

MDEC Islamic Fintech Report

Featuring proceedings from MDEC Islamic Fintech Dialogue

FOREWORD

Driving Forward the Islamic Digital Economy in 2020



Surina Shukri
CEO
Malaysia Digital Economy Corporation (MDEC)

Dear readers,

It is with great pleasure that I present to you the MDEC Islamic Fintech Report, featuring the proceedings of the inaugural MDEC Islamic Fintech Dialogue. A collaborative endeavour with stakeholders of the Islamic fintech ecosystem, this report deep dives into the fast-accelerating industry and provides a snapshot at what it has to offer.

Within are the latest facts on the opportunities Malaysia has to offer in the Shariah fintech sector. This also includes the challenges it faces. More importantly, it highlights suggestions from the community. Among them are major pointers on how to best address marketplace gaps and other key recommendations that can drive the Islamic fintech agenda forward.

As is, the Fourth Industrial Revolution dramatically altered the way we live and do business. The finance industry and world economies, both not being fully insulated from this revolution, will need to transform themselves further and be ready to fully embrace automation, digitalization, and engaging new technologies.

With the new decade just starting, the door to seemingly limitless opportunities have swung wide open. While there are plenty of opportunities, there are also a host of new challenges.

This is not lost on us as a nation: the government has identified the digital economy and Islamic finance as key catalysts in its Shared Prosperity Vision. With those two pillars, Malaysia will continue its push to become the Heart of Digital ASEAN and the instrumental driver for various advancements within Industrial 4.0.

Since it is widely recognized as a benchmark of excellence in Islamic finance by the international community, Malaysia has all the makings to lead the Islamic fintech agenda. Its robust regulatory environment, well-established Islamic financial community, increasingly influential and affluential population, unshakeable government commitment to Shariah finance, and foresight as well as willingness to adapt, lay the foundation for a fertile Islamic fintech sector.

Indeed, MDEC is ready to support this agenda. For over two decades, we've been committed to championing Malaysia's digital economy. As we continue to remain resolute and laser-focused, we are prepared to facilitate the nation's positioning in the global Islamic fintech arena. Backed by our digital economy leadership, proven track record, and industry credibility, Malaysia is poised to lead and collaborate with industry stakeholders in establishing a thriving and sustainable Islamic fintech ecosystem. The end-goal: to make it a critical part of the larger digital economy. *#LetsBuildTogether!*

EXECUTIVE SUMMARY

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 rakyat unity, the Tun Mahathir administration 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

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The purpose of this report is to share the recommendations and perspectives of the industry on how Malaysia could effectively champion the Islamic fintech agenda. These recommendations represent insights gathered at the inaugural MDEC Islamic Fintech Dialogue, organized by the Malaysia Digital Economy Corporation (MDEC), which welcomed regulators as well as industry stakeholders across different sectors with direct interest in the Islamic finance space.

MDEC ISLAMIC FINTECH DIALOGUE

To identify Malaysia's unique Islamic fintech proposition, potential challenges and gaps as well as recommendation, MDEC in collaboration with REDmoney Group – the publisher of Islamic Finance *news* – hosted a high-level closed-door industry dialogue with senior industry leaders, representing a cross-section of the Islamic finance industry including Islamic banking, Takaful, fintech, venture capital, Shariah advisory, academia as well as regulators, on the 19th November 2019 in Kuala Lumpur.

Participants



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Shahzad Sultan
Head, LumenLab Malaysia



Syakir Hashim
Regional Head (APAC), Wahed Inc



Umar Munshi
Co-Founder, Ethis Ventures



Zahrain Zulkifli
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Vineeta Tan
Managing Editor, REDmoney Group (Moderator)

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



SOFT LANDING 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 the potentiality for Malaysia to lead Shariah compliance for fintech agenda

Challenges

- Venture capital environment in Malaysia is not mature enough to meet funding needs of Islamic fintech start-ups
- Lack of participation from private sector to invest in fintech
- Absence of high-level direction on Islamic fintech agenda
- Scarce local tech talent pool
- Local start-up ecosystem not attractive enough to tech entrepreneurs and talents as compared with Singapore with regards to remuneration
- Lack of structured cohesive and comprehensive communication to global community about Malaysian technology start-up ecosystem
- 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

RECOMMENDATIONS

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 of 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

INTRODUCTION

Global Islamic Fintech Landscape

A relatively new and niche sector of the overall fintech industry, Islamic fintech has gradually gained prominence in recent years. Globally, a total of 138 companies offering Islamic fintech services have been identified by the IFN Islamic Fintech Landscape across 11 verticals as at the end of December 2019.

