

Global Islamic Bankers' Survey

JUNE 2020

Executive Highlights

Beyond Digitalisation: Fintech & Customer Experience

Published in 2020 by

General Council for Islamic Banks and Financial Institutions
Jeera III Tower, Office 51, Building No. 657, Road No. 2811, Block
No. 428, Manama, Kingdom of Bahrain, P.O. Box No. 24456

Legal Deposit Number: 2020/1638/14/i

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, or stored in any retrieval system of any nature without prior written permission, except for permitted fair dealing under the Copyright, Designs and Patents Act 1988, or in accordance with the terms of a license issued by the Copyright, Designs and Patents Act 1988, or in accordance with the terms of a license issued by the Copyright Licensing Agency in respect of photocopying and/or reprographic reproduction.

Application for permission for other use of copyright material, including permission to reproduce extracts in other published works shall be made to the publisher(s). Full acknowledgement of the author, publisher(s) and source must be given.

Statement by the Secretary General

Welcome to the fifth annual CIBAFI survey report. We hope this survey report will serve as an industry tool to provide both the background context for the Islamic financial industry and the framework for its progress in the coming years. The theme for this year's survey report is "Beyond Digitalisation: Fintech and Customer Experience." As the theme indicates, this year's survey addresses issues which are relevant and trending – it evaluates Islamic banks' adoption of financial technologies (Fintech) with a deep dive into current practices and challenges. It also looks at the current practices of Islamic banks in relation to customer experience.

This year's report is released under special circumstances, as the whole world is facing the global COVID-19 pandemic. It is important to note that the data analysed in this survey, from 101 Islamic banks in 35 different countries, were collected at the end of 2019 and early 2020, and as such the findings and perspectives presented were not yet influenced by the economic impact of COVID-19. Thus, except for the revenue growth expectations, other findings remain valid. The current situation demonstrates the need and the importance of technology for different sectors including the Islamic banking sector. Within today's fast-changing and challenging environment, financial technology is a key element for the prosperity and development of the finance industry. Islamic banks thus need to embrace the benefits that come with the adoption of this technology and manage the associated risks.

For Islamic banks in particular, it is important to increase awareness on the new technological trends and advancements, and accelerate the adoption process, in order to sustain and reinforce their position in a competitive market where customer demands for innovative services is ever-increasing, and where customers continuously expect more efficient and improved banking experiences.

These, and many more issues, are addressed in the survey by the top banking officials who share their opinions in detailed written responses. CIBAFI extends its warmest thanks to the banking officials who took the time to participate and share their views in the survey.

We hope that this report will help paint a clearer picture of the Islamic finance industry as we forge ahead into the coming years.

Dr. Abdelilah Belatik
Secretary General

Key Findings

The CIBAFI Global Islamic Bankers' Survey 2020 has particularly focused on Fintech and its related issues. Fintech is the huge challenge facing the Islamic banking industry as it tries to keep up with the demand for more efficient ways to bank and means to improve customer experiences with user-friendly products and services.

The distribution of the collected data is shown in the below table.

Table 1. Respondents by Region and Country

Group	Region	Countries from which banks responded	Number of banks in this group that responded
Group 1	GCC	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE	16
Group 2	Middle East ex-GCC	Egypt, Iraq, Jordan, Palestine, Syria, Yemen	22
Group 3	Southeast Asia	Malaysia, Indonesia	7
Group 4	West, Central, and South Asia	Afghanistan, Bangladesh, Pakistan, Sri Lanka	14
Group 5	North Africa	Algeria, Libya, Morocco, Sudan, Tunisia	27
Group 6	Sub-Saharan Africa	Djibouti, Guinea, Kenya, Mauritania, South Africa, Nigeria, Somalia, Burkina Faso	8
Group 7	Europe	Bosnia Herzegovina, Germany, Turkey, UK	7
Total number of countries and banks		35 Countries	101 Islamic Banks

The report is based on four parts. The first two parts present the key findings of the Islamic banking confidence index and Islamic banking risk dashboard. The last two parts are on Fintech adoption and customer experience within Islamic banks.

