

## IMPORTANCE OF TRANSFORMATION PROCESS IN ISLAMIC BANKS

**Gulamova Iroda Ziyovuddin qizi**

3rd year student of “Banking and audit” Tashkent state university of economics

[iroda.gulamova@tsue.uz](mailto:iroda.gulamova@tsue.uz)

**Abstract:** This paper explores the impact of globalization, digitization, and Islamic fintech on the evolving landscape of global finance, with a focus on Islamic banking. It discusses the growth of Islamic banking driven by the Muslim population's rise, the role of state intervention, and the promising future of Islamic financial technologies. The challenges, including regulatory issues and the need for skilled personnel, are addressed. The paper emphasizes the potential of Islamic fintech to attract millions of new customers and its significance in providing transparent and ethical financial solutions. The study concludes by highlighting the importance of preparedness, regulatory compliance, and collaboration between traditional and fintech institutions for sustainable development in the Islamic financial sector.

**Keywords:** Global finance, Islamic banking, Islamic fintech, globalization, digitization, regulatory challenges, financial inclusion, Sharia compliance, technology adoption, Muslim population growth.

Globalization leads to changes in financial markets worldwide. In the era of financial globalization and widespread digitization, the capital market has become more interconnected. Moreover, in the future, digital technologies will increasingly play a crucial role in production processes and trade. Therefore, over time, production processes will increasingly depend on capital and technology not only in developed countries but also worldwide. The growth in capital intensity and technological advancement in production impacts the international competitiveness of all countries.

In the ever-evolving landscape of global finance, the influence of digitization has permeated various sectors, revolutionizing traditional practices and fostering innovation. Islamic banking, rooted in principles guided by Sharia law, has not remained untouched by the transformative waves of digitization. The integration of digital technologies into Islamic financial services has not only enhanced operational efficiency but has also contributed to the growth and adaptation of Islamic banking in the contemporary world. This exploration delves into the pivotal role that digitization plays in shaping the landscape of Islamic banking, shedding light on how technological advancements are influencing the industry and its stakeholders.

The first Islamic bank recognized was the Nasser Social Bank, founded in Egypt in 1971. Since then, the Islamic banking segment has actively developed, with a growth of approximately 15% in the last three years. Out of 21.5 thousand banks operating worldwide, 1%, or 316, belong to Islamic banking.

One of the key drivers of Islamic banking development is the growth of the Muslim population. Over the period from 2010 to 2020, the growth reached 19%, with the total number of Muslims in the world reaching 1.8 billion people. According to experts' forecasts, by 2050, their number will increase to 30%, reaching 2.8 billion people.

Furthermore, the economies of countries with predominantly Muslim populations have experienced remarkable growth, surging by 263% over the past 20 years. The collective share of these economies in the global Gross Domestic Product (GDP) has risen from 3% to 14%.

State intervention plays a significant role in this development, as government support contributes to the refinement and alignment of regulatory, legislative, and tax frameworks in these countries. Infrastructure is created and improved from scratch, fostering the development of various financial services.

In 2016, the Islamic financial sector was estimated at \$2.2 trillion, and by 2022, forecasts anticipate a 7.7% growth, reaching \$3.8 trillion as the adoption of technology expands. Leading the Islamic banking and finance market are Malaysia, Bahrain, the UAE, Indonesia, Saudi Arabia, Jordan, Pakistan, Kuwait, Oman, and Brunei Darussalam.

Crowdfunding, investment account platforms, robo-advisors, payment platforms, smart contracts, blockchain, cryptocurrencies, financial sector cybersecurity, insurance technologies, and other fintech tools are among the few emerging channels of digital transformation that can be employed in the Islamic financial industry, alongside traditional finance.

The future of Islamic finance, particularly Islamic financial technologies, looks promising in Muslim countries. The proliferation of mobile technologies and smartphones has paved the way for fintech growth in these nations. Of course, these opportunities are not without challenges. The primary challenge for Islamic fintech companies is associated with regulation and the lack of high-quality and credible research in the Islamic fintech sector.

Another study (Firmansyah 2018) asserts that the presence of Islamic fintech companies can effectively assist startups, serving as a positive stimulus for young graduates. This is particularly beneficial given the shortage of organizations that support young aspirants with Sharia-compliant funding.

