

THE GLOBAL ISLAMIC FINTECH REPORT

DECEMBER 2019



PRODUCED BY:

ELIPSES

IN COLLABORATION WITH:

**THE UK ISLAMIC
FINTECH PANEL**



Salaam
Gateway

FOREWORD

Abdul Haseeb Basit
Co-Founder & Principal
Elipses



Islamic finance has a big job on its hands. The Global Islamic Economy Report 2019 estimates that the industry is expecting strong growth and will reach USD 3.5 trillion in assets by 2024. At the same time, some of the most acute challenges of poverty, inequality and financial exclusion exist within the Islamic world. Large demographic shifts, with significant volumes of youth entering the workforce, are expected to compound these issues. Islamic finance needs to play a more effective role as a solution to these challenges. Islamic FinTech offers the Islamic finance sector the opportunity to become more applicable to a global Muslim audience and beyond.

” ISLAMIC FINTECH IS TRULY A GLOBAL PHENOMENON

FinTech entrepreneurs often begin their journey in order to solve challenges of inequality, exclusion, underservice or bad customer experience. They see it as a 1.8 billion+ person opportunity and growing.

Islamic FinTech can be defined as:

- The digital delivery of an Islamic finance product
- The application in Islamic finance of an emerging technology such as AI and Blockchain
- A FinTech addressing a Muslim market demography especially when serving an unmet need.

2019 has been a milestone year for Islamic FinTech with IslamicMarkets.com, Wahed Invest and Yielders all raising major funding rounds.

Innovation in Islamic finance now takes place with banks partnering with FinTechs, such as with the issuance of smart sukuk on the blockchain by Blossom Finance and others. Partnerships is an area set to increase as open banking continues to grow. Banks are also becoming innovators themselves again. The launch of neobank ila Bank which joins Meem, CDB NOW, Liv. and Insha, all backed by Islamic banks, is testament to this.

Ultimately if done right, the winner from all this innovation ought to be the consumer, both the existing consumer who now has more choice in a more competitive marketplace as well as the previously unserved consumer.

Perhaps most encouragingly these developments span ASEAN, the Middle East, Europe and North America. Islamic FinTech is truly a global phenomenon.

This report is a follow up to previous research on this sector, namely the Islamic FinTech Landscape in 2017 by IFN and the Islamic FinTech Report 2018 by Dinar Standard. As with these earlier works, this report aims to:

- Raise awareness of Islamic FinTech
- Discover more about the sector, the experience of founders and the views of the wider industry
- Understand areas where more support is needed by Islamic FinTechs in order to scale and succeed.

The findings that follow provide insights for all stakeholders seeking to engage in the global Islamic FinTech sector.

COMMENT

Harris Irfan
Chairman
UK Islamic FinTech Panel



Whilst the modern Islamic banking era began almost 60 years ago, it was only by the early 2000s that a new breed of technically sophisticated financier began to apply cutting edge techniques to solving the most complex financing problems in a Sharia compliant manner. The global financial crisis slowed these developments to a crawl and, for the past decade, growth in the Islamic finance industry has been consequently slower.

In contrast, recent developments in financial technology have led to, for example, a massive increase in electronic money institutions who have captured much of what was previously the preserve of traditional bricks and mortar banks. In parallel, the broader Islamic economy is also benefiting from the digital economy boom. It is therefore inevitable that Islamic FinTech firms represent the next wave of growth in the Islamic finance industry.

The focus on Islamic FinTech in, for example, Kuala Lumpur, Dubai, Bahrain and Istanbul is starting to change the global narrative in the Islamic finance industry. The Islamic Fintech Landscape, when launched two years ago, concluded that even without a policy framework or formal ecosystem in place, the UK was already the home of the second highest number of Islamic FinTechs.

