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2004 – 2019
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The scale of our financial advisory and analysis expertise allows us to pursue opportunities around the world with a strategic focus on the MEASA markets.

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It gives me pleasure to congratulate Islamic Finance news (IFN) on its 15th anniversary.

Through the years, IFN has had, and I am confident will continue to have, an important role in creating greater global awareness on the significance of Islamic finance as a form of financial intermediation and as an industry in several key dimensions. Through IFN Forums and country showcases, IFN facilitated the building, strengthening and deepening of relationships across the Islamic finance industry, regulators and investors at the national, regional and international levels. Providing regular discussion platforms has heightened the interconnectivity among the jurisdictions by fostering greater collaborations and strategic linkages.

Through its publications which are among the very first Islamic finance news publications to be online, timely and in-depth in coverage on latest innovations and breakthrough initiatives, has allowed the industry to keep pace with the latest market developments. This has in turn prompted its growth, enhanced product innovation and strengthened international financial interlinkages. It has also through its professional training and seminars, continuously enriched professionals in Islamic finance on the latest topics, led by leading global experts and industry leaders. For over 15 years, IFN serves the Islamic finance fraternity with content curated to fuel the momentum needed to catalyze and sustain the activities inherent in any dynamic and progressive industry.

The recent two decades have been nothing short of remarkable and exceptional. After the formation of the AAOIFI in 1990 to develop and issue accounting standards for the global Islamic finance industry, the international financial architecture of Islamic finance was further strengthened by the establishment of the Islamic Financial Services Board (IFSB) in 2002, a prudential standard-setting body for Islamic finance. After more than a decade, the IFSB has been instrumental in increasing international prudential regulatory cooperation, encouraging uniformity of regulatory frameworks while enhancing the monitoring of financial risks in the Islamic financial system. IFSB also catalyzed the establishment of the International Islamic Liquidity Management Corporation (IILM) in 2010 which has changed the landscape for liquidity management in the international Islamic financial system.

On the talent front, the International Centre for Education in Islamic Finance (INCEIF) formed in 2005 was part of the continuous effort to support the development of a progressive Islamic financial industry. The International Shari’ah Research Academy for Islamic Finance (ISRA) was then established in 2008 as part of INCEIF, dedicated to conduct in-depth and applied research on Shariah. Today, ISRA regularly publishes Shariah research, produces textbooks, journals and research papers that have been internationally referenced. The I-Fikr online portal provides a one-stop comprehensive global repository of Shariah and applied Shariah research references.

Indeed, Islamic finance has made significant strides amidst a challenging financial environment and has transcended beyond Muslim-majority economies. The sustainability and resilience are due to its underlying Shariah principles, which has in-built elements that demands a strong economic linkage that is also anchored on ethical considerations. Over the years, Islamic finance has achieved the critical mass for the industry to be recognized as mainstream finance. It has also received international recognition as a form of finance that increases access to finance and the potential for the eradication of poverty and for preserving financial stability.

As we approach a new decade, Islamic finance can now turn towards further solidifying its role across three critical directions – the economy that it shapes, the environment that it preserves and the society that it serves. Underlying these aspects are the ethics and values. Interpreting the Shariah in the light of the Sustainable Development Goals 2030 seems inexorable. Whilst serving society is embedded in the DNA of Islamic finance, efforts on augmenting this can be further intensified.

Finally, the world is evolving into a digitalized economy at unimaginable pace, magnitude and scope. The imperative is thus to transform Islamic finance by embracing and integrating disruptive technologies, particularly those that promotes trust, enhances transparency and generates greater accountability. To sustain the growth momentum, relevance and sustainability of Islamic finance, this change is inevitable.

Going forward into this transformed future, I wish IFN all the very best.

Dr Zeti Aziz
The IFN Story - by Those in the Know

How time flies. It’s more than 15 years since the initial idea for a media company dedicated to the burgeoning Islamic finance industry was conceived in the economy class section of the Friday evening Cathay Pacific flight out of Jakarta bound for Hong Kong. Even back in 2003, from the relative safety of our desks in the central business district of Hong Kong, it had become clear Islamic finance had started to make its mark. Both of us were aware of the potential growth the Islamic finance industry could witness. The story was hard to resist: the potential to cover a new, fast-growing, faith-based, ethical, inclusive form of financing had definite allure. Some six months later, in March 2004, armed with no more than a rudimentary business plan and no small amount of enthusiasm, we arrived in the balmy climes of Kuala Lumpur, eager to make our mark.

There was much to learn, not least about the exciting and thriving industry we were hoping to be a part of. Much of the first three months of research and development was spent out and about, meeting as many people as we could. By the end of this extensive fact-finding exercise, folks were beginning to remark that we knew the answers to the questions before we asked them, and they were probably right. However, we never forgot the kindness, hospitality and guidance we were extended in those early days and we were fortunate to be taught so much by so many.

More than once we were asked why two British fellows had moved their lives to Malaysia to cover Islamic finance. Our answer then was the same as it is now: that we saw significant value in dedicating our energy to providing accessible, accurate and enjoyable analysis and information to the Islamic financial services industry, and to contribute to the industry achieving the global recognition it deserves – as a mainstream form of financing, rather than something niche or alternative.

The genesis of IFN was somewhat unconventional. In truth, the publication was an amalgamation of a number of different ideas and formats. What we published on the 23rd October 2004 – complete with cover stories about a private equity investment made by Bahrain’s First notes program (based on the Murabahah contract) by a Malaysian shipping company – represented a relatively small amount of in-house editorial coupled with a somewhat larger amount of contributed copy. That worked at the time. However, it quickly became apparent that if we were to do justice to our industry we were going to have to invest in our editorial. This meant swift product evolution and development. Fortunately, what came with this evolution was a marked
improvement in quality, as well as a significant increase in the volume of editorial content. As today, once we started looking closely there was no shortage of interesting stories developing in equally intriguing markets. If anything, the challenge soon became choosing what not to cover. New and exciting potential Islamic finance markets started to emerge. Perhaps trying to emulate established and successful Islamic finance markets such as Malaysia, these new entrants had impressive visions and equally inspiring marketing gambits. Not all lived up to the expectations they created for themselves.

Fifteen years and over 70,000 articles later and IFN has gone from strength to strength. The masthead and title – designed in Microsoft Word 2000 – look quite similar to 2004, but everything else has undergone continuous and significant innovation. IFN can now lay claim to over 22,000 individual subscribers and over 60,000 regular readers, representing almost every Islamic financial institution globally. Over the years, we’ve added various supplements, sister titles, events, seminars and reports. However, IFN still represents the core of what we do and is still at the heart of our business.

During the past 15 years we have seen global Islamic finance evolve, develop and achieve. We have witnessed numerous notable accomplishments and there are many, many more successes to come. Through our products, in particular IFN, we hope we have contributed, in some small way, to increased global recognition, awareness, understanding and acceptance of Islamic finance, investment and banking.

We’d like to take this opportunity to thank our partners, customers, team members, friends, colleagues and associates and we look forward to continuing working with you in the future and sharing in your continued success. – Andrew & Andrew

As a lawyer who has been advising and supporting the Islamic financial services industry for 25 years, I have been able to observe most of the developments and achievements that have taken place across all aspects of the sector. Whilst many participants have thrived in their chosen area of expertise, others have failed and quite a few perhaps not achieved their exciting launch objectives.

However, in the dissemination of news and the provision of seminars and discussion fora, I am pleased to say that the REDmoney operation, led by the ‘two Andrews’, has been a constant, committed, successful and adaptable leader in its field. Since launching 15 years ago, Islamic Finance news and REDmoney Seminars have been providing constant and reliable news, support, insight and commentary whilst facilitating discussion and debate, in a sector that has seen its ups and lows during this period.

Always staying in touch with their customers, clients, supporters and contributors, with a steady hand on the tiller, they have from time to time changed direction (or more accurately, emphasis) when needed to keep their offering up to date and responsive. I think there are many of us in the Islamic financial services industry who are, or should be, grateful to a team that has often provided an effective, low-cost platform in relevant jurisdictions, to support our own business objectives. In many cases, the relationship has become more than just one of business but one of friendship too. This has certainly been the case after my many engagements with both Andrews’ over the years. I should like to offer my thanks for their efforts and long may they continue.

Neil D Miller, Global head of Islamic finance, Linklaters
The IFN Awards were first introduced in 2005, starting with the IFN Best Banks Poll. Since then, the awards have expanded to include honors for the whole industry including service providers, the legal sector, capital markets including issuers and corporates as well as fintech. Employing multi-pronged methodologies, the IFN Awards are recognized as the Islamic finance industry’s most prestigious accolades, differentiated by its independence, impartiality and influence.

IFN Best Banks Poll
First established in 2005, the annual Islamic Finance news Best Banks Poll recognizes the best providers of Islamic financial services across a series of markets and sectors as voted by the readers of Islamic Finance news. Almost 500 banks are included in the poll across 41 categories.

IFN Deals of the Year
The IFN Deals of the Year were established in 2006 and recognize those who have participated in the industry’s most groundbreaking transactions each year. Financial institutions and intermediaries are invited to submit their chosen transactions from the previous 12 months, which fall under one of the carefully selected sectors.

A panel of experts from non-competing organizations then sieve through all submissions during the elimination process until just one transaction in each category remains and is thus awarded the winner of that category. A total of 17 categories are covered, excluding the country categories. Country accolades will be awarded to those countries which have witnessed a minimum of three Shariah compliant non-private placements during the calendar year.

IFN Service Providers Poll
Established in 2006, this Poll recognizes the best supporting providers to the Islamic financial services industry as voted by the readers of Islamic Finance news. Islamic financial institutions, investors, corporates and government bodies from around the world are invited to participate by casting their votes across nine categories.

IFN Islamic Investors
From 2011 until 2015, the IFN Islamic Investor Awards (previously the IFN Asset Management Poll) focused on the rapidly developing global Shariah compliant funds industry. Asset management firms with Shariah funds are invited to submit in a series of categories, following which a panel of non-competing experts review and choose those which have encountered a stellar year.

IFN Law Awards
Launched in 2006, the global IFN Law Awards are the most prestigious Islamic finance legal accolades recognized for their impartiality, independence and inclusivity. Starting out as a poll, the IFN Law Awards were then transformed into a nomination-based awards. Rewarding the best legal firms with Islamic finance capabilities and services, the IFN Law Awards take into consideration various metrics beyond the sheer size of a firm but more significantly, a firm’s inventive and progressive spirit in terms of expansion, innovation, impact and development.

World Islamic Fintech Awards
The World Islamic Fintech Awards (WIFA), launched in 2018, honor exceptional and deserving fintech providers in the Islamic finance space for their outstanding work in driving Shariah compliant financial services through disruptive and collaborative technologies.
Investing responsibly is in our DNA.
Comgest’s focus is long-term quality growth: companies with sound business and financial practices capable of generating sustainable earnings growth.

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MARKETING COMMUNICATION
Bahrain’s First Islamic Investment Bank buys stake in French retailer

First Islamic Investment Bank E C, the Bahrain-based investment bank and its co-investors have bought a substantial interest in Vogica (Vogica), a leading French retailer and wholesaler of kitchens and bathrooms.

In a statement released on Oct 20, First Islamic did not disclose the total transaction value but intends to place about $45 million of the transaction with its investors. Bank of Ireland, its first sale lead-arranged transaction in France, provided the entire financing package consisting of acquisition and working capital facilities.

Vogica operates a network of 28 company-owned stores and 9 exclusive distributors selling fitted kitchens and bathrooms directly to end customers under the Vogica brand name. The company also supplies kits for home assembly and installation through two of the largest DIY-specialized retailing chains in France.

Marc Reaffirms MISC’s RM1.5 billion murabahah

The Malaysia Rating Corporation Bhd (MARC) has reaffirmed MISC-LTD/AAD ratings on Malaysia International Shipping Corporation Bhd’s (MISC) RM1.5 billion murabahah commercial paper/medium term notes programme (2000/2006).

In a statement issued on Oct 21, the rating agency says the reaffirmation of the ratings is predicated by MISC’s solid operating fundamentals and its dominant position in the Malaysian shipping industry particularly the liquefied natural gas (LNG) segment.

It adds that the reaffirmation is predicated by the group’s extensive global reach with the acquisition of American Eagle Tankers Inc (AET); sound financial profile characterised by improved profitability and low debt leverage; exceptional financial flexibility and the strong support of its majority shareholders.

Petroleum hiasnial hid (Petronas).

MARC says MISC’s balance sheet shows ample liquidity and the groups cash flow protection measures are capable of accommodating a reasonable degree of earnings volatility in the non-LNG shipping business.

MISC’s strong internal cash generation has reduced the need for excessive external financing to fund its capital expenditure programs. The group’s debt leverage is considered low by shipping industry norms of 0.7 times as at June 30, 2004, as compared to the global industry average.

Furthermore, MARC, said that the US dollar denominated shipping revenue provides a natural hedge against exchange rate volatility in relation to the groups sizeable foreign currency debt obligations.
Digital Economy Enabler
in member countries
IFN Events: A brief history

2006 REDmoney’s first and only event of the year: The Malaysian Islamic Finance Forum, organized in collaboration with Bank Negara Malaysia, the Securities Commission Malaysia, Labuan Offshore Financial Services Authority and Bursa Malaysia.

2007 Inaugural IFN Awards Ceremonies in Dubai and Kuala Lumpur held.

2008 More than tripled the number of IFN events as we expanded into new markets including Brunei, Indonesia, Pakistan, Egypt, Hong Kong, New York, London and Singapore.

2009 The Malaysia Islamic Finance Forum rebranded into the IFN Issuers & Investors Forum.

2010 The REDmoney events calendar counted 16 events including roadshows in Japan, France, India, Thailand and Australia.

2012 Launched the inaugural IFN Saudi Arabia Forum and IFN Sri Lanka Roadshow.

2013 Forayed into new markets including Africa, Morocco and Bangladesh.

2014 Brought the IFN Europe Forum to Luxembourg from London.

2015 Expanded the IFN Issuers and Investors Forum brand into the UAE.

2016 Entered new jurisdictions including China and Russia; launched the IFN Dialogues series.

2017 Inaugural IFN Fintech Forum held.

2018 Introduced the IFN World Leaders Summit.

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. Commenced operations in January 2008, ITFC has provided around US$50 billion of trade financing to OIC Member Countries, making the Corporation the leading provider of trade solutions for OIC Member Countries’ needs. With a mission of being a catalyst for trade development among OIC Member Countries and beyond, the Corporation helps entities in Member Countries gain better access to trade finance to support their critical sectors; and provides integrated programs: capacity building and trade development, which would enable them to successfully compete in the global market.
IFN Events: Globe tracker
168 events 35 countries
The Islamic Research and Training Institute (IRTI) is one of the premier research and training institutes in the world dedicated to knowledge creation and dissemination in Islamic economics and finance. With a track record of nearly four decades of delivering cutting-edge research and capacity development programs, IRTI’s central objective is to develop knowledge-based solutions for the sustainable development of the member countries of the Islamic Development Bank (IsDB) and Muslim communities in non-member countries worldwide.

Since inception in 1981 as the research and training arm of IsDB, IRTI has been leading the development of a flourishing and innovative global Islamic financial industry. With highly experienced teams of globally-recognized experts, the Institute works with partners around the world to conduct innovative research, enhance human capital, develop solutions, and disseminate knowledge.

In the area of capacity building, IRTI is the single largest contributor to human capital development in Islamic economics and finance globally, having delivered 762 training courses to a total of 68,699 beneficiaries in IsDB member countries and non-member countries.

In research, IRTI is a pioneer in promoting and encouraging knowledge creation in Islamic economics and finance. To date, we have implemented 377 research projects and organized 405 conferences, with a total 17,360 participants from around the world. IRTI has also incentivized many researchers and scholars globally, mainly through our research grants and the IsDB Prize in Islamic Economics, Banking and Finance.

IRTI is similarly the leader in Islamic economics and finance publications. We have produced and disseminated more than 500 publications in this field, including textbooks, flagship reports, journals and other research publications.

Having come a long way since its establishment, IRTI remains committed to driving innovation and leading solutions-creation for the communities we serve.
The World’s Leading Islamic Finance News Provider

Anniversary

October 2007: Dana Gas issues Sukuk

Dana Gas raises US$1 billion from Sukuk after upsizing the offering twice from US$750 million, pricing the facility at a premium; 7.25% as opposed to the expected rate of 6.5% and almost 1% higher than the average GCC coupon rate.

JPMorgan acts as the deal’s sole bookrunner, with Deutsche Bank as the structuring, delegate, principal paying, calculation, transfer, security and exchange agent. The Mudarabah deal is governed by UAE law while the purchase undertaking contract is governed by English law.

October 2012: Dana Gas defaults on Sukuk; reaches standstill with creditors

Dana Gas becomes the first UAE-based company that is unable to repay the US$920 million outstanding on its US$1 billion Sukuk and reaches a standstill effective for up to six months with its creditors, including BlackRock, Ashmore Group and Spinnaker Capital.

November 2012: Dana Gas in agreement with Sukukholders

Dana Gas reaches an understanding with Sukukholders to restructure the outstanding US$920 million Sukuk. It is now able to convert the outstanding Sukuk into ordinary and convertible Sukuk.

December 2012: Dana Gas proposes new Sukuk plan

Dana Gas proposes to pay Sukukholders US$70 million in cash and an average coupon rate of 8% on the remaining notes outstanding under a restructuring expected to be completed by the second quarter of 2013.

The remaining Sukuk will be converted into two equal tranches; one of which will comprise convertible notes with a conversion price set at between 75 fils-AED1 (20.42-27.22 US cents) a share. The company also receives US$48 million from the Iraqi government for gas production in the country, which is part of the US$920 million outstanding debt.

April 2013: Dana Gas good to go

Dana Gas shareholders approve a plan to restructure the US$920 million Sukuk involving the issuance of a new Sukuk facility on the 8th May.

May 2013: Dana Gas completes restructuring


April 2017: Dana Gas renegotiates with Sukukholders

Dana Gas announces that it will work to reach a ‘standstill’ agreement with the holders of its outstanding Sukuk, worth US$700 million, before the facility matures in October. The buyback of shares or the purchase of further Sukuk will be subject to the availability of the company’s cash.
The Islamic Solidarity Fund for Development (ISFD) is the poverty alleviation arm of the IDB Group. It was established as a special fund within the IDB to reduce poverty in its member countries by promoting pro-poor growth and focusing on human development through enhanced healthcare and education, as well as providing financial support to enhance the productive and income generation capacity of the poor.

Two overarching themes define the focus of the ISFD:

- Improving and enhancing the income of the poor.
- Promoting the development of human capital.

isfd.isdb.org
DANAGASTIMELINE

June 2017: Dana Gas to replace “unlawful” Sukuk

Dana Gas declares its outstanding US$700 million Sukuk “unlawful”, claiming that the structure is no longer Shariah compliant. It proposes to replace the Sukuk with a new Shariah compliant instrument: a four-year facility which will confer rights to profit distributions at less than half of the current profit rates and will be without a conversion feature. The profit payments will comprise a cash and payment-in-kind element. The energy producer secures injunctions from the Sharjah Federal Court, High Court of Justice in the British Virgin Islands and English High Court of Justice in London, restraining Sukukholders from taking any actions against the company in relation to the Sukuk until a final determination has been made.

July 2017: Dana Gas rejects Deutsche’s Sukuk payment request

Dana Gas refuses to honor Deutsche Bank’s profit payment request amounting to US$13.99 million for the period ending the 31st July 2017 for its Sukuk.

