

The Future of Islamic Finance

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

EDITED BY

EDIB SMOLO

Effat University, Saudi Arabia

AND

MOHAMED MAHEES RAHEEM

Effat University, Saudi Arabia



United Kingdom – North America – Japan – India – Malaysia – China

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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

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 Telecommuni- cation 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

Dr Edib Smolo is an Assistant Professor and former Chair of the Finance Department and Director of the Master of Science in Finance program at Effat University, Jeddah, Saudi Arabia. Prior to this position, he served as an Assistant Professor and Vice-Dean for Scientific and Research Activities at the International University of Sarajevo's Faculty of Business and Administration. During his time at International Islamic Liquidity Management Corporation (IILM), he developed the first short Islamic instrument with a global consensus that won the 2013 REDmoney global deal award. He holds a PhD from the International Center for Education in Islamic Finance (INCEIF), Malaysia's Global University of Islamic Finance. His degrees include a Bachelor of Economics (Honors) and a Bachelor of Islamic Revealed Knowledge and Heritage (Honors), as well as a Master of Economics from International Islamic University Malaysia (IIUM), Malaysia. In addition to writing and coauthoring several chapters in books, he also contributed to refereed journals on a variety of topics. He published "Introduction to Islamic Economics and Finance: Theory and Practice" in Bosnian in 2013. Additionally, he is a regular Speaker, Trainer, and Consultant on various Islamic Finance topics.

Dr Mohamed Mahees Raheem is an Assistant Professor of Finance, the Chair of the Finance Department, and Director of the Master of Science in Finance program at Effat University, Saudi Arabia. He holds a PhD in Islamic Banking and Finance from International Islamic University Malaysia and had previously worked as an Economic and Sustainable Development Consultant for a consultancy in Malaysia. He is a certified Fellow at Higher Education Academy (HEA) UK and a Young Fellow of the World Youth Network of the World Islamic Economic Forum (WIEF). With over 13 years of academic and industry experience, Dr Mohamed Mahees Raheem currently teaches at both the undergraduate and postgraduate levels and also serves as an Academic Advisor for finance students. He is also heavily involved in the development and review of program curricula, supervision of student internships and dissertations, and development of relationships with community. He was also instrumental in the development and implementation of the first postgraduate degree in Islamic Finance in Saudi Arabia and was involved in all aspects of course design and delivery and compliance.

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About the Contributors

Syaima Adznan is a Senior Lecturer cum Researcher at the Faculty of Economics and Management under the Center of Global Business and Digital Economy studies (GLOBDE), Universiti Kebangsaan Malaysia (UKM), Malaysia. She is a Chartered Accountant (CA) of the Malaysian Institute of Accountants (MIA) and obtained her PhD from the International Center for Education in Islamic Finance (INCEIF) in 2022. She specializes in Islamic accounting, banking, and finance, and her research interests include intellectual capital, financial reporting, corporate governance, Shari'ah governance, and fintech. She has published and presented her research work in various conferences and journals. She is also a reviewer for *Management and Accounting Review*, *Asian Academy of Management Journal of Accounting & Finance*, *Asian Journal of Accounting and Finance*, and a few more journals.

Alija Avdukić is currently a Professor in Political/Moral Economy and Islamic Finance at University of Dundee School of Business. Alija holds a PhD in Islamic Economics and Finance (2016) from University of Durham and has an MA in Islamic Banking, Finance, and Management (2010) from Gloucestershire University. Alija's research interest is in Islamic economics and its various articulations, Islamic moral and political economy, and Islamic finance and banking. Alija teaches and supervises research on Islamic political and moral economy, Islamic banking, finance, and political economy of development in the Muslim world. Alija's recent research includes the construction of Islamic moral economy and Islamic political economy, both of which are considered as an incomplete project since early 1970s. Secondly, Alija develops the discourse around "social and developmentalist failure" of Islamic banking and finance in relation to the expressed ideals of Islamic moral economy by essentializing sharing and collaborative economy nature of Islamic finance. Alija is also involved in empirical research in various aspects and dynamism of Islamic banking and finance.

Issa Hamadou is a PhD student in Economics at the Faculty of Economics and Business at Universitas Islam International Indonesia (UIII). He completed his Master of Arts in Economics at the Faculty of Economics and Business at Universitas Islam International Indonesia (UIII). He got his Bachelor's degree and Master's degree in Applied Economics from the University of Maroua, Cameroon. His research interests include Islamic banking, Islamic Fintech, artificial intelligence, machine learning techniques, and SDGs. He is a hardworking student who participated and presented his papers at reputable international

conferences in Malaysia, Indonesia, and Turkey. He is a contributor of Islamic finance about Islamic finance country report. His research publications appear in international journals such as *Muslim Business and Economic Review* (MBER) and the *Journal of Islamic Economics and Philanthropy*.

