

The Islamic Banks' Strategy to Enhance Financial Inclusion through the Geographic Mapping System Amid Global Pandemics Case Study: Al Baraka Banking Group (ABG)

استراتيجية البنوك الإسلامية لتعزيز الشمول المالي من خلال نظام الربط الجغرافي في ظل الجوائح العالمية

– دراسة حالة مجموعة البركة المصرفية – ABG

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Abstract:

This study seeks to highlight the contribution of Islamic banks to enhancing financial inclusion by addressing the following question: "How do Islamic banks contribute to promoting financial inclusion amid global pandemics?" Employing the deductive approach with descriptive and analytical tools, the study concludes that Sharia-compliant financial inclusion is achieved through the concerted efforts of several stakeholders, primarily Islamic banks. These banks endeavor to provide Sharia-compliant financial products and services to the largest possible number of customers through their geographic outreach and branch distribution.

Keywords: Financial Inclusion, Islamic Banks, Financial Literacy.

ملخص:

جاءت هذه الدراسة لتسلط الضوء على مساهمة البنوك الإسلامية في تعزيز الشمول المالي عن طريق الإجابة على الإشكالية التالية: "كيف تساهم البنوك الإسلامية في تعزيز الشمول المالي في ظل الجوائح العالمية؟"، وذلك بالاعتماد على المنهج الاستنباطي بأدواته الوصف والتحليل، لتتوصل بذلك الدراسة إلى أن الشمول المالي المتوافق مع الشريعة الإسلامية يتحقق بتظافر جهود عدد من الجهات على رأسها البنوك الإسلامية التي تعمل على توفير المنتجات والخدمات المالية المتوافقة مع أحكام الشريعة الإسلامية لأكبر عدد ممكن من المتعاملين من خلال انتشارها الجغرافي وتوزيع فروعها.

الكلمات المفتاحية: الشمول المالي، البنوك الإسلامية، التثقيف المالي.

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1 .INTRODUCTION

The growth drivers of Islamic banks as a mechanism to enhance financial inclusion vary from one region to another. In some regions, the presence and growth of Islamic banks signify a strong demand for Sharia-compliant financial and banking services and products, amid insufficient supply. In other areas, a robust Islamic microfinance network has been established. Meanwhile, in more advanced Islamic finance regions, efforts are directed toward enhancing access to and availability of financial services through improved Islamic fund management, Takaful (Islamic insurance), and innovative Sharia-compliant financial products offered via digital platforms. This becomes particularly vital during global health crises and pandemics, where accessing banks and their branches is hindered due to preventive measures such as social distancing enforced by most countries.

Significance of the Study:

The importance of financial inclusion lies in its role in supporting startups, helping them transition into small and medium-sized enterprises (SMEs) that generate jobs and business opportunities. Furthermore, financial inclusion reaps significant benefits through the use of digital financial services and other financial technology applications, particularly when provided by Islamic banks during times of pandemics and health crises.

Objectives of the Study:

This study aims to:

1. Highlight the contribution of Islamic banks to enhancing financial inclusion.
2. Examine the strategies adopted by Al Baraka Banking Group to promote Sharia-compliant financial inclusion, including preemptive measures taken by the group related to the digitization of financial services in anticipation of health crises.

Research Problem:

How do Islamic banks contribute to enhancing financial inclusion during global health crises?

Sub-Questions:

To address the main research problem, it is divided into the following sub-questions:

- What is the contribution of Islamic banks to promoting financial inclusion?
- What are the efforts undertaken by Al Baraka Banking Group to implement its financial inclusion strategy during the current health crisis?

Hypotheses of the Study:

To conduct the study, the following hypotheses are adopted:

1. Islamic banks contribute to enhancing financial inclusion by offering a wider range of Sharia-compliant financial products.
2. Al Baraka Banking Group has implemented its financial inclusion strategy initially through geographic expansion, followed by adopting financial technology, digital transformation, and innovation.

Research Methodology:

To answer the sub-questions and test the validity of the hypotheses, this study employs the deductive method, utilizing both descriptive and analytical tools.