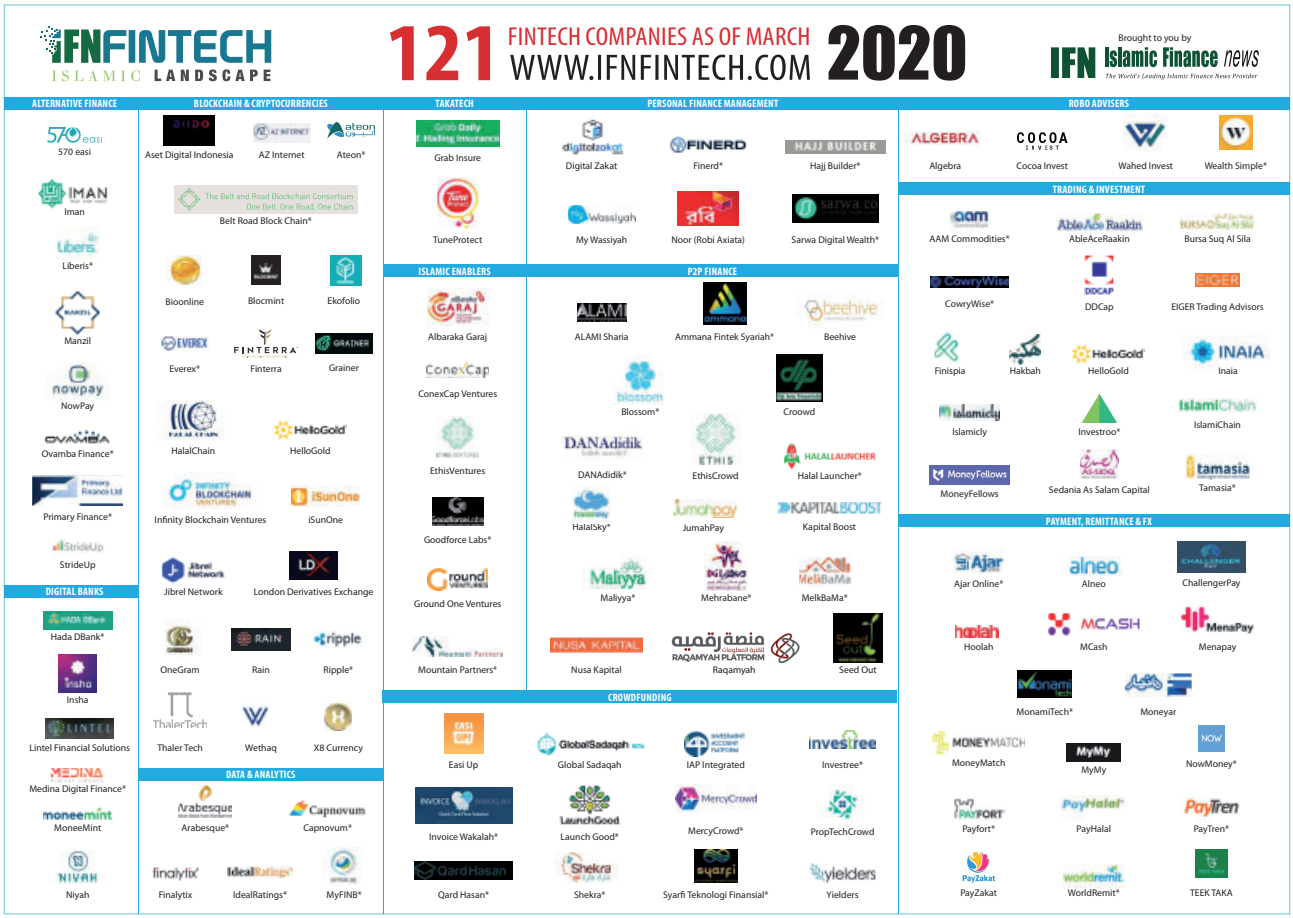
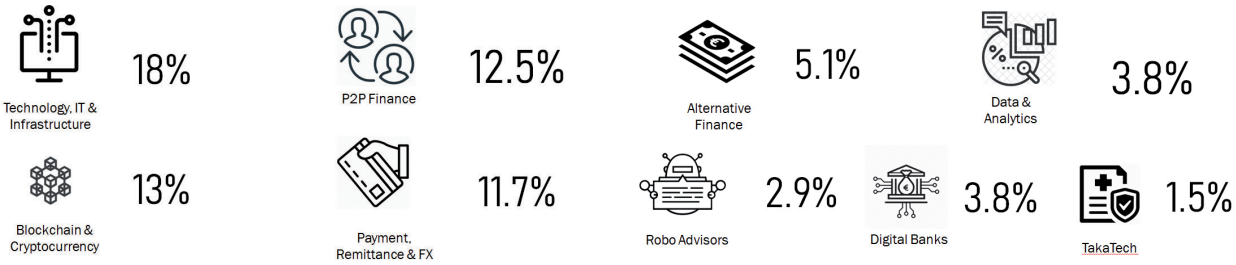
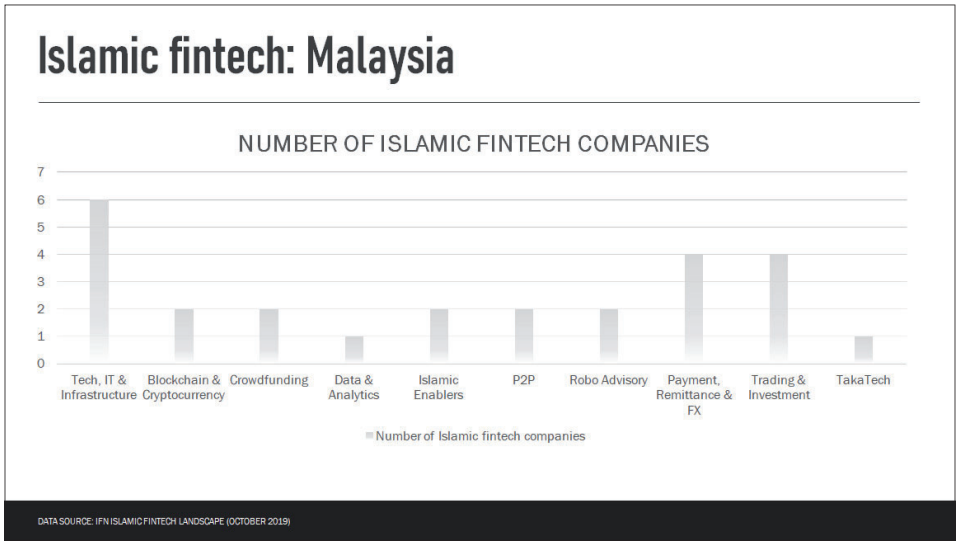


