

## BOOK REVIEW

### *Digital Transformation in Islamic Finance: A Critical and Analytical View*

**By Yasushi SUZUKI and Mohammad Dulal MIAH, New York:  
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The authors of this book deserve our gratitude for their valuable contributions to digital transformation (DX) in Islamic finance and fintech. The readers will greatly benefit from gaining more insight into the practical applications of fintech in Islamic finance. I have reviewed and summarized all fifteen chapters to give the readers a brief understanding of the book's contents.

Chapter 1 evaluates the impact of fintech on the Islamic finance industry, focusing on digital transformation's role in enhancing efficiency and performance. It categorizes fintech activities into retail-facing and market-provisioning verticals, emphasizing their potential to promote financial inclusion. The chapter explores fintech's alignment with Islamic principles, particularly fulfilling the purpose of the Shariah by creating benefit for humankind, highlighting fairness and justice. It examines Islamic banks' roles in upholding Shariah principles while adapting to fintech innovations and evaluates the positive and negative impacts on Islamic financial institutions. It advocates for a balanced approach prioritizing wealth creation and distribution, promoting a strategic approach to digital transformation, fostering harmony with conventional finance, and focusing on innovative financial products in trade finance and remittance.

Chapter 2 examines the impact of DX and fintech on financial business models, highlighting technology's role in enhancing market competitiveness. Innovations like digital banking, wealth management, peer-to-peer lending, crowdfunding, and digital payments are discussed. Fintech, defined as innovative tools revolutionizing financial services, is categorized into 13 verticals within Retail Facing and Market Provisioning groups. The chapter explores how fintech and DX reshape traditional financial intermediation and contracting, particularly in commercial banking, affecting profitability, risk management, and business diversification. It also addresses implications for Islamic finance, questioning fintech's compatibility with Islamic principles, its impact on financial stability, and regulatory challenges posed by decentralized systems.

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Chapter 3 explores fintech's role in addressing socio-civilizational challenges, advocating for a balanced approach to technological advancement. It acknowledges technology's transformative power but warns against over-reliance (technomania), emphasizing the need for human agency and ethical considerations. The chapter examines fintech's potential to tackle climate change, inequality, poverty, and gender disparity, highlighting the interconnectedness of these issues. It stresses the importance of human-centered solutions and responsible, ethical tech use, prioritizing human welfare and sustainability. Key areas needing focus include environmental sustainability, democratic governance, renewable energy, sustainable agriculture, conflict management, and ethical development. Ultimately, the chapter underscores technology as a tool for positive change, with humans at the forefront of progress, advocating for a holistic and ethical approach to socio-civilizational challenges.

Chapter 4 explores the role of Islamic peer-to-peer (P2P) lending in supporting micro, small, and medium enterprises (MSMEs) in Indonesia, highlighting P2P as an efficient, low-cost alternative to traditional financing driven by fintech. It examines the collaboration between banking and P2P sectors to drive digital transformation, using PT Qazwa Mitra Hasanah Qarwal as a case study to discuss the "value-chain integrated" financing model, which creates a supportive economic ecosystem to mitigate business risks. The chapter addresses the challenges MSMEs face in accessing formal financing and showcases how fintech-powered P2P lending can help. It underscores the need for strong regulations, innovation, and government support to foster Islamic P2P lending growth. It also highlights the importance of information analysis in credit decisions and MSMEs' preference for institutions accommodating their informal nature. Overall, the chapter illustrates the potential of Islamic P2P lending to bridge the financing gap for MSMEs, enhance financial inclusion, and promote economic development with robust risk management and regulatory frameworks.

Chapter 5 delves into the potential of Islamic crowdfunding in Bangladesh to support small and medium startups, highlighting its role in capital formation and the limitations of current financial institutions. It views fintech-based crowdfunding as a tool to revolutionize the financial sector, promote economic growth, and alleviate poverty. The chapter emphasizes the importance of Islamic finance in a predominantly Muslim country and discusses the growth of Islamic banking. It identifies the need for regulatory frameworks to ensure reliability and investor protection, examining donation-based, reward-based, equity-based, and peer-to-peer lending models for Shariah compliance. Challenges include digital literacy, trust issues, and regulatory frameworks, but the chapter notes increasing fintech and mobile service adoption. It calls for collaboration between platforms and regulators to ensure investor protection and cybersecurity, aiming to leverage crowdfunding for economic development.

