

Faith & finance.

The changing face of Islamic banking.

INSIDE: Results of Mambu's global Islamic banking consumer survey.

'Islamic finance is based on a belief that money shouldn't have any value in itself', as [described by](#) the Bank of England. At its most simple, Islamic finance or Islamic banking is a system where products and services comply with Islamic law, which is based on a set of moral and ethical principles that promote the public good and avoid actions and transactions likely to be against the public good.

This includes key beliefs like:

- You shouldn't make money from money – essentially, a system that is 'interest free'.
- Your money should not cause harm, meaning Islamic financial services should not invest in things like alcohol, tobacco and gambling.
- Islamic finance encourages partnership (Mudarabah), in which partners share in the profits and losses of an enterprise.

With an estimated **1.9 billion Muslims** around the world - nearly a quarter of the global population and the largest religious group in the world - the opportunity and necessity of Islamic finance is evident. This relatively new banking sector has been around for roughly 40 years, and given how young the industry is, it demonstrates a huge potential and scope for evolution.

To get better insight into how this industry can develop, we conducted a global survey of 2,000 members of the younger Muslim community (Gen Z and millennials) to understand what Islamic finance means to them, as well as their expectations of this sector.

Where are we now?

As one of the fastest-growing financial industries, Islamic finance continues to grow in size and influence spreading far beyond the Middle East into Muslim-majority countries in Asia and Africa, as well as parts of Europe and beyond. As a sector, total assets have exceeded \$2 trillion and **is expected** to reach \$3.8 trillion by 2023. Greater awareness of Islamic finance, alongside improved legal and regulatory structures in many markets, is supporting the growth of the sector. This is a trend that is unlikely to slow even with the greater uncertainty brought about by the COVID-19 pandemic.

The growth of Islamic finance is being driven, in large part, by the explosion of Islamic fintechs which **is expected** to reach \$125 billion by 2025. Interestingly, according to **IFN Islamic Finance**, the United Kingdom has the most Islamic fintechs with 27 companies followed by Malaysia with 19 companies and third is the United Arab Emirates (UAE) with at least 15 Islamic fintechs. This demonstrates the global relevance and promise of this industry.

In addition, the fact that millennials make up a large percentage of Islamic banking customers means they will also direct the growth and evolution of the sector - particularly given how young the sector is. This is supported by a study conducted by **Alvarez & Marsal Middle East** which predicted that the younger generations will contribute to about 75% of banking revenue in the region.

As **stated by** Mufti Faraz Adam, CEO of Amanah Advisors: "Islamic finance is there to add value to people's lives. The future is all about fintech - we are seeing entrepreneurship and huge talent from millennials coming forward, which is enabling choice and lowering barriers of entry."

As a sector, total assets have exceeded:

\$2 trillion

It is expected to reach:

\$3.8 trillion by 2023

The future of Islamic finance is wide open and ripe for disruption, driven by a tech-literate generation. The challenge will be both financial institutions and fintechs keeping up with the changing demands and expectations, ensuring that they are providing access to the right financial products and services to meet these needs at the right time.

According to our research, of those respondents that do not use Islamic banking, 53% stated that they would like to if it was easy.



Looking further at the reasons why they have not adopted Islamic banking:

32%

claimed that they do not have access to banks that adhere to Islamic principles.

24%

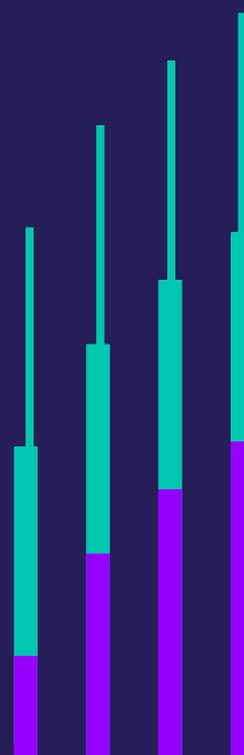
state that they need more from their bank.

23%

are distrustful that banks can be fully compliant.

In order to attract and retain customers, it's imperative that financial institutions understand what is important to this audience, as well as increasing the level of awareness and trust in the Islamic finance options that are available.

