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**ISLAMIC FINTECH**  
**DIALOGUE SERIES**  
**2020**

**ISLAMIC FINTECH & DIGITAL  
FINANCIAL INCLUSION REPORT**

*Featuring proceedings of Islamic Fintech Dialogue 2020:  
Driving Financial Inclusion through Islamic Fintech*

# Message from the Ministry of Finance

**Mohd Shahar Abdullah**  
Deputy Finance Minister II  
Ministry of Finance Malaysia



In the ASEAN region, the Malaysia-Singapore-Indonesia corridor is a breeding ground for Islamic fintech innovation. Malaysia was ranked first globally with regards to Islamic economy, specifically in the digital sector. We have become a global leader in numerous verticals within the Islamic digital economy, identified as the top Muslim travel destination in the world, the largest Sukuk issuer in the world, the possessor of one of the world's best Halal standards, and a leader in global Islamic finance and banking.

These achievements show that we are on the right track and we need to focus on the right direction so that we yield positive outcomes from the development of the Islamic fintech industry.

We must acknowledge that the competition in the Islamic fintech industry is tough, especially in current global economic conditions. Post COVID-19 is something beyond our knowledge to fully comprehend and anticipate. However, based on the resources, expertise, and experiences that we have, I believe we can endure all the challenges and we need to embrace the tremendous opportunity digital Islamic finance offers and not let this opportunity pass by.

As a world-leading Islamic finance jurisdiction with favorable demographic: largest Muslim population in ASEAN after Indonesia, and a digitally-savvy country with high mobile penetration (fifth in the world, first in Southeast Asia), Malaysia is an ideal market for foreign and local Islamic fintech companies to base their regional operations in. This aspiration is also in line with the government's Shared Prosperity Vision 2030 that has identified the digital economy and Islamic finance as key catalysts.

Digital financial inclusion is defined as the availability and equality of opportunities to access financial services through digital means. Aligned with its Islamic and inclusive fintech agenda, Malaysia should also lead the way in championing the digital financial inclusion agenda infused with a Shariah compliant proposition.

However, in order to make this happen, it will depend on the collaborative efforts of the financial regulators, the delivery system, the industry players, and the supporting professionals. The appropriate systems and governance framework are imperative to ensure the viability and sustainability of this industry.

I would like to commend Malaysia Digital Economic Corporation (MDEC) for successfully convening the Islamic Fintech Dialogue and for producing this report which serves as a guide for us to effectively foster greater collaboration to develop the ideal ecosystem to support the development of Islamic fintech in Malaysia. I believe, together we can make it happen.

# Driving financial inclusion through Islamic fintech

Surina Shukri  
Chief Executive Officer  
MDEC



Assalamualaikum dear readers,

While the world addresses the ongoing challenges that COVID-19 has wrought, digital financial services are expanding their reach to serve the financially excluded and underserved populations. Their potential to engage billions of people spanning geographical boundaries and communities with various income levels has certainly been acknowledged.

In fact, millions of excluded and underserved customers, especially among the B40 (bottom 40% of the population) and micro, small, and medium-sized enterprises (MSMEs) segments are now more receptive to advanced technologies that can help them improve their financial management. This includes innovative payment platforms, transfer of funds, savings, credit and insurance-linked services. Even conventional corporate and industry capabilities, such as securities management and digital alternatives that banks and fintech companies currently offer, are being included and offered on a wider scale.

Financial inclusion is now one of the primary factors that will sustain and drive forward the economy. While it provides digital cost savings among the financially excluded and underserved populations, digital financial services also introduce a wide range of solutions that are suited to their needs. More critical is how these fintech solutions will be delivered in a responsible and more cost-effective manner to ensure they are truly affordable to customers and remain sustainable for providers.

With the pandemic still ongoing, businesses, the public sector and the general populace are now aware and understand how important it is to take the digital leap. While much larger businesses and corporates can navigate and pivot quickly to digitalize, most small businesses are still struggling to survive. The Malaysia Digital Economy Corporation (MDEC), in its pursuit to establish and reinforce Malaysia as the 'Heart of Digital ASEAN', is working closely with ecosystem partners to strengthen the nation's digital capabilities to overcome and recover from the current adversity.

The Islamic Fintech Dialogue Series, which gathers fintech ecosystem players to identify and resolve specific issues, challenges and opportunities facing the Malaysian Islamic digital economy, is one such key effort. Held on the 20<sup>th</sup> May 2020, the virtual dialogue focused on the theme of expanding financial inclusion via digital means and how to provide easy access to underserved segments. The goal is to ensure the B40s and MSMEs will be empowered via Islamic fintech. The event was officiated by Deputy Finance Minister II Mohd Shahar Abdullah who delivered the opening remarks for the session. The deputy minister's participation and support was greatly appreciated, and reiterated the commitment of Malaysia through the Ministry of Finance to drive the digital financial inclusion and Islamic fintech agenda.

