IFN FINANCIAL INNOVATION
REPORT 2020
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The future is now

The coronavirus pandemic has catapulted digital finance to the forefront as a viable solution to the economic hardships triggered by the coronavirus pandemic. Within this digital finance narrative, the role of digital Islamic social finance has gained even stronger prominence and momentum. During these difficult times, governments, multilateral development organizations and Islamic financial institutions have turned to fintech and philanthropic business models such as Waqf and Zakat to alleviate the sufferings of many by protecting livelihoods and supporting businesses.

The unprecedented outbreak has certainly shocked the (Islamic) financial system and has compelled many to review and revise their business models. Some may take this as an immense opportunity for Islamic fintech, but for the unprepared and less agile, things could go belly up. The industry still has much to learn, from how to effectively deliver our message to the masses (and regulators) and the industry being more proactive about dismantling the silos that prevent start-ups and incumbents from establishing meaningful engagement, to creating compelling propositions and products to appeal to investors and consumers while remaining true to Shariah.

One could perhaps argue that just as what the financial crisis of 2008 did to Islamic finance, the COVID-19 pandemic is also shining the spotlight on Islamic fintech as an attractive alternative. However, the sector is nowhere near mature and is still vulnerable to disruptions and inherent challenges.

In this inaugural issue of the IFN Islamic Financial Innovation Report, we bring you expert analyses and know-how from industry practitioners and market commentators covering key markets and verticals. The report also features findings of the IFN Islamic Fintech Survey 2020, providing insights into current market gaps, opportunities and future trends.

Vineeta Tan
Managing Editor
Islamic fintech in 2020: A silver lining amid coronavirus storm
2020 is tumultuous to say the least. The global economy is kneecapped as countless industries continue to suffer from the ongoing coronavirus shock. As we brace ourselves for what the World Bank is forecasting to be the worst recession since the Second World War this year, the Islamic fintech sector may be one of the few that could stand to gain more rather than lose out from this crisis.

IFN Fintech Survey 2020 Results
Throughout June to August 2020, IFN surveyed 142 founders and CEOs of fintech start-ups providing Shariah compliant services and products. Opinions and data from Asia, Europe, the GCC, North America and Africa on growth potential, opportunities and market gaps were collated and analyzed.

Stephen Openshaw,
CEO of Eiger Trading Advisors

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Vice-president of Fintech and Islamic Digital Economy of Malaysia Digital Economy Corporation

Mahmud Hossain,
Managing director and CEO of Millennium Information Solution

Fintech: Islamic finance reinvented

Challenges and opportunities for Halal financing in fintech

What is OBIC?

Data science labs for Islamic finance

Cybersecurity a major challenge for Islamic financial institutions in upcoming period

COVID-19: An opportunity for the Islamic digital economy

Regtech, Islamic regtech and innovation

Fintech Booster: Accelerating growth in the global Islamic fintech hub — Malaysia

Islamic crowdfunding: Tradition, transition and technology
Malaysian Islamic Fintech Initiative: Dialogue Findings

The IFN Malaysian Islamic Fintech Initiative is a series of high-level dialogues with actionable outcomes for the development of the Shariah fintech industry in Malaysia. Supported by Malaysia Digital Economy Corporation (MDEC), two dialogues have been organized with industry stakeholders including regulators, government agencies, non-profit organizations, financial institutions and fintech start-ups.

IFN Islamic Fintech Landscape

An ongoing initiative mapping out Islamic fintech service providers worldwide

Market Reports

Australia’s first Islamic bank — a digital one — to open doors in 2021

LinkAja Syariah exploring other ecosystems including Waqf as it eyes one million monthly users by end of 2020

Foreign companies show interest in setting up Islamic digital operations in the Philippines

Hong Kong taps into Islamic fintech with blockchain Sukuk

Islamic fintech in Malaysia — bridging the digital divide

Saudi issues draft regulations on debt-based crowdfunding as number of Islamic fintech companies grows

Is Islamic crowdfunding possible in Tunisia?

WIFA

World Islamic Fintech Awards 2019: Strength in diversity

World Islamic Fintech Awards (WIFA) are nominations-based independent awards honoring the very best of Islamic fintech which received 135 nominations from start-ups in varying stages of growth across nine verticals.
The global COVID-19 pandemic has forced upon the world many difficult revelations: from how fragile our health system is to how dangerously interdependent our economies are, and from how horrifying disinformation and misinformation can be to how vulnerable our livelihoods are and how wide the digital divide is. But amid these difficult truths, we are also learning how to adapt, and to finally embrace, accelerate and implement—if we have not already—digitalization as a survival strategy.

New rules
For years, the (Islamic) finance industry has been preaching the merits of digitalization, and the coronavirus was its litmus test. Unfortunately, not all passed. Even well-resourced banks had to upgrade their delivery system and tweak their operating model when they could no longer rely on their physical strategy.

It is a sobering wake-up call for the finance community, including regulators, on how digitally prepared (or not) they are. Pakistan, for example, in March had to mandate banks to activate online financing repayments (a service widely available in other markets), one of a number of requirements the State Bank of Pakistan had set to push the banking community to be digitally self-sufficient by the end of the first half as Prime Minister Imran Khan’s government prepared for a national lockdown. Unfortunately, the regulator had to extend the timeline for phasing out person-to-person transactions to branchless banking by another six months to the 31st December 2020, signaling how (in)effective banks have been able to cope with going digital.

We also see regulators enacting a slew of digital innovation regulatory changes along with a raft of policies to mitigate the impact of COVID-19: the Central Bank of Nigeria recently released its guidelines on digital payment services after urgently introducing new Islamic financing facilities to support its MSME sector, Saudi Arabia released regulations for debt-based crowdfunding while Bank Negara Malaysia (BNM) issued its long-awaited draft framework for virtual banks. BNM’s Shariah Advisory Council also resolved that it is permissible to invest in digital currencies and virtual tokens listed on regulated digital exchanges after the Securities Commission Malaysia (SC) published its digital assets guidelines. Indonesia is also expected to release an Islamic fintech framework sometime this year.

BNM confirmed with IFN that it has received keen interest for its digital banking license, including several Shariah digital banks, while the next Islamic bank to open in the Philippines may be in

Islamic fintech in 2020: A silver lining amid coronavirus storm
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the form of an online-only bank. IFN learned that at least two foreign entities — including an online wallet — are exploring the possibility of launching Islamic financial services in the Philippines within the country’s digital banking framework.

At an institutional level, Islamic financial entities in Southeast Asia as well as in the Arab world are fast-tracking their digital initiatives, taking concrete actions to meaningfully address one of their biggest concerns: rapidly evolving technology. PwC’s latest Global CEO Survey revealed that 70% of financial services leaders agree that the rate of technological change is a significant concern. Here are some examples of Islamic financial institutions’ digital activities: Khaleeji Commercial Bank launched its open banking services, Bank Islam Malaysia set up a new unit to focus on offering digital banking products by 2021, FWD Takaful rolled out new digital products including a chatbot and Abu Dhabi Islamic Bank introduced new online services.

In other words, the pandemic has strong-armed Islamic financial institutions and regulators to accelerate their digitalization strategy as a top priority, leaving little room for institutions to drag their feet on their fintech plans and removing any hesitance about making investments into upgrading their digital architecture.

Multilateral institutions, governments and Islamic financial institutions acted swiftly to mobilize Shariah compliant social finance solutions via fintech to assist communities hard-hit by the virus. The IsDB, which in recent years has been transforming into a digital-driven institution, launched a series of COVID-19 fintech initiatives including developing and rolling out a blockchain-powered platform to distribute financing to its member countries as well as providing tech grants supporting innovations in line with the UN Sustainable Development Goals (SDGs). Its subsidiaries such as the Islamic Corporation for the Development for the Private Sector is also exploring blockchain Waqf and crowdfunding solutions while the Islamic Research and Training Institute partnered with Samsung-backed blockchain technology firm Blocko to launch the Smart Credit Management Platform.

In Muslim markets like Malaysia, fintech public–private partnerships are being formed. The nation’s pilgrim fund, Lembaga Tabung Haji, in May formalized an agreement allowing it to invest in projects via Shariah bank-mediated crowdfunding platform Investment Account Platform (IAP). It is also learned that the IAP is exploring crowdfunding-enabled investment opportunities with the IsDB. Malaysia Digital Economy Corporation (MDEC) also partnered with crowdfunding platform GlobalSadaqah to launch a national campaign to support frontline COVID-19 workers.

MDEC, which is spearheading the formation of a national Islamic fintech taskforce to drive financial inclusion, also launched e-Berkat, an initiative to raise financial literacy and facilitate access to financial services (including Islamic) among the B40 (bottom 40% of income earners) and MSMEs. The latest digital initiative is a collaboration with 12 fintech players.

Such engagement is also seen in Indonesia, most notably, through LinkAja Syariah — the country’s national Islamic payment platform which made its debut in April. LinkAja Syariah partnered with several state-owned Islamic banks as well as Halal merchants to build an end-to-end Islamic e-commerce ecosystem. It is hoping to garner one million users by the end of 2020 as it continues its Islamic finance public awareness campaign in partnership with local governments, Islamic boarding schools and religious councils. It is also worth noting that the financial regulators of Malaysia (SC) and Indonesia (Otoritas Jasa Keuangan) also recently inked a partnership to support the expansion of respective fintech ecosystems through collaborative opportunities, including in Islamic fintech.

“Digital finance’s dramatic potential for transformative impact is being revealed by the COVID-19 pandemic. Digital transfers enable governments to get support to people in need, crowdfunding platforms have mobilized funds for medical supplies and emergency relief and algorithmic lending means small businesses have quicker access to funds. The speed of the recent spread of these technologies is astonishing, but progress is not automatic,” noted Achim Steiner, the administrator of the UN Development Programme and co-chair of the UN Secretary-General’s Task Force on Digital Finance. “For digitalization to be a true force for delivering on the SDGs, technological advances must combine with sound policy that empowers citizens and enables our financial system to meet the urgent investment challenges that must be overcome to build forward better.”

McKinsey & Company predicted that new fintech investments will exceed US$30 billion this year, a phenomenal surge from a mere US$1.8 billion in 2011.

Force for good

Another silver lining of the dark pandemic cloud is the recognition of the fundamental importance of Islamic social finance instruments, particularly digital-enabled tools, in sustaining, protecting and uplifting a society, especially vulnerable communities.

As expected, COVID-19 (like most disasters) disproportionately affects poorer communities revealing the ugly socioeconomical and digital divide of our world.

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Promising growth

Necessity is the mother of invention and this perhaps could be best exemplified by the emergence of digital retail Sukuk. While it is not a new concept — having been pioneered by the Indonesian government in 2018 and Blossom Finance which issued a blockchain retail Sukuk facility a year later — more are entering the market, most notably Malaysia, where retail Sukuk have been few and far in between. The Malaysian government in August launched its first digital retail Sukuk facility — one designed with SDG themes as proceeds will be channeled toward COVID-19 relief efforts including medical research and development and women empowerment projects. Choosing a digital route was a strategic decision to expand the investor base.

Saudi Arabia’s Wethaq Capital, licensed by the Saudi regulator this year, expects to arrange the Kingdom’s pilot digital Sukuk offering in the final quarter of 2020. Meanwhile, Indonesia is likely to tap the retail market again as it has so far received encouraging demand via its online distribution channels, particularly from millennials and Generation Z.

Admittedly, it is not all hunky-dory for Islamic fintech. Start-ups have expressed their struggle to stay afloat because of the pandemic. IFN has learned several have downsized as margins are compressed while some have had their fundraising exercises halted. It is likely we would see the shuttering of a few start-ups, but new players or more established start-ups would likely fill the void.

This is already the case in 2020. As at the end of August 2020, the IFN Islamic Fintech Landscape has registered 145 Shariah fintech service providers, almost 21% more than in December 2019. In 2020, new players such as Hassed Investing Company secured regulatory approval in Saudi to test its robo-advisory service, US-based digital investment platform Newday Impact Investing debuted its Muslim-friendly portfolio and Shariah compliant e-money platform MyAhmed secured a place in the UK’s Financial Conduct Authority’s regulatory sandbox, while established names such as Wahed Capital and Wethaq expanded their geographical reach.

And the pipeline is looking strong. Malaysian conventional P2P lender Moneysave has sought regulatory approval to offer Islamic products, and IFN understands a few more conventional platforms are thinking the same; while Islamic Bank of Australia — an endeavor almost a decade in the making — is expecting to open doors next year as an Islamic digital bank, the first fully-fledged Shariah bank in Australasia.

While the storm is not over, there are certainly rays of hope for Shariah fintech.
The Eiger Trading Platform is a cloud-based trading system designed exclusively to provide a secure and efficient mechanism to facilitate the purchase and sale of Shariah compliant assets for the commodity Murabahah requirements of Islamic financial institutions.

**Overview**

Eiger is a leading technology-focused Shariah compliant commodity provider in the Islamic finance space.

Over the past 10 years, Eiger has bridged the gap between the physical commodity markets and Islamic financial institutions with market-leading technology. Today, the Eiger Trading Platform serves over 100 clients worldwide.

Our role is to work with all participants in the industry openly and with transparency to drive forward digitalization and innovation objectives using a customer-centric approach. Recently, Eiger was privileged to be awarded the Best Shariah-Compliant Commodity Broker award by Global Islamic Finance 2019.

We are a team of dedicated professionals, drawing on a broad range of skills and experience from technology and financial backgrounds.

**The Eiger Trading Platform**

The Eiger Trading Platform is a cloud-based trading system designed exclusively to provide a secure and efficient mechanism to facilitate the purchase and sale of Shariah compliant assets for the commodity Murabahah requirements of Islamic financial institutions. All trades are completed in real time and customers have access to multiple Shariah compliant commodities, geographically dispersed across the world and fully deliverable.

Eiger’s powerful integration services allow customers to connect their core systems directly with the Eiger Trading Platform to efficiently manage high volumes of transactions across retail and wholesale markets.

**Products supported**

The Eiger Trading Platform supports Islamic financial products across a variety of unique operational requirements such as liquidity management and treasury, Islamic capital markets, asset management, corporate and retail banking, derivatives, real estate financing, peer-to-peer financing and microfinancing.

The Eiger Trading Platform has been designed to be highly flexible and the trade workflow can be customized to suit the individual requirements of each customer we work with. Users can navigate the platform through an intuitive user interface which offers seamless access to detailed reporting and booking workflows while mitigating post-trade risks.

**Governance and regulation**

We maintain a keen focus on ensuring the Eiger Trading Platform and its associated processes and procedures are well governed and effective. As such, the Eiger Trading platform exemplifies Eiger’s commitment to sustainability principles and best practice. Eiger is also regulated by the UK Financial Conduct Authority.

Our commitment and dedication to good governance is further demonstrated through our memberships to AAOIFI and the International Islamic Financial Market, through which we endeavor to support the development of the Islamic finance industry through the adoption of standardized Shariah compliant financial documentation and accounting standards. Furthermore, Eiger is an associate trade member of the London Metal Exchange.
### IFN Fintech Survey 2020 Results

Throughout June to August 2020, IFN surveyed 142 founders and CEOs of fintech start-ups providing Shariah compliant services and products. Opinions and data from Asia, Europe, the GCC, North America and Africa on growth potential, opportunities and market gaps were collated and analyzed.

#### Key Findings

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<th>Top five fastest-growing Islamic fintech verticals in 2021</th>
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</thead>
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<td>P2P &amp; Crowdfunding</td>
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<tr>
<td>Payment &amp; Remittance</td>
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<tr>
<td>Personal Finance Management</td>
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<td>Challenger Banking</td>
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<td>Robo Advisory</td>
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<th>Biggest challenges to growth</th>
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<tbody>
<tr>
<td>Regulatory barriers</td>
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<tr>
<td>Limited access to capital</td>
</tr>
<tr>
<td>Poor Islamic finance and digital literacy</td>
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</tbody>
</table>

Southeast Asia viewed as biggest market with Islamic fintech growth potential

Malaysia seen as the most welcoming Islamic fintech jurisdiction, followed by the UK and the UAE

78% of start-ups surveyed are looking to raise funds over the next 12 months; more than half are aiming to raise at least US$2 million

Despite 78% of start-ups being certified Shariah compliant, only 46% view an official Shariah compliance certification as necessary to business

A quarter of respondents believe enhancing Islamic finance and digital literacy as vital to improving Shariah fintech adoption

14% of CEOs attribute negative perception toward Islam as biggest barrier to growth

Opinions are divided when it comes to whether Islamic fintech firms are disadvantaged against their conventional peers
Fintech Booster is a program by MDEC, in collaboration with Bank Negara Malaysia, which provides capacity building resources for Fintech companies, that are based or looking to set up business in Malaysia, via three modules; i) Legal & Compliance, ii) Business Model, and iii) Technology.

The program is open to all and there will be no charges imposed for participants to join the program.

For the Public Workshop, interested participants are required to register to join the program, subject to availability of pax. For the Private Program, a more stringent screening process will be done to ensure that eligible companies that require consultation will be matched accordingly with our Partners as the private programs are conducted via one-on-one session.

For more information, please visit www.fintechbooster.com.my
SURVEY RESULTS

Industry outlook

Growth areas
Peer-to-peer (P2P) financing and crowdfunding are expected to outpace all other Islamic fintech verticals in 2021, continuing a consistent growth trend seen over the last few years as reflected by the IFN Islamic Fintech Landscape. As at the end of August 2020, more than a quarter of the 145 constituents of the IFN Islamic Fintech Landscape belonged to the P2P and crowdfunding business, dominating the landscape.

The next growth area is payments and remittance, on the back of projections for global digital remittance (conventional and Islamic) to hit US$74.54 billion by 2026. Verified Market Research’s calculations place the sector’s cumulative annual growth rate at 2.38% from 2019 to 2026.

Market potential
All the Islamic fintech founders and CEOs surveyed were almost unanimous voicing their optimism about the growth potential for Islamic fintech, although not all were able to quantify their three-year market growth projections. Reliable data on market size is not yet available; however, about 40% believed that the market would expand at least 20% by 2023, with the most optimistic believing that Shariah compliant fintech transactions could at least quadruple over the next three years.

“There is huge potential and market opportunity. With the right collaboration between the private and public sectors, the growth rate for Islamic fintech is exponential,” opined one respondent.

This sentiment is largely echoed by the rest of the respondents.