Together with colleagues from the fields of FinTech and Islamic finance, in early 2018 we established the UK Islamic FinTech Panel to position the UK as a

world leader in Islamic FinTech, to cooperate with the world's leading Islamic finance centres for mutual benefit, and to provide delivery support to Sharia compliant FinTech companies. We were heartened by the response from HM Treasury, the Bank of England, the Department for International Trade and TheCityUK to participate on the Panel, to help connect our ecosystem both within and outside the UK, and to help us clear policy hurdles as and when they arose.

” ISLAMIC FINTECH FIRMS REPRESENT THE NEXT WAVE OF GROWTH IN THE ISLAMIC FINANCE INDUSTRY

The Panel connects the industry and works on projects with tangible deliverables that have commercial benefit. Its outputs so far include the creation of an Islamic economy accelerator, iE5, as well as making connections between investors and entrepreneurs that have led to successful capital raises. It is helping young, diverse, dynamic and tech savvy entrepreneurs to build products that customers love and solve problems the traditional banking industry has not yet solved.

I am delighted that Elipses is continuing to produce fundamental research in this area, helping to raise awareness, and identify and solve barriers to growth.

HIGHLIGHTS



P2P / CROWDFUNDING CHALLENGER BANKING BLOCKCHAIN / CRYPTO ROBO-ADVISORY / PFM LENDING

are the top five expected growth sectors for Islamic FinTech in 2020.



Islamic FinTechs cited the strength of the local conventional and Islamic finance sectors as very important factors in choosing their founding jurisdiction.



Islamic FinTechs identified a lack of access to capital as the biggest barrier to scaling.



76% of Islamic FinTechs are already or are expecting to be Sharia certified, however 68% felt certification wasn't necessary to be considered Islamic.



The preferred method of engagement in Islamic FinTech by Islamic economy institutions is partnerships, with more institutions expecting to do so in 2020.



85% of Islamic FinTechs have or are seeking direct or indirect regulated status or expected to be regulated in some form in the near future.



ASEAN countries are expected to provide the highest growth potential in 2020 for Islamic FinTech.



Partnerships are a key growth strategy for Islamic FinTechs with the other Islamic Fintechs and Islamic banks being the most sought after partners.



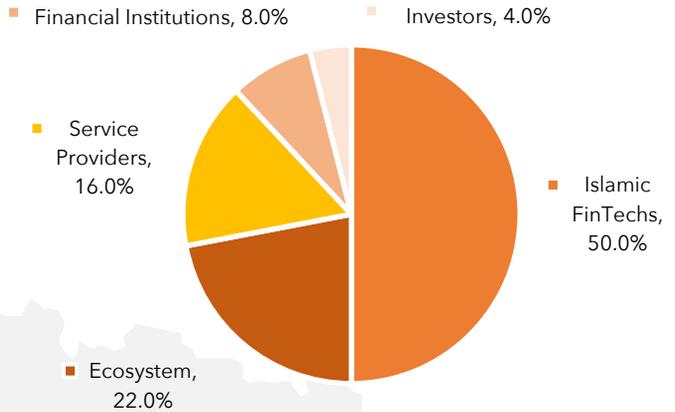
26% of Islamic FinTechs surveyed have at least one female founder with an average female staff base of 24%.



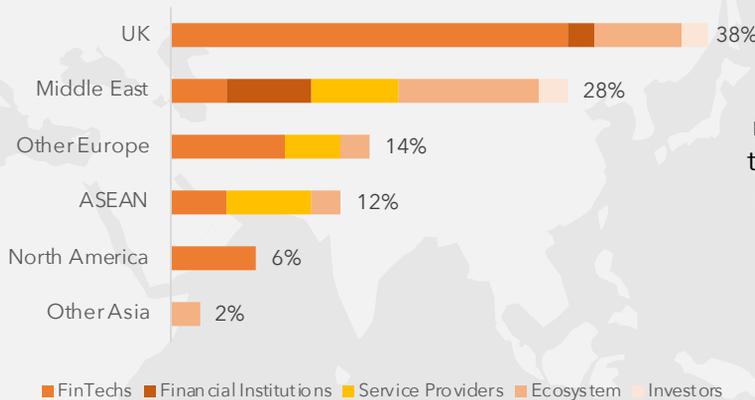
PROFILE OF RESPONDENTS

COMPANY TYPE

Half of the responses obtained during the survey process are from FinTech companies. The remainder are from Islamic economy institutions that provide essential support to the industry namely ecosystem players such as incubators, accelerators and industry bodies, service providers such as law firms, consultancies and intermediaries, financial institutions such as banks and investors into the sector.