Several recommendations in this year's report highlight actions that may effectively drive forward financial inclusion via Islamic fintech. Critical points of consideration include leveraging on Islamic social-based finance instruments, encouraging all to embrace digitalization and forming a coordination committee at the national level. More important is the realization and acceptance that achieving these goals will depend significantly on the collaborative efforts of industry players and the fintech community. As Malaysia continues to reinforce and expand its leadership in Islamic finance and fintech, MDEC will continue to galvanize ecosystem partners to shape a wholesome, all-inclusive digital society that can easily access financial services. Let's build together on these ongoing efforts and strive to make shared prosperity in the digital-driven economy a reality for all.

## BACKGROUND

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# ISLAMIC FINTECH

## DIALOGUE SERIES

2020

## Islamic Fintech Dialogue: Driving financial inclusion through Islamic fintech

Senior industry stakeholders through Malaysia's first Islamic fintech dialogue hosted by Malaysia Digital Economy Corporation (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 Shared Prosperity Vision 2030 (SPV2030) which highlights Islamic finance and the digital economy as Key Economic Growth Activities to achieve its national commitment of elevating the country to become a nation of sustainable growth. This constant drive for innovation will also ensure fair and equitable distribution across income groups, ethnicities, regions and supply chain.

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.



# Islamic Fintech Dialogue: Driving financial inclusion through Islamic fintech

Islamic Finance *news* partnered with MDEC to produce this dialogue, which is designed as a high-level industry-driven dialogue with actionable outcomes for the development of the Shariah fintech industry.

This strategic partnership follows a 2019 collaboration — the inaugural dialogue took place last November helped craft 10 recommendations to position Malaysia as a leading Islamic fintech hub. One of the recommendations is to establish an Islamic fintech niche for the country, and industry luminaries believe Shariah fintech for financial inclusion would be Malaysia's unique proposition.

The virtual dialogue took place on the 20<sup>th</sup> May 2020 and focused on 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.

## Participants



**Mohd Shahar Abdullah**  
Deputy Finance Minister II  
Ministry of Finance Malaysia  
(Keynote Speaker)



**Yuzaidi Yusoff**  
Board Member  
MDEC



**Surina Shukri**  
Chief Executive Officer  
MDEC



**Norhizam Kadir**  
Vice President of Fintech and  
Islamic Digital Economy  
MDEC



**Afhdal Aliasar**  
Director of Islamic Economy  
Development & Halal Industry  
National Islamic Finance  
Committee, Indonesia



