Suruhanjaya Sekuriti
Securities Commission
Malaysia

WORLD BANK GROUP
Global Knowledge & Research Hub
in Malaysia

ISLAMIC FINANCE

A CATALYST FOR FINANCIAL INCLUSION

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About the Report

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This report benefited from the insightful discussions provided by the speakers and participants of the Conference. (Refer to the Appendices for Conference agenda and list of speakers)

Glossary of Terms

Blockchain	Blockchain technology is based on the concept of a distributed ledger. The distributed ledger is maintained and updated by independent nodes within a network and is secured by cryptography. It provides an ecosystem where the network participants can confirm and create ledger entries without the need for a centralised party or intermediary. The ledger entries are then recorded in 'blocks' and the blocks are 'chained' together in sequence providing an auditable and tamper-proof history.
Fintech	Financial technology or ‘fintech’ is a technology that is used and applied in the financial services sector.
Istisna’	A contract to purchase, for a definite price, something that may be manufactured later according to agreed specifications between the contracting parties.
Sadaqah	Voluntary charity.
Sukuk	Certificates of equal value which, evidence undivided ownership or investment in the assets in accordance with Shariah principles and concepts.
Waqf	Islamic endowment which, is a voluntary and irrevocable endowment of Shariah-compliant assets for Shariah-compliant purposes.
Zakat	A form of the obligatory contribution which, every eligible Muslim pays to the Islamic state whereby it will then distribute the contributions among those classes on behalf of the zakat payers.

Acronyms and Abbreviations

ADB	Asian Development Bank
AI	Artificial Intelligence
BNM	Bank Negara Malaysia
CAGR	Compound Annual Growth Rate
COMCEC	Commercial Cooperation of the Organization of the Islamic Cooperation
DAX	Digital asset exchange
DFI	Development Finance Institutions
ECF	Equity crowdfunding
FIGI	Financial Inclusion Global Initiative
Fintech	Financial Technology
G20	Group of Twenty
GFDR	Global Financial Development Report
GSIA	Global Sustainable Investment Alliance
ICM	Islamic capital market
IFC	International Finance Corporation
IFSB	Islamic Financial Services Board
IFSI	Islamic Financial Services Industry
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial public offering
IsDB	Islamic Development Bank
MDEC	Malaysia Digital Economy Corporation
MENA	Middle East and North Africa
MSMEs	Micro, small and medium enterprises
NBFI	Non-banking financial institutions
NFIS	National Financial Inclusion Strategies
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Cooperation
P2P	Peer-to-peer
PE	Private equity
SC	Securities Commission Malaysia
SDGs	Sustainable Development Goals
SIDREC	Securities Industry Dispute Resolution Centre
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US	United States
VC	Venture capital

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Executive Summary

The Securities Commission Malaysia - World Bank Group - IOSCO Asia Pacific Hub Conference 2019 themed 'Islamic Finance: A Catalyst for Financial Inclusion' discussed and deliberated the role of Islamic finance as an alternative to conventional finance in advancing accessibility of Shariah-compliant financial services to the underserved segments of society. The one-and-half day Conference delved into the current landscape, policies, strategy, ecosystem and the required building blocks. The Conference also highlighted the prevailing challenges to generate ideas to foster a more inclusive financial system. Through several case studies, the demonstration effects in diverse contexts were used to exhibit accomplishments of specific initiatives. This report synthesises the essence of the deliberation and thoughts presented at the Conference.

Deep and prevailing imbalances among populations and businesses to gain access to the provision of financial services in an affordable manner have made the work on enhancing financial inclusion ever more important and urgent. This phenomenon is critically prevalent to develope economies among members of the Organisation of Islamic Cooperation (OIC) where households and business access to financial services tends to be exceedingly low. It is vital to understand the determinants of their exclusion, which prevent them from potentially reaping the opportunity to enhance and improve their quality of life. Cumulating such information will facilitate policymakers and other stakeholders to identify and design the appropriate responses to advance financial inclusion.

In this regard, Islamic finance has the capacity to provide meaningful contribution. Acknowledged for its value-driven principles and strong advocacy on matters of economic and social justice and by reinforcing this with the use of cutting-edge technology, Islamic finance could offer a diverse range of solutions inclusive of non-traditional methods and instruments to serve the underserved segments. Nevertheless, for Islamic finance to make a significant impact, it must strengthen its ecosystem. Being a nascent industry makes the tasks of Islamic finance even more challenging, and this is where greater co-operation between the public sector and private sector together with other stakeholders is critical in order to achieve the desired outcome.

The quest for greater access to financing by the rapidly expanding community of micro, small and medium enterprises (MSMEs) recognised as the engine for job creation and economic growth provide the opportunity for Islamic finance to offer its myriad of financial solutions. Being a core segment of Islamic finance, the Islamic capital market (ICM) through its multitude of platforms offers multiple funding options to help businesses innovate, invest in their workforce, expand markets and grow in the process of fostering entrepreneurial skills. By democratising capital through Islamic market-oriented solutions and providing easy access to financing for MSMEs, Islamic finance creates a financial system ingrained with elements of economic and social justice with less distortion and assistance from the Government.

Alternative funding instruments serve as meaningful avenues to effectively promote capital formation and its mobilisation among the young and help their businesses grow. Supplementing this with the use of technology as part of the MSMEs business processes will further enhance visibility, connectivity, efficiency and scalability. The broader idea of developing an Islamic digital economy should therefore accelerate the progression towards a more inclusive Islamic financial system.

The innovative integration of Islamic redistributive mechanisms, in the form of *zakat, waqf,* and *sadaqah* with markets and technology, is increasingly becoming a significant enabler for Islamic social finance. This further advances the cause to broaden financial inclusion. Often labelled as 'the third sector', Islamic social finance presents itself as a unique and powerful tool to supply social capital to the underserved segments of society and create significant impact to socio-economic development, bring about stability and likewise, spur sustainable practices and outcomes. The application of market-driven mechanics and cutting-edge technology such as blockchain into Islamic social finance should contribute towards building greater trust and transparency and help change community mindset to focus on the broader objectives of Shariah.

The emerging practice in Islamic finance of integrating social solidarity instruments, (i.e. *waqf* financial products) by corporations, modelled as for-profit social enterprise and Islamic financial institutions into their line of products and services are progressively making a positive and sustainable presence on communities. The increased use of these social solidarity instruments are often equated with impact investment and should be complemented by the development of a sound ecosystem that encourages greater institutionalisation, facilitative regulation, strong governance and transparency.

Governments and their agencies, regulators, multilateral institutions and international associations play a vital part in enabling the development an inclusive financial system. This has resulted in each of them having a leadership role in establishing financial inclusion at the forefront of their policy agendas with the hope of achieving the vision of an inclusive financial system which, benefits society as a whole rather than just certain portions. While governments, its agencies and regulators are able to do so by developing national policies with a strong focus on financial inclusion, multilateral institutions and international associations should build institutional capacity to facilitate financial inclusion. In this regard, the role played by each party would complement overall development to reach the goal of an inclusive financial system.

Deployment of fintech in Islamic financial services brings about huge opportunities for disintermediation of previous and new financial services business models to promote financial inclusion. As one of the key enablers to promote accessibility to financial services, fintech offers convenience and flexibility in usage especially to the low-income population in terms of price and physical access. Globally, technology is playing an important role in making that a reality by supporting financial service providers (e.i. start-ups and technology companies with innovation and expansion options).

Other than that, fintech firms are increasingly innovating with new value propositions aimed at making financial services more affordable and accessible to low-income customers and improving customer experience. However, technology start-ups are often perceived as risky, face challenges with funding to grow their business and seldom receive due attention from private capital. Instead, they depend on patient capital from funders such as development institutions, philanthropic organisations or other impact investing communities.

In the present landscape, these new fintech models are not only able to gain recognition from regulators to accommodate their existence, (i.e. via regulatory sandboxes and frameworks), but they also bring many new challenges. These include low levels of awareness, liquidity, cyber security, Shariah uncertainty, operational mismatch, talent development and dispute resolutions. To build a strong and holistic fintech ecosystem requires considerable amount of investments in not only knowledge and capacity but also financial resources. Success factors will depend on support from key regulators and the government in providing exemplary leadership and helping to address major obstacles.

As capital markets calibrate key infrastructure to accommodate financial access for the underserved segment, the consideration for investor protection, empowerment and the process of engagements are even more important and will require practical approaches and solutions. In seeking access to market-driven solutions, both the demand and supply equation of the marketplace would require necessary adjustments, notably significant matters relating to disclosure, due diligence and governance while regulators navigate to find the right balance of maintaining trusts and confidence in the market. In this regard, disclosures and financial literacy are mutually reinforcing agendas and strengthening their respective frameworks, which will be the key consideration for investor empowerment and improved governance.

Similarly, the role of technology in this segment is gaining significance notably in the application of robotic-based services (i.e. robo-advisory, artificial intelligence, machine learning and data analytics) to help these segments of populations make informed financial decisions and provide the platform for information dissemination, knowledge-sharing and interactive communication. On the other hand, technological abuses give rise to cyber-security threats and breaches and continue to be an enduring concern. Increasing the level of awareness and cyber-related education for the underserved should be an integral part of this process.

Understanding the key success factors and building blocks as well as showcasing demonstration effects are among fundamental determinants for the sustainable development of an inclusive financial system. Islamic finance has exhibited profound commitment to this cause. The dynamics for a sustainable financial inclusion rest on the development of sound and supporting infrastructure, new and innovative Islamic financial products and technology-assisted service platforms. Thus far, the learning experience reveals that there is no one-size-fits-all solution. Targeted strategies are deployed to overcome and address specific developmental objectives such as access to MSMEs, young entrepreneurship development programmes and many more. Understanding the unique challenges is therefore paramount and more often than not, customised and humanised solutions are needed. As financial markets globally embrace sustainable development strategies and practices underpinned by financial inclusion as a key enabler, and assisted with advanced technology, regulators will have to navigate to strike an equilibrium between effective regulation and innovation.

In summary, addressing the existing imbalances between the well-to-do and the poor, deprived and underserved is a fundamental mission of human kind. Combating poverty and inequality is a crusade, and granting people and small enterprises the access to financial facilities so that they can greatly improve and bring dignity to their lives and others is elementary. Islamic finance is now part of that solution with economic and social justice as its core tenets. The underlying challenge has always been about developing an inclusive Islamic financial system. This includes developing a system centred around building operational mechanisms that are able to effectively offer and deliver the right solutions to various segments of the population. Putting in place building blocks and creating the appropriate enabling environment would go a long way to meet and address these challenges. This Conference serves as the platform to impart and share the knowledge and experiences of all relevant stakeholders with the objective to promote shared prosperity through Islamic finance for the growth of financial and economic inclusion.

CHAPTER

01

Introduction

OVERVIEW

Financial inclusion has garnered global attention and the support of many governments, international organisations, multilateral development banks as well as financial sector regulators as a means to promote inclusive growth. Financial inclusion remains a priority in the global reform agenda given its significance in stimulating growth and employment as well as poverty reduction.

In the aftermath of the Global Financial Crisis of 2007–2008, the Group of Twenty (G20) during its summit in 2010 formally recognised the importance of financial inclusion as one of the pillars of the global development agenda. Financial inclusion is also positioned prominently as an enabler of at least seven of the 17 Sustainable Development Goals (SDGs), adopted by the United Nations (UN) in 2015. Over 50 countries have developed strategies for financial inclusion. The World Bank Group is working with more than 20 countries to support the design or implementation of the National Financial Inclusion Strategies (NFIS) or Action Plans.

The growth of Islamic finance and introduction of Shariah-compliant microfinance, MSMEs finance and micro-*takaful* are designed to provide financial assistance to the poor and increase financial inclusion among populations. Today, the pace of change in financial markets is rapidly accelerating via the use of new technology, resulting in the emergence of innovative market-based financing models such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing models. These new alternative capital-raising avenues allow for greater democratisation of finance for the underserved small businesses and entrepreneurs with innovative business ideas.

> Islamic products and services for financial inclusion hold the promise for a shared and better future. Therefore, increased digitisation will certainly reduce costs and enhance speed, convenience and appeal. In this regard, the capital market provides entrepreneurs and MSMEs both conventional and Shariah-compliant avenues to access alternative sources of financing. Equity crowdfunding and peer-to-peer financing platforms as well as venture capital and private equity are available to meet their needs at different stages of their businesses.

Datuk Syed Zaid Albar,
Chairman, Securities Commission Malaysia

With technological advancements and increased digitisation of these alternative delivery channels, there will undoubtedly be a reduction of cost, enhancement of speed, increased convenience and greater appeal to customers. Nevertheless, even as individuals gain access to financial services offered digitally, they may be encumbered due to the low levels of digital literacy and awareness. Therefore, in adopting transformative technology, measures to increase investor education and awareness are equally important towards building trust and confidence. For the Islamic finance industry, this can erase centuries of trailing behind the banking game and provides an opportunity to advance alongside the conventional system, which offers and deploys competitive products that are Shariah-compliant through the effective use of new technologies for innovative business models and capabilities to scale.

Against this background, the Securities Commission Malaysia (SC), the World Bank Global Research and Knowledge Hub in Malaysia and the International Organization of Securities Commissions (IOSCO) Asia Pacific Hub held a conference to explore the use of Islamic finance in support of financial inclusion including the use of Islamic social finance instruments and fintech to eradicate poverty and promote shared prosperity. The Conference also discussed and deliberated the policy, regulatory and institutional elements required for the sustainable use of Islamic finance to address financial inclusion.

The Conference is the third annual conference for the SC and the World Bank, and the second for the IOSCO Asia Pacific Hub, on Islamic finance. The Conference received participation of about 250 local and international delegates comprising policymakers, regulators, industry players and media.

This report titled *Islamic Finance: A Catalyst for Financial Inclusion* is a joint publication of the SC and World Bank Group that captures the salience and essence of the Conference. It presents and clarifies the discussions and debates among speakers, complemented by the authors' research and interpretation of the speakers' presentations, and ideas embedded in the various speeches.

"Islamic finance can play a role in addressing the high levels of poverty in the OIC countries, which account for over 40% of those living on less than US$1.25 a day and is home to one-third of the global population living in extreme poverty, defined as those living on less than US$1.90 per day."

Dr Firas Raad,
Country Manager, Malaysia,
East Asia and Pacific, World Bank Group

[From left to right]: Abayomi A Alawode, Head, Islamic Finance, World Bank; Datuk Syed Zaid Albar, Chairman, Securities Commission Malaysia; Dr Firas Raad, Country Manager for Malaysia, East Asia and Pacific, World Bank Group; Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive, Securities Commission Malaysia.


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CHAPTER

02

Financial Inclusion and Islamic Finance

OVERVIEW

Providing access to financial services is a universally shared vision for all nations, including Islamic countries. This is a basic requirement that defines our modern day society. However, in reality, access to financial services is neither uniform nor consistent. In some cases, the inability to access the most basic of financial products and services prevents some segments of a country's population to fully participate in its growth and prosperity. It translates into costs for the nation as inequalities in terms of opportunities and wealth can hinder economic growth instead of reaching its optimal potential.

Therefore, financial inclusion is quintessential as it remains a priority in the global reform agenda given its significance in stimulating growth, employment and poverty eradication. It also enables shared prosperity for all segments of society, which leads to improved social well-being. In this regard, the potential of Islamic finance in enabling greater financial inclusion is vast given its similarities. Islamic market solutions applied in the right manner will benefit countless lives and communities.

2.1 The Global Landscape of Financial Inclusion

There is no universally agreed-upon definition on financial inclusion. The United Nations (2006) in its book titled *Building Inclusive Financial Sectors for Development* defines financial inclusion as "access to the range of financial services at a reasonable cost for the bankable people and firms". It is a process of ensuring access to appropriate financial products and services needed by all members of the society and vulnerable groups in particular, at an affordable cost, and in a fair and transparent manner.

Financial inclusion is broadly defined as an economic state where individuals and firms are not denied the access to basic financial services based on motivations other than the efficiency criteria. It is the proportion of individuals and firms that use financial services. It ensures the ease of access, availability and usage of the formal financial system for all members of the economy.

It is estimated that one-third of the world's adult population, which is over 1.7 billion adults do not have access to formal financial services and majority of them reside in developing countries[1] .

[1] *The Global Funding Database 2017: Measuring Financial Inclusion and the Fintech Revolution, Demirguc-Kunt et al. 2018.*

The picture is substantially somber for the member countries under the Organization of Islamic Conference (OIC). According to the Global Findex Database of the World Bank, 40 out of the 48 OIC member countries have formal account penetration rates that were less than the world average of 50%.

The Findex data shows that around the world, the percentage of adults with an account in a financial institution increased from 51% to 69% between 2011 and 2017. Therefore, account ownership has remained largely unchanged in developing economies where it was already about 70% or more in 2014 such as Brazil, China, Malaysia and South Africa. Malaysia recorded one of the highest increased levels of financial inclusion among middle-income countries, moving from 66% to 81% between 2011 and 2014, as shown in Table 1.

