

## HOW DOES ZAKAT INSTITUTION RESPOND TO FINTECH? EVIDENCE FROM BAZNAS, INDONESIA

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**Abstract:** *The notion of Zakat and financial technology or fintech has been gaining significant attention from academics, industry professionals and other related stakeholders. However, the existing scholarly studies on this topic have massively explained its related theoretical issues and have not discussed technical understanding in what way a Zakat institution has been responding to the emergence of fintech. From this gap, the present paper sets out to study the degree to which a Zakat institution has been adapting the unstoppable advent of fintech. In doing so, this work selects an Indonesian Zakat institution which is BAZNAS for further studying the topic. This paper employs a qualitative method of overviewing the recent management of Zakat in BAZNAS. With performing so, this work finds that BAZNAS has been developing its online platform along with its mobile-based application. In addition, the institution also has been collaborating with the existing fintech firms for payment services and issuing quick respond (QR) code, in which these efforts aim at collecting Zakat funds. These findings suggest the way the reviewed institution has been adapting to the rise of fintech. This is the first study to make clear the understanding of the means a Zakat institution responds to the recent technological changes. The discussion of this work is relevant to academics, industry professionals, and other Zakat stakeholders.*

**Keywords:** Zakat, Fintech, BAZNAS, Overview, Indonesia

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### INTRODUCTION

The recent development in the financial service-based technology or known as ‘fintech’ has been leading to a renewed interest in the discussion of both academics and industry professionals. The experts have been advising the financial institutions to fast adapt such rapid growth for their sustainability (Lee & Shin, 2018).

The phenomenon of fintech has not only been changing the landscape of the financial sector, but also has been offering innovation for other related institution, for instance; *Zakat* organisation. To the time of this work, the existing academic articles which have discussed fintech and *zakat* remains a few numbers. Of the intellectual works which have concerned on this subject included those of done by Manara, Permata, & Pranjoto (2018); Mulyadi, Hakim,

Mulazid, Supriyono, & Meiria (2018) and Rachman & Salam (2018). In general, those works have explored the notion of crowdfunding *Zakat*, the expert's opinion towards the idea of electronic-*Zakat* (*e-Zakat*), and the conceptual innovation of technological management for *Zakat* institution. However, to some extent, those works have not clarified the degree to which the existing *Zakat* institution has been responding to fintech.

Given fintech has been remarkably growing up since the past few years, the scholarly discussion which details the explanation of the way a *Zakat* institution adapts to fintech demands a comprehensive review. The importance of discussing so is to understand by what means a *Zakat* institution has been embracing technological change in the financial industry. The discussion is central to assist the stakeholders of *Zakat*, particularly the relevant institutions, to keep their footprint acclimatising the recent changes. In consequence, the institutions will gain a competitive advantage and an adaptive position in the market.

From the elaboration in the above text, this paper urges the critical point to study the subject matters. Hence, to do so, this paper selects an Indonesian *Zakat* institution, which is the National Board of *Zakat* (BAZNAS), to study the way the institution responds to fintech. The selection of this organisation is due to its excellent position, which has been leading Indonesia's management of *Zakat*. On this point, BAZNAS can be the best representative of its kind organisation in practising good governance.

This work offers the novelty of comprehensive insight into a *Zakat* institution reacting to the technological changes in the financial sector, from an Indonesian *Zakat* institution. To this end, the remaining part of this article has been organised as follows — part two reviews of relevant literature, section three discusses our research method, and the rests are discussion, the conclusion as well as recommendation.

### ***Purpose of the study***

Even fintech is seen to be disruptive innovation (Chiu, 2016; Lee & Shin, 2018), yet it has been evidencing to offer an effective and efficient practice in financial services. This paper urges the importance of discussing in what manner a *Zakat* institution has been responding to the emergence of fintech. The purpose of doing this is critical to explore the subject matters given the existing related work is limited. In order to drive the present discussion, this paper selects BAZNAS to explore the topic discussed.