Shakeel Adli, partner and global head of Islamic finance at the international law firm, CMS and one of the leading authorities on the sector in the UK, said: "Islamic finance products need to distinguish themselves from conventional finance in new ways, whether it be through exceptional customer service, or being able to secure finance without seeing someone in person, for example. All finance offerings need to be commercially viable to work – being legally or ethically sound isn't enough."





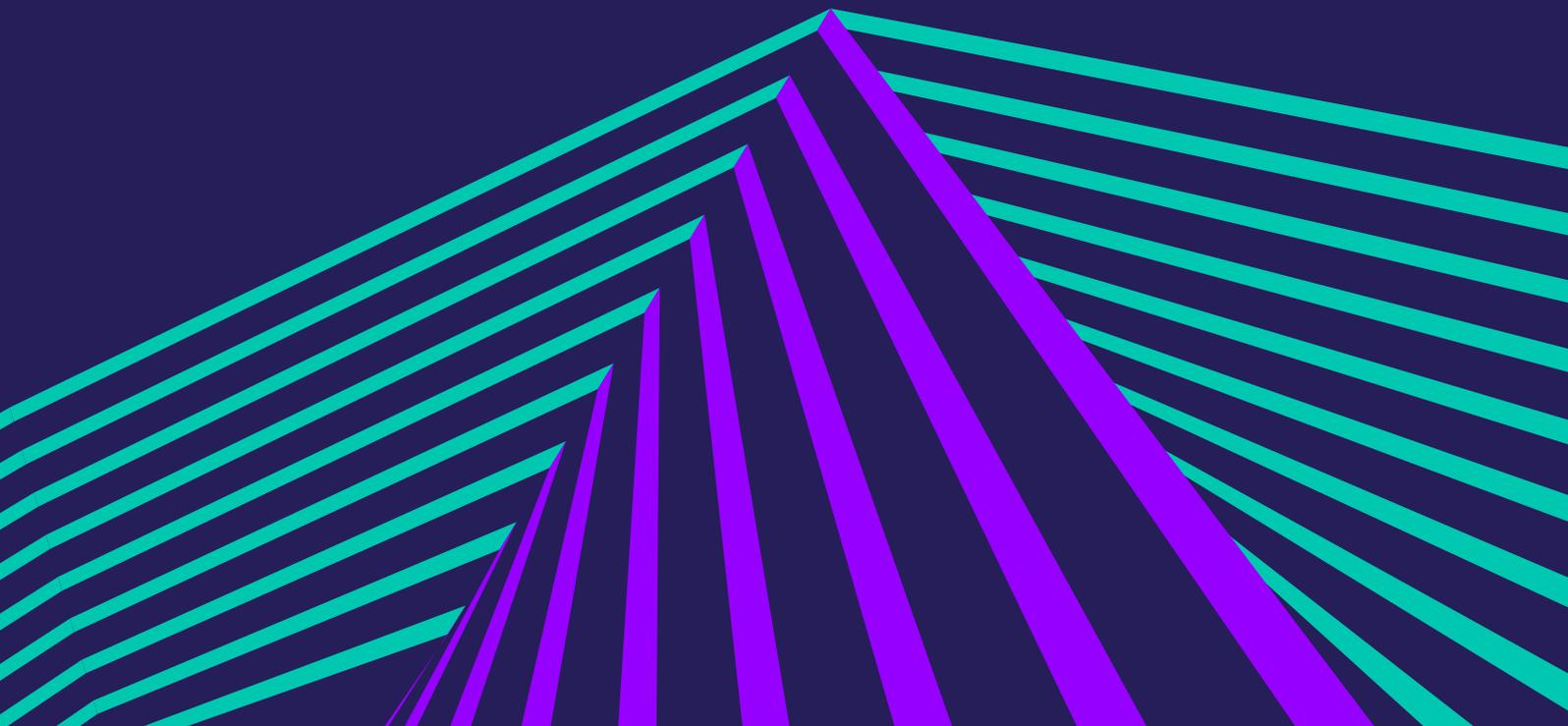
**Nazif Mohammed, Senior Director,
Global Industry Strategy Financial Services, Oracle**

ORACLE

We see faith in finance as a major disruptor with the growth of Islamic banking and especially attractive to younger generations who seek to promote sustainable development goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda.

