Founder of Cordoba Capital Markets[68]

A key development in 2021 was the roll out of the Bank of England's Alternative Liquidity Facility (ALF), the first central bank in the West to offer a non-interest deposit facility.[69] Banks must comply with international rules that require them to hold a buffer of high-quality liquid assets (HQLA). As Islamic banks cannot hold interest-bearing assets, meeting these requirements is more difficult, so the ALF allows banks to deposit asset-backed reserves without interest for greater flexibility in meeting HQLA requirements.[70] Andrew Hauser (the former Executive Director for Markets at the Bank of England) stated that the ALF could exploit the "growing diversification of available HQLA-eligible Sukuk assets."[71] He acknowledged the relevance of how Islamic financial principles of risk-sharing pose lower risks to financial stability in light of accumulated debt since the COVID-19 pandemic.

The ALF is part of a broader legal and regulatory environment that aims to provide a level playing field between conventional and alternative financial systems in operating in the UK. Recent developments include a 2024 amendment to capital gains tax (CGT) on property refinancing, as Islamic finance organisations were previously paying more CGT than their conventional counterparts.[72] This levelling of the playing field is important to allow alternative financial products and services to compete with conventional ones.

"The fact that the UK puts Islamic finance from the taxation perspective on the same footing as conventional finance is extremely important because this is not the case in many countries."

Abdullo Kurbanov

Co-founder and CEO of Ayan Capital[73]

London's position as a global financial centre also attracts Islamic finance investment. For example, the LSE provides investor diversification for Sukuk listings.[74] The city provides access to capital markets and a skilled workforce, with supporting educational infrastructure. The UK ranks in the top five (and first amongst countries outside the OIC) in terms of Islamic finance courses, degrees and qualifications.[75] Universities such as the University of Durham and the University of Dundee have dedicated postgraduate degrees on Islamic finance.[76] Partnerships between Islamic finance organisations and educational institutions have also enhanced awareness, for example, QIB UK partners with King's College London to provide work experience for students that increases their understanding of Islamic finance.[77]

The presence of a strong Islamic finance industry in the UK allows the economy to benefit from the fast-growing sector, through an increase in foreign investment and real asset-backed growth based on principles of equity and risk-sharing. Islamic finance has contributed to the building of key infrastructure through foreign investment across the country. UK-based investment platforms have also contributed to infrastructure. Cur8 Capital, for example, enables investment into pharmacies and healthcare real estate including GP surgeries and dental practices.[78] A robust Islamic finance market in the UK means stronger financial ties with countries across the Middle East, Asia and Africa, forming key financial partners across the globe. The UK's position as a global financial centre is also enhanced through a strong reputation for innovation and product diversity, also enhancing the resilience of the finance industry in the UK to economic shocks, especially those relating to debt.

Case Study: National Waqf[79]

Waqf refers to a permanent Islamic charitable endowment, where an individual can donate assets to be used for charitable purposes. Charitable endowments show how finance can be leveraged for sustainable social impact, as opposed to a one-time donation. National Waqf is a charity that pools donations for Shariah-compliant investments, to benefit charitable initiatives in the UK. National Waqf therefore has important leverage to attract donations from British Muslims, the most generous demographic in the UK, to support important social causes in a way that will last.[80]

One of the organisations that National Waqf has worked with is Spinney Hill, a drugs and alcohol addiction support service that offers faith-literate services to meet the needs of diverse communities in Leicester.[81] Funding from National Waqf allowed Spinney Hill to set up specific services for women suffering from addiction, offering group sessions, gender-sensitive care and the option of working with only female staff members.[82] Substance abuse is not the only sector that National Waqf works with. Their causes range from supporting abuse and trauma survivors to youth empowerment and education.[83] The use of Islamic finance investments here shows the potential of the industry to make positive and sustainable social impact in the UK.

Aadil Patel, a National Waqf Trustee, stated that "faith sensitive Muslim community rehabilitation projects are quite niche within the UK. I know people who travelled abroad just to get tailored services for Muslims. This is a unique and growing space, and we want to tap into support from local councils."

Business Finance

Business finance is another segment within the Islamic finance sector with significant growth potential. Within the UK, Muslims are disproportionately entrepreneurial, as 21.6% of working Muslims in England and Wales are self-employed, compared to a national average of 16%.[84] In Scotland, the difference is even starker. Almost a third of working Muslim men and almost a fifth of working Muslim women are self-employed, compared to 18.6% of working men and 7% of working women generally.[85] Muslims bring significant contributions to the British economy by setting up businesses, which amount to at least £24.7 billion in GDP contributions annually and generate thousands of employment opportunities.[86] Encouraging the entrepreneurial spirit of British Muslims further could unlock even more economic benefits for the UK.

Due to the prohibition on interest, Muslim entrepreneurs often struggle to access essential business finance to start or grow their business.[87]

Other forms of business finance, such as asset-based lending (a loan secured by an asset) and equity finance (accessing capital in return for shares) can be Shariah-compliant, but these forms of financing are less widely available and more difficult to access, so debt financing is the most common form of business finance.[88] To combat this, Cur8 Capital offers venture capital finance to startups and ensures that 60% of the businesses they fund are led by black, ethnic minority, women or Muslim founders.[89] Their investments also focus on bringing social impact, by focusing on areas such as healthcare, financial inclusion and climate. Equity finance also comes with the additional cost of giving up control over the company.[90] Another alternative is Islamic real estate or car financing for businesses, with organisations such as Offa and Ayan Capital offering these services respectively.[91]

However, these options are limited to specific products, so flexible Islamic debt financing for businesses is still necessary. 39% of Muslim business owners stated that the existence of

interest is a barrier to accessing business finance.[92] The lack of interest-free forms of accessing business finance restricts essential pathways to growth, with Muslim entrepreneurs relying on personal savings and borrowing from friends or family to start their business. In our survey, only 13% of the general population and 23% of Muslims had heard of any form of alternative business finance, and both groups found business finance one of the most difficult to access. The demand for Islamic finance for small and medium-sized enterprises (SMEs) is also clear from online website queries to Islamic Finance Guru. The organisation receives many requests for acquisition finance (finance enabling business acquisitions), revenue share finance (a form of equity finance which pays a percentage of revenue to shareholders) and invoice financing (a loan secured against outstanding invoices).[93] This dependence excludes Muslims who cannot access equity finance and do not have the necessary capital or financial support from personal networks from accessing business finance.

"Whether it's setting up a baking or catering business, tailoring, an online shop, home tuition or beauty services, Muslim women tend to start small and just work their way up rather than try and take a loan out. I think there's difficulty accessing finance and they prioritise debt free living if they can."

Bana Gora
CEO of Muslim Women's Council[94]

Almost 60% of Muslim business owners stated that the lack of Islamic business finance impeded business set-up and growth, showing the significant restrictions the lack of available and accessible Islamic business finance has on Muslim businesses.[95] 39% of Muslim business owners pointed out the lack of Islamic business finance as a barrier to financing businesses and almost a quarter emphasised the need for interest-free business finance.[96] Currently, there are a few local interest-free business loan products offered by local authorities or charities, including Kent County Council, the Sir Thomas White Loan Charity and Local Access Bradford District, which provide significant impact on the local community by encouraging new start-ups to grow and thrive.[97] However, these options are very limited and not widely available. Islamic business finance is also available through businesses such as Swoop and Qardus, but these are the only business players in the UK sector.[98] The British Business Bank, which offers government-backed loans for start-ups, has offered Shariah-compliant financing since 2014.[99]

This financial support is essential for people who want to avoid interest in initiating their business. As SMEs constitute 99% of businesses in the UK and contribute £65.1 billion to the economy, encouraging SME creation and growth amongst a particularly entrepreneurial demographic can increase economic growth and provide employment.[100] However, interest-free business finance is still not widely accessible and available and 11.8% of Muslim business owners stated that due to the lack of options, they had to resort to using conventional finance.[101] In order to support the thriving sector, non-interest business loans should be more widely available and financial support to businesses provided by local authorities should have a Shariah-compliant alternative.

Tax and Regulatory Obstacles

69% of Muslim business owners believe that there are legislative or regulatory gaps that pose barriers for their businesses, showing that the governmental goal of levelling the playing field is yet to be reached.[102] Industry leaders have pointed out that the FCA's regulatory processes have been lengthy.

"When we consulted with the FCA, they said we need to apply for limited permission, so we applied and after eight months, they said we actually need to make a full permission application. We went through this whole process and after another 8-9 months, they turned around and said we need to do a limited permission application. They refunded the application fee, but instead of reviewing the application we already made, they told us we had to reapply again. Unfortunately, the time it takes to get a response from them takes forever."

Sajid Hussain
Director of iCar Finance[103]

Umer Suleman (Chief Risk Officer at Wahed) stated that regulators often have difficulty understanding Islamic finance products. As Islamic finance products must be asset-backed, with investment risks involved due to fluctuations in the value of assets, the FCA has challenged the higher risks involved. The conventional financial system is centred on debt-based products so FCA regulation has developed on this basis, rather than equity.[104] Since equity is considered higher risk, regulation is more restrictive on Islamic finance firms.[105] This approach neglects the attitudes of Muslim consumers, who are often willing to take on higher risks to ensure their investments align with their religious values.

"It doesn't give you the option of opting in. If I'm willing to take the risk as a Muslim, just like I'm willing to pay more for halal meat, I don't care if it costs me more."

Umer Suleman
Chief Risk Officer at Wahed[106]

Debt and equity are also treated differently in relation to tax. Multiple interviewees raised the issue that interest payments are considered tax-deductible expenses, so Islamic finance organisations that cannot take interest-bearing debts are disadvantaged in terms of tax.[107] Islamic finance institutions sometimes have to use wording or financing structures that mirror conventional debt finance. This is usually due to legal requirements or in order to receive equitable tax treatment to conventional finance. However, the use of wording or structures that mirror conventional finance negatively impacts on demand, as misconceptions may arise on the extent of Shariah compliance, causing concerns.