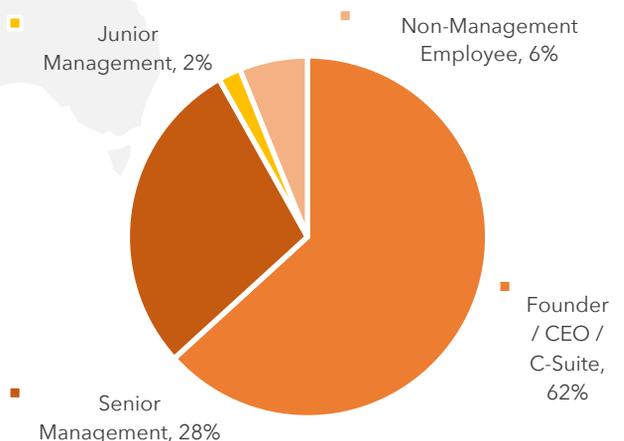
COMPANY HQ LOCATION



The largest proportion of respondents are from the UK and the Middle East, some of the most recently active jurisdictions in the Islamic FinTech sector.

COMPANY RESPONDENT

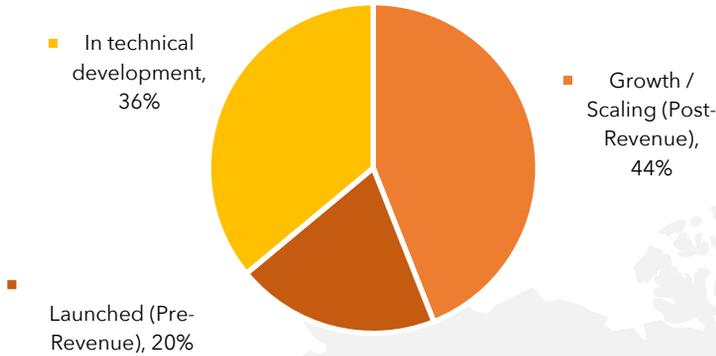
The majority of survey respondents (92%) are in management roles at their company, with a large proportion being founders / CEOs or holding C-Suite positions. This is especially important to the views expressed as being representative of the founder's / management's experience of the company.



ISLAMIC FINTECHS SECTOR MATURITY



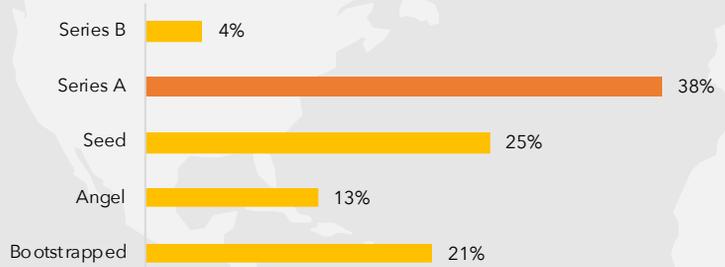
COMPANY GROWTH STAGE



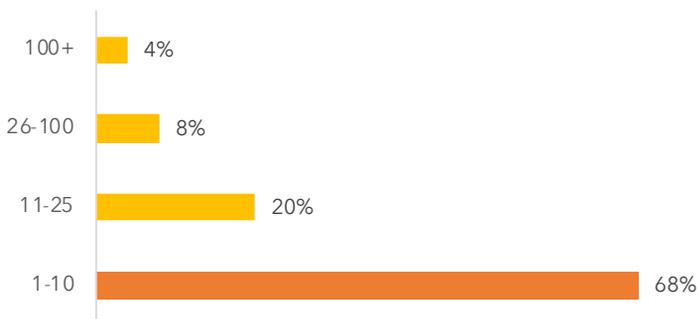
64% of Islamic FinTechs are live in market with 44% posting revenue. Over a third of firms responding are still pre-launch and in technical development, signaling a healthy amount of grassroots activity in growing the sector.

