

Fintech: The new barrier to entry in Islamic finance

When you first heard the word fintech, it was probably related to peer-to-peer (P2P) lending, which on its own was another new category in the financial markets. Since P2P lending was a disrupting force in the market on its own, challenging the traditional role of banks in the personal and the SME loan categories, we are sure you probably overlooked the word fintech. KHALED ELSAYED writes.

Khaled Elsayed is the president and CEO of Guidance Residential. He can be contacted at Kal.Elsayed@GuidanceResidential.com.

In the US, financial institutions have become very familiar with the word fintech, and indeed have come to fear it. A disruption to your business model used to mean that you could lose a 10%, 20% or even 30% market share, but your organization is prepared for such a disruption, and you were prepared to survive this unlikely disruption if it materialized. Fintech has made the likelihood of this disruption in your model highly likely and violent enough to put your organization at serious risk.

Fast forward to today, and Americans are questioning whether or not the system itself needs to be updated. What's the solution to bring finance into the digital age, the 'always on', accessibility-focused world in which we live? Add these questions to the traditional regulatory barrier to entry that has only increased over the past decade and you will begin to recognize why we are all thinking about fintech in Islamic finance.

The strategy of 'technology first' and the automation of everything is not how businesses usually start. The traditional barriers have been human and financial capital, as well as various regulatory barriers, assuming you have a good business model.

Fintech starts with anyone's business and applies a 'technology first' approach

to that model. The more low-tech that business model is, and the more heavily regulated it is, the better. Since the financial sector is highly regulated, capital-intensive and has traditionally been fairly low-tech, it is ripe for fintech to come in and disrupt it.

The strategy is simple: the more time and effort we invest in automating a process in the here and now, the less time we spend in the future when we no longer have to perform work that is often tedious yet unnecessary. While this may be obvious, it is not an easy task, and the overall advantages of automation cannot be ignored.

Islamic finance in the US has taken hold. There are several institutions offering Islamic financial products, including several banks. They all have very nice websites, a comprehensive online foundation and a robust social media presence. That used to be enough once you have overcome the traditional barriers to entry, but that is no longer the case.

Fintech, or financial technology, may still be in its early stages, but 2016 was nonetheless a whirlwind year for the world of fintech. According to PwC's annual Global FinTech Report, cumulative investment globally is set to exceed US\$150 billion in 2017. Experts predict that in the near future, no enterprise will succeed and flourish without the right fintech services in place.

In the late 2000s, evidence was mounting concerning how mobility and technology would eventually come to disrupt the entire process and overall experience of home financing. Guidance Residential, a leader in the US Islamic home financing market, was among the first to identify these trends and face that challenge. Understanding the critical role that cutting-edge technology has in an age-old industry, Guidance began to lay a foundation that has continued to reinforce its position as a market leader.

Home financing is right up there with healthcare, legalese and quantum physics when it comes to obfuscating concepts and terminology. The addition of Islamic regulations adds another layer of complication. Clarity in both how things are done and what work is being done is a key element in providing the buyer and seller alike with a full understanding of where things stand, and where they are going. All too often, customers fall through the cracks

because there wasn't a full understanding that the process is being held up by that customer not filling out some form that no one had told them about.

Americans have always defined homeownership as an achievement of the American Dream, so we looked there first to see how companies offering Islamic financial products to Americans are coping with this fintech disruption and to see if they are prepared to weather the storm that is sure to come. ☺

REDMONEY EVENTS CALENDAR

SEPTEMBER 2017

11 th	IFN Europe Forum	London
14 th	IFN Turkey Forum	Istanbul, Turkey