Islamic financial technologies are grounded in Sharia ideals and values, positioning them to lead in the global financial arena. The primary advantage of Islamic financial technologies is their transparency, accessibility, and user-friendly nature within the realm of finance. According to IOSCO (2017), "innovative business models can transform the financial industry." The Oxford Dictionary defines "fintech" as "traditional financial services provided through the use of information technology." According to another perspective, "Fintech is essentially a collection of companies or groups of companies providing modern, innovative financial services through technology," while Sanikola (2019) stated, "Fintech is both: the promotion of technology to expand the use of financial resources and the promotion and growth of digital consulting."

Opportunities and challenges in Islamic financial technologies:

Since 2008, fintech transactions in the European region have doubled, growing at a rate twice as fast as Silicon Valley. From 2011, the volume of fintech transactions in the London region has tripled, constituting over 50% of all European activity. There is ample room for new companies engaging in financial technologies, achievable through a broad spectrum of financial services and customer respect. This is crucial for the development of companies providing financial services and banks, as the growth of fintech companies offers customers the opportunity to utilize both traditional financial services and new, innovative services provided through fintech companies.

Fintech companies have provided traditional banks with a lifeline to transition to digital technologies and offer financial services at a lower cost. In countries like the Czech Republic, affordable banking services through fintech are helping banks compete with larger and more established institutions. However, it is expected to continue growing further as we anticipate an explosive growth in the Muslim population. By the year 2060, the Muslim population is

projected to reach 3 billion (Cooper, 2018). Leading up to this date, Malaysia, the United Kingdom, and Indonesia maintain the top three positions in the number of Islamic fintech startups (Cooper, 2018). Another study (Rusydia, 2018) concluded that the most significant obstacle to the development of Islamic financial technologies is the lack of prepared human resources and a clear government policy.

Researchers further assert that to create a proper ecosystem for the development of Islamic financial technologies in a country, the government should introduce appropriate regulations, and educational institutions should lead to good research and provide trained personnel. The success of Islamic financial technologies can be associated with the variety of financial service sectors that fintech can be linked to, such as cryptocurrencies, blockchain, and other areas like cross-border payments.

Islamic Fintech needs to keep pace with the rapid development of the traditional financial world. In fact, the opportunities in Islamic finance are greater than conventional finance, as the core concept of equity capital in Fintech aligns with Sharia principles. Islamic Fintech shares the same values and ethics that underlie Islamic finance. Fintech has become a challenge for financial institutions that can be turned into opportunities by making fintech companies partners in providing innovative services rather than viewing them as competitors.

The main risk associated with the development of Islamic financial technologies opens up significant opportunities for developing countries by providing economically efficient solutions for financial services. At the same time, it also tests regulatory bodies in terms of maintaining stability and protecting investors and institutions from fraudulent trading practices. To ensure the growth and sustainable development of Islamic financial technologies, an awareness-raising program can be initiated among university students who use these technologies. If fintech wants to remain relevant in the long term, it must be innovative, as the adoption of fintech by Islamic financial institutions affects not only the Muslim community but also non-Muslims and the global financial world (Irfan, 2019). The global financial crisis did not impact the financial performance of Islamic banks due to the nature of Islamic finance, which emerged as an alternative to traditional finance. With the advent of Islamic financial technologies, Islamic banks now have the opportunity to contribute to improving the financial world and serve as an alternative financing option with greater transparency and ethical values. Technological changes mark just the beginning of upcoming innovations in the financial and banking sectors. It is crucial for Islamic financial institutions to be prepared and embrace these changes. Compliance with Sharia principles is paramount. Islamic financial technologies have the potential to attract 150 million new customers within the next 3 years.

In summary, the global financial landscape is evolving with digitization, impacting both traditional and Islamic banking. Despite challenges, Islamic fintech shows resilience, fostering financial inclusion and innovation. The future of Islamic finance looks promising, driven by mobile technology adoption in Muslim-majority regions. The minimal impact of the global financial crisis on Islamic banks highlights their resilience. To sustain Islamic fintech, supportive regulations and commitment to Sharia principles are essential. Collaboration between traditional and fintech institutions offers mutual growth opportunities in the evolving financial landscape.

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