



ISLOMIY MOLIYAVIY TEXNOLOGIYALARNING IJTIMOIIY INTEGRATSIYA UCHUN INNOVATSION YECHIM SIFATIDAGI AHAMIYATI

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Annotatsiya. Ushbu maqolada Islomiy moliyaviy texnologiyaning umumiy g'oyasi va uning hozirgi Islomiy moliyaviy ekotizim evolyutsiyasi uchun qanday aloqasi borligi tasvirlangan. Bundan tashqari, ushbu maqolaning asosiy maqsadi Islomiy moliyaviy texnologiyaning ijtimoiy inklyuziyaga, xususan, rivojlanmagan dunyodadan ajralib qolgan va kam ta'minlangan odamlar uchun manfaatini ta'kidlashdir. Unda Islomiy moliyaviy texnologiyalarning moliyaviy savodxonlikka qanday yordam bergani, rivojlanmagan hududlarda iqtisodiyotni kuchaytirgani, odamlar va kichik kompaniyalarning imkoniyatlarini kengaytirgani haqida misollar keltirilgan.

Kalit so'zlar: FinTech, islomiy moliya, Veb 3, ijtimoiy integratsiya, axloqiy moliya, kam ta'minlangan aholi, Islom tamoyillari, foizsiz kreditlash, daromadni taqsimlash, axloqiy investitsiyalar, moliyaviy savodxonlik.

ПОТЕНЦИАЛ ИСЛАМСКОГО ФИНТЕХА КАК ИННОВАЦИОННОГО РЕШЕНИЯ ДЛЯ СОЦИАЛЬНОЙ ИНТЕГРАЦИИ

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Аннотация. В этой статье описывается общая идея исламского финтеха и то, насколько он важен для эволюции текущей исламской финансовой экосистемы. Кроме того, основная цель этой статьи - подчеркнуть благотворное влияние исламского финтеха на социальную интеграцию, особенно для людей, живущих в изолированных и обездоленных местах. В нем приводятся примеры того, как исламский финтех способствовал повышению финансовой грамотности, стимулировал экономику в слаборазвитых регионах и расширил возможности людей и небольших компаний.

Ключевые слова: финтех, исламские финансы, Web 3, Социальная интеграция, Этические финансы, Малообеспеченные слои населения, исламские принципы, беспроцентное кредитование, Распределение прибыли, Этические инвестиции, Финансовая грамотность.

POTENTIAL OF ISLAMIC FINTECH AS AN INNOVATIVE SOLUTION TO SOCIAL INCLUSION

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Abstract. This article attempts to shed light on the general idea of Islamic FinTech and how concerning it is for the current Islamic financial ecosystem's evolution. Additionally, the main goal of this paper is to emphasize the beneficial effects of Islamic FinTech on social inclusion, particularly for people in isolated and underprivileged places. It gives examples of how Islamic FinTech has aided financial literacy, boosted the economy in underdeveloped areas, and empowered people and small companies.

Key words: FinTech, islamic finance, Web3, Social inclusion, Ethical finance, Underserved populations, Islamic principles, Interest-free lending, Profit-sharing, Ethical investment, Financial literacy.

Introduction.

Islamic FinTech refers to the application of financial technology within the framework of Islamic principles. It has the potential to address social inclusion by providing accessible and ethical financial services to underserved populations. In the article, the various ways in which Islamic FinTech can contribute to social inclusion will be explored. This includes its ability to provide financial services that align with Islamic principles such as interest-free lending, profit-sharing, and ethical investment options. Islamic FinTech platforms can also leverage technology to reach marginalized communities, offering them convenient and affordable financial services.

FinTech is characterized as the financial services of the twenty-first century (Todorof, 2018). Recent growth in the mobile applications and usage of website among users have hinted the inclusion of FinTech revelation among the global financial sector. FinTech development has revolutionized the financial service industry with the use of computer-based technologies. Hence, FinTech is often referred to as the blend of digital innovation and financial services with an aim to improve the efficiency of the financial service industry (Zavolokina and other, 2017). Therefore, regarded FinTech as the marriage of technological innovation and finance which has the ability to elevate the financial service industry to a new height (Hasan and other, 2020).

FinTech in Islamic finance faces considerable obstacles due to a lack of legal regulation and poor levels of financial literacy. These challenges might prevent Islamic FinTech from reaching its full potential as a ground-breaking approach to social inclusion. The absence of clear legal frameworks specific to Islamic FinTech creates uncertainty and inhibits its growth. Without proper regulations, there may be concerns regarding compliance with Islamic principles, consumer protection, and the overall stability of the financial system. Establishing robust legal frameworks that address the unique characteristics of Islamic FinTech is crucial to foster its development and build trust among stakeholders.