Chapter 6 examines the digital transformation in the Islamic banking industry, highlighting opportunities and risks. It underscores the need for Islamic banks to innovate service delivery to meet customer expectations and compete with non-bank financial services. Digitalization offers growth opportunities such as better customer response, financial inclusion, and support for SMEs, but also poses risks like cybersecurity threats and Shariah non-compliance. The COVID-19 pandemic has accelerated this transformation, with mobile banking, digital wallets, and cloud computing being widely adopted. Cybersecurity remains a key concern. The chapter calls for updated regulations, stronger oversight, and human capital development to ensure successful digital transformation and compliance with Shariah principles.

Chapter 7 explores fintech in Islamic banking in Bangladesh, highlighting both opportunities and challenges. It notes significant global fintech growth but a lack of research on its association with Islamic banking in developing countries. The chapter reveals fintech's potential to enhance

Islamic banking in Bangladesh, with plans by the country's first Islamic bank to integrate Islamic fintech. It discusses opportunities like improved service delivery, increased market share, and financial inclusion, as well as challenges such as staff awareness, technical expertise gaps, and cybersecurity concerns. Qualitative analyses involving regulators and banks provide insights into these issues. The chapter concludes that while fintech can revolutionize Islamic banking in Bangladesh, significant challenges need to be addressed, and further research in artificial intelligence (AI), blockchain, and cloud computing is needed.

Chapter 8 highlights factors influencing digital banking patronage in the Netherlands, focusing on customers' perceptions of data protection quality. Technical knowledge positively impacts these perceptions, emphasizing the need for cybersecurity education. Gender and age do not significantly affect perceptions, showing uniform concern across demographics. The COVID-19 pandemic increased digital banking fraud attempts, prompting banks to enhance data protection measures. Despite improvements, security and identity theft concerns hinder some customers' adoption of digital banking. Banks must continually improve and communicate their data protection strategies to attract customers and foster trust, aiding the growth of the digital banking industry in the Netherlands.

Chapter 9 explores the potential of Islamic fintech in enhancing remittance services for South and Southeast Asian migrants. It underscores fintech's transformative impact, particularly blockchain technology, in providing secure and transparent cross-border payments. The chapter focuses on the rapid growth of Islamic finance in these regions, emphasizing the benefits of blockchain-based remittance solutions for income protection. It reviews the literature on traditional remittance systems, highlighting blockchain's advantages in cost efficiency, trust enhancement, and financial inclusion. The chapter calls for further research on blockchain remittance in non-Muslim countries, education to bridge knowledge gaps, and the involvement of governments and regulatory bodies to promote these solutions.

Chapter 10 examines the impact of Central Bank Digital Currency (CBDC) on Islamic banking, with a focus on liquidity management. It highlights the growing interest of central banks in CBDC due to the rise of private digital currencies, discussing global initiatives in countries like Japan, the US, Turkey, China, and Europe. The chapter addresses the gap in the literature on CBDC's impact on Islamic banking by defining CBDC and its potential effects on liquidity management in Islamic Financial Institutions (IFIs). It suggests Islamic CBDC as a Shariah-compliant solution, proposing asset-backed CBDC (ABCBCD) to address concerns about price fluctuations. The chapter emphasizes the need for further research on the operational impact of Islamic CBDC, which is relevant to both Islamic and conventional banking.

Chapter 11 explores the integration of technology in the takaful industry, emphasizing its alignment with the principles of the Shariah and its purpose of creating benefit for all humankind. It discusses "Takafultech," which leverages technologies like drones, blockchain, data analytics, and IoT to enhance takaful operations and ensure Shariah compliance. The chapter highlights the industry's growth in key markets such as Iran, Saudi Arabia, Malaysia, the UAE, and Indonesia. While recognizing the benefits of Takafultech, it also addresses challenges related to costs and adoption hurdles. The chapter underscores the need for a balanced approach, considering both financial constraints and ethical responsibilities, to fully realize the potential of technological advancements in the takaful industry.