TABLE 1: Adults with an Account in Select Middle Income Countries

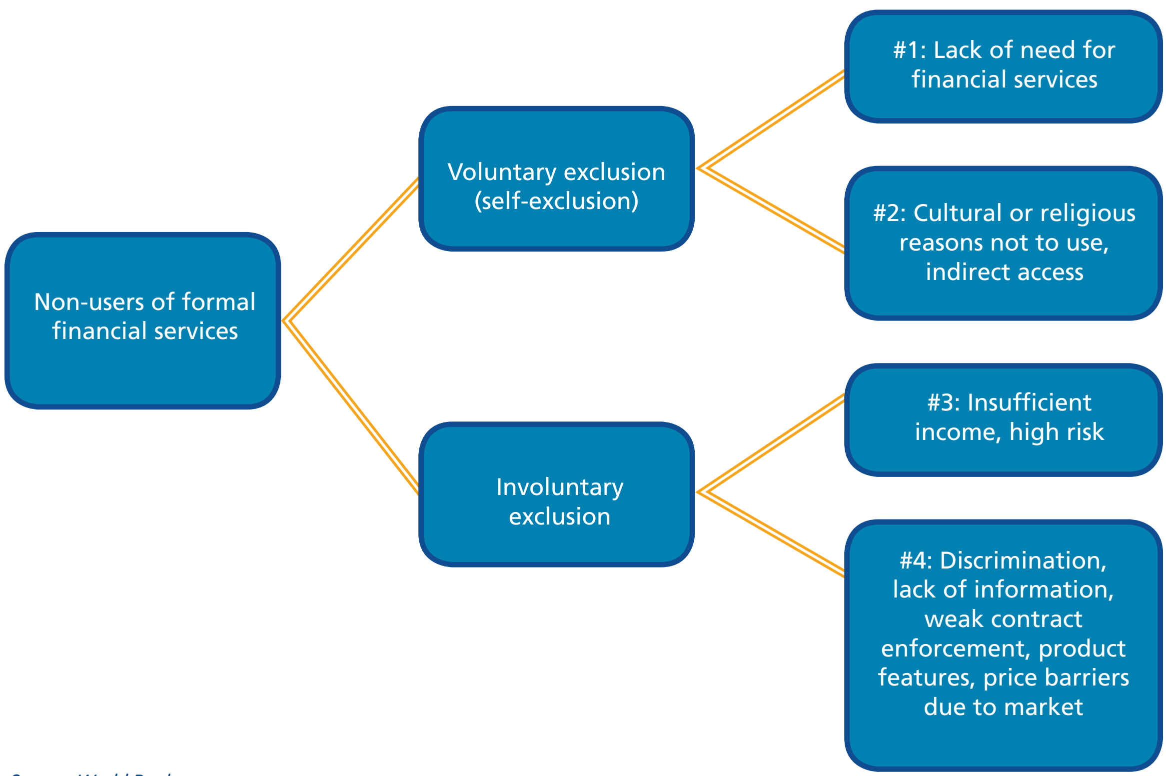
Country	GNI per capita (US$)	2011 (%)	2014 (%)	Difference 2014 (p.p)
Brazil	11,690	56	68	12
Costa Rica	9,550	50	68	15
Croatia	13,420	88	86	(-)2
Hungary	13,260	73	72	(-)1
Malaysia	10,430	66	81	15
Mexico	9,940	27	39	12
Kazakhstan	11,550	42	54	12
Panama	10,700	25	43	18
Poland	13,240	70	78	8
Russia	13,850	48	67	19
Turkey	10,970	58	57	(-)1
World	10,683	51	61	10

Source: Global Findex database. (p.p) = percentage points. GNI = gross national income.

In comparison to other regions, the Middle East and North Africa (MENA) region had the lowest penetration rate at 18%. It is noteworthy that MENA has the largest gender gap in relative terms, with women only half as likely as men to have an account while South Asia has the largest gender gap in absolute terms at 18%.

The World Bank's Global Financial Development Report (GFDR) identifies four major forms of financial exclusion classified broadly into voluntary and involuntary exclusion (Figure 2). Voluntary exclusion refers to the segment of the population or firms that choose not to use financial services either because they do not need those services due to a lack of promising projects or cultural or religious reasons. On the other hand, some individuals or firms may be involuntarily excluded because they lack sufficient income or in the case of credit markets, an extensive lending risk profile. Both voluntary and involuntary exclusions are not the result of market failure. The involuntarily excluded may likely consist of individuals and firms that are denied financial services as a result of market imperfections or government failures.

FIGURE 1: Four Major Forms of Financial Inclusion



Source: World Bank

Recent estimates based on the World Bank-Islamic Development Bank's Global Report in 2016 on Islamic Finance suggested that on average, approximately 9% of the population across 35 selected Muslim-majority countries financially exclude themselves from the formal financial sector due to religious reasons. This translates into nearly 40 million individuals who are excluded from the formal financial system, thus representing a specific gap for Islamic financial institutions to bridge.

In this regard, Islamic finance will have a prominent role to play in helping to address the needs of the world's Muslim population for Shariah-compliant formal financial services. Additionally, it possesses the ability to move beyond its core base and attract a larger constituency due to the common universal values it embodies.

2.2 Role of Islamic Finance in Financial Inclusion

In recent decades, the Islamic finance industry has witnessed spectacular growth in both size and geographical coverage. Though it is still a small share of the global finance industry, Islamic finance is growing rapidly and has attracted the attention of policymakers as a possible channel to increase financial inclusion, reduce poverty and expand financing to a new sector of growth.

Islamic finance has a significant role to play in promoting inclusive financial systems, especially among members of the OIC countries where access to financial services tends to be exceedingly low. Islamic finance helps to diversify the sources of finance for households and businesses, widens the range of products and services available and places competitive pressure on conventional financial institutions to also expand their menu of products and services. The combination of these forces carry the potential to improve the access of underserved groups within societies and economies (i.e. poor households, rural dwellers, small businesses) to much-needed financial services.

The Global Findex data clearly demonstrates that Islamic finance has a role and the capacity to contribute positively. The reasons are not merely due to a large proportion of the financially-excluded communities, which are in Muslim countries or countries with large Muslim population but more so due to Islamic finance being acknowledged for its value-driven principles and strong advocacy on matters of economic and social justice. By reinforcing this through deployment of cutting-edge technology and innovation, Islamic finance could offer a diverse range of solutions to service the underserved segments.

Islamic finance addresses financial inclusion in two unique ways through the promotion of risk-sharing contracts that provide a viable alternative to the conventional debt-based financing and some specific instruments of wealth redistribution in the society. Both these dimensions have the potential to make a profound impact given the right environment and conditions. The risk-sharing aspects of Islamic finance make it especially suitable for MSMEs that are often perceived as risky by conventional lenders.

In addition, social solidarity instruments of wealth distribution in an Islamic economic system are intended specifically to safeguard the rights of the less able through the income and wealth of the more able. *Zakat, sadaqah* and *waqf* are channels for the promotion of social protection and poverty alleviation. They are therefore part of Islamic social finance The principles underlying *waqf*, for instance, allow for the financing of socially beneficial endeavours. In such case, capital or funding could be raised through the issuance of *waqf* shares, sukuk or fund to undertake not only welfare but also commercially driven activities within the economy, offerring a comprehensive approach towards enhancing financial inclusion and supporting poverty reduction. These instruments are mobilised as part of the formal financial system. The integration with formal finance has helped to build greater transparency and governance and trust among stakeholders.

In this regard, the development of Islamic social finance can offer a credible and effective form of wealth distribution, addressing inequality and reducing poverty within communities. For regulators, applying proportionality in regulation can pave the way for accelerated growth in Islamic social finance. Through integration, various financing models have emerged through either equity, sukuk or fund structures. They leverage regulatory accommodation that balances access to finance and risks, with the aim to achieve both financial stability and the goals of sustainable development via innovation.

In effort to grant greater financing access to MSMEs, the availability of Islamic social finance products, crowdfunding and other alternative financing means are tremendous. The continuous development of these products by regulators and government, coupled with the advancement of technology such as blockchain application in the finance industry, offer MSMEs a broader funding model. These also integrate MSMEs into the wider financial system, guaranteeing better financial inclusion.

The emergence of digital technology in Islamic finance will further accelerate and foster innovation, and drive greater scale and efficiency. Their application as a financial inclusion tool will make Islamic finance’s proposition even more attractive. There are however, concerns that digital facilitation in finance may also potentially bring about unintended consequences, which may come in the form of over indebtedness especially in situation where the level of financial literacy is low. Such concerns have their merits but it should be addressed through better governance in credit-lending policy of financial institutions to avoid excessive debt burden among households and small businesses.

Islamic crowdfunding is a good example that offers opportunity for financers and investors who are looking for true Islamic risk-sharing, interest-free products and services. The *modus operandi* of the Islamic fintech should be highly congruent with the asset-backed, interest-free and risk sharing of the ideal Islamic economy.

Additionally, this instrument also can be leveraged to meet social and ethical impacts of financial services.

Leveraging public distributed ledger technology to monitor operations is another example that can provide more efficiency and transparency for Islamic fintech companies and Islamic social finance institutions. Islamic fintech can then be articulated through the democratisation of financial services via new digital channels.

Its essence should include the elimination of asymmetric information, fraud, no-confidence and distrust between counterparties. It also reduces the deceptive ambiguity in the operations and business models of counterparty transactions and creates positive ripple effects throughout the entire supply chain within the Islamic economic ecosystem.

CHAPTER

03

Broadening Financial Inclusion: Financing of MSMEs

OVERVIEW

Entrepreneurs as well as MSMEs are critical enablers for greater financial inclusion, support job creation and contribute to the country's economic revenue and activities. In addition, they generate wealth in the form of salaries and returns to shareholders. Yet, globally, they face the biggest challenge in obtaining financing. The capital market provides both conventional and Shariah-compliant avenues for entrepreneurs and MSMEs to access alternative sources of financing. Alternative-based capital market products such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing platforms as well as venture capital (VC) and private equity (PE) are available to cater the needs of MSMEs at different stages of their businesses to connect underserved issuers with untapped pools of investors Ultimately, resulting in better inclusiveness in the financial system.

3.1 Financing Landscape for MSMEs

MSMEs are essential players in the ongoing process to promote inclusiveness in the financial system among the unbankable, as they play a critical role in job creation and contribute to the respective country's economic revenue and activities. In addition, they generate wealth in the form of salaries and returns to shareholders. In contrast to the benefits, globally, they face the biggest challenge in obtaining financing.

This problem, which is coined as financing gap for MSMEs are severe since most banks widely consider MSMEs as being too risky, which is reflected by their lack of collateral and insufficient credit history.

The International Finance Corporation (IFC) estimated that 65 million MSMEs globally are facing credit constraint, and estimated that US$5.2 trillion annually is required to fill this finance gap to make-up for the current annual credit supply of US$3.7 trillion [2]. A World Bank Enterprise Survey further found that smaller firms are less likely to have access to capital – a factor that constrains their ability to grow and become more productive[3] .

In this regard, capital market could play a role in providing both conventional and Shariah-compliant financing for MSMEs. Innovative capital market avenues such as ECF, P2P financing platforms as well as VC capital and PE are available to meet their needs at different stages of their businesses.

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2 *MSME FINANCE GAP: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets, IFC 2017.*

3 *Micro, Small, and Medium Enterprise (MSME) Finance, the World Bank at https://www.worldbank.org/en/results/2013/04/05/msme-finance-expanding-opportunities-and-creating-jobs.*

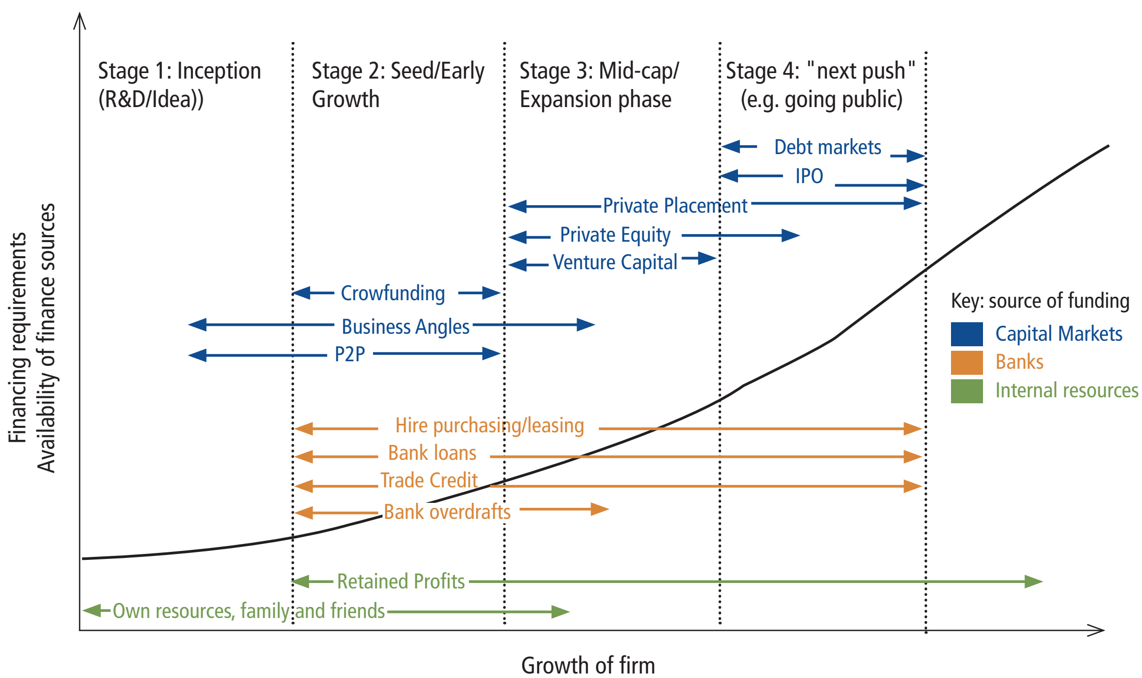
For conventional finance, these alternative sources of funding were successfully established as it managed to connect underserved issuers with untapped pools of investors while offering cheaper, faster and more convenient delivery channels. In contrast, alternative financing within the Islamic finance sphere is still lagging, evidenced by the limited offering on such instruments. Hence the conventional alternative financing instruments and models discussed in this chapter may serve as a point of reference towards devising Islamic finance alternatives for underserved MSMEs.

Rapidly spreading digital technologies now offer an opportunity to provide financial services at a much lower cost, thereby, profitably, boosting financial inclusion and enabling large productivity gains across the economy. Digital finance has the potential to provide access to financial services for 1.6 billion people in emerging economies. As a result, many countries are now implementing the strategies to increase the use of digital financial products and services.

3.2 Alternative Financing Model for MSMEs

MSMEs often struggle to source for financing in the early stages of setting up or when expanding a business. Traditional funding channels such as bank loans can be prohibitively expensive. There are several funding models within the capital market that can help these companies grow and develop into a stage where they are able to access other sources of financing. Crowdfunding, P2P, VC and PE are types of fundings that correspond to various stages of the businesses as observed below. (Figure 1)

FIGURE 1: Funding Model for Growing Firms



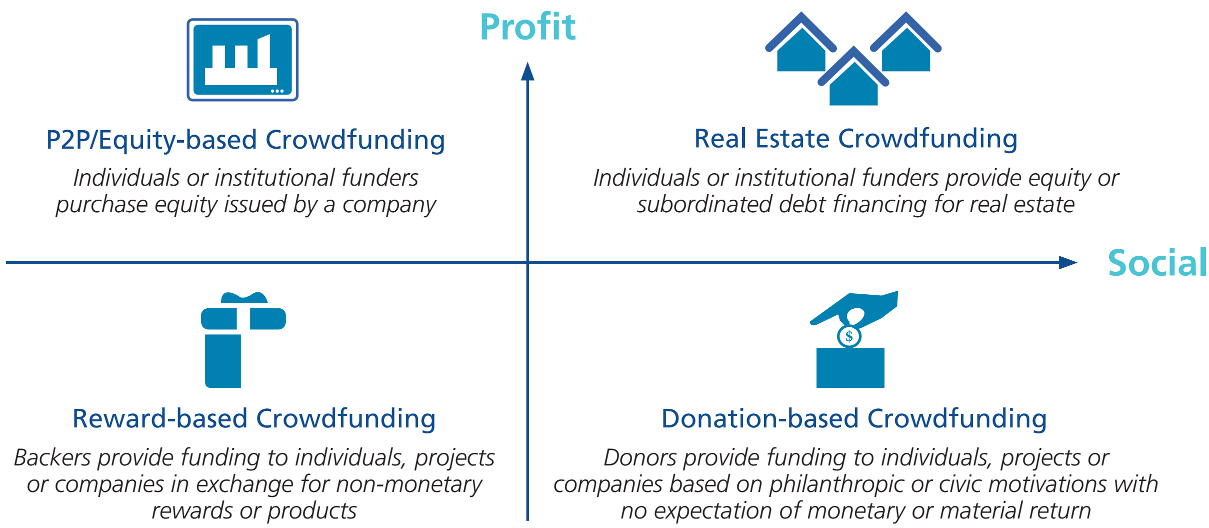
Source: European Commission Banking and Finance Services

3.2.1 Crowdfunding

Crowdfunding is a way of raising money to finance projects and businesses. It enables fundraisers to collect money from a large number of people via online platforms. Crowdfunding is most often used by start-up companies or growing businesses as a way to access alternative funds. It is an innovative way of sourcing funds for new projects, businesses or ideas. It can also be a way of cultivating a community around your offerings. By using the power of the online community, it can also gain useful market insights and access to new customers.

Globally, transaction value in the crowdfunding segment amounts to US$6,923.6 million in 2019, and the value is expected to show an annual growth rate (CAGR 2019-2023) of 14.7%, resulting in the total amount of US$11,985.6 million by 2023. The average funding per campaign in the crowdfunding segment amounts to US$794 million in 2019. From a global comparison perspective, the highest transaction value reached is in China (US$5,576 million in 2019)[4]. Generally, crowdfunding can be classified into four unique models according to the revenue model as explained in Figure 2.

