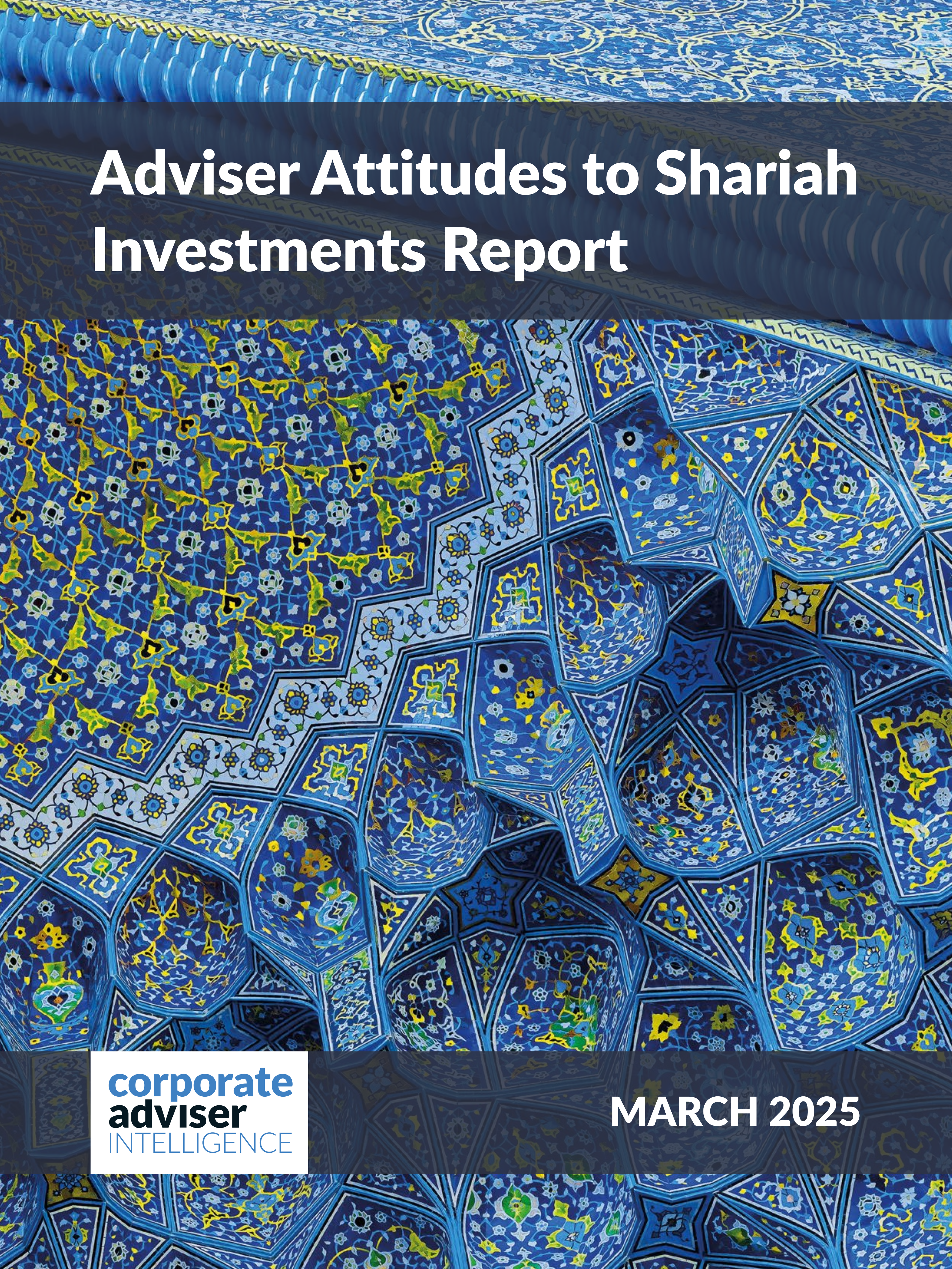
# Adviser Attitudes to Shariah Investments Report



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MARCH 2025

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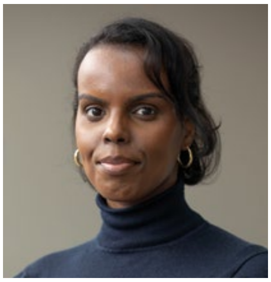
# INTRODUCTION



**Muna Abdi, reporter, Corporate Adviser**

**John Greenwood, editor, Corporate Adviser**

The purpose of workplace pensions is to support the retirement outcomes of all employees within an organisation. In recent years the DC pensions sector has made efforts to ensure its products meet the diverse needs of different groups within society. But Shariah law means Muslim employees have a specific set of requirements for financial products, requirements that have often been overlooked.

The UK's growing population of Muslim employees face a number of challenges, some of which are shared by other groups in society, such as a lack of understanding of the tax benefits and employer contributions offered by workplace pensions.

Other challenges are specific to Muslims, for whom many of the building blocks of mainstream workplace retirement provision are not permitted. Almost all default funds invest in bonds, which are prohibited under Shariah law. Annuities offered in the UK are also non-Shariah compliant, and Shariah-compliant drawdown solutions are not widespread and where they do exist are often not prominent. A consequence for Muslim workers can be a lack of faith in the system, resulting in low engagement with auto-enrolment and in some cases avoidance of pensions altogether, building up significant financial implications for the future. This exclusion from an employer's most valuable benefit is also likely to impact employee engagement.

It is not just the industry that has blind spots with regard to Shariah retirement saving – government and regulators have also often overlooked the needs of the Muslim community. For example, the Money and Pensions Service's Moneyhelper annuity guidance journey asks users questions relating to age, marital status, health, alcohol and smoking and indexation but does not ask whether faith-based considerations should be taken into account. As a consequence Muslim retirees may be purchasing products without being told that they may not be suitable for them.

More positively, the industry is beginning to address the challenges faced by Muslims in providing for their retirement, with some providers bringing new default solutions to market, to address both the pre- and post-retirement phases. Furthermore, Islamic finance organisations credit HM Treasury, the Department for Work and Pensions and The Pensions Regulator for taking a proactive role in reaching out to Muslim groups to address these issues.  That said, voices from the Muslim community say more products and better communications are needed.

The advisory community has a key role to play in raising understanding of the complexities faced by Muslim employees in providing for their retirement through workplace pensions.

This report explores the adviser community's current knowledge levels of Shariah investing, and specifically how this relates to workplace pensions and retirement products. As the industry looks to develop products that better serve this community consultants, advisers, trustees and specialists were asked what their current concerns where, how they would like to see the market innovate and the specific challenges around communication and product design of savings, drawdown and annuity products.

