

Islamic finance and UK economic prosperity:

A vision for growth



Overview of TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 11% of the UK's total economic output and employs almost 2.5 million people – with two-thirds of these jobs outside London across the country's regions and nations. It is a major contributor to the government tax revenue and the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.



Contents

Foreword	3
Introduction	3
01. Executive summary	4
02. Global trajectory: How Islamic finance has been reshaping cross-border capital	7
03. The UK's track record in attracting Shariah-compliant foreign direct investment	10
04. The UK Islamic finance development: Current standing and performance	12
– UK's position as a western centre and current structural gaps	13
– Limited international awareness of the UK offering and a fragmented landscape of investable opportunities	14
– Intermittent sovereign Sukuk signalling	14
– The UK insurance industry's takaful offering	15
– The UK's Islamic Investment Management Ecosystem	15
05. Securing the UK's future as the leading western hub for Islamic finance	17
– Recommendation 1: Broaden and package UK real estate and infrastructure opportunities, through a new tokenised offer, awareness building, and a potential one-stop shop	18
– Recommendation 2: Leverage sovereign Sukuk signalling	18
– Recommendation 3: Leveraging sovereign signalling from UK export finance – de-risking and reciprocal FDI	20
06. Country-specific recommendations	21
– Malaysia	22
– Saudi Arabia	23
– UAE	24
– Türkiye	26
– Indonesia	26
Conclusion	28
Glossary	28

Foreword

Islamic finance is a strategic growth opportunity for the UK. It connects our world-class capital markets and legal infrastructures to a dynamic subset of the global financial system that encompasses some of the fastest-growing pools of institutional capital across the globe. Promoting ethical financial practices that link sustainability and social responsibility to economic growth, its footprint extends across the Gulf, Asia, Africa and beyond. The UK has a long-established, leadership position in Islamic finance among western financial centres, and a history of delivering ‘firsts’ within the sector. The question this paper asks is whether the UK is continuing to leverage this position and set the vision to maintain and develop the UK’s prominent role in this burgeoning sector.

Key Muslim-majority markets are evolving medium-term visions and extending policy that embed Shariah-compliant finance at the heart of national economic strategy. New sovereign wealth vehicles are being established with significant overseas mandates, and first-mover digital developments, including tokenised Sukuk, are being piloted by governments. The competition for Shariah-aligned capital is intensifying, with jurisdictions across the world investing in updating and building their Islamic finance architecture, ensuring that it is fit for purpose and able to accommodate the numerous new opportunities. Regulation is being steered to provide for innovation, including the first AI-driven, Shariah-compliant financial platform with an ethical and digital-first approach. The UK has a wealth of established and developing propositions of its own and the connectivity to respond. What has been lacking is policy clarity and consistency, coordination, and speed of response.

This paper clearly sets out the evidence. From international pension funds seeking Shariah-compliant UK assets, investors searching for sustainable and impactful Islamic wealth management solutions, and major overseas corporates listing Sukuk on the London Stock Exchange (LSE), to the potential convergence of the UK’s digital gilt ambitions with Islamic capital markets, to Takaful (Islamic insurance) arranged through the London market – the opportunities are tangible and growing. However, positive outcomes will ultimately be dependent upon the quality and pace of the UK’s implementation. This requires a whole-of-government approach that follows the leadership of other prominent centres and embeds Islamic finance explicitly, be it as part of the broader growth agenda, in documenting our bilateral relationships, or in supporting international business and trade by ensuring that our export finance can offer accommodate alternative financing requirements in priority markets.

The recommendations in this report are practical, targeted, and achievable. They do not require the establishment of new institutions or legislation. They do require government and industry to work together with strategy, ambition, and cohesion and with the clarity and consistency that will reassure global investors contemplating committing capital at scale.

I am very grateful to our members, stakeholders and international partners who contributed to this report. There is great potential for the UK to continue as a leader within this sector, and I hope this report will act as a blueprint for coordinated and impactful action that will reassert the UK’s position and commitment.

Stella Cox

Chair, TheCityUK Islamic finance Advisory Group

Introduction

Islamic finance is one of the fastest-growing segments of the global financial system. In a recent report, the London Stock Exchange Group (LSEG) forecast that Islamic finance assets worldwide will approach the \$10trn mark by the end of this decade, a rapid rate of growth for a relatively new industry: Islamic finance assets only surpassed \$1trn in 2010 and reached their second trillion in 2014.¹ While it currently accounts for roughly £1 in every £80 of global financial assets, the sector has sustained annual growth of 10-12% in recent years, consistently outpacing growth in the wider industry.²

For the year ending December 2025, the Cambridge Islamic Wealth Management Report (IWMR) 2026 estimated that there is \$27.8trn of wealth held by Muslims globally, with around \$24trn not yet deployed through Shariah-compliant channels. Demand side preferences are also shifting. Research from Jersey Finance indicates that a majority of Muslim ultra-high-net-worth (UHNW) individuals favour Shariah-compliant investment, with 62% willing to accept marginally lower returns in exchange for compliance, highlighting a significant and persistent opportunity gap.³

The UK is well positioned to capture this opportunity as the leading western hub for Islamic finance. It is also underpinned by a robust legal and regulatory framework and strong record of attracting Shariah-compliant investment. As Muslim-majority markets intensify their transition towards Shariah-aligned financial systems, and as global institutional investors and family offices apply more structured Shariah governance, the opportunity for the UK to attract and intermediate Shariah-compliant foreign direct investment (FDI) is growing.

Objective

This report sets out the strategic contribution Islamic finance can make to the UK’s economic growth, with a focus on cross-border capital flows. Drawing on research, stakeholder engagement and bilateral dialogue, it:

- **Examines global market and policy developments across key Islamic finance jurisdictions** including the Gulf, Southeast Asia and beyond, and draws out implications for UK policy and commercial strategy.
- **Evaluates the UK’s strength in attracting Shariah-compliant FDI** and the enabling policy and regulatory environment that underpins the sector’s development.
- **Identifies the regulatory and policy reforms needed to enhance the UK’s competitiveness as a destination for Shariah-compliant investment**, in the face of growing competition from markets such as Luxembourg, Singapore and Hong Kong.
- **Sets out targeted and actionable policy recommendations** to deepen two-way investment flows, expand trade links and maintain the UK’s position at the forefront of global Islamic finance innovation.

¹ <https://www.lseg.com/en/insights/ftse-russell/tracking-the-rise-of-islamic-finance>

² Growth estimates vary across industry sources owing to differences in reporting periods, market coverage and calculation methodologies. The 10–12% range reflects annual growth rates and growth estimates reported by ICD-LSEG (2024, 2025), IFSB (2024), Standard Chartered (2025) and S&P Global Ratings (2025).

³ <https://cifa.cambridge-ifa.net/assets/images/reports/pdf/IWMR%202026.pdf>

Executive summary

01

Islamic finance represents a significant growth opportunity for the UK. Its asset-based and asset-backed, risk-sharing model aligns with UK priorities in infrastructure, clean energy and real estate – sectors at the heart of the UK’s industrial and infrastructure strategies. With global Islamic finance assets projected to reach \$7.5trn by 2028 and wealth held by Muslims estimated at approximately \$27.8trn, the scale of the opportunity is both significant and immediate.

Investor behaviour has started to shift. A majority of Muslim UHNW individuals now favour Shariah-compliant investments, with 62% of respondents from a recent survey conducted by Jersey Finance indicating they would always choose a Shari’a-compliant investment even if it underperformed a conventional alternative. There are signs that this is a durable reallocation of capital rather than a cyclical trend.



Realising this opportunity will require a coordinated and strategic approach across government and industry. While the UK’s fundamentals are strong – underpinned by deep capital markets, legal and regulatory certainty, world-class advisory expertise, and a proven track record in attracting Shariah-compliant investment – several gaps constrain its ability to capture the opportunity at scale:

OPPORTUNITIES FOR UK ISLAMIC FINANCE SECTOR	GAPS TO ADDRESS
<p>Inbound FDI and portfolio flows – Gulf and Southeast Asian institutional Shariah-compliant capital seeking UK real estate, infrastructure, and increasingly renewable energy, healthcare and technology.</p>	<p>Fragmented pipeline – UK investable opportunities are perceived as dispersed and difficult to identify, increasing transaction costs for international investors. Even where opportunities exist, many are not yet ‘investor-ready’.</p> <p>Intermittent sovereign signalling – Inconsistent sovereign Sukuk removes the benchmark corporate Sukuk issuers depend on, constraining market depth and investor certainty.</p>
<p>Financial and related professional services exports – London’s legal, structuring, custody and advisory expertise sits at the heart of global Islamic capital market transactions, generating significant value regardless of where underlying assets are located. In the UK, pension funds are increasing their focus on Muslim customers, which presents growth potential.</p>	<p>Limited international awareness – The UK’s Islamic finance strengths are under-appreciated in priority markets despite genuine competitive advantages.</p> <p>Underdeveloped (re)Takaful proposition – London market capacity in Islamic insurance (Takaful) remains feasible yet invisible to international counterparties.</p>
<p>Tokenised and digital Sukuk – There’s a growing investor appetite for digitally-native Shariah-compliant products and digital-first national initiatives across the Gulf and Southeast Asia.</p> <p>With the appointment of a Wholesale Digital Assets Champion and initiatives such as the Digital Securities Sandbox (DSS) and the Digital Gilt Instrument (DIGIT) programme, the UK is well positioned to deepen the convergence between its digital capital markets agenda and Islamic finance.</p>	<p>Speed of execution and first-mover advantage – the UK has an emerging strategy and the enabling frameworks (DSS, DIGIT, a Wholesale Digital Markets Champion), but slower execution risks the convergence between its digital capital markets agenda and Islamic Finance stalling. With Gulf and Southeast Asian markets already moving from pilot to mainstream, the first-mover advantage is real but time-limited.</p>

Recommendations for securing the UK's future as the leading western hub for Islamic finance

- 01** Develop a coherent Islamic finance investment proposition, a dedicated one-stop Islamic finance Investment Portal, and a world class Islamic investment management ecosystem.
- 02** Maintain consistent sovereign engagement on Sukuk.
- 03** Deploy and actively promote the UK Export Finance (UKEF's) Shariah-compliant toolkit to sustain UK competitiveness amid rising Sovereign Export Credit Agency (ECA) activity in Islamic finance, including from jurisdictions such as Sweden and Italy.
- 04** Create a more enabling environment for Takaful and Retakaful.
- 05** Position the UK at the convergence of Islamic finance and digital capital markets.
- 06** Designate Islamic finance specialists within HMRC and the FCA to provide clear, timely guidance on emerging Shariah-compliant structures and address potential barriers to investment.









