

Operating within the shariah-compliant digital economy

BY **KHAIRANI AFIFI NOORDIN**

M

alaysia is home to a Muslim-majority population. To ensure that their halal needs are met, the Department of Islamic Development Malaysia (Jakim) was created and is responsible for issuing halal certifications in the country. While the coverage of these certifications is wide and widely known in the F&B industry, pharmaceuticals, cosmetics as well as other goods, this is not the case in the services industry, says Faez Fadhilillah, entrepreneur and co-founder of travel platform Tripfez.

"There is a growing need for something that covers the broader services industry, especially as more digital start-ups offer services that are targeted at the Muslim population. We see a lot of these start-ups operating in healthcare, travel and tourism as well as financial services," he adds.

To fill this gap, the Malaysia Digital Economy Corp has established the Islamic Digital Economy (IDE) compliance guide. IDE refers to any commercial or social activity undertaken within the digital space that is either shariah-compliant or shariah-neutral. Activities that fall within the realm of IDE include, but are not limited to, any activity related to customary Islamic practices as well as practices that are branded shariah or halal-certified.

IDE's shariah advisers include Amanie Advisors Sdn Bhd, Tawafuq Consultancy Sdn Bhd and Zico Shariah Advisory Services Sdn Bhd. In April 2019, Tripfez became the first shariah-compliant provider of travel services that conforms to IDE guidelines, joining others such as Salam Web Technologies and Zaahara Ventures as compliant start-ups.

"There are a few reasons we decided to be IDE-compliant. For one, I am a huge believer in this sector — Malaysia's digital economy is a growing contributor to the country's GDP. According to International Data Corp, it is expected to contribute 21% to Malaysia's GDP in 2022 from the current 18%. Additionally, 60% to 70% of the population are Muslims. The combination of these two factors creates a huge opportunity for the IDE space.

"Of course, being IDE-compliant also provides us with proof that we are not operating the business against any Islamic principles, which is why we decided to be formally recognised as IDE-compliant," says Faez.

Launched in November 2016, Tripfez aims to provide Muslim travellers with shariah-compliant options and book accommodation that caters for both their religious and personal needs. The company's patented Salam Standard certification process reviews hotels and scores them according to how Muslim-friendly their rooms and amenities are.

Echoing Faez, Raymond Gabriel, group CEO of will-writing platform CreateWills, says the company decided to embark on the IDE-compliance journey to get a government body to validate its business. CreateWills offers online conventional and Islamic

will-writing services with an algorithm that allows individuals to understand faraid, or the Muslim inheritance law, in just three seconds.

He says it is important for companies like his, which are operating within the shariah space, to have third-party, independent validation. "Our product is a legal one. Even though I have developed it with lawyers and Islamic scholars, validation from such an independent third party is important. While the fees for IDE's shariah advisers are not low and it took several months to finalise, we can now confidently say that we are an IDE-compliant company.

"They also helped us ensure that we are compliant with the Personal Data Protection Act and gave us certain recommendations to improve our offerings. We truly appreciated this feedback for our platform," says Gabriel.

At present, there are 45 companies listed as IDE-compliant, according to the IDE website. They range from those in fintech and virtual reality development to property crowdfunding platforms, parking solution providers and car leasing operators. Gabriel says for some companies, being IDE-compliant is crucial for their business.

"For example, fintech companies... If they want to verify that they are in fact offering a shariah-compliant service, it makes sense for them to become IDE-compliant. For the others, I believe they are choosing to become compliant to target Muslim consumers.

"This kind of validation is important for certain consumers who are genuinely concerned about religious obligations. They want to know that the products and services that they pay for are aligned with their beliefs. Being IDE-compliant helps the companies to penetrate into this market," says Gabriel.

According to the IDE compliance guide, if a start-up is already shariah-compliant from its establishment, it must utilise shariah-compliant instruments to raise capital.



Being IDE-compliant provides us with proof that we are not operating the business against any Islamic principles, which is why we decided to be formally recognised as IDE-compliant."

Faez

Dubai has a lot of initiatives to attract foreign start-ups to the city's digital Islamic economy, says Faez



For the products and services component, the company must adhere to the Jakim Halal Certification Guideline and Standard on Digital Content.

Meanwhile, a non-shariah compliant start-up that became shariah-compliant at a later stage will have to appoint a shariah adviser and prepare a conversion plan to showcase its strategy to transform into a shariah-compliant entity.

To ensure that there is proper oversight and no conflict of interest, this function will have to be undertaken by an independent third party from the list of shariah advisers registered with the Securities Commission Malaysia (SC). In addition, these companies will have to go through a shariah audit process annually.

TOWARDS THE FOREFRONT OF ISLAMIC DIGITAL ECONOMY

In the 2020/21 State of the Global Islamic Economy (SGIE) report released by research and advisory firm Dinar Standard, Muslims around the world were estimated to have spent US\$2.02 trillion on food, pharmaceuticals, cosmetics, modest fashion, travel and media last year. While this reflects a 3.2% year-on-year growth, the number is forecast to contract by 8% due to the impact of the pandemic.

The report adds that Malaysia continues to lead in the Global Islamic Economy Indicator (a single measure that captures a holistic assessment of the Islamic economy industry across all sectors), topping the 81 countries it evaluated for the eighth year.