An up-to-date and adaptive regulatory framework is a strong determinant for increased foreign investment and makes the UK more competitive on a global scale.[108] Lifting the requirement on alternative bonds (Sukuk) to be listed would contribute to the government's agenda to level the playing field and allow businesses to raise funds without extra charges. Furthermore, the FCA should increase its awareness of Islamic finance products and consumers and ensure its requirements are flexible to the needs of the industry. This would allow the UK to benefit even further from foreign investment and the economic growth and productivity from the thriving Islamic FinTech industry. Efforts to equalise the tax treatment of debt and equity financing would also support Islamic finance organisations to compete. It is therefore an important step towards fulfilling government objectives of levelling the playing field between conventional and alternative finance.

Bridging the Financial Inclusion Gap Through Islamic Finance

Islamic banks currently tend to be oriented towards high net worth clients in the Gulf. While this enables foreign investment, it does not leverage Islamic finance's full potential for economic growth in the UK. Aside from bank accounts with just over 50% of usage, less than half of British Muslims use Islamic finance products. Similarly, just over 10% of non-Muslims use Islamic bank accounts, with even fewer using other Islamic finance products.[109] Only 44% of Muslims have used alternative finance services in the past year. These statistics contrast with the 86% of British Muslim consumers who want an Islamic banking provider. British Muslims overwhelmingly (80%) feel that their options for financial services are restricted due to faith and 7 in 10 struggle to find Islamic finance products.[110]

Islamic Finance and Financial Exclusion: A Missed Opportunity

Financial exclusion describes the inability, difficulty or reluctance to access mainstream financial services, which, without intervention, can stimulate social exclusion, poverty and inequality.[111]

Financial exclusion has cumulative impacts. It poses barriers to accessing employment and housing and impacts mental health. WPI Economics (a public policy body) found that enhancing financial inclusion in the UK has the potential to unlock an extra £6.4 billion in GDP.[112] This could be achieved through growth in financial services, better access to vehicles and home ownership, higher investment, employment, productivity and consumption. Lower financial stress leads to improvements in mental and physical wellbeing. It therefore plays an important role in relieving social costs and increasing productivity from lower employment absenteeism.

The Treasury's 2025 Financial Inclusion Strategy makes financial inclusion a key focus for the government to unlock growth potential.[113] However, faith is not mentioned in the strategy, and ethnicity is only referred to once. A core demographic that both the Financial Inclusion Strategy and HM Treasury's Financial Inclusion Committee should be attuned to are faith communities in general, and British Muslims more specifically. Between 2021 and 2022, 65% of Muslims took out debt to pay for everyday bills and costs compared to 22% of general households surveyed in 2022, highlighting a significant disparity in financial vulnerability.[114] 10% of Muslims have no bank account and Muslims are three times less likely to have a bank account compared to their non-Muslim counterparts. This constitutes a significant form of financial exclusion.[115] Debanking, a practice that entails suspending bank accounts without providing a reason, occurs for Muslim organisations at higher rates. 42% of British Muslim charitable organisations have experienced a withdrawal of their bank account.[116] Compared to white British, Eastern European, African and Indian demographics, British Pakistanis (who are predominantly Muslim) hold the

fewest investments and have a significantly higher usage rate of Buy Now Pay Later (BNPL) schemes – 23% compared to the next highest of 15%.[117] A higher usage of BNPL services indicates a lack of access to mainstream credit services and also poses significant risks to the user.[118] Furthermore, as some Muslims do not engage with interest-based products, they are less likely to build a credit score. This makes them invisible in the credit system and potentially part of the 1% of adults who have a "thin file," with little data on the system.[119] Those with a thin file are less likely to be given credit cards, loans or mortgages because there is no evidence of their reliability in making repayments.

British Muslims therefore face issues of financial exclusion at higher rates. Enhancing financial inclusion for specific groups cannot occur with a "one-size-fits-all" approach. Many minority groups feel that a uniform approach taken by banks poses barriers to accessing services due to specific cultural or religious needs not being met.[120] This includes a lack of Shariah-compliant services, with 70% of Muslims saying tailored financial services would be helpful.[121] Without accessible and affordable Islamic finance options, many British Muslims remain financially excluded, as they lack appropriate financial products. This will only increase, as 1 in 10 people from Gen Z are practising Muslims, indicating a rising number of Muslims who prioritise their religious values when making financial decisions.[122] Increased access to Islamic finance products therefore has the potential to enhance financial inclusion. It would enable the government to unlock the economic benefits of a more financially resilient society.

The survey conducted for this report found that there is a gap between awareness of alternative finance and its usage. Levels of understanding of alternative finance products were generally higher among Muslim respondents than the general population. But this awareness did not always translate into usage. 76% of Muslim respondents who are aware of alternative home finance have not used it. The same is true for 67% of those who are aware of alternative finance pensions. But, given that the religious and ethical motivations for their use of alternative finance are strong, this does not necessarily mean that demand is low. Instead, it may mean that the key barriers to accessing alternative finance, including Islamic finance, are due to a supply problem.

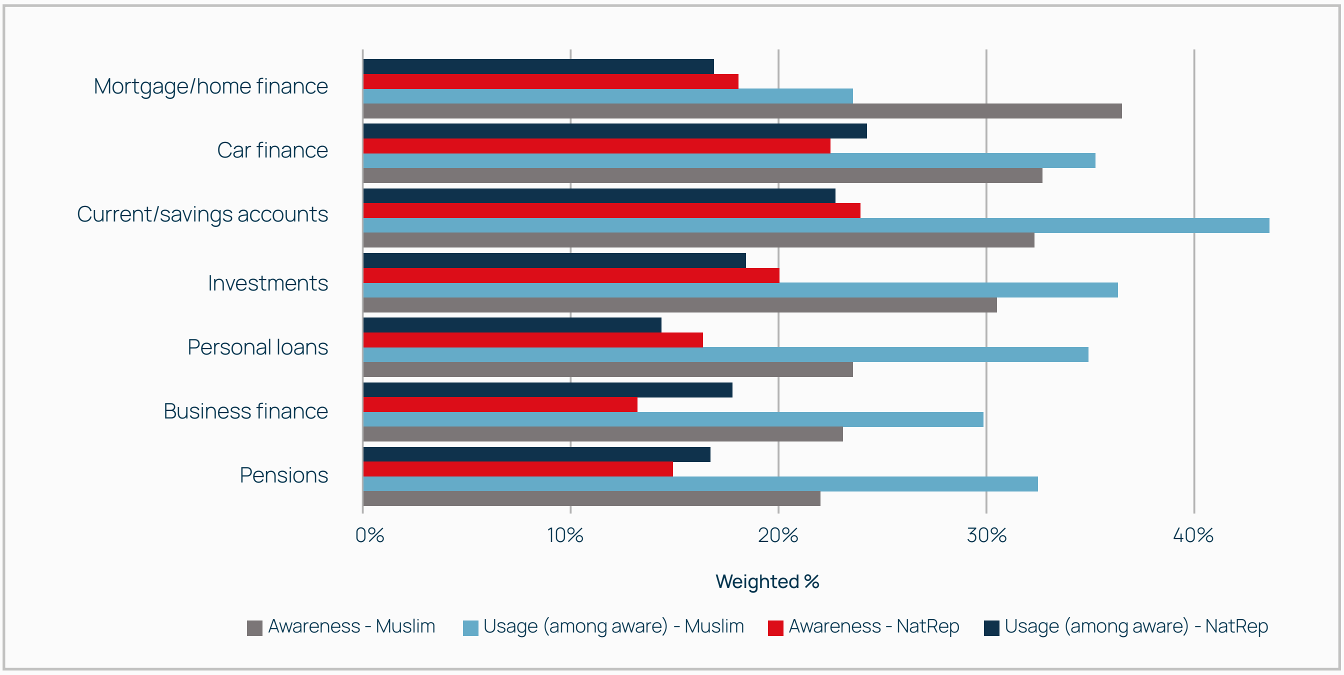


Figure 2: Alternative finance awareness versus actual usage. Data based on Equi's survey conducted by Savanta.

For those respondents to our survey who had tried and failed to access alternative finance products, the barriers to access between the Muslim and the general populations were very similar. The two primary barriers were that the application process was too complex and that costs or fees were too high. These results reflect how alternative finance services are failing consumers, regardless of their background and motivation for using these products. Providers should address these problems to widen access to alternative finance. The inability to access alternative finance caused increased financial worry across society (for 30% of the general population and 26% of Muslims). It also had a unique impact on Muslims, with 25% having to resort to conventional interest-based finance, even though this contradicts their faith values.

