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Original Research Article

Islamic Social Banking Platform (Case of Resalat Islamic Bank)

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In this paper, we examined an effective business model for the ecosystem of Islamic FinTech for Resalat Islamic Bank. The article discussed three phases of Resalat Bank development as a Platform in formulating social business models that require new value propositions, value constellations, and profit equations, and as such, resembles business model innovation. The result of the qualitative method for comparing Resalat Bank and Grameen Bank indicated that the business model of Resalat Bank is more efficient than Grameen Bank. We also discussed the challenges of transformation from the "current Islamic banking business model" to "Islamic banking as a platform" and proposes a framework for "Islamic bank as a platform" at the macro and micro levels.

Keywords: Islamic Social Banking, Platform, Business Model, Sharing Economy, Fintech.
JEL Classification: D02, G10, O16

1 Introduction

A Platform Business Model is a business model that generates value by facilitating exchanges between two or more groups: fund providers and fund seekers. In a bank as a platform, the bank does not own the funds; instead, it creates the means of connections.

Bank-As-A-Platform (BaaP) is a business model in a modern financial institution that provides value by facilitating a transaction between two (or more) stakeholders, service providers, and end-users (Infosys Finacle 2018).

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By developing IT and the new generation of web, business models of financial institutions have changed from thoroughly paper-based business to electronic-based and now a digital one. By digital and web technology, including cloud technology, big data governance, and platform business models, the banking model has changed dramatically.

Islamic FinTech around the world has been established to prepare Islamic finance through the platform business model. The most famous ones are:

- Kapital Boost Islamic Crowdfunding platform: a Singapore-based crowdfunding platform that matches SMEs in need of financing with global investors
- Invoice Wakalah: Shariah-compliant peer-to-peer online invoice financing platform in Pakistan
- Melk Ba Ma platform: Islamic crowdfunding platform (plus micro-Sukuk) for real estate in Iran; besides, it offers tokenization of real estate projects based on UzCoin (an asset-backed Islamic cryptocurrency).

Successful platforms by lowering transaction costs and expenses through innovation can facilitate transformation. Social banks as a platform, can internalized innovation by Fintech. With the advent of connected technology, they can scale up in a way that traditional banks cannot.

A difference between Islamic BaaP and traditional Islamic banks is that all depository administrative tasks in Islamic BaaP are based on Fee-for-Service (factoring) rather than on ownership or agency (Wakalah). It means that all administrative issues in banking have been outsourced to the stakeholders and members of the platform. In other words, transactions in the traditional Islamic banks are based on full ownership by financial institutions and governors, while it could not be found in the Islamic BaaP.

Therefore the central question pertains to the characteristics and process of the banking platform business model for the Resalat Islamic bank, especially when we compare to the Grameen bank.

The paper is organized as follows: in section 2, we introduce different types of platforms, including Islamic banking platforms and how Islamic banking can benefit from the platform, with particular reference to the evolution of Islamic Banking in Iran. In section 3, we discuss Islamic Social Banking in a Sharing Economy Section 4 devoted to Resalat Islamic BaaP and sharing economy. In Section 5, we compare the Resalat Islamic Bank with Grameen Bank. Section 6 draws the planning of Resalat Islamic Bank, and finally, we conclude the paper by some remarks.

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2 Platform and Islamic Banking

There are several platform businesses which could be categorized according to the type of value exchanged in the platform's transaction. The core values being transferred by the platforms are as follows: A platform delivers a service or a product in its marketplace; Provides a Payment system for P2P or B2C Transactions. An Investment platform involve investment in financial instrument. It also provides a social network for the core transaction in a double friending type of interaction. A communication platform Provides infrastructure for direct social communication such as messaging.

There are closed, open and controlled development platforms for providing a software to access data, an open source software, and a software in a controlled development environment respectively.

There are also content platforms for social transactions which is focuses on discovering and interacting with other people; and discovering and interacting with the media.

Finally, there are social game platforms to provide gaming interaction for multiple users, whether competing or collaborating.

Matching the platform's design to its category is crucial for its success. Platforms that lack a suitable design usually lose the competition. Platforms affect activities from the design of the main transaction to how functions are managed. Exploring what kind of platform is suitable for, should be an important element in designing an Islamic financial platform.

The Islamic banking platform is not financial technology. Still, it is a kind of business model and not an application (such as e-wallet, cryptocurrency, or PF applications) or a website. Banking platform is not a banking software either. It is a comprehensive business model that brings together value providers and end users (including loans, credits, guarantors, Qard'al-Hassan, donations, etc.), make a Value.

The main asset of a bank, either Islamic or conventional, is not their branches, but their communications and networks. Current business models of financial institutions make service as a package or products, call it a financial instrument, and sell it to those who are in the downstream of their linear supply chain. In contrast to the platform, businesses own assets directly, that appear in their balance sheet.

