

# THE ROLE OF ISLAMIC FINTECH IN THE ADOPTION OF INTERNET BANKING IN THE ISLAMIC BANKING INDUSTRY

<sup>1</sup> Khan Md Abdus Subhan, <sup>2</sup> Mohammad Enayet Hossain

<sup>1</sup> Ph.D. aspirant, Limkokwing University of Creative Technology

<sup>2</sup> M.Sc Scholar, International Islamic University Malaysia (IIUM)

## Abstract

FinTech has grown to be one of the most vibrant and energetic parts of the global financial services business. In comparison to the global FinTech business, Islamic Fintech is still in its infancy. It is, nevertheless, increasing at an exponential rate. FinTech stands for financial technology, and it is fast evolving as part of the contemporary human need to deal with financial transactions in daily life, embracing the banking industry as a consumer convenience instrument. Because the basic functions of *riba*, *Maysir*, and *gharar* are barred from forming part of the FinTech component, adapting FinTech in Islamic banking poses issues in terms of Shariah compliance. Although internet banking is becoming more widespread, many people are ignorant of it, which is the vast number of routinely cheated people. This study aims to investigate the role of Islamic FinTech in the Islamic banking industry's adoption of Internet banking. This study employed secondary and primary data and secondary data sources such as journal articles, books, and the websites of international financial institutions and commercial banks, which are used in this study.

**Key Words:** Islamic Fintech, Islamic Banking, Internet Banking, shariah-compliant.

## Introduction

Information technology is profoundly altering today's world. The potential of technology is quickly being employed in Islamic financial technology as access to internet financial services develops (FinTech). The expanding number of customers who interact with technology, particularly micro-entrepreneurs who incorporate the tools into their business models to take advantage of this opportunity to enhance revenue, demonstrates this. FinTech is an example of innovation, and it is exploding as a result of the financial sector's present human demands. Consumers view banking institutions as a handy method of transaction in their daily lives, and the banking business is considered a convenience device for them. With the introduction of Islamic Fintech, the Fintech revolution has empowered the Islamic financial sector. In essence, Islamic Fintech is subject to the same regulatory framework as Islamic finance products. *Maysir* (gambling), *Gharar* (uncertainty), and *Riba* (interest) are all *Maghrib* elements that must be avoided.

As more sophisticated technology is deployed, Internet banking is growing more popular, promoting competition and facilitating more transactions through the financial system. FinTech, or financial technology, is a disruptive technology that is changing stakeholder banking behaviour, implying that FinTech is impacting both traditional and Islamic finance (Abdul Rafay et.al, 2019). FinTech began with the invention of the Automatic Teller Machine (ATM) by Barclays Bank in 1967. In 2016, Arner and colleagues (Arner and colleagues) published a paper on this topic. Academics are now investigating the role of Islamic Fintech.

## Problem Statement

As a result of the rapid advancement of Internet technology, Internet banking has become increasingly important and central in the banking sector (Khamitkhan, 2018). The banking industry must consider two sides: the industry and its clients. The industry has offered technology-based services, but the customer side has yet to adopt these services (Hassan, 2018). As a result, more research is needed into how customers might embrace a technology provided by a firm, particularly in understudied areas like Islamic Banks' internet banking. Despite the many benefits of Internet banking, such as faster transaction speeds and lower handling fees, a sizable segment of the population still refuses to utilize it owing to uncertainty and security concerns. Bank executives will be better able to come up with ways to get more people to use the Internet if they know why this is the case (Vukovi, 2019a).

## Research Objective

**RO<sub>1</sub>** To determine influencing factors of Internet Banking adoption in the Islamic Banking Industry.

**RO<sub>2</sub>** To investigate the relationships between influencing factors and Internet Banking adoption in Islamic Banking Industry.

**RO<sub>3</sub>** To examine the mediating role of Islamic FinTech in the relationships between the influencing factors and Internet Banking adoption in the Islamic Banking Industry.

## LITERATURE REVIEW

One of the fundamental characteristics of Islamic finance is that it encourages asset-backed lending, promotes financial and social stability, addresses financial inclusion, and promotes society's comprehensive and overall development, all of which are necessary for sustainable development. Islamic banking focuses on universal human rights, social fairness, and fair-trade relations. Islamic finance doesn't allow people to make too many guesses or be too unpredictable to protect everyone's interests. The financial technology (fintech) segment is set to play a more significant role in expanding the Islamic finance sector and going to meet more Shariah goals than Islamic banking, which has a limited role. A fintech expert and researcher at the International Shariah Research Academy for Islamic Finance says that fintech is satisfactory for Islamic finance because it's a new and dynamic feature of the financial industry.

### The Definition of Islamic FinTech

FinTech is challenging to define in general because public acceptability is limited due to a lack of understanding and a failure to see that FinTech innovations are fast transforming the old financial system. According to them (K.Leong & A.Sung, 2018). Efforts have been made to describe Islamic Fintech as a mix of finance and technology, which must comply with and follow the Syariah requirements, which are becoming more familiar as Islamic finance has incorporated the digitalization era. (2019, Ilyas & el) Another definition of Islamic Fintech differs from traditional fintech due to Shari'ah compliance requirements, which relate to Syariah-permitted Fintech products (Hasan et.al, 2020). Besides, Islamic financial technology, or Islamic Fintech, is any technology that allows or supports new Islamic finance products or services, much like traditional fintech allows and supports new conventional finance products (Salmaan, 2017). Some researchers studying Islamic Fintech concluded that financial technology is nearer to the essence of sharia as it removes leverage (Firmansyah and Anwar, 2019). Besides, (Umar & Nazim, 2019) disagree with FinTech is challenging to define in general because public acceptability is limited due to a lack of understanding and a failure. FinTech in Islamic banking issues in terms of Shariah-compliance, as the essential parts of riba', Maysir, and gharar are barred from being included in the FinTech component. As a result, there is no clear definition of Islamic Fintech, which conveys the assumption that Islamic Fintech might mirror the conventional fintech that is now used by traditional banking. Islamic fintech would make Islamic financial services more accessible in cheaper, easier, and more efficient ways, allowing for financing, payments, and investments that are in line with the Islamic Divine Laws' original goals (Maqasid Al-Shariah).