Successful Islamic banking products and services will be more appealing if they are not only Shariah-compliant but meet additional “ethical, sustainable, environmentally- and socially-responsible”

demands. We see growth of Islamic banking by fintechs and neobanks targeting Muslim customers globally and drawing new customers and money into banking with better products and excellent customer service, rather than taking existing customers and their money away from conventional banking. Some experts believe that the Shariah-compliant banking system can be a less risky form of finance by forbidding speculation so that, for example, the excesses that led to the global financial crisis of 2007–2008 can be avoided.



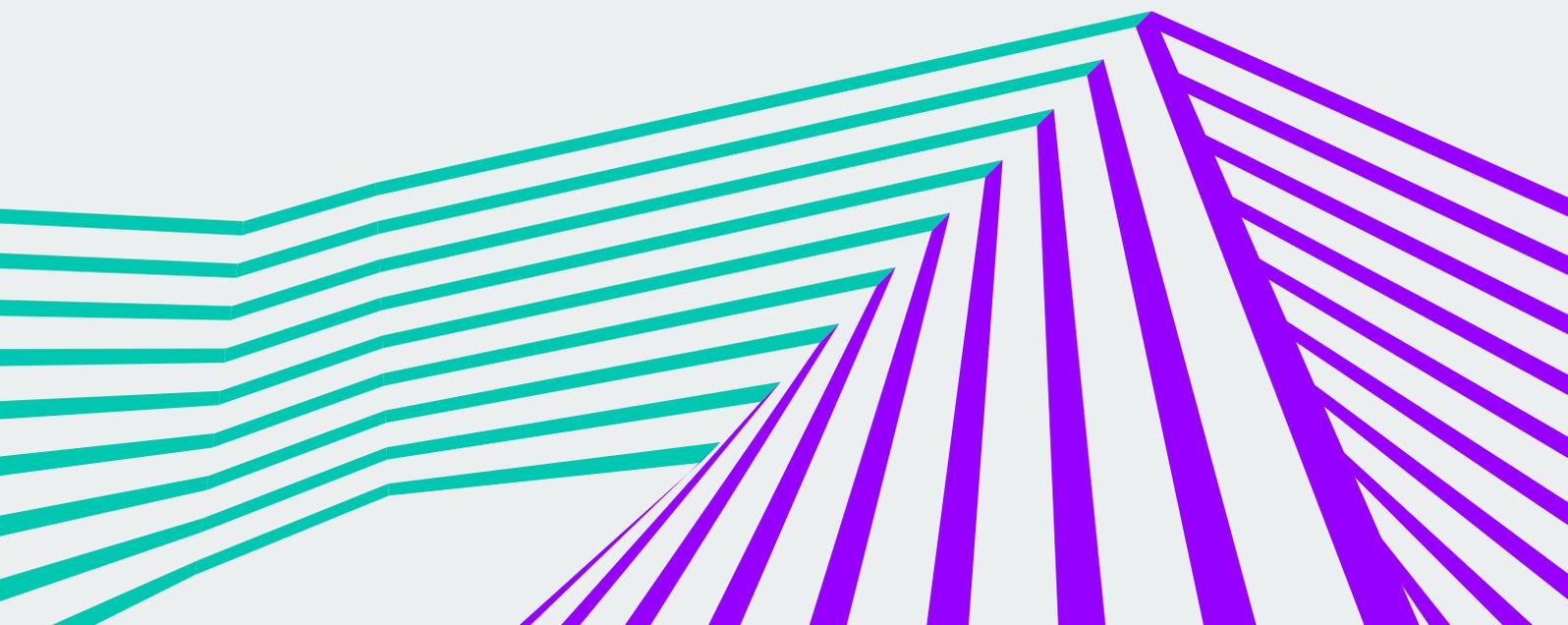
The future is ethical

There are many different facets to ethical banking; however, put simply, it is a way for consumers to manage their finances while promoting environmentally and socially conscious practices. This practice ensures that the way a bank manages consumers' money does not support unsavoury industries in the process. This ethos undoubtedly has many similarities to Islamic finance principles.

It's important to acknowledge that there are also many differences to standard ethical banks and Islamic banking practices; however, the rise in popularity of ethical banking cannot be overlooked as we examine the evolution and growth of Islamic finance - particularly in the wake of the COVID-19 pandemic.