A platform as a business model makes value by facilitating exchanges between two or more interdependent social clusters, consumers and producers. In order for these exchanges to take place, platforms generate vast networks of resources and users that can be gain access on-demand. Financial platforms

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regenerate communities and marketplaces inside the ecosystems with network effects that allow users to transact in new format. (Moazed, 2016)

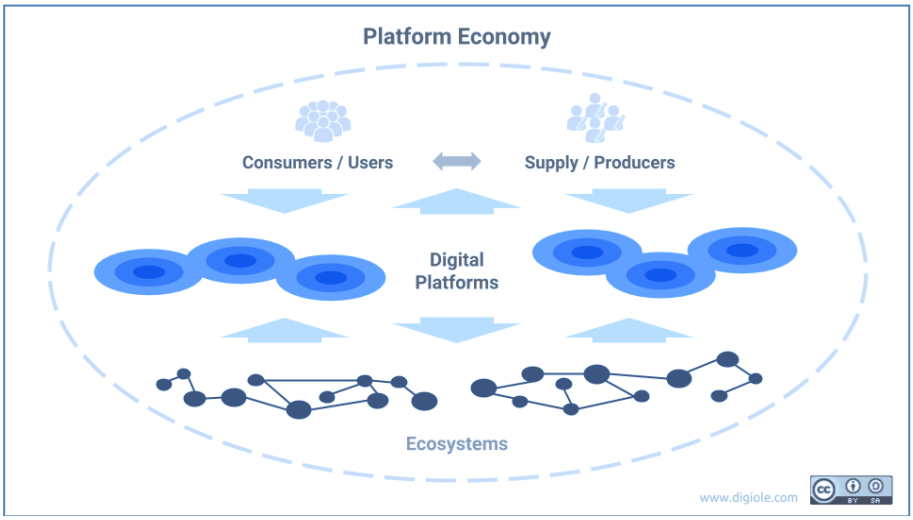


Figure 1. Key Elements of Platform Economy. Source: www.digiole.com

In Iran, by Islamic Revolution in Feb. 1979 some regulatory changes in the banking ecosystem happened. According to Iran's Electronic Commerce Law (2003), banks upgraded to a new business model.

Resalat bank in Iran has evolved from the traditional business model of Islamic banking to modern social centralized Islamic banking. The bank is in the course of upgrading as a fully decentralized Islamic BaaP. (Figure 2)

A distinction between Islamic BaaP and traditional Islamic banks is that Islamic BaaP never owns the deposits in its balance sheet, and their asset side is very light (Figure 2). Banking balance sheets changing reflects a shift in the banking business model. Islamic BaaP is looking for augmenting its revenue with the new fee-based instruments.

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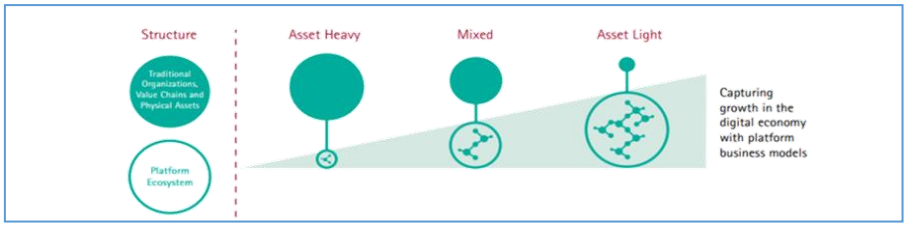


Figure 2. Traditional Business Model of Islamic Bank and Islamic Bank-as-a-Platform (Asset ownership). Source: Daugherty, Carrel-Billiard, & Biltz (2016).

When an Islamic Bank shifts from a centralized business model (Like Islamic Resalat Bank) to a fully decentralized business model (Like Resalat Islamic BaaP), then the transactions and verifications will be done by customers, not by the bank. The platform provides the infrastructure for doing credit scoring and payment vehicle in its marketplace.

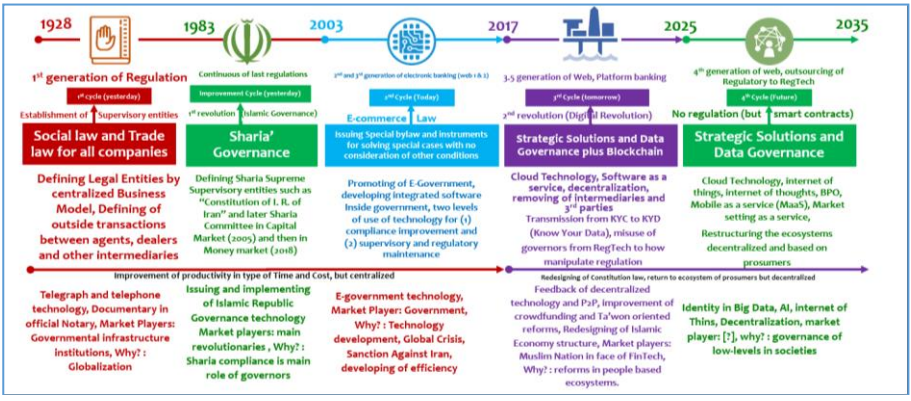


Figure 3. Financial Business Model in Iran: Retrospect and Prospect. Source: Research Findings