PART I

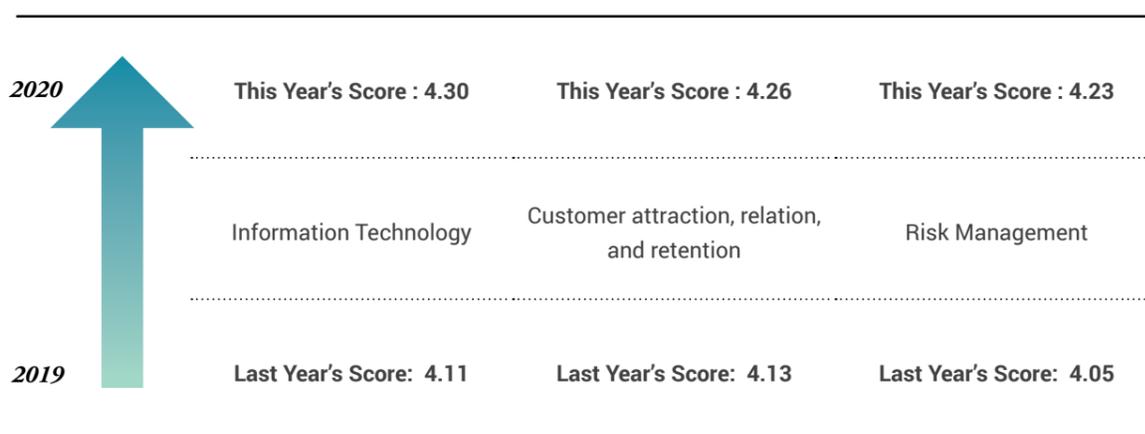
CIBAFI ISLAMIC BANKING CONFIDENCE INDEX

Part I: CIBAFI Islamic Banking Confidence Index

Under this chapter, banks shared their top concerns for the near future, the results showed an increase of severity in almost all the challenges. Islamic banks were overall becoming more concerned with the challenges they are against, with information technology appearing as the most challenging concern for banks in 2020, followed by consumer attraction, relation, and retention.

“With all the opportunities that technology offers for the different sectors including the banking sector, it also comes with challenges and risks.”

fig 1. Global Islamic Banking Top 3 Concerns



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5:Extremely Important

“Islamic Banks are aware of the need to upgrade their operating systems and enhance the security controls around information technology. They are also preparing the action plans needed to overcome the challenges and to harness benefits from the opportunities in coming years.”

Due to the highly competitive financial industry, which is focused on new customer acquisition, expanding product penetration among existing customers and enhancing the customer experience, it is understandable that banks considered consumer attraction, relation, and retention as a second top concern.

Banks are now facing competition from not only conventional and other Islamic banks, but also from the emergence of unconventional, Fintech-based business models. However, it is interesting to note that industry leaders are well aware of these concerns and are devising appropriate policies and strategies to overcome the challenges in the next one to three years.

PART II

CIBAFI ISLAMIC BANKING RISK DASHBOARD

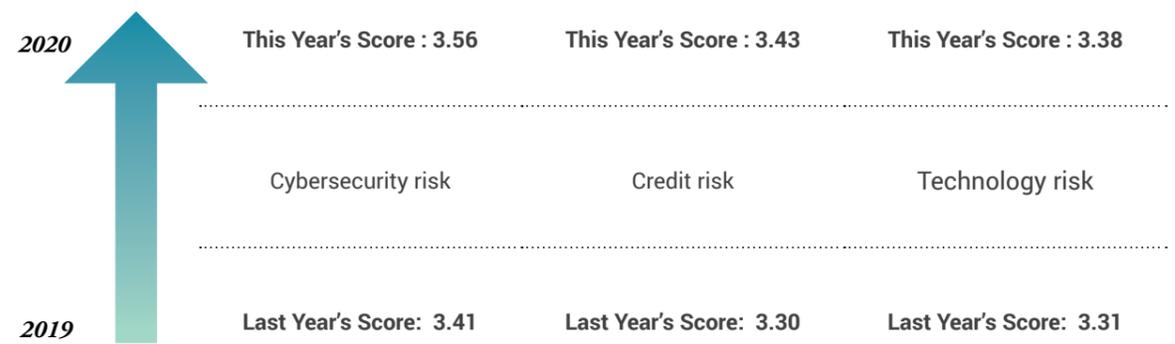
Part II: CIBAFI Islamic Banking Risk Dashboard

The risk dashboard this year showed the biggest risk as being cybersecurity risk and credit risk, followed by technology risk.

