

detection, risk management, customer service, and investment advisory. These technologies enable rapid, personalized responses to customer needs, reduce costs, and strengthen financial security.

In Uzbekistan, although AI adoption remains limited, the implementation of scoring systems, chatbots, and customer identification practices in certain commercial banks provides a strong foundation for future development. Nevertheless, outdated IT infrastructure, weak data integration, insufficient skilled personnel, and an incomplete legal and regulatory framework slow progress.

For successful AI integration in Uzbekistan's banking sector, technological modernization, workforce development, enhanced information security, and increased public trust in AI are essential. Achieving these goals will allow domestic banks to remain competitive not only in the local market but also in the international financial system.

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## **RISK-BASED SUPERVISION OF ISLAMIC MICROFINANCE ORGANIZATIONS IN UZBEKISTAN UNDER THE EVOLVING PRUDENTIAL FRAMEWORK**

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**Annotation.** *This thesis analyzes the regulatory gap between the legal recognition of Islamic finance services in Uzbekistan's microfinance sector and the absence of risk-sensitive supervisory methodology. It argues that existing compliance-based prudential ratios do not adequately reflect the heterogeneous risk structure of Shariah-compliant contracts. Based on Basel supervisory principles and IFSB standards, the study substantiates the necessity of introducing a proportionate risk-based supervision framework for Islamic microfinance organizations.*

**Keywords:** *islamic microfinance, risk-based supervision, prudential regulation, capital adequacy, IFSB standards, Shariah governance.*

The regulatory framework of Uzbekistan already recognizes the possibility of providing Islamic finance services within the microfinance sector. The Law of the Republic of Uzbekistan “On non-bank credit organizations and microfinance activities” explicitly defines Islamic finance services as services provided under a procedure developed by the Central Bank in accordance with the rules of international standard-setting organizations in Islamic finance<sup>202</sup>. This clause is strategically important because it legally connects domestic practice with international prudential architecture, including standards developed by the Islamic Financial Services Board.

Subsequent secondary regulation adopted by the Central Bank established a detailed procedure for Islamic financing services within microfinance organizations, including requirements on internal governance, compliance with Shariah principles, transparency of contract conditions and the establishment of a Special council responsible for ensuring conformity of products and operations with Islamic finance rules<sup>203</sup>. The regulation further requires separate accounting of Islamic services when the microfinance organization simultaneously provides conventional services. The Special council’s conclusions are binding on the executive body, and its composition is subject to qualification requirements in Islamic law and finance<sup>204</sup>.

These legal developments represent a substantial institutional step. However, they primarily address product legitimacy and governance structure. They do not yet fully integrate prudential risk differentiation into supervisory methodology. Existing microfinance prudential regulation still relies on standard ratios, including capital adequacy calculated as equity to total assets with a minimum norm of 10 percent and liquidity calculated as the ratio of short-term liquid assets to short-term liabilities with a minimum norm of 100 percent<sup>205</sup>. These ratios are simple and enforceable, but they are not contract-sensitive.

Islamic microfinance contracts generate heterogeneous risk profiles. Murabaha transactions expose institutions to asset acquisition and resale risk. Ijara structures introduce asset ownership and residual value exposure. Mudaraba and musharaka arrangements involve equity participation risk, agency problems and potentially higher loss volatility. A uniform equity-to-assets capital ratio does not distinguish between a balance sheet composed predominantly of

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<sup>202</sup> Law of the Republic of Uzbekistan “On Non-Bank Credit Organizations and Microfinance Activities”, adopted 28 December 2021, approved 17 March 2022.

<sup>203</sup> Regulation of the Central Bank of the Republic of Uzbekistan “On the Procedure for Providing Islamic Financing Services by Microfinance Organizations”, registered 26 July 2024, No. 3536.

<sup>204</sup> Regulation of the Central Bank of the Republic of Uzbekistan “On the Procedure for Providing Islamic Financing Services by Microfinance Organizations”, provisions on the Special Council authority and composition, registered 26 July 2024, No. 3536.

<sup>205</sup> Regulation “On Regulation and Supervision of Microfinance Organizations, Factoring Organizations and Pawnshops”, registered 11 January 2023, No. 3412.

short-term trade-based murabaha and one concentrated in profit-and-loss sharing contracts. As a result, supervisory assessment remains compliance-based rather than risk-calibrated.

**Table 1**

**Transition from current supervisory approach to risk-based supervision for Islamic microfinance organizations in Uzbekistan<sup>206</sup>**

Supervisory area	Current position under existing regulation	Identified prudential problem	Proposed adjustment under RBS
<b>Legal basis for Islamic finance</b>	Islamic finance services are legally recognized and regulated by the Central Bank procedure	Legal recognition exists, but prudential methodology remains contract-neutral	Integrate risk-sensitive supervisory methodology consistent with IFSB standards within existing legal mandate
<b>Capital adequacy</b>	Capital adequacy ratio calculated as Equity / Total Assets (minimum 10%)	Uniform treatment of assets regardless of contract type; equity-based exposures not differentiated	Gradual introduction of simplified risk-weighted assets approach reflecting contract-specific risk
<b>Liquidity supervision</b>	Short-term liquidity ratio $\geq 100\%$	Does not reflect liquidity characteristics of asset-based Islamic contracts	Stress-based liquidity review for institutions with high asset concentration in non-liquid structures
<b>Governance oversight</b>	Mandatory special council for Shariah compliance; binding authority	Governance assessed formally, not linked to supervisory intensity	Incorporate governance quality as a factor in supervisory risk scoring and inspection frequency
<b>Hybrid institutions</b>	Separate accounting required for Islamic activities	Segmentation exists but not fully used for risk mapping	Use segmented reporting for contract-level risk monitoring and portfolio concentration analysis
<b>Supervisory model</b>	Predominantly compliance-based inspections and ratio monitoring	Limited forward-looking risk assessment and early warning tools	Risk-tier classification of institutions with differentiated supervisory intensity

