

Do you want to meet the future?

How will artificial intelligence, blockchain and big data shape Islamic finance – and what are the risks and opportunities for the new pioneers?



INTERVIEW WITH
Robert Hazboun
MANAGING DIRECTOR,
ICS FINANCIAL SYSTEMS

Tech is punching down the walls, floor joists and windows of finance all about us. But in the rebuilding how relevant is artificial and business intelligence to Islamic finance in 2023 – and beyond? Can a population of two billion Muslims meaningfully harness this tech for good? How big a deal is it and what are the risks as well as the benefits? The combination of Islamic fintech and data science has made huge strides, attracting millions of new customers.

Whatever their religious background banking consumers want speed, efficiency and privacy. In other words, a smarter banking experience. The scope of fintech is widening as is the market for its own services and products. It's getting competitive, but credible transactions need to be handled with much care. So how does Shariah compliance work in this space now? Who are the main beneficiaries – and when will they see the benefits for real? *World Finance* gets startling, innovative responses from company managing director Robert Hazboun in an exclusive interview on the cutting edge direction and speed of Islamic finance in 2023 and beyond.

Where are the new boundaries as far as digital change goes for Islamic finance in 2023? How hard are they being pushed – and how much progress is being made? Overall I would say that new frontiers and boundaries for digital change in Islamic finance are being pushed very hard, and the pandemic accelerated this trend. Much progress has been made, from blockchain to AI and digital, or neo banks. All of which are

being adapted into Shariah-compliance for digital touch points and to extend financial inclusion in the more devout segments of the market.

If Islamic fintech offers consumers and business more control and choice, its popularity may – reasonably – rise, from touch points to scalability. Where are the 'sticking points'?

There are complexities with Shariah compliance that may slow the full potential of the Islamic fintech experience, even when it clearly offers value and control to consumers and especially with the more subtle regulatory distinctions for each Islamic ideology. This could delay its inclusion in these technologies. Another point is a lack of awareness of its value among customers, especially in non-Muslim countries. Addressing these challenges needs meaningful collaboration between industry players, regulators, scholars and experts in Islamic finance to create an environment that is conducive to the growth and scalability of Islamic fintech solutions. The will is there.

Where do improvements in artificial intelligence (AI) and business intelligence (BI) lie? Are these opportunities – and risks – better understood by clients (banks)?

AI and BI can help Islamic banks to comply with Shariah law, by analysing data, identifying patterns, and highlighting areas of possible improvements to different channels and touch points. This can help reduce the risk of non-compliance and improve the quality of Islamic banking services and enhance business operations, decision-making processes, as well as customer experiences. However, risks from depending on AI and machine learning in Islamic finance also loom, namely in financing cases that have no precedents in Shariah law.



IN FOCUS:

- ICS BANKS is future-proof to the core, built as a modular platform means it has seamless scalability
- The open API backend allows it to integrate with third-party platforms, different deployment options and cybersecurity enhancements such as recently acquired certificate ISMS ISO/IEC 27001

This can cause confusion, complexity, and prolonged processes to find and interpret the relevant religious texts with regulatory bodies. So it's complicated. Clients have to prioritise their own continuous learning, collaboration and foster a more data-driven decision-making culture within their own organisations to gain the understanding of the opportunities and risks presented by AI and BI. We're here to support this.

Given so much AI and BI change, how much 'future-proofing' concern is there? How should this be planned and anticipated?

Future-proofing concerns for banking systems with the rise of AI and BI are centred around data security, compliance, customer privacy, bias and fairness. Also talent acquisition and change management. It's a lot. Continuously future-proofing is an ongoing

endeavour, not one undertaking. A flexible mindset is needed. So adaptability is a priority for handling and strategising the ever-changing realm of AI and BI, absolutely. We are always exploring possibilities to adapt machine learning and AI to Shariah-compliance.

Many Muslims in the West are young, especially in the under-30 age group. This brings challenges as well as opportunity. How well realised is this by yourself?

