

## Book Review

Reviewed Work(s): Fintech in Islamic Finance- Theory and Practice by Umar A. Oseni and S. Nazim Ali (Eds.)

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### *Fintech in Islamic Finance- Theory and Practice*

“Fintech in Islamic Finance: Theory and Practice” is one of the earliest books, which explore the interface between Islamic finance and the use of financial technology. Being an emerging area of interest for both academia and industry, it is expected that other books may be released in the near future.<sup>1</sup> Fintech in Islamic finance has been the main theme or sub theme of several academic and industry conferences around the world in the past and recent times. Some examples include the Global Islamic Fintech Summit held on 18<sup>th</sup> September 2018 in Kuala Lumpur, Malaysia and more recently, the First Islamic Fintech Summit which was held on 13<sup>th</sup> of February 2019, in London, United Kingdom. However, it appears that the literature on case studies, legal and regulatory issues in financial technologies have not adequately explored the sphere of Islamic finance industry. Importantly, the book owes its idea to the 11th LSE-HBKU Workshop on “Fintech and Islamic Finance: Applying *Hiyal* & *Makharij* and other Islamic Principles” which was held on 23 February 2017 at the London School of Economics (LSE). It soon dawned on the editors that there is a need to compile opinions of Islamic finance

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<sup>1</sup> Another publication on the same area could be seen for example in the works of Hazik Mohamed and Hassnain Ali, *Blockchain, Fintech and Islamic Finance. Building the Future in the New Islamic Digital Economy*, De/G Press, 2018

practitioners and researchers on the developments affecting Fintech in Islamic finance. The book benefited from the work contributed from the presenters and participants at the workshop that came from around the world. The book sought to amalgamate their thoughts on the themes.

The central message of the book “Fintech in Islamic Finance” is that financial intermediation should and can be automated to achieve the Sustainable Development Goals (SDG), financial inclusion and ultimately become shariah compliant. The role of fintech in promoting the 17 Sustainable Development Goals (SDGs) has been the main theme dominating the contributions in this book. In particular, highlights were made on the reliance on Shari’ah finance and technology applications which are relevant in ending poverty and hunger, and building resilience through financial inclusion. The largely unbanked global population comprises a substantial number of Muslims. Hence, a faith based approach to financial technology application will appeal to such population. A more salient issue across the fintech landscape is the need for a Shari’ah regulatory framework which is still absent in most jurisdiction. The fluid regulatory issues also affect conventional fintech platforms, with central banks and securities regulation adopting a sandbox approach across the globe.

The book has managed to highlight how Fintech has unsettled and disrupted traditional financial services. Oddly, this is not so in relation to Fintech and its position under the Shari’ah. Apparently, with Islamic financial intermediation, Shariah scholars have rose to the occasion to lead the discourse, scrutinise the problems and address any disruptions, head on. A major task of this book is to fill the gap in reference materials with special focus on what some authors and industry players often refer to as “Islamic Fintech”. The six-part treatise is a compilation of 20 chapters on theoretical and practical perspectives written by selected authors and startup leaders in the Islamic finance industry. The chapters are clustered into 6 parts including a general introduction, Fintech and financial intermediation, Shari’ah parameters, legal and regulatory issues, case studies and future directions for Fintech in Islamic finance.

A core theme of the book is the common ground for both financial technology and Islamic finance to co-exist harmoniously. The pages of this book have exemplified that Shariah embraces dynamism and a certain degree of flexibility with emerging technologies. Hence the title of the book – “Fintech in Islamic finance: Theory & Practice” is most

appropriate. As a fast-paced area of research, emerging financial technologies are in exhaustive. The book includes discussions and case studies on, among others, crowdfunding, Regtech, Online dispute resolution, P2P, sukuk, blockchain and Distributed Ledger Technology, waqftech, IoT and many more interesting topics. This book is not a narrow path to fintech as it has attempted to provide a general premise on technological applications to financial services transactions, the negotiation stage through to the documentation, execution and closing stages of the transaction, including matters connected to how disputes emanating from such transactions are resolved, or otherwise known as Online Dispute Resolution (ODR).<sup>2</sup>

Beyond the conceptualisation of ideas, the book also discussed applications based on 5 existing case studies. The case studies were written by industry pioneers and Shari'ah complaint Fintech leaders, based on practical applications of Fintech and Islamic financial principles. Some of the case studies discussed in this book include; the use of EthisCrowd, WaqfCoin, Blockidentity, and Investment Account Platforms (IAP). Since the release of this book, other platforms and applications have emerged including a more aggressive payment gateway known as PayHalal™. At the essence of the emerging case studies is the focus on the role played by the technology and Islamic finance ecosystem in Malaysia as 4 out of the 5 chapters on case studies covered in the book were nurtured in Malaysia.

According to Jonathan Lawrence, Fintech is a fundamental enabler of a "seamless global services". This book should be considered as having significantly contributed to a "seamless global Shari'ah complaint financial services". This book may have dealt a blow on corporation in Islamic law as argued by Timur Kuran.<sup>3</sup> Based on discussions in Chapter 2, Fintech has also provides Shari'ah complaint crowdfunding models as an opportunity to pool resources together for entrepreneurship, economic

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<sup>2</sup> U.A. Oseni and S.O. Omoola, "Banking on ICT: The Relevance of Online Dispute Resolution in the Islamic Banking Industry in Malaysia," *Information and Communications Technology Law* 24, no. 2 (2015), <https://doi.org/10.1080/13600834.2015.1067968>.

