**Digitizing Islamic finance**

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Amidst the advent of the Fourth Industrial Revolution – dominated by artificial intelligence and technological advancements – it is remarkable to witness the inclusive nature and expanded reach that technology has brought to the modern paradigm of business.

According to population projections by the Pew Research Center’s Forum on Religion & Public Life, the Muslim population will increase by approximately 35 per cent by 2030, taking the overall number of Muslims to a staggering 2.2 billion or 26.4 per cent of the world’s total population.

Research conducted by the UK-based digital banking platform ‘Algbra’ reveals that out of the 1.7 billion unbanked adults globally, a significant portion – 800 million – are Muslims.

These two facts regarding increased Muslim population and a substantially large unbanked segment inspire a compelling argument, one that transcends a mere insight into the digitization of Islamic finance and underscores the importance of incorporating Islamic digital finance into our portfolio as a transformative force, not merely a compliant entity.

By investing substantially in this domain, Islamic banks can harness the potential of technology to offer innovative and seamless digital solutions to the vast population of potential customers worldwide. This move holds the key to enhancing exports, strengthening Islamic finance’s role in the global market, and positioning Pakistan as a premier future hub for Islamic digital finance endeavors.

Islamic Finance News (IFN), an arm of Malaysia’s RED money Group, announced last year that the State Bank of Pakistan (SBP) was the best Central Bank of 2021 in the world in promoting Islamic Finance. IFN Best Banks Poll is regarded as one of the prestigious accolades in the global Islamic finance space. In the polls, Bank Negara Malaysia stood second while the Saudi Central Bank secured the third position.

Pakistan enjoys the added advantage of its regulator – the SBP – visibly endorsing and progressing towards Islamic conversion. The SBP envisions a significantly larger and more dominant Islamic banking landscape by 2028.

Embracing digitization alongside affordable internet access and mobile phones can empower Islamic banks to serve a wider segment of the global Muslim population, including those in remote areas. It also enables the provision of innovative and seamless digital solutions consistently across the Muslim world.

While Indonesia, Malaysia, and the UK have shown growing success, their comparative conventional banking streams are doing well too. Pakistan, having the opportunity to go all Islamic, ought to seize this opportunity to strive towards becoming the centre for Islamic banking digitization. Its success lies in the riba-free, inclusive approach that emphasizes partnership, stakeholding, and strategic planning, rather than mere lending.

Two notable examples, Indonesia’s Bank Syariah Mandiri (BSM) and Berlin-based Mambu, serve as beacons of inspiration. The BSM’s history closely aligns with Pakistan’s present circumstances, as it was established in 1999 following a national economic and political crisis in Indonesia. Guided by a blend of business idealism and spiritual values, the BSM operates successfully.

Mambu is a software house and excels in offering SaaS platforms. With a valuation exceeding $5 billion, the company has now launched its Sharia-compliant SaaS platform. This cloud-based facilitation streamlines processes, incorporating automation, blockchain technology and electronic contracts for greater efficiency.

I will take a slight detour here and connect my argument with the tool that supports digitalization, and that is the smartphone – the optimal tool for driving this transformation. Necessitating its affordability and accessibility needs to be part of the plan. At the recently concluded ‘Leaders in Islamabad Business Summit 2023’, in Islamabad, experts agreed that connectivity is essential to fix Pakistan’s myriad problems.

Empowering every citizen with a smartphone, expanding network coverage to encompass all, and developing economic, educational, and social applications that cater to all the 240 million individuals in Pakistan can expedite progress in all areas. And while educational and social transformation requires time, financial inclusion can be swiftly achieved, establishing a documented economy that benefits all.

Although numerous apps already exist, the focus should extend beyond simple transactions or debit/credit functions. The aim should be to provide a comprehensive banking experience, where individuals have access to expert guidance. While we may explore the realms of the Metaverse and navigate virtual orbits for sustenance and entertainment, the common person must be assured that pressing the ‘X’ button on the screen secures a better and more financially stable future.

This assurance can be achieved through Islamic digital finance, especially considering that over 1.7 billion people worldwide lack access to bank accounts. It holds the potential to revolutionize the financial landscape for more than 1.8 billion underserved Muslims seeking Sharia-compliant solutions to their financial needs.

The limited market size for Sharia-compliant financial products has hindered banks’ ability to meet the demands of a tech-savvy new generation. Consequently, Islamic financial institutions worldwide are actively seeking ways to leverage cloud-native solutions and API-driven architectures to establish an open banking ecosystem.

With five full-fledged Islamic banks, and an additional 17 institutions offering standalone Islamic services, Islamic finance is already expanding its footprint in Pakistan’s banking landscape. This presents an opportune moment to not only support Islamic banking services but also disrupt the field by embracing Islamic digital finance with a global perspective.

The challenges may seem significant, but remarkable achievements seldom arise from comfort zones. These surmountable challenges carry the potential for substantial benefits through digital disruption in the domain of Islamic finance.

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