Literature review.

It is important to highlight that Islamic FinTech is different than the conventional FinTech due to the requirements of Shari'ah compliance. However, the emergence of FinTech solution has provided Islamic financial institutions (IFIs) with greater opportunities to improve their infrastructure and product offering (Jamil & Seman, 2019). As such, research on the application of FinTech in the Islamic finance sector has increased in recent years (Abojeib & Habib, 2019; Biancone & Radwan, 2019; Jamil & Seman, 2019).

Baber (2019) has made a significant contribution by studying the contribution of FinTech and crowdfunding on customer retention among Islamic banks in Malaysia and the United Arab Emirates.

Biancone, for example, explored the Shari'ah compliant business models of crowdfunding and FinTech firms and conclude that Shari'ah compliant crowdfunding invests in halal products, shares the risk of investment and does not charge interest. Biancone & Radwan further emphasized the importance of the prohibition of interest for the acceptance of FinTech based business models as Shari'ah compliant.

Methodology.

FinTech is a recent concept, and there isn't much literature to support its use in the Islamic finance sector. Therefore, we have made an attempt to conduct a systematic review of the possible application of FinTech solution toward improving the attractiveness and Shari'ah compliance of products offered by the Islamic finance industry (Hasan & other, 2020).

In order to highlight the significance of Islamic-based FinTech and its role in supporting open innovation, social inclusion, and entrepreneurial innovation, the current study used a content analysis approach, specifically discourse analysis. Several search engines and databases, including RedMoney and Scencedirect, were used to conduct the content analysis. Keywords including innovation, social inclusion, FinTech, Islamic banking, Islamic economics, and social finance were used to find relevant papers. The author conducted content analysis on a significant number of research papers gathered from these internet databases to draw out relevant data.

Results.

The predicted \$79 billion in transaction volume for the worldwide Islamic FinTech market in 2021 is expected to increase by an average of 18% yearly to \$179 billion in 2026.

Saudi Arabia, Iran, Malaysia, the United Arab Emirates, Turkey, and Indonesia are the top six OIC FinTech markets by transaction volume for Islamic FinTech. Eighty-one percent of the OIC's Islamic FinTech market is collectively represented by the Top 6 markets, which shows the emergence of two regional hubs for Islamic FinTech among OIC nations.

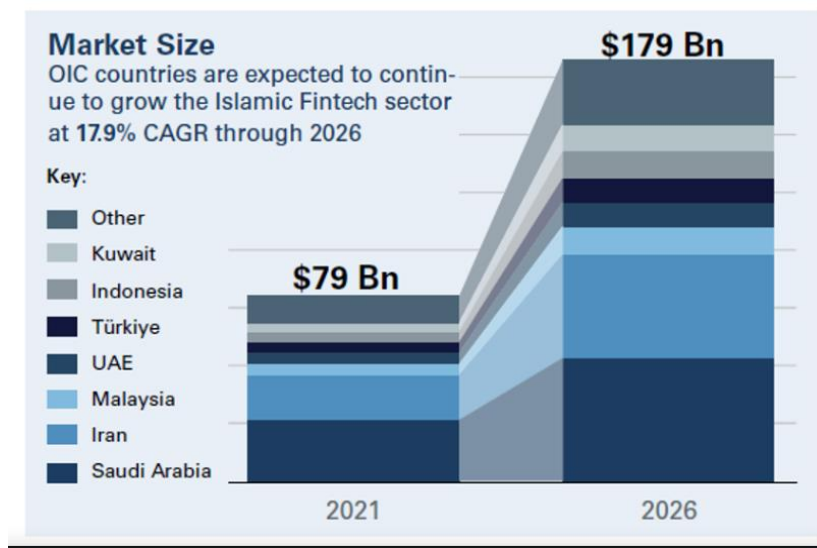


Figure 1. Market size of the global FinTech sector⁴

Malaysia and Saudi Arabia were the standout jurisdictions in the GIFT Index's ranking of 64 country centres for Islamic FinTech, and Indonesia, the UAE, and the UK made up the top five.