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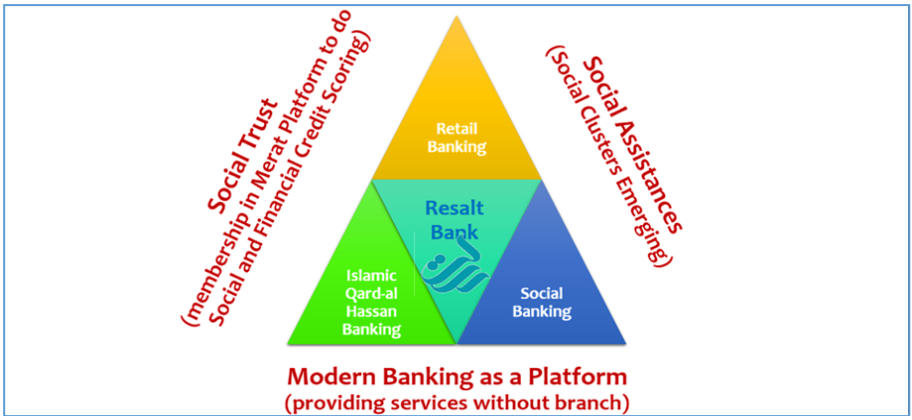


Figure 4. Principles of Resalat Islamic Bank. Source: Resalat Islamic Bank (2018)

In Sharia-compliance transactions, the platform makes a smart contract in Mosharaka, Murabaha, Bai Al-dayn, Wekala', etc. It also controls speculation demand for fund and supply fund which meet directly in peer to peer or as crowed sourcing and crowdfunding. In brief, the Islamic bank as a platform encompasses three pillars of Taawon (Cooperation), social welfare, and justice, as depicted in Figure (4).

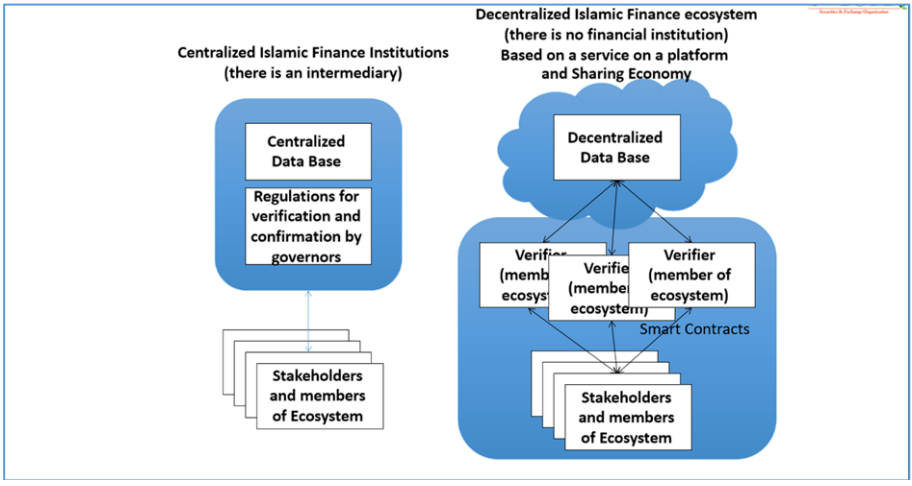


Figure 5. Centralized and Decentralized Ecosystems. Source: Belfonoun (2017)

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In Figure (5), the difference between "centralized linear business models in pyramid organization" and "decentralized platform business model" has been illustrated. In a decentralized business model, all verifications and confirmations - such as transactions, KYC, AML, compliance, credit scoring, etc. - will be done by stakeholders, members and customers, producers and consumers of financial services, not by business owners. In Islamic BaaP, since the banks did not own the funds, all Qard Al-Hassaneh transfer P2P between members of the platform.

3 Islamic Social Banking in a Sharing Economy

A Social Bank provides financial services for individuals and organizations that create social, environmental or sustainability benefits. The social bank offers long- term relationships with clients and a direct understanding of their economic activities and the risks involved. (O. Weber 2014, P. 5)

"Prosumer"[1] and "sharing economy" make a new meaning to the business model of Islamic Bank-as-a-Platform (BaaP). In the Third Wave, Alvin Toffler (1980) coined the term "prosumer" when he predicted that the role of producers and consumers would begin to blur and merge. Toffler envisioned a highly saturated marketplace as mass production of standardized products began to satisfy basic consumer demands. Now, after 40 years, by developing technology, his futures studies are realized by Platform Business Model.

The sharing economy, also known as the access economy, peer-to-peer (P2P) economy, or collaborative economy, is a mode of consumption whereby goods and services are not owned by a single user. But instead, they are only temporarily accessed by members of a network, and underutilized assets are shared for a fee. It includes "sharing, bartering, lending, trading, renting, gifting, and swapping" redefined through technology and peer communities. This point of view is closer to Islamic thought about ownership of funds and assets that have been mentioned in the Quran "Praise is for Allah, to whom belongs all that is in the heavens and the earth! (Quran 34-1) (" الْحَمْدُ لِلّهِ الَّذِی لَهُ ما فِی السَّماواتِ وَ ما فِی الْأَرْضِ")" and nothing belongs to a person or a minority of governors. There is no need to establish an intermediary organization and concentrating assets in one center and then issue several rules and conditions to monitor them. This belief could promote Tawon (Cooperation) in a new decentralized business model by sharing economy which focuses on cooperation in the society.