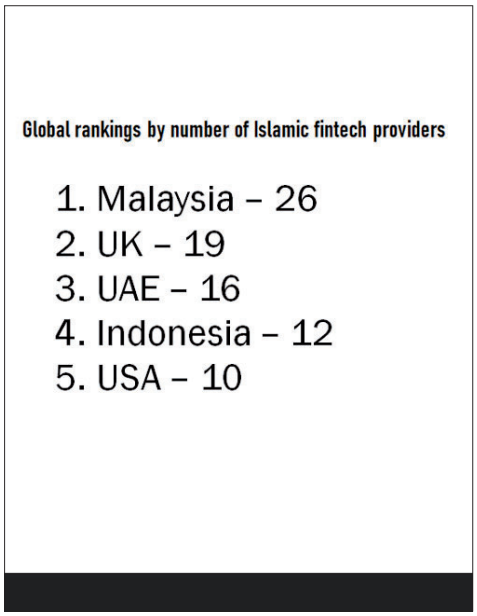
Diagram 1: Islamic fintech by vertical

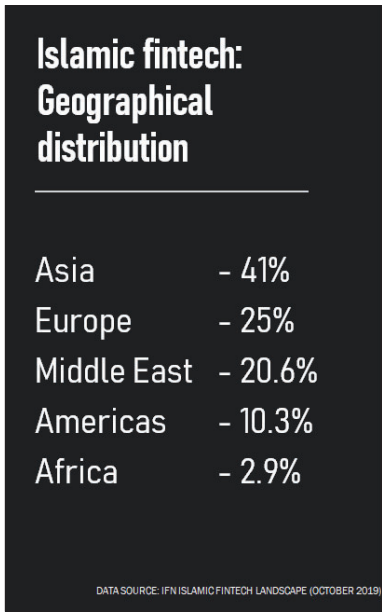


Malaysia is the largest Islamic fintech market by number of Islamic fintech services providers at 26; however, it must be noted that out of this 26, almost a quarter are represented by Islamic banking software providers or back-end technology utilized by traditional financial institutions, rather than "disruptive" financial technologies.

Diagram 2: Islamic fintech service providers in Malaysia







While the numbers are painting a bright picture for Malaysia as a global lead for Islamic fintech, Shariah technopreneurs have noted that other jurisdictions are more successful in attracting new Islamic fintech start-ups due to several factors: more welcoming regulatory environment, active engagement by regulators and government agencies to anchor operations in their respective markets, the availability of funding, ease and support in setting up operations.

This feedback illustrates certain gaps that the country needs to bridge and overcome in order to be able to serve as a conducive regional/global Islamic fintech hub.

The recommendations are based on findings from a high-level engagement with industry stakeholders during the MDEC Islamic Fintech Dialogue.

RECOMMENDATIONS

1 To establish a united body at a national level to champion Islamic fintech agenda

> *"We need a direction. At the moment, there is no clarity in what the country's Islamic fintech vision is nor is there a clear champion for Islamic fintech – who is driving Islamic fintech in Malaysia?"*
>
> ***Umar Munshi, Co-Founder, Ethis Venture***

Why?

Learning from Malaysia's Islamic finance success, the country's fledgling Islamic fintech industry would benefit from the top-down approach it adopted when developing the Shariah finance sector. A dedicated committee comprising of key stakeholders would be an efficient approach to galvanize the best of resources to formulate as well as execute a cohesive Islamic fintech strategy toward common goals or targets for the industry.

How?

