
Islamic Banking Dispute Resolution in Uzbekistan

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ABSTRACT

As Uzbekistan moves to formalize Islamic banking through the landmark 2025 draft Law on Islamic Banking and Finance, the nation faces the critical challenge of resolving disputes within a secular civil-law framework. This article examines Uzbekistan's emerging hybrid dispute resolution model, which seeks to balance Shariah principles with established judicial procedures. Utilizing a doctrinal analysis of the new legislation and comparative insights from jurisdictions like Malaysia and Singapore, the study details a multi-layered framework consisting of internal Shariah Boards, a Central Bank Islamic Finance Council, and a newly proposed Banking Ombudsman.

The findings reveal that Uzbekistan has opted for "integration without parallelism" - eschewing separate religious courts in favor of secular economic courts guided by expert Shariah oversight. Furthermore, the paper highlights the strategic adoption of international ADR standards, including the New York Convention and the Singapore Convention on Mediation, to bolster investor confidence. The study concludes that while the framework effectively addresses religious compliance and consumer protection, its ultimate success depends on secondary legislation, tax neutrality, and the rapid development of local Shariah-legal expertise.

KEYWORDS

Islamic banking, Uzbekistan, Dispute Resolution, Shariah Governance, Banking Ombudsman, Financial Law Reform, ADR, Islamic Finance Council, Murabaha, Central Bank of Uzbekistan.

INTRODUCTION

Uzbekistan has moved decisively toward introducing Islamic banking, reflecting its largely Muslim population and demand for Shariah-compliant financial services. In September 2025 the Oliy Majlis (parliament) approved the draft Law on Islamic Banking and Finance in its first reading, overhauling the legal framework to formally recognize Islamic banks and "Islamic windows" in conventional banks[1][2]. The law defines core Islamic finance concepts (e.g. "Islamic bank," "investment deposit") and authorizes standard Shariah contracts—murabaha, mudaraba, musharaka, wakala, and salam[3][2]. Importantly, amendments to the Civil Code and other statutes will remove previous prohibitions (for example, allowing banks to buy and sell real assets or take equity stakes[4]) and institute a special tax regime for Islamic finance (exempting the markup on sales contracts from VAT[5]). These reforms respond to strong latent demand: Moody's notes that roughly 68% of Uzbeks (and

60% of businesses) avoid conventional banks for religious reasons[6]. By 2027–2030 Uzbekistan expects multiple Islamic banks or windows to operate, signaling a major diversification of its financial sector.

Transitioning to Islamic finance poses unique legal challenges. Shariah principles prohibit *riba* (interest), excessive *gharar* (uncertainty) and *maysir* (gambling), requiring that financing be asset-based and profit-and-loss sharing[7]. This raises novel contract structures and compliance issues that the secular legal system must address. In particular, disputes may hinge on specialized issues of Islamic law. This article examines how Uzbekistan is building a hybrid dispute resolution model that integrates Shariah governance with its civil-law courts and new mechanisms (like a Banking Ombudsman), drawing lessons from foreign systems. We proceed by doctrinal analysis of draft legislation and official statements, and by comparing international practices, focusing on dispute resolution specifically.

METHODS

This study is based on a doctrinal review of primary sources and official commentary. Key materials include Uzbekistan’s draft Islamic banking law (first read in Sep. 2025), Central Bank press releases and speeches, parliamentary reports and news. Comparative jurisprudence from Muslim-majority jurisdictions (especially Malaysia and Singapore) informs the analysis. We identify relevant provisions on Shariah governance and dispute resolution, and evaluate procedural pathways (from mediation to courts) under the emerging Uzbek framework. Secondary literature (news analyses, OIC and IFN reports) and international standards (AAOIFI, IFSB) provide context for Uzbekistan’s choices. All factual claims are supported by cited sources.

RESULTS

Shariah Governance Architecture

The draft law establishes a formal Shariah governance structure. An Islamic Finance Council (also called a Shari’ah Board) will be created at the Central Bank, with parallel Shariah boards in each bank offering Islamic products[8][9]. This Council is tasked with approving Shariah standards and advising on new products, working under Central Bank oversight[9][8]. At the bank level, each Islamic bank (or window) must appoint a Shariah board of qualified scholars and jurists. Although the draft law does not detail composition, international guidance (e.g. AAOIFI/IFSB standards) suggests these boards have an independent majority of Shariah scholars and are insulated from management influence[10][11]. Their preventive function is to vet transactions and ensure no prohibited elements (interest, excessive uncertainty, etc.) are present. As participants at an Islamic banking forum noted, the “transparency of Islamic banking depends on the establishment of effective Shariah committees and internal control systems”[11], underscoring the boards’ role in pre-empting legal and religious compliance issues.