**Dr Aznan Hasan**  
Shariah Scholar  
Securities Commission  
Malaysia and Wahed Invest



**Jaspreet Singh**  
Regional Technical  
Specialist Asia  
United Nations Capital  
Development Fund



**Mohammad Ridzuan**  
President  
Fintech Association of  
Malaysia



**Noor Farilla Abdullah**  
Chief Strategy Officer  
Bank Islam Malaysia



**Sharifatul Hanizah**  
Executive Director and Head  
of Islamic Capital Market  
Securities Commission  
Malaysia



**Sheyanta Abeykoon**  
Executive Director of Aspirasi  
and Chief Finance Officer  
Axiata Digital



**Umar Munshi**  
Co-Founder  
Ethis Global



**Tunku Danny Nasaifuddin  
Mudzaffar**  
Founder & CEO  
microLEAP

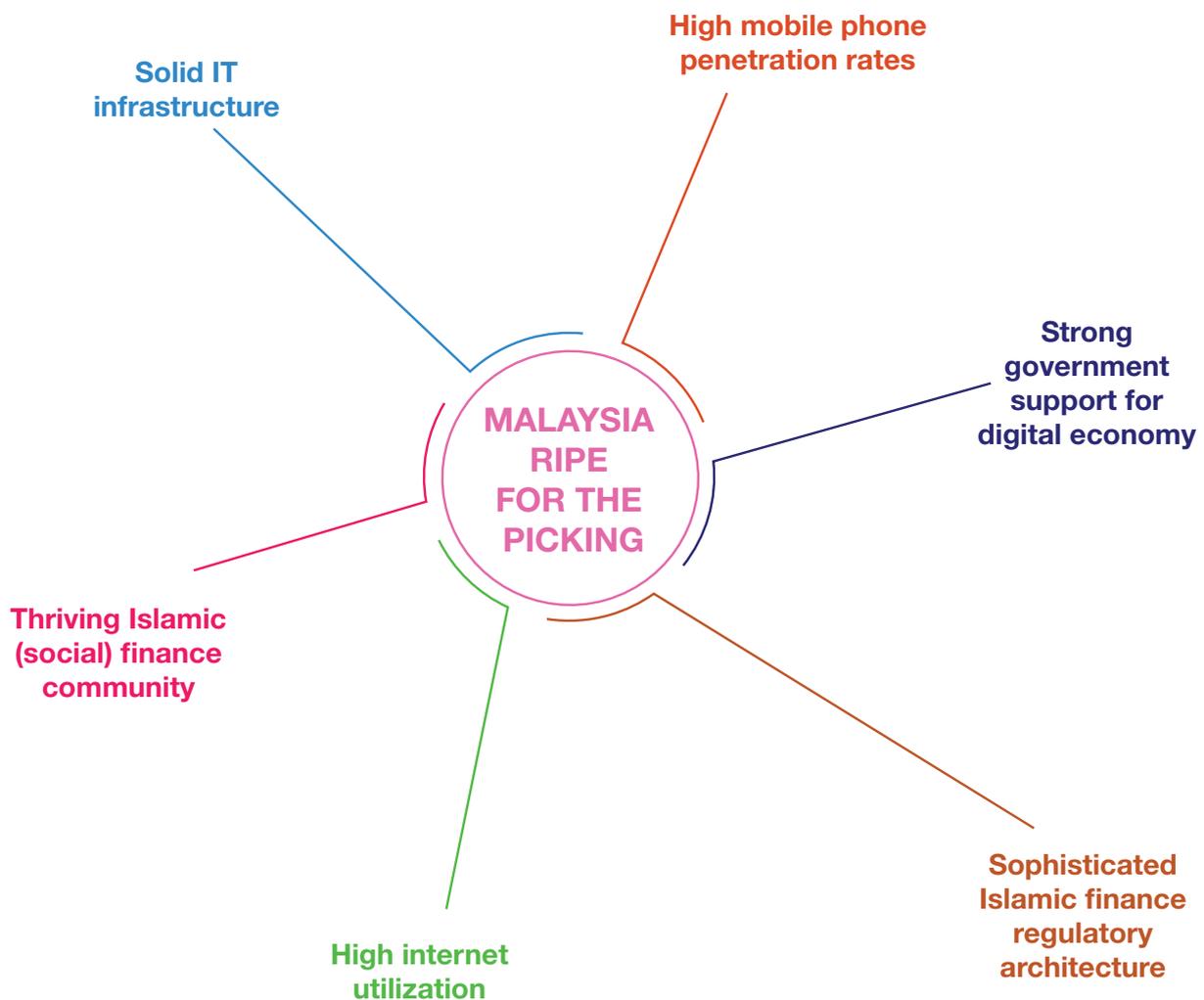


**Vineeta Tan**  
Managing Editor, Islamic  
Finance News (Moderator)

## 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.



With its growing middle class, high mobile phone penetration rates, and strong government support for the digital economy, Malaysia is well situated to take advantage of fintech innovation. From mobile wallets and electronic payments, to crowdfunding and insurtech, Malaysian businesses and consumers appear ready to embrace the technology

*The IMF, February 2020*

The young Southeast Asian economy (where over half the population are between the ages of 15 to 54 years) boasts promising numbers for digital finance including a 144.8% mobile penetration rate <sup>1</sup> and an internet penetration rate of 80% <sup>2</sup>.

Malaysians spend an average of eight hours and five minutes a day on the internet and by January 2019, 75% of the population acquires products or services online with 58% conducting the purchase through mobile device <sup>3</sup>.

The familiarity and preference for mobile/internet-based activities are reflected in the banking and finance habits of the country. Primarily, internet banking has quadrupled over the last 10 years, hitting a 90% usage rate milestone in 2019 <sup>4</sup> while near-universal 4G network coverage, affordable data and undergoing 5G efforts are supporting the boom of mobile banking. It is worth noting that out of 121 economies, Malaysia ranked 32<sup>nd</sup> in the World Economic Forum's 2019 Network Readiness Index <sup>5</sup>, ahead of Italy and China and first among economies in emerging and developing Asia, putting it in a solid position to gain from a digital future.

The country's Islamic finance leadership is globally recognized – it houses a sophisticated legal and regulatory infrastructure and diverse community extending beyond “traditional” financial incumbents to include active Islamic organizations such as Zakat, Hajj and Islamic co-operatives (co-ops). These coupled with existing IT architecture, ideal demographics and digital affinity of the Malaysian people as well as government's firm commitment to develop the digital economy place the country at a competitive advantage to become an ‘Islamic Finance Hub 2.0’ as aspired by the government in SPV2030.

<sup>1</sup> Malaysia Digital Association, 2016

<sup>2</sup> Digital Influence Lab

<sup>3</sup> We are Social, 2019

<sup>4</sup> IMF, 2020

<sup>5</sup> Portulans Institute and World Information Technology and Services Alliance

In line with its Islamic and inclusive fintech agenda, Malaysia should also lead the way in championing the digital financial inclusion agenda infused with a Shariah compliant proposition

*Deputy Minister of Finance II, Mohd Shahrar Abdullah*

## CHALLENGES

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- 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

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- 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 createing 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

## ACTION PLANS

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### **1** *Set up national Islamic fintech taskforce for financial inclusion*

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#### **Why?**

A dedicated agency/taskforce is needed to champion the Islamic fintech agenda to galvanize the sector and provide cohesive direction.

#### **Desired Outcome**

A clear direction and reference point for Islamic fintech at a national level easing execution and providing accountability to ensure success of Islamic fintech.