FIGURE 2: Crowdfunding Models

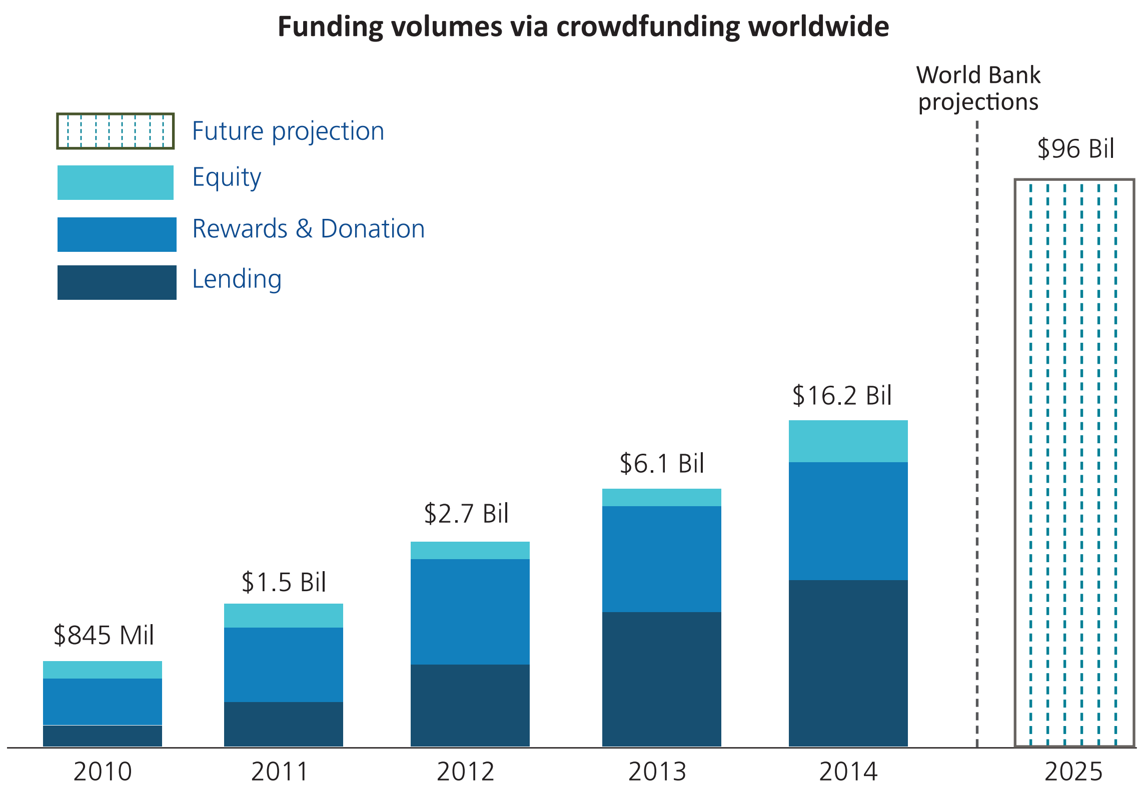


Source: Asia Pacific Benchmarking Report 2018

[4] *See Crowdfunding, Statista at https://www.statista.com/outlook/335/100/crowdfunding/worldwide.*

The most typically used platforms by profit-making MSMEs and start-ups are ECF and P2P financing as observed in the following (Figure 3).

FIGURE 3: Global Crowdfunding Market Experiencing Exponential and Impacting Lives



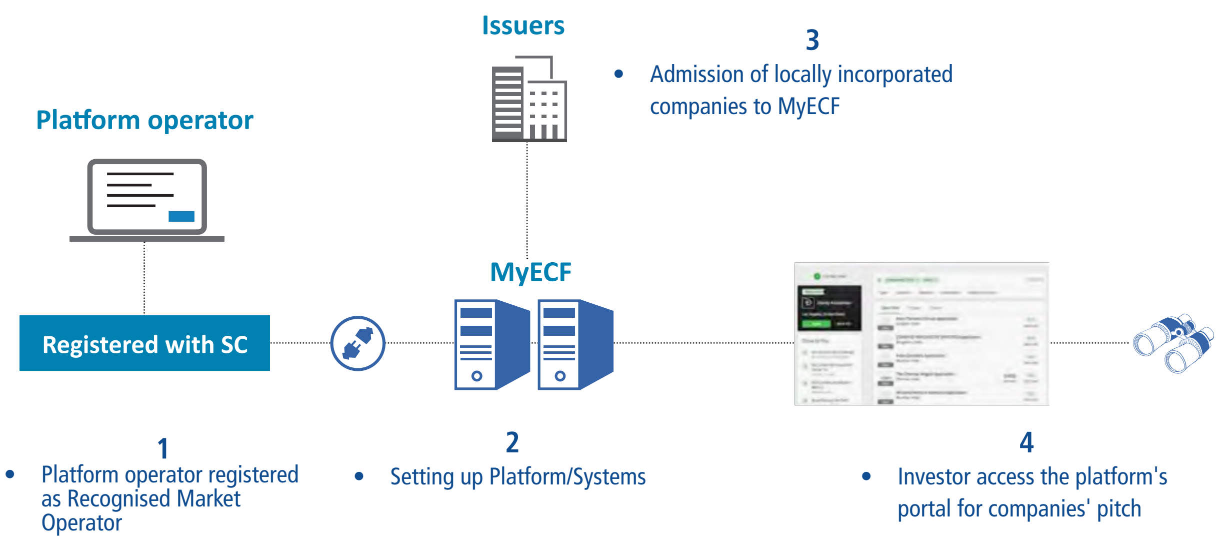
Source: Massolution - 2015CF Crowdfunding Industry Report and World Bank - Crowdfunding's Potential for the Developing World

3.2.2 Equity Crowdfunding

Equity crowdfunding (also known as crowd-investing or investment crowdfunding) is a method of raising capital used by start-ups and early-stage companies through the sale of securities (i.e. shares, convertible note, debt, revenue share and more) in a private company (that is not listed on stock exchanges). Essentially, equity crowdfunding offers the company's securities to a number of potential investors in exchange for financing. Each investor is entitled to a stake in the company proportional to their investment.

Equity crowdfunding is quite different from other crowdfunding methods such as rewards crowdfunding and donation crowdfunding. The model provides a more conventional capital-raising method by offering financial securities to investors. Figure 4 below show the model of Malaysia's Equity Crowdfunding. Figure 5 shows the steps to crowdfunding.

FIGURE 4: Model for Malaysia's Equity Crowdfunding



Source: SC

FIGURE 5: Steps to Crowdfunding

Business application to platform	• Plan for fundraising submitted • Platform performs some level of vetting and decides whether pitch will go live on to platform
Pitch goes live	• Business needs to share all relevant information with prospective investors • The entrepreneur needs to publicise the fundraising within their networks and beyond to get potential • Interaction with potential investors to answer questions throughout the funding window is an important part of ensuring success • Investors also benefit from questions posed and information provided by other investors
Funding window closes	• If target not reached, money is returned to investors • If target has reached platform, it perfoms more vetting before releasing funds to business
Post Investment	• Interaction between investors and business continues. The extent of which is dependent on how passive or active investors choose to be • In some cases investors receive voting right and will have a vote on important decisions in the business • Investors continue to be advocates for businesses

Source: www.VCCafe.com

3.2.3 P2P Financing

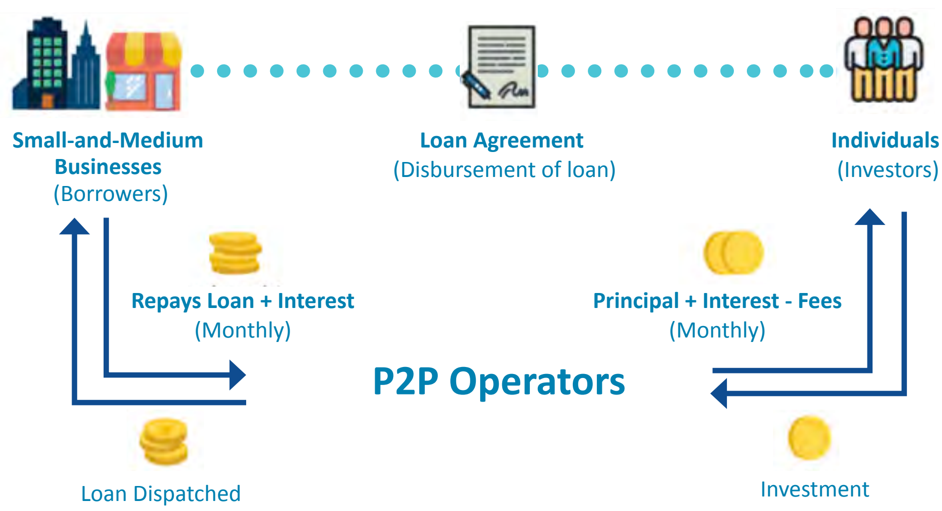
Although ECF is the preferred type of crowdfunding by issuers, some start-ups or early stage companies may find it difficult to source for financing as they have higher risk associated. This, in turn, opens the opportunity for them to use lending-based crowdfunding or P2P financing.

P2P financing is a form of crowdfunding used to raise loans for people who need to borrow from those who want to invest. It enables individuals and institutions to borrow and lend money without having any financial institution acting as an intermediary, and it extends credit to borrowers who are unable to get funding through traditional financial institutions.

The main idea is that those who save will obtain higher interest by lending out their money instead of saving it and on the other hand, borrowers will gain funds at comparatively low interest rates.

P2P financing is typically structured when investors lend money to individuals and businesses through online platforms. This allows borrowers to obtain loans without going through the strict requirements made by the banks. P2P financing generally promises higher returns than traditional investments but investors can take on higher risk as well. Like traditional financial institutions, P2P financing platforms calculate interest rates based on the risk profile of the borrower.

FIGURE 6: How P2P Operations Work



Source: SC

The P2P financing industry is rapidly accelerating since its inception in 2005 when the first P2P lender, Zopa was launched in the UK. Despite traditional lenders and the uncertain economy environment in the previous years, P2P has survived and thrived, unaided by the government's bail outs. As of 2019, P2P financing market is valued at around US$231.09 billion in 2018 and the industry is poised to grow at CAGR of over 25.4% to surpass US$820.70 billion by 2025[5] .

Unlike traditional lenders, there are no penalties or higher interest rates to a borrower who wishes to use funding for a reason of greater risk like consolidation of debt or to pay off medical expenses. It offers both borrowers and lenders greater efficiencies as compared to the traditional banking model.

The benefits to the borrower include the ability to obtain funding quickly, reasonable interest rates, higher funding rates and the ease of application process. Not all of the benefits apply to borrowers in the P2P financing model. For instance, lenders gain returns above market rates while spreading their risks through a variety of transactions. Table 1 below indicates the difference between ECF and P2P financing in Malaysia.

TABLE 1: Comparing ECF and P2P in Malaysia

LAUNCH	ECF 2015	P2P Financing 2016
Target	• For start-ups and MSMEs to gain access to early stage financing or growth.	• For MSMEs looking to raise working capital or growth capital, meant for short-term financing needs.
Basis	• Start-ups/MSMEs raise funds by issuing public shares/ offering equity to investors in exchange for cash.	• MSMEs raise funds from investors and repay the cash plus interest in installments over a specified period.
Issuers	• Eligible issuers can raise up to RM3 million in 12 months. • Includes all locally incorporated private companies (other than exempt private companies).	• No limit imposed by the SC on the amount of funds that can be raised with limits and financing rate to be decided by the P2P operator based on risk scoring • Eligible issuers do not need collateral and are assessed based on credit history, behaviour and founders. • Includes locally registered sole proprietorships, partnerships, incorporated limited liability partnerships, private limited and unlisted public companies.
Terms	• Funds raised are only released once target amount is reached failing, which the money goes back to the investors.	• Funds raised are only released if it reaches at least 80% of the target amount, but issuer are not allowed to keep any amount exceeding the target. • Interest rates range from 6% to 12% per annum with tenures of three months to three years depending on the P2P operator. • Funds can be disbursed within a few working days to two weeks.
Limits	• Can only raise RM10 million maximum, no multiple and concurrent listing for issuers.	• Can host concurrent listings on multiple P2P platforms, but must be for different purposes and must be disclosed to the P2P operator.
Investor	• Retail investors are limited to a maximum of RM5,000 per issuer with a total not exceeding RM 50,000 for angel investors. • Investors are allowed a six-business day cooling period to withdraw their entire investment.	• Retail investors are encouraged to limit investments exposure to a maximum of RM50,000 at any one time. • No cooling-off period mandated, but the P2P operator may have discretion to provide this.
Operations	• Crowdo, pitchIN, CrowdPlus.asia, ALix Global, Ata Plus and Eureeca	• B2B FinPAL, Ethis Kapital, FundedByMeMalaysia, ManagePay Services, Funding Societies Malaysia and Fundaztic.

[5] *The Market Watch at https://on.mktw.net/39UUHLl*

3.2.4 Venture Capital and Private Equity

VC and PE are investments from firms that typically raise fixed pools of capital that are then invested in a diversified set of companies which are often across many industries.

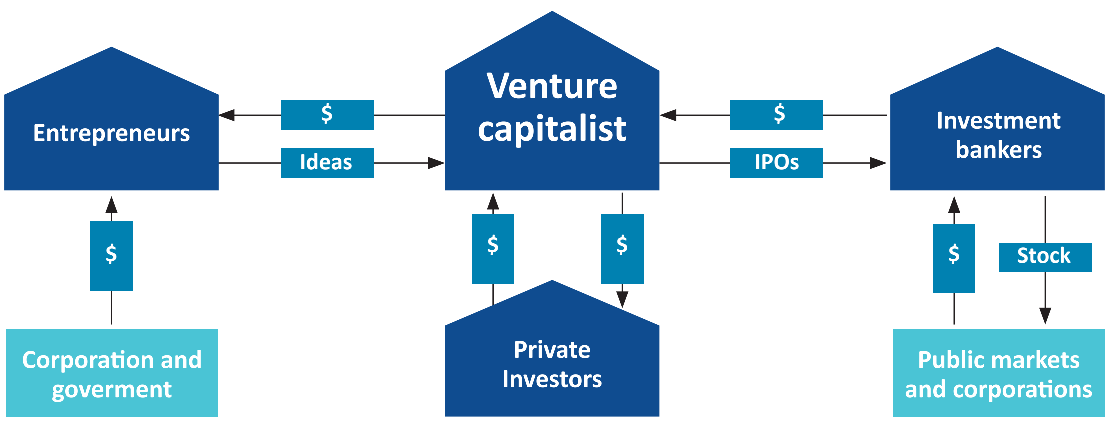
Both VC and PE firms source deals by working with a network of intermediaries, developing business linkages and competencies in specific sectors, and scouring a given market for investment opportunities. Apart from providing financing, PE funds typically take a 'capital plus' approach whereby they help companies with their portfolios to enhance the management capacity, improve market focus and presence, strengthen governance, and manage growth. The diagram below (Figure 7) shows the players involved in the VC ecosystem.

The VC and PE for the MSMEs market in many developing countries represents a small fraction of the overall quantity of fund investments. The lack of VC and PE for MSMEs in developing economies has a secondary effect beyond simply limiting companies' access to capital. In addition to capital, investors bring knowledge and management skills to the companies in which they invest. They actively manage their investments by implementing enhanced governance structures and introducing rigorous management practices.

Financing from financial intermediaries such as PE and VC has become much more important for the survival of MSMEs in the future. Since these financial intermediaries are often subject to a lighter regulatory burden as compared to banks, they may adopt financial innovations faster than banks, which is reflected by their rapid growth in the recent years.

FIGURE 7: Venture Capital Ecosystem

The venture capital industry has four main players: entrepreneurs who need funding investors who want high returns; investment bankers who need companies to sell, and the venture capitalists who make money for themselves by making market for the other three.



Source: Harvard Business Review

Box 1: Case Study

Ethis Crowd : Crowdfunding Affordable Homes

Project Background

Ethis Crowd was set-up as a crowdfunding platform to facilitate funding flows by linking providers of finance and corporation that requires capital. Establishing the rights conditions for affordable housing is essential. In Indonesia, the demand for houses are high, and it has currently experienced a massive shortage, which has affected some 11.8 million households without homes today. The government's 1-million homes programme has helped speed up construction and sales, and developed more than half of the 3.5 million houses for the low-income in the past few years.

To accelerate the process, the Indonesian Government created an enabling environment to support social and affordable housing by empowering its most relevant stakeholders' notably financial institutions and private property developers through the provision of financial and non-financial assistance. The Government provides its financial institutions easy access to financing capital, and it covers credit default. Private developers are incentivised through lower Government bureaucracy, e.g. easier access to building permits and efficient approval process.

The conducive environment attracted the participation of not only formal financial institutions but also crowdfunding operators such as Ethis Crowd. It also provided financial access to developers of affordable homes. As an effective crowdfunding operator and solution provider, Ethis Crowd offers:

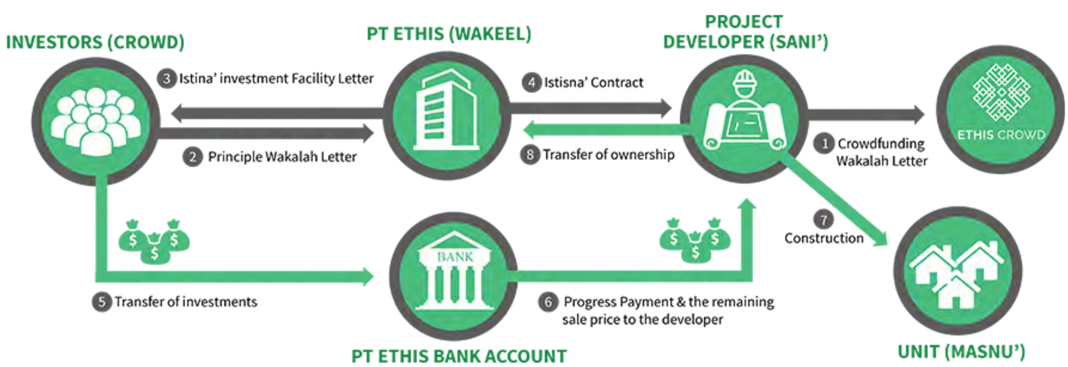
- Digital platform that links funders globally to projects by providing transparency and timely reporting;
- Focused on specific project types, countries and sectors to develop better screening intelligence and relationships; and
- Shariah-compliant, responsible and participatory models aligned with universal values and ethics.

Project Funding

The Ethis community of capital contributors includes both global and local investors such as:

- Islamic PE firms and VC;
- Islamic foundations and community groups;
- High net worth individuals; and
- Angel investors.

Its community of 26,000 members from across the world has made more than 2,000 crowd-investment transactions to the Indonesian campaigns. Majority of Ethis investors are primarily new to crowdfunding and first-time investors in Indonesia. The diagram below shows how Ethis crowdfunding operates.



Ethis Part-Financing Model

Ethis Crowd provides *Istisna'* Part Financing for House Construction as observed in the figure in the following page. Ethis Crowd targets the later stage of financing, (i.e at the third or fourth stage of the housing development phase), thus minimising its credit risks, but at the same time, it is able to give respectable returns to its investors. The example below shows the Ethis part-financing model.

