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What Can Financial Technology Learn from Syariah Finance on Ecosystem: Collaboration

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ABSTRACT

Shariah financing is financing based on Islamic values. Shariah financing must meet several requirements. The shariah financing process must follow the shariah process from start to finish. Financial technology companies also need an ecosystem to grow. Financial technology companies can emulate shariah financing. This study aims to discuss the shariah financing ecosystem that can be studied by financial technology. This research uses qualitative research methods. This study conducted a literature study on shariah financing and financial technology financing. The research concludes that financial technology financing can work with financial technology companies to develop shariah financing. Shariah financing and financial technology financing require an ecosystem. Cooperation of shariah financing and financial technology is one of the best solutions for the development of both financings.

Keywords: *Ecosystem; Financial Technology; Shariah Finance*

1. INTRODUCTION

Global economic conditions experienced negative growth in 2020 due to the pandemic. Sharia Economics is one solution to support the Indonesian economy [1]. Collaboration between economic actors will be able to improve the sharia economy. Sharia economy can support the national economy [2]. According to Sri Mulyani, Minister of Finance of Indonesia, the Sharia Ecosystem can help Indonesia's economy recover from the impact of the pandemic [3]. In addition, Islamic banking can also achieve sustainable development goals (SDGs).[4]. The government will support the digitalization of the Islamic economy through the development of information technology infrastructure (Mediaindonesia.com, 2022)

This study discusses the overall shariah finance ecosystem. This research is unique in discussing the shariah finance ecosystem as a whole. Discussions about the shariah finance ecosystem are still rare. This research examines shariah finance as a whole. This research also discusses the financial technology ecosystem.

Ecosystems require the cooperation of all parties in this ecosystem. The ecosystem cannot be run by one party only. To create a wealthy ecosystem, all players and stakeholders must work together to create synergy to sustain competitive advantage [6].

Have you ever imagined a small, beautiful, and secluded pond in the middle of the wilderness? In that pool, there are many creatures created by God. There are fish, insects, frogs, aquatic plants, to large trees. Everything interacts with each other. Relationships are intertwined. There are forms of symbiosis mutualism (mutual benefit), commensalism symbiosis (one party benefits but does not harm the other) to parasitism symbiosis (creates a dependence that causes harm to one party) [7]. This picture describes the ecosystem.

Shariah financing and financial technology financing require an ecosystem. Financial technology financing is a new form of business model. The financial technology financing business model requires strong technology support and scale of resources across sectors [8].

The halal lifestyle in recent years has developed in Indonesia. The large halal lifestyle market in Indonesia makes entrepreneurs and investors interested in building and developing the Islamic or halal business in Indonesia [9]. Various kinds of halal products and industries ranging from food to entertainment or tourism are all presented with the official halal label from MUI.

For ecosystem aspects or actors involved in developing Islamic fintech in Indonesia, important actors include government or regulators, educational institutions (universities), as well as existing industries (banks and other financial institutions) [10].

The massive and targeted socialization and promotion of Islamic fintech [11]. It strengthens the ecosystem between Islamic fintech, government, academics, and civil society, including sharia fintech customers and Islamic banks. It is optimizing the potential of sharia fintech in managerial skills and sharia contract capacity.

Meanwhile, Fintech brings about a new paradigm in which information technology drives innovation in the financial industry [12]. Technological innovation, recent regulatory initiatives, and mass consumers' changing expectations are quickly re-shaping the payments sector, paving the way to a more open environment where even non-banking players see a huge opportunity to gain momentum and disrupt the incumbents, namely the financial institutions [13]. Conventional consumer finance companies need to adopt technology into the work process to compete with financial technology companies [14]. Fintech ecosystems (FE) are characterized by heterogeneous, non-linear, dynamic, and complex networks of agents that interact with each other to provide a wide array of financial products and services to end customers [15]

Fintech is today a hot mass media discussion of the future of the financial sector and real projects that change banking and financial services [17]. The competition and the collaboration of established banks and challenging fintechs are expected to dramatically change the financial services ecosystem [16]. The main components of a FinTech Ecosystem consist of 8 elements: New technologies and tools that enable innovations; telecom and technology companies that create infrastructure for distribution; startups that develop innovative business models; government and regulators that define the rules of the game; financial institutions that cooperate with startups; customers and users who benefit from innovations; investors, incubation centers and accelerators that enable both financial aid and space for innovators [6].

