

Alternative Islamic Finance Channels and Instruments: An Evaluation of the Potential and Considerations in Light of Sharia Principles

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Abstract : Emerging trends in FinTech-enabled alternative finance, which includes channels and instruments emerging outside the traditional financial system, heralds unprecedented opportunities to improve financial intermediation and increase access to finance. With widespread criticism of the mainstream Islamic banking and finance sector as either mimicking the conventional system, failing to achieve inclusive growth or both, industry stakeholders are turning to technology to show that finance can be done differently. This paper will outline the critical elements for successful deployment of technology to maximize benefit and minimize potential for harm from introduction of Islamic FinTech and propose recommendations for Islamic financial institutions, FinTech companies, regulators and other stakeholders who are integrating or who are considering introducing FinTech solutions. The paper will present an overview of literature, present relevant case studies and summarize the lessons from interviews conducted with Islamic FinTech founders from around the world. With growing central bank concerns about leveraged loans and ballooning private credit markets globally (estimated at \$1.4 trillion), current and future Islamic FinTech operators are at risk of contributing to the problems they aim to solve by operating in a 'shadow banking' system. The paper will show that by systematising a robust theory of change linked to positive outcomes, utilising objective impact frameworks (e.g., the Impact Measurement Project) and instilling a risk management culture that is proactive about potential social harm (e.g., irresponsible lending), FinTech can enable the Islamic finance industry to support positive social impact and minimize harm in support of the maqasid. The adoption of FinTech within the Islamic finance context is still at a nascent stage and the recommendations we provide based on the limited experience to date will help address some of the major cross-cutting issues related to FinTech. Further research will be needed to elucidate in more detail issues relating to individual sectors and countries within the broader global Islamic finance industry.

Keywords : alternative finance, FinTech, Islamic finance, maqasid, theory of change

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