TAMAN MADINAN II

Affordable housing | Greater Jakarta, Indonesia

Raised: 25.5 %

Goal: SGD $242,896.00 | Raised: SGD $62,000.00

Projected Return: 13-14% | Duration: 12-13 Months

Time Remaining: 20 day(s) to go

VIEW

PESOMA ALAM DRAMAGA

Subsidized housing | West Java, Indonesia

Raised: 42.12 %

Goal: SGD $332,370.00 | Raised: SGD $139,991.00

Projected Return: 11-12% | Duration: 11-12 Months

Time Remaining: 4 day(s) to go

VIEW

BABAN BAYE PERMAI

Subsidized housing | West Sumatra, Indonesia

Raised: 81.49 %

Goal: SGD $334,941.00 | Raised: SGD $272,945.73

Projected Return: 10-11% | Duration: 9-10 Months

Time Remaining: 4 day(s) to go

VIEW

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CHAPTER

04

Role of the Public and Private Sectors in Developing Financial Inclusion through Islamic Finance

OVERVIEW

Governments and their agencies, regulators, multilateral institutions and international associations are important stakeholders, which have played a central role in creating an enabling condition for an inclusive financial system. Regulators drive governmental policies by establishing initiatives to support financial inclusion and its elements such as improving financial literacy and access to financing. Having such an enabling environment would allow for the development of new laws and regulations, as well as products and framework, to boost financial inclusion.

Multilateral institutions and international associations also play a significant part in developing policies and standards to promote the growth of financial inclusion. These institutions and associations have their own resources to further develop initiatives that are aligned with the government's financial inclusion agenda. Efforts and initiatives by the multilateral institutions also have a global effect that would be adopted by financial market stakeholders globally.

4.1. Role of the Government and Regulators

The public and private sectors have key roles in instituting strong leadership and stewardship to develop an inclusive financial system. Such leadership is essential in cultivating a strong commitment to financial inclusion across a diverse range of stakeholders and placing it at the centre of national policy agenda.

More than 55 countries have placed their commitments towards financial inclusion, or have developed or are currently developing a national strategy[6]. The vision of the financial inclusion framework or strategy is to create an inclusive financial system that best serves all members of society, particularly for the underserved to have access to and the usage of quality, affordable and essential financial services that are able to satisfy their needs towards greater shared prosperity. The achievement of the vision is measured through the desired outcomes for consumers, namely convenient, accessibility, high take-up, responsible usage and high satisfaction of financial services.

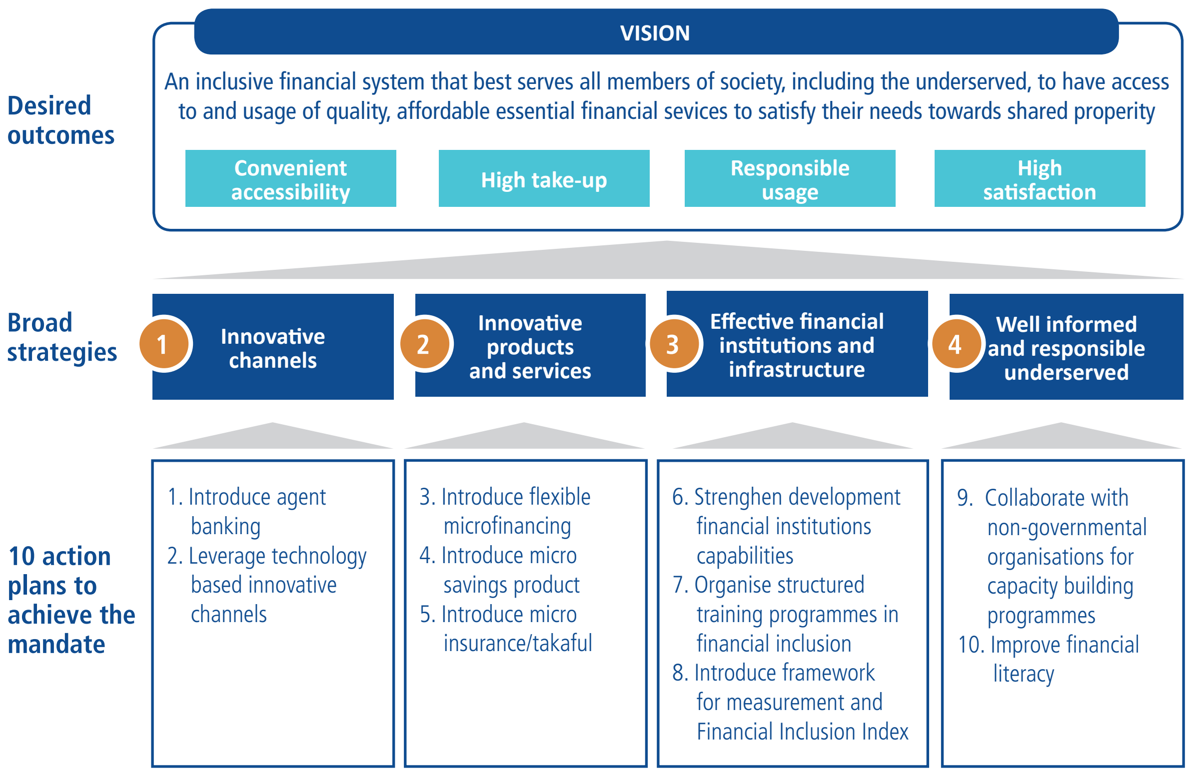
National vision for financial inclusion would undoubtedly require support from various government departments, particularly those involved in tackling poverty, protecting consumers and promoting employment and economic growth. Thus, to ensure that financial inclusion utilises the full resources of these departments, it needs to be a key part of the government's overall ongoing agenda to promote economic and social inclusion.

6 *See Financial Inclusion, the World Bank at https://www.worldbank.org/en/topic/financialinclusion/overview.*

Many governments around the world are taking the lead in formulating strategy and developing a national vision for financial inclusion. For example, Malaysia has become a standard bearer for a model on financial inclusion. References were made in many aspects including financial inclusion strategies, innovation in payment systems, national identification cards, data and statistical tools to monitor and evaluate financial inclusion policies, agent banking, digital finance, fintech, as well as regulatory sandboxing and innovative labs, and more.

BNM has introduced a framework on financial inclusion within its *Financial Sector Blueprint 2011-2020*. A total of 10 key action plans were identified based on the strategic outcomes of innovative channels, products and services, to empower the underserved with financial knowledge and to strengthen financial institutions and infrastructure (Figure 1). Implemented action plans are currently at various stages of completion.

FIGURE 1: Holistic Framework to Further Financial Inclusion



Source: Bank Negara Malaysia

Malaysia's financial inclusion agenda is also supported by a facilitative financing ecosystem for MSMEs. Various funding and schemes are offered by several entities, including development financial institutions, corporate guarantee agencies and other financial and non-financial institution lenders. Arising from such policies and initiatives, Malaysia now has one of the highest levels of financial inclusion among middle-income countries.

The SC plays a crucial role in ensuring a robust framework that continues to facilitate growth for the country's economic prosperity. The SC's strategic priorities include widening and broadening access to financing and investment solution for retail and MSMEs, which are consistent with the objectives of financial inclusion. In 2014, the SC made key amendments to the capital market laws to introduce a new regulatory framework to facilitate the establishment of alternative market-based financing platforms for start-ups and smaller enterprises. In addition, the SC introduced the regulatory framework for ECF in February 2015 and P2P in April 2016 respectively to support the development of financial inclusion.

The OIC, the second largest inter-governmental organisation after the United Nations, has also accepted financial inclusion as part of its endeavours to safeguard and protect the interests of the Muslim world. The OIC member countries have agreed to establish a working group on financial inclusion in an effort towards improving access to finance, financial education and consumer protection which are carried out in a co-ordinated and synchronised manner. As Islamic finance has become an important part of financial inclusion and stability in the global economy, the OIC member countries also support the efforts to align Islamic finance-related practices with international regulatory principles and standards. Having a wide array of Islamic financial products and acceptance of such products would further reinforce the role and impact of Islamic finance.

Meanwhile, the Standing Committee for Economic and Commercial Cooperation of the Organisation of the Islamic Cooperation (COMCEC), which is the main multilateral economic and commercial co-operation platform of the Islamic world, has also made efforts to further explore financial inclusion. In 2014, COMCEC released an analytical study entitled *Enhancing Financial Inclusion in the COMCEC Countries,* which was aimed at analysing main obstacles and identifying best-practice financial inclusion strategies globally. It also highlights recommendations towards increasing financial inclusion in its member states.

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7 *World Bank, Financial Inclusion in Malaysia, Distilling Lessons for Other Countries http://documents.worldbank.org/curated/en/703901495196244578/pdf/115155-WP-PUBLIC-GFM08-68p-FIpaperwebversion.pdf .*

8 *See the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) website at http://www.comcec.org/en/.*

4.2. Role of the Multilaterals and Other International Institutions

Multilateral institutions take on important responsibilities to build institutional capacity for financial inclusion. Multilateral organisations such as the World Bank Group, the Islamic Development Bank (IsDB), and the Asian Development Bank (ADB) focus on promoting financial inclusion and meeting the sustainable development goals.

The World Bank considers financial inclusion a key enabler to increase shared prosperity and minimise extreme poverty. In view of this, the World Bank has adopted commitments towards achieving universal access to finance and to promote financial inclusion. Through the Universal Financial Access 2020 (UFA 2020) initiative, the World Bank has committed to enable one billion people to gain access to a transaction account through targeted interventions.

The World Bank has also implemented the Financial Inclusion Global Initiative (FIGI), a three-year programme to support and accelerate the implementation of global reform actions led by each respective country to meet national financial inclusion targets and ultimately the UFA 2020 goal[9]. In this regard, the World Bank is working on Islamic financing to reduce poverty and expand access to finance by fostering the inclusion for those deprived of financial services.

Meanwhile, the IsDB supports financial inclusion through a similar angle by putting focus on financial inclusion within developing countries. Firstly, the IsDB supports the development of Islamic microfinance in developing countries and ensures that it is a viable source of financing. This provides better opportunities for those who are not qualified to obtain traditional financing methods that will enable them to become financially independent.

Secondly, IsDB focusses on enhancing access to Islamic finance. Finally, the IsDB supports an enabling environment that would attract investments within developing countries which in turn, increases the standard of the financial market of these countries. IsDB has also launched an Islamic micro-finance programme, which offers financing to those who do not have access to banking services. This allows them to participate in economic activities that will provide a decent livelihood

The ADB, in its role to foster economic growth and co-operation in Asia, issued a new index for financial inclusion in the *Financial Inclusion: New Measurement and Cross-Country Impact Assessment* as part of their working paper series to assess the impact of financial inclusion on poverty and income inequality of 151 economies. Findings presented that middle-high and high-income economies with financial inclusion have significantly lower poverty, while no such relation exists for middle-low and low-income economies. This would be a key factor in deciding the appropriate policies for achieving inclusive growth in different development stages[10].

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9 *The Universal Financial Access 2020 goal is that by 2020, adults who are not currently part of the formal financial system, are able to have access to a transaction account to store money, send and receive payments as the basic building block to manage their financial lives. https://www.worldbank.org.*

10 *See the Asian Development Bank (ADB) website at https://www.adb.org/.*

Meanwhile, the role of international organisation in financial markets strengthens the process of good governance, transparency and professional market practices. They complement national regulators by establishing trust between investors and service providers. The Alliance for Financial Inclusion (AFI), for example, is an international organisation that plays a leading role in empowering policymakers to increase access and usage of quality financial services for the underserved. It does so through the formulation and implementation of global advocacy on sustainable and inclusive policies, while its various financial inclusion initiatives, which are specific for each global region allows for dedicated financial inclusion efforts. They also published resource material such as guideline notes, case studies and special reports on financial inclusion[11].

On Islamic finance, standard-setting bodies such as the Islamic Financial Services Board (IFSB) has played a role in developing financial inclusion. The IFSB's position as an international standard-setting organisation allows it to form a task force to issue technical notes on financial inclusion. It has also organised forums, which focused specifically on financial inclusion and its alignment to Islamic finance. These initiatives bring together advocators of financial inclusion from among experienced members and Islamic finance industry players, thus giving a wide range of views in discussing key developments for financial inclusion.

The development of financial inclusion relies on the efforts of the government, its agencies and regulators, and requires efforts of multilateral institutions. The success of one sector would not be achievable without the growth and development of the other. All relevant stakeholders within the financial market would complement each other's efforts, through establishing policies and initiatives on financial inclusion within an enabling environment created by the government's national policies on financial inclusion[12].

It is important for the government's policies on financial inclusion to be aligned with initiatives by multilateral institutions. Likewise, multilateral institutions require support of the government and regulators, to create and enable an environment in ensuring the success of their initiatives focused on financial inclusion.

[11] *See the The Alliance for Financial Inclusion (AFI) Global website at https://www.afi-global.org/.*

[12] *See the Islamic Financial Services Board (IFSB) website at https://www.ifsb.org/.*

CHAPTER

05

Utilising Fintech in Islamic Finance for Financial Inclusion

OVERVIEW

Fintech is a technology that used and applied in the financial services sector, primarily by financial institutions on the back-end operations of their businesses. Nonetheless, fintech represents technology, which as a result, disrupts traditional financial services, which include fundraising, financing and asset management.

The growth of fintech is not only to reinvent the customer experience in the financial services sector including Islamic finance, but to also bring financial inclusion to the fore. The full potential of fintech for financial inclusion may be realised with strategic framework to enable policy and a regulatory environment in support of digital financial transformation. With the growing interest in Islamic finance, the emergence of Islamic fintech is inevitable. Leveraging technology requires necessary building blocks covering the legal framework, risk management identification and appropriate Shariah governance. Based on experiences from a range of developing, emerging and developed countries, the stage is set for a more prudent and progressive approach to address fintech challenges.

5.1. Leveraging Fintech Services in Financial Inclusion

The Fourth Industrial Revolution has driven tremendous innovation in the global financial services industry with over thousands of start-ups emerging globally, disrupting every aspect of finance. By recognising the opportunities in the intersection between Islamic finance and fintech, the Islamic finance industry is expected to experience an unprecedented innovation. This opportunity remains as a largely untapped segment in the Islamic finance ecosystem.

According to *Islamic Fintech Report 2018 – Current Landscape & Path Forward*, the global financial services industry has seen rapid change driven by three core technological drivers, all linked closely to the Fourth Industrial Revolution – automation, disintermediation and decentralisation. Young digitally savvy customers are the main stakeholders in driving change, and there are now over 12,000 start-ups globally, with fintech investments reaching US$57.9 billion in the first half of 2018.

Findings from this report also presented that a total of 90 Islamic fintech start-ups deliver customer-facing financial services, of which 65 provide P2P technology solutions to facilitate consumer and business financing, while another 14 enable deposits and transfers via blockchain technology. Indonesia, followed by the US, UAE and UK, hosts the largest number of Islamic fintech start-ups.

Fintech is rapidly leading innovations in the financial services industry to intensify financial inclusion by broadening the financing access at scale and improving affordability and quality of financial services through efficiency in the operation. Due to the wide expanse in accessibility, fintech is a revolutionary and friendly tool for financial inclusion. The following figure highlights some of the key fintech services:

FIGURE 1: Key Fintech Services

Source: Alliance for Financial Inclusion

The fintech revolution is changing the traditional means of MSMEs finance and offers the potential for increased productivity and efficiency in the way financial services are delivered. Fintech that performs key services for instance crowdfunding, mobile payments and money transfer services is revolutionising the way small start-up businesses operate, accept payments and sell products globally.

Today, the pace of change in financial markets is rapidly accelerating due to the use of new technology allowing for the emergence of innovative market-based financing models such as ECF and P2P models. These new alternative capital-raising avenues allow for greater democratisation of finance for the underserved small businesses and entrepreneurs with innovative business ideas.

Robotics such as virtual assistants could potentially replace call centres and many banking branches, with technology empowering customers to make better financial decisions. In addition, fintech could provide a global *fatwa* for Islamic finance database available in multiple languages. Other innovations include Shariah-compliant robo-adviser platforms that offer financial services to retail investors.

In the case of Islamic social finance, fintech is useful in accelerating the distribution of the funds. Fintech through its innovative technology makes it possible to control who receives and how the money is spent. For example, the electronic payment systems could address potential misuse in Islamic social finance (i.e. *sadaqah* or *waqf*) distribution to beneficiaries. The funds can be distributed electronically to the beneficiaries and the intended person. In this case, a smart card concept could be deployed where the beneficiaries of the social funds can be registered and linked to the bank account.

For monitoring purposes, the utilisation of the funds can be controlled by the usage of the cards for instance, when the beneficiaries purchase food items at participating merchants. There are various smart card programmes that have already been implemented in a number of countries. One such example is the Social Family Card for the implementation of a benefit system for low-income families in Egypt. It is designed to control the distribution of subsidised funds and goods.

In another example, blockchain was used in the resale and settlement of sukuk by a private Islamic bank in the UAE worth US$500 million and will mature in September 2023. In Indonesia, an Islamic microfinance institution has issued micro sukuk, which is leveraging blockchain technology to enable retail investors to invest in sukuk, whereby proceeds will be used to provide Islamic microfinance under a new initiative. The details of this sukuk is discussed in the case study on 'Blossom Finance: Sukuk on the Blockchain'.

5.2. Building Blocks for Successful Digital Finance Ecosystem

Technology and infrastructure are only part of the building blocks in the overall digital finance ecosystem. To ensure that people benefit from digital and financial technology services, appropriate regulations and consumer protection safeguards need to be put in place in discussion of the digital finance ecosystem. The success of digital finance ecosystem can be discussed within the context of legal environment, risk management and Shariah point of view. Although there are many other factors that can be looked into, these building blocks may set the context in developing the overall digital finance ecosystem.

5.2.1. Legal

Regulatory changes have fostered the growth of digital financial system by providing legal certainty surrounding the use of electronic money. Most governments have launched national financial inclusion strategies specifically targeting the use of financial services such as mobile banking, e-wallet and digital remittance as a way of encouraging people to move out of a cash-based economy and the formal financial system. Due to several regulatory issues, some jurisdictions have introduced various forms of regulations in dealing with fintech (i.e. regulatory sandbox, national policies and guidelines).

Many financial regulators are also developing a set of regulatory framework to widen the range of fundraising and investment products and are improving market access to a broader spectrum of issuers and investors. The aim is to provide regulatory balance to promote a vibrant and functioning market space with the appropriate safeguards for capital formation.

A regulatory sandbox is a framework set up by a financial sector regulator to allow small scale, live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance or other limited, time-bound exception), which is under the regulator's supervision. The concept was developed in a time of rapid technological innovation in financial markets. It was an attempt to address the frictions between regulators' desire to encourage and enable innovation while providing flexible regulations for the fintech companies to test their innovative products and services. The sandbox allows regulators and fintech firms to test out ideas without going through a costly and lengthy authorisation process.