Does this study have research questions about why sharia finance requires an ecosystem? How does sharia finance build an ecosystem? How can financial technology learn from the sharia ecosystem?

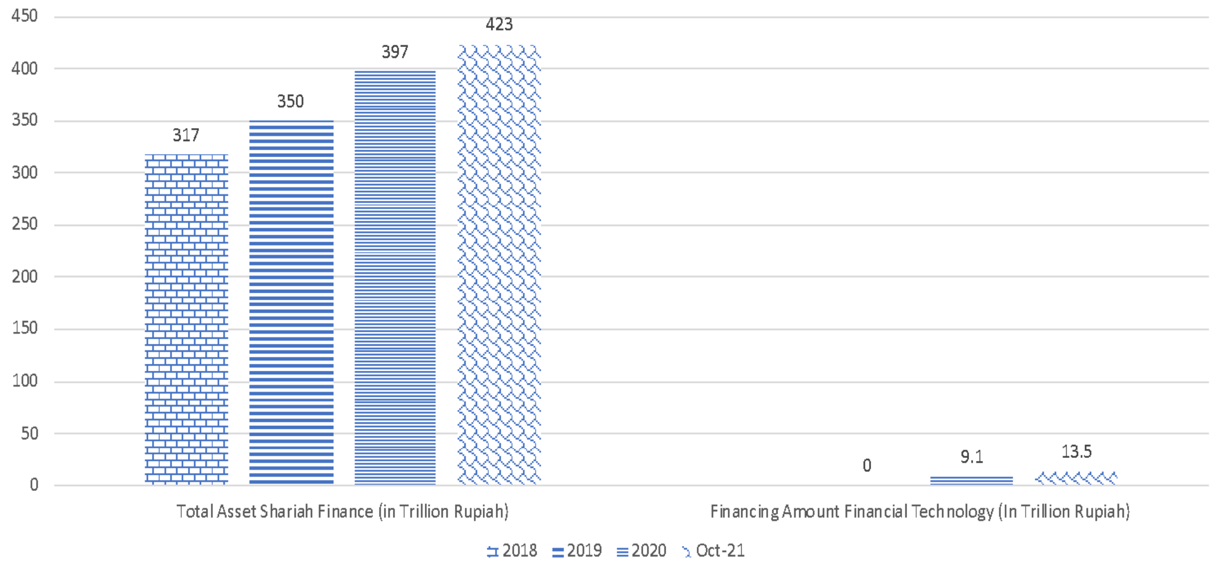

Figure 1 Asset of Shariah Finance and Loan Disbursement by Financial Technology Firms

Asset growth and financing by financial technology companies can be seen in figure 1. Shariah's financing assets have had a CAGR growth of 7.4% over the last four years. Financing by technology companies has a CAGR of 10.36%. Both financings show excellent growth potential, even in a recession caused by the pandemic.

2. METHODS

A qualitative method is used in this study. Qualitative research uses a case study based on real-world experience or action research. The qualitative method allows a researcher to explore and comprehend the complexity of a phenomenon. Qualitative research is more complicated than quantitative research because it is concerned with human acts and thoughts [18].

The findings offer established a collaboration between shariah finance and technology finance firms. A shariah financial firm's business model can benefit from an economic, technological company. Interviews with top executives in financial technology and established financial firms are conducted as part of the study. Shariah finance firms and financial technology firms' business models are the focus of the study.