“The potential for growth is enormous as traditional banks in Muslim markets have been very slow at going digital, while the young tech-savvy Muslims demand that. At the same time, there have been very few Islamic fintechs that offer products that can be scaled globally. I expect this to change and market to grow at 20–25% per year over the next three years,” shared another respondent.

Some are more cautious about the momentum of expansion.

“It will grow, but at a slow pace. There is more that needs to be done and a unified approach to Islamic finance across the regions will help accelerate this. Also, a lot of involvement from regulatory bodies and the government would help this,” explained another.

Southeast Asia to lead
While western markets of Europe and North America may be on the radar as top fintech hubs, techropreneurs believe the potential for Islamic fintech lies in Southeast Asia. This is largely supported by the region’s favorable Muslim demographics, sophisticated Islamic finance industry and

In your opinion, what will be the fastest growing Islamic fintech vertical in 2021?

<table>
<thead>
<tr>
<th>Vertical</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2P &amp; Crowdfunding</td>
<td>21%</td>
</tr>
<tr>
<td>Challenger Banking</td>
<td>14%</td>
</tr>
<tr>
<td>InsurTech</td>
<td>6%</td>
</tr>
<tr>
<td>Blockchain &amp; Cryptocurrency</td>
<td>7%</td>
</tr>
<tr>
<td>Personal Finance Management</td>
<td>15%</td>
</tr>
<tr>
<td>Robo Advisory</td>
<td>10%</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>3%</td>
</tr>
<tr>
<td>Payment &amp; Remittance</td>
<td>16%</td>
</tr>
<tr>
<td>Alternative Finance</td>
<td>4%</td>
</tr>
<tr>
<td>Others</td>
<td>4%</td>
</tr>
</tbody>
</table>

Where do you see most potential for Islamic fintech?

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCC</td>
<td>27%</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>49%</td>
</tr>
<tr>
<td>Europe</td>
<td>19%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>5%</td>
</tr>
</tbody>
</table>

Which market do you think has the most supportive and conducive ecosystem for Islamic fintech?

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>22%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>34%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>7%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>5%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7%</td>
</tr>
<tr>
<td>Others</td>
<td>10%</td>
</tr>
<tr>
<td>UK</td>
<td>15%</td>
</tr>
</tbody>
</table>
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familiarity with the religion, although such potential is likely concentrated in Malaysia and Indonesia. The GCC and Europe are the next top destinations for Islamic fintech growth opportunities.

More than one-third of respondents now see Malaysia as housing the most conducive and supportive environment for Islamic fintech to flourish. This is an improvement from anecdotal feedback and empirical data in previous years which favored the UAE over the Southeast Asian Islamic finance giant as far as Islamic fintech is concerned.

The shift toward Malaysia takes place in the backdrop of a more cohesive and coordinated approach by Malaysian stakeholders, led by a stronger direction by the government in pushing the Islamic fintech agenda.

Funding needs

An overwhelming majority of Islamic fintech start-ups are looking to raise funding over the next 12 months, with only 15% not going to market and 7% unsure, depending on market conditions. From the 78% actively seeking investments, a majority are eyeing relatively smaller ticket funding, with 26% looking to raise at least US$5 million.

Challenges

Access to capital and unsupportive regulatory infrastructure are the two biggest barriers to scaling up, according to the Islamic fintech founders surveyed. Poor Islamic finance understanding — among consumers and regulators — as well as low levels of digital literacy are the next biggest challenges.

“The problem is not with Islamic fintech, but with limited knowledge from the regulators who want to make sure nothing happens on their watch. Hence, it creates no opportunities for risk takers to develop any new solutions and invest own time and capital,” lamented one respondent.

Another, like many, commented on the difficulty in securing financing, including innovative start-up financing unique to the Islamic community such as the conditional use of Waqf funds.
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Shariah compliance

A majority of the respondents are certified Shariah compliant by Islamic scholars. Out of the 22% whose operations and business models have not been officially evaluated, 44% are being held back by unfavorable market conditions while 11% do not have the financial resources to secure a certification. The remaining 45% are of the view that a Shariah scholar’s stamp of approval is not necessary for the business as their models are naturally Shariah compliant.

This view on the necessity of a Fatwa is echoed by 54% of all survey respondents, although some admit that official recognition of their Shariah integrity would ease with market expansion and adoption.

An Islamic advantage?

Half of the respondents believe that pursuing Shariah compliance renders them at a disadvantage against their conventional peers. They face additional challenges when it comes to cost, product development, navigating regulatory complexities and dissociating from inherent negative connotations from being aligned with Islam.

“Product structuring and product management are more complex, and it is almost impossible to outcompete traditional fintech firms purely based on cost,” explained one respondent, with another echoing: “There are not a lot of vendors who are willing to support Islamic fintech firms due to legacy operational models.”

One respondent alluded to the market awareness barrier: “I believe Islamic fintech is the right way to go for marketing of fintech services in Islamic markets, but it does not change the fact, nor make it easier for us to introduce and launch new solutions.”

Almost half see being Islamic as an added advantage, a unique proposition and differentiation factor giving them an opportunity to disrupt a relatively untapped market.

A small minority are caught in the middle, believing that while targeting the Muslim market with Shariah compliant products may limit start-ups’ capital access and impose additional challenges in product engineering and scalability, it is nonetheless a niche market with relatively less competition compared to the ‘overcrowded’ conventional sphere.
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What next?

To ensure the continued growth and acceptance of Shariah compliant fintech-enabled solutions, 25% of respondents see Islamic finance education and digital literacy — not only among consumers, but also regulators as well as decision-makers — as instrumental in driving adoption.

Many believe enabling regulatory policies and standardization in Islamic fintech oversight are much needed to facilitate growth. Meaningful partnership and access to other stakeholders of the Islamic fintech ecosystem including fellow start-ups, financial institutions, regulators, scholars and Islamic bodies, are also vital.

“With better information circulation around the world, the potential for Islamic fintech will be huge. How big would depend on what sort of ecosystems are put in place to facilitate innovation inside Shariah compliance and Islamic governance,” according to one respondent.

What would you like to see change/improve to further encourage Islamic fintech firms in your market?

<table>
<thead>
<tr>
<th>Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Islamic finance and digital literacy among consumers and regulators</td>
<td>25%</td>
</tr>
<tr>
<td>More accommodative and supportive regulatory environment</td>
<td>22.5%</td>
</tr>
<tr>
<td>Stronger collaboration between start-ups, regulators and incumbents</td>
<td>17.5%</td>
</tr>
<tr>
<td>Greater access to capital</td>
<td>12.5%</td>
</tr>
<tr>
<td>Customized accelerator and incubation programs for Shariah fintech</td>
<td>7.5%</td>
</tr>
<tr>
<td>Start-ups to understand market needs and offer compelling propositions</td>
<td>7.5%</td>
</tr>
<tr>
<td>Better use of latest technology by start-ups</td>
<td>5%</td>
</tr>
<tr>
<td>Reduced regulatory costs particularly for Shariah compliance certification</td>
<td>2.5%</td>
</tr>
<tr>
<td>Enhanced access to Islamic finance scholars</td>
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<td>Change of mindset among stakeholders</td>
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Established in 2004, Islamic Finance news covers all realms of Islamic finance, providing professionals around the globe with a vehicle to educate and understand the market, the players, the individuals and perhaps more importantly, the benefits over and comparisons with the conventional banking system.

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Could you provide some background to your experience within the Islamic markets?

I have been involved with the Middle Eastern banking sector since 1977, moving to Bahrain in 1981. I joined the Man Group Islamic desk in 2004, whose team then joined Eiger Trading Advisors in July 2009, to set up its commodity Murabahah business. As a new entrant to an established marketplace dominated by a single participant, it was felt that an entirely new approach to the business was required. Of paramount importance was to provide a superior quality of customer service, combined with automating the commodity Murabahah process to ensure complete client satisfaction. The result was the Eiger Trading Platform (the first of its kind). The identification of automation opportunities for client processes is ongoing to this day and continues to be a core identity for the company.

How is the COVID-19 pandemic affecting the market?

I hope that I am wrong, but I fear negatively. We are experiencing a new economic landscape the likes of which no one has seen before and hence any forecasts for future growth are guesses at best.

However, the pandemic has forced companies across the world to reassess their position within their respective industries and the allocation of resources, which has encouraged an adaption and furthered new ideas about how to utilize technology.

Could you give us an overview of how the commodity Murabahah market has grown and developed? What has changed in recent years?

The underlying commodity Murabahah transaction remains virtually unchanged; however, the global market for these services has expanded exponentially over the last decade, with a growing requirement for the transaction delivery method to be fully digitalized. The banking market could not have expanded its client-facing applications without the buy-in of the commodity Murabahah companies. Ten years ago, transactions were manually intensive with each trade taking 20 minutes to complete.

It is estimated that market volumes have increased from under a billion dollars per day to tens of billions today, something that without automation allowing the processing of thousands of transactions per hour would not have occurred.

Hand in hand with this market change, our clients have demanded enhanced governance to ensure transparency with Shariah. An adherence to sustainability standards is also key as peer companies (including ourselves) identify how to comply with the highest global ethical standards. I believe excellent corporate governance and adherence to sustainability targets are key to the continued expansion of this market. The current pandemic crisis has only heightened the critical importance of corporate governance.

The structure is not accepted in several markets — do you think this should and would change? Why?

From a commercial perspective, yes we would like to see change, but we respect entirely the views of the local Shariah boards that do not wish to use commodity Murabahah products. This is an ongoing discussion in a number of jurisdictions and we are always happy to enter into a dialogue with the relevant regulators.

How does technology factor into the narrative of the commodity Murabahah evolution? What are some of the technological advances made and why are they important? Do any challengers remain?

Financial digitization is a priority for most of the organizations we work with. While I believe the Islamic industry was initially slow to perceive the advantages, technology is increasingly becoming the driver for growth and digitization projects are increasingly pushing the market, forcing the retirement of ageing legacy methodology. The ability to transact thousands of transactions within a very short timeline has enabled the emergence of Islamic virtual or digital banks in the GCC and Southeast Asia.

There has also been a significant rise in peer-to-peer lending platforms. Yet more fintech companies are providing access to financial services to previously unbanked populations using novel digital-based services, faster payments and new options for investment.
Our marketplace has grown significantly in recent years, driven by the demands of our customers to provide a more efficient service to coincide with the technological advances of modern Islamic banking products. In the highly competitive interbank and capital markets, Islamic financial institutions are looking for ways to achieve faster execution, increase efficiency and reduce human error.

In the corporate and retail markets, our customers are seeking full automation to support their products and the high volume of transactions that tend to occur in this space. Straight-through processing is a key motivation for retail-focused Islamic banks, finance companies and peer-to-peer platforms, delivering an optimum customer experience and streamlining internal delivery channels.

What are some of the biggest barriers in this space?

Standardization is still a big hurdle; we are seeing many moves from the IIFM [International Islamic Financial Market] and regulatory bodies to address this, but it is slow to implement.

The adoption of new practices which include digitalization is still evident and creates a vacuum for new fintech companies to compete.

I continue to feel that training and knowledge are some areas that are lacking.

What do you think are the key trends for the year ahead?

Given the unprecedented economic disruption caused by the pandemic and an extremely opaque view of future economic activity, this is a very difficult question to answer.

Estimates for global GDP for the remainder of this year are horrific from a historical perspective and any intermediate growth will be anemic. This will most likely feed into reduced earnings for most Islamic industry participants. However, companies that are agile and have access to resources, especially in the digital arena, may well see this as a huge opportunity as institutions look to slash costs through process efficiencies. R&D [research and development] spend now could well pay dividends over future years. Overall though, I believe that the next few years will be one of retrenchment and an uptick in M&A [mergers and acquisitions] activity.

We have seen the number of Islamic fintechs increase significantly over the past few years, demand-driven by clients who wish to access Shariah compliant products aligned with their values.

I expect that Islamic financial institutions will accelerate their digitization projects in the wake of the pandemic and we will see more Islamic fintech companies launch.

“"Our key focus is to maintain excellent relationships with our customers and stakeholders. We believe we have the strength and vision to navigate the extremely murky waters ahead. We need to listen to our clients, expand and improve our digital offerings and ensure continued good governance. We will continue our journey."

Sustainability is becoming ever more prominent. What is Eiger Trading doing to lessen its environmental impact?

For us, sustainability falls into three connected areas — people, planet and profit — and our approach in practice entails us managing our firm’s impact on all the three areas. This means we are conscious of the businesses’ long-term needs and are working hard to be preventative rather than reactive. This takes many forms including investing in fair-trade products, reducing packaging materials, ensuring humane working conditions at supplier facilities, using technology to reduce our carbon footprint and working with suppliers who are also taking a positive approach to this global issue.

Although I feel we have come a long way, the bar still needs to be raised. It is a very complex issue and we continue to devote resources to ascertain how we can achieve more than just lip service to requirements.

What are Eiger’s top priorities and key focus for the next 12–18 months? What can we expect from the firm over the period?

Our key focus is to maintain excellent relationships with our customers and stakeholders. We believe we have the strength and vision to navigate the extremely murky waters ahead. We need to listen to our clients, expand and improve our digital offerings and ensure continued good governance. We will continue our journey.
Fintech: Islamic finance reinvented

The development of Islamic finance will no longer be appraised by the size of assets under management, or by the number of Sukuk facilities issued. The key measure of success of Islamic finance will be its integration and acceptance of Shariah compliant fintech products and platforms, writes DR VLADIMIR MALENKO with his 42 co-authors.

I got this fabulous chance to envision the future of Islamic fintech. Not to dream about what I would like it to be, but to realistically assess its development in the near future. As a strong believer in a shared economy, I try to promote it any chance I get. So, this article was crowdsourced — I asked 42 key Islamic finance professionals from Malaysia, Indonesia, Brunei, Singapore, the UAE, Saudi Arabia and Turkey to share their vision of the tech future. And, of course, my own two cents’ worth of wisdom was added here as well.

I asked my colleagues which Shariah compliant projects are most likely to go mainstream in the next three years (more than one answer could have been provided). The sample size is too small to be statistically significant, but it is sound qualitatively. The results of our collective wisdom are shown in Chart 1.

The ubiquitous availability of smartphones and the almost universal acceptance of our new lingua franca — the English language — are largely responsible for the seemingly unimpeded global adoption of Islamic fintech products. And the established Islamic finance institutions with their Murabahah-based products have (thankfully!) stayed away from this nascent but vibrant sector.

The next several years, or ‘the era of platforms’, will be dominated by online marketplaces where customers reach their vendors, sellers link up with their buyers and donors find their recipients.

Crowdfunding is probably the most significant ‘raison d’etre’ for the platforms’ existence in the first place. The platforms are most effective in financing SMEs that may have difficulties in obtaining financing from Islamic financial institutions.

Chart 1: Shariah compliant projects most likely to go mainstream in next three years

- Shariah compliant crowdfunding platforms
- Retail Sukuk distribution
- Global Shariah compliant charity platforms
- Islamic edutech
- Online Takaful
- Artificial intelligence-based wealth management
- Islamic online banking
- Shariah compliant supply chain platforms

*More than one answer could have been provided. Source: Author’s own
Additionally, these Shariah compliant start-ups do not shun the truly Islamic tools — Musharakah and Mudarabah — unlike the ‘proper’ Islamic finance institutions that prefer to concentrate on less risky Murabahah transactions instead. With transactional costs at a bare minimum, the capital tends to behave like water, flowing downstream from the place of excess to the site of shortage. The platform-offered micro investment and its virtuous twin micro savings may translate into life-changing experiences for many poor Muslims. We are standing on the doorstep of the era of democratization of wealth management (well, the US$50 also needs to be managed!). For-profit crowdfunding is a simple and logical way to bring relative affluence and strengthen intra-Ummah ties.

Such investment democratization will not be complete without the adaptation of another crucial Islamic financial instrument — Sukuk. This is a great tool with too many shortcomings — for example, it is expensive to issue, and that leads to the lack of smaller offerings (under US$50 million). In addition, some Sukuk have limited usability, as they are often offered by companies or governments that have no shortage of financial resources.

Future Islamic fintech leaders are working hard to bring Sukuk to SMEs. Their success rests on several factors that need to come together — the ability to issue standardized Sukuk (no expensive lawyers), the capacity to independently distribute the certificates (no expensive investment bankers) and the presence of retail investors who can appreciate these investment opportunities.

Blossom Finance had shown that Sukuk can be issued even in small amounts using public blockchain (in 2019, the company organized a US$50,000 issue). And Malaysia should get kudos for its digital COVID-19 relief Sukuk with a set minimum subscription rate of RM500 (under US$120). The Islamic economy will get a huge advantage over its conventional peers as soon as we see SMEs hitting the Sukuk platforms to raise US$500,000 and retail investors following them to invest in US$500 certificates. Even the larger sovereign Sukuk issues can be made available to retail investors through tokenization.

My respondents believe that we are now witnessing a globalization of Islamic charity. Despite the efforts of the early pioneers such as GlobalSadaqah, MuslimGiving and PayZakat, Islamic charity remains a largely localized and cash-intensive affair. During the times of Prophet Muhammad, keeping the funds within one’s community was paramount, and sending cash to another town was costly and often not too safe. Nowadays, sending funds from Riyadh to a village in Surabaya is easier than taking a trip to a bank across the street. Another consideration is trust — most rational donors want to be sure that the funds reach the intended recipient, and are not spent on supporting the infrastructure of charitable organizations. And again, blockchain can take care of that. Remember those tiny magnetic tags that are used in stores to prevent shoplifting? With blockchain, the donor will be able to trace his or her donation until it is actually properly spent.

‘Zakat-in-installments’ are somewhat controversial among the most recent developments in Islamic fintech. Our lives enjoy periodicity — we receive our wages once or twice a month and our key expenditures also follow the monthly pattern (car payments, mortgage and utility payments, etc). As Muslims, we pay Zakat once a year, but there are verses in the Quran that allow early payments of this mandated tax. To harmonize our cash inflows and outflows, some start-ups are looking to offer ‘Zakat-in-installments’. There are two relevant issues to consider:

- Zakat have to be paid in advance; the amounts may be accumulated on the payer’s account with an Islamic fintech platform or a Zakat institution, and
- If the calculated Zakat amount is larger than the Zakat account balance, the payer just adds to it. Any overpayments are considered Sadaqah and donated.

Unlike the previous fintech innovation, the following one has the strongest support from Islamic religious leaders and was developed by a UK Islamic start-up to provide for auto-donation of unwanted interest earned through the western banking system.