Once instituted, the Central Bank’s Council may also serve an advisory function for courts. Deputy Chairman Turdaliev has indicated that uniform Islamic finance standards set by the Council will guide practitioners and reassure foreign investors[12]. However, under Uzbekistan’s civil-law system, Shariah boards will not form a parallel legal tribunal; their pronouncements will likely be viewed as expert opinions. In disputes, a board’s determination of Shariah compliance would carry persuasive weight but would not override statutory law. Uzbek courts (economic/civil courts under the Constitution) will remain the competent judiciary for financial disputes. In practice, judges may consult the Council’s published standards or seek its interpretation on technical issues, much as Malaysian courts sometimes reference Shariah decisions. Overall, Uzbekistan’s framework embeds Shariah oversight within its existing legal system rather than creating separate Shariah courts (unlike e.g. Iran or Pakistan).

Banking Ombudsman and Pre-Trial Mediation

A distinctive feature of the proposed model is a Banking Ombudsman. In late 2025 the Central Bank announced plans to establish an independent ombudsman office for bank–customer disputes[13][14]. Deputy Governor Turdaliev explained that this role is intended to mediate complaints between banks and clients before they reach court[15][14]. Specifically, the Ombudsman will receive consumer or SME complaints (not limited to Islamic cases), attempt conciliation, and issue recommendations. The goal is to “facilitate pre-trial relations” and “dramatically reduce” the number of banking disputes in court[16][15]. Under current practice most disagreements simply escalate to litigation; the Ombudsman provides an alternative path.

Importantly, the Ombudsman also plays an educational role. As Turdaliev noted, Uzbekistan has very few Islamic finance specialists, so a neutral dispute office can help correct misunderstandings about Shariah rules[9][17]. By explaining Shariah principles and regulatory standards during complaint handling, the Ombudsman will “serve to prevent errors and misunderstandings” in the nascent Islamic sector[17]. This combination of mediation and outreach is a hybrid innovation: unlike Malaysia’s model (where Bank Negara provides some dispute resolution channels), Uzbekistan explicitly creates a separate ombudsman institution. It resembles the Financial Ombudsman Services in Kazakhstan or Russia, but with an added mandate to build capacity for Islamic finance.

The expected procedure is as follows: a customer with a bank grievance (for example, a financing dispute) would first bring the case informally to the bank or its in-house Shariah board. If unresolved, the customer can escalate to the Banking Ombudsman. The Ombudsman investigates and attempts conciliation. If that fails or the party is dissatisfied, they retain the right to sue in court or arbitrate (depending on contracts). The ombudsman’s decision/recommendation is not legally binding, but will carry weight in settlement. This layered path – internal Shariah board → Ombudsman → economic/civil court – aims to resolve most Islamic banking complaints without full litigation, while preserving formal legal recourse.

Dispute Resolution Mechanisms and International Integration

Uzbekistan’s framework also contemplates global ADR mechanisms. In June 2024 a delegation from Uzbekistan visited the OIC Arbitration Centre in Kuala Lumpur to discuss handling Islamic finance disputes[18]. This reflects an interest in arbitration: Uzbekistan now has domestic arbitral bodies (for example, the Tashkent International Arbitration Centre[19]) and is a party to the 1958 New York Convention (acceded Feb. 1996[20]), so foreign arbitral awards are enforceable here. The draft law does not mandate arbitration clauses, but Islamic finance contracts (often complex, long-term sales or leasing deals) may include them, as in other jurisdictions. Notably, Malaysia has developed a special i-arbitration regime: the Kuala Lumpur Regional Centre (now AIAC) pioneered Shariah-compliant arbitration rules. Parties to Islamic contracts in Malaysia can opt for AIAC’s i-Arbitration Rules, which ensure awards respect Shariah principles[21]. Uzbekistan could similarly benefit from offering Shariah-aware arbitration (domestically or via institutions like AIAC) to resolve cross-border Islamic finance cases, leveraging its NY Convention status.

