

Championing Malaysia's digital leap with Islamic fintech



MALAYSIA

By Ruslena Ramli

According to the Global Islamic Fintech Report 2021, the volume of total Islamic fintech transactions originating from the OIC amounted to US\$49 billion in 2020. This is envisaged to rise to US\$128 billion by 2025, with a compounded annual growth rate (CAGR) of 21%. The figure outpaces conventional fintech's projected CAGR of 15% for the same period. Taking into account Islamic fintech's current share of only 0.7% of global fintech transactions, regulators and global players will have to make concerted efforts to achieve this target.

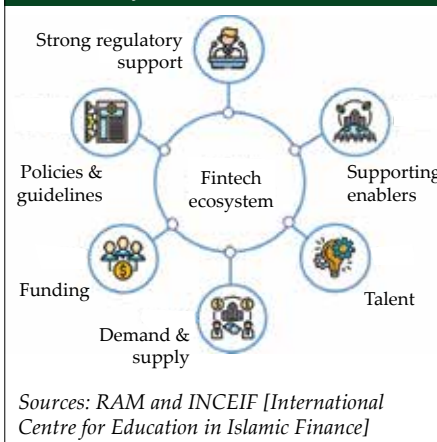
The government of Malaysia launched MyDIGITAL and the Malaysia Digital Economy Blueprint on the 19th February 2021. The speed of its rollout reflects the urgent need for Malaysia to virtually pivot on almost all aspects of our lives (eg work, school, e-commerce for goods and services), as highlighted by our experience with the COVID-19 pandemic.

This unprecedented event has shown how essential technology is to survival amid the current crisis, and its essential part in an economy's advancement even in the best of times. Even so, the ability to seize opportunities arising from innovative technologies and business models plays a key role in driving the new engines of economic growth.

Research shows that fintech growth could add US\$3.7 trillion to developing countries' GDP (source: Leveraging Islamic Fintech to Improve Financial Inclusion, World Bank, October 2020).

In 2019, the value of Malaysia's information and communications

Figure 1: Pillars that support a viable fintech ecosystem



technology sector came in at RM289 billion (US\$69.67 billion), accounting for 19.1% of its GDP. With the help of the digital blueprint, Malaysia is geared toward accelerating its digital economy, increasing to 22.6% of GDP by 2025.

As an Islamic finance market leader, Malaysia's fintech revolution has been identified as a key initiative in spearheading the evolution of its Islamic fintech industry. Based on the Global Islamic Fintech Index, Malaysia ranks first in terms of market maturity and stands among the top five Islamic fintech markets in terms of transaction volume.

The country's leadership underlines its viable Islamic finance ecosystem and continuous growth, including its development of Islamic fintech. The combined efforts of the government, the regulators and industry participants are the central pillars supporting this.

Comprehensive regulatory guidelines, a steady supply of talent in fintech and Islamic finance and supportive

institutions (such as Malaysia Digital Economy Corporation, the Malaysian Global Innovation & Creativity Centre, Malaysia Venture Capital Management) are needed to ensure a sustainable supply base.

On the demand side, Malaysia has the right market size as well as a multiracial and multireligious population for Islamic fintech start-ups (source: Malaysia: A Hub for Shariah Fintech, The Edge Markets, the 7th December 2020). By contrast, Singapore lacks a mass-Muslim retail market while Indonesia is deemed too big as a testing bed for new business models.

The confluence of these factors has led to Malaysia hosting the most number of Islamic fintech companies (26) ahead of the UK (19), the UAE (16), Indonesia (12) and the US (10). These fintech players operate within nine business segments, as detailed in Figure 2.

The road ahead to turn Malaysia into an Islamic fintech hub is not without its challenges. To accelerate its progress, industry observers have proposed a more cohesive approach, spearheaded by a designated national authority to champion the Islamic fintech agenda.

A dedicated roadmap for the Islamic digital economy that overlaps with the digital blueprint may also facilitate a pragmatic sequential approach to the overall strategic initiatives. Ultimately, Islamic fintech can lead the way to champion Malaysia's digital frontier. ☺

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Figure 2: Operating segments within Islamic fintech

Social finance	Takaful	Wealth management	Deposits & lending	Raising funds	Payments	Capital markets	Digital assets	Alternative finance
<ul style="list-style-type: none"> • Waqf • Zakat • Sadaqah 	<ul style="list-style-type: none"> • InsureTech • TakaTech 	<ul style="list-style-type: none"> • Robo advisory • Pensions • Asset management 	<ul style="list-style-type: none"> • Banking • Personal finance 	<ul style="list-style-type: none"> • Peer-to-peer • Crowdfunding 	<ul style="list-style-type: none"> • Payments • Remittances • FX 	<ul style="list-style-type: none"> • Investment • Trading • Sukuk 	<ul style="list-style-type: none"> • Platforms & exchanges • Wallets • Tokens 	<ul style="list-style-type: none"> • Micro/SME finance • Trade finance

Sources: RAM and Global Islamic Fintech Report 2021