Islamic edutech is showing a healthy rate of growth, albeit from a low base. The COVID-19 pandemic has dramatically accelerated this process. In the last two weeks, I personally got to review three rather well prepared edutech start-up presentations which intend to deliver everything, from the basic knowledge of Islamic finance for the masses to intricate details of Fiqh suitable for Qadis. Islamic edutech is very likely to create additional demand for Islamic financial services through increased awareness.

In my humble opinion, we desperately require a very specific type of training — a course on modern tech (blockchain, smart contracts, cryptocurrencies, etc) for Islamic scholars. Precisely, the lack of specialized knowledge by scholars now serves as an impediment for the future development of Islamic fintech.

In my humble opinion, we desperately require a very specific type of training — a course on modern tech (blockchain, smart contracts, cryptocurrencies, etc) for Islamic scholars. Precisely, the lack of specialized knowledge by scholars now serves as an impediment for the future development of Islamic fintech. The uneven spread of tech knowledge among Shariah advisors is also leading to the shameful behavior of ‘Fatwa shopping’. I believe that Muslims and non-Muslims alike will use these new Islamic finance products because they are financially sound, profitable and equitable. So, Islamic fintech may become the best proselytizing tool since Kharaj in early Islam, which guaranteed tax relief to Muslim converts.

Dr Valdimir Malenko is the director of FairFinance. He can be contacted at vm@fairfn.com.
COVID-19: An opportunity for the Islamic digital economy

With countless articles already published about how the world will be changed during and after the coronavirus pandemic, the challenges that our industry now faces are well documented. GARETH LEWIS writes.

Bitten by COVID-19 like the rest of the world, our US$2.4 trillion industry — composed of roughly 1,400 institutions spread across 80 countries — is still searching for a new ‘normal’ within which to respond to the economic chaos.

However, this new normal presents an opportunity to propel the Islamic digital economy forward and close the gap with conventional digital banking.

A problem shared
The global lockdown has hit consumer banking hard in all jurisdictions. In Asia, where Islamic finance has a large market share in retail lending and microfinance, and in Africa, where Islamic microfinance has a niche but growing market share, social distancing measures and retail closures have crippled SMEs and lower income classes the most.

The natural adaptability of consumers is not being given a fighting chance as these regions are still largely underserved with regards to digital services, financially excluding a large proportion of the population. Governments and private sectors must acknowledge that ownership of a mobile device is no longer a luxury, but a gateway to a standard of living which is arguably a human right, and actively pursue the penetration of those markets so that the tools are placed into the hands of those who need them the most.

Recent base rate cuts from central banks have squeezed margins, and the added pressure of the pandemic makes the near-zero-rate environment even more difficult. It is therefore essential for banks to transform their cost base, while still delivering value to customers and positive outcomes for employees.

With remote working practices fast becoming a normality, the crisis has highlighted the shortcomings of operating models which rely too heavily on manual procedures. COVID-19 has caught us red-handed; guilty of being too dependent on our cubicles and shared office spaces to get the job done, when in fact, the customer is indifferent, so long as the services they need are omnipresent and available.

An innovation revolution
The shock of isolation has triggered an innovation revolution across the world. Organizations have radically shifted their mindsets and opened the doors to change in order to keep up with the rapid shift in consumer behavior. Even the most stubborn customers, bound to traditional ways of banking, have been forced to adjust their habits.

For banks, new and old, being able to innovate in the face of this will be the single most important driving factor for sustainable growth in the short to medium terms. But this does not just mean new products or a lick of paint on the user interface, but a completely transformed business model affecting all aspects of the consumer value chain.

This is where the new entrants have the upper hand. Digital start-ups uninhibited by decades of legacy technology and bureaucracy are able to construct scalable solutions at speed.

Governments and regulatory bodies in the GCC and Southeast Asia had already acknowledged the need to accelerate innovation prior to the crisis, establishing fintech sandboxes in each jurisdiction to allow players to test their propositions. With 30 successful applicants in the Saudi Arabian Monetary Authority sandbox alone, all eyes now are on those promising start-ups setting out to make waves.

A customer-centric mindset
How do we best approach the creation of digital products to deliver our financial services, in such a competitive space? It is important to first realize the hard truth — a product is an ephemeral solution, hired by the customer to solve a temporary problem, and they may leave as quickly as they arrived. Only by truly embracing a customer-centric mindset can competition be sustained. We must be obsessed with putting customers first, identifying their needs and maximizing value in their lives. We are building products but we are selling lifestyles.

Even with the slickest new product, new entrants still have significant barriers to overcome, adoption being the most difficult part of bringing a new product to market. The younger millennial customers are notoriously non-committal, with no loyalty to long-standing institutions and numbed by the myriad of disposable services at their fingertips. Their expectations are shaped by interactions outside of the banking industry, and they expect a consistent standard of service.

A ‘Jobs to be Done’ philosophy and limitless curiosity about the context and motivations of consumers must be adopted at every level of an organization, from strategy to operations, with a focus on the problem, not the product. This will open the doors to being able to deliver truly personalized services to the customer, services which trigger emotions and summon adoption.

Employees play a major role in achieving customer-centricity. They are also the best channel for communicating a positive brand reputation to the rest of the world, directly influencing consumer trust. Championing the needs of employees should therefore be viewed on par with those of customers.

The crisis is forcing us to trial decentralized...
working. Is it time we abandon the notion of a fixed place of work, and formalize virtual contracts and remote working as permanent fixtures? Such arrangements create positive employer–employee relationships, contribute to cost reduction through not having to physically staff office space and may attract new talent.

A focus on trust
Not only do banks need to recalibrate their own purpose and operating models, but they also need to acknowledge that they have an ethical obligation to be part of the wider solution. In doing so, it will improve reputation and enhance the most important thing, consumer trust, which has been waning in the banking industry since the 2008 crisis, and further exacerbated by the current crisis.

People are concerned about their future. To take a truly customer-centric approach during this pandemic, the power of trust — which is fundamental to Islamic economics and the ethical banking practice — needs to be harnessed.

At the crossroads of customer-centricity, trust and technology is distributed ledger technology (DLT). Despite a huge blockchain initial coin offering bubble in 2018 and lots of talk, nothing significant has been achieved in the Islamic finance space with this technology. Abu Dhabi Islamic Bank recently became the first Islamic bank to successfully execute trade finance distribution transactions using blockchain technology, but before this, the proposition of utilizing this technology in the Islamic finance industry has been used for little more than good public relations; the tail wagging the dog. Nevertheless, DLT — with its inherent trust and integrity — seems almost tailor-made for our industry.

A pursuit for agility
The competitive landscape used to be determined by real estate and branch networks — now it is determined by technology capability and marketing budgets. Staying in the game will depend largely on a bank’s agility, being able to innovate and swiftly execute digital transformation to mitigate the damage caused by the lack of liquidity and base rate cuts.

New all-digital players, unencumbered by the cost of maintaining and transforming legacy systems, are agile by nature. Incumbents must restructure their cost base in order to become more agile, with the complexity of modernizing legacy systems being a bank’s biggest obstacle to achieving digital transformation.

To compete with new entrants, incumbents must be smart in their deployment of resources. Low-value generating programs should be shelved in lieu of programs which align with the strategy of trust and a customer-centric model. All systems and processes should be scrutinized with a view to standardizing and automating wherever possible, leveraging robotic process automation and straight-through processing tools to create more efficient workflows.

Investments in artificial intelligence and big data should be pursued as a cornerstone of any customer-centric model; they are essential tools for providing more accurate observations and predictions about consumer behavior, enabling players to respond more quickly to rapidly changing market conditions.

A problem halved
Now more than ever, in order to deliver truly innovative propositions, penetrate new markets and create scale, it is important to create mutually beneficial synergistic partnerships. Working together, big techs, fintechs, incumbents, governments and regulators will be better placed to create personalized solutions than would ever be possible alone, and will be better placed to provide solutions at every stage of the value chain.

Al Rajhi Bank has just unveiled a strategic partnership with cross-border payments provider Moneygram. In a country with over 11 million foreign nationals and over US$30 billion in annual remittances, this move will enable Al Rajhi to offer more options to customers for transferring money using its digital service channels, made all the more significant now at a time when the recipient developing economies are struggling the most.

STC Bahrain have just announced a partnership with NEC Payments to launch a virtual prepaid Mastercard, complementing the advice from the World Health Organization which encourages the use of online retail and urges the avoidance of cash payment, which has been identified as a contributor to the spread of COVID-19.

With the pandemic contributing to the slowdown of venture capital markets, life for fintechs will be more difficult. This is an opportunity for banks to capitalize on, with attractive partnerships and acquisition possibilities with specialist tech companies — each satisfying the needs of the other. With a vast amount of talent available internationally, banks will have no trouble sourcing highly competent, competitively-priced services and teams experienced in working in a decentralized environment around the clock.

Now is more important than ever to refine the way that partnerships are formed, so that legal and compliance teams can onboard partners quickly without stifling agility. A 25-page due diligence questionnaire designed for on-premise solutions should not be used to onboard SaaS API [software as a service; application programming interface] products, and restrictions by regulators from working with international service providers should be relaxed.

**Gareth Lewis** is the associate director of products for Eiger Trading Advisors. He can be contacted at gareth.lewis@eigertrading.com.
Halal financing and Islamic finance transactions are based on two fundamental principles: (i) each transaction must be related to a real underlyng economic transaction, and (ii) all parties entering into a financial transaction must share the profits, losses and risks associated with such a transaction.

In the context of fintech, certain legal structures may be deployed in order to safeguard Halal financing. Among them is Murabahah, a cost-plus sales contract, which is a financial structure that enables immediate asset purchase with a pre-agreed profit against a deferred payment. Mudarabah is a partnership comprising a financier and a contributor of expertise or management, allowing the parties to participate in the profits and losses according to their prior agreement.

Further, Sukuk are asset-based certificates representing undivided shares in the ownership of certain tangible assets, property rights and services that act as financial securities comparable to conventional bonds but differing in the relation to the asset they are based on. Istisnah is a common option for construction and manufacturing agreements, allowing deferred payments linked to the completion of the project.
Blockchain
Blockchain is a distributed ledger technology which records and shares data and allows the authentication of transactions online without a central counterparty, such as a central bank, for securities. By reducing the number of parties required for a transaction, blockchain reduces the transaction costs and other rent extracted by centralized third parties, and has the potential to facilitate the Tawarruq process through ledging and enabling the automated sale of commodities. Blockchain also has the potential to provide for increased standards of security and transparency, with the caveat that at the same time it may also create new potential legal and practical risks leading to more insecurity and uncertainty.

The Saudi Arabian Monetary Authority, a regulatory authority involved in fintech, has signed an agreement with Ripple, a leading supplier of blockchain payment solutions, to implement and trial blockchain-based transactions. In February 2020, Egypt also made its first venture into the blockchain sector. The National Bank of Egypt executed a cooperation agreement with Ripple to establish new channels for inward remittances. The UAE also instituted Blockchain Strategy 2021, aiming for blockchain technology to be used in 50% of the government’s transactions by 2021.

Cryptocurrency
Cryptocurrencies are digital currencies secured via cryptography, a technique of protecting information by encrypting it and ensuring that only those with a respective secret digital key are able to decrypt it, according to the article titled ‘The Evolution of Digital Currencies: Bitcoin, A Cryptocurrency Causing a Monetary Revolution’ by Chris Rose and published in the International Business & Economics Research Journal.

Cryptocurrencies are easily tradeable against goods and other currencies. However, Islamic law does not accept currency as a subject matter of trade; instead, it is considered merely a medium of exchange resulting in no further utility except where the intrinsic utility of the exchange is sold for money, according to the article titled ‘Blockchain Technologies and the Prospects of Smart Contracts in Islamic Finance’ by Volker Nienhaus and published in the book, ‘Fintech in Islamic Finance’. In its current form, it is questionable whether cryptocurrency allows for strict compliance with Islamic finance.

In fact, Egyptian Grand Mufti Sheikh Shawki Allam has endorsed a ban on cryptocurrencies in Egypt citing concerns of fraudulence and cheating, and the subsequent harm arising therefrom, ultimately forbidding them under Shariah law.

However, innovative solutions such as creating cryptocurrencies with values linked to real assets such as gold are promising developments.

Nonetheless, in May 2019, the Central Bank of Egypt announced that it is drafting a law for crypto-related activities, obliging financial institutions to obtain licenses in advance for cryptocurrency activities such as creating, advertising or operating platforms that issue or facilitate the trading of cryptocurrency.

Crowdfunding
Crowdfunding allows the raising of funds through contributions through an intermediary, typically in the form of a web-based platform for a particular purpose, as explained by Muhammad Al-Bashir Muhammad Al-Amine in the article titled ‘Crowdfunding in Islamic Finance: Ensuring proper Shariah oversight’ in the book, ‘Fintech in Islamic Finance’. Contributors may benefit from a material prize, interest, profit share or a ‘warm glow’, while the platform receives registration fees or commissions on the contributions. Crowdfunding in the Middle East may serve as a simpler and swifter solution to the complexities of conventional financing methods, avoiding prohibited elements of interest and encouraging innovation and cooperation.

In Egypt, the concept of crowdfunding is already well-established. In 2014, the Egyptian government raised funds to expand the Suez Canal by selling investment certifications to millions of Egyptians. In February 2019, the Technology Innovation and Entrepreneurship Center, the United Nations Development Programme in Egypt (UNDP Egypt) and the UNDP Alternative Finance Lab partnered together to foster crowdfunding in Egypt by providing training to 10 start-ups, introducing crowdfunding as an impact investment tool.

Summary
Fintech is a rapidly evolving industry with wide-ranging implications and potential for not only Islamic finance but for all industries. These technological developments already have a significant impact on businesses and will continue to gain more prominence. However, for Halal financing, it will take considerable regulatory developments to integrate into the growing fintech industry.

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Regtech, Islamic regtech and innovation

In this article, NICLAS NILSSON, the founder and CEO of Capnovum¹ and INGA JOVANOVIC, the managing director of Capnovum, aim to provide an overview of the evolution of the regtech discipline and key use cases for conventional and Islamic regtech, as well as offer a review of some important innovative and disruptive technologies that enable and drive the industry.

The article does not intend to define regtech, but for the following negation: regtech is not a subset of fintech. Nor does it refer to the application of fintech for regulatory and compliance purposes by financial institutions, at least not here. We subscribe to the view that regtech is a technology discipline in its own right, with applicability for regulated industries beyond financial services.

The opportunity

Regtech spend is expected to exceed US$127 billion per annum by 2024, a compound annual growth rate (CAGR) of 38% over five years, driven by a rise in the adoption of artificial intelligence (AI), automation of resource-intensive tasks and fines estimated to be US$340 billion already imposed on financial institutions after the 2008 global financial crisis.

Meanwhile, total global regulatory compliance spend is expected to increase by only 2% CAGR to US$316 billion.² Juniper Research estimated in 2017 that large financial institutions like Citi employed as many as 30,000 compliance officers.³ The utilization of regtech can lead to cost reductions for regulatory processes such as data collection, fraud detection, risk management and regulatory reporting.

The benefits for regulated entities of reducing manual processes, improving efficiency and making effective use of data are enormous.⁴ With an average of 10 – 15% of global bank staff dedicated to regulatory obligations, the same research firm estimates that the combined cost savings for know-your-customer (KYC) checks for banking and property sales alone can get close to US$1 billion by 2024.⁵

Worth noting is that if Juniper Research is right, then regtech has barely started its growth journey.

The evolution of regtech

While the term regtech was popularized over the last five years, the use of technology to meet regulatory and compliance requirements has a longer history. In 2016, a University of Hong Kong research paper described three distinct phases of regtech. The first² phase, primarily quantitative information technology frameworks and risk management systems, comprised the two decades leading up to the 2008 global financial crisis. The second phase emerged in response to the increase in regulatory obligations following the financial crisis and is focused on digitalization and automation of regulatory and compliance processes. Described as the future of regtech, the third phase was envisioned to provide a paradigm shift from KYC to know-your-data. Following the introduction of far-reaching regulations such as the EU’s General Data Protection Regulation, and technological advances changing the nature of data governance, we now find ourselves in the midst of the said paradigm shift.

Also in 2016, the Institute for International Finance (IIF) set out a number of use cases for regtech in financial services.⁷ The problem statements covered areas such as risk data aggregation and management; modeling, scenario analysis and forecasting; real-time transaction monitoring for anti-money laundering/combatting the financing of terrorism (AML/CFT) purposes; identity verification; monitoring of behavior and organizational culture; horizon scanning and interpretation of regulations.

By 2019, in its Global RegTech Industry Benchmark Report⁸, the Cambridge Centre for Alternative Finance (CCAF) concluded that the global regtech industry had developed into five market segments based on vendor activities: profiling and due diligence; reporting and dashboards; risk analytics; dynamic compliance; and market monitoring. Not entirely surprising, the CCAF established that there was a direct link between regtech market entries and the volume of regulations introduced. Areas supported by criminal sanctions and/or punitive fines saw the highest concentration of entrants, with over 60% of vendors responding that their offerings address KYC and/or AML requirements, followed by data collection and regulatory reporting.

¹ www.capnovum.com
² Juniper Research: Opportunities for AI in RegTech (September 2019)
³ Juniper Research: Regtech Spending to Exceed $76Bn By 2022, As Compliance Costs Soar (October 2017)
⁴ Benoît Coeuré: Speech (Peterson Institute for International Finance, Financial Statement event series, August 2020)
⁵ Juniper Research: Opportunities for AI in RegTech (September 2019)
⁷ Institute of International Finance, RegTech in Financial Services: Technology Solutions for Compliance and Reporting (March 2016)
Islamic regtech

A diversity of approaches applied by regulators in different jurisdictions require incremental focus on Islamic regulatory frameworks and regional differences in the treatment of financial products and services. A few countries allow only Islamic finance institutions, whereas others have specific laws for Islamic financial services or incorporate Islamic structures into a single set of financial services regulations. Some have adopted national-level Shariah boards, while others retain Shariah governance solely at the institutional level. Standards and guidelines issued by international standard-setting organizations concern only member institutions and jurisdictions, and only to the extent that they are adopted by each national regulatory authority.

Furthermore, Fatwas are opinions issued by qualified Shariah scholars that interpret and apply Islamic jurisprudence. Diverging views and different schools of thought can cause Shariah boards to reach different interpretations, and standards may evolve to reflect changes in the environment.