#### **How?**

- Appoint MDEC as agent of change for Islamic fintech as part of Islamic fintech working group or committee comprising regulators and industry movers
- Responsibilities include:
  - ◆ Formulating Islamic digital financial inclusion framework/agenda
  - ◆ Galvanizing market participation and execute strategy
  - ◆ Monitor progress and impact of strategy
  - ◆ Ensuring continued engagement with industry stakeholders including through quarterly Islamic Fintech Dialogue Series

2

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

**? Why?**

“Collaboration is non-negotiable” – to optimize development, market stakeholders cannot afford to work in silos. At the moment, the operating landscape is fragmented thus creating inefficiencies. Fintech companies note that it is challenging to engage Islamic stakeholders (religious authorities, Zakat and Waqf bodies); despite increased interest for digitalization and digitization, these organizations are being held back by legacy systems, bureaucracy and persisting reluctance and willingness to fully embrace and execute digital strategies.

**✓ Desired Outcome**

A highly engaging, fluid yet structured community where cross-learning and sharing of resources (marketing, technology) can be conducted seamlessly.

**☰ How?**

This can be done either organically, incentivized and/or through a structured common platform where knowledge and resources can be exchanged and jointly leveraged:

- To induce a paradigm shift at management level toward being a digital-first organization, management boards need to understand and appreciate the importance of digitalization. Management must take the first step to implement or work toward a digital strategy.
- The government and/or regulators to provide knowledge support and resources to stakeholders to increase digital literacy of management.
- Collaboration is not limited to the financial and Islamic communities – organizations must be aligned with trusted brands outside their respective ecosystems to leverage their infrastructure and network to assist with market penetration and customer onboarding.
  - ◆ E.g. Financial institutions can benefit from sizeable customer base and reach of telecommunications networks and e-commerce platforms – familiarity of public with household names would ease the onboarding process.
- MDEC is ideal to lead the establishment of a common platform for stakeholders to exchange ideas, cross-learn and share resources to optimize cost structure and product development curve instead of stakeholders working within multiple closed loop ecosystems.

## CASE STUDY

# Indonesia – Enhancing Islamic financial inclusion through digital marketplaces

Indonesia has a clear Islamic fintech action plan under its National Shariah Economy Plan, formulated by the National Islamic Finance and Economy Committee (KNEKS) which is chaired by the Indonesian President Joko Widodo. Unlike its peers, the Republic has approached Islamic fintech-mediated financial inclusion by creating a comprehensive digital marketplace surrounding the country’s major e-commerce platforms.

The Republic uses its 260 million-strong population to pull in start-ups to enter the Halal digital economy and has formed various partnerships with the private sector to develop its Islamic fintech proposition.

Four out of five major e-commerce sites in Indonesia (including fintech unicorn Bukalapak and Tokopedia) have introduced Islamic marketplaces. This allows consumers to purchase Islamic financial products and make Shariah investments, which has resulted in significant participation in the Islamic capital market space by millennials. In fact, in recent years the Islamic investor base in Indonesia has been growing in diversification with greater representation from the youth – Gen Z and millennials – as well as women investors (including housewives).



Source: Afhdal Aliasar, National Islamic Finance Committee, Indonesia

**3**

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

**? Why?**

Islamic social finance tools hold tremendous power in democratizing financial services and supporting the most vulnerable of communities in line with UN Social Development Goals. In Malaysia, bodies such as Zakat institutions, Waqf, Lembaga Tabung Haji, microfinanciers and the co-ops (koperasi) are major actors in this space. Institutions such as these are who the B40s turn to for financing and aid when they are excluded from the traditional banking narrative. Industry feedback indicates strong bureaucratic inertia against digitilization of procceses and operations, hindering optimization and effeciency.

**✓ Desired Outcome**

An inclusive fintech ecosystem comprising Islamic fintech start-ups, corporates non-governmental organizations, Shariah religious authorities and bodies, Islamic financial institutions, and Zakat, Waqf and Sadaqah institutions where engagement is seamless to deliver maximum impact directly to B40s and SMEs.

**☰ How?**

- Senior leadership of these institutions need to change their mindsets-be open and embrace digitalization
- Design and deliver targeted knowledge programs to improve digital literacy
- Include these institutions into discussion forums and the formulation of industry policies

## 4

*Introduce Islamic fintech-specific incentives to attract, retain and grow the community*

**Why?**

Due to unique requirements of Shariah compliant finance – which generally translate to higher costs – Islamic fintech players are not operating on a level playing field. Like Malaysia’s Islamic finance sector which excelled due to a conducive top-down approach, Islamic fintech sector requires additional support and push in the form of incentives to attract more participants and flourish.