- Park Islamic fintech mandate under Special Committee of Islamic Finance (JKKI)
- Set up a national Islamic fintech committee or working group comprising leading market practitioners as enabling bodies including but not limited to:
  - Formulating a national Islamic fintech strategy
  - Designing an Islamic fintech framework
  - Executing and monitoring progress of strategic plans
  - Acting as point of reference for industry, investors, market for anything Islamic fintech-related

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

"As a start-up, we need to prove that we can get traction as soon as possible. Singapore is a country of five million, half of which are foreigners, and only about 400,000 are Muslims and half of whom are children and senior citizens – the market is therefore limited. In the first two weeks we've launched in Malaysia, we've already had a few thousand registered users – these kinds of numbers we can only get in Malaysia. People go to Singapore because of the availability of money but it didn't work for us because venture capital firms do not understand Islamic finance and we will not get the same regulatory support from Monetary Authority of Singapore as we did from the Securities Commission Malaysia as there is no Islamic finance push in Singapore."

Syakir Hashim, Regional Head (APAC), Wahed Inc

Why?

As a world-leading Islamic finance jurisdiction with favorable demographics: largest Muslim population in ASEAN after Indonesia, third-most affluent nation in the region, and a digitally-savvy country with high mobile social media penetration (fifth in the world, first in Southeast Asia) , Malaysia is an ideal market for foreign and local Islamic fintech start-ups to base their regional operations in. Its 32 million-strong population, of which over 60% of which are Muslims, provide start-ups with a sizeable market to test and launch their products/services, and more importantly, gain initial traction allowing it to scale-up to larger markets i.e. Indonesia. As compared to international fintech center Singapore, Malaysia has the advantage of market size by population and higher understanding and acceptance of Islamic financial instruments as well as a more robust and supportive regulatory environment. Malaysia is also a more cost-effective market to run a business.

As compared to market giant Indonesia, Malaysia boasts a more open and conducive environment for business: it ranked 12th World Bank's Ease of Doing Business 2020 report, far superior than Indonesia which remained at 73rd out of 190 economies. It therefore has the potential to be a soft landing for Islamic fintech start-ups with expansion ambitions to gain initial traction at low acquisition costs.

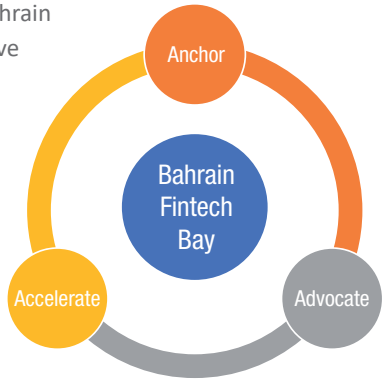
How?

By establishing an Islamic fintech cluster – potentially MDEC's Orbit – which will not only provide start-ups with a physical ecosystem but also access to a selection of multinationals, financial institutions and regulators through specially curated and moderated programs i.e. acceleration and incubation.

Taking a leaf from the books of Bahrain and Dubai, the dedicated Islamic fintech cluster or hub of Malaysia should proactively engage Islamic fintech start-ups from around the world to set up shop in Kuala Lumpur through these acceleration/ incubation programs. The hub will also provide advisory services and encouragement to conventional fintech start-ups to provide Shariah compliant financial services. These could be facilitated by a dedicated Islamic fintech team, which would also serve as a conduit for start-ups to regulators.

Case Study: Bahrain Fintech Bay – Incumbent-driven holistic ecosystem for all

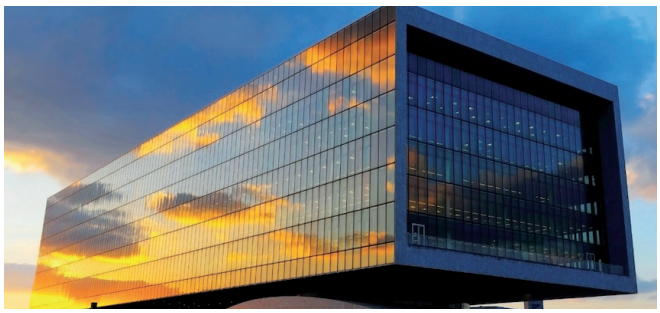
Established in 2018, Bahrain Fintech Bay (BFB), a private-public partnership between Bahrain Economic Development Board and Singapore's Fintech Consortium, is Manama's initiative to serve the fintech community of the Middle East and North Africa region. The 10,000 square feet real estate asset positions itself as a versatile launchpad centered around three main pillars: Anchor, Accelerate and Advocate.



What is admirable about BFB is the unparalleled support it receives from the Islamic banking community: it boasts eight of the largest Islamic banks in the Kingdom as partners. The fintech hub's approach is to develop a welcoming fintech ecosystem, for both conventional and Islamic fintech, without favoring the other.

ANCHOR: BFB offers a dedicated fintech co-working space, with the state-of-the-art meeting rooms, innovation labs, curated activities and educational opportunities.