Recommendations for the UK's international engagement on Islamic finance

- 01** **Position the UK to capture a greater share of global Shariah-compliant capital by embedding Islamic finance within its international financial services strategy and delivering a proactive promotional campaign in priority markets.**
This reflects a growing structural shift in key markets, where government policies, regulatory reforms and economic diversification programmes are increasing demand for Shariah-compliant investment across infrastructure, clean energy, technology and real assets. The UK should present a clearer international proposition as both a destination for Islamic investment and a partner of choice for global Shariah-compliant capital. Central to this is a coordinated global marketing campaign to actively raise awareness of the UK's offer across priority markets in the Gulf, Southeast Asia and beyond.
- 02** **Adopt a market-specific approach to Islamic finance, supported by stronger regulatory, tax and capital markets connectivity.**
In the Gulf and markets such as Malaysia, the UK should focus on attracting inward Shariah-compliant investment, strengthening Sukuk and capital markets links, and positioning London as a gateway for Islamic institutional and family office capital. In Indonesia, Türkiye, and Africa, the UK's comparative advantage lies in exporting advisory, legal, regulatory and structuring expertise, supporting the development of local Islamic finance markets and sustainable financing ecosystems. Across all priority markets, the UK should reduce practical barriers to cross-border activity, including greater clarity through double taxation treatment, and clearer pathways for Sukuk listing, distribution and investment.
- 03** **Raise awareness of UKEF's Shariah-compliant capacity across international markets, and build commercial pipelines to unlock it.**
UKEF is demand-driven, and its market risk appetite and country capacity are publicly available but underused by practitioners. Across the priority markets examined in this report, stronger industry engagement to identify Shariah-compliant infrastructure, export-linked and trade finance opportunities would help convert the remaining capacity into investable projects at scale.

Global trajectory: How Islamic finance has been reshaping cross-border capital

02

Major Muslim-majority markets are now undergoing structural transitions that place Shariah-compliant finance at the heart of national economic strategy. Several countries have committed to transitioning towards primarily Shariah-compliant economies by 2030.

	Pakistan	Through constitutional, judicial, and central-bank mandates, Pakistan has committed to eliminating interest-based banking and transitioning its financial system toward Shariah-compliant models by 2028. ⁴
	United Arab Emirates (UAE)	Under a Cabinet-approved national strategy in May 2025, the UAE has positioned Islamic finance and the halal economy as core pillars of its long-term economic growth, with quantified targets for Islamic banking assets and capital-market instruments extending to 2031. ⁵ UAE also established a centralised Shariah board, referred to as the Higher Shariah Authority. This authority sits under the umbrella of the Central Bank of the UAE and regulates Shariah compliance of Islamic financial solutions including capital markets and private market solutions.
	Saudi Arabia	In Saudi Arabia, the first pillar of Vision 2030 is the Kingdom's role as the heart of the Arab and Islamic worlds, with the Financial Sector Development Program explicitly prioritising the expansion, governance, and international positioning of Islamic finance as part of national financial-sector reform.
	Qatar	Qatar's National Vision 2030 and associated financial-sector strategies identify Islamic finance as a strategic component of capital-market development and international financial positioning.
	Southeast Asia	Malaysia and Indonesia both feature centralised Shariah committees and have explicit national strategies to integrate Shariah-compliant finance across banking, capital markets, and the halal economy.
	Türkiye	Türkiye has adopted a more incremental approach. While the financial system remains predominantly conventional, successive governments have sought to expand 'participation banking' as a complementary pillar, supported by state-owned participation banks and targeted policy measures. This reflects a pragmatic model in which Islamic finance is positioned as a parallel growth segment rather than a wholesale transformation of the financial system. Türkiye's incremental approach has also led to them building stronger relationships with Gulf states to attract Islamic liquidity from the region. Any upcoming legislative development remains an area to watch.

⁴ https://www.doccredit.world/sbp-vision-2028-and-pakistans-transformation-to-a-shariah-compliant-banking-system/?utm_source=chatgpt.com

⁵ https://mediaoffice.ae/en/news/2025/may/06-05/uae-cabinet-approves-uae-strategy-for-islamic-finance-and-halal-industry?utm_source=chatgpt.com. Official source: <https://www.federalshariatcourt.gov.pk/Judgments/S-P%2030-L1991%20Riba%20Case-28.04.2022.pdf>

These commitments to place Islamic finance at the centre of the national economic strategies are shaping fiscal planning, regulatory design and capital-market development. In practice, sovereign wealth funds and other institutional investors with Shariah-focused mandates across the Gulf and wider Southeast Asia are increasingly requiring, or preferring, Shariah-compliant structures for key parts of their investment portfolios. As a result, countries with well understood Islamic finance frameworks and transactions with underlying Shariah refinancing capabilities stand to benefit from increased investment. Those without are perceived to have higher transaction costs and regulatory and Shariah governance uncertainty, which reduces their attractiveness as investment destinations.

These patterns are reinforced by broader structural shifts in the global Islamic finance ecosystem. Capital origin is increasingly concentrated in Gulf and Southeast Asia sovereign wealth funds, public pension pools and professionally managed family offices – many of which now operate with formal investment committees, governance frameworks and multi-jurisdictional strategies. At the same time, rising regulatory and disclosure expectations across both conventional and Islamic finance is reshaping jurisdictional preferences. Practitioners and intermediaries serving Islamic finance clients routinely navigate two parallel compliance frameworks simultaneously. In addition to standards introduced by AAOFI and IFSB, the introduction of the Common Reporting Standard (CRS), alongside the OECD's Base Erosion and Profit Shifting 2.0 (BEPS 2.0) initiative, has made predictable tax treatment and demonstrable government essential criteria in jurisdictional selection. Investor demand is also evolving, with growing allocations into private markets, infrastructure, renewable energy and technology – sectors that naturally align with the UK's strengths and long-term growth priorities.





The degree to which Shariah alignment is mandated for overseas investments varies considerably by asset class, jurisdiction and investment structure. Many institutions apply full Shariah mandates in domestic markets and in overseas investments where they have direct ownership. However, when participating as minority investors in global private equity, they are often unable to require Islamic financing terms, as the size of the investment must be large enough to justify the additional transaction costs. It is also worth noting that not all Islamic finance capital originates from institutions with explicit Shariah requirements or formal Shariah boards.

Nevertheless, even when formal requirements are absent, institutional investors are expressing preferences for jurisdictions and transactions where Shariah-compliant pathways are feasible, where regulatory treatment is predictable and where internal investment approvals can proceed with lower friction. Shariah considerations, therefore, shape investment decisions both through explicit mandates and through internal governance preferences.

In Southeast Asia, several sovereign and pension institutions operate with formal Shariah governance boards, such as Malaysia's Employees Provident Fund (EPF), Permodalan Nasional Berhad (PNB), Kumpulan Wang Persaraan (Diperbadankan) and Tabung Haji. In contrast, major Gulf sovereign wealth funds such as the Qatar Investment Authority (QIA) and Saudi Arabia's Public Investment Fund (PIF) do not have Shariah boards and do not follow formal Islamic investment mandates. Yet demand for Shariah-compliant structures remains strong in the region, driven by family offices and private wealth vehicles, which frequently establish Shariah-compliant SPVs, trusts and funds to ensure compliance with Islamic principles even when investing globally. This diversified landscape of Islamic investors is critical to understanding the channels through which Shariah-compliant capital is deployed and where the UK can most effectively position itself.

Offshore financial centres such as the Channel Islands are being used to establish compliant SPVs, trusts and fund structures, supported by independent Shariah supervisory advisors and scholars. Research by Jersey Finance shows that a majority of Muslim UHNW individuals and family offices express a strong preference for Shariah-compliant investment vehicles and governance structures, with 62% indicating they would always choose Shariah-compliant investments even if performance was marginally lower than conventional alternatives.⁶

These trends illustrate that Shariah-aligned capital now spans a broad spectrum of investors and structures from SWFs to HNWI.

