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RESEARCH ARTICLE

COVID-19 – The Catalyst for Digital Transformation in Financial Services and Islamic FinTech: Evidence from Qatar

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ABSTRACT

The coronavirus disease 2019 (COVID-19) pandemic has challenged normalcy and affected various aspects of the economy, including financial service providers. However, technological transformation has played a crucial role in enhancing service delivery and supporting small and medium-sized enterprises (SMEs). In Qatar, the Qatar Central Bank (QCB) works with financial services and Islamic FinTech to enhance digital transformation in the country. The Qatar FinTech Hub (QFTH) collaborates with entrepreneurs, SMEs, and other investors to incubate and establish supportive technology innovations. Though the formal Islamic finance industry has been around since the late 1970s with a handful of

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institutions and negligible scope, it has increasingly grown over the past two decades, while digital transformation has developed far slower. This study explores the role of COVID-19 as a catalyst for digital transformation in Islamic banking. Technology is being increasingly implemented to enhance the providence of financial products and services.

Keywords: Islamic finance, Islamic banking, digital transformation, FinTech, digital currency, Qatar, COVID-19

INTRODUCTION

The outbreak of COVID-19 led to drastic changes for both people and organizations. When COVID-19 was declared a pandemic, most organizations were forced to halt their operations due to lockdowns and strict health measures. As a result, it created an opportunity for organizations to consider digitizing their services. Financial technology (FinTech) has enabled financial services to be provided digitally instead of the conventional standard that requires individuals to be present physically. Qatar has revolutionized its financial services in the Middle East, continuously improving the interactions with Islamic banking. Islamic FinTech is the application of technology to Islamic banking to enable continuous provision of financial services.[1] Therefore, it helps to address the impact of COVID-19 by reducing physical movement in financial facilities. It is plausible that COVID-19 is the catalyst for the technological transformation witnessed in the Islamic finance industry in Qatar. Though financial service providers have been slowly introducing FinTech, COVID-19 has helped accelerate its application to work around the restrictions which resulted in people being unable to freely interact. Because people were required to stay at home, it made it easier for them to appreciate the applications of FinTech. Furthermore, Qatar is set to host FIFA World Cup 2022; and thus, embracing the latest technology in financial services is crucial to give visitors the best experience. Digital innovation is necessary to enhance FinTech, especially in Islamic finance.

LITERATURE REVIEW

FinTech is Important for Financial Growth

Before COVID-19, financial service providers were slow to introduce digital transformation; however, COVID-19 being declared a pandemic accelerated this process. Although it was possible to access digital financial services, most people habitually preferred conventional methods. Islamic banking, in particular, was less digitized; however, the pandemic created an unprecedented need to digitize financial investments, especially those affected by COVID-19. According to Henk Jan Hoogendoorn, chief of the financial sector office at Qatar Financial Center (QFC), “As QFC, we try to understand

1 Sofya Glavina, Irina Aidrus, and Anna Trusova, “Assessment of the Competitiveness of Islamic Fintech Implementation: A Composite Indicator for Cross-Country Analysis,” *Journal of Risk and Financial Management* 14, no. 12 (2021): 602.

what is going on with FinTech and how it can help banks. We noticed that 90 percent of the FinTech companies deliver to financial institutions, so those companies do not need to be regulated and only the companies involved in payments need to be regulated. Therefore, we in QFC came up with a solution to help those technology providers, and we gave them the opportunities to get a commercial registration in QFC."[2] The transformation of Islamic banking can help increase financial inclusion, especially for SMEs, where there is an increasing need for funding for their businesses or innovation. If the company aligns with the Shariah law, the owner can access equity from an Islamic bank. Through FinTech, it is possible to automate these transactions, including the financial transactions of the borrower, to determine the profitability of a business. The adoption of Fintech provides enormous possibilities for enhancing services to clients and, accordingly, increasing competitiveness within the financial services and Islamic banking sectors.

Qatar FinTech Hub (QFTH)

The Qatar FinTech Hub (QFTH) is an organization that works with a wide range of groups and develops technology infrastructure that helps realize an organization's goals. In 2020, QFTH ran its Incubator and Accelerator programs, i.e., the Wave 1. These programs facilitate entrepreneurs' innovative and cutting-edge FinTech ideas to accelerate their journey. QFTH collaborates with entrepreneurs, SMEs, and other investors to incubate and establish supportive technology for their innovations, the demand for which has further increased due to COVID-19. QFTH explores available ideas and defines ways to realize them through financial support. Statements that meet the organizational parameters are supported to develop the financial technology infrastructure. To further provide practical support, Qatar established Fintech Circle, a coworking space, and facilitated free commercial registration and licensing for the first year of a startup's operation. This initiative was started by Qatar Development Bank (QDB) and offers support to both domestic and international FinTechs. To achieve this, QFTH works with other FinTech hubs, banks, and academic institutions to strive towards transforming Qatar's financial technology landscape.