International standards suggest a different logic. The Basel supervisory review framework under Pillar 2 emphasizes forward-looking risk assessment, governance evaluation and proportional supervisory intensity<sup>207</sup>. The IFSB standards, including IFSB-15 and IFSB-23, adapt capital adequacy and supervisory review to Islamic finance, recognizing equity investment risk and

<sup>206</sup> Author's compilation based on national microfinance legislation of Uzbekistan, IFSB and Basel standards.

<sup>207</sup> Islamic Financial Services Board. IFSB-23 Revised Supervisory Review Process of Institutions Offering Islamic Financial Services, 2021 // [https://www.ifsb.org/wp-content/uploads/2023/10/IFSB-23\\_En.pdf](https://www.ifsb.org/wp-content/uploads/2023/10/IFSB-23_En.pdf)

displaced commercial risk as distinct prudential categories<sup>208</sup>. Uzbekistan's own legal reference to international Islamic finance standards<sup>209</sup> makes it appropriate for the Central Bank to gradually operationalize a risk-based supervision (RBS) model consistent with those principles.

The practical transition does not require immediate adoption of complex internal rating systems. A proportional RBS approach for Islamic microfinance organizations could begin with structured risk mapping by contract type, concentration analysis, governance quality assessment and supervisory overlays for institutions with higher volatility exposures. Separate accounting already required for Islamic services<sup>210</sup> creates the technical basis for this segmentation.

Table 1 shows that Uzbekistan already has a legal and regulatory basis for Islamic microfinance, including recognition of Islamic finance services, separate accounting requirements and Shariah governance mechanisms. The main gap lies in the prudential methodology. Capital and liquidity ratios are applied uniformly and do not reflect differences in risk across Islamic contract types. As indicated in the proposed RBS column, the required change is not legislative replacement but methodological refinement. By linking supervisory intensity and capital assessment to the actual risk profile of portfolios, supervision can become more risk-sensitive while remaining within the existing regulatory framework.

The core regulatory problem is therefore not absence of legal authorization but absence of risk sensitivity. Islamic microfinance is no longer a theoretical extension; it operates within a legally recognized and regulated perimeter. Without a structured risk-based supervisory approach, however, capital requirements may fail to reflect economic substance, governance weaknesses may go undetected and supervisory resources may not be allocated according to risk intensity.

Risk-based supervision is particularly relevant now because Islamic finance expansion in Uzbekistan is policy-supported and reputationally significant. A supervisory model that remains compliance-oriented may be adequate in stable conditions, but it lacks the analytical depth required for monitoring contract-specific risk transmission. A proportional RBS framework would allow the Central Bank to classify institutions by risk profile, apply differentiated supervisory intensity and gradually introduce simplified risk-weighted capital calibration aligned with IFSB guidance, without imposing disproportionate burdens on smaller institutions. In this sense, the evolution toward RBS is not regulatory overreach but logical maturation of the existing framework. The legal foundation is already present, the next step is methodological alignment between Islamic contract risk and supervisory assessment.

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<sup>208</sup> Islamic Financial Services Board. IFSB-15 Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services, 2013 // [https://www.ifsb.org/wp-content/uploads/2023/10/2013-12-16\\_eng\\_IFSB15-Revised-Capital-Adequacy-Dec-2013.pdf](https://www.ifsb.org/wp-content/uploads/2023/10/2013-12-16_eng_IFSB15-Revised-Capital-Adequacy-Dec-2013.pdf)

<sup>209</sup> Law of the Republic of Uzbekistan "On Non-Bank Credit Organizations and Microfinance Activities", adopted 28 December 2021, approved 17 March 2022.

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## ТРАНСФОРМАЦИЯ МЕХАНИЗМОВ ФИНАНСОВОГО КОНТРОЛЯ НА ОСНОВЕ ВНЕДРЕНИЯ РЕГУЛЯТОРНЫХ ТЕХНОЛОГИЙ И ИНСТРУМЕНТОВ ИСКУССТВЕННОГО ИНТЕЛЛЕКТА

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**Аннотация:** В работе рассматриваются механизмы трансформации финансового контроля в Республике Узбекистан в контексте реализации приоритетов Стратегии «Узбекистан – 2030». Особое внимание уделяется роли регуляторных технологий и инструментов искусственного интеллекта в автоматизации надзорных функций и мониторинге системных рисков. Исследованы перспективы перехода от ретроспективных методов анализа к превентивному цифровому надзору, а также определены ключевые условия для успешной технологической модернизации финансового сектора.