COMPANY FUNDING STAGE

The majority of Islamic FinTechs fall between seed and Series A stage, with a handful at post series A. A significant portion are currently bootstrapped indicating a lack of maturity with respect to funding in the sector and in line with their growth stage.



COMPANY SIZE



68% of Islamic FinTechs are 10 or less in team size with only 4% having a team of larger than 100. This indicates that the sector is in the relatively early stages of maturity.

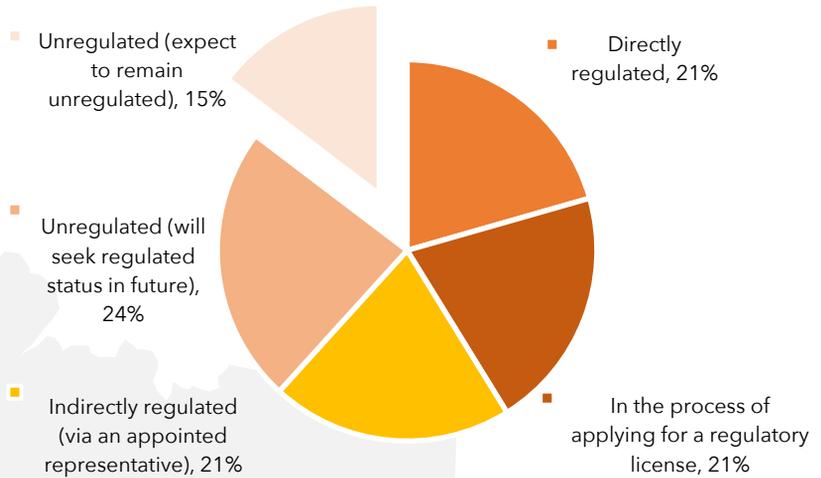
26% of Islamic FinTechs have at least one female founder with respondents reporting on average almost a quarter of their staff base is female.

ISLAMIC FINTECHS BASIS OF OPERATIONS

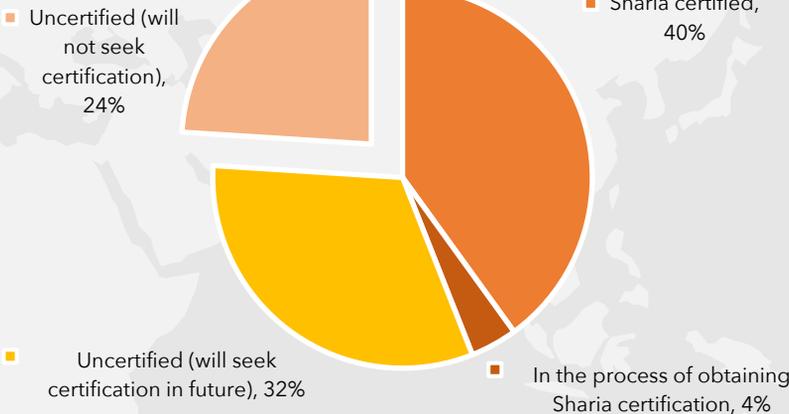


REGULATION

62% of Islamic FinTechs are directly or indirectly regulated or applying to be regulated, with a further 24% expecting to seek regulated status in the future, indicating complexity of propositions that fall within or are expected to fall within regulatory perimeters.