In certain jurisdictions, they have a national policy that has a broad course of action or statement of guidance adopted by the government at the national level in pursuit of national objectives. This policy is then translated into the financial policies and guidelines, which among others clarifies the roles, authorities and responsibilities for essential financial management activities and decisions.

In this context, the SC has issued the *Guidelines on Recognized Markets* (Guidelines) essentially to cater to several areas including permissible and non-permissible activities applicable to a market operator as well as due diligence on and disclosure by issuers. In recent development, the Guidelines have introduced new requirements for electronic platforms that facilitate the trading of digital assets such as Bitcoin and Ethereum. The new regulations require Digital Asset Exchange (DAX) operators to be registered with the regulator and to meet its standards and requirements in their role as recognised market operators.

5.2.2. Risk Management

Market change and disruptive technology inevitably lead to new risks. Their novelty suggests they may be difficult to identify by the firms that create them, other market participants, customers or the regulator. As the party responsible for the product, the firm must take principal responsibility for identifying risks.

Fintech mainly deals with three types of risks:[13]

- Credit risk – Meaning the borrowed money would not be repaid or will be repaid late. Credit risk has been the reason for credit scores and valuations. Today, fintech has increased its number of intelligence such as social media behavioral analysis or spending history to assess the risk in a particular loan.

- Market risk – As its name suggests, market risk arises due to the unpredictability of markets of all kinds. When the value of an asset or liability is subject to market fluctuations, then there is market risk. This includes currency exchange rates, interest rates, securities prices, etc. For example, if fintech firms offer their products globally, they will be subjected to currency risk.

- Operational risk – This category includes human errors, cyber-crime or emerging technology. It is the broadest sector of risk management that includes a wide range of risks that fintech has to be aware of. An example of an operational risk is due to emerging technology when regulators are struggling to keep pace with the number of fintech start-ups operating without a licence. These firms operate across platforms such as websites, mobile apps and social media, as result making it difficult for authorities to detect them. In such cases, the police may intervene and the public may assist to help track and shutdown the illegal start-ups.

5.2.3. Shariah

The International Monetary Fund (IMF) in its policy paper entitled, *Fintech: The Experience So Far* stated that the *modus operandi* of some fintech models are highly congruent with Islamic finance principles, with the latter focusing on asset-backed transactions and risk sharing. The report further supported that fintech can make screening transactions quicker and easier, improve traceability and security, expand Islamic finance penetration and strengthen governance.

Since fintech development is still new in the market, the Shariah governance practices may be different according to the level of regulations in the particular markets. There are certain jurisdictions, which have issued fintech related *fatwa* to allow the products and services offered adhere to Shariah. In Indonesia for example, Dewan Syariah Nasional Majelis Ulama Indonesia has issued rulings to accommodate various fintech services. P2P, e-Money and payment gateway are among the Shariah approved services by them.

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13 *See https://www.finleap.com/insights/fintech-trends-risk-management/.*

In another approach, the financial regulator requires the market operators to appoint a Shariah adviser if they were to offer Islamic products. In this case, the Malaysian regulation has a separate chapter on the offering of Islamic capital market products by ECF and P2P financing platforms. It makes the appointment of a Shariah adviser (and the disclosure of the name) by the platform operator mandatory when an ICM product is offered. The role and responsibility of the Shariah adviser is rather comprehensive as prescribed in the SC's *Guidelines on Recognized Markets.*

The world's first Real Estate Islamic Crowdfunding platform and one of the first investment Islamic crowdfunding platforms in the world, Ethis Crowd believes that their projects should be technically Shariah-compliant in its form, ethical in its substance and always seek to create maximum positive social impact. For this purpose, they have obtained the Shariah-compliant endorsement from its Shariah Committee to review their business model structure, process and documentation[14].

With the diversity in the Shariah governance approaches in different markets, having Shariah certainty is vital to ensure that the Islamic principles are being upheld regardless of the sophisticated regulations and technologies. Islamic fintech firms should give greater emphasis on Shariah permissibility to ensure that their products and services are Shariah-compliant at all times.

5.3. Fintech Challenges

Under the present landscape and in predominantly emerging economies, not only are new fintech models able to gain recognition from domestic financial authorities to accommodate their existence but they also bring many challenges. In the realms of financial inclusion, the core consideration remains as the low-level presence of fintech service providers and its usage, primarily in underserved areas and segments.

The lower penetration of internet services infrastructure and the use of smart mobile devices in remote areas remain as the key structural challenges in ensuring optimal reach to the core unbanked and underserved segments. The availability of this basic infrastructure in its current form such as low internet speed over a second generation wireless network in certain geographical areas, together with local issues and traditions continue to be major barriers that require innovative solutions and investments.

A main weakness of fintech start-ups is their lack of understanding on regulatory requirements and guidance. This exacerbates the operational challenges due to their lack of familiarity to match business models and regulatory compliance. The emergence of innovation labs address some of these challenges.

Often in emerging markets, fintech talents are scarce resources. This is true in critical areas of

14 *See https://ethis.co/id/pronouncement-of-the-fsac-shariah-committee/.*

digital technology such as big data and data analytics, machine learning and artificial intelligence. Skilled programme coders and data scientists are resources that are hard to come by and costly. This can drive operational costs higher and frustrate start-up investors. The issue of data privacy and fraud adds on to operational predicament. On many occasions, fraud and cyber security matters lead to consumers losing money as most operators work under the radar of regulation, hence, impacting trust within the digital space. For fintech start-ups offering Islamic services, lack of clarity on aspects of Shariah governance and lack of understanding among Shariah scholars can cause uncertainty to consumers and the industry.

Box 2: Case Study

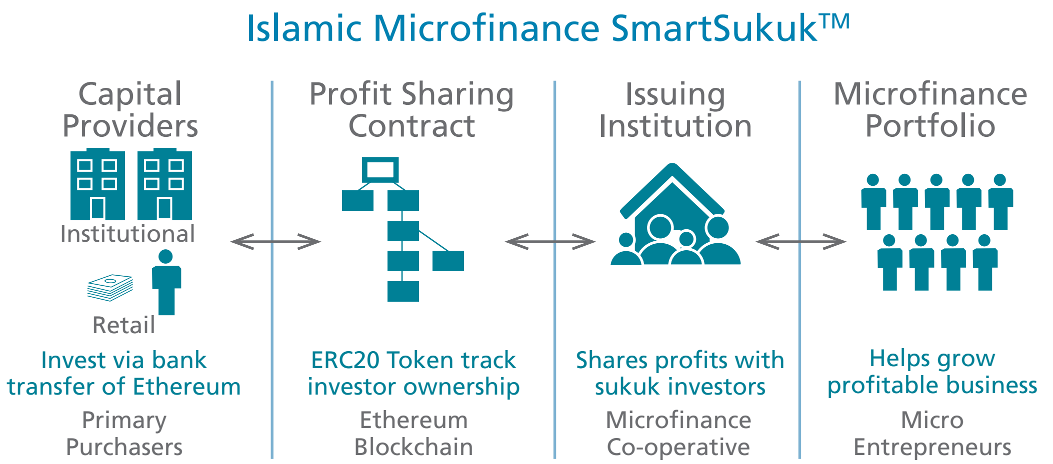
Blossom Finance: Sukuk on the Blockchain

Marketplace innovation through the deployment of technology has helped facilitate capital formation. Leveraging blockchain technology, the mobilisation of small scale capital through issuance of micro sukuk structured on a profit-sharing basis is now made possible. In Indonesia, Blossom Finance is at the forefront in arranging micro sukuk issuance to fund Baitulmal Wa Tamwil (BMT) in Indonesia. The funds raised are in turn, built into a portfolio of financing assets that goes towards funding small traders and businesses and empowering women.

In Indonesia, a typical microfinance institution is in the form of microfinance co-operative. Modelled as a Shariah-based microfinance co-operative, BMT is among the most prominent microfinance institutions. They also work on pursuing SDGs initiatives. BMT takes members' deposit, provide financing and perform social business activities. The core businesses are commercially-related financial services activities but also reinvest their profits into social impact activities. Being a not-for-profit entity, BMT would channel its surpluses by providing key services including healthcare, education, retail provisions and villages and rural areas within the coverage of its business operations.

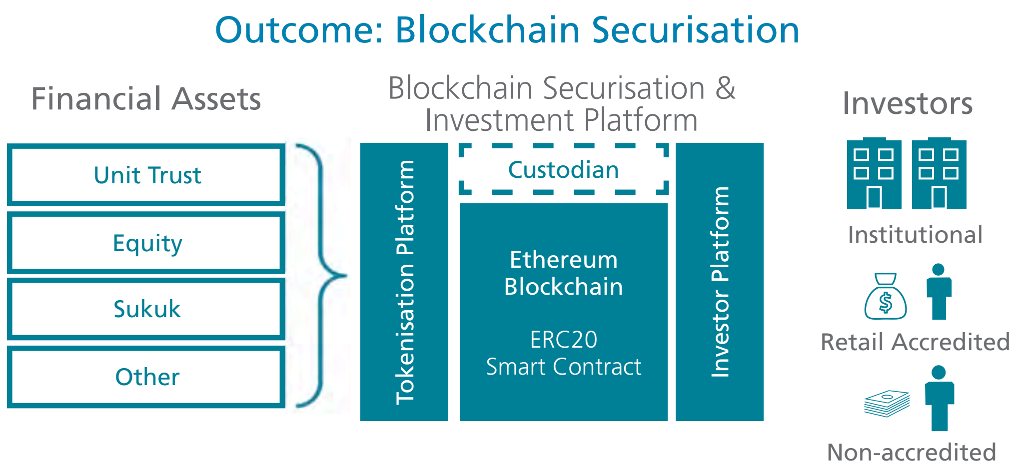
BMT had relied on the mobilisation of redistributive sources and solidarity-based funds such as *zakat, sadaqah, infaq* and *waqf* to address issues of poverty eradication. But increasingly, BMT institutions face the challenge of mobilising adequate liquidity (due to constant withdrawals) and managing its cashflow (in proving stable returns to depositors) effectively in order to act as meaningful microfinance institutions and perform its social obligation. Achieving the SDGs would thus require institutions such as BMT to scale up its business operations to meet the growing needs of the underserved especially in financing small traders and businesses.

Modelling a Technology-based Microfinance Sukuk



Underpinned by blockchain technology, the BMT sukuk issuance deploys the Ethereum-based blockchain, which paves the way for greater financial inclusion. It facilitates capital formation through various financial instruments and mobilises productive capital into small microfinance entities. Its ERC20 (an official protocol for Ethereum network) token is a smart contract and commands vital importance because it defines a common list of rules that all Ethereum tokens must adhere to. It also facilitates and tracks the primary and secondary transactions of such tokenized sukuk. Additionally, leveraging the ERC20 tokenisation platform further eliminates the need for multiple intermediaries to perform fiduciary and non-fiduciary obligations in the sukuk issuance process and ensure standardisation of its functions.

Blossom Finance's Blockchain Securitisation Model



Likewise, through its agents, greater fintech application was integrated as part of the BMT financial services activities including deposit-taking, collection and financing making the entire process efficient and transparent. Such access to financial services has helped communities to be self-sustained and gain their dignity without relying on financial assistance.

The local currency sukuk issuance focuses on attracting participation from foreign investors (mainly angel investors) through a profit-sharing structure with the BMT as managers. The sukuk as tokens is governed under domestic Indonesian law and the ERC20 platform facilitates the secondary trades and tracks changes on ownership. This model is efficient from a regulatory and supervisory standpoint as no domestic investors are involved. In addition, the model attracts foreign investments into the country without unnecessary foreign currency exposure to the BMT. However, it does invite some challenges. For example, foreign sukuk investors will have to take on the currency risks themselves (on their exposure to Rupiah currency) with little opportunity to hedge due the minute-size of the transaction. The small size of such transactions however, limit to a great extent the downside risks of such investments.

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CHAPTER

06

Investor Protection and Investment Literacy in Islamic Finance

OVERVIEW

Effective consumer and investor protection as well as increasing literacy are essential elements of financial inclusion. These elements are seen as the concept of responsible delivery in the financial services that assumes responsible market conduct by providers and investor protection oversight. Investor confidence and trust in a well-functioning market for financial services promotes financial stability, innovation and inclusion over the long term.

With an increasingly digital environment to promote greater financial inclusion, the need for stronger consumer financial protection and investment literacy are even more imperative. However, technological abuses will give rise to cyber security threats and breaches, which continues to be an enduring concern. Increasing the level of awareness and cyber-related education should be an essential part of the process. The implementation of relevant policy measures help build trust and maintain confidence in the financial system, thus achieving the desired outcome of increased consumerparticipation in formal financing, which will improve prosperity and reduce poverty.

6.1. Investor Protection and Financial Inclusion

The financially-excluded segments generally have common but specific characteristics. They are characterised by a level of distrust in the financial system, lower level of education and investment literacy. The environment of low competition and remote geographical location of the population further adds to its nature. These specific features have significant implications for effective investor protection regulation and supervision, aimed at enabling access to financial services, but more importantly, to encourage the use of these services.

Furthermore, developing Islamic financial markets by leveraging technology to promote the usage of financial services require greater consumer and investor protection measures. It means that policymakers will have to further establish appropriate approaches and policies. For example, the conservative nature and low level of financial literacy may require greater disclosure and transparency of products or services. This can be achieved by using simple language and communication techniques, which can be easily understood.

The OECD's *G20 High-Level Principles on Financial Consumer Protection* serves as a guide and is designed to assist policymakers in developing comprehensive financial consumer and investor protection framework.

The G20 High-Level Principles are essential to protect consumers' and investors' rights, while also recognising the fact that these rights do come with consumers' responsibilities. This calls for adequate regulatory resources to carry out their missions to ensure, among others, fair treatment, proper disclosure and improved financial education. Other important principles require the ecosystem to deal with the adequacy of advice, protection of assets and data including from fraud and abuse, and competitive frameworks. These principles also encourage adequate complaints-handling and redress mechanisms, which addresses the sectoral and international specificities, technological developments and special needs of vulnerable groups. This approach complements and builds upon financial regulation and supervision, and financial governance.

FIGURE 1: Financial Consumer and Investor Protection Framework

Source: OECD on G20 High-Level Principles on Financial Consumer Protection

For retail products, greater prominence is placed on the sales practices, 'know your client' (KYC) rules and investor education. For wholesale products, the emphasis is on the quality of disclosure and related documentation. This necessitates continuing efforts to ensure that the investor protection frameworks are relevant and do not impose undue regulatory costs or burdens.

In the Kingdom of Saudi Arabia where half of its 34 million population are under 25 years of age, Capital Market Authority of Saudi Arabia has taken effective measures to promote greater participation of its youth population in finance and investments. High on its agenda is to provide high-level investor protection. Hence, relevant measures have been put in place to promote investor awareness and increase financial literacy, regulate and supervise licensed market intermediaries, and take robust enforcement action on market abuse, as well as establish platform for dispute resolution.

The core of trust for investor protection is enhanced disclosure. For Islamic products, additional Shariah-related disclosures are required to facilitate informed investment decision-making by investors. Special committees have been formed to deal with aggrieved investors and connect them with relevant financial intermediaries for resolutions.

6.2. Investment Literacy as Regulatory Tools in Promoting Financial Inclusion

Investor education is an important component of increasing awareness on the financial markets. It is one of the tools to complement financial consumers and investor protection regulations that can support and guide individuals' financial and investment decision-making, identify risk factors and plan for their long-term future appropriately. Increased financial literacy opens access to consumers towards the financial sector, thus encouraging participation. In addition, investment literacy also promotes profitable investment strategies and even more importantly, ensures financial well-being for individuals and their families.

For emerging economies, these initiatives can encourage the participation of local investors in domestic capital markets and increase their economic depth by making it less dependent on external factors and more resilient to global financial shocks (e.g. from cross-border flows of capital). Investment literacy is known to be highly correlated to investment behaviour. Additionally, enhancing investment literacy further empowers individuals, allowing them to improve their well-being. To produce a more tailored policy in implementing investor education, the design and implementation process for investor education policies and programmes has to take into account various policies, markets and welfare elements, which may have an impact on investors' needs and their ability to participate safely and actively in financial markets.

The SC places the utmost importance on the education and empowerment of investors as part of its investor protection mandate. In 2014, the SC launched InvestSmart®, a comprehensive investment awareness and literacy campaign under its investor empowerment initiative to enable more informed retail participation in the capital market. InvestSmart® allows investors to fully comprehend various products in the capital market, their rights and responsibilities as investors as well as the avenues to redress. Another initiative by the SC is the aFINity@SC (alliance of fintech community) network, which aims to assist fintech stakeholders by creating interests towards accelerating innovative growth within the industry. Various programmes have been conducted among the aFINity network to promote awareness on the recent developments within the local and international fintech industry.

Apart from the SC, the Securities and Exchange Commission of Nigeria introduced the *Capital Market Masterplan 2015-2025* to further enhance the growth and development of the capital market environment in Nigeria. The master plan promotes effective regulation in addressing investor literacy through good disclosure. It was believed that low investment literacy accelerated the 2008 economic crash in Nigeria. Thus, the need to address this issue is deemed crucial in the jurisdiction. One of its initiatives is to encourage investors to have more diversified investments, which will protect them from any unforeseen risks. Similarly, the Central Bank of Nigeria is also developing a framework on financial literacy to promote financial inclusion through literacy, thus reaching towards the Financial System Strategy (FSS) 2020 goal.

6.3. Leveraging Technology in Investor Protection and Investment Literacy

Investor education initiatives should aim at building new competencies and changing behaviours. With the increasing preference of consumers for interactive and online tools, investor education initiatives should also make full use of the available technology through innovative methods such as games and simulators.

Given the complex nature of long-term investment products and the financial consequences of decisions in this domain, consumers are more likely to seek advice to make appropriate investment decisions. Recent developments in the market such as the emergence of technology-based models (i.e. robo-advisory) are promising in this respect, especially for consumers with lower incomes. Therefore, governments and other public authorities should ensure that potential and existing investors have access to quality advice that is transparent and unbiased. Additionally, regulators must also be open to embrace technology and product innovations.

The role of technology in this segment is gaining in significance. Notably, the application of robotic-based services such as artificial intelligence (AI) and data analytics helps this segment of the population make informed financial decisions, while, at the same time, providing a platform for information dissemination, knowledge-sharing and interactive communication. For instance, the usage of AI can predict consumer behaviour, thus allowing regulators to produce regulations that are more specific to consumers' requirements.

