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DIGITAL TRANSFORMATION ENABLERS AND PROSPECT:

*Are Qatari Financial Institutions Ready to Embrace
FinTech?*

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INTRODUCTION¹

The College of Islamic Studies (CIS), Hamad Bin Khalifa University (HBKU), hosted the 6th CEOs and Islamic Finance Leaders Roundtable event on the subject of “Digital Transformation Enablers and Prospect: Are Qatari Financial Institutions Ready to Embrace FinTech?” on Wednesday, January 12, 2022. This report is a summary of the roundtable deliberations.

The 6th roundtable, titled 'Digital Transformation Enablers and Barriers,' aims to advance the Qatar National FinTech strategy and the Qatar National vision 2030 by fostering an open dialogue between industry leaders, regulators, and academia, as well as giving students the opportunity to become more involved in the industry.

The roundtable was organized by the Center for Islamic Economics and Finance (CIEF) with the support of the CIS Islamic finance program and was held online due to the COVID-19 circumstances. More than 140 participants, including CEOs from different financial institutions, industry leaders, Shariah scholars, regulators, academics, and HBKU students attended and enriched the discussion.

The roundtable followed a moderated-open discussion format, with Dr. Ahmet Faruk Aysan, program coordinator for the Islamic finance MSc and Phd program at CIS-HBKU, being the moderator. The opening remarks were delivered by Dr. Emad El-Din Shahin, Dean of CIS-HBKU, who emphasized the significance of the Qatar National FinTech Taskforce's formation in 2017, which resulted in the effective structuring and development of a FinTech ecosystem and contributed to Qatar's efforts to diversify its economy. He hoped that deeper discussions by this select group of participants and the agenda set by the organizer would help further accelerate the enablers of the FinTech digital transformation by lowering barriers to it and encouraging a more robust economy, which would lead to the development of all segments of society and promote Qatar as the region's financial hub.

Following that, the keynote speech by Mr. Yousuf Mohamed Al-Jaida, CEO of Qatar Financial Centre, highlighted the expansion of Islamic finance in Qatar over the past several years, with the advent of digital transformation, financial technologies continue to expand in a variety of

¹ **Acknowledgements:** This roundtable was moderated by Dr. Ahmet Faruk Aysan and convened by Dr. Syed Nazim Ali, Bahnaz Al-Quradaghi, and Zul Hakim Jumat of the Center for Islamic Economics and Finance, College of Islamic Studies, Hamad Bin Khalifa University in Doha, Qatar.

ways. He stressed that Islamic finance's success has led to the business amassing substantial worldwide assets of USD 3.3 trillion by 2020, with additional expansion anticipated. In contrast to many other industries during the global pandemic, Islamic finance exhibited an upward growth trend. This increased the potential of these sectors to maintain business continuity during difficult times, thereby contributing to the development of a more inclusive and sustainable economy. He quoted that according to the Qatar Financial Centre Report on Global Islamic Fintech, the Islamic FinTech industry surpassed USD 45 billion in 2020 and is projected to reach USD 128 billion by 2025. More importantly, the report forecasted a positive outlook for the Qatar economy, with an expected annual growth rate of 19.6%.

SETTING THE CONTEXT

Financial Technology encompasses advances in technology and changes in the business model that can transform the provision of financial services via innovative instruments, channels, and systems. With the global FinTech investments reaching USD 133.5 billion in 2019 and continue to remain unwavering at USD 105.4 billion during the break of Covid-19 in 2020 and USD 98 billion in the first half of 2021², it is reasonable to believe that FinTech will spearhead and shape the transformation of financial services in the future. Despite this positive growth in global FinTech Investments, the MENA region only accounted for less than 1% of the global investments³.

Many world economies transition to a post-pandemic 'new normal' is creating new opportunities for FinTech development worldwide since FinTech not only simplifies the process financial transaction but also reduces transaction cost substantially. In fact, although the adoption of technology by various institutions was slowly rising before the Covid-19, the pandemic has accelerated its mass adoption and the extensive use of technology by financial service providers, especially banks via digital and contactless payments due to a considerable shift towards online commercial activity as well as social distancing practices.

To capitalize on FinTech benefits, global mainstream financial institutions have focused on

² KPMG (2021), "Pulse of Fintech" Report.

³ QFC (2021), Qatar Fintech Report 2021.

structuring technology-driven financial services: e-wallet, digital banking, digital payments, digital savings, InsurTech, WealthTech, RegTech, etc. Qatar has also made significant progress in structuring and developing a sustainable and globally competitive FinTech ecosystem since the formation of the Qatar National FinTech Taskforce in 2017. Accordingly, Qatar is committed to a National FinTech strategy to diversify its economy that was effectively commenced with the establishment of Qatar FinTech Hub (QFTH) in April 2020⁴.

Since QFTH's inception, it has partnered with several globally established FinTech hubs to facilitate the exchange of FinTech solutions and bring in international FinTech companies from these hubs to operate in Qatar. However, for the Qatar National FinTech strategy to succeed, it is essential for Qatar's local and international financial institutions to adopt FinTech innovation in their provision of financial services harmoniously. This is because a delay in adopting technological advances is likely to throw Qatar's ambition to become the leading financial hub in the Middle East. Therefore, it is important for the FinTech stakeholders in Qatar to address relevant questions such as:

1. What is the degree of penetration of the conventional and Islamic financial industry in the growing fintech market?
2. Is technology going to narrow the division between Islamic and conventional finance in the future? And how will that benefit Qatar's economy?
3. Are Qatari financial institutions fully ready to embrace FinTech?
4. What makes a booming FinTech hub in the global FinTech race?
5. Does attracting foreign FinTech companies through the depth of venture capital and breadth of business opportunities viable for Qatar's business climate?
6. What are the key developments for a central bank digital currency and its relevance in the Post Covid-19 monetary environment?
7. What have Qatari regulators do to enable and expedite financial institutions adoption of FinTech? What more can and should be done?