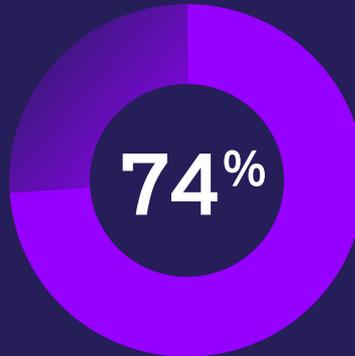
A [recent study by Accenture](#) revealed that consumer preferences "have dramatically evolved" since the crisis, and that 60% were reporting making more environmentally friendly, sustainable, or ethical purchases since the start of the pandemic. This also relates to consumers' approach to banking, further supported by [Deloitte](#) research which indicated that 71% of respondents would be more likely to choose a bank or credit union with a positive environmental and social impact.

Gulf News recently reported that, "While the global Muslim population remains one of most significant drivers of growth for the Islamic finance industry, the global trend of ethical consumerism is leading to higher appeal of Islamic products. This uptick is likely to attract a new class of consumers driven by social consciousness, trickling down to higher demand for Islamic finance services and platforms".



This is further supported by our research which shows that ethical motivations are a primary driver for the younger Muslim community in how they bank and manage their finances.

74% of respondents confirm it is important that the investments their bank makes using their money are ethical.



Delving into this further, the majority state it's important their bank doesn't lend their money to:

62%

Tobacco companies

69%

Gambling companies

67%

Alcohol companies

This implies that the younger generation of Muslims prioritise ethical practices in their bank. This is reinforced by [Areeb Siddiqui](#), founder and CEO of British Muslim money app Kestrl who "found that with younger Muslims, it was less about ticking an arbitrary no interest box, and more about their investments doing good in the world".

Technology leads the way

The rise of Islamic fintechs around the world has and will continue to play a central role in the evolution and disruption of the Islamic finance sector. Looking at millennials and Gen-Z in particular, not only are they tech savvy, but they are also driving the qualities of a fast-paced life. The younger generations are looking to partner with banks that are easily accessible from anywhere in the world. They want services that can complement a lifestyle that is driven by increased mobility. This means financial institutions need to provide flexible banking solutions to fit into this way of living.

From our study, 70% of respondents claim it is important that they can make an investment without seeing someone in person, with 74% citing a mobile banking app as important. This illustrates the growing demand among younger generations for efficient mobile banking solutions that can keep pace with their busy lives.

Clearly illustrating their view of digital services, 78% confirm that the availability of online banking options is critical, with 76% stating that it is a deal-breaker if online options are not available. Simply put, to remain competitive, banks must embrace innovative technology solutions in order to attract younger users who are the future of Islamic banking. As [Arif Amiri](#), CEO of Dubai International Financial Centre explained in a S&P Global report, "Millennial and Generation Z customers will continue to play a significant role in the growth of Islamic finance. They will expand the sector's future customer base, with the younger segment expected to contribute to as much as 75% of total bank revenue by 2030."

This consensus is particularly interesting as the Islamic finance industry has only seen a meaningful integration of Islamic fintechs in recent years. It is still early days and the sector is ready for disruption, presenting a huge opportunity for financial institutions around the world.