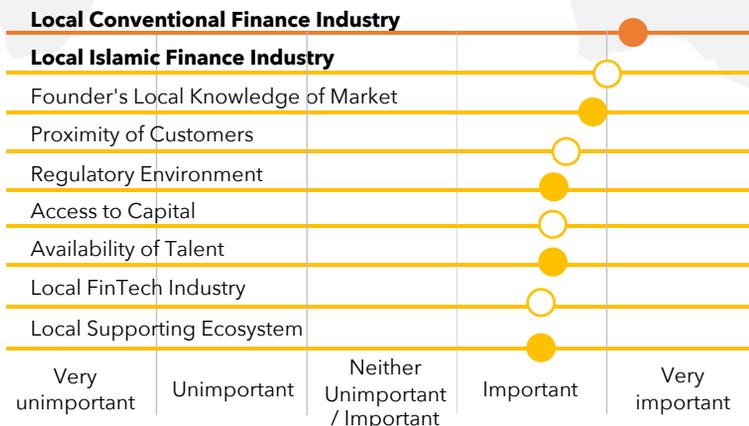


SHARIA COMPLIANCE



76% of Islamic FinTechs are Sharia certified, seeking certification or expecting to seek certification in the future, revealing an importance placed on certification as a marker of compliance.

JURISDICTION SELECTION

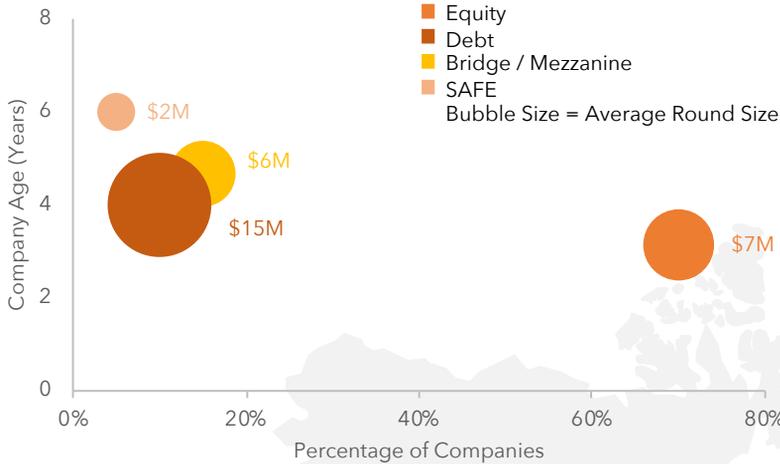


Many aspects that affect the selection of a founding jurisdiction were deemed important by Islamic FinTechs with the strength of the local conventional finance and local Islamic finance sector deemed **very important**. This bodes well for future Islamic FinTech activity in developed financial services hubs where Islamic finance competency exists.

ISLAMIC FINTECHS 2020 OUTLOOK



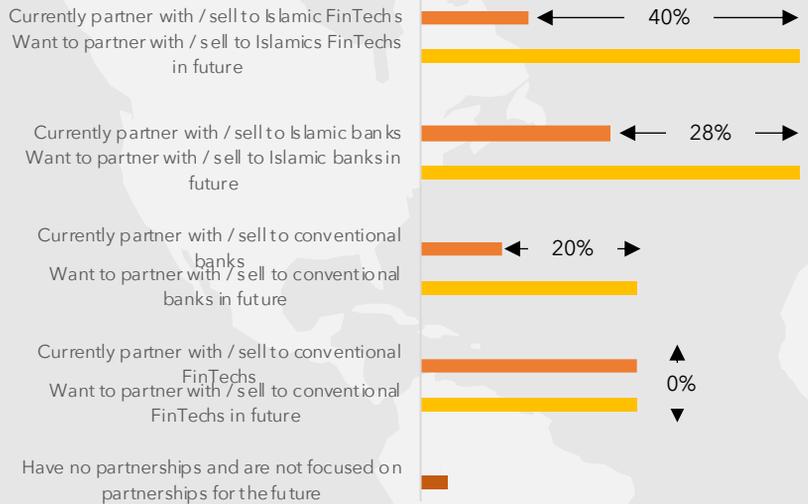
FUNDING NEEDS



70% of Islamic FinTechs expect to raise an equity funding round in 2020 with an average round size of USD 7M. More mature companies expect to also pursue other forms of funding namely debt, bridge / mezzanine finance and SAFE (simple agreement for future equity).

