TheCityUK

BORSA İSTANBUL

UK-TURKEY ISLAMIC FINTECH WORKING GROUP

Case studies and insights

March 2019

TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. In the UK, across Europe and internationally, we promote policies that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes over 10% of the UK's total economic output and employs 2.3 million people, with two thirds of these jobs outside London. It is the largest tax payer, the biggest exporting industry and generates a trade surplus almost equivalent to all other net exporting industries combined.

Borsa Istanbul

Established on the basis of Capital Markets Law no. 6362, Borsa Istanbul is a self-regulatory entity, bringing together all the exchanges operating in the Turkish capital markets under a single roof. Borsa Istanbul Exchange Group offers a fully integrated business model ranging from trading, settlement, custody and registry services for equities, derivatives, fixed income & repo, precious metals and Islamic finance products which are subject to free trade conditions. The main objective of Borsa Istanbul is to create, establish and develop markets, sub-markets, platforms, systems and other organized market places for the purpose of matching or facilitating the matching of the buy and sell orders for the above mentioned assets and to determine and announce the discovered prices.

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Message from the Prime Minister's Trade Envoy to Turkey

As the UK Prime Minister's Trade Envoy to Turkey, my role is to strengthen the close trade relations between the UK and Turkey.

Co-operation in financial services is a priority for both our countries. In recent years, FinTech has added a new dimension to this partnership and it has created new opportunities for the financial services industry to do what it does best: provide capital and expertise to support businesses and enable growth throughout the whole economy.

FinTech is also supporting the growing Islamic finance sectors in both the UK and Turkey. As this trend continues, FinTech will empower Muslims and non-Muslims in both countries by giving them the opportunity take part in the global financial system while staying true to their values.

With the support of the British government, this welcome report provides a roadmap for closer collaboration between the UK and Turkey in order to develop FinTech solutions to support Islamic finance. I am confident that this will support trade, investment and growth in both our countries.

Lord Janvrin
Prime Minister's Trade Envoy to Turkey

Message from HM Consul General Istanbul and HM Trade Commissioner for Eastern Europe and Central Asia

The British government is proud to support this UK-Turkey FinTech for Islamic finance project in collaboration with TheCityUK and Borsa Istanbul.

The project builds on a solid platform of trade and cooperation between the UK and Turkey. The UK Financial Services sector is well represented in Turkey and Turkish companies have an increasingly strong presence in the UK.

Through this initiative, a working group of expert practitioners has identified ways the UK and Turkey can develop new FinTech solutions for Islamic finance. This report sets out these findings, using case studies to demonstrate how the UK and Turkey can develop new partnerships. These new partnerships will continue to strengthen the UK's and Turkey's economic collaboration.

Judith Slater
HM Consul General Istanbul and HM Trade Commissioner for Eastern Europe and Central Asia

Message from the Ambassador, Embassy of the Republic of Turkey in London

Turkey is one of the key emerging markets and benefits from strong economic links with the UK. The UK is Turkey's second largest export market and the two countries enjoy a $18.5bn annual trade flow. British businesses have helped to support growth in Turkey: 3,000 British companies are present in the market and have invested over $10bn into Turkey since 2002.

London is one of the world's leading financial centres and Istanbul is emerging as another. It is encouraging to see how the partnership that has developed between Borsa Istanbul and TheCityUK on FinTech has now extended to Islamic finance. I believe there are considerable opportunities for further collaboration across financial services under the Istanbul International Financial Centre project.

I hope that this report will deepen the collaboration between Turkey and the UK and point to ways of developing Islamic finance in both countries.

Ümit Yalçın,
Ambassador, Embassy of the Republic of Turkey in London

FOREWORD

Islamic finance is growing fast. It has the potential to transform the world of finance, not only for 1.8 billion Muslims, but for everyone who is attracted to its equity-based, risk-sharing, and socially responsible model. Islamic banking assets stood at $1.7trn in 2017 and are set to reach $3.8trn by 2023. Rising demand for Sharia-compliant products in emerging markets is driving this growth, and the industry is developing capacity to supply this demand. FinTech is improving access to finance globally and evidence suggests it will be particularly impactful in Islamic Finance.

Many who do not have access to the banking system can be reached through technology: two thirds of the unbanked population have access to a smartphone. In addition, 6% of the world's population opt out of the financial system for religious reasons. However, significantly higher percentages opt out for religious reasons in Islamic countries (19% in Turkey). Sharia-compliant FinTech products can bring finance to many who have been shut out of the system.

The UK is one of the world's leading hubs for Islamic finance. Its five fully Sharia-compliant banks offer services to foreign investors and to the UK retail market. The London Stock Exchange (LSE) is a key venue for the issuance of sukuk. Banks, sukuk issuance and exchange traded products are complemented by world-leading professional services. The UK is also the second largest Islamic FinTech market, home to 16 of the 120 FinTech companies offering Islamic finance products in 2017.

Turkey has a growing, largely Muslim, population of almost 80 million. It has an established participation (Islamic) banking sector aiming for a 15% domestic market share by 2025. Forty-three per cent of Turkish adults do not hold a bank account, creating an opportunity for Islamic FinTech to fill this gap. Turkey's participation banks are investing in FinTech to reach new customers. Borsa Istanbul, which already provides Sharia-compliant products to investors, is working to promote Islamic finance, capital markets and FinTech in Turkey alongside the government.

There are many opportunities for UK and Turkish Islamic Finance practitioners to work together to develop new products, new services and new markets. At the same time, practitioners in both countries share similar challenges, such as achieving scale in the Islamic finance market, acquiring access to finance and navigating their respective regulatory systems.

This is why, as part of our UK-Turkey Islamic finance FinTech initiative, TheCityUK and Borsa Istanbul have compiled this report to consider opportunities for the sector and develop mutually beneficial areas of knowledge and interest. The report is composed of case studies and insights into FinTech for Islamic finance, each written by a member of the UK-Turkey FinTech for Islamic Finance Working Group. We are confident that the range of issues discussed throughout the paper will generate strategic and commercial outcomes for both countries and deepen cooperation between Turkey and the UK. We would like to thank all who contributed.

The initiative has been made possible by the UK Foreign and Commonwealth Office Prosperity Fund, which aims to remove barriers to economic growth and promote economic reform and development in partner countries.

Wayne Evans
Senior Adviser,
TheCityUK

David Testa
Executive Director,
DDCAP Group

Dr Recep Bildik
Director,
Borsa Istanbul

RECOMMENDATIONS OF THE UK-TURKEY ISLAMIC FINTECH WORKING GROUP

Strengthening the regulatory framework

An effective regulatory system should encourage innovation while ensuring that consumers have a high level of trust in FinTech products. There is widespread interest in Turkey in adopting a version of the Financial Conduct Authority (FCA) regulatory sandbox, which enables selected FinTech firms to operate within a light-touch regulatory environment provided that they share data on their product with regulators. Opportunities to develop a sandbox could come through Turkish involvement with the Global Financial Innovation Network (GFIN), an association of regulators who are seeking to develop shared standards on FinTech regulation in their jurisdictions. Stronger regulatory cooperation between jurisdictions could help Islamic FinTechs scale.

Improving funding infrastructure

FinTech start-ups cite access to funding as one of the biggest barriers to growth in the Islamic FinTech space. Turkey's participation (Islamic) banking sector has, however, provided strong support for FinTechs through accelerator programmes, funding and partnerships. Islamic FinTechs in the UK are keen to create a similar funding ecosystem in Britain, through increased support from partners such as the British Business Bank (BBB), Venture Capital firms or UK Islamic banks. Collaboration across borders could expand Islamic FinTech activity in both markets.

Develop education partnerships

Islamic FinTechs in both countries recognise the importance of creating a talent pool of technology professionals and Islamic finance practitioners. The UK is the world's leading provider of Islamic finance education and Turkey has a growing number of ambitious Islamic finance and FinTech professionals. There is a huge opportunity for the two countries to partner on educational initiatives.

Networking opportunities

A need was identified for more networking and industry events in order to share expertise, pool industry knowledge and directly access regulators.

Forging a global Islamic economy

Many Islamic businesses from the Middle East who have been instrumental in developing FinTech accelerators in their own markets have interests in Turkey and the UK. For example, Al Baraka Islamic Bank in Bahrain, a founding partner of Bahrain FinTech Bay, is the parent group of AlBaraka Türk. Turkiye Finans is 67% owned by Saudi Arabia's National Commercial Bank (NCB), which is heavily involved in its domestic FinTech industry. In the UK, ADIB UK is owned by Abu Dhabi Islamic Bank, a founder member of Abu Dhabi General Market's new FinTech ecosystem. This experience should be leveraged to support the development of the FinTech space in the UK and Turkey. Islamic hubs should share expertise and work together to develop a global Islamic economy.

CASE STUDIES AND INSIGHTS

INTERNATIONAL FINANCIAL CENTRES AND ISLAMIC FINANCE

TheCityUK

TheCityUK

The global market for Islamic finance services, as measured by Sharia-compliant assets, is estimated to total around $2.4trn in 2017, up 6.5% on the previous year. Global Islamic Finance assets grew by an average of 7.1% annually during the period 2012-17 and are set to continue to increase in the years ahead.[1]

Growth is being facilitated by financiers, intermediaries and professional advisors acting in key Islamic finance hubs. Three of the top five international financial centres – London, Singapore and Hong Kong – are active in Islamic finance. As the industry grows, these hubs and others will take on an increasingly important role as stewards of Islamic capital.

The Islamic Finance Country Index, published by Edbiz Consulting, ranks the Islamic banking and finance industry of countries globally. Its 2018 Index found that the UK was the number one Islamic finance centre in Europe and non-Muslim majority nations.

The UK as an international financial centre

The UK's development as the leading Western centre for Islamic finance offers lessons on how countries can take a lead in the sector. The UK's strength in Islamic finance is underpinned by its status as a leading international financial centre (IFC). The UK has the largest share of trading in many international financial sectors, including foreign exchange, over-the-counter derivatives trading, international bank lending, and international insurance. It is Europe's premier centre for the management of sovereign wealth funds, hedge funds, private wealth, legal services and professional advisory services.

The UK's financial prominence enables it to service all aspects of Islamic finance. The number of UK-based institutions that offer Islamic finance services is far greater than in other Western countries, and approximately double the number located in the US.

Some examples that demonstrate the range of the UK's Islamic finance offering are:

- There are five fully Sharia-compliant banks authorised to operate in the UK, more than any other Western country. TheCityUK estimates that total Sharia-compliant banking assets in the UK were around $5.5bn (equivalent to £4.1bn) in the first half of 2018.[2]
- Net assets of Islamic funds in the UK amount to $700m (equivalent to £543m). A total of three Sharia-compliant exchange traded funds (ETFs) are listed on the London Stock Exchange (LSE).[3]
- The LSE is a key global venue for the issuance of sukuk. A total of 72 sukuk have been listed on the LSE with a total value of $53bn.[4]
- The UK is the leading centre of Islamic finance education and training, with UK educational establishments providing 80 courses in 2017, ahead of both Malaysia and Indonesia. Furthermore, four internationally recognised professional institutions offer qualifications and certifications in Islamic finance.
- London is home to over 200 international law firms and TheCityUK estimates at least 25 of these firms have established dedicated Islamic finance sections. Smaller firms across the UK are also active in the sector. The majority of cross-border Islamic contracts are governed by English law.
- The UK's largest accounting, consulting and professional service firms all have Islamic finance teams providing trusted advisory services to UK and international clients.