### **LITERATURE REVIEW**

Generally, fintech can be best understood as the innovation of financial technology by both startups and the existing financial firms (Ramlall, 2018). There are at least six types of fintech business models; including payment, wealth management, crowdfunding, lending, capital market, and insurance (Lee & Shin, 2018). The existing scholarly works about fintech, at least, have been covering the technicalities issues, such as fintech and financial stability board (Ramlall, 2018), a country's acceptance towards fintech (Jantarakolica & Jantarakolica, 2018), understanding of a recent development of fintech in Asia (Chen, 2018), and the application of technology for implementing the world movement of sustainable development goals (SDGs) (Imaz & Sheinbaum, 2017).

In Indonesia, the recent development of fintech is momentous. According to the domestic regulators, currently, there has been the number of 44 fintech firms offering payment services

(Bank Indonesia-BI, 2019), and 99 firms for per to peer (P2P) lending (The Financial Services Authority-OJK, 2019). The rapid growth of fintech has contributed to efficient and effective practices in the financial sector. Besides, fintech also have been benefiting the management of other industries, such as *Zakat* organisation. The discussion about the idea of innovation in *Zakat* management with technology has been an interest in the recent scholarly debate. Nevertheless, this subject has a vast space for further exploration.

### ***The notion of fintech and Zakat management in Indonesia***

The researchers have addressed the idea of fintech and *Zakat* in the context of Indonesia. For example; Rachman & Salam (2018) highlighted the need for regulation and standardisation of *Zakat* management-based technology. For such an arisen issue, they proposed the legal strategy involving the related Ministry and BAZNAS, for the practice of good governance in technology-based *Zakat* management at the national level (Rachman & Salam, 2018).

Further, the contemporary jurist's opinion on the idea of e-*Zakat* has been studied by Mulyadi et al. (2018) from the Indonesian case. They interviewed the member of the Indonesian Council of Ulama (MUI) concerning the practice of collecting and distributing *Zakat* fund through the online system. From doing so, the interviewed Muslim jurists' perspective on the subject matters was documented to be permissible. The basis of allowing so is to support transparency, efficiency, and accountability practices (Mulyadi et al., 2018). In addition, Manara et al. (2018) highlighted the issue of local poverty and the unrealised *Zakat* potential of Indonesia. For that, they proposed the strategy model to realise *Zakat* potential in the domestic context through crowdfunding *Zakat* system. They claimed such a model could best assist the Indonesian government in reducing the national rate of poverty (Manara et al., 2018).

Taken together, from reviewing the above studies; one may understand the degree to which the scholarly discussion about *Zakat* and fintech in Indonesian context has been carried out. In this, the existing literature has covered the notion of establishing law strategy for practising good governance in the technology-based *Zakat* management, the model of crowdfunding-*Zakat* for reducing the national poverty, and the Islamic scholars' viewpoint on the permissibility of conducting *Zakat* management with the online system. With this in mind, thus, the discussion was massively conceptual, which has not elaborated in what way the *Zakat* institution has been responding to fintech.

Therefore, considering the discussion of the subject matters is important, this paper reviews the recent practice of technology-based management of *Zakat* in BAZNAS of Indonesia. The reason for selecting this institution is as follows.

### ***The National Board of Zakat Republic of Indonesia – BAZNAS***

BAZNAS is a governmental agency of Indonesia regulated by Act No.3 of 2011. BAZNAS has the primary responsibility to control *Zakat* governance in national practice. Currently, BAZNAS has the number of 34 branch offices at the provincial level and that of 500 regional offices. BAZNAS has been innovating its services in both collecting and distributing *Zakat* funds for reliable results. This experience of BAZNAS may best indicate its advanced position as a *Zakat* institution in Indonesia. Thus, this reason drives this study to select it for a case study.

Further, it is our experiences as the researchers of BAZNAS Center of Strategic Studies (PUSKAS) have been exposed to the digital application of *Zakat* collection initiated by the organisation. However, none of the previous studies has discussed this practice comprehensively in the academic discussion. Thus, from this gap in the knowledge, this study aims at exploring the subject matters. In order to navigate our discussion, this paper shall address the following question; *how does BAZNAS respond to the emergence of fintech in its management?*

## RESEARCH METHOD

Turning now to the research method, this paper employs a qualitative overview. This method includes comprehensive searching, which the analysis may be chronological, conceptual or thematic (Grant & Booth, 2009). In this paper, the authors performed overview upon the practice of BAZNAS related to managing *Zakat* fund with online and digital systems.