# ABOUT THIS RESEARCH

This report analyses the views and opinions of consultants, advisers, specialist Islamic advisers and trustees working across the defined contribution (DC) sector in a range of roles. Qualitative research was carried out through in-depth telephone interviews in March 2025.

We would like to thank the following organisations for their support in the creation of this research: Badri Management Consulting, Barnett Waddingham, Hymans Robertson, Isio, Islamic Wealth Management, Muslim Money Expert, Quantam Advisory, Syndaxi Financial Planning, Wealth at Work and Zedra.

# EXECUTIVE SUMMARY

- Knowledge of Shariah investments is generally low across consultants and advisers although there are some firms with very high levels of expertise
- Shariah options are often not promoted to staff or prominent in user journeys, potentially excluding Muslim employees from pensions
- Much of the UK pensions sector has a blind spot with regard to the Shariah status of annuities. Conventional annuities are not Shariah-compliant, yet industry awareness of this is very low, and Muslim retirees may be purchasing them without knowing their status
- Income drawdown can offer a Shariah-compliant retirement option for members, although many schemes have yet to facilitate this
- Advisers report increased demand for Shariah options within DC workplace schemes
- Shariah investment options offer a significant opportunity to build trust with a community of workers that has had relatively low participation with pensions
- Availability of Shariah investment options with DC schemes is increasing, but choice remains limited, with most funds being passive, index-tracking options
- Limited understanding of Shariah investment principles among trustees and employers is hampering effective communications
- Poor communication strategies have resulted in low take-up of Shariah options
- Pension scheme design remains a crucial part of many employers' DEI strategies
- Inclusion of a Shariah option alone is not sufficient - this needs to be backed with a targeted engagement strategy
- Existing communication strategies often fail to attempt to understand whether Muslim employees' beliefs are such that they want to invest in Shariah options
- The narrower universe of investment options within Shariah investment is a key concern of advisers particularly as this leads to concentration risks
- The liquidity and geographical concentration risk of Sukuk is a concern for advisers, as are potentially higher charges
- There has been little industry appetite to develop alternatives to annuities due to limited awareness and demand, although flexible drawdown and collective defined contribution (CDC) schemes may offer more suitable options
- Private markets present opportunities for Shariah-compliant investing — but careful structuring will be required to ensure compliance with Islamic finance principles

# 1: INDUSTRY KNOWLEDGE OF SHARIAH INVESTMENTS

- Knowledge of Shariah investments is generally low across consultants and advisers although there are some firms with very high levels of expertise
- Improved training and greater market knowledge is widening expertise among the advisory community
- Muslim knowledge of and demand for Shariah pension options is also growing

Understanding of Shariah investments in the advisory sector varies widely, with some firms having a high level of expertise while others having little or no knowledge of basic elements of it. There are now a number of consultancies and advisers with a decade plus of experience and expertise in this area. This includes smaller firms which have recognised demand among their employer clients for Shariah investment solutions. Many may also operate in local areas with significant Muslim populations.

Alongside this, a number of larger consultancies have started to build significant knowledge about Shariah investment and potential demand.

But blind spots exist, both amongst the advisory community and the broader financial services sector, with awareness beyond that of mutual funds, for example the status of conventional annuities within Shariah law, very low.

Increased demand for Shariah investment options within workplace pensions has encouraged advisory firms to improve their knowledge of this area, often via broader training programmes or client-specific work.

As a result industry knowledge about Shariah options as a whole is improving, albeit from a very low base. Pockets remain where there is still a general lack of knowledge about Shariah options — for example trustees were specifically seen by advisers as not being particularly well informed. Several advisers also highlighted knowledge gaps among HR and reward professionals.

While there is increased industry awareness about the growing global Shariah fund market, there is often a lack of knowledge about the specific principles underpinning these investments, for example the prohibition of both interest (riba) and uncertainty (gharar) in investment contracts.

Advisers are aware of the importance of addressing knowledge gaps, with several firms currently engaging specialists to share information across consultancy teams. This aims to ensure more detailed understanding of the screens and filters used in Shariah investments and the positive investments that are allowed. One firm is conducting a research exercise to understand the whole universe of equity Shariah investment options, having previously carried out client-specific exercises.

Several respondents said relatively low levels of knowledge across the industry encouraged reliance on benchmarked equity-only Shariah funds, where the more in-depth knowledge rested with index compilers.

Advisers' knowledge and understanding of this area is likely to be challenged by the evolution of sukuk structures, with one consultant noting that the Accounting and Auditing Organisation for Islamic Financial Institutions is proposing a fundamental change to the structure, which may involve more securitisation. Other advisers were happy with sukuk within broader, balanced portfolios.

Consultants have tended to focus on accumulation rather than decumulation options, when it comes to improving their understanding of Shariah investment options — though this is in part due to less market innovation in the decumulation space. There are no Shariah-compliant annuities available in the UK.

But some smaller advisers have been creating decumulation options for a number of years with Shariah components, using flexi-access drawdown.

Several advisers noted that increased awareness of Shariah investment options has in part been driven by an increase in Muslim pension savers as a result of auto-enrolment, with some employers having a very high proportion of Muslim employees. This has driven demand not only for suitable pension options, but for providers, trustees and consultants to more fully understand and engage with Shariah investment options.

Islamic finance specialists say the UK is exceptionally well positioned to become a global hub for Shariah-compliant pensions, given its strong financial services sector, regulatory expertise and diverse Muslim population. They point to figures from Islamic data platform Salaam Gateway that highlights massive future potential for Shariah-compliant pensions, which are predicted to grow from $10.84 billion in 2022 to around $150 billion in 10 years.

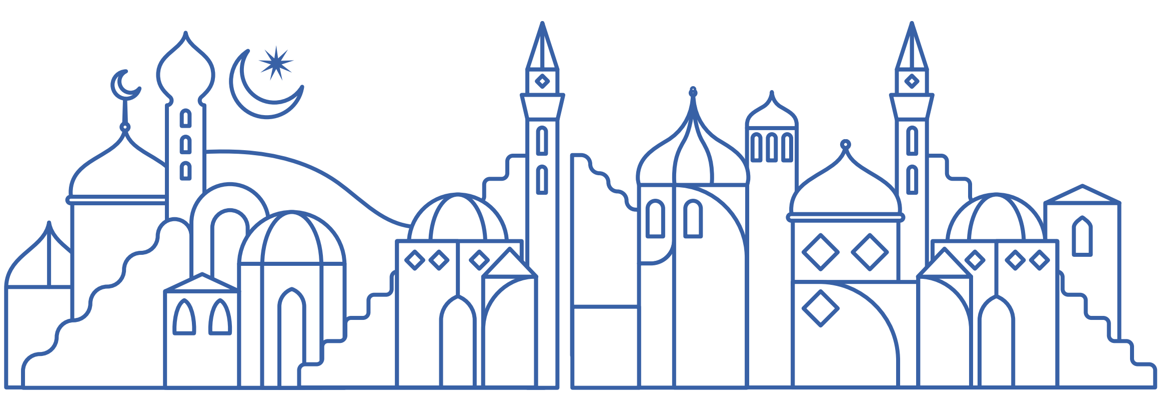
**"I have been in the industry for around 12 years. But I can only name a handful of advisers in the UK who actually advise within the Shariah market and publicise it." Specialist Islamic adviser**