ACCELERATE: BFB houses a corporate incubation program and venture accelerator. Through the corporate incubation program, it aims to empower positive disruptors in the financial system, building expertise by developing strong research capabilities and collaborating with its stakeholders in strategic areas. By centralizing efforts, it will realize significant synergies and expand the breadth of innovations. Through its venture acceleration platform, it provides access to its network of network of like-minded industry players, exposing the start-up's fintech solutions to the untapped region.



ADVOCATE: BFB supports and organizes fintech-related events, including Islamic fintech events. It also provides fintech advisory services for companies to build their business plan, assist companies to set up innovation labs and help accelerate growth for companies looking to expand in different regions. Companies can also partner up with BFB for research projects and joint publications in fintech.

Case Study: DIFC FinTech Hive – Boosting Islamic fintech focus

DIFC FinTech Hive, located in the Dubai International Financial Center, gives fintechs, insurtechs, regtechs, and Islamic fintechs access to accelerator programs, mentorship from leading financial institutions and insurance partners, a dedicated space to work, and a community of like-minded individuals.

To attract Islamic fintech start-ups to its shores, the accelerator program has aligned itself with the Dubai Islamic Economy Development Center and onboarded Islamic financial institutions as partners including some of the largest Islamic banks in the UAE as well as Takaful operators. Since 2017, the DIFC FinTech Hive has managed to attract local and foreign Islamic fintech start-ups including Malaysia's Shariah compliant gold digital savings platform HelloGold, Saudi Arabia's Hakbah which specializes in cooperative savings, Kazakhstan's Islamic peer-to-peer financing platform Maliyya, among others.

"Dubai and Bahrain are incredibly aggressive, and they will make things happen for you. We've been courted by both Dubai and Bahrain to set up operations in those markets and they were incredibly helpful."

Robin Lee, CEO, HelloGold



3 Malaysia to carve an Islamic fintech niche: Shariah fintech for financial inclusion and sustainability

Why?

Financial inclusion is crucial to the inclusive economic growth agenda the country is pursuing. It is a key theme of the SPV2030, with regulators and market practitioners fully onboard with the national ambition. Technology has been identified by the government and regulators as a catalyst for financial inclusion and as Bank Negara Malaysia has successfully pioneered the Islamic banks-enabled Value-Based Intermediation (VBI) proposition, the country has an opportunity to lead the way in inclusive fintech leveraging on a Shariah proposition.

How?

- Encourage or require solutions to be aligned with the UN Sustainable Development Goals (SDGs) as a criterion for government/regulator-led fintech incubation/acceleration/support programs. Using the SDGs would provide a clear objective and direction for solutions providers, and would align innovation efforts of fintech solutions providers, users and regulators as the SDGs are universally understood, accepted and adopted.
- Embark on digitalization of Zakat, Sadaqah, Baitul Mal and Islamic social finance services providers e.g. making such services available through mobile apps
- Encourage the establishment of Islamic fintech-enabled Sadaqah/Zakat/Waqf initiatives targeted at B40 and M40

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

Why?

Malaysia has the unique advantage of being home to a vibrant Islamic financial industry across all segments including banking, insurance, non-banking finance and asset management as well as Islamic NGOs leveraging Islamic financial instruments. The key to an effective fintech ecosystem is a collaborative environment comprising traditional incumbents and "disruptive" fintech players.

"Micro, small and medium start-ups also need to be heard and be on the table. They have different requirements – many of them are intimidated to go to the banks and can't speak English. Incumbent alternative institutions such as Zakat, Sadaqah and Baitul Mal bodies also need to be part of the discussion as they are the conduit to SMEs."

Mohammad Ridzuan Abdul Aziz, President, Fintech Association of Malaysia

How?

- Leverage on Islamic social finance instruments as well as small and micro start-ups
- Include Islamic cooperatives, Islamic asset managers including Tabung Haji and Permodalan Nasional, Zakat and Waqf bodies in Islamic fintech strategy, dialogues and ecosystem
- Orientate communication and engagement into Bahasa Malaysia medium in order to involve micro and small start-ups into ecosystem

CASE STUDY: Indonesia's national Islamic economy strategy prioritizes Islamic fintech initiatives in Zakat and cooperative sectors

Determined to break itself out of the '5% trap', a term market practitioners have used to describe Indonesia's years-long inability to grow its Shariah banking market share beyond the 5% range, President Joko Widodo took it upon himself to set up and lead a dedicated national Islamic finance committee which has identified the Halal digital economy as a strategic pillar of its robust strategy to become a force to be reckoned with in the global Islamic finance sphere.

Indonesia's National Islamic Finance Committee (KNKS) was the brainchild of President Jokowi launched in 2017 with the purpose of positioning the Republic as an international Islamic finance hub, rivaling neighboring Malaysia. Initially focusing solely on the financing sector, KNKS however has widened its outlook to include the entire Halal value chain on the basis that the growth of Shariah finance in the Muslim country of 264 million goes hand-in-hand with the Halal industry. This paradigm shift culminated in the Master Plan for the Indonesian Islamic Economy (MEKSI).