It's absolutely realised. The younger Muslim population, especially in the west, is drawn to banking services offering Islamic financing through digital channels which fits into their tech-savvy, on-the-go lifestyle. They're dependent on them to help them manage their lives. To support this ICS BANKS Islamic Banking is our own customer-centric platform. It's built from the ground up with decades of tech evolution poured into it offering digital banking products and services such as mobile banking apps and Islamic digital financing platforms. The latest AI, blockchain and digital wallet tech are fully integrated. This keeps Islamic banks and financial institutions relevant for this vitally important demographic, no question about it.

How do your own technology solutions help customers with data-driven pressures – your own and theirs?

Our banking solutions offer tools for data-driven pressures, ethical considerations and data privacy with its own scalable architecture including several reporting methods

such as Omnichannel KYC, spending analysis and regulatory reports. These support banks, financial institutions and customers by analysing massive amounts of financial data, detecting trends and patterns, mitigating risk, such as identifying fraudulent activities. We believe this helps banks and financial institutions learn more about their own risk profile, their own distinct customer base, resulting in more personalised and bespoke products – that's important. This in turn helps customers make better financial decisions. Our products are totally central to their better decision-making process.

Is more personalisation and bespoke product planning part of the broader Islamic fintech landscape? Or is growth slower because of more manual processes to anticipate and plan for?

While some growth rates for Islamic fintechs may have been slow, digital innovation is making it easier to adapt Shariah-compliant products faster. But as Islamic finance evolves and expands globally, there might be variations in interpretation and implementation of Shariah principles across different jurisdictions. This creates complexities and manual processes in anticipating and planning personalised products that comply with the specific requirements of each market – we're very well aware of this.

How much demand from Western banking business for an Islamic 'window' is there? Is demand up?

It is and there are several reasons why. One reason is the growing Muslim population in Western countries, which has led to more demand for Shariah-compliant products and services. Non-Muslim customers are also showing interest in Islamic banking due to its ethical nature, especially in the aftermath of the global financial crisis, which eroded trust in conventional banking systems. While the demand for Islamic banking windows from Western banking businesses is not yet at the same level as in Muslim-majority countries, it is growing and very likely to continue to do so in future.

Where does ICS Financial Systems sit between cloud-based solutions versus traditional banking and personal interaction? Is this less of a tension than in the past?

We totally recognise the need for balance between cloud-based solutions and personal interaction. Both approaches offer distinct ad-

NEED TO KNOW:

- According to the Islamic Finance Development Indicator Report 2022 by ICD (Islamic Corporation for the Development of Private Sector) global Islamic Finance Assets were valued at \$4trn in 2021
- Up to 17 percent growth and a projected value of \$5.9trn is now forecast for 2026, with more conventional banks showing interest in tapping into this market to diversify revenue streams

vantages and both, we say, must be integrated thoughtfully for a seamless experience. The ideal equilibrium? It depends, as we must take into account the specific needs and preferences of our customer base, as well as the strategic objectives and resources available to the bank. It's always a bespoke approach, fundamentally.

An interconnected Islamic global finance ecosystem is still some way off – what's the timeline, in your view?

The timeline for such an ecosystem is challenging to predict accurately depending on the pace of tech, the level of regulatory support, and a willingness of financial institutions to collaborate and standardise operations. Nonetheless, more investment in Islamic banking software suites and other tech solutions play an important role in supporting the growth and development of the Islamic finance industry. Watch this space, I say.

Might hybrid-type digital products be worth pursuing longer term, which join the best of both banking 'worlds'? Is this realistic?

In the long run, it's well worthwhile to pursue hybrid-type digital products that blend the advantages of traditional banking and digital banking. These aim to provide a comprehensive banking experience by integrating in-person service with digital convenience, harnessing emerging technologies. Although there are obstacles like investing in technology infrastructure and adapting to new processes, numerous financial institutions are actively exploring hybrid models. Consequently, we feel it is reasonable to anticipate a higher prevalence of these models in the future. We're very optimistic about achieving the right balance when it comes to this. ■