The UK's Islamic finance industry benefits from close cooperation between industry, regulators and government. Supportive government policies have helped create a level playing field for both Islamic and conventional finance. Double tax has been removed and tax relief has been extended to Islamic mortgages.

The co-existence of so many Islamic finance functions in the UK leads to spillover benefits. The UK is now the world's second largest hub for Islamic FinTech, in part

[1] ICD-Thomson Reuters, 'Islamic finance development report 2017', (5 December 2017), p.25 and 29
[2] Ibid.
[3] Ibid.
[4] London Stock Exchange, `Islamic Finance', (September 2018), available at: https://www.lseg.com/sukuk

because Sharia-compliant firms can benefit from the country's FinTech and Islamic finance expertise, technology talent pipeline and liberal regulatory regime. Islamic FinTech is still in the early stages of development, but the future outlook is bright, driven by the rapid growth of FinTech, increasing interest in Islamic FinTech, availability of funding and regulatory support. The UK Islamic FinTech Panel was launched in January 2018. The Panel, which includes representation from both industry and government, aims to further advance the UK's position as a centre for Islamic FinTech.

The UK's expertise in Islamic finance has drawn considerable Sharia-compliant investment into the UK economy, especially in real estate and infrastructure. Looking to the future, Islamic finance in the UK is increasingly supporting the country's growing Halal Economy, which has pillars that range through art, culture, food, drink, pharmaceuticals, tourism, fashion and technology. Indeed, the UK already possesses the most developed Islamic economy in Europe.

Turkey as an international financial centre

TheCityUK and its members have advised many international partners on how to develop their financial centres, drawing upon the experience of the UK's leading financial and related professional services firms. Each has its own unique selling points and attractions. There is already considerable support in Turkey for developing an IFC in Istanbul. Were this to happen, the centre would draw strength from Istanbul's access to Turkey's considerable domestic economy, coveted geographical position and its long history as a regional and international trading hub.

Any IFC project would involve tailoring Istanbul's existing infrastructure (both 'hard' – e.g. construction, transport links – and 'soft' – e.g. legal and regulatory systems) to supports a new financial ecosystem in Turkey.

The development of an IFC in Istanbul would also provide a focal point for Sharia-focussed investors to access the Turkish market and support the development of Turkey's Islamic finance sector.

Turkey has many advantages as a centre for Islamic finance (and as the UK has shown this can be done in a secular state). These include a large Muslim population and a number of well capitalised and experienced Islamic (participation) banks that have developed a suite of products that service the Islamic market and that are already supporting financial innovation. This innovation could underpin a significant Islamic FinTech market. As mentioned above, globally many Muslims are underbanked, but in Turkey there is widespread access to mobile phones (and therefore mobile banking and payment systems). Appropriate FinTech would improve access to Sharia-compliant products, bringing millions of people into the financial system.

IFCs can bring significant benefits to host countries. To succeed, government, industry and regulators need to work together to secure these benefits. Given the already considerable strengths of Turkey's financial industry, and the substantial growth that can be unlocked in the country through financial inclusion and innovation, Istanbul would seem to be an obvious candidate city to help shape the global future of Islamic finance.

Wayne Evans
Senior Adviser,
TheCityUK

TWO PROMISING GROWTH AREAS: ISLAMIC FINANCE AND FINANCIAL TECHNOLOGIES

Borsa Istanbul

Islamic finance serves the needs of Muslims and non-Muslims with its equity-based, interest-free, asset-based/backed, risk-sharing, sustainable and socially responsible model. Indeed, it has much in common with Environmental, Social and Governance (ESG) investing and has an appeal far beyond Islamic audiences. Moreover, Islamic finance products are directly linked to particular goods or assets and so clearly contribute to the real economy. Structured around risk sharing and avoiding interest, Islamic finance helps reduce poverty, expand access to finance, develop the financial sector, and build stability and resilience. It helps boost social welfare, financial inclusion and achieve the UN's Sustainable Development Goals. Within this framework, demand for Sharia-compliant products is increasing globally.

Islamic finance is a rapidly expanding part of the global financial system. Assets under management exceed $2trn following average annual growth of 10-12% in the last two decades. However, there is enormous potential for further growth in the sector: Sharia-compliant assets still make up just 1% of global financial assets under management, yet around a quarter of the world's population is Muslim and the majority of the Muslim population is unbanked or underbanked. The gap in Islamic capital markets is even wider.

Borsa Istanbul is a self-regulatory entity that brings together all the exchanges operating in Turkish capital markets under a single roof through an integrated business model ranging from trading and settlement, to custody and registry services for various types of financial instruments, including Islamic finance products. It is fully committed to the development of the Islamic finance sector, particularly in Capital Markets. This is also a top goal for the current government in Turkey under its 2023 Vision (Goals) within its Istanbul Finance Center goal.

Borsa Istanbul is working to promote Islamic finance and capital markets in Turkey in parallel to the efforts of government on this way. It has been working on different projects to expand Islamic Capital Markets. Through these projects Borsa Istanbul has:

- Contributed to different sukuk issuances and listings.
- Assisted construction of participation (Sharia) Indices for the Islamic finance community and supported itself in the work of a task force of the Organisation of Islamic Cooperation (OIC) Stock Exchanges Forum, which resulted in a Sharia-compliant benchmark: S&P/OIC COMCEC 50 Shariah Index.
- Sponsored and collaborated with the World Bank Global Islamic Finance Development Center, the first and only World Bank Research Center that is located outside of World Bank headquarters, having launched at Borsa Istanbul.
- Supported the work of OIC Member Stock Exchanges Forum, central counterparties (CCPs) and central securities depositories (CSDs) in OIC countries by hosting its annual meeting and coordinating the forum.
- Formed an Islamic Finance Working Group, which has been working on different projects and coordinating efforts with Islamic finance organisations such as the International Islamic Financial Market (IIFM) and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), preparing reports about the Islamic Financial Market and organising education programmes.
- Worked on a sub-market segment for Sharia-compliant financial products traded in Borsa Istanbul to create awareness for faith-sensitive investors.

Borsa Istanbul believes that leveraging financial technologies can expand financial inclusion in Islamic capital markets. New technologies are changing the way people interact and do business and the companies that have facilitated these changes are now amongst the largest in the world. All sectors are being transformed by technology: finance is no exception. Technology has been the engine driving capital markets efficiency for investors, regulators, financial intermediaries, and infrastructure providers such as exchanges, securities depositories, central counterparties, and data and analytics vendors. FinTech companies are faster and more impactful in bringing new technologies to market. These technologies (e.g. artificial intelligence (AI), data analytics, robotics, distributed ledger technology, blockchain, cloud and quantum computing) are transforming business models, particularly in areas such as trading, matching, depth in markets, advanced data analytics, information services, clearing and settlement, post-trade services, and new asset classes.

FinTechs are transforming the industry by lowering costs and increasing efficiency and productivity, but many stakeholders are still facing uncertainty about which technologies to adopt and to what degree, and how best to engage and interact with FinTechs.

FinTech-led innovation in capital markets will improve access to capital by creating innovative ways to reach and serve issuers and investors, broadening the range of asset classes offered, and bringing savings and efficiencies in trade execution and post-trade operations. A separate branch of regulatory technology firms (RegTech) will bring efficiency and standardisation to bear in reducing the reporting and compliance workload of financial institutions and corporations through alternative solutions on areas such as monitoring, risk management, fraud detection, know-your-customer (KYC) and regulatory reporting. These benefits fuel both the demand for new financial service products and the number of FinTech companies supplying such products. For example, even in only one area of capital markets, capital markets infrastructure, the McKinsey Panorama FinTech database shows that the number of companies operating in this space almost quadrupled since 2010 (now around 700), and has outpaced other areas of FinTech such as corporate banking and payments. This is one reason why private capital continues to flow into FinTech. Indeed, a rapid growth in FinTech funding took place over the last five years and reached $58bn globally in the first half of 2018.[5]

However, FinTech start-ups need capital, business partnerships and collaboration with established financial institutions, corporations, and regulators. Funding is a major challenge for FinTechs in emerging markets as they develop new technologies and expand into new sectors and geographies. They need long-term capital and a supportive regulatory environment to underpin their ambitions. Incentivising mechanisms and regulatory landscapes should be provided to attract a larger number of mature financial institutions, corporations, consumers and investors to invest, engage and partner with FinTechs.

Borsa Istanbul is working to meet the needs of innovative start-ups. Borsa Istanbul launched its Private Market Platform, which brings companies and investors together to buy and sell shares without going public and so subjecting themselves to the requirements of the Capital Market Law. Entrepreneurs seeking funding for start-ups, joint stock companies in need of finance, shareholders looking for liquidity, and other qualified investors can apply for membership. Services include buying and selling shares, professional brokerage, independent audit, legal and financial consultancy offered by the Private Market Platform's member intermediaries and service providers. Borsa Istanbul further supported the issuance of equity-based crowdfunding regulation in Turkey.

Borsa Istanbul is also in discussions with FinTech start-ups to explore cooperation possibilities in capital markets. The exchange and its subsidiary, Takasbank, Turkey's clearing house, are also involved in a range of FinTech initiatives concerning blockchain and cyber risks areas. Meanwhile, Borsa Istanbul's BISTEP programme (similar to LSE's ELITE programme) works with high-growth potential SMEs including FinTechs to help them grow into larger businesses. It advises on areas such as change management, governance and institutionalisation, and helps businesses better understand initial public offerings (IPOs). The programme connects companies with experts who will support them as they make strategic management decisions.

[5] FS Tech, 'UK leads the world for FinTech deals', (Fabruary 2019), available at: http://www.fstech.co.uk/fst/KPMG_H1_2018_FinTech_Report.php

Borsa Istanbul also has an Emerging Companies Market (ECM) segment to help SMEs access capital through public markets. Since its inception, several companies have gone public and raised more than $100m in this growth market, ECM. The exchange is dedicated to ensuring that companies are prepared for life as a public company and believes access to long-term equity capital will help unlock their full growth potential.

Borsa Istanbul partnered with TheCityUK to explore potential areas for closer collaboration between Turkey and the UK across the financial services industry in 2017 and to convert these areas into a concrete project leading to a long-term sustainable partnership between the two countries. There are many opportunities for the UK and Turkish stakeholders to work together, leveraging the experience of TheCityUK and its members as well as Turkey's potential as an international financial centre, particularly in the areas of Islamic finance and FinTech.

To foster growth and inclusion in capital markets and Islamic finance, exchanges such as LSE and Borsa Istanbul can orchestrate the efforts of all capital markets and Islamic finance stakeholders so the sector achieves mutually beneficial goals. FinTechs can contribute a lot to the expansion of Islamic finance and capital markets through the new products and services they provide. The combination of these products and services with technology, education and supportive regulation will strengthen trust from the public and attract investors and a larger portion of the global population to Islamic capital markets. Overall, Islamic finance and financial technologies jointly will help deliver sustainable growth across the world.