In the Islamic regtech chapter of The RegTech Book, we argued that while conventional regtech solutions are generally applicable to Islamic financial institutions, Islamic regtech comprises two dimensions that are distinct from conventional regtech:

1. Horizon scanning, intelligence and insights need to incorporate additional data sources, taking into account different schools of thought and Fatwas by various scholars, to provide transparency and an effective foundation for predicting the direction of regulation. Transparency drives understanding and reduction in perceived risk, thus increases the appetite for investing. Investments and economies of scale drive innovation and availability of financial products, which in turn drive financial inclusion.

2. Continuous monitoring of Shariah compliance is necessary throughout the duration of an investment, since income generated from non-compliant investments or activities is not permitted. Whereas disclosure requirements to ensure that investors have sufficient information and expertise to assess the Shariah compliance themselves resemble conventional consumer protection regulations, the closest equivalent to the requirement to monitor compliance throughout the investment period is sustainable finance.

We maintain that these dimensions are necessary in addition to the classification by the CCAF. Although the required vendor activities may fit into the five identified market segments, there is no evidence that the CCAF evaluated regtech solutions from the perspective of their support for Shariah compliance. The number of data and analytics vendors offering these solutions remains relatively small.

Technology review

According to the IIF, around one-third of 60 banks surveyed in 2019 were actively using machine learning for credit scoring and regulatory capital calculations. One-third of financial institutions surveyed in 2018 were utilizing machine learning techniques in automated AML/CFT compliance processes, such as customer due diligence, transaction monitoring and risk assessments.

On the vendor side, the CCAF found that cloud computing, machine learning, predictive data analytics and natural language processing (NLP) are already core technologies widely applied by regtech vendors, with machine learning and analytics capabilities predicted to grow further.

While conventional regtech solutions are generally applicable to Islamic financial institutions, Islamic regtech comprises two dimensions that are distinct from conventional regtech

Distributed ledger technology was also reported likely to grow in relative importance. Cloud computing has been the key transformative technology that, more than others, has enabled and driven the growth of regtech. Large-scale computing power in the hands of innovators has all but eliminated the disadvantage of start-ups relative to larger technology companies. The cloud infrastructure allows for training of machine learning algorithms, and for solutions to scale with transaction volumes. The ability to scale is particularly important to big data analytics, transaction and behavioral monitoring.

AI comprises a range of technologies applicable to regtech, including supervised and unsupervised machine learning, deep learning, reinforcement learning, NLP and image recognition. Developments in NLP and deep learning are especially exciting at the moment, promising disruption and steep changes
across the board. Neural networks, the group of technologies underpinning deep learning, are not new, but are finding more and more applications, with ever-increasing depth and volumes of training data.

The most talked-about solution at the moment is GPT-3 by OpenAI. GPT-3 has demonstrated substantial gains over prior state-of-the-art approaches on many NLP tasks and benchmarks by pre-training on a large corpus of text followed by fine-tuning on a specific task. The GPT-3 language model comprises 175 billion parameters, 10 times more than any previous non-sparse language model. According to the authors, it performs well on NLP tasks such as translation, question and answering, and on several activities that require reasoning.

GPT-3 is claimed to be able to generate news articles that human evaluators have difficulty distinguishing from articles written by humans. Its reasoning capabilities have, however, been questioned\(^\text{16}\), with examples presented of the solution’s inability to evidence biological, physical, social and psychological reasoning\(^\text{17}\), and it has been criticized for generating harmfully biased sentences and suggested to have been released prematurely\(^\text{18}\). It is still early days and we will learn more over time, but — cherry picking and alleged shortcomings aside — GPT-3 has moved the needle. Asked questions the right way, it can provide some astonishing results.

Deep learning has also revolutionized image recognition, and therefore much of the KYC and onboarding processes. Another research area that will eventually prove a game-changer is privacy-preserving technologies, especially for financial crime prevention. Different initiatives are underway where cryptography allows sharing and processing of data without the need for decryption, and others with machine learning algorithms being shared rather than the data itself. It is paramount for the detection of financial crime that we are able to share insights between financial institutions, and regulators, since money laundering schemes are often executed through a range of transactions with different providers.

**Conclusion**

As we have seen, regtech has come a long way over the past five years and yet we are just at the beginning of the journey. Financial projections are painting a picture of significant growth opportunities, and technological advances tell a story of oncoming disruption. It is not boring!\(^\text{19}\)

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\(^{16}\) OpenAI: Language Models are Few-Shot Learners (July 2020)
\(^{17}\) Gary Marcus: GPT-3, Bloviator: OpenAI’s language generator has no idea what it’s talking about - Tests show that the popular AI still has a poor grasp of reality (MIT Technology Review, August 2020)
\(^{18}\) Fangyu Cai: As Its GPT-3 Model Wows the World, OpenAI CEO Suggests ‘the Hype Is Way Too Much’ (Synced, August 2020)
\(^{19}\) See e.g. Data61 - Privacy Preserving Research and Technologies: https://data61.csiro.au/en/Our-Research/Focus-Areas/Privacy-Preserving-Technologies
What is OBIC?

The OIC Business Intelligence Center (OBIC) aims to provide accessible and affordable information and credit data on businesses across the OIC. This initiative was proposed in a First Concept Note at the 33rd Session of the Standing Committee for Economic and Commercial Cooperation of the OIC in 2017. The establishment of the center will be spearheaded by the Islamic Corporation for the Insurance of Investment and Export Credit; the IsDB; and the Statistical, Economic and Social Research and Training Centre for Islamic Countries — these entities will also be responsible for monitoring the center once it is launched.

The business intelligence database and platform that are established through the OBIC initiative will provide a cross-border credit registry and linked credit bureau services, compiling and coordinating data in the process. In addition to its functioning as a data provider, OBIC will offer advisory and capacity-training program services to member countries of the OIC at different levels of credit reporting maturity, so that they can efficiently adopt modern systems of credit reporting, in line with OBIC.

The vision of OBIC is to provide OIC member countries with a best-in-class business growth and risk management intelligence ecosystem. In delivering on this mission, OBIC will set up the legal framework governing the collection, treatment and sharing of business information in concordance with its private and public stakeholders. To give meaning to the data it collects, and to ensure it is as insightful for end users as possible, the OBIC platform will include user-friendly executive dashboards, contain desirable ad hoc functions and provide predictive analytics.

OBIC will rest on four strategic pillars:
A) Country-level credit reporting ecosystem development (addressing four different tiers of credit maturity levels among OIC countries)
B) Cross-OIC credit data infrastructure
C) Capability development, and
D) Its own operational excellence with a sustainable business model.

Through these pillars, OBIC will help OIC countries develop and enhance their individual credit reporting ecosystems, build a comprehensive OIC-wide business intelligence infrastructure, develop the capacity of OIC countries as it relates to credit reporting and catalyze a sustainable business model for itself.

BIC is set to accelerate trade with and investment into OIC countries by providing businesses with a detailed picture of OIC business performance and creditworthiness, helping them make informed decisions and allocate capital with confidence.

How OBIC will use advanced technology

OBIC will be a world-class business intelligence center. It will embrace the most modern technologies in business intelligence and data analytics. Among these technologies are blockchain, artificial intelligence (AI) and machine learning (ML). OBIC will leverage these technologies in order to safely store information, and ensure that the insights drawn from that data are as accurate, informative and actionable as possible.

The use of blockchain will be instrumental in ensuring that data stored by OBIC is both secure and accurate. Through its decentralized ledger system, blockchain will ensure that data is not stored in a centralized place, hence reducing its vulnerability.

Diagram 1: The OBIC strategic plan

OBIC — Vision
Enable all OIC member countries (MCs) to have the strongest investment, financing and trade development in the world through best-in-class business growth and risk management intelligence ecosystems

OBIC — Mission
To deliver the vision set out, establish a pan-OIC coordination business intelligence center that drives credit maturity in each of the OIC MCs

Strategic pillars

- **Country development**
  - Driving credit maturity within each MC
- **Cross-country**
  - Driving pan-OIC credit accountability and trade
- **Operational excellence**
  - Creating a leading operational model
- **Capability-building**
  - Creating the best practice tools for effective self-governance

Source: Author’s own
Identity management

Data subject

Certifying authority

Register

Certify

Data providers

Dispute is tracked back to the original source who was responsible for that particular data and that particular source is notified for action.

Dispute raised

Data subject

Dispute sub-ledger

Tentative steps involved

1. The subject and authority both register their identities using their public key + unique digital fingerprint.
2. The authority will have access to certify subject data. The authority will be typically the lenders, i.e., banks. In business terms, they are referred to as data providers.
3. Once certified, the subject’s public key will be added to a list of valid certificates. Lenders would consider only certified subjects from other trusted lenders.
4. Lenders will also ensure that only one public key is associated with one certificate. There should not be any duplicates.
5. Apart from banks, other data providers like non-banking financial institutions or alternative providers can also be considered a certificate authority depending on the business process.

Identity management

Data subject

Certifying authority

Register

Certify

Data providers

Dispute is always raised in relation to some particular transaction(s) which the subject is able to view as an end user.

Dispute raised

Data subject

Dispute sub-ledger

Other participants of the blockchain network

Public record agency

Any related provider of the same data

Service providers like consumer credit bureaus

End users of the data

Every other stakeholder in the network dealing with this transaction is kept in the loop with the updates on the dispute.

The incorporation of AI and ML features will allow end users of the data to gain more insightful and actionable information from the center. Additionally, AI and ML will improve the accuracy, convenience, and speed with which data insights are both produced and accessed by end users.

Through the integration of AI and ML features, OBIC will offer strong predictive analytics which will ensure that the credit reports that the center produces will be of greater use to the end user. By picking up on trends and correlations in the data, ML and AI provide deeper insights into business and credit data that other reporting systems would miss. This will ensure that OBIC users are well equipped to make sound business decisions.

This article was contributed by the Islamic Corporation for Insurance of Investment and Export Credit.
The number of innovative Islamic businesses in Malaysia is on a healthy uptrend, with 15 start-ups currently certified as Islamic digital economy-compliant.

Among them are companies such as Wahdah Technologies, Tripfez, Salam Web Technologies, Zaahara Ventures, ZeptoExpress, Wahed Technologies, Ethis Ventures and many others — all of which have demonstrated the capacity to perform as digital service providers in the Islamic economy as well as in the rest of the world. These achievements have strategically placed Malaysia as the Islamic fintech gateway to the larger global market.

Besides being renowned as the world’s leading Islamic finance jurisdiction, Malaysia is also ranked number one globally when it comes to the Islamic economy, according to the State of the Global Islamic Economy Report 2019/20, specifically in the digital sector.

**Fintech Booster: Accelerating growth in the global Islamic fintech hub — Malaysia**

On top of its success in Islamic finance and the Islamic digital economy, Malaysia strives to strengthen its position as the global hub for one of the most exciting and fastest-growing sectors in recent times: Islamic fintech. Its robust regulatory environment, well-established Islamic financial community and profound government commitment to champion the Shariah compliant agenda have proven Malaysia to be the best test-bed environment for Islamic fintech companies to be based here.

"A huge contribution to its GDP comes from its burgeoning digital economy, with a prediction stating that 21% of the nation’s GDP will be digitalized by 2020 and this number is against the current level of 18%. Needless to say, a large chunk of this contribution consists of digital products and services catering to the Islamic segments"
A huge contribution to its GDP comes from its burgeoning digital economy, with a prediction stating that 21% of the nation’s GDP will be digitalized by 2020 and this number is against the current level of 18%. Needless to say, a large chunk of this contribution consists of digital products and services catering to the Islamic segments.

With the commitment to push this aspiration forward, Malaysia Digital Economy Corporation (MDEC) continues to work closely with all stakeholders in the Islamic fintech ecosystem — fintech community, corporates, regulators, associations and other government bodies. MDEC has taken the role of an enabler and coordinator of various initiatives and industry-driven programs to ensure continuous growth in the industry.

MDEC has always been at the forefront of driving digital inclusivity and making sure Malaysia makes the digital leap into the Fourth Industrial Revolution to drive shared prosperity for all. With the aspiration of establishing Malaysia as the ‘Heart of Digital ASEAN’, MDEC has always emphasized on accelerating the digital economy growth by focusing diligently on its three key pillars: developing digitally-skilled Malaysians, enabling digitally-powered businesses and driving digital investments.

The Fintech Booster program is an initiative organized by MDEC with the collaboration of Bank Negara Malaysia. It provides capacity-building programs for fintech companies to develop meaningful innovative products and services by enhancing their understanding of legal, compliance and regulation requirements.

Recently, MDEC launched an initiative in early August that was specifically curated to spur digital innovation and growth through the #SayaDigital movement and part of the initiative is to spur the growth of the fintech industry — namely the Fintech Booster program.

The Fintech Booster program is an initiative organized by MDEC with the collaboration of Bank Negara Malaysia. It provides capacity-building programs for fintech companies to develop meaningful innovative products and services by enhancing their understanding of legal, compliance and regulation requirements.

There will be three verticals introduced in this program, namely legal and compliance; business model; and technology. Introduced recently, the legal and compliance vertical highlights a series of public workshops or clinic sessions that will be provided by participating Booster partners. The topics range from company law, cybersecurity to data governance. So far, six legal and consulting firms have volunteered to provide their expertise in legal and compliance subject matters.

Since its launch on the 4th August 2020, the program through its portal had received over 170 local and international registered users. Aside from the public workshops accessible to all users, the program’s unique offering will be its clinic sessions where selected fintech companies will have a chance to sit for a customized consultation with esteemed legal firms and corporates which have vast experience in the industry. Two Shariah advisory consultants are also a part of the program’s partner lineup.

This is to ensure that there will be sufficient guidance and support given to these fintech companies that are looking to attain the IDE Mi’yar-compliant status. The Islamic Digital Economy (IDE) Guide (Mi’yar) is another initiative organized by MDEC that serves as a reference for start-ups, venture capitalists and the rest of the supporting ecosystem players who wish to explore and understand various components of the Islamic digital economy.

By next year, MDEC will expand into the second and third verticals as the Fintech Booster program seeks to build a centralized hub for consultants, advisors and solution providers to provide fintech companies with the necessary tools and support to develop their products and services. By fostering collaboration across the public and private sectors and between established institutions and new entrants, the Fintech Booster program is expected to spur a more dynamic fintech ecosystem that can facilitate the continued innovation in the financial services sector, while contributing to a thriving digital economy in Malaysia.

To know more about Fintech Booster, kindly visit http://fintechbooster.com.my/.

MDEC is a government agency under the purview of the Ministry of Communications and Multimedia Malaysia entrusted to lead Malaysia’s digital economy forward. Incorporated in 1996 to oversee the development of the MSC Malaysia initiative, MDEC’s primary mandate today is to accelerate the growth of digitally-skilled Malaysians, digitally-powered businesses and digital investments in Malaysia. MDEC is focused on creating inclusive, high-quality growth through the nationwide digitalization initiatives that are in line with the government’s Shared Prosperity Vision 2030 and firmly establishing Malaysia as the ‘Heart of Digital ASEAN’.

#LetsBuildTogether #DigitalMalaysiaForward

MDEC has also launched a campaign to raise awareness and mitigate against the spread of the COVID-19 threat with a series of short videos across its social media channels that encourage a digital approach to combat COVID-19.

For more information and updates, please visit www.mdec.my or follow us on Facebook: https://www.facebook.com/MyMDEC/ and Twitter: @mymdec.
Initially, the creation of labs in the emerging field of data science applied to finance, which offers new opportunities for all levels, requires the expertise of a multidisciplinary team in the following areas:

1. Models for digital finance emerging in different regions of the world regardless of the level of development of the host country.
2. Fintech and start-ups that challenge traditional business models.
3. Artificial intelligence in business ethics and information society through machine and deep learning.
4. Principles for the design of digital financial platforms that take into consideration the injunctions, maxims and purposes of Shariah.
5. Integration of machine learning and data to push the boundaries of causal inference.
6. Communication based on algorithms that are safe, fair, transparent, explainable, understandable, assessable, equitable, non-discriminatory and respectful of diversity.

Digital data and algorithms represent a tremendous opportunity for society, but only on the condition that this articulation exists for the service of humans. This shows that a choice of algorithm is a societal choice that should not be imposed by the digital giants that are radically transforming business and daily life.

The COVID-19 pandemic has highlighted the place for digital technology in our society and its intrinsic limitations. It has shown that computers do not produce food and do not care for the elderly or the sick.

It highlighted, as never before, professions that are not taken into consideration at all, even though they are crucially useful, in particular all the ‘care’ professions and those that make society livable. And it has highlighted even more those jobs that are much less useful, often already dematerialized and which bring in a lot of money.

If digital technology offers the opportunity to earn a lot of money in a relatively short time, the COVID-19 pandemic raises the awareness that digital technology does not preserve human life in any condition.

If digital technology, as a process of creative destruction, affects almost every aspect of the Islamic financial industry, as it has developed into since its origin, then it is here to stay. It presents new challenges which offer real opportunities and involve some risks. Data laboratories dedicated to digital finance will be able to explore the impact of digital technology in Islamic finance. Companies must integrate a form of agility into their organization to increase their reactivity and be able to develop new products or services more quickly, but also to process current operations more efficiently.

Beyond simple training in digital tools, attention should be paid to skills and profiles. Financiers are moving from a logic of flow management to a logic of control and analysis.

Flexibility and openness to change should be part of the skills of tomorrow’s financiers. The digital transformation is pushing Islamic banks to go faster and faster and to adapt their working methods and tools. The main expected results are: greater internal agility, increased productivity and decision-making based on rational data and facts.

Digital technologies applied to finance will bring new changes that we are beginning to perceive as emerging practices. Analysts are already talking about the disruptive potential of blockchain technology and cryptocurrencies such as bitcoin.

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Digital technologies applied to finance will bring new changes that we are beginning to perceive as emerging practices. Analysts are already talking about the disruptive potential of blockchain technology and cryptocurrencies such as bitcoin.

Mobile payment and m-commerce (commercial transactions conducted electronically by mobile phone) are gaining momentum. Automation and adequate data management will make it possible to democratize virtual financial advice with chatbot tools, which are conversational robots that allow a company to communicate directly with the final consumer.

All these examples underline that investing seriously and conscientiously in digital technology today by creating data science labs for Islamic finance means working to improve people’s lives in accordance with Shariah, while ensuring that no irreversible and unacceptable damage is caused to the ecosystems.

