



MUSHROOMING OF GIG WORKFORCE

Advantageous to the Islamic Finance Industry in Malaysia?

INTRODUCTION

A near three-year protracted COVID-19 pandemic since the 2019 first outbreak in Wuhan, China, has hugely impacted all the basic economic units: the household, the firm and the government. Over the two-year period from 2 January 2020 to 15 January 2022, the following five industries: airlines; hotels, restaurants and leisure; energy equipment and services; automobiles, and speciality retail were most affected by lockdowns and social distancing intended to curtail the spread of COVID-19 (S&P Global Market Intelligence, 2022). Many of these industries are small businesses requiring a longer period to recover and return to their pre-pandemic state. One of these businesses' immediate measures was retrenching a certain percentage of employees to reduce operational costs. For the retrenched employees who need to find other sources of income to survive, the gig economy, which had gained attention after the global financial crisis in 2008, is an attractive alternative for them to earn a living. This article sheds light on the growth drivers of gig workforce after the COVID-19 pandemic and how advantageous this new economic trend is to the Islamic finance industry.



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WHO IS GIG WORKFORCE?

The gig economy generally refers to non-standard or non-traditional work that is short-term and project-based. Recently, the term has been associated with working for digital platform companies. Hence, the Inland Revenue Board of Malaysia considers gig economy as a business model of e-commerce which is classified

as a business activity and is governed under Section 4(a) of the Income Tax Act 1967. According to Gig Economy Data Hub (<https://www.gigeconomydata.org/basics/what-gig-worker>), there are several approaches in defining gig workforce, as illustrated in Figure 1.

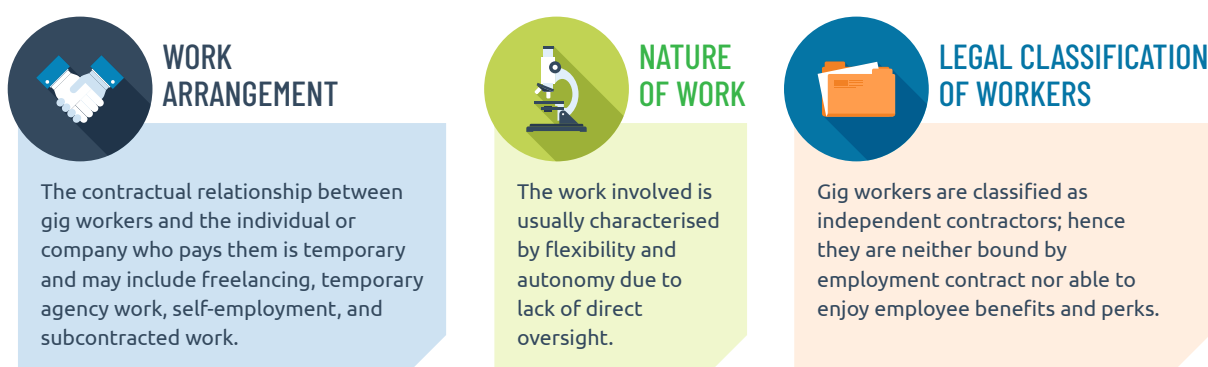


Figure 1: Approaches in Defining Gig Workforce

Source: Adapted from Gig Economy Data Hub (n.d.)

Schmidt (2017) and Sun (2020) categorise gig economy activities into two categories: cloud work and gig work. Each has three subcategories as delineated in Table 1.

Main Category	Subcategory	Workforce	Example in Malaysia
Cloud work: web-based where works are completed online	Freelance marketplaces	Selected individuals	FREELANCING
	Micro tasking crowd work	Crowd	GIGAGIGS
	Contest-based creative crowd work		designhill
Gig work: location-based where works are completed offline	Accommodation	Selected individuals	airbnb
	Transportation and delivery services		BUNGKUSIT MyCar® Grab foodpanda
	Household services and personal services		MR. WIREMAN

Table 1: Categories of Gig Economy

Source: Adapted from Sun (2020)

According to the Department of Statistics Malaysia, there were about four million gig workforces, representing 26 per cent of the Malaysian labour force in 2020.