Dana Gas conducts a board of directors meeting on the 26th July but fails to reach a consensus with the ad hoc committee of Sukukholders over the restructuring of the Sukuk facility. The board directs the management to intensify its efforts to expedite the collection of the outstanding receivables owed to the company.

August 2017: Dana Gas withdraws swap offer

Dana Gas withdraws the offer it made to creditors to exchange its outstanding US$700 million Sukuk for new notes.

In the same month, the UK High Court announces that the UK injunction on Dana Gas’s Sukuk case will continue without any amendments, following the case management conference in the court on the 31st July 2017. The court accepts that Dana Gas had “taken such steps as it could to date” to enable the UAE injunction to be lifted. The court also directs the company to file a unilateral application to lift the UAE injunction pending the completion of UAE service formalities which will require the delegate and trustee to formally appear before the UAE or Sharjah court.

The UK High Court rejects the delegate’s request to have Dana Gas bear its (the delegate’s) legal costs in advance of the final outcome of the case.

Gas on the 17th August applies to the Sharjah Federal First Instance Court to discharge the injunction granted by the court. The injunction dictates that the trustee, delegate, principal security agent and others are not allowed to take any legal action against the company until the pronouncement of a final judgment by the Sharjah Court.

14th September 2017: Dana Gas says no to Sukukholders’ proposal

Dana Gas rejects the proposal of its Sukukholders. According to Bloomberg, the key terms of the proposal are a cash paydown of US$300 million at par, split equally between the ordinary and exchangeable certificates; a maturity extension of three years; the annual rate for periodic distributions on the ordinary and exchangeable certificates to remain unchanged at 9% and 7% respectively; the effective exchange (conversion) price for the reinstated exchangeable certificates to remain at 75 fils (20.42 US cents); a dual-listing to be initiated on the London Stock Exchange; as well as the settlement of all periodic distributions, including the outstanding distribution scheduled for the 31st July 2017 and the upcoming periodic distribution on the 31st October.

25th September 2017: London High Court proceeds with Dana Gas trial

The London High Court goes ahead with the trial on Dana Gas’s Sukuk despite the injunction by a UAE court preventing the gas company and some of its creditors from taking part. Sukukholders, led by BlackRock, are demanding the natural energy producer to make repayment or hand over stock in a subsidiary that runs its operations in Egypt. Sukukholders are also calling for a ban on Dana Gas from issuing any new Sukuk to secure further funds for the company.

November 2017: UK High Court declares purchase undertaking enforceable; Dana Gas to appeal court decision

The UK High Court declares the purchase undertaking of Dana Gas’s Sukuk as valid and enforceable; Dana Gas decides to appeal against the decision as it believes the UK trial and the court decision are flawed on the basis that the trial was conducted in its absence. The company also files an appeal to the English Court of Appeal on the decision of the English High Court to join BlackRock and to proceed with the case in Dana Gas’s absence.

December 2017: Dana Gas allowed to participate in Sukuk case

The Sharjah Court of Appeal agrees to Dana Gas’s appeal to allow the natural gas producer to participate in the UK High Court’s proceedings on its defaulted Sukuk. The decision sees Dana Gas pursuing an appeal against the English High Court’s ruling that the Sukuk issuance is valid under English law. The first hearing of the UAE proceedings is scheduled for the 25th December 2017.
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**January 2018: UK court rejects Dana Gas’s appeal; Dana Gas fails in talks**

The English Court of Appeal refuses the application by Dana Gas to appeal the English High Court order to join BlackRock in the English High Court proceedings and to proceed with the trial in Dana Gas’s absence.

Talks between Dana Gas, via its financial advisor Houlihan Lokey, and Sukukholders, represented by UAE-based Arqaam Capital, fail to resolve the dispute with no agreements made, according to Reuters. According to Bloomberg, talks broke down after the company proposed a 15% discount on some of the debt; Dana Gas suggested buying back about US$200 million at 85 US cents to the dollar, and rolling over the rest into new securities with a profit rate of 4%. Sukukholders wanted the buyback to be at par and the profit rate to be higher.

**February 2018: UK High Court rules in favor of Dana Gas creditors**

London High Court Judge George Leggatt rejects Dana Gas’s attempt to overturn his decision last November that the purchase undertaking behind its US$700 million Sukuk was valid and enforceable. The judge also issues an injunction requiring Dana to withdraw its legal proceedings and injunctions in the UAE. The court directs that an injunction preventing the creditors from enforcing claims against Dana Gas would expire on the 29th March and instructs Dana Gas to pay Sukukholders’ legal costs.

Sukukholders also reject a proposal to redeem 10% of the facility in cash and to roll over the remaining 90% over four years at a 4% annual profit rate and buy back up to half the bonds at a 15% discount. The creditors ask Houlihan Lokey to come up with a new proposal, and are believed to be open to an exchange on more reasonable terms.

**14th March 2018: Dana Gas receives orders from Sharjah court**

The Sharjah Court of First Instance orders Dana Gas to suspend the enforcement in the UAE of judgments issued by the English High Court of Justice, pending referral of those judgments to the UAE courts for determination of their eligibility for enforcement in the country. The Sharjah court also prohibits Dana Gas from discharging or withdrawing or abandoning any of the orders issued in favor of the company or the lawsuits instituted by the company before the UAE courts, and orders Dana Gas to continue with proceedings and to submit all defenses.

The UAE court issues a new anti-suit injunction against BlackRock preventing it from directly or indirectly taking any proceedings against Dana Gas or its shareholders in the UAE and the UK on the ground of the UK orders and judgments rendered in the Dana Gas Sukuk case and the related orders and rulings until these judgments and rulings are referred to the UAE judiciary to resolve their enforceability in the UAE.

Additionally, as BlackRock failed to appear at the 22nd March 2018 hearing, the UAE court adjourns the main case to the 4th April 2018.

**April 2018: Court restricts Dana Gas from paying dividends**

The English High Court slaps Dana Gas with an injunction by restricting it from paying dividends or raising its debt. The Sharjah Federal Court of First Instance in turn suspended the UK court’s decision. The UAE court also ruled to restrain all existing and future Sukukholders from taking any action against Dana Gas, be it in the UAE or abroad, directly or indirectly, as long as the action is based on the orders issued by the English court on the 4th April, which banned the Sharjah energy producer from paying dividends to shareholders until it reserves funds to pay off its creditors. The company was also prohibited by the UK court from raising any more debt.

**May 2018: Dana Gas reaches agreement**

Dana Gas reaches agreement with the majority of Sukukholders of its US$700 million Sukuk to restructure the securities. A committee representing Sukukholders, including BlackRock and Goldman Sachs Group, agrees to accept an immediate cash payout of 20 US cents to the dollar and to roll the rest into a three-year security.

Details of the agreement include: the new security will pay an annual coupon of 4%; bondholders agree to remove the convertible option in the securities; Dana Gas will pay a further 20% of the Sukuk after two years and will raise the coupon to 6% if it fails to do so.

**5th June 2018: Strong support for Dana Gas’s restructuring plan**

Dana Gas receives consent from 90.93% of its 9% ordinary Sukukholders and 96.45% of its 7% exchangeable Sukukholders for the restructuring and refinancing of its US$700 million Sukuk Mudarabah, with none voting against.

**21st June 2018: Dana Gas’s shareholders approve Sukuk restructuring**

All Dana Gas’s shareholders present or by proxy (representing a quorate of over 62.3% of the company’s shareholders) vote unanimously in favor to restructure the company’s US$700 million Sukuk Mudarabah during a general assembly meeting.

**14th August 2018: Dana Gas saga comes to an end**

Dana Gas finally draws a curtain on the multi-jurisdiction legal kerfuffle, which sent reverberations throughout the Islamic finance industry by issuing its new Sukuk and ending all legal proceedings in the UK and the UAE.

The US$530 million facility has more than halved (63%) the company’s annual finance cost, by US$35 million per year. Over the next nine months, it expects to use US$100 million for a Sukuk buyback/redemption program.

**17th October 2018: Dana Gas buys back Sukuk**

Dana Gas buys back approximately US$99 million of 4% Nile Delta Sukuk certificates – both Reg S and 144A. These offerings will be delivered to the Bank of New York Mellon, the principal paying agent for the facilities, in due course for effecting cancelation. Post-cancelation, the total outstanding of the certificates would be around US$431 million.
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TheCityUK would like to congratulate Islamic Finance news and REDmoney on their 15th successful year of publication and are pleased to participate in this anniversary celebration.

The growth of IFN from a modest newsletter to a leading news service reflects the global surge in interest in issues relating to Islamic finance and related issues. The team at IFN are to be commended for the discipline and energy they use to report clearly and accurately on what can be a complicated and constantly changing sector.

TheCityUK will also soon be celebrating a major anniversary. In the 10 years since TheCityUK’s inception, it has firmly established itself as the voice of the UK-based financial and related professional services industry, making clear its scale, value and contribution right across the country.

TheCityUK has focused on ensuring the continued standing of the UK as a world-leading international financial center and the strengths of the industry’s wider ecosystem.

Part of this has been our commitment to supporting and developing the UK’s Islamic finance sector; since 2010 we have had a group of members active in the major issues relevant to the domestic and international Islamic finance industry.

In 2013, in the run up to the World Islamic Economic Forum in London, TheCityUK was invited by the UK government to participate in the UK Islamic Finance Task Force and to coordinate industry thinking on a UK sovereign Sukuk, up to then HM Treasury considered that a wholesale sovereign Sukuk did not offer value for money.

We did not agree with this position and presented a report to Her Majesty’s Treasury and the Debt Management Office – ‘The Case for an Issuance of Sukuk by the UK Government’. After a program of meetings with our members, the Treasury announced in 2014 that they would proceed with the issuance of a sovereign Sukuk, the first for any Western country.

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Following this, we decided to formalize our members’ interest in Islamic finance and in 2014 we established our Islamic Finance Market Advisory Group (IFMAG). The agreed purpose of the IFMAG was to place the group at the center of UK thought leadership in Islamic finance; to set the agenda for the development of Islamic finance within the UK and to develop and promote the UK’s position as the leading Western hub for Islamic finance.

Since then we have continued to engage with the government on domestic and international issues relating to Islamic finance. We have been consulted on and discussed proposals for alternate student loans and the Bank of England liquidity provision. Where appropriate we have raised members’ concerns over required changes to UK legislation to maintain a level playing field for UK Islamic financial institutions.

In 2018 our IFMAG pressed the Treasury for a decision on whether they would reissue the 2014 Sukuk. As a response we were again asked to coordinate industry views. Two papers were sent to the Treasury outlining the issues and the problems that UK Islamic banks would face if no action was taken and impact this would have on the UK’s position as the leading western centre for Islamic finance. In 2019 proposals for a second UK sovereign Sukuk were announced.

TheCityUK and its IFMAG members have played a key role in developing and maintain the UK’s position as the leading Western hub for Islamic finance. However, within the UK it is fair to say Islamic retail banking has yet to reach its full potential. There is also some way to go on Takaful in both the retail and wholesale markets. So with our members and partners there is still work to do on the domestic agenda.

Internationally, TheCityUK has always had a mandate to engage with other financial centres in developed and emerging markets and Islamic finance has been an active part of our international work.

In the past five years alone, TheCityUK and our IFMAG members have engaged on Islamic finance issues with many jurisdictions — from Canada though Europe and Eurasia, North Africa and the Middle East to Asia and the ASEAN nations. We have completed successful bilateral projects with Turkey, Malaysia and Brunei and currently have active agreements with Kazakhstan and Uzbekistan.

As thinking progresses to develop the nexus between Islamic, responsible, sustainable, green and ethical finance and to meet the demands of global Sustainable Development Goals, TheCityUK and our members, through our partnerships and relationship with government departments and agencies in the UK and overseas are well placed to meet the challenges ahead. TheCityUK IFMAG has already supported the International Federation of Red Cross and Red Crescent Societies with their work with the IsDB and the One WASH Sukuk.

Since 2014 we have successfully worked with Islamic Finance news and REDmoney, we look forward to continued partnership and celebrating the next anniversary.

Wayne Evans is the adviser international strategy at TheCityUK. He can be contacted at wayne.evans@thecityuk.com.
Our award-winning Islamic finance team has a deep cultural and financial understanding of the Muslim world that they translate into creating and managing Shariah-compliant structures for corporates, individuals and families.

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Life is a journey, not a destination. As such, it has been an interesting and satisfying journey for me, with its ups and downs, for the last 25 years of my global professional life being involved in the banking and financial industry, both public and private sector, particularly in Islamic finance, investment banking, corporate finance, and as a regulator, policymaker and strategic developer of capital markets including the Islamic capital market. For that, I am extremely grateful to Allah for continuously providing me the opportunities.

Alhamdulillah, I have been educated and trained both in the US and Malaysia, with knowledge in both conventional and Islamic finance. I was awarded a Malaysian government scholarship for top scholars for studies at the University of Iowa, the US where I had graduated with a Bachelor of Science in Actuarial Science. I also hold an MBA (Finance) from the International Islamic University Malaysia, and Chartered Islamic Finance Professional Master’s degree from International Center for Education in Islamic Finance, Malaysia. Although I was initially trained as an actuary, I was always interested in the Islamic financial market and investment banking. Furthermore, in the US, there were a lot of trained actuaries working in investment banks and not only in insurance companies.

Strategic development of the Islamic finance industry

Prior to my move as a policymaker, regulator and developer of capital markets, I had previously been involved in investment banking and corporate advisory for half of my professional career, as a director and team head in a few leading investment banks including Maybank Investment Bank, the largest banking group in Malaysia. I was leading, managing and advising investment banking clients on strategy, structuring and execution of various corporate finance/Islamic finance transactions including fundraising exercises, initial public offerings, mergers and acquisitions, restructuring of companies, investments and other corporate advisory work.

I was subsequently offered to join the Securities Commission Malaysia (SC) and had led and established strategic initiatives for the development of the Malaysian capital market including Islamic capital market and evaluated corporate finance/Islamic finance transactions, through various senior management positions heading various departments at the SC. While I was there, I had been appointed by the SC as co-chair of Task Force 3 of the Asian Bond Market Initiative (ABMI) together with the Ministry of Finance Japan, which seeks to harmonize the regulatory framework of ASEAN+3 markets with a view to facilitating crossborder bond/Sukuk issuances in the region via an Asian multi-currency bond/Sukuk program (the ABMI is a grouping of the ASEAN nations together with China, Japan and Korea (ASEAN+3) whose objective is to develop more accessible and well-functioning bond/Sukuk markets within the ASEAN+3 region).

I had also led and established the retail bond and Sukuk framework in Malaysia that provides retail investors direct access to invest
in bonds and Sukuk through Bursa Malaysia, the Malaysian stock exchange. In addition, I was also involved in coordinating the ASEAN Capital Markets Forum (ACMF)/Asian Development Bank’s regional co-operation in promoting awareness of the Islamic capital market and to achieve regional harmonization. I was also leading regional discussions and negotiations on behalf of the SC as chair of one of the working groups of the ACMF and developed a framework to facilitate cross-listings of public listed companies on ASEAN stock exchanges.

After getting an all-rounded exposure at the SC, I was offered to join the Capital Market Authority, Sultanate of Oman (Oman CMA) where I am currently involved in advising, strategizing and driving developmental efforts for the Oman capital market including the Islamic capital market as an expert/advisor. I have been with the Oman CMA since 2013 and have been here for the last six years since the introduction of Islamic finance in Oman.

I was also appointed by the Oman Ministry of Finance to be on the Oman Government Sukuk Committee which was responsible for the issuance of the first sovereign Sukuk of OMR250 million (US$647.53 million) which won the 2015 IFN Sovereign Deal of The Year award in Dubai.

The issuance of the new Sukuk Regulation in Oman on the 5th April 2016 which I had led and established, forms an integral part of the overall strategy of the Oman CMA to enable the capital market to play its vital role as a fundraising platform for companies in the economic development of Oman. In addition, I had introduced the new Real Estate Investment Funds/Trust (REIT) Regulation in Oman on the 4th January 2018, for both conventional and Islamic REITs, and currently involved in developing the industry. Also, I had led and established the new Takeover and Acquisition Regulation in Oman on the 9th May 2019. I am also currently involved in developing the new collective investment schemes regulatory framework for both conventional and Islamic funds.

As part of my work at the Oman CMA, I have been involved in overseeing the evaluation of a variety of corporate finance/Islamic finance transactions including IPOs, bonds/Sukuk, investment funds, mergers and acquisitions, other fundraising exercises, and discussions with legal advisers, investment banks and issuers to provide them with guidance and solutions.

I have also been involved in numerous consultations with local and global market players, linking capital markets for prospective cross-border issuances, educate and create the awareness to the public, managing market expectations and identifying opportunities to develop the Oman capital market and Islamic capital market.

As part of our efforts to educate and create the awareness to the public on Islamic finance, and provide a platform for industry players, Shariah scholars and regulators to congregate and have an intellectual discourse, I had invited the REDmoney Group to organize the IFN Forums in Oman together with the IFN Oman Dialogues beginning in 2016. Since then, it has been an annual event in partnership with the Oman CMA, and attracting strong attendance from both local and foreign industry players.

As of the 31st December 2018, the Islamic capital market value (representing Shariah compliant shares, Sukuk and investment funds) is OMR1.91 billion (US$4.95 billion), representing about 11% of the total capital market value, issued in Oman. This Islamic capital market value mentioned above does not include the additional sovereign Sukuk issuances that were issued by the Oman government through the Ministry of Finance, outside of Oman, totaling US$4 billion thus far. Meanwhile, the Takafol market’s gross direct premiums of OMR53.16 million (US$137.69 million) at end 2018, represented 11.4% of the total insurance premiums in Oman.

This is a commendable growth, as six years ago, the Islamic financial market’s value contribution to the overall financial system was non-existence. As such, based on what we have seen thus far, Islamic finance will play a key role in the growth of Oman’s economy, while meeting the growing needs of the Ummah and Maqasid Shariah.

Alhamdulillah, within the span of 25 years of my global professional experience, I have been involved in various global conventional and Islamic transactions and regulatory requirements for fundraising and investments, and developing various types of instruments such as equity, bonds/Sukuk and investment funds, both conventional and Islamic.

I had also initially been appointed by the Asian Development Bank (ADB) in 2017 as an international Islamic finance consultant to advise and develop the Sukuk regulation in Bangladesh in partnership with e.Gen Consultants, as part of the ADB’s Third Capital Market Program, but was not able to proceed due to the change in timing of the project.

I have been able to establish a diverse network with various international stakeholders, both in the government and private sectors based on my professional experience in the GCC and Asian region, and be involved in strategically developing, growing and promoting the capital market and stock exchanges in Malaysia and Oman — two different markets and sizes — both conventional and Islamic, and hopefully made my small contribution towards the development of the Islamic finance industry.

Lastly, I would like to congratulate IFN on its 15th Anniversary and honored to be part of IFN’s journey and celebration. As one of the stakeholders in the global Islamic finance industry, I believe without their valuable support, collaboration and contribution, the Islamic finance industry would not be where it is today.
When I was asked to contribute to the 15th anniversary edition of IFN, I was deeply honored. In the monthly columns I have written, I have expressed my passion for the importance of good governance, as well as what I believe is needed to make the world a better place. Choosing a topic for this important milestone issue required some deliberation. Ultimately, I came back to what I hope you will see as a unique and different perspective on Islamic finance and the IFN anniversary.

