

Article

Methodological Foundations and Modern Development Directions for The Development of Islamic Finance in Commercial Banks

Yuldoshev Jamshid Nu'monovich*¹

1. Independent Researcher, Fergana State Technical University

Abstract: This article scientifically and theoretically examines the methodological foundations and modern development directions of Islamic finance in commercial banks. The methodological approaches of Islamic finance based on Sharia principles, profit and loss sharing mechanisms, financing models based on real assets, and institutional governance principles are analyzed. The study also evaluates modern trends in international practice, such as conceptual approaches, the Islamic ethical economy paradigm, the profit and loss model, institutional integration, Islamic FinTech, and sustainable development.

Keywords: Islamic Finance, Commercial Banks, Methodological Foundations, Sharia Principles, Profit and Loss Sharing, Islamic Fintech, Islamic Window, Real Assets, Institutional Integration, Sustainable Development

Citation: Nu'monovich, Y. J. Methodological Foundations and Modern Development Directions for The Development of Islamic Finance in Commercial Banks. American Journal of Economics and Business Management 2026, 9(7), 349-355.

Received: 05th May 2026

Revised: 20th May 2026

Accepted: 15th Jun 2026

Published: 11th Jul 2026



Copyright: © 2026 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>)

1. Introduction

The transformational processes observed in the global financial system require the diversification of commercial banks' activities and the widespread introduction of alternative financing mechanisms. In this process, Islamic finance is gaining particular importance as a system aimed at ensuring economic justice, risk sharing, financing based on real assets, and financial stability. In recent years, the growing interest in Islamic finance, not only in Muslim countries but also in developed countries, has increased the need to integrate this system into the operations of commercial banks.[1]

Today, the development of Islamic finance requires not only the introduction of new financial instruments, but also its integration with scientifically based methodology, institutional management, international standards, and digital technologies. Methodological approaches, especially for Islamic Financial Institutions, are being formed based on the standards of the Accounting and Auditing Organization for Islamic Financial Institutions and the Islamic Financial Services Board, which are becoming an important factor in the development of a Shariah-compliant financing system in commercial banks. Therefore, the scientific study of the methodological foundations and modern development trends of Islamic finance in commercial banks is of urgent practical importance.[2]

Analysis of Literature on The Topic

The theoretical and methodological foundations of Islamic finance have been studied by many foreign and local scholars. T. The Quran interprets Islamic finance as an alternative financial system based on interest-free financing and the principle of sharing

profits and losses. M. K. Lewis and L. M. Algaoud, on the other hand, considers the provision of financial transactions with real assets and the restriction of speculative transactions as the main methodological feature of Islamic finance.[3]

M.N.Siddiqui, R.Nureyev and R.Bekkin the scientific work highlights the mechanism of profit and loss sharing, financial intermediation based on Sharia principles, and social responsibility as the methodological basis of Islamic finance. Mahalliy olimlardan B.Toshmatov and A.Yuldoshev they scientifically substantiated the use of Islamic finance in the banking system of Uzbekistan, the expansion of financial inclusion, and the opportunities for integration into international capital markets.[4]

In recent scientific research M.Asutay, A.Saleem, M.Hassan other researchers have also justified the concept of Islamic ethical economics, the concept of profit and loss sharing, the institutional integration approach, and the digital Islamic finance approach as modern methodological directions for the development of Islamic finance. It is emphasized that these approaches will serve to combine Sharia principles with digital technologies, corporate governance, and sustainable development principles in the activities of commercial banks, increase the efficiency of financial services, and ensure the institutional development of Islamic finance.[5]

2. Materials and Methods

In the course of the study, systematic approach, comparative analysis, scientific abstraction, induction and deduction, generalization, and economic and statistical analysis methods were used. In addition, conceptual analysis, institutional approach, and comparative analysis methods were used to determine the methodological foundations of Islamic finance.[6] The information base of the study was organized by the organization for accounting and audit for Islamic financial institutions (AAOIFI), the Islamic Financial Services Council (IFSB), the International Monetary Fund (IMF), World Bank materials, as well as scientific works of foreign and domestic scientists and scientific resources on the development of Islamic finance in commercial banks. The modern development trends of Islamic finance, the institutional integration model, the concept of digital Islamic finance, and the principles of sustainable development were comprehensively assessed based on methodological approaches.[7]