⁶ *Islamic finance Moving Beyond GCC | Insights | Jersey Finance*

The UK's track record in attracting Shariah-compliant foreign direct investment

03

Islamic and ethically aligned finance is inherently linked to the real economy through asset-backed or asset-based financial structures. As financing is typically tied to tangible assets such as physical infrastructure, Islamic finance funds are well placed to support the UK's growth objectives, complementing both the Modern Industrial Strategy and the government's 10-Year Infrastructure Strategy across areas such as infrastructure, real estate, regeneration and sustainable development.

The UK has long benefited from significant inbound Shariah-compliant investment from the Gulf and Southeast Asia. Landmark transactions highlighted below illustrate the UK's attractiveness for Islamic finance-aligned FDI. These include supporting UK's growth and industry strategy, particularly prime development projects such as Chelsea Barracks, landmark mixed-use schemes such as London Bridge Quarter, and large-scale regeneration initiatives like East Village, structured under a mix of English and Scottish law using Shariah-compliant instruments. Taken together, these transactions demonstrate strong and sustained investor confidence in the UK's legal, regulatory and market infrastructure.

Table 1 provides a summary of landmark UK real estate transactions involving Gulf and Southeast Asian Investors in which Shariah-compliant structures or refinancing capabilities play a role.

There has also been a clear progression in both scale and sophistication, from initial direct real estate investments to real estate-backed Sukuks. For example, following the UK Government's £200m Sovereign Sukuk in 2014, Al Rayan Bank issued the £250m Tolkien Sukuk in February 2018, which was the largest sterling-denominated Sukuk issued by a UK entity at the time.⁷ Demand from overseas investors has been significant, with European RMBS investors and conventional and Islamic banks and pension funds all represented in the final allocation, and the Sukuk itself being oversubscribed with final demand at 155% of book. More recently in October 2025, StrideUp successfully closed Meridian Funding 2025-1 – their first Residential Mortgage Backed Security deal.⁸ This was completed using a market-first, fully Shariah-compliant, Sukuk-based structure backed entirely by Islamic property financing transactions.

Muslim-majority markets in the Gulf and Southeast Asia have been important sources of FDI into the UK over many years. As these markets accelerate their shift towards Shariah-compliant investment, the UK must ensure its frameworks remain competitive if it is to continue attracting this capital in the face of greater pressure for these organisations to invest domestically and increased international competition. Economic volatility will only increase this pressure. To capture a greater share of the growing Islamic assets, the UK needs to improve and cultivate its global standing and build a whole-of-government approach that makes its asset classes and inward investment routes straightforward, predictable, and certification-friendly for Shariah governance.

⁷ <https://www.alrayanbank.co.uk/latest-news/al-rayan-bank-uk-issues-largest-ever-sterling-sukuk-ps250m>

⁸ <https://strideup.co/news/press/rmbs-maybe-a-market-term-but-to-us-it-means-progress/>

Table 1: Summary of landmark UK real estate transactions involving Gulf and Southeast Asian Investors where Shariah-compliant structures or refinancing capabilities play a role.

Asset/Project	Sector/Type	Investor (Gulf/SE Asia)	Value (GBP)	Shariah-Compliant Element
Chelsea Barracks (Belgravia)	Prime residential redevelopment	Qatar (Qatari Diar, state-owned real estate and development company established by QIA)	£959m	Ijara (sale-and-leaseback) Largest Islamic financing arrangement ever in the UK real estate market
The Shard	Landmark mixed-use (office, retail)	A consortium of Qatari investors including Qatar National Bank, QInvest, Qatari Islamic Bank and Barwa Real Estate	Financing construction cost: £5bn Initial stake purchase: £150m	Commodity murabaha / ijara-type finance
East Village (Olympic Village)	Urban regeneration (residential)	Qatar (Qatari Diar JV with Delancey)	£557m	Not publicly disclosed
Rasmala UK Warehouse Portfolio	Industrial/logistics real estate	UAE (Rasmala Shariah-compliant fund)	£54m	Commodity murabaha; fully Shariah-compliant acquisition structure ⁹
Battersea Power Station	Mixed-use redevelopment	Malaysia (EPF, SP Setia, Sime Darby)	£400m	Islamic financing via Jersey Channel Islands SPV

⁹ <https://www.trowers.com/news/2017/april/trowers--hamlins-advises-rasmala-on-54m-warehouse-deal>

The UK Islamic finance development: Current standing and performance

04

1. The UK's position as a western centre for Islamic finance and current structural gaps

The UK's leading position is anchored in a robust legal and regulatory framework, Sukuk listings on the LSE, and access to a broad and diverse asset base. London further serves as a western centre for capital markets administrative resources and a global hub for trade execution.

UK-based Islamic funds are the largest contributors to the domestic Islamic Finance industry. Refinitiv data shows that 57 Islamic funds were launched in the UK in 2024. According to IFN Investor data, Islamic assets under management in the UK exceeded US\$12.5bn at the end of June 2025, up 22.1% year on year.¹⁰ This reflects strong global momentum – Islamic funds worldwide expanded by 37% in 2025, leaving London well-placed to intermeditate a greater share of this growing pool of liquidity.

London's role as a 'translation hub' for Islamic Finance remains a distinctive competitive advantage. It bridges Shariah-aligned structures with conventional market infrastructure, legal certainty and deep capital markets capability. This intermediation role continues to be valued by global investors seeking western markets without compromising Shariah governance or structuring integrity.

The UK continues to play an outsized role in transactions where borrowers and investors are seeking more sophisticated and flexible Shariah-compliant structures. This builds on UK's long-recognised expertise in Shariah-compliant finance, including the Islamic capital markets and its highly regarded legal and advisory services expertise.

¹⁰ <https://www.fitchratings.com/research/non-bank-financial-institutions/uk-remains-western-islamic-finance-hub-despite-limited-local-uptake-21-08-2025>

'The evolution of Murabaha and Musawama frameworks highlights a clear shift towards more flexible, solutions-driven Islamic finance. Increasingly, these structures are enabling cross-border investment and supporting complex funding requirements, positioning Islamic finance beyond its traditional role in public issuance markets. These frameworks have allowed Islamic capital to access global markets, particularly in Europe and North America, whilst improving diversification of portfolios allowing for less concentrated investments, granularity and more robust risk management.

[We] have been involved in a wide variety of [Murabaha and Musawama] solutions in our role as a UK-based intermediary and services provider. There is, in addition, little doubt that the UK banking and wider financial services sector often plays a pivotal role in arranging, structuring and delivering these private-side solutions to market. We have long-seen considerable levels of activity in this sector, but recent geopolitical events mean these solutions are being used by a greater number of sovereigns, banks, corporates and asset and wealth managers.

By way of example, we have recently involved in two transactions, whereby a Gulf sovereign wealth fund (SWF) invested in UK real assets (property), using a UK legal team and UK based custodian to structure the transaction. In the same year (2025), we have seen transactions again structured using a UK-based legal team, in conjunction with a London based bank.'

David Testa, Executive Director, DDCAP Group



2. Limited international awareness of the UK's Islamic finance offering and a fragmented landscape of investable opportunities

Shariah-compliant investment opportunities in the UK are often perceived by overseas investors as dispersed, opaque and difficult to identify. This lack of visibility and appropriate packaging of investment opportunities, especially those led by regional authorities, creates avoidable friction at the origination and screening stages, increasing transaction costs and slowing investment decision-making. The absence of a clear view of investable assets makes it harder for international investors to assess pipeline depth and sectoral breadth at scale.

There is a limited level of understanding of the UK's strengths as a destination for Islamic finance investment by international markets. Recent bilateral engagement undertaken by TheCityUK and other industry partners – such as the UK–Malaysia Islamic Financial Centre Business Forum (Sep 2024), the HM Treasury (HMT)/Capital Markets Authority (CMA)/Tadawul Capital Markets Dialogue and Mansion House event (Nov 2024), the UK–Türkiye Islamic finance Forum (July 2025), and the Department for Business and Trade (DBT) fintech delegation to Saudi Arabia (2025) – have helped to increase visibility and generate renewed commercial interest. However, these efforts remain relatively fragmented and episodic, rather than forming part of a sustained and coherent market narrative.

By contrast, Malaysia's International Islamic Financial Centre Investment Portal provides a leading example of coherent signalling, offering a centralised platform for market information, deal visibility, regulatory guidance and Shariah governance frameworks. Such an approach reduces informational gaps, improves market confidence and facilitates capital deployment.

The joint TheCityUK and Freshfields report 'Bridging the infrastructure funding gap' (April 2026) estimated that £345bn of private capital will be required over the coming decade to meet the UK's infrastructure needs through to 2040.¹¹ At the same time, Gulf and SEA institutional investors are seeking scalable, Shariah-compliant infrastructure assets, and are comfortable using UK expertise in structuring and deploying private capital. However, realising this potential will require:

- stable and predictable planning frameworks for major projects, which minimise unnecessary complexity and are developed early so investors know what they are buying into
- continued targeted strategic government support to unlock nationally significant projects including through the newly established Strategic Investment Opportunities Unit

- clearer senior political responsibility and accountability for infrastructure and major project delivery.
- an active government-led campaign promoting the UK as a destination for Islamic Finance to build stronger awareness across top FDI target markets, supported by tailored services through the Office for Investment (OfI).