A some of you may know, I am not a Muslim. I was raised a Unitarian. This religion is a very small one. However, some famous people were Unitarians. For example, Thomas Jefferson, the third president of the US and author of the Declaration of Independence, was a Unitarian. A core Unitarian belief is that understanding other faiths makes our own faith, regardless of an individual’s faith, stronger. As an adolescent, I studied the major religions of the world. Unfortunately, Islam was not given adequate time. I grew up knowing very little about the religion. Around the time that IFN was launched, I was helping my employer at the time explore the potential for a company to introduce an online tool to help with Islamic legal research. It was my first real exposure to Islam. I found it interesting, yet I looked at the opportunity from a western perspective – seeing the things that Muslims can’t or shouldn’t do. Muslims don’t eat pork or consume alcohol. Muslims should neither pay nor receive interest. Candidly, it felt limiting. I say that sheeplishly as I now have a different and much deeper understanding.

About five years ago, my company began addressing the market for Islamic finance products. Along the way, I made wonderful friends whom I treasure dearly. I learned from Shariah scholars and other very learned people the whole of Islam; of the heartfelt commitment to hospitality in both Islam and in the culture of countries with large Muslim populations. This had a great impact on me and my personal beliefs.

Now I would like to help you see Islam through my eyes. What I previously viewed as limitations is really guidance for better ways to do things. Instead of Riba, transactions should be based on shared risk and return. The transactions should be in the real economy. Further, transactions should not involve Gharar where one of the parties unfairly withholds knowledge, thereby increasing unnecessary risk or uncertainty. Similar concepts exist in other religions; however, Islam has the clearest and broadest guidance on these topics. Anyone who looks back at the Great Financial Crisis should understand the value and importance of shared risk and fairness. The Maqasid provides beautiful guidance for what we should be striving to achieve.

Western finance now seeks to incorporate values into transactions. These efforts go by many names, including responsible investing, sustainable investing, environmental, social and corporate governance and impact investing. By contrast, Islam has always required that these values be integrated from the start.

Over the last 15 years, Islamic finance has grown tremendously. Along the way, IFN was launched and became very successful. This participant in the world of Islamic finance and culture is glad he has been and will continue to be part of the ride. I am a better person for the experience. As part of my duty of care, I try to help non-Muslims understand Islam. I am grateful for my many friends and look forward to continuing to help. Inshallah.

Very best wishes to you all. A great achievement. The promoters behind the Maqasid Al Shariah all those centuries ago would be very proud of all those at IFN past and present who made this possible.

Tim Travers, Consultant, Travers Consulting
EXCELLENCE IN SUKUK

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EXCELLENCE IN SUKUK

RAM has been the leading credit rating agency for sukuk in the ASEAN region for more than two decades. We have been rating sukuk since 1994 and have grown in tandem with the development of the global sukuk market. Our experience with global sukuk issuance has equipped us with insights and knowledge, positioning us as a major player in the global sukuk market. With an in-depth understanding, underscored by our established credit rating methodologies, we aspire to rise alongside the growing Islamic financial landscape and play a significant role in shaping the global market.
Headquartered in London, DDCAP Group™ is a market intermediary and financial technology solutions provider connecting the global Islamic financial market responsibly.

Established in 1998, we have over 20 years’ experience providing award-winning asset facilitation services to institutional clients. Most recently we were honored to be awarded Best Interbroker by the IFN Service Providers Poll 2019.

Working with conventional and Islamic banks, DDCAP facilitates over 300 financial sector clients worldwide across a diverse range of Shariah compliant products, asset classes and instruments in both the primary and secondary markets.

We have a dedicated team of professionals, with broad, complementary skill sets drawn from financial industry backgrounds, focused on providing services to Islamic financial market participants from around the world.

Our technology – ETHOS AFP™

ETHOS AFP™ is our multiple award-winning bespoke real-time trade and post-trade services platform, providing clients worldwide with continuous coverage, enabling them to purchase from a diverse, responsible asset inventory via a secure, web-based portal. The Application Programming Interface (API) functionality of ETHOS AFP™ allows clients to connect directly from their core systems using web services and provides true straight through processing for high volume clients operating in both wholesale and retail financial markets.

ETHOS AFP™ encompasses Shariah and business focused operational requirements across treasury, capital markets, asset management, client consumer banking portfolios and Takaful. In addition to being approved, regularly reviewed and supported with a Fatwa issued by DDCAP’s own Shariah Supervisory Board (SSB), the platform has also been endorsed by other internationally recognized Shariah scholars.

ETHOS AFP™ has been developed specifically to suit each client’s individual requirements, delivering an intuitive user interface and detailed reporting functionality, ensuring transactions can be booked efficiently and that post-trade risks are mitigated.

Our platform supports DDCAP’s commitment to incorporate sustainable and responsible investment (SRI) and financing principles alongside efficiency and best practice governance requirements and we continue to make significant, ongoing investment in ETHOS AFP™ to ensure it remains at the forefront of technological advancements.

In 2018, we partnered with Refinitiv to provide a fully integrated treasury trading workflow for Shariah compliant transactions. In October 2019, we made a strategic investment in IslamicMarkets.com which, with 250,000 users, has been acknowledged as the world’s leading learning, financial intelligence and investing platform for the US$4 trillion global Islamic economy. This was our first investment in a third-party fintech, and we are proactively seeking other opportunities.

Our Shariah Supervisory Board

DDCAP has its own Shariah supervisory board, which is comprised of the following esteemed Shariah scholars:

• Sheikh Abdullah Bin Suleiman Almanee (Chairman) – Saudi Arabia
• Sheikh Dr Abdullah Almutlag – Saudi Arabia
• Sheikh Dr Mohamed Ali Elgari – Saudi Arabia
• Prof Dr Mohamad Akram Laldin – Malaysia
• Sheikh Dr Mohammed Al-Tabtabai – Kuwait

DDCAP Group™ celebrates IFN’s 15th Anniversary
DDCAP first assembled our SSB in March 2013 to demonstrate our ongoing commitment to transparency and governance by subjecting the substance and integrity of our business and service provision to regular Shariah review. A comprehensive review of our business took place at that time.

The SSB reconvened to endorse the Shariah audit process and implement the issuance of its Fatwa during an open forum hosted by DDCAP in Riyadh, Saudi Arabia. At this time, the SSB also issued a Fatwa to support the further development of DDCAP’s asset facilitation platform.

In September 2016, DDCAP launched the rebranded ETHOS AFP™ to accommodate the specific trade execution and post-trade service requirements of our clients through fully automated processes, thereby connecting the global Islamic financial market. Our SSB has been continually engaged with the development of ETHOS AFP™ and the SSB’s Fatwa supports its multiple automated processes. As part of the ongoing review and validation of DDCAP’s services, our SSB regularly meets to review the ETHOS AFP™ platform, as well as transactions and the underlying supporting documentation completed on it. Our SSB also considers material functionality development of ETHOS AFP™ and its updated approvals are recorded in the relevant Fatwa.

To provide further reassurance to our clients that ETHOS AFP™ and its associated processes and procedures are well governed and effective, transactions executed across the platform are randomly selected and subjected to review in accordance with the International Standard on Related Services 4400 (ISRS 4400) published by the International Auditing and Assurance Standards Board. Each review is conducted from initiation of the trade through to final accounting records. Reference is made to all supporting documentation in doing so, including overarching client agreements and transactional arrangements with third parties.

The ISRS 4400 review is conducted by a major global financial services sector advisory firm in addition to the Shariah compliance focused review procedures of our own esteemed SSB. In combination, these support the emphasis that DDCAP and its clients place on independent validation of the trade substance as well as supporting processes.

Our commitment to sustainable and responsible actions

DDCAP aspires to connect the global Islamic financial market responsibly and supports awareness of the business and ethical case for responsible finance. DDCAP recognizes that organizations and firms across our industry are working to translate their own vision into responsible, sustainable policies and procedures that produce positive social and environmental outcomes as well as delivering financial results. We are actively engaging with other stakeholders to encourage these initiatives and have sought external guidance on implementation within DDCAP.

DDCAP’s own commitment to sustainable and responsible actions (SRA) is being reinforced on an ongoing basis across our corporate environment and infrastructure, our business offerings including ETHOS AFP™, our engagement with third parties and our services. DDCAP’s contractual undertakings with clients and vendors confirm our adherence to SRA and advises our counterparties that we will spread awareness by promoting responsible practice within our own actions.

DDCAP recognizes that there are many facets to sustainable and responsible finance and, as part of our SRA commitment, DDCAP encourages and supports initiatives to promote best practices in the financial and professional services industry as a whole.

In November 2016, DDCAP became the first and only intermediary in the Islamic financial services industry to become a signatory of the UN’ endorsed Principles for Responsible Investment. Additionally, we are a member of the RFI Foundation having been so since 2015.

Our corporate and social responsibility

DDCAP is committed to upholding the principles of corporate and social responsibility, prioritizing business practice that incorporates an ethical and responsible approach. We maintain long-term partnerships with a number of not-for-profit organizations, providing thought leadership in support of the development of Islamic, ethical and socially responsible financing and investment.

We are dedicated to developing the ancillary services infrastructure of the Islamic financial marketplace. This is evidenced through our ongoing commitment to and collaboration with organizations that set standards of best practice for our industry, as well as those offering training, qualifications and other programs of awareness and education. We proactively support market access for new entrants seeking involvement and engagement through our business, network and partnerships.

“Warmest congratulations from DDCAP to IFN, REDmoney and their teams for making such a major contribution to elevating global awareness of our marketplace and enabling it to expand its footprint”

Our partnerships

In 2019, DDCAP sponsored the RFI Summit, which took place at Abu Dhabi Global Markets in Abu Dhabi, and sponsored the Support Disruption for Good Challenge.

We support The Prince’s Trust Mosaic Program as a Silver Patron and the Tim Parry Johnathan Ball Peace Foundation. In addition, in partnership with the Cambridge IFA, DDCAP made a bursary available to support the attendance of one of this year’s woman list achievers at the 2019 Cambridge Islamic Finance Leadership Program.

Working with IFN

In the course of this profile we have mentioned a number of DDCAP’s partnerships for service provisions, technology and corporate responsibility. We are privileged to have been asked to contribute to this publication which marks the 15th Anniversary of IFN and REDmoney, with whom we have enjoyed a valued partnership across Shariah compliant financial industry reporting, publications and events for many years.

Warmest congratulations from DDCAP to IFN, REDmoney and their teams for making such a major contribution to elevating global awareness of our marketplace and enabling it to expand its footprint.
We are delighted to be celebrating the 15th anniversary of our long-standing partners, Islamic Finance news/REDmoney. VG, formerly Volaw Group, has a long history of working with Islamic finance institutions, for example, in the early 1980s, we partnered with a Saudi Arabia-based Islamic financial institution to establish certain investment vehicles and subsidiaries, a partnership which continues today.

In 1996, we established the first Shariah compliant real estate fund in Jersey. That fund invested in a number of US real estate assets and led to the creation of several similar real estate funds, as well as a number of SPV structures for individual or small groups of investors wishing to invest in real estate. This continues to be a major aspect of our business; over the years we have established a number of structures to own commercial real estate in the UK, the US and Europe on behalf of a number of Islamic financial institutions from across the GCC, as well as those established in the UK and the Far East.

While real estate has been the primary asset class for the majority of Shariah compliant funds that we have acted for, we have also established a number of Shariah compliant equity funds, including two country specific funds. VG has worked closely with both the fund promoters and scholars to ensure that these activities are Shariah compliant and the terms of the Fatwa are observed.

Sukuk structures were a natural extension of this work drawing on our expertise in structuring and administering conventional securitization projects. Asset-backed securities represent an ideal class for Islamic investors, as long as the underlying assets are themselves acceptable and the cash-flows arising from them are generated in a Shariah compliant manner. We played a central role in the establishment and ongoing administration of the award-winning ‘Caravan I Sukuk’ transaction in 2004 and subsequently have acted for a number of promoters in establishing Sukuk issuance structures.

Our core business is the establishment and administration of entities owning assets on behalf of individuals and families, often referred to as private wealth structures. Since VG’s establishment in 1982, we have undertaken numerous private client engagements for individuals and families from the Middle East dealing with all aspects of private wealth structuring – inclusive of trusts, private trust companies and foundations. This has given us significant experience in the development of family charters and administration of succession planning issues through the establishment of Jersey-based structures.

Looking to the future we do not see any slowdown in enthusiasm for real estate as a core asset class. Several investors are now looking at the various sub-classes of real estate investment (e.g. commercial, distribution, student accommodation) as having different risk-reward profiles, although we doubt a traditional investment analyst would see this as portfolio diversification.

Growing global concern in the wider aspects of ethical or socially responsible investment, with the parallels of Islamic finance looking to benefit the community as a whole, are driving a trend toward more interest in both philanthropic activities and impact investment. It is important to recognize that the earning of profits from risk capital is allowable under the principles of Shariah, such that an investor can legitimately anticipate earning a return from an Impact Investment project, subject to the project being successful. We have been actively involved in establishing Shariah compliant foundations with philanthropic objectives and are eager to seek out impact investors willing to ‘walk the walk’ rather than just ‘talk the talk’.

With over 35 years’ experience we have seen a changing and growing demand for the creation and administration of innovative financial structures; at VG we believe that our ability to adapt to these changes is as simple as knowing what matters to you.

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The journey of the oldest Islamic finance standard-setting organization - AAOIFI

Dr Rizwan Malik is the senior manager, Standards Implementation and Strategic Development at the Accounting and Auditing Organization for Islamic Financial Institutions. He can be contacted at rmalik@aaofi.com.

Commercial institutions in Islamic banking and finance were introduced in 1970s with the establishment of Dubai Islamic Bank (DIB) in 1975. Since then the industry has evolved and progressed significantly. In the years leading to the 1990s, different practices were followed in different parts of the world. This raised valid and genuine concerns: which of those practices were right or better, especially when they related to one and the same issue? Conflicting practices started creating confusion which led to suspicion about its compliance with Shariah giving birth to reputational risk. It was then that the need for standardization was felt especially in the fields of accounting and auditing where proper guidance was practically non-existent.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was the industry’s response to the challenge. In 1991, five institutions namely the IsDB, Al Baraka Banking Group, Kuwait Finance House, Al Faisal Group, and the Albukhary Foundation, established AAOIFI with headquarters in the Kingdom of Bahrain.

However, it was soon realized that the accounting standards cannot be developed until there is a clear understanding of Shariah principles and guidelines on the underlying transactions and products. Hence, the mandate of AAOIFI expanded to other areas such as Shariah, governance, and ethics, in addition to the accounting and auditing standards.

Thus, the vision of AAOIFI is to protect the integrity of the global Islamic finance industry through the means of standardization of best practices. Since the establishment of AAOIFI, 110 standards and technical pronouncements have been issued, which have helped existing and new institutions in the streamlining and harmonization of their practices. The development of a standard itself is a comprehensive exercise. To appreciate this fact, it is important to understand the standard development process, which goes through a comprehensive exercise, collectively involve 50 members of technical boards (Shariah, accounting, governance and ethics boards) and more than 100 members of the various technical working groups, hailing from different fields involving regulation, Shariah, research, consultancy, etc, and representing at least 30 countries.

To engage such key and varied decision-makers, and that too for over almost three decades, and establish a single line of thought (in the form of standards) is commendable, to say the least. Once an exposure draft is finalized, the standard is shared with the public for their feedback. In addition, to ensure the standard at hand serves all the objectives, and that too for over almost three decades, and establish a single line of thought (in the form of standards) is commendable, to say the least.

In addition, to set best practice standards for the industry, AAOIFI is also actively engaged in the development of human resource capital, particularly in the implementation of AAOIFI standards, through its offerings in the form of professional fellowship programs such as the Sensitization Program (aimed at directors, senior management, and Shariah scholars of Islamic financial institutions), Ethics Leadership program, Refresher workshops, and Crash Course (in fellowship programs). These workshops are available in multiple languages. The development of human resource through AAOIFI standards has and will continue to have tremendous impact on the growth and sustainability of the global Islamic finance industry.

AAOIFI also strongly believes in research and development and aggressively promotes a culture of innovation and productivity. Its own contribution in this respect is primarily in the form of two international conferences which have been held annually for the last 14 years: one is the Shariah conference and the other a technical conference held in cooperation with the World Bank. These conferences lay an important platform to engage with leading personalities of the industry and other practitioners in a dialogue for knowledge, insight, and experience-sharing. In addition to conferences, AAOIFI also publishes a bi-annual Islamic finance and accountancy journal/technical bulletin by the name of Journal of Islamic Finance Accountancy.

With regards to partnerships, AAOIFI has working relationships with various regulators, standard-setting organizations, banks and financial institutions in different parts of the world and remains engaged with them on an active basis. AAOIFI has signed several MOUs with different stakeholders including other standard-setting bodies like the Islamic Financial Services Board (IFSB) and the International Islamic Financial Markets to complement each other in their efforts for the development of the Islamic banking and finance industry. It is through these partnerships several projects and initiatives are launched. It is important to highlight that for the first time ever AAOIFI and the IFSB are working together to issue a joint standard on Shariah governance.

While the industry has witnessed remarkable growth, expanded to several countries, and achieved tremendous success already, the battle for the future of Islamic finance is being fought at another front which is of far more significance than any other: against the threat of reputational risks due to actual or perceived non-compliance with Shariah which has the potential to stagnate, if not harm, the industry. The only safeguard proposed for reputational risk is the push for global standardization of the practices and that is why the role of Islamic finance standard-setting organizations such as AAOIFI is of primary importance.

As per the organization’s policy, the views expressed here are that of the authors and do not necessarily reflect the views of the organization.
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NO. 3
ISLAMIC INSTITUTION IN FAR EAST ASIA

NO. 6
ISLAMIC INSTITUTION BY
• REVENUE
• NET PROFIT
• ASSETS

NO. 8
ISLAMIC FINANCIAL INSTITUTION WORLDWIDE

FASTEST GROWING ISLAMIC INSTITUTION IN FAR EAST ASIA

Back in 2004 the Islamic financial services industry was growing exponentially and it became apparent from market dialogue that there was a strong need to develop transparent and robust standardized Islamic documentation and product confirmation standards. Recognizing market requirements and the benefit of standardization in establishing a robust and transparent industry, the board of the International Islamic Financial Market (IIFM) decided to adopt the standardization of documentation as its core initiative.

The beginning
Since then, during last 15 years, IIFM has published 12 comprehensive standards relating to Islamic hedging, liquidity management and trade finance.

IIFM standards

Islamic hedging standards
The IIFM is a pioneer in the development of Islamic hedging documentation and has published seven major standards including the landmark ISDA-IIFM Tawahhuut (Hedging) Master Agreement (TMA), five product confirmation standards to mitigate currency, cash flow and rate of return mismatch as well as credit support deed for cash collateral (variation margin) regulatory requirement.

TMA is one of the most complex documentation standard IIFM has undertaken which took nearly four years and over 20 drafts jointly with the International Swaps and Derivatives Association. IIFM has successfully introduced complex hedging standards to address Shariah compliant close-out mechanism in an event of default, margin maintenance, concept of two unilateral Wa’ad and solutions to other challenges.

Islamic liquidity management standards
So far, the IIFM has published three liquidity management standards namely Master Agreement for Treasury Placement based on Commodity Murabahah and Agency concept, alternative to repo in the form of a collateralized Murabahah agreement based on the Rahn concept and the landmark Unrestricted Wakalah Master Investment Agreement based on the concept where the discretion of investment lies with the Wakil.

IIFM standards relating to Islamic trade finance
Considering the importance of the trade finance business, the IIFM in association with the Bankers Association for Finance and Trade have published two standards namely the Master Funded Participant Agreement and Master Unfunded Participant Agreement to facilitate the unfunded letter of credit confirmation and guarantee business as well as funded trade finance business in a Shariah compliant manner.

Additional standards under development
The IIFM continues to strive toward more standards hence bringing greater transparency, efficiency, legal certainty and Shariah harmonization to help the industry grow on sound footing.