**"Low industry knowledge is the reason why passive benchmark-limited tracking funds are used over active funds. Once you've got an active fund, you have to assess whether it is compliant, and you need a deeper understanding of how the principles work to do this." Consultant**

**"When we talk to reward professionals the level of knowledge of Shariah investing issues tends to be low. For example, I would not expect them to know what the word 'sukuk' means, or even to have heard of it. But they are aware of the general term 'Shariah'." Consultant**

**"Pension trustees and employers need to be aware of the ramifications of financial exclusion and the potential requirements under the Equalities Act. The industry therefore needs to make awareness and accessibility much easier for Shariah compliant options within their offering." Specialist Islamic consultant**

**"The UK is in the best position within developed markets to establish itself as a global hub for the promotion and development of Islamic pensions, by leveraging its existing well-developed time-tested financial infrastructure, regulatory expertise, and diverse Muslim population." Specialist Islamic consultant**



# 2: THE SHARIAH STATUS OF ANNUITIES

- Much of the UK pensions sector has a blind spot with regard to the Shariah status of annuities
- Conventional annuities are not Shariah-compliant, yet Muslim retirees are rarely told this
- There is little industry appetite to develop alternatives due to limited awareness and demand
- Flexible drawdown and collective defined contribution (CDC) schemes may offer more suitable retirement income solutions for Muslim members

Conventional annuity products are not Shariah compliant, making them unsuitable for Muslims adhering to a strict interpretation of their faith. As a consequence, Muslims face a more limited choice of at-retirement options than non-Muslim pension savers.

Several organisations outside those firms contacted for this research struggled to confirm whether annuities offered in the UK are Shariah compliant.

Provider material on the Shariah status of annuities is limited and the Money and Pensions Service's Moneyhelper.co.uk annuity comparision tool does not mention this as a suitability factor. The only Shariah products mentioned on the Moneyhelper website are Shariah investments and mortgages. As a result Muslims may be buying annuities without knowing their status in regard to Shariah law.

Annuities typically rely on fixed-income investments, including bonds, which generate returns through interest, known as 'riba', which is a direct violation of Islamic finance principles. Additionally, the element of uncertainty, known as 'gharar', in long-term contracts can also be seen as in breach of Shariah principles. Gharar reflects the perceived unfairness of the situation where an individual dies early and does not receive an equal share of the pool. As a result, Shariah-conscious investors do not consider annuities available in the UK as a viable retirement income option.

While it is arguably possible to develop Shariah-compliant annuities, there has been little movement toward developing them to date in the UK, with demand and awareness key obstacles.

Providers are reluctant to invest in new product development without clear demand, and awareness within the Muslim community remains limited. Instead, many Shariah investors turn to income drawdown strategies — widely available in the general market — which allow greater control over investment choices to ensure compliance with Islamic finance rules.

While annuities in their current form do not comply with Shariah principles, alternative retirement income structures may offer viable solutions. Some overseas markets, particularly in the Middle East, have developed Shariah-compliant income models, and there is potential for the UK to adapt flexible drawdown and CDC frameworks to create products that meet both regulatory and faith-based requirements. Expanding Shariah-compliant retirement options could also boost Muslim engagement with workplace pensions. This has been relatively low compared to other groups and may reflect a current lack of suitable income options in retirement.

**"Clearly [annuity] products aren't designed for this market." Consultant**

**"Annuities are simply not permissible. Annuities become almost irrelevant to the Shariah community because of the underlying investments. Providers could easily adapt them, but there is little appetite from both the industry and the Muslim community." Specialist Islamic adviser**

**"Annuities are an insurance policy and do not comply with Shariah due to interest and risk. But something that looks and feels like an annuity exists overseas, and there is potential to use flexible drawdown or the CDC framework for a Shariah-compliant option." Consultant**

# 3: DEMAND FOR SHARIAH INVESTMENT OPTIONS

- **Advisers see increased demand for Shariah options within DC workplace schemes**
- **Employers want options to address the limitations of some legacy schemes which do not facilitate Shariah options, resulting in some Muslim employees being excluded from workplace pensions**
- **Shariah options are often not promoted to staff or prominent in user journeys, potentially excluding Muslim employees from pensions**
- **Larger employers have led the way in offering Shariah options, but this is starting to extend to smaller employers**
- **Shariah investment options offer a significant opportunity to build trust with a community of workers that has had relatively low participation with pensions**

Defined benefit pensions are considered Shariah-compliant, but certain elements of the investment blend used in defined contribution (DC) default funds, notably interest-generating bonds mean Muslims need alternatives if they are to save for their retirement in a product that aligns with the principles of their faith. This is increasing pressure on the DC sector to offer Shariah options within a workplace scheme to serve Muslim employees from the 1.1 million-strong Islamic community in the UK.

Authorised DC providers are not required by law to offer a Shariah option, but guidance from The Pensions Regulator requires providers to consider the diverse needs of members. Almost all master trusts now offer a Shariah option, but advisers report that it is often not prominently placed within the choice architecture presented to members joining the scheme.

Most advisers note that until now the main DC option has been the HSBC Islamic Global equity fund, which offers no derisking. Advisers are aware that over the last 12 to 18 months some providers have introduced options that use sukuk to offer a derisking solution.

One consultancy said that using a sukuk bond can allow members to change the risk profile of investments, without the scheme offering a specific lifestyle option.

Increased knowledge within Muslim communities about Shariah pension options is driving a greater demand for more choices, resulting in more options coming to market – although from a relatively low base. In some cases this awareness is being supported by various Islamic organisations.

Some consultants say if Shariah options are not available, or not clearly signposted, there may be higher levels of opt-outs, potentially excluding Muslim staff from a company's most valuable benefit. Consultants say some larger employers are taking the initiative on this issue by promoting Shariah options, driven by a desire to embrace diversity and to ensure a section of the workforce is not penalised due to their beliefs.

Smaller employers are also becoming alive to the issue – although consultants say this was often where they have a significant Muslim workforce.

