Fintech Pitch for Islamic Bank: Three New Areas of Services

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Preface

Fifty year ago, people would have been amazed that it is now possible to go to a cash machine anywhere in the world and use plastic card to get cash in the local currency. Likewise, the concept that a trader in trading room pressing the keys on a keyboard to facilitate multi million dollars deals would equally have been science fiction. (Gandy, 1999). Fast forward, today more amazing products being introduced in the market for example, personal computers and laptops, smartphones, tablets and wearables (smart watches). The Apple Watch already allows the wearer to check their banking balance, track their transaction history, and find a nearby branch and the functionality of these smart wearables will only increase further. (Chishti & Barberis, 2016).

These breakthroughs are more than science fiction and now it is a reality. The reason of the development of this technology is due to the combination of finance and technology. Fintech, the abbreviation for financial technology, is a broad category that refers to the innovative use of technology in the design and delivery of financial services and products. (Weforum. org, 2016). Fintech is one of the most promising industries in 2016. (Chishti & Barberis, 2016). The application of
Fintech cuts across multiple business segments, including lending, advice, investment management and payments. The rise of Fintech is due to the fact that many customers at the moment are on mobile solutions for example smartphones. Smartphones are cheaper and more popular than ever, with 1.9 billion users estimated in 2015. (Chishti & Barberis, 2016). This scenario has changed the landscape of traditional banking where previously majority of banking services can be only be subscribed through face-to-face interaction with the banker at the branch. It was compulsory for the customer to queue in the bank branch, to deposit or to withdrawal money through the counter or through the ATM. A new trend come into financial industry and its technological innovation applied in providing financial services. The players of Fintech are start ups or new companies which harness mobile technologies, large data and superior analytics to tailor products for various customer segments. Another one is the banks, who either creating their own Fintech or collaborated with the start-ups.

The impact of Fintech to the future banking business

1) Disrupting the current way of banking

Fintech will be disrupting the way the current financial products and services are produced, delivered and marketed. Based on Disruption Index, 73% respondents (teens to mid 30) excited by Google and Apple than incumbent bank. (Chishti & Barberis, 2016). From this statement it is clear that traditional financial service providers are at risk. The potential customers especially the younger generation is keen on gadgets promotion than promotion on banking products. Previously banks dictate the market by providing deposit, payment and credit facilities plus providing debit card and credit card to potential customers. The effect of disruption is very big across the banking sub-sectors, especially for retail banks. Retail banking segments such as lending, remittances and payments have undergone disruptions while the infrastructure supporting retail banking such as bank branches and ATMs are also undergoing a transformation, thanks to the millennials’ habit of using mobile devices. (http://fintechnews.sg/, 2016).

To summarize, according to (Chishti & Barberis, 2016), the bank’s business model and technology infrastructure were based on pre-internet era, mass expensive branch opening where product sets delivered through branches, manual processes and bold marketing campaigns. In addition, the bank engaged head to head competition with other banks in price cutting. From the above discussion, if banks fail to adapt into the Fintech then the banks might lose the customers especially segment of the younger and bankable future customers. Concrete actions must be taken to ensure the survival of the bank in this era of Fintech.
2). Banks are no longer the only player in town

Currently, electronic delivery and instant disbursements of funds will be able take place via mobile phone. Daily amortization would be possible for microloans. Pay as you go financial services are on the possibility. As the frequency of transactions increases, across all financial services, the ability for participants (both customers and lenders) to better react and prevent financial shocks, will improve dramatically. (Chishti & Barberis, 2016). New and more convenient customer centric services are changing the landscape, while customers are becoming more demanding. The increased of niche players focusing on certain services make it more and more difficult for traditional financial institutions to keep ownership of their customers. The rises of Paypal, EBay and in local market landscape, provider like Touch N’ Go services have somehow taking the functions previously can only be performed by banks. To note, now banks are no longer the only player in town. Customer may get specific services from a specific providers and still enjoying the best of services in terms of speed, accuracy and convenience. Based on the above impact analysis, the following is the proposal to introduce three types of services that can be provided through Fintech to our customers.

New Three Areas of Services through Fintech

In the next discussion the paper will highlight three types of area of services that Islamic Bank can provide to customers through Fintech. These services are in-line with the Bank’s objective and mission which is providing ethical financial services to the customers. The services are ethical and sustainable and also Shariah compliant with the objective beyond doubt, making life easier to customers besides fulfilling the customer’s needs by providing fast, convenience, efficient and high quality services.

(i). Introducing “Mobile Islamic Banking Solutions”

In order to ensure that all market segments of customers to have an opportunity to open at least an Islamic Banking account, that the bank to launch mobile banking services. Since it is costly for the bank to operate and to open branches in many locations especially the rural areas, “Mobile Islamic Banking Solutions” will help to close the gaps. Furthermore with many customers are on mobile smart phones and mobile devices and transacting online, this solution will work effectively. For a start, the bank to deploy mobile bankers stationed at the targeted location. These mobile bankers will be equipped with a tablet for an example iPad together with special API (Application Programming Interface) which enables difference software components or systems to efficiently communicate with one another. The tablet through the API, to process new account opening application online. With this
device the “mobile bankers” can be stationed at any location without needed to be stationed at the branch. They are going to reach out to customers and the customer will have the opportunity to open an account virtually without having to walk-in to the branch.

Most importantly the banking account is going to be opened real-time without needed to wait for the processing at the branch. The online account can be used immediately by the customer. The introduction of financial technology will help the bank to reach as many customers to open an Islamic Banking account thus promoting the Shariah and ethical value of the bank. The next move is to get the customer to use the bank’s application that can be downloaded by the customers to perform banking transaction online on real-time. In the event the customer wanted to further open accounts they just need to initiate it using the bank’s application on their smart phones. This action will lead to more account opening by the customer and increase the banks’ market share. The direct impact is reduction of cost to customer while maintaining presence in the market.

