

SHAPING THE GIG ECONOMY IN MALAYSIA

Is the Islamic Banking Industry on Track?

INTRODUCTION

The term gig economy was first coined in 2009 by Tina Brown, the editor-in-chief of the Daily Beast, an online news magazine. At the time of her writing, the world was bearing the brunt of the global economic recession. The ensuing economic woes accelerated the proliferation of gig workers who made a living by taking on on-demand jobs as part-timers, freelancers, independent contractors and project-based workers.

Fast forward eleven years to 2020, the economic downturn from massive layoffs and business closures triggered by the COVID-19 pandemic is seeing the spur of worldwide gig economic activities. The widespread use of the Internet and the rise of digital platforms have helped those who lost their jobs to use them to make a living, sparking the popularity and exponential growth of this sector.



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The gig economy, also dubbed the ‘sharing economy’, ‘collaborative economy’, ‘digital economy’, ‘crowd economy’, and ‘peer economy’, is recognised as a new economic source of revenue across the globe and in Malaysia too. With close to four million freelance workers in Malaysia, and increasing by the day, the gig economy forms a key part of the Twelfth Malaysia Plan (2021–2025) (Lim, 2021).

THE GIG ECONOMY: AN APERTURE FOR ISLAMIC FINANCE?

Even though the gig economy is now on the national agenda, perennial issues and challenges persist. For example, access to inclusive financing options remains a fundamental issue as most gig workers earn below the required income threshold and lack formal credit history. As a result, they fall into the unserved and underserved segment.

This is not surprising as the business and operation of banking institutions are traditionally built to service customers with regular salary payout. Hence, in designing banking products and services for the gig economy, banking institutions need to create new product structures and rethink risk management, especially on the gig workers’ credit assessment.

For instance, setting creditworthiness requirements for the gig workers would require banking institutions to consider alternative methods of assessment. Moreover, in the current circumstance,

gig workers may find it hard to produce the required documentation to support their financing application despite having source(s) of income—albeit peaks and troughs in their cash flow (Fintech News Malaysia, 2021).

So, are banking institutions up to this change? How can they change to meet the gig workers’ special needs and circumstances? Financing the underserved and unserved like gig workers for economic and financial progress is in line with the objectives of Shariah (*maqasid al-Shariah*). Is this type of financing already present in the Islamic banks’ balance sheets?

ISLAMIC BANKS AND VALUE-BASED INTERMEDIATION

The Bank Negara Malaysia’s Financial Sector Blueprint 2022–2026 (the Blueprint), released early this year, clearly captures the role of the banking sector in supporting the nation in navigating the post-pandemic landscape. It emphasises the future expectations of the Islamic banking sector, particularly to continue catalysing national economic recovery agenda toward building an inclusive, sustainable, and responsible financial system in line with the *maqasid al-Shariah* and the United Nations Sustainable Development Goals (SDGs). Therefore, among the key focus areas of the Blueprint – to promote sustainable development objectives – are mainstreaming Value-based Intermediation (VBI) and addressing the needs of the underserved and unserved as part of (Figure 1).

Efforts to promote sustainable development objectives will aim to:



Signposts in the financial development journey ahead will be important to ensure a more sustainable, inclusive, and responsible future

Figure 1: Focus Areas for Sustainable Development

Source: BNM (2022a)

Since the introduction of VBI in 2017, Islamic banks in Malaysia have started implementing VBI-related activities to serve the underserved and unserved communities. According to AIBIM (2020), the Islamic banking industry in Malaysia intermediated RM155.6 billion (2017–2020) via VBI-related/aligned initiatives, which have positively impacted the community and the environment (see Figure 2).