3. Intermittent sovereign Sukuk signalling

Sovereign Sukuk programmes globally serve three reinforcing objectives. First, they signal capability and intent to global investors, enhancing a country's profile in Islamic capital markets. Second, they diversify fiscal resources and integrate Islamic finance instruments within national financing strategies. Third, they establish benchmarks for pricing, liquidity management and portfolio construction, which the private sector can use to develop products across maturities and risk profiles. For non-Muslim majority jurisdictions, a further benefit is the ability to attract GCC and broader Organisation of Islamic Cooperation (OIC) market investors via familiar, Shariah-compliant structures. However, a recurring theme from stakeholder interviews was that the lack of consistent sovereign UK Sukuk programme removes the sovereign benchmark for the corporate Sukuk market and weakens price discovery for corporate issuers and limits the development of a deep and predictable sterling Sukuk benchmark.

A recurring theme from stakeholder interviews was the lack of consistent UK sovereign Sukuk issuance programme. While the growth of global Sukuk markets has created an increasingly competitive funding pool for corporate issuers, regular sovereign issuance can play an important catalytic role by establishing sovereign benchmark for the corporate Sukuk market, enhancing price discovery for corporate issuers, and supporting market liquidity. Interviewees consistently noted that the absence of a sustained sovereign issuance programme may limit the development of a deep and predictable sterling Sukuk curve and reduce the signalling effect that sovereign participation can provide to international investors.

¹¹ <https://www.thecityuk.com/our-work/bridging-the-infrastructure-funding-gap/>

Case study

Türkiye – how consistent sovereign issuance opens the corporate market

Türkiye has issued sovereign Sukuk consistently since 2012 across Turkish lira, USD and Euro denominated instruments. It is one of the few countries where Islamic finance operates as a parallel funding stream, and has built a sustained and diversified issuance track record over more than a decade.

Türkiye's consistency has delivered a clear market benefit, enabling a sequence of London-listed transactions that illustrate how sovereign-level Sukuk opens the door for private sector issuers and delivers flow on benefits to the UK:

- Turkish Wealth Fund, (2024) – sovereign-adjacent USD Sukuk listed on LSE
- Türk Telekom (2025) – first non-financial institution Turkish corporate Sukuk; opened the corporate market
- TPAO (March 2026) – largest Turkish corporate Sukuk to date; 5.5x oversubscribed, 165 accounts across Europe, Asia and the Middle East. As of early June, TPAO has just completed a US\$500m tap of its issuance from earlier this year bringing the overall issuance to US\$1.5 billion

In conversations with participants and advisers to these transactions, industry made following observation:

- Consistent sovereign-level activity created the conditions for private sector market access. The decade-long domestic Sukuk issuance programme and successive international transactions gave investors the confidence to engage with Turkish corporate issuers accessing Islamic capital markets for the first time – marked by Türk Telekom's market debut in 2025 and TPAO's landmark transaction in 2026.
- For TPAO, Shariah-compliant instruments provided valuable funding diversification – reaching an investor base conventional instruments alone could not access.
- London's infrastructure – UK's reputation as a hub for Islamic finance, LSE's listing regime, English law and UK-connected arrangers – made it the natural platform throughout the transactions.

4. The UK insurance industry's Takaful offering

Islamic Insurance (Takaful) remains one of the most underrepresented segments of the Islamic finance industry, accounting for only around 2% of total global Islamic finance assets, despite its expanding footprint. Various jurisdictions have introduced regulatory frameworks and capacity-building initiatives, including stakeholder workshops and the issuance of takaful guidelines. However, the sector is experiencing steady growth, with Islamic insurance operators now present in 53 countries and new markets continuing to emerge. According to the London Stock Exchange Group (LSEG) Islamic finance Development Indicator 2025, Takaful assets reached approximately \$136bn in 2024.

The current insurance market in London reflects this broader pattern. On the specialist side, London's specialist insurance market has established infrastructure for Shariah-compliant underwriting, evidenced by the Islamic Insurance Association of London (IIAL) and the Takaful functions operated by syndicates such as Howden.

The London market remains the leading global market for specialty (re)insurance, and the subscription system operated within the market required a specific set of principles to deliver its Sharia compliant capacity. The market is able to offer Sharia-compliant capacity to the level of its conventional capacity and with it the innovation and expertise which has been built over 300 years. As Takaful operators in Malaysia, Indonesia and the Gulf grow and seek international risk capacity, a more coordinated effort by government and the London Market to develop and signal a stronger Retakaful proposition would build on existing capacity and develop a new growth opportunity for the UK.

5. The UK's Islamic investment management ecosystem

Another significant gap remains in the availability and scale of Islamic investment products for long-term savers. This is particularly evident in the retail savings, pensions, wealth management and Undertakings for Collective Investment in Transferable Securities (UCITS) fund sectors, where the range of Shariah-compliant investment solutions remains limited relative to both demand and the UK's broader asset management industry.

This shortage has important economic and social implications. The Muslim population of England and Wales reached approximately 3.9 million people, representing 6.5% of the population in the 2021 Census, and continues to grow at a faster rate than the overall population. At the same time, Muslims experience lower employment rates, lower levels of home ownership and higher concentrations in economically deprived areas than the population as a whole. In 2021, only 51.4% of Muslims aged 16–64 were in employment compared with 70.9% across the wider population, while Muslim households were significantly less likely to be owner-occupiers. These indicators point to a substantial long-term wealth accumulation challenge that improved access to suitable savings and investment products could help address.

The UK, therefore, has an opportunity to strengthen financial inclusion and improve long-term retirement outcomes by expanding the availability of high-quality Shariah-compliant investment products. Many Muslim savers who wish to avoid interest-based products face a limited range of investment options, particularly within workplace pensions, individual savings accounts, multi-asset funds and retirement solutions. A deeper and more diverse product ecosystem would encourage greater participation in long-term investing, helping households build financial resilience and retirement security while supporting capital formation across the wider economy.

There are also significant international benefits. The UK already possesses globally recognised expertise in Islamic banking finance law, fund structuring, custody, administration and capital markets. A reputation as the leading jurisdiction for Islamic fund structuring would strengthen the UK's position as a gateway for distributing products across the country, Europe, and key Muslim majority countries in the Gulf and ASEAN. Such a position would reinforce the UK's status in the sector and help attract international asset managers, service providers and institutional capital. A more developed Islamic investment management ecosystem would also support the continued growth of the UK's Sukuk market. Strong domestic and international demand for Shariah-compliant investment products would provide a natural investor base for sovereign, corporate and infrastructure Sukuk issuances. Over time, the UK could further strengthen its role as a centre for global Sukuk origination, listing and distribution while helping establish internationally recognised standards for product quality and governance.

The UK's existing legal and regulatory framework is already highly compatible with Islamic finance. However, stakeholders noted that the UK's ability to remain one of the easiest jurisdictions globally in which to manufacture, manage and distribute Islamic investment products will depend on maintaining regulatory certainty and operational efficiency as the market evolves. Building on this foundation, industry participants highlighted the importance of continued clarity regarding the application of Financial Conduct Authority (FCA) requirements, fund rules and the tax treatment of Shariah-compliant structures, while ensuring that product development can proceed efficiently within existing UCITS, FCA and European Securities and Markets Authority frameworks. In this regard, stakeholders generally emphasised that the priority is not regulatory divergence, but rather regulatory certainty and operational efficiency.



Securing the UK's future as the leading western hub for Islamic finance

05

Recommendation 1:

Broaden and package UK real estate and infrastructure opportunities through a new tokenised offer, awareness building and a potential one-stop shop

Historically, inbound Islamic investment into the UK has been concentrated in commercial real estate, reflecting the natural fit between Shariah-compliant asset-backed structures and tangible property.

The emergence of tokenised real estate and tokenised infrastructure is now gaining momentum. Tokenisation enables fractional ownership, codified asset-linkage, improved transparency and enhanced liquidity – all of which align well with Shariah principles and mirror the economic logic of ijara or diminishing-musharakah structures. As global markets, including in the Gulf, begin to adopt tokenised Sukuk and real-asset tokens, the UK has an opportunity to position itself as a leading jurisdiction for Shariah-compatible tokenised real-asset investments.¹² In parallel, Islamic Real Estate Investment Trust (REITs) could provide a complementary avenue for broadening the UK's Islamic capital markets ecosystem and expanding access to Shariah-compliant real-estate investment opportunities.

Alongside these technological developments, investors – particularly those from the Gulf with the ability to direct capital into Shariah-mandated portfolios – are increasingly interested in infrastructure, clean energy, healthcare and technology. According to A&O and McKinsey, infrastructure deal value in EMEA grew by 10% in 2024, with the Middle East a key driver.¹³ These sectors align well with both Shariah principles and UK growth objectives. A more diversified and clearly presented pipeline would allow the UK to capture a larger share of the substantial Islamic liquidity seeking stable, long-term, real-economy assets, while also supporting regional development through projects beyond London.

To capture this opportunity, the UK Government – through HMT, the OfI, the DBT and other relevant departments – should prepare a curated list of projects suited to Islamic financing linked to the UK's industrial strategy, including both traditional structures and emerging tokenised real-asset models. A dedicated one-stop Islamic finance Investment Portal could showcase opportunities, outlining applicable tax and regulatory frameworks, and providing practical resources, thereby improving visibility and accessibility for investors. Alongside these efforts, a coordinated global marketing campaign for priority markets, including the Gulf, Southeast Asia and Türkiye, to actively promote the UK's offering would further raise awareness of investable opportunities and the UK's openness as the destination of choice for Sharia-compliant capital.