**How?**

- The government should roll out Islamic fintech or digital financial inclusion-specific incentives supporting different areas of business to grow local community and attract foreign companies:
  - ◆ Corporate and income tax benefits for fund providers/investors, Islamic fintech start-ups, foreign talent, knowledge workers and start-up founders
  - ◆ Grants for initiatives promoting Islamic fintech or digital financial inclusion
  - ◆ Physical spaces for start-ups
  - ◆ Affordable access to Shariah advisory and certification services

## 5

*Focus on enhancing (Islamic) financial literacy and financial health especially within the B40 segment***Why?**

At the core of financial inclusion, poverty reduction and economic growth is financial literacy. Bank Negara Malaysia (BNM)'s Financial Capability and Inclusion Demand Side Survey 2018 reveals that the current state of the financial literacy of Malaysians has room for improvement. Dialogue participants shared that beyond understanding how to manage one's financial health, it is imperative for the public to also understand Shariah compliant finance and newer digital-enabled financing instruments and financial well-being tools.

**Desired Outcome**

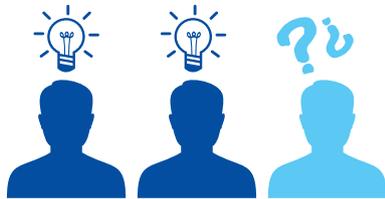
Malaysians of all ages being able to grasp basic Islamic finance concepts and appreciate the uniqueness of Shariah ethical finance.

**How?**

- Ecosystem participants – start-ups, financial institution incumbents, regulators, Islamic bodies – to raise digital and Islamic financial literacy among consumers through targeted campaigns and programs collectively or as part of respective education/marketing/awareness initiatives
- Leverage on National Strategy for Financial Literacy 2019-23 introduced by the Financial Education Network led by BNM and the SC
- Ensure that Islamic finance and digital finance components are part of the measures and priorities outlined in the national strategy
- It is important to be holistic in approach and in measuring success – it is about instilling people with the knowledge and skills to manage their financial health optimally (spend, save, invest). This also means financial markets and businesses cannot be pigeonholing the success of financial inclusion to traditional metrics or key performance indicators, such as financings approved and number of banking accounts, as these do not illustrate one's ability to save, invest nor manage money.
  - ◆ Expand Islamic and digital financial education fundamentals into curriculum for pre-school, primary and secondary schools
  - ◆ Introduce Islamic and digital finance capacity development and support for educators
  - ◆ Make basic Islamic/digital financial education information easily understood, available and accessible to all
  - ◆ Heighten awareness and intensify financial education initiatives through nationwide outreach campaigns

# Current State of Financial Literacy in Malaysia

## Level of Financial Knowledge



- Malaysians have low confidence regarding their own financial knowledge. 1 in 3 Malaysians rate themselves to be of low financial knowledge.



- Low income households tend to have lower financial knowledge.



- 75% of Malaysians understand that inflation means that cost of living is rising, only 38% can relate the effect of inflation on their own purchasing power.



- 43% of Malaysians understand that the growth of money is compounded over time, while 22% believe that money grows on linear basis.

### DEPOSIT PRODUCTS



### INVESTMENT PRODUCTS

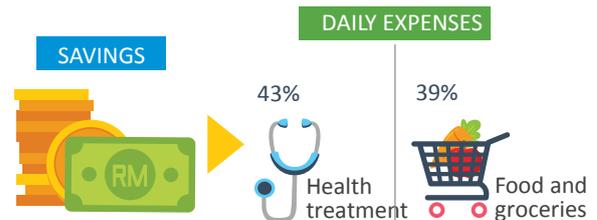


- 92% of Malaysians have deposit products. Less take-up on investment products.

## Saving and Budgeting



- 1 in 10 Malaysians believe that they are not disciplined in managing their finances.



- 84% of Malaysians who claim to save regularly do so only for the immediate term i.e. typically withdrawn at month-end to cover daily subsistence expenses.



- 76% of Malaysians have a budget, but 2 in 5 find it difficult to keep to the budget.



- 1 in 5 Malaysian working adults (MWA) did not save in the previous six months.



- 3 in 10 of MWA need to borrow money to buy essential goods.

Source: Malaysia National Strategy for Financial Inclusion 2019-23

## Readiness for Unexpected Life Events



- 52% of Malaysians have difficulty to raise RM1,000 as emergency funds.



- Only 24% of Malaysians are able to sustain living expenses for at least 3 months or more if they lose their main source of income (10% can sustain for more than 6 months).



- Only 17% of Malaysians have life insurance and takaful cover.

## Planning for Retirement



- 41% of Malaysians rely on their EPF savings as the main source of income for retirement.
- Almost half of Malaysians are not confident of having an adequate stream of income for retirement.
- 16% of Malaysians are very worried about household expenses in their old age.

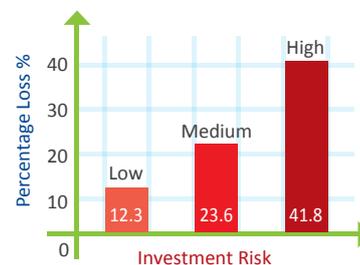
- 68% of active EPF members do not achieve the basic savings recommended according to the age band.
- The recommended minimum amount of basic savings at age 55 is RM240,000 (US\$56,265), which allows a monthly withdrawal of RM1,000 for 20 years post retirement.

- 6 in 10 Malaysian adults are self-employed and outside the labor force and not covered by any formal retirement or pension system.