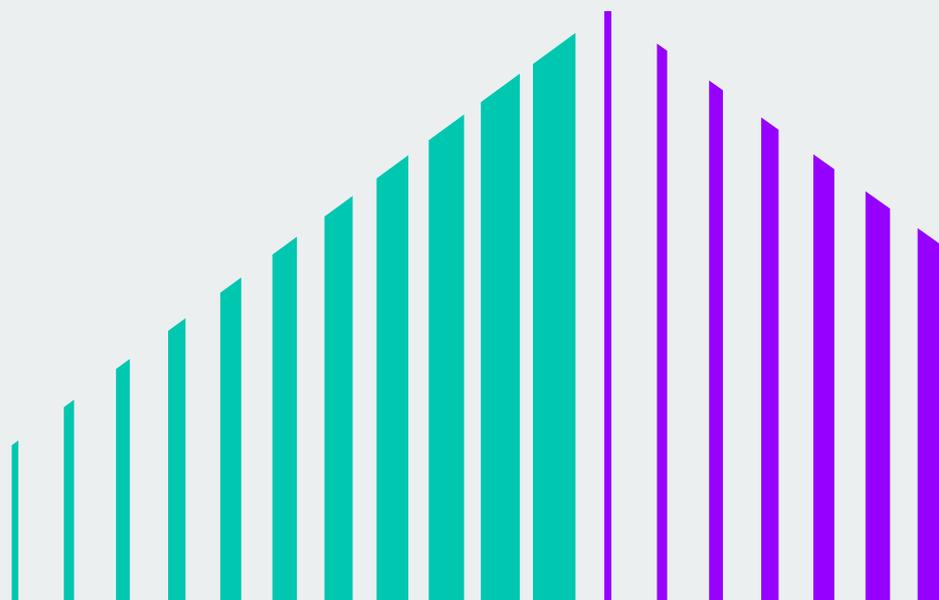
From our study:

70%

of respondents claim it is important that they can make an investment without seeing someone in person.

74%

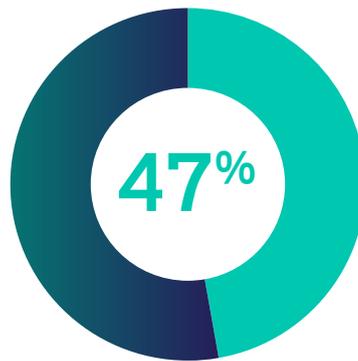
cite a mobile banking app as important.



What does this mean for banks?

Given the significant promise that Islamic finance presents, there is an opportunity for conventional banks to build further upon their existing efforts of green and sustainable banking practices, and introduce portfolios that abide by Islamic principles. This is supported by our research which shows that:

Less than half of respondents (47%) feel it's important for their entire bank to be Shariah-compliant. This means that adding specific Islamic finance products and offerings as part of an existing portfolio would be well-received.



In addition, 32% claim that they cannot easily access banks that adhere only to Islamic principles. Again, a mixed portfolio of products is a viable option.

There is a clear opportunity for both conventional and Islamic banks to enhance their services by tapping into and addressing the demands of their tech-savvy customer base for greater transparency, highly personalised products and seamless experiences. Digital banking technology will allow these financial institutions to achieve multiple strategic objectives such as financial inclusion, best-in-class user experience, and the ability to grow and scale rapidly.

However, digitisation and abiding by ethical principles isn't enough.

According to our research, 78% of respondents cite that it is important that they receive great customer service from their bank.

Personalisation is vital in ensuring that Islamic finance customers are being served in a way that suits their needs - whether that is in-person, online or a combination of both.