To this end, the IIFM is currently finalizing the publication of the much-awaited Sukuk documentation standards and will be publishing, in the near future, Sukuk Ijarah and Sukuk Mudarabah (Tier 1 and senior unsecured) standards.

Future pipeline
The IIFM’s future pipeline of standards will cover major industry segments like Islamic syndication, gold, additional standards relating to Sukuk, hedging, liquidity management and trade finance.

IIFM has now firmly established itself as one of the key standard-setting organization of the industry and its standards are used by around 130 major financial institutions globally in 20 jurisdictions and the list of users is increasing.

IIFM complements the work of the AAOIFI and the IFSB, and uses AAOIFI Shariah standards as basis of its standards.
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In the last 16 years of its establishment and commencement of operation, the IFSB has no doubt assumed global prominence as an international standard-setting body for prudential regulation to ensure the soundness and stability of the Islamic financial services industry, covering Islamic banking, Islamic capital market and Takaful.

From nine founding members at its operational inception in 2003, the membership of the IFSB has risen manifold to 179 (as at October 2019) comprising 78 regulatory and supervisory authorities, 93 corporate market players, and eight international governmental organizations such as the World Bank, IMF, IsDB, Asia Development Bank and the Bank for International Settlements among others.

In furtherance of accomplishing its core mandate and to complement the activities of other international prudential standard-setting bodies, the IFSB has six broad objectives. The prime of which is developing prudential standards for the regulation of the Islamic finance industry as well as recommending their implementation. Over the years and until December 2018, the IFSB has issued 30 prudential standards that cater for the specificities of the industry. While two standards relate to cross-sectoral prudential concerns, the IFSB has also issued 19 Islamic banking, six Takaful, and three Islamic capital market-related standards.

The works of the IFSB complements that of its conventional counterparts like the Basel Committee on Banking Supervision and International Organization of Securities Commissions, to ensure that Islamic financial institutions are at par with conventional financial institutions in terms of resilience and stability.

With its new strategic workplan of issuing three new standards per year since 2018 as well as ongoing strengthened strategic cooperation with other international standard-setting bodies like International Association like the Deposit Insurers and AAQIFI, the number of issued standards is expected to rise significantly in the years ahead in response to the burgeoning and evolving Islamic financial services industry.

The IFSB’s implementation activities have also gained traction in the industry especially its Facilitating Implementation of Standards (IFSIs) database which now covers 23 countries, is billed to extend its coverage to both Islamic capital market and Takaful windows. The PSIFIs database, which now covers 35 Islamic banking indicators and detailed financial statements for both fully-fledged Islamic banks and Islamic banking windows. The PSIFIs database, which now covers 23 countries, is billed to extend its coverage to both Islamic capital market and Takaful sectors from 2020 onward.

The IFSB would by December 2019 have issued 14 working papers on various topics pertinent to the growth, stability and resilience of the Islamic financial services industry. Findings from the working papers provide direction to IFSB standards development initiatives in terms of whether or not a new standard is required or an existing standard need to be revised.

Another core objective of the IFSB and for which it has recorded remarkable achievement is the production of quality research and other informative publications relevant to the Islamic finance industry in particular and the global financial ecosystem in general.

Since 2013, the IFSB has published its annual flagship IFSI Stability Report. The report provides recent updates on the trends and developments of the Islamic finance industry and provides insights on the soundness and vulnerabilities of various sectors in the global Islamic finance industry in general and IFSB jurisdictions in particular. The report also shares a selection of key results of the IFSB’s internal research and surveys so as to achieve a broader and common understanding of critical stability issues in Islamic finance.

In addition, the report provides an in-depth study on emerging issues in Islamic finance that have implications on the regulation and supervision of this fast-growing industry.

Another remarkable achievement of the IFSB is the establishment of its Prudential and Structural Islamic Financial Indicators (PSIFIs) database which is benchmarked against the Financial Soundness Indicators (FSI) of the IMF. Since its first data dissemination in the fourth quarter of 2013, the PSIFIs database has consistently provided first-hand data and regulatory and supervisory authorities’ verified dataset covering 35 Islamic banking indicators and detailed financial statements for both fully-fledged Islamic banks and Islamic banking windows. The PSIFIs database, which now covers 23 countries, is billed to extend its coverage to both Islamic capital market and Takaful sectors from 2020 onward. 
BUILDING THE INTELLIGENT FUTURE

INNOVATE, SCALE, ACCELERATE YOUR AI JOURNEY
Islamic Corporation for the Development of the Private Sector

The Islamic Corporation for the Development of the Private Sector (ICD) is a multilateral development financial institution and is part of the IsDB Group.

The ICD was established in November 1999 to support the economic development of its member countries through the provision of finance for private sector projects, promoting competition and entrepreneurship, providing advisory services to the governments and private companies and encouraging cross border investments.

The ICD has an authorized capital of US$4 billion. Currently, the shareholders of the ICD are the IsDB (50%), 54 Islamic countries (30%) and five public financial institutions (20%).

Mandate and objectives
The ICD fosters sustainable economic growth in its 54 member countries by:

- Financing private sector investment;
- Mobilizing capital in the international financial markets; and
- Providing advisory services to business and governments.

The ICD selects the financing projects based on their contribution to economic development considering factors such as job creation, Islamic finance development, contribution to exports etc. The ICD also provides advisory services to governments and private sector groups on policies designed to encourage the establishment, expansion and modernization of private enterprises, development of capital markets, best management practices and to enhance the role of the market economy. The ICD operates to complement the activities of the IsDB in member countries.

Since its inception, the ICD has approved more than 400 projects, valued at around US$6.4 billion. The ICD approvals support a wide array of industries including finance, infrastructure, agriculture, manufacturing, and oil and gas.

The ICD’s approvals reflect a wide geographic reach. Its investment operations include 51 member countries, in addition to several regional/global projects covering several economies. Gross approvals encompass the MENA region (31%), Europe and Central Asia (22%), sub-Saharan Africa (18%), and the Asia and Pacific (14%) region. Regional/global projects covering multiple countries and regions represent 15% of gross approvals.
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Our banking & finance, Islamic finance, Islamic capital markets and project finance practice areas are well established and ably led by our managing partner Deepak Sadasivan and partner Adrian Chee, both of whom are recognised and highly ranked in IFLR 1000’s Financial & Corporate Rankings 2019 (Market Leading, Highly Regarded Lawyers respectively), Chambers Asia-Pacific Global and Asia-Pacific Guides 2019 (ranked Band 1, Banking & Finance respectively) respectively and Asialaw Profiles Leading Lawyers 2020 (Elite Practitioners respectively).

We are experienced in advising local and international clients over a wide range of economic sectors and our achievements include advising on many significant and pioneering Malaysian and cross-border transactions.

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Making a lasting social impact in a fast-changing world

Eng Hani Salem Sonbol, CEO of International Islamic Trade Finance Corporation

Since the International Islamic Trade Finance Corporation (ITFC) was established in 2008 with a mandate to develop sustainable value chains and boost trade between member countries of the OIC, its work has become a powerful force in delivering lasting socio-economic changes across the developing world. Its strategy – unlike many financing organizations – includes providing trade financing for the support of critical sectors in member countries as well as support programs: capacity building and trade development for SMEs and exporters.

This is a crucial point of difference – it is a strategy that is enabling social change through the empowerment of the individual and economic development in a fast-moving world of digital automation, digital innovation and shifting value and supply chains.

For ITFC to succeed in growing value chains between OIC member countries, it has leveraged its unique access to governments to work as a facilitator in mobilizing private and public resources that foster socio-economic development through trade. In 2018 alone, it has signed a total of five major framework agreements worth in excess of US$9 billion with OIC member countries. These include the Commonwealth of Independent States, MENA, South America and sub-Saharan Africa regions. These – and more – reflect the importance of creating global value chains that link all corners of the developing world. And, a natural multiplier effect is the easing of trade between OIC and non-OIC countries, boosting trade ties between neighbouring nations and intra-regionally.

The human impact of this approach is demonstrated by the success enjoyed by SMEs across multiple industries and many markets. The cotton industry – often dubbed as ‘white gold’ – in Burkina Faso is one such sector. ITFC has provided an US$85 million Murabahah financing to the government of Burkina Faso, with Sofitex (the country’s state-owned cotton company) as the executing agent. Cotton is a critical export crop and foreign currency source for Burkina Faso. It accounts for only 3% of its GDP but around 18% of its exports – as such it is a particularly important export industry. The ITFC approach was multifaceted.

‘Reverse linkage’ strategy

That approach includes leveraging on its ability to mobilize significant resources from the market at a competitive cost; and a successful reverse linkage strategy: the ITFC leveraged its global network of clients and partners to link buyers from other member countries to cotton exporters. In one example, the ITFC team introduced a Turkish cotton trading and textile production company to Sofitex and Burkina’s authorities. The aim was to create value for both clients by linking buyers and sellers of cotton in member countries while contributing to South-South cooperation and intra-OIC trade. The introduction led to the Turkish cotton trader concluding a contract with Sofitex and becoming a standing buyer of Burkina cotton. The social impact has been widespread because cotton culture acts
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as a guarantee for rural food security. Most farmers use some of the available agricultural inputs for cotton – such as fertilizers and insecticides – to also grow food crops. Moreover, cotton represents an important export and revenue-generating vehicle for West African countries. Cotton production and financing are, therefore, important instruments for poverty alleviation.

Global value chains
It is through creative and multifaceted fiscal and capacity-building support strategies that the ITFC is able to contribute to the development of global value chains that are fundamental in sustainable industrial and economic growth. The cotton industry, for example, benefits most when it has what it needs to improve the quality of its products and its manufacturing capabilities for discerning buyers in global markets. The drive to advance global value chains is one of the reasons why the ITFC has made major contributions through framework agreements in 2018 – worth US$9.2 billion. Examples include the government of Egypt where US$47 million has been directed toward exports insurance and US$278 million for the construction and operation of solar power plants – helping the country to diversify its energy production, shifting away from natural gas and reducing the country’s import bill. Such investments are designed to push up the quality and diversity of manufacturing; and to boost high quality exports.

Capacity-building
In addition to the promotion of intra-regional trade, capacity-building in financial institutions is an important focus. ITFC has codesigned a specialized executive course called the Executive Masters in Internationalization and Trade (EMIT), in conjunction with the IE School of Global and Public Affairs and the International Trade Centre.

The EMIT degree, which focuses on trade, trade finance and trade development, is the first of its kind to be initiated by a multilateral financial trade institution. Its overriding goal is to develop trade experts with rounded knowledge and expertise to thrive in global trade and international business. Modules include the fundamentals of trade finance in both the traditional and hybrid financial instruments in the export-import arenas. Others include optimizing methods of payments and documentation, types of trade risks, foreign exchange risk and mitigation, analyzing and mitigating credit risk, trade credit guarantees and insurance products in risk mitigation.

Human well-being
As the ITFC develops its future strategies for capacity-building and trade development, it has taken the opportunity to measure its success in the form of its first Annual Development Effectiveness Report in 2018, which is publicly available. It shows that since inception in 2008, it has provided over US$45 billion of trade financing to OIC member countries, making it the leading provider of trade solutions for OIC member countries’ needs. This financing is oriented not just toward economic growth but for human well-being, placing people at the center of development: empowering the individual so that he or she can take charge of their personal and professional lives. In 2018, an estimated 160,000 people have been helped out of poverty thanks to the approval of US$5.2 billion, out of which US$1.7 billion went to least developed member countries.

By providing a total of US$5.2 billion of trade finance in 2018, the ITFC was successful in delivering the development impact results along its development themes, with a special emphasis on promoting inclusive and sustainable growth for people of all generations and genders.

By providing a total of US$5.2 billion of trade finance in 2018, the ITFC was successful in delivering the development impact results along its development themes, with a special emphasis on promoting inclusive and sustainable growth for people of all generations and genders. This is a focus that sets the ITFC apart from many financing bodies – and it is why it can contribute directly toward its developmental impact in terms of the sustainable development goals (SDGs) of advancing trade and improving lives. Last year alone, the ITFC concluded 70 transactions in 24 countries, with US$3.9 billion directed specifically toward intra-OIC trade and US$4.3 billion of financing toward middle-income countries. And, for every US$1 financed by the ITFC, US$4 have been mobilized from external resources.

By almost every metric, a joined-up, integrated finance and capacity-building strategy that is underpinned by a sharp focus on global value chains, is the surest way to engender sustainable economic growth in the developing markets: in member countries and beyond for the purpose of uplifting people out of poverty. Thus far, in only 11 years, the ITFC has made an unquestionably lasting social impact in a fast-changing world.
Advancing the Sustainable Development Goals

ICIEC acts as a catalyst for private sector capital to be mobilized and directed towards achievement of the SDGs.

Since its inception, ICIEC has promoted economic growth, prosperity and human development in its member countries through the facilitation of cross-border trade and investment. However, with the introduction of the Sustainable Development Goals (SDGs) in September 2015, a new global agenda (Agenda 2030) for comprehensive and sustainable human development came into play, which became the corporation’s new signposts on its continuing development journey.

ICIEC’s expanding global footprint

ICIEC’s presence in the export credit and investment insurance space only continues to grow, as the corporation now supports trade and investment flow in 47 member countries spanning across Europe, Asia, the Middle East, and Africa. Within these countries, ICIEC’s clientele consists of corporates, banks and financial institutions, as well as export credit agencies and insurers. ICIEC is also a full member of the Berne Union, the International Association of Credit and Investment Insurance, and a founding member of the Aman Union, which brings together the national export credit agencies (ECAs) of the OIC member countries.

The year 2019 has been a particularly rich one for new partnership development. Most recently, ICIEC signed MOUs with key agencies in Senegal to support FDI attraction and integration with other ICIEC member countries. Additional agreements were reached in 2019 with agencies and institutions in Egypt, Indonesia, Japan and Morocco. ICIEC also entered new and exciting commercial agreements this year, including with Societe Generale and ING for their EUR180 million (US$198.59 million) club loan facility to Turk Eximbank.

The corporation’s unique place in the global trade finance ecosystem has been validated by prestigious organizations. In 2019, for the 12th consecutive year, Moody’s awarded ICIEC with an insurance financial strength rating of ‘Aa3’ with a stable outlook. This rating was designated based on various factors, including the corporation’s performance and its strong network of supporting entities.
As a multilateral ECA and a member of the Islamic Development Bank (IsDB) Group, development impact has always been a part of our core mandate and in our DNA. We have served as a bridge for trade and investment, supporting our member countries on both sides of trade and investment transactions and bringing together exporters and importers, foreign investors and projects through our insurance solutions.

Oussama Abdul Rahman Kaissi, CEO, ICIEC

ICIEC’s pursuit of the SDGs is multifaceted, and its commitment is central to the projects that it pursues. This focus is reflected in ICIEC’s support for the development of the Benban Solar Complex in Egypt, one of the largest solar parks in the world. ICIEC helped facilitate the construction of this landmark project by providing breach of contract and political risk insurance cover to Alcazar Energy, a UAE-based renewable energy investor, for their equity investment into the Benban Solar Complex. In covering this transaction, ICIEC supported an increase in foreign direct investment into its member country, Egypt, which in turn expanded the renewable energy sector in the country and created thousands of employment opportunities for local Egyptians.

This year ICIEC also provided credit insurance support for a Japanese trading company’s export of food products to Saudi Arabia, contributing to its food security. This transaction reflects a key component of ICIEC’s value: facilitating transactions that may otherwise fail due to perceived high risk. In this case, ICIEC was able to address the challenge by engaging with the Saudi buyer and its banks, and through providing a large credit capacity in excess of the primary commercial insurance. The Japanese exporter is one of the largest trading companies in Japan, and since this transaction, it is looking into establishing more business transactions with ICIEC Member Countries.

ICIEC’s efforts to facilitate sustainable economic development for its member countries were again recognized internationally in 2019. Earlier this year, ICIEC won two prestigious awards at the Project Finance International (PFI) Awards in the UK.

Growing Islamic finance

ICIEC is committed to the expansion of Islamic Finance, both in terms of consumer awareness, and product availability.

Facilitating the introduction and expansion of Islamic finance products and services, including Takaful, is a fundamental component of ICIEC’s mandate. While Takaful is still in its nascent phase, it has potential for growth into untapped markets that show low insurance penetration for both general and family takaful businesses. Robust regulatory environments, increasing wealth in Muslim countries, economic diversification efforts and population growth all present potential for large-scale growth in the industry. The opportunity extends into Africa, presenting a significant opportunity for African countries to use Takaful in mobilizing resources to meet long-term financing needs for sustainable development; a case made recently by ICIEC CEO Oussama Kaissi in his keynote address at the 4th Africa International Conference on Islamic Finance in Nigeria.

For the last 25 years, ICIEC has provided trade credit Takaful services, especially in OIC states, in order to support the exports of member countries. Since its inception, ICIEC has insured over US$ 42 billion through trade credit Takaful. ICIEC also provides foreign investment Takaful to support the inflow of foreign direct investment.

ICIEC is also dedicated to extending its support and sharing its know-how with companies willing to expand their business to trade credit Takaful. Building capacity, cooperation and Islamic finance expertise in the export credit and investment insurance sphere is of central importance to ICIEC, and to that end, the corporation has already worked to create the Aman Union – the professional forum for commercial and non-commercial risk insurers and reinsurers in OIC member countries.

ICIEC has worked consistently to spread awareness of Islamic finance through its partnerships with IFN and other platforms. ICIEC has regularly served as a Multilateral Strategic Partner for conferences and dialogues on Islamic finance held by IFN around the world, which propel the space to new heights by bringing together Islamic finance thought leaders and industry players.

The road ahead

Looking forward, ICIEC, a proud member of the Islamic Development Bank Group, will continue to be guided by the mandate to promote economic growth and prosperity in its member countries through facilitating cross-border trade and investments. These efforts are aligned with the ambitious agenda set forth in the Sustainable Development Goals and align with the corporation’s focus on expanding the reach of Islamic Finance. Despite global economic and political uncertainty, 2020 promises to be a momentous year for ICIEC. With its robust track record, unique expertise and enhanced international presence, the corporation has proven to be a dependable and consistent partner in the facilitation of trade and investment for its member countries.
Ary Zulfiqar & Partners, also known as AZP Legal Consultants was established in 2004, perfect timing to accommodate the legal needs of individuals and/or business entities in adjusting to the free-market system that Indonesia was heading into after the 1997 Asian financial crisis. Now, AZP Legal Consultants is a new generation full-service law firm, which has faced the challenges of empowerment and transformation by taking a leading role through the creation of a multi-disciplinary law firm that addresses the needs of their with services range from general advice on legal matters to conducting complex national or international transactions.

With the lead and strategic directions from Ary Zulfiqar as the Managing Partner and other 4 partners, our team of 17 (seventeen) lawyers have accumulated a great deal of experience and expertise from their involvement in representing a large number of business houses across the country as also a couple of transnational entities, multinational corporations, banking & financial institutions, State-Owned Enterprises (SOEs) and their subsidiaries, and the Government of the Republic of Indonesia (RoI) e.g. ministries, central as well as regional government authorities.

At AZP Legal Consultants, we offer fast, reliable and accurate legal advisory services and assistance with commercial acumen and human touch. We aim to assist our clients in achieving their goals in accordance with the applicable laws and regulations in Indonesia through a holistic approach of our in-depth legal knowledge and efficient legal research capabilities as well as our vast experiences and qualified expertise. We ensure that the highest standard of legal service is provided to our clients. In addition, our integrated cooperation with other professionals such as financial advisors, appraiser, accountant made it possible for us to come up with comprehensive and cost-efficient legal solutions needed by our clients.