One consultants pointed out that the availability of Shariah options could influence scheme selection in some cases. But advisers say employers' views on the importance of Shariah options vary widely - some employers are simply not interested, while others would not agree to change the scheme design or options, but would be prepared to direct contributions to an individual arrangement if there was demand for this option, said one adviser.

Consultants also point out that some mosques are now hosting talks with the aim of boosting knowledge among congregations about pensions and investing in general, along with the specifics of Shariah principles. They say this is likely to lead to increased queries and requests to employers, driving increased demand in the future.

One consultant suggested combining provider and employer data to better understand under-saving and opt outs among particular groups, to inform future engagement strategies.

Building trust in financial services products is key to achieving good outcomes. Conversely, not having Shariah options available to Muslim employees is, advisers say, likely to erode trust.

**"We definitely see growing demand. We often get individuals and organisations asking questions about Shariah in pensions. In some cases, there have been awkward conversations where employers could only offer one fund through the pension scheme. In extreme cases, they couldn't offer a Shariah-compliant fund at all due to legacy limitations. As a result, some Muslim employees have been left out of the pension scheme." Consultant**

**"As far as UK pension law is concerned, the employers have fulfilled their responsibility by having a workplace pension….There are Shariah options in some workplace schemes, certainly, in theory. But there are only one or two workplace schemes that would tick the box in terms of Shariah compliance." Specialist Islamic adviser**

**"We're seeing a growing demand for Shariah options from employers. Typically, what you find with any new initiative is it's the larger employers that look at this at first. They have the resource, the capacity to do it and it probably impacts them on a greater scale as well. So, companies that are really competing for employees when it comes to recruitment, who need to distinguish themselves. That's usually the driver behind this." Consultant**

**"Many employers do not offer Shariah-compliant pension plans, leaving Muslim employees with few or no options that align with their faith." Specialist Islamic consultant**

# 4: THE QUALITY AND AVAILABILITY OF SHARIAH-COMPLIANT FUNDS

- **Fund selection is often driven by DEI and ethical perspectives rather than extensive performance analysis**
- **Availability is increasing, but choice remains limited, with most funds being passive, index-tracking options**
- **Greater communication of Shariah options is needed to ensure members understand what is available to them**

More pension providers are now offering Shariah options within DC schemes, but the range of funds offered remains very limited. Consultants point out that while assets under management for Shariah-compliant and values-based investing have grown — the range of Shariah funds available through DC structures has not expanded significantly, which continues to limit choice in this sector.

In fact consultants say that despite there being a wide range of workplace pension providers the vast majority of the Shariah options offered are run through the same fund. As a result the majority of Muslim employees who opt for a Shariah option within a DC scheme are fully invested in equities, and are likely to be in index-tracking funds. Few active options are available.

Selection of Shariah funds is typically based on ethical or diversity, equity and inclusion (DEI) considerations, rather than a detailed performance comparison with conventional funds.

While this ensures that schemes provide inclusive investment options, there is little differentiation among available Shariah funds, making it difficult to assess their relative quality. However, consultants point out that this lack of variety is partly due to the strict investment criteria of Shariah funds, which limit how they can be structured.

There is also limited awareness and understanding of Shariah investing among scheme members, with many relying solely on standard investment documents rather than tailored educational resources to help them chose funds through a self-select option.

Many advisers surveyed say better communication strategies are needed to help people understand their options, which may encourage more variety in the range of funds available. Without this, members may avoid Shariah funds altogether due to a lack of familiarity — even if they align with their financial or ethical preferences.

**"The decision to offer Shariah options has been made more on an ethical or DEI perspective, rather than looking beyond that. It's hard to say if there are better or worse than other options in the marketplace." Trustee**

**"Where we have got Shariah options as a self-select option in DC strategies, we rely on index construction to ensure compliance, but there aren't many active funds out there." Consultant**

**"We did a full Shariah-compliant equity search for clients last year, and as more providers offer Shariah instruments, we expect that availability will continue to increase." Consultant**

**"Options are limited. If you want a Shariah scheme, your best option is a scheme with a Shariah fund, which isn't ideal." Specialist Islamic adviser**

**"More solutions are coming into play, like lifestyle funds, but performance and cost considerations often take priority over Shariah compliance." Consultant**

# 5: ADVISERS' BIGGEST CONCERNS AROUND SHARIAH INVESTMENTS

- **A key concern is the narrower universe of investment options which can lead to concentration risks**
- **The liquidity and geographical concentration risk of Sukuk is a concern, as are potentially higher charges**
- **Some advisers say all investments have specific benefits and limitations and Shariah investments are no different in that sense**

Consultants and advisers believe that the selection of Shariah options and the integration of them into a scheme requires assessments about risk, concentration of risk and suitability.

Consultants have a particular concern over Sukuk in terms of geographical concentration, as instruments are predominantly domiciled in the Middle East and Muslim-populated countries in South East Asia, such as Malaysia and Indonesia.

As a result one consultant said they would not consider a Shariah option as a default as currently constituted, because of this excessive concentration of risk.

These risk concentration concerns also apply to equity options, because of the fact of the universe being more restricted. One consultant noted these concerns around concentration also increase as scheme members get closer to retirement, when risk is typically reduced. Others risks cited also included currency risk.

But it was also noted that while there was concern about this risks, better understanding and knowledge of Shariah options, among advisers and trustees, might mitigate some of these concerns. One consultant suggested that with creativity, there were ways to balance these risks within a portfolio.

Consultants noted that despite these concerns, the permitted investments, exclusions and filters of Shariah funds had seen them outperform more general market benchmarks by a considerable degree in recent years. Consultants also feel that Shariah investments need to be considered at a total portfolio level, which includes considering how much of a portfolio is liquid, given that Sukuk bonds in particular can be less liquid.

Some advisers, particularly when considering the UK market, feel that the lack of choice is down to many providers and asset managers not fully embracing the market.

Another concern is charges, with advisers raising the issue of whether 'unfairness' was potentially being built into the system because mass market defaults, with more members, can often negotiate lower fee charges that Shariah options. Advisers questioned how an employee choosing a Shariah option would feel in a situation where they then found out they had significantly higher charges than an employee in the main default scheme.

