

## FINTECH REVOLUTION AND ZAKAT INSTITUTION: A CRITICAL REVIEW OF THE LITERATURE

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### Abstract

The FinTech revolution has enabled high-growth organizations to combine innovative business models with technology to enhance efficiency and productivity. It has created a new wave of institutions that continue to change the way people transact, make payments and invest. Whereas there are increasingly voluminous literatures on the FinTech revolution dramatically shaping the business sector, the trend of these studies is apparently slow and very selective in the Islamic social finance sector particularly the institution of Zakat. This institution is very ancient and predates the advent of Islam in Arabia (Samad & Glenn, 2010). It has greatly contributed to the socio-economic development of Muslim societies throughout the Islamic history. During those glorious years of Islamic civilization, the literature had always set the way forward and new directions for the development of Islamic institutions including Zakat. For example, one of the main reasons that the father of modern mathematics, Khawarizmi developed algebra was to help Muslims compute their Zakat dues and inheritance distributions. This dynamic development of literature on Zakat institution was interrupted by the colonization of Muslim countries. Nevertheless, the aftermath of colonialism witnessed a revival of this scholarly trend by the newly independent Muslim countries. In the past eight decades, Muslim scholars have produced volumes of literature on Zakat. Yet it is argued that the areas covered by this literature have remained largely traditional. The bulk of these works are mostly descriptive on topics related to Fiqh, Zakat management and Zakat laws. There are few empirical studies on Zakat collection, Zakat distribution, Zakat governance, Zakat accounting, Zakat auditing, and Zakat efficiency, among others. These kinds of literature have remained dominant and thus create limitations and pose challenges to the institution of Zakat in embracing changes in the global technological landscape. Apparently, there is a dearth of literature examining the extent to which the Zakat institutions have embraced the FinTech ecosystem. The present paper critically surveys the literature to identify the gaps of works on zakat institutions vis-a-vis the FinTech revolution. It reviews the literature on Zakat to determine the extent of works done in the following FinTech ecosystem: 1) startups (Zakat payment, Zakat distribution, wealth management, crowd funding), 2) government (RegTech, Regulatory SandBox) and 3) applications (robo-advisory, smart contract, blockchain). With regards to the startups, literature on zakat institutions is still largely traditional. There are extensive literatures on Zakat efficiency in several jurisdictions, for example (Djaghballou, Djaghballou, Larbani, & Mohamad, 2018), efficiency and governance of zakat institutions to achieve equitable distribution of wealth (Abd. Wahab, Zainol, & Abu Bakar, 2017). Other works on efficiency include (Kameel et al., 2013, Abd. Wahab et al., 2017, (Wahab & Rahim Abdul Rahman, 2012)(Hassan & Noor, 2015). Several other studies have focused on the accounting and auditing aspects of Zakat. These studies revealed the general misconception of zakat in several standards and guidelines, which has consequently resulted in the inappropriateness of corporate zakat recognition and measurement and hence its presentations (Akhyar Adnan & Barizah Abu Bakar, 2009). Other studies discussed the suitability and applicability of the Islamic accountability framework in the zakat funds management, for example (Saad, Aziz, & Sawandi, 2014) . Other studies suggested ways of resolving the issue