PARTNERSHIP ASPIRATION

The area of greatest area of partnership traction for Islamic FinTechs has been with conventional FinTechs, However the highest aspiration of partnership growth in 2020 is with other Islamic FinTechs (40% of respondents) and Islamic banks (28% of respondents).



COMPANY CHALLENGES



ACCESS TO CAPITAL



FINDING TOP TALENT



CUSTOMER EDUCATION



BECOMING REGULATED



GEOGRAPHIC EXPANSION

Access to capital is seen as the biggest barrier to growth for Islamic FinTechs, with availability of talent, customer education, regulation and expanding to other global jurisdictions seen as other significant hurdles. These are important considerations for any ecosystem seeking to build a supportive environment for Islamic FinTechs.

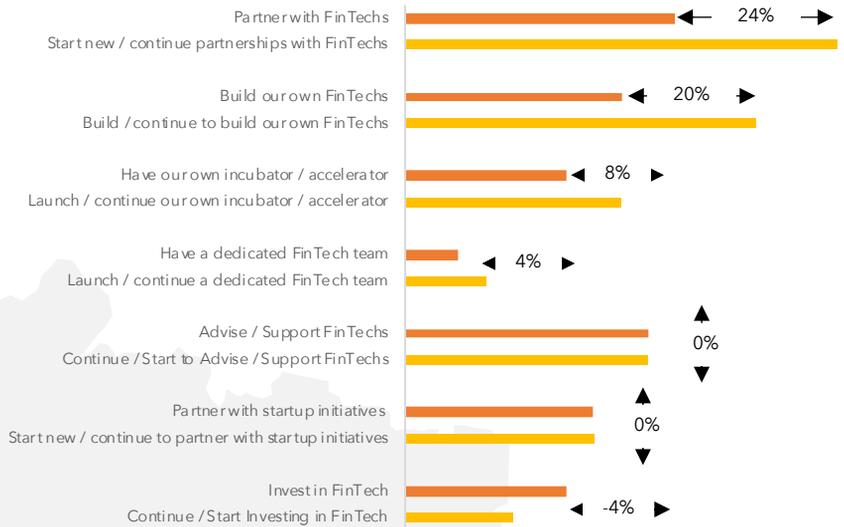
INSTITUTIONS SECTOR ENGAGEMENT



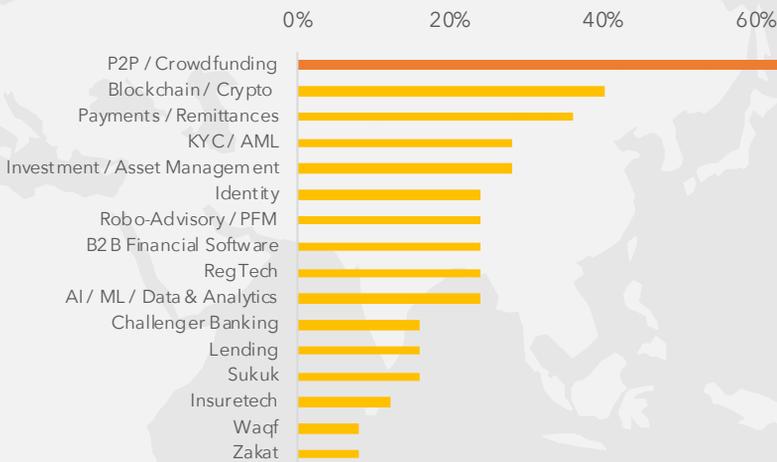
FINTECH PLAYBOOK

Partnership with Islamic FinTechs is the preferred method of engagement by institutions with 24% more respondents expecting to do so in 2020 making it the biggest growth area for institutional involvement.

