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Islamic banking in Kazakhstan: why the new law can change the financial market

Industry worth 6.8 trillion tenge and a chance to become the main financial hub of Central Asia

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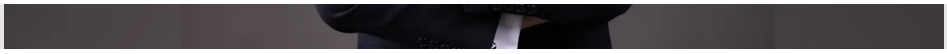


Photo: MFC

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Kazakhstan is entering a new stage of development of the financial sector. At the end of 2025, amendments to the Law "On Banks and Banking Activities" were adopted, which allow banks with a universal license to open Islamic banking windows and offer customers products that comply with the principles of Sharia.

At first glance, this may seem like a highly specialized area of banking business. However, there is much more behind these changes than the launch of a new financial product. We are talking about the formation of a new market segment that can attract investments, expand access to financing and strengthen Kazakhstan's position as a regional financial center.

Today, Islamic finance is one of the fastest growing segments of the global financial industry. According to the Islamic Financial Services Council (IFSB), the volume of the global Islamic finance industry reached $3.88 trillion in 2024, an increase of 14.9% compared to the previous year. Islamic banking, which remains the largest segment of the industry, showed an increase of 17%.

It is especially important that Central Asia is among the regions with the highest growth rates of Islamic finance among emerging markets. For Kazakhstan, this opens a window of opportunity that can determine the development of the financial sector for years to come.

Why now?

Since the launch of the Astana International Financial Center (AIFC) in

Since the launch of the Astana International Financial Center (AIFC) in 2018, Kazakhstan has made significant investments to create a legal, regulatory and market infrastructure necessary to form Astana as a regional financial center connecting Central Asia with the Middle East and global capital markets.

Today, there are several favorable factors for the development of Islamic finance in the country.

Firstly, Kazakhstan remains one of the largest Muslim markets in the post-Soviet space. The population of the country is about 20.5 million people, of which about 70% refer to themselves as Muslims.

Secondly, the republic is actively developing economic ties with the countries of the Cooperation Council of the Arab States of the Persian Gulf (GCC), where the world's largest Islamic investment funds and significant amounts of capital are concentrated.

Thirdly, interest in Islamic finance is growing both on the part of the state and on the part of market participants.

According to the estimates of the Astana International Financial Center and the Islamic Development Bank Institute (IsDBI), the potential demand for Islamic financing in Kazakhstan exceeds 3.9 trillion tenge, and the volume of Islamic deposits may reach 2.8 trillion tenge. In total, the potential market of Islamic finance is estimated at almost 6.8 trillion tenge.

Huge potential with minimal market share

Despite favorable conditions, Islamic banking still occupies a very modest place in the country's financial system. By the end of 2024, the assets of three Islamic banks of Kazakhstan - ADCB Islamic Bank, Zaman Bank and Al Safi

Bank - amounted to about $621 million. This corresponds to only 0.5% of the total assets of the banking sector. For comparison: in Saudi Arabia, Islamic banking occupies more than 25% of the banking market, and in Malaysia its share reaches almost 39%. This gap does not indicate the weakness of the sector, but rather how significant the potential for its further growth remains. In fact, Kazakhstan today is at the stage of development of Islamic banking, which many leading markets passed 15-20 years ago.

More than interest-free banking

One of the most common misconceptions remains the idea that Islamic banking differs from traditional banking only in the absence of interest.

In practice, the differences are much deeper. Compliance with the principles of Sharia is determined not by the name of the product, but by the structure of the transaction itself. The focus is on real assets, transparency of operations, fair distribution of risks between the parties and the refusal to finance prohibited activities.

Therefore, Islamic finance requires not only special products, but also a special approach to management, control and disclosure of information.

World practice shows that long-term success is not determined by the number of launched products and not by the speed of market entry. Much more important is the ability of a financial institution to ensure transparency of activities and consistently comply with the stated principles.

Trust as the main asset

In traditional banking, the client usually evaluates the rate, cost of services and quality of service. In Islamic banking, another factor is added to these

factors - the confidence that the funds are used in accordance with the stated principles. That's why trust becomes the main asset. Customers want to understand how the bank manages their funds, where the money is invested and how profitability is formed.

It is equally important to ensure a clear distinction between Islamic and traditional operations within the bank. The funds of clients of the Islamic banking window should not be mixed with traditional assets in a way that could lead to their use in transactions that do not meet the requirements of Sharia.

World experience shows that the success of Islamic finance is rarely determined by those who are the first to enter the market or offer the most products. Much more important is the bank's ability to ensure transparency of operations, an effective management system and compliance with the stated principles in practice.

That is why the leading Islamic financial jurisdictions, including Malaysia, the UAE and Bahrain, pay special attention to corporate governance and Sharia supervision.

Start small

The experience of other countries shows that one of the most common mistakes of new market participants is the desire to immediately bring a wide range of Islamic financial products to the market.