The demographic of gig workforce is heterogeneous, comprising different age groups, genders, educational levels, races and geographic locations. Income from gig work, which varies depending on the profiles and attitudes of gig workers and their nature of work, is generally less than traditional employees (Zipperer *et al.*, 2022).

GROWTH OF GIG WORKFORCE POST COVID-19 PANDEMIC: KEY DRIVERS

According to Hayes *et al.* (2019), the gig economy accounts for one-third of the world's working population, with 24 per cent being gig-only workers and 9 per cent engaging as both gig and traditional workers. In 2018, the global gig economy's

market stood at USD204 billion, with transportation-based services (such as Uber and Grab) and asset-sharing services (such as Airbnb) representing nearly 90 per cent of the total value (Broda, 2022). This market segment is estimated to grow by a compound annual growth rate (CAGR) of 17.4 per cent to reach USD455 billion in 2023 (Chart 1).

Malaysia also witnessed substantial growth of the gig economy during the COVID-19 pandemic. Food delivery services in the country recorded a significant year-on-year growth of 44 per cent in 2020 (Google, Temasek & Bain, 2020). According to the Department of Statistics Malaysia, there were about four million gig workforces, representing 26 per cent of the Malaysian labour force in 2020.

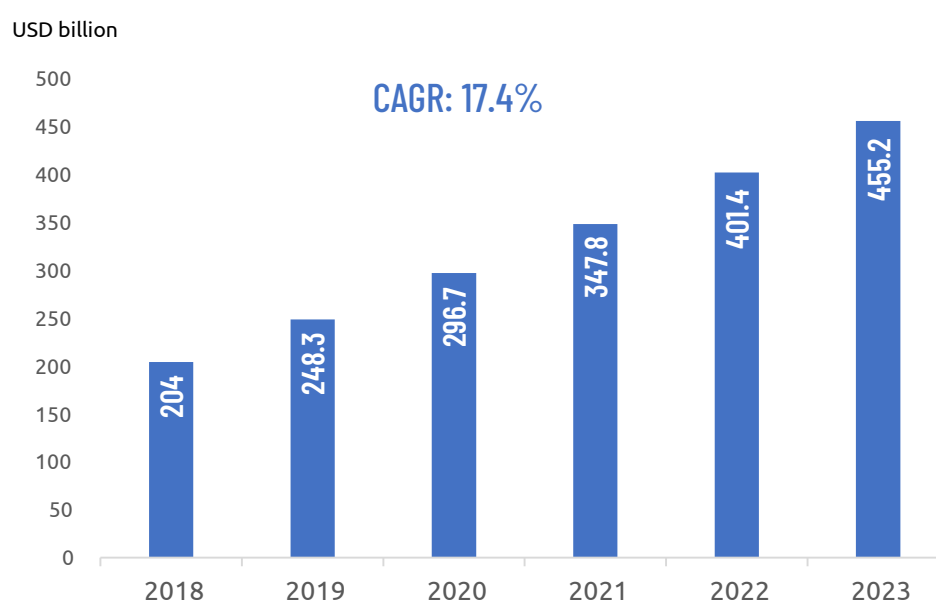


Chart 1: Estimated Growth of Gig Economy

Source: Mastercard & Kaiser Associates (2019)

Among key factors that drive the mushrooming of gig workforce include the following (Mastercard & Kaiser Associates, 2019; Paul Hype Page & Co, n.d.; Khandelwal, 2020):

Advancement of technology: the rise of smartphones, digitalisation and fintech has enabled different segments of communities, including the unserved and underserved, to become freelancers.

Flexible work-life environment: gig work provides flexibility without confining to a 9-5 routine. In addition, gig workers can work remotely from anywhere.

Increasing coworking spaces: shared workspaces which allow a combination of subscriptions and passes are suitable for professionals of the gig economy who do not require a conventional office.