3. Results and Discussion

The main goal of a commercial bank is to maximize profits, while the main goal of an Islamic bank is to maximize profits while strictly adhering to Sharia rules. The main difference between Islamic banks and traditional banks is that traditional banks trade in money and earn interest, while Islamic banks trade in products and earn interest. The Islamic financial system does not have loans and guaranteed deposits, only investments and sales on credit. An Islamic bank is a commercial organization that operates on the principles of Sharia. Unlike traditional banks, Islamic banks tend to invest more, which is why it is important to develop this type of bank.[8]

The conceptual foundations for the development of Islamic finance in commercial banks are closely linked to the processes of modernizing the banking system, expanding the scope of financial services, and supporting the real sector. Banking services based on the principles of Islamic finance are formed on the criteria of Economic Justice, financial stability and social responsibility. In modern economic conditions, the institutional capabilities of this system are manifested as an important factor in increasing the competitiveness of commercial banks (Table 1).[9]

Table 1. Conceptual foundations for the development of Islamic finance in commercial banks [10]

Conceptual framework	Content and theoretical essence	Importance in the activities of commercial banks	Modern scientific approaches
A financing system based on Sharia principles	The system of Islamic finance is formed with reference to the sources of the Quran, Sunnah and fiqh. Under this system, financial transactions are carried out on the basis of criteria of economic justice, honesty and Social Interest. The limitation of interest relationships ensures the organic connection of capital with the real economy..	Increases the transparency of financial transactions in commercial banks, strengthens customer confidence and creates a balanced distribution of risks. The organization of banking services in accordance with religious values serves to attract a new layer of customers.	Modern research interprets the Sharia-compliant banking system as a sustainable financial model. The integration of Islamic finance with ESG and sustainable development concepts is scientifically justified.
The concept of interest-free financial relations	The ban on ribo in Islamic Finance raises the need to link economic activity to real Assets. Financial resources are involved in economic turnover through trade, production and investment activities.	It reduces banks' dependence on speculative profits and expands the volume of financing for the real sector. Economic efficiency is formed as the main criterion in the financing process.	In the scientific literature, the interest-free banking system is being evaluated as a model resistant to financial crises. The mechanism of risk sharing is seen as a reinforcing factor for macroeconomic stability.
Risk and profit sharing mechanism	In Islamic finance, the relationship between the parties is built on partnerships. In instruments such as Mudaraba and musharaka, profits are distributed in a pre-agreed ratio, with the loss being offset in proportion to the share of capital.	This increases the need for commercial banks to conduct in-depth analysis of clients' business projects. Long-term partnerships are formed between the bank and the client.	Current scientific approaches are exploring the risk-sharing model as a tool to improve the efficiency of financial intermediation. This model is considered a component of a socially responsible banking system.
Real asset-based financing	In Islamic finance, each financial transaction must be associated with an activity that creates material asset or economic value. This approach prevents artificial capital turnover in the economy.	Integrates the investment activities of commercial banks with the production, construction, transport and service sectors. Bank asset quality and liquidity will increase.	In modern economic theories, the asset-based finance model is recognized as a tool for ensuring financial stability. Islamic finance is interpreted as a system that encourages real economic growth.
Principle of social justice and financial inclusion	Islamic Finance supports a balanced distribution of economic resources between the layers of society. Mechanisms such as zakat, KARD Hassan and waqf Act as social protection tools.	It expands the opportunities for commercial banks to work with low-income segments of the population. The efficiency of financing	In scientific research, Islamic finance is being evaluated as an instrument to reduce poverty and increase financial inclusion. The social responsibility

small businesses and family entrepreneurship increases.	function of the banking system is increasing.
---	---

According to international data on the development of Islamic finance, there are several major theoretical schools and conceptual approaches. Their comparison is seen as the basis of conceptual development. Each approach is distinguished by its philosophical basis, set of analytical tools, and practical guidelines.