“The more entrenched technology becomes within a bank’s systems and operations, the more exposure the bank has to technological risks like data management, malware, hacking, and spoofing attacks.”

Like concerns, the severity of risks increased in 2020 compared to the severity of 2019.

fig2. Global Islamic Banking Top 3 Risks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

This increasing trend in technological risks scores in recent years is plausible given the rise of e-banking services and their related threats. It is not at all surprising that cybersecurity risk and technology risk appear strongly as the top risks for Islamic banks as they now affect virtually all aspects of a bank’s business. It thus makes perfect sense that at a time when banks are striving to expand their customer base and offer new financial products and services, cybersecurity risk would be a pressing concern.

PART III

FINTECH ADOPTION WITHIN ISLAMIC BANKS

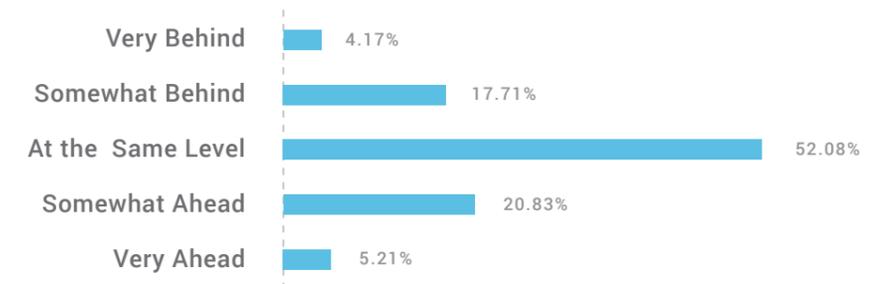
Part III: Fintech Adoption within Islamic Banks

On the level of adoption of Fintech and related digital transformation in Islamic banking compared to conventional banking in their own jurisdictions, banks responses show that on average it was thought to be at the same level.

52% of Islamic bankers believe that the industry is at the same level of Fintech adoption as conventional banks

26% believe that the industry is 'somewhat ahead' or 'very ahead' in term of Fintech adoption compared to conventional banks

fig3. Level of Adoption of Fintech and Related Digital Transformations in Islamic Banking

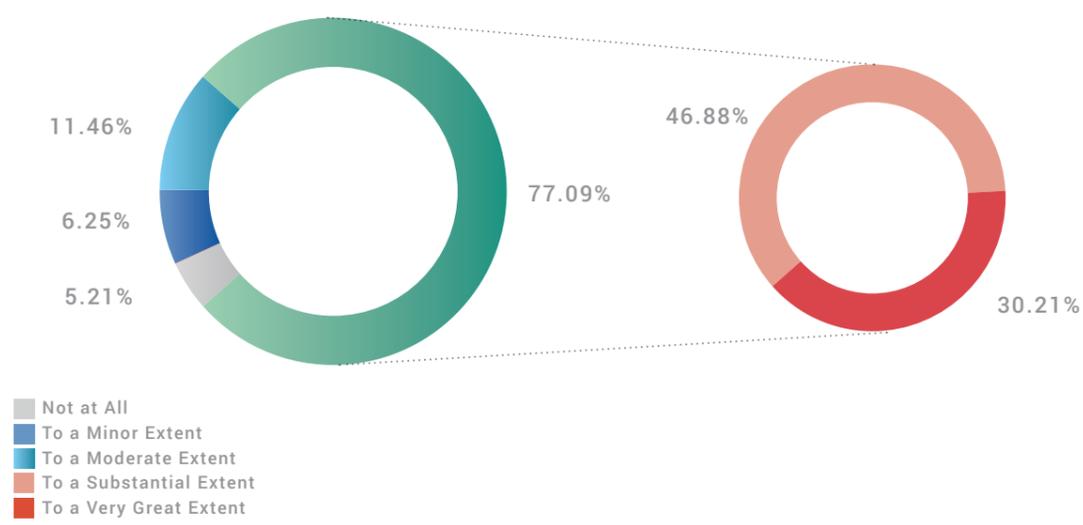


Banks were asked to what level their institutions were putting Fintech and digital transformation at the core of their activities.