¹² <https://www.whitecase.com/insight-alert/islamic-finance-20-innovation-tokenisation-evolution-sukuk-markets-gcc>; <https://www.zawya.com/en/economy/islamic-economy/tokenization-and-digital-sukuk-set-to-transform-gcc-capital-markets-cabp1wf6>

¹³ *Global trends in private markets: Spotlight on the Middle East 2025*

A related priority is ensuring timely regulatory clarity and communication for emerging Islamic-finance structures. HM Revenue and Customs (HMRC) and the FCA should appoint specific Islamic finance specialists, and continue to provide clear guidance on the treatment of such models and maintain channels for early engagement with industry to identify issues and address potential barriers to investment.

Delivering these actions in a coordinated way would reduce investor friction, enhance confidence and materially strengthen the UK's position as a destination for Shariah-compliant capital.

Recommendation 2:

Leverage sovereign Sukuk signalling

A jurisdiction's success in Islamic finance has often been underpinned by clear signals from government. When government acts at the sovereign level – through issuance, guarantees or visible engagement – it provides confidence to the investment market, creates benchmarks for price discovery for corporate Sukuk and crowds in Shariah-aligned capital to the UK. For banks, these transactions strengthen strategic relationships and can be repackaged into capital markets instruments such as collateralised instruments or total return swaps. In a competitive global market where peers are accelerating their own Islamic finance programmes, the credibility and cadence of such signals matter. Sovereign signalling is an important way to reaffirm the UK's commitment to Islamic finance and support both the growth agenda and industrial strategy.

2.1 Sovereign Sukuk: Record issuance, consistent demand, and market resilience in 2026

The global trends underscore importance of sovereign Sukuk. According to LSEG's Islamic capital markets review FY2025, the global Sukuk market saw another record year for issuance in 2025, with total issuance rising to \$291bn – a 14.5% year-on-year increase, which pushed total outstanding volume past the \$1trn milestone.¹⁴ Sukuk continued to offer an increasingly attractive funding channel for sovereign issuers and a differentiated opportunity for investors seeking returns, stability and diversification. Moreover, the LSE remains a key listing venue for dollar-denominated Sukuk, in particular green and sustainable issuances. These Sukuk served purposes beyond raising funding; they facilitated inward investment and they enhanced the UK's market position.

¹⁴ <https://www.lseg.com/en/data-analytics/islamic-finance/islamic-market-intelligence/lseg-islamic-investment-review-2025>

Public issuance of Sukuk began positively in 2026, with high-quality borrowers accessing the market in the first quarter of the year. However, geopolitical developments in late February introduced volatility, with concerns focused on infrastructure disruption, economic uncertainty, and investor sentiment. Despite these pressures, the market has demonstrated resilience, with innovation emerging as a key response.

2.2 Digital Gilt and sovereign Sukuk: A natural convergence for the UK against global trends

Tokenisation is emerging as the next frontier for Islamic capital markets – and sovereign and quasi-sovereign actors are beginning to lead the way. Malaysia's Khazanah Nasional, in collaboration with the Securities Commission, completed the country's inaugural tokenised Sukuk in April 2026 – a MYR100m (\$23.3m) one-year issuance structured on distributed ledger technology, the first sovereign-linked tokenised Sukuk in Malaysia. In the UAE, the Ministry of Finance, in collaboration with Abu Dhabi Islamic Bank, launched the first UAE Dirham-denominated sovereign Sukuk for individual investors through a digital platform in October 2025 – extending retail access to sovereign Islamic instruments through fractionalised digital distribution. Regulators across Saudi Arabia, the UAE and Malaysia are actively developing the frameworks to enable further tokenised issuance.

The UK is building the infrastructure to engage with this shift. The Bank of England and FCA have launched the Digital Securities Sandbox (DSS), providing a regulated environment for firms to safely explore new technologies in financial market infrastructure and operational until at least December 2028. HMT is piloting the Digital Gilt Instrument (DIGIT) – a UK government debt asset held on distributed ledger technology – within the DSS framework.

The intersection of DIGIT and Islamic finance represents a compelling long-term opportunity for those markets which can move quickly to capture this new opportunity. A tokenised Sukuk structured under the DSS framework would position London as the western leader of Islamic capital markets innovation, directly responding to growing investor appetite for digital Shariah-compliant instruments across the Gulf and Southeast Asia. With the appointment of a Wholesale Digital Markets Champion and advances in regulatory frameworks for tokenisation, we encourage the UK government to explore a digital sovereign Sukuk as part of its broader Islamic finance and digital capital markets strategy.

2.3 Implications for the UK: signal, anchor, and crowd-in

Consistent, well-communicated sovereign actions can anchor markets and attract long-term investment. The broader benefits are also compelling, including:

- Attracting portfolio investment and Shariah aligned capital into UK assets across infrastructure, housing, technology and regional regeneration.
- Acting as a catalyst for developing a sterling-denominated corporate Sukuk market, which may face structural headwinds in a USD-dominated global Sukuk market.
- Delivering sterling-denominated high quality liquid assets, which remain in very short supply throughout the sector.
- Providing benchmarks that support product innovation and liquidity in Islamic capital markets. In LSEG's 2025 report, 'Qatar Islamic Finance Report 2025: Expanding Horizons', it was noted the introduction of Treasury Sukuk has extended the domestic yield curve, encouraged corporate issuance and provided liquidity management tools for Islamic banks.¹⁵
- Sending a clear sovereign signal of the UK's long-term commitment to Islamic finance and its ambition to remain the leading western hub.

A clear message conveyed during our interviews with overseas industry stakeholders is the very strong expected demand for a UK Sovereign Sukuk. The UK's own issuances in 2014 (£200m) and 2021 (£500m) were significantly oversubscribed, drew strong participation of international investors and reinforced London's position as the leading western centre for Islamic finance. As such, whilst we recognise that there are challenges to an immediate, large-scale issuance, there is a strong business case to start planning for a future issuance within the next twelve months – considering green or tokenised Sukuk as part of the government's Islamic finance strategy and the UK's wider growth agenda.

¹⁵ https://www.lseg.com/content/dam/data-analytics/en_us/documents/reports/qatar-islamic-finance-report-2025.pdf

Recommendation 3:

Leveraging sovereign signalling from UK Export Finance (UKEF): de-risking and reciprocal FDI

Beyond issuance, the UK has additional sovereign tools that can reinforce signalling, particularly through the Shariah-compliant capabilities of UKEF. UKEF has demonstrated the ability to structure Shariah-compliant guarantees and credit enhancements in landmark transactions – such as Emirates’ A380 financing (2015) and Six Flags Qiddiya City (2024) – that showcase technical capability and policy coherence.^{16,17} In the former case, the UKEF guarantee was applied to the issue of \$913m of trust certificates sold in compliance with the requirements of Islamic scholars and was used to buy four Airbus A380 aircraft. It was the first Sukuk certificate issuance guaranteed by an export credit agency and the largest ever debt capital markets offering in the aviation sector with an ECA guarantee. It was also the first time a Sukuk had been issued to raise finance for aircraft prior to their delivery.

In the more recent case of Qiddiya City, UKEF has guaranteed an Islamic Murabaha financing facility for c.\$700m signed by Qiddiya Investment Company to finance the construction of the Six Flags Qiddiya City theme park, which was UKEF’s largest Murabaha financing to date and first in the region. Although these deals finance projects overseas, they strengthen the UK’s credibility with Islamic investors, lay the groundwork for reciprocal inbound FDI over time and critically, provide solutions to UK exporters and contractors.

Applied domestically, the same tools can help improve the bankability of UK infrastructure. By giving greater visibility to UKEF’s Shariah-compliant structures and deploying them more systematically across the UK pipeline, government can de-risk projects, enhance risk-adjusted returns and broaden participation by Islamic institutional capital. This approach complements any future sovereign issuance: UKEF solutions help prepare and signal a pipeline of investable assets, while sovereign Sukuk anchor benchmarks and amplify the UK’s international narrative.

More importantly, without more active promotion and deployment of UKEF’s Shariah compliant capabilities, there is a risk that other export credit agencies could take a more prominent role, as evidenced by recent Islamic transactions supported by western ECAs such as Italy’s SACE and Sweden’s EKN.

¹⁶ *UKEF supports Airbus and Emirates with Islamic financing innovation - Case study - GOV.UK*

¹⁷ <https://www.gov.uk/government/news/uk-export-finance-backs-six-flags-qiddiya-city-deal-in-win-for-uk-businesses>



Country-specific recommendations

06

In this section, we examine recent market developments and the evolving mandates of sovereign wealth funds and institutional investors across priority Islamic-finance markets. We analyse how these influence cross-border capital flows and implications for the UK, and offer actionable policy recommendations to deepen two-way investment and strengthen trade and financial connections.

Malaysia

Macro strategy and institutional mandates: Malaysia's pension funds are increasingly contributing to the international Islamic finance landscape, reflecting a national commitment to Shariah-compliant investment. Malaysian institutional pension funds, led by the Employees Provident Fund (EPF), have established significant presence in the UK in the past decades, with investments spanning real estate, infrastructure and private equity. As an example, EPF's portfolio is globally diversified, with overseas investments typically accounting for around 36–38% of total assets in recent years, contributing materially to overall returns. EPF's Shariah savings segment represents one of the world's largest Islamic pension offerings. A notable development is EPF's strategic separation of its conventional and Shariah portfolios, effective 1 January 2024. Each portfolio is now managed under its own independent asset allocation. This separation is intended to support long-term objectives and diversify investments across asset classes, markets and currencies, while adhering to rigorous Shariah governance standards.