Approach 1 is the Islamic moral economy paradigm (). The Islamic ethical economy paradigm interprets Islamic finance as a comprehensive ethical-economic project, not just as a legal system. According to this paradigm, the main goal of Islamic finance is not just to prohibit interest-based income relationships, but to establish an alternative financial system that ensures economic justice.[11]

The central concept of this paradigm is the concept of "maqosid ash-shari'ah" (the objectives of the Shariah). The objectives of the Sharia include five priorities: the protection of religion, life, intellect, progeny, and property. Islamic finance should be evaluated in the context of these five priorities. The ethical economics paradigm requires that Islamic finance be evaluated at the system level, not just at the product level. This approach sees the social responsibility of Islamic banking, its integration with zakat and waqf institutions, and its contribution to economic justice as important dimensions. It is this paradigm-based model that is used as the initial conceptual framework for the development of Islamic finance.

Approach 2. "Profit and Loss Sharing (PLS) Paradigm. The PLS paradigm proposes partnership financing based on mudaraba and musharaka as a central concept of Islamic finance. In this approach, the bank acts as a partner, not a lender, and shares the project risk with the client.[12]

The economic basis of the PLS paradigm was based on agency theory and incomplete contract theory. The relationship between a bank and an entrepreneur is two-way: on the one hand, the bank assumes the risk as the owner of capital; on the other hand, the entrepreneur receives a share of the profit by contributing management and labor. This relationship is fundamentally different from the traditional creditor-debtor relationship.

The result of empirical research shows that panel data analysis conducted in 14 leading Islamic finance countries shows that PLS funding has weaker effects on real production volumes than fixed income tools such as murobaha, but is important in terms of long-term sustainability.

There are also critical approaches to the PLS paradigm. Some researchers have highlighted the phenomenon of "Islamic moral hazard," pointing out the risk of banks privatizing profits and socializing losses. "The problem of information asymmetry between the capital owner (rabb ul-mol) and the Mudaraba also requires special scientific discussion.".[13]

Approach 3: Financial intermediation theory and the problem of asymmetric information. This approach analyzes Islamic finance from the perspective of neo-institutional economics and agency theory. Islamic banks, as financial intermediaries, should optimize PLS contracts to overcome the asymmetric information problem.

The agency problem manifests itself in Islamic finance at three levels. The first level is the relationship between depositors and the bank. The second level is the relationship between the bank and the entrepreneur. The third level is the relationship between shareholders and management. Information asymmetry at each level requires a separate contract design and monitoring mechanism.

This approach bridges traditional banking theory with Islamic finance, providing a methodological basis for empirical research that compares the two systems. In particular,

in a mudaraba contract, the capital owner must provide incentives to the entrepreneur, and in a musharaka contract, the monitoring costs must be taken into account.[14]

4th approach. Institutional integration approach. This approach involves introducing Islamic finance into the traditional banking system as an “additional module”, that is, through the mechanism of an Islamic window. This conceptual model distinguishes three levels of implementation of Islamic banking services:

Institutional level — legal-regulatory framework, Sharia council, international standards.

Operational level — product architecture, financing tools, risk management.

Management level — corporate governance, financial reporting, auditing.

These three levels are closely interconnected, and only their full compatibility will allow for the successful integration of Islamic finance into commercial banks. The advantage of the institutional integration approach is that it provides a consistent sequence of steps for practical implementation.

5th approach. Digital Islamic Finance Paradigm (Islamic FinTech). In recent years, the fifth theoretical direction of Islamic finance has begun to emerge in the scientific literature - the digital Islamic finance paradigm. This approach explores the potential of blockchain technology, artificial intelligence, and mobile applications to improve Islamic financial transactions.

The main ideas of the digital Islamic finance paradigm:

- Automatic provision of Sharia compliance through smart contract technology;
- Tokenization of sukuk on blockchain platforms;
- Sharia-compliant portfolio management using robo-advisory;
- Artificial intelligence-based control system;
- Big Data-based data analysis;
- Implementation of digital twin technologies; This direction is seen as a strategic opportunity to bring Islamic finance to wider segments of the population – expanding financial inclusion.