<sup>3</sup> Timur Kuran, "The Absence of the Corporation in Islamic Law: Origins and Persistence," *American Journal of Comparative Law*, 2005, <https://doi.org/10.1093/ajcl/53.4.785>.

and social impact development. Islamic law, which was erroneously thought to be the bane of large scale resources and entrepreneurship, can in fact boost successful fintech applications. Through Islamic fintech, the myth of Islamic law failing to stimulate the development of entrepreneurship is also debunked. Haris and Daniel also discussed certain shared characteristic between Bitcoin and gold currency to provide some Shari'ah basis for the desirability of distributed Ledger backed currency. With an internal Shari'ah team, it appears that the Islamic economic model is capable of operating with less regulatory bottlenecks. In Chapter 3, Rodney Wilson identified implications for technological advances in Islamic financial intermediation for staff and clients. Less offices, more online transactions, branchless services and reduced face to face transactions between customers and banks. Job losses have been predicted due to the emergence of Islamic digital banks. This could portend more IT jobs while reducing physical administrative contacts. In the age of electronic payment, the Shari'ah understanding of money may be revisited to address private unregulated computerised ledgers. The overall implication for emerging technology varies from market to market as it depends on what proves popular with clients. Other factors include youth population, internet penetration and saving culture. Data collection automation is a more customer centric implication, which also serves the interest of the industry. It is easily imagined that the product choice and perception of consumer/client can be collected through the service application or platform.

Umar stirred a controversy in this book over the use of the term "Islamic Fintech" as widely known in the industry and financial reportage including Forbes<sup>4</sup> and Salaam Gateway<sup>5</sup>. Can there be a proper nomenclature as "Islamic Fintech"? He argued that application of

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<sup>4</sup> Wintermeyer Lawrence, "The Future Of Islamic FinTech Is Bright," accessed January 17, 2017, <https://www.forbes.com/sites/lawrencewintermeyer/2017/12/08/the-future-of-islamic-fintech-is-bright/#27066f7f65fa>.

<sup>5</sup> Richard Whitehead, "Islamic Fintech: Malaysia Wins in Islamic Finance but Its Tech Start-up Ecosystem Still a Work in Progress | Salaam - Global Islamic Economy Gateway," accessed June 18, 2019, [https://www.salaamgateway.com/en/story/islamic\\_fintech\\_malaysia\\_wins\\_in\\_islamic\\_finance\\_but\\_its\\_tech\\_startup\\_ecosystem\\_still\\_a\\_work\\_in\\_progress-SALAAM09102018072923/](https://www.salaamgateway.com/en/story/islamic_fintech_malaysia_wins_in_islamic_finance_but_its_tech_startup_ecosystem_still_a_work_in_progress-SALAAM09102018072923/).

financial technologies in the Islamic finance industry, although novel, should not lead to a separate and distinct conceptual confusion. While citing the Wharton Fintech Club definition, Fintech may simply be referred to as “an economic industry composed of companies that use technology to make financial systems more efficient”. The application of Shari’ah principles to each of the components or applications should lead to the generic term “Fintech” and not “Islamic Fintech”. Therefore, this book does not use the term “Islamic Fintech”, which the editors acknowledged as becoming popular among Muslim finance professionals. Branding and marketing has been a known factor for the “Islamic fintech”. The use of the “Islamic” label may require formal Shari’ah approval of individual products or applications similar to “halal” requirements in the food and cosmetic industry. The co-author contends in several parts of the book that, “Islamic Fintech” as commonly known, is an anomaly, which should be rejected or subject to formal Shari’ah approval. From an industry perspective, it could be difficult to determine how Islamic is “Islamic fintech” until some form of Shari’ah vetting process is conducted, an aspect which is not covered in specific detail in this book. This position is also supported by Hazik Mohamed’s book *“Blockchain, Fintech, and Islamic Finance: Building the Future in the New Islamic Digital Economy”*.<sup>6</sup>

Simply explained, the term should be considered as a convergence of information and communication technology (ICT) and Islamic finance. The reviewer assumes that to settle the score is not too important at this embryonic stage. Future developments in operation and case studies including reporting on financial technology in Islamic finance will settle the scores between Islamic fintech versus Fintech in Islamic Finance.

Beyond the nomenclature and controversy, this book is essentially useful for students and scholars who seek a better understanding of the dubious twin discussed in this book i.e., Islamic finance and financial technology. Expectations regarding a comparative approach to the law, regulatory and governance issues may have been overlooked, as the book did not specifically adopt a comparative methodology. As a primer, the underpinnings of fintech in Islamic finance were discussed with relevant

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<sup>6</sup> Hazik Mohamed and Hassnian Ali, *Blockchain, Fintech, and Islamic Finance: Building the Future in the New Islamic Digital Economy* (Walter de Gruyter GmbH & Co KG, 2018).

use case studies. Despite the development of fintech discussed with case studies, the most popular gathering of Muslims known as Hajj appears to attract no reference in this book. Perhaps the fintech wave has yet to touch the confines of Makkah and Madinah. There is the need for fintech activist to write and proffer fintech solutions for financial intermediation and volume of transaction during hajj and umrah.

Profitability and comparative advantage between Shari'ah compliant Fintech and other models appear to also be outside the scope of this book. Nonetheless, an in-depth review of the book will leave the readers hinged on the differentials between Shari'ah compliant and conventional fintech companies.

Overall this book accomplished its objective of serving the literature needs of students, scholars and enthusiast of the Islamic finance industry. The authors vast experience across the industry and the academia have reflected greatly in the unique insights and perspective contained in the different chapters.