Artificial Intelligence (AI) and Risk Management: An Islamic Banking Perspective

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ABSTRACT

The Islamic banking industry is flourishing quickly in the business. It encounters multifarious challenges in its operations. Artificial intelligence (AI) has become central to governing banking operations by integrating sophisticated technologies. Islamic banking is adopting these technologies to determine risks, recognize and stop payment fraud, strengthen anti-money laundering (AML) processes, and execute further administrative know-your-client (KYC) screenings. We used a qualitative approach integrating Braun and Clarke's (2006) thematic analysis process in this article. The data were derived from secondary sources, such as research articles, related websites, book chapters, and regulatory guidelines. This paper examines the integration of AI in Islamic banking operations and how it identifies anomalies in the operations, maintaining Shariah compliance and ethical considerations, and then requires human supervision to ensure accuracy, safety, accountability, and ethical decision-making. The study traced that the effective integration of AI necessitates a full analysis of technological, legal, and ethical factors. It requires incorporating data security, privacy concerns, and regulatory compliance. The study also investigates that AI has the capacity to significantly benefit society and the global economy by enhancing opportunities, improving consumer protection, and boosting productivity. This research emphasizes employing AI in the Islamic banking industry by streamlining data analysis, automating procedures, optimizing client interactions, and enhancing compliance and security.

Keywords: Artificial intelligence, risk management, Shariah compliance, Islamic banking.

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