The Islamic FinTech Platform led jointly by TheCityUK and Borsa Istanbul will contribute to this goal. This will create further mutually beneficial collaboration and business opportunities for all stakeholders of Islamic finance and FinTech ecosystems in the UK and Turkey.

Dr Recep Bildik

Director,
Borsa Istanbul

A GENERAL OUTLOOK AND REVIEW OF TURKISH LAW AND FINTECH

Solak & Partners Law Firm

It is a well-known fact that the regulatory environment in a country can significantly affect its financial technology development. With technological improvement taking place at an unprecedented pace, it is becoming ever more difficult for regulators to keep track with technological developments and strike a balance between the benefits and rights of the users of financial technologies, enabling innovation and ensuring financial stability.

While regulators want to ensure that the financial market is stable and secure, FinTech companies face high barriers to entry, such as strict regulatory requirements or high technological standards, which may cause them to provide services to other financial institutions rather than complete solutions to end users.

In general, FinTech companies face two important concerns regarding regulation: one is ensuring compliance with the highly regulated financial market and the other is the heavy burden of legal liability risk they bear. By nature, the financial regulation system is built on the liability of centralised financial institutions and FinTech companies have to address risk areas such as control of users' funds, fund security, data security, software vulnerabilities and cyber-attacks just as much as long standing financial institutions. However, FinTechs struggle to implement the same solutions as traditional financial institutions, as they do not have the same levels of capital, financial and technical resources.

Regulations and market entry

There is no specific, comprehensive law that regulates FinTech companies in Turkey. FinTechs need to comply with the regulations applicable pursuant to operations they are carrying out and services they are providing.

In general, payment system providers and e-money institutions are subject to the supervision of the Banking Regulation and Supervision Agency (BRSA), and the companies that work on investment and capital markets are subject to the supervision of the Capital Markets Board (CMB) of Turkey, among other regulatory bodies.

Payment services: the Law on Payment and Security Settlement Systems, Payment Services and Electronic Money Institutions numbered 6493 (Payment services law) came into effect on June 2013. The law codified the incorporation and licensing of payment service providers and electronic money institutions. Among other requirements, FinTech companies need to have a paid-up capital of at least 2m Turkish Lira for payment institutions; 5m Turkish Lira for electronic money institutions; or 1m Turkish Lira for payment institutions which provide intermediary invoice payment services.

Peer-to-peer lending: although peer-to-peer lending provides significant potential for FinTech companies to introduce new financial tools, the current Turkish legal system does not allow for the adoption of peer-to-peer lending systems.

Investment and capital markets: securities and derivative instruments as well as other capital market instruments designated by the CMB, including investment contracts, are deemed as capital market instruments under the Capital Market Law numbered 6,362 (capital market law) in order to take, transmit or fulfil orders of capital market instruments; purchase or sell capital market instruments on another's behalf; or act as a brokerage of capital market instruments with or without public offering, a company shall obtain a license to be qualified as an intermediary company. Intermediary companies require a paid-up share capital of at least (approximately) 2.2m Turkish Lira to 27.5m Turkish Lira changing as per the scope of their licenses.

Funds: pursuant to the Capital Market Law, investment funds shall be managed by portfolio management companies, amongst other financial institutions. The Capital Market Law mainly allows for investment funds, securities mutual funds, foreign mutual funds, pension mutual funds, real estate investment funds and venture capital investment funds to be formed and managed under Turkish Law. The minimum paid-up share capital amount for portfolio management companies starts at approximately 2m Turkish Lira and varies as per the scope of license of the companies; and portfolio management companies are regulated by a vast number of supervision requirements.

New crowdfunding regulations

Crowdfunding can provide new financing opportunities for start-up companies, boost financial inclusion and create new financial instruments or solutions for FinTech companies.

With the amendment dated 28 November 2017 on the Capital Market Law, several articles on crowdfunding platforms have been introduced into Turkish Law. Article 3/1(z) provides a general definition for crowdfunding as a method of collecting money from the public through platforms in order to provide the funds that a project or a start-up company requires, within the framework provided by the CMB. As can be understood from the amendment, financing through crowdfunding is expected to be implemented through online platforms which will be licensed by the CMB. However, as the rules governing the licensing procedures of these platforms have not yet been determined by the CMB, start-up companies and projects cannot use crowdfunding platforms.

In order to initiate the licensing procedure provided by the law, the CMB published the 'Draft Communiqué on Share Based Crowdfunding' (Draft Communiqué) on 3 January 2019 and circulated it for review and comments until 4 February 2019. As can be understood from the Draft Communiqué, crowdfunding based on debt instruments or other capital market instruments than shares are prohibited. Accordingly, it appears that start-ups will only be allowed to finance their projects through equity crowdfunding.

Under the Draft Communiqué, platforms are prohibited from: listing start-up companies affiliated with the sale or project development of real estate or any rights based on real estate; listing any start-up companies whose legal and business centres are located in foreign countries; and engaging in any brokerage activities regarding the sale of the shares on secondary markets.

Although there are significant limitations to the funding alternatives created for start-ups, donation-based crowdfunding is expected to continue without licensing requirements on platforms.

As per the Draft Communiqué, platforms will need to have a minimum paid share capital of at least 1m Turkish Lira; a board of directors consisting of at least three members; an internal control, risk management system and accounting and operation unit; and an investment committee consisting of at least three members. The investment amount for individuals who are not qualified investors is limited to a maximum of 20,000 Turkish Lira within one calendar year.

It is expected that the implementation of Draft Communiqué will create new funding opportunities for FinTech start-ups. However, the CMB's approach of limiting crowdfunding to equities may limit funding options and hinder adoption of different financial solutions.

A new solution for FinTech: blockchain

Blockchain applications are increasing daily and new solutions are being created in many sectors through the implementation of trust systems where electronic data transmissions between peers can be realised and confirmed without a centralised authority. By its very nature, blockchain technology improves the security and traceability of transactions.

Blockchain may help reduce the costs borne by financial institutions and FinTech companies and improve the security and traceability of transactions. There are lively debates about whether the smart contracts can be used to create new financial tools and new ways to think of financial instruments.

The legal issues surrounding the adoption of blockchain technology centre around clarifying the legal nature of crypto currencies, coins and tokens such as Bitcoin and Ether; initial coin offerings (ICOs); and the processing and storage of personal data on blockchain networks.

Legal classification of coins or tokens: Turkish regulators have not yet provided a comprehensive answer or review criteria regarding the legal nature or classification of coins or tokens. However, there has been some public communication on Bitcoin from the BRSA and the Central Bank of Turkish Republic, which mainly clarifies that Bitcoin does not constitute electronic money within the scope of the Payment Services Law; and that there are no specific laws governing Bitcoin.

Initial Coin Offerings: the Turkish government demonstrated a positive approach to ICOs by including a call for the "extension of modern funding methods such as ICOs" to Turkey's "New Economic Programme" which set out the country's 2019-2021 economic objectives. However, the Turkish regulators have not yet provided any information about whether regulatory amendments will be put in place to further this ambition, or studies commissioned to scope the feasibility of such regulation.

Current Turkish Law does not specifically regulate ICOs (putting Turkey in the same position as many of the countries that have ICO friendly legal environments) and government authorities have not disclosed their views on how to carry out ICO projects. The CMB has made a public announcement regarding ICOs under their bulletin 2018/42 (27 September 2018). However, it has not included any comments on the regulations to be applied to ICOs, and merely specifies that the ICO investments are risky; that the applicability of capital market regulations may differ from case to case; and that the necessary administrative and criminal action shall be taken against ICOs which are conducted illegally under the name of 'crowdfunding'.

As there are no specific regulations regarding ICOs under the Turkish Law, current legislation such as the Turkish Civil Code, the Turkish Code of Obligations, the Turkish Commercial Code, the Capital Markets Law (including the new legislations on crowdfunding) and the Payment Services Law need to be applied and enforced.

Accordingly, although the general answer to "whether an ICO can be legally conducted in Turkey" can be answered as yes (provided that several measures such as collecting crypto currencies during ICOs and not providing profit promises/assurances/pledges have been followed), there are many factors to be examined, reviewed and implemented during an ICO in order to avoid administrative and criminal penalties.

Blockchain and personal data protection: using blockchain networks has also created a debate among scholars and practitioners regarding the applicability of General Data Protection Regulation (GDPR) in Europe. When personal data is processed and stored in distributed databases under blockchain based projects, several non-conformities with the GDPR as well as the Personal Data Protection Law numbered 6698 (Personal Data Protection law) are experienced, partly because these laws were written under the assumption that data ownership would be by central authorities.

The main issues to overcome regarding blockchain and data protection are the need to identify who the data processors and data controllers are in order to work out the duties of each party involved in the realisation of a transaction; and the need to fulfil the data erasure and anonymisation obligations set out by GDPR and Personal Data Protection Law to protect the rights of data subjects. It should be noted that the problems faced during the implementation of data protection laws have not yet been clarified by the Personal Data Protection Authority of Turkey. However, as noted through many articles and notes, the requirements provided under GDPR and similarly Personal Data Protection Law are easier to implement in permissioned, private blockchain networks.

A look at Islamic FinTech – Sharia-compliant financial instruments

Islamic FinTech companies are mainly providing technology-based solutions to improve access to Sharia-compliant financial products or services, or working on technology based socially responsible development. The main theoretical foundations and principles of Sharia compliance within the finance sector include prohibition of interest (riba); sharing of risk; sharing of loss and profits; reduction of information asymmetry; relying on equity rather than debt; and creating a system that reflects economic and social justice. In order to comply with these principles, most of the Sharia-compliant FinTechs offer financial instruments or provide financial services based on payment systems, real estate or other equity backed risk and profit sharing and crowdfunding.

Crowdfunding: in Islamic FinTech, crowdfunding is used as a tool for users to invest in Sharia-compliant instruments based on sukuk or partial real estate investment, for peer-to-peer lending and for making seed investments to companies. However, as explained previously, the approach adopted under the Draft Communiqué may limit the use of new technological solutions or financial tools implemented by the FinTech companies, as it prohibits debt-based or real estate related crowdfunding.

Collection of donations: as for the Islamic FinTech companies working on social finance, humanitarian goals and collection of donations or zakat; the companies which work as an intermediary between the donor and non-profit organisation may be required to obtain a payment service provider license. Should the FinTech companies wish to collect the donations themselves, they may be required to establish an association or foundation which shall not be primarily engaged with revenue generation.

Using 'participation' title pursuant to Capital Market Law: the Sharia-compliant funds or other capital market institutions or instruments which seek to use the description of 'participation' in their titles, such as participation funds, are required to comply with the specific criteria for doing this set out in the Capital Market Law and the related communiqués.

The future outlook

It is important for the Turkish regulatory bodies to frame regulations that increase inclusion and competitiveness in the financial sector, to enhance and diversify the development of the FinTech sector in Turkey. Meanwhile, FinTech companies need to establish contact with the regulators to discover and use innovative platforms to ensure that they are complying with all applicable regulations and earning the trust of users and regulators.