## Awareness of Risks and Returns



- Investors were found to have unrealistic expectation on the potential annual returns from the investment in capital market products.



- The perception of total loss investors are willing to accept reveals the lack of knowledge on the risk levels of capital market investment.

Footnote: Sources include FCI Survey 2018, AFBES 2018, ACM 2018, EPF Statistics. Basic savings will be revised based on minimum pension rate of public sector, or every three years, whichever comes first.

Source: Malaysia National Strategy for Financial Inclusion 2019-23

## 6

*Islamic financial institutions to take a more proactive role in participating in the ecosystem by availing infrastructure and expertise***Why?**

As a major force of the Malaysian Islamic finance industry, incumbents play an influential role in moving the digital Islamic finance proposition forward. Islamic financial institutions and fintech companies can create symbiotic relationships leveraging each other's strengths.

**Desired Outcome**

Traditional Islamic financial institutions and Islamic fintech start-ups working effectively in a collaborative and supportive manner to achieve SDGs.

**How?**

- Banks, asset managers and insurers must be open to new business models and partnerships with more nimble technology start-ups
- Design new and suitable credit evaluation models for start-ups to allow investment/financing into early-stage companies
- Availing infrastructure to start-ups to experiment and test new solutions (sandbox)
- Incentivize collaboration with start-ups/financial inclusion/Islamic fintech companies

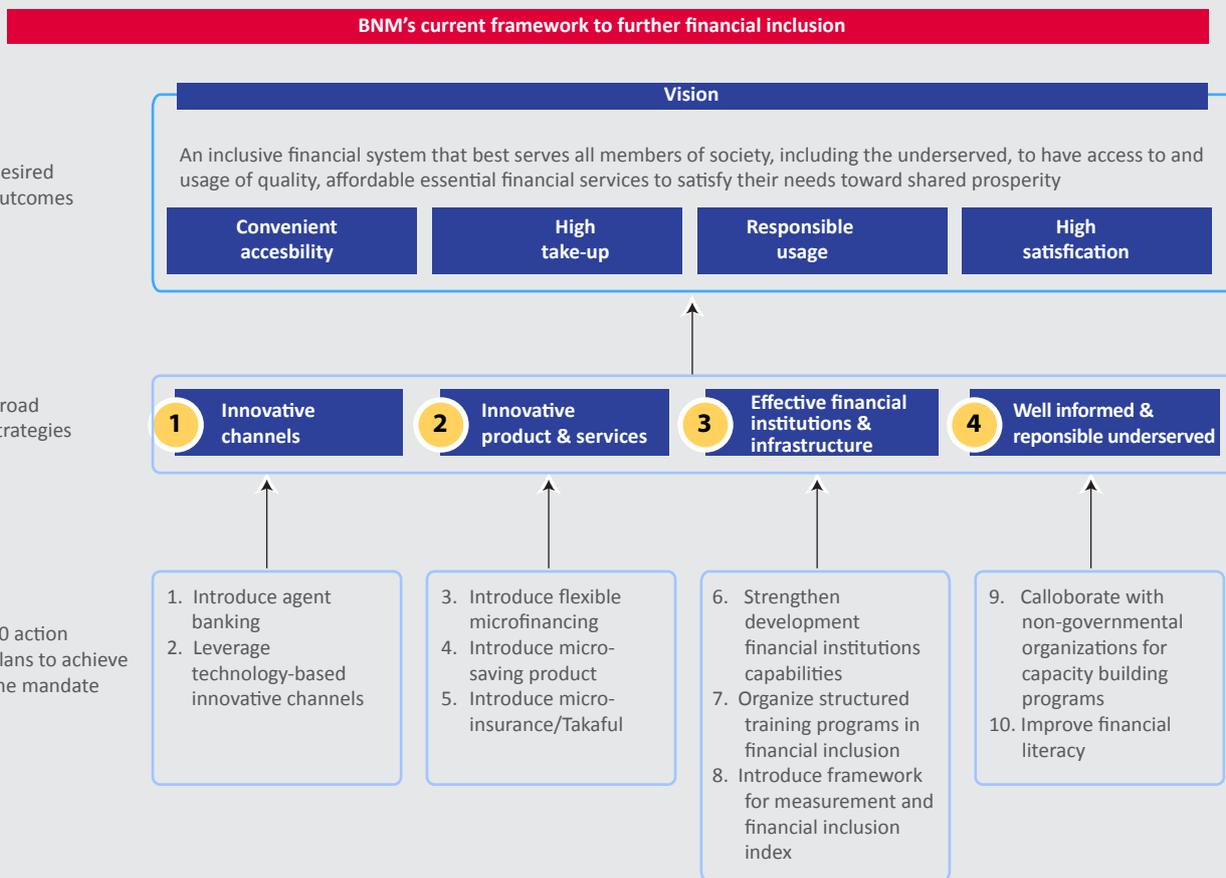
Pursuing the financial inclusion agenda, where all members of society have the opportunity to participate in the formal financial system, will continue to be a key component of Malaysia's inclusive growth strategy. Financial inclusion will enable all citizens, including the low-income and rural residents, to have the opportunity to undertake financial transactions, generate income, accumulate assets and protect themselves financially against unexpected adverse events, thereby enabling them to benefit from economic progress. This will in turn contribute to balanced and sustainable economic growth and development.