**"One of my biggest concerns is the natural concentration bias and risk that come with these investment principles. That's not a criticism of the principles themselves — it's simply a byproduct of limiting investment options." Consultant**

**"Looking at a Sukuk bond fund recently, it was heavily concentrated in issuances of bonds in the Middle East, Malaysia and Indonesia. That is not an investment we would have made under normal circumstances because it is highly exposed to a particular region of the world and specific industries. This is why it wouldn't work for a general default." Trustee**

# 6: SHARIAH INVESTMENT AND DIVERSITY OBJECTIVES

- **Pension scheme design remains a crucial part of many employers' DEI strategies**
- **Inclusion of a Shariah option alone is not sufficient - this needs to be backed with a targeted engagement strategy**
- **An ethical approach does not in itself replace the need for specific Shariah options**

Advisers and consultants see a significant degree of alignment between diversity, equity and inclusion (DEI) frameworks and the availability of Shariah investment options —as this allows a segment of the workforce to participate in pension investing according to their values.

Some advisers emphasise that while other religious groups and people with ethical principles may share some objectives with Shariah investors, the Muslim community have specific issues that are significantly different, for example the prohibition against taking interest or investing in uncertain instruments.

Advisers also reflected that a Shariah investing approach could offer value beyond the intrinsic benefit of the workplace scheme by signaling a desire by an employer to want to engage with all staff, helping support staff retention and attraction, productivity and engagement.

Employers do not have a specific legal duty to offer Shariah options within a pension. The duty is simply to offer a scheme. But advisers note that where Shariah options were offered, employers need to ensure this is supported by communication and engagement activities with a DEI focus. One cited situations where Muslim employees had opted out of the pension, partly because they didn't know that options which accorded to their values were on offer.

Advisers flagged trust as a key concern and said the lack of promotion of Shariah options where they were available exposed providers and employers to the accusation of box-ticking.

Many felt that this could be addressed through better scheme design, particularly in terms of interface, user journey and broader engagement strategy. For example, it was suggested that some members might not realise that when investing with a 'general provider' that had approved Shariah options, the very first pound they invested would go into a Shariah option if that was what was they had selected.

Not all agreed, with another adviser saying the user journey offered by generalist providers was often more than adequate.

It could be argued this mirrors a divide between those employers who tend to view the pension as a matter of compliance, albeit in some cases paying heed to workforce demand, and those who see it as an important part of a broader diversity agenda which feeds into much more thorough approach to workforce management.

**"If you have people of a certain faith in your workforce, you should be catering to them, whether as part of a wider strategy or just through your pension scheme. There is a bigger issue here, and the pension scheme is just one part of that." Trustee**

**"A key part of any DEI strategy should be to look at minority groups, and how to better support them. One solution is to have a pension arrangement they can invest into, and to ensure the employer proactively educates and makes their employees understand what that option is." Consultant**

# 7: THE COMMUNICATION CHALLENGE

- **Shariah options are often not actively promoted by employers, providers or trustees**
- **Limited understanding of Shariah investment principles among trustees and employers is hampering effective communications**
- **Poor communication strategies have resulted in low take-up of Shariah options**
- **Existing communication strategies generally fail to attempt to understand whether Muslim employees' beliefs are such that they want to invest in Shariah options**

Concern that Shariah-compliant investment options are often poorly communicated to pension scheme members is widespread amongst advisers. While these options exist within many schemes, they are rarely explained or promoted, leading to low awareness and limited uptake among members for whom they would be relevant. Many providers simply list Shariah funds as an option, without ensuring that members fully understand their purpose or suitability.

The disconnect between offering Shariah funds and actual member engagement is clear. Even when these options are available, there is often low uptake of these funds, in part because of choice architecture.
Advisers surveyed for this report say that the responsibility for improving Shariah fund awareness should be shared across providers, employers and advisers. Some in the industry want providers to go beyond simply listing Shariah funds and instead offer structured guidance to help members understand their investment choices.

Many also want to see employers and the trustees of schemes taking a more proactive role in raising awareness of Shariah options across the membership.

However, in practice, employers have no legal obligation to do so. This lack of mandatory engagement means that the promotion and visibility of these funds vary significantly across different schemes.

This situation is exacerbated by the fact that there is often limited awareness and understanding of Shariah investment principles among trustees and employers, which can hamper effective communication of these fund options.

Overall consultants say the industry would benefit from a more structured communication strategy, ensuring that members are better informed at enrolment and before retirement about different investment options. Shariah investments should be presented in a way that encourages informed decision-making by members to drive greater take-up of these funds by members for whom they are relevant.

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**"Providers that have this option typically say, 'Here's your list of fund options, and one of them is a Shariah fund.' They don't actively promote or guide the member through a journey that asks, 'Do you have strong beliefs in this area?' We don't want to promote a particular fund or single out members, but at the same time, raising awareness that these funds exist is important." Consultant**

**"Shariah options are barely communicated at all. But again, employers are not breaking any rules. They've got a scheme, they've maybe got a Shariah option. It's an employer's choice to engage, as opposed to a legal obligation." Islamic adviser**

**"The initial engagement is really important, because otherwise people almost immediately switch off." Consultant**

**"There has to be accountability across the different market players in the industry. It's going to take collective engagement from an industry perspective to move the agenda along." Consultant**

# 8: INCOME DRAWDOWN FOR SHARIAH INVESTORS

- Income drawdown can offer a Shariah-compliant retirement option for members, although many schemes have yet to facilitate this
- Regulatory changes may be needed to create more accessible Shariah drawdown solutions
- Private markets may play a role in providing Shariah-compliant decumulation options, but accessibility remains a challenge

Income drawdown is seen as a more viable retirement solution for Shariah investors than annuities which are prohibited under Shariah law in the form offered in the UK.

Annuities, which provide a fixed income stream, typically involve interest-based returns, making them non-compliant with Islamic finance principles. In contrast, drawdown allows investors to select their own investments and control their withdrawals, ensuring that their retirement savings can remain aligned with Shariah principles.

The availability of Shariah-compliant drawdown options remains limited. Consultants point out that some big DC pension providers do not yet facilitate drawdown, meaning that members seeking Shariah-compliant solutions will need to transfer their assets to another provider in decumulation.

Demand for specific Shariah drawdown options remains untested and uncertain, and it is unclear whether providers will expand their offerings.

Many consultants are positive about the role that private markets could play in Shariah-compliant decumulation strategies, particularly through investments in real estate and private equity, which offer diversification potential. Many point out that Shariah-compliant accumulation strategies are often overweight in technology equities for example which may not suit the risk profile of many drawdown investors. Private market investments could help reduce this risk.

Some Shariah-compliant investment funds already incorporate property-backed assets, which could be expanded into drawdown solutions. However, accessibility remains a key concern, with many DC schemes still only having limited exposure to these private market assets.

For Shariah-compliant drawdown solutions to become widely accessible, greater industry innovation and regulatory support are needed, consultants say. The market for Islamic finance is evolving, but further developments in product design and regulatory flexibility will be required to ensure these options are practical for a broader range of pension scheme members.