AZP Legal Consultants also has been registered as Capital Market Legal Consultants in Capital Market Supervisory Board (Baepam-LK, now Otoritas Jasa Keuangan) and also as a listed legal consultant of Ministry and Finance of Republic of Indonesia, Member of Supporting Institution for Issuance of Commercial Securities issued by Bank Indonesia and State Owned Enterprises.

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- Restructuring, Insolvency & Asset Resolution
- Property & Real Estate
- Infrastructure
- Intellectual Property
- Labor and Employment

Notable Achievements:

- Recommended Capital Markets at Asialaw Profiles, 2020
- Winner of Sovereign Deal of the Year at the Islamic Finance News, 2018
- Winner of Indonesia Deal of the Year at the Islamic Finance News, 2018
- Winner of Islamic Finance Deal of the Year at The ALB SE Asia Law Awards 2018. Represented the Joint Lead Managers
- Winner of Debt Market Deal of the Year at the Asian Legal Business, Indonesia Law Awards
- 10th rank as Islamic Bonds Issuer Advisers in Legal League Tables, issued by Bloomberg, 2011
- Leading Lawyer in the Islamic Finance Industry, based on the IFN Leading Lawyer Poll for 2011 and 2012
- Appointed by the Ministry of Finance of Republic Indonesia as a Judicial Expert in Constitutional Court regarding Sovereign Sukuk
- Leading Lawyer by IFLR1000, 2013-2015
opportunities for Islamic finance in Afghanistan

Manezha Sukhanyar is the former chief of Islamic banking at Maiwand Bank. She can be contacted at sukhanyarm@gmail.com.

After the collapse of the Taliban regime in 2001, the banking industry of Afghanistan, like the rest of the global economy, collapsed in terms of infrastructure, human resources, technology capacity and such. Gradually, the system was rebuilt and Islamic banking was introduced in 2009. There are nine commercial banks, three state-owned banks and three branches of foreign commercial banks. As per the World Bank Report, the foreign branches hold 9% of assets share, 1% of loan portfolio and 8% of deposit share.

Afghanistan is a Muslim country, with more than 99% of its population being Muslim. Out of the mentioned population, only 11% is banked, and the remaining avoids banking services due to the presence of interest. In view of the great demand for this service, there are only seven banks offering Islamic services and products via the window system. Islamic banking exists in the form of fully-fledged Islamic banks or as Islamic banking windows under conventional banks. A financial institution may consider the window system to enter the market, but once the demand is created, it may switch from window system to fully-fledged to cater to the needs of the market.

During the nine to 10 years of Islamic banking operation in Afghanistan based on window system, where financial institutions offered Islamic services and products via conventional counterpart, the window system moved well alongside its conventional counterpart and responded to the demand of the market, but there is still untapped market in Afghanistan for Islamic banking, which require banks to expand their range of products and services.

In the beginning, the concept of window system created some confusion over staff segregation, where most banks with Islamic windows had their staff perform dual functions in both the conventional and Islamic systems. Gradually, the segregation of staff was only needed particularly at operation and investment departments. When the Da Afghanistan Bank – the central bank of Afghanistan – issued regulations for Islamic banking, all banks with Islamic operations were required to have entirely separate staffs for their Islamic window operations.

After 10 years of operation based on window system, the Islamic banking system in Afghanistan witnessed a great achievement with the first and only (to date) fully-fledged Islamic bank to receive its license from the central bank. On the 9th April 2018, the Islamic Bank of Afghanistan (IBA) was granted a license to officially operate at full capacity as an Islamic bank. IBA, which was previously known as Bakhtar Bank, had operated under a conventional banking license since it was acquired by Aziz Bank in 2009. The bank managed to complete the conversion of its assets and deposits to the Islamic system by April 2018. Currently, IBA offers Mudarabah Saving Account and Ijarah Financing.

In 2014, as per the Financial Action Task Force (FATF)’s decision, Afghanistan was in the grey list due to its lack of anti-money laundering regulations, combating the financing of terrorism regulations and corruption. Banks in this list face limitations in money dealings and are completely cut off from the global financial system. The correspondent relationships of Afghan banks became limited as many Western banks refused to deal with Afghanistan, causing a decrease in the revenue from international transactions and badly affecting import and export procedures as well.

However, in 2017, the FATF removed Afghanistan from the international banking grey list, marking a great achievement for the banking sector of Afghanistan. This upgrade provided lots of opportunities for the banking industry of Afghanistan in terms of dealing with international banks easily, and improved trade further as a result of easy money transfer to other parts of the world.

Despite many challenges faced by Islamic banking in Afghanistan, there are reasons to remain optimistic, one of them being the dedication of the people of Afghanistan to avoiding the conventional system due to the involvement of Riba, and to seeking interest-free banking services.

Many congratulations on achieving this great progress within the limited time of 15 years. State Bank of Pakistan has always supported and facilitated IFN in all their endeavors which paved the way for promotion of Islamic banking in the country.

Ghulam Muhammad Abbasi, Director of Islamic banking, State Bank of Pakistan.
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Cited as a Regional Differentiator in Gartner’s “A Banker’s Guide to Core Banking Systems for Latin America”, and mentioned in “A Core Banking Selection Criteria to Complement the Magic Quadrant”. (March 2019)

Mentioned in Gartner’s “A Banker’s Guide to Advisor-Supporting Wealth Management Capabilities in Core Banking Systems”. (September 2019)

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Islamic finance: Still growing despite absence of a clear vision

Historically, Algeria has been the leading country in North Africa when it comes to Islamic finance. Nevertheless, compared to its neighbors, it is lagging behind in terms of governance, legal and regulatory frameworks, as well as size of assets. In the last year, the government adopted a new approach, but the implementation process is still ongoing. In this report, we will try to present the main trends observed during the last 15 years.

The private sector dominating the industry

Algeria is the first North African country to introduce Islamic banking. Indeed, Bank of Algeria – the central bank – granted a license to Al Baraka Bank Algeria in 1991 as the first bank operating according to Shariah principles. Al Baraka Bank Algeria started its operations in the absence of a legal and regulatory framework.

In 2008, the central bank granted a second license for Al Salam Bank, an international private Islamic banking group, to start its operations in the country. Algeria Gulf Bank (AGB), a conventional bank established in 2003 and a subsidiary of three banks: Burgan Bank, Jordan Kuwait Bank and Tunis International Bank, started offering Shariah compliant products to its customers through a dedicated Islamic window. Moreover, Trust Bank, a foreign private conventional bank, also launched an Islamic window.

Indeed, Islamic banking in Algeria has been dominated by the private sector for the last 20 years without the involvement of the government and the public sector.

A regulatory framework for Islamic banking

In December 2018, Bank of Algeria issued a regulatory framework related to ‘participative windows’. The main principles governing this regulatory framework are:

• The Algerian regulator chose the term ‘participative products’ to identify Islamic products.
• The regulatory framework defines a list of participative products to be offered (Murabahah, Musharakah, Mudarabah, Ijarah, Istisnah, Salam and investment accounts).
• The products require the approval of the national instance that is allowed to issue Fatwas.
• The regulatory framework imposes on banks that are creating participative windows to ensure their independence and autonomy through the total segregation of the customers’ accounts in the participative window, the creation of a dedicated accounting department for participative windows that issues dedicated financial statements.
• All the deposit accounts (excluding investment accounts) are participating in the deposit guarantee scheme.
• The participative windows are submitted to all the regulatory and supervisory requirements applied to banks and financial institutions.

Based on the announcements of the central bank, there will be licenses granted to state-owned banks. After the revolution, it seemed that all the projects were suspended. Some experts are calling to reinitiate the project despite the fact that the country is in a very important political transition. Nevertheless, such a project requires high-level political sponsorship and commitment to tackle issues facing the industry.

From another perspective, the new orientations would involve the public sector in the Islamic banking industry.

Takaful industry

After 30 years of Islamic banking, Takaful seems to be the weakest link. Indeed, Islamic banks and windows are offering their products in the absence of a Shariah compliant insurance offer.

During the recent months, the Takaful industry became a very hot topic for two main reasons:

• First, the National Council for Insurance worked on a law project dedicated to Takaful that was submitted to the government for approval.
• Some insurance companies announced the launch of Takaful products while others announced their willingness to launch dedicated subsidiaries for Takaful.

As for Islamic banking, the future of Takaful in Algeria is still not clear enough. Therefore, a comprehensive roadmap should be drafted to identify the main streams and aspects to develop in order to implement a credible and performant Islamic financial system in Algeria.
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Fifteen years of hard work and persistence: The Australian Islamic finance and investment story

**Dr Pasquale Franzese** is the head of regulatory compliance at MCCA. He can be contacted at pas.frances@gmail.com.

Australian Islamic finance and investment has a bright future. There are several factors created over the last 15 years that will assist in the growth of Islamic finance and investment over the next 15 years. This article covers some of these past factors, the positive developments over that time and why the next 15 years will be a period of significant growth and progress in Australian Islamic finance and investment.

More conducive demographic changes supporting Islamic finance and investment

Australia 15 years ago was a vastly different country in terms of its social and demographic makeup. In the 2001 census, Muslims comprised some 281,000 people. This represented about 1.5% of the total Australian population. Some 15 years later, the 2016 census had Muslims at around 604,000 people or 2.6% of the total population. The Australian Muslim population is also a young population with its median age based on the 2016 census estimated at 27 years of age. This should be compared to a median age of 44 years for the Australian Christian population noted in the same census. Over the last 15 years, much of the migration to Australia has been from India, China and Asia in general, with the changes in the Australian population mix and background assisting in the growth of Islamic finance and investment.

Adjusting to increased regulation and the existing and continuing reality

Over the last 15 years, increased regulation and legislative control have impacted on Australian financial services. Financial services product issuers need to be licensed in Australia. In 2004, there were no licensed organizations specifically offering 'Islamic finance and investment products. Today, there are several licensed Australia-based Islamic finance and investment entities. Table 1 shows the main entities currently offering Islamic finance and investment having an appropriate license (Australian Financial Services License ‘AFSL’ or Australian Credit License ‘ACL’) to offer their Shariah compliant financial services or products.

The size of the Australian Islamic finance and investment sector is relatively small when compared to the total Australian financial services market. However, there is now a base to work from and grow the Islamic finance and investment sector in Australia.

Increasing knowledge and awareness of Islamic finance and investment in Australia

Interest in Islamic finance and investment has accelerated over the last 15 years. Currently, there are some eight Australian universities offering a selection of undergraduate or postgraduate degrees with a specialization in Islamic finance and investment. The interest in Islamic finance and investment courses has come from local and overseas students.

In addition to universities, the Australian government has also shown interest in the promotion of Islamic finance and investment. This interest was strongest in the years 2009 to 2012. Government agencies and departments comprising the Board of Taxation, Austrade and Treasury have all had some study or report into the assistance and promotion of Islamic finance and investment during that time.

However, the last five or so years have been largely disappointing as either none of the taxation and other initiatives in past Australian government reports have been implemented or more importantly, the Australian government has not shown further interest to progress the sector or deal with some of the restrictions inherent in the Australian tax system. Perhaps with the continued growth of the Australian Muslim population, this may provide some incentive for the Australian government to rekindle its prior interest in the sector.

Nevertheless, the comprehensive and detailed reports commissioned by the Australian government have assisted in the government’s understanding of the potential and scope of promoting Islamic finance and investment.

Cautious approach by major Australian banks to Islamic finance — ‘baby steps’ to continue

Apart from National Australia Bank (NAB), the other major Australian banks have not participated in Islamic finance and investment despite both Commonwealth Bank and Westpac issuing in 2010 public announcements of interest in Islamic finance. Since 2015, NAB has been prominent in promoting Islamic finance mainly for larger-scale Sydney-based property developments. NAB’s Shariah compliant finance products are based on the principles of Wakalah and Ijarah. Realistically, the expectation is that the major Australian banks will continue to take small steps.

The next 15 years — a real promise and potential to get to the next level

The last 15 years have provided the base and foundation for Islamic finance and investment to grow significantly. In the next 15 years, a growing Australian Muslim population (young and educated), improvements in financial services technology, a greater understanding of Islamic finance and the advent of new participants offering Shariah compliant finance and investments will all augur well for the growth of the sector. Congratulations to Islamic Finance news for 15 successful years.

The comments made by the author are his own and not necessarily the opinions or views of any entity that he may be associated with.

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**Table 1: Major licensed Islamic finance and investment-focused entities in Australia (October 2019)**

<table>
<thead>
<tr>
<th>Entity</th>
<th>Head office</th>
<th>License</th>
<th>Date of license</th>
<th>Financial product</th>
<th>Fund size (AUD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCCA Group</td>
<td>Melbourne</td>
<td>AFSL/ACL</td>
<td>March 2009</td>
<td>Managed fund/ home finance</td>
<td>64 million</td>
</tr>
<tr>
<td>Crescent Wealth</td>
<td>Sydney</td>
<td>AFSL</td>
<td>November 2010</td>
<td>Superannuation</td>
<td>197 million</td>
</tr>
<tr>
<td>ICFAL</td>
<td>Sydney</td>
<td>ACL</td>
<td>March 2019</td>
<td>Home finance</td>
<td>33 million</td>
</tr>
<tr>
<td>Quordoba Investments</td>
<td>Sydney</td>
<td>AFSL</td>
<td>April 2014</td>
<td>Residential property fund</td>
<td>N/A</td>
</tr>
<tr>
<td>Amanah Home Finance</td>
<td>Melbourne</td>
<td>ACL</td>
<td>August 2014</td>
<td>Home finance</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Sources: MCCA Income Fund annual report — funds under management as at the 30th June 2019; Crescent Wealth Superannuation annual report — superannuation fund net assets as at the 30th June 2018; ICFAL cooperative annual report — property assets noted as Musharakah investments as at the 30th June 2018; Quordoba Investments; Amanah
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3. Entries will be computed based on customer’s Monthly Average Balance (MAB).
   MAB = Sum of daily balances / Total days in the month
4. Every MAB of RM100 is entitled to 1 (one) Entry.
5. For MAB of RM5,000 and above, the number of Entries earned will be doubled.
6. Minimum month-end balance of RM300 to be maintained to be eligible for all prize categories.
7. Entries will be doubled with:
   a) Opening of Savings/Current/Term Deposit Account.
   b) Application for Credit Card/Auto Financing/Term Financing-i secured by ASB certificate.
   c) Subscription for Bancatakufl General/Family policy.
   d) Registration for AmOnline/DuitNow.
8. For full terms and conditions, visit www.ambank.com.my/amjutawan

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Islamic finance industry’s transformation and Bahrain

Sohaib Umar is the advisor – Islamic Financial Services Development at the Central Bank of Bahrain. He can be contacted at sohaib.umar@cbb.gov.bh.

A small island country of 1.5 million, Bahrain is famous not for its size but for its agility, adaptability and willingness to change. Much like the Islamic finance industry itself, which has transformed from a nascent industry segment to a US$2.5 trillion global industry, Bahrain has the uncanny capability to transform and position itself to catch the next trend. Having a strong and supportive regulatory body and a robust governance framework definitely helps.

Bahrain rose to prominence in the 1970s as the regional financial sector hub. Soon it was competing to be the hub for Islamic finance, an industry which was in its infancy in the mid-70s. The first Islamic bank in Bahrain was established in 1979. The government and the regulator were quick to recognize the potential of this industry segment.

Bahrain has the right infrastructure, political will and human resources to continue to be a leader and a hub for Islamic finance

Bahrain was among the founders of AAOIFI, a leading Islamic finance standard-setting body which was established in 1991 in Bahrain. Ever since, Bahrain has been a strong supporter of AAOIFI and has adopted its Shariah, accounting and governance standards. It also houses other infrastructure institutions such as the International Islamic Financial Market (IIFM), the Islamic International Rating Agency (IIRA) and the General Council for Islamic Banks & Financial Institutions (CIBAFI).

Bahrain has used the knowledge and experience it gained in the last forty years to make great strides in the Islamic finance industry over the past 15 years. Bahrain was the first country to issue dedicated Islamic banking regulations with the Central Bank of Bahrain (CBB), introducing a separate rulebook for Islamic banks in 2002. This was an important step to achieve regulatory clarity for the industry, a necessary prerequisite for accelerated growth.

It was also the first to issue Takaful regulations, enforce mandatory AAOIFI standards, issue sovereign Sukuk and launch an Islamic liquidity management program. Bahrain’s achievements are well-recognized and it has consistently been the number two ranked country out of a total of 131 countries ranked on 55 different metrics, as per the ICD-Refinitiv Islamic Finance Development Index (IFDI) Report 2019.

The CBB also led the formation of the Waqf Fund, an endowment created in 2006 to facilitate the advancement of Islamic finance in Bahrain through education, training and research. The over-US$7 million Waqf Fund has been a quiet but effective force in the capacity building of the industry in Bahrain. Since its inception, it has spent nearly US$5 million on more than 20 programs and initiatives for the development of the industry and upgrading the human resource base. The Waqf Fund demonstrates a successful model of industry development by the industry itself (led by the regulator) which can be replicated in other markets.

The CBB issued a comprehensive Shariah governance (SG) module in August 2017, which is a serious attempt to elevate the Islamic banking industry to the next level of governance. A number of new measures was introduced, including the separation of Shariah compliance and Shariah audit functions, the introduction of independent external Shariah compliance audit and a more robust framework for Shariah supervisory boards. The SG module also enhanced disclosure requirements, e.g. it was made mandatory to disclose the Shariah board’s rulings of standard products along with their jurisprudential evidence. The module does not currently apply to Islamic windows, but this may change in the future.

In 2015, the CBB instituted the Central Shariah Board (CSB) with five renowned scholars and provided it with a wide-ranging mandate. The CSB is entrusted to provide its Shariah opinion on any new product proposals provided by the Islamic banks and other Islamic financial institutions, including Islamic windows in the country. In case of any difference of opinion or interpretation between an individual institution’s Shariah board and the CSB, the decision of the latter shall prevail.

The issuance of Sukuk and other financial securities by the CBB is also subject to Shariah clearance by the CSB. Any rules and regulations proposed for the Islamic finance industry by the CBB have to pass through the CSB. An important point, which is rather unique for Bahrain’s CSB, is that it is supposed to provide Shariah opinions as experts regarding issues referred by the Bahraini courts and other official bodies in respect of legal cases in Islamic banking. This will likely reduce the confusion about the treatment of Islamic contracts at the courts where judges are typically not well-versed in Shariah, leading to a reduction in legal risk for Islamic banks.

Recognizing the importance of steering the Islamic finance industry in the right direction, the CSB charter makes it clear that due consideration ought to be given to the economic, societal and other aspects of the issue under discussion in order to reach a Fatwa that follows the spirit and substance of the Shariah (Maqasid-e-Shariah) as well as its form. The CSB members are expected to pay attention to both the legal and the ethical dimensions of their decisions. The CSB is required to always strive to uphold fairness and equity for all the stakeholders.

Another transformation that we see happening across the financial sector is through fintech. The CBB was proactive in this area and introduced a comprehensive set of fintech-related regulations over the last two years, ahead of other regional and global regulators. Bahrain also started a regulatory sandbox in 2017 to test innovative products and services in a safe environment.

We have 37 companies in the sandbox while two have graduated. Bahrain has regulations on the use of cloud, crypto assets, crowdfunding, robo-advisory, open banking, alternative payment systems and insurance aggregators, among others. When it comes to allowing and regulating fintech, Bahrain is a clear-cut leader, not just regionally but globally.

