IFN FINTECH

UNLOCKING THE POTENTIAL OF ISLAMIC FINANCE

MAY 2017

The gold rush: Islamic fintech firms giving ICOs the Midas touch

At a time when the traditional investment space is being flooded by Shariah compliant gold-based/backed investments with many claiming to be 'firsts' of new instruments following the introduction of a global Shariah standard for gold last year, a Dubai venture is also making a name for themselves in the digital space with what could very well be the first gold-backed cryptocurrency within the parameters of Islamic law.

Spearheaded by Islamic fintech firm OneGram and gold bullion trader GoldGuard, the physical gold-backed OneGramCoin (OGC) tokens will be up for sale in an initial coin offering (ICO) on the 21st May, an offering expected to raise at least US$554 million if 12.4 million of the tokens are taken up at the spot gold price. This would make it the largest digital currency crowdsale ever, greatly overshadowing the successful Ethereum sale (US$18 million) in 2014. Each token is redeemable for one gram of gold, or equivalent fiat currency.

> "The ICO is expected to raise at least US$554 million if 12.4 million of the tokens are taken up at the spot gold price. This would make it the largest digital currency crowdsale ever"

While the success of the ICO has yet to be seen, however, it is understood that the firms have already received commitments amounting to almost half of their funding goal; and the fact

that GoldGuard is building one of the world's largest cryptocurrency gold vaults inside the Dubai Airport Free Zone may be enough to capture the interest of investors. Not forgetting that the Shariah compliant flavor of OGC could very well attract Shariah investors who have been actively seeking for alternative investment options.

The appeal of an Islamic ICO — a fresh asset class — is one also being mulled by another Islamic gold trading platform as IFN Fintech has learned. Kuala Lumpur-based HelloGold, certified Shariah compliant in December 2016, is currently looking at another round of capital-raising (including a potential ICO) to support its ambitious expansion plans: the firm in April forged an alliance with AEON Credit Service (Malaysia) to offer Islamic investment opportunities in physical gold to the Malaysian retail market. HelloGold, which stores its gold in Singapore, has its eyes set on the Asian market, particularly China, Indonesia, the Philippines and Thailand.

ABCs of ICOs

Often compared to IPOs, ICOs refer to the sale of blockchain-based coins or tokens to raise money outside of the traditional venture capital world. Not regulated by any financial authorities, any firm or start-up — with the right technology — can create their own cryptocurrency backed by a variety of assets and these digital tokens can be traded over various cryptocurrency exchanges. Not without controversies due to the lack of regulatory oversight (which has led to significant fraudulent and failed deals), ICOs are gaining in popularity in part because of their democratization characteristics: transparency through the blockchain, and the removal of intermediaries (brokers, etc) which in theory means a lower cost of fundraising and insulation from regulatory intervention.

123s of OGC

Engaging Shariah scholars to ensure the entire value chain is Shariah compliant end-to-end from the provision and storing of the assets (physical gold) to the trading of the assets, GoldGuard will host the sale on its exchange, while OneGram will manage the OGC, develop the blockchain and regulate the exchange.

The ICO will last for 120 days or when all 12.4 million OGCs have been sold out. Should there still be an excess of tokens after the offering period, new OGCs equaling the amount sold in the ICO will be issued again; no more will be released after that. All transactions can be tracked in the OneGram wallet app and through the GoldGuard website. The firms intend to list OGC on other cryptocurrency exchanges on the 15th August. This is after the launch of an OGC transaction test network at the end of June and the implementation of multiple OGC block explorers in early July.

The UK's first digital Islamic bank in the works

A young start-up has begun the process of setting up a digital Islamic bank in the UK, with eyes on formally launching in 2018.

Like most start-ups, the idea behind a 100% Shariah compliant and 100% online bank was born out of a conversation. Hassan Wakar, a young student entrepreneur at Kingston University, took the conversation to another level and set up Ummah Finance, with the sole ambition of transforming the way Muslims (and non-Muslims) in the UK bank.

> "Unlike the existing players, Ummah Finance will also need to secure the approval of an external Shariah council (along with internal Shariah controls), which may consume more time and costs"

Jumping into it in October 2016, the company, with a seed capital of GBP200,000 (US$258,944), is now in the early stages of technology development, designing and testing back-end systems as well as core banking systems with a view of developing a mobile application embedded with know your customer and anti-money laundering functionalities, following the successful testing of its web platform.

The idea of an Islamic digital bank is not new: in fact, at the time when Ummah Finance was setting up back in 2016, Abu Dhabi Islamic Bank forged a partnership with Germany's Fidor Bank to introduce the GCC's first community-based digital bank.