For each of the 64 countries, the GIFT index used a total of 19 indicators spread across five different categories. These five groups are: Capital; Infrastructure; Islamic FinTech Market & Ecosystem; Regulation; and Talent. The Islamic FinTech Market & Ecosystem category received the highest weight because it is by far the most representative of a nation's existing conduciveness to Islamic FinTech particularly. Categories were weighted to generate an overall score.

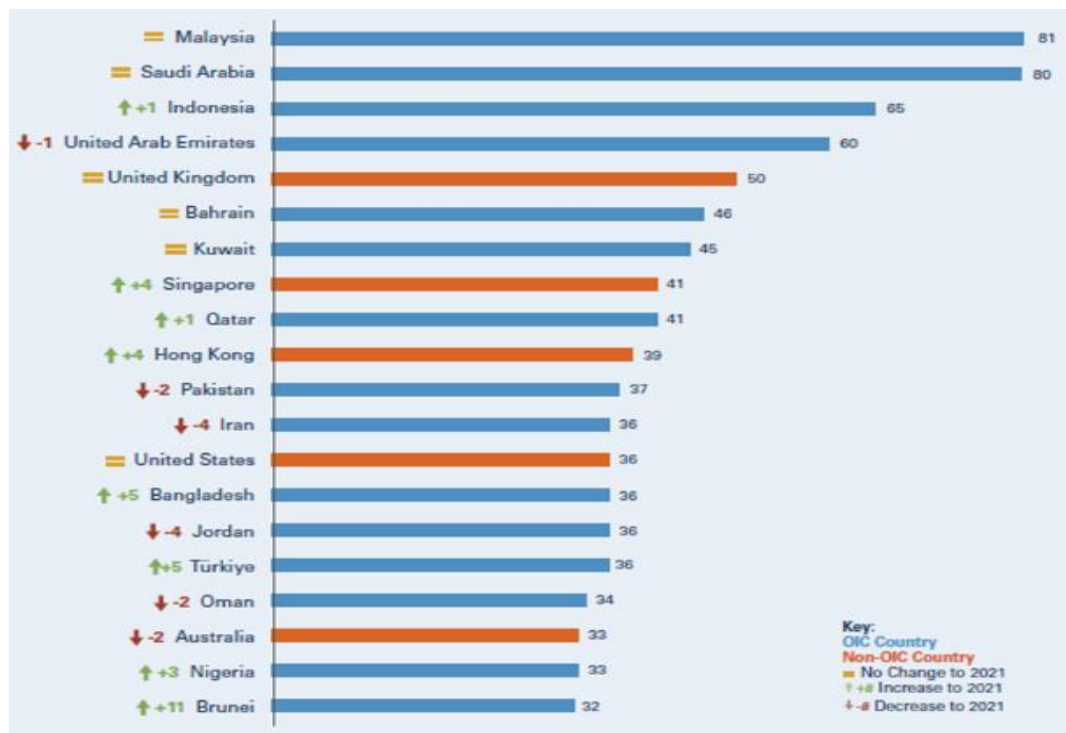


Figure 2. Top 20 countries by GIFT Index Scores.⁵

⁴ The Global Islamic Fintech (GIFT) Report 2022

⁵ The Global Islamic Fintech (GIFT) Report 2022

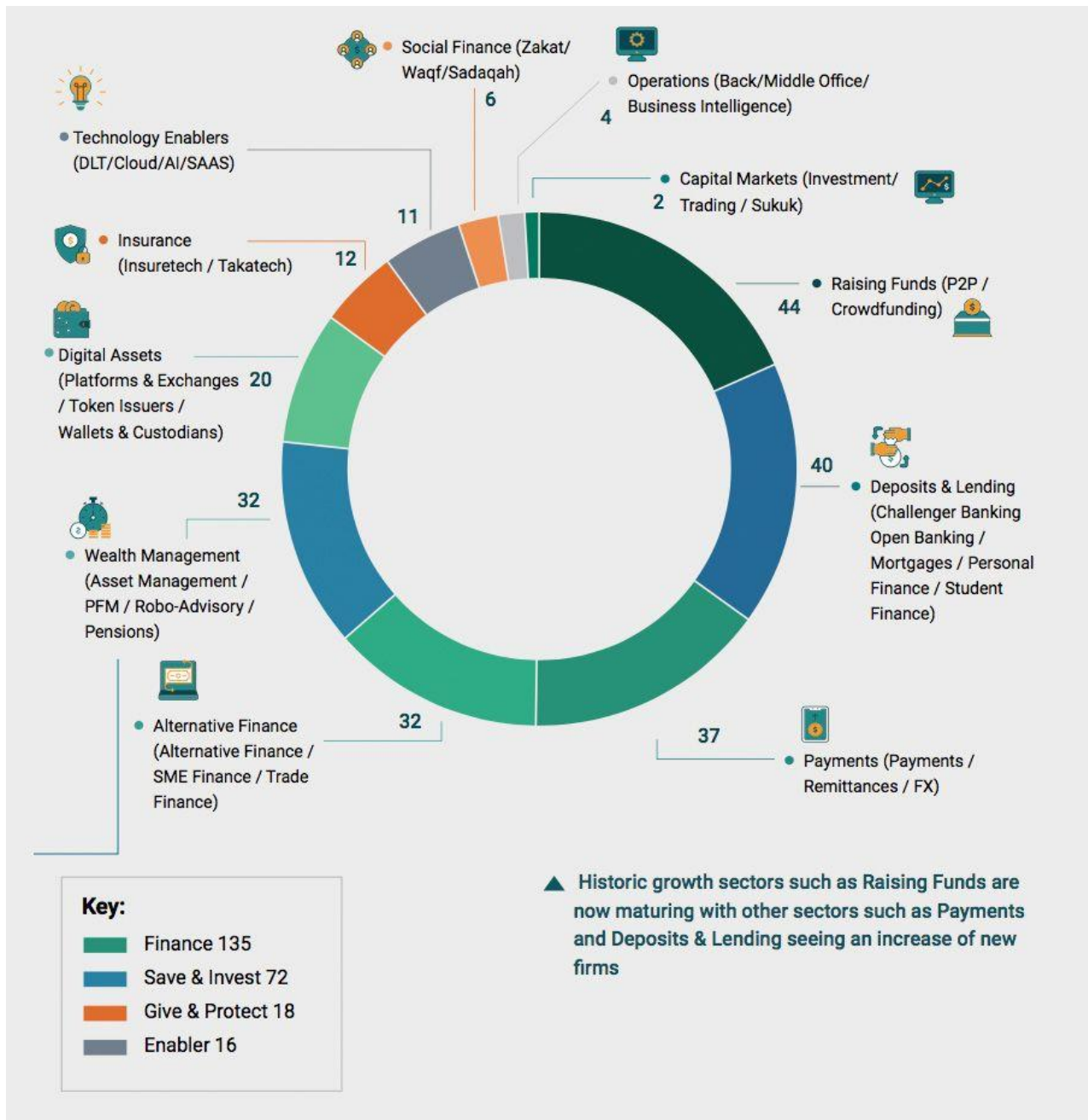


Figure 3. Islamic FinTechs by sector, 2021⁶

Saudi Arabia has transitioned from Emerging to Leaders, and Leader Hubs include Malaysia, the UAE, and Indonesia. Although they are evolving less favorably for Islamic FinTech, Bahrain, Bangladesh, Egypt, Iran, Jordan, Kuwait, Nigeria, Oman, Pakistan, Qatar, and Turkey show comparatively substantial growth in their domestic market sizes.

According to the World Bank's research, "The Global Findex Database," there are about 1.7 billion unbanked people worldwide who might potentially use retail banking services, as well as more than 200 million small, medium-sized businesses that needed banking support.

The Islamic FinTech ecosystem fills a larger need for alternative investments by assuring customers that their cash won't be invested in illegal sectors.

Islamic banks with a mobile banking focus from the UK's Niyah and Germany's Insha are other well-known Islamic FinTechs. Wahed is an Islamic online wealth manager. HelloGold, founded in Malaysia, is one of the more creative and contemporary Islamic FinTech companies; it is developing the first gold mobile application that complies with Sharia law.

