

# **An Islamic Perspective on AI Ethics: A Case Study of Wahed Invest Robo Advisory**

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**Abstract.** This case study examines the confluence of Islamic finance and AI ethics in the rapidly growing Robo-Advisory sector, focusing on Wahed Invest LLC (Wahed). As a frontrunner in providing Islamic-compliant financial solutions, Wahed Investments seeks to align its offerings with core Islamic ethical principles. However, recent violations of the Securities and Exchange Commission (SEC) regulations, including misleading clients and insufficient disclosures, have highlighted the urgent need to strictly comply with both Islamic ethical standards and regulatory requirements to rebuild trust and maintain its status as a Shari'ah-compliant entity advisor.

**Keywords:** Islamic finance, AI ethics, Robo-Advisory, Wahed Investments, Shari'ah-compliant.

## **1. Introduction**

The rise of robo-advisors gained traction in 2010 when Betterment and Wealthfront introduced services tailored to individual investors. Since then, the popularity of robo-advisory services as a cost-effective and accessible alternative to traditional human advisors has soared, reaching new heights in recent years. The global revenue in the robo-advisors segment of the fintech market is projected to experience a sustained upward trajectory from 2024 to 2028, with an anticipated cumulative increase of 4.6 billion U.S. dollars, reflecting a growth rate of 32.21 percent (Statista 2024).

Robo-advisors are “asset management providers who offer automated online portfolios in which private investors can choose investment volumes depending on their scope and appetite for risk” (Menon 2023). Technically, a robo-advisor is a data and algorithm-driven digital platform that provides automated financial planning services with minimal human intervention. Essentially, a robo-advisor gathers information from investors about their financial status and future

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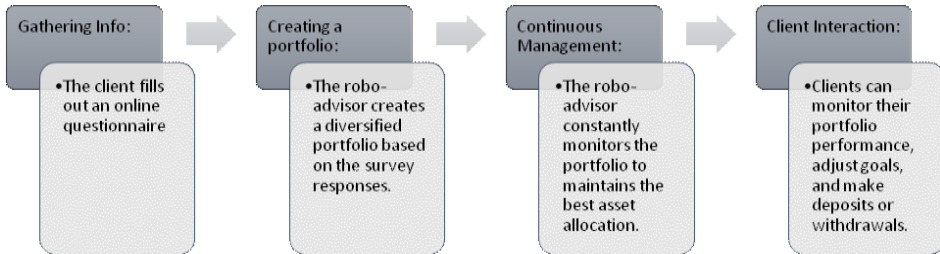
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objectives through an online survey. It then uses these data and algorithms to offer advice and/or automatically manage client assets by determining the best mix of asset classes based on the investor's risk tolerance, time horizon, and investment goals (see Figure #1).

Figure 1: The Process of Robo-Advisor-Client Interaction



There are two types of robo-advisors: pure robo-advisors and hybrid robo-advisors. Pure robo-advisors are entirely digital, with customers interacting only with computers, smartphones, or tablets for advice and account management services (Statista 2023). On the other hand, hybrid robo-advisors involve human interaction at various levels in addition to the digital investment experience (Statista 2023).

Robo-advisors can be tailored to align with various ethical and religious principles and values-based investing, including those of Islamic finance. In contrast to traditional finance, Islamic finance operates according to principles outlined by Shari'ah law and robo-advisors play a significant role in this context, as they can be customized to adhere to these principles.

A few robo-advisors are specifically designed to comply with Shari'ah law, offering halal (permitted) investment options tailored for Muslim investors. Notable examples include Wahed Invest, a U.S.-based robo-advisor; Sarwa, a hybrid robo-advisor based in Dubai; and Shari'ah Portfolio, another investment advisory firm in the U.S. These platforms position themselves as ethical alternatives within the financial sector, striving to align technology-driven investment strategies with Islamic financial principles.

However, their success depends not only on providing Shari'ah-compliant investment options but also on maintaining investor trust through transparency, strict adherence to Islamic financial guidelines, and robust risk management. Any deviation from these ethical and regulatory expectations could undermine investor confidence and cast doubt on the platform's commitment to Shari'ah principles, potentially jeopardizing their credibility in the financial market.

This tension between ethical expectations and operational practices became evident on February 10, 2022, when the SEC charged Wahed Invest with several violations. These included making misleading statements, breaching its fiduciary duty, and failing to comply with its own Shari'ah advisory business requirements (SEC 2022). Given that Wahed positions itself as a Shari'ah-compliant financial