Agility And Fintech Is The Future Of Islamic Finance: A Study From Islamic Banks In Bahrain

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Abstract: Fintech is the new revolution in finance and banking industry. Artificial intelligence, robotics, blockchain and other advanced technologies have slowly found space in the banking world. Islamic banking is not untouched by these revolutions. Bahrain is considered as the hub of Islamic banking in the GCC and all over the world. Bahrain has the largest concentration of Islamic banks in the world. The main objective of this study is to find the impact of agility and Fintech on the future of Islamic banking in Bahrain. The research has used mainly secondary data for its study. The study concludes that the Fintech has potential impact on the future of Islamic banking. There was a reluctant on the part of Islamic banks to adopt Fintech. They treated Fintech as more of a competitor than the partners. The Islamic banks now must understand to be agile, competitive and aggressive. The study indicated many points which highlights the necessity on the part of Islamic banks to be agile and adopt Fintech as partners.

Index Terms: Agility, Banking, Fintech, Islamic Banks, Islamic Finance, Kingdom of Bahrain.

1 INTRODUCTION

Kingdom of Bahrain is the hub of Islamic finance in the world. In the last few years, Islamic finance has grown leaps and bounds, it has grown as at 11% (Thomson Reuters report 2018) though not up to its full potential. Islamic finance was expected to grow at an unimaginable rate, but it failed to achieve that due to multiple reasons. One of the most important reason could be that the Islamic financial organizations are not able to convince the people that its truly Islamic and it follows all the rules prescribed the Quran, Sunnah and sharia. They failed to convince the Muslim community that the interest based financial system is haram in the same way as drinking alcohol or eating pork. But the irony is that no Muslim can eat pork or drink alcohol, but they are comfortable in giving and accepting Riba/interest. Muslim community has still not got faith in the Islamic financial system as they are yet to be convinced about the sharia compliance and services offered by the sharia-based organizations. Other reason could be that Islamic financial institutions are not able to develop the product and services asper the needs of the potential market. As it is increasingly difficult to complete with conventional financial system which is very difficult, and people are so much used to the conventional mode of financing.

2 AGILITY: THE NEED FOR THE SUCCESS OF ISLAMIC BANKS

Developing the agile, innovative and nimble organization is the new need for the success of Islamic financial institutions in Bahrain and all over the world. Dynamism of market is changing and long gone are the days where banks need to focus on the customer segmentation and develop their product and services based on the needs of the customer. The banks used to do a lot of research on finding the customer spending pattern, account balances and positioning its services based on the market segmentation.

Not to be sad that the customer segmentation is no more needed, or banks should not focus on the customer segmentation but in the time to come banks should be more focused on the being agile, competitive, flexible and invest more the technology called Fintech. Successful banks have already made drastic technological changes in terms of improving customer experience, making it fully digital and meet the needs of the customer via electronic channels. As in the last 15 years the world change with the evolution of mobile, internet and social media, and the agile banks have realized it and they are interacting the customers on these mediums to solve and their queries and satisfy their needs. One of the leading banks in Bahrain ‘Bank ABC’ has recently launched its ‘digital mobile only bank’ called “ila”. Ila is the first initiative in the MENA region to promote Bahrain as the Fintech hub of the region. ila reflects the commitment of the bank ABC to take the customer experience to the new frontier and combining technology with the human centric design to take banking to the next level. Making it a different experience altogether for the customers ‘ila’ has been but from the scratch and keeping the customers at the centric, ila is agile, dynamic and customer centric. Customers wants to interact with the banks via these digital platforms. The banks need to develop these platforms in the more innovative and interactive way, so customers find it engaging and different from other banks. The customers prefer their bank to:
- Use more mobile based technologies.
- Get their queries and complaint solved online, they don’t want to visit the bank branches anymore.
- Take online survey and make the customer experience better.
- Offer more and more new and innovative services like ila.

Meeting these preferences and expectations of the customers, the banks need to be more agile and adapt to changes they must be flexible, innovative, competitive and use the technology-... The services previously handled at the branches or via the call centers all must go online and to be handled by the digital channels.

3 FINTECH: FUTURE OF ISLAMIC BANKS

Islamic banking has already entered in the golden age of Fintech by pushing the boundaries. The Fintech industry has grown to a whopping USD 4.7 trillion dollar (Goldman Sachs).
On the other hand, the Islamic banking industry is expected to grow to 3.8 trillion dollars by 2022 (Thomson Reuters). The Islamic financial institutions are spread in around 80 countries with about 1400 registered Islamic financial institutions operating in these countries. Still it is an early stage and it will only grow from here as the application of Fintech will take the Islamic banking to a new level. The application of Fintech in Islamic banking aims to improve the customer experience and effortless delivery of services. Fintech is the innovative business models which is new and disruptive to the way businesses has been carried out in the finance industry since the ages. It involves new revenue and cost models which aims to maximize the use of technology to make it more efficient and futuristic. Fintech is not all about the technology, it aims to connect to the customers using technology to provide value to the customers and get rewarded by it.