As per Turkish Law, excluding the payment system providers, FinTech companies can act in collaboration with financial institutions such as banks. Alternatively, FinTechs can choose to become software providers instead of offering complete solutions to their customers, allowing them to avoid the high regulatory compliance obligations or entry barriers.

Although the Turkish government supports technological development as part of a strong, modern financial sector, it should be noted that as FinTech products are interdisciplinary and FinTech companies provide comprehensive and different models or solutions, there are many constraints on providing general, simple and standardised regulatory solutions. However, one way for regulators to support FinTech in Turkey may be to adopt regulatory sandboxes. Regulatory sandboxes allow FinTech companies to test compliance with the regulations, while giving regulators the opportunity to review and adapt to the FinTech solutions. With a regulatory sandbox approach, FinTech companies can gain the trust of users and regulators on issues such as financial reliability and information security, which is an essential foundation for the mass adoption of their products or services.

Elçin Karatay,
Partner,
Solak & Partners

UK REGULATORY MODEL FOR FINTECH AND THE NEED FOR GLOBAL COORDINATION WITH OTHER REGULATORS

Ashurst LLP

The UK has consistently been ranked the number one country for FinTech by various independent studies. One of the key reasons for this success has been the well planned regulatory approach to the opportunities and challenges that FinTech presents to the local and global finance industry.

Key to success: regulatory approach and coordination

The UK's proactive and global approach is summarised well by the Rt. Hon Philip Hammond MP, Chancellor of the Exchequer, in the paper 'FinTech Sector Strategy: Securing the Future of UK FinTech':

"With strong domestic demand for FinTech products, a world-leading financial services sector, a thriving tech scene, a positive regulatory environment, and strong government support, it's no wonder that the UK is riding the crest of this wave as the best place in the world to start and grow a FinTech business."

FinTech is a global business that is altering and in some cases disrupting financial services and market structures around the world. Accordingly, the regulatory challenge is to make sure that the regulatory regime does not stifle innovation, while at the same time protecting consumers and financial markets to ensure financial stability. The UK Financial Conduct Authority (FCA) started Project Innovate in October 2014 and has a team working across its innovation services teams on this initiative. The FCA encourages innovation through a number of initiatives, including:

The regulatory sandbox

This enables firms that are ready to test their product to get support from the FCA by providing firms with:

- the ability to test products and services in a controlled environment
- reduced time-to-market at potentially lower cost
- support in identifying appropriate consumer protection safeguards to build into new products and services
- better access to finance.

Direct support service

This service provides tailored regulatory support for innovative firms. The FCA's direct support team provides a dedicated contact for innovator businesses that are considering applying for authorisation or a variation of permission, need support when doing so, or do not need to be authorised but could benefit from FCA support. The FCA also helps businesses understand the regulatory regime and the challenges they may face when developing an innovative product or business model.

The advice unit

The advice unit provides feedback to firms developing automated advice and guidance models. There are two main services to firms:

(1) **Individual regulatory feedback:** firms will be given regulatory feedback on their model. This could include:

- an initial meeting with the Advice Unit, and other specialist areas of the FCA if needed, to discuss the proposition
- for firms requesting ongoing engagement, a dedicated point of contact in the Advice Unit to provide regulatory input at agreed milestones
- specific feedback on the regulatory implications of the model – this could include follow-up meetings with relevant FCA staff to discuss specific issues, informal steers, and individual guidance as appropriate
- input on how to apply for authorisation if the firm is currently unauthorised.

The feedback will focus on helping the firm understand the regulatory implications of their model.

(2) **Published tools and resources for all firms:** the FCA publishes tools and resources for all firms developing automated advice or guidance propositions, based on its experiences with individual firms.

Cross regulatory and consistent government approach

There is a lot of cross regulatory and government coordination in the UK to ensure a consistent and supportive approach to the development of FinTech. A good example is the joint HM Treasury, FCA and Bank of England 'Cryptoassets Taskforce' which recently published a report setting out the UK's approach to cryptoassets and distributed ledger technology in financial services.

Given the dominant position of London as the world's financial centre and the advanced and proactive approach to FinTech regulation in the UK, a number of regulators from around the world are coordinating with the FCA to adopt a global approach to FinTech development and avoid 'reinventing the wheel'.

Global financial innovation network and global sandbox

The FCA, in collaboration with 11 financial regulators and related organisations, on 7 August 2018 announced the creation of the Global Financial Innovation Network (GFIN), building on the FCA's proposal to create a 'global sandbox'. The network will seek to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. It will also create a new framework for cooperation between financial services regulators on innovation related topics, sharing different experiences and approaches.

The current GFIN membership includes: Abu Dhabi Global Market (ADGM), Autorité des marchés financiers (AMF, Quebec), Australian Securities & Investments Commission (ASIC), Central Bank of Bahrain (CBB), Bureau of Consumer Financial Protection (BCFP, USA), Dubai Financial Services Authority (DFSA), FCA (UK), Guernsey Financial Services Commission (GFSC), Hong Kong Monetary Authority (HKMA), Monetary Authority of Singapore (MAS), Ontario Securities Commission (OSC, Canada), and Consultative Group to Assist the Poor (CGAP).

The GFIN is designed to be an inclusive community of financial services regulators and related organisations. The creation of the GFIN follows the FCA's consultation in February 2018 on the idea of a 'global sandbox'.

Islamic FinTech: London leading

London is already a global gateway for Islamic finance. There are a number of UK-based Islamic banks and the UK was the first European country to legislate proactively to allow Islamic finance products to be treated on an even playing field with conventional finance products for tax and regulatory purposes. London already hosts a number of companies and initiatives in the Islamic FinTech space and will no doubt be a leading hub for this important sector of FinTech.

Way forward

Given the FCA's world leading work in FinTech regulation, the momentum behind the GFIN initiative, the development of a 'global sandbox' and London being at the forefront of Islamic FinTech, it might be worth regulators in the Republic of Turkey becoming part of the GFIN and eventually joining the 'global sandbox' initiative. This will ensure that all members of the GFIN benefit from experiences of FinTech development and regulatory approaches in all relevant countries and stay at the forefront of the evolution of the FinTech and Islamic FinTech sector.

Abradat Kamalpour,
Partner,
Ashurst LLP

SUPPORTING THE GROWTH OF ISLAMIC FINTECH WITH ACCELERATORS

iE5

In a White Paper submitted to HM Treasury in September 2017 (‘Putting the City and the UK Economy Back on the Global Islamic Finance Map’), representatives of the UK Islamic FinTech sector noted that although the British government has been strongly supportive of the Islamic finance industry, an emphasis on the banking industry alone may prove too narrow in the long run. 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 UK should also help the burgeoning Islamic FinTech sector to develop and prosper, not only for the benefit of the UK economy, but to serve as a hub that cooperates with the world’s leading Islamic finance centres for mutual benefit.

In early 2018, a group of Islamic finance and FinTech practitioners established the UK Islamic FinTech Panel to position the UK as a world leader in Islamic FinTech, and provide delivery support to Sharia-compliant FinTech companies. HM Treasury, the Bank of England, the Department for International Trade and TheCityUK all agreed to participate on the Panel. They have worked to draw support from the sector from across the industry, both within and outside the UK, and to help the sector clear policy hurdles as and when they arose.

The Panel aims to work on projects with tangible deliverables that have commercial benefit. One of the outputs from the Panel’s work is the creation by some panel members of an accelerator known as iE5, the Global Islamic Economy Accelerator. Like many accelerators, iE5 aims to assemble a selected cohort of companies and organisations meeting certain criteria, providing companies with affordable professional services, and networking them with the various stakeholders throughout the industry. However, iE5 may be the first accelerator wholly devoted to the global Islamic economy, and FinTech is a key element of its work.

London famously vies with New York, Silicon Valley and Singapore to be the highest ranked destination for FinTech companies. HM Treasury’s ambitious FinTech policy framework is rooted in competition and innovation, enabling London to become a proven world leader. A similar set of policy initiatives with tangible outcomes for Islamic FinTech has the potential to magnify London’s importance for the global Islamic finance industry. iE5 is at the forefront of that process.

So what can a UK accelerator do for Islamic FinTechs seeking to survive, thrive and go global?

First, connecting early stage FinTechs to each other helps them to share ideas and resources, allowing the sector to become greater than the sum of its parts. London is the second highest ranked city in the world for the presence of Islamic FinTech companies, but to date there has been no single organisation connecting the whole community together. London’s position as a global financial capital at the centre of time zones also means these companies are well placed to network with their peers around the world. London is also the western centre of the halal economy, with the highest number of halal businesses founded outside the Muslim world.

If all early stage FinTechs experience challenges in setting up, managing and growing the business, these challenges are all the more acute for FinTechs working in the Sharia-compliant financial sector. Technical expertise, investors and funding sources in this sector are more specialised and less prevalent. The extensive experience of members of the Panel and iE5 suggests entrepreneurs seek a community network, support, guidance, financing and infrastructure to grow their businesses in a Sharia-compliant manner. iE5 offers them global connectivity, proximity to professional advisors through a programme of available advice and support, and corporate support programmes to help companies learn through master classes, webinars, clinics and workshops.

The professional services provided by an accelerator are of paramount importance and must be particularly relevant to the sector. iE5 has partnered with Gateway LLP, a professional advisory firm with legal, financial and Sharia consulting expertise in the Islamic economy; Elipses, a digital research, advisory and investment firm operating in the digital Islamic economy; and IslamicMarkets.com, the world's most widely used online information, learning and financial intelligence platform dedicated to the Islamic economy.

iE5 is currently working with its first cohort of over 20 companies, a number of whom have already successfully launched products and negotiated early funding rounds. In early 2019, it will launch its online portal on the IslamicMarkets platform, available to both members and non-members across the world. The accelerator is also working with overseas jurisdictions like Dubai and Pakistan to connect the global Islamic FinTech community.

To ensure iE5 has the best possible connectivity within the global Islamic FinTech community, their Co-Founder spent time in Istanbul with TheCityUK and Borsa Istanbul, where he was most impressed by the Islamic FinTech sector there. A number of Turkish financial institutions, including Islamic (or participation) banks, have already established their own incubators/accelerators. In this respect, Turkish participation banks are well ahead of their peers in the UK.

The synergies between the two jurisdictions are potentially enormous. Turkish participation banks are already developing FinTech solutions that would be of considerable interest to British Islamic banks. Furthermore, FinTech companies in the UK have immense potential to offer their technology solutions to Turkish financial institutions, as well as to attract Turkish investment. And finally, the exciting prospect of a global digital Islamic challenger bank might well be realised by combining the financial and technical excellence, as well as the rich history of Islamic finance, in both London and Istanbul.