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Islamic crowdfunding: Tradition, transition and technology

The Islamic financial ecosystem has seen significant growth over the past few decades. Products and offerings that used to be the preserve of institutional banks can now be offered through technology. This has essentially facilitated the pivot from at times cumbersome Shariah compliant products which were essentially retooled conventional investment opportunities, to bespoke Shariah-based financial solutions for the Islamic and ethical investment markets. IRFAN KHAN writes.

Crowdfunding is a mechanism by which a number of individuals, or the ‘crowd’, pool their funds together to fulfill an investment goal such as acquiring an asset or providing venture capital to a company. In its unique taxonomy of the crowdfunding market, according to the Global Alternative Finance Market Benchmarking Report (the Report), Cambridge University’s Centre for Alternative Finance outlines three main applications of the crowdfunding model: lending (such as peer-to-peer (P2P) lending), equity (such as real estate crowdfunding) and non-investment (such as philanthropy).

The earliest forms of crowdfunding date back hundreds of years, traditionally used to finance the production, editing and distribution of books by academics seeking financial backing. Later, in 19th and 20th century Europe, regional and local cooperatives began to emerge, which would pool funds to drive innovation and efficiency in areas such as agriculture and manufacturing through crowdfunding. Today, the practice has been driven into the mainstream by prominent sites such as Kickstarter, which have aided in getting now-commonplace products and services off the ground. The efficiency by which projects and investments can be crowdfunded has been boosted by the widespread use of the internet.

Allowing investors to interact with a campaign in real time allows for inferences that can shape aspects such as marketing strategies and investor outreach, meaning that funding and investment can be accrued across geographies and income levels.

For individuals who put money into investment-focused crowdfunding models, returns can sometimes be made at a level that might not have been possible without the aggregation of their funds with those from other investors. In many cases, enterprises can benefit from crowdfunding too, since many P2P platforms serve as alternative sources of funding, especially for SMEs which might find it more difficult to secure a loan from a traditional financial institution.

Such is the global popularity of crowdfunding that transactions associated with the industry are estimated to have totaled over US$300 billion for 2019–20, with China’s crowdfunding industry accounting for around two-thirds of this figure, according to the Report. The UK and the US round out the top three, suggesting that the practic...
Cybersecurity a major challenge for Islamic financial institutions in upcoming period

The global coronavirus pandemic has by far set some new standards on how operations and our day-to-day work will be changed in the next couple of years. Working from home has now become a reality for almost all the Islamic financial institutions. The digital transformation of the banking and financing platforms has now become mandatory to ensure the continuity of business. On one side, several Islamic financial institutions have taken this challenge to enhance their digital landscape; MOHAMED AFZAL writes that the major challenge is how to ensure the transactions will be executed safely and secured in the digital landscape.

Although the current situation has put major industries into a decline, this stance has paved the way for many to use this as a playing field for cyberattacks. It is estimated that cybercrime is going to cost up to US$6 trillion by 2021. Therefore, it is vital that Islamic financial institutions take steps to ensure that data and information are secured at a higher level and all applications used in the banking platform are also highly secured.

In addition, regulators should also take the right initiative to ensure the best action plan is taken to secure the digital channels.

Here are some of the key action plans that can be taken to ensure that the risks in cybercrime can be managed:

- **Integrated company culture**
  Islamic financial institutions will be required to build a strong and integrated culture that will become a part of the overall culture in the company. Employees need to be frequently made aware of the integrated culture that requires them to take responsibility for any action and ensure that the entire team is geared to take up any upcoming challenges.

- **Ongoing training and information-sharing**
  There must be frequent training sessions to outline the current trends in cybercrime and the ways and means of how data breach and cyberattacks can occur. Further, the latest and updated information needs to be shared among all stakeholders to create an understanding about the risk in cybersecurity.

- **Develop a cybersecurity risk management framework and assessment procedure**
  Islamic financial institutions will be required to revise their current risk management frameworks that will take into account the threats, vulnerabilities and impacts in cybersecurity. Further, there will be a requirement to ensure continuous monitoring of the same. It is important to note that in some regulatory environments, the establishment of a cybersecurity management team with the appointment of a cybersecurity manager has been made mandatory in the banking circle. In order to support the framework, ISO/IEC 27001 may be taken into consideration by ensuring a strong risk management framework is in place.

Mohamed Afzal is a corporate credit supervisor and acting head of credit at Tamweel AlOula. He can be contacted at m.afzal@tamweel-aloula.com.
Malaysia building its Islamic fintech proposition

In this interview with VINEETA TAN, Norhizam Kadir, the vice-president of Fintech and Islamic Digital Economy at Malaysia Digital Economy Corporation (MDEC), provides his insights into the Malaysian Islamic fintech landscape and how the government agency is rallying support as well as mobilizing resources to build the country’s Shariah fintech proposition at a global scale.

Malaysia’s Islamic fintech journey is an interesting one. We have seen the country grabbing more spotlight in recent times as compared to the “early days” of Islamic fintech when the likes of Dubai and Bahrain were seemingly at the forefront, or at least more vocal about their Shariah fintech ambitions. MDEC is central to several of the developments in Malaysia. I would like to start with MDEC’s latest fintech initiative — the Fintech Booster program. Where does the story begin?

It started off with a conversation we had with Bank Negara Malaysia (BNM). In fact, it was with the governor as we were looking at how we could play a role in being supportive to the capacity building of fintech companies, especially with the early-stage start-ups and fintech start-ups at the ideation level. We realized they needed to understand the aspects of regulatory compliance and we need to facilitate access to market opportunities as well as establish a technology platform which can also serve as an opportunity for these tech companies to later apply for BNM’s regulatory sandbox.

Through our partnership with BNM, we came up with Fintech Booster. This is essentially a capacity building program that would help fintech companies, especially those at ideation level, to maneuver through regulatory compliance, the first pillar we launched recently. Coming next year, we will also be activating the second and third pillars where we would be providing support from business model and market access perspectives, as well as technology integration later.

And to do this, we have to do it together with the public sector. The first pillar (regulatory compliance), we are working with six partners comprising legal firms, Shariah compliance advisors, as well as consulting companies to help these start-ups grow their business in Malaysia.

How much interest has the program garnered? Is there any interest from any Islamic fintech startups at all?

Yes. The number of companies that have signed up for Fintech Booster exceeded 150 in the first week of its launch. About 40% of questions asked and submissions to modules were specific to the Islamic market.

It has generated some level of coverage and we have gotten a lot of interest from foreign companies looking at setting up presence in Malaysia, getting into Fintech Booster, understanding the requirements of BNM, and penetrating the Malaysian market.

It seems that the Fintech Booster program was born out of a need to properly facilitate or educate fintech founders navigate the regulatory compliance infrastructure as well as getting themselves started in Malaysian fintech environment. Does that reflect the maturity of the ecosystem? How would you characterize the current Islamic fintech ecosystem in Malaysia?

I like to look at it from an opportunity standpoint. Malaysia has its advantage, especially in Islamic finance — we have always...
been at the forefront when it comes to the development of Islamic finance, especially in setting up world-class standards for Islamic finance.

There are huge opportunities within the Islamic economy, and for Islamic fintech, opportunities are not just within Malaysia but across boundaries. There will be 2.2 billion Muslims by 2030. And what is interesting is that out of this 2.2 billion, you see this increasing affluence, especially among Muslim countries like Indonesia, Pakistan, Bangladesh and some countries in Africa such as Senegal and Nigeria.

We have this 50-50-50 strategy where we identify opportunities in emerging Islamic markets where there are more than 50% Muslim population, more than 50% Internet penetration and more than 50% unbanked.

Opportunities in this underserved 50-50-50 markets are huge. We should be setting up the right platform for them to grow. We need a test bed for these Islamic fintech companies to be testing their solutions — Malaysia can be that test bed before these start-ups start expand across emerging Islamic markets.

One of the Islamic fintech initiatives MDEC has undertaken is the Dialogue Series, which we had the honor of facilitating and organizing. As an outsider, what should one understand from these dialogues?

This dialogue series have been very beneficial for us in understanding the needs and requirements of the ecosystem. As a government agency, we should not be coming up with strategies without having the industry syndicated.

And thanks to IFN in coordinating this series, we have completed two sessions. The first one was to understand Malaysia’s Islamic fintech proposition, and the second dialogue focused on how Islamic fintech could drive financial inclusion.

The industry has given us strong input and strong feedback which we have translated into strategies. For example, feedback indicated there is a need for industry participants to be able to be on a platform to help them increase capacity and market access — which culminated in the Fintech Booster.

Another recommendation was to focus on financial literacy and financial health, especially within the underserved market, the B40s and MSMEs. We are currently working with 12 fintech players in pushing a digital adoption strategy and increasing access, affordability and availability of alternative financing schemes through a platform that we built called e-Berkat.

What have been done after the Dialogues? Of all the recommendations made, what have been enacted upon? What next?

One of the other recommendations that was mooted during the dialogue was to have the government play a bigger role in setting up a national Islamic fintech task force. And that is a big charter. We do feel that there is a need to have a uniformed voice among government agencies and across ministries to look at enabling the Islamic fintech agenda.

We are bringing this up with players, the industry, as well as the public sector. The task force’s main focus is to drive financial inclusion.

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One of the other recommendations that was mooted during the dialogue was to have the government play a bigger role in setting up a national Islamic fintech task force. And that is a big charter. We do feel that there is a need to have a uniformed voice among government agencies and across ministries to look at enabling the Islamic fintech agenda.

We are bringing this up with players, the industry, as well as the public sector. The task force’s main focus is to drive financial inclusion.

"I think that is what the country needs — a push from the top, getting everyone to realize that Islamic fintech can enable and play a role in pushing the digital agenda"

It is still early days, but you have an idea of how the task force will look like?

That is an interesting question. We are working with the Ministry of Finance and the Ministry of Communications and Multimedia. A lot of things are happening behind the scenes right now. We have met up a couple of times, our industry has been syndicated and we have some structure.

What I can share with you right now is that the mandate focuses on financial inclusion and we have the involvement of institutional bodies — religious bodies — in pushing that agenda.

It is going to be exciting because there will be a consolidated platform. I think that is what the country needs — a push from the top, getting everyone to realize that Islamic fintech can enable and play a role in pushing the digital agenda."
MALAYSIAN ISLAMIC FINTECH INITIATIVE: DIALOGUE FINDINGS

The IFN Malaysian Islamic Fintech Initiative is a series of high-level dialogues with actionable outcomes for the development of the Shariah fintech industry in Malaysia. Supported by Malaysia Digital Economy Corporation (MDEC), two dialogues have been organized with industry stakeholders including regulators, government agencies, non-profit organizations, financial institutions and fintech start-ups.

MDEC Islamic Fintech Dialogue

OBJECTIVES
To identify Malaysia’s unique Islamic fintech proposition, potential challenges and gaps as well as recommendations to position the country as an Islamic fintech hub.

BACKGROUND
The Malaysian government through its Shared Prosperity Vision 2030 (SPV 2030) has identified Islamic finance and the digital economy as Key Economic Growth Activities (KEGA) to achieve its national commitment of elevating the country to become a nation of sustainable growth while ensuring fair and equitable distribution across income groups, ethnicities, regions and supply chain.

In order to enhance the nation’s prosperity while ensuring unity, the Malaysian government has committed to building resilient new key sectors including positioning the country as an Islamic Finance Hub 2.0.

This is a strategic move leveraging on Malaysia’s well-established global leadership in Islamic finance, a culmination of decades-long strong top-down approach and clear vision, while taking advantage of the digital revolution in recognition of the transformative value the digital economy could play in the country’s overall economic growth.

PRINCIPAL FINDINGS
Opportunities

GATEWAY TO ASEAN
Malaysia is strategically placed to serve as an Islamic fintech gateway to the wider ASEAN market, particularly to Indonesia, supported by its conducive and cost-effective business environment as well as affordable living standards.

SOFTWARE FOR ISLAMIC FINTECH START-UPS
As the third-largest economy in ASEAN by GDP, Malaysia would serve as an ideal regional hub for early stage Islamic fintech start-ups providing entrepreneurs with a sizeable market to scale-up.

FINTECH FOR FINANCIAL INCLUSION
Malaysia’s global leadership in Islamic finance, coupled with its ambition to advance the proposition of value-based intermediation (VBI) finance, makes it an ideal engine for financial inclusion, and Islamic fintech as a driver for financial inclusion a natural proposition.

CENTER FOR ISLAMIC FINTECH COMPLIANCE
Supportive and progressive regulators and robust Islamic finance regulatory framework provide Islamic fintech companies a conducive environment to test and launch products as well as the poten tiality for Malaysia to lead Shariah compliance for fintech agenda.
DIALOGUE FINDINGS

CHALLENGES

1. Venture capital environment in Malaysia is not mature enough to meet funding needs of Islamic fintech start-ups
2. Lack of participation from private sector to invest in fintech
3. Absence of high-level direction on Islamic fintech agenda
4. Scarce local tech talent pool
5. Local start-up ecosystem not attractive enough to tech entrepreneurs and talents as compared with Singapore with regards to remuneration
6. Lack of structured cohesive and comprehensive communication to global community about Malaysian technology start-up ecosystem
7. Lack of clarity on certain fintech products that are not under purview of Bank Negara Malaysia or Securities Commission Malaysia casts market doubts on start-ups

RECOMMENDED STRATEGIC PRIORITIES

1. To establish a united body at a national level to champion Islamic fintech agenda
2. Position Malaysia as an early-stage Islamic fintech start-up hub, attracting start-ups – local and foreign – to anchor regional operations in the country and use Malaysia as a gateway to wider ASEAN
3. Malaysia to carve an Islamic fintech niche: Shariah fintech for financial inclusion
4. Build an inclusive fintech ecosystem comprising Islamic fintech start-ups, corporates, non-governmental organizations (NGOs), Shariah banks, Islamic asset managers and practitioners in the Zakat, Waqf as well as the Sadaqah space
5. Develop an Islamic fintech guidance to establish parameters of Islamic fintech services, define roles stakeholders and market practitioners
6. Develop a local talent base and improve the awareness and understanding of Islamic fintech among stakeholders, especially investors and corporates
7. Design and execute coherent Islamic fintech brand and amplify accordingly
8. Encourage B2B collaboration between Islamic banks to conduct research and development and support Islamic fintech ecosystem
9. Establish an effective mechanism to address regulatory gray areas
10. Utilize existing mechanism or establish new ones to facilitate private investments into Islamic fintech
Islamic Fintech Dialogue: Driving Financial Inclusion through Islamic Fintech

OBJECTIVES
To determine how fintech can be utilized to deliver resources and support in the form of ethical and Shariah compliant financial instruments to micro, small and medium businesses as well as financially vulnerable families.

BACKGROUND
Senior industry stakeholders through Malaysia’s first Islamic fintech dialogue hosted by MDEC in November 2019 identified Islamic fintech as an instrumental thrust in the nation’s financial inclusion agenda. Carving a niche for Malaysia’s Islamic fintech narrative is one of the 10 recommendations made by industry leaders to position the country as an international hub for Islamic fintech. This direction is aligned with the Malaysian government’s SPV2030.

The unprecedented global outbreak of COVID-19 drove home the urgent need to implement necessary reforms to enhance the Islamic fintech ecosystem to ensure businesses of all sizes and all households can use Islamic fintech in a sustainable and effective manner.

PRINCIPAL FINDINGS
Malaysia is ripe for digital financial services and fintech for financial inclusion
The digital readiness of the country, Islamic finance sophistication and national ambition to embrace and advance value-based intermediation (VBI) finance build the case for Islamic fintech to drive financial inclusion in Malaysia.

As a developing nation of about 32 million, where over 77% of its population are urbanized and are growing in affluence, fintech is steadily gaining mainstream prominence with considerable promise for expansion.
## DIALOGUE FINDINGS

### CHALLENGES

1. Resistance to change and reluctance to fully embrace digital agenda by senior management especially among Islamic stakeholders (religious authorities, Zakat and Waqf bodies)

2. Absence of national direction on Islamic fintech hindering digital financial inclusion efforts

3. Lack of engagement between financial incumbents, relevant stakeholders and fintech start-ups – reluctance/dearth of smart partnerships between larger financial institutions and smaller fintech companies

4. Poor financial and digital literacy among B40s and MSMEs

5. Unbalanced growth of Islamic finance sectors that are now heavily focused on Islamic banking

6. Lack of credit history and proper credit assessment models prevent MSMEs, start-ups and B40s from accessing (micro)capital

7. Inefficient human capital resources – limited, low productivity

### RECOMMENDED STRATEGIC PRIORITIES

1. Set up national Islamic fintech taskforce for financial inclusion

2. Industry participants – fintech players, incumbents, regulators, and authorities – must collaborate to drive agenda forward

3. Institutional Islamic bodies need to be open to creating meaningful partnerships and implementing digital strategies

4. Introduce Islamic fintech-specific incentives to attract, retain and grow community

5. Focus on enhancing (Islamic) financial literacy and financial health especially within B40 segment

6. Islamic financial institutions to take a more proactive role in participating in the ecosystem by availing infrastructure and expertise

7. Develop hybrid models of Islamic digital social finance

8. Channel funds to support early-stage and growth-stage Islamic fintech companies

9. Develop Islamic fintech talent pool
145 FINTECH COMPANIES AS OF SEPTEMBER
WWW.IFNFINTECH.COM 2020
**LANDSCAPE DATA**

**Islamic fintech start-ups by vertical**

- Alternative Finance
- Blockchain and Cryptocurrency
- Challenger Banking
- Crowdfunding
- Data and Analytics
- Islamic Enablers
- Payment, Remittance and FX
- Peer-to-Peer Financing
- Personal Finance Management
- Robo Advisors
- TakaTech
- Trading and Investment

**Islamic fintech start-ups by country of establishment**

- Bahrain – 3
- Bangladesh – 3
- Cameroon – 1
- Canada – 5
- Egypt – 2
- France – 2
- Germany – 3
- Hong Kong – 2
- India – 1
- Indonesia – 13
- Iran – 3
- Kenya – 1
- Luxembourg – 3
- Malaysia – 18
- Nigeria – 3
- Pakistan – 1
- Qatar – 1
- Russia – 1
- Saudi Arabia – 9
- Singapore – 6
- South Africa – 1
- Spain – 2
- Switzerland – 3
- Thailand – 2
- Turkey – 3
- UAE – 15
- UK – 28
- US – 9
- Uzbekistan – 1
**LANDSCAPE DATA**

**Challenger Banking**

- **UK**: 5
- **UAE**: 1
- **Kenya**: 1
- **Germany**: 1
- **France**: 1

**Crowdfunding**

- **US**: 4
- **Indonesia**: 4
- **Spain**: 1
- **South Africa**: 1
- **Malaysia**: 1
- **Iran**: 1
- **Egypt**: 1
- **Bangladesh**: 1
- **UK**: 4
- **Saudi Arabia**: 4
LANDSCAPE DATA

**Personal Finance Management**

- **US**: 1
- **UK**: 1
- **Spain**: 1
- **Bangladesh**: 1
- **Germany**: 1
- **UAE**: 2

**Robo Advisors**

- **Malaysia**: 1
- **Canada**: 1
- **Bahrain**: 1
- **US**: 2
LANDSCAPE DATA

Trading and Investment

- US: 7
- UK: 3
- Malaysia: 2
- Canada: 2
- Nigeria: 1
- Egypt: 1
- Germany: 1
- India: 1
- Indonesia: 1
- Saudi Arabia: 1
- Singapore: 1

Takatech

- Malaysia: 2

Connect: Technology

CowryWise

EiGER
LANDSCAPE DATA

Islamic fintech start-ups by continent

- Africa
- Asia
- Europe
- North America

Islamic fintech start-ups by founding year

- Pre 2012
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020
MARKET REPORT

Australia’s first Islamic bank — a digital one — to open doors in 2021

The coronavirus pandemic may have thrown a wrench in the works temporarily for Islamic Bank of Australia (IBA) as the Australian regulator halted issuing new licenses this year, but the Shariah banking start-up is optimistic that it will secure official approval to start serving the Muslim market next year as it prepares to roll out its exclusively digital platform. VINEETA TAN has more.