Institutional and market behaviour: Recent market developments, including higher interest rates, selective capital deployment and post-Brexit uncertainty, have prompted Malaysian investors to adopt a more discerning approach to investing in UK real estate. Shariah-compliant structures are seen as a means of aligning with internal governance expectations and broader reputational objectives, rather than a purely optional overlay. Institutional investors have indicated that UK assets with clear Shariah-refinancing options are likely to be 'viewed more positively', as this allows overseas teams to demonstrate alignment with head-office mandates. Investors have also expressed interest in the UK's sovereign Sukuk programme, recognising its potential to provide benchmarks for Islamic investment into the UK.

Innovation in tokenised Sukuk and digital Islamic finance: Malaysia is increasingly experimenting with tokenised and digitally native structures. The Securities Commission and Khazanah Nasional announced plans in 2025 to pilot the tokenisation of bonds and Sukuk, aimed at widening access to the capital market and enabling smaller and retail investors to participate through regulated platforms. Bank Negara Malaysia has complemented this with a three-year asset-tokenisation roadmap (2025–2027), anchored in its Digital Asset Innovation Hub (DAIH) – recently launched to advance responsible innovation involving digital assets, with use cases including supply chain financing, treasury and liquidity management, and tokenised deposits and ringgit stablecoins.

Notably, two out of five of Malaysia's licensed digital banks are Islamic digital banks and are already operational, reflecting the depth of Malaysia's commitment to integrating digital and Shariah-compliant finance. Bank Negara has also finalised the Digital Insurance and Takaful Operator (DITO) framework, with applications now open for a

two-year period. This framework enables new entrants to offer digital Takaful products through regulated platforms, representing a significant structural development in Malaysia's Takaful ecosystem that UK firms with existing market presence are well-placed to engage with.

These developments mark an important evolution in Malaysia's Islamic finance ecosystem, demonstrating how tokenisation, Shariah governance and climate-aligned financing can be integrated. As Malaysia expands these pilots and develops new proof-of-concepts, the practical lessons emerging will be highly relevant to jurisdictions including the UK that are assessing how digital and Shariah-compliant instruments may evolve.

Recommendations – Malaysia:

- **Promote two-way Shariah-compliant trade and investment flows.** The UK and Malaysia share a strong foundation for deepening bilateral Islamic finance activity. This includes Shariah compliant refinancing pathways for UK assets, the dual use of Sukuk to support investment in both directions, access for Malaysian pension funds and institutional investors to UK opportunities, and UKEF guarantee programmes to unlock long term funding solutions. These opportunities should be actively pursued through existing industry collaborations, including TheCityUK's engagement with the Malaysia International Islamic Financial Centre (MIFC) Business Network, as well as through the UK–Malaysia Joint Economic and Trade Committee (JETCO), which should play a more active role in removing barriers to bilateral Shariah compliant trade and investment while ensuring Islamic finance remains a clear and explicit standing item on the bilateral agenda.
- **Clarify tax treatment under the UK–Malaysia DTA.** The current UK–Malaysia Double Taxation Agreement (DTA) remains ambiguous regarding the treatment of profit payments from Shariah-compliant investments. This lack of clarity creates uncertainty for Malaysian investors, who may face double taxation on returns from UK assets. The UK government should prioritise clarification or amendment of the UK–Malaysia Double Taxation Agreement to ensure that profit and rental returns from Shariah-compliant investments receive the same treaty relief as interest and dividends. This would unlock deals currently held back by uncertainty and encourage further Malaysian FDI.
- **Create an enabling environment for Takaful and Retakaful activity in the UK.** The UK's existing insurance regulatory framework – while non-discriminatory – was not designed with Takaful's distinctive structural features in mind, creating friction for operators seeking to establish or expand Shariah-compliant insurance activity in the UK market. HMT, the FCA and the Prudential Regulation Authority (PRA) should engage with industry to explore how the existing framework can better accommodate Takaful and Retakaful activity – including from overseas operators with established Takaful operations seeking to expand into the UK. Malaysia's four decades of regulatory experience, including Bank Negara's frameworks, offer a practical reference point that the UK can draw on as it considers how best to develop this market.

Saudi Arabia

Macro strategy and sovereign mandates: Saudi Arabia is one of the world's largest Islamic finance markets. The Saudi Central Bank (SAMA) has stated that total Islamic finance assets across sectors exceed SAR3.1trn (\$825bn), while the Kingdom's Islamic banking sector accounts for around one third of global Islamic banking assets. The IMF's 2024 Financial Sector Assessment Program likewise found that Shariah-compliant products represent more than 75% of Saudi banks' total assets, one of the highest shares globally. Its development is closely linked to Vision 2030 and the Financial Sector Development Programme, under which the government is using Shariah-compliant instruments to finance economic diversification and deepen domestic capital markets. Given the scale of the diversification programme and the Kingdom's focus on green growth, there is clear scope for the UK to support large-scale Shariah-compliant capital flows between the two countries.

Sovereign Sukuk and capital-market depth: Sukuk sit at the centre of Saudi Arabia's funding strategy. The National Debt Management Center (NDMC) issues Saudi-riyal Sukuk on a regular monthly basis under the Government's SAR-denominated Sukuk Programme, supplemented by international issuance. In May 2026, the NDMC issued new Sukuk of approximately SAR60.3bn(\$16bn) across five tranches maturing between 2031 and 2041, continuing its strategy of extending the sovereign yield curve and supporting domestic capital-market development.

Institutional and market behaviour: Saudi investors are increasingly focused on large-scale Sukuk and Environmental, Social and Governance (ESG)-aligned Shariah-compliant instruments, while the authorities continue to open the domestic market to external capital. In January 2026, the CMA removed the Qualified Foreign Investor regime, allowing all categories of foreign investor to invest directly in shares listed on the Main Market from 1 February 2026, while abolishing the equity-swap framework previously used for synthetic exposure. International investors' holdings in the Saudi capital market exceeded SAR 590bn (US\$160 bn) by the end of the third quarter of 2025, alongside a substantial domestic institutional capital base. As Saudi Arabia broadens its Shariah-compliant capital-market ecosystem, demand is likely to grow for the structuring, legal, advisory and market-infrastructure expertise in which the UK is internationally competitive. That creates clear scope to support UK services exports, deepen bilateral financial links and strengthen the UK's role as a partner in the Kingdom's capital-market development.

Innovation in tokenised Sukuk and digital Islamic finance: Saudi Arabia is advancing innovation in Islamic capital markets across digital and sustainability agendas, although tokenisation remains at a relatively early stage of development. SAMA and the CMA operate complementary regulatory sandboxes that allow firms to test open banking, lending and capital markets innovations, including securities tokenisation. Early activity has centred on real estate, while policymakers continue to explore broader digital-finance applications and maintain a cautious approach to retail

crypto-assets. The lessons emerging from Saudi pilots are likely to be relevant to the UK as it considers how digital and Shariah-compliant instruments may evolve. There may also be scope for the two markets to align standards at an early stage, including in relation to the UK's digital gilts, where a future Shariah-compliant component could broaden investor participation and support further market development.

Recommendations – Saudi Arabia:

- **Deepen UK–Saudi regulatory cooperation:** In December 2022, HMT and the Ministry of Finance of the Kingdom of Saudi Arabia signed a new MoU on financial services. HMT should build on this framework to deepen cooperation between the FCA, PRA, SAMA, the CMA and the Insurance Authority.¹⁸ Priorities should include mutual recognition of Shariah-compliant products and Sukuk listings, streamlined approval processes for Shariah governance arrangements, and a more efficient framework for approved service providers. This would reduce transaction costs and support cross-border issuance.
- **Expand UK Export Finance support for Shariah-compliant project finance:** The UK government should build upon facilities for projects such as Qiddiya to expand UKEF-backed Islamic finance guarantees to support UK participation in Saudi infrastructure, healthcare, energy transition and projects aligned with Vision 2030. For UKEF's Islamic finance products to reach their full potential in markets where competitive domestic liquidity is available, it may be necessary to broaden the scope of eligible customers and target markets where the sovereign guarantee provides genuine credit enhancement and where domestic liquidity is less abundant. By providing sovereign guarantees for Shariah-compliant projects, we deepen trust and position the UK as a trusted partner for sustainable Islamic capital mobilisation.
- **Promote dual-listings:** HMT and DBT should work with industry to support the dual listing of Saudi-origin Sukuk and ESG-linked Islamic instruments on the LSE and Tadawul, broadening the investor base for both venues.
- **Enhance tax and legal parity for Shariah-compliant instruments:** HMT should review and update the tax treatment of Sukuk and other Shariah-compliant products to ensure parity with conventional instruments and preserve the UK's competitiveness as a listing and structuring venue.

¹⁸ <https://www.gov.uk/government/news/hm-treasury-and-the-ministry-of-finance-of-the-kingdom-of-saudi-arabia-sign-new-mou-on-financial-services>



UAE

Macro strategy and sovereign mandates: The UAE is strengthening its position as a global Islamic finance centre through a more coordinated national strategy spanning banking, capital markets, asset management and wealth management. This direction was reinforced by the Cabinet's approval of the Federal Strategy for Islamic finance and the Halal Industry in May 2025, which provides a clear framework for expanding Shariah-compliant financial activity.