Why Qatar Needs a Diversified Digital and Knowledge-Based Economy

The Qatar National Vision 2030 (QNV 2030) seeks to reform the country by ensuring that vital sustainable goals are achieved. Its key pillars are economic, social, human, and environmental development. FinTech is applicable in digital banking, e-wallet, insurance technology (InsurTech), digital payment, and digital saving, which contributes specifically to the economic pillar. Providing residents of Qatar with a high standard of living helps diversify the economy through digital innovation. The aim of QNV 2030 is to incorporate technology into various aspects of the economy. The digital framework is achieved

2 Deepak John, "FinTechs have Vital Role in Financial Inclusion: Official," *The Peninsula Qatar*. Last modified 9 Dec. 2021. https://thepeninsulaqatar.com/article/09/12/2021/fintechs-have-vital-role-in-financial-inclusion-official.

through continuous support of innovations that modernize the financial technology infrastructure. COVID-19 disrupted the preserved traditions in finance and created a demand for digital transformation in financial services and FinTech. Modernization is critical to the development of FinTech in Qatar and to enhance Qatar's position among other Gulf countries. The knowledge-based economy objective must respond to economic disruptions resulting from COVID-19.

How FinTech has Evolved in Qatar

Even though Islamic finance has been around for a long time, there has been very little digital transformation associated with it. There is a wide range of products and services offered by Islamic banking, which require technological infrastructure support to enhance service delivery. The Islamic segment has grown considerably since 1963. According to financial estimates, the industry is worth $19 trillion globally.[3] There have been considerable changes to allow Islamic banking to compete with conventional banks. Therefore, this financial sector has enabled bankers to provide better options that offer their clients economic opportunities to grow their businesses. In Qatar and across the globe, the 2008 financial crisis increased the need for an alternative source of funding that supports entrepreneurs. The move resulted in significant progress, which attracted research interests and professional training on specialized skills required to facilitate financial banking. However, Islamic banking has encountered challenges such as conventional banking, resulting in economic loss. Owing to its infrastructure, the sectors incurred losses from defaults or supported enterprises operating on losses. During the pandemic, a number of SMEs and banks saw declining profits and losses in the second quarter of 2020 compared to the previous quarter given that the activities of international financial institutions (IFIs) are based on the demand from SMEs, their dependence being deeper than that of conventional FIs.[4] Thus, the Islamic financial sector is supposed to suffer more losses this time. In this context, the approach to the transformation of operating models in financial institutions have attracted much attention globally. From this perspective, the pandemic is being recognized as a turning point for the digitalization of the industry.[5] In Qatar, Islamic financial services have responded to these challenges by introducing digital transformation to enhance effectiveness and reduce the risk of default.[6] According to KPMG, Qatar's leading banks have embraced digital transformation to enhance resilience, offering contactless payments like Apple Pay, self-service solutions, and a pragmatic experience for customers.

3 "The Roundtable Discusses the Future of FinTech," *Hamad Bin Khalifa University (HBKU)*, 17 Jan. 2022. https://www.hbku.edu.qa/ar/news/CIS-SP-REDFOFT.

4 "Finance," Zawya, 2020. https://www.zawya.com/en/smes/finance

5 Glavina, Aidrus, and Trusova, "Assessment of the Competitiveness."

6 KPMG Report "Qatar Banking Perspectives 2021: Technology, Innovation, and Sustainability." *KPMG*, 2021.

METHODOLOGY

In the analysis process, this study uses a qualitative content analysis to analyze the role of COVID-19 in the digital transformation of financial services and Islamic FinTech evidence from Qatar. Over the years, digital banking has revolutionized financial services, with most services being offered online. Most financial services providers have fully integrated digital banking into all their provisions. The COVID-19 pandemic accelerated the digital transformation process owing to the mandate requiring people to operate from home. Islamic banking, too, was not spared as people seeking Shariah-compliant services demanded digital access to these options. In addition, Islamic banking faced competition from other financial service providers offering Shariah-compliant products and services. Thus, to increase inclusion and meet demand, it was impossible to avoid digital inclusivity. It is suggested that Islamic finance integrated with FinTech can help reduce the economic impact of the pandemic. This study focuses on how Islamic finance in Qatar has managed to deal with the effects of the COVID-19 pandemic through digital transformation.