77% of respondents said that they were doing so either to a "substantial extent" or "to a very great extent".

“Fintech and digital transformation are at the core of Islamic banks’ activities”

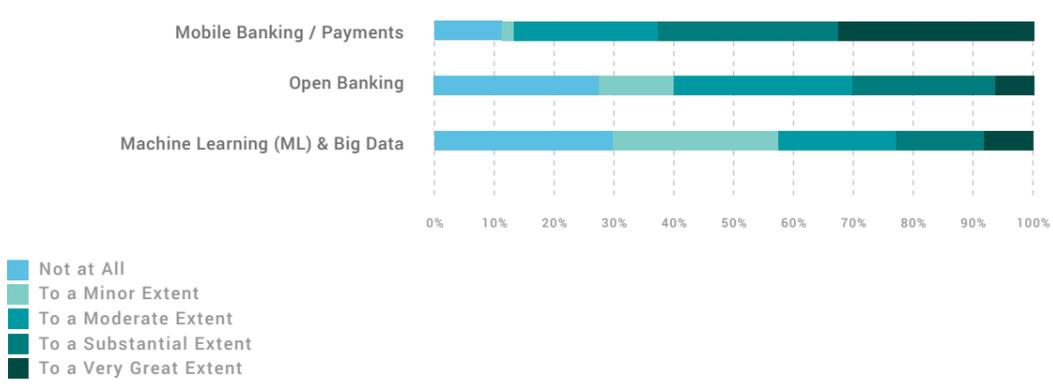
fig 4. Fintech and Digital Transformation at the Core of Institutions’ Activities



Institutions were asked to what extent they were currently implementing certain named Fintech trends. Mobile banking/payments clearly has, by a long way, the highest level of implementation.

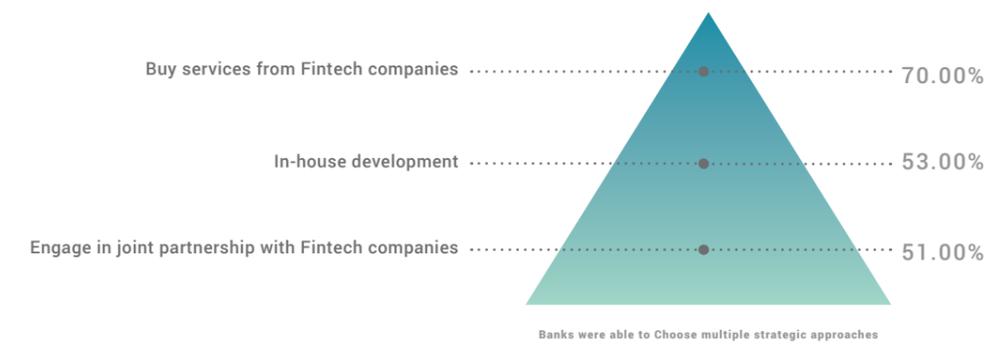
“The technologies dominating the thoughts of Islamic banks are those related to mobile banking and, for some, open banking.”

fig 5. Top 3 Implemented Technologies



Fintech will require transformation across many areas of Islamic banks. Banks were asked to identify, from a list provided, which strategic approaches they were taking to integrate Fintech solutions.

fig 6. Top 3 Strategic Approaches to Integrate Fintech Solutions

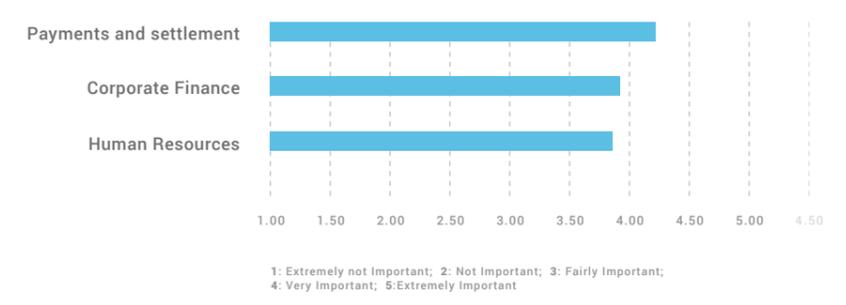


“The most favoured approach is to buy services from Fintech companies.”