[1] Producer-Consumer

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A sharing platform such as Resalat Bank as a platform in the Islamic prosumer by cooperation (Tawon), those involved could share in benefits, and no intermediary wants to own the assets to redistribute. Blockchain and smart-contract could be used in decentralized Islamic platforms.

In a decentralized platform, we can use investment tools and microcredit financing in a typical Islamic finance platform. Muslim Omma's financial transactions could be operating with no owner (it belongs to all). For the compliance – especially Sharia compliance – they will be covered by Smart Contracts plus Regulatory Technologies (RegTech).

4 Resalat Islamic BaaP

Digitization gave rise to a new business model for Islamic banking, making it possible for agile banking, which offers innovative financial services at a lower cost. The disaggregation of the banking value chain is due to agile and innovative decentralized solutions. Resalat Islamic Bank is moving towards a platform of services to play a more significant role. Resalat Islamic BaaP relies on a diverse ecosystem. The bank creates value for customers by building a marketplace platform for financial and non-financial products.

The bank can use two methods to create a platform (Infosys Finacle 2018)[1]:

(A) As a platform provider participating in the wider ecosystem, or

(B) As a service provider that delivers value from the ecosystem to the end users.

Resalat Islamic BaaP strategies are based on its mission and vision. Resalat Bank at first was a bank with only Qard Al-Hassaneh Loan with large clustered customers transact and communicate with the bank. Hence with APIs[2], Resalat Bank can offer availing Islamic banking services. Besides corporate customers, the home-business and SME businesses plus small Qard Al-Hassaneh funds and small Islamic Credit Institutions are also worthy targets because they are looking for APIs that can make new and better experiences. Resalat Islamic BaaP as a progressive bank has set up API stores and has exposed its APIs for the clients. It has built an API marketplace with several strategic partners, developers, and businesses, with some commercially available APIs.

With payment service directive, open banking is a mandate, not an option for banks. So Resalat Bank, as part of the Iranian banking ecosystem and

[1] Distracted from Infosys Finacle's Point of View on Banking as a Platform, 2018

[2] APIs: Application Programming Interface

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credit scoring system, looks to monetize its credit scoring APIs through higher rates of customer acquisition, lower costs of operations and revenue-sharing.

Resalat Bank has created ecosystems that match producers and consumers by providing more value to increase customer loyalty. For example, its hub is a social network for business and corporate customers where they can connect with buyers and sellers from all over the country. Businesses can upload their profiles, view others' profiles, and review buyers and sellers recommended by the platform. As businesses are clients of Resalat Islamic BaaP, businesses save enough time and effort in doing due diligence on potential customers (to sell them in cash or by defer payment) and vendors on the Platform, as well as in reducing the cost of customer acquisition.

Resalat Bank provides Banking-as-a-Service (BaaS), not just funding, to small Qard Al-Hassaneh funds for quick short-term loans (B2B2C). At first, social clusters enroll customers, collect all the necessary information for underwriting, and provide underwriting tools and services. The PART Company (strategic wing for credit scoring in Resalat Bank) surveys their social and financial credit score. Finally, the bank plays the role of an intermediary between the borrower and the lending Qard Al-Hassaneh funds.

Resalat BaaP offers its payment services (through the national payment system of Shaparak) to smaller Qard Al-Hassaneh funds that are incapable of affording to build a real-time payment service. Thus the consumption of small Qard Al-Hassaneh funds can retain customers in the payment space without having to own a product of that kind.

Resalat Islamic Bank made its platform business as a service provider, and then move to a decentralized platform. Currently, it operates as a financial services marketplace. It offers Qard Al-Hassaneh Loans, insurance services from an insurance provider, and non-financial products such as holiday packages from strategic partners in its market.

Resalat Islamic BaaP is in its digital transformation from a traditional business model of Islamic banks to a decentralized Islamic BaaP. (Figure 6)

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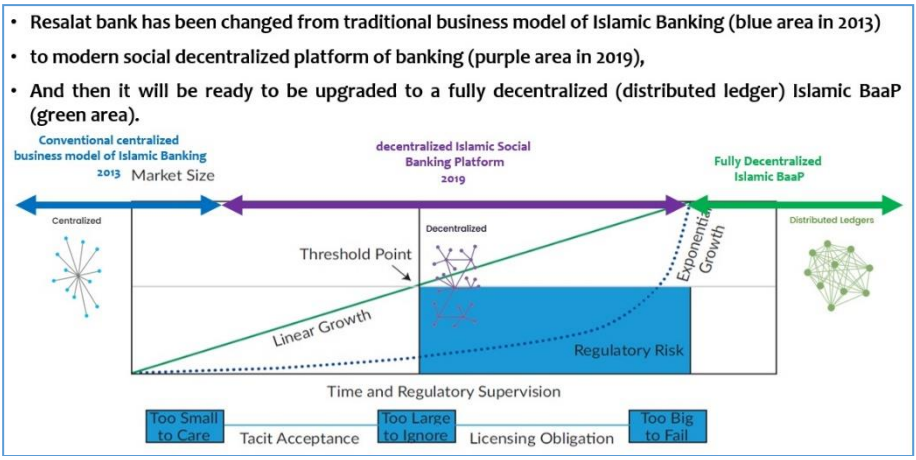


Figure 6. Stages of Growth for Resalat Bank.