Sutan Emir Hidayat is an Associate Professor, and he is currently the Director of Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance (KNEKS), the Republic of Indonesia. He is a working group member of: Sustainability Working Group CIBAFI; Working Group FAS 1 AOIFI; Editorial Advisory Board, IFN Red-Money; Editorial Advisory Board, *International Journal of Islamic and Middle Eastern Finance and Management*, Emerald; and Editorial Advisory Board, *Journal of Economic Cooperation and Development*, SESRIC. He was recognized by ISFIN as one of the top influential 500 personalities on a global scale since 2015.

Norashikin Ismail is a Senior Lecturer at Faculty of Business Management, Universiti Teknologi MARA (UiTM) Johor. She graduated with a BA (Hons) in Accounting and Finance from the University of Lincolnshire and Humberside, United Kingdom in 1997. She was awarded with a Master of Business Administration from Graduate School of Management, Universiti Putra Malaysia in 2001 and received her PhD in Islamic Finance in 2011 from INCEIF. She has done research in the area of micro*takaful*, ESG, and *takaful* efficiency and published her research in refereed journal namely *International Journal of Economics and Management*, *Journal of Modern Accounting and Auditing*, and *Journal of Global Business and Economics*. Her current interest on research relates to ESG, crowdfunding, *takaful*, and corporate finance. She has presented papers in international and local conferences. She has also been involved in reviewing papers for local and international conferences and journals. Currently, she is the Coordinator for Doctor of Business Administration (DBA) at UiTM Segamat.

Abidullah Khan is an accomplished scholar specializing in Islamic finance. He obtained his PhD from Universiti Kebangsaan Malaysia in 2018, and his prior academic achievement includes an MBA in Islamic Banking and Finance from Graduate School of Business, Universiti Kebangsaan Malaysia in 2014. Dr Khan has made significant contributions to the field through publications in peer-reviewed journals. His research expertise lies in the intricate domains of Islamic social finance, Shari'ah disclosure practices, and the dynamics of Islamic banking. Dr Khan has been serving as an Assistant Professor at Sakarya University and an Assistant Professor of Islamic Finance (on leave) at Sukkur IBA University.

Shabeer Khan is an accomplished academic currently serving as an Assistant Professor at the College of Business Administration, Al-Yamamah University, Saudi Arabia. Prior to this, he held the position of Assistant Professor and Head of International Relations at the Department of Islamic Economics and Finance, Sakarya University, Turkey, and also served as an Assistant Professor at the Department of Business Administration at Sukkur IBA University, Pakistan. Dr Khan began his career as a Lecturer at Kohat University, Pakistan,

and subsequently gained valuable research experience as a Research Assistant at INCEIF University Malaysia. Dr Khan's impressive academic journey includes attaining a PhD in Islamic Finance from INCEIF, Malaysia, as well as a Master's degree in Economics, a postgraduate degree in Shari'ah (Islamic Jurisprudence), and an MS degree in Social Science from Pakistan. He is highly regarded in the field of Islamic finance and economics and contributes actively to the industry. Dr Khan serves as a Shari'ah board member for Tayyib Advisory UAE and is a sought-after Shari'ah consultant for KalPay Financial Services, Pakistan, and Muawin, Pakistan. Additionally, he plays a pivotal role as a trainer and consultant with iFintel, Malaysia, where he imparts expertise in advanced econometric models, data analytics, and Islamic banking and finance.

Houda Lechheb is a Professor of Higher Education in the field of economics at Ibn Tofail University, Morocco. She has contributed significantly to the field of economics through her research, publications, and active participation in various academic events. She has also authored several pedagogical books and articles that enrich the understanding of economic concepts and theories. Her extensive teaching experience spans a wide range of economic subjects, including economics, management, quality management, and more. Her research interests encompass a wide array of economic topics, including economic growth, poverty, income inequality, impact evaluation, and more. She is frequently involved in various societal and economic issues where she shared her expertise through media appearances, public lectures, and consultations.

Abid Mahmood is a proficient academician and a scholar in the field of Islamic banking and finance. He obtained his PhD from University Kuala Lumpur in 2016. His prior academic achievements include a Master in Business Education in addition to Master of Islamic Studies. He has also attained the status of "Certified Shari'ah Advisor and Auditor" from AAOIFI, Bahrain. Dr Mahmood has made a significant contribution to the field of Islamic finance through his number of valuable publications in Scopus-indexed peer-reviewed international journals. His professional career as an adept educator expanded over 18 years. He has also contributed as a reviewer of high-worth international journals. Since 2022, Dr Abid has been serving Sukkur IBA University as an Assistant Professor of Islamic Finance.