On mediation, Uzbekistan has moved to embrace the UN’s Singapore Convention on Mediation. In August 2025 Singapore and Uzbekistan signed a cooperation programme that explicitly includes the Singapore Convention on Mediation[22]. Under this treaty, international mediation settlements become enforceable in participating countries much like arbitral awards. Although mediation is not specific to Islamic finance, it offers another non-litigious remedy for commercial disputes (including those over Islamic contracts). One consideration is “Sharia-compliance” of mediated settlements: in some jurisdictions (e.g. Qatar, Saudi Arabia) a mediated outcome violating core Shariah norms could be refused as public policy[23]. Uzbekistan’s legal system is secular,

so it likely views Shariah issues as contractual matters; but the Islamic Finance Council's standards will presumably guide whether mediated solutions adhere to Shariah tenets. Overall, international ADR conventions and standards are viewed positively by Uzbek regulators as ways to bolster investor confidence. Indeed, Turdaliev has urged that Uzbekistan "accept [AAOIFI/IFSB] standards as a basis" for its Islamic banking regulations[12], signaling alignment with global practice.

Foundational Legal Reforms

Key to dispute resolution is first establishing valid Islamic finance instruments. The draft law explicitly authorizes Shariah-based contracts that were previously unsupported under Uzbek law[2]. For example, murabaha (cost-plus sale), mudaraba (profit-sharing), musharaka (partnership), wakala (agency) and salam (forward sale) are legalized[2]. (Ijarah contracts would fall under the new trading provisions.) By removing the legal obstacles that once prohibited banks from buying/selling goods or investing in projects, the law creates a "legal basis" for Islamic funding mechanisms[7]. These changes reduce the risk of disputes caused by legal uncertainty over contract validity.

Tax law is also reformed to prevent double taxation of Islamic transactions. Previously, selling goods (e.g. in a murabaha sale) triggered VAT, making Shariah-compliant financing more expensive[24]. The new regime treats markup from Islamic sales as tax-exempt and classes Islamic income akin to interest for tax purposes[5]. This adjustment removes a potential source of conflict between clients and banks over hidden costs.

In sum, the legal reforms enable Islamic financial products and align fiscal treatment with Shariah norms. This framework "eliminate[s] previous legal inconsistencies" and is explicitly designed to comply with international Islamic finance principles[3][25]. A more coherent contractual environment reduces litigation risk and clarifies the scope of disputes that can arise.

DISCUSSION

Uzbekistan's dispute resolution model is hybrid: it integrates Islamic finance governance into a civilian legal system without creating a parallel Shariah judiciary. Much like other Muslim-majority but secular countries (e.g. Malaysia, Turkey), it relies on general courts to enforce contracts. In Malaysia, the civil courts have long had jurisdiction over Islamic banking cases (by constitutional list)[26]; a brief experiment (2003–2011) with special Muamalat courts was later undone. In Uzbekistan no separate religious courts are being introduced. Instead, Islamic bank disputes will go to the ordinary economic and civil courts. The novel elements – Shariah boards and Ombudsman – serve as expert/preventive layers within that process.

This integration without parallelism has advantages and drawbacks. It means dispute resolution remains largely familiar to lawyers and judges, preserving consistency with contract law and commercial procedure. At the same time, judges will need to understand Shariah concepts or rely on board opinions as expert evidence. The draft law does not specify how much weight courts must give to an Islamic Finance Council opinion, but under Uzbek civil procedure such opinions would be evidence, not binding precedent. In practice, courts may choose to consult the Council on novel issues. If a court finds a contract void for containing prohibited gharar or maysir, it may decline enforcement (as happened in some common-law cases abroad), but judges will likely treat the Council as an authoritative guide to Shariah norms[12][11].

The new Ombudsman adds a conciliatory layer not found in many other Islamic finance regimes. Its distinctive role in Uzbekistan is to educate parties and filter cases. For example, a client unhappy with a Shariah board ruling by their bank might go to the Ombudsman, who can review the issue and explain whether the board's decision was consistent with Islamic principles and Uzbek law. If the Ombudsman finds a contractual violation

or misapplication of Shariah, he can recommend a settlement (e.g. redoing the deal without an illicit element). This mechanism could resolve straightforward errors without burdening courts. By contrast, other jurisdictions rely more on litigation or arbitration. Malaysia has an Islamic Financial Mediation Centre and allows domestic arbitration (AIAC), but it has no banking ombudsman specifically for Shariah issues. Uzbekistan's approach is notable for formally embedding a consumer-protection figure early in the regime's rollout.