In the target stage, it will decrease the number of branches to one and make its financial services fully decentralized. Currently, Resalat Islamic Bank has less than 200 branches. The number of social clusters (by more than 15 members) are 8340 clusters with more than 2.8 million customers, and the average number of members in clusters (by more than 15 members) is 336 members and the proportion of financial resources of social clusters to total financial resources is % 76.0. All these happened since Resalat Bank changed its business model from a centralized pyramid organization to a semi-decentralized platform.

While traditional banking creates value by developing services, BaaP makes value by creating connections. Core transaction is a significant part of designing a bank platform. Nevertheless, although a banking platform allows the core transaction, it does not directly control the behavior of its users. For Resalat Bank, users are Muslims who are looking for Halal financing. Four core functions of a Resalat BaaP business model are as follows:

1) Audience building (using current customers, and employees)
2) Matchmaking (by providing Halal financing through zero interest rate)
3) Providing core tools and services (through social bankers, clusters, and online instruments)
4) Setting rules and standards (per self-control marketplace platform)

In the last six years, Resalat Islamic BaaP handled these four functions. Hence it can facilitate its core transaction. Figure (7)

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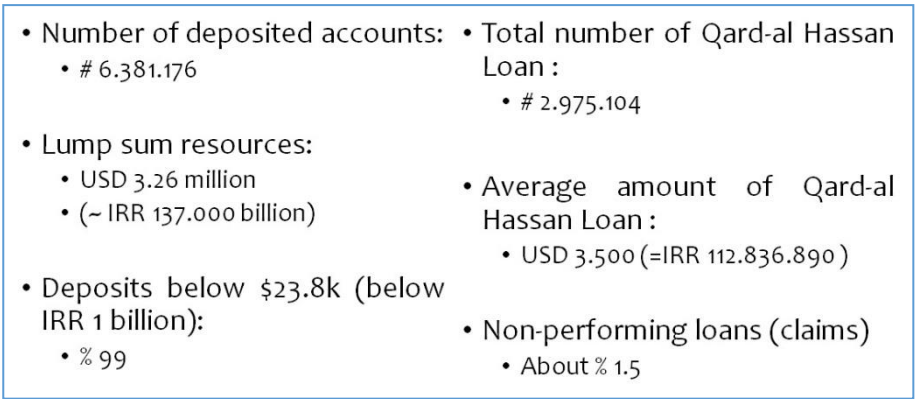


Figure 7. Resalt bank's Platform.

Resalat Bank's vision and approaches are illustrated in Figure (8).

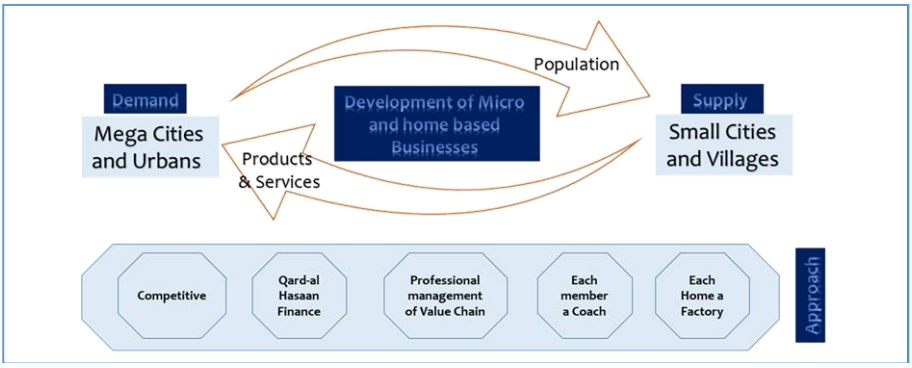


Figure 8. Resalt Platform Vision and Approaches.

Customers in the platform play their role following two principles:

- First: Trustable and Fair Marketplace
- Second: Purchase of Product and Services by Qard Al-Hassaneh Loan

In the 1st stage, initial membership in Social Mutual Assistance Center has occurred, and in the 2nd stage, double membership in the cloud of members' market platform will happen. Figure (9)

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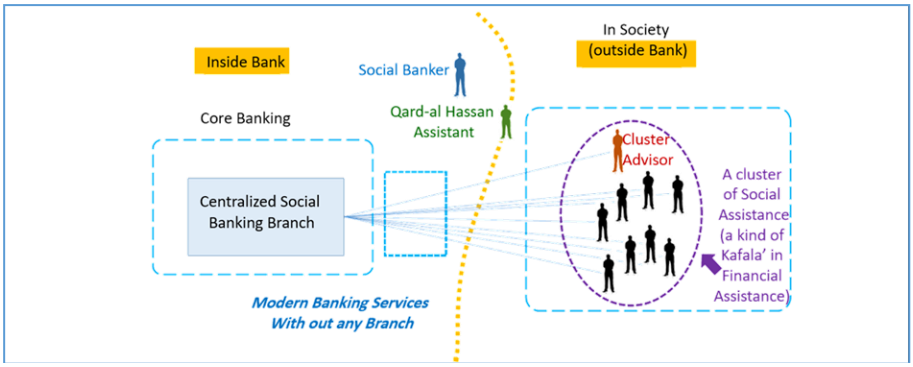


Figure 9. Business Model of Merging Social Banking by Qard Al Hassaneh Banking.