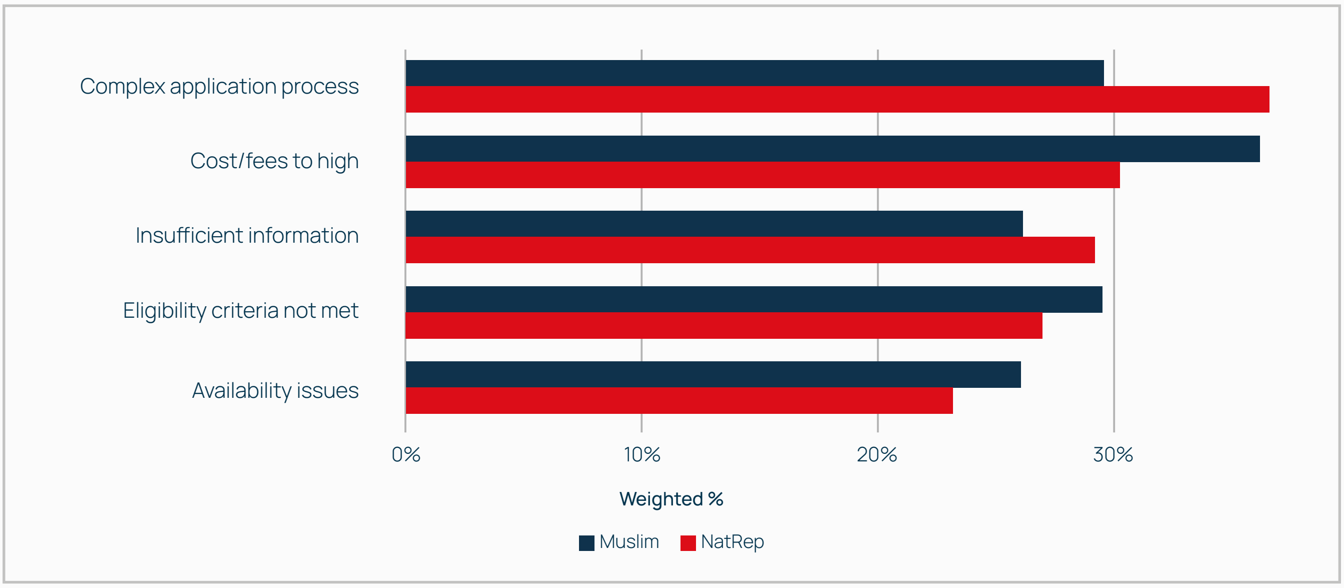


Figure 3: Barriers to accessing alternative finance. Data based on Equi's survey conducted by Savanta.

There is also a gap between consumer demand for Islamic finance specifically and its usage, which shows that a number of deterring factors remain. Muslims often rely on informal financing methods and sometimes remain excluded from core aspects of economic participation. The government misses out on an estimated £450 million per year due to Muslim students foregoing university alone.[123] Islamic finance also allows people to invest in assets and build their financial resilience without compromising their values. This provides more options for sustainably growing wealth and long-term financial flexibility.

The Financial Inclusion Strategy includes a plan for an industry-led Inclusive Design Working Group to address gaps where financial services are not meeting consumer needs.[124] This working group should engage with Islamic finance providers who have extensive experience working with demographics whose needs are not being met by mainstream financial services.

30% of British Muslims stated that a limited number of options was the primary deterrent from using Islamic finance products.[125] This shows that Islamic finance products and services must be expanded to fit the needs of consumers. Other deterring factors include higher costs compared to conventional services, not understanding how alternative finance works and a belief that Islamic finance generates a lower return on savings or investments. If the government addresses lasting regulatory and tax inequalities, this will ease costs for Islamic finance organisations, enabling them to lower prices for consumers. Furthermore, there is evidence that the perception that Islamic finance investments generate a lower return is a misconception. Returns are less fixed but, in some markets, Islamic equity indexes can outperform conventional indexes.[126] This indicates the prevalence of misconceptions relating to Islamic finance and the lack of education surrounding it. Here, awareness-raising campaigns could prove useful.

Access to information is a key factor in driving financial inclusion. Only 30% of non-Muslims reported having any awareness of Islamic finance and their primary deterrent to using Islamic finance was a lack of information.[127] There are also misconceptions, with 35% of non-Muslims and over a quarter of Muslims believing that Islamic finance is

only available for Muslim customers.[128] Yet some non-Muslims have expressed a willingness to use it. 30% of non-Muslims said they would be willing to switch to Islamic finance products if it offered a comparable service to conventional products.

This lack of awareness extends to alternative finance more broadly. Our survey findings show that 23% of people have not heard of any form of alternative finance, including Islamic and ESG finance. Alternative finance current or savings accounts were the products that most people felt they could explain to someone else (57% of Muslims and 45% of the general population). But 40% of the general population could not explain how any alternative finance product works.

These statistics show that there is a lack of understanding around alternative finance services generally across society, and specifically around Islamic finance. But there is an appetite among people of all faiths and none for quality Islamic finance services. Improved understanding of Islamic finance may lead this appeal to grow. To achieve this, comprehensive education about Islamic finance and better quality services from Islamic finance providers are key solutions.

> ***"We're building an education tech platform where we get practitioners from Islamic finance to come and do the teaching. As an organisation whose first key pillar is on financial literacy, I would ask the government to fund organisations like ourselves and others that are doing this work."***
>
> ***Omar Khaliel***
>
> *CEO and Founder of Riba Free Foundation*[129]

But there is a clear disparity between men and women over knowledge of alternative finance, which includes Islamic finance. Women from both sample groups were less likely than men to have heard of all types of alternative finance, and were more likely to respond 'don't know' and 'none of the above.' Of Muslims surveyed who said they use none or only some alternative finance products, 28% of women compared to 17% of men did not understand how some or all alternative finance products work. This gap in knowledge was higher for the general population, at 39% of women compared to 31% of men.

Over half of Muslim women believe that they face other barriers to accessing banking services too and many Muslim women do not have a credit rating. As a result of this, they face restrictions in accessing loans.[130] The existence of Islamic finance organisations has helped address some barriers and encourage Muslim women to use formal financial institutions, such as newer FinTechs, which are more trusted by ethnic minority groups, which many Muslims are a part of.[131] Information on Islamic finance has become more accessible through online platforms such as Islamic Finance Guru, which reaches millions of website and social media users every month. However, Bana Gora, the CEO of Muslim Women's Council, says there is still not adequate information aimed at specific groups, such as students or stay-at-home women.[132] So, while financial exclusion is a particularly acute problem for British Muslims, British Muslim women are less familiar with alternative finance and Islamic finance, and therefore how it might help to alleviate financial challenges they face. This means that improved education around alternative finance must be complemented with awareness-raising initiatives targeted at specific demographics, such as Muslim women.

In sum, Muslims are at greater risk of financial exclusion, which is at least in part due to the lack of Islamic finance options. Alternative finance more broadly is not understood well in the UK.

This understanding is lower among women than men. Existing alternative finance services are also limited and there are barriers that prevent access for both the Muslim and the general public, which contributes to increased financial worry. Greater support for and education on Islamic and other alternative finance services therefore represents an opportunity to tackle financial exclusion and financial illiteracy. This work should build on an intersectional understanding of relevant target audiences, taking into account factors such as faith, ethnicity and gender.

Personal Finance

There is a particular need to expand personal finance options under the umbrella of Islamic finance. The UKIFC's Call for Evidence from 2024 highlighted that over a quarter of respondents could not access an Islamic bank account, and there are limited accessible options with some accounts charging fees.[133] But Islamic banking accounts are in demand, even among non-Muslims. Over 10% of non-Muslims use Islamic banking accounts and 30% are willing to switch to Islamic banking if it offered comparable services. FinTechs have been innovating to meet this consumer need, but without more available and accessible options, Muslims remain financially underserved, exacerbating financial exclusion in the UK.[134] A wider range of accessible options will increase the financial resilience of not just Muslims, but all populations in the UK.

Among the Islamic banks in the UK, Gatehouse Bank is the most accessible option for savings accounts, with their Easy Access Account only requiring a minimum deposit of £1.[135] Islamic savings accounts are the most popular Islamic finance product used by consumers in the UK, with 53% of Muslims holding a savings account, followed by 51% holding a current account.[136] Alternative current and savings accounts more broadly were also popular in our survey. 68% of Muslim respondents and 56% of the general population said they would use alternative current and savings accounts if they offered a comparable service and price to conventional services. Islamic savings accounts pay a proportion of profits from investments to account holders rather than interest.[137] Previously, mainstream high street banks including HSBC and Lloyds offered Shariah-compliant windows, providing Islamic banking services. However, these windows closed within a decade, after facing higher financial and reputational costs following the 2008 financial crisis, as well as low demand from Muslim customers who often preferred wholly Islamic banking providers.[138] Islamic banking accounts not only provide access to essential banking services for Muslims, but are also a viable alternative for non-Muslims, who may prioritise an ethical banking ethos or are attracted to the higher returns they often generate.[139] In 2013, Al Rayan Bank stated that an estimated 87% of applications for its Fixed Term Deposit Accounts were from non-Muslims.[140]

As none of the existing Islamic banks offer accessible current account services, Islamic FinTechs have started filling this gap, with eight Islamic challenger banking companies currently operating in the UK, including Kestrl, Nomo and Algbra. Some FinTech companies which have other primary services also offer savings accounts, for example, Pfida's Grow Your Savings account.[141] Muslims are generally more likely to hold a FinTech bank account, as 14% of Muslims use a FinTech for their main account compared to 6% of ethnic minorities and 2% of white people surveyed.[142] The number of Islamic banking retail customers has grown by 20% annually between 2020-2025, showing the growth of interest in this sector.[143] In 2025, Standard Chartered announced its plan to offer Islamic current accounts in the UK.[144]

There are few options to access a Shariah-compliant personal loan in the UK. Our survey showed that awareness of these options is low, as only 24% of Muslims and 17% of the general population had heard of alternative personal loans, which include any form of non-interest loan or community finance source. 81% of industry respondents to the UKIFC's Call for Evidence said that non-interest loans are not available and accessible in the UK.[145] For people receiving certain benefits, the government offers a non-interest Budgeting Loan of up to £812.[146] A few charities provide non-interest loans, including Islamic finance charity Ansar Finance and a No-Interest Loan Scheme (NILS) for residents in Herefordshire, Shropshire and Worcestershire.[147] HM Treasury, as well as Scottish and Welsh governments, have supported Fair4All Finance in piloting an NILS primarily for those who have been rejected a conventional loan.[148] These sources of loans, while few and far between, have been essential sources of emergency financing for vulnerable borrowers of all faith backgrounds and none.[149]

Case Study: Ansar Finance[150]

Ansar Finance was established in 1994 in Manchester with the aim of addressing the need for interest-free loans.[151] Since then, it has provided investment avenues, a home finance provision and set up the UK's first halal credit union. The credit union, called YourB, is aimed at helping students finance their education. Ansar Finance provides advice on managing finances, a hardship fund for Muslims who are unable to meet day-to-day living costs and personal loans of up to £1,000 (£5,000 for consistent donors).[152]

Ansar Finance awards between 50 and 70 non-interest loans per year, which is available to and used by people of all faiths and none. The impact of its work is significant, helping users to pay for unexpected expenses and credit card debt. An interest-free loan can help people break free from cycles of debt and interest. One Ansar member said:

"When my house was damaged through no fault of my own, I turned to Ansar for emergency support. Ansar helped me to rebuild my life. It is the only organisation I know that does what it does. Without them, I really don't know where I would be today."