As the Islamic finance industry continues to transform itself in the coming years and decades, Bahrain has the right infrastructure, political will and human resources to continue to be a leader and a hub for Islamic finance. ☝
Potential growth of Islamic banking in Bangladesh

Establishment of Islami Bank Bangladesh

In 1974, Bangladesh signed the Charter of Islamic Development Bank and committed itself to reorganizing its economic and financial system under Islamic law. In 1978, Bangladesh recommended in the Islamic Conference of Foreign Ministers in Senegal systematic efforts towards Islamic banking. In 1980, in the conference of foreign ministers held in Pakistan, the Bangladeshi foreign minister proposed to take steps towards Islamic banking for the first time. Hence, Bangladesh Bank sent representatives abroad to study in detail the Islamic banking system.

In 1981, Bangladesh attended and addressed the 3rd Islamic Summit Conference held in Makkah and Taif. At the summit, it was suggested that Islamic countries develop a separate banking system to facilitate their trade and commerce. In 1982, the IsDB visited Bangladesh for further assessment of the country’s Islamic banking operations. They found contributions done by the Islamic Economics Research Bureau, the Bangladesh Islamic Bankers Association and other anticipated stakeholders.

These organizations held seminars and public opinion through symposiums and workshops. Besides professional activities reinforced by Islamic scholars of Bangladesh, the organizations mainly mobilized equity capital for emerging Islamic banks. Finally, in 1983, Islami Bank Bangladesh took the challenge to operate an Islamic banking business in Bangladesh.

Present scenario and share of Islamic banking

At present, the market share of assets of the Islamic banking industry is around 25% of the country’s total banking assets, enabling Bangladesh to achieve domestic systematic importance. Among the top 35 jurisdictions in terms of domestic market share of Islamic banking, Bangladesh is ranked 10th. As at the end of December 2018, Bangladesh’s eight fully-fledged Islamic banks were operating with 1,197 branches out of the total branches of 10,286 of the whole banking industry.

Transformation of Islamic banking operations

Since their inception in 1983, Islamic banks in Bangladesh have recorded a robust performance. Though the Islamic banking industry has achieved more than 20% of the annual growth, the industry has immense potentials for further expansion as Bangladesh is a Muslim majority country with a vibrant economy of 6% real economic growth over the last 30 years.

Table: Items | All banks (BDT billion) | Islamic banks (BDT billion) | Share of Islamic banks among all banks (%)
--- | --- | --- | ---
Total deposits | 10,099.81 | 2373.66 | 23.31
Total investments | 9,604.62 | 2,309.07 | 24.02
Remittances | 304.13 | 130.75 | 38.03
Total excess liquidity | 763.93 | 65.24 | 6.45
Total number of bank branches | 10,286 | 1,241 | 11.81
Total agricultural credit | 401.12 | 28.11 | 2.09

Source: Bangladesh Bank

To reap the full potentials of Islamic banking, it is imperative to access the present status of Islamic banking industry in Bangladesh, review further potentials and design proper policy options. The transformation process of the Islamic finance and banking industry in Bangladesh was implemented rapidly to position the Islamic banks for sustainable growth.

Drastic improvements are seen in the information technology infrastructure of Islamic banking operations taking effect throughout the banks’s service-delivery touch points, security surrounding information flows and customer-service efficiency, which dramatically improved the banks’s ability to manage its credit risks. Meanwhile, a risk-appetite framework was also introduced, which today forms an integral part of the banks’s various business strategies.

Initiatives were implemented to resolve the banks’s overall model, by transforming certain key business processes and ensuring the banks focused on engaging in business with which it was most familiar. More than 2,000 employees were made to attend specific employee-training initiatives, including educational programs and induction courses for new staff, while a more performance-based compensation system was introduced for all employees.

The idea of climate finance mechanism was discussed, aligning with Shariah law, in the form of Green Sukuk during the second International Conference on Climate Finance this year. The main feature of Green Sukuk is that 100% of the proceeds exclusively go to financing or refinancing green projects that contribute to mitigating climate change in line with Shariah law.

Conclusion

As Islamic finance and banking have become reasonably important in the global financial markets, especially in Asia, it has the potential to contribute successfully to the innovative development of sustainable development goals. It can ensure financial stability as well as inclusive growth, and also effectively address other development challenges for the region. In Asia, the value of Islamic financial assets has been estimated to exceed US$1 trillion by 2023. Among the different segments of Bangladesh’s Islamic finance industry, Islamic banking industry dominates. Since Shariah is the backbone of the Islamic banking industry, a legal framework can be implemented to ensure proper flow and monitoring of this rapidly growing sector.

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Bosnia & Herzegovina (B&H), a European country with a Muslim population of around 40%, has one Islamic bank, one leasing company predominantly owned by the IsDB, one Islamic microfinance institution struggling to survive and one university with high-quality education in the field of Islamic banking. However, the whole industry revolves around the bank, which is not surprising since the financial system is bankocentric, but also the bank itself is very active in media.

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Bosnia & Herzegovina: Contributing to development and increasing trust

BBI started as a greenfield investment and catalyzed its ways as the fastest growing bank into a medium-size company, becoming the 7th ranked bank in the Federation of Bosnia & Herzegovina

The only bank operating in accordance with Islamic finance principles in B&H, Bosna Bank International (BBI) started in 2000 as the solemn Islamic bank in a post-communist country. Before BBI, there were two other attempts of establishing an Islamic bank in B&H – Orient Bank and Vakufska Bank – but neither bank could manage the struggle with challenges from the competition and their environment. They were eventually acquired by other banks. In these circumstances, BBI’s efforts throughout the past 20 years were on growing into a strong, self-sustaining bank that contributes to society and maintains people’s trust.

Figure 1: Comparison of Bosna Bank International assets, 2006 vs 2019

<table>
<thead>
<tr>
<th></th>
<th>Large banks</th>
<th>Medium banks</th>
<th>Small banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-12th</td>
<td>3,098</td>
<td>1,859</td>
<td>1,698</td>
</tr>
<tr>
<td>2019-7th</td>
<td>6,160</td>
<td>4,690</td>
<td>2,214</td>
</tr>
<tr>
<td>Total assets as at the 30th June 2006</td>
<td>3,098</td>
<td>1,859</td>
<td>1,698</td>
</tr>
<tr>
<td>Total assets as at 30th June 2019</td>
<td>6,160</td>
<td>4,690</td>
<td>2,214</td>
</tr>
</tbody>
</table>

Source: Central Bank of Bosnia and Herzegovina
One of the largest challenges BBI has faced since its establishment is the regulatory environment, which is not adjusted to Islamic banking. Bosnian banking law forbids banks to involve in trade, which effectively prevents BBI from using Murabahah, Salam and Istisnah in its operations. This turned the bank towards a more social-impact-oriented approach to Islamic banking, instead of just technically applying Islamic financing instruments in its operations.

High social-impact projects

One of the main development projects of BBI is the Sarajevo Business Forum (SBF), which celebrated its 10th anniversary in 2019 with over 2,000 participants, more than 450 business-to-business meetings and 350 projects presented. Launched in conjunction with SBF was the Sarajevo Business Start-Up Challenge, a TV show that gathers young students and graduates to pitch their start-up and business ideas.

Another project, the Sarajevo Halal Fair (SHF), was held to initiate a halal finance platform, gathering CEOs of Shariah compliant banks from different countries and signing MoUs with Zaman-Bank from Kazakhstan, Islamic Bank of Guinea, Islamic Bank of Niger, United Bank of Albania and Alakhdar Bank of Morocco.

Another important initiative was the establishment of the Islamic index in cooperation with the Sarajevo Stock Exchange (SASX-BBI). The index tracks stock performance of 25 top companies which meet the requirements set by the BBI Shariah board and it has outperformed its conventional peers in the last two years. However, in 2019 conventional SASX-10 grew by 40% – unattainable for SASX-BBI, which grew 12%. This confirms previous findings that Islamic indexes are less volatile than conventional ones as they grow more slowly in times of prosperity but also record lower decline in times of crisis.

Small in asset size, but large in people’s minds

All these efforts on public education and contributions to development through Islamic finance have resulted in people’s trust, as BBI was ranked third of the most trusted banks among clients in a research done by an independent agency.
The past 15 years of Islamic finance in Canada

Rehan Huda is a director at Amana Canada Holdings. He can be contacted at rhuda@amanacanada.com.

The Canadian Muslim population has grown significantly over the past 15 years, nearly tripling in size to approximately 1.6 million today. Most of this growth has been in the largest cities in Canada, with the city of Toronto and its suburban areas accounting for almost half of the country's Muslim population. In general, the Canadian Muslim community is relatively young, has a high level of educational attainment, is larger than the average family size and has high rates of saving – all attractive characteristics for financial institutions seeking to expand their products and services to this niche market.

In the 1980s, when its Muslim population was only one-tenth of today's, Canada was considered a pioneer in Islamic finance in the West as it had several non-profit housing cooperatives and community investment initiatives that were very innovative at that time. Among the first Islamic banking conferences in the West was held in Toronto in the mid-1990s, with leading Islamic bankers from across the world discussing the future of Islamic banking in Canada and the West.

Over the past 15 years, Western countries such as the UK and the US have made significant strides in Islamic home financing, investment products and retail banking, while Canada has developed much slower as the Islamic finance industry transitioned from community-based non-profit initiatives to more commercially based Islamic finance products and services. Key developments in the Canadian Islamic finance industry over this time have included the following:

Commercial and residential real estate financing
There have been a number of Shariah compliant commercial real estate transactions involving Islamic schools, mosques and commercial properties. A major Canadian bank refinanced a portfolio of properties held by one of the largest charitable Muslim organizations, and that were originally funded by a number of credit unions. The Everest Group has structured Shariah compliant real estate investments in commercial developments across the country. It is now leading a Muslim-friendly resort in Orlando, Florida, the first of its kind in North America.

In residential home financing, credit unions in the provinces of Ontario and Manitoba have offered such products on a limited basis. In addition, the cooperatives continue to fund homes across Canada. However, the demand for Shariah compliant home financing is in the multi-billion-dollar range, and the major financial institutions have yet to fund this market.

Investment products and services
Over the past five years, there have been a number of Muslim financial advisors that offer Shariah compliant investment products as well as financial planning services. Some advisors are at boutique firms such as Global Financial, while others are at some of the largest financial institutions in Canada such as Raymond James and the Canadian Imperial Bank of Commerce. One of the leading Muslim financial advisors has been building a Shariah compliant investment platform with RBC Dominion Securities, a division of the Royal Bank of Canada, one of the largest banks in the world. Dominion Securities, with over US$300 billion in assets under administration, is Canada’s leading full-service investment and wealth management firm. A Shariah compliant investment platform has been built with the purpose of helping Muslim investors, businesses and charitable foundations build on and preserve their wealth.

Professional services
Through structuring a number of Islamic finance transactions, several Canadian legal and accounting firms developed expertise in Islamic finance. The law firm Norton Rose Fulbright developed a full set of banking contracts with the assistance of KPMG on tax matters for an Islamic banking client. The boutique law firm Abrahams has lawyers who have published books, chaired international conferences and spoken at a number of Islamic finance workshops. A number of other law firms are focusing on Islamic wills and testaments, and a few accounting firms are active in serving the Muslim client base.

Over the past 15 years, these developments and others have set the foundations for the future of the Islamic finance industry in Canada. The next few years will likely witness a significant rise in the number of Islamic finance products and services that will be offered to the rapidly growing Canadian Muslim community.

Education and training
Several Canadian universities and colleges offered courses in Islamic finance. Most notably, the Rotman School of Management at the University of Toronto offered a second-year MBA course in Islamic finance for a number of years. The Centre for Islamic Knowledge (CIK) has been recently established with the objective of providing a quality learning experience through long-lived Islamic traditions intertwined with modern teaching methods and tools. A number of experienced Islamic finance professionals have recently immigrated to Canada, and CIK has been able to tap into this network for its Islamic finance faculty.

Shariah advisory services
The Islamic Finance Advisory Board has been set up as a non-profit, self-regulatory, voluntary body engaged in the promotion of Islamic finance in Canada. The Board was formed to facilitate the development of Shariah compliant financial products in Canada and to bring a measure of standardization to the Canadian Shariah compliant financial market. Two of the Shariah scholars on the board, Dr Mohammad Iqbal Masood Al-Nadvi and Dr Hamid Slimi, have emerged as leading Canadian scholars in Islamic finance. Prior to their involvement, Canadian Islamic finance firms had to rely on scholars outside of the country for the development and approval of their products.

Over the past 15 years, these developments and others have set the foundations for the future of the Islamic finance industry in Canada. The next few years will likely witness a significant rise in the number of Islamic finance products and services that will be offered to the rapidly growing Canadian Muslim community.
China’s crucial role in the global Islamic finance space

Wafee Young is the managing director of Allalah Consulting and the director of Hong Kong Centre for Islamic Finance. He can be contacted at wafee@allahah.com.

Being the world’s number two economic superpower, China has built up an increasingly close economic and trade ties with the Islamic world’s countries. The Chinese government and the financial community have gradually increased their attention to Islamic finance. Although the development of Islamic finance in China is still in its nascent stage, attempts made by Chinese financial institutions to carry out Islamic finance business have sprung up everywhere, both at the central and local levels.

Islamic finance development in the past 15 years

The Chinese government is ambitious about the development of Islamic finance. Owing to certain religious attributes of Islamic finance, the lack of openness of the Chinese financial system, and the cautious attitude of the regulatory authorities in dealing with political issues, the formulation of relevant policies by the central government has lagged.

In fact, the policies of regulating Islamic finance at the central level remain in 2004. The People’s Bank of China had joined the Islamic Financial Services Board and became an associate member, thereby sending their employees to participate in its seminar discussions for the development of standards and guidelines for Islamic banking.

In March 2009, the Central Committee of the Chinese People’s Political Consultative Conference (CPPCC) put forward proposals on China’s Islamic finance development, including the establishment of an effective mechanism for collaboration with the Islamic finance sector, the attempt to develop Islamic financial services as well as professional training for Islamic finance talents, etc.

In September 2012, the Academic Committee of the National Development and Reform Commission proposed that the policy path of China-Arab financial collaboration should be promoted, and the Arab Development Bank should be established in Ningxia to build a Chinese Islamic financial center.

At that time, the idea was that it could open up a green channel for Arab financial markets and establish a sound regulatory and legal framework for the Islamic finance sector based on the characteristics of Islamic finance. Moreover, the Chinese government had its objective to participate in Islamic finance through the Asian Infrastructure Investment Bank.

In contrast, attempts made by various provinces and cities to carry out Islamic finance business are more active. Back in December 2009, Ningxia Bank became the first financial institution in China to conduct Islamic banking business, and established the Islamic Finance Division and the Ningxia Bank Islamic Financial Advisory Committee, which were in charge of the operation and management of the Islamic banking business and review the products developed by the Islamic Finance Division for Shariah compliance.

During the pilot period, Islamic financial service windows were established at five branches to offer Islamic banking products and services to customers. At the end of 2012, Ningxia Bank’s Islamic finance business came to an abrupt end after three years of operation.

In July 2012, Ningxia Shizuishan Bank entered into a memorandum of cooperation with Bank Muamalat, the second independent Hui bank of Malaysia, which would help Shizuishan Bank to set up an Islamic bank in Ningxia, including consultation from the initial stage to the internal operation.

Furthermore, the provinces of Muslim communities such as Gansu, Qinghai and Xinjiang also proposed to conduct Islamic financial business in the future and strengthen cooperation with Islamic banks and financial institutions. In 2014, Gansu suggested that it should introduce Islamic finance by establishing an Islamic finance window in ordinary banks and introducing foreign strategic investors. In June 2015, Qinghai applied for policy support and docked the Islamic finance platform.

In June 2014, the Bank of China and the Luxembourg Stock Exchange signed an MoU on strategic cooperation. Both sides would collaborate in modern high-end financial products such as bonds, stocks, depositary receipts, fund products and Islamic finance. In April 2015, Southwest China Securities signed a memorandum with the Qatar International Islamic Bank and Qatar National Bank to establish an Islamic finance joint venture in China that issues Islamic finance products.

Since 2017, global Islamic finance advisory firm Allalah Consulting has been committing its best effort to help out the Chinese government and enterprises in terms of fundraising for One Belt One Road (OBOR) infrastructure projects using Islamic finance models, while aligning worldwide academic resources in training Islamic finance talents.

Undoubtedly, China has great potential in the Islamic finance space, particularly OBOR infrastructure project financing using Sukuk. Looking forward, China should and must establish its own Sukuk platform, probably with blockchain application, thereby further flourishing its Islamic finance sector in a wider and deeper extent.

Figure 1: China’s Islamic finance development

<table>
<thead>
<tr>
<th>Year</th>
<th>Origin</th>
<th>Regulation</th>
<th>Product</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>• China central government, scholars and practitioners researched on Islamic finance</td>
<td>• CPPCC formulated Islamic finance governance mechanism</td>
<td>• Gansu and Qinghai applied to establish Islamic finance window</td>
<td>• One Belt One Road initiatives</td>
</tr>
<tr>
<td>2005-2009</td>
<td>• FSB Associate Member</td>
<td>• Ningxia Bank became the first financial institution in China to conduct Islamic banking business</td>
<td>• China formed strategic alliance with Luxembourg and Qatar in Islamic finance product</td>
<td>• Professional Islamic accounting and finance qualification exams</td>
</tr>
<tr>
<td>2010-2015</td>
<td></td>
<td></td>
<td></td>
<td>• Exploration of settling up Sukuk market in China</td>
</tr>
<tr>
<td>2016-2019</td>
<td></td>
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</tbody>
</table>

Source: The Central Government of the People’s Republic of China
The gradual rise of Islamic finance in Egypt

Sukuk issuances were nonexistent. In contrast to the 20th century, when Egyptians were practicing Islamic finance through local initiatives, the 21st century Shariah compliance movement was spurred on by subsidiaries of Islamic financial institutions from the UAE and Saudi Arabia.

In 2004, the collapse of Islamic investment companies was still fresh in the minds of most Egyptians. Customers were reluctant to invest in Islamic financial enterprises, believing that the terminology was just a gimmick designed to lure them away from established banks and insurance funds. Only 3% of total banking assets were owned by Islamic banks.

Banque Misr was the first conventional bank to open an Islamic window for Shariah compliant transactions. There were three fully Shariah compliant Islamic financial institutions on the scene: Faisal Islamic Bank (FIB), the Islamic International Bank for Investment and Development (IIBID) and the Egyptian Saudi Finance Bank.

The FIB partnered with Hermes EFG to launch the Egyptian Islamic Fund, which continues today under the name Faisal Islamic Fund and only invests in Shariah compliant companies, under the guidance of the FIB’s Shariah board. The IIBID was merged into United Bank while the Egyptian Saudi Finance Bank is now known as Al Baraka Bank Egypt.

Other players in the Islamic finance industry were the Islamic Arab Insurance Company (IAIC) and the Egyptian Islamic fund. The IAIC, now known as Misr Emirates Takaful Life Insurance, was the only company providing Takaful-based insurance services at the time.

Rather than issuing laws to regulate Islamic banks, Shariah compliant financial institutions remained subject to the Central Bank of Egypt Law No 88/2003, with additional regulations issued to govern specific banks or situations. Sukuk issuances began to appear, with El Tawfeek Group issuing US$100.4 million-worth of Sukuk in three jiharah issuances arranged by CIB.

All three issuances were successfully redeemed at maturity. Additional Islamic investment funds were created as well. The largest, Bashayer Mutual Fund, was valued at EGP42.51 million (US$2.63 million).

During a period of political and economic turmoil, the government decided to rely on the IMF to solve the national deficit issue, taking out a US$12 billion loan that would require socioeconomic reforms in exchange.