⁶ The global Islamic fintech banking market: trends and outlook, 17 January 2022

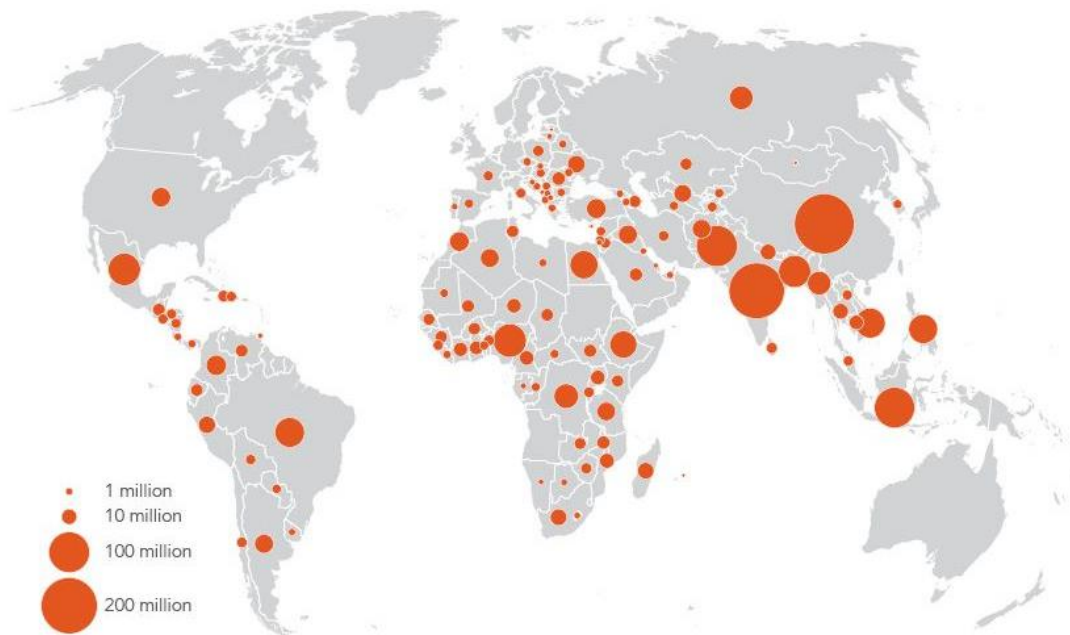


Figure 4. Adults without an account (globally, 1.7 billion adults lack an account), 2021.⁷

Women are less likely than men to join in the work force among the unbanked.

However, the standards established by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) are followed by more than 20 countries and jurisdictions where Muslims make up the majority of the population. We can reasonably anticipate that local authorities seeking uniformity and international acceptability of standards will continue to accept these norms, particularly those relevant to Islamic FinTech segments.

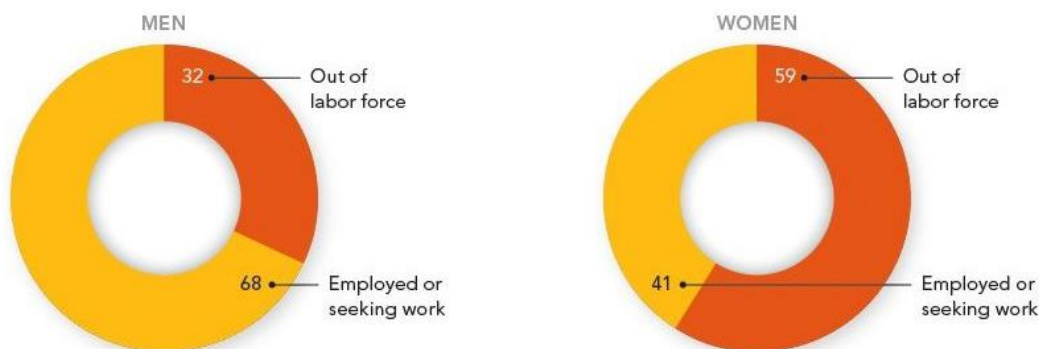


Figure 5. Adults without an account by gender and labor force participation (%), 2021⁸

ISLAMIC FINTECH – CHALLENGES

With the advent of FinTech, a fusion of financial technology and services provided by financial institutions, the financial sector has gained the essential impetus. In general, FinTech companies are challenging traditional financial institutions by providing cutting-edge services to a wide range of customers. Modern banking and finance have been disrupted by recent FinTech advances. FinTech startups are another problem for Islamic financial institutions (IFIs). Alternative currencies have been established thanks to blockchain technology, disrupting how conventional financial institutions operate.

By merging blockchain and other FinTech-based technologies with its product offering, the Islamic finance sector can gain tremendously. To sustain the intricate relationships between agents and important stakeholders, such FinTech integration with the Islamic financial sector will need greater oversight. Lack of such monitoring would result in challenges with trust, which are common with all new technology. The difficulty of growing scrutiny from various governmental entities is something that FinTech-based solution suppliers must deal with.

⁷ Global Findex database

⁸ Global Findex database

This is one of the main issues, and regulators and FinTech solution providers must collaborate to find a workable solution to enable the effective implementation of such innovation in the Islamic financial sector. The lack of understanding among stakeholders, which is related to the abstract character of FinTech-based technology, presents another difficulty for the integration of FinTech with Islamic financing. A thorough grasp of its potential is constrained, and its market expansion is also being hampered by the underdevelopment of the ecosystem of several FinTech infrastructures.