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But what makes Ummah Finance an interesting proposition in the UK context is that it is focusing on serving the retail market; most of the six fully-fledged Islamic banks in the UK focus on the wholesale market.

Speaking to Hassan, the founder shared that the proposed bank will first roll out basic current and savings accounts before moving into investment products as well as mortgages, with an intention to also broaden its product suite to include wholesale instruments.

While Ummah Finance may be tech-ready (seen), however, regulatory hurdles remain. Like fellow challenger or digital banks in the UK such as Atom, Starling, Monzo and Tandem, Ummah Finance will need to secure approval from the Financial Conduct Authority and Prudential Regulatory Authority which could take about a year based on the experience of incumbents; however, unlike the existing players, Ummah Finance will also need to secure the approval of an external Shariah council (along with internal Shariah controls), which may consume more time and costs.

"Licensing is, by far, the most difficult part of our journey," notes Hassan.

However, Hassan is optimistic that if all goes well, the Islamic digital bank will be able to capture about 3% of the Muslim population in its first year of operations: 100,000 out of the approximately three million currently residing in the UK.

Investment managers to seize robo-advisory opportunity under new SC rules

Malaysia has become the first country in ASEAN to license robo-advisors, opening the doors for Islamic and conventional investment managers to begin offering digital investment management services.

Approximately a year in the making, the Securities Commission Malaysia (SC) has finally rolled out its much-awaited Digital Investment Management framework, effectively regulating automated discretionary portfolio management services offered to the mass market.

"Several fund managers are eager to jump into the robo-advisory business and have been waiting for [the] SC to issue proper guidelines — with this, we can expect to see robo-advisors very soon," an industry source tells IFN Fintech. Interested providers will need to apply for a separate portfolio management license and meet additional compliance criteria (See Table 1).

Table 1: Requirements for digital investment management license

Criteria	Description	Key notes
Digital business model	Clear value proposition which delivers positive outcomes	Business model must demonstrate how digital innovations can deliver positive outcomes to its target investors and any other target beneficiaries
User-centric delivery	Demonstrate how technology and innovations introduced are able to cater to the target investors/ beneficiaries' needs	Delivery of services to target investors and any other target beneficiaries must include: • User-centric interface and experience • Integrated investor education on the services offered to create greater confidence, trust and engagement • Transparent fee structure
Automated investment proposition	Clearly demonstrate which part of the portfolio investment service components are automated	• Automated proposition must involve core components of portfolio management services • Applicants may not be eligible if only limited parts or only non-core parts of the investment service are automated

"To reinforce investor protection, specific conduct requirements that commensurate with the distinctive characteristics of this new business model have been set out. This includes the requirement for the board to be accountable for the governance of the digital investment management business," explained the regulator.

Robo-advisors are increasing in popularity in the Asian region: Hong Kong is currently seeking feedback on its proposed guidelines on online distribution and advisory platforms while Singapore is understood to be designing proposals on the governance, supervision and management of algorithms for robo-advisors soon. And while there are already robo-advisors in the region, none are Shariah compliant, making the SC's framework significant in that it could pave the way for Malaysia, one of the most active Islamic finance markets in the world, to be the launchpad of Asia's first Islamic robo-advisor. IFN Fintech understands that there are at least two providers looking at providing Shariah compliant online automated discretionary portfolio management services; so far Islamic robo-advisory services are offered by one provider in the US.

The SC's move to regulate this area is driven by ambitions to widen the investor base, particularly by appealing to the younger, more digitally-savvy demographics, ie those below the age of 30, by allowing a greater range of investment products and services. According to the SC, less than 5% of this cohort participate in the capital markets. This follows the licensing of equity crowdfunding and peer-to-peer lending in the last two years which has yielded optimistic results: almost half (40%) of investors in equity crowdfunding deals are below 35 years old, which builds the case for the digital generation of investors.

StanChart plans KL accelerator; eyes Islamic fintech start-ups

Standard Chartered Bank (StanChart) is keen to replicate the success of its SuperCharger Fintech Accelerator in Malaysia, and this time, with a keen focus on courting fintech with solutions for Islamic finance, IFN Fintech has learned.

Still in the early stages of discussions, the bank will be collaborating with at least one government agency and one institution from the private sector to launch the accelerator program which will be based in Kuala Lumpur. "We are hoping to get it up and running this year," an inside source revealed, adding: "We really want to include at least one Islamic fintech start-up in this program and Malaysia is the right place to start considering the maturity and sophistication of its Islamic finance market."