(ii). Easy Banking Process “Tap the docs” account opening services

The next proposal is to lighten the process of opening a bank account. The bank to venture into “Tap the documents account opening service” in offering quick and convenient solution to customers. Traditionally, the customer would need to fill up lengthy physical forms to apply for a banking facility. The bank’s staff would also be advised to only to use black colour pen when getting the customer to fill up and also sign the physical application forms. The reason is to avoid unclear information in the application form when the staff scanning the document into the system.

There are instances where the bank’s staff forgot to mention and explain the Shariah contract works for the product for example the contract used for the saving account is Wadi Sharah Yad Dhamanah or Mudharabah. This event could lead of non-disclosure of Shariah contract entered between the customer and the bank. Another potential error could be the information captured in the physical application form is incomplete or missing fields was not captured.

The above scenario could lead to failure in fulfilling our customer’s needs in providing fast, convenience, efficient and high quality customer service. This is leading to error free application where the sales person to use Fintech in getting the application form to be processed. The tablet for example iPad will be used to complete the account opening process. The application in the iPad will recognize customer’s identification card by simply tapping the identification card on the device and the information of the customer will be automatically captured by the system.

In term of customer’s employment details, the sales person will just need to tap the business card on the device and the important information of customer’s employment will be captured and restored in
the system. In the event the bank required additional documentation from the customer for example passport details or any other details, the sales person will only need to tap the document on the device and the information will be restored automatically.

The application will also trigger the Shariah contract customer’s enter with the bank before the customer sign on the digitally on the iPad. The initial deposit to open the account can be made through online interbank transfer once the account being open. The data then will be transmitted to the bank’s system and the application is being processed real-time and immediately. This will shorten the account opening process. The above Fintech solution will help to enhance Islamic Bank’s Shariah compliant and also efficiency in processing the account opening and simplify the account opening process.

(iii) Smart Collaboration with others partners

Many major banks around the world now has either a start-up program to incubate Fintech companies; putting aside venture capital to fund them or is partnering with, acquiring or launching their own Fintech start-up. (http://www.ey.com/, 2016)

Going one step further, Barclays is creating a global community for Fintech innovation, including opening an accelerator in New York’s Silicon Alley. Within Asia-Pacific, ANZ Bank has appointed “an international panel of technology experts” to advise its Board on the strategic application of new and emerging technologies and technological trends that could affect the bank’s strategy. (Chishti & Barberis, 2016)

From the above statements it is clear that the next move for Islamic Bank is to collaborate and not to compete directly with the competitors. Islamic Bank would not need to go for competing into an industry that the bank does not have the capabilities and resources to work on but to partner with the same industries who are promoting Islamic/ethical business values.

a). Fostering Musyarakah, creating partnership

In order to avoid customers from banking with *riba’* (interest) based loan or deposit based on riba’ or transaction with *riba’, gharar* and *maysir* which are contradicting with the objective of Shariah which is to protect the religion (*Din*), Al Quran has stated a clear prohibition of *riba’* based on *Surah Al Baqarah*: 275. The Bank in this proposal to offer services and solutions beneficial to the society (*ummah*) in meeting the objective of Shariah under the protection of *mal* by providing solutions to the society Shariah compliant way.
Islamic Bank to work and collaborate with merchants who offer solutions Shariah Compliant services under one roof. The Bank would market and work with the merchants or institutions to be placed in the bank’s application for example Uber, coffee companies and coffee house chains like The Coffee Beans & Tea Leaf, Starbucks or old folks’ home that need contributions to run the institution.

In this case our customer would not need to have many applications to deal with their online activities. They need not need to maintain separate application for example Uber, the application for The Coffee Bean or the application for Donation for Rumah Orang-Orang Tua Al Ikhlas. What they need to do is to only maintain the bank’s main application where all these merchants and institutions are listed in bank’s application. Furthermore, the bank is supporting the customer’s deposit, financing and other services. By having this Fintech solutions through the bank’s API, our customers’ experience will be enhanced and the bank’s will have greater position in promoting Islamic banking to our customers.

(b). Contactless payment technology

Islamic Bank to work on the capability to offer contactless payment system to customers under the flagship of collaboration and not competition. The bank to work with technology giants such as Apple and Samsung in order to give supreme services to the customers. The bank to work on the areas to allow products and services to accept mobile-based payment system like Apple Pay or Samsung Pay. The customer using the bank’s product and services to use digital wallets and also E-money that offers cashless transaction. However in order to promote Shariah banking and to uphold the sanctity of Shariah, the bank would need to ensure that our contactless payment to discard payments related to negative list purchases such as purchases for gambling, payment for prostitution and pornography and also alcoholic drinks purchases. The above smart partnership under the bank’s Fintech will bring greater customer’s experience and also building the bank’s image as Shariah compliant Fintech provider.

Conclusion

Based on the above points and references, there are opportunities for Islamic Banking to offer three new areas of services that can be provided through Fintech. Point to note that compliance to Shariah and other regulatory requirements is the key to the success in implementing this technology. Compliance is not optional but mandatory in order for the bank to offer the Fintech-based solutions to customers. If the bank fail to be trusted, or fail to secure customer’s data and to comply with the local financial regulations then the Bank is going face difficulties in the future for example reputational damage and the cost to rectify the image. The Islamic bank to increase the information technology spends, first investing in digital banking and after that to budget into accelerators, alliances and innovation labs in order to offer Fintech to the market.
References

Website references:


Books