Over a year in the making, the MEKSI was finalized and launched in May 2019, with digital economy enhancement as a key component of the multipronged plan. Although not the first sovereign to champion an Islamic digital economy agenda (Dubai and Malaysia both stake claims to this title), it is however the first to include concrete Islamic fintech measures to advance its Shariah digital economy agenda. There are at least three national-level Islamic fintech initiatives in progress.

Zakat platform

KNKS has conceptualized the Zakat platform as serving three core functions: a Zakat data integration platform to facilitate the development of a comprehensive national policy on religious taxation; to increase the accountability of Zakat institutions; to enable the payment or collection of Zakat through a seamless digital avenue.

It is understood that the committee will collaborate with existing platforms to fulfil the latter two objectives. This means, potentially partnering with the likes of BAZNAS (state Zakat organization) and Registered LAZ (public Zakat organization) to utilize their proprietary or third-party systems.

"On the other hand, many e-commerce and social crowdfunding platforms also have Zakat payment features," explained Dr Sutan Emir Hidayat, the director of financial education and research at KNKS, adding that platform development standardization would be a crucial element of focus for the committee. "With standardization in place, it is expected that data interconnection and good performance reporting can be easily carried out."

Islamic cooperatives platform

The vision for the Islamic cooperatives, or Baitul Maal wa Tamwil (BMT) platform is relatively more ambitious. KNKS intends to develop a centralized system to synchronize and integrate existing BMT core systems.

"The objective of the plan is simply to build a central real data management [system] of every BMT institution nationally, so that [supervision] of this industry could be run optimally," according to Dr Sutan. The government has yet to decide on who will operate this system.

Islamic digital payment system

The driving purpose for this initiative is to enhance digital payment services to Shariah-conscious retail consumers.

While the digital technology infrastructure in the consumer transaction space is developing rapidly in Indonesia, it has mainly be an endeavor of conventional banks and financial institutions, with Islamic banks often left out of the equation and lagging behind their conventional counterparts, according to Dr Sutan.

"Therefore, with this digital payment system, Islamic financial customers can also enjoy the new world of digital payment, and on the other side, we can maintain the market share of Islamic bank assets/funding," he said.

Keeping up with KNKS

These are certainly ambitious measures the KNKS is embarking on and while it remains to be seen if these can be delivered, it is certainly encouraging that there are concerted efforts at a national level to drive fintech for Islamic finance. Indonesia could very well be setting a precedent for its Muslim peers to follow suit.

5 Develop an Islamic fintech guidance to establish parameters of Islamic fintech services as well as define roles of stakeholders and market practitioners

"We need a clear and robust understanding on what we can and cannot do with fintechs. Research and proof of concepts are vital in creating a new culture to support this new economy which is important for nation-building."

Dr Mohd Daud Bakar, Chairman, Amanie Group

Why?

Clarity in roles of incumbents and new entrants in the Islamic fintech ecosystem along with commonly agreed definition of Islamic fintech services would be a fundamental step in establishing an Islamic fintech industry. This would allow market practitioners and potential newcomers to have a clear idea on how to effectively contribute to the ecosystem.

How?

- Establish a working group to design, deliberate, define and document the parameters of the Islamic fintech industry based on market consultation with experts, practitioners and regulators. Could be led by an industry body or government agency such as Fintech Association of Malaysia and/or MDEC.
- MDEC's Mi'yar Guide could be replicated for other components of the ecosystem to serve as a guide for entrepreneurs to navigate the fintech and start-up environment in Malaysia

"We need a structured communication plan to define the Islamic fintech industry, its activities in and outside the regulated space – this would enhance the ease of doing business in the same way it has done for the Islamic banking and finance industry,"

Badlisyah Abdul Ghani, CEO, PayHalal

6 Develop a local talent base and improve the awareness and understanding of Islamic fintech among stakeholders, especially investors and corporates

Why?

Human capital is an integral component of any industry, and the bedrock of success of any enterprise. Currently, there are not enough local talents to fill the tech gap, especially Islamic fintech gap. Often pitted against Singapore, it has been a challenge for Malaysia in attracting the right talent as its neighbor offer a higher standard of living, higher wages and a more mature start-up environment.

How?

- Offer income tax breaks to accredited foreign start-ups/employees to mitigate salary differences between Singapore and Malaysia
- Ease visa application process – leverage on the success of Malaysia Tech Entrepreneur Program
- Imbue entrepreneurism in youth with a strong focus on fintech and Islamic digital economy
- Coordinate with existing academic and higher learning institution to include Islamic fintech module into curriculum
- Design accredited Islamic fintech training program in collaboration with industry practitioners and relevant bodies

CASE STUDY: Bahrain tackling the talent conundrum with tailored on-demand courses and virtual sandbox

As part of the Central Bank of Bahrain (CBB)'s ongoing initiatives toward financial digital transformation in the Kingdom and developments in digital financial services, the CBB established a dedicated Fintech & Innovation Unit to ensure that best services are provided to individual and corporate customers in the financial services sector by encouraging an agile regulatory framework that fosters fintech and innovation.