A review of literature was conducted to obtain the relevant research content online. Keywords such as digital banking, e-wallet, digital payment, digital banking, FinTech in Qatar, and Islamic banking were used to identify relevant sources for this study. This qualitative research method analysis was supplied by an exploratory study to analyze the impact of COVID-19 on the digital transformation of both financial services and Islamic finance in Qatar.

Qatar's financial service providers have reported significant growth with new Islamic financial services providers entering the market. These are Shariah-compliant institutions targeting the gap in the provision of Islamic banking services. With FinTech's development, it is projected that the institutions will continue to grow in the future. The use of digital currency has also accelerated financial technology, and institutions are aligning their services to allow their customers to transact and invest in blockchain and cryptocurrency.

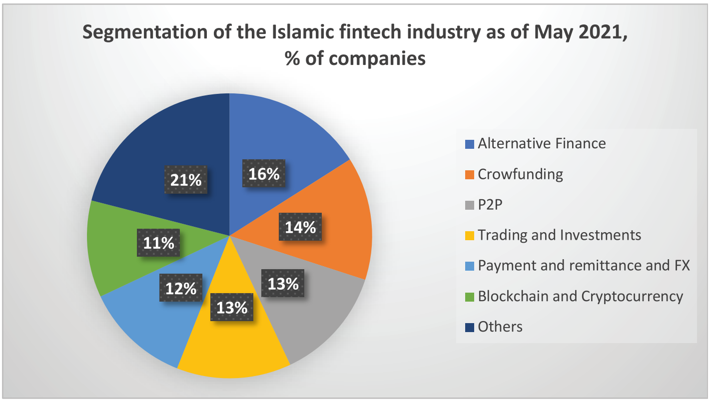

Figure 1. Segmentation of the Islamic fintech industry as of May 2021, % of companies. Source: Global Islamic Economy Reports, Dinar Standard.

Figure 1 shows how the need for financial services has changed over the years.[7] Investors now seek support for new products and services that were less popular before COVID-19, while the diversification of offerings has affected people's reliance on conventional banks as the central source of funding. The market segmentation of Islamic banking post–COVID-19 can be used to predict a future where people will rely more on Islamic FinTech because of its competitive products and services.

The College of Islamic Studies (CIS) at Hamad Bin Khalifa University (HBKU) in Qatar organizes workshops to discuss the impact of technological inclusivity in Islamic finance. These workshops entail transforming the services offered by financial institutions to ensure that they align with technical requirements. To achieve QNV 2030, all the transformation catalysts and prospects must be discussed and implemented effectively. This is achievable through collaboration between the regulators, academia, and financial service providers. There is an increasing need to train students who are capable of working with the digital system to help transform Qatar's financial services: "…financial technology includes developments in technology and changes in business models that can contribute to transforming the process of providing financial services through innovative tools, channels, and systems, pointing out that the value of global investments in the financial technology sector reached 133.5 billion dollars in 2019, and its stability at the level of 105.4 billion dollars during the spread of the pandemic [COVID-19] in 2020, and its decline to 98 billion dollars in the first half of last year. It is logical to believe that FinTech will drive and shape the transformation of the financial."[8] COVID-19 disrupted the economic sector, prompting it to redefine its services and its business models to allow customers the required access to services with reduced risk.[9] Key players have mentioned: "Financial institutions worldwide are realizing that they need to focus on a different sort of innovation, better technology, modernize infrastructure, and improve customer experience. Retail can monetize data using big data analytics. FinTech is one of the developments arising from the fourth industrial revolution. FinTech is the application of technology and innovation to solve the needs of consumers and firms in the financial space—think credit cards, online banking, and blockchain-powered cryptocurrencies."[10] In Qatar, financial service providers use technology to digitize products and services. When COVID-19 was declared a pandemic, directives to stay at home prompted banks to increase service accessibility by reducing the need to visit a bank. Technological advancements were

7 Glavina, Aidrus, and Trusova, "Assessment of the Competitiveness."

8 John, "Fintechs have Vital Role." https://thepeninsulaqatar.com/article/09/12/2021/fintechs-have-vital-role-in-financial-inclusion-official.

9 "Covid-19 Acts as Catalyst for New Digital Business Models." *The Peninsula Newspaper*. 9 May 2021, https://thepeninsulaqatar.com/article/09/05/2021/COVID-19-acts-as-catalyst-for-new-digital-business-models.