**"Income drawdown could potentially work far more effectively than an annuity, in the sense that the investor can choose the underlying composition of the investments."** Trustee

**"There is going to be a challenge at some point in the future, where funds potentially have to move out to another provider to access the drawdown rules."** Specialist Islamic adviser

**"Property is Shariah compliant and underlies a lot of the Shariah investment funds that are out there. It would be good to use that in a decumulation strategy. It would resonate with the community."** Specialist Islamic adviser

**"Given the lengths that were gone to accommodate the Plymouth Brethren with pensions freedoms, one wonders why this issue hasn't received more attention before now."** Financial adviser

# 9: INNOVATIONS IN SHARIAH-COMPLIANT INVESTMENTS

- **Limited provider choice continues to restrict competition**
- **Fund management knowledge gaps hamper innovation**
- **Private markets present opportunities for Shariah-compliant investing — but careful structuring will be required to ensure compliance with Islamic finance principles**
- **Sustainable investment options have the potential to drive future growth in Shariah-compliant options**

One of the most significant challenges in Shariah investing is the lack of provider competition. With only a handful of fund managers offering Shariah-compliant products, investors have few choices, limiting their ability to diversify or find competitive pricing.

Advisers surveyed for this report say that expanding the number of providers could increase market efficiency and improve product quality. But several advisers question whether there is enough demand to sustain multiple providers. Some say the market still remains too niche for significant expansion.

A key barrier to growth is limited industry expertise in Shariah-compliant investing, with many fund managers lacking confidence when it comes to understanding Shariah principles and how they apply to different asset classes. This can discourage the development of new products, and restricts access to Shariah investments beyond basic equity and Sukuk funds. Addressing this knowledge gap through education, research, and clearer industry guidelines could encourage wider adoption.

Private markets, including real estate, infrastructure, and private equity, present a major opportunity for Shariah investors. These asset classes are not inherently non-compliant, but experts in Islamic finance said attention needs to be given to how these are structured within portfolios to ensure alignment with Islamic finance principles. For example excessive leverage could breach Shariah rules. Many remains optimistic that this the wider adoption of private markets within DC portfolios would lead to more Shariah-compliant solutions, and result in more diversified investment options.

Others are positive about development being made to lifestyle strategies within DC. Refining lifestyle investment strategies that blend Sukuk and equity funds could help align Shariah-compliant investments more closely with mainstream pension defaults, improving accessibility and uptake.

Expanding into green Sukuk, social impact investments, and Shariah-compliant ETFs and REITs could also provide greater diversification and attract investors seeking both ethical and faith-based investments, across both the institutional and retail space.

**"It would be good to see more investment providers. To date, the challenge has been that there's only been one provider out there of any scale." Trustee**

**"Having Shariah-compliant opportunities in the areas of impact and natural capital-based solutions would be at the forefront of innovation." Consultant**

**"We are limited in terms of structures and product range that are available to Muslims. That doesn't particularly help when it comes to engaging the community." Specialist Islamic adviser**

**"I'd like to see more sophistication around broader asset classes adding to diversification, so that it aligns more with standard defaults, as well as lower charges." Consultant**

# 10: NON-MUSLIM INVESTMENT IN SHARIAH FUNDS

- **Strong performance has attracted non-Muslim investors into Shariah funds**
- **Interest in also driven by ethical considerations and ESG alignment**
- **There is a lack of longer-term data, making it unclear whether non-Muslim interest will continue as market conditions evolve**

The strong performance of Shariah funds in recent years has attracted interested from non-Muslim investors. This outperformance has been driven by their high equity weightings and sectoral biases towards technology, and away from other sectors, for example conventional finance firms. While these trends have been dominant for a number of years, it remains to be seen if Shariah funds will continue to deliver such strong returns as market cycles shift, and whether there will continue to be the same demand from non-religious investors.

However many advisers say there is also demand from non-Muslim investors who are interested in sustainable, ethical or ESG-related investment strategies.

Shariah-compliant investments have a natural overlap with these areas. Many stricter (or 'dark green') ethical funds avoid industries such as alcohol and gambling, and prioritise responsible investment strategies that deliver more positive societal or environmental impacts; this positive societal impact is also a key element of many Shariah funds.

Consultants say some investors may view Shariah funds as an alternative to more mainstream ESG funds, which may lack strict screening criteria. Again though they said it is hard to separate whether this is also being driven more by performance considerations rather than solely ethical views; for example are these Shariah funds simply seen as 'better performing' ESG options.

Many consultants said that while there has been interest in Shariah funds among non-Muslims in certain pockets of the market, this has been a shorter-term phenomenon to date, and the long-term trend remains unclear. Without a stated commitment to faith-based or ethical investing, non-Muslim investors could exit these funds if market conditions change and performance falters (relative to the rest of the market) — or if alternative ESG investments start to look more attractive.

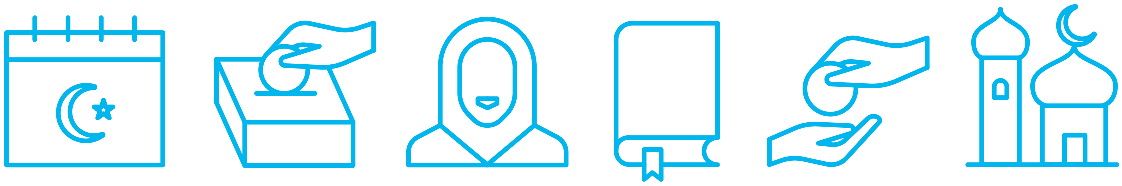
Respondents added that, blending equity and Sukuk in lifestyle fund structures may also impact the uptake of these investments from non-Muslim investors, who may prefer to keep these asset classes separate. This could also impact performance, potentially affecting demand from non-Muslim investors.

**"We think, but don't necessarily have proof, that some members have invested in the Shariah equity fund because it has performed really well over the last decade, rather than because they are of Islamic faith." Consultant**

**"Investing based on any set of principles or exclusions, including ESG or climate-focused, is done in what is technically described as a beliefs-based approach." Consultant**

**"We've seen some data suggesting interest from non-Muslim investors, including, for example, in sukuk bonds, but it's difficult to say at this stage whether that interest will continue and translate into significant capital." Consultant**

**"We're seeing pockets of non-Muslims switching into Shariah because past performance has been strong, but whether that will continue is uncertain." Consultant**



# KEY ISLAMIC INVESTMENT TERMS

**Shariah (Islamic law)** – Shariah, meaning “a path,” is the law governing all aspects of a Muslim’s life. It covers religious obligations such as prayer and fasting, as well as family matters, business dealings and legal rulings. In finance Shariah dictates ethical and permissible investment practices.