This follows the CBB's other initiatives, which includes introducing a regulatory sandbox that will allow startups, fintech firms and licensees to provide innovative banking and financial solutions, in addition to the issuance of crowdfunding regulations for both conventional and Shariah compliant services.

CBB's regulatory sandbox is unique in that it is a virtual platform that does not require fintech firms to be physically present in Bahrain to participate. Fintech entrepreneurs, particularly those at early growth stage, often find it difficult to allocate limited resources (financial and human) to test products in new markets. Bahrain's virtual sandbox approach allows the Kingdom to attract international solutions and products (and entrepreneurs, eventually) to its shores as it provides the flexibility of testing products in a monitored and secured digital environment, on the condition that these solutions will be deployed into the Kingdom. Since its launch in 2017, CBB's sandbox has approved 34 entities.

On the other hand, the Bahrain Fintech Bay (BFB) has added another component to its fintech start-up ecosystem by providing training and education courses in digital transformation as it shapes up to be MENA's leading fintech hub for both Islamic and conventional start-ups.

Already housing one of the largest physical spaces for fintech start-ups in the region while providing acceleration and incubation opportunities, BFB has rolled out on-demand courses in digital transformation such as blockchain for business, artificial intelligence, internet of things, cloud infrastructure and cybersecurity. These programs are developed in partnership with Fintech Consortium, a driving force behind BFB, and US-based BetaBlocks.

"We believe that the most relevant education and training in finance today is in the key themes and tools of digital transformation, and that skilled human capital is the essence behind fintech, and innovation across industries generally," shared Maissan Almaskati, the chairman of Fintech Consortium Middle East. "We are excited about our partnership with BetaBlocks which provides insight and experience into digital learning, as well as blockchain solutions for a range of end uses, and look forward to working together to jointly develop this offering in Bahrain and the Middle East region."

7 Design and execute coherent Islamic fintech brand and amplify accordingly

"The focus should be Islamic digital economy and not Islamic fintech. The context should be the roadmap of Islamic digital economy toward realizing the Industrial 4.0 aspiration for Malaysia and Islamic fintech is the main driver for this journey. In order to establish this roadmap, we need to have the ecosystem."

Mazura Mohamed Jamil, Director, AIBIM

Why?

To attract the right talent, resources and opportunities, branding is critical. The right message would distinguish Malaysia from rivaling centers and place it on the global map as an efficient and effective hub for Islamic fintech for start-ups, investors and market players. Recognition, trust and value can be built with the right branding. There is an urgent need to consolidate, coordinate and connect the dots to bring together a holistic ecosystem to the global stage.

How?

- The government (JKKI) or an appointed Islamic fintech body/advocate to draw up branding and marketing strategy in line with national aspiration for Islamic fintech. Regulators and enablers to align and accommodate fintech-related communication plans to include Islamic fintech flavor
- Among specific initiatives that could be taken:
  - ↘ Set up dedicated digital portal for Islamic fintech
  - ↘ Support/organize Islamic fintech events
  - ↘ Use visualization whenever possible
  - ↘ Produce thought leadership materials for international community
- Cut through complexity to connect problems and solutions and use language common to all in all communications
- Constant communication with industry stakeholders:
  - ↘ Regular dialogues to build shared understanding of problems and potential solutions
  - ↘ Ensure participants make a shared commitment and ensure accountability
- Potentially position Islamic fintech as part of wider Islamic digital economy narrative with Islamic fintech as the enabler for Malaysia's Islamic digital economy

CASE STUDY: Creating a holistic Islamic economic system with Shariah compliant digital payment system to drive Halal industry

Indonesia's National Islamic Finance Committee (KNKS), which is expected to introduce a dedicated Islamic fintech strategy this year, has soft launched a Shariah compliant digital payment system as part of its multipronged five-year Islamic economy master plan to become a preferred global hub of the Halal industry.

Developed by government-affiliated Fintek Karya Nusantara in collaboration with state-owned Islamic banks, the Shariah version of LinkAja has been in development over a six-month period, KNKS Director Afdhal Aliasar, who oversees the Shariah economy and Halal industry portfolio, confirmed.

Instead of having conventional banks as part of the payment settlement process, the platform will instead utilize local Islamic banks as settlement banks while merchants will be carefully curated to ensure end-to-end Shariah compliance, explained Afdhal to IFN Fintech, the sister publication of Islamic Finance *news*.

LinkAja, which was officially launched in late May 2019, aims to be the largest digital payment platform in the 264-million strong Republic. Despite being an overwhelmingly Muslim nation — the largest in the world — Shariah compliant economic activities account for less than 9% of Indonesia's US$1 trillion economy, the largest among its ASEAN peers.

To enhance the country's Shariah economic contributions, KNKS introduced the Master Plan for the Indonesian Islamic Economy (MEKSI) in May, identifying Islamic finance and the digital economy as cornerstone of the national strategy. LinkAja Syariah is one of at least three Islamic fintech initiatives in the works which also include digitalizing Zakat payments and establishing a centralized digital platform for Islamic cooperatives.