It allows customers of Resalat BaaP to make cash purchase, or defer payment purchase, installment deferred purchase, installment purchase, and purchase by token, all Sharia-compliant.

Moreover, Resalat Bank defined three kinds of social centers "Mutual Assistance Centers," "Work & Life Centers," and "Development Houses" to assist the social clusters and promote Islamic Entrepreneurship and Islamic Finance. In this model, customers are in the center of the model, instead of being outside of the organizational model.

Resalat Bank anticipated four sponsors who will help achieve its purpose. They are: "Entrepreneurship Sponsors," "Cultural Sponsors," "Economic Sponsors," and "Credit Sponsors." In Figure (10), the position of sponsors, strategic partners, and specialized centers has been illustrated.

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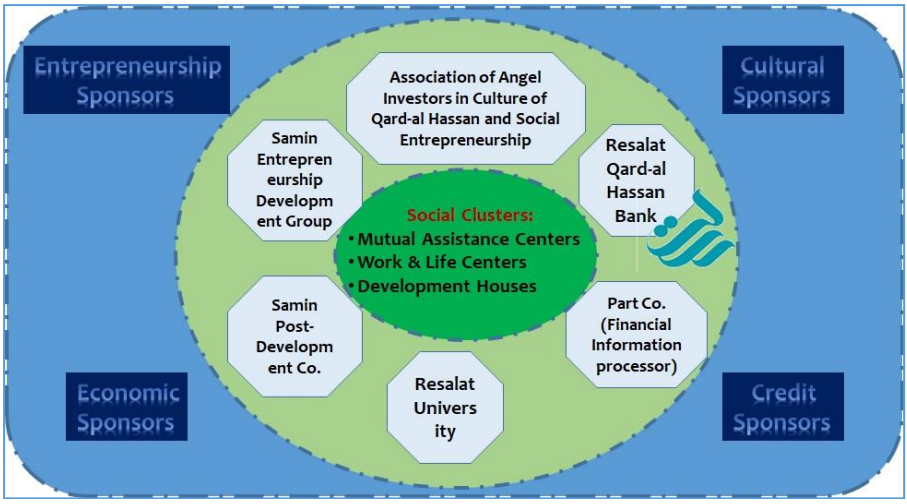


Figure 10. Social Development Network of Resalat Platform.

In Figure (11), the role of sponsors, strategic partners, and specialized centers has been illustrated to achieve the objectives of Resalat BaaP. Resalat BaaP provides API for its partners, including strategic ones, social centers, and clusters, and promotes its Fintech and website. Resalat BaaP also did not own the funds of customers and just facilitated the P2P transactions.

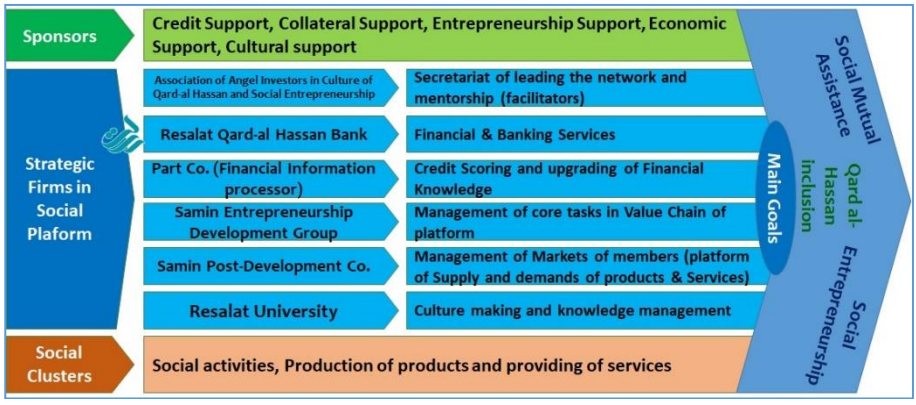


Figure 11. Social Development Network of Resalat Platform (Roles and Responsibilities).

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5 Resalat Islamic Social Banking Platform vs. Grameen Bank

To compare the microfinance operations of the Grameen Bank business model and semi-decentralized business model of the Resalat Islamic Social Banking Platform, a qualitative method is conducted to obtain in-depth information about the business model of both banks in case of the social and mutual development scheme. The data were collected through interviews conducted with these two banks' officers and the customers of both microfinance providers. The surveys find that the business model of Resalat Bank (That it is not interest-based) is more efficient than Grameen Bank (that is an interest-based microfinance organization).