The IMF loan proved to be a stabilizing factor for the Egyptian economy. However, the private sector, especially SMEs, was in need of economic stimulation. The IsDB has amassed a US$21.6 billion portfolio as of October 2019. The funds have been divided among the agricultural, infrastructural and services sectors, with the goals of promoting youth employment and economic inclusion.

The 2013 Sukuk law was repealed and replaced with amendments to Egypt’s 1992 Capital Markets Law. Implementation of the Sukuk provisions was placed under the supervision of Egypt’s Financial Regulatory Authority (FRA). Sukuk could only be issued by an Egyptian company founded exclusively for the purpose of issuing Sukuk as an SPV, and the FRA would have to approve all Sukuk prospectuses in conjunction with the designated Shariah boards.

In the past 15 years, Egypt’s Islamic finance market had diversified in every aspect except for Sukuk. The new Sukuk regulation has already started to bear fruit. The MoF has renewed its commitment to issue sovereign Sukuk to relieve the country’s balance of payments crisis.

Unfortunately, the promised sovereign Sukuk issuance never materialized. The number of banks with Shariah licenses had risen slightly to 15. Their share of the market had also crept up to 5%. Ultimately, the government decided to rely on the IMF to solve the national deficit issue, taking out a US$12 billion loan that would require socioeconomic reforms in exchange.

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CIAF Leasing has announced a US$50 million issuance that will be managed by ADIB Securities, and subscription is expected to open before the end of 2019. As Egypt moves into a new decade, the future of the market looks promising.
The French Islamic finance market over the years

In 2008, the then French Minister of the Economy Christine Lagarde announced: “We wish to make Paris a better market for Islamic finance, particularly in this background of crisis, credit excess, volatility and cupididy.” Since then, numerous transactions in France, in particular in the real estate market, have been financed by Islamic products. However, for the time being, most of the investors acting through Islamic finance products in France are not French residents.

Islamic finance emerged in France toward the end of the millennium and, to date, no specific set of rules concerning Islamic finance has been issued. Nevertheless, the concepts of Islamic finance can be implemented in France and foreign institutions may enter into banking, insurance or capital market services provided they are licensed to operate. The French legal system is Shariah-friendly.

The concept of contractual freedom facilitates the transfer of the core concepts of Islamic finance. Therefore, no specific amendments to French law appear necessary to accommodate Islamic finance transactions. However, the French tax regime still needs to be adapted to Islamic transactions, for instance with respect to transfer taxes incurred in Ijarah arrangements.

There is no specific legal framework applicable to Islamic finance. The reform of French contract law (decrees n°2016-131 dated the 10th February 2016 reforming the French Civil Code), which entered into force on the 1st October 2016, has reaffirmed and specified some of the core concepts of French civil law, such as good faith (“bonne foi”) and, similar to the Haram principle, the existing rule of “public order”.

This reform also introduced a new rule, in line with the Maysir principle, according to which a court can force the parties to an agreement, the enforcement of which has become substantially unaffordable for one of the parties to renegotiate the agreement in order to find a new economic balance; otherwise, the parties can agree to terminate the contract.

Also, the reform reasserts that any civil contract will need to have content that is certain or at least determinable (by indicating, for a purchase contract for example, the quantity or the quality of the goods), which is a rule ad valitatem (a court would rule any such purchase contract which does not sufficiently determine the elements of the purchase to be null and void). All of the above principles have common values with Islamic finance rules, and can provide a foundation for Islamic transactions in France.

More particularly, Mudarabah can be implemented under French law through a limited partnership, Musharakah through a joint venture type arrangement or a partnership company, and Ijarah through a leasing transaction. Murabahah, however, is treated under French law as a credit transaction, and thus, Islamic financiers must comply with the regulations for financial institutions and credit transactions.

Furthermore, Shariah funds make up a significant part of ethical funds in France and the French government, and the Financial Markets Authority has promoted Sukuk type securities to attract Islamic investors by enacting non-mandatory rules, such as, notably, the notice dating the 17th July 2007, “Extra financial requirements for the selection of securities: situation of undertakings for collective investments in transferrable securities (UCITS) declaring themselves Shariah compliant”, which was last amended on the 26th June 2018, and also guidelines on admitting Sukuk to trading on the French regulated market on the 2nd July 2008.

Tax directives were enacted on the 25th February 2009 and updated on the 24th August 2010 to clarify the tax regime for certain Islamic products and to ensure equal treatment for Islamic finance operators.

Outside the legal framework and on the ground, there have been several Shariah compliant transactions in France, notably in real estate such as the GAF portfolio financing by Gulf Finance House in 2003 (Ijarah and Murabahah) for over EUR200 million (US$221.11 million), several Sukuk subscriptions by French banks such as BNP Paris subscribing to Sukuk issued by IsDB Trust Services in 2004 for an amount of US$170 million, and, on a smaller scale, there have been several innovative Shariah compliant products on the French market such as the lease-to-own agreement made by Groupe 570 in 2010, France Sukuk Courtage’s savings product in 2011, Swiss Life’s Salam Eparignes & Placement introduced in 2012, the first crowdfunding Shariah compliant platforms set up by Easii Up and Aon in 2014, and Takaful products offered by Nour Assur since 2015.

It must be noted that 2019 was a quiet year for Islamic finance in France, but the same cannot be said for the past 15 years. Progress has been made slowly but surely. With nearly six million French Muslim citizens, France is one of the European countries with the biggest growth potential in terms of Islamic retail banking. Even though Islamic finance has been further pursued by foreign investors in France and by French banks in the Middle East, French residents are more active on the Islamic finance market, such as VIP customers working in the sports or media industries. In view of this, various foreign Islamic banks are considering establishing a direct subsidiary in France.

Islamic finance in France was at its most vibrant around 2010, when there was a political determination to set up an Islamic finance French market that competes with London. It seems that the efforts to inform the public on what Islamic finance consists of and how it can be a solid alternative type of finance need to continue.

The question of Islamic finance additional costs needs to be addressed: fiscal costs, legal costs (the legal expertise in France can be more developed), reputational costs (due to the public’s reluctance in engaging in Islamic finance), and product structuring costs. Islamic finance is a different type of finance and costs more, but the willingness of the French buyer or investor to pay more should be taken into account and analyzed.

Professionals of Islamic finance in France suggest implementing reforms such as greater publicity, establishing legal and fiscal certainty for Islamic finance instruments, a stock exchange index of Islamic funds created by NYSE Euronext similar to the US’s S&P Shariah Indeces, or a strategy for the collection of savings, making it easier for international financial institutions to obtain banking licences.

Such a welcoming French environment is still under construction and requires more affirmative decision-making to explore the French market’s full Islamic finance potential.
An Islamic working bank in Germany: A milestone in Islamic finance and the German banking history

Dr Johannes Engels is a lecturer at the Universities for Applied Sciences in Mainz and in Worms as well as a member of the steering committee in the European Supervisory Education Initiative. He can be contacted at johan-nes.engels1@web.de.

Congratulations to IFN on its 15th jubilee and thus, I herewith would like to reflect on this very time between 2004 and 2019 from a German perspective: There is indeed great market potential in Germany for Muslim-based financial services. According to an approximation, there are now more than five million Muslims living in Germany (since 2015, there is a rapid growing tendency). They belong to different religious groups: most of them — 3.5 million — are Sunnis, 1.5 million are Alawites and more than a quarter million are Irani Imamits or Turkish Shiites. This makes Islam the second-largest religion in Germany, right after Christianity. Subsequent to this segregation according to religious affiliation, a classification in matters of national provenance can be made.

Of these approximately five million Muslims, most of them are Turkish, while other large groups come from countries of the Balkan region and Northern Africa. It can be pointed out that for several years two major German insurance companies have been offering Shariah compliant products to their customers. Both of them serve only clients outside of Germany, mainly in the Gulf states and Malaysia. The largest one in the German insurance market and one of the biggest global providers of insurance, banking and asset management services opened a branch in Indonesia, specializing in Shariah compliant products.

Another large German reinsurer, as well one of the major reinsurers worldwide, offers Takaful insurance to companies that operate according to Shariah. Some major German banks have also been using so-called Islamic windows for several years in Malaysia and the Gulf region.

But for a long time, there was not any credit institution offering Islamic services in Germany. However, employees of the German Federal Financial Services Authority — BaFin — took part in several Islamic finance conferences held worldwide. BaFin also organized in 2009 and 2012 its own conferences regarding this important economic topic in Frankfurt upon Main.

Looking to the UK, the Islamic finance and banking industry has been there since 1982 and is now very common. A real new step was reached in Germany in the case of Kuveyt Turk Bank (KT Bank)’s target to get a full banking license. This context, which started in autumn 2012, was indeed a new supervisory challenge for BaFin as the regulator responsible for the licensing process. KT Bank first opened a representative office in Germany in 2004. Since then, it has announced topics about ethical, responsible and sustainable banking. In 2010, the first market entrance into Germany happened with getting the license for the procurance of deposits coming from third countries. In starting the licensing process in autumn 2012, there was at the end the aspect of the role of the Shariah board in such a bank which was also successfully clarified, because according to the German Banking Act, only the management has to carry out the business, not third parties. In the same context, there was the need to underline that deposit protection must be accepted in relations with the outside world.

Since March 2015, KT Bank has been a deposit-taking credit institution and a member of the Entschadigungseinrichtung deutscher Banken GmbH, which carries out deposit protection according an EU-based standard. That also means that it is the very first bank in Germany and in the eurozone to offer banking services based on Islamic principles for private and business clients independent regardless of their religion. KT Bank participates in monetary transactions and has, besides the headquarters in Frankfurt upon Main, branches in Berlin and Mannheim. Further branches were established in Cologne and Munich.

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Hong Kong’s great potential in developing Islamic finance in non-Muslim jurisdictions

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Islamic finance development in the past 15 years

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At that time, the Hong Kong government believed that Islamic finance would be advantageous in terms of controlling risk and even experiencing rapid growth amid global economic turbulence, with its asset-backed attributes and other merits, which are beneficial to the sustainable development of the cosmopolitan thereby maintaining its status as an international financial center with more comprehensive functions and prospects.

In October 2007, the Policy Address of the Hong Kong government expressed the view that Hong Kong was confident in establishing its Islamic finance capital market and intended to initially attract US$100 million from global investors into this specific new market.

In November 2007, which was just one month after the aforesaid blueprint, Hong Leong Bank of Malaysia launched its Islamic fund, which was the first of this type offered in Hong Kong, targeting individual retail investors. Around the same time, Hang Seng Bank of Hong Kong launched its Islamic China Index Fund. Within one month, US$85 million was successfully funded, which was a remarkable initial result.

At the beginning of 2008, the Hong Kong government began to build closer economic ties with the Middle East countries and became an associate member of the Islamic Financial Services Board in March of the same year.

In 2009, the Hong Kong Monetary Authority approved HSBC to issue Sukuk, which was highly regarded and believed by the market to be the inaugural one in this space. However, no Sukuk issuance by HSBC was crystallized at the end of the day owing to the bank’s final business decision.

A couple of years then passed quickly, during which Hong Kong signed MoUs with Malaysia and the UAE for Islamic finance cooperation, and the Hong Kong government, practitioners and academics worked together in finding ways to provide a level playing field for Sukuk when surviving with its conventional bond counterpart in the same Hong Kong capital market.

In 2013, both the Inland Revenue Ordinance and the Stamp Duty Ordinance were amended and enforced to offer special tax treatments for Sukuk issuances under the name of alternative bond scheme, such that additional profits taxes and stamp duties arising from qualified Islamic finance transactions using Sukuk will be eliminated for the Sukuk issuers and the Sukukholders.

From then, three sovereign Sukuk facilities were successfully issued by the Hong Kong government in the years 2014, 2015 and 2017, US$1 billion each, with a tenure of 5 to 10 years. Multiple oversubscriptions resulted from worldwide institutional investors from both Muslim and non-Muslim countries hoping to enjoy the expected stable and rewarding performances to be brought to them by the triple-A-rated Sukuk, with a reasonable return rate.

During the recent three years, market players represented by Allalah Consulting, the leading global Islamic finance advisory firm, and its managed Hong Kong Centre for Islamic Finance, have carried out a significant amount of concrete work in promoting and boosting Hong Kong Islamic finance development, by way of collaborating closely with local and overseas government bodies, Islamic accounting standard setting bodies, financial institutions, investors, infrastructure project owners, fintech experts, Shariah scholars, university academics, religious leaders, media editors and conference organizers.

The unprecedented blockchain Sukuk platform in Hong Kong created and operated by Allalah Consulting is planned to be launched in 2020, with its objectives to widen the financial inclusion of Sukuk in Hong Kong to involve corporate issuance and retail individual investors.

In the long run, Hong Kong should make the best use of One Belt One Road and act as the super-connector between China and the Islamic world in terms of Islamic finance deals. More Islamic finance talents should be trained and a sophisticated tax system should be in place for Sukuk SPV establishment, both very needed in Hong Kong.

Wafee Yeung is the managing director of Allalah Consulting and the director of Hong Kong Centre for Islamic Finance. He can be contacted at wafee@allahah.com.
The Islamic finance industry is growing at a rapid rate. Its products and services are offered globally. The ultimate vision of the emergence of the Islamic finance industry is to avoid the prohibited practices of conventional financial institutions such as interest, uncertainty, gambling and investment in prohibited items. However, this sector is at an incipient stage in India.

Introduction
India is known as a multiracial and multireligious country, with the second-largest population in the world. Progress within the last 15 years has bolstered our perspective that Islamic finance is obtaining traction in India and will outgrow markets in different jurisdictions within the years to come. Islamic finance, thus, is not only for Muslims but for all those who recognize its advantages. Islamic financial institutions offer benefits for economic growth, reduce poverty and foster shared prosperity. Interest-free banking in India will be highly effective if adopted broadly and not seen simply as a religious philosophy.

A glance at Islamic financial institutions in India from 2005 to 2019
Table 1 offers a glimpse of the vital initiatives that the Indian government and alternative non-public institutions have taken for the last 15 years with regards to Islamic finance.

Conclusion
This article lists a number of the main establishments in Islamic finance that have formed India's Islamic finance industry. The envisaged outcomes of the Islamic financial institutions in India would certainly contribute significantly toward the societal outlook and environmental responsibility, improved quality of life of the population and more importantly, toward the economic development and prosperity of the nation and its populace. However, the marketplace for Islamic finance has up to now remained at an emerging stage with little Shariah-based funds despite the large potential for Islamic banking products within the country. Reasonable attempts will need to be taken by the management, regulators, politicians, Shariah scholars and others to advocate the awareness of Islamic financial institutions to support the Islamic finance industry so that it can live up to its potential.

The first restriction is related to the terminology ‘Islamic banking’, which is not familiar to the Indian public. Islamic banking can be misunderstood by some Indians because it is an Islamic term. Most Indians might feel that it is suitable for Muslims only. The second drawback is that without modifying the existing laws, Islamic banking cannot be offered. The prevailing laws should be amended in order to ensure that Islamic banking can be offered in India. The third constraint is regarding the availability of human resources because there are not enough education programs in the area of Islamic banking in India. The last constraint is the limited choice of Shariah compliant investments which can create a liquidity issue in the Islamic banking industry.

Since Islamic banking has not been previously offered in India, local authorities should consider introducing Islamic banking since it is offered all over the world. For investors, India is a land of opportunity with plenty of room for foreign direct investment in the banking sector with its large Muslim population.

Table 1: Vital initiatives in India with regards to Islamic finance

<table>
<thead>
<tr>
<th>Islamic financial institutions in India</th>
<th>Year of establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>The establishment of the Anand Sinha Committee under the Reserve Bank of India (RBI) to study Islamic financial products.</td>
<td>2005</td>
</tr>
<tr>
<td>The appointment of the Justice Rajinder Sachar Committee to report on the social, economic and educational status of the Muslim community in India.</td>
<td>2005</td>
</tr>
<tr>
<td>The Raghuram Ramrajan Committee recommends Islamic banking for the financial inclusion of the Muslim community in India.</td>
<td>2008</td>
</tr>
<tr>
<td>The government of India calls for bids in connection with the reconstruction of the National Minority Development Finance Corporation on Shariah principles.</td>
<td>2008</td>
</tr>
<tr>
<td>Taqwa Advisory and Shariah Investment Solutions (TASIS) was founded by a group of finance and investment professionals who realized the need for a credible organization for providing guidance and support to individuals and corporates having an interest in the nascent but highly potential Islamic finance industry in India. As the name suggests, it is an organization providing Shariah advisory and investment solutions in India, while operating within the Indian legal framework.</td>
<td>2007</td>
</tr>
<tr>
<td>The Indian Center for Islamic finance is an institution which is trying to develop a platform where people can come and know about Islamic finance.</td>
<td>2008</td>
</tr>
<tr>
<td>Pragmatic Wealth Management was founded by Imtiaz Merchant and is a Shariah wealth management advisory company with a clear focus on Islamic investments. It aims to tap the hugely unexplored market of Shariah compliant investments (also known as ethical and socially responsible investing).</td>
<td>2009</td>
</tr>
<tr>
<td>The Securities and Exchange Board of India (SEBI) permits India’s first Shariah compliant mutual fund.</td>
<td>2009</td>
</tr>
<tr>
<td>The SEBI permits India’s first Shariah compliant venture capital fund.</td>
<td>2009</td>
</tr>
<tr>
<td>GIC RE, a government of India-owned company, appoints TASIS for Shariah advisory.</td>
<td>2009</td>
</tr>
<tr>
<td>The government of the state of Kerala announces the launch of an Islamic investment company.</td>
<td>2009</td>
</tr>
<tr>
<td>The Tata Ethical Fund aims to generate medium to long-term capital growth by investing in equity and equity-related instruments of Shariah compliant companies.</td>
<td>2009</td>
</tr>
<tr>
<td>The Taurus Mutual Fund is a private sector mutual fund registered with the SEBI.</td>
<td>2009</td>
</tr>
<tr>
<td>Janseva has been promoted by a group of people committed to an interest-free financial system drawn from the different states in India. However, it owes its existence to the decisions of the board of trustees of the All India Council of Muslim Economic Upliftment Mumbai and the Community Coordination Initiative.</td>
<td>2010</td>
</tr>
<tr>
<td>Sahulat Microfinance Society is a voluntary non-political, non-profit-making social service organization. It aims to provide interest-free microfinance options for reducing socioeconomic disparities and to achieve justice and equity for educationally and financially backward sections of the public at large.</td>
<td>2010</td>
</tr>
<tr>
<td>Sanghamam aims to promote participatory microfinance to achieve financial inclusion and sustainable growth in society.</td>
<td>2012</td>
</tr>
<tr>
<td>Rehbar Financial Consultants was established with a mission to enhance Shariah compliant value creation for businesses and fundraising for entrepreneurs.</td>
<td>2013</td>
</tr>
<tr>
<td>Cheraman Group was established with a vision to become a proactive and dynamic value-based financial service institution, providing innovative and unique financial solutions, while building credibility leading to sustainable growth and profitability for all stakeholders.</td>
<td>2013</td>
</tr>
<tr>
<td>Taqwa Credit Co-operative Society, also known as Taqwa Banking, is an effective tool for Islamic banking and finance with selected investment portfolios operating in the Karnataka State of India.</td>
<td>2015</td>
</tr>
<tr>
<td>The RBI has decided not to pursue a proposal for the introduction of Islamic banking in the country.</td>
<td>2017</td>
</tr>
<tr>
<td>Aligarh Muslim University arranged the launching ceremony of the MBA in Islamic Banking and Finance program.</td>
<td>2019</td>
</tr>
</tbody>
</table>

Source: Author’s own
The revival of the Indonesian Islamic capital market

The history of the Indonesian Islamic capital market began when the first Islamic mutual funds was issued in 1997, followed by the launch of the Jakarta Islamic Index (JII) in 2000 as the first Islamic stock index in Indonesia. The first Sukuk issuance was in 2002, after which the Islamic capital market regulations were issued in 2006. However, the development of the Islamic capital market was relatively stagnant for years.