6.4. Issues in Investor Protection and Investment Literacy

Digitalisation and technology make investment products more efficient in terms of costs and deliverables. However, the use of digital communication tools comes with cyber security risks. Mobile phones and computers are especially vulnerable to online frauds, threats of technical and social-related cyber-attack and data breaches. With the rise of electronic platforms to facilitate financial investments, the level of awareness of cyber-related risks is low and remains a challenge.

Issues and threats linked to technology such as cyber-attacks and data breaches should not be taken lightly. Data breaches (i.e. technical and non-technical) happen on a daily basis, therefore the need to raise awareness enables individuals to identify any potential frauds. It is crucial that regulators address this vulnerability to protect individuals from further damage. In most instances, human or user error were cited as the main causes of any successful cyber-criminal acts. Their lack of awareness over cyber threats that exist present a key challenge to relevant stakeholders. Without adequate protection measures, it will remain as an existential threat to building trust and confidence for digital finance.

CyberSecurity MALAYSIA

CyberSecurity Malaysia, the national cyber security specialist, serves to strengthen Malaysia's cyberspace by providing a wide range of cyber security services and programmes to assist with any issues within the digital systems. Additionally, it serves to strengthen Malaysia's cyberspace. In terms of investor education, CyberSecurity has programmes to raise awareness and educate people who are non-practitioners or users within the digital space. One of the units in CyberSecurity is the Malaysia Computer Emergency Response Team (MyCERT) that acts as a reference point for consumers with any cyber-related issues. With the presence of these organisations, challenges faced within the digital world can be reduced. However, most importantly, having a strong investor protection framework and solid investment literacy is crucial for regulators and investors respectively to produce a safer, sophisticated and more inclusive capital market.

Securities Industry Dispute Resolution Center

The establishment of Securities Industry Dispute Resolution Centre (SIDREC) in Malaysia aims to promote investor protection by providing access to redress and assistance to investors on investment disputes. Pertaining to any dealings or transactions involving capital market products and services, SIDREC acts on dispute resolution for monetary claims made by investors against capital market intermediaries who are SIDREC members. In 2018, SIDREC extended its purview by offering its services to investors and services providers on disputes relating to claims exceeding RM250,000.

In essence, easy-access financial products and services (both conventional and Shariah-compliant) encourages inclusion within the financial sector. Additionally, assurance in the form of investor protection from relevant parties such as government bodies and regulators also further promote investors to participate in formal financing. It is important to note that, investment literacy is crucial as it enables consumers and investors to mitigate any risks (e.g. frauds and threats), especially in the digital-driven financial ecosystem today. In order to boost financial inclusion, government bodies and regulators must produce tailored regulations and initiatives to ensure that all individuals of various ages and backgrounds are well-insured, thus producing a well-sustained financially inclusive environment.

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CHAPTER

07

Towards Sustainable Financial Inclusion through Islamic Finance

OVERVIEW

Establishing a sustainable environment for access to financial services will constantly be a work-in-progress due to the varying complexities and distinct features of financial inclusion. The diverse characteristics of the financially excluded, including their varying needs, readiness and specificities can make the task of achieving desired objectives more difficult. The challenges become even greater when the range of financial solutions required for different segments of the underserved varies. This discourages traditional formal banking and financial institutions from rendering the services needed to finance MSMEs as well as underserved individuals.

In a similar vein, it is important to have a better understanding of the key success factors that contribute to enhancing financial inclusion. One approach is to tap into countries' experiences and its many stakeholders. The Conference deliberated at length the countries' experiences that could form as proxy for others as well as institutional experiences. Knowledge-sharing information is a crucial aspect to develop an inclusive financial system more effectively. Likewise, developing a greater scale of the financial services industry will create a meaningful impact for the financially excluded. To this effect, mainstreaming Islamic finance globally and the industry's potential to harness its value-driven system would be a catalyst to sustainably drive for an inclusive financial system.

7.1. Development of Financial Inclusion in Selected OIC Countries

Governments around the world increasingly view financial inclusion as an integral part to economic development towards building a sustainable economy. This is evident with over 70 financial institutions from developing and emerging countries, representing over 57% of the world's unbanked population, signing the *Maya Declaration* since 2011.

The Conference deliberated the issue of financial inclusion in some of the OIC member states based on a country income-level approach. This was presented to gain better insights of the specific issues and challenges by examining the current state of financial inclusion, its key enablers and barriers as well as the adoption of appropriate policies and strategies. Three countries with different income-levels were assessed, namely Uganda, Pakistan and Turkey, which represented the low-income country, lower-middle-income and upper-middle-income countries, respectively.

Based on the examination, the key salient observations are summarised in Table 1.

TABLE 1: Key Salient Observations in Selected OIC Countries

	Uganda	Pakistan	Turkey
Current state of financial inclusion	• 58% of the adult population engaged with formal financial services; and • Access in rural areas continue to be a challenge.	• 47% of the population were financially included. However, only 23% were served by formal institutions.	• 67.7% of the adult population had financial accounts with 54.3% of women having access to financial services.
Key enablers	• *Financial Inclusion Strategy 2017-2022* provides a clear framework; • The establishment of key sector technical working group; and • Greater focus on digitisation of financial services.	• High level co-operation among stakeholders due to the State Bank of Pakistan (SBP); • Constructive regulatory approach; and • A willingness to co-ordinate with businesses and adjust regulations where necessary.	• Strong and well-regulated financial sector; • Extensive and sophisticated payment systems; and • Huge interest in financial inclusion by the private sector - the Financial Literacy and Inclusion Association educates large number of people on financial literacy.
Key barriers	• Digital and financial literacy; • Delay in passing legislation; and • No inter-operability platform managed by regulators.	• Low specialised regulatory capacity to foster innovation for emerging technologies; • Limited supervisory capacity of regulators (apart from SBP); and • No existing law on data protection and inadequate consumer protection.	• Lack of promotion on financial inclusion; • Lack of clear legislative framework prevented the Grameen Microfinance Programme from developing further; and • Lack of confidence among the public on financial saving due to the risks of swings in inflation, interests and exchange rates.

The different approaches adopted by the respective governments are not determined by the income level of the country but rather, they are on strategic approaches depending on the maturity of the jurisdiction in financial inclusion and the challenges that they are facing. The respective governments are also taking a strategic approach by developing a national financial inclusion strategy, which brings together diverse stakeholders including financial regulators. They are also paying attention to consumer protection and financial capability to promote responsible and sustainable financial services.

7.2. Recommendation for Greater Financial Inclusion

Common denominators were identified across the three distinct categories as key recommendations to strengthen financial inclusion. These are summarised below:

a) **Clear regulatory framework** – A clear regulatory framework ensures the implementation and development of a robust financial system that focuses on financial inclusion for all. This includes examining and benchmarking the policies and regulations that have achieved the greatest impact in advancing financial inclusion, which can be replicated and scaled. This will help reach not only the financially excluded individuals and businesses but also close the financial inclusion gender gap.

b) **Leveraging fintech** – The emergence of fintech as a transformational force in financial services and its integration into Islamic finance operations will undoubtedly influence financial inclusion positively as evident in its application for the underserved segments. The potential of future technology to boost social and economic inclusion at its current state is unprecedented. New technologies such as blockchain's distributed ledger technology and cryptocurrencies will be developed further and in turn, will enhance financial inclusion. The wide usage of modern technologies such as smartphones throughout the world and even in the lowest income groups proves that adapting technology to cater for financial inclusion can produce positive results.

c) **Cyber security strategies** – Regulators are responsible to create a sound and effective cyber security strategies to protect relevant stakeholders in order to encourage financial inclusion through a digital economy. Customers need to be protected from loss of money or identity theft, which is crucial for the whole ecosystem.

d) **Co-ordination among stakeholders** - Regulators must work hand-in-hand with the private sector to make a greater impact on financial inclusion. There are different mechanisms or methodologies in stakeholder co-ordination to be employed in various jurisdictions. Stakeholders involved in financial inclusion programmes are comprised of various focus areas based on a country's financial inclusion objectives which may include, but are not limited to, payments, savings, credit, insurance, pension and capital markets.

e) **Improved education in financial literacy** – There is a global policy interest in increasing financial inclusion as well as in recognising the need for complementary policies on financial education and financial consumer protection. A national policy on education in financial literacy starting with the younger generation will ensure greater participation in the economy as financial inclusion is needed to chart the direction and specific action plans.

7.3. Prospect of Islamic Finance for Financial Inclusion

Islamic finance has become an increasingly integrated part of the global financial system. Its landscape has been dramatically transformed due to more diverse players with an extensive range of financial products and services. The fact that Islamic finance is also expanding into new jurisdictions and markets, albeit at different levels of development, reinforces the belief that it can and will continue to play an extremely meaningful role as solution providers of financial inclusion.

Over the years, there has been growing awareness on the need to utilise Shariah-compliant financial services by suppliers of halal products and services. Given the projected growth of the global halal economy to US$7.7 trillion in size by 2030, further expansion of these Shariah-compliant alternatives will provide necessary support for the global halal economy to expand their frontiers. This ensures an end-to-end Shariah compliance in the suppliers' operations while providing them with alternative and ethical funding options. In this regard, the Islamic financial institutions have abundant opportunities to unlock new business potentials by catering to the financial needs of the halal economy stakeholders[16].

The very presence and growth of non-banking financial institutions taking a more central role in promoting financial inclusion is commendable. Service providers in the form of technology-related services (ECF, P2P and informal institutions such as co-operative offering Islamic microfinancing) reflects the diversity of the supply-side to provide inclusive finance. Likewise, the growth of alternative markets and its continued role as providers of capital to MSMEs is reassuring.

Another positive indicator is the emergence of fintech as a transformational force in the financial services sector. Its integration into Islamic finance operations will undoubtedly influence financial inclusion positively as seen in its application for the underserved segments. Such promising indicators point towards the strengthening of financial inclusion in the future.

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16 *See http://www.mifc.com/index.php?ch=28&pg=72&ac=90&bb=uploadpdf.*

7.4 Conclusion

The continued global expansion of Islamic financial services is extremely significant particularly in efforts to support inclusive and sustainable growth. This aims to eradicate inequality, poverty and achieve socio-economic stability, and to improve the quality of life of the financially-excluded population and businesses overall.

With technological advancements and increased digitisation of the financial services, it will indeed reduce costs, and enhance their speed, convenience and appeal. Nevertheless, even as individuals gain access to financial services offered digitally, these individuals may be encumbered due to low levels of digital literacy and awareness. Therefore, in adopting transformative technology, measures to increase investor education and awareness are equally important towards building trust and confidence.

Islamic finance has a critical role to play in enhancing financial inclusion. As Islamic finance embraces the agenda on SDGs as well as sustainable finance and investments, there is a firm conviction that the industry is moving towards a more inclusive financial system. Islamic market solutions applied in the right manner will benefit countless lives and communities. This is crucial to ensure that the efforts have the desired impact and remain sustainable in the long run.

Appendices

Appendix 1 Conference Agenda

DAY ONE: Monday, April 29, 2019 | OPEN PLENARY SESSIONS

Time	Programme
8.15 am – 9.00 am	Registration
9.15 am – 9.45 am	**Welcome Remarks** Dr Firas Raad, Country Manager for Malaysia, East Asia and Pacific, The World Bank Group **Keynote Address** Datuk Syed Zaid Albar, Chairman, Securities Commission Malaysia
9.45 am – 10.30 am	**SESSION 1: FINANCIAL INCLUSION IN OIC COUNTRIES** Moderator: Professor Dato' Dr Azmi Omar, President and CEO, INCEIF Panellists: 1. Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive, Securities Commission Malaysia 2. Abayomi Alawode, Head of Islamic Finance, Finance, Competitiveness and Innovation, World Bank Description: It is estimated that over 1.7 billion adults, which accounts for one-third of the world's adult population, do not have access to formal financial services and majority of them reside in developing countries. The picture is substantially somber for the member countries of Organization of Islamic Conference (OIC). According to the Global Findex Database, 40 out of the 48 OIC member countries represented in this database have formal account penetration rates that were less than the world average of 50 percent. Thus, this conversation session will discuss these challenges as well as provide an overview of Islamic finance instruments currently in use to support financial inclusion, particularly in the OIC countries.
10.30 am – 10.45 am	Coffee Break
10.45 am – 12.00 pm	**SESSION 2: BROADENING ACCESS TO FINANCE FOR MICRO, SMALL AND MEDIUM ENTERPRISES: THE ROLE OF ISLAMIC FINANCE** Moderator: Kamarudin Hashim, Executive Director, Market and Corporate Supervision, Securities Commission Malaysia Panellists: 1. Assistant Professor Dr Ziyaad Mahomed, Associate Dean and Director, INCEIF 2. Sam Shafie, CEO and Co-Founder, pitchIN 3. Norazli Mohamad Nor, Senior Vice President of Investments, Xeraya Capital 4. Norhizam Abdul Kadir, Vice President, Growth Ecosystem Development, Malaysia Digital Economy Corporation (MDEC) Description: Micro, Small and Medium Enterprises (MSMEs) and entrepreneurs constitute the backbone of most developing and emerging economies. MSMEs too have seen a shift from traditional brick and mortar businesses to more digitally-led businesses, changing the way they interact with consumers. In line with these developments, capital markets too have evolved to cater to a wider spectrum of MSMEs. While traditional sources of funding such as banking, public equity and debt remain relevant, alternative avenues of financing such as Equity Crowdfunding, Peer-to-Peer Financing, Venture Capital, Private Equity and alternative listing platforms are fast gaining acceptance as complements to traditional funding channels. Speakers will share their experiences in leveraging Islamic financial instruments to support MSMEs and advance financial inclusion.

Appendix 1 Conference Agenda

Time	Programme
12.15 pm – 12.30 pm	**CASE STUDY 1: CROWDFUNDING FOR HOUSING DEVELOPMENT IN INDONESIA** Speaker: Umar Munshi, Founder, Ethis Group
12.30 pm – 2.00 pm	Lunch
2.00 pm – 3.15 pm	**SESSION 3: ISLAMIC SOCIAL FINANCE: TOOLS FOR ENHANCING FINANCIAL INCLUSION** Moderator: Ahmad Hafiz Abdul Aziz, Financial Sector Specialist, World Bank Panellist: 1. Dr Dadang Muljawan, Director, Sharia Financial and Economic Department, Bank Indonesia 2. Dr Aznan Hasan, Member, Shariah Advisory Council, Securities Commission Malaysia 3. Hamid Rashid, Founder and CEO, Finterra Technologies 4. Francois de Borchgrave, Co-Founder and Managing Director, KOIS Invest Description: The traditional methods of Islamic social finance have a long history of contributing to the development of Islamic nations. *Zakat* (alms-giving), *waqf* (endowment) and *sadaqah* (voluntary charity) have been used to provide for the basic means of livelihood for the poor and destitute, albeit in a mostly informal structure. However, it is envisaged that the future application of these instruments will be exceedingly sophisticated using advances in technology such as the blockchain approach. This session will discuss how Islamic social finance can contribute maximally to the financial inclusion agenda.
3.15 pm – 3.45 pm	**CASE STUDY 2: HALALCHAIN** Speaker: Abdullah Han, Co-Founder of HalalChain
3.45 pm – 4.00 pm	Coffee Break
4.00 pm – 5.15 pm	**SESSION 4: ROLE OF GOVERNMENT AND REGULATORS IN PROMOTING FINANCIAL INCLUSION THROUGH ISLAMIC FINANCE** Moderator: Farah Imrana Hussain, Senior Financial Officer, The World Bank Group Panellist: 1. Mushtaq Kapasi, Chief Representative, Asia Pacific, International Capital Market Association (ICMA) 2. Professor Dr Ashraf Md Hashim, Member, Shariah Advisory Council, Securities Commission Malaysia and CEO ISRA Consultancy 3. Wasim Abdulwahab, Director, Islamic Financial Services Department, Islamic Development Bank 4. Kemal Rizadi Arbi, Advisor, Capital Market Authority, Sultanate of Oman Description: Financial inclusion is now a priority among global policymakers and financial sector regulators. Financial inclusion is also positioned prominently as an enabler of at least 7 of the 17 Sustainable Development Goals (SDGs) adopted by the United Nations (UN) in 2015. Financial inclusion has garnered attention and support of many development institutions, multilateral development banks, international organisations and other relevant government agencies (including financial sector regulators) to promote inclusive growth. *ICMA Social Bond Principles, ASEAN Social Bond Standards* as well as national policies have been developed to cater to generate social impact through financial services including for poverty eradication and financial inclusion. This session will focus on the role of government, regulators and policymakers in developing the appropriate enabling environment for Islamic financial inclusion.

Appendix 1 Conference Agenda

DAY TWO: Tuesday, April 30, 2019

Time	Programme
9.00 am – 10.15 am	**SESSION 5: UTILISING FINTECH IN ISLAMIC FINANCE FOR FINANCIAL INCLUSION** Moderator: Azrina Azmel, Deputy General Manager, Innovation, Digital and Strategy, Securities Commission Malaysia Panelist: 1. Professor Dato' Dr Norbik Bashah Idris, Head of Islamic fintech and Blockchain Research Group, IIUM 2. Mohammad Ridzuan Abdul Aziz, President, FinTech Association of Malaysia 3. Siti Zurina Sabarudin, Founding Partner, Zurina Advocates & Solicitors 4. Abdullah Han, Co-Founder, HalalChain Description: A panel comprising representatives of practitioners discuss how digital technology can contribute to expanding Islamic financial inclusion. This session highlights key issues in fintech related to the legal and regulatory framework and risk management.
10.15 am – 10.45 am	**Case Study 3: BLOCKCHAIN ON SUKUK** Speaker: Matthew Joseph Martin, Founder and CEO, Blossom Finance
10.45 am - 11.00 am	Coffee Break
11.00 am – 12.15 am	**SESSION 6: INVESTOR PROTECTION AND INVESTMENT LITERACY IN ISLAMIC FINANCE** Moderator: Sharifatul Hanizah Said Ali, CEO, Securities Industry Development Corporation (SIDC) Panelist: 1. Dato' Ts. Dr Amirudin Abdul Wahab, CEO, CyberSecurity Malaysia 2. Angelia Chin-Sharpe, CEO and Country Head for Malaysia & Brunei, BNP Paribas Asset Management 3. Abbas Abdulkadir, Deputy Director and Head of the Securities Investment Systems Department, Securities and Exchange Commission, Nigeria 4. Abdullah Alghursan, Manager, Investor Protection Department, Capital Market Authority, Saudi Arabia Description: Investor protection and investment literacy can contribute to improved efficiency, transparency, competition and access to retail financial markets by reducing information asymmetries and power imbalances among providers and users of financial services. Investor protection and investment literacy and capability can support financial inclusion by encouraging competition which leads to more cost-effective and higher quality products and by increasing investors' confidence and reducing risk when purchasing financial products and services because they know remedies exist when things go wrong. For Islamic capital market products to be acceptable to both institutional and retail investors, these investors must be assured of the same level of protection as accorded to investors in conventional products. This session will discuss relevant issues in investor protection and investment literacy in Islamic finance.

