

# **The Future of Islamic Finance**

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# **The Future of Islamic Finance: From Shari'ah Law to Fintech**

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INVESTOR IN PEOPLE

*To my dear family members, whose unwavering faith in me has been the driving force behind my accomplishments. In particular, I dedicate this book to my loving wife, cherished daughters, and late parents, whose love and encouragement have propelled me forward on this incredible journey.*

Dr Edib Smolo

*This book is dedicated to the Nameless and Faceless, who have lived and died striving for education and economic justice.*

Dr Mohamed Mahees Raheem

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## List of Abbreviations

4IR	The Fourth Industrial Revolution
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AI	Artificial Intelligence
APAC	North America and Asia-Pacific
APIs	Application Programming Interfaces
ASEAN	Association of Southeast Asian Nations
ATMs	Automated Teller Machines
BNM	Bank Negara Malaysia
BoP	Bottom of the Pyramid
CAGR	Compound Annual Growth Rate
CBDCs	Central Bank Digital Currencies
CCCA	Collective Commitment to Climate Action
CGC	Credit Guarantee Corporation Malaysia
CISL	Cambridge Institute for Sustainability Leadership
CSA	Community Supported Agriculture
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Corporate Governance
ETFs	Exchange-Traded Funds
G20	Group of Twenty
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GHC	Global Health Crisis
GIFT	The Global Islamic Fintech
GMOs	Genetically Modified Organisms
HDI	Human Development Index
HPP	Home Purchase Plans
IBBL	Islamic Bank Bangladesh Limited

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ICT	Information and Communication Technologies
IFI	Islamic Financial Industry
iFintech	Islamic Fintech
IFIs	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IME	Islamic Moral Economy
IRTI	Islamic Research and Training Institute
IsDB	Islamic Development Bank
ISF	Islamic Social Finance
ISFR	Islamic Social Finance Report
ITU-T	International Telecommunication Union Telecommunication Standardization Sector
KYC	Know Your Customer
LCTF	Low Carbon Transition Facilities
LMA	Loan Market Association
LSEG	London Stock Exchange Group
MENA	Middle East and North Africa
MSMEs	Micro, Small & Medium Enterprises
NFIS	National Financial Inclusion Strategy
NGOs	Non-Governmental Organizations
OIC	Organisation of Islamic Cooperation
P2P	Peer-to-Peer
PBUH	Peace Be Upon Him (Salutation Upon the Prophet Muhammad)
PLS	Profit-and-Loss Sharing
PoS	Proof-of-Stake
PoW	Proof of Work
PPS	Public/Private Partnerships
PRB	UN Principles of Responsible Banking
PSIB	Principles of Sustainable Islamic Banking
R&D	Research and Development
SC	Securities Commission
SDCs	Sovereign Digital Currencies
SDGi	SDGs Index
SDGs	Sustainable Development Goals

SMEs	Small and Medium Enterprises
SSLC	Sustainable Shipment Letter of Credit
SSOs	Standard Setting Organizations
SWT	Subhanahu Wa Ta'ala (Glorified and Exalted is He)
UN	United Nations
UNCTAD	UN Trade and Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
VBI	Value-Based Intermediation
VBIAF	Investment Impact Assessment Framework
VBIT	Value-Based Intermediation Takaful model

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## About the Editors

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# Preface

“The Future of Islamic Finance: From Shari’ah Law to Fintech” offers a comprehensive examination of the evolution, principles, and contemporary relevance of Islamic finance. Delving into its ethical, technological, and sustainable dimensions, this book explores the integration of Islamic finance with modern financial practices and its potential to foster sustainable development and financial inclusion. Through insightful chapters authored by experts in the field, readers gain a deeper understanding of Islamic finance’s role in shaping the future of finance, navigating economic challenges, promoting social well-being, and leveraging technology-driven innovations. With a focus on ethics, sustainability, and technological advancements, this book serves as a valuable resource for practitioners, policymakers, researchers, and students seeking to explore the dynamic landscape of Islamic finance.

The book is organized into four interconnected parts, each offering a unique perspective on different aspects of Islamic finance.

*Part One* provides an overview of the foundational aspects of Islamic finance, tracing its historical evolution and exploring its fundamental principles. *Chapter 1* delves into the historical journey of Islamic finance, highlighting its unique features and key principles, while *Chapter 2* examines the relevance of Islamic economics in addressing contemporary challenges. Building upon this, *Chapter 3* explores the philosophical underpinnings of Islamic finance, emphasizing its enduring relevance in today’s financial systems. Finally, *Chapter 4* discusses the contributions of Muslim scholars to economic theories, advocating for free trade and ethical market practices.

*Part Two* focuses on the ethical and socially responsible dimensions of Islamic finance, exploring its role in promoting sustainable development and social welfare. *Chapter 5* examines the integration of Islamic finance with the Sustainable Development Goals (SDGs), emphasizing its potential to alleviate poverty and promote environmental sustainability. This ethical imperative is further underscored in *Chapter 6*, which discusses the role of Islamic microfinance in fostering social well-being and financial inclusion. Additionally, *Chapter 7* explores the potential of Islamic social finance to address humanitarian challenges, particularly in Organization of Islamic Cooperation (OIC) countries, through mechanisms such as *zakah* and *waqf*. *Chapter 8* emphasizes the ethical imperative of Islamic banking, highlighting its role in promoting responsible financial practices and sustainability.

*Part Three* explores the intersection of technology-driven innovation with Islamic finance, addressing opportunities and challenges presented by fintech and digital currencies. *Chapter 11* discusses the potential of fintech to enhance financial inclusion and support sustainable economic growth within Islamic finance. This is complemented by *Chapter 12*, which analyzes the compatibility of digital currencies with Shari'ah principles and explores the regulatory framework needed for their integration into Islamic finance. Furthermore, *Chapter 13* examines the role of artificial intelligence in improving efficiency and risk management within Islamic banking while ensuring compliance with Shari'ah principles.

*Part Four* presents an in-depth exploration of the future landscape of Islamic finance, addressing key challenges and opportunities facing the industry. *Chapter 14* focuses on strategies for fostering financial inclusion, enhancing sustainability, embracing digitalization, and promoting industry harmonization within Islamic finance. Finally, *Chapter 15* concludes the book by emphasizing the need for a values-driven approach and the integration of Islamic finance with emerging technologies to drive ethical, equitable, and sustainable financial practices globally.

In short, "The Future of Islamic Finance: From Shari'ah Law to Fintech" presents a nuanced exploration of Islamic finance, spanning its historical roots to its contemporary applications. This comprehensive examination delves into the ethical, technological, and sustainable facets of Islamic finance, shedding light on its integration into modern financial practices and its potential to drive sustainable development and financial inclusion. Authored by experts in the field, each chapter offers unique insights into Islamic finance's role in shaping the future of finance, addressing economic challenges, promoting social welfare, and embracing technological innovations. Grounded in principles of ethics, sustainability, and technological advancement, this book serves as an invaluable resource for practitioners, policymakers, researchers, and students alike, providing a comprehensive understanding of the dynamic landscape of Islamic finance, its timelessness, and its profound implications for the global financial sphere.

*Dr Edib Smolo & Dr Mohamed Mahees Raheem*



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We would like to express our sincere gratitude to all the individuals who contributed to the realization of this book. Their invaluable support, insights, and expertise have been instrumental in bringing this project to fruition.

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*Editors*