Study Structure:

To comprehensively address the topic, the study is divided into three sections:

1. **Section One:** Financial Inclusion and Strategies for Achieving It.
2. **Section Two:** The Role of Islamic Banks in Enhancing Financial Inclusion.
3. **Section Three:** The Experience of Al Baraka Banking Group in Promoting Financial Inclusion Amid the COVID-19 Crisis.

2. Financial Inclusion and Its Strategy for Achievement

Most countries strive to universalize financial services and expand participation in the financial system. This effort is often led by a national steering committee headed by the central bank and involving numerous public and private sector partners to design and implement a financial inclusion strategy.

2.1. Concept of Financial Inclusion

The definitions of financial inclusion vary, and some of the prominent ones are:

- **World Bank Definition:**
“The availability and use of all financial services by all societal segments, including individuals and institutions, through formal channels. This encompasses banking savings accounts, payment and transfer services, insurance, finance, credit, and the development of more suitable financial tools at competitive prices. It also includes the protection of consumers’ rights and the encouragement of sound financial management to prevent reliance on informal and often costly channels that lack regulatory oversight.”
- **Consultative Group to Assist the Poor (CGAP) Definition:**
“Financial inclusion is the effective access of households and enterprises to appropriate financial services, delivered responsibly and sustainably, within a well-regulated environment” (CGAP, 2016).
- **OECD and International Network on Financial Education (INFE) Definition:**
“Financial inclusion is the process of enhancing access to a wide range of formal and regulated financial services and products in a timely, reasonable, and adequate manner. It also aims to expand the utilization of these services and products by different societal segments through innovative approaches, including financial awareness and education, to promote financial well-being and socio-economic inclusion.”
- **Center for Financial Inclusion, Washington:**
“Financial inclusion is the state in which all individuals can access a full range of quality services, affordably, conveniently, and in a manner that preserves their dignity” (Gatnar, 2013).

Distinguishing Financial Inclusion from Access to Financial Services

Financial inclusion focuses on the proportion of individuals and enterprises using financial services. Lack of use does not necessarily imply difficulty accessing services; some may have affordable access but choose not to use them, while others face obstacles such as high costs or regulatory barriers. The root issue is often the

lack of demand or the existence of barriers that prevent access (Global Financial Development Report, 2014).

2.2. Financial Inclusion Policies

The German Development Cooperation identified 35 policies across 10 countries to promote financial inclusion, highlighting six effective policies, particularly:

1. Banking agents.
2. Mobile payment systems.
3. Diversification of service providers.
4. Reform of government-owned banks.
5. Customer protection.
6. Financial identity policies.

1. Banking Agents:

Policies enabling banks to partner with retail outlets as financial service agents have significantly boosted inclusion. Bank branches alone are not economically viable in certain areas. Utilizing existing retail networks—such as pharmacies, post offices, and shops—as banking agents enhances inclusion. Brazil, for instance, became an early leader in bank agents, using a broad correspondence network to distribute social benefits.

2. Mobile Payment Systems:

The widespread use of mobile phones opens a new channel for financial services delivery. This technology has drastically reduced transaction costs, made money transfers easier, expanded access points, and attracted previously unbanked individuals. The Philippines demonstrated success in 2004 with its mobile payment systems.

3. Diversification of Service Providers:

Policymakers adopted diverse regulatory strategies to license institutions for delivering financial services, including specialized licenses for micro-deposit institutions and financial NGOs.

4. Reform of Government-Owned Banks:

State-owned banks often play a crucial role in reaching underserved populations. While some countries, like Brazil and Peru, closed underperforming government banks to reduce costs, others like Indonesia and Brazil introduced reforms to improve their profitability.

5. Customer Protection:

The information gap between customers and banks regarding financial products often disadvantages customers, especially those with limited financial literacy. Strong consumer protection regulations ensure transparency and fairness, preventing unethical practices as witnessed in Bolivia in 2000.

6. Financial Identity Policies:

Financial identity policies address barriers to services by narrowing the documentation gap between low-income individuals and bank requirements. These policies create financial histories for underserved customers, enabling them to access credit and banking services.

2.3. Strategy for Achieving Financial Inclusion

Developing a financial inclusion strategy requires the following steps (Hussein, 2018):

- 1. Assessing the Demand-Supply Gap:**

A baseline study to identify gaps between the availability and use of financial services can guide future objectives and strategy formulation.