Anjum Zulfiqar, Chair and Trustee of Ansar Finance, said: "People who apply for loans are going through financial hardships. This has other impacts on family, relationships and stress. We have a lot of single parents being left in the lurch. We've had applicants who have come out of jail and they've had nothing with them. We have dished out over £6 million in loans since 1994 and we've saved people millions of pounds of interest."[153]

Community finance institutions are alternatives to private sector businesses, such as credit unions. In the UK, there are around 240 credit unions with a membership of 2.2 million people. These numbers are increasing year on year, but fewer than 1 in 50 adults in England are credit union members.[154] In a survey of credit union members in Merseyside, 80% reported that being a member of a credit union had a positive impact on their physical and mental wellbeing and family life.[155] Just five credit unions in Merseyside saved borrowers between £5.6-23.5 million in interest payments if they used higher cost alternatives.[156]

There are currently only a couple of Islamic credit unions in the UK, which face obstacles in accessing capital to operate.[157] The Financial Inclusion Strategy outlines a plan to create a fund of £30 million to support credit union growth.[158] This strategy should include Islamic credit unions to ensure they are able to scale up and effectively leverage their tools to support financial inclusion, as Islamic credit unions could address a key demographic of people who would benefit from credit union membership but want to avoid interest. Overall, no-interest loans are highly beneficial in alleviating financial stress, providing a lifeline for vulnerable people and increasing financial resilience. 51% of the general population said they would be interested in alternative finance personal loans, and non-interest finance was the most popular form of alternative finance. The Islamic finance model which prohibits interest can benefit all populations and enhance economic growth by harnessing the economic and social benefits of financial inclusion.

Many Muslims have started their own, informal community finance organisations, called Rotating

Savings or Credit Associations (ROSCAs). People regularly pay a certain amount to an appointed treasurer and then take turns withdrawing lump sums, operating through community trust.[159] 70% of women surveyed in Bradford participated in a Kameti (South Asian informal community finance) system, which benefitted financially excluded women who face barriers accessing financial services, due to low income, language or social barriers.[160] The lack of interest and debt involved also increases its appeal and is a key form of financial empowerment for excluded populations.[161]

But there have been rare incidents of people taking advantage of the system and even stealing money.[162] As ROSCAs are unregulated and informal, there is no insurance or legal protection in these cases.[163] Governmental support to such schemes, such as training to safeguard the schemes from fraud or mismanagement, would prevent misuse. A regulated alternative is exemplified by Stepladder, which has implemented the ROSCA system in a regulated, digital form that individuals can initiate.[164]

Overall, alternative finance providers including FinTechs, credit unions, charities and ROSCAs are important sources of finance for a diverse range of people facing financial exclusion. These providers enable people with low credit scores or those wanting to take a small loan to access credit for no or little interest and in the case of ROSCAs, to access lump sums without taking on debt at all. However, credit unions, FinTechs and other non-profits face the recurring issue of access to capital. Financial support from the government would enable community finance schemes to have a greater impact on enhancing financial resilience, reducing debt and improving wellbeing and economic productivity.

Home Finance

Accessing finance to own a home gives people freedom and security in where they live, contributing to a positive sense of ownership and financial security. The house holds value for the future too, as an asset to sell on or pass down to relatives or friends. As house prices are on average £271,000 in the UK, very few people can afford to buy a house outright. However, since taking a mortgage requires paying interest, those who want to avoid interest due to their faith are left with a difficult decision of compromising their values or remaining excluded from home ownership.[165] Eight in ten British Muslims feel that their finance options are restricted on account of their faith, but the same proportion are willing to consider Islamic home finance in the future.[166] Industry respondents from a UKIFC Call for Evidence stated that a lack of Shariah-compliant finance products has led to limited access to homeownership.[167] Currently, government planning targets are in place to help people buy their own homes, but increasing access to interest-free homeownership schemes could be another core strategy to meet this goal.[168] UKIFC estimates that the residential property total addressable market related to Islamic finance is approximately £45 billion, based on outstanding residential mortgage balances adjusted for the Muslim population share.

Islamic finance organisations have offered Home Purchase Plans (HPPs), where the bank co-owns the house while the buyer pays rent and can also buy more equity until they own the home.[169] Currently, Gatehouse Bank is the only bank offering residential home finance, as Al Rayan withdrew their offering and both HSBC and Lloyds have closed their Islamic mortgages.[170] Some FinTechs have entered the market, with Offa, Pfida, Wayhome and StrideUp offering Shariah-compliant home finance options.[171] But over 75% of British Muslims have never used Islamic home finance.[172] Muslim respondents to Equi's survey found alternative home finance the most difficult Islamic finance product to access. Amongst British Muslims who have used a conventional mortgage, 62% considered Islamic finance, showing that barriers to access have led people to compromise on their values to access homeownership.[173] Half of the British Muslims using conventional mortgages said they felt unhappy or uneasy resorting to conventional finance. Increasing the availability and access to Islamic finance could alleviate financial stress that results from faith-related unease regarding having to resort to conventional finance products.

Reducing costly inefficiencies, such as the requirement for Islamic home finance to have two solicitors, long regulatory processes and changing the FCA's remit to include equity products, would support the Islamic home finance sector to grow and meet demand.[174] Updates to the Building Safety Act 2022 could also lower costs of Islamic finance, as currently Islamic mortgage holders and Islamic finance institutions are not exempt from bearing costs of safety issues in high rise residential buildings like conventional mortgage holders are.[175] This prevents Islamic home finance institutions from financing apartments in buildings that would fall under this legislation. Legislation should be reformed to prevent Islamic home finance actors from bearing costs not borne by their conventional counterparts. This is necessary to both encourage the growth of this vital industry and to level the playing field between conventional and Islamic finance.

Case Study: Pfida[176]

Pfida launched its shared ownership home finance product in 2019, looking to provide everyone with an accessible and affordable opportunity to own their own home without debt and interest.[177] Homebuyers and Pfida jointly buy the property with the homebuyer paying for an initial 20% of the equity and paying rent only for the remaining 80%.[178] Customers can choose to buy the rest of the shares at their own pace or not at all, but Pfida offers heavily discounted rent of up to 50% to those who buy more equity.[179]

Through their equity buffer, those struggling to pay rent have four years of housing stability – compared to around six months for conventional mortgages – by selling their existing shares back to Pfida in lieu of rental payments.[180] As debt can lead to homelessness, Crisis has invested in Pfida in recognition of Pfida's work as a potential solution to homelessness, by providing a debt-free and affordable way of owning a home.

Pfida is an innovative FinTech offering real solutions to those struggling to get onto the housing ladder. It has financed over 100 homes across the UK but is struggling to meet the huge demand for the product.[181]

Salman Hasan, Co-Founder and Chief Legal Officer, explained the high demand for the product: "If a shared ownership provider is charging you market rent on their share plus they're revaluing the property each time you buy equity, then if house prices go up, you'd end up in a situation where your rent is going up constantly. A mortgage on the other hand can be a debt trap, whereas a shared ownership model traps people in a rent cycle as they cannot afford to buy more equity. There's a debt trap and a rent trap. We've taken the traps away from both of those, and married the best features of each into a solution that is debt free."

Despite its savings product, Pfida is still struggling to scale up its services to meet demand and faces numerous obstacles. Pfida spent two years going through the FCA regulation process, only to be told that equity products are not in the FCA's remit.[182] Furthermore, customers have to pay double stamp duty when buying the initial equity and at the end of their agreement.[183] While other Islamic home finance models such as HPPs no longer pay double stamp duty, Pfida does not benefit from the dual stamp duty relief received by banks. As Pfida are trying to level the playing field for Muslims in accessing home finance, government should work with them to prevent the payment of double stamp duty.

Alternative Student Finance (ASF)

The current student finance system allows undergraduate students to take out a tuition fee loan and a maintenance loan for living costs. Graduates only repay loans if they earn above a certain threshold. The loan is also written off after a certain period depending on the repayment plan. Interest rates are set in relation to inflation, with some plans charging an additional 3%. For graduates under Plan 2, the interest rate rises up to the additional 3% depending on income.[184]

6,000 students per year are forced to self-finance their degree and another 6,000 forego higher education entirely due to the interest-bearing student loan system.[185] Considering the economic premium generated from each graduate that is missed from Muslim students foregoing higher education, the government could unlock over £450 million for the public purse per student cohort by introducing ASF. A consultation carried out by government in 2014 also showed that 83% of respondents believed that the rise in tuition fees to £9,000 in 2012 had a large impact on students who objected to interest on religious grounds. It also found that 94% agreed that there would be demand for an interest-free student finance product.[186]