Speaking to IFN, Dean Gillespie, CEO of IBA, confirms that despite a moratorium on banking licenses, IBA is still actively engaging the Australian Prudential Regulation Authority (APRA) and expects to receive a restricted license in 2021 which would allow the start-up to test its system with a selective audience before transitioning to a fully-fledged license.

Gillespie’s optimism is founded on years of foundational work and engagement with the regulator since 2012 and the fact that APRA recently confirmed that it will resume license issuance starting next month. Considering that only licenses for subsidiaries or branches of well-established foreign entities will be issued in September while licenses for new entities that meet prudential requirements will only be issued in March 2021, it is likely that IBA would only open its doors after the first quarter of 2021.

IBA has however begun soft marketing of its services and has garnered the interest of at least 1,500 Muslims — mostly from the younger demographic of between 18-35 years old — in the span of two weeks.

“We are hoping to get tens of thousands in the coming months,” Gillespie shares.

The initial traction of IBA among Muslim youths is perhaps unsurprising — IBA has changed its business model from traditional bricks and mortar to a digital proposition. This, Gillespie believes, is attracting the Muslim-minority community — which accounts for 2.6% of the country’s approximately 25 million population according to the latest census — which has limited Islamic finance options and is becoming increasingly digital-savvy.

To focus on consumer banking for the first year of its operations, IBA — which is also funded by foreign investors especially those from the Middle East — has plans to penetrate the SME and business banking segments after it builds a solid retail business. Its personal banking product pipeline includes transaction banking accounts, term deposits as well as mortgage financing.

This is an excerpt of an interview with Dean Gillespie, CEO of Islamic Bank of Australia. For the full discussion on the Islamic banking landscape in Australia as well as the start-up’s strategy and plans, log on to IFN Podcasts.

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MARKET REPORT

With the development of Islamic finance at the end of the 20th century, Islamic financial institutions gained the ability to circumvent the ban of interest while complying with Islamic law. Sukuk investors are not paid regularly on interest, but instead receive annuities from the profits generated by the underlying assets. Since its establishment in 2001, the demand for Shariah compliant investment instruments has risen sharply, reaching US$75 billion in 2020.

Although Sukuk can revolutionize Islamic finance, so far, due to the financial and legal complexity of the offering, it can only be used by large institutional investors.

In Hong Kong, Allalah Consulting is endeavoring to lobby the Hong Kong Monetary Authority and the Securities and Futures Commission to expand retail investors’ access to the Sukuk market, that is, by creating a new framework to combine an effective issuance structure with a greater degree of investor protection, such as placing the highest credit rating requirements on a Sukuk issuance.

The applications of smart Sukuk can standardize and automate most of the legal, accounting and payment of traditional Sukuk products. By using intelligent regulation, they enable all parties to share a common source of truth.

The ownership status of each Sukuk and its related assets will be automatically updated on a single blockchain, which provides a single view of the records enforced by the consensus mechanism.

In Hong Kong, Allalah Consulting is working together with local and overseas Islamic financial institutions and blockchain providers, including the Italy-based Unigiro, the Smart XBRL Data Analytics Engine giant, as well as Islamic scholars to develop its own blockchain Sukuk which aim to disrupt Sukuk issuance and trading in the following ways by simplifying operations in multiparty activities:

1. **Clearing and settlement efficiency**
   Applying blockchain to the clearing and settlement of securities can save organizations millions of dollars in operating and back-office costs.

2. **Uptime and availability**
   The system is available 24/7, and is fully replicated among network participants to ensure that there is no single point of failure or any dependence on a single device or infrastructure.

3. **Traceability, auditability and transparency**
   A single view of records supports a seamless audit process. Regulators can play a secondary ‘bystander’ role and intervene only when necessary.

4. **Reduced issuance and transaction costs**
   The issuance costs are reduced due to the withdrawal of third-party intermediaries and related expenses. Besides, it reduces the management burden and operational risk of the current manual multistep process. Lower acquisition and maintenance costs make the transaction process cheaper.

5. **Reduce risk exposure**
   Settlement risk exposure can be reduced by more than 99%, greatly reducing capital cost and system risk. In addition, since the settlement takes place in real time, there is no counterparty risk.

**Wafee Yeung** is the managing director of Allalah Consulting. He can be contacted at wafee@allalah.com.

Hong Kong taps into Islamic fintech with blockchain Sukuk

The Hong Kong Stock Exchange has a well-established debt market including an efficient Sukuk platform with a successful proven track record. Tax laws have already been amended for the ease of Sukuk issuance in Hong Kong. Moreover, in recent years Hong Kong has emphasized on boosting blockchain fintech. There is much hope for blockchain Sukuk in the city.
MARKET REPORT

LinkAja Syariah exploring other ecosystems including Waqf as it eyes one million monthly users by end of 2020

Newly launched LinkAja Syariah, Indonesia’s first Shariah compliant e-money platform, is exploring potential partnerships with other Islamic economy players including Waqf entities and Islamic boarding schools as it works on enhancing its services as a digital marketplace for Shariah compliant financial services and Halal products. NESSREEN TAMANO has the details.

Unlike any other digital wallets in the Republic, the LinkAja Syariah app is in partnership with state-owned Islamic banks — Bank Syariah Mandiri, Bank Negara Indonesia and Bank Rakyat Indonesia, among others — and Halal merchants to ensure that all transactions are Shariah compliant. The platform also enables users to access financing from Shariah banks and other Islamic financial institutions.

“Aside from digitalizing transactions within the traditional market especially in this pandemic, the app can also be used to pay school fees in installments for instance,” Haryati Lawidjaja, CEO of LinkAja, shares with IFN.

Transactions for Qurbani, or the sacrifice of livestock for Eid, have also been digitalized — users can make orders and select a payment scheme via the app. In collaboration with Badan Pengelola Keuangan Haji, Indonesia’s Hajj fund manager, Hajj pilgrims can maintain their savings accounts via the app as well.

There are many potential areas for the app to further expand its services and reach. Widjayanto Djaenudin, the group head of Syariah at LinkAja, reveals to IFN: “We are currently looking at other ecosystems we can link up. Waqf is a big area, and there are 800,000 mosques in Indonesia. There are 26,000 Islamic boarding schools nationwide with over four million students — this is also a major ecosystem.”

But for now, the team is focusing on educating the market, and enriching its services for the masses and SMEs, who can use the platform to their advantage — whether to secure Islamic financing or become a Halal merchant.

“LinkAja Syariah was tasked to collaborate with all the stakeholders in the Shariah economy and Halal ecosystem to not only increase financial literacy and financial inclusion, but also to expand the service network to support the Halal industry,” Haryati noted.

It is a challenging task, and the LinkAja team is starting by coordinating with different segments. “We are looking at ecosystems. For instance, we are working with public Islamic boarding schools, religious communities and local governments to help us build awareness on Shariah compliant products and services that are available to their constituents,” shares Widjayanto.

The app’s performance since its launch in April 2020 is promising — according to Haryati, while the total number of new registered users is undisclosed, 50% of that number consists of users that migrated from the conventional LinkAja, and the other 50% are new users. “We are on track, and hopefully, given these numbers and trends, we can achieve one million monthly users by the end of this year.”

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MARKET REPORT

Islamic fintech in Malaysia — bridging the digital divide

In 2019, Malaysia’s digital economy contributed 18.5% (or RM267.7 billion (US$63.76 million)) to the nation’s GDP. This figure is expected to increase 20% in 2020, according to The Edge Malaysia, followed by 21% in 2022, according to FaveBiz. The lockdowns imposed by governments around the world to control the spread of COVID-19 have made digital connectivity even more crucial. Budget 2020 allocated RM2 billion (US$476.33 million) to facilitate connectivity projects, with another RM100 million (US$23.82 million) set aside for Malaysia Digital Economy Corporation (MDEC). These are aimed at promoting domestic initiatives and to enable the nation to take the digital leap toward becoming a technology- and innovation-driven economy.

The initiatives announced by MDEC since then include eBerkat, to educate Malaysians on digital financial services, especially the B40 community and MSMEs. eBerkat’s main agenda is to elevate the importance of savings, lending, investment and payment, also known as the SLIP Strategy.

This objective is in line with the government’s Shared Prosperity Vision 2030 (SPV 2030), launched in October 2019. Under SPV 2030, the government is committed to transforming the nation to achieve sustainable growth, along with fair and equitable distribution across all income groups, ethnicities, regions and supply chains. Notably, Islamic finance and the digital economy have been identified as some of the key economic growth activities, which include positioning Malaysia as Islamic Finance Hub 2.0.

Of the nine strategic priority areas, several critical priority areas had been highlighted during the recent Islamic Fintech Dialogue 2020. These are targeted at reinforcing and enhancing financial inclusion in Malaysia (see Diagram 2). Islamic fintech was a central part of this event and the visualization of the Islamic Finance Hub 2.0 agenda.

The main challenge for many companies now is the ability to navigate the present tough market conditions. An ability to quickly pivot toward the digital realm will likely dictate the survival of businesses. Naturally, the focus on Islamic fintech has become even more intense amid the COVID-19 pandemic. While big corporations are better equipped to invest in e-commerce or turn to digital commerce, smaller businesses and individuals in the lower income groups tend to lack the resources needed to invest in the requisite digital infrastructure.

Not surprisingly, the government and the regulators are actively working toward building a sustainable ecosystem, to ensure the delivery of fintech solutions in a responsible and more cost-effective manner. According to MDEC, its ultimate goal is to ensure that the B40 group and MSMEs are empowered via Islamic fintech and financial inclusion. Since fintech enhances transparency — a core principle in Islamic finance — Malaysia is well poised to continue its digital journey toward market leadership in Islamic finance.

Ruslena Ramli is the head of Islamic finance at RAM Ratings. She can be contacted at ruslena@ram.com.my.

Diagram 1: Digital adoption of SLIP Strategy

Undererved:
Have no (or restricted) access to financial services
Rely on a cash economy

HOW DO WE GET TO SERVED

Institutional Financial Services
Banks, Insurance Providers, Government Investment Platforms
Non-Bank Institutions
Mobile Network Operators, Cooperatives, Credit Providers
Innovative Fintech Co’s

Savings
Investment
Lending
Payment

With a key focus in Shariah products

Source: MDEC

Diagram 2: Critical priority areas to drive financial inclusion in Malaysia

THRUST 1
National Islamic fintech taskforce

THRUST 2
Enhancing digital and Islamic financial literacy

CORE PILLAR
Collaborations between industry players

THRUST 3
Develop smart partnerships

THRUST 4
Greater readiness among stakeholders to embrace digitalization

Note: The key to successful implementation of Thrust 1 to Thrust 4 requires collaboration among industry players, or what is deemed a core pillar in promoting financial inclusion.

Source: RAM
MARKET REPORT

Foreign companies show interest in setting up Islamic digital operations in the Philippines

A Qatar-based fintech start-up and a foreign bank have both expressed interest in setting up Islamic digital operations in the Philippines, where a draft guideline for operating digital banks was recently proposed following the passing of the Islamic law bill to allow for the establishment and operation of Shariah banks and windows. NESSREEN TAMANO has the details.

E-wallet and payment platform cwallet, based in Qatar, uses integrated blockchain and fintech to serve low-income and unbanked workers across the MENA and ASEAN regions, and is in the process of obtaining Shariah compliance certification, IFN has learned. Michael Javier, the managing partner, CEO and founder of cwallet, said they hope to become Shariah compliant by September 2020.

Javier and his team will then initiate the process of establishing their Islamic digital operations in the Philippines with an aim to set up by 2021, a subject they broached at the Islamic Finance as a Vehicle for Economic Recovery webinar with the Philippine Economic Zone Authority (PEZA) and the Bangko Sentral ng Pilipinas (BSP), held on the 23rd July 2020.

During the webinar, in which the BSP had outlined the guidelines and requirements for application, an official from a yet unspecified foreign bank also expressed interest in applying to establish a Shariah digital bank in the Philippines. The BSP admitted that some other Islamic banks from the Middle East had previously declared intent to open branches in the country, but had been deterred at the time by the lack of a legal framework to support them. Charmaine Yalong, the commercial attache for MENA at the Department of Trade and Industry, also noted that many companies in the Middle East have been interested to set up in the Philippines as well, but the lack of Islamic banks to help facilitate their transactions has been a compelling factor in their decision to do so.

From the ASEAN region, while Malaysian banks Maybank and CIMB — which both have Islamic units — have not officially spoken on opening Shariah banks in the Philippines where both have branches, they have been active participants in training programs and workshops conducted in the past few months by the BSP on Islamic banking, IFN has learned.

Both the BSP and PEZA, whose mandate includes transforming selected areas in the country into highly developed banking, investment and financial centers, have launched initiatives to support and train industry players in preparing for a Shariah banking and financial system. The BSP and PEZA welcome the idea proposed during the webinar of collaborating on another initiative to encourage the establishment of Islamic banks in special economic zones, particularly the ones where foreign companies (many from the Middle East) have set up their offices.

Earlier in July, the central bank issued a draft circular, which is currently under review and will be finalized soon according to an official, that includes digital banks as a distinct classification of banks under the BSP’s Manual Regulations for Banks, as well as details on conducting digital banking businesses in the country. (3)

Some other Islamic banks from the Middle East had previously declared intent to open branches in the country, but had been deterred at the time by the lack of a legal framework to support them.

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MARKET REPORT

Saudi issues draft regulations on debt-based crowdfunding as number of Islamic fintech companies grows

The Saudi Arabian Monetary Authority (SAMA) has launched draft regulations on debt-based crowdfunding in the Kingdom, now open for public feedback, as part of its efforts to embrace modern financing activities. NESSREEN TAMANO reports.

There are 24 fintech companies permitted by the SAMA to operate within its regulatory sandbox. Nine of these companies are debt-crowdfunding platforms, and six of them are fully Islamic, offering Shariah compliant financing solutions and structures: Lendo, Raqamyah Platform, Maalem Financing, Forus, Nayifat and Tameed.

Legally speaking, these crowdfunding platforms have licenses to operate, but there is a lack of official law, regulation or legal framework specifically for them to establish proper mechanisms.

Through these regulations, the SAMA seeks to attract a new segment of investors, as well as companies with smaller capital.

The new draft rules focus on providing licenses to crowdfunding companies and platforms and organizing their activities under existing regulations that govern other finance companies in Saudi Arabia. The minimum capital for crowdfunding companies to operate in the Kingdom is set at SAR5 million (US$1.33 million), which they may raise or reduce later on according to market conditions.

The regulator is inviting the public to provide their feedback until the first week of September, before the rules are finalized.

Through these regulations, the SAMA seeks to attract a new segment of investors, as well as companies with smaller capital, and also to ensure that activities within the subsector of crowdfunding adhere to the requirements of information security, corporate governance, risk and compliance management, internal audits and other existing regulations in the Kingdom. The regulator also hopes to encourage innovative financing products, it said in a statement.

The Saudi Capital Market Authority (CMA) had launched its Financial Technology Laboratory initiative in 2018, within which it granted the first two trial fintech licenses in the Kingdom to crowdfunding companies Scopeer and Manafa Capital. The CMA had also been working on developing a crowdfunding framework, using existing regulations and practices from other countries as a model but customizing them to fit the Saudi market’s needs and patterns.

Neighboring Bahrain, which has taken the lead in the GCC’s fintech scene, has already taken major steps toward establishing a thriving crowdfunding landscape, having launched its regulatory framework and regulatory sandbox focused on the sector in 2017, and then in 2019 publishing dedicated regulations on Shariah compliant financing-based crowdfunding platforms and businesses.

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Is Islamic crowdfunding possible in Tunisia?

Even though Tunisia succeeded in positioning itself as among the safest destinations in the world, after a difficult period of regional instability and a pandemic situation, its sovereign credit rating was downgraded by Fitch Ratings and placed on review for downgrade by Moody’s Investors Service, as there is no reported improvement in mitigating its external vulnerability and enhancing its business climate.

This missed opportunity also reflects the failure of the president of the new coalition government to arrange his private affairs in a manner that would prevent a conflict of interest from arising, in addition to the failure of the president of the parliament to convince an increasing number of members of the parliament that he is arranging his foreign policy positions in a manner that could prevent his party leadership from interfering.

In the wake of the resignation of the president of the government and the firing of the foreign minister, the president of the Republic tasked the interior minister, who was previously his legal advisor, to form a government capable of winning a confidence vote in the parliament and facing political and economic challenges.

To cope with the challenge of financing gaps, the government, which issued a decree law on self-entrepreneurship, proposed the crowdfunding law, which was passed on the 21st July 2020 by the parliament, soon after it passed the law on social and solidarity entrepreneurship with a unanimous vote of its members.

This creativity demonstrates how much Tunisia is capable of exploring new avenues of inclusive finance, through online platforms that other conventional channels are not able to offer to private individuals, start-ups and MSMEs, and of continuing the efforts initiated by the Startup Act.