Fintech is needed, relevant and future of Islamic banking because of the following reasons:

First, The Islamic banks are mainly operating in the emerging and growing market which provides an opportunity to the Islamic banks to use Fintech models and build the outreach. Second, recently as it has been observed that the assets of the Islamic banks have been going down for the first time in its history. It creates an avenue to the Islamic banks to revive the growth and by adopting the new and innovative models by Fintech. Third, Islamic bank is still young and small and competing with the more established conventional players. The start of Fintech era has given an opening to these banks to compete with the conventional banks as equals. It an opportunity for everyone to go above the rest because everyone is starting from the scratch. In the time to come the Islamic banks will become either equal to the conventional banks or it will close the gap with their conventional counterpart. To develop Bahrain as the Fintech hub is not without the challenges. Following are the challenges which Islamic financial institutions will face in developing Bahrain the Fintech hub. Islamic banks in Bahrain are smaller and local so it will be an increasingly difficult task to create an awareness for the Fintech solutions. It will not be easy to create the awareness and connectivity with the global Fintech ecosystem. So, the first challenge with the Islamic banks will be to create the awareness and connectivity with the global Fintech ecosystem. Secondly and most important challenge before the Islamic banks is the very high research and development costs. As Islamic banks here in Bahrain are already small and capital it is very expensive to identify, design and operationalize the Fintech solutions. Their competitors have very large talent pool and other resources as compare to the Islamic banks. The solution could be having a holistic system to be more automated by introducing the big data and solving the complex financial problems. Big data applications are becoming more relevant in Islamic finance in the field of takaful, re-takaful, sukuk, ijarah and equity investment by using the big data. If data analytics are implemented properly, the data can be used to improve, enhance, and grow the banking sector of the country and better contribution can be made to the growth of the country. Every transaction made by the customer, every call made, every enquiry done, every shopping done, every time ATM card used, apps used and many more all these make into a gigantic amount of data and these data have an ability to open new opportunities. 

4 GAPS AND OPPORTUNITIES IN ISLAMIC FINTECH

Islamic Fintech has grown substantially in the last few years still the concentration has been on the peer to peer lending leaving a wide gap on the availability of Islamic finance on the businesses and other consumers. There have been many gaps in the Islamic Fintech ecosystem as identified by the current study. Few of those gaps are explained below:

Wealth management and role of AI and automation: Artificial intelligence refers to the ability of a machine to work, think, understand and execute things in the same way as the human do demonstrating the likelihood of exploiting computers to inspire the human intelligence. The most important gap identified is there is a need for the Islamic Fintech to be more accessible and more automated. There is substantial need to make Islamic Fintech to be more automated by introducing innovative models and increasing the scope of the equity investments. We can take the example of US based Fintech company “mint”, which provides the automated assessment of financial statements of the users.

Blockchain: There is room for growth of Islamic trade finance as it is still just a tiny part of the global trade finance. The role of smart contracts and blockchain becomes important as it will not only do the independent verification but also will do the work of documentation and it can be applied to payments and remittances, as well as streamlining the business processes. With blockchain Islamic banks can create new and innovative products and generate more revenues and it can reduce the transaction cost.

Role of analytics and big data in Islamic banking: In today’s data driven world, data is the most important asset of the financial institutions. Fintech has simplified the way banking used to work. It has modified the financial landscape by introducing the big data and solving the complex financial problems. Big data applications are becoming more relevant in Islamic finance in the field of takaful, re-takaful, sukuk, ijarah and equity investment by using the big data. If data analytics are implemented properly, the data can be used to improve, enhance, and grow the banking sector of the country and better contribution can be made to the growth of the country. Every transaction made by the customer, every call made, every enquiry done, every shopping done, every time ATM card used, apps used and many more all these make into a gigantic amount of data and these data have an ability to open new opportunities.
many more avenues for the banks and opportunity for the growth of the bank and economy.

5 CONCLUSION
At the end it can be said that Islamic Fintech is growing at the unprecedented pace, but it will be unfair at this stage to compare the growth of Islamic and conventional Fintech industry. Certainly, introduction of Fintech has given an opportunity to the Islamic banks to catch up with its conventional counterpart. The Islamic banks have higher fixed cost due to which it becomes difficult to maintain the cost of its services at the competitive level with the conventional banks and that put them in a disadvantage position. Fintech is beautifully playing the role of a level player by lowering the administrative and other cost of the Islamic banks and providing them an equal opportunity. With Fintech the banking world has changed and Fintech along with the artificial intelligence and blockchain will re-engineer the Islamic banking.

REFERENCES

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