### *Overview Method*

In order to collect the relevant data, the following websites and sources are engaged;

- BAZNAS (<https://baznas.go.id/>), and
- Puskas BAZNAS (<https://puskasbaznas.com>).

The basis of choosing the above is rational whereby the websites are from the official body. During the analysis, several keywords which are as follows were utilised to best navigate the wide-ranging search;

- Digital payment,
- Online, and
- Fintech

Of the motive to conducting the above was based on the authors' logics that these keywords best help the authors to identify the information about the topic presently discussed.

## FINDINGS

The process of overviewing was started by looking for the information required with employing the selected keywords. The search was begun firstly in BAZNAS official website. That was done given the website best informs the data required. Following this, the search was carried out further in Puskas BAZNAS' website. That was conducted considering Puskas BAZNAS is subsidiary organisation, which was established to focus on research. Thus, it best helps the authors recognising the relevant information. Figure 1 illustrates the model of findings.



Source: prepared by authors.

**Figure 1: Model of Findings**

During reviewing BAZNAS' subsidiary organisation – Puskas BAZNAS – another significant electronic document that is 'Indonesia Zakat Outlook 2019' was found to be informative and significant for the present study. In this, the document was carefully reviewed, which resulted in the information as in Table 1.

**Table 1: The Current Practice of Digital Payment of *Zakat* in BAZNAS**

No	Digital Media	Service Providers
1	Application	Kitabisa.com, Gopay, OVO, Tcash, Kaskus, Invissee, Lenna, Mcash, Wisata Muslim, Asuransi Jasindo Syariah, Muzaki Corner, Jenius.
2	Electronic commerce (e-commerce)	Elevenia.co.id, Blibli.com, Shopee.co.id, Tokopedia.com, Lazada.com, Mataharimall.com, JD.id, Bukalapak.com
3	Social Media	Oy Indonesia, Line (Zaki).
4	Online Payment Channel	Internet Banking, SMS Banking, EDC, E-Cash Mandiri, Doku Wallet, E-Pay BRI, Virtual account, T-Cash, PayPal.

Source: prepared by Authors from Puskas BAZNAS (2019).

Table 1 informs the findings of this study. The column of digital media explains the four themes of a digital device associated with its kind. The cell of service providers elaborates the current fintech firms, as in many cases, have been collaborating which BAZNAS aiming at collecting *Zakat* fund. The information as of Table 1 may best clarify descriptively the way BAZNAS has been responding to the emergence of fintech. In brief, from the overview steps as Figure 1 depicts, a piece of comprehensive information for our topic discussed in this article was documented reasonably.

## DISCUSSION OF FINDINGS

This study was driven by the lack of scholarly-based evidence exploring the way a zakat institution responds to fintech. This work has selected BAZNAS of Indonesia to elucidate the way the institution adopting the emergence of technological change. An extensive search was conducted on the respective website of the organisation and its subsidiary. To some degree, this work has clarified the issue raised. The following section discusses the above findings.

### *The online platform developed by BAZNAS*

BAZNAS has expanded its online medium to collect *Zakat* under the form of website (Puskas BAZNAS, 2019). *Muzakki* (people who are obliged to pay *Zakat*) may access <https://baznas.go.id/bayarzakat> for convenient practice in performing *Zakat*. In the website, there are three modes of services offered. These include transfer with the bank, pay via PayPal, or pay with quick scan respond (QR) code. In addition to the official website, BAZNAS has launched its phone-based application, which is called '*Muzaki* Corner'. These modes of payment, to some degree, have been promoting an effective practice, which Mulyadi et al. (2018) has confirmed its Islamic legality to perform *Zakat* through digital payment.

Further, *Zakat* payment via online also has been offered by *Zakat* institutions in other countries, such as the National *Zakat* Foundation of Australia, Muslim Hands of the United Kingdom, Islamic Religious Council of Singapore, Islamic Religious Council of Wilayah

Persekutuan of Malaysia, and other countries. Shortly, these practices are the best evidence of the way *Zakat* institutions respond to the rapid development of technology.