- 2. Building a Robust Financial Infrastructure:**

This involves expanding the geographic reach of financial institutions, enhancing payment and settlement systems, and activating credit information companies under a supportive regulatory framework.

- 3. Providing Financial Services and Products:**

Financial services should cater to the needs of all societal segments, with innovative products tailored to diverse requirements.

- 4. Ensuring Customer Protection:**

Enforcing regulatory measures to ensure fair treatment, transparency, and informed decision-making for customers is essential.

- 5. Enhancing Financial Awareness and Education:**

Developing strategies for financial education can raise awareness and improve financial literacy among various societal groups.

This framework illustrates how financial inclusion serves as a foundation for socio-economic growth by bridging financial gaps and empowering underserved communities.

3. The Role of Islamic Banks in Promoting Financial Inclusion

Islamic banks aim to provide financial services that comply with Islamic law (Sharia) and make these services accessible to as many customers as possible, thereby achieving what is known as **Sharia-compliant financial inclusion**.

3.1. Ways to Promote Financial Inclusion

Financial inclusion is enhanced through several methods, including:

- 1. Expanding the Branch Network of Financial Service Providers**

- Establishing branches to support microfinance projects and financing for small businesses.

- 2. Expanding the Availability of Banking Services**

- Ensuring that banking services are available to underserved populations through various channels.

- 3. Improving Communication and Information Exchange**

- Expanding digital financial services and increasing the use of technology to enhance access to financial services.

- 4. Creating Comprehensive Databases**

- Establishing credit history databases for individuals and small and medium-sized enterprises (SMEs), along with databases for movable assets, to support lending decisions.

3.2. Key Pillars Adopted by Islamic Banks to Enhance Financial Inclusion

Islamic banks rely on a set of key pillars to strengthen financial inclusion, as detailed below:

1. Pillar One: Supporting Financial Infrastructure

- Enhancing payment systems, establishing comprehensive databases, and improving geographical outreach to underserved areas.

2. Pillar Two: Consumer Protection

- Protecting consumers' rights by ensuring fairness, transparency, and ethical conduct in financial transactions.

3. Pillar Three: Developing Financial Services and Products to Meet Community Needs

- Ensuring that Islamic banks offer products that cater to the diverse needs of all social groups, with a focus on inclusivity and accessibility.

4. Pillar Four: Financial Education

- Promoting financial literacy and awareness programs to empower customers, particularly those from underserved communities.

3.3. How Islamic Banks Enhance Financial Inclusion Through These Pillars

Islamic banks enhance financial inclusion by:

• Innovating New Financial Products

- Designing new products based on savings, Islamic insurance (Takaful), and payment solutions. They also provide training for staff to effectively manage these products.

• Encouraging Competition Among Islamic Banks

- Promoting competition by offering more product options, enhancing customer choice, and ensuring that services are of high quality and affordable.

• Ensuring Customer-Centric Services

- Taking into consideration the specific needs and circumstances of customers, ensuring that no one is exploited.

• Fulfilling Financing Needs

- Coordinating with regulatory authorities to meet the demand for financing in a responsible and sustainable manner.

4. The Experience of Al Baraka Banking Group (ABG) in Promoting Financial Inclusion Amid the COVID-19 Crisis

Al Baraka Banking Group (ABG) focused initially on expanding its geographical reach to achieve financial inclusion in accordance with Sharia law. However, it later shifted towards digitizing financial services and adopting fintech solutions to better cope with the global health crisis. During the COVID-19 pandemic, ABG's primary goal was to maintain operational continuity and communicate effectively with all stakeholders, including customers.

4.1. Introduction to Al Baraka Banking Group (ABG)

Al Baraka Banking Group (ABG) is a public joint-stock company based in Bahrain. It was established in 2006 after transferring the ownership shares of Al Baraka banks

to the group starting in 2004. This transition continued until 2006, culminating in the consolidation of its financial statements. ABG is recognized as the first Arab banking group to achieve this level of geographic reach, with operations in 16 countries through its subsidiary banks.

4.2. The Global Health Crisis (COVID-19 Pandemic)

The COVID-19 pandemic became an unprecedented challenge for countries worldwide. Unlike other crises, it impacted nearly every aspect of daily life, paralyzing multiple vital sectors.

