

The five big challenges for Islamic finance in 2019

Islamic finance is at a historical juncture to make the next bold move by accepting the new opportunities available in the marketplace. The tech-savvy millennials are making yet another revolution by innovation. The changes in the banking and technological industry are fast-tracking a paradigm shift from our financial habits to social financial integration. No industry is rich enough to buy the past but every industry has an equal opportunity to understand tomorrow's demand and prepare for it today. MUATH MUBARAK writes.



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The following five big challenges will be key considerations for rapid growth of this industry:

1. Economic wellbeing

There are many economic challenges in the world from accessing clean water to wealth inequality. One of the top challenges for Islamic finance is to seriously consider narrowing down the gap between the haves and the have-nots.

"82% of the wealth generated last year went to the richest 1% of the global population, while the 3.7 billion people who make up the poorest half of the world saw no increase in their wealth," according to a new Oxfam report titled 'Reward Work, not Wealth' released in January 2018.

In capitalism, the invisible hands or market forces created the concentration of wealth among the few causing wealth imbalance globally. Economic inequality is one of the main roots causing geo-socio issues in modern society. The Islamic finance industry should move quickly to address this issue by implementing the measures undertaken as well as lessons learned in the past.

2. Social wellbeing

Primarily, the Islamic finance

industry should be totally free from the major prohibitions such as Riba, Gharar, Maysir and Qimar and additionally, it will not entertain any investment or financing facility which will cause harm to people, animals, the environment and the planet at large, including negative-impact industries such as tobacco, alcohol, pornography, weapons, casinos, pork-related products and such.

Bearing in mind the aforementioned, the Islamic finance industry should seriously consider creating more room, platforms and level-playing fields for the entrepreneurial journey of social businesses which will in turn, make the effort to get closer to meet the UN Sustainable Developments Goals.

3. Value-based intermediation (VBI)

The Islamic finance industry should consider the VBI proposition as one of the mainstream segments in banking like retail, corporate and private banking with the birth of the new 'open-banking' concept. We can either give a fish to a hungry man and feed him for a day or teach him to fish in order to earn a living in his lifetime. Based on the risk-sharing principle, the Islamic finance industry can create a sandbox to think and test innovative ideas to bring out solutions even in local communities to make a difference. It is worth mentioning that Bank Negara Malaysia has issued guidelines to accommodate the practical adoption of VBI to reorient the Islamic finance business models to meet the objective of creating a positive and sustainable economy, community and environment.

4. Future technology

The banking and financial ecosystem is going through major changes due to disruptive technology

(from fintech to regtech)-driven analytics, intelligence, digital transformation and connectivity using the technologies of artificial intelligence, machine learning, big data, smart contracts, blockchain, cloud networks, cryptocurrencies, chatbots, bionic financial consultants (leveraging robotics with a high-quality human touch) and smart Muftis (in Islamic banks to address certain designated issues).

The Islamic finance industry should portray the enthusiasm and courage to consider embracing future technology at the institutional level today to make things happen and be the game-changer in the banking and financial global arena.

5. Design thinking

It is all about deep thinking or in-depth research to understand the needs of users (customers) by analyzing the patterns produced from innovative solutions that will fulfill users' requirements. De-banking and a cashless society will enable the Islamic finance industry to experience a whole new level facilitated by design thinking which will definitely improve customer experience and boost financial inclusion in marginalized and rural areas. Design thinking can be applied at all different levels and on all stakeholders of the industry and can be kick-started primarily on customers' financial life-cycle experience and staff's learning experience.

The Islamic finance industry should harness the changes and transformation for a brighter future by creating financial integrity and stability. VBI promises economic and social wellbeing built on future technology and design thinking. ☺