*Bank Negara Malaysia, Financial Sector  
Blueprint 2011-20*

# A new strategy: Driving digital financial inclusion through Islamic fintech for greater prosperity

A cohesive and comprehensive national Islamic fintech strategy or framework is an urgent request from the industry.

Pivoting the Islamic fintech narrative toward financial inclusion, this agenda should also be included as part of the country’s Financial Inclusion Framework and be a larger focus in the upcoming Financial Sector Blueprint.



Source: Bank Negara Malaysia

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**7***Develop and digitize hybrid models of Islamic digital social finance*

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**? Why?**

Islamic philanthropic tools such as Waqf, Zakat and Sadaqah can behave bigger than just serving altruistic non-profit-generating causes for the Ummah. With the right model combining financeable and non-financeable concepts, a hybrid model can be engineered to be a sustainable business while delivering impactful good to the society, not unlike social enterprises. Such endeavors can be bolstered through digitization and digitalization.

**✓ Desired Outcome**

Maximizing the potential of Islamic social finance assets to benefit the country in a sustainable and ethical manner with the participation of Islamic philanthropic stakeholders as well as participants from the Islamic finance and fintech sectors.

**☰ How?**

- Develop public-private partnership models for Islamic philanthropy
- Shariah scholars, market practitioners and government must work together to develop and define the concept of 'Islamic social enterprises'

**Islamic Social Enterprises**

- A relatively new concept in Islamic finance/entrepreneurship
- Unlike Islamic philanthropic organizations, Islamic social enterprises operate as for-profit businesses while achieving social justice goals and maintaining Shariah compliance rather than for purely charitable purposes
- Due to the underlying business activities of Waqf, Waqf can be viewed as an Islamic social enterprise

## ISLAMIC SOCIAL ENTERPRISE CASE STUDY

### Baitul Mukarram complex, Bangladesh



- A complex consisting a national mosque and shopping mall built on 8.3 acres Waqf land
- The Waqf administrator generates rental revenues from the shopping complex which are used to maintain the mosque and finance an array of non-mosque operations including an auditorium and a publishing house focusing on Islamic teachings (and a provider of employment)
- A portion of the revenues is channeled to the state-backed Islamic Foundation for social welfare-related initiatives including provision of Qard Hassan loans and medical treatments, literacy programs, vocational training to unemployed youths and supporting the poor as well as orphans

## ISLAMIC SOCIAL ENTERPRISE CASE STUDY

### IsDB Bhaban



- A mixed-used twin tower and convention center constructed under the Islamic Development Bank-Bangladesh Islamic Solidarity Education Wakf (IsDB-BISEW)
- It is a 20-story mixed-use commercial building and a four-story computer shopping complex on a two-acre plot of land donated by the Bangladeshi government. The IsDB financed the entire construction of the complex through a US\$10 million grant and US\$3.2 million financing



Unlike most of IsDB Waqf projects, there was no pre-existing organization before the Waqf project with ongoing activities and the grant component of the project was very large, making the IsDB more of a founder than a financier. In this case, the endowment and educational organization were created simultaneously as a single integrated initiative, which would then develop its own educational programs. Furthermore, the large grant component ensured a minimal repayment burden, meaning that funds were immediately available to support educational activities.”

*The IsDB*

- The idea behind the project is to provide employment and transform the large population into a productive workforce by strengthening their technical capabilities to use existing and emerging technologies, resulting in sustainable economic growth and equality. The IsDB-BISEW uses the revenues to support education and training programs designed to enhance youth employment.

**8**

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



**Why?**

Funding remains a perennial issue for start-ups and Islamic fintech start-ups find it twice as hard to secure funding due to a myriad of factors including lack of Islamic finance awareness and understanding from investors. This prevents Islamic fintech start-ups to grow and scale up to serve the financial inclusion agenda.



**Desired Outcome**

Dedicated funds – either through government or private sector (private equity (PE) and venture capital (VC)) – investing into early-stage and growth-stage Islamic fintech companies



**How?**

- Customized incentives for Islamic fintech PE/VC transactions
- Set up grants/funding schemes for Islamic fintech start-ups
- Repurpose or redirect a portion of existing government funds for MSMEs/technology/ entrepreneurship to Islamic fintech start-ups
- Build/modify Islamic Investment Accounts to support start-ups

## 9

*Develop Islamic fintech talent pool***Why?**

Apart from ease of doing business, the availability of human capital is essential in expanding any industry. It is acknowledged that there is a dearth of local tech talents and with regards to being an attractive destination for foreign human capital for start-ups, Malaysia faces stiff competition from neighboring Singapore which offers a higher standard of living, better wages and a more conducive start-up environment.