10 "Qatari Financial Institutions, Fintech Collaborations Would Lead to Customer Value Advantage, Says Seetharaman." *Gulf Times*. 15 Jan. 2022. https://m.gulf-times.com/story/707991/Qatari-financial-institutions-fintech-collaborations-would-lead-to-customer-value-advantage-says-Seetharaman

made to allow clients to access services in the comfort of their homes. Through FinTech, payments, transfers, and remittances could be done with ease, with 85 percent of the transactions being conducted digitally.[11] QCB's vision aims at ensuring that financial service providers enable the use of the digital wallet and face and voice authentication to access mobile banking services.

FINDINGS

This study focuses on the digital transformation in financial services occasioned by the COVID-19 pandemic in Qatar. The country has progressed in the inclusion of financial technology in Islamic finance. As part of its determination to incorporate Islamic finance, the Islamic fintech market in Qatar was estimated at $850 million in 2020 and is projected to grow to $2 billion by 2025.[12]

Additionally, the outbreak of COVID-19 accelerated the implementation of financial technology in the banking sector. It was safer for customers to access bank products and services online without the need for physical interaction. Thus, clients turned to the use of digital payments, digital wallets, and e-wallets. This implied that a significant number of financial service providers had to create a digital platform for their customers. QCB worked with banks to facilitate the digital transformation. QCB also collaborated with colleges to introduce training for students with technological studies relevant to the financial sector. In addition, QFTH works with other organizations to provide a digital banking infrastructure by receiving, incubating, and developing supportive technology for digital transformation. Ideas that meet the QFTH parameters are set and enhanced as the organization seeks to increase digital innovation in the country.

For Qatar to achieve its QNV 2030, it must deal with the impact of COVID-19 on the four key pillars of its vision. The economic pillar requires the government to work with financial service providers to enhance technological transformation. Residents of Qatar observing social distancing and other COVID-19 containment measures have increased the demand for online banking services. Islamic finance must adapt to technological changes to compete with conventional financial service providers. Furthermore, some of the traditional banks are including Shariah-compliant products and services to attract more customers. This implies Islamic banking must embrace FinTech to compete effectively. New products that are Shariah-compliant are increasing, and there is a need to include them in the range of products provided by Islamic finance. Recently, CoinMENA, a Shariah-compliant exchange certified by the Bahrain-based Shariyah Review Bureau, has become the first regional digital asset exchange to operate in Qatar. The use of digital

11 "How Fintechs Are Revolutionising Remittances in Emerging Markets." *Oxford Business Group*, 10 Feb. 2022, https://oxfordbusinessgroup.com/news/how-fintechs-are-revolutionising-remittances-emerging-markets.

12 "Qatar Offers Vast Opportunities for Global Fintechs." *Gulf Times*, 15 Mar. 2022, https://www.gulf-times.com/story/711805/Qatar-offers-vast-opportunities-for-global-fintechs.

currency has escalated over the last year.[13] According to Thomson Reuters, the IMF estimates crypto market capitalization at $2.5 trillion, and in the future crypto assets will play a significant role in the financial market and the banking industry. Hence, Islamic banks need to include an infrastructure that supports digital currencies to enable their customers to trade and transact digitally.

CONCLUSION

COVID-19 acted as a catalyst for the digital transformation of Qatar's financial services and Islamic FinTech over the past two years. There is an increased implementation of technology to enhance the providence of financial products and services. Before the outbreak of the COVID-19 pandemic, financial service providers provided both conventional and digital banking services. However, when the pandemic broke, people were required to work from home, thus escalating the need for digital access to financial services. During the initial stages of the pandemic, it was safe to work from home; however, people needed to go out to buy supplies. Through digital transformation, people were able to access financial services online from the comfort of their homes. Through QFTH, Qatar has advanced its technological infrastructure to help entrepreneurs and SMEs develop supportive technology for their innovations. With digital transformation, it is possible for financiers to manage and determine whether the business is making a profit. Islamic banking is affected by defaulters who reduce its ability to fund other companies. With digital integration, it is possible to integrate the organization with the accounts of entrepreneurs and SMEs to ensure that they do not default on their payments.

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Sara Cherqaoui completed her Master of Science in Islamic Finance with a concentration in Islamic Corporate Finance and Assets Management from the College of Islamic Studies (CIS) at Hamad Bin Khalifa University (HBKU; Class of 2022). In 2020, she graduated from California State University, Magna Cum Laude, with a bachelor's degree in Business Administration and a concentration in Finance. She holds an impressive extracurricular resume with a rich track record of leadership, volunteering, and academic activities. Sara has participated in various forums and conferences in Islamic economics and finance within and outside Qatar. Sara's future aim is to write research papers and work on projects where she can put all the knowledge she acquired into practice to push the Islamic finance sector forward in Qatar and reinforce the national 2030 agenda for sustainable development. Sara.cherqaoui@gmail.com

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