Ziyaad Mahomed is an Associate Professor, the Lead Researcher (Shari'ah) for the Center of Excellence in Social Finance, and the Head of Online Programs at INCEIF University, Malaysia. He is also a consultant and Shari'ah advisor for almost 25 years and serves on several Shari'ah boards internationally, including HSBC Amanah in Malaysia and TajBank in Nigeria. Dr Ziyaad led several policy and strategy initiatives for financial institutions and governmental organizations in Islamic banking and *takaful*, sustainability, *sukuk*, fintech, and social finance. He has served as a consultant to the World Bank for Islamic finance development in South-East Asia and is an Adjunct Professor at the Asia School of Business in Malaysia. He holds a Master's and PhD in Islamic Finance from Malaysia, an MBA from South Africa, a BA (Hons) in Business (Finance) from the United Kingdom, and certification in the Islamic jurisprudence from South

Africa and Jordan. He lectures in Islamic Jurisprudence, Law of Contract, Sustainability and Social Finance, with almost 100 publications in academic and professional output.

Siti Masrohatin is an Associate Professor at the Faculty of Islamic Economics and Business (FEBI) and Program Coordinator of Master of Islamic Studies at School of Postgraduate, Kiai Haji Achmad Siddiq State Islamic University (UIN KHAS), Jember, Indonesia. She obtained her PhD in Management from Universitas Jember (UNEJ). She is currently a member of the Indonesian Association of Islamic Economists (IAEI) for the Commissariat of UIN KHAS and also a Companion to Halal Certification for Micro Small Medium Enterprises (MSMEs). She has published several books with national publishers and journal articles related to her research interests in human capital management, leadership, MSMEs, and halal tourism.

Hazik Mohamed is a multiskilled professional with substantial business management and varied experience in strategic, problem-solving, project management, and operational leadership roles. He has over 25 years of working experience and spent over 15 years building start-ups and business consulting, where he has consulted for MSMEs and MNCs on various business-related issues. His past corporate clients also include the ASEAN Secretariat, national finance offices, and the UNCDF. Hazik is the published author of *Belief and Rule Compliance* (Academic Press by Elsevier, 2018) on behavioral economics, *Blockchain, Fintech and Islamic Finance* (De|G Press by De Gruyter, 2019), and *Beyond Fintech* (by World Scientific, 2020). His wide research interests include financial inclusion, sustainable development, and new technology for disruptive socioeconomic advancement. Currently, he is working on business growth strategies for start-ups and engaged in various consulting projects.

Khairunnisa Musari is an Assistant Professor at Faculty of Islamic Economics and Business (FEBI) and Postgraduate Program, Kiai Haji Achmad Siddiq State Islamic University (UIN KHAS), Jember, Indonesia. She is a Secretary of the Indonesian Association of Islamic Economists (IAEI) for the Provincial Board of East Java since 2017. Her research interests are in *sukuk*, *waqf*, *esham*, fiscal and monetary policies, circular economy, halal logistics, sustainable finance, climate change, and Islamic microfinance and nanofinance. She has several book chapters with international reputable publishers such as IGI Global, Emerald Publishing Limited, World Scientific Publishing, Routledge, Springer, and Palgrave Macmillan. She has experience as a Senior Specialist for Islamic Finance of United Nations Development Program (UNDP) Indonesia and was listed as one of the Top 300 Most Influential Women in Islamic Business and Finance 2019, 2020, 2021, WOMANi Significancica 2022; WOMANi Academica 2023 by Cambridge-IFA.

Irum Saba has more than 19 years of progressive regulatory, research, training, and teaching experience with organizations of international repute. Currently, she is working as an Associate Professor and Program Director of MS Islamic Banking at Institute of Business Administration (IBA) – Karachi. She trained

more than 6,000 employees in Pakistan's financial sector and taught more than 3,000 students in Pakistan. She has extensive regulatory experience with specific focus to promote women empowerment, organizational development, and Islamic banking and finance while working in the Islamic Banking Department of SBP. She is a Shari'ah-registered financial planner (Shari'ah RFP). She holds the Chartered Islamic Finance Professional (CIFP) credential from INCEIF with distinction and a PhD in Islamic Finance from INCEIF. She holds an MCom with distinction and a PGD in Islamic Banking and Insurance from Institute of Islamic Banking and Insurance (IIBI), London. Her areas of interest are political economy, management, Shari'ah, wealth planning and management, Islamic microfinance, corporate governance, and Islamic finance.

