

## ICSFS sees growing tech adoption among Islamic countries

*Tech is being used by Islamic banks not only to provide an enhanced digital experience for customers but also to improve the financial health of the banks themselves*

Priyanka Pand  
Senior Regional Correspondent -  
Middle East and Asia, IBS Intelligence



**T**ech is disrupting the conventional banking sector from back office core banking to customer-facing processes. Islamic banking is no different. Wael Malkawi, executive director at ICS Financial Systems (ICSFS), spoke with IBS Intelligence about how technology has disrupted Islamic banks in recent years.

**How has Islamic banking evolved/changed in the past few years?**

The modern Islamic finance industry is young and emerged only in the 1970s. But it is evolving rapidly and continues to expand to serve a growing population of Muslims as well as conventional, non-Muslim investors.

Probably one of the most critical developments in the history of Islamic banking took place with the establishment of the Islamic Development Bank (IDB) in 1975. Between 1975 and 1990, the industry developed into an alternative model of financial intermediation that led to the creation of several private Islamic financial institutions. The International Monetary Fund and the World Bank also recognised these products as an alternative means of financial intermediation. During the 1990s, while growth in the Islamic banking industry continued, attention was also given to the development of non-bank financial institutions such as insurance companies and investment funds.

Initiatives for the establishment of some of the infrastructure institutions supporting the Islamic financial industry also started in the 1990s, such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) was created to establish industry accounting and auditing standards.

**What has been the growth of the industry?**

According to the Islamic Finance Development Report of 2018, more than 1,389 full-fledged Islamic financial institutions and 'windows' have been established worldwide since the 1970s. The industry grew

by 11% to \$2.4 trillion in assets in 2017 annually at a CAGR of six per cent from 2012. Over 505 banks offering Islamic finance accounted for 71%, or \$1.7 trillion, of the industry's total assets in 2017 – a CAGR of five per cent, based on figures reported for 56 countries, mostly in the Middle East and South and Southeast Asia.

One key factor driving the growth of the sector is a growing preference for Shari'ah-compliant products and services. Besides, service quality and digital capabilities of Islamic banks are making it easier for customers to make the switch.

**How has technology helped in the evolution of Islamic banking?**

Banks worldwide are facing an impending move towards a digital marketplace, changing customer behaviours and the emergence of new entrants with innovative business models. These challenges demand broad and deep change across banks' business and operating models.

As the digital generation is on the rise, this is an opportune time for Islamic banks to tap these technological advances and fulfil the ever-increasing needs of the current digital age. The most important technologies of the last years, from new trends in digital transformation, artificial intelligence, chatbots and blockchain, shed light on this change and transformation. Technological innovations will be the critical enabler for future Islamic financial services to meet global competition, grow market share and of more importance, enhance profitability.

**How does technology work to meet the interests of both the customers and banks?**

The most significant benefit of digital transformation is that it turns costly manual processes into automated straight-through systems to deliver faster and better results at lower costs. Fundamental operational changes will also change the way we provide that value

to our customers. Banks that go digital can decrease costs and streamline processes more efficiently. It also improves the overall customer experience by creating more opportunities for engagement. Another benefit is reduced costs in the banking workforce, as automation enhances workflow.

**What are the specific challenges faced by Islamic banks and how has technology been able to address those?**

Technology changes the way we do business. As the Internet has developed, the world has also transformed, where social media plays an important role in our day-to-day needs.

All these developments have affected the evolution and transformation of Islamic finance. While Islamic finance is reaching customers with more traditional channels, changing technology products must be transformed into new business models to meet changing needs. At this point, we see that the existing Islamic banks have begun to change and modify the channels that reach the customer. There is a rising digitalisation trend in the world as well as the emergence of the examples of fully digital banks in Islamic banking.

Digital Islamic banking solutions must be Shari'ah-compliant from their structuring up to their offering to consumers. Besides, such products, services and solutions must obtain the necessary Shari'ah approval before being marketed as Shari'ah products.

**How do you differentiate yourself from rivals?**

ICSFS' success is due to our market understanding. We work closely with our customers, advising them to adopt international banking standards while addressing their local requirements.

Our full-fledged Islamic banking software solutions are state-of-the-art software that delivers maximum value to clients of all sizes. It is designed to meet the information processing and management challenges facing the banking and finance industry today. We offer a range of features and functionalities with comprehensive business coverage of the product that is cost effective and can be implemented faster.

**How do you plan to incorporate emerging technologies into your solution?**

One of the critical pillars of ICSFS strategy is innovation, and to focus on digital transformation to ensure that we better serve our customers in the digital age. We were one of the first in the world to introduce and implement Oracle Blockchain Technology through ICS BANKS Blockchain Adapter.

Our software solutions future-proof all banking activities by providing a broad range of features and capabilities with agility and flexibility. The highlight of ICSFS's solution is its digital platform that accommodates Islamic banking with the latest technological advances possible to provide omnichannel capabilities to a full cycle of banking functions.



Wael Malkawi, executive director, ICS Financial Systems

Our software ensures that processes are executed digitally right from customer onboarding, KYC, product execution, to a flexible credit scoring with a robust rule-based engine and back-office processes. These are all powered by an embedded BPM engine. The ICSFS digital platform is recognised for its advanced technology deployments such as blockchain, smart contracts, open API platform, AI and others.

**Which are the key growth geographies; how does that impact your business?**

Islamic banking has spread extensively over the years to span multiple geographies. The regions experiencing significant growth are the Middle East, South Asia and Africa where ICSFS has clients. We are still expanding as Islamic finance covers a wide-ranging market of 1.6 billion Muslims interested in participative Islamic banks and services.

According to the 2016 World Islamic Banking Competitiveness Report, Saudi Arabia, Malaysia, UAE, Kuwait, Qatar and Turkey represented over 67% of the international Islamic banking assets.

**Are you talking to the Indian banking regulator about easing norms to start operations there?**

Islamic banking has vast market potential in India. India is the third-largest Muslim populated country in the world. Several banks in the country have shown an inclination to undertake this form of interest-free banking. However, unless proper regulations are in place to oversee this form of banking, it will not be possible for scheduled commercial banks to follow Islamic guidelines.