Table 1.

Account ownership by economy, 2021⁹

Economy	Adults with an account (%)	Women with an account (%)	Poor adults with an account (%) ^a
Senegal	56	50	48
Serbia	89	90	84
Sierra Leone	29	25	21
Singapore	98	97	96
Thailand	96	93	98
Togo	50	44	39
Tunisia	37	29	32
Türkiye	74	63	61
Uganda	66	65	51
Ukraine	84	81	80
United Arab Emirates	86	87	83
United Kingdom	100	100	100
United States	95	97	91
Uruguay	74	76	63
Uzbekistan	44	39	41
Venezuela, RB	84	80	78

Security and privacy concerns can influence FinTech-based solutions. Finally, the position of numerous Shari'ah experts that FinTech innovation, such as bitcoin and other cryptocurrencies, are non-compliant with Shari'ah is the main obstacle to the successful integration of FinTech in Islamic Finance. In order to successfully integrate FinTech technology into the Islamic banking sector, a set of criteria that can guarantee the products being delivered are compliant with Shari'ah must be developed. In order to increase stakeholder trust, future research can concentrate on defining the topics to be addressed, establishing the standards, and revealing efficient controls for monitoring FinTech activities. Additionally, it's critical to investigate how FinTech might be used in Islamic finance in order to make such products more competitive with those provided by the traditional financial sector.

We should also recognise that the expansion of startups with an Islamic FinTech focus puts pressure on the market share of the global Islamic financial sector. Due to their operational and regulatory limitations, Islamic FinTech companies are able to target untapped markets in Muslim countries with their services. This is because these markets are not currently served by IFIs. Islamic crowdfunding platforms are acting as a gathering place where investors may directly contact their creditors and watch the progress of the project from the outset. Islamic FinTech companies have made access possible with the click of a button. As a result, Islamic FinTech companies have heightened the demand for accountability and transparency among IFIs.

However, Shari'ah compliance and reporting are difficult for Islamic FinTech companies. A few Islamic FinTech companies have succeeded in ensuring a high level of Shari'ah compliance by adhering

⁹ Global FIndex database 2021 report

to internationally recognized Shari'ah standards set by regulatory organizations like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB), but the majority of Islamic FinTech companies have yet to do so. Additionally, Islamic FinTech companies do not adhere to any consistent reporting criteria, making it challenging for shareholders to assess their effectiveness and success. In order to secure the long-term viability of their operations, Islamic FinTech start-up companies may also need to assess their internal and external governance procedures.

Conclusion.

Islamic FinTech has the ability to revolutionize every facet of the market. It has the ability to enhance the Shari'ah-compliant character of company and consumer financing and reflect the expansion of the global FinTech ecosystem. Government initiatives, entrepreneurs, and consumers are the main drivers of Islamic FinTech growth, resulting in an effective value chain. Government initiatives can be very important in the development of the Islamic FinTech ecosystem, and recent initiatives by groups like the Financial Services Authority (Indonesia), Bahrain FinTech Bay, Malaysia Digital Economy Cooperation, and Dubai International Finance Center (UAE) are ensuring a bright future for the sector.

Additionally, there is a demand for product offerings based on digital technology among Muslim customers, and this demand is anticipated to grow in the near future. Islamic FinTech has a lot of potential in this situation to ensure Shari'ah compliant products are available for the global market, which can enhance the competitiveness of the sector and its product offerings. However, development of proper Shari'ah criteria by relevant regulatory agencies will be necessary for the growth of the Islamic FinTech. Additionally, Islamic FinTech enterprises' operational effectiveness and transparency can be increased by adopting reporting and governance standards that are suitable to the industry. The Central Bank of Bahrain, Bank Indonesia, and Bank Negara Malaysia are just a few of the central banks that have taken steps to provide the required criteria to assure effective oversight of Islamic FinTech companies.

We have made an effort to give regulators and academics the essential guidance by addressing the key issues with the growth of Islamic FinTech from a global perspective. This study's findings are anticipated to offer fresh light on this still-developing field of study. The Central Bank of Bahrain, Bank Indonesia, and Bank Negara Malaysia are just a few of the central banks that have taken steps to provide the required criteria to assure effective oversight of Islamic FinTech companies.

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