Despite access to capital being a challenge for Islamic FinTechs, 4% less institutions expect to invest in Islamic FinTechs in 2020, making this an area of continued challenge.



SECTOR ENGAGEMENT

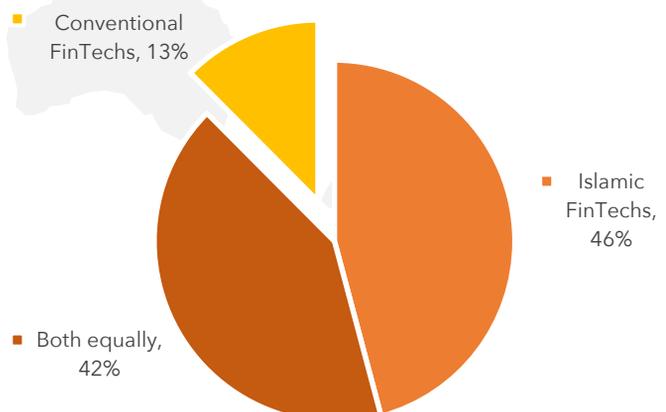


Most institutions (64%) reported engagement with the P2P / Crowdfunding sector, which, as the largest sector to date in Islamic FinTech is unsurprising.

However, Blockchain / Crypto and Payments / Remittances were the only other sectors where more than a third of institutions had engaged indicating a lack of FinTech maturity in Islamic economy institutions.

ISLAMIC vs CONVENTIONAL

87% of Islamic economy institutions have a strong preference to engage with Islamic FinTechs. 46% expect to exclusively engage with Islamic FinTechs over conventional FinTechs.



INDUSTRY 2020 OUTLOOK



GROWTH SECTORS

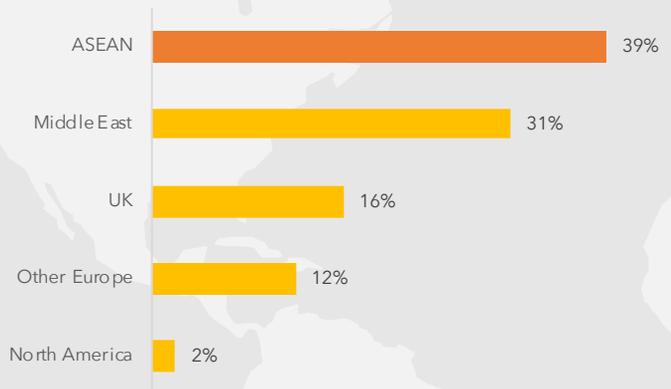
- P2P / CROWDFUNDING**
- CHALLENGER BANKING**
- BLOCKCHAIN / CRYPTO**
- ROBO-ADVISORY / PFM**
- LENDING**

The top five growth sectors for Islamic FinTech in 2020 are expected to be Peer 2 Peer and Crowdfunding, Challenger Banking, Blockchain and Crypto, Robo-Advisory and PFM (Personal Financial Management) and Lending.

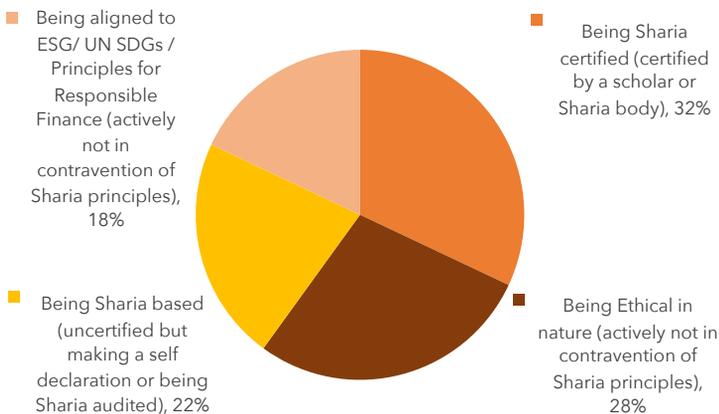
Peer 2 Peer and Crowdfunding, the largest area to date, is set to remain so, with Challenger Banking seen as a significant growth area.