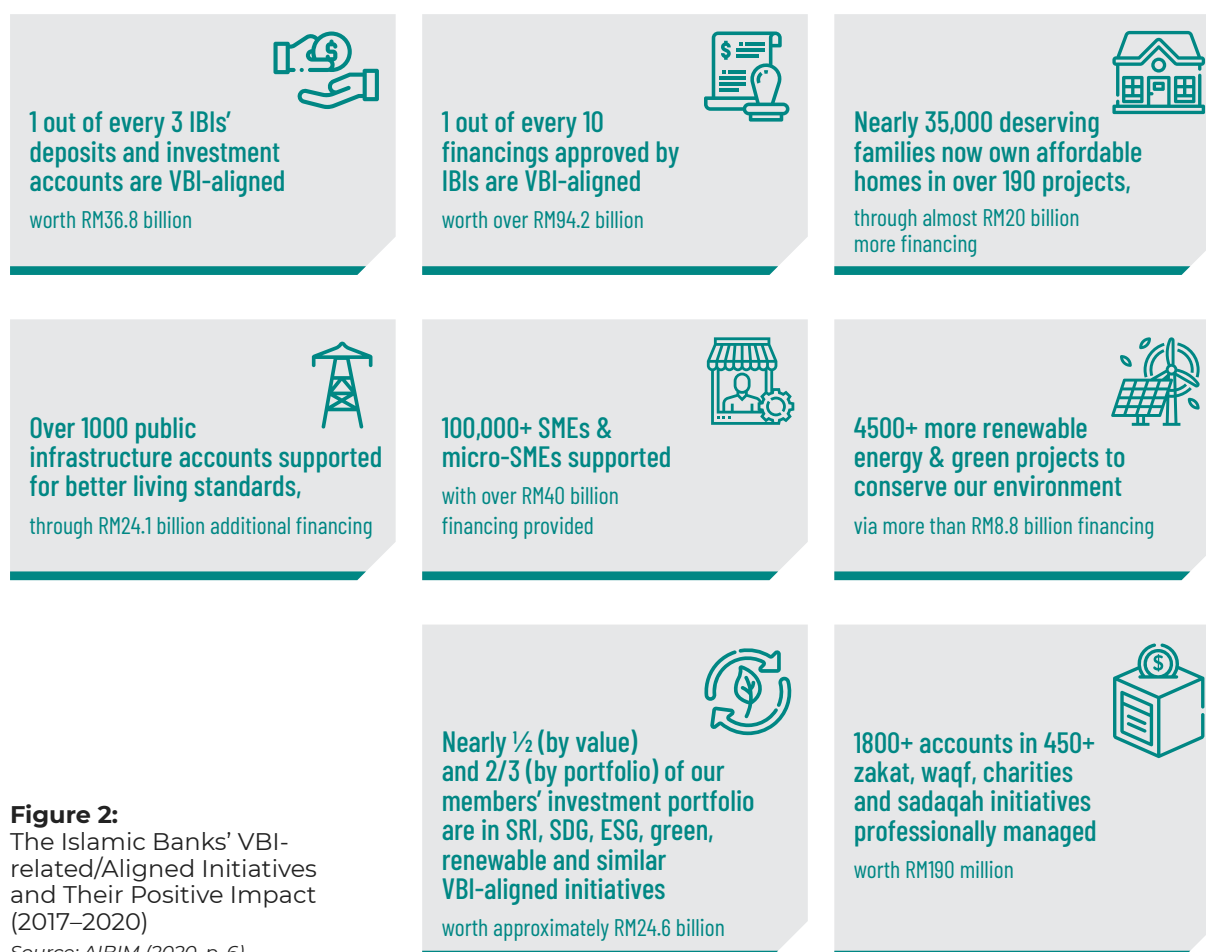


Figure 2:

The Islamic Banks' VBI-related/Aligned Initiatives and Their Positive Impact (2017–2020)

Source: AIBIM (2020, p. 6)

The pandemic and widespread digitalisation have accelerated and upscaled financial assistance to these communities. As a result, unprecedented financing product offerings and

programmes that blended zakat, waqf and *sadaqah* funds with digital enhancement and implementation partners are on the rise (see Table 1), and iTEKAD stands out as an excellent case study.

Islamic Banks					
Product Solutions	iTEKAD Microfinancing Programme	RAKYATpreneur 2.0	iTEKAD Rider Entrepreneur Programme	iTEKAD Mawaddah Programme	Asnaf Entrepreneurship Program or ISHRAF
Product Description	To assist micro-entrepreneurs (B40 segment and <i>asnaf</i>) to grow business and generate sustainable income. It involves on-boarding and educating them as well as monitoring their performance and success.	To assist and empower micro-entrepreneurs by providing training that will equip them with entrepreneurial skills and competencies.	To provide training and job opportunities to those impacted by the pandemic especially the youth. Once they successfully completed their one-year work placement with foodpanda, they can either continue their employment with foodpanda or set up their own enterprise.	The Bank, through funds sourced from investors, invest in businesses owned by B40 individuals and micro-entrepreneurs. The profit and loss of each business will be shared with the respective investors.	To assist and empower the micro and <i>asnaf</i> entrepreneurs through the adoption of digital technology that will improve their skills and abilities to grow, expand and sustain their businesses.
Collaborators					

Table 1: Blended Financing Products Offered to the Underserved and Unserved Communities

Source: Adapted from BIMB, BMMB and CIMB Islamic (2021), Bank Rakyat (n.d.) and SME Bank (2021)

Today, iTEKAD is jointly implemented by three Islamic banks. Seed capital sourced from zakat, *sadaqah*, waqf and social investment offers eligible microentrepreneurs affordable microfinancing arrangements among *asnaf* and B40 individuals. In addition, zakat or *sadaqah* funds are also used to reduce the credit exposure of the applicants by providing funds for working capital or the purchase of business equipment.

Another salient feature of iTEKAD programme is the strategic collaboration between the three Islamic banks and selected implementation partners such as State Islamic Religious Councils, government agencies and non-government organisations. Through this collaboration, the recipients will receive structured entrepreneurship and financial management training to equip them with a more holistic understanding, skills and knowledge in managing their venture efficiently and sustainably (BIMB, BMMB & CIMB Islamic, 2021).

DIGITALISING IS THE WAY FORWARD

The banking industry's commitment to promoting financial inclusion is substantiated further by the recent issuance of digital bank licenses to five digital banks, two of which are Islamic digital banks (BNM, 2022b). One of the key conditions of the digital bank license is for these digital banks to serve the underserved and unserved in retail and SMEs.

The establishment of digital banks is vital as they fill the gap left by traditional banks. The use of data analytics and machine learning algorithms allows digital banks to utilise data in a novel way to better understand the needs of customers from among the unbanked segments of society. As a result, gig workers' credit backgrounds can be accurately assessed, resulting in a customised product that caters to the financial needs of these workers. Besides lowering servicing costs, digital banks could also offer better accessibility to rural areas (Comparehero.my, 2020).

While these positive developments help alleviate the gig workers' financial hardship, structural reform is still needed for this sector to thrive post-pandemic. Efforts toward safeguarding and promoting the welfare of these workers are still lacking.

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There are no specific labour law provisions, regulations or guidelines that provide these workers with the benefit of a typical working employee, such as minimum wage, working hours limitation, paid annual and sick leave, and unfair dismissal. These workers are also not covered by financial safety nets such as retirement savings in the Employees Provident Fund (Ministry of Finance, 2020).

Is Malaysia's Islamic banking industry on track in serving gig workers? The answer is, without a doubt. Guided by the Blueprint, it is foreseeable that Islamic banks and their implementation partners will craft more value-based initiatives to meet the needs of gig workers. With smart strategic planning, oversight, and effective implementation of these initiatives, Malaysia will stand out as the region's leading inclusive and sustainable Islamic banking hub.

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