In practice, the step-by-step strategy is more successful. Today, more than 90% of the demand for Islamic banking products is accounted for by such instruments as murabaha (purchase of goods in installments through the bank) and ijara (analogue of leasing or long-term rental of property). This shows that the basic demand already exists, and the key task is to create a reliable infrastructure and provide quality services.

Therefore, experts recommend that banks start with a limited set of well-studied products, gradually increasing expertise and expanding the range of services as internal competencies develop.

In the early years, the quality of performance is much more important

In the early years, the quality of performance is much more important than the number of products in the portfolio.

Personnel decides everything

One of the main challenges for the development of Islamic banking in Kazakhstan may be the lack of specialists.

This problem is typical for many emerging markets of Islamic finance. Most of the specialists of the region received education or practical experience in Malaysia, Bahrain, the UAE or in the first Islamic banks of the region.

However, interest in Islamic finance is growing faster than the number of trained personnel. Therefore, banks will need to invest in the training of board members, risk specialists, compliance, internal audit, product managers and employees of client units.

An important step in this direction was the establishment of the Islamic Finance Advisory Board at the AIFC in December 2025. The new advisory body deals with the development of standards of Islamic finance, digital Islamic finance, training, market infrastructure and regional cooperation.

Opportunity for a digital jerk

Particularly interesting prospects open up at the intersection of Islamic finance and new technologies. Since the Islamic financial sector of Kazakhstan is just being formed, its participants are not limited to complex outdated systems that are typical for many foreign markets. This allows you to create modern digital platforms almost from scratch. Artificial intelligence can already be used to identify customers, check documents, assess risks, monitor transactions, counter fraud and

improve the quality of customer service.

Many Islamic financial institutions are already actively using such technologies. Dubai Islamic Bank, Abu Dhabi Islamic Bank and Maybank Islamic invest in digital platforms, artificial intelligence-based solutions and modern customer services as part of their digital transformation programs.

At the same time, responsibility for decisions related to customer financing, compliance with regulatory requirements and compliance with Sharia standards should still remain with people.

Blockchain, tokenization and new opportunities

Blockchain and digital assets are becoming an equally promising direction. Of particular interest is tokenization - the representation of ownership rights to real assets in digital form.

For Islamic finance, this technology looks particularly promising, since many Islamic products are already initially based on real assets.

The global market of tokenized assets is developing at a rapid pace. Many international analysts predict that within the next decade its volume may be estimated at trillions of dollars.

Outside the banking sector, Islamic fintech companies are advancing even faster. Projects of digital sukuks, tokenization of gold and other real assets are already being implemented in the countries of the Persian Gulf and Southeast Asia. These initiatives demonstrate how blockchain can be used to increase transparency, simplify transactions and increase investor access to assets secured by real value.

This topic is of particular importance for Kazakhstan. The country is one of the world's largest producers of oil, gas, uranium, metals and agricultural products. Such a resource base creates opportunities for the emergence

of new investment products provided by real assets.

An additional advantage is the ecosystem of digital assets developed at the AIFC site.

A chance to become a regional leader

The introduction of Islamic banking windows is just the beginning. This check will be after the launch of the first products, attracting the first customers and making the first transactions.

World experience shows that not necessarily those organizations that enter the market first win. The greatest success is usually achieved by institutions that invest in management, training, technology and customer trust.

Kazakhstan has many advantages to becoming one of the leaders of Islamic finance in the region: a large Muslim population, a favorable geographical location between Europe, the Middle East and Asia, growing ties with GCC countries, a developed AIFC infrastructure and a modern regulatory framework. But the main advantage is another: Kazakhstan gets the opportunity to develop Islamic finance precisely at the moment when the world financial industry is experiencing a large-scale digital transformation. If the country manages to combine Islamic finance, artificial intelligence, digital assets and modern fintech solutions, it will be able to become not only a regional center of Islamic finance, but also one of the leading centers of digital Islamic finance in Central Asia.

Ultimately, Islamic banking is primarily a trust business. And it is those financial institutions that can earn this trust that will determine the

development of the market in the coming years.

About Author

Lim Sai Cheong *is a member of the Advisory Board of the Astana International Financial Center (AIFAB), a scholar of the Chevening - Oxford Centre for Islamic Studies program and an expert in Islamic finance with more than 20 years of international experience in the banking sector, capital markets, investment management and financial consulting.*

Over the years of his professional career, he has advised financial organizations, regulatory bodies and state structures of the Persian Gulf, Southeast and Central Asia on the development of the financial sector and Islamic finance.

Lim Sai Cheong was directly involved in the launch of the first Islamic banking operations in Kazakhstan in 2010 and continues to actively promote the development of Islamic finance, digital financial solutions and new financial ecosystems. His professional expertise covers Islamic banking, sukuki, Islamic investment funds, treasury operations, capital markets, financial sector development, as well as strategic consulting of public and private sector organizations.

Lim Sai Cheong is the author of numerous publications in leading international publications and professional journals devoted to Islamic finance. He also regularly speaks at international conferences, industry forums and professional events as a recognized expert and opinion leader in the field of Islamic finance.

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