It is learned that the upcoming Shariah digital payment platform will be integrated with e-commerce platforms which KNKS is in discussions with, to have these platforms carve out a specific segment for Halal products, including Islamic financial investment instruments, according to Afdhal.



8 Encourage private players to be involved in the ecosystem

Why?

For the ecosystem to flourish, private sector participation is equally as important as government support. Incumbents and private sector players need to be involved in the development of the industry. Rather than working in silos, much more could be achieved through collaboration. This is also instrumental in mobilizing funding from the private sector into Islamic fintech initiatives.

How?

- Incentivize and encourage (Islamic) financial institutions to commit dedicated, meaningful resources to their innovation strategies, with achievable milestones
- Encourage B2B collaboration between Islamic banks to conduct research and development and support Islamic fintech ecosystem
- Recognize and reward banks which demonstrate solid track record supporting and advancing the Islamic fintech agenda

CASE STUDY: AlBaraka Garaj — Islamic bank spearheads Islamic fintech venture building

Turkey's AlBaraka Garaj is the world's first start-up acceleration center built within an Islamic bank. The program prepares early stage and growth stage companies to build and scale up their products and solutions through proof-of-concept (POC) testing.

AlBaraka Garaj focuses on promising start-ups in the area of Islamic fintech, internet of things, big data, blockchain, artificial intelligence and insurance. As an Islamic bank, it is not surprising that the program prioritizes Islamic fintech solutions, making the exception for Islamic fintech start-ups from requiring a minimum viable product to be part of the program. AlBaraka Garaj graduated its first cohort comprising nine start-ups selected from 455 applicants in 2018. Extending a grant of TRY350,000 (US$65,740), seven of these start-ups worked on 17 different POC projects; four successful products were acquired by the bank for TRY1.3 million (US$244,159).

The acceleration program provides Islamic fintech start-ups with holistic support from physical space to mentorship and financing (through its Fintech Investment Fund) as well as the opportunity to have their solutions being acquired by the Islamic bank. This ecosystem creates real opportunities for Shariah fintech start-ups to flourish as it also offers entrepreneurs an opportunity to exit.

CASE STUDY: ALGO Bahrain — Islamic banks collaborate for the future

ALGO Bahrain prides itself as the world's first fintech consortium of Islamic banking services providers. At the end of 2017, Al Baraka Banking Group, Kuwait Finance House and Bahrain Development Bank joined forces to pool resources into research and development of Islamic fintech solutions. The goal is to launch 15 fintech platforms by 2022.

Adnan Ahmed Yousif, the president and CEO of Al Baraka Banking Group said: "ALGO Bahrain is a strategic initiative to position Islamic banks for the forthcoming paradigm shift in the banking industry as a consequence of recent financial technology innovations. Inaction is not an option."

Abdulhakeem Alkhayyat, managing director and CEO of KFH Bahrain, commented: "We have set an ambitious agenda for ourselves... The combined strength of our market access, customer base and financial resources will make this happen. ALGO Bahrain is about innovation for social impact."

This a rare show of fintech collaboration between Islamic banks is an approach that could and should be replicated in other markets, particularly with Tier-2 Islamic banks which may be facing resource restraints in developing their fintech agenda.

9 Establish an effective mechanism to address regulatory gray areas

"Islamic digital economy 'unicorns' are struggling to expand and grow as there exist uncertainty on the legal and regulatory framework applicable for such business models. Giving clarity by establishing a dedicated regime for such new form of business models will encourage faster growth."

Azleena Idris, Director of Corporate Services, PayNet

Why?

Malaysian regulators are actively engaging the fintech community and providing solid support, however, for start-ups operating in unregulated space such as gold trading, such ambiguous status is not favorable.

How?

- Bank Negara Malaysia and Securities Commission Malaysia to engage relevant bodies to explore potential solutions
- Regulators and authorized bodies to issue Shariah pronouncements and provide clarity on concepts and structures related to fintech-enabled Shariah financial transactions
- Need to establish regulation parity between Labuan Financial Services Authority and onshore regulations to facilitate further growth

10 Utilize existing mechanism or establish new ones to facilitate private investments into Islamic fintech

Why?

The biggest challenge faced by Islamic fintech start-ups is the lack of funding, particularly post-seed round. There is an urgent need to mobilize the fledgling Malaysian private equity/venture capital industry and facilitate funding from the private sector, including retail market into Shariah fintech. This would expand the investment universe and also reduce reliance on government funding.

How?

- Leverage on Islamic investment accounts to channel investments into Islamic fintech start-ups
- Build/modify Investment Account Platform to also support start-ups
- Provide income tax relief for individual investor of Islamic fintech initiatives for any gains received
- Redirect a portion of existing government funds for MSMEs/entrepreneurship such as the National Entrepreneur Group Economic Fund (TEKUN) to Islamic fintech start-ups/initiatives