The first Islamic fintech start-up in Indonesia for the Islamic mutual funds marketplace

INDONESIA

By Irwan Abdalloh

According to the Islamic Fintech Report 2018 issued by Dinar Standard in collaboration with the Dubai Islamic Economy Development Centre, Indonesia with a 33% market share, followed by the US, the UAE and the UK, hosts the largest number of Islamic fintech start-ups. Almost 70% of them use a peer-to-peer (P2P) financing scheme but none in the list are truly Islamic fintech in the Islamic capital market industry.

The data is quite interesting because there are still many parties who are not yet interested in developing Islamic fintech in the Indonesian Shariah capital market.

As we know, there are four main objectives that should be fulfilled to develop fintech: facilitating market access, increasing market efficiency, expanding market deepening and lower transaction costs. But for Islamic fintech, there is another objective: to comply with Islamic principles. If all four objectives are fulfilled but the scheme does not comply with Islamic principles, then it cannot be claimed as Islamic fintech.

The P2P financing model is a famous one for fintech because the scheme is easy to develop. The model only needs two parties to be connected, with one party having the funds and the other needing funding. In the Islamic capital market, especially in Indonesia, P2P financing-based fintech cannot be easily used because there is no direct transaction between two parties the in Islamic capital market. All transactions should pass through a third party as the broker.

In May 2019, one of the local investment institutions launched the first Islamic fintech start-up for the Islamic mutual funds marketplace. Yes, we already have some fintech start-ups for the mutual funds marketplace including Islamic mutual funds but none of them are developed 100% only for Islamic mutual funds.

In this digital era and when your market is dominated by young people, it is a must to develop Islamic fintech as a tool for investment in the capital market of Indonesia. According to the data, young people make up 68% of the Indonesian market and they use the internet and their mobile phones frequently. On the other hand, Indonesia is the biggest Muslim country in the world with a median age of 28 years. This is a huge potential market for the future.

This first Islamic fintech start-up that has just been launched will be great momentum in the next step of development of the Indonesian Islamic capital market. We believe that the Islamic capital market is the future of the Indonesian capital market.

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The alternative to conventional insurance

THE US

By Aliredha Walji

Conventional insurance in the US is unacceptable to many Islamic jurists due to the elements of Gharar (excessive uncertainty) and Maysir (gambling). This is because those purchasing the insurance do not know how much longer they will live and do not necessarily understand all the details of the exchange. In addition, the premiums collected are often invested into bonds and other interest-bearing instruments that are not Shariah compliant.

In the Islamic space, the alternative to this model is Takaful. In it, members contribute money into a pool or fund to help guarantee each other against loss or damage. Contributions are considered as donations and policyholders share the insurance risk rather than giving it to the Takaful company. In addition, assets are invested in underlying securities which conform to Shariah compliant guidelines.

There are two main models of Takaful: Mudarabah (profit-sharing) and Wakalah (agency fee). Mudarabah refers to a system whereby shareholders share profit and losses with the policyholders, while Wakalah refers to a fee that is given upfront from contributors and transferred to the shareholders' fund. These two models may be used separately or in conjunction with one another.

Currently, options for engaging in Takaful in the US are fairly limited. Aside from AIG, which began offering Takaful products in 2008, one name worthy of note is Zayan Takaful, which offers customized Shariah compliant insurance solutions to consumers across the US and provides homeowner policies through a relationship with Lexington Insurance Company.

There are a number of obstacles hindering the growth of Takaful in the US. For one thing, since insurance is regulated by individual states, licensing requirements can vary from region to region. Then there is also the potential for insolvency; shareholders' funds are required to provide emergency interest-free loans to meet existing claim obligations, and the laws of the state may not differentiate between a policyholder and a shareholder in a Takaful contract. Lastly, the issue of lawsuits: 'Murray v. Geithner' refers to a case where it was argued — unsuccessfully — that AIG should not be eligible for emergency TARP (Troubled Asset Relief Program) funds because of its involvement in Shariah compliant financial instruments.

Given these obstacles, it is difficult to see where the future is headed for the Takaful industry in the US. Although there is much room for further development in terms of catering to other insurance lines (such as automobile, health and such), these steps can only come after more work is put to create solid products within the commercial and residential property insurance space.

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