Harris Irfan

Chairman,
UK Islamic FinTech Panel and Co-Founder, iE5

CREATING A SHARIA-COMPLIANT ACCELERATOR PROGRAMME

AlBaraka Garaj

AlBaraka was the first participation (Islamic) bank in Turkey and has over 30 years of experience. As the first mover, AlBaraka led the industry for long time but today faces considerable competition. In the last couple of years, AlBaraka reshaped its entire organisation to focus on innovation so that it could lead the industry again. At first, AlBaraka established an idea management platform to turn new ideas into innovative products, but experience suggested that many of these ideas were not workable. AlBaraka then established an intrapreneurship programme to support employees who had a determination to develop a business from their ideas. With intrapreneurship, far more ideas became a reality, but the talent pool was still restricted. To expand it the bank decided to integrate the most successful disruptive innovators, the start-ups. Start-ups helped renew the organisation, transform its corporate culture and make it more agile and flexible.

The AlBaraka Garaj Start-up Acceleration Center was established to address pain points and function as a bridge between start-ups and AlBaraka Bank. In AlBaraka Garaj, start-ups are provided with benefits like training, mentorship, consultancy, grants and, most importantly, the opportunity to test products with proof of concepts (PoCs) inside AlBaraka Bank. Meetings are held with every department to decide on the bank's long term targets prior to selecting start-ups, and to decide which fields of the start-up ecosystem to focus on. Start-ups are then selected accordingly.

AlBaraka has completely redesigned a floor of its headquarters for start-ups. AlBaraka Garaj aims to transform AlBaraka's corporate culture by bringing the dynamics and agility of the start-up world to the bank. Their goal is to match entrepreneurs with the appropriate units according to the needs of the institution and to ensure that common projects are produced. In this way, entrepreneurs are able to test their products by conducting PoC studies in a real company environment. Meanwhile, this brought new technologies to AlBaraka much more quickly than would have been possible through following normal processes. AlBaraka Garaj helps start-ups grow by giving them a playground within an established bank.

In the first term of AlBaraka Garaj, nine start-ups were selected out of 455 applicants. AlBaraka Garaj's seven start-ups worked on 17 different PoC projects and collaborated very closely with various departments in the bank. Four projects with successful outcomes proceeded and AlBaraka bought the products of these four start-ups, becoming the first customer and an important reference point for these businesses. These projects are as follows:

- **A biometric signature solution from Techsign:** the solution is in pilot usage in AlBaraka's three branches and after the pilot phase it will be used in all AlBaraka branches, abolishing the whole paper operation. For the first time in Turkey, an instant check of the authenticity of a signature is also possible with Techsign's solution. AlBaraka will have a yearly saving of 1m Turkish Lira and over time that number should quadruple. This project received the FIA 2018 Best Technology Initiative – Customer-Facing Solutions Award.
- **A gamification platform from Inooster:** it is being used by AlBaraka's Collection Team to improve motivation and performance. It has increased the average debt collection rate by 40%. It will also be used by all of AlBaraka's sales team after integration is completed.
- **A chatbot solution from Rubicio:** AlBaraka's Human Value Department is using it to answer employees' questions and issue some legal documents instantly.
- **A virtual reality (VR) education project from Pedudi:** Pedudi is working with AlBaraka's Education Department to create a VR educational movie for branch staff.

After AlBaraka Garaj's first year, the accelerator decided that in order to be fully a part of the FinTech ecosystem it needed to invest in start-ups to benefit from their potential. Turkey's start-up ecosystem is growing rapidly and there are great opportunities for investors. As a result, the AlBaraka FinTech Venture Capital Fund was founded to invest in Sharia-compliant technology based start-ups. The fund will initially make four seed investments into early stage start-ups. That number should hopefully increase in 2019.

Ibrahim Fazıl Celik
Specialist, Business Development and Innovation
AlBaraka Garaj

CREATING AN ENABLING FUNDING ECOSYSTEM FOR ISLAMIC FINTECH

Elipses

The Islamic banking sector is expected to reach $3.8trn in assets by 2022, according to Thomson Reuters, with 1,400 Islamic institutions present in over 80 countries. Muslims make up almost a quarter of the world's population with the proportion expected to grow in coming years. Yet the proportion of Islamic assets compared to total global financial assets is much smaller than the proportion of the global population it serves.

The markets in which this population are often found are deeply underserviced and diverse. Both the need and the rewards for servicing these markets are great.

Islamic banks have gone through a period of consolidation over the past few years, which has meant that addressing this gap has not been their most pressing concern. More recently the emphasis in global Islamic finance has moved to include FinTech as an enabler and made the possibility of the bridging of this gap a realistic medium term opportunity.

Islamic FinTech can include:

- FinTechs built from the ground up as Sharia-compliant
- FinTechs which are conventional in origin that can be adapted to be Sharia-compliant (much like Islamic banking windows)
- FinTechs that operate in Muslim majority markets servicing the Islamic finance sector or Muslim majority markets.

The UK is the home to the second highest number of Islamic FinTech firms in the world, after Malaysia. A thriving FinTech ecosystem is built on three pillars, regulation, talent and capital. The development of the sector in the UK has been helped by proactive government support, primarily through policy and regulatory advances that have afforded equal opportunities to Islamic finance. This, coupled with a coming together of a large pool of FinTech and Islamic finance talent, positions the UK as an ideal place for Islamic FinTech development to continue. However, the capital environment for Islamic FinTech in the UK remains sub-scale.

The overall funding escalator in the UK is well developed, with Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS) incentives creating a large pool of angel investors and networks that have been the lifeblood of seed stage investment. Series A and beyond has been supported by a growing venture capital sector largely supported by the European Investment Fund and post-Brexit is due to be replaced by the British Business Bank (BBB), which has been allocated funds to fulfil this function following the patient capital review. Corporate Venture Capital has also been a vibrant sector in recent years allowing the UK to punch above its weight in investment for growth stage FinTech.

However, the Islamic FinTech sector has not been a beneficiary of this funding as the space is not well understood by investors. The firms operating in the space are often incorrectly seen as niche players and Islamic banks have yet to put their balance sheets to use for investment. This is an area where Turkey has a pedigree. A number of Turkish banks, both conventional and Islamic, operate an outsourced technology development organisation that leads much of the technological innovation, including, in recent years, the roll-out of automated branches and digital challenger banks such as Insha.

There is an opportunity for Turkish banks to tap into the UK Islamic FinTech sector by offering investment and partnership initiatives to access the Turkish market. In the UK, Islamic banks also have an opportunity to utilise their own balance sheets to accelerate their own FinTech adoption.

Finally, the UK government could leverage similar incentives such as the provision of Sharia-compliant funding via the BBB to develop Islamic FinTech focussed venture funds or Islamic finance funding facilities for FinTechs. This would invigorate funding in the sector and attract new inward investment.

Abdul Haseeb Basit

Co-Founder & Principal,
Elipses

THE ESG DATA REVOLUTION SHAPING ISLAMIC INVESTING

Arabesque

The landscape of asset management has changed. The explosion of big data in the world of finance has coincided with the rise of environmental, social and the governance (ESG) factors in international markets. ESG has been incorporated into the mainstream through the regularisation of ESG principles by corporate sustainability movements such as the UN Global Compact, the UN guiding principles on Human Rights, and the Global Reporting Initiative. Advancements in technology now enable managers with quantitative capabilities to make better informed decisions than their discretionary colleagues, because of their ability to analyse more data, faster. And investors of all types have started realising the wider purpose their savings can serve.

At the same time, a silent corporate revolution has been re-shaping global markets over the past decade and more, responding to and anticipating changing framework conditions. Driven by regulatory changes, shifting consumer behaviour, natural resource constraints, and social inequalities, corporations everywhere are striving to move from industrial-era approaches towards cleaner, technology-driven and socially inclusive business models.

Put simply, sustainable investment considers ESG criteria to generate long-term competitive financial returns and positive societal impact. In practice, ESG covers a wide range of complex and often interrelated issues such as water management, community relations and board structure. Even 20 years ago, there were no standards and very few guidelines on how to account for ESG factors. Considerations such as air pollution, child labour, bribery and corruption simply did not show up in corporate disclosures. But driven by initiatives such as the International Reporting Council and the Sustainability Accounting Standards Board, a robust data ESG infrastructure is now emerging globally.

As the performance relevance of ESG has become clearer, momentum has grown. In the largest 50 economies in the world, almost 300 policy instruments now support investors to consider long-term value drivers, including ESG factors. Over half of these were created between 2013 and 2016. In 2017, the European Parliament passed a revised EU law on workplace pension funds, the Institutions for Occupational Retirement Provision (IORP) directive. The directive covers the European pensions market, which invests over €3.2trn on behalf of some 75 million Europeans. It contains clear requirements for pension funds to consider ESG issues – the strongest and clearest requirements on such issues yet seen in an EU text.

Furthermore, according to the New York-based Global Initiative for Sustainability Rating (GISR), there are currently over 120 rating organisations offering over 500 products. Disclosure requirements in many countries including Islamic economies, such as the changing of listing requirements of stock exchanges across the globe, will undoubtedly drive this forward even more. It is nothing short of a data revolution, and a ‘new normal’ where the materiality of sustainability information is now recognised across global markets.

In this new era of transparency, investors have started developing a sense of connection with their investments. They increasingly require information on the manner their money is managed, the types of companies they support, and the impact they have in society. In addition, they wish their capital allocation decisions to reflect their personal beliefs. Imagine the disappointment of an oncologist who finds out that they invested in tobacco companies, or a Muslim who finds out that they invested in non-Sharia-compliant businesses.

The rise of ESG data is opening new channels for increasing the scope of Sharia investing. The proportion of Sharia-compliant funds as a percentage of global AUM is currently only around 0.07%. But with the projected Muslim population in 2050 estimated to be around 2.8 billion, and with the percentage of Muslims today under the age of 30 at almost 60%, unprecedented growth in Islamic investing is on the way. Currently, there is a lack of providers that incorporate Sharia preferences and can meet this new demand. Digital tools such as Arabesque S-Ray®, which incorporates preference filters to construct an investment universe as per the investor’s individual choices, are starting to change that. The S-Ray® preferences filter can check the business involvements of companies in line with AAOIFI’s Sharia rulebook, ensuring the transparency of the investment process and the precise adoption of Sharia principles.

In relation to Sharia compliancy, many have raised concerns about the implementation of Islamic finance. They argue that Islamic products may be following the letter but not the spirit of Islamic finance, restricting the deen (Din) to a few rituals. Rules and guidelines may be prone to different interpretations by different scholars allowing for creative structures, while only reaching out to the low-hanging fruits (e.g. simple exclusion based on activities) that neglect the true spirit of Islamic finance (e.g. considering social needs, promoting justice, using the earth's resources responsibly).

Take, for example, the roof collapse of the Savar building in 2013 that resulted in the death of more than 1,000 people with more than 2,000 injured. The building housed garment factories manufacturing apparel for several well-known brands. The production of garments is Sharia-compliant. However, the manner with which the workers were treated was not. Thus, the question arises whether an investment in these companies should be seen as Sharia-compliant. Certainly, this is information that should not be disregarded. It should somehow be captured and communicated so that the consumers or investors can make a well-informed decision. This can now happen increasingly through technology.

Thus far, some fund managers have argued that by removing optionality, performance would be negatively impacted. This, in general, is true. However, often enough, this is the case because the incorporation of personal views is taking place after portfolio construction, thus neglecting all other aspects of portfolio theory. Importantly, it also implies that return is of a higher priority and of significantly superior importance to personal beliefs. However, if Sharia views are incorporated from the beginning and portfolios are put together on that basis, the impact of optionality reduction can be managed. It is here where the greatest opportunity for alignment between Sharia investing and ESG data technologies can be seen.