3. DISCUSSIONS

3.1. Shariah Finance

Islamic financing has different characteristics from conventional financing. Islamic financing provides several advantages compared to conventional funding. Financing does not charge interest but margin. In addition to margins, Islamic financing does not impose several acceptable fees, one of which is early repayment.
Sharia financing requires funding that comes from sharia deposits as well. Sharia financing is also not allowed to finance industries or customers who deviate from sharia principles. Sharia financing requires several criteria that must be met.

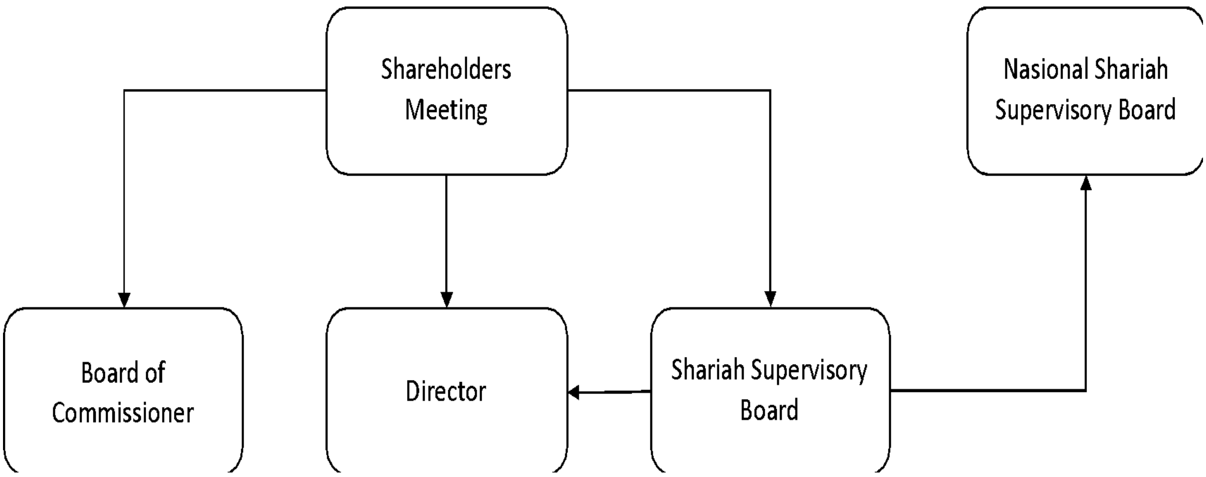

Figure 2 Financial Institution Structure
Source: Ilyas (2021)

Sharia financing is overseen by a sharia supervisory board (DPS). This DPS will control sharia financing so that it is per sharia principles. Violation of sharia principles will result in the financing being carried out being classified as sharia financing. DPS will report to the National Sharia Supervisory Board (DPN) for violations. The DPN will review the permit of Islamic financial institutions. It is illustrated in figure 2.

3.2. Sharia Finance Requires Ecosystem

Shariah financing must meet specific criteria. This criterion includes that all shariah financing structures must meet the requirements. This is illustrated in figure 2. Shariah financing requires funding in the form of shariah in shariah banks. The business being financed must also be a business that complies with shariah principles. Guaranteed goods insurance must be shariah insurance. Shariah insurance companies should invest in the shariah industry as well.

If one of the processes does not meet the shariah criteria, then the financing cannot be classified as shariah financing. If the insurance is general insurance or the source of sharia financing is from a conventional bank, then this financing does not meet the requirements of shariah financing. Sharia financing requires a business ecosystem in the form of sharia as well. If there is one transaction that fails to meet shariah requirements, then this transaction cannot be classified as a shariah business. The financing agreement must be amended to become conventional financing.

All shariah financing processes will be overseen by the shariah supervisory board of the shariah finance company. The shariah supervisory board reports to the board of commissioners and the general meeting of shareholders. The shariah supervisory board also reports to the national shariah council so that every violation will be considered for the revocation of the shariah license to the financing company.