Appendix 1 Conference Agenda

Time	Programme	
12.15 am – 1.30 pm	**SESSION 7: TOWARDS SUSTAINABLE FINANCIAL INCLUSION THROUGH ISLAMIC FINANCE**	
	Moderator:	Abayomi Alawode, Head of Islamic Finance, Finance, Competitiveness and Innovation, The World Bank Group
	Panelist:	1. Asfaazam Kasbani, Assistant Resident Representative, UNDP Resident Representative for Malaysia, Singapore and Brunei Darussalam 2. Professor Dato' Dr Azmi Omar, President and CEO, INCEIF 3. Aiza Azreen Ahmad, Director Strategic Development, Boost 4. Basheer Ahmad, Senior Manager, Markets, Dubai Financial Services Authority
	Description:	This session will review the development and prospects of Islamic finance for financial inclusion. Experts will share their perspectives on global support, new potential region for development, potential new products and platforms for financial inclusion.
1.30 pm – 2.45 pm	**Lunch**	
END OF DAY 2		

Appendix 2 SPEAKER PROFILES

DATUK SYED ZAID ALBAR

Chairman
Securities Commission Malaysia

Datuk Syed Zaid Albar is the Executive Chairman of the Securities Commission Malaysia (SC). Prior to his appointment as the SC Chairman on 1 November 2018, he was the Managing Partner of Albar & Partners.

Currently, Datuk Syed Zaid chairs the Capital Market Development Fund (CMDF) and is a member of the Board of the Financial Reporting Foundation, as well as a member of the Debt Management Office, Ministry of Finance. Datuk Syed Zaid has been elected as the Vice Chairman of the Growth and Emerging Markets (GEM) Committee of the International Organisation of Securities Commissions (IOSCO), the global body of capital market regulators. He is also a member of the governing Board of IOSCO.

Datuk Syed Zaid has a degree in law from the United Kingdom. He is a Barrister at Law of the Lincoln's Inn, UK and an Advocate and Solicitor of the High Court of Malaya. He has over 38 years' experience in legal practice predominantly in the fields of corporate law, capital market, conventional banking and Islamic finance.

He has been recognised for his contribution and achievements in the legal practice through numerous domestic and international awards.

With his experience in finance and law, Datuk Syed Zaid has served on the Islamic Law Review Committee of Bank Negara Malaysia and the Appeals Committee of Bursa Malaysia Berhad. He has also served on the boards of several public listed companies in Malaysia.

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DR FIRAS RAAD

Country Manager for Malaysia, East Asia and Pacific
World Bank

Dr Firas Raad is currently the World Bank Country Manager for Malaysia beginning his assignment on August 15, 2018. As Country Manager, he heads the World Bank Group's Global Knowledge and Research Hub in Kuala Lumpur. Established in 2015, the 'Hub' aims to share and operationalise Malaysian development experiences with other countries (through South-South knowledge exchanges), promote global and innovative economic research and support Malaysian development priorities through the provision of analytical and advisory services. It symbolises Malaysia's development progress (moving away from borrowing status and becoming an upper middle-income country) and its long-standing development partnership with the World Bank Group.

Prior to Malaysia, he served for three years as the World Bank Country Manager in Kuwait overseeing a large Reimbursable Advisory Services (RAS) Country Programme focused on supporting the long-term development priorities of the Kuwaiti Government. These priorities have included general education reform, land management modernisation, competition policy, investment promotion, subsidy reform and public-private partnerships.

He has served on the Board of multiple organisations (Jordan Society for Sustainable Development, The Neurological Society, the Palestine Hospital, the Middle East Association for the Management of Hearing Loss, the Jordan Sports Federation for the Handicapped). He is currently the Chairman of Run Jordan and a Board Member of the King Hussein Foundation International.

Dr Raad has a Bachelor's Degree in Economics from the Johns Hopkins University, a Masters and Doctoral Degree in International Health Policy and Economics from the Harvard School of Public Health and a Masters' Degree in International Relations from Johns Hopkins School of Advanced International Studies (SAIS).

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DATUK ZAINAL IZLAN ZAINAL ABIDIN
Deputy Chief Executive
Securities Commission Malaysia

Datuk Zainal Izlan Zainal Abidin was appointed Deputy Chief Executive of the Securities Commission Malaysia (SC) on 5 April 2018.

He joined the SC in January 2011 as Executive Director, Islamic Capital Market and was appointed Managing Director, Development and Islamic Markets in November 2016. He currently provides direct oversight on the SC's Surveillance and Supervision functions as well as the People & Corporate Resources division. He is also the Chairman of Capital Markets Malaysia, an entity established by the SC to promote the Malaysian capital market.

Datuk Zainal Izlan holds a Bachelor of Science in Economics (dual concentration in Accounting & Finance) from The Wharton School, University of Pennsylvania, US, and is a Chartered Financial Analyst (CFA) charterholder. He has over 25 years of experience in the financial services industry. He began his career with Citibank before moving to MIDF Amanah Asset Management. Just before joining the SC, Datuk Zainal Izlan was the Chief Executive Officer of i-VCAP Management, an Islamic fund management firm based in Malaysia.

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ABAYOMI A ALAWADE

Head of Islamic Finance, Competitiveness and Innovation
World Bank

Abayomi A Alawade joined the World Bank in 1997 as a Young Professional and is currently Head of Islamic Finance in the Bank's Finance, Competitiveness and Innovation Global Practice. Previously, he worked in various capacities including as Practice Manager (Financial Systems Practice), Lead Financial Sector Specialist (East Asia and Pacific Region) and as Program Leader/Senior Financial Specialist (World Bank Institute). He also served as Adviser, Financial Stability at the Central Bank of Bahrain from 2006 to 2010. Before joining the World Bank, Abayomi was a lecturer in Economics at the Obafemi Awolowo University, Ile-Ife, Nigeria (1990-1994) and an instructor in Development Economics at the University of Cambridge. He holds a B.Sc and M.Sc (both in Economics) from the Obafemi Awolowo University, Ile-Ife, Nigeria and an M.Phil in Development Studies from the University of Cambridge, UK. He is the author of several academic papers on monetary and financial sector issues.

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PROFESSOR DATO' DR AZMI OMAR

President and Chief Executive Officer
International Centre for Education in Islamic Finance (INCEIF)

Professor Dato' Dr Azmi Omar serves as the President and Chief Executive Officer at INCEIF since October 2017. Prior to this, he was the Director General of Islamic Research and Training Institute (IRTI), Islamic Development Bank (IDB) Group, Jeddah, Kingdom of Saudi Arabia where he held the position for almost six years. He was also a senior professor and university administrator at the International Islamic University Malaysia for almost 30 years. At IRTI, Azmi pioneered and introduced many innovative policy researches, which culminated into flagship reports such as IRTI Islamic Social Finance Report and IDB-World Bank Global Report on Islamic Finance.

Azmi is a member of the External Advisory Group for the International Monetary Fund (IMF) Interdepartmental Working Committee on Islamic Finance and Board of Trustees of Responsible Finance Institute (RFI) Foundation. He also serves as a member of Shariah Committee to Bank Rakyat Malaysia, Etiqa Takaful Malaysia and as the Islamic finance Expert to the Autoriti Monetari Brunei Darussalam.

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KAMARUDIN HASHIM

Executive Director, Market and Corporate Supervision
Securities Commission Malaysia

Kamarudin Hashim is the Executive Director for the Market and Corporate Supervision (MCS) business group in SC. The MCS is responsible for the supervision of market institutions, and surveillance of corporate and secondary market activities. MCS also drives risk surveillance and management strategies for the SC.

Kamarudin is also the overall risk co-ordinator for the SC. He has been with the SC since 1993 and has experience in various areas including derivatives, bonds, fund management, Islamic capital markets and supervision. He had previously also served as Secretary to the Commission and was seconded to Citibank Bhd where he was involved in bonds and sukuk transactions while supporting regional Islamic finance business of the bank. Prior to joining SC, he was with Bank Negara Malaysia after obtaining a Bachelor of Arts degree majoring in Law from University of Kent, UK.

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ASSISTANT PROFESSOR DR ZIYAAD MAHOMED

Associate Dean and Director
International Centre for Education in Islamic Finance (INCEIF)

Assistant Professor (Shaykh) Dr Ziyaad Mahomed is a subject matter expert in Islamic Social Finance, Islamic Capital Markets and Shariah Advisory since 1998. He presently serves as Associate Dean of Online Programme and Director of Executive Education at INCEIF, the leading global university for Islamic finance based in Malaysia. He is also Chairman of the Shariah Committee of HSBC Amanah in Malaysia.

Dr Ziyaad has experience in establishing Islamic Finance in emerging countries, including regulation and banking strategy. He has published works related to Islamic Jurisprudence, Social Finance and Islamic Capital Market issues and is the recipient of numerous global awards for his unique Islamic Social Finance – fintech modelling techniques being tested in the UK, South East Asia and Africa. Dr Ziyaad holds qualifications from Malaysia (PhD in Islamic Finance; Professional Master's in Islamic Finance CIFP), the UK (BA (Hons) Business Finance), South Africa (MBA; Cert Islamic Law) and Jordan (Adv Dip Arabic). He serves on Shariah Boards in South Africa, Central Russia, Maldives and Malaysia among others.

Appendix 2 SPEAKER PROFILES

SAM SHAFIE

Chief Executive Officer and Co-Founder
pitchIN

Sam Shafie is the Chief Executive Officer and Co-Founder of pitchIN, a registered market operator by the SC to offer equity crowdfunding (ECF) and a pioneer of crowdfunding in Malaysia. pitchIN is best described as Malaysia's premier crowdfunding platform, having championed crowdfunding since 2012 and offering both equity and reward crowdfunding services. In 2018, 75% of the funds raised on ECF were done on pitchIN. pitchIN is also responsible to have hosted three issuers that raised the maximum RM3 million and the fastest, that raised RM3 million in 38 minutes.

Sam is also the Founder of WatchTower and Friends (WTF) Accelerator, a Tech Accelerator company that invests in early stage tech startups. To date, WTF has invested in 48 startups. Notable of them include TheLorry, Omnimatics, Runningman, Lapasar, ParkIt, PostCo to name a few and FinTech startups, MoneyMatch, MyCash Online and Bereev.

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NORAZLI MOHAMAD NOR

Senior Vice President of Investments
Xeraya Capital

Norazli Mohamad Nor is a Senior Vice President in Xeraya Capital, one of Malaysia's largest venture capital and private equity investor dedicated solely to Life Sciences. Azli is primarily involved in venture stage deal sourcing, closing and monitoring of investments, with particular interest in healthcare innovation, medtech and biorenewables.

Azli also doubles up as the focal point to manage a fund account, which has an emphasis on cross-border venture-stage Islamic finance, thereby necessitating the development and maintenance of Xeraya's Shariah-compliance investment infrastructure. Up to now, Azli has been personally involved in the development of four Shariah-compliant venture-stage instruments.

Azli graduated with a Bachelor of Engineering (Electrical and Electronics) from Imperial College, London and an MBA (Finance) from International Islamic University Malaysia and begun his career with training as a registered professional engineer before embarking into venture capital.

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NORHIZAM ABDUL KADIR

Vice President, Growth Ecosystem Development
Malaysia Digital Economy Corporation (MDEC)

Norhizam Abdul Kadir (or Hizam) brings with him 20 years' experience in multi-market technology and energy industries in various markets across Asia Pacific. He was with Intel, Microsoft and Ballard Power System before joining MDEC as Vice President in 2015. He has wide experience in corporate marketing, end-customer sales, business development, communications and channel marketing and enablement.

At MDEC, currently, he is championing the growth of digital entrepreneurial ecosystem in Malaysia. He has been tasked to manage the development of Malaysia Digital Hub, an initiative that recognises and supports the start-up ecosystem development in Malaysia. Norhizam is also responsible in enriching Malaysia's tech start-up ecosystem by engaging local and international ecosystem players such as key internet companies, accelerators, talent providers, venture capitals, and start-up communities as part of the strategy of growing Malaysia's digital economy.

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UMAR MUNSHI

Founder
Ethis Group

Umar Munshi is a social entrepreneur from Singapore who started his first business at the age of 18. His entrepreneurship journey includes stints in Singapore, Jakarta, Jeddah and Kuala Lumpur, spanning various sectors including healthcare, education, Islamic finance and real estate. Umar is the founder of Malaysia-based Ethis Ventures, an Islamic Fintech Venture Builder. Flagship platform GlobalSadaqah.com, an Islamic Social Finance crowdfunding marketplace was launched in early 2018.

Munshi is also the Managing Director of Singapore-based EthisCrowd.com, an award-winning pioneer Real Estate Islamic Crowdfunding platform that brings together retail crowd-investors, larger private investors and Islamic Banks to fund Social Housing developments in Indonesia. The 30,000-strong EthisCrowd has invested in projects to build more than 5,000 social houses for needy families. EthisCrowd is also currently processing licenses to setup in Indonesia, Brunei and Dubai.

Munshi is passionate about spreading the appreciation of Islamic Fintech as a means to create socio-economic benefit, and he enjoys speaking at events and webinars. Umar is an Islamica500 Islamic Economy influencer and the Chairman of the IslamicFintechAlliance.com.

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AHMAD HAFIZ ABDUL AZIZ

Finance, Competitiveness and Innovation
World Bank

Ahmad Hafiz Abdul Aziz is a Financial Sector Specialist with the World Bank Group Global Knowledge and Research Hub in Malaysia. Abdul Aziz brings with him ten years of relevant experiences in financial sector development, particularly in the area of Islamic capital markets, green and sustainable finance and financial inclusion. He has worked as a Principal Assistant Director at the Ministry of International Trade and Industry, and as Manager of the Islamic Capital Market at the Securities Commission Malaysia.

Ahmad Hafiz holds a Master's degree in Islamic Banking and Finance from Bangor University, UK which he completed under the Chevening scholarship, and a Master of Arts in Islamic Revealed Knowledge and Heritage (*Fiqh* and *Usul Fiqh*) (Honors) from the International Islamic University Malaysia.

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DR DADANG MULJAWAN

Director, Sharia Financial and Economic Department
Bank Indonesia

Dr Dadang Muljawan is currently a Director at Bank Indonesia. He holds BSc in Engineering Physics from Bandung Institute of Technology, MBA from PPM Graduate School of Management, and PhD in Economics from Loughborough University, UK. He has written a number of research publications in international journals and presented papers in international conferences.

His areas of interest cover financial supervision and regulations, and financial assessment both in micro level and macro level. He has been exposed to more than 20 years of experience in the Central Bank of Indonesia as an economic researcher, involved in a number of the Islamic Financial Services Board (IFSB) Working Groups and joined the IFSB in the area of prudential database for Financial Soundness Indicators (FSI). Currently, he is in charge in researches relating to the development of regulatory framework for Islamic financial institutions

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DR AZNAN HASAN

Associate Professor
Institute of Islamic Banking and Finance (IIiBF)

Dr Aznan Hasan is an Associate Professor in Shariah at Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia (IIUM) and the former Head of Islamic Law Department, Ahmad Ibrahim Kulliyyah of Laws, IIUM. He is currently the President, Association of Shariah Advisors in Islamic Finance (ASAS). He is also the Deputy Chairman of the Securities Commission Malaysia's Shariah Advisory Council and a member of the Shariah Advisory Council for AAOIFI.

Dr Aznan Hasan received his first Degree in Shariah from University of al-Azhar in 1994. He then successfully completed his Master degree in Shariah from Cairo University with distinction (*mumtaz*) in 1998 and his thesis was recommended for publication. He then obtained his Ph.D from University of Wales, Lampeter, United Kingdom (2003). Dr Aznan was involved in the structuring of various Islamic financial products, including banking products, capital market products and takaful products.

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HAMID RASHID

Founder and Chief Executive Officer
Finterra Technologies

Hamid Rashid is the Founder of FINTERRA, responsible for developing the first Waqf Chain, a crowdfunding platform for *waqf* development built on the blockchain, Hamid runs corporate offices in several locations including Malaysia, Singapore, Hong Kong and United Arab Emirates.

A specialist in technology internet protocol (IP) development, technology commercialisation, venture capital investment and property investments, Hamid is an accomplished hands-on strategic visionary, who brings a wealth of experience and knowledge to create brands that deliver strong tangible results to stakeholders. Having served for the likes of corporate giants as HP and Petronas, he has established a record of outperformance across an array of financial strategies.

Hamid has over 18 years of Technology Consulting experience in Enterprise Software Business Management and Business Development within the business-to-business (B2B) and business-to-consumer (B2C) sectors. Hamid has a Master's degree in IT and Management, and a Certificate in Organisational Leadership.

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FRANCOIS DE BORCHGRAVE

Co-Founder and Managing Director
KOIS Invest

François de Borchgrave brings more than 15 years of experience in Private Equity investments with a specific focus on impact investing in the last nine years. François co-founded KOIS, an impact investment and innovative finance advisory firm and is the Managing Partner in charge of KOIS's European operations. He is leading KOIS's efforts on social impact bonds in Europe, especially in France and in Belgium, and KOIS's lead person on asset management and innovative finance product structuring in the renewable energy sector.

Prior to KOIS, he founded an internet start-up for business services and he worked within large corporates in the technology sector. Additionally, Francois is co-founder of Toolbox, a non-profit that provides management services to NGOs, and was a volunteer for several NGOs such as Mother Theresa and Operation Thermos. He also lectures on social entrepreneurship at Solvay Brussels School of Business. Francois holds a Master in Business Administration from Harvard Business School and a BA in Commercial Engineering from Solvay Brussels School of Business.