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of incentivizing zakat payment and harmonization between business zakat accounting and taxation by making changes in methods of taxation (tax deduction or tax rebate) of specific items in the balance sheet or the income statement (Obaidullah, 2016). It is obvious that most of the works discussed above have no relevance to FinTech. The nearest works to FinTech startups are those related to internet banking and mobile payments of Zakat dues, for example (Pg Md Salleh, 2015). There are hardly FinTech literature on Zakat wealth management and Zakat crowd-funding. The FinTech works on RegTech and Regulatory SandBox related to Zakat institutions are another area surveyed. Regtech is a compound word blending regulation and technology. It was essentially created to address regulatory challenges in the financial services sector through innovative technology. In the case of Zakat it would be to address regulatory challenges in the Zakat ecosystem. This would allow all the components of this ecosystem that use technology to comply with regulations efficiently and with least cost possible. Regtech components of Zakat ecosystem would collaborate with each other to utilize cloud computing and big data for sharing of information. By using data analytics Zakat institutions will be in a position to predict previous regulatory failures and potential risk areas. Hence Regtech can reduce incidences of data breach and activities that violate the Shari'ah such as ribawi transactions, gharar and fraudulent activities. In addition to the RegTech, Zakat ecosystem components could benefit from the sandbox technique, which is implemented in information security to evaluate suspicious software or files containing malicious code. In its operation, the execution, operation and processes of software testing is not affected by other running programs. There is hardly any works on Zakat done in this area of FinTech. In contrast, there are traditional studies on Zakat administration, management and governance. For example, some studies have discussed the differences in administration and process for distribution of Zakat in contemporary Muslim states based on the various prevailing school of Islamic thought in Muslim societies and the level of theocratic involvement of governments in those societies (Samad & Glenn, 2010). Other studies have investigated the board capital, disclosure practices, governmental model of zakat institution, and stakeholder management as antecedents of zakat payers' trust (Oladimeji Abioye Mustafa, Har Sani Mohamad, & Akhyar Adnan, 2013). Meanwhile some works have focused on the internal control system and amil competence influence on Financial Reporting Quality (Naz'aina, 2015). Similar to the RegTech and Sandbox, there is hardly any literature on Zakat related to the applications of robo-advisory, smart contract and blockchain. Robo-advisory is digital platform that provides automated services with hardly any human supervision. In the case of Zakat, these automated advisors would collect information from Zakat donors about their income and wealth, intentions to donate, category of recipients and their needs, and then use the data to offer advice automatically. Robo-advisory has several advantages. It offers services at low-cost since it has eliminated the traditional human advisors. It is also more accessible as it is available most of the time to a client with Internet connection. Moreover Robo-advisory is efficient in saving the time of transaction. On the other hand, smart contract refers to self-executing contract with the terms of the agreement among the contracting parties directly written into lines of code. The code and the agreements contained therein exist across a distributed, decentralized Blockchain network. The smart contract using the Blockchain technology would allow trusted transactions and agreements to be executed among the components of Zakat ecosystem without the need for a central authority, legal system, or external enforcement mechanism. This will render the transactions traceable and transparent. Meanwhile a blockchain is a digitized, decentralized, public ledger. In the case of Zakat, it will allow the components of Zakat ecosystem to keep track of digital transactions without central recordkeeping. The technology is primarily used to verify transactions, code and insert practically any document into the blockchain. The record's authenticity can be verified by the entire components using the blockchain instead of a single centralized authority. The benefits of blockchain technology includes efficiency in terms of cost and time savings, cheaper to

maintain as it is electronic ledger, as it is fully automated, it results into fewer errors, beneficial in cross border transactions, and uses smart contracts. As stated earlier there is hardly any literature on Zakat related to the applications of robo-advisory, smart contract and Blockchain. Rather there are traditional works on utilisation of zakāh and waqf fund in micro-takāful models (Adekunle Mikail, Ali Jinnah Ahmad, & Saheed Adekunle, 2017), factors influencing business Zakat compliance behavior among Moslem businessmen (Saad, Wahab, & Samsudin, 2016), Zakat on employment income in Muslims majority states (Ammani & Abba, 2014) and the timeline of Zakat (Hayecharasah, Sehvises, & Ropha, 2013). The studies on utilisation of zakāh and waqf fund investigated the utilisation of both zakāh and waqf fund as external resources to ensure micro-takāful services are delivered to underserved communities in an effective and sustainable manner. It also addresses Sharī'ah issues related to the zakāh- and waqf-based model. It is found that the disintegration of zakāh and waqf which form part of the Islamic ecosystem from the micro-takāful model makes it less effective and sustainable. The literature on factors influencing business Zakat compliance behavior among Moslem businessmen proposed a model for examining the influence of internal and external factors on Business Zakat compliance behavior among businessmen in Malaysia. An extensive literature review method was utilized to identify and analyze the relevant literatures in order to propose the model. This literature identified two internal and two external factors of the compliance behavior. The internal factors are knowledge and self-efficacy while service quality and interaction are the external factors. Theoretical and practical implications of the paper as well as suggestions for future research were also discussed. Works on Zakat on employment income suggested solutions of the menace of poverty in the Muslim majority states of Nigeria by providing facts that buttress the payment of Zakah on employment and professional income as a powerful source of funds for dealing with the harsh effect of poverty among Muslim communities. The literature is purely a review that explores the jurisprudential debate and ruling on Zakat on employment income and traces how some Muslim majority jurisdictions benefitted immensely towards eradicating poverty using proceeds from Zakat on employment and professional income. In view of this, the literature recommends to those in authority to take a juristic stance on the matter and generate Zakat funds from employment and professional income as well as ensure proper disbursement of the funds to the target group in order to curb the poverty situations of the Muslim majority states in Nigeria and beyond. Finally, studies on timeline of Zakat discussed (1) the rates of different types of zakah and the time of their occurrence during the history of Islam, (2) identified the rates and conditions of zakat according to the time period in Islam which is divided into the era of Prophet's companions, the era of Followers (Tabieen), and the era of Tabi-id Tabieen (3) studied the social conditions at that time and the reasons explained by the Prophet, the rulers, and the scholars of the time. The scope of this research included the study of literature and evidences from the Qur'an, the Hadith, and the documents related to the rates and the duration for paying different types of zakat divided in the Islamic era.