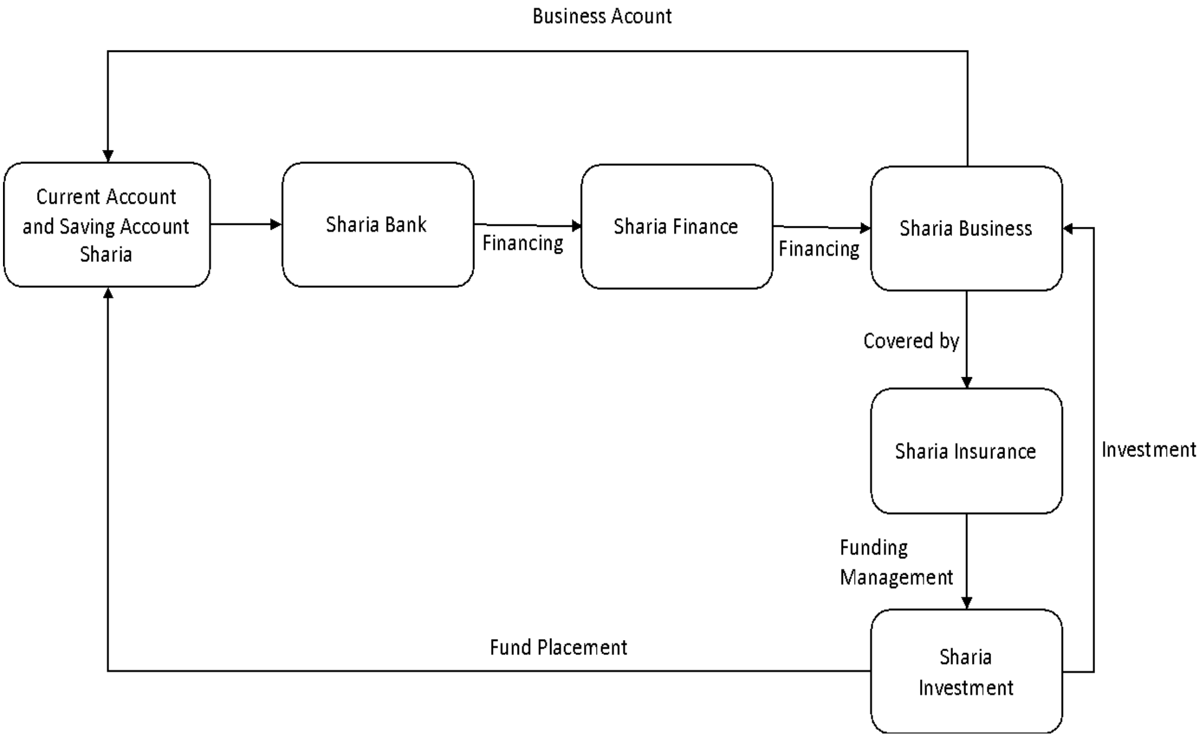

Figure 3 Shariah Ecosystem

3.3. Sharia Finance Building an Ecosystem

Shariah financing has required conditions that must be met. As a form of fulfilling shariah requirements, shariah financing requires an ecosystem, according to figure 3. Shariah financing requires a support system in the form of shariah as well. If one part is not in the form of shariah, then shariah financing cannot be applied. If the source of funding is funds from conventional savings or in the form of interest, then this violates shariah principles. Interest is usury which is prohibited in shariah financing.