A. Defining the Current Global Health Crisis (COVID-19):

According to the World Health Organization (WHO), “*Coronaviruses are zoonotic, meaning they are transmitted between animals and people. They can cause diseases ranging from the common cold to more severe diseases, such as Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). The novel coronavirus (COVID-19) is a new strain of the virus never before identified in humans*” (WHO, 2020).

B. Characteristics of the COVID-19 Crisis:

COVID-19 is unique because the virus spreads through direct and indirect contact, meaning it can be contracted from surfaces contaminated by infected individuals. This made it a global pandemic, according to the WHO (2020). The crisis severely disrupted economic, social, and health systems worldwide, with major effects on both developed and developing nations.

4.3. Contribution of Al Baraka Banking Group (ABG) to Promoting Financial Inclusion Through Geographical Expansion

Al Baraka Banking Group (ABG) has achieved significant geographical expansion over a period of 15 years. The group continues its growth strategy and plans to enter new markets in the near future. This includes expanding into the Chinese market, further growth in East Asia, and exploring opportunities in Africa, particularly in countries like Kenya, Tanzania, and Uganda. ABG’s geographic expansion not only enhances its market presence but also plays a vital role in promoting **Sharia-compliant financial inclusion** by reaching underserved regions and providing financial services in accordance with Islamic principles.

Bank Name	Country	Year of Establishment	Number of Branches												
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Jordan Islamic Bank	Jordan	1978	56	56	56	60	75	77	80	85	92	97	100	105	
Al Baraka Bank Egypt	Egypt	1980	18	18	19	21	22	23	25	28	29	31	32	32	
Al Baraka Bank Tunisia	Tunisia	1983	08	08	08	08	08	08	10	13	22	34	37	37	
Al Baraka Bank Sudan	Sudan	1984	10	10	11	25	25	25	26	26	27	27	27	28	
Al Baraka Islamic Bank	Bahrain	1984	04	04	04	05	06	06	06	06	06	08	08	08	
Al Baraka Turk Participation Bank	Turkey	1985	100	100	101	109	121	136	198	202	212	213	220	230	
Al Baraka Limited Bank	South Africa	1989	06	06	06	06	06	06	07	07	12	11	12	12	
Al Baraka Bank Algeria	Algeria	1991	14	14	20	21	25	26	27	28	30	29	31	31	
Al Baraka Bank Lebanon	Lebanon	1991	04	05	07	07	07	07	07	07	07	07	07	07	

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Al Baraka Banking Group (Parent Company)	Bahrain	2002		01	01	01	01	01	01	01	01	01	01	01	01
Itqan Capital	Saudi Arabia	2007		01	01	01	01	01	01	01	01	01	01	01	01
Al Baraka Bank (Representative Office)	Indonesia	2008	/	01	01	01	01	01	01	01	01	01	01	01	01
Al Baraka Syrian Bank	Syria	2009	/	/	01	04	09	09	10	10	12	13	13	13	
Al Baraka Pakistani Bank Limited	Pakistan	2010	/	/	/	89	89	94	101	130	135	188	191	224	
Al Baraka Libyan Bank (Representative Office)	Libya	2011	/	/	/	01	01	01	01	01	01	01	01	01	
Branch of Al Baraka Turk Participation Bank	Iraq	2011	/	/	/	/	01	01	01	01	01	01	01	01	
Finance and Development Bank	Morocco	2017	/	/	/	/	/	/	/	/	/	/	/	/	01
Total Branches			222	224	236	358	398	422	502	547	589	663	683	736	

Source: Annual Reports of Al Baraka Banking Group for the following years: 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018.

4.4. Al Baraka Banking Group's Digital Transformation Strategy and Innovation for Financial Inclusion Amid the COVID-19 Crisis

Al Baraka Banking Group (ABG) has proactively implemented a digital transformation strategy that was pivotal in ensuring business continuity and customer engagement during the COVID-19 crisis. This strategy focused on expanding digital services and leveraging innovative platforms to enhance financial inclusion, aligning with the group's long-term goals of reaching underserved populations and facilitating access to Islamic financial services.

1. Al Baraka Global API Platform:

The launch of the Al Baraka Global API platform marked a significant step towards innovation in open banking services. This platform facilitates seamless integration with third-party providers, allowing customers to access a wide array of digital financial services, thus increasing accessibility and promoting financial inclusion.