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FARAH IMRANA HUSSAIN

Senior Financial Officer, Financial Advisory and Banking Department
World Bank

Farah Imrana Hussain is a Senior Financial Officer at the World Bank Treasury based in Washington DC. She is part of a team of financial specialists that design and implement financial solutions to help clients: (1) access financing for development by mobilising World Bank Group resources and private sector financing; (2) mitigate the impact of financial, natural disaster and commodity risks by facilitating access to market-based risk management tools; and (3) strengthen capacity to implement efficient risk management strategies by providing advisory services.

Ms Hussain specialises in providing technical assistance to countries to develop local green bond markets, including developing policy frameworks, identifying green project pipelines, developing impact reports, and supporting capacity building among key stakeholders as part of the World Bank Group's efforts to promote sustainable investment solutions.

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MUSHTAQ KAPASI

Managing Director and Chief Representative, Asia Pacific
International Capital Market Association (ICMA)

Mushtaq Kapasi is ICMA's Chief Representative for the Asia-Pacific region. He has been based in Hong Kong since 2002, engaged in senior strategy, capital market and legal roles covering the region at international banks active in Asia. Mushtaq has worked as a lawyer in debt capital markets and derivatives, a structurer in equities and fixed income, a manager of complex trades with regulatory and accounting considerations, and an adviser to top executives on emerging market strategy. He has also served as a consultant on financial structures of renewable energy projects in frontier markets. He is a member of the New York State Bar, and studied Mathematics at the University of Texas and Law at Yale University.

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PROFESSOR DR ASHRAF MD HASHIM

Chief Executive Officer
ISRA Consultancy

Professor Dr Ashraf Md Hashim is the Chief Executive Officer of International Research Academy for Islamic Finance (ISRA) Consultancy. He is also a Senior Researcher at ISRA and a Professor at International Centre of Education in Islamic Finance (INCEIF).

Dr Ashraf currently sits on the Central Bank of Malaysia's Shariah Advisory Council (SAC BNM) as Deputy Chairman and the Securities Commission of Malaysia's Shariah Advisory Council (SAC SC). He is also a member of Shariah Committee for International Islamic Liquidity Management Cooperation (IILM) and the Chairman of Shariah Committee of Bursa Malaysia. Dr Ashraf is also a member of Board of Directors for Tabung Haji (Pilgrimage Fund) and he is the Chairman of its Shariah Board. He is actively involved in many consultation works related to Islamic finance in Malaysia and abroad, among others include the Islamic Bank of Australia (Project) and Noor Takaful Nigeria (Chairman of Advisory Council of Experts). He is also the Chairman for Panel of Experts in Muamalat Matters under the Islamic Development Division, Prime Minister Department Malaysia.

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WASIM ABDULWAHAB

Director, Islamic Financial Services Department
Islamic Development Bank

Wasim Abdulwahab is currently the Director in Islamic Financial Sector Development Department at Islamic Development Bank (IsDB). Wasim is responsible for globally establishing, investing and supporting the growth of the Islamic financial services industry, leading to economic empowerment, employment creation and acceleration of economic growth.

He has over 20 years of broad-based experience, covering many of the 57 IDB member countries, in Islamic finance sector development, through financing *Awqaf* (Islamic Endowments) sector real estate and other projects, private equity in Islamic finance institutions, Islamic microfinance sector, and providing technical support to member countries for developing the Islamic finance sector enabling environment.

He has served on the Board of Directors of three major Islamic banks. Wasim has led policy dialogue with central banks and relevant ministries to assist IsDB member countries in development of the Islamic finance sector.

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KEMAL RIZADI ARBI

Advisor
Capital Market Authority, Sultanate of Oman

Kemal Rizadi Arbi has 25 years of global professional experience in the banking and financial industry, both public and private sector, particularly in investment banking, Islamic finance, corporate finance and as a strategic developer of capital markets. He is currently involved in advising, strategising and driving developmental efforts for the Oman capital market including the Islamic capital market as an Advisor at the Capital Market Authority, Sultanate of Oman (Oman CMA). He had led and established the new Sukuk Regulation, Real Estate Investment Trust (REIT) Funds Regulation and Take-Over Regulation in Oman. In addition, he had previously been involved in investment banking and corporate advisory as a Director and Team Head in a few leading investment banks including Maybank Investment Bank Bhd.

He was awarded a Malaysian government scholarship for top scholars for studies at the University of Iowa, US where he graduated with a Bachelor of Science in Actuarial Science. He also holds an MBA (Finance) from the International Islamic University Malaysia and Chartered Islamic Finance Professional (CIFP) Master's degree from INCEIF, Malaysia.

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AZRINA AZMEL

Deputy General Manager, Digital Strategy and Innovation
Securities Commission Malaysia

Azrina Azmel currently heads the Digital Department, which is part of the Digital Strategy & Innovation Business Group of the Securities Commission Malaysia. In particular, she has led the development of the Digital Investment Management regulatory framework, which was launched in May 2017.

Azrina has more than 19 years of experience in capital market regulatory and policy work. Her previous portfolios include leading capital market negotiations in international, regional and bilateral free trade agreements. She was also involved in the development of policies relating to equity crowdfunding, P2P financing, venture capital, private equity, investment banking and Islamic banking frameworks. Prior to her involvement in policy work, her earlier portfolios include advisory work on capital market regulations and law reform involving the Parliamentary process. She holds an LLB from the London School of Economics and Political Science.

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PROFESSOR DATO' DR NORBIK BASHAH IDRIS

Head of Islamic Fintech and Blockchain Research Group
International Islamic University Malaysia (IIUM)

Dato' Dr Norbik Bashah Idris is currently a Professor at Kulliyah of ICT in IIUM. He started his academic career in 1983 with UTM and has been attributed as one of the early pioneers of Cybersecurity in Malaysia.

Throughout his career, he has been involved in the SIGSAC – (Special Interest Group on Security, Audit and Control) of the ACM (Association of Computing Machinery), IEEE Computer Society, New York Academy of Science, USA and IFIP Working Group-11.3 on Database Security (USA). As a cybersecurity practitioner, Professor Norbik carries CISSP & CISM professional certifications from ISC2 & ISACA (USA).

Professor Norbik's latest interest is in synergizing cybersecurity & the Blockchain technology into Islamic fintech products & services in the hope of contributing to the Maqasid Shariah and sustainability of societies.

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MOHAMMAD RIDZUAN ABDUL AZIZ

President
FinTech Association of Malaysia

Mohammad Ridzuan Abdul Aziz has over 20 years of commercially-driven regulatory, compliance and technology experiences in Asia-Pacific. He provides business-oriented regulatory advice, solution and consultancy to banks, remittance companies, fund management entities, broker dealers (equity and derivatives) as well as sovereign wealth managers on regulatory requirements, compliance risks management, licensing, business viability and practical implementation of FinTech and regulatory technology (RegTech).

Ridzuan is currently WorldRemit's Country Director for Malaysia and Head of Business for Thailand and Indonesia. He is the current president of the FinTech Association of Malaysia (FAOM) and instrumental in raising the profile of the association, particularly on establishing an industry-wide fintech blueprint as one of the key elements for Malaysia digital economy. Ridzuan graduated from University of Wales, Aberyswyth in 1997 with BSc Economics, majoring in Accounting and Finance. He obtained his MBA, specialising in Management Information System from the International Islamic University Malaysia in 2005.

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SITI ZURINA SABARUDIN

Founding Partner
Zurina Advocates and Solicitors

Siti Zurina Sabarudin is one of the most sought after Fintech legal counsel in Malaysia, having advised various ECF, P2P, supply chain and robo-advisory firms in Malaysia. With over 16 years of experience, Zurina has extensive experience and deep industry knowledge in capital market, venture capital and private equity, mergers and acquisitions and corporate commercial practice.

Siti Zurina founded Messrs Zurina in 2016, and was previously attached to tier one Malaysian law firms, namely Zul Rafique & Partners and Azmi & Associates. As a recognition of her legal expertise, Zurina was named as a leading individual for Capital Market – Asia Pacific Legal 500 in 2015. Messrs Zurina was awarded the "Intellectual Property Rights Advisory Firm 2017" by the Malaysian Venture Capital & Private Equity Association.

Appendix 2 SPEAKER PROFILES

ABDULLAH HAN HUANGYU

Co-Founder
HalalChain

Abdullah Han Huangyu is passionate about empowering businesses to become global brands with socially responsible impact. He is Co-Founder and Chairman of HLC Foundation (HalalChain), a public blockchain company based on Direct Acyclic Graph and Proof of Work, which is friendly to small payment and quick transaction. In addition, HLC has developed consortium chain to address the concerns in Halal industry and Islamic Finance, which aspires to reshape the ecosystem of global Islamic economy.

At present, Abdullah Han is also the co-founder of Al-Sadiq Consulting Co. Ltd., an ethical investment advisory firm based in China and Malaysia, focused on creating enduring value for its shareholders, customers, employees and communities. Abdullah Han has a Bachelor's degree from Minzu University of China. He was born in China and spent four years in Lagos, Nigeria after graduation of university, and travelled extensively in Muslim World and beyond.

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MATTHEW JOSEPH MARTIN

Founder and Chief Executive Officer
Blossom Finance

Matthew J. Martin is a pioneer in the application of FinTech for Islamic finance. Combining his passion for Islamic finance with his deep financial technology background, Matthew founded Blossom Finance in 2014 which aims to increase the availability and inclusivity of Islamic finance using blockchain.

Matthew's background includes engineering and product management experience in the digital wallet, payment card, money remittance, mobile payments, and mobile banking sectors at venture capital funded, international tech startups Xoom, Boku, and Monitise. He has advised technology startups on FinTech and blockchain, and spoken to international audiences in the USA, Qatar, Bahrain, UAE, Singapore, Malaysia, and Indonesia. Prior to Blossom, Matthew started his first blockchain related venture in 2013 - when Bitcoin was less than $100 USD - which allowed instant purchase of Bitcoin in 27 countries using just a mobile phone.

Matthew has studied 8 languages and speaks Indonesian, Farsi, and French at an intermediate level in addition to his native English. Matthew embraced Islam in 2010 and currently lives in Jakarta, Indonesia.

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SHARIFATUL HANIZAH SAID ALI

Executive Director, Islamic Capital Market Development
Securities Commission Malaysia

Sharifatul Hanizah Said Ali is the Executive Director of Islamic Capital Market Development (ICMD) of the Securities Commission Malaysia (SC) since September 2019.

Prior to joining the SC, Sharifatul Hanizah was the Chief Executive Officer of SIDC, the learning and development arm of the SC. She is a Fellow of the Financial Services Institute of Australasia (F Fin), a Certified Financial Planner (CFP), an Islamic Financial Planner (IFP) and a Fellow of the Institute of Corporate Directors Malaysia (ICDM).

At ICMD, she manages a team that facilitates developmental initiatives for internationalisation of Malaysia's Islamic Capital Market, review industry proposals and conduct compliance screening on public listed companies from the Shariah perspective. This encompasses initiatives through the deepening and broadening of ICM products and services, to further facilitate globalisation of Malaysia as an ICM hub.

Sharifatul Hanizah has an extensive and diverse experience of over 30 years in the fields of investment analysis, portfolio management, equity trading and unit trust while serving in various organisations such as Permodalan Nasional Bhd (PNB), the National Equity Corporation, RHB Investment Management Sdn Bhd and Muamalat Invest. During her tenure in PNB and RHB, Sharifatul Hanizah's board experience was vast, spanning consumer goods, technology and manufacturing companies. She served on the boards of exchange-listed and private companies as a Nominee Director for both organisations.

Sharifatul Hanizah currently plays a role as both moderator and panel assessor for the Finance Accreditation Agency (FAA), a body supported by both Bank Negara Malaysia and the SC. She is also a SIDC faculty member for the SC's Capital Market Director Programme.

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DATO’ TS. DR AMIRUDIN ABDUL WAHAB
Chief Executive Officer
CyberSecurity Malaysia

Dato’ Ts. Dr Haji Amirudin Abdul Wahab is currently the Chief Executive Officer of CyberSecurity Malaysia. He has more than 25 years of ICT working experience in the telecom and IT sector within the Government as well as within the semi-government and private sectors. He is currently the Chairman of National ICT Standard Committee (ISCG) and also the Chairman of Board of Governance Global Accredited Cyber Security Education or Global ACE Scheme for Malaysia Chapter. He is currently a Board Member of Technology Park Malaysia (TPM) IT Sdn Bhd since 2016.

Dato’ Ts. Dr Amir holds a Doctor of Philosophy (PhD) from the School of Information Technology & Electrical Engineering (ITEE), University of Queensland, Australia. Dato’ Ts. Dr Amir also holds two Master degrees, a Master’s in Business Administration (MBA) from the University of Duqubue, Iowa, US, and a Master’s in Information Technology from National University of Malaysia (UKM). He also has a Bachelor of Science in Electrical Engineering degree from the University of Michigan, Ann Arbor, US.

He main research interests are in the area of asset pricing, portfolio theory, capital structure and international finance and has published articles in refereed international and local journals. He has also presented papers in several international and Islamic finance conference.

Appendix 2 SPEAKER PROFILES

ANGELIA CHIN-SHARPE

Chief Executive Officer and Country Head for Malaysia and Brunei
BNP Paribas Asset Management

Angelia Chin-Sharpe is the CEO and Country Head for Malaysia and Brunei for BNP Paribas Asset Management. She has over 20 years of experience in banking, capital markets and asset management. Angelia joined BNP Paribas Asset Management in 2007 and was responsible for the successful set up of our businesses in Malaysia and Brunei.

She was also Head of SEA Institutional Sales while posted in Singapore in 2010 before moving back to Malaysia in 2012. Angelia holds a Bachelor of Commerce, majoring in Accounting from Curtin University of Technology, Western Australia. She has completed her Chartered Islamic Finance Professional exams with INCEIF and is registered as a Chartered Professional in Islamic Finance (CPIF) with The Chartered Institute of Islamic Finance Professionals. Angelia was ranked 34th most influential women in Islamic banking and finance in the WOMANi2018 report. She was also awarded Community Achievement Award 2017 by the Malaysia Australian Alumni Council for her social work at The Lost Food Project.

Appendix 2 SPEAKER PROFILES

ABBAS ABDULKADIR

Deputy Director and Head of Securities Investment Systems
Securities and Exchange Commission, Nigeria

Abbas Abdulkadir, is a seasoned Business Administrator and Capital Market expert. He has been the Head of Department of Securities and Investment Services, Securities and Exchange Commission (SEC), Nigeria since January 2016 having previously served as the Divisional Head, Fixed Income & Equities from 2012 to 2015. He has overseen the processing of application of the first-ever global offering conducted by SEPLAT, an offer which was dual-listed on the Nigerian Stock Exchange (NSE) and London Stock Exchange (LSE).

Abbas' broad-based Capital Market experience, which goes as far back as 1997, has seen him serve in various strategic Committees such as the 10-years Capital Market Master Plan Committee, Capital Market Committee (CMC) sub-committee on Non-Interest Finance, Financial Services Regulation Coordinating Committee (FSRCC) sub-committee on Financial Markets, and others. He graduated from the University of Maiduguri with a Bachelor of Science degree in Business Administration in 1991. He obtained an MBA from Ahmadu Bello University, Zaria in 2007.

Appendix 2 SPEAKER PROFILES

ABDULLAH ALGHURSAN

Manager, Investor Protection Department
Capital Market Authority Saudi Arabia

Abdullah Alghursan is the manager of Investor Protection Department at the Capital Market Authority of Saudi Arabia (CMA), which he has been working for since 2005. He is a member of the IOSCO Committee on Retail Investors (C8). He has also worked in the investigation Department under the Enforcement Division for a couple of years, handling various types of cases such as insider trading, market manipulation, financial fraud, and disclosure cases. He has an academic background in accounting, finance and law. In 2015, he was a secondee in the Enforcement Group under the Office of International Affairs at the US Securities and Exchange Commission (SEC). Prior to his experience in the securities industry, he had worked in the banking and investment field for five years.

Appendix 2 SPEAKER PROFILES

ASFAAZAM KASBANI

Assistant Resident Representative
UNDP Resident Representative for Malaysia, Singapore and Brunei Darussalam

Asfaazam Kasbani is currently the Assistant Resident Representative and Head of Programme of the United Nations Development Programme (UNDP) of Malaysia, Singapore and Brunei. He is responsible in the day-to-day leadership and management of the UNDP programme and projects.

His current expertise includes development planning and public policy advisory services related to inclusive growth, sustainable and resilient development. His areas of interest includes Sustainable Development Goals (SDG), climate change, Sustainable Energy for All and national communications to UNFCCC. He is currently exploring options and opportunities in addressing financing gaps in achieving Agenda 2030 including partnership with private sectors and Islamic financing instruments.

He holds an MSc in Industrial and Technology Management from the University Kebangsaan Malaysia (2003), BSc in Engineering Physics from the University of Tulsa, Oklahoma, US in 1991.

Appendix 2 SPEAKER PROFILES

AIZA AZREEN AHMAD

Director, Strategic Development
Boost

Aiza Azreen Ahmad is currently the Director of Strategic Development for Boost eWallet and a bona fide technophile who believes pivoting Malaysia on digital and innovation can only be achieved through collaborations and partnerships.

Her recent success was in creating cashless eco system in the sectors of education, government collection agencies, SMEs and Smart Cities that made Boost the country's leading eWallet with more than three million subscribers and over 60,000 touchpoints.

Aiza has worked in multiple industries which included Islamic Banking, multi-business conglomerate, integrated media, M&A and management consulting, across two countries, Malaysia and Australia, where she called home for many years. Aiza graduated from Macquarie University with Merits in Economics.

Appendix 2 SPEAKER PROFILES

BASHEER AHMAD

Senior Manager, Markets Division
Dubai Financial Services Authority

Basheer Ahmad works at the DFSA in the Markets Division. He was previously with the Securities Commission Malaysia and had worked as deputy public prosecutor of the Attorney General's Chambers in Malaysia. Basheer is a Barrister-at-Law with the Lincoln's Inn, UK and holds law degree from the UK. He also holds a Chartered Islamic Finance Professional qualification and MIT Fintech Future Commerce certificate.