Having a strong digital economy space will help the country retain this position, aside from helping to provide a competitive advantage for Malaysia to lead the regional and global Islamic digital marketplace, says Faez. "One of the government's objectives

is to be at the forefront of the digital Islamic economy to compete with countries like Dubai and Turkey. I have found that Dubai has a lot of initiatives created by the government to bring foreign start-ups there. These include easier access to visas and funding. It is interesting to see the competition heating up."

Commenting on the growth of the number of players within the Islamic digital economy space in Malaysia, Faez says it has been quite moderate over the past few years. "While there are a lot of companies offering different products and solutions to Muslim consumers, there were no standards before this that could really certify their shariah-compliance.

"Selling headscarves online, for example, is generally within the Islamic principle but if there are no certifications to validate it, how do people know that the business is operating within the Islamic context? Hopefully, the IDE addresses this, getting more businesses on board."

Faez also hopes that it would encourage more foreign venture capital firms to contribute to Malaysia's Islamic digital economy ecosystem. Access to funding can be limited in this space, especially as there are not many capital providers within the region that focus on start-ups that address the needs of Muslim consumers, he continues.

Following a record year, investments in Islamic economy-relevant companies have slowed globally, falling 13% to US\$11.8 billion in 2020 from the year before, according to the SGIE report. Over 54% of investments were in the halal products category, while Islamic finance and Islamic lifestyle attracted 41.8% and 4% of the investments respectively. Growth figures were driven by corporate-led mergers and acquisitions, venture capital investments in tech start-ups and private equity investments.



"IDE compliance will not automatically get companies funding or new clients. They will have to work on these things on their own."

Gabriel

The IDE has published a guide for capital providers, which explains that a corporation that seeks to offer capital for a start-up within IDE should comply with SC's Guidelines on the Registration of Venture Capital and Private Equity Corporations and Management Corporations. Under the SC guidelines, the venture capital firm is required to appoint a shariah adviser to provide the relevant expertise, guidance and endorsement.

NO FREE LUNCH

While applying to become IDE-compliant is a logical step for companies with businesses that are not operating against Islamic

principles, Gabriel says it is not as easy as it sounds. For starters, the compliance process can cost up to RM50,000. This may not be something that a start-up at seed round can afford.

"The second thing is that there are certain things that may make the documentation requirements more difficult. For instance, when we did our application, we had to have the ability to host our platform locally. Before that, it was hosted on Amazon Web Services when we started in the UK.

"We were already familiar with Amazon's ecosystem, so switching to a local partner required a bit of modification and understanding of their system. While it did also cost about 50% more, our chief technology officer was committed to making sure that we could be IDE-compliant. He wanted it to provide validation and confidence in what he was building," says Gabriel.

He adds that companies that are looking to apply to become IDE-compliant should manage their expectations. "IDE compliance will not automatically get companies funding or new clients. They will have to work on these things on their own. They must build strong business fundamentals, a good marketing plan, clear product differentiation and market positioning, as well as a robust sales team. Getting validation is great, but so is establishing a good business that serves a real need in the market."



AmBank Group

DIGITALISATION COULD LEAD TO APPLICATIONS FOR DIGITAL HALAL CERTIFICATIONS

Underpinned by a population of 1.8 billion Muslims globally, the halal market represents a massive business opportunity for Malaysian businesses.

The halal market in Malaysia alone was worth about US\$68 billion (RM275 billion) in 2018, according to the Halal Industry Masterplan 2030. And the market is expected to grow further, according to AmBank Group, one of the largest banking groups in the country.

China, Singapore, the US, Japan and Indonesia are the top five export destinations for Malaysian halal products, with primary exports including food and beverage products, ingredients, pharmaceuticals, cosmetics and personal care products.

The halal industry's contribution to the Malaysian economy remains small at about RM40 billion in 2019, which is less than 3% of its gross domestic product (GDP). Nonetheless, its fast-evolving halal industry is in a good position to offer the world a possible solution for today's rapidly changing business landscape and customer preferences.

To date, Malaysia is one of the main sources of reference for more than 150 countries in terms of halal industry development and governance. Malaysia's expertise in halal certification has been recognised by various halal certification bodies globally.

While the Covid-19 pandemic has wreaked havoc on the global economy and markets, it has provided an impetus to the halal industry as products that comply with strict safety and health standards are experiencing strong demand.

Businesses are accelerating their online presence to cope with the pandemic and prepare for the future. According to AmBank Group, an e-commerce platform with a local presence onboarded more than 17,000 new small and medium enterprises (SMEs) through its special programme that ran from April to June 2020. The overall sales growth of these SMEs also increased more than 110% recently.

Malaysia's online grocery businesses recorded 220% growth last year in terms of online retail penetration, the highest since 2018. Therefore, businesses looking for growth opportunities should explore the halal industry and embrace digitalisation in their day-to-day operations and processes. Digitalisation could lead to applications for digital halal certifications or the conduct of halal businesses through online channels.

SMEs that need financing for their halal businesses may explore the Shariah-compliant SME Financing Scheme 3.0, which is supported by AmBank Islamic. SMEs may also obtain capacity building support through AmBank BizConferences and AmBank BizRACE to understand emerging trends such as halal, the Fourth Industrial Revolution and digitalisation.