### Definition of Internet banking

Internet banking has now spread around the globe. Various cutting-edge electronic banking technologies have benefitted the banking business, such as technologies that allow a bank to send banking information and transaction details electronically. Internet banking, online banking, online payment, and other electronic banking features are available (Mohammad & Hannan 2016).

One of the few web services with well-established benefits for both users and banks is Internet Banking. Internet banking refers to systems that enable bank customers to access their accounts and general information about bank products and services using a computer, laptop, mobile phone, or another intelligent device. Internet banking is a collection of self-help financial services provided by a bank to its customers via the Internet, including account information inquiry, account transfer & payment, online payment, agency services, and so on.

### Adoption of Internet Banking in Islamic Banking Industry

Internet technology is an integral part of our daily lives and beneficial for gaining competitive business advantages. Customers choose internet technology because it is easy to use and saves time (Gupta et al., 2008; Samar et al., 2017). It has altered business behavior and significantly impacted people's lives. In comparing internet banking versus traditional banking, Lichtenstein and Williamson (2006) found that internet banking is more reliable for both banks and customers. Customers want their buying and selling processes to be as simple as possible; thus, businesses are working on improving their technical systems (Rahi, 2019a; Rahi and Ghani, 2019b). Information technology is the essential service for providing front-line functions, a place where you may not exist, but your consumer does, and they are willing to purchase your items.

According to Mazuri et al. (2017), internet banking is a network that connects computers worldwide. According to Bauer et al. (2005), online banking is a method in which a user gains direct access to a bank account over the Internet and can conduct banking activities. The use of electronic means and technology to conduct commerce in various situations, such as business-to-business (B2B) and business-to-consumer (B2C), is referred to as electronic commerce (Jayawardena, 2004). Customers will be more likely to use internet banking if your organization provides superior service on its website, according to Reichheld and Scheffer (2000). However, if the website is not user-friendly or lacks appropriate material, you will lose the trust and image of your customers.

Furthermore, customers will never be satisfied with sophisticated website features with a well-designed website can pique people's interest and encourage them to take action; as a result, the website that will be used for internet banking must be adaptable in its operation (Samar et al., 2017b).

The rise of digital banking in Islamic institutions has impacted various Muslim countries, including emerging economies like Malaysia. The evolution of Islamic banking products and services has been boosted by fintech. Malaysia's Islamic banking industry has increased in recent years, with Islamic finance and banking concepts mixed with a wide range of financial products to fulfil the needs of individuals, businesses, and investors. Several factors have supported the development of Islamic banking and finance, including well-

developed regulatory, prudential, accounting, framework, and cutting-edge financial technology.

### Conceptual Framework

A lot of researchers have demonstrated that characteristics such as perceived relative advantages, social influences, knowledge of Islamic banking, perceived complexity, and perceived risk are relevant in influencing the consumer intention to embrace online Banking in the Islamic banking business (Fishbein & Ajzen, 2010).

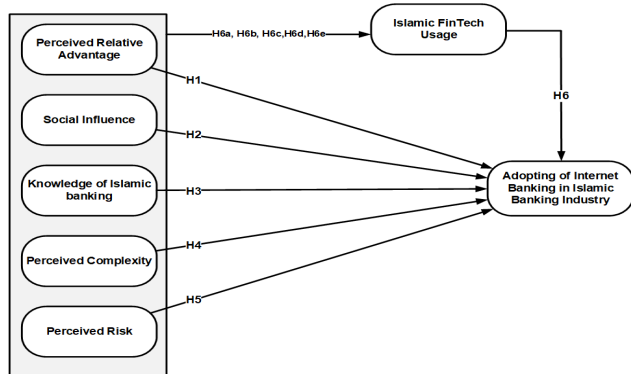


Figure: Conceptual Framework

In the framework above, the five independent variables are perceived relative advantage, Social Influence, Knowledge of Islamic banking, perceived complexity, perceived risk, and Islamic FinTech usage is mediating variables. The dependent variable is Adopting Internet banking in the Islamic banking Industry.

### Research Methodology

This is a quantitative approach piece of work. The findings are based on primary and secondary data; primary data was particularly collected for this study. It is acquired through direct or indirect communication with the matter. Secondary sources, such as journals, sessions, papers, and reliable sources, all deal with the same subjects as primary sources.

### Conclusion

In the Islamic digital economy, such as internet banking, online banking, mobile banking, and other internet-based financial operations, Islamic Fintech has become an important component. The future of Islamic Fintech is brighter, particularly in Muslim nations. It is critical to recognize fintech's capacity and make use of the benefits offered by fintech products in quickly expanding Islamic financial services during the pandemic. COVID 19. The introduction of technology has aided the progress of industry and economic development into financial institutions. FinTech plays an important role in the Islamic banking business by serving as a financial technology pioneer and providing a new platform for technology investment. In terms of financial services, FinTech market penetration in Islamic banks is still in its early stages, necessitating greater research into how Islamic banks might use FinTech to improve their existing products and processes.

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