Soliha Sanusi is a Senior Lecturer at the Faculty of Economics and Management under the Center of Global Business and Digital Economy studies (GLOBDE), Universiti Kebangsaan Malaysia (UKM), Malaysia. She is a Chartered Accountant (CA) of the Malaysian Institute of Accountants (MIA) and obtained her PhD from the Universiti Teknologi MARA Malaysia in 2019. She was SLAB/SLAI scholarship recipient for her MBA and PhD studies. Her research interests are in the areas of direct tax, indirect tax, financial criminology, small-medium enterprises, mixed-method, and public sector accounting. She has published and presented her research work in various conferences and journals. At the moment, she is the editor of the *ASIAN Journal of Accounting and Governance*. She is also a reviewer for *Management and Accounting Review*, *Asian Academy of Management Journal of Accounting and Finance*, and a few more journals.

Umer Suleman is currently a Global Head of Risk, Compliance, and Shari'ah at Wahed based in the United Kingdom; he sits on the board of the UKIFC, is a member of the Islamic Finance Advisory, and is the cofounder of the National *waqf*. Umer has also been an advisor for several other Islamic Fintechs. Umer started his career as an Auditor at EY before holding senior positions in global finance institutions. Additionally, Umer has been actively involved in Islamic finance for the last 15 years, working with some of the most notable UK scholars on Shari'ah structuring and certifications. He was recognized for his work in 2016 as "one to watch" in London by the Brummel magazine. Umer studied Economics and Management at the Royal Holloway University of London and has subsequent postgraduate qualifications from Manchester Business School and Harvard University.

Putri Swastika earned her PhD in Islamic Finance from INCEIF, Malaysia. Prior joining the State Islamic Institute Metro (IAIN Metro), she was a Junior Fellow at Lehrstuhl für Sozial-und Wirtschaftsgeschichte, Universität Leipzig, Germany. She authored Springer's *Applying Risk Sharing Finance for Economic Development: Lessons from Germany* (2021) and several Scopus-indexed and international journals.

Oumaima Touchibine is a Moroccan-based Economist, Auditor, Management Controller, and Supply Chain Management Specialist. She holds a Master's degree in Management, Audit, and Financial Control. She was a Fellow at the

Division of Administration of the United Nations Economic Commission for Africa in Supply Chain Management Section. While continuing her PhD in the IIUM Institute of Islamic Finance (IIiBF), Oumaima participated as a Graduate Research Officer for the Government of Malaysia's sponsored Fundamental Research Grant Scheme (FRGS) research project titled "Humanitarian Sukuk: Developing an Alternative Financial Tool in Addressing Refugee Crisis." Simultaneously, she is also completing her PhD in Economic Science in Ibn Tofail University, the first world ranking research university in Morocco. In 2022, she received the best paper award on the recent research relating to refugee crisis from the Network for Education and Research on Peace and Sustainability (NERPS), Hiroshima University, Japan.

Syeda Beena Zaidi is specialized in the field of Finance. In 2014, she earned her Master's degree from Sukkur IBA University. She has extensive experience as a trainer of financial literacy and is presently serving as a Lecturer, Finance at Sukkur IBA University. Ms Zaidi is working toward a doctorate in Islamic and Sustainable Finance. Her research goals involve bridging digital and sustainable finance with Islamic finance.

Nor Razinah Mohd. Zain, PhD, is currently working as an Assistant Professor of Laws at IIUM Institute of Islamic Finance (IIiBF), Malaysia. She received her LLB (Honors), Master's of Comparative Laws (MCL), and PhD in Laws from International Islamic University Malaysia (IIUM). She is also an Advocate and Solicitor of the High Court of Malaya (nonpracticing). Since 2014, she worked with Ahmad Ibrahim Kulliyah of Laws, Harun M. Hashim Law Center, and Kulliyah of Economics and Management Sciences (KENMS). Her specialization focuses on comparative banking laws, Islamic finance, alternative dispute resolution, business law, and sustainable finance law. Currently, she is a Fellow under IIUM's Sejahtera Center that emphasized on Sustainable Development Goals' community-oriented engagements. She has contributed in several research projects from 2014 to 2023. She has written more than 70 research works (including articles and chapters). In her leisure time, she enjoys reading.

Hafizah Omar Zaki is a Senior Lecturer in Marketing at the Faculty of Economics and Management (FEP), Universiti Kebangsaan Malaysia (UKM). She is currently the Head of Emerging Technology and Big Data (ETBD) cluster at the Center of Global Business and Digital Economy (GloBDE), FEP-UKM. She holds a PhD in Marketing – specializing in advertising and branding from University of Malaya (UM), an MBA – specializing in Human Resource Management from UKM, and a degree in Multimedia Management from Multimedia University (MMU). Her research and publications involve advertising, branding, digital marketing, and digital business amid the advancement of technology use.

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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Editors