**Desired Outcome**

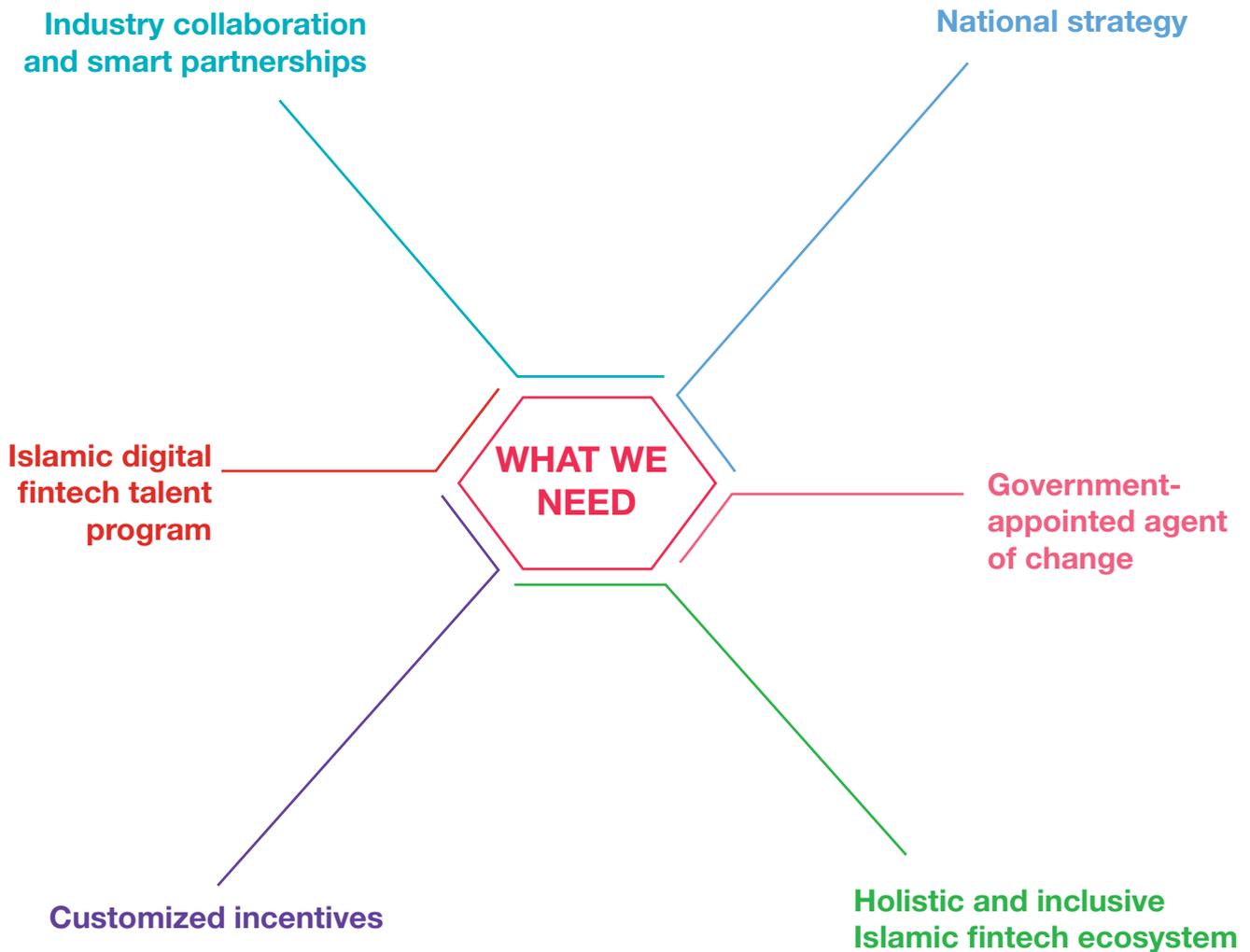
Malaysia developing its own pipeline of competent Islamic fintech professionals and attracting foreign tech entrepreneurs to set up Islamic fintech businesses on shore.

**How?**

- Government agency to set up Islamic fintech talent/entrepreneur program
- Offer income tax breaks to accredited foreign start-ups/employees
- Ease visa application process
- Design accredited Islamic fintech training programs in collaboration with industry practitioners and relevant stakeholders

## CONCLUSION

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A cohesive and comprehensive approach is needed to galvanize and mobilize Islamic fintech-enabled avenues to democratize financial services and enhance the financial health of the Malaysian people. The nascent yet burgeoning fintech community, well-established banking and finance incumbents, instrumental Islamic institutions as well as regulators and the government all play a crucial role in building the ecosystem and delivering financial services in an inclusive and efficient manner. Active engagement and proactiveness from both the industry and regulators/government are essential in this national endeavor.

# ISLAMIC FINTECH & DIGITAL FINANCIAL INCLUSION REPORT

*Featuring proceedings of Islamic Fintech Dialogue 2020:  
Driving Financial Inclusion through Islamic Fintech*

*Report produced by Islamic Finance News for Malaysia Digital Economy Corporation*

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