These approaches will serve to accelerate the integration of commercial banks into the international financial system and enhance their investment attractiveness. The integration of innovative technologies and Sharia principles in the banking system is an important factor in increasing the transparency of financial transactions, effectively managing risks, and ensuring sustainable economic development (Figure 1).[15]

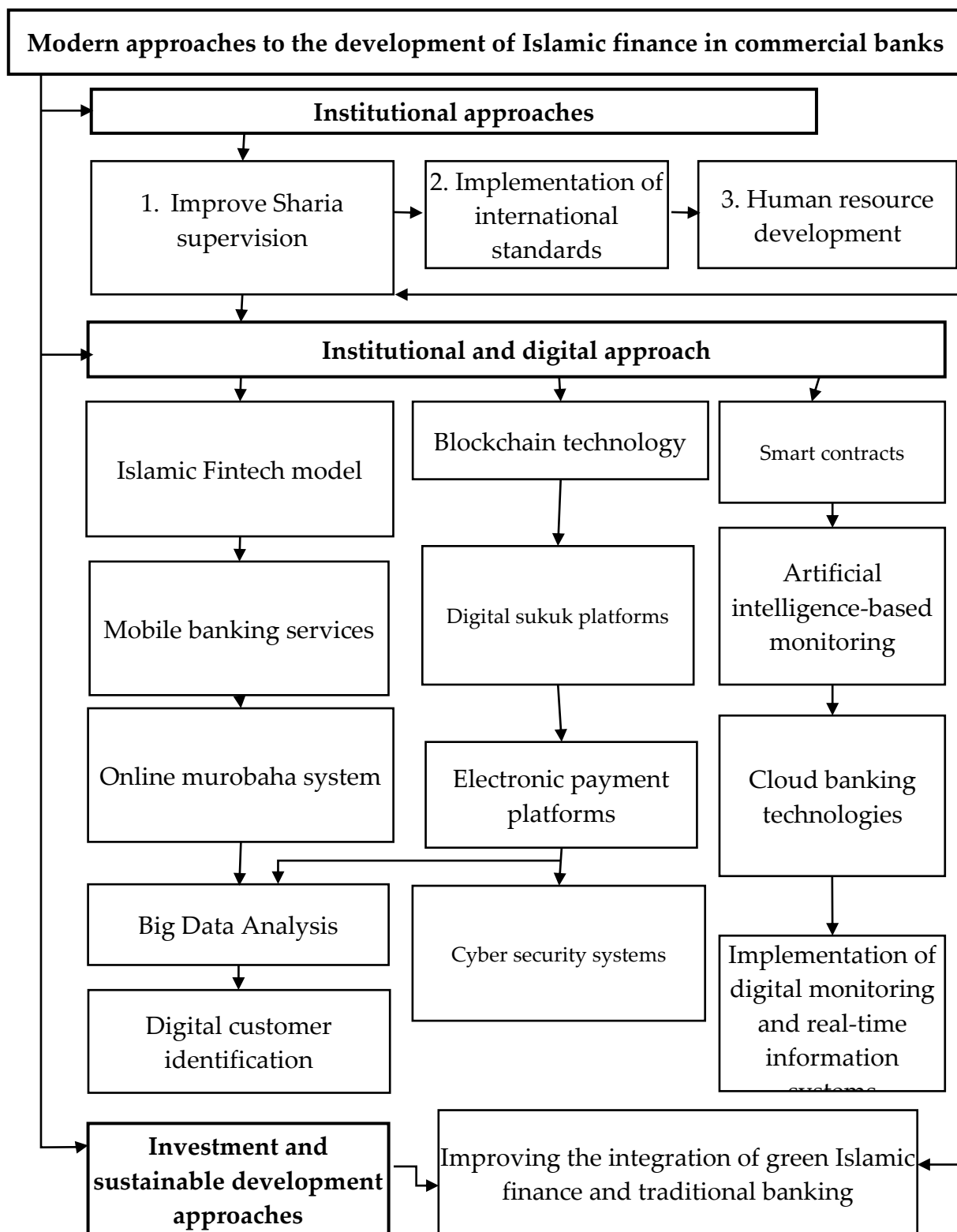


Figure 1. Modern approaches to Islamic finance in commercial banks.