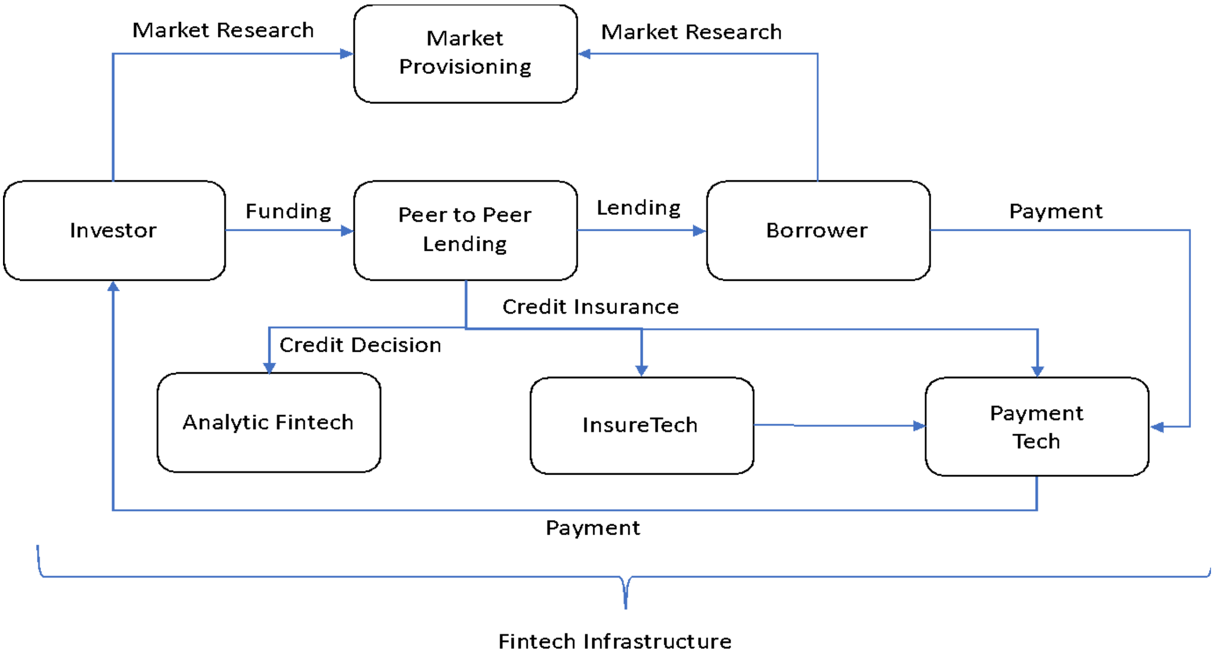

Figure 4 Fintech Ecosystem

3.4. Financial Technology Learn from Ecosystem Syariah Finance

Financial technology requires an ecosystem to run well. Financial technology requires a more seamless system than conventional financing systems. Financial technology requires a financial ecosystem that can develop financial technology to become more significant from time to time. As described, the ecosystem is a system where the system will develop by itself without intervention or support from other parties. The financial technology ecosystem can be depicted in Figure 4.

3.5. Shariah Finance and Financial Technology Collaboration

Shariah Finance needs an ecosystem. Financial Technology also requires an ecosystem. Merging shariah finance with financial technology will provide a value-added to both types of financing. The collaboration of these two financings will significantly contribute to the development of the Indonesian people. Cooperation in financial technology with shariah finance will be able to create an efficient financial system.

3.6. Managerial Implications

Shariah financing management will easily implement shariah financial technology. Shariah financing will be able to grow more rapidly. Supervision by the shariah supervisory board will also be more accessible by using financial technology. Both financings have great development potential in the future. The combination of the two types of financing will make it easier for the Indonesian people to determine financing according to their beliefs. Shariah financing education can be done by using the financial technology market provisioning application. For regulators, the incorporation of shariah financing in financial technology will facilitate the regulation of the financial industry. This solution can also avoid a lot of illegal online financing.

3.7. **Theoretical** *Implications*

This study adds to the notion and theory that the two methods of finance can work together. Islamic technology financing is a relatively recent phenomenon in the field of finance. Shariah financing has received little attention. This study adds to the future growth of Shariah Technology financing.

4. CONCLUSIONS

Shariah financing requires a shariah ecosystem because there are special requirements that must be met by shariah financing. Shariah financing requires financial institutions that are shariah-compliant to meet shariah requirements. Financial technology companies can combine with shariah financiers. The combination of these two types of financing will be able to create a shariah financing that is more useful for the people of Indonesia. Other research can be developed regarding the usefulness of shariah financing to customers. This research is to measure shariah literacy and financial technology to the people of Indonesia. Shariah financing and financial technology require better literacy in order to thrive.

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