The recent surge in sustainability big data and technological advancements looks set to transform Islamic investment in the years ahead. Quantitative and AI-based products are swiftly replacing discretionary choices, investors are increasingly expressing their desire to align ESG with Sharia principles, and awareness is growing amongst corporations that they need to comply with changing global consumer values. The journey has just begun.

Ciaran McCale

Head of Media and Communications,
Arabesque

THE RISE OF SHARIA-COMPLIANT CROWDFUNDING

Yielders

Crowdfunding is an increasingly important part of the Islamic finance ecosystem. At the core of Islamic finance is a belief that risk-sharing is superior to risk-transfer, and crowdfunding projects are structured around risk-sharing.

Islamic crowdfunding makes use of a variety of Islamic finance structures including:

- Murabaha: a structure in which the seller provides the cost and profit margin of a commodity.
- Qard al-hasan: an interest free loan where the borrower repays the principal amount of the loan without interest, mark-up, or a share in the business for which the loan was used.
- Wakalah: an agency contract, where one party appoints another to conduct a defined legal action on his behalf, for a specified fee or commission.

Whichever instrument is preferred, Islamic crowdfunding is helping achieve the socially inclusive vision of Islamic finance by providing people who have traditionally been excluded from financial markets the chance to benefit from growth opportunities. Many markets present would-be investors with a barrier to entry in that investors need to possess significant capital before they can enter the market. However, by matching investors with Sharia-compliant campaigns that accept a very low minimum investment amount to participate, Islamic crowd funders are helping more Muslims and non-Muslims than ever before to access key markets.

There are many examples around the world of how Islamic crowdfunding is supporting financial inclusion. In Malaysia, Skolafund, an education-based crowdfunding platform, is helping students crowdfund higher education scholarships, while Ethis Ventures has launched an Islamic charity crowdfunding platform that connects Muslim donors with social projects around the world. Meanwhile, in Singapore, Kapital Boost is giving members the opportunity to invest and earn attractive returns by funding small businesses.

One market where crowdfunding can significantly reduce barriers to entry is property. This is where Yielders is making a difference.

Yielders

Yielders is the first FCA regulated Islamic Fintech platform in the UK. Yielders provides real estate investment opportunities in the UK to investors worldwide from as little as £100. It is an asset based marketplace that connects owners of income generating real estate assets with a new generation of investors across the world who are seeking exposure to the property market.

For an initial investment of £100, investors on Yielders' platform can gain access to the UK property market, which has become notoriously difficult to enter, especially for millennials and low-income households. While owning property is traditionally a difficult and time-consuming investment for consumers, who need to consider mortgages, deeds and conveyancing, Yielders transfers much of the burden of property ownership away from investors. The platform launched in Q1 2017 and has already grown to over 1,000 registered clients.

Yielders won the Islamic Economy awards 2017 and the Islamic Crowdfunding Platform of the Year award 2018 from Islamic Finance News. It is now looking to allow investors to access opportunities in markets throughout the world. The company has initiated regulatory approval from the Netherlands Authority for the Financial Markets (NAFM). Meanwhile, it is approved as a Markets in Financial Instruments Directive (MiFID) and Capital Adequacy Directive (CAD) exempt firm, positioning it for EU passporting. Yielders is also engaging with the Gulf region, and is in regular contact with Gulf Cooperation Council (GCC) regulators, including Bahrain (CBB) and Dubai (DFSA).

Regulation and Sharia compliance

As an Islamic FinTech operating in the UK, Yielders received two kinds of authorisation. Firstly, it secured approval from the UK's financial regulator, the FCA. Secondly, it was recognised as Sharia-compliant by a Sharia scholar. Currently, in order to gain authorisation from the FCA, financial businesses need to show that they can satisfactorily address the FCA's concerns in a number of areas, including: financial robustness, business continuity, customer advertising, technology strategy, legal contracts, anti-money laundering controls, whistleblowing training and compliance, client money handling, and compliance with protections against financial crime.

Meanwhile, in order to receive a declaration that a business is Sharia-compliant, businesses must demonstrate to Sharia scholars that their business fulfills Sharia requirements. The principal requirements are to:

- avoid interest
- avoid uncertainty
- avoid gambling.

Sharia compliance is critical to Yielders, which was developed from the very beginning to be fully in line with Sharia principles. To this end, the company followed strict Sharia compliance processes, making sure that the Sharia scholars who reviewed the business fully understood all aspects of Yielders' services and that Yielders' Sharia policy was clearly reflected across all contracts, policies and processes. Ultimately, Sheikh Abu Esah signed and issued a fatwa certifying Yielders as Sharia-compliant. Sharia Certification gives confidence to Muslims that the business model is in line with their faith and gives investors confidence that an ethical filter has been applied across the whole business. The authorisation process for an Islamic FinTech may be difficult at times, but it does ensure a high quality product and builds essential trust.

One way in which policymakers can support the growth of this sector is by shaping regulatory regimes that support high quality crowdfunding. In the UK, the FCA provides a liberal regulatory regime which allows many kinds of crowdfunding platforms to operate (whether equity crowdfunding, debt crowdfunding or property crowdfunding) provided they can demonstrate that they deliver high standards. In Turkey, the situation is more complicated: equity crowdfunding has recently been permitted in some circumstances, but debt and property crowdfunding are restricted. Turkey already benefits from a thriving FinTech ecosystem and has a young tech savvy population. It may be worth exploring how policymakers in Turkey can move towards a more liberal regulatory system that enables Islamic crowdfunding.

Zeeshan Uppal
COO and Co-Founder,
Yielders

HOW 'ENABLING' FINTECH IS SUPPORTING ISLAMIC FINANCE

DDCAP Group

References to 'FinTech' usually bring to mind the development and implementation of new financial technology that 'disrupts' incumbent players. Sometimes lost in the sector's current white heat of expansion is recognition for the role of 'enabling' FinTech, which helps incumbents improve their products and services. There is nonetheless continuous investment being made into 'enabling' FinTech solutions in the Sharia-compliant space, and this is bringing increased levels of operating efficiency and risk mitigation to the global Islamic finance marketplace.

DDCAP is a leading provider of 'enabling' FinTech for the Islamic finance market. The company celebrated its 20th anniversary in 2018. Since its inception has functioned as a leading market intermediary in the Islamic finance industry, providing structuring support and value-added services to connect the global Islamic financial market responsibly across a diverse range of products and asset classes, including treasury, capital markets, fund management and consumer banking. One of their key tenets has been to improve functional efficiency and reduce operational risk for clients through the use of innovative financial technology. This has led directly to the development of the proprietary asset facilitation and post trade services platform, ETHOS AFP™.

ETHOS AFP™ is very much an 'enabler', designed to ensure that DDCAP's global network of institutional clients is able to execute Sharia-compliant transactions efficiently and in a time-effective manner. It is a bespoke, real-time trade and post trade services platform providing 24-hour coverage and operating via a secure web-based portal that, in accordance with the increasing and overlapping resonance of ethical finance with Sharia-compliant finance, connects the global Islamic financial market responsibly. Reflecting this, and the international nature of the Islamic financial market, DDCAP now has over 40 staff located in the world's leading Islamic finance hubs, with offices in London, the Dubai International Financial Centre and, most recently, Kuala Lumpur.

DDCAP's ETHOS AFP™ shows how FinTech can facilitate a range of Sharia-compliant investments. It offers extensive functionality, delivering an array of benefits and efficiencies to clients' front, middle and back offices. The key functional elements comprise trade execution, post-trade services, risk management, governance and compliance, financial control, and availability, security and business continuity.

For trade execution, optimum efficiency is achieved, with minimal data entry being required. Auto-complete, drop down selection boxes and extensive input efficiencies are available throughout the platform enabling transactions to be input in a matter of seconds. Customised dashboards ensure that all data and workflow functions are personalised and centralised, making the platform intuitive to all users. ETHOS AFP™ also operates with real time information, with a full suite of supporting trade documents being immediately available to the client at the appropriate stage of the transaction.

Islamic finance practitioners are especially focussed on risk management, governance and compliance because Sharia oversight adds an extra layer of requirement over and above their peers in conventional markets. Here, again, FinTech can help. ETHOS AFP™ crucially provides 'Maker/Checker' functionality to ensure that authorised user profiles can be applied to ensure segregation of duties between users in order to meet the specific governance protocols of each client. Authorised user permissions can be granted on a granular basis, ranging from read-only through to full access, again based upon internal compliance preferences. In addition, ETHOS AFP™'s asset-based inventory is subjected to DDCAP's own responsible business-based principles as well as the Sharia-focussed requirements of clients and DDCAP's Sharia Supervisory Board. This allows sanctions observance and responsible finance considerations, at clients' direction, to be tailored to ensure that ETHOS AFP™'s Sharia-focussed asset allocation procedures are overlaid with requisite, regulatory driven compliance and governance stipulations, including sanctions related protocols or responsible investment and financing considerations.

As more people around the world manage their finances using digital tools, cybersecurity is becoming mission critical for FinTechs. Security considerations are always at the top of the list of clients' requirements, and ETHOS AFP™ has been awarded the Cyber Essentials PLUS certificate, an industry-recognised accreditation. The Cyber Essentials scheme was developed by the UK government in collaboration with the cybersecurity industry as part of the government's National Cyber Security Strategy to make the UK a safer place in which to conduct business online. For these reasons, ETHOS AFP™ is hosted in a high-level, secure data centre, with full secondary data backup. Access is restricted to pre-approved users through a number of industry best practice information security techniques, while business continuity is ensured with its provision of high-frequency data replication to the secondary data centre.

FinTech solutions for Islamic finance share many features with FinTech products that are not Sharia-compliant. However, there are also some key differences. In particular, Islamic FinTech businesses need to ensure that all aspects of their technology are Sharia-compliant. To this end, DDCAP's Sharia Supervisory Board, chaired by the highly respected Saudi scholar Sheikh Abdullah Bin Suleiman Almaneea, has been engaged with the development of ETHOS AFP™ and has issued a fatwa in support of its automated processes. As part of its ongoing, recurrent Sharia diligence procedures, DDCAP's Sharia Supervisory Board undertakes regular reviews of the platform, the transactions concluded across it and the trade documentation originated by it.

The further development of both 'disrupting' and 'enabling' Islamic FinTech products and solutions is strategically important for the Sharia-compliant banking industry as it seeks to improve its operationality and market competitiveness. One example of 'enabling' FinTech development is DDCAP's recently announced partnership with Refinitiv (formerly the Financial & Risk business division of Thomson Reuters) to offer financial institutions a fully integrated treasury trading workflow for Sharia-compliant transactions. The partnership creates a link between ETHOS AFP™ and Refinitiv's Islamic Deal Adapter, developed on its widely used Eikon Open Platform treasury trading platform, which allows customers to automate their Islamic deal workflow on a fully unified and integrated basis, resulting in significant trade execution and operational efficiencies for Islamic financial institutions, as well as those conventional banks active in the Islamic financial markets.