Chapter 12 examines the challenges and prospects of the takaful industry in Indonesia, focusing on digital transformation and the implementation of IFRS 17. Despite the small contribution (2%) of takaful to global Islamic finance, there is optimism about future growth. Key challenges include slow digital adoption due to weak regulation and governance, and accounting

issues related to IFRS 17. The COVID-19 pandemic accelerated digital transformation, but the takaful industry lagged behind. Concerns include the lack of proper policies for takaful contracts and differentiation from conventional insurance. The chapter emphasizes adopting IFRS 17 and harmonizing with AAOIFI standards to improve the comparability of financial reports. Proactive measures are essential for the growth and sustainability of the takaful industry amidst evolving technological and regulatory landscapes.

Chapter 13 addresses the challenges of waqf administration in Bangladesh and proposes fintech solutions. It highlights inefficiencies such as poor registration and manual processes. The chapter suggests adopting fintech to enhance transparency and reduce costs. It evaluates waqf management in terms of monitoring, cost, and governance, offering recommendations for better utilization. Emphasizing waqf's role in social welfare, it calls for structural reforms to support fintech integration, aiming to make waqf properties more efficient and transparent income-generating assets.

Chapter 14 explores the potential of using Islamic fintech to improve zakat management in Bangladesh, focusing on efficient collection, management, and distribution of funds. It highlights zakat's role in poverty reduction and socio-economic justice, emphasizing equitable wealth distribution. The chapter defines Islamic fintech as Fourth Industrial Revolution technologies enhancing financial services while adhering to Shariah principles. Various fintech models are examined for overcoming zakat management barriers, but challenges such as crowdfunding applications, blockchain, and government collaboration are noted. The chapter urges addressing these issues to fully leverage fintech's potential, aiming for a more efficient and systematic zakat management approach.

Chapter 15 explores the use of AI in fatwa issuance and its implications for Shariah compliance in Islamic finance. It highlights the potential of technologies like AI, Smart Contracts, and Blockchain, introducing terms like "FinTech," "InsurTech," and "LegalTech." The chapter discusses AI's role in facilitating fatwa issuance while emphasizing the need for qualified scholars. It also covers AI's application in legal reasoning and Shariah Governance within IFIs, presenting both challenges and opportunities. AI can potentially enhance fatwa creation, compliance, and decision-making by providing speed, accuracy, and transparency. The chapter calls for further research and training for muftis to effectively use AI-led tools.

After reading all fifteen chapters of this book, it is clear that the authors have successfully highlighted the DX, which has transformed financial services, especially Islamic finance. This book is divided into several parts, with each chapter interestingly providing a thorough exploration of DX within various aspects of Islamic finance, such as the impact of fintech on the Islamic finance industry, fintech's role in addressing socio-civilizational challenges, the impact of DX and fintech on financial business models, Islamic peer-to-peer (P2P) lending, Islamic crowdfunding, the Islamic banking industry, digital banking patronage, remittance services, Central Bank Digital Currency (CBDC) on Islamic banking, the takaful industry, waqf administration, zakat management, and AI in fatwa issuance.

Islam is a way of life, and for Muslim believers, the teachings of Islam are appropriate for practice under the right guidance of the Quran and the Sunnah from the time of the Prophet Muhammad (peace be upon him) until the end of time. This book demonstrates that Islam, which is meant to benefit all mankind, allows the expansion of knowledge and wisdom in the form of new technology like the DX and fintech to be applied to financial transactions and services provided that they do not involve the prohibited elements in Islam such as *riba* (usury), *gharar* (uncertainty), *maysir* (gambling), and *haram* (forbidden) goods and services.

Shariah principles, such as ensuring benefit and preventing harm to humankind and

Allah's other creations on this earth, allow the DX and fintech to be used and benefitted from as long as their practical aspects and functioning do not violate Shariah Law. This book provides undergraduate and postgraduate students, as well as industry players, with essential data and information regarding the practical uses of DX and fintech in the Islamic financial business. By reading this book, readers will be able to learn and grasp a wide range of areas in Islamic finance, DX, and fintech. Reading each chapter of this book will provide a thorough grasp of how each aspect of Islamic finance is evolving digitally; therefore, it is worth taking the time to study it.