The strategy has three core aims: to increase Shariah-compliant financial resources; deepen the Islamic banking and capital markets ecosystem; and strengthen the UAE's role as an international Islamic finance hub. It also places greater emphasis on Islamic asset and wealth management, including scaling Shariah-compliant funds and positioning the UAE as a destination for Islamic wealth activities. The ambitious targets, such as expanding Islamic banking assets to AED2.56trn (US\$700bn) by 2031 and increasing Sukuk issuances in the UAE to over AED660bn (US\$180bn), reflects a deliberate scale-up of Shariah-compliant finance. Other key pillars supporting the blueprint include centralised Shariah Governance, where the Higher Shariah Authority ensures harmonisation and standardisation of Shariah practices across Islamic banks, conventional windows, and Takaful providers.

Crucially, the federal strategy provides long-term policy clarity and a stronger signal to international investors, anchoring Islamic finance and wealth management within the UAE's wider economic agenda. The scale of ambition is significant. The strategy targets Islamic banking assets of AED2.56trn (US\$700bn) and Sukuk issuance of more than AED660bn (US\$180bn) by 2031. It is underpinned by centralised Shariah governance, with the Higher Shariah Authority promoting greater consistency across Islamic banks, conventional windows and Takaful providers.

The policy direction is also being reinforced through ongoing regulatory developments within the UAE's financial centres. In 2026, the Dubai Financial Services Authority (DFSA) launched a consultation on proposed enhancements to its Islamic finance framework, including clearer requirements for firms undertaking Islamic financial business, strengthened disclosure standards for Takaful products and targeted amendments to its Islamic finance Rules. While the consultation remains ongoing, it demonstrates the Dubai International Financial Centre's (DIFC) continued commitment to refining its regulatory framework and supporting the growth of Islamic finance, in alignment with both the UAE Federal Strategy for Islamic finance and the wider objectives of Dubai's D33 economic agenda. Together, these initiatives signal a coordinated effort at both federal and international financial centre level to attract Islamic financial institutions, investment funds and international capital to the UAE.¹⁹

This policy momentum is already feeding through into market activity. International institutions, including UK firms such as Standard Chartered, have committed to expanding their Islamic asset management presence in the UAE, including

¹⁹ Dubai Financial Services Authority (2026), Consultation Paper No. 172: Enhancements to the Islamic finance Framework, 5 May 2026 - <https://www.dfsa.ae/news/dfs-a-moves-accelerate-islamic-finance-sector-growth-difc-consulting-framework-enhancement-provide-greater-clarity-and-strengthen>

through two UAE-based Shariah-compliant investment funds. This underlines growing confidence in the UAE as a jurisdiction able to host and export Shariah-compliant capital at scale.²⁰

Institutional and market behaviour: The UAE is increasingly positioned as a leading hub for Islamic wealth management and private banking services, underpinned by a strong regulatory framework, growing capital markets, and a rapidly expanding HNW and UHNW client base.

On the demand side, the wealth management landscape is being shaped by sustained growth in HNW and UHNW individuals seeking sophisticated, diversified and Shariah-compliant investment and advisory solutions. This growing concentration of wealth is creating increasing demand for Islamic investment products, discretionary portfolio management, private market opportunities and family office services.

On the supply side, the UAE continues to attract international private banks, asset managers and family offices to its two international financial centres, DIFC and Abu Dhabi Global Market (ADGM). These centres provide progressive and transparent regulatory frameworks alongside an increasingly sophisticated ecosystem of Shariah-compliant investment products, including Sukuk, Islamic funds, exchange-traded funds (ETFs), structured products and private market vehicles. DIFC has also sought to strengthen its position as a regional wealth management hub through initiatives such as the DIFC Family Wealth Centre and the DIFC Funds Centre, reflecting growing institutional focus on wealth preservation, succession planning and investment management.

This institutional development is being supported by strong growth in the UAE's wealth management market. The UAE is becoming an increasingly important centre for wealth management, driven by a growing population of HNW and UHNW individuals and sustained inflows of international capital. DIFC alone hosts more than 120 family offices managing over \$1.2tn in assets, highlighting the scale of wealth concentrated in the market. The UAE has also experienced strong growth in cross-border wealth flows, recording growth of 11.1% in 2025. Dubai and Abu Dhabi have developed sophisticated financial ecosystems that combine private banking, asset management and family office services with a well-established Islamic finance sector. The presence of Islamic banks, Takaful providers and sukuk issuers alongside international financial institutions is strengthening the UAE's role as a regional hub for Shariah-compliant wealth management and investment, creating opportunities for greater international collaboration and capital market connectivity.²¹

Innovation in tokenised Sukuk: The UAE is also emerging as a leader in innovation within Islamic capital markets, particularly in the area of digital and retail participation. Recent initiatives include the introduction of a retail Treasury Sukuk (T-Sukuk) programme, enabling individual investors to access government-backed Sukuk through fractionalised

digital platforms. Abu Dhabi Islamic Bank has further spearheaded this agenda through the launch of a 'Smart Sukuk'²² initiative, highlighting the role of digital infrastructure in broadening access to Shariah-compliant instruments.

These developments are complemented by wider regulatory and market interest in tokenisation and digital Sukuk, reflecting a regional trend towards integrating Islamic finance with next-generation capital market infrastructure. As the UK evaluates its own approach to digital securities and Islamic finance, the UAE's experience offers practical insights into how Shariah governance, retail access and digital delivery can be combined within a regulated framework.

Recommendations – UAE:

- **Establish a UK-UAE Islamic finance innovation corridor:** HMT should work with the UAE Ministry of Economy through existing government to government engagement to establish a formal Islamic Finance innovation corridor, which enables firms to develop, test and scale Shariah-compliant products across both jurisdictions. This should include regulatory cooperation, participation in innovation and sandbox frameworks, and collaboration on emerging areas such as tokenised Sukuk, digital Islamic wealth products and Shariah-compliant private market vehicles. This would build on the UAE's growing role in digital finance and the UK's work on digital securities and digital gilts.
- **Strengthen UK-UAE Islamic capital markets connectivity:** UK and UAE policymakers, regulators, and industry should work together to deepen connectivity between both markets. Priority should be given to facilitating cross-border issuance, distribution and investment in Sukuk, Islamic funds and other Shariah-compliant instruments, while exploring how distributed ledger technology can improve market efficiency, broaden investor participation and support secondary market liquidity. Greater cooperation could also help advance consistent approaches to Shariah governance, disclosure and market standards.
- **Position London as a global gateway for Islamic capital:** The UK Government should undertake a promotional campaign to position London as a global gateway through which capital originating from DIFC and ADGM can access international investment opportunities. This would build on the UK's strengths in asset management, sustainable finance, legal services, infrastructure investment and private markets, while complementing the UAE's growing role as a centre for wealth creation, family offices and Islamic capital formation. Particular emphasis should be placed on attracting Islamic institutional and family office capital into UK-managed funds, infrastructure projects and private market opportunities.

²⁰ *Standard Chartered unveils UAE-based Shariah funds | Khaleej Times*

²¹ BCG, Global Wealth Report 2026: The Great Reordering: <https://www.bcg.com/publications/2026/global-wealth-growth-in-an-era-of-reordering>

²² <https://www.adib.ae/en/personal/wealth-management/investment-solutions/smart-sukuk-investment>

Türkiye

Türkiye remains a strategically important partner for the UK's Islamic finance industry, given its large participation banking sector, growing capital markets activity, and role as a bridge between Europe, the Middle East and Central Asia. With Türkiye actively positioning itself as a regional hub for Islamic finance, and the UK established as the leading western hub, deeper policy and institutional cooperation would enable UK banks, asset managers, insurers and market infrastructure providers to expand trade finance, capital markets activity and cross-border investment flows between the two countries.

Recommendations – Türkiye:

- Establish a long-term UK-Türkiye Islamic finance programme:** The UK should create a long-term bilateral programme supported by HMT, DBT, UKEF and their counterparts in Türkiye, to deepen coordination on Islamic finance products, standards and market access. This would build on the recent MoU between the Participation Banks Association of Türkiye (TKBB) and UKEF, and the MoU between DBT and Türkiye Ministry of Treasury and Finance on the UK- Türkiye Financial Services Working Group, which aims to foster collaboration, promote knowledge exchange and regulatory dialogue.
- Promote regulatory alignment and interoperability in Islamic finance:** The UK should work with Turkish regulators and multilateral Islamic finance standard-setting bodies to promote regulatory alignment or interoperability on Shariah governance and products standards that reduces compliance costs for cross-border transactions, such as Sukuk and participation-based instruments. This would help reduce regulatory friction and attract more bilateral issuance and investment flow. For example, the Turkish Wealth Fund \$750m Sukuk issuance in October 2024 at LSEG was oversubscribed, which led to a re-tap Sukuk issuance in January 2025, increase the total issuance to \$1bn. This demonstrates strong investor demand for asset-backed Sukuk.
- Expand Shariah-compliant trade and export finance support:** The UK should continue to enhance UKEF's suite of support to include Shariah-compliant trade and export finance products tailored to Turkish-UK trade corridors. This could include co-financing facilities with Turkish export credit institutions and UK banks to structure Islamic trade finance solutions aligned with bilateral commercial needs, supporting exporters and investors in both markets.