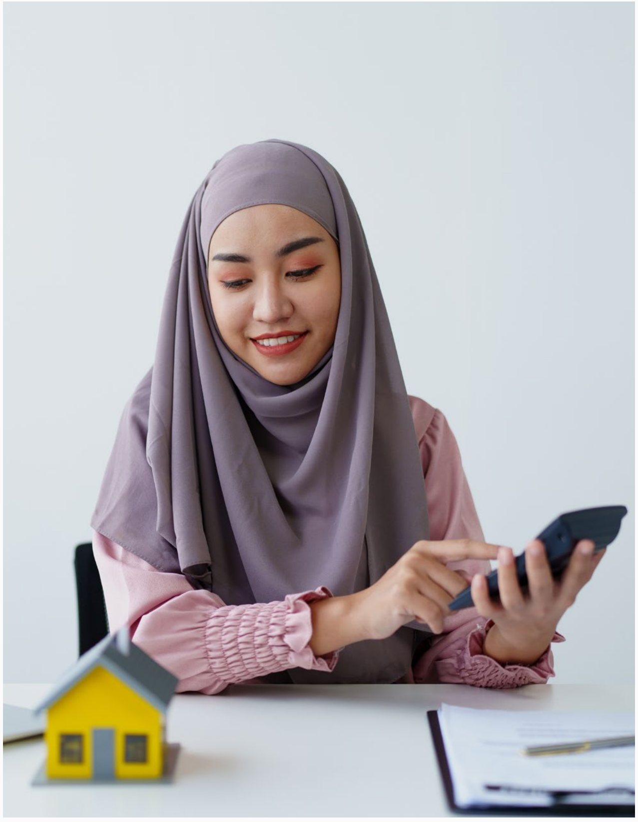
In a study published by the Department for Education that reviewed Muslim students' approaches to higher education, it was revealed that concerns about student loans, and especially interest, shaped respondents' key decisions. This included the decision to forego higher education, take an apprenticeship, delay entry or choose to study closer to home to reduce living costs and maintenance loans.[187] Amongst Muslims who have taken out a student loan, 80% have felt conflicted about their decision, sometimes with consequences on their mental health.[188] The lack of an alternative to student loans has thus had a profound impact on the lives and potential of Muslim students. As student loans are set to increase each year with inflation, an increased proportion of Muslim students who self-finance or borrow from family members to access higher education become priced out of a university degree.[189]

"I've had very sad emails from students who did well in their A levels and had offers to study medicine or other disciplines, but they had to put off their university education because they didn't want to take interest-based student loans. They were asking 'when do you think this will be introduced by the government?'"

Dr. Samir Alamad

Senior Lecturer in Finance at Coventry University[190]

In 2010, the government initiated discussions on introducing a Shariah-compliant student finance system.[191] The system would be based on the Islamic principle of Takaful, which entails a mutual support fund.[192] While the amount students will access and their repayments will mirror the conventional system, their repayments will be ringfenced to support future students opting for the ASF system. The Higher Education and Research Act 2017 enacted proposals that would allow the government to introduce an alternative, interest-free student finance scheme.[193] Research conducted by government showed that Muslim students had an overwhelmingly positive response to the concept of ASF. They believed it would encourage Muslim students to attend university and improve their experience of higher education generally.[194] Despite the evidence for a strong impact and demand for ASF, the scheme has still not been deployed. This has raised criticisms from campaign groups, MPs and members of the House of Lords.[195] The Department for Education plans to roll out ASF shortly after the launch of the reformed student finance system, the Lifelong Learning Entitlement, which will be introduced in the 2026-27 academic year.[196]



Car Finance

A lack of access to Islamic car finance has widespread knock-on impacts for British Muslims because of the indispensable role of transportation in everyday life. Car owners have higher access to employment and other economic or social opportunities.[197] An unemployed person with a car is also twice as likely to find work in the next year and is more likely to access essential healthcare services.[198] However, the most common forms of car financing, a personal loan, Hire Purchase (HP) and a Personal Contract Purchase (PCP), all include interest payments.[199] Options to finance a car without interest, such as a 0% car finance deal, are often more expensive and require a high credit score, making them inaccessible for many.[200] Demand for halal car financing is growing significantly as a third of British Muslim men demand halal HP and PCP finance options for new cars.[201] 56% of Muslim women from our survey (compared to 53% of Muslim men and 41% of the general population) said they would use alternative car finance if a comparable service to conventional car finance were available. A significant portion of this demand may be for Islamic car finance, seeing as the majority of Muslim women (60%) expressed a preference for Islamic finance out of alternative finance services. As a result, a few Islamic car finance companies have entered the market, including Halal Cars, iCar Finance and Ayan Capital. Halal car financing has seen strong demand, with iCar Finance receiving 6 to 10 requests per day.[202]

Case Study: Ayan Capital[203]

Ayan Capital is a halal car financing service for personal and business car finance. It launched in 2023 with a vision to serve the UK's private hire vehicles, such as Uber, Bolt and black cabs, before expanding to provide car finance for consumers in 2025.[204] The CEO and co-founder, Abdullo Kurbanov, had the vision for Ayan Capital after observing the private hire vehicle market in the UK.[205]

For example, he noticed that Uber adopts policies to incentivise drivers to switch to electric vehicles. 40% of Uber journeys in London were electric in 2025.[206] Since electric vehicles have a higher upfront cost and up to 75% of Uber drivers in the UK are Muslim, there is demand for Islamic car finance to support this transition to electric vehicles.[207] The company is not limited to just Muslim clients as around 1 in 10 customers are from a non-Muslim background.[208] Ayan Capital is therefore supporting government targets of 100% of new cars sold in Britain to be zero emissions by 2035.[209] Their ethical principles mean that their transactions have no hidden charges or penalty fees and they take a significant ownership risk by taking on repair costs for inherent faults.[210]

Kurbanov detailed some of the challenges Ayan Capital faces: "For personal car finance, you need consumer credit authorisation by the FCA. It's a very challenging process. It takes a lot of work to obtain one and we spent about two years on it, including our preparation time before we submitted our application. The Consumer Credit Act was drafted about 50 years ago and it's very restrictive in terms of what you can put on the agreement."

Islamic car finance providers are doing vital work to help people unlock the benefits that car ownership provides as well as access higher cost electric vehicles, which is key for the UK's target to reach net zero by 2050. [211] This has not been without its challenges. As stated, iCar Finance went through lengthy hurdles in its application for FCA regulation. As the government undergoes consultations to reform the Consumer Credit Act, it should prioritise flexibility in its terminology to allow Islamic finance organisations to receive authorisation without being obligated to submit information on interest. [212] FCA regulatory processes must also be receptive to Islamic finance models. A broader understanding of Islamic finance amongst FCA staff would help reduce the hurdles faced by Islamic finance organisations waiting to be regulated by the FCA.

Insurance

Insurance is a core element of financial inclusion, as household insurance contributes to the financial resilience of households from emergencies, such as a break-in or a fire. This is even more important as those on lower incomes face higher risks. Social housing is almost twice as likely to be burgled compared to households who own their home. Similarly, the rate of arson is 30 times higher in a lower income community compared to an affluent community.[213] In the UK, 40% of adults do not have home contents insurance, a figure which has been increasing since 2020.[214] Motor insurance in the UK is mandatory, but insurance premiums have risen to an average annual cost of £589 in the first quarter of 2025.[215] Not being able to access car insurance, and therefore a car, has a profound impact on people's day-to-day lives and the economy. In 2013, only 37% of Muslim adults surveyed had car insurance, compared to 61% of adults in the UK surveyed in 2017.[216]

Islamic insurance is referred to as Takaful and is a mutual fund which pools individual contributions and shares risks and profits amongst members. The Takaful sector is the smallest segment of Islamic finance globally. However, it has high growth potential as takaful assets have grown by 8% on average each year between 2015-2021.[217] The UK also has a strong position as a centre for the insurance industry.

In 2015, the Islamic Insurance Association of London (IIAL) launched to promote and explore the capacity for Islamic insurance products in London.[218] The organisation found that there were growing calls for Islamic insurance, for example as Islamic investments in London relating to marine, aviation and energy sectors could not be insured in a Shariah-compliant manner.[219] Shariah-compliant underwriting has been introduced from Cobalt and NDI Insurance & Reinsurance has emerged as a Shariah-compliant insurance broker.[220] XL Group launched its Shariah-compliant property and construction coverage service in 2013 and expanded this into fine art coverage too.[221] Jenoa is also facilitating Shariah-compliant insurance in the London market.[222] Despite some evidence of growth, the Islamic commercial insurance industry is still underdeveloped and there has been little effort to address this gap.[223] As a result of little interest and response from the sector, the IIAL is no longer active.

71% of Muslim adults surveyed in 2013 said that they would be very likely to switch to a takaful product if it offered a comparable service to conventional insurance, and another 14% said they would be likely to switch.[224] An Islamic finance model could also support the increased financial resilience for all adults opting for premium finance, which allows individuals to pay for insurance in instalments but incurs interest charges.[225] As 81% of adults in financial difficulty use premium finance, the interest involved contributes to low access to insurance for those in lower income groups.[226] An Islamic finance alternative could support a diverse range of people to become more financially resilient and save money on high insurance premiums. This could contribute to the work government is already doing on tackling high motor insurance costs.[227] As a result, the insurance company named Takaful is undergoing development as a solution, aiming to bring Islamic insurance to the UK in 2026.[228]

The growth of the Takaful industry in the UK would support financial inclusion, foreign investment and economic growth for Britain. Governmental support of the nascent industry is essential. The insurance industry would benefit from better education on Islamic finance, so support for and partnerships with organisations doing advocacy and educational work such as the IIAL or the Riba Free Foundation would be key. The government could also recommend and provide resources to the sector to encourage take-up and ensure that the regulatory and tax environment is supportive of future Takaful start-ups aimed towards consumers in the UK.

Pensions

Having a workplace or self-invested pension is vital to prevent poverty in old age, increase financial inclusion and decrease pressure on public finances. It is estimated that health and social care costs associated with the non-claiming of Pension Credit (tax-free benefits for pensioners on a low income) are between £3.2 billion and £4.9 billion per year, meaning significant savings can be made if everyone eligible claimed Pension Credit.[229] Enrolment in a private pension across the board is therefore vital to ease burdens on health and social care in the UK. Although conversations on pensions have largely been absent in financial inclusion policy, including the Financial Inclusion Strategy, pensions are vital to prevent financial exclusion in later life.[230]

While auto-enrolment in pensions increased the number of workers saving into a workplace pension by 10 million people, there are still gaps and inequalities in pension savings in the UK.[231] Around 8.5 million workers are excluded as they may be self-employed, earn too little or work in flexible, short-term gig economy jobs, while others opt out due to lack of trust or affordability.[232] Since the proportion of working Muslims in England and Wales who are self-employed is 23% compared to a national average of 16%, and over 2 in 5 self-employed people do not pay into a private pension, Muslims are particularly at risk of pension poverty.[233] Our survey also found that access to alternative pensions is more difficult for Muslim women than men, with only 48% of women compared to 66% of men finding it to be the easiest alternative finance product to access.