The bank has shortlisted eight fintech companies (from SuperCharger Fintech Accelerator 2.0 in Hong Kong) for potential collaboration, and has initiated proof of concept projects with three companies including Bambu, a B2B robo-advisory company and KYC Chain to develop regtech utilizing distributed ledger technology.

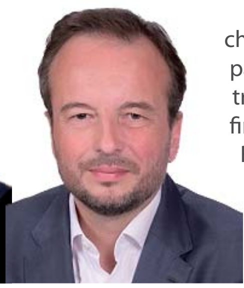
IFN Fintech also understands that the bank is working closely with government agency Malaysia Digital Economy Corporation to develop much-needed fintech talent through a graduate academy to nurture thought leadership among students.

CIMB Group pushes fintech agenda with new DBS hire

One of the biggest (Islamic) banking groups in Malaysia has poached DBS Singapore's head of digital banking to lead its fintech initiative, a significant step in the group's efforts to develop and leverage fintech solutions in an increasingly competitive banking landscape.

Come June 2017 if regulators permit, Olivier Crespin — credited as the person who introduced India's first paperless, signatureless and branchless mobile banking based on biometrics and artificial intelligence — will join CIMB Group as the chief fintech officer for its newly-minted dedicated fintech development hub.

Known as CIMB Fintech, the new unit joins a host of other banking innovation labs Malaysian banks (such as Maybank and Hong Leong Bank) have carved in recent years to stay ahead of the digital revolution; and is but one of the many initiatives the bank has taken to cement its space. It recently tied up with Jack Ma's Ant Financial Services Group, the parent of Alipay, to introduce the Alipay mobile wallet in Malaysia; the bank is also attracting some of the country's largest business groups (Genting Malaysia, Digi Telecommunications, YTL Corporation and Maxincome) to be the pioneer merchants for this service. And this will not be the end of CIMB's fintech endeavor as Group CEO Zafrul Aziz confirmed that the bank is prepared to "invest significantly" in fintech propositions to add value and enhance the experience for its 12 million customers across the region.



"The conventional banking space is increasingly being disrupted and we will see the same disruption within the Islamic banking space as well," Rafe Haneef, CEO of CIMB Islamic, shares with IFN Fintech. As at the end of 2016, CIMB Islamic amassed RM66.65 billion (US$15.33 billion) in assets and accounted for 14.6% of the group's total financing. Focusing on moving the bank's operations online, CIMB also launched its chatbot, CIMB Eva, which allows banking transactions to be conducted via chats. The Islamic bank has earmarked wealth management as a focus area for digitalization.

Not denying that there may be a change in the status quo, especially in the payments segment where more online transactions are being executed through fintech platforms rather than banks, Rafe takes it in stride: "While there are disruption[s], we see opportunities to work with fintech and embrace fintech positively."

Yielders secures FCA accreditation; founder upbeat on growth trajectory

After two years since it began the process of securing formal regulatory recognition, equity property crowdfunder Yielders has finally gained full authorization by the Financial Conduct Authority (FCA), becoming the first Islamic fintech company in the UK, and one out of five real estate crowdfunders, to be directly regulated by the FCA.

This development is most welcomed in the fintech space, particularly in the Islamic fintech segment as it validates the proposition of Shariah compliant fintech, underscored by the rigorous accreditation process.

"There needs to be clear legal contracts drafted for transactions, a robust business model in place with sufficient stress testing applied [and] a technology platform for review with a clear technology strategy," Irfan Khan, the founder of Yielders, explains the process to IFN Fintech. And that is even before an application is submitted.

The FCA then evaluates the application to validate its business model, client money handling and financial promotions before awarding accreditation. Individuals managing key financial promotion roles within the business are subsequently screened and trained and required to sit through a series of exams to ensure they are well equipped in discussing the listing of financial promotions.

"The process was very challenging; however, we had faith our ethical and Islamic principles would shine through in the process," says Irfan who believes that the principles of Shariah finance support a key FCA mandate — consumer protection. "These [Islamic finance] principles ensured, as we were building the business from the ground up, we included this within legal contracts, communications on the platform and how we look to democratize the investment opportunities for an underserved community."

Business, according to Irfan, has been growing month-on-month since it won a formal Shariah recognition by the Islamic Finance Council in March. "To date, we have not started our marketing campaign, so to meet the goals we have through organic growth is highly encouraging. We are excited about the next few months as new users and investors start to explore the platform and share their experiences with others and Yielders, so we can make our offering even better for the future."

