# The standards and regulation of Islamic crowdfunding

ISLAMIC CROWDFUNDING

*By Craig Moore*

**Last year, Beehive successfully became the first and only regulated peer-to-peer (P2P) lending platform in the MENA region — regulated by the Dubai Financial Services Authority. This achievement is testament to Beehive's passion, tenacity and commitment to establishing a strong regulatory framework that will help attract, retain and guide new fintech entrepreneurs to this market. The regulation not only ensures clear governance for fintech businesses but will also provide added protection and peace of mind for P2P retail investors.**

Any market seeking to boost their fintech capabilities will, at some stage, need to implement a comprehensive regulatory framework to fuel industry growth. Although this varies by market, measures may include distributing relevant licenses to Islamic crowdfunding platforms, ensuring they demonstrate appropriate business conduct and undertake proper due diligence of businesses and investors registering on their platform.

It also includes the issuance of appropriate risk warnings and ensuring a plan is in place should any platform cease to trade. Regulation not only provides clear governance to operating companies but also offers clarity and additional security for investors. There is a fine balance between a flexible, comprehensive regulatory landscape that supports the SME ecosystem and protects investor interests and one that overregulates or restricts the natural growth of the sector.

One of the key factors of establishing a strong crowdfunding industry is the ability to attract and retain the right market players. A market which operates a clear and comprehensive regulatory system can provide a far more appealing option for attracting talented fintech innovators and entrepreneurs. Regulation is an inevitable and welcome step in driving the evolution of Islamic crowdfunding.

Additionally, with regulation it is important to recognize the need for standardization. Shariah boards are in place for many businesses but it is important as an industry that participants can rely on a degree of certainty regarding Shariah principles, their interpretation and application to remain consistent across the ecosystem. Providing investors with confidence through setting high-quality standards will contribute greatly to accelerating the growth of P2P lending, thus supporting the overall economic development.

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# The conditions for implementing Takaful in Europe

TAKAFUL & RE-TAKAFUL (EUROPE)

*By Ezzedine Ghlamallah*

**The Takaful industry faces its own set of institutional, legal and regulatory issues with a central dilemma: some legal systems in many countries do not accept mutual or cooperative forms without social capital and when such a mutual entity exists, it may be difficult to get enough capital to meet regulatory requirements.**

The IMF suggests that Islamic financial institutions create an environment that fosters financial stability and development by strengthening the legal framework, governance, the prudential framework and financial safety net, the anti-money laundering and terrorist financing facility, as well as the management of liquidity and investments.

The precise role of regulators may differ from one market to another, but they share common objectives — the protection of consumers and the prevention of systemic risks.

These objectives are reflected in the fundamental obligations that Takaful operators must comply with. There is no single business model for Takaful institutions, with each country having its own model.

One of the most important ingredients for the success of a Takaful implementation are the regulations in the host country. Success in Takaful cannot be measured in a short time. Some insurance solutions such as credit insurance can extend for 20 years or more so that the responsibility for the sustainability of the sector rests with the regulators.

There are legal and fiscal conditions for the implementation of Islamic finance in countries not of Islamic tradition. The question here is the compatibility of the Islamic law with that of the country of implementation. The resources offered by the law of reception make it possible to integrate the tools of Islamic finance and to ensure their implementation. On the other hand, there may be some legal or fiscal difficulties that may be resolved by legislative amendments or by ministerial instructions.

In the case of Takaful, the insurance company must comply with Islamic law while at the same time complying with the positive law that must allow it to fulfill the conditions of approval provided for by law. Once the approval has been obtained, the Takaful insurance company must comply with the financial rules in force both for the management of the assets and the management of its solvency margin.

Understanding the complex structure of a Takaful network is crucial for the implementation of these insurance schemes in their legal framework, as its establishment must conform to the rules of law. In Europe for example, Takaful schemes in the EU must take into account the impact on insurance companies of the Solvency II Directive, which aims to establish a single set of rules governing the solvency of insurers and managing their risks.

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