The comparison is based on the perspective of stakeholders and customers. Conceptually Islamic microfinance is different from the conventional microfinance (Abdullah & Rabbani, 2017)[1].A number of studies elaborated how they differ in terms of the operations, which we discussed in this paper.

A new business model of Islamic micro-investment is also defined in Islamic Banks of Malaysia, but as it is not social banking, is not the matter of our study (Rashidah, Muhammad, & Mahayudin, 2013).

Resalat Bank targeted those in social clusters as a borrower. At the same time, Grameen Bank has a lower number of customers and less coverage and has more effectiveness of its credit and lower default.

When we consider the business model of Grameen Bank, which has become a global symbol of women's empowerment and has celebrated for its 98 percent loan recovery, the finding challenges the long-held view that microfinancing can lift families out of poverty in the developing world (Wajdi Dusuki, 2008). It has been warned that providing small loans to impoverished families is dramatically increasing stress and debt levels, and everyone has not the skills to use the money wisely. Microfinancing could lead to a higher level of debt (Banerjee & Jackson, 2017; Oriti, 2016). This social problem has been solved in Resalat Islamic BaaP by defining an ecosystem of clusters, social bankers, sponsors, strategic partners, and with interest-free of Qard Al-Hassaneh Loan and by enhancing the mix of loan and equity for the borrowers.

The objective of the "Marketplace Platform" of Resalat Islamic BaaP is actually to educate people about financial decision making and to provide people with the skills. It is a critical point that needs to be considered in the business model of Grameen Bank. Micro-finance is not a general solution for poverty alleviation, but it is a partial solution.

On collateral, Grameen Bank does not request any collateral, instead relies on information of the field staff personal communication of its employees with on clients and has not encountered any problems in recoveries (weekly

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repayments). But in contrast, Resalat Islamic BaaP asks for mutual collateral to cover the loan based on credit history and scoring of Part Co (a partner of Resalat Bank in credit scoring). All members of the social cluster indirectly take responsibility (Kafala') of all members; if not, their credit will be crashed among other parts of platform stakeholders.

However, Grameen Bank[1] responds to the socio-economic requests of the poor through a targeted approach, arguing that they need access to credit and not subsidy. If that happen, then the poor can make a profit and repay the loan at 20 percent interest. The Bank is complained on why the poor (landless, abandoned widow / deserted women) are asked to pay 20% interest rate. Grameen Bank clarifies on the charge of high interest rates by stating that the majority of the poor pay more than 5% interest monthly to lenders. Thus, the bank's offer is fair.

In Grameen bank[2], the expansion was made possible by training of all those associated, but donors provided loans and grants to launch the process, hoping that internal savings will help keep the program going.

Four years after the beginning of the operation of Grameen Bank, in 1980, the Central Bank of Bangladesh and six National Commercial Banks helped the bank to open more branches. [3]

In Table (1), the comparison between these two banks has been articulated.

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[1] Sahibzada 1997

[2] ibid

[3] Morduch 1999

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Table 1
Resalat bank vs. Grameen Bank

	Grameen Bank	**Resalat Islamic Social Bank**
Model	Micro Finance, Linear Business Model	Islamic Social Banking as a Platform
Objective	Low-interest loan	No interest loan (Qard'al-Hassan)
Business Model	Centralized Pyramid Organization	Fully/semi-Decentralized Ecosystem connector
Rate of Default	Less than 2.5%	Less than 0.05%
Transferring Ownership of Deposits	Yes	Yes in the current stage (Semi Decentralized) No in the next stage (Fully Decentralized)
Total Asset	USD 1.5 billion (2010)	USD 3.3 million (2018)
Number of Branches	Now: 2.568 3 years later: [not decreasing]	Now: 211 3 years later: 1 (Decreasing)
Number of Employees	20,138 (2018)	2,371 (2018) 3 years later : 200 (making agile plan)
Amount of financial resources	Subsidies by national and international organizations	By members and sponsors
Model of Platform	No	Yes (in API and merchants network)
Credit scoring	No for poor women	Yes by mutual support of social clusters (Kafala)
Efficiency	low	High
Establishment	1983	2013
Sharia Approval/based	No	Yes

6 Resalat Bank; Going Forward

Resalat Bank moved from the traditional business model of Islamic banking to a semi-decentralized social Islamic bank business model. We examined the readiness of the bank for this journey by two indices: Technology Readiness Level (TRL)[1] and Market Readiness Level (MRL). Then we explored when is the right time to move to fully decentralized Islamic BaaP.

The use of TRLs enables consistent, uniform discussions of technical maturity across different types of technology. MRL (Market Readiness

[1] Technology readiness level is a method for estimating the maturity of technologies during the acquisition phase of a program.

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Levels) inherit their scale from Technology Readiness Levels, matching the level of granularity. Similar to technical product development, MRLs feature four business process-oriented phases, from ideation to scaling a business to a sustainable – and resilient – commercial operation.