Islamic investment manager turns to big data and machine learning

Shariah compliant value-based asset manager Arabesque is leveraging on machine learning and big data to analyze and screen companies in compliance with environmental, social and governance (ESG) parameters.

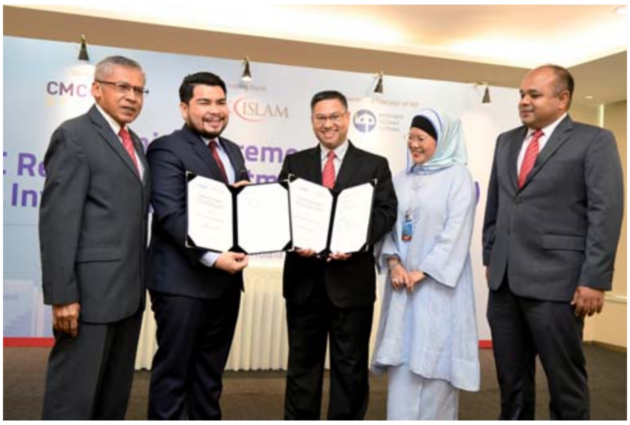
The firm has officially rolled out the Arabesque S-Ray, a new diagnostic tool which processes ESG data points to monitor the sustainability of over 4,000 of the world's largest corporations. The technology integrates over 200 ESG metrics with news signals from an excess of 50,000 sources across 15 languages. This same technology is used in building the portfolio of Malaysia's first Shariah ESG fund launched this year, also the first fund in the country to use big data analytics and machine learning technology.

"It is the first tool of its kind to rate companies on the normative principles of the United Nations Global Compact: Human Rights, Labor Rights, the Environment and Anti-Corruption (GC Score)," shared the firm. In addition, companies can also be evaluated based on their performance on financially material ESG issues. "Both scores are combined with a preferences filter that allows anyone to better understand each company's business involvements and how those activities align with personal values."

IAP goes international

Malaysia's Investment Account Platform (IAP) is raising money for its first foreign project, expanding the reach of the Shariah compliant multibank platform.

Malaysian-Japanese venture CMC Group and its sponsoring bank, Bank Islam, intend to secure RM12 million (US$2.76 million) via the IAP to part-finance CMC's RM23 million (US$5.29 million) telecommunication integration project for the Ho Chi Minh City Urban Railway System (Line 1) in Vietnam, a project contracted by Japan's Hitachi Kokusai Electric. The campaign for this restricted investment account transaction, which carries an expected return of 6.3% per year with a minimum investment amount of RM5,000 (US$1,150.23), is due to close on the 22nd May. As at the 11th May however, only 3% (RM340,000 or US$78,186.4) of the target has been met.



"This Metro Line Project is CMC's inaugural overseas railway integration project, which marks the beginning of our long-term investment into Vietnam, and at the same time, kicking off our strategy to export locally-nurtured railway skills and competencies," explained CEO Hazwan Alif.

This is Bank Islam's second IAP project, the first being a RM6 million (US$1.38 million) campaign to finance Koperasi Kakitangan Kumpulan BIMB Holdings last year, which successfully closed within three weeks. Other funding campaigns listed on the IAP during April-May include Bank Muamalat's RM10 million (US$2.3 million) Perak Transit project (successfully funded) and Maybank Islamic's RM60 million (US$13.8 million) specific unrestricted investment account.

ICD to launch incubator for Shariah-friendly fintech

The private arm of the Islamic Development Bank is exploring the idea of setting up a fintech incubator that would focus on Shariah-friendly technologies.

Open to interested technopreneurs globally, the Islamic Corporation for the Development of the Private Sector (ICD) looks to set up various challenges and award the winning start-ups with the resources and mentorship needed to bring to market their technology.

"Winners will have the opportunity with space and time and networking to build their idea into a testable product and then we will use our investee companies as a test bed for technology testing with a view of launching the product," shared Nida Raza, the director and head of advisory of the ICD at IFN Asia Forum 2017.

"We will use our investee companies as a test bed for technology testing with a view of launching the product"

The ICD has approximately 23 investee companies comprising Ijarah (leasing companies) and Islamic banks across the world. The proposed incubator would be the Saudi Arabia-based multilateral financier's significant step in its journey to be "the first in terms of Islamic financial technology".

