

# Evolution and revolution: The marriage of fintech and Islamic finance



LAW (EUROPE)

By Shakeel Adli

The fintech revolution is a hot topic in the finance world, driven by increasing competition and investor potential. Fintech has undoubtedly changed the way customers engage with financial services providers, fostering the development of new technologies and new uses for existing ones, while improving data richness and availability. Fintech companies are reaching out to and reconnecting with customers who lost trust in the banking industry after the financial crash, while simultaneously attempting to connect with those who do not currently have access to financial services or even simple banking.

Nevertheless, what happens when one hot topic meets another? It is easy to see how the combination of the fintech revolution and the extensive opportunities present in the Islamic finance sphere can easily be profitable. The last five years have seen global investment in Shariah compliant transactions amounting to approximately US\$1 trillion; with a shift in attitude from competition to collaboration, marrying the two industries makes complete sense. However, such a marriage, like any other, is not without difficulties.

The ease of use that fintech offers potential investors and borrowers is an exceedingly attractive prospect; however, users in the Islamic finance sector must be careful to identify products which are Shariah compliant, specifically those free of Riba. In addition, institutional heel dragging in Middle Eastern and North African countries has been largely responsible for a slow response and low market penetration, with only 1% of the US\$50 billion global investment in the fintech industry over the past seven years coming from the MENA region.

Promisingly however, that trend is being reversed, with several cities racing to establish themselves as new fintech hubs in their own right. Abu Dhabi has seen the creation of the 'regulatory sandbox', allowing new products to be tested for two years without full regulatory compliance in an attempt to nurture growth and encourage involvement. The Dubai International Financial Center recently announced its own fintech accelerator, FinTech Hive, the first in the Gulf which is intended to raise the industry's funding potential within MEASA (Middle East, Africa and South Asia) nations. Additionally, both Qatar and Bahrain have held fintech conferences, with Bahrain extending plans to develop a fintech ecosystem with Singapore.

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And where does this leave us? In 2010, there were fewer than 20 fintech start-ups in the MENA region. That number has quintupled in the same number of years, demonstrative of the exponential growth of investor potential in both the region

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and sector. This level of growth has also been experienced in Europe where there have been a number of new Shariah compliant entrants into the fintech space including most recently Yielders. The question then becomes whether Europe or the Middle East will be the main driving force for Shariah compliant fintech going forward. Only time will tell but it will certainly be very interesting in the interim.☺

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