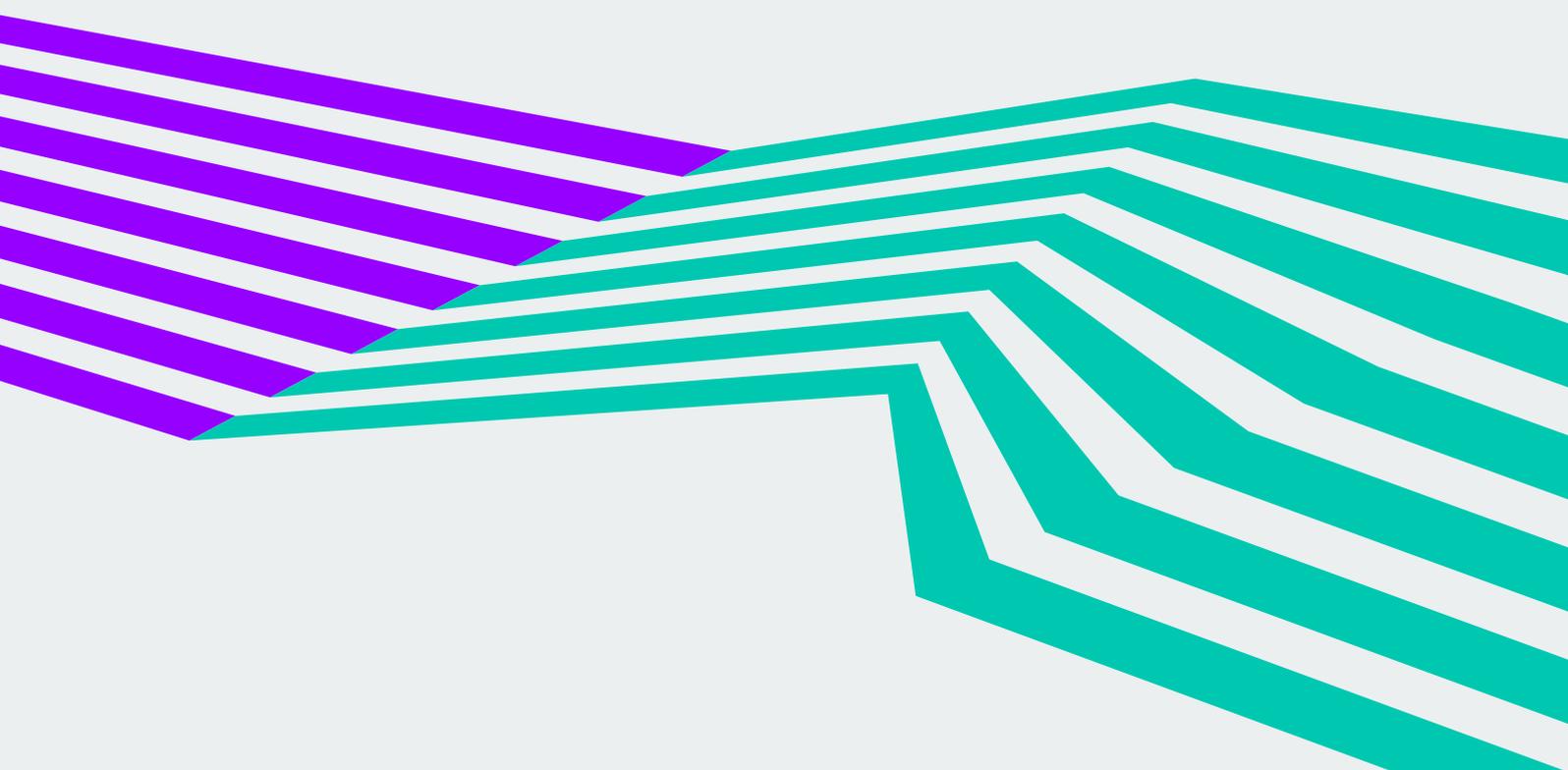
Where do we go from here?

Knowing how fast the Islamic finance sector is growing and evolving, what is the best way to proceed to meet the growing demand?

For conventional banks, it is apparent that ethical practices are being pushed further up the agenda. In the past year alone, we have seen a number of new [ethical challenger banks](#) and fintechs enter the market, including Starling Bank, [Spiral](#), [Banca Ética Latinoamericana](#) and [TreeCard](#). Triodos has also [announced](#) record lending in Wales over the past year, while Starling [has hired](#) more than 550 people since March 2020.

The financial institutions that don't act are at risk of losing customers to banks that align with consumer values and societal good. Islamic finance cannot be ignored as conventional banks continue to develop their approach to ethical banking as more people will choose to bank this way, regardless of their religious beliefs.

In addition to meeting customer demands and expectations, technology will also be critical in supporting banks to seamlessly introduce Islamic or ethical products to their existing infrastructure, as well as enable Islamic banks to grow their customer base.



Age is often one of the factors determining the target market of a business. By knowing the potential customer's age, we are in a position to determine the kind of marketing strategy that should be proposed. It is not surprising that millennials have now dominated consumer databases. The facts have not skipped the attention of the Shariah banking sector either, which is now taking steps to capture this segment. Islamic banks' opportunities to attract millennials include familiarity with Islamic banking products and contracts, momentum of Hijrah, digitizing Islamic banking, and unique segmentation.

Much like their non-Muslim counterparts, Muslim millennials are also interested in ensuring that their money is deployed towards the social good. In fact, young consumers often fail to invest in line with their personal and ethical values due to a lack of product awareness. The major force for growth therefore exists in Islamic finance product offerings within the ethical finance space.