Against this background of positive and fast-moving opportunities, and provided the right financing structures exist and a supportive regulatory and operational environment is in place, Islamic FinTech can help to create a better platform for responsible and ethical financing. And, as Islamic FinTech solutions continue to attract new customers from across OIC countries, including Turkey, they can play a critical role in supporting social and financial inclusion.

David Testa
Executive Director,
DDCAP Group

SUPPORTING THE GROWTH OF ISLAMIC FINTECH

London Stock Exchange Group

The London Stock Exchange Group enables the global community to convene for the issuance and provision of capital for deployment worldwide. Buyers and sellers transact with confidence. Where companies or sovereigns originate from countries other than the UK, their capital raisings on London Stock Exchange Group via international investors effectively serve as foreign direct investment to these countries, supporting local jobs and enterprise. London Stock Exchange (LSE), part of the Group, supports a wide array of companies, from SMEs to global titans across asset classes and through the lifecycle of a company's growth. London Stock Exchange's track record in the Islamic finance and Technology sectors as well as capacity building initiatives augurs well for supporting Islamic FinTech in the future. A supportive regulatory framework, local expertise, track record of financial innovation and diverse population in the UK pushing demand are the cornerstones for growth in the sector.

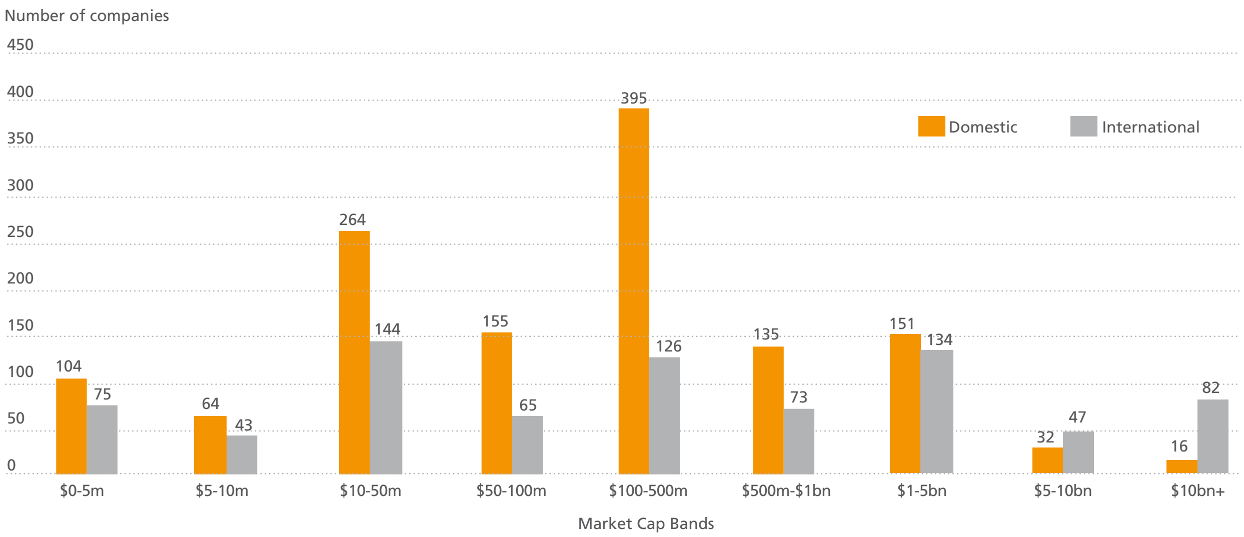
London is fast establishing itself as the home for technology companies and the global hub for FinTech. The UK has surpassed the US in terms of FinTech investment for the first half of 2018, and taken the top spot in Europe to attract $16.1bn (£12.3bn) out of the continent's $26bn total. Over $1bn has been raised from a recent surge of FinTech listings in 2017 and 2018 (see figure 2). This year, LSE will convene its FinTech Investor Forum for the fourth year running, showcasing ambitious global FinTech companies. It is an opportunity for firms to connect with the investors and advisors who want to help them achieve their growth potential and forms part of the UK's wider FinTech Investor week.

The UK's regulatory landscape for FinTech is world leading due to its efficiency, transparency and industry-led approach. In October 2014, the Financial Conduct Authority (FCA) launched Project Innovate, aiming to provide direct support to firms through an Innovation Hub and focussing on policy and process improvement initiatives. Through Project Innovate, the FCA has established a programme that FinTechs describe as supportive and collaborative, and significantly simplifying regulatory complexities. The FCA's regulatory sandbox, part of Innovate, allows firms to test innovative products, services and business models in a live market environment, while ensuring that the appropriate safeguards are in place.

The FCA has, in collaboration with 11 financial regulators and related organisations, announced the creation of the Global Financial Innovation Network (GFIN), building on the FCA's proposal in early 2018 to create a 'global sandbox'.

London is the western centre for Islamic finance, due in part to its role as an international financial centre with deep ties with traditional Islamic finance markets. Key to the UK government's initiative to become this leading

Figure 1 Number of FinTech listings on the London Stock Exchange in 2017 and 2018



Source: FactSet, November 2018
International / domestic categorisation determined according to country of primary business

Figure 2 Notable FinTech listing on the London Stock Exchange in 2017 and 2018

Company	Listing Date	Highlights
Funding Circle	28 Sep 2018	First British FinTech unicorn to come to market. Largest London initial public offering of Q3.
Argo Blockchain	03 Aug 2018	First crypto mining company to list on a major exchange outside Asia.
Nucleus	26 Jul 2018	Fastest growing wrap platform in UK, raised $42m on Alternative Investment Market.
IntegraFin Holdings	02 Mar 2018	UK's first B2B wrap platform, listed on the Premium Main Market and currently worth over $1.5bn.
TruFin	21 Feb 2018	Largest FinTech company to list on Alternative Investment Market in 2018, raising $97m.
Augmentum FinTech	13 Mar 2018	FinTech-focussed fund, raised $130m on the Main Market.
Beeks	27 Nov 2017	First financial cloud firm to list in London.
Boku	20 Nov 2017	Backed by Andreessen Horowitz, NEA, Khosla Ventures and Index Ventures. Chose Alternative Investment Market as NASDAQ would not offer same growth potential.

Source: London Stock Exchange Group

player in Western Islamic finance is a UK-based financial ecosystem of leading banks, law firms and professional services firms, specialising in all aspects of Islamic finance. While the development of Islamic finance has largely been driven by the Gulf Cooperation Council countries and Southeast Asia so far, the next frontier for the market is the West. The growth potential is underpinned by fast expanding ties with traditional Islamic finance hubs, and an increasingly Sharia-friendly regulatory environment. Add to this the changing demographics with a growing Muslim population, and a low penetration of Islamic finance products, and the scope for growth is clear. LSE is playing a key role in supporting this growth.

The UK was identified as an important destination for Islamic finance with the country given an index value of 16.2 (above the global average of 10.3) in the 2014 ICD Thomson Reuters Islamic Finance Development Report.[6] This represents the highest rank among non-Muslim majority countries. The sukuk sector continues to evolve as a pillar of Islamic finance, currently representing 17% of the Islamic finance industry.[7] LSE is at the forefront of establishing an efficient sukuk listing process, particularly relevant for first time issuers and Islamic FinTech firms seeking to raise Sharia-compliant financing, facilitating investor access and promoting liquidity through the International Securities Market.

LSE has long understood the power of small and medium sized businesses (SMEs) to drive innovation, job creation and ultimately economic growth. In 2012, LSE launched an initiative for private ambitious companies, ELITE. Since 2016, ELITE has expanded outside Europe to West Africa, the Middle East, Latin America and the US. Today, ELITE is a community of 1,000+ companies from 40 countries operating in 40 sectors. The ELITE offering consists of a structured programme to help companies prepare and structure for growth and investment; a strong global network of advisers and business leaders to support the companies; and a funding platform to facilitate private fundraising for ELITE companies. The funding platform is designed to create efficiency for private companies when seeking capital and has the flexibility to support a wide range of deal structures. ELITE aims to connect companies to capital through not just traditional means but also by using technology.

Given the supportive regulatory environment for both FinTech and Islamic finance, local expertise in both sectors and huge potential for growth in Islamic FinTech, LSE remains ideally placed to support capacity building and future capital raises across asset classes for UK and international Islamic finance FinTech firms.

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HOW TECHNOLOGY CAN HELP FINANCE PRACTITIONERS NAVIGATE UNCERTAINTY

The Chartered Institute for Securities & Investment (CISI)

The world of Islamic finance is no stranger to uncertainty. Practitioners often struggle to find the right data with which to predict future events, and are continually required to interrogate the models they use to interpret that data. Finance is a knowledge-intensive sector: to succeed, professionals need to learn how to frame, investigate, and solve problems that require more than just basic facts and skills.

So how do professionals cope with uncertainty? How do they make decisions without understanding all the facts? Financial education providers have long helped professionals make optimal decisions in a climate of uncertainty. However, now EdTech is helping to understand uncertainty itself: how it affects the decision making process and what can be done about it.

The CISI's global footprint

The CISI has been at the forefront of developments in financial education since it emerged from London Stock Exchange (LSE) some 30 years ago. The CISI now has almost 25,000 fully-qualified members worldwide, and the same number of students. The institute is noted for having brought technology to bear on distributing vocational training across continents, with a long record of digital innovations including online training, bite-size training sessions called 'Professional Refreshers' and its own CISI TV channel. There are now more than 120 of these refresher modules, free to members and students, and in addition, in the coming year more than 100,000 hours of carefully-structured continuing professional development (CPD), with leading industry speakers, will be watched on CISI TV.

The CISI has seven offices in Eurasia and Africa, and its exams are recognised by regulators in almost 50 jurisdictions. The CISI's members span the worlds of capital markets, corporate finance, investment banking, wealth management, and Islamic finance, where its Islamic Finance Qualification (IFQ) leads the field for practitioners in the early stages of their careers.

Stella Cox CBE, Managing Director of DDGI Limited and Chair of TheCityUK Islamic Finance Sector Advisory Group, reflecting on the contribution of the IFQ, said:

"Since its inception nearly two decades ago, the IFQ has found international relevance as a professional qualification for Islamic financial sector practitioners. With CISI's internationally respected accreditation, this qualification encompasses a programme that takes candidates along a pathway starting with matters of fundamental practice and extending through diverse topics that cover Islamic financial disciplines from both Sharia and technical perspectives.

IFQ is statistically supported as having the most significant, global uptake of any professional qualification currently available to those working, or aspiring to work, within Islamic banking and investment. It has made a significant contribution to the positive career trajectories of numerous, talented individuals working within the market today."

Sustainable investment and Islamic finance

CPD programmes of the type run by all good professional bodies are vital to any professional to keep up-to-date in the fast-changing world of finance. Nowhere is this more important than in matters involving sustainability in investment, which is closely related to Islamic finance. sustainability factors have always been part of investment research analysis and valuations, even if they were not explicitly labelled as ESG or socially responsible investment (SRI) outputs. But as a report last year from the Association for Financial Markets in Europe (AFME), pointed out, firms have more recently created some material factors into a ESG or SRI research framework. "Many firms have ESG – or climate change-specific analyst teams," it says. "Building on years of experience of specific sectors (10-15 years for some members), the research analysts are well placed to assess the materiality of ESG-related risks to a sector or a specific security. Sector analysts are best placed to assess which factors, ESG or not, can materially impact a sector and its underlying stocks' financial and valuation performance."