A digital transformation and the integration of fintech solution will probably have impact on different areas of the banking sector.

“Payments and settlement, Corporate Finance and Human resources are the top affected areas from Fintech’s adoption.”

fig 7. Top 3 Areas Affected by Fintech Integration



Banks were also asked to give two examples of how particular areas would be affected in their institutions. In addition to mobile banking, banks mentioned also the use of Ripple (a variant of DLT) in payment, reconciliation systems, the use of analytics and AI in marketing and communications, and AI-powered robo-advisory tools to give customers a better understanding of their investment performance.

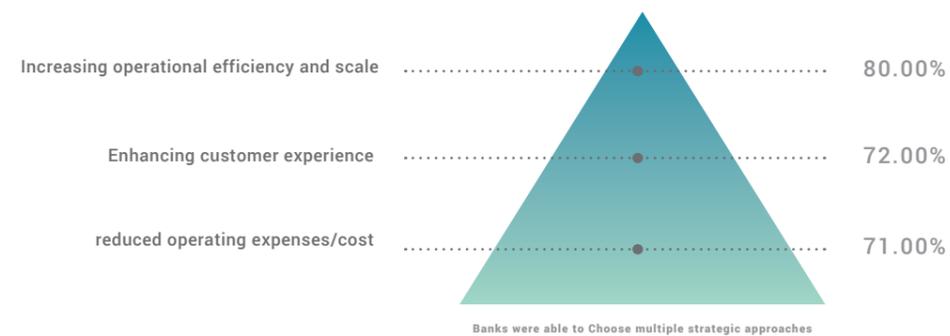
PART IV

CUSTOMER EXPERIENCE WITHIN ISLAMIC BANKS

The adoption of Fintech brings multiple advantages to Islamic banks.

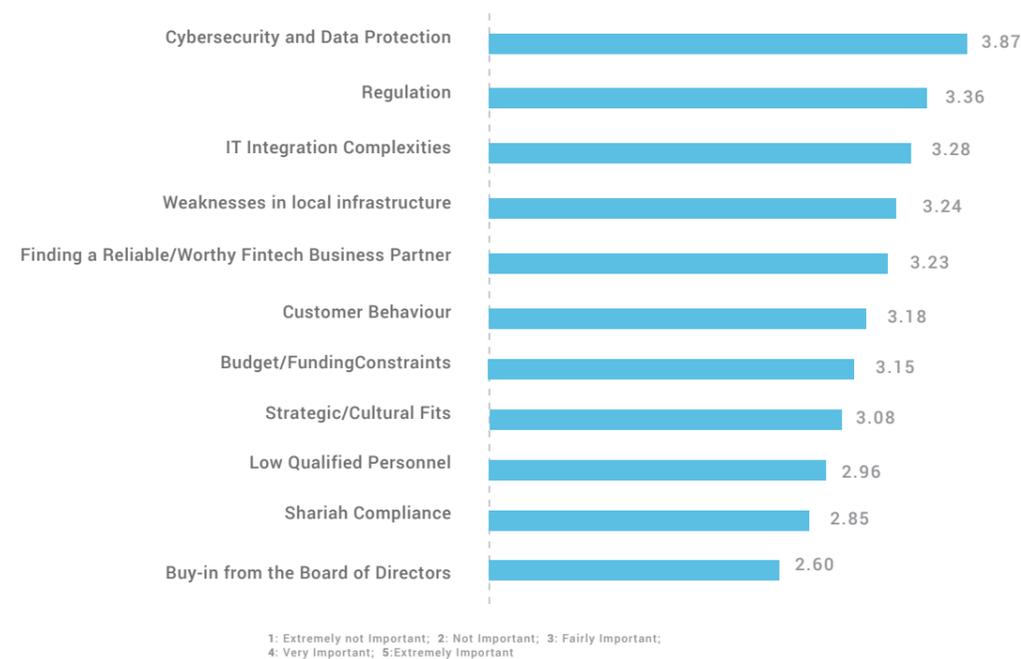
“Operational advantages, both efficiency and scale featured the most prominent.”