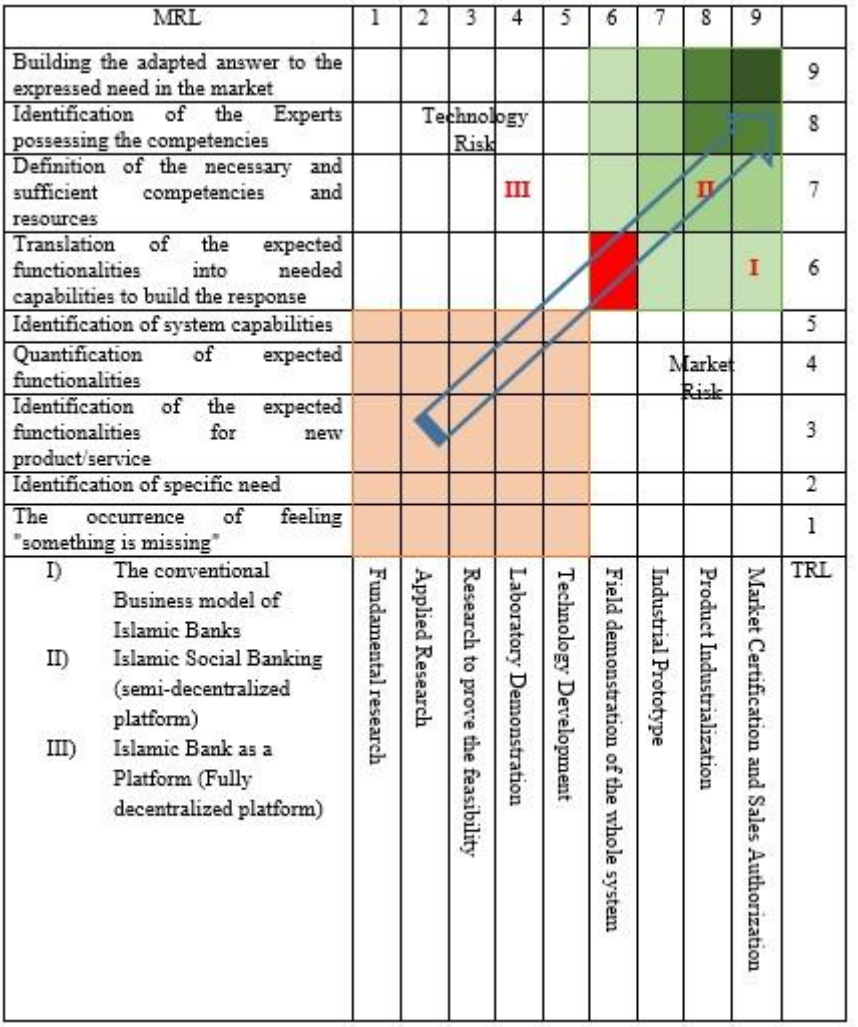
A matrix of TRL and MRL for the current business model of Resalat bank by the business model of the semi-decentralized platform is as illustrated in Table (2)

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Table 2
Matrix of MRL and TRL for three banking business model



As far as the technology change and digital revolution are concerned, Islamic BaaP could employ a decentralized platform by Blockchain technology and smart contracts. In Table (3), three business models are compared:

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Table 3
Three business model of banking

Business model	**The traditional Business model of Islamic Banks**	**Islamic Social Banking (semi-decentralized platform)**	**Islamic Bank as a Platform (Fully decentralized platform)**
sample	All Islamic Banks	Resalat Qard'al-Hassan Bank	Resalat Islamic BaaP
	last business model of Resalat bank	the current business model of Resalat Bank	the future business model of Resalat Bank
TRL (in 2019)	9	8	4
MRL (in 2019)	6	7	7
Legal ownership of funds	bank	bank	customers
Fee	Yes	Yes	Yes
Interest	2% to 4% (more than inflation)	0%	0%
Needs Branches	Yes, several	1 is enough	No need
Clusters	No	Yes	No/yes
Transparency	Low	Low	High
Operational Risk	Yes	Yes but low	smart-contract
Risk of conflict of interest	Yes	Yes	No

7 Concluding Remarks

Lessons learned from the development of Resalat bank experience are fivefold. Three are similar to those of traditional business model (a) challenging conventional thinking, (b) finding partners in the ecosystem, and (c) taking stock in a journey from a semi-decentralized platform to a fully decentralized platform, and two are specific to Islamic social business models: (d) recruiting social-profit-oriented sponsors and strategic partners, and (e) outsourcing specific social objectives by social clusters.

The new decentralized Islamic business model – where customers replace shareholders and stakeholders as the focus of Islamic sharing economy value maximization – could empower Islamic Finance to address overwhelming global concerns of sharing economy.

The experience shared on Resalat Islamic BaaP helps other Islamic banks grasp the opportunity of digitization and scale-up in the Islamic ecosystems and sharing economy powered by digitization.

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These five aspects line out the future of Islamic Bank as a platform, decentralization, and Islamic sharing economy, what remains is dynamic capabilities for competitiveness in the digital era and have not to nurture collaborative (Taawon) entrepreneurship for Islamic social banks in the decade ahead.

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