The systematic inclusion of ESG factors into the usual risk metrics and cash flow analysis depends on various factors, typically the type of security, geography, the format of the research and the industry, driven by investor demand and the availability of ESG-related information from corporates.

In March 2018, the Islamic Development Bank, London Stock Exchange Group, and the UK government brought together a stellar group of speakers in a special sukuk summit, titled 'Driving change – funding the future'. Introducing the event, which was run at the stock exchange's London headquarters, HE Dr Bandar MH Hajjar, President of the Islamic Development Bank Group, said: "Islamic finance has gone from strength to strength in recent years. Since 2014, when the UK became the first non-Muslim country to issue a sukuk, more investors have looked to the sukuk market due to high liquidity and the need to diversify their portfolios. "Furthermore," he added, "we have seen the development of the sukuk as applied to genuinely innovative growth areas, such as green investment, social impact and FinTech."

This touches on all of our lives, not just on those of the one in five of the world's population covered by Dr Hajjar and his colleagues. As he explained at the sukuk summit, "The Islamic banking industry has grown at a double-digit rate for the last decade and reached $3.5 trillion last year alone. Moreover, Islamic finance has a strong track record in promoting financial, social, and economic stability, as well as financial inclusion and shared prosperity, in line with the UN's Sustainable Development Goals (SDGs).

"We have seen therefore that financial success and responsible investment need not be mutually exclusive," Dr Hajjar concluded.

This link between investment, Islamic finance, and the SDGs has been explored intensively by the CISI over the past three years in events, magazine articles, and in support of regular research work by Deloitte to which our members contribute valuable input.

A new, tech-led approach to financial education

The CISI is determined to use technology to tackle the problem of uncertainty. As a result, it is working with the UK's Open University and the University of Regensburg in Germany to create an app that aims to understand how uncertainty impacts behaviour. The project is investigating the workplace-learning strategies of finance professionals faced with unprecedented levels of economic, market, and political unknowns.

The key questions the project poses are:

- How do finance professionals shape their work in uncertain times?
- What is the nature of the uncertainty faced by finance professionals?
- How can work behaviour in the finance sector be measured on the individual level?
- How can technology be used to guide professional learning during times of uncertainty?

The project aims to provide a conceptual framework for understanding finance professionals' CPD, and create an app to guide individuals' development. The project will seek to show how planning for learning under uncertainty can:

- give organisations the benefit of an adaptive and agile workforce
- help organisations avoid professional obsolescence during times of uncertainty
- improve working conditions
- enhance job satisfaction and well-being at work.

Results from the first phase of this study show finance professionals face at least five different kinds of uncertainty. These flow from the consequences of environmental changes, structural changes, political decisions, financial crises and technological advancements. Depending on the nature of the uncertainty, professionals use different learning strategies to navigate through uncertain times. However, two core strategies emerged from in-depth interviews: networking/help-seeking behaviour and reflection/drawing from their experiences.

Intervening in uncertainty

To build models for how professionals see the world, the research team has been gathering in-depth information regarding following five SKIVE (Skills, knowledge, Identity, Values, Epistemology) elements within the finance sector:

- **skills:** the things that people within finance do
- **knowledge:** the understandings that people within the profession share
- **identity:** the way that members of the professional community see themselves
- **values:** the beliefs that professionals hold
- **epistemology:** the beliefs that justify actions or claims as legitimate within the profession.

Based on the information gathered about these elements, the team will design a simulated learning activity for an uncertain situation in finance. The results of this innovative research can't come too soon; the world is changing faster than ever.

George Littlejohn

Senior Adviser,
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GROWTH OPPORTUNITIES FOR ISLAMIC FINTECH IN THE UK AND TURKEY

TheCityUK and RedMoney Group

TheCityUK commissioned RedMoney Group to undertake research on the current state of Islamic FinTech in the UK and Turkey and illustrate the potential for Islamic FinTechs in both countries to work together. This research informed group discussions.

In the section below, TheCityUK provides an extract from this research which shows the results of a survey of FinTech practitioners in the UK and Turkey and explores their views on the current state and future development of the Islamic FinTech sector in their home market, challenges and opportunities, the potential for collaboration and threats to growth.

Survey

In total, 10 FinTech start-ups and entrepreneurs were interviewed, along with five industry experts.

Small, diverse and Sharia-compliant

Of the 10 FinTech providers surveyed, 40% were located in Turkey while 30% were based in the UK with the remainder based in a variety of overseas jurisdictions (including Berlin, Malta and Russia) and targeting Islamic customers in the European market.

The majority were small (only two firms had over 50 employees) and Sharia-compliant (only two identified as not being Islamic). They covered a wide range of sectors: from agriculture credit to home mortgages to property crowdfunding to training for Islamic banking professionals and more. Only two firms had a turnover of above $1m, although the majority (70%) have been in operation for over three years.

Opportunities

When asked their opinion on the top growth areas for FinTech in their jurisdiction, Turkish firms identified:

- point of sale financing
- personal finance
- payments
- InsurTech
- cryptocurrencies/blockchain
- money transfer.

In comparison, UK-based firms identified:

- SME lending
- investments
- banking – current accounts
- blockchain/data
- AI
- InsurTech.

Although there is not a large crossover, this suggests that the areas of blockchain/cryptocurrencies and InsurTech are potential areas for collaboration.

Challenges

In terms of barriers to growth, every respondent identified access to funding as a major issue.

Raza Ullah, CEO of UK-based home loan provider Primary Finance, noted that: "It's difficult to get halal sources of finance, particularly Islamic credit lines for lending business are almost non-existent. The regulatory and tax environment also have not been designed with Islamic principles in mind so we have had to jump through many hoops and get significant legal advice to avoid falling into major pitfalls when designing our business offering."

Irfan Khan, CEO of UK-based property crowdfunding platform Yielders, noted that they had to 'bootstrap' the business for the first two years due to lack of funding.

Mehmet Memecan, founder and CEO of Turkish agricultural credit scoring firm Tarfin added: "We had access to funding, but it has been a slow process. We need to have more venture capitalists (VCs) – and more VCs focusing on FinTechs and Islamic FinTechs."

In Turkey, other barriers including trust and confidence in Islamic finance, reputation, compliance, red tape and bureaucracy were cited.

In the UK, top concerns included a "lack of industry cohesion and driving a succinct policy agenda", a "lack of pipeline development for Islamic FinTech entrepreneurs", a problem with marketing/messaging, a lack of customer maturity and a fragmented FinTech marketplace.

The issue of confidence also appears to be important. "Non-Muslims seem to think Islamic finance is only for Muslims, and Muslims don't seem willing to believe it's any different from regular finance," pointed out Raza Ullah.

Regulatory support

Interestingly, the majority of Turkish FinTech firms appear to feel well-supported by the regulatory framework in their country.

"We are being supported by both the relevant agricultural and financial government agencies," said Mehmet Memecan. However, he suggested that: "One point of improvement could be the availability and sharing of personal data with FinTech companies, given strict oversight and with proper customer consent."

"In my opinion, some areas (such as Islamic blockchain) are supported by financial authorities such as Borsa Istanbul," added Sümeyye Demir, a business analyst at Istanbul-based Anzera Learning Technology. "But other sectors (such as Artificial Intelligence or the Internet of Things in Islamic banking) are not supported by any of the associations."

Another respondent from Turkey cited "the entrepreneurship centres established by Kuveyt Türk and AlBaraka Türk and the venture capital fund created in the Istanbul Stock Exchange" as key examples of regulatory support. But the respondent also highlighted the need for more regulatory sandboxes and suggested that the establishment of organisations to raise awareness about Islamic finance was also needed. Murat Mayda, CEO of Corpayss, also identified the need for more networking events within the Islamic FinTech space.

UK firms were less enthusiastic about regulatory support, with none saying they felt supported in their activities and several strongly urging more robust regulatory support for Islamic FinTech. "We need to lobby the government to further adapt tax and regulatory laws to remove barriers to entry for Islamic FinTech firms," said Raza Ullah.

Collaboration

The impetus and interest in collaboration appears to be strong in both markets. Seventy per cent of respondents said they would consider partnering with a traditional bank or finance provider, with the answers evenly spread across both the UK and Turkey. However, access to Sharia-compliant banks may be proving trickier.

"We are currently partnering with a number of traditional banks," said Mehmet Memecan. "However, although our underlying business model is Sharia-compliant we have not been able to make many inroads with Sharia-compliant banks in Turkey."

Irfan Khan is also collaborating with banks in the UK through the Open API interface, while Sümeyye Demir thinks that, in fact, banking collaboration is the way forward:

"As a matter of fact, Islamic finance wants this from us. It is preferable to partner instead of supplying money, and during this partnership we share both profit and loss. When the banks act like this, they gain the confidence of their customers."

There is also a strong interest in cross-border collaboration, and in partnering with other FinTech firms. A further 80% of respondents stated that they would be interested in partnering with another FinTech firm in a different market (depending on their USP) and in fact the only firms who denied interest were those located in jurisdictions outside the UK and Turkey.

"Since the increasing trend is to digitalise, it is easier and easier to collaborate globally," said Raza Ullah. "The first thing is to find out how our counterparts operate and the services they offer. There is a large information gap right now. If this was addressed we could work towards a common goal."

Conventional advantage

However, when asked if they felt that Islamic FinTech start-ups were at a disadvantage to conventional FinTech firms, a significant majority (seven out of 10) said yes – including every respondent located in the UK, where the feeling appears to be the most strong.

"To date, with the exception of Yielders, no Islamic FinTechs have received funding and it took us many years to get to this stage. Start-ups would usually fail by now as they cannot sustain the burn rate required to employee the skilled people and time it takes to get the regulatory approval," said Irfan Khan.

"No matter that we are providing a fairer, more flexible and more ethical product that actually advantages the customer – the pricing point will always be compared against the traditional market," added Raza Ullah. "This makes it difficult as our investors must necessarily take more risk and therefore demand a higher return."

Nyra Mahmood, the Managing Director of Simply Sharia Human Capital, added: "They are not taken seriously compared to their conventional counterparts. There is a lack of understanding of what they are (similar to the wider Islamic finance industry) – it feels as if history is repeating itself. We see one success story and laud it everywhere within our silos; failing to build other successes across the whole FinTech sector – globally. Gatekeepers within Islamic FinTech need to take risks with FinTech start-ups – the same way the conventional space take risks in building start-up communities, nurturing talent and sometimes failing in the process."

Although some Turkish firms also feel at a disadvantage, others disagree: "[Islamic FinTechs] have a limited market due to higher costs and a lower number of Islamic banks," said Mehmet Memecan.

"On the contrary, Islamic finance firms have an advantage in Turkey," argued Suleyman Konur of Kuveyt Türk.

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