fig 8. Advantages related to Fintech adoption



The most important challenges indicated were cybersecurity and data protection, followed by regulation, with a number of other issues quite closely grouped. The scores were, however, modest, suggesting that many of the challenges could be overcome.

fig 9. Challenges of Fintech Adoption



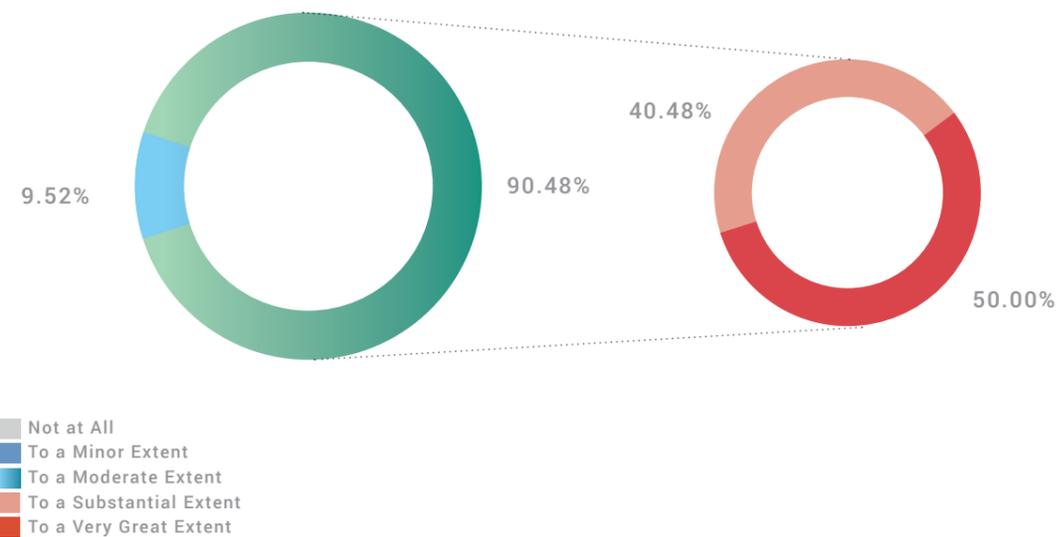
Part IV: Customer Experience within Islamic Banks.

At a time where changing banks is becoming ever-easier, and where technology is changing the way in which customers interact with their banks – providing satisfactory customer experience is of critical importance to customer attraction and retention.

The survey also had intriguing insights on how Islamic banks see the significance of customer experience.

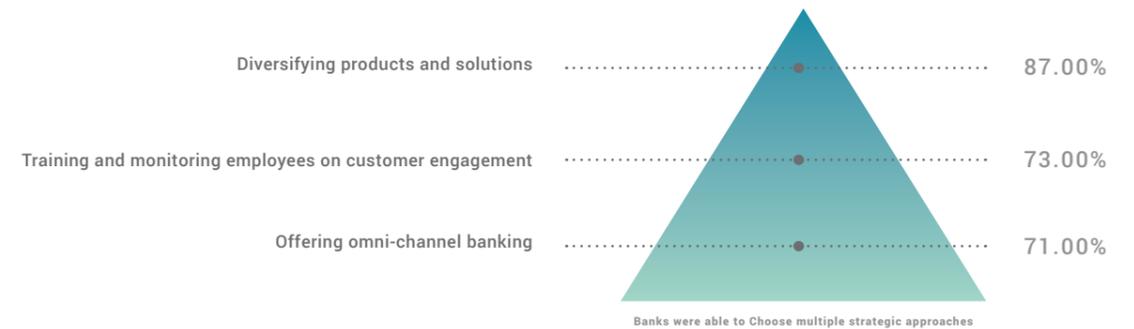
“90% of industry leaders are aware of the importance of customer experience and think that it is, either substantial or to a very great extent, at the centre of the institution’s activities.”