2. BTI Bank (Bank of Investment and Trade):

BTI Bank, a digital bank launched by Al Baraka Group, enables remote access to banking services for customers, allowing them to view their accounts and perform transactions securely. This initiative is part of Al Baraka's broader strategy to digitalize banking services and expand their reach, especially during the pandemic when physical access to branches was limited.

BTI Bank's partnership with **BMCE Bank of Morocco** has led to the establishment of a Sharia-compliant financial services platform in Morocco, offering a range of Islamic financial products to cater to the local market's needs.

3. Insha – Al Baraka Turkey's Digital Bank:

Insha, launched by Al Baraka Turkish Participation Bank, offers an entirely digital banking service that complies with Sharia law. Operating without

interest, Insha provides core banking services like account management, payments, and transfers through digital channels.

Insha's unique business model relies on the infrastructure of **Solaris Bank AG**, a regulated bank in Germany. By leveraging Solaris' open banking system, Insha can offer its services across Europe, beginning with Germany and expanding to other countries such as France, Italy, Austria, the Netherlands, Spain, and Belgium.

- **Phase 1:** Insha provides basic banking services, including account opening, payment management, and fund transfers.
- **Phase 2:** Insha plans to roll out Islamic financial products, including participatory banking services, insurance, and investment products, through its digital platform.

4. **Al Baraka Algeria and Digital Transformation Project (GED):**

In Algeria, Al Baraka Bank has launched a **Document Management System (GED)** to streamline the handling of banking documents electronically. This initiative is part of a broader push for digital banking services and aims to enhance efficiency while meeting customer needs.

The bank has also successfully launched several **remote banking solutions**:

- **Al Baraka Net:** An online banking service that allows customers to manage their finances from anywhere.
- **Al Baraka App.dz:** A mobile banking app available on both **App Store** and **Google Play**, enabling users to access their accounts and perform transactions conveniently from their smartphones.

Additionally, Al Baraka Algeria has introduced **i-trade**, a blockchain-based platform for managing liquidity for financial institutions, and a **Social Fintech Incubator** aimed at supporting startups and promoting financial inclusion in Africa. This initiative also includes the creation of an **African Social Fintech Fund**, designed to assist young companies with the potential to drive economic development and innovation in the region.

These efforts reflect Al Baraka's commitment to integrating digital technologies into their operations, providing Islamic financial products, and ensuring that financial services are accessible to a wider demographic, particularly during global crises like the COVID-19 pandemic.

5. **Conclusion**

Islamic financial inclusion is achieved through the concerted efforts of various entities, primarily Islamic banks, which strive to provide financial products and services that comply with Sharia principles to as many clients as possible through their geographic spread and branch networks. This holds true in normal circumstances, where individuals seeking to engage with Islamic financial products can access Islamic banks and their various branches. However, in critical situations where direct interaction between the client and the service provider is challenging, Islamic banks must ensure the continuity of service provision through digitalization. During the COVID-19 crisis, the banks of Al Baraka Banking Group operated with ease. What is reassuring is that almost all the banks had already launched their digital transformation strategies and had made significant progress in offering a full range

of banking services and products via their electronic platforms, including websites, mobile applications, and other modern technologies.

Suggestions:

1. Conduct a diagnostic study on the current state of financial inclusion in each country, focusing on both supply and demand aspects to assess the levels of access to financial services, their usage, and quality. This should also include an examination of commercial legislative barriers, along with the study of social, economic, demographic, and geographical factors.
2. Develop and implement a detailed and comprehensive action plan that specifies roles to achieve the desired financial inclusion objectives, applying performance indicators and assigning responsibilities for implementation.
3. Continuously monitor and evaluate performance to ensure maximum benefit from the financial inclusion strategy and guarantee that it is progressing in the right direction by:
 - Collecting comprehensive data on all aspects of the financial inclusion strategy periodically.
 - Extracting performance indicators.
 - Comparing results with established performance indicators and objectives.
 - Analyzing results and identifying deviations.
4. Rethink how to ensure the continuity of services in case of a crisis similar to the COVID-19 pandemic, such as remote working, remote education, or remote service delivery.

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