4. Conclusion

The development of Islamic finance in commercial banks is one of the important strategic directions in ensuring the institutional stability of the modern banking system. Financial mechanisms based on the principles of Islamic finance differ from the traditional banking system in that they are closely linked to the real economy, with a fair distribution of risk and profit, and transparency of financial transactions. This model allows commercial banks to increase investment activity, effectively use financial resources, and strengthen customer confidence.

In the context of modern economic transformations, the conceptual foundations of Islamic finance are emerging as an important factor in enhancing the competitiveness of the banking system. The integration of Sharia-based financing mechanisms into the activities of commercial banks will serve to expand the level of financial inclusion, support small businesses and private entrepreneurship, and stimulate economic growth. This approach, in addition to ensuring the long-term stability of the banking system, also strengthens the principles of Social Security. The development of digital technologies and innovative financial instruments is taking Islamic finance services to a new level. Islamic Fintechs, blockchain, smart contracts, and digital sukuk platforms are improving the efficiency of commercial banks, reducing operational costs, and ensuring the speed of services. The new financial infrastructure, formed on the basis of innovative technologies, will accelerate the integration of banks into international financial markets and increase their investment attractiveness.

The prospects for the development of Islamic finance in the national banking system are closely linked to improving the regulatory and legal framework, introducing international standards, and training highly qualified specialists. The effective organization of Sharia supervisory systems in commercial banks, the use of modern management mechanisms, and the widespread introduction of innovative financing instruments will serve to improve the quality of banking services. As a result, the stability of the country's banking system will be strengthened, the flow of investments into the real sector of the economy will expand, and integration processes in the international financial system will intensify.

REFERENCES

- [1] T. Kuran, *Islam and Mammon: The Economic Predicaments of Islamism*. Princeton, NJ, USA: Princeton University Press, 2004.
- [2] M. K. Lewis and L. M. Algaoud, *Islamic Banking*. Cheltenham, UK: Edward Elgar Publishing, 2001.
- [3] M. N. Siddiqui, *Banking Without Interest*. Leicester, UK: The Islamic Foundation, 1983.
- [4] R. M. Nureev, *Development Economics*. Moscow, Russia: NORMA, 2009.
- [5] R. I. Bekkin, *Islamic Economics*. Moscow, Russia: AST, 2010.
- [6] B. Toshmatov, "Islamic finance in Uzbekistan," *Economics and Innovative Technologies*, no. 2, pp. 30–39, 2021.
- [7] A. Yuldoshev, "Sukuk: Experience of Uzbekistan," *Finance and Banking*, no. 4, pp. 52–58, 2022.
- [8] M. Asutay and I. Yilmaz, "Islamic moral economy as the foundation of Islamic finance," *Global Policy*, 2025, doi: 10.1111/1758-5899.13487.
- [9] A. Saleem *et al.*, "Financial intermediation through risk sharing vs non-risk sharing contracts," *Environment, Development and Sustainability*, 2023, doi: 10.1007/s10668-023-03298-7.
- [10] E. Baydaulet, *Fundamentals of Islamic Finance*. Tashkent, Uzbekistan: Uzbekistan NMIU, 2019.
- [11] M. Hassan *et al.*, "Impact of Islamic banking on economic growth: A systematic review," *Cogent Economics & Finance*, 2025, doi: 10.1080/23322039.2025.2490819.
- [12] D. Rasulova and S. Abdullayev, "Institutional foundations for the introduction of Islamic banking services in Uzbekistan," *Economics and Innovative Technologies*, no. 3, 2024.
- [13] M. U. Chapra, *Islam and the Economic Challenge*. Leicester, UK: The Islamic Foundation, 1992.
- [14] Z. Iqbal and A. Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*. Singapore: Wiley, 2011.
- [15] International Monetary Fund, *Islamic Finance: Opportunities, Challenges, and Policy Options*. Washington, DC, USA, 2015.