Islamic banks and fintechs need to offer a wider range of digitally focussed products and services. New age facial recognition technology such as that being implemented by leading Islamic banks in Bahrain, allows customers to be onboarded completely digitally, with no human interaction. In these pandemic driven times, such inherently socially distant business strategies can have a huge impact on new customer attraction. A tactic to developing a better online banking experience connected to popular e-wallets and e-commerce platforms, which also has religious features such as a function to find mosques, a prayer time reminder, 'ziswaf', the zakat, infaq, and waqf, can yield rich dividends in customer attraction.

Expectedly, it is the newer age fintechs that are driving the innovation in this segment. Malaysia-based HelloGold is developing the world's first Shariah-compliant gold mobile application. IslamiChain is an innovative start-up leveraging blockchain technology to enable philanthropy and compassionate giving. Hakbah is an Islamic fintech start-up specialised in cooperative savings and Wethaq is a platform focused on the structuring and distribution of securities in sukuk capital markets. This is not to say that conventional Islamic banks are looking to be left behind by the more agile fintechs. Abu Dhabi Islamic Bank' "ADIB Rise" is a banking proposition catering to the needs of emerging affluent millennials in the UAE, offering customers wealth management services and advisory with exclusive global rewards and lifestyle privileges, including premium cards.

Islamic banks have also applied blockchain technology in their various operations, albeit still at a very early stage and mainly in cryptocurrency which although has attracted a variety of rulings among Shariah scholars seems to be gaining momentum. Some fintechs have obtained certification for the Shariah compliance of their digital currencies in their respective jurisdictions. Blockchain technology is also increasingly being used for the operation of smart contracts in Islamic banking.

The goals or objectives (Maqasid) of Shariah share some links with ESG considerations and the broader aim of sustainable finance. The onset of responsible financing gaining momentum, is likely to increase the demand for Islamic banking products and services.

So, what next?

Some things to think about:



The future is ethical.

Organisations are increasingly being held to a higher standard, with their business practices under a microscope and regularly amplified over social media. With that, there is a call for greater transparency and better governance - particularly from financial institutions. This was evident even prior to the pandemic as demonstrated in a [Nielsen study](#) which found that 81% of people strongly agreed that companies should help to improve the environment. For Gen Z, these numbers are even higher. Ethical practices are now a business and societal imperative, with Islamic banking a related and important industry that will continue to increase in popularity as a result.



It's not 'All or Nothing'.

While there will be people who will choose to only use Islamic banks, for many customers who want to bank according to Islamic principles, they have a degree of flexibility and are open to investing in compliant or ethical portfolios within conventional banks.



One step ahead.

With instant gratification the norm, consumers will expect you to know what they need before they even know. Use the technology available to understand your consumers' habits and in turn, anticipate their needs, providing hyper-personalised recommendations and services. Further, using an API-first approach and cloud-based digital platforms, Islamic banks and fintechs can easily expand their reach to their customers around the world, while providing a tailored customer experience.

There is a clear opportunity for both conventional and Islamic banks to enhance their services by tapping into and addressing the demands of their smart-phone toting customer base for greater transparency, highly personalised products and seamless experiences. Digital banking technology will allow these financial institutions to achieve multiple strategic objectives such as financial inclusion, best-in-class user experience, and ability to grow and scale rapidly.

How can we help you?

Worldwide, an estimated 1.9 billion Muslims are financially underserved and are looking for alternative Shariah-compliant solutions to manage their money. The opportunity and necessity of Islamic finance is evident. As an API-driven SaaS platform, Mambu is uniquely positioned to support your Islamic banking ambitions. If you can dream it, we can help you build it.

About Mambu

Mambu's Shariah-compliant product enables Islamic financial institutions to enhance their offerings and increase brand loyalty by delivering a more personalised level of service - all in the cloud. By developing and launching products on Mambu, Islamic financial institutions get agility and speed while providing their customers with products that are aligned with their ethical codes. By using Mambu's composable approach, Islamic financial institutions can fully realise the benefits of cloud, assemble components and services flexibly, while ensuring the delivery of Shariah-compliant products to its customers.

Today, Mambu's SaaS cloud banking platform enables Islamic banks and lenders, such as Bank Islam and Ta3meed, to deliver innovative digital Shariah-compliant products to businesses, consumers and investors.

mambu.com
hello@mambu.com

Disruptive
Diaries