



Shariah and Fintech Solution in Wealth Management

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Introduction

- The introduction of Fintech has shaken the way “traditional” finance, asset and wealth management is conducted.
- It has brought about the new way on how people do banking and manage their financial needs, from both sides deficit and surplus sectors.
- Though it is very useful in the traditional banking practices and allows cost or risk reduction for banks hence leads to the enhancement of financial services within the financial system as a whole, but its more advanced application has markedly altered the process of financial intermediation.
- Despite its accelerated growth, it has been seen by many as disruptive innovation that will capture some of the growth area of finance.
- Islamic finance is also part of this game change.

Fintech is a game-changer for Islamic Finance

- Fintech is challenging the status quo of the financial industry
- The potential impact of fintech could be significant
 - with 10% to 40% of banking revenue possibly at risk by 2025 due to innovations outside banking institutions that are able to offer a significant pricing advantage
- How to change this “disruptive” position to “new exciting” opportunity → If you can beat them, join them
 - How the fintech innovation and potential revolution technology can offer to boost the capacity of the FI and enhance their efficiency, hence profitability
 - Mobile banking,
 - Adoption of new practices deemed key to future strategic growth
 - Fully automated and digitalised murabahah platform.
 - IAP
 - How to collaborate with Fintech Companies to offer various products either by the IFI or with the support of IFI



“Fintech will be game-changer for Islamic finance”

*-Muhammad Ibrahim,
Governor of BNM*

Differences Between Islamic & Conventional Products

- Initial legal ruling in commercial contract is permissibility
- Islamic products are designed **in accordance with the rules of Shariah**, known as *Fiqh al-Muamalat*.
- Every contract is considered lawful and acceptable if no principles of shari'ah has been contravened
- An Islamic financial contracts or instruments **must be free** from;
 - *riba* (a fixed and pre-determined return similar to interest)
 - *gharar* (existence of asymmetrical information and uncertainty),
 - *qimar* (gambling)
 - *ikrah* (coercion)
- Subject to **Shariah screening methodology** and approval by the Shariah Advisory Council



Islamic Methodology Towards Innovative Technology and Product Innovations

- Islamic law deals with permanencies (*al-thawabit*) and flexibilities (*al-mutaghayyarat*) matters
- As for permanent matters, no alternation is permissible though its retirement, extension and potential reinterpretation is encouraged (example: prohibition of *riba*, obligation to fulfill the contract, scope of *gharar* (uncertainty))
- Hence, as long as the parameters of permanencies and flexibilities are preserved, innovation and technology enhancement which bring benefit to mankind is definitely encouraged
- This is also applied in the areas of fintech



How Shariah Evaluate Fintech Initiatives and Activities?

- It is impossible to generalize the Shariah opinion on Fintech, as the practices of fintech comprise a lot of initiatives and activities
- Its compliance to Shariah has to be evaluated based on its own merit, looking into two main aspects:
 - How these practices comply to the principles of Shariah
 - How these initiatives fit into the broad purpose of Islamic finance, i.e. bringing good and avoiding harms from mankind.



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- Some of fintech practices are about technological innovation and enhancement → electronic payment, cashless & cardless payment, smart contracts etc
- Some are about providing new intermediation process, funding mechanism and wealth management instruments, etc
 - P2P, Crowdfunding etc.
 - Money transfer, Insurance
 - Insurance
 - Trading platform
 - Acceptable, but must follow Shariah principles in its structures and purposes
- Saving platform: Hellogold trading platform
- Digital currency: cryptocurrency → bitcoin.
 - How far bitcoin can be considered as currency?
 - Contradictory statement & practices

COUNTRIES AND THEIR ACCEPTANCE OF BITCOIN AS CURRENCIES

COUNTRY	STATUS
US	The U.S. Treasury classified bitcoin as a convertible decentralized virtual currency in 2013. The Commodity Futures Trading Commission, CFTC, classified bitcoin as a commodity in September 2015. In September 2016, a federal judge ruled that "Bitcoins are funds within the plain meaning of that term".
UK	The government of the United Kingdom has stated that the bitcoin is currently unregulated.
EUROPEAN UNION	In October 2015, the Court of Justice of the European Union ruled that "The exchange of traditional currencies for units of the 'bitcoin' virtual currency is exempt from VAT" and that "Member States must exempt, inter alia, transactions relating to 'currency, bank notes and coins used as legal tender'", making bitcoin a currency as opposed to being a commodity.
FRANCE	The French Ministry of Finance issued regulations on July 11, 2014 pertaining to the operation of virtual currency professionals, exchanges, and taxation.
GERMANY	19 December 2013, bitcoins are legally binding financial instruments that fall into the category of units of account, in accordance with the first sentence of section 1(11) of the German Banking Act.
CHINA	While private parties can hold and trade bitcoins in China, regulation prohibits financial firms like banks from doing the same.
INDIA	28 December 2013, the Deputy Governor of the Reserve Bank of India had no plans to regulate bitcoin.
ISRAEL	23 December 2013, Israel had not adopted any specific legislation regulating bitcoins.
JAPAN	Japan officially recognizes bitcoin and digital currencies as money.
MALAYSIA	No official statement of the bitcoin system has been made
RUSSIA	As of November 2016, Bitcoin is "not illegal".



Conclusion

- Penetration of Fintech penetration into Islamic finance, though in its infancy stage, but its potential (and “disruption”) to the traditional Islamic finance should not be underestimated
- In my opinion, fintech initiatives are largely positive to Islamic finance, from both, supply and demand sides
- With more options, consumers enjoy more competitive financial services cost.
- Yet, these initiatives must be evaluated from Shariah point of view so as to ensure its compliance to the Shariah
- This is a continuous process as the fintech industry in Islamic finance is still developing



WASSALAM
THANK YOU