Islamic fintech training services underway

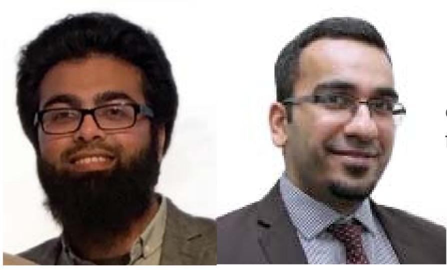
One of the oldest Islamic finance qualification providers in the world has partnered with an international Islamic and ethical fintech advisory to design and deliver training services on fintech for Islamic finance, a testament to the burgeoning area of Shariah compliant fintech solutions.

The Bahrain Institute of Banking and Finance (BIBF) and Finocracy have cemented a partnership under which both parties will develop a comprehensive training service incorporating both theoretical knowledge and practical applications through a select range of proven technologies and real-life case studies.

"Our strong partnership with BIBF will allow us to deliver world-leading and the first-of-a-kind training on Islamic fintech and social finance — and thus help us reach our vision in developing the ecosystem," commented Mohammad Raafi Hossain, CEO of Finocracy.

The training attempts to demystify technological innovations in the context of Islamic finance and to equip entrants into the Shariah compliant fintech space with essential background and knowledge to capitalize on emerging opportunities.

> "The training attempts to demystify technological innovations in the context of Islamic finance and to equip entrants into the Shariah compliant fintech space"



"This partnership is in line with our strategy to leverage off technology for facilitating the global Islamic finance industry," said Mujtaba Khalid, the head of BIBF Islamic Finance Center.

Islamic agri-crowdfunding platform to debut in Q4

The Shariah compliant crowdfunding community could soon welcome another peer as a Saudi platform is looking to enter the space as the world's first Shariah compliant crowdfunding avenue serving agricultural SMEs.

AgriFunder, one of the three finalists which presented at the RFI Summit 2017 in Zurich earlier this month, is looking to close the multibillion dollar agricultural financing gap by connecting international investors to agri SMEs on a Shariah compliant basis and to leverage these agriculture investments to alleviate poverty.

"The starting point is reputable partner financial institutions (PFIs) who are interested in supporting SMEs that are adjacent to their core client base. Partnering with an international crowdfunding platform enables PFIs to extend financing on more favorable commercial terms," explained AgriFunder on their media platform. These

AgriFunder

PFIs will assist in screening applicants and administering AgriFunder's financing for a fee with the option of becoming a co-financier; and repaid funds can be reinvested, ensuring sustainability.

Conceptualized by an Islamic finance associate with the Islamic Corporation for the Development of the Private Sector, the platform will first leverage the IDB Group's internal and external networks to promote the platform with a view of launching in the final quarter of 2017.

Dubai opens application for fintech accelerator program

Dubai is competing with London, New York, Singapore and Hong Kong to attract promising technopreneurs to the emirate in its effort to expand its 1% market share in the global US$150 billion fintech segment with its new accelerator program.

Receiving interest from over 200 companies since the inception of its Fintech Hive accelerator in January, Dubai International Financial Center (DIFC) is calling on fintech start-ups, those with a well-defined prototype or service implemented in at least one market and with an aim to expand in the Middle East, Africa and South Asia, to apply for its 12-week accelerator program; interested parties have until the 28th May to submit an application.

"Fintech Hive at DIFC will connect innovators in financial services technology with the banks, financial institutions and service providers within our dynamic ecosystem at DIFC," explained Arif Amiri, CEO of DIFC Authority. Some of these financial institutions include Citi, HSBC, Standard Chartered, Visa, Emirates NBD and Mashreq.

Successful applicants will also have access to Accenture as well as senior representatives from DIFC Authority to brainstorm, develop, test and modify their innovation. In addition to that, these start-ups, which will be selected based on maturity, life stage, market traction and financing profiles, will be mentored by Facebook and Envestnet | Yodlee. Facebook will focus on business development — commercialization and monetization, growth and engagement, development and marketing as well as analytics — while Envestnet | Yodlee will provide developers with access to application program interfaces.

"At the end of the three-month program, up to 10 candidates will have the opportunity to present their solutions to venture capitalists and financial industry executives"

At the end of the three-month program, up to 10 candidates will have the opportunity to present their solutions to venture capitalists and financial industry executives. The Fintech Hive at DIFC initiative is part of the UAE's national drive to elevate Dubai to be among the smartest cities in the world: the emirate has been aggressively pushing its fintech development and introducing new regulations to facilitate the segment, including rules on Islamic fintech firms.

Separately, the Financial Technology Enabler Group (FTEG) of Bank Negara Malaysia is seeking fintech ideas from the public through its Fintech Hacks initiative. FTEG aims to identify pain points in the delivery and consumption of financial service and solicit ideas using the application of technology to address such gaps. Submissions are open until the 31st May.

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