Nine months before the legal framework was passed, a Tunisian start-up fund platform using equity crowdfunding by tokenization was among the winners of the second Africa Blockchain Summit, but the Tunisian regulators, even if they gave their agreement to the Aiyal Capital Fund, warned against the launch of such a platform given the lack of a legal framework of crowdfunding, which was postponed because it was considered incomplete without the self-collection crowdfunding component (solidarity loans and donations) which was to be added to the other component of savings crowdfunding (private equity and commercial loans). On another point, Islamic finance products were not expressly mentioned by the law, except for Sukuk and backers with no interests, but it is not clear if it is possible to explore Islamic finance products and if a donation reward-based solution could be explored for the case of Zakat collection as there is no legal base for Zakat in Tunisia.

Finally, the possibility of a financing tool dedicated to microfinance, either conventional or Islamic, could inspire success stories like Kiva and in particular Indonesia-based Islamic microfinance crowdfunding vehicle Blossom Finance which uses the SmartSukuk platform.

Any public opinion or media appearance is the author’s independent personal opinion and should not be construed to represent any institution with whom the author is affiliated.

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MISL eyes international growth

With over two decades in the business of banking and finance technology, Millennium Information Solution (MISL) has built a reputation in the Islamic finance space, scaling up from humble beginnings in Bangladesh to a global presence now through its new office in Dubai. Armed with an aggressive growth strategy and a new international office, the tech company is showing no signs of slowing down as it takes on the global stage, highlighting Africa, CIS and Indonesia as lands brimming with Islamic fintech opportunities. VINEETA TAN speaks to Managing Director and CEO Mahmud Hossain to find out more about the firm’s expansion plans and to gain his insights into the Islamic fintech and digital banking landscape.

MISL is present in several markets — which, to you, are the most interesting when it comes to Islamic fintech and digital opportunities? Why?

Our flagship product is Ababil, a comprehensive suite of Islamic fintech solutions, which not only includes Islamic core banking solutions but also trade finance, treasury, remittance, agent banking, microfinance, digital customer onboarding along with a mobile application and internet-based banking. These products are targeted toward regions of the mass unbanked population in order to expand financial inclusion in those particular regions. Our solutions provide exceptional value, making it extremely cost-effective to implement and serve these communities.

So naturally, the continent of Africa is by far the most suited for these products. Not only does this create an opportunity for financial inclusion, but it also serves the core purpose of our existence. Our slogan is “upholding social equity and justice” which is also in line with the UN Sustainable Development Goals, sharing the same objectives such as zero hunger, eradicating poverty and improving quality of work and life, to name a few. Furthermore, bringing people under the financial umbrella has not been explicitly defined as a development goal by the UN but various research shows that it is a very effective means to achieving them.

With all of that in mind, we also find the CIS region and the Indonesian market as the more prospective markets, especially due to their rich culture, liberal stance, social protection schemes and inclusive nature. Popularizing Islamic fintech in these markets makes it easier for a true global implementation of Islamic finance.

You mentioned Africa and CIS as key focus areas. Any specific markets in Africa or CIS? Any progress made so far? These are high potential emerging Islamic finance countries but are also relatively small when it comes to Islamic finance and they generally lack the right infrastructure. How challenging would it be and how are you overcoming such challenges?

We have received a letter of intent from Kazakhstan — Alhamdulillah. We also had a schedule for seminars with our partners in Tajikistan and Uzbekistan, but these did not materialize because of the [coronavirus] pandemic. On the other hand, we have also visited our prospective client base and had a seminar in Ethiopia where we see great prospects for our products and services.

The reason being we have core Islamic banking, mobile banking, agent banking as well as microfinance solutions — all are essential there and we have all of them running in an integrated fashion in several banks of similar countries, meaning solid and field-tested systems. There are several emerging new upcoming Islamic banks in Ethiopia, and we have met almost all of them. We are also targeting Kenya through our partners there.

Can you elaborate on the kind of digital and fintech opportunities you see for emerging markets?

I believe digital financial payment products like a mobile phone linked to a bank account will allow people to get money from far-flung relatives and friends in a crisis, reducing the odds they will fall into poverty. There is growing evidence that digitizing payments like for health, education or other social safety nets yields big benefits for individuals, in addition to improving efficiency for governments and aid agencies by reducing transaction costs and leakage.

Digital platforms such as mobile financial services, microfinance and agent banking are booming. Gradually, mobile payment will become a preferred choice by both consumers and merchants alike. Digitalization of the financial industry lowers operational costs when compared to manual processing and also makes it easier to develop, implement and manage these fintech platforms. True financial inclusion is taking place in the unbanked population through these processes.

As far as supply chain management is concerned, I believe it consists of four core elements — purchasing, production, inventory management, and transportation and distribution — each of which can benefit from digitization in terms of planning, operation management, process automation and decision by adapting big data analysis and AI [artificial intelligence] technology, and in turn, achieving a greater degree of cost effectiveness and efficiency.

While digitization makes some jobs obsolete, it makes up by creating new opportunities. Again, the opportunities here are infinite. Moreover, digitalization will allow families
to have a second earning member while staying home by virtue of work-from-home opportunities through digital platforms. The chance to work from home or any part of the world gives individuals a chance to enhance their standard of living while maintaining a work/life balance. Big organizations and governments as well as banks are going to need integrated HRMS [human resources management systems] to run their institutions efficiently through including e-recruitment, talent development, training management, payroll with complex taxation management, attendance and leave management, performance management, etc, with a mobile interface for almost all the modules and we already offer a solution that have all the features integrated into the system (we have that integrated solution as well).

Most importantly, we see digital technology as a medium to account for the universal population in ensuring their basic rights and necessities such as the scope for universal welfare, pension, healthcare and insurance, among others. Establishing social protection and development also falls under the spectrum of our vision of “upholding social equity and justice.”

In the markets you are in, are regulators and incumbents fully open to the idea of fintech and digitalization? What are some of the efforts being implemented to that end? What do you think is needed in the ecosystem to facilitate a conducive digital environment for Islamic financial institutions?

It happened initially, but now they have become more accommodative especially since more new Islamic windows are emerging and new conversions from conventional to Islamic banks are taking place. If we take blockchain technology as an example of fintech, the idea of blockchain technology — which was supposed to bring a paradigm shift in the financial industry including in the areas of cross-border payment systems and trade finance and which could be well suited for Islamic banking with its conditional contracts execution — is still under question by regulatory authorities and adoption is very slow in these parts of the world.

We are continuously maintaining relationships with regulatory authorities through official and personal channels as we position ourselves as an enabler for implementing macroeconomic objectives. Learning, communication and awareness are the three essentials in continuous development and maintenance of the Islamic financial ecosystem.

Apart from potential regulatory pushback, what are some of the biggest hurdles when it comes to fintegration for Shariah banks? What challenges or pain points should Islamic banks be aware of and how can they overcome them in order to ensure a seamless yet effective digital strategy?

Culture, resistance to change, fear.

As you know, we are living in a culture very resistant to change and as we all know, human beings, innately, always had a great fear of the unknown. However, most great human advancements, both in terms of science and technology, had to face these hurdles over the course of time. Hence, we will require stakeholders at all levels to be more tech-savvy, with an attitude to not only accept changes but also patronize them, keeping a mindset of foregoing immediate short-term profit in favor of long-term sustainable profit from the mass market.

MISL has built a reputable business over the last 20 years, servicing clients from all over the world from its home base Bangladesh. Last year, it inaugurated its office in Dubai. Why Dubai and why now?

Dubai is a well-respected and widely regarded Islamic finance hub, making it an ideal gateway into the markets we are targeting — Africa, Indonesia and the CIS region. Moreover, we get fantastic infrastructure in Dubai to provide global support — which is one of the main drivers of us expanding our physical presence to Dubai; we want to reach our global customers to better support them and address their needs more efficiently and effectively and this can be achieved from our global headquarters in Dubai. Although we have partners and we are also in the process of engaging more partners in these regions, since we have direct flights to these countries from the UAE by several airlines, we would require much less travel time to reach our clients and would be able to address their needs much faster.

What projects is MISL working on? Any expansion/partnership plans? What can we expect from the company over the next 12 months?

MISL has three flagship products — Ababil, Sylvia and Tahqiq. Ababil is our Islamic banking product suite, Sylvia is the HRMS product suite and Tahqiq is for the Risk-Based Internal Audit System. Our next 12-month plan is to successfully implement the orders in hand and materialize the ones in the pipeline for these products, while ensuring absolute client satisfaction.

Since our entire new-generation Ababil was built leveraging the strength of Java micro services and the Apache Kafka distributed streaming platform, we have now been easily incorporating AI in selected areas of this product.

We have started leveraging the power of AI and machine learning through proper incorporation of them in all our three product lines as well. We are also exploring through R & D [research and development] the blockchain technology, so that we are not behind in leveraging the benefit of this technology when the regulator starts allowing it to apply in trade finance and cross-border fund transfer.

We are continuously developing these products to not only meet contemporary needs but also forecast the realities of the near future. Our vision with these products is to perpetually attain universal excellence in their respective domain. These are:

1. Ababil: Universal financial inclusion
2. Sylvia: Universal social inclusion, and
3. Tahqiq: Universal risk assessment and internal audit.

While our reality is not a utopia, we are determined to put our best effort in the present for ensuring the best future for our descendants. Inshaa Allah, Ameen.
World Islamic Fintech Awards 2019: Strength in diversity

World Islamic Fintech Awards (WIFA) are nominations-based independent awards honoring the very best of Islamic fintech. In 2019, WIFA received 135 nominations from start-ups across nine verticals.

This round of nominations portrayed greater geographical diversity, reflecting the expansion of Islamic fintech across the globe. With start-ups from top Islamic finance markets such as Malaysia, the UK, the UAE and Saudi Arabia, 2019 nominees also hailed from jurisdictions that were not represented last year such as Mauritius, Australia and Jordan.

With new start-ups and as more companies become even more established as they find their footing in the industry, the competition for the best has indeed intensified.

Malaysia still accounted for the lion’s share of the nominations, followed by the UK and the UAE, Indonesia and Iran. Breaking it down by region, there is a more balanced representation with Africa and the Americas grabbing a larger market share as compared to 2018.

Unfortunately, the absence of Takatech start-ups continued in 2019 while the category of Best Digital Islamic Bank did not yield enough qualifying nominations.

Apart from two defending champions, the rest of the winners are fresh faces, again demonstrating the exciting dynamics of the ever-growing Islamic fintech sector.

Our heartiest congratulations to all winners on your well-deserved victories!
Best Alternative Finance Fintech Provider

Winner: Ovamba Finance (Cameroon)
Honorable mention: Sakook (Iran)

Right off the bat, the World Islamic Fintech Awards are off to a competitive start. The Best Alternative Finance Fintech Provider category fielded strong nominations from vastly different operating environments.

The alternative finance category, which has traditionally been dominated by digital mortgage providers, saw a variety of interesting business models this time around. From Asia, start-ups with a proven buy-now-pay-later model are also eyeing the Shariah market with their Riba-free systems. Singapore-headquartered hoolah is one example. Recently expanded into Malaysia, hoolah has onboarded over 250 merchants across the two markets it is currently operating in, providing retail customers with interest-free instalments through their debit cards, a service not provided by existing banks in Malaysia nor Singapore.

From the Middle East, Iran’s Sakook left a deep impression; the young start-up, operating in the supply chain finance space, provides an alternative means of financing to the overbanked population. In line with the Republic’s Shariah compliant financial system, Sakook serves the business-to-business (B2B) market with Islamic financial instruments, particularly bill of exchanges enabling factoring and reverse factoring. In the span of two years, the start-up has built a customer base of some 6,500 SMEs – a promising start to its ambitious goal of financing up to 3% of the Iranian financial market in the near future as per its five-year plan.

However, it was Ovamba Finance from Cameroon which took home the Best Alternative Finance Fintech Provider crown.

Best Data and Analytics Platform for Islamic Finance

Winner: MyFinB (Malaysia)
Honorable mention: Islamicly (the UK)

Data is king. And the nominated firms in the category of Best Data and Analytics Platform for Islamic Finance are kings in their own rights. From the largest investment consulting firm in Iran with its own proprietary data and analytics software to award-winning solutions providers from Switzerland, Lebanon and Bangladesh, one Malaysian firm stood out with its artificial intelligence (AI)-driven platform which is currently being used across 28 countries to make impactful business decisions. With data points from at least two million enterprises and 40,000 publicly listed companies across over 30 industry groups, MyFinB’s AI technology cuts across eight major sectors: financial institutions, corporates, government agencies, accounting/auditing firms, credit bureaus, stock exchanges, universities and trade associations.

Like Sakook, Ovamba provides trade finance and supply chain finance solutions. But unlike the Iranian start-up, which is largely confined to its domestic market due to unforgiving sanctions, this African start-up shows greater geographical mobility and promising regional expansion trajectory, giving it higher chances of meeting the region’s MSME financing gap of US$331 billion (according to World Bank figures).

The firm took the strategic decision to have its Murabahah solution certified Shariah compliant by Bahrain’s Shariyah Review Bureau instead of local scholars, therefore securing itself international recognition for its Shariah integrity, which makes its solution more palatable cross-border. Apart from Cameroon, Ovamba has also forayed into Ivory Coast.

2019 was a big year for Ovamba. Embodying and exemplifying the collaborative instead of the disruptive spirit of fintech, the start-up partnered with two banks in its home country: UBA and Union Bank of Cameroon.

Thanks to its ability to provide capital, its access to global suppliers and warehousing along with other logistical infrastructure offerings, Ovamba processed over 1,000 transactions and originated over US$129 million of demand over the last three years.

But it is not stopping there. Ovamba is working on building partnerships with several monetary financial institutions across emerging markets. It will also continue to expand into new markets including Nigeria, Kenya, Ghana, Uganda, Ethiopia, Senegal, Togo and North Africa, as it keeps its eyes on the 400 million SMEs across Africa.

This award recognizes non-mainstream digital platforms offering financing to individuals, SMEs and/or corporates.
banking and finance space, it is now gravitating toward a collaborative model, evident through its Digital AI Labs (DIAL) program, an arrangement helping organizations build and own AI experts systems to solve a specific issue with a commercial goal in mind. With a collaborative mindset, the company decided in 2018 to incorporate win-win ownership models into its business framework such as Musharakah Mutanaqisah, and that changed the game for MyFinB.

Thanks to its new approach, revenues skyrocketed by 87 times in 2019, way above its 10-fold growth targets. By the end of the year, the firm ran 21 DIAL projects. It now has physical presence in 20 countries, and will commence operations in Vietnam by June 2020 while pursuing expansion in OIC countries. 

Special mention needs to be given to Islamicly, a mobile app democratizing information on Shariah compliance of listed companies worldwide. The app, developed out of the UK, is a Shariah-certified mobile platform allowing retail investors access to real-time, researched Shariah compliance status of over 30,000 stocks globally. In addition to receiving updates on the Shariah integrity of these companies, users are also able to create portfolios of stocks of their choice and calculate the level of purification needed to maintain Shariah compliance, as well as have access to community forums and blogs on Islamic investment options. Providing such access to the retail community, Islamicly creates an opportunity for the average Joe to gain exposure to the global equities market in a more informed manner.

This award recognizes providers of technology allowing Islamic financial institutions to improve performance and make better decisions using data analytics. It also includes regtech firms which provide technology to help firms working in the financial services industry meet financial compliance rules.

Best Islamic Crowdfunding Finance Platform

Winner: Ethis Fintek Indonesia

As one of the most crowded Islamic fintech verticals, it is no surprise that the Best Islamic Crowdfunding Finance Platform category was one of the most contested categories of WIFA 2019.

Ethis Fintek Indonesia, a platform under the formidable global Ethis brand, takes home the title. A familiar name in the crowdfunding and P2P space, the property investment crowdfunding platform had a stellar 2019, largely in the form of regulatory recognition, which opened new doors for the four-year-old start-up. The Indonesian Financial Services Authority granted Ethis Indonesia with a fintech license, enabling the platform, which until then was only mobilizing foreign investments into the Indonesian housing market, to tap local retail investors.

Since the regulatory approval, the company has received support from the Ministry of Public Housing and is looking to secure regulatory licenses in other jurisdictions including Dubai, Kazakhstan, Bahrain and Morocco while also considering replicating its business model in Pakistan and Bangladesh. It is also worth noting that the platform received a grant in 2019 from Expo Live 2020 and will be showcasing its solution at the Dubai Expo 2020.

These affirmations from the Indonesian and Emirati governments are a testament to its proven track record and Shariah compliant business proposition. Over US$8 million in investment has been channeled into the development of 7,430 affordable houses through the Ethis Indonesia platform since its founding in 2016, and this is an example of how Islamic finance can deliver positive social impact.

This award recognizes the most outstanding Islamic crowdfunding finance platform. It covers donation-based platforms, reward-based crowdfunding and equity crowdfunding.

Best Islamic Peer-to-Peer Finance Platform

Winner: Investree Radhika Jaya (Indonesia)
Honorable mentions: Alami Sharia (Indonesia), Beehive (the UAE)

Competition is fierce in the P2P category, particularly from Indonesian platforms. Ambitious and aggressive, those nominated demonstrated phenomenal growth stories. From Dubai, pioneer Beehive, the first Shariah compliant P2P platform to be regulated by the Dubai Financial Services Authority, continues its impressive momentum. In 2019, the start-up anchored its roots in Asia with its first international branch in Thailand. Beehive Asia forged a partnership with one of Thailand’s largest banks, Thanachart Bank, to launch an SME value chain financing program. Beehive, in collaboration with the Economic Development Board of Bahrain, also expanded into Bahrain and facilitated funding for its first Bahrain-based SME.

The platform, which mobilized AED500 million (US$136.11 million) of SME funding in 2019, is currently working on establishing a physical footprint in Saudi Arabia, with new Islamic solutions in the pipeline. But it isn’t just well-established pioneers which had a good 2019. Newcomers such as Alami Sharia from Indonesia also made its mark. Established in 2018, the start-up received two regulatory licenses in the
fintech lending space of Indonesia, the firm – co-founded by Islamic banking veteran Adrian Gunaidi – is also making an impact outside of the Republic. Already operating in Indonesia and Vietnam, in 2019, the firm expanded into Thailand and plans are underway to enter the Philippines.