High cost of living: economic recession due to the pandemic has forced lower to middle-income earners to source supplemental income via part-time jobs that the gig economy offers.

Booming of 'on-demand' services: digital platforms have enabled companies to hire on-demand freelancers to save costs and scale up operations.



THE GIG ECONOMY AND ISLAMIC FINANCE INDUSTRY IN MALAYSIA

There are at least four financial services that gig workers need (Figure 2):




REQUIRED SERVICE 	PURPOSE 	FINANCIAL SOLUTION 
Payment	To manage cash inflows and outflows	E-money or e-wallet, banking account
Financing and capital	To purchase required necessities to do gig jobs	Bank financing/loan, peer to-peer financing/lending, Buy Now Pay Later
Cross-border payment	To receive payments from overseas	Remittance
Wealth management	To save and invest funds	Savings account, investment accounts and instruments

Figure 2: Financial Services Required by Gig Workforce

Source: Adapted from Finantier Blog (2022)

Some of these products and services are offered by Islamic financial institutions (IFIs). For instance, many Islamic banks have launched their own e-wallets in addition to their long-standing online banking services to facilitate Shariah-compliant transactions.

Through collaborations between IFIs and digital platform companies, more innovative products and services that cater for the need of gig workers have been introduced. For example, Grab collaborates with insurance companies and takaful operators to offer daily e-hailing insurance/takaful protection for drivers and food riders against any risk of misfortunes and unforeseen events. In addition, Principal Asset Management Berhad collaborated with Touch 'n Go e-Wallet to launch an investment product called 'GO+', enabling eligible users to generate potential returns from the account. The underlying fund of GO+ is Principal e-Cash Fund, a Shariah-compliant money market fund. This type of investment instrument is suitable for gig workers as the initial investment amount

starts at RM10 and is open to all Touch 'n Go eWallet users.

Most of the financing solutions for gig workforce are spearheaded by fintech companies. For example, Grab and SEDANIA As Salam Capital rolled out Shariah-compliant financing to eligible Grab drivers and delivery partners; hence providing them secure access to micro-financing. However, Islamic banks only recently started making inroads into innovative financial solutions for gig workers and other underserved segments. Bank Islam Malaysia Berhad, via its digital platform, Centre of Digital Experience (CDX) and in collaboration with its strategic partners, has adopted an alternative credit scoring model to assess the customers' creditworthiness.

These services are crucial to support the growing number of gig workforces who do not have fixed salaries and the required documentation for applying financing facilities via normal banking channels.

Furthermore, CIMB Islamic Bank, via its iTEKAD Rider Entrepreneur Programme (launched in 2021), sponsored 31 individuals, particularly youth, to attend training on entrepreneurship and technical skills in exchange for one-year employment with foodpanda, the bank's online food delivery partner, and motorcycle grant upon the completion of the programme.

The booming of the gig economy has inevitably pushed IFIs to innovate and provide a range of financial solutions that meet the expectation and demand of gig workers. Nonetheless, more efforts from the Islamic finance industry are needed to boost this market segment. For example, the existing remittance services to facilitate cross-border payments involve high costs and take a long time to complete. Hence, a more cost-effective and efficient platform should be established as gig economic transactions are typically in small denominations.

MOVING FORWARD

The number of gig workers, considered 'essential workers' during COVID-19, has a great potential to accelerate even beyond the pandemic as the world has now started to embrace the 'new normal' in the working landscape. Hence, the government and relevant authorities must take necessary measures to support gig workers to ensure the long-term viability of the gig economy. Sun (2020) proposed establishing a comprehensive regulatory framework governing the gig economy to protect the welfare and interest of gig workers. IFIs should also be part of the agenda to elevate the gig economy by providing necessary services for its workforce to thrive. It is hoped that the two Islamic digital banking licences issued by Bank Negara Malaysia in April 2022 to two consortia will become a game-changer in serving the needs of the unserved and underserved segments, including gig workers.

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