> ***"Lots of people don't have a pension in place and it's going to cost the taxpayer billions in the next 20-30 years to cover the gap because people have nothing to fall back on when they retire. The reason is because people don't have Shariah compliant pensions."***
>
> ***Omar Khaliel***
> *CEO and Founder of Riba Free Foundation*[234]

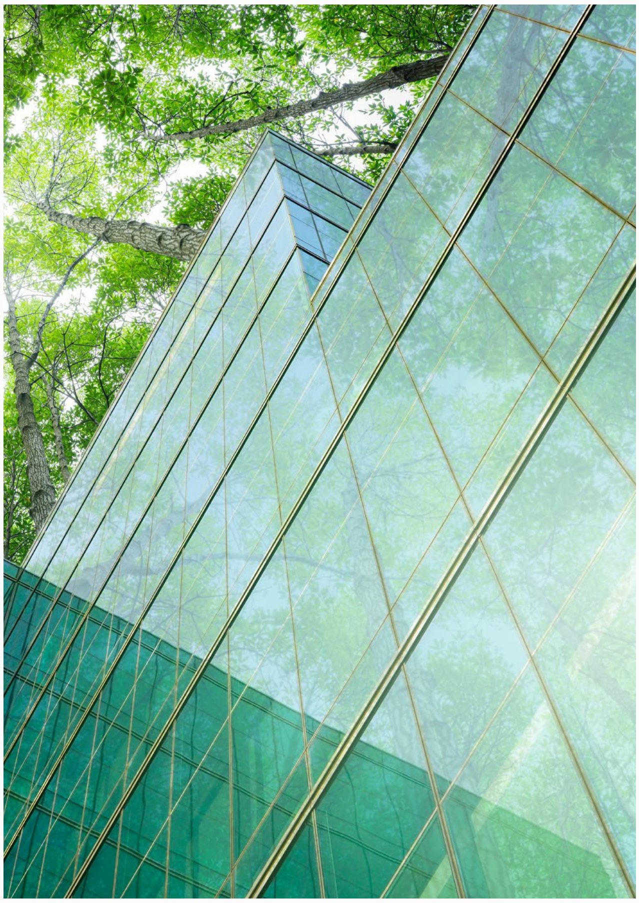
A core issue preventing Muslims from enrolling into a private pension is the lack of Islamic pensions offered by employers. While pension schemes such as Nest, Now: Pensions and PensionBee offer Shariah-compliant pension funds, workplaces

are not mandated to offer this option to their employees.[235] Nest has 13.9 million members, of which 98% are enrolled in the default pension fund.[236] The second most popular fund choice is its Shariah fund, which has 35,000 members, including from those who are attracted to the fund for its higher returns rather than for religious reasons.[237] Nest originally opened its Shariah fund due to demand from employers, who wanted to ensure they met their statutory auto-enrolment pension duties for Muslim employees. The number of Nest members switching to it has been increasing significantly over time.

But almost 40% of Muslim employees said their workplace did not offer an Islamic pension option.[238] This could constitute a violation of the Equality Act 2010 due to indirect discrimination. Islamic Finance Guru is offering legal advice and support to workers whose employers are not providing an Islamic pension option.[239] This exemplifies the important work Islamic finance actors are doing in increasing pension enrolment rates and tackling the disincentives to enrolment.

A survey by Islamic Finance Guru found that 30% of Muslim respondents did not have a pension and for 78% of this group, their primary reason was concern about the Shariah-compliant nature of their pension. [240] Since the average pension pot at around retirement age amounts to £145,900, 23.7% of working Muslims in England and Wales opting out of pension savings due to concerns over Shariah-compliance would cost the economy £54.4 billion.[241] This number is going to be even higher for the UK as a whole, as it excludes Muslims in Scotland and Northern Ireland. The lack of Shariah-compliant workplace pensions is therefore likely to have significant knock-on impacts on the economy.[242] If a third of working Muslims in England and Wales who opt out of pension savings due to concerns over Shariah compliance experience pensioner poverty in the future, it could cost the government £1.9 billion annually. There is therefore an urgent need to expand access to and awareness of halal pension funds for all employees.

Amongst other alternative financial services, Muslims were least likely to have heard of alternative pensions, with only 22% being aware of them. Transparency from pension providers regarding their investments and awareness of different pension options is therefore part of the solution to increasing pension enrolment in the UK. Most pension funds in the UK only disclose their top ten investment holdings, preventing Muslims and other values-driven investors from evaluating whether their pensions are invested in industries that oppose their values, such as weapons or fossil fuels.[243]



Another issue regarding Islamic pension funds is their higher risk rate. This is due to their concentration in HSBC's Islamic Global Equities Fund.[244] This increases the risk of Islamic pension options, which is evident as Nest's Shariah fund is the highest risk out of their choices, even beyond Nest's Higher Risk Fund.[245] Nest is improving diversification of this fund and reducing reliance on equities alone by introducing Sukuk, with an indicative asset split of around 70% equities and 30% Sukuk.[246] The growing number of Muslims in higher-risk pensions potentially contradicts the Pensions Commission's goal of lowering risk for individual contributors and must be addressed to avoid future financial exclusion.[247]

"The UK should think about creating some sort of fund that is Shariah compliant and invests a portion of people's pensions in British businesses. When you look at a list of equities that pensions invest in, they are usually American companies. Is there some way so British people can have a portion of their pension reinvested in the UK to support the country that they're in and they've benefited from?"

Umer Suleman

Chief Risk Officer at Wahed[248]

Islamic pensions therefore represent a significant opportunity to increase financial inclusion, unlock an extra £54.4 billion in pension savings and save the Treasury almost £2 billion in healthcare savings caused by a lack of pensions. To unlock these benefits, the government should ensure that pension funds are more transparent regarding their investment holdings and that workplaces provide a halal pension option to their employees where relevant, to prevent any form of discrimination under the Equality Act 2010. The government should also ensure any public provisions of information, advice and guidance on pensions include raising awareness of Islamic and ethical pension funds to tackle the issue of low awareness.

Converging Values — Islamic Finance, and Sustainable Growth in Britain

The availability of a range of Islamic finance services has the potential to significantly increase financial inclusion and boost growth. In addition to offering more finance options that are explicitly labelled as 'Islamic,' part of the solution can also be the integration of different forms of alternative finance that account for sustainable principles, economic inclusion and ethical approaches. Financial services constitute a key sector to drive sustainable economic growth. They ensure the UK is set to achieve its goal of net zero greenhouse gas emissions by 2050.[249] The demand for green financial services has increased as global ESG assets surpassed £2.5 trillion in 2025.[250] The UK ESG investment market is experiencing rapid growth of 9.3% and reached £3 billion in 2024.[251] The economic growth potential of ethical and sustainable finance is significant and the UK has a leading role to play in this field.

Growing demand for ESG financial services is driven by consumers and investors alike. 73% of consumers want banks to give more attention to ESG considerations, and 54% of consumers would consider switching their bank if it invested in companies with poor labour and human rights records. 81% of adults would like their investments to have a positive social or environmental impact.[252] Over half of investors in the UK already hold ethical or ESG investments.[253] As financial actors increasingly make conscientious consumer and business decisions, ethical and green finance organisations hold significant growth potential.

While many mainstream financial institutions have developed ESG policies, they are often in need of development. Some banks, such as Barclays and NatWest, have reduced the prevalence of climate targets in their business strategies.[254] For conscientious consumers, ethical banking services such as Triodos Bank and the Co-operative Bank, provide an alternative with a consistent focus on ESG considerations. Organisations that have an explicit ESG focus often support green infrastructure projects and other important social initiatives in the UK. For example, Ethex, an ethical investing platform, has invested in over 200 projects between 2013 and 2023, including in renewable energy, affordable homes, libraries, sustainable agriculture and British Sign Language (BSL) services.[255]

From Values to Value: Integrating Islamic, Non-Interest and Ethical Finance

There are broader values-based similarities between Islamic finance and other forms of alternative finance. If these forms of finance are successfully integrated, this represents an opportunity to meet the wider demand for values-based finance and broaden the Islamic finance market. The two major similarities between Islamic finance and other forms of alternative finance, like ESG, are the centrality of ethics and of sustainability.

Firstly, on ethics, Islamic finance principles for investments largely align with the social pillar of

ESG, which focuses on social impact and human rights.[256] Ethical investment platforms such as Ethex complement Islamic finance principles of avoiding investments in harmful industries. Over 94% of British Muslims feel it is important for financial products to align with their ethical or religious beliefs.[257] Islamic finance also aligns with non-interest finance due to the prohibition on charging and receiving interest in Islam. Financially vulnerable people often resort to interest-based lending out of necessity, but then have to pay high interest if they miss a payment. This often leads to cycles of debt and greater economic inequality. Concerns around vulnerability-related factors and wider costs are important reasons people take into account when choosing finance services. Our survey shows that the second most important factor that led people to choose alternative finance products or services, including Islamic finance, was competitive pricing or costs (34% for Muslims and 33% for the general public).

While only 4% of the general population expressed a preference for Islamic finance as their first choice of alternative finance compared to 64% of Muslims, 24% chose non-interest finance (28% for Muslims) and 16% chose ethical finance (22% for Muslims). The overlap between ESG finance, non-interest finance and Islamic finance represents a growth opportunity for these sectors to share in the rising demand from values-driven consumers. A focus on increased synergies in this area has the potential to lead to positive social and environmental impact in the UK and increased consumer choice in the financial services industry.

"I like the idea that when we do our investments, everything we do has some kind of benefit to the world at large."