fig 10. Customer experience at the centre of institution’s activities



Banks shared their leading practices to improve customer experience. The leading practices indicated were product diversification, employee training and monitoring, and omni-channel banking.

fig 11: Top practices to improve consumer experience

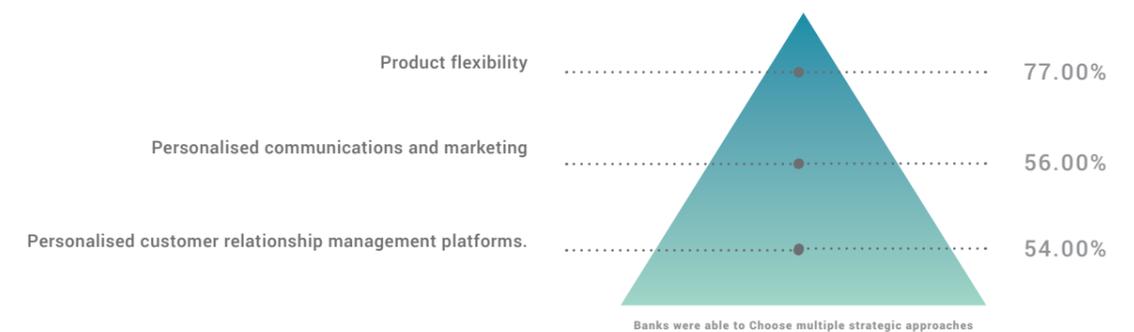


What is clear, however, is that a growing proportion of customers expect banking services to be delivered digitally and over mobile devices, principally smartphones.

“Islamic banks recognise the need to meet this expectation and, in some way, to personalise their digital interactions with customers.”

Many banks are using customer categorisation and offering customers a more personalised experience through:

fig 12: Top 3 Options for Personalisation of Customer Experience



The publication of the survey findings will allow banks to compare their strategies with their peers. More importantly, the report provides the foundation for industry leaders to look beyond digitalisation and embark on (or improve) plans for Fintech adoption, and enhancement of customer experience for the next year and beyond.

Acknowledgements

About the General Council for Islamic Banks and Financial Institutions (CIBAFI)

The Secretariat would like to convey its sincere thanks to its member and non-member banks and financial institutions who took part in the survey and provided their valuable inputs.

We also express our gratitude to the individuals who have contributed in making this report a success. We would like to appreciate Asmaa Mansour, Maribel Lim, Dr. Muhammad Bilal, Rachid Ettaai, Zainab AlOwainaty from the CIBAFI Secretariat, and Peter Casey, CIBAFI consultant for their contributions and efforts in the different phases of production of this report. We are also thankful to Dr. Abdurrahman Yazici, Social Sciences University of Ankara, Prof. Dr. Ahmet Faruk Aysan, Istanbul Sehir University, Dr. Dalal Aassouli, Hamad bin Khalifa University, Samir Safa, Islamic Finance and Technology Practitioner, Mehmet Fehmi Eken, Islamic Development Bank, Peter Szalay as well as Path Solutions for providing valuable feedback and comments to the survey over the course of its preparation.



CIBAFI would also like to express its appreciation to its Knowledge Partner, DDCAP Group for their financial support.

We trust that the report will provide valuable insights to the Islamic bankers around the globe in measuring the pulse of the Islamic financial industry, as together, we drive it towards greater paths of success.

CIBAFI is an international organisation established in 2001 and headquartered in the Kingdom of Bahrain. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC).

CIBAFI represents the Islamic financial services industry globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 130 members from 34 jurisdictions, representing market players, international intergovernmental organisations, professional firms, and industry associations, CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

In its mission to support Islamic financial services industry by being the leading industry's voice in advocating regulatory, financial and economic policies that are in the broad interest of our members and that foster the development of the Islamic financial services industry and sound industry practice, CIBAFI is guided by its Strategic Objectives, which are 1) Advocacy of Islamic Finance Values and Related Policies & Regulations, 2) Research and Innovation, and 3) Training and Professional Empowerment.



+973 - 1735 7300

cibafi@cibafi.org

www.cibafi.org