### ***Collaboration with the existing e-commerce***

The report of Indonesia's *Zakat* outlook 2019 issued by Puskas BAZNAS informed that BAZNAS has been collaborating with the local e-commerce, to realise *Zakat* potential from the domestic *Muzakki* millennials. Of the current fintech firms which deliver BAZNAS' service including Elevenia.co.id, Blibli.com, Shopee.co.id, Tokopedia.com, Lazada.com, Mataharimall.com, JD.id, and Bukalapak.com.








The significant benefit from BAZNAS' collaborating with e-commerce has been highlighted by the local news, notably the contribution of *Zakat* payment by Indonesian millennials. For example; Hasibuan & Yulistara (2018) reported the increase of 12 per cent in *Zakat* collection by BAZNAS from 2016 to the time of the news publication. In that news, Arifin Purwakananta, who is BAZNAS Deputy Director, confirmed the dominant contributor of Millennials to such the increasing trend in the national *Zakat* payment. Perhaps, such the convenient service which integrates the feature of *Zakat* calculator within the system of providers has been an attractive value for those Indonesians who were born between 1981s and 1999s.

Overall, the partnership of BAZNAS with the existing e-commerce may best depict its effort of not only responding to the emergence of fintech but also to realise *Zakat* potential of the local millennials.

### ***Offering quick respond (QR) code services with fintech firm***

Furthermore, the collaboration with the local fintech firms for payment service has brought the domestic practice of *Zakat* payment into a revolutionary stage. In this, BAZNAS and the three local fintech firms which are Go-Pay, OVO, and LinkAja, have partnered to offer *Zakat* payment using QR code.

**Table 2: QR Code for Paying *Zakat* with BAZNAS**

No	Firms' Providers	QR Code		
		Contemporary <i>Zakat</i>	Classic <i>Zakat</i>	Islamic donation
1	Go-Pay			
2	OVO		Not applicable.	
				

3 Link Aja

Not applicable.

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Source: Prepared by authors from BAZNAS' official website.

Table 2 shows the QR code issued by the respective firms which have been working together with BAZNAS. The classic *Zakat* refers to *Zakat Fitrah* and *Zakat Maal*, the contemporary *Zakat* includes *Zakat* from account on the bank, *Zakat* profession, and corporate *Zakat*. Meanwhile, Islamic donation refers to *Infaq* and *Shadaqah*. The inventiveness of the QR-based *Zakat* payment has been proven advantageous for local *Muzakkis*. According to Prireza (2018), such practice has been claimed to be safe and efficient.

Taken together, developing the organisation's website and phone-based application, partnering with the domestic fintech payment, and innovating QR codes, which these aim at *Zakat* fund collection, have meant as BAZNAS' efforts in responding to the massive advent of fintech. These pieces of evidence may help us better understand in what way a *Zakat* institution has been reacting to the emergence of fintech.

## CONCLUSION AND RECOMMENDATION

Returning to our question; '*how does BAZNAS respond to the emergence of fintech in its management*', in the above attempt, we have engaged qualitative method of overview to clarify the subject matters. From conducting so, we are now possible to claim that developing website and phone-based application, synergising with the emerging local fintech firms, and offering QR code, are representative of BAZNAS' efforts in responding the emergence of fintech. These findings provide strong evidence confirming that BAZNAS is adaptive to the recent technological changes. This work is the first intellectual discussion to make clear the understanding of what means a *Zakat* institution responds to fintech. Even so, with the nature of this study is a qualitative article, further validation is required to strengthen the present evidence. In this, future work may employ other qualitative approaches, for example; interview with the experts, to support further the findings.

Apart from the above, it is found that the current technological practice in BAZNAS was mainly for *Zakat* collection, while evidence for *Zakat* distribution was not sighted. On this point, it is reasonable to recommend BAZNAS for distributing *Zakat* fund driven by technology. For instance, BAZNAS can engage blockchain technology to best target its *Mustahik* (*Zakat* recipients), particularly for alleviating national poverty. This notion of poverty alleviation with blockchain technology has been suggested by Samir (2019).

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