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TABLE OF CONTENTS

ISLAMIC BANKING INDUSTRY IN FINTECH ECOSYSTEM: ISSUES AND CHALLENGES

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INTRODUCTION

Financial Technology or 'FinTech' implies the utilization of technology and mobile devices for information access to transaction notifications, bank accounts and credits, debit alerts with short message services, or other applications that inextricably link customers to banking institutions (Stewart & Jürjens, 2018). The emergence of FinTech started after the financial crisis in 2007/2008 due to decrease in customer trust towards the traditional banking system (Breidbach et al., 2019).

The application of Fintech in Islamic banks or companies is permissible, providing it complies with the principles of Shariah. Embracing such technological advancements will improve Islamic banking services, preserve customers' digital security and provide them with easy access to digital transactions. As the percentage of the unbanked population remained high in OIC member countries, Islamic Fintech is considered a solution in providing access to banking services. Despite that, the demand for Islamic Fintech will increase tremendously with the growing population of the young and tech-savvy Muslim generation. The position of a world leader in Islamic finance gives advantages to the Islamic banking industry in Malaysia to explore more mechanisms to support the digital transformation, including FinTech. The supportive regulatory environment, well-established capacity building, and readiness of the existing or new customers are among the substantial factors contributing to the growth of Islamic Fintech application in the Islamic banking industry.

ISSUES AND CHALLENGES

Fintech companies have been granted approval by regulators to use technological platforms to provide low cost and time saving financial services comparable to those provided by traditional banks. As a result, both Islamic and conventional banks would encounter intense competition in capturing the interest of potential clients, particularly millennials. Nevertheless, the conventional banks have an advantage in adapting to Fintech due to strong infrastructure, assets, human capital and technology. In the case of Islamic banks, it is argued that they are relatively passive to adopt technology, particularly full-fledged Islamic banks (Ali et al., 2019).

The regulators such as Bank Negara Malaysia and Securities Commission are responsible for upholding the stringent regulations in order to protect the interest of the consumer. At the same time, they need to strike a balance to ensure financial stability, stimulating innovation and competition among the industry players. The existing regulations and guidelines need to be revised, including for Islamic banking institutions to suit the rapid growth of digital banking technology and innovation. Currently, several guidelines have been applied or drafted by regulators in order to safeguard the industry, which complies with six areas such as banking and takaful operations, digital assets, electronic Know Your Customer (e-KYC), digital banking, financial crime and cyber security.

Workforce challenges is another challenge to the Islamic banking industry. The increase of the technology such as automation in banking could lead to massive trends of unemployment

(Meena & Parimalarani, 2020). Simultaneously, the adoption of technology must be monitored closely as excessive application of superior technology would lead to a war between technology versus humans (Roy & Viswanathan, 2018). Basically, the challenges can be divided into two categories; lack of skills among the existing employees and talent shortage in the area of digital technology. The increase of innovative banking products and services may require specific skill sets for the bank employees. Therefore, the banking institutions should retrain or upgrade the skills of the employees in order to ensure they can adopt the changes in the institutions. Simultaneously, the industry lacks talent in the area of machine learning and data analytics, as well as Shariah knowledge (Haridan et al., 2020).

As discussed earlier, Islamic banking institutions are responsible for offering Shariah-based products and services to fulfil the needs of Muslim customers. Despite focusing on creating awareness or acceptance among Muslim customers towards Islamic Fintech, the biggest challenge of Islamic banks is to integrate the products, services and operations with the Fintech applications (Haridan et al., 2020). At the same time, it is also crucial to ensure the products and services of Fintech comply with the Shariah principle.

INITIATIVES FROM GOVERNMENT AND INDUSTRY

The government of Malaysia are very committed to developing a secure and efficient ecosystem for Fintech development. The collaboration between government and industry players is translated through various initiatives and programs.

1. Financial Technology Enable Group (FTEG).
   Bank Negara Malaysia established FTEG in 2016 in order to support and facilitate technological innovation in the Malaysian financial system. The members of FTEG consist of cross-functional groups in the financial system.

2. FinTech Regulatory Sandbox Framework.
   This framework was introduced on October 18, 2016, which provides Fintech firms and financial institutions an opportunity to conduct their operations and experiment in a real or live environment.

3. Strategic Partnership between Islamic banks and Fintech (start-ups) firms.
   Incumbent Islamic banking institutions are expected to face strong competition with Fintech firms. Still, Islamic banking institutions can collaborate or execute a strategic partnership with Fintech firms to benefit both parties involved in the industry. It gives a "win-win" situation to both parties. Islamic banks will share their advantages in terms of wider distribution of network in terms of bank branches, data of customers and reputation of the institutions. While, the Fintech firms will contribute in terms of their creativity, agility and pool of talent who have the latest skillset needed by banks.

4. Investment in Digital Technologies.
   In order to sustain their position in the competitive environment, Islamic banking institutions must be ready to adapt to the changes in the industry. At a certain point, investment in banking technology is required to enhance customers' experience and improve the efficiency of transactions and operations. For example, MBSB Bank and Bank Islam Malaysia Berhad have increased their investment in technology in 2019 to enhance their digital offerings (International Monetary Fund. Asia and Pacific Dept, 2018).

5. Diversifying the Talent Pool.
Lack of skills, mismatched talent pools and change of job nature are among the common issues and challenges faced by various industries in Malaysia. Since 2007, Bank Negara Malaysia introduced a Financial Sector Talent Enrichment Programme (FSTEP) programme. It is a 3+1 training programme for fresh undergraduates to prepare them with the necessary skills and knowledge currently required by financial institutions. Another programme, "Fit-for-Work" (FFW), was introduced in 2018, which provides an opportunity for unemployed graduates to undergo nine months of technical training in the areas related to digital technology in finance.

CONCLUSION

In conclusion, banking institutions (conventional or Islamic) have experienced drastic changes in digital transformation for such a long time. From automatic teller machines (ATM) to internet banking, the banking sector remains sustainable and relevant to customers. Islamic banks are expected to experience stiff competition from newcomers of Fintech start-up firms, a limited skilled workforce in Fintech, the commitment of regulators in promoting innovation in the FinTech sector, and safeguarding financial stability to ensure the Shariah-compliances of the Fintech instruments. However, an intervention by the government through regulators, Fintech players or even training provider institutions will minimize the drastic impacts of Fintech disruption. Among the recommendations are a collaboration between Islamic banks and Fintech start-ups, investment in digital technology, revising the regulations according to fast-paced innovation and diversifying talent pools or skilled workforce in Fintech. Fintech firms have used digital technology to provide clients with value in important areas such as price, convenience, access, choice, and community. However, incumbents still have the advantage when it comes to trust.

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