**Haram (Prohibited)** – Haram refers to anything explicitly forbidden in Islam. In Islamic finance this includes investments in industries or activities involving alcohol, pork, gambling (maysir), interest-based (riba) transactions and other practices deemed unethical. Muslims must avoid financial dealings that contradict Islamic principles.

**Halal (Permissible)** – Halal refers to what is lawful under Islamic law. Halal investing follows Shariah principles by avoiding riba (interest), maysir (gambling), and haram industries. Investments must comply with ethical guidelines, such as Shariah-compliant stocks, sukuk (Islamic bonds), and real estate. Preferred financial structures include profit-sharing models like Mudarabah and Musharakah, which align with Islamic economic principles.

**Riba (Prohibition of interest)** – Riba is interest which is prohibited in Islamic finance due to its perceived exploitative nature.

**Sukuk (Islamic bonds)** – Sukuk is a Shariah-compliant, interest-free alternative to bonds, offering returns from asset-backed projects, usually issued in the Middle East and South East Asia. This stable income can help support long-term lower risk growth within pension portfolios.

**Gharar (Prohibition of uncertainty)** – Gharar refers to excessive uncertainty in contracts, which is prohibited in Islamic finance to ensure clear and fair terms. Avoiding gharar means investing in products with well-defined risks, returns and terms.

**Mudarabah (Profit-sharing)** – A partnership model that involves investors and fund managers sharing profits based on a set ratio. It suits Islamic pension funds by offering growth potential and shared risk, ensuring stability for long-term investments.

**Musharakah (Joint venture)** – In this joint venture model, both parties share capital, profits, and losses. It can be used by pension funds investing in halal sectors, ensuring fair distribution of risks and rewards to support long-term growth.

**Ijara (Leasing)** – Ijara allows pension funds to earn returns from rental income instead of interest. This can provide a steady, sustainable and Shariah-compliant income.

**Takaful (Islamic insurance)** – Takaful is a mutual risk-sharing system that offers an alternative to profit-driven insurance models.

OPINION

# FAITH-BASED INVESTORS NEED EQUAL ACCESS TO DERISKING

» **Umar Yaqoob** workplace investment proposition manager, Aviva

**What have we done?**

Aviva has recently launched its new Shariah Lifestyle Investment Strategy, partnering with global fund manager HSBC to utilise their range of Shariah-compliant funds. We've done this to provide our members with a de-risking solution that gives them options for how they wish to access their savings in retirement, and in a way which is compliant with Shariah principles. Aviva's harmonised Shariah strategy benefits from the same tried-and-tested investment philosophy that underpins its other flagship auto-enrolment default solutions. By using a three-fund approach, which starts to de-risk from 15 years before retirement, we're aiming to provide greater opportunity for growth in members' pots, whilst ensuring we're progressively managing risk exposure throughout their journey to retirement.

As with our other solutions, customers can wait to choose how to take their savings. We've also created a drawdown option for customers who want to take a regular income from their savings. The graphs below show how the two options move members' money as they approach retirement.

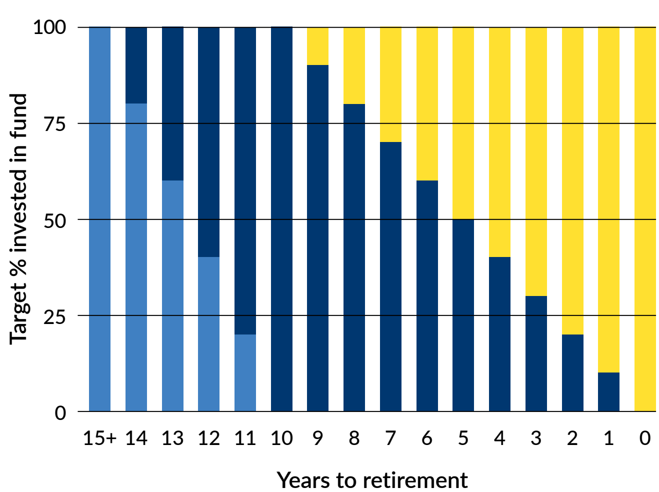
**The problem we are addressing**

Faith-based investors have been an underserved segment of the market[1] and that's what we have addressed with the launch of our new strategy.

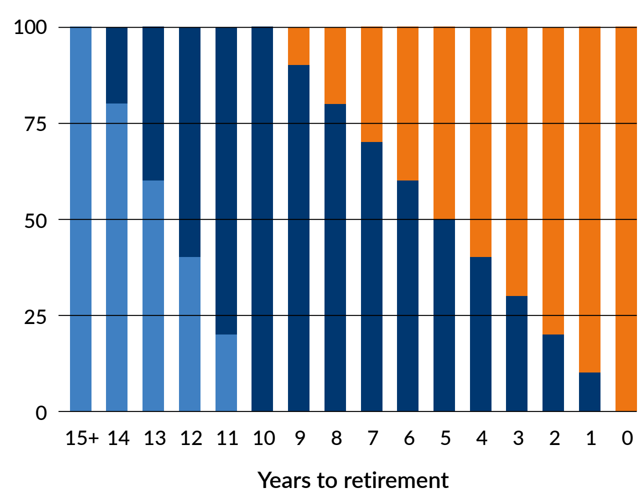
Ultimately, the biggest concern regarding Shariah investments is the lack of access so many people have to it[2]. The single greatest barrier to implementation is availability for members and that's why we are so passionate about bringing our solution to market.

Using our already proven risk reduction philosophy to design a Shariah-compliant

**Shariah Universal**




**Shariah Drawdown**




■ Shariah Long Term Growth ■ Shariah Growth ■ Shariah Consolidation ■ Shariah Drawdown

### Aviva's Shariah Lifestyle Investment Strategy

| Aviva Insured Funds | Fund Cost (bps) | Asset Allocation |
|---|---|---|
| Shariah Long Term Growth | 0.27 | 100% Equity |
| Shariah Growth | 0.33 | Equities 74.93%<br>Sukuk bonds 16.23%<br>Alts 5.90% |
| Shariah Drawdown | 0.35 | Equities 50.03%<br>Sukuk bonds 36.93%<br>Alts 8.70% |
| Shariah Consolidation | 0.34 | Equities 35.08%<br>Sukuk bonds 55.78%<br>Alts 6.10% |

***Asset allocation does not total 100% due to need for cash rebalancing.**

> By using a three-fund approach, which starts to de-risk from 15 years before retirement, we're aiming to provide greater opportunity for growth in members' pots, whilst ensuring we're progressively managing risk exposure throughout their journey to retirement

strategy that takes customers through the retirement journey is something we're incredibly proud of.