Ibrahim Khan

CEO and Co-Founder of Cur8 Capital and Islamic Finance Guru[258]

The overlap between ESG and Islamic finance is captured in investment policies, as Islamic finance companies cannot invest in prohibited industries such as gambling, tobacco, alcohol, pornography

and arms manufacturing.[259] These common values have been recognised by several organisations, which both have an ESG focus and are Shariah-compliant. Gatehouse Bank scores 90/100 on Ethical Consumer's ratings for its lending policies, showing the strong alignment of the sectors.[260] Many Islamic finance organisations not only adhere to the avoidance of harmful industries, but make an active effort to have a positive impact, such as Cur8 Capital's investment focus on healthcare.[261] Other Islamic finance organisations have made significant charitable contributions, such as Gatehouse Bank, which sponsors community sports clubs and raised £21,000 for Bone Cancer Research Trust in 2024.[262] Islamic finance non-profits such as National Waqf and Ansar Finance have immense social impact, through non-interest loans or community projects in education, drug rehabilitation and other fields.[263]

Other faith groups could also be attracted to Islamic finance organisations due to their values-led framework. Theos, a faith-based think tank, argues that providing social value through financial investments must be integrated into the investment approach of Christian investors.[264] But recognition of ESG's potential in fulfilling religious goals acknowledges how the market is still maturing and tendencies towards greenwashing (claims that companies are more sustainable or environmentally friendly than they are) exist. Global faith groups have convened to discuss ethical investments, showing the pertinence of this issue for all faith groups.[265] Islamic finance organisations face accountability to Shariah boards, which could provide reassurance for all values-driven investors that organisations are avoiding harmful industries.[266] For conscientious investors or consumers, Islamic finance organisations represent an alternative to the few ethical finance organisations that currently operate, increasing consumer choice for everyone.

"What attracts non-Muslims is our ethical credentials. We are all about transparency. We don't have any hidden fees... You get some providers who might have a very good headline rate but they've got extremely large other fees and people get stung. Also, they like the fact that we won't, for example, invest in any arms companies or animal testing companies."

Sagheer Malik
Chief Commercial Officer at Offa[267]

Transparency is a key component of Islamic finance, which aligns with the pillar of governance under ESG. 41% of Muslims who have used Islamic finance see Islamic finance as more transparent and ethical compared to conventional banks. This contrasts to only 36% of adults generally who believe that financial firms are honest and transparent in their treatment of customers.[268] The biggest motivator for non-Muslim consumers in using Islamic finance is their belief that Islamic finance providers would be more trustworthy and transparent compared to conventional finance providers. This means that there is a broader values-based appeal for Islamic finance beyond the Muslim community, so Islamic finance providers should review how they market their products to non-Muslims to ensure they are aware of the available options. This should account for the transparent and ethical nature of Islamic finance.

Moreover, becoming FCA regulated is key to increasing trust amongst consumers, as they know that their finance provider is being held accountable.[269] But FCA regulation processes have been difficult and lengthy for Islamic finance providers and, in some cases, the FCA has refused to regulate a product due to its focus on debt, disregarding Islamic finance which operates primarily through equity.[270] Expanding FCA regulation to equity finance products and improving its understanding of Islamic finance through training and education for regulators would be a key step to improving transparency, accountability and trust in Islamic finance organisations in the UK.

Secondly, there is an opportunity to integrate Islamic finance with ESG because of the importance of sustainability in both. The UK has already been leading on the intersection of sustainable Islamic finance and ESG, as the LSEG has collaborated in publishing the Green, Social and Sustainability Sukuk Guidelines in 2024. Some Islamic finance organisations also have a core focus on sustainability issues, such as Cur8 Capital, which invests in renewable energy and targets climate solutions with its venture capital investment portfolio.[271] Gatehouse Bank, the only Islamic bank to offer residential home finance for British consumers and accessible bank accounts, has a strong focus on sustainability, and has been certified as carbon neutral.[272] 88% of Gatehouse Bank's savings account customers, which constitute the vast majority of their consumer base, said tree-planting was an important factor that drew them towards Gatehouse Bank as their financial provider.[273] Between 2021-2024, Gatehouse Bank planted 50,000 trees with the launch of their Woodland Saver Account.[274] Gatehouse Bank also offers Shariah-compliant green home finance alongside its standard HPP offering, which offsets the house's carbon footprint for its fixed term.[275]

There is also a significant opportunity to invest pensions in sustainable growth in the UK, which would align with Islamic and ESG finance principles as well as government goals of economic growth through more liquid capital markets and financing start-ups. Over 80% of pension contributors in the UK want their pensions to be invested for positive social and environmental impact in the UK and Finance Innovation Lab has campaigned for pensions to be used to fund a transition to a green economy.[276]

Islamic and ESG pension funds are a key opportunity to leverage pension capital towards social impact and economic growth in the UK, due to their exclusion factors that prohibit harmful industries. While Nest's Shariah fund and ethical fund share significant overlap in their exclusions, a key differentiator is that environmental factors, which are considered in Nest's ethical fund but not its Shariah fund. However, considering the increased awareness and demand for green finance amongst Muslims in the UK, a pension fund which excludes interest, harmful industries and environmentally damaging industries could have a broad appeal for Muslims and other values-driven investors alike.

Case Study: Algbra[277]

Algbra is an ethical FinTech company that provides technology solutions to finance organisations and bank accounts, cards and saving tools for consumers.[278] Algbra's mission is to eradicate social and financial exclusion. It is driven by its ethical values.[279] Algbra does not operate with interest, avoids unethical industries, uses carbon neutral cloud computing, relies on recycled materials and is B Corp certified, meaning that it complies with high ESG standards.[280] The company maintains its ethical standards by appointing its own Values and Ethics Committee to ensure consistent oversight on Algbra's social and environmental impact.[281] Moreover, Algbra commits 10% of its annual profits to charity, including having set up its own non-profit arm, Algbra X.[282] Algbra X has participated in a number of projects, including in women's financial literacy and the Ramadan lights in London. It has also supported an open-air exhibition launch, working with a non-profit that supports arts education for children in conflict zones.[283]

Algbra is Shariah-compliant, but markets its products as generally ethical. According to Algbra's former Chief Strategy Officer, Nizam Uddin OBE, this is to ensure that Algbra products appeal to a broader audience: "We wanted a product that is generally ethical and happens to be Shariah-compliant because that will serve the community without siloing the community". Algbra estimates that around 25% of its consumer base is non-Muslim, showing the importance of ESG initiatives to widen the audience for Islamic finance.

Algbra has witnessed growing interest in the intersection between Islamic and ethical finance. They recently partnered with Standard Chartered to launch a sustainable finance product, Shoal, and they are exploring integrating a Shariah-compliant Shoal product.[284]

The overlaps between ESG and Islamic finance are clear, especially as Muslims are driving demand for green and ethical finance products. Muslim consumers are more aware of green finance compared to non-Muslim consumers (72% compared to 42%), and they are around 20% more likely to use green finance products than non-Muslims in the UK. The integration of ESG and Islamic finance may then boost the demand for both across different demographics.

Non-Muslim consumers are also increasingly drawn to Islamic finance companies, which have successfully leveraged the demand for ethical finance and its alignment with Islamic finance to expand their user base, appealing to values-driven consumers generally. Out of 11 interviews with representatives of Islamic finance organisations that cater to British consumers, 9 said they had received interest from non-Muslim consumers. The motivations driving this interest are varied, including interest in higher returns, customer service, more flexible eligibility criteria and ethical credentials.[285] Islamic finance products are therefore already appealing to wider populations.

"There are indications that Islamic finance products and solutions are also growing in their appeal. For instance, a broader set of clients beyond faith-based investors are attracted by Islamic banks' competitive returns and strong governance frameworks... Also, retail investing platforms like Wahed have made values-based screening more accessible and appealing to a wider consumer demographic."

Tayyab Ahmed

Head of Islamic Finance Research at LSEG[286]

The integration of Islamic and ethical finance would increase the choice available to consumers and increase competition. At the moment, the scarcity of Islamic insurance products is mirrored by the scarcity of ethical insurance products. Similarly, the lifting of Islamic investment prohibitions on a Takaful product in the UK could also address the demand for ethical insurance.[287] The increased diversification of the financial sector has a broader impact on the economy by increasing its financial resilience, giving back to local communities and supporting green infrastructure in the UK.

But the largest barrier for non-Muslims to using Islamic finance, and perhaps then to the integration of Islamic and ESG finance, is not knowing how it works. Inclusive financial education is integral to support the integration and growth of Islamic and ethical finance categories. Amongst consumers who had never used any form of Islamic, ethical or green finance products, there is a significant interest in them, as 35% said they wanted to learn more about ethical savings accounts and 31% wanted to learn about HPPs.[288] Awareness is therefore a barrier for non-Muslims to use Islamic and ESG finance products that they have expressed interest in. The use of "alternative finance" terminology in government is welcome to address barriers that prevent non-Muslims from accessing Islamic finance products, even if it would serve their needs.[289]

Policy Recommendations

Encouraging Investment

1. Government to establish a bespoke Islamic Finance Unit: HM Treasury should establish an Islamic Finance Growth unit to ensure the sector achieves the policy objectives of driving economic growth and financial inclusion. The unit could proactively seek investment deals and trade partnerships with Islamic finance actors globally as well as review lasting legislative barriers for domestic Islamic finance organisations.

2. Launch a sovereign Sukuk programme: HM Treasury should launch a programme that regularises its issuances of sovereign Sukuk. Previous high levels of subscription for UK sovereign Sukuk indicate strong opportunities to attract foreign investment through Sukuk and the programme would reinforce the UK's position as a centre for Islamic finance. The programme should include issuances of green Sukuk to tap into the potential of the sustainable Islamic finance industry.