⁴ *Ibid*

Qatar Fintech Ecosystem: Enabler & Barriers

Many factors have impacted the Qatari economy over the last three years, including the Blockade, Covid 19, economic slowdown, and low oil prices. These factors had an impact on people's lives all over the world, resulting in transformations at all levels. According to one participant, despite the loss of life during the pandemic, it also highlighted human dignity, human values, and technology, creating opportunities for humanity to collaborate at all levels. The pandemic transformed the health-care industry, automation, business models and work modes, and the interconnection of economies and societies. It aided in the acceleration of the transition to a knowledge economy, such as the FinTech drive. More controlled human interaction, increased digitalization, and the transition from cash to cashless transactions are all part of the crisis's changing dynamics.

Many participants advocated for increased financial literacy about FinTech as well as advanced technical training for the general public, staff, and students on how to use FinTech tools. Shariah rules and fatwas in FinTech and solutions are also critical issues that must be addressed to ensure compliance with Shariah rules and regulations.

One participant from the Central Bank stated that QBC has a concentrative approach, which yielded positive outcomes because central bankers are generally known to be conservative in order to protect national interests. Other participants agreed that balancing regulation, society, and FinTech takes time in order to ensure financial stability.

Furthermore, it was highlighted that the Qatar Financial Centre has been working hard on FinTech, particularly on the regulatory front, to make it easier for new businesses to establish themselves in Qatar. Simultaneously, it is critical to protect the financial system's integrity, consumer protection, and the safety and soundness of financial transactions in the context of FATF and anti-money laundering, while other participants want to ensure that the system is operating with integrity and moving forward to accommodate FinTech development.

Other participants then identified the difficulty of financial inclusion for employees earning less than QAR 3000 per month. A sizable number of workers are still unbanked, which is an

area where FinTech has great potential. Financial inclusion is an issue that requires immediate attention, possibly through a digital bank or an existing financial institution.

Following that, a corporate participant stated that establishing his FinTech company was fraught with regulatory challenges. However, FinTech solutions require more than just regulatory changes; they also require public awareness campaigns to benefit Islamic finance. Banks must focus their 2.5% social contribution on training in order to eliminate financial technology illiteracy. He continued with highlighting that Covid 19 had no negative impact on Islamic FinTech. Rather, it increased the sector's ability to maintain business continuity during difficult times, assisting in the creation of a more inclusive and sustainable economy. For instance, the Qatar Islamic FinTech sector is showing promise, with a 19.6% increase in market size projected from a bounded annual growth rate over the next few years. Furthermore, according to the Qatar Financial Centre Global Islamic FinTech Report 2021, the OIC Islamic FinTech market was worth 45 billion USD in 2020 and is expected to grow at a 21% annual rate to reach USD 128 billion by 2025. Moreover, the year 2022 will be a year of expansion for Islamic FinTech. To capitalise on this trend, the Qatar Central Bank, in collaboration with the Qatar Development Bank and the Qatar Financial Centre, advocated for the establishment of the Qatar FinTech Hub in order to stimulate the sector. An improved and sustainable Islamic FinTech ecosystem will expand Qatar's commercial opportunities while also improving technical expertise in the sector. It will also help the country establish itself as a leader in Islamic finance.

Qatar's mission to become a regional hub for Islamic finance and its position as a leader in Islamic banking provide the most favourable conditions for the expansion of Islamic finance. In terms of asset size, M&A, and mergers and acquisitions, Qatar's Islamic financial sector is among the most developed. At least in the Islamic world, sukuk issuances were among the top five, so Qatar has a very lucrative niche to fill. One participant suggested, "If we can develop a mutual recognition passporting framework for Islamic FinTech, I believe that would place us in a prominent global position. To assert that others will become global FinTech hubs, however, is implausible. We do not wish to travel there. The entire planet is essentially racing to become a global FinTech hub, specifically an Islamic FinTech hub. Given the dynamics, the composition of the country, and the substantial asset growth within Islamic finance." A participant then outlined the five requirements for a FinTech hub: human capital, regulation,

financial capital, physical capital, and demand. Qatar possesses some of these qualities and must strengthen them to improve its chances.

Lastly with regards to Digital banking being an important segment in the FinTech ecosystem, it was stated by a participant: "...for digital banking, we would like to have a digital bank in Qatar; we have seen certain initiatives in the Islamic finance world... There are a few new banks in the UK. I believe one is called NIA and the other RIZQ. Another bank, Insha'a Bank, is part of the Al-Baraka group in Bahrain and was founded in Germany. We believe Doha is well-suited to Islamic finance activities in all nine categories..."

It was then echoed by other participants arguing that Qatar has seen tremendous progress in electronic payments and financial inclusion, but that this does not mean that we do not need to do much more in terms of digital banking. Collaboration between all stakeholders and international regulatory bodies such as the World Bank, IMF, and others is required for digital currency. One of the participants from the industry commented that they introduced some digital solutions, such as account opening, personal financing, and credit card through collaboration with Fintech, and that the market has many innovative products, solutions, and tools. He further added that cryptocurrencies are rapidly evolving, with more and more countries adopting them. Binance, for example, is expanding its regulatory influence across numerous countries. As a result, it should not be considered solely in the context of Qatar, but rather with a global perspective via FinTech companies.

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