Investree has the distinction of being the only lending platform which has gained an authorized business license for fintech lending from the regulator, operating in both the conventional and Shariah space. The start-up, which has originated over 5,100 loans to the tune of close to IDR3 trillion (US$219.88 million), disbursed IDR250 billion (US$18.32 million) in Shariah financing in 2019. It also closed the year with its first partnership with an Islamic bank – BRI Syariah. Under the agreement, BRI Syariah will distribute financing to SMES through Investree, starting with an initial IDR50 billion (US$3.66 million).

As the first fintech platform to act as an official distributor of the government’s retail savings Sukuk program, Investree continues to build its rapport with the government: it has formed a collaboration with several strategic partners including the National Public Procurement Agency to enhance its supply chain financing schemes.

The successful working relationship Investree has built with traditional incumbents (banks) and the government is an exemplary model of a collaborative fintech model for financial inclusion. Coupled with the growth of its Shariah business, it has all the merits of being the Best Islamic P2P Finance Platform of 2019. Investree’s next phase of growth will involve an exploration of further integration with other ecosystems including e-commerce, digital procurement and other value chain ecosystems.

This award recognizes the most outstanding peer-to-peer financing platform complying with Shariah financing principles.

The potential for blockchain/distributed ledger technology in the financial services is seemingly limitless. And over the past year, we have seen blockchain technology being applied more in the Islamic financial world, including in the capital markets and banking sector. From offerings of Sukuk to execution of cross-border remittance and payments and e-voting, Islamic financial institutions and fintech entrepreneurs are embracing the technology and putting it to good use to optimize their offerings and maximize impact.

One project deserving of an honorable mention is MenaPay, which is supporting the digital transformation of the MENA region with a blockchain-based non-bank mobile payment gateway. The Dubai-based start-up is one of the earliest bank-independent institutions to utilize blockchain technology to digitalize cash for the unbanked population. The platform takes advantage of two different blockchain infrastructures – data infrastructure and cryptocurrency – to address two different areas. Its design idea includes offline reseller points where users can buy MenaCash with fiat currencies (cash). This enables users to buy MenaCash and use it for peer-to-peer transactions or payments to merchants without banks.

In a tight race for Most Innovative Use of Blockchain in Islamic Finance, Finterra pipped MenaPay to the post. With its work in the space of Islamic endowments and charity, Finterra’s solution embodies both these themes – optimal efficiency and maximum impact.

Finterra’s WAQF Chain platform is designed with the core objective of unlocking the potential of Islamic endowment assets in a transparent, secure and efficient environment. The smart contract ecosystem allows Waqf institutions and other stakeholders to submit and raise donations to develop projects utilizing Waqf assets.

2019 saw the deployment of the first phase of the Shariah-certified platform, allowing users to trace their donations using a smart contract, thereby bringing in the much-needed elements of accountability and transparency. Users are also provided with impact reports detailing the impact of their contributions. In the last year, Finterra successfully ran pilots of their platform across six countries: Malaysia, South Africa, Tanzania, Kenya, Turkey and Oman.

But this is only the tip of the iceberg. The next phase of development, which is currently ongoing, is to integrate an investment component into its ecosystem by introducing a Waqf fund management platform. The idea is to utilize Islamic financial instruments such as Mudarabah, Musharakah and Tawarruq, among others, to enable investments into social ventures. There are also plans to roll out two new non-Waqf blockchain products: ZakatChain and WassiyyahChain.

This award recognizes the most innovative adoption of blockchain technology in the Islamic financial sector.
### Best Islamic Wealth Management Fintech Company

**Winner: HelloGold (Malaysia)**

The digital savings platform continues to democratize financial services through the digitalization of savings and lending products, starting first with gold.

Continuing its impressive momentum from the year before – expansion into Thailand, acquisition of new customers, launching of tokenized assets – the Kuala Lumpur-headquartered start-up achieved tremendous milestones in 2019.

It gained access to nine African countries through its partnership with regional credit operator Baobab, recorded a 400% year-on-year growth in its Malaysian user base which now counts over 100,000, its newly-launched Thai unit onboarded 16,000 users, and the gross value transacted on its platform skyrocketed by 455% year-on-year to US$7.24 million. The start-up is currently working on expanding into new markets including Indonesia, the GCC, Egypt and Saudi Arabia.

This award recognizes the best digital applications facilitating financial planning, budgeting and/or savings and/or investments based on Islamic principles.

**Honorable mention: Bondsmart (UK)**

Worthy to highlight is Bondsmart, one of the earliest to pioneer a co-ownership bond platform. Bondsmart allows financial institutions to offer bite-sized fixed-term investment products such as Sukuk to individual investors. In other words, it allows individual investors access to the institutional Sukuk and bond market through fractionalized ownership of such assets; this is an important development as the global Sukuk market is largely an institutional play.

While the concept may be straightforward, the execution is rather complex, but Bondsmart has managed to do so through smart engineering without using blockchain technology. The software is already deployed in two markets – Jordan and the UAE – and there are plans to enter new jurisdictions in 2020. The UK firm is also working on establishing a base in the UAE. This is certainly a noteworthy platform.

### Best Shariah Compliant Payment, Remittance and FX Platform

**Winner: PayHalal (Malaysia)**

The Best Shariah Compliant Payment, Remittance and FX Platform goes to Malaysia’s PayHalal. Under the leadership of Islamic banking veteran Badlisyah Abdul Ghani as CEO, the payment platform has grown by leaps and bounds in 2019 with new partnerships and services.

As the world’s first payment gateway to be certified Shariah compliant by Islamic scholars, PayHalal is the missing cog in an end-to-end Shariah compliant digital payment ecosystem. Its payment system is insulated from Riba elements through the utilization of Islamic trust/deposit account, and the distribution of Hibah to merchants being derived from Halal investments.

Over the last year, the payment gateway has expanded its retail payment service to include the facilitation of Sadaqah donations, the payment of Zakat and remittances for education. The start-up strategically aligned itself with Zakat authorities in 2019, including Malaysia’s Federal Territories Islamic Religious Council Zakat Collection Center as well as Islamic financial institutions such as Zurich Takaful Malaysia, the National Co-operative Movement of Malaysia and even Islamic fintech peers such as venture builder Ethis Ventures, which operates the charity crowdfunding platform Global Sadaqah. PayHalal also managed to expand its partnership network abroad through agreements with Brunei’s Multipro Resources, to whom PayHalal will provide Islamic e-commerce services, and Indonesia’s Kirana Investama Nusantara.

PayHalal expects to grow its user base to three million and facilitate over RM480 million (US$115.68 million)-worth of transactions by September 2020.

This award recognizes companies offering alternative Shariah compliant payment solutions such as mobile payment, e-wallets, payment gateways, the transfer of money in real-time between individuals and the exchange of currency.
Best Islamic Financial Software Provider

Winner: Infopro (Malaysia)
Honorable mention: Codebase Technologies (UAE)

The Best Islamic Financial Software Provider received one of the most diverse mix of nominations, with nominees hailing from a wide variety of geographies: Iran, Lebanon, Bahrain, Kuwait, Malaysia and Indonesia among others. As diverse as they may be, one commonality is observed among the nominees: they all have long-standing track records, spanning decades, providing cutting-edge Islamic banking tech solutions.

From award-winning Path Solutions to last year’s winner Codebase Technologies, to Lebanon’s Capital Banking Solutions and Iran’s Datx Company, the latest round of nominees demonstrated impressive growth over the last year.

Codebase Technologies for example delivered 13 enterprise systems including a regtech solution, digital payments platform as well as digital banking experience. It also partnered with international financial center Abu Dhabi Global Market to support the UAE’s first fintech digital lab.

Taking home 2019’s Best Islamic Financial Software Provider title however, is a Malaysian homegrown firm which has built a reputable and reliable business over the last 32 years. Maintaining a 100% successful track record in all projects undertaken, Infopro has implemented its technologies in over 91 client sites across 30 countries globally, including in three new markets last year.

More notably, the firm, which prioritizes research and development, has successfully developed, in-house, AI-based algorithms enhancing product intelligence and workflow efficiencies in the areas of anti-money laundering, credit scoring, customer onboarding, visual analytics, customer segmentation, smart mobile banking and customer profiling, among others. Each solution is modular, allowing users flexibility to scale up. Since 1987, Infopro has invested more than RM330 million (US$79.53 million) to develop and enhance its flagship eIBCA System which is being used by both Islamic and conventional financial institutions. To-date, the firm boasts a catalogue of over 50 product modules catered to financial institutions of any size and growth stage.

As with many tech firms, Infopro faced the challenge of recruiting the right talent to develop its AI banking solutions. This was circumvented by it initiating and executing a joint collaboration with researchers from Malaysia’s Multimedia University, where the dean of faculty of computing and informatics led Infopro’s team of data scientists in building various AI models over 12 months. The outcome, an AI-driven digital banking product equipped with AI analytics and robo-advisory, was launched in the presence of Malaysia’s deputy minister of international trade and industry.

This award recognizes the best technology company offering technical solutions for financial services providers such as banking software, trading software and accounting software.

Best Islamic Robo-Advisory Platform

Winner: Wahed Invest (the US)

Maintaining its dominance in the Shariah compliant digital investment management space, Wahed Invest is crowned the Best Islamic Robo-Advisory Platform for the second consecutive year. Since winning the title in 2018, the US firm has continued its phenomenal momentum, growing from strength-to-strength, and is now accessible in over 130 markets. It became the first licensed Islamic digital investment manager in the world in 2019 when the Securities Commission Malaysia awarded it with a Shariah digital investment license. In the same year, Wahed started operations in Bahrain as well; it is now licensed in the US, the UK, Saudi Arabia, Bahrain, Malaysia and Mauritius.

Central Asia, India, Nigeria and Indonesia are among the countries it is looking to foray into in the near future.

In addition to that, the start-up broke new ground in 2019 with the launch of an Islamic exchange-traded fund on NASDAQ, allowing Shariah-conscious investors worldwide access to over 222 Islamic US stocks. The internationalization of affordable value-based Shariah compliant investment options is important in democratizing financial services, especially to the world’s vulnerable population.

This award recognizes the best digital portfolio management system providing algorithm-based and largely automated Islamic financial investment advice and decisions.
Best Social Impact Islamic Fintech Firm

Winner: HelloGold (Malaysia)
Honorable mention: Global Sadaqah (Malaysia)

Global Sadaqah continues its impactful work in the area of Sadaqah and Zakat by leveraging its first mover advantage as a charity crowdfunding platform engaging Islamic banks to maximize social impact. In 2019, RM250,000 (US$60,302.2) was crowdfunded for the benefit of charities and individuals, while over RM120,000 (US$28,945) was raised from its corporate partners such as Alliance Islamic Bank and Kuwait Finance House Malaysia. Widely regarded as a pioneer in Islamic fintech for social good, Global Sadaqah’s contribution to the society and Islamic fintech space is most valuable.

The 2019 winner illustrates that the common good also covers financial inclusion, which contributes to financial independence and autonomy.

Staying true to its goal of financial inclusion, HelloGold, which won the Best Islamic Wealth Management Fintech Company of 2019 award, is recognized for the social impact it generated with its Shariah compliant gold savings platform in 2019.

The platform addresses two UN Sustainable Development Goals (SDGs) – end poverty in all its forms anywhere (SDG 1) as the eradication of poverty is near impossible without fair access to sound savings, and reduce inequality within and among countries (SDG 10) as the most vulnerable of society are often those with the worst access to financial services.

HelloGold’s mobile platform, which enables users to purchase gold for as low as 25 US cents, removes barriers – financial and physical – for the underserved to be included in the financial system. This is proven by the fact that an overwhelming majority (70%) of its 140,000 (approximately) users are first-time gold investors. Over US$675,000-worth of gold were transacted by women on the HelloGold app, out of which 81% were from the low to moderate income bracket, earning less than US$1,200 a month.

The social impact delivered by HelloGold has been recognized internationally as it was one of a few globally selected to present at the UN Secretary General’s Task Force on Digital Finance of the Sustainable Development Goals during the 74th UN General Assembly in New York. It was also selected to participate in the UN Capital Development Fund Innovation Lab as well as Dubai International Financial Center’s Fintech Hive program.

This award recognizes the most innovative use of Islamic fintech to deliver social good.

Most Promising Islamic Fintech Start-up of the Year

Winner: Manzil (Canada)
Honorable mentions: Challenger Pay (Australia), Nester (the UK)

What is notable (and encouraging) about the nominees for Most Promising Islamic Fintech Start-up of the Year is the visibility of start-ups from non-Muslim-majority markets such as the UK, Canada, Australia and Singapore.

The different fintech verticals are also well-represented, with nominees operating in the areas of alternative finance, payment, investment, banking, peer-to-peer and crowdfunding as well as data and analytics. From the pool of promising start-ups, a couple stood out for their ingenuity, potential impact and strides made in coming to market.

In the UK, Nester is among the outstanding select few. The young start-up has laid the groundwork to become the UK’s first Islamic peer-to-peer financing platform. By becoming a digital platform facilitating real estate-backed Islamic financing, Nester would expand the limited universe of Shariah compliant retail finance instruments and therefore empower both Muslim and non-Muslim consumers alike with alternative value-based financing options. Led by Islamic finance veterans, Nester’s business model and vision have been well-received by Shariah scholars, and work is underway for an official Fatwa. Supported by the Financial Conduct Authority (FCA)’s Innovate Hub, Nester has applied for FCA authorization and is expected to deploy the platform before the second quarter of 2020.

“Our vision is to create an ecosystem that is empowering for all, not just for a certain community. Nester is presented agnostically with the vision to impact all communities. It is an ecosystem that shall organically grow and service the changing needs of its members, with knowledge-sharing and transparency as core value. Nester’s product therefore is far beyond the financing arrangements, which in themselves are innovative, but rather encompasses the ecosystem being developed by Nester in-house,” the start-up elaborated.

Another start-up worthy to highlight is Challenger Pay. Incorporated in Australia and Cayman Islands, the payment service provider will commence operations in Abu Dhabi Global Market in the first quarter of 2020. The plan is to enter five regions by 2021 (the UAE, Australia, Egypt, Saudi Arabia, Malaysia, Pakistan and Indonesia) reaching a population in excess of 762 million.

Using a fintech-as-a-service approach, Challenger Pay is a platform providing the payment rails and infrastructure that
enable business-to-customer and business-to-business recurring payments and bills. The solution allows a Payert to have a holistic view and manage all their financial accounts under one smart finance aggregation app. The goal is to make it simple, smart and secure to accept and reconcile recurring payments online while delivering a seamless, innovative payment experience for the customer.

“Challenger Pay’s objective is to disrupt the way payments are made and collected for recurring payments, with emphasis on opportunities in developing economies. Areas of future development include products to help businesses boost cash flow via ‘instant settlement’, and smarter payment features to increase transaction success rates. The latter could include using open banking to check if funds are available before trying to process a direct debit, or to automatically set the most appropriate payment date,” explained the start-up.

After great deliberation, the Most Promising Islamic Fintech Start-up of the Year 2019 goes to Canada’s Manzil.

Operating in a largely underserved market, the emergence of an alternative finance provider is significant as Manzil could meet the pressing need of Muslims and non-Muslims alike for Shariah compliant, ethical, usury-free financial products. Set to double over the next decade, Canadian Muslims – currently at 1.3 million – are the fastest-growing demographic in the country, creating a US$50 billion market opportunity for Islamic financial service providers.

Opened to all Canadians irrespective of religious background and ethnicities, Manzil commenced operations with its first product, a Halal mortgage product, which is certified by AAOIFI. The zero-interest mortgage structure also complies with the Bank Act of Canada, Mortgage Act of Canada and Disclosure of Interest (banks) Regulations.

Manzil’s mortgage structure is asset-backed and based on a credit sale model and a shared risk system resulting in a fairer transaction, as opposed to lending with interest and compound interest. It introduced the very first non-conditional mortgage system where, during the entire mortgage period, the client is the official owner of the property.

The AI-enabled back-end technology interface allows clients to onboard themselves easily and receive approval for funding within days.

A passionate advocate for Islamic finance, CEO Mohamad Sawaf’s vision of serving an untapped market and making Toronto an Islamic finance hub has won many over. In a span of six months, Manzil garnered demand and raised over CA$250 million (US$188.42 million) in required mortgage funds, growing at a rate of CA$3 million (US$2.26 million) per week. It was accepted into the Holt Fintech AI Accelerator and in November 2019, it listed its mortgage fund on the NEO Connect exchange.

“Manzil’s vision is to make Toronto a hub for the Islamic finance industry in Canada and North America. It has aggressive, ambitious plans to introduce Islamic finance to Canada and the US and is doing so by branching out into a subset of finance and thus creating a new industry altogether,” the start-up said.

Now in Toronto, Manzil will expand into French-speaking Canada and the provinces of Quebec and Alberta this year, with an eye on crossing into the US in 2021. The plan is to expand its product offerings to include a wide range of financing, investment and Takaful products. There are also plans to establish a charitable entity through which a Waqf fund will be set up.

Based on the momentum gathered thus far, backed by strong leadership and vision and its ambitious plans for the future, Manzil is the Most Promising Islamic Fintech Start-up of the Year 2019.

This award recognizes a fintech start-up that may not have a minimum viable product yet but whose idea demonstrates ingenuity, an ability to deliver sustainable impact to the community-Islamic financial sector, and viability.

Islamic Fintech Company of the Year

Winner: Wahed Invest (the US)

The winner of 2019’s Islamic Fintech Company of the Year award needs no introduction. A pioneer with humble beginnings, Wahed Invest has grown to become a global force to be reckoned with. Now officially regulated in six different jurisdictions and accessible in over 130 markets, the robo-advisor shows no sign of slowing down.

Exploring different asset classes and having expanded its remit last year with the launch of an Islamic ETF – the only one listed on NASDAQ, Wahed demonstrates its ability to manage both modern and traditional investment activities. As an early starter in the Islamic robo-advisory space, Wahed has been working closely with regulators in different countries to shape regulatory framework for digital investment management. While global in ambitions, the start-up manages to localize its messaging in the markets it operates in, which is key to its phenomenal expansion, geographically as well as customer-wise.

Its business model, growth story, compelling vision and work ethics have won investor confidence: on the retail front, its customer base has expanded tens of thousands, and on the institutional front, it has secured funding from Dubai’s Cultiv8, a technology fund owned by Mohammed Bin Rashid Fund for SMEs, bringing the value of venture investments received to US$20 million.

This award honors an Islamic fintech company for its outstanding overall performance in product innovation, market reach and delivery of significant impact on society.