Looking internationally, Uzbekistan's embrace of standards and ADR is likely to boost confidence. Engagements with the OIC Arbitration Centre and cooperation with Singapore signal willingness to adopt proven models[18][22]. For instance, the Singapore-Uzbekistan cooperation programme explicitly covers the Singapore Mediation Convention, hinting that Uzbek authorities are preparing to handle mediated settlements. Similarly, alignment with AAOIFI/IFSB means Uzbekistan will use familiar accounting, auditing and Shariah governance benchmarks. This should reassure Gulf and Malaysian investors used to those standards[12].

Despite these advances, significant gaps remain. The Islamic banking law is still in draft form; presidential approval and implementing regulations are pending. Detailed secondary legislation will be needed to specify Ombudsman procedures, court rules for Islamic cases, and Shariah board certification requirements. Expertise is in short supply – as acknowledged by officials[17] – so both courts and regulators will depend on foreign experts and training. Moreover, the law appears focused on banking contracts; it does not yet cover Islamic insurance (takaful) or capital markets (sukuk). Disputes in those areas may fall back on general insurance or securities law, which are not adapted to Shariah nuances. Finally, the precise interaction among mechanisms is unclear: for example, can an Ombudsman recommend binding arbitration? Will the Shariah boards have the power to refer issues to the Council? These procedural questions await clarification.

Jurisdictionally, we anticipate that Islamic banking disputes will be heard by Uzbekistan's economic courts (or regular civil courts) under the same lists that cover conventional banking[26]. No new tribunal is being created. Courts will apply Uzbek law; if a financing contract is challenged as involving interest or speculative gambling, judges will analyze the contract terms in light of the new law (and may consult the Islamic Finance Council's standards). Foreign arbitration awards (on any such dispute) are fully enforceable here, as Uzbekistan acceded to the New York Convention in 1996[20]. In fact, the 2024 amendments to Malaysia's Arbitration Act (inspired by Singapore and UAE) automatically recognize arbitration awards – a practice Uzbekistan may consider copying to streamline enforcement.

Tax treatment is one remaining flashpoint. Without reform, Islamic financing could incur hidden VAT or income taxes, potentially triggering disputes over contract pricing. The draft law's VAT exemption on sales markups[5] should alleviate this, but until domestic tax authorities codify the change, banks and clients may contest tax assessments. We note that international Shariah standards (AAOIFI) encourage tax neutrality for Islamic contracts, and Uzbekistan's alignment efforts should eventually resolve this.

CONCLUSION

Uzbekistan's emerging Islamic banking dispute resolution regime combines elements of both civil-law and Islamic traditions. Its hybrid model relies on the existing court system (ensuring consistency with national law) while introducing religious-expert bodies for guidance. The Central Bank's Islamic Finance Council and bank Shariah boards create an internal oversight "filter" for disputes, and the planned Banking Ombudsman offers an innovative pre-trial remedy and education channel. Engagement with international ADR frameworks (OIC arbitration, Singapore mediation) and standards bodies (AAOIFI, IFSB) further integrate Uzbekistan into the global Islamic finance ecosystem.

For Central Asia's first serious Islamic finance jurisdiction, these developments are significant. A successful implementation would provide a template for other secular civil-law states with large Muslim populations. However, effectiveness will depend on completing the legislative process, issuing detailed implementing regulations, and building human capital. Uzbekistan must also ensure that its framework covers the full spectrum of Islamic financial products (banking, insurance, capital markets) and clarifies procedural details (e.g. the binding force of ombudsman or council opinions). If these challenges are met, Uzbekistan will offer a uniquely balanced model—respecting Shariah principles through advisory mechanisms while preserving investor protections under a modern legal system.

Sources: Authoritative official reports and analyses have been used throughout, including legislative summaries, Central Bank releases, and respected news outlets[1][15][8][18]. All factual statements above are drawn from these verified sources.

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