GROWTH JURISDICTIONS

The ASEAN region was identified by the most respondents as presenting the biggest growth opportunity for Islamic FinTechs over the next 12 months.



ALIGNMENT WITH ETHICAL



There is mixed sentiment around the ongoing definition of Islamic FinTech with 68% believing certification isn't necessary (contrasted with 76% of firms having or expecting to obtain certification). Being Sharia based, ethical in nature or being ESG/ UN SDG aligned is considered sufficient by companies but perhaps is not yet enough to satisfy consumers.

VERBATIM



For Islamic FinTech firms to succeed they need to appeal to a wider markets such as **ethical finance, green finance and ESG**, as well as the Sharia compliant market.

Certain FinTechs are inherently more suited to Islamic banks because of the natural fit with Sharia guidelines, such as **smart contracts on the blockchain**.

We expect **fixed income retail products** to boom, in the coming year with a number of FinTechs coming into this space. We also expect **residential and buy to let home purchase plans** to become a very contested space due to new entrants into the market.

The key to **whether Sharia certification is required is based on what the market is willing to accept**. Sharia sensitive customers will want to be formally reassured about compliance but will also look favourably on the use of wider ethical filters.

More consumer awareness of Islamic Fintech is needed across both the Islamic and non-Islamic community.

Watch out for **Indonesia!**

WITH THANKS



Our thanks to the firms that participated in the research undertaken to complete this report, those named below and those that chose to remain anonymous:

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- CBX Unit
- CMS
- Conexcap
- Connectif Technology
- DDCAP
- EthisCrowd
- Fasset
- Gateway Global
- Goodforce Labs
- Green Shores Capital
- GRT Consulting
- iE5
- IFRC
- Insha
- Islamicfinanceguru.com
- Manzil
- National Incubation Centre
- Nester
- Niyah
- NOW Money
- PayHalal
- Pie People
- Primary Finance
- Qardus
- Qatar Financial Center
- QFZ
- Raed Ventures
- Refinitiv
- RFI Foundation
- Silverlake Group
- Simply Ethical
- StrideUp
- TeamUp
- Teek Taka
- UpEffect
- Wahed Invest
- Yielders

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ABOUT ELIPSES

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Elipses is a digital finance firm based in London focused on:

- Advising financial institutions, high growth companies and startups on innovation strategy
- Creating industry associations and advising governments, regulators and financial centres on digital policy
- Developing and growing assets by building new digital ventures.

Our team are experienced financial services professionals and entrepreneurs with a particular specialism in the application of digital technologies to ethical finance.

THE UK ISLAMIC FINTECH PANEL

ABOUT THE UK ISLAMIC FINTECH PANEL

The UK Islamic FinTech Panel is an independent group of Islamic finance and FinTech practitioners that convene to promote the UK Islamic FinTech sector. Formed in 2018, the panel connects entrepreneurs with government via its government observers, builds international connections to the world's leading international Islamic FinTech hubs and has seen the launch of commercial initiatives to support the sector since its inception.

The panel is chaired by Harris Irfan, Partner at Gateway Global LLP, who is widely recognised as a leading authority on Islamic finance.



ABOUT SALAAM GATEWAY

www.salaamgateway.com

Launched in October 2015, Salaam Gateway is the world's leading news and insights platform on the global Islamic economy.

We cover sectors across Islamic finance, halal, and Islamic lifestyle, with an eye on key producer and consumer markets. We write for professionals, business owners, decision-makers, and policy-makers who operate in fast-changing socio-economic environments and want reliable and accurate news, insights, data, and intelligence to inform their next moves.



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