Enabling Financial Inclusion

3. Embed faith-sensitive design in the government's Financial Inclusion Strategy: HM Treasury should adapt the Financial Inclusion Strategy to ensure it is attentive to religious and cultural needs, such as recognising the importance of access to Islamic banking and insurance services and including Islamic finance organisations in the proposed Industry-led Inclusive Design Working Group.

4. Improve public information and financial education on alternative finance: HM Treasury and the Department for Education should collaborate to ensure all financial education at every level covers alternative finance services, including within the school curriculum and adult learning. The Money and Pensions Service (MaPS) should also provide updated information, advice and guidance on alternative finance services to fit the needs of all people, through MoneyHelper or other initiatives. This information and guidance should take account of the gender gap in awareness of alternative finance through targeted education.

5. Update home finance legislation to ensure parity: HM Revenue and Customs and the Ministry of Housing, Communities and Local Government should update Stamp Duty Land Tax (SDLT) and the Building Safety Act to prevent non-bank Islamic finance businesses and consumers from bearing any taxes and charges that do not apply when using conventional home finance. SDLT relief should be extended to shared ownership home finance services to prevent consumers of Islamic home finance from paying SDLT twice. The Building Safety Act should also be amended to ensure that consumers of Islamic home finance do not bear the costs of safety issues in high-rise residential buildings.

6. Promote Islamic pensions options: The Pensions Commission should encourage employers to provide Islamic pension options to their employees. Employers should be more transparent with their employees regarding where their pensions are invested and should offer the option to switch to an Islamic pension fund to address inequalities in workplace pension uptake. The Local Government Pension Scheme should provide its members with a Shariah-compliant fund prior to this to ensure government bodies are acting by example.

Creating a Level Playing Field

7. Equalise tax treatment for equity-based finance: HM Revenue and Customs should explore inequalities in the tax treatment of debt versus equity products, which means that Islamic finance does not benefit from the same tax exemptions on interest payments. HMRC should introduce similar tax deductions on equity financing structures to allow Islamic finance organisations to compete more equally with their conventional counterparts.

8. Ensure local business support includes Islamic-compliant options: Local authorities that provide financial support to businesses through finance or advice should include Islamic finance in their services. Any business loans should have an equity alternative that caters to businesses that wish to avoid interest payments but require funding for growth. All financial advice should include information on Islamic finance to enable Muslim or ethically-aligned business owners to access a range of financial services that can support their business.

9. Regulate equity-based Islamic finance products: The Financial Conduct Authority (FCA) should expand the remit of its regulatory services to include equity products so all Islamic finance services can be regulated. The FCA should also offer training to its staff that educates regulators on Islamic finance structures, which could help shorten lengthy and inefficient regulatory processes. This training could be provided in partnership with Islamic finance advocacy organisations.

10. Remove the requirement for Sukuk to be listed: HM Revenue and Customs should withdraw statutory requirements on alternative finance investment bonds that require Sukuk in the UK to be listed, which supports the governmental approach of levelling the playing field between conventional and alternative finance. This would allow Islamic finance organisations to issue Sukuk to attract financing without incurring listing costs and enable Islamic finance organisations the same flexibility as their conventional counterparts.

Conclusion

The UK has established itself as a leading global hub for Islamic finance. Shariah-compliant investment has supported major regeneration projects from the Shard to Battersea Power Station, demonstrating the sector's contribution to Britain's economic growth. Demand for Islamic finance continues to rise, driven by both domestic consumers and international investors. Islamic banks, FinTechs and non-profits now play a vital role in enabling foreign investment, expanding access to banking and supporting home ownership. Their services help remove barriers to social mobility and financial resilience, allowing more people to participate fully in the UK economy.

The potential for further growth is significant. Islamic finance could generate almost £2.5 billion a year in savings and additional income for government through regular sovereign Sukuk issuance, Islamic pensions and alternative student finance. This is a sector that combines commercial opportunity with social purpose.

Islamic finance also offers a model for a different kind of financial system – one rooted in ethics, inclusion and shared prosperity. Its principles prohibit interest, exploitation and investment in harmful industries, and instead promote fairness, risk-sharing and transparency. These values have helped build an industry that diversifies the UK economy and strengthens its resilience to shocks. Many Islamic finance organisations go further still, investing in communities, housing, healthcare and support for the financially vulnerable.

Yet despite rapid growth, the sector still faces barriers that prevent it moving from niche to mainstream. Public awareness of alternative finance remains low, and many people, including non-Muslims, are unaware that Islamic finance is accessible to them. This is a missed opportunity, especially given the strong public appetite for ethical and sustainable financial products.
The UK's Islamic finance market is also a source of innovation. Smaller providers, competing with established banks, are often the first to adopt new technologies and develop new products. With the right policy support, this dynamism can be harnessed to drive wider financial inclusion and economic growth.

Demand for interest-free and ethical finance now extends far beyond the Muslim community, appealing to 40% of the general population. Existing providers cannot meet this demand alone. Ensuring that alternative finance is as available and accessible as conventional products would allow more people to build assets, reduce debt and improve their financial security.

A financial system that embraces Islamic and ethical finance is one that is more inclusive, more resilient and better equipped to drive long-term growth for the whole country.

Appendix: Methodology

1. Calculations for the annual cost of not introducing Alternative Student Finance (ASF):

According to 2024 data from London Economics, the net benefit to the government for an average student to undertake a full-time first degree is £75,000.[290] Muslim Census found that over 6,000 Muslim students opt out of university per annum due to a lack of ASF.[291] By multiplying the net benefit per student by the amount of students opting out each year due to the lack of ASF, the total reaches a cost of at least £450 million per annum.

2. Calculations for potential pension savings by increasing access to Islamic pensions:

According to the 2021 census, there are 3.9 million Muslims in England and Wales, of which 40.3% are employees.[292] This would mean there are 1,571,700 Muslims in England and Wales who are employees and could therefore opt into a workplace pension.

A 2025 survey from Islamic Finance Guru (which attracted 600 respondents) showed that 30.4% of Muslims did not have a pension.[293] Of the 30.4%, 48.6% said they did not have one because they were not sure if it would be halal. 29.5% said it was because there were no halal options. This totals 78.1% of Muslims who do not have a pension who opt out due to concerns over Shariah compliance. By multiplying the proportion of Muslims who opt out of a pension by the proportion who do so due to Shariah compliance concerns, we can conclude that 23.7% of working Muslims do not have a pension due to a lack of available Islamic pension options. 23.7% of the number of working Muslims (1,571,700) means there are 373,159 people in England and Wales who do not have any pension savings but would save into a pension if Islamic options were available.

According to Money Week's analysis of ONS data, the average pension wealth for someone upon retirement age (65-74 years) is £145,900 in the UK.[294] Multiplying this figure by the number of working Muslims who do not have pension savings due to Shariah-compliance concerns means that a lack of Islamic pension funds constitutes a loss of £54.4 billion in pension savings.

3. Calculations for annual cost of pensioner poverty due to a lack of access to Islamic pensions:

According to Independent Age, 33% of people without a private or workplace pension experience poverty in later life.[295] 33% of working Muslims who do not save for a pension due to Shariah compliance concerns (373,159) means there are 123,143 (123,142.569264) people at risk of pensioner poverty due to a lack of availability and awareness of Islamic pensions. Low-income pensioners are likely to need additional state support, such as Housing Benefit and Pension Credit. The government spends an annual £6 billion on Pension Credit, which divided by 1.5 million beneficiaries, means an annual cost of £4,000 per person for Pension Credit.[296] For Housing Benefit, the government spends an annual £7 billion divided by 1.8 million recipients, leading to an annual cost of £3,889 per person, so the total cost of Pension Credit and Housing Benefit per person is £7,889.[297] The annual cost per person of Housing Benefit and Pension Credit multiplied by the number of Muslims at risk of pensioner poverty due to a lack of Islamic pension options (123,143) means a projected cost of £971.5 million (£971,471,728.9).

Furthermore, there is an additional health and social care cost for those in pensioner poverty. Independent Age estimates that those on Pension Credit cost an extra annual £6,824 per person on acute and community healthcare, £403 per person on primary healthcare and £495 per person on social care.[298] This totals an annual £7,722 extra cost per person needing Pension Credit compared to those who are not eligible for Pension Credit. Multiplied by the number of Muslims in England and Wales at risk of pensioner poverty due to a lack of Islamic pensions (123,143), this would be a total cost of £951 million (£950,906,919.9).

By adding the cost to government due to Housing Benefit, pensioner credit and the additional health and social care costs associated with pensioner poverty, the total estimated annual cost of pensioner poverty amongst Muslims in England and Wales who opt out of pension savings due to concerns over Shariah compliance is £1.9 billion (£1,922,378,648.75). This is a conservative estimate of the cost of not widening access to Islamic pensions, as it excludes Scotland and Northern Ireland and does not account for the cost of non-take-up of Pension Credit.

4. Calculations for total annualised additional income for government:

Demand for the most recent sovereign Sukuk was £625 million.[299] Judging from this demand, future sovereign Sukuk issuances could attract the same amount, which over the same five-year maturity as the 2021 issuance, would mean an extra £125 million a year for the government on a regular programme of issuances valued at £625 million.[300]

£125 million is added to the potential additional income for government from introducing ASF (£450 million) and the annual potential savings through addressing pensioner poverty by widening access to Islamic pensions (£1.9 billion). The sum of these figures is nearly £2.5 billion (£2,497,378,649), which is the predicted annualised additional income to government through sovereign Sukuk, Islamic pensions and ASF.

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About Equi

Equi is a pioneering think tank. An independent, non-partisan organisation whose mission is to develop and promote new public policy ideas for a just and prosperous society for all. Born from a recognition that British Muslims are not included in the crucial arena of public policy formation, it has been driven by a desire to contribute more fully to the health and wellbeing of the UK bringing into play the values and ethics of public service. Outcomes are driven by British Muslims, but not simply for British Muslims. We work in partnership with academics and other experts and conduct studies based on empirical research. Equi is committed to an evidence-based approach to policy development and retains copyright and full editorial control over all its research.