**Why now?**

The increasing Islamic population in the UK[3] has previously been under-represented in the pensions market. However, things are changing. There is greater choice thanks to new Shariah-compliant funds, such as the multi-asset and Sukuk bond funds in the HSBC Shariah-compliant fund range, alongside the HSBC Islamic Global Equity Index Fund[4]. We've therefore used our know-how of pensions and investments, as well as our relationships across the industry to deliver an Islamic de-risking pension solution with multiple retirement options. This strategy shares the same investment design as our other auto-enrolment default solutions.

Shariah-compliant investments, which exclude certain sectors such as tobacco and alcohol, have been available in the UK since at least the early 2000s. However, this has not covered all asset classes, reducing the ability to diversify and reduce risk. For example, de-risking pension solutions typically rely on bonds to reduce risk as members approach retirement. However, the Islamic ban on interest (Riba) has made this asset class unsuitable for inclusion in Islamic-compliant portfolios. The development of the Sukuk bond, first introduced in 2000[6], solves this problem, enabling pension providers to offer Shariah-compliant investors a full de-risking solution for the first time.

There has also been growing interest from investors in Islamic funds[7]. This has been helped by the outperformance of the HSBC Islamic Global Equity Index Fund versus non-Shariah-compliant global equity funds. It has also coincided with more investors looking for investments aligned with their values and faiths, and not wanting to invest in industries deemed harmful, such as tobacco. In this context, it's important to emphasise that Shariah-compliant investing and by extension, our strategy, is available to all, whether that be for faith-based purposes, ethical investment preferences or purely performance. ■

AVIVA

[1] Muslims missing out on pensions worth £13bn due to sharia concerns, Pensions Expert, June 2021 - https://www.pensions-expert.com/Law-Regulation/Muslims-missing-out-on-pensions-worth-13bn-due-to-sharia-concerns?ct=true [2] Islamic Finance & Financial Inclusion, World Bank, p.23, Oct 2013 - https://documents1.worldbank.org/curated/en/611351468337493348/pdf/WPS6642.pdf [3] Islam in the UK, Statista, July 2024 - www.statista.com/topics/4765/islam-in-the-united-kingdom-uk/
[4] Islamic Capabilities, HSBC Asset Management, November 2024 - https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/capabilities/etfs/islamic-investment-range
[5] Islamic Finance in the United Kingdom: Factors Behind its Development and Growth, ResearchGate, May 2014 - https://www.researchgate.net/publication/282852113_Islamic_Finance_in_the_United_Kingdom_Factors_Behind_its_Development_and_Growth [6] Sukuk Bonds, Islamic Relief Worldwide - https://islamic-relief.org/sukuk-bonds/
[7] Market Trends in Islamic Investments: A Growing Opportunity - https://academy.musaffa.com/market-trends-in-islamic-investments/#:~:text=Islamic%20investments%20are%20experiencing%20a%20significant%20surge%20in,seeking%20financial%20solutions%20that%20align%20with%20Islamic%20values.

Q&A

# BETTER FAITH-BASED PENSIONS

» **Umar Yaqoob** workplace investment proposition manager, Aviva

**Umar Yaqoob explains how better-designed defaults and more targeted engagement can encourage more Muslims to invest in Shariah pensions.**

### What challenges do Muslim savers face accessing workplace pensions?

One of the biggest hurdles is a lack of awareness and understanding about pensions. This is true across the workforce — but it means many Muslim savers do not realise that there are Shariah-compliant options available. Even when these are signposted, some employees remain sceptical about whether these fully adhere to Islamic financial principles. For this reason, it is important to provide information and reassurance these pensions avoid interest (Riba), speculative investment (Gharar) and investments into alcohol, gambling and other areas prohibited under Shariah principles.

Workplace pensions automatically place new employees into default investments, which may not be Shariah-compliant, so there's a need for proactive action and communication from day one to ensure Muslim employees don't opt out of pensions altogether.

### How have Shariah-based investment options evolved in recent years?

Historically, most Shariah-compliant pension options were predominantly equity-only funds. This meant that Muslim savers had to take greater risks with their money compared to those in conventional defaults, which offer a mix of assets to balance returns and volatility.

This is changing though. Pension providers have introduced Sukuks (Islamic bonds) and multi-asset funds, allowing for more diversified investment strategies. This shift helps Muslim employees manage risk, particularly as they approach retirement, while still adhering to Islamic finance principles.

Pension providers such as Aviva have gone further, utilising the range of different products to design Shariah-compliant glidepaths, where investments are gradually and automatically shifted into lower-risk assets as people approach retirement.

### Does more need to be done to inform and engage employees about Shariah options?

Employers, pension providers and consultants all have a role to play in raising awareness of workplace pensions and the different investment options available, including Shariah-compliant funds.

At present, there is a knowledge gap among advisers and employers when it comes to Shariah investments. While many may understand the broad principles there is often limited awareness of specific exclusions. Closing this knowledge gap is crucial, as better education can lead to improved communication strategies, which should enhance engagement and participation among Muslim savers.

Employers, in particular, have a key role to play in ensuring Muslim employees are aware of their choices from the outset. However, they will often need support from consultants and providers when it comes to communicating pension benefits to employees, including those from different faith groups.

### How do Shariah pensions fit into wider DEI and ESG objectives?

Offering Shariah-compliant pension options can support corporate initiatives around diversity, equity and inclusion (DEI), ensuring employees from all backgrounds have access to workplace pensions. By partnering with pension providers that offer Shariah options, employers can demonstrate their commitment to workplace inclusivity.

Many Shariah principles also align closely with Environmental, Social, and Governance (ESG) frameworks around responsible investment. Like many ethical or responsible investment funds, Shariah funds exclude industries such as tobacco and gambling – sectors often considered harmful to wider society.

This can make Shariah-compliant options attractive to some non-Muslim savers, including those from other faith groups and individuals looking to invest responsibly.

This trend has certainly been observed with the HSBC Islamic Global Equity Index Fund, which can be accessed through Aviva's workplace pension. This equity-only fund has delivered strong returns in recent years, partly due to its relatively high allocation to technology stocks. As a result, it has gained traction among non-Muslim investors looking for both ethical and high-growth investment opportunities.

### What's next for Shariah pensions? How does Aviva see this market developing in the future?

Looking ahead, Aviva is focused on further expanding its Shariah-compliant pension offerings, including options for retirement income. The next step involves exploring additional asset classes, including private markets and alternative investments, to provide even greater diversification.

The goal is to ensure that Muslim investors have access to the same level of choice, security, and performance as other pension savers, making workplace pensions more inclusive for all. ■

AVIVA

corporate adviser
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