Indonesia

Macro strategy and sovereign mandates: With the world's largest Muslim population and Shariah financial assets currently across Islamic banks, non-bank financial institutions (NBFIs) and capital markets, Indonesia combines scale and momentum. The Indonesian Government has signalled its most substantive institutional commitment to Islamic finance to date through the planned institutionalisation of the National Committee for Islamic Economy and Finance (Komite Nasional Ekonomi dan Keuangan Syariah, KNEKS) into a new Islamic Economy Agency (Badan Ekonomi Syariah, BES). Announced in July 2025 by former Vice President Ma'ruf Amin, who confirmed President Prabowo's personal commitment to fast-tracking the process, the new agency is designed to move beyond coordination into active policy execution across Islamic banking, capital markets, Takaful, the halal economy and digital Islamic finance. This institutional upgrade is complemented by growing momentum for a dedicated Islamic economy omnibus law to consolidate Indonesia's currently fragmented Islamic finance regulatory architecture – which spans 12 separate laws across five sub-sectors – under a single legislative framework. While the omnibus law has not yet been formally scheduled for parliamentary debate, it has been identified by leading Indonesian economic think-tanks and policy forums as an urgent legislative priority for the 2025-2029 parliamentary term, and its progression would represent a significant structural development for Indonesia's Islamic finance ecosystem.



Indonesia has embedded Islamic-finance-relevant instruments into its sovereign funding mix over the last decade. Its experience offers a useful policy lesson for the UK:

Indonesia's Sukuk experience: sequencing issuance to deepen markets *Indonesia illustrates how consistent sovereign participation can finance priorities and deepen domestic markets and growth over time. Beginning in 2009, the authorities introduced Retail Sukuk to widen access and inclusion, followed by Global Sukuk to broaden the investor base and strengthen international presence. In 2011, Project-Based Sukuk directly linked proceeds to Shariah compliant infrastructure – roads, universities and rail – creating a regular domestic benchmark and demonstrating tangible impact on real economy. Subsequent innovation has extended to Green Sukuk and CashWaqf Linked Sukuk, integrating environmental and social finance into the sovereign framework.*

From a cautious start, Sukuk have become central to Indonesia's funding mix and market development. Cumulative sovereign issuance now exceeds approximately £153.5bn, with annual issuance growing from around £190m in 2008 to about £16.6bn in 2024, including a percentage of green and sustainable Sukuk.

Institutional and market behaviour: Interviewees consistently describe Indonesia as having one of the deepest retail markets anywhere in the world, with significant headroom for Shariah compliant savings and long term products; Shariah assets are growing but remain a minority of the system.

A key institutional development is Danantara (Badan Pengelola Investasi Daya Anagata Nusantara), Indonesia's newest sovereign wealth vehicle. Public statements indicate around 20% of its capital is allocated for overseas deployment (80% is domestic), and used to broaden global reach. There is no public guidance to indicate an explicitly Shariah-focused overseas mandate at this stage, creating a practical window for UK engagement to build greater understanding of its pipeline, governance and portfolio construction (including preference for Shariah).

Recommendations – Indonesia:

- **Leverage UKEF's Shariah compliant toolkit for UK–Indonesia corridors:** Given that the near term UK opportunity is the export of advisory and structuring services rather than significant immediate FDI, UKEF's guarantees and credit enhancements, available across both conventional and Shariah-compliant structures, offer a practical mechanism to de risk infrastructure and export linked projects with UK content, while also crowding in institutional capital over time. UKEF is demand-driven with significant capacity, with current sectoral priorities spanning defence, healthcare, mass transit and renewable energy. As such, industry practitioners should work proactively with UKEF to pipeline Shariah-compliant opportunities in Indonesia. By demonstrating the commercial demand, it would unlock the capacity at scale.
- **Engage with Indonesia's Islamic Economy Agency (BES) once established and support the Islamic Economy omnibus law reform agenda:** The planned establishment of the BES as a dedicated execution-focused agency – chaired at the most senior level of the Indonesian government – creates a new and significant entry point for structured UK engagement on Islamic finance. The UK Government, through the British Embassy Jakarta and trade envoy engagement programme, should seek to establish a formal dialogue with the BES once operational, offering UK expertise in Islamic finance regulatory design, product innovation and capital markets infrastructure. Alongside this, the UK should express support for Indonesia's Islamic Economy omnibus law reform agenda, which seeks to consolidate the country's fragmented Islamic finance regulatory architecture – by offering technical assistance and knowledge exchange through existing bilateral mechanisms. This positions the UK not merely as a capital-seeker but as a strategic partner in Indonesia's Islamic finance development – a framing that is more likely to generate reciprocal commercial and investment opportunities over the long term.
- **Start a joint Takaful dialogue:** Developing the Takaful sector in Indonesia remains an underexplored area of opportunity. We encourage HMT and FCDO colleagues to consider building on the existing HMT–Ministry of Finance–Otoritas Jasa Keuangan (OJK) Insurance and Islamic finance working groups by standing up a joint Takaful sub track (co-chaired across both groups) with a single KPI set and shared quarterly checkpoints – so regulatory parity, distribution and (re)insurance capacity are tackled end to end rather than in silos.

Conclusion

Islamic finance is one of the fastest-growing segments of the global financial system, and its role in cross-border capital flows continues to expand. Across the Gulf and Southeast Asia, sovereign wealth vehicles, pension pools and family offices are increasingly channelling capital through Shariah-compliant structures through formal mandates, internal governance frameworks and investor preference. The markets examined in this report, including Malaysia, Saudi Arabia, the UAE, Türkiye and Indonesia, are each, in their own way, placing Islamic finance more firmly within their national economic strategies.

The UK is well placed to respond. As the leading western hub for Islamic finance, it combines a robust legal and regulatory framework, deep capital markets, world-class professional services and a strong track record of Shariah-compliant transactions. Building on these strengths will help the UK remain competitive alongside other international financial centres seeking to attract the same pools of Shariah-aligned capital.

Importantly, the recommendations in this report require no new institutions and no new legislation. They rest on making fuller use of the tools the UK already has. Namely, recognising that a consistent sovereign Sukuk programme, an investor-ready pipeline and the deployment of UK Export Finance's Shariah-compliant capabilities serve as valuable signals to international investors and partners.

A tailored approach across markets will be key: attracting inbound capital in the Gulf and markets such as Malaysia, and supporting advisory, structuring and knowledge transfer across Southeast Asia and beyond. In some markets, the priority will be attracting inbound Shariah-compliant capital, while in others the UK's comparative advantage will lie in advisory, structuring, regulatory collaboration, and knowledge exchange. Pursued with coordination and pace, this offers the UK an opportunity to deepen two-way trade and investment with some of the world's fastest-growing markets, and to strengthen its position at the forefront of global Islamic finance.

With ambition and a clear, coordinated strategy, Islamic finance can become a lasting pillar of the UK's growth and a cornerstone of its financial and trade partnerships with the world's fastest-growing economies.

Glossary

Halal

That which is permitted under Shariah.

Ijarah

A leasing contract of a physical asset or property where a lessee receives the benefits associated with use of the asset against payment of predetermined rentals for a period.

Murabaha

A sale of goods with an agreed profit mark-up on the cost price.

Musharakah

A joint enterprise or partnership structure in Islamic finance in which partners share in the profits and losses of an enterprise.

Musawama

A sale agreement where the price is negotiated between buyer and seller without disclosure of the original cost price.

Shariah

Legal rules and principles derived from the teachings of the Qur'an, Islam's holy book.

Sukuk

A financial certificate that complies with Shariah, representing an ownership interest in assets generating a cash flow – similar to a bond in conventional finance.

Sovereign Sukuk

Sukuk issued by a national government, typically used to raise capital, establish market benchmarks and signal sovereign commitment to Islamic finance.

Takaful

A type of insurance system that complies with Shariah, in which money is pooled and invested to provide mutual protection.

Retakaful

A form of Shariah-compliant reinsurance in which takaful providers share or transfer risk through Islamic insurance structures.

Wakalah

A Shariah-compliant contract, under which a depositor (or muwakkil) appoints another to act as its agent (or wakil) or to manage an investment on its behalf.

TheCityUK

TheCityUK, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8BF

www.thecityuk.com

Qiuyu Chen

Manager, Asia Pacific and Islamic Finance, TheCityUK

Qiuyu.Chen@thecityuk.com

+44(0)7809334680

Chika Muorah

Associate Director, EMEA and Co-Lead ICF, TheCityUK

Chika.Muorah@thecityuk.com

+44 (0)7979 555861

MEMBERSHIP

To find out more about TheCityUK and the benefits of membership visit www.thecityuk.com or email us at membership@thecityuk.com

This report is based upon material in TheCityUK's possession or supplied to us from reputable sources, which we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any guarantee that factual errors may not have occurred. Neither TheCityUK nor any officer or employee thereof accepts any liability or responsibility for any direct or indirect damage, consequential or other loss suffered by reason of inaccuracy or incorrectness. This publication is provided to you for information purposes and is not intended as an offer or solicitation for the purchase or sale of any financial instrument, or as the provision of financial advice. Copyright protection exists in this publication and it may not be produced or published in any other format by any person, for any purpose without the prior permission of the original data owner/publisher and/or TheCityUK.

© Copyright July 2026.