To restore the condition, the Indonesian Islamic capital market developed three new milestones in 2011: the Indonesia Sharia Stock Index, an Islamic stocks composite index; new Fatwa regarding Islamic stock trading in the exchange; and the Sharia Online Trading System (SOTS) as a tool for helping Islamic investors when trading stocks. Since then, the Indonesian Islamic capital market grew rapidly.

Products development and innovation
As a country with many islands and the biggest Muslim population in the world, Indonesia has unique characteristics benchmarked to other countries. Indonesia has the biggest potential retail market in the world, especially for the Islamic capital market.

In 2009, the first retail Sukuk in the world was issued by the government of Indonesia. The market response was enthusiastic and the demand was oversubscribed. Upon the realization that the market needs more retail-based Islamic investment products, another type of retail Sukuk – a savings Sukuk – was issued in 2016. Savings Sukuk is designed for first-time retail investors.

In 2018, the government of Indonesia issued the first global sovereign green Sukuk in the world with a value of US$25 billion. In fact, this product has received seven international awards from various institutions as the world’s first global green Sukuk.

In 2019, the Indonesian government issued a new retail Sukuk series – the green retail Sukuk, the first of such type of Sukuk in the world. This product is based on savings retail Sukuk with green standards.

To enlarge the market deepening and to create suitable products for the Muslim society, the Indonesia Stock Exchange has developed Islamic-based investment products linked to Islamic philanthropy. The first product was launched in 2017, namely Zakat and Infaq, followed by the issuance of tradable stock Waqf in 2019. Islamic investors can invest and also philanthropists in the same industry using their portfolios.

After the SOTS, the Islamic capital market of Indonesia created new fintechs, first as a tool for sales distribution of retail Sukuk and the other as a marketplace for Islamic mutual funds. Fintech became an important tool for Islamic-based securities transactions and sales distribution in Indonesia.

New regulations and Fatwas
The availability of regulations and Fatwas will have a significant impact on the certainty of Shariah in investing in the Islamic capital market. The Financial Services Authority has issued 11 regulations about the Islamic capital market, including equity crowdfunding to support the development of a digital-based market.

In 2019, the National Sharia Board (DSN MUI) issued Fatwa no. 124 regarding securities depository and transaction settlement services in accordance with Islamic principles, for Islamic securities transactions in the Islamic capital market. This means that all the business processes in the Indonesian Islamic capital market comply with Shariah principles, from opening an Islamic securities account and carrying out a securities transaction to depository and transaction settlement.

Challenges
From the demand side, the growth of the Islamic capital market of Indonesia is significant. The number of Islamic investors increases consistently. Fintech and intensive public education are the key factors for the achievement.

Although the development of the Islamic capital market in Indonesia is on track, it has some challenges in the years ahead. Increasing the market share of corporate Sukuk, including Sukuk liquidity in the exchange transaction, are the main challenges. Others are about increasing market deepening and public awareness.

Since the development is focused on the retail and digital market, the revival of the Indonesian Islamic capital market will continue in the future because Indonesia is the biggest retail market for the Islamic capital market in the world.

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Table 1: The development of the Islamic capital market of Indonesia (1997-2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>Issuance of the first Islamic mutual funds</td>
</tr>
<tr>
<td>2000</td>
<td>Launching of the Jakarta Islamic Index (JII)</td>
</tr>
<tr>
<td>2002</td>
<td>Issuance of the first Sukuk</td>
</tr>
<tr>
<td>2006</td>
<td>First Islamic capital market regulations</td>
</tr>
<tr>
<td>2011</td>
<td>Launching of the Indonesia Sharia Stock Index</td>
</tr>
<tr>
<td>2011</td>
<td>Issuance of Fatwa No 80 DSN MUI regarding Islamic stock trading in the exchange</td>
</tr>
<tr>
<td>2011</td>
<td>Development of the Sharia Online Trading System</td>
</tr>
</tbody>
</table>

Table 2: The growth of Islamic-based investors in Indonesia

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Islamic investors</th>
<th>% total investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2,705</td>
<td>0.7%</td>
</tr>
<tr>
<td>2015</td>
<td>4,908</td>
<td>1.1%</td>
</tr>
<tr>
<td>2016</td>
<td>12,283</td>
<td>2.3%</td>
</tr>
<tr>
<td>2017</td>
<td>23,207</td>
<td>3.7%</td>
</tr>
<tr>
<td>2018</td>
<td>44,536</td>
<td>5.2%</td>
</tr>
<tr>
<td>2019</td>
<td>62,840</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

*As at October 2019*
Iran’s capital market: Introducing a wholly Shariah compliant financial system

Based on Iran's constitution, all financial activities should comply with Shariah rules and regulations and hence, the Iranian financial system is introducing a very unique model for Shariah compliancy of financial activities.

Considering the aforementioned fact, it is unlawful to trade any conventional financial instruments or to establish any financial institution where its performance contradicts Shariah rules and regulations.

Table 1 indicates the main developments witnessed in the Iranian capital market.

As Table 1 shows, Iran’s capital market is in the development phase of its activities. We have approved some steps to provide some financial products to investors, but there is still a long way ahead to sufficiently answer investors’ needs. I hope in the near future we may reach there. Also, congratulations to IFN for celebrating its 15th anniversary — I am quite hopeful that it will be more successful in providing information broadcasting services in the world.

Table 1: A look at Iran’s capital market products

<table>
<thead>
<tr>
<th>Financial instruments</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities market</td>
<td>As indicated earlier, all financial products in Iran should comply with Shariah principles and hence, we may claim that at least from the legal point of view, all listed companies’ shares should be considered as Shariah compliant. Iran's equites market capitalization has reached over US$300 billion on both the Tehran Stock Exchange (TSE) and the Iran Farabourse. It is worth noting that in the TSE, currently 331 companies are listed while for the Iran Farabourse, the number of listed companies is 116.</td>
</tr>
<tr>
<td>Islamic derivatives market</td>
<td>At the moment, the Iran Mercantile Exchange is planning to introduce more agriculture-based derivatives in the market. Saffron is one of the newest underlying assets in our derivatives market. Moreover, many companies use Shariah compliant embedded put options to ensure investors gain minimum profit rates from their investment.</td>
</tr>
<tr>
<td>Sukuk market</td>
<td>Sukuk Ijarah, Musharshakah, Murabahah, Salam and Manfa’ah are the five types of Sukuk issued in the Iranian capital market. It is important to note that in the Iranian capital market, 81% of outstanding financing instruments belong to our sovereign securities and the rest are dedicated to both municipal and corporate securities. The value of total outstanding Sukuk in the market reached US$14.8 billion as at the end of October 2019.</td>
</tr>
<tr>
<td>Islamic treasury notes (ITNs)</td>
<td>Following the resolution of the Shariah board of the Securities and Exchange Organization of Iran (SEO), the government used Islamic treasury notes for fundraising. In Islamic treasury notes, the contractors that had delivered the project to the government received some notes and had the option to discount them in the capital market and finance through Islamic treasury notes. As at the end of October 2019, the value of ITNs has exceeded US$12.7 billion which the Iranian government is using to answer its required financing needs.</td>
</tr>
<tr>
<td>Islamic debt-based securities (other than ITNs)</td>
<td>After long negotiations, debut Islamic mortgage-backed securities were issued in 2016. Islamic mortgage-backed securities are mainly used for securitizing residential receivables from Bank Maskan in Iran. There are still other plans to develop debt-based securities in the Iranian financial market. We have issued some debt-based securities to finance some leasing companies.</td>
</tr>
<tr>
<td>Investment banks</td>
<td>There are nine investment banks active in the Iranian capital market. Except for one specialized investment bank which operates in the housing sector, the other eight investment banks provide a general range of services to clients.</td>
</tr>
<tr>
<td>Brokerage firms</td>
<td>Brokerage firms are the most active part of trading services providers for Iranian traders. These companies receive licenses to provide different services depending on capital adequacy as well as SEO permissions.</td>
</tr>
<tr>
<td>Islamic funds</td>
<td>As at the end of October 2019, more than 200 funds provided different services including fixed income and variable income and index tracking services.</td>
</tr>
<tr>
<td>Rating agencies</td>
<td>2017 was a year in which Iran’s capital market witnessed considerable improvements in finalizing the rating agency industry. In 2017, there was one rating agency which officially received an operation license in the Iranian capital market followed by two more rating companies that came later on the service-providing stage.</td>
</tr>
</tbody>
</table>
The history of Islamic securities issuances in Iran dates back to 1994 when the Tehran municipality issued a US$43 million participation paper (named as Musharakah securities). The Law for the Issuance of Participation Papers was enacted by Iran’s Parliament in 1997.

Before passing The Securities Market Act (SMA) of the Islamic Republic of Iran in 2005, financial instruments in the Iranian capital market were restricted to only common stocks, share rights, depository receipts, and participation papers. Since the enactment of the SMA in 2005 and The Law for Development of New Financial Instruments and Institutions in 2009, dramatic changes have taken place in the Iranian capital market such as establishing the Securities and Exchange Organization (SEO) as the sole regulatory and supervisory authority to the market, the establishment of the Shariah board of the SEO as a unified and independent Shariah governance body, the establishment of new financial institutions and the issuance of new financial instruments, to name a few.

The ratification of different kinds of Sukuk (such as Ijarah, Murabahah, Istisnah, standard parallel Salam, Manfa’ah (usufruct), mortgage-backed, and asset-backed Sukuk) by the Shariah board, has made them prominent and dominant instruments for financing and investing. In essence, Sukuk have been used, utilizing different underlying assets such as tangible assets and financial assets (like stock as underlying assets of Sukuk Ijarah), to finance public and private sectors.

Apart from participation papers, the first Sukuk was issued in the Iranian capital market on the 12th March 2011, and it was worth US$28 million. The underlying contract was Ijarah and its structure was based on sale and leaseback. Since 2011, the Iranian capital market has witnessed 49 issuances of Sukuk Ijarah cumulatively worth US$2.09 billion. Mortgage-backed Sukuk which stem from Murabahah loans provided by different banks (particularly Maskan Bank, a dedicated bank for housing loans) to their customers have been issued three times, raising US$219 million, as a means of financing for banks or corporations.

Regarding other Sukuk structures, Sukuk Istisnah was issued only once on the 23rd November 2015, for US$54 million, and asset-backed (Dayn) Sukuk was issued on the 18th June 2019, raising US$3.2 million.

As the first Sukuk structure in the Iranian financial system since the enactment of the SMA, Sukuk Musharakah have been issued many times by the government, municipalities, government-owned companies, private companies and public institutions. About US$12.39 billion have been raised through this instrument.

Besides Sukuk, there are other Islamic instruments in the market such as Islamic treasury bills which are issued by the government to settle its debts to contractors. The government offers these securities to contractors, in amounts equal to what the government owes. The contractors, which must not be part of the government (or affiliated to the government), can either hold them to maturity (at most for one year) or can sell it at a discount in the secondary market. Issued 67 times since 2015 to the tune of US$30.37 billion, Islamic treasury bills have been ratified by the Shariah board.

Although the Iranian Islamic capital market is dominated by the issuance of stocks and Sukuk, there are always innovative ways to foster its development. Using Islamic contracts or a combination of contracts to resolve the needs of the market has emerged from the interaction between the SEO and the Shariah board.

As an untapped market, the Iranian Islamic capital market enjoys plenty of unique potential to rival other Islamic markets in terms of diversity, depth, and return. Our market is promising for Muslim and non-Muslim investors around the world to have a safe, secure, and high-yielding investment.
The 15th anniversary of IFN is a good opportunity to consider the state of Islamic finance in Ireland, its beginnings nearly 10 years ago in the aftermath of the financial crisis, the framework supporting Shariah compliant transactions in Ireland, early advances and successes, the challenges and missed opportunities and its prospects for the future.

**Beginnings**

In the aftermath of the financial crisis that occurred in 2008, there was recognition that overleverage and excessive speculation in the financial system among other governance failings had contributed and caused the crisis with consequent tightening in the credit and bond markets. The government identified Islamic finance as possibly offering the opportunity to encourage investment into Ireland and participation of the Muslim community in the financial system and took measures to support the establishment of Islamic financial institutions.

The primary step was the Finance Act 2010 which introduced tax equivalency measures for Shariah compliant structures and to provide a mechanism whereby the Islamic capital market could be accessed by enabling the issuance of Sukuk among other Shariah compliant structures. At the time, international reports by both the IMF and the European Central Bank had identified Ireland’s strengths as a jurisdiction for Islamic finance and even its prospects as a leader in the field in Europe and the potential for Ireland to be the first to issue a European sovereign Sukuk facility. The Irish government had at that time prepared its international financial services strategy, IFS 2020, clearly identifying Islamic finance as a growth opportunity in the Irish market.

**Finance Act 2010 and taxation treatment**

The Finance Act 2010 introduced certain amendments into Irish tax law to support tax equivalency treatment for Shariah compliant transactions such that they would not be placed at a competitive disadvantage against conventional finance structures and products. In addition, the Irish Revenue Commissioners issued a tax and duty manual in respect of the taxation treatment of Islamic financial transactions and this manual was updated as recently as November 2018 to reflect the revenues’ latest positions.

**Early progress**

Euronext Dublin, formerly the Irish Stock Exchange, listed its first Sukuk in 2006 and since then has become a key market for the listing of international Sukuk issuances, including the US$9 billion sovereign Sukuk issued by Saudi Arabia in 2017 and other sovereign bond listings by the likes of Kuwait, Jordan, Oman and Bahrain. Corporate issuers with listed Sukuk on Euronext include Saudi Electricity, Emirates, Kuwait Energy and others.

Aviation finance was identified as a sector of opportunity given Ireland’s world-leading reputation in the aircraft leasing and finance industry and...
aside from aircraft Sukuk listings, there have been transactions in this space including the sale in 2017 by AerCap of a portfolio of 19 aircraft valued at circa US$1.4 billion to NCB Capital utilizing Shariah compliant credit facilities.

With the benefit of Ireland’s strengths in Sukuk listings, a supportive taxation framework for Shariah compliant transactions, its common law legal system (which would be broadly familiar to many Middle Eastern investors with experience in the UK market) and English-speaking jurisdiction, one might have expected rapid growth to have occurred.

However, despite some headlines and Euronext’s success as a venue for listing Sukuk, the early promise of Islamic finance has failed to deliver in Ireland and despite nearly 20 Islamic financial institutions operating in the UK, there are no Islamic financial institutions established or operating in Ireland and no retail products available to the Muslim community.

**UK-authorized institutions will most likely be unable to exercise potentially valuable passporting entitlements and Ireland could become for Islamic institutions and investors a safe place of establishment within Europe as has been the case for a host of English and international banks, insurers and asset managers that have already chosen to relocate here**

**Recent progress**

We in commercial law firm Philip Lee have taken the lead in Ireland in advancing the Islamic finance industry, in 2018 advising Community Finance Ireland (CFI), a social enterprise finance provider, in launching the first non-interest-bearing property finance structure specifically targeted at the Muslim community to support community groups advance their social enterprise objectives.

Following from the significant interest from the Irish Muslim community generated by the CFI product launch, in 2019 Philip Lee undertook a landmark Irish survey to quantify the demand for Shariah compliant financial products in the Irish Muslim community. The survey, the first of its kind in Ireland, confirmed significant investment gaps and opportunities within the Muslim community for compliant financial products. The findings from the 400-plus responses included:

- 98% would use an alternative financial product compliant with Islamic finance principles in preference to a conventional loan if available and cited the lack of a compliant alternative product as the reason for not purchasing a home or investment property
- 95% of respondents had an indicative budget of between EUR250,000 (US$276,811) and EUR500,000 (US$553,623) for a home with the average mortgage finance required being approximately EUR274,500 (US$303,939)
- 81% of respondents were living in rented accommodation notwithstanding that 50% of respondents had individual incomes in excess of EUR50,000 (US$55,362.3) per annum, and
- an initial day one mortgage investment opportunity of between EUR30 million (US$33.22 million) and EUR60 million (US$66.43 million) from the survey respondents alone.

In 2019, Ireland emerged as a leading hub for green and responsible finance, with Dublin overtaking London for the first time since 2014 for the number of security listings. According to Bloomberg, borrowers, including Banco Santander and EDP Finance, listed 28 green notes on Dublin’s Euronext exchange in 2019 (including the Irish EUR5 billion (US$5.54 billion) sovereign green bond), topping 19 in London, according to data compiled by Bloomberg.

The number of deals finding their way onto the Irish bourse more than doubled from 13 last year. Likewise, the market for green Sukuk has been growing internationally, most recently with the announcement in November 2019 by the IsDB of its EUR500 million (US$553.62 million) inaugural green Sukuk. The Irish government has positioned Ireland as a hub for green finance as part of its revised 2019 IFS strategy, ‘Ireland for Finance’. This commits to building on the success of the issuance of the Irish EUR5 billion sovereign green bond, among 27 other green bonds listed on Dublin’s Euronext exchange in 2019.

During Climate Finance Ireland Week 2019 in November, Michael D’Arcy, the minister of state at the Department of Finance, committed to growing the green finance sector from EUR100 million (US$110.73 million) to EUR1 trillion (US$1.11 trillion) as soon as possible as part of the government’s sustainable finance agenda. Also announced as part of Climate Finance Week, Euronext Dublin launched its center of excellence for green bonds complying with the ICMA Green Bond Principles or Climate Bond Initiative Taxonomy.

**Opportunities and challenges for the future**

As noted, the progress of the Islamic finance industry has been slow in Ireland and investors have tended to concentrate on the UK market and UK real estate. However, ethical, responsible, sustainable and green finance principles represent the future direction of travel in the finance industry. These principles have a lot in common with the principles and objectives of Islamic finance. Islamic institutions such as Al Rayan in the UK have already broadened their appeal and customer base beyond the Muslim community and there is a demand from the public for this type of principled ethical banking model, particularly with the shift to fintech business models. Conventional banks have been hit with a series of governance and consumer scandals, with reports on banking culture and the tracker mortgage scandal in Ireland (which has been estimated to have cost the banks upwards of EUR1 billion (US$1.11 billion)) demonstrating the gaps that exist between behavior and regulatory and public expectations.

Perhaps with some long-awaited clarity on Brexit, following the UK general election coming in December 2019, and the looming (although ever-extended) withdrawal date of the 31st January 2020, it may be that Ireland may yet get the Islamic finance boost it needs.

UK-authorized institutions will most likely be unable to exercise potentially valuable passporting entitlements and Ireland could become for Islamic institutions and investors a safe place of establishment within Europe as has been the case for a host of English and international banks, insurers and asset managers that have already chosen to relocate here. Ireland will be the only English-speaking member of the eurozone following the UK’s withdrawal and with a common law legal system very similar to that of the UK, a jurisdiction with an attractive tax policy and framework which supports Islamic financial transactions, it could be the logical choice for investors and institutions in the Islamic finance industry seeking to grow in the European market in the future.
The impact of the Islamic finance wave in Italy

Stefano Loconte is the managing partner at Loconte & Partners. He can be contacted at stefano.loconte@studioloconte.it.

There are more than 1.4 million Muslims in Italy – almost 3% of the Italian population – with savings for US$6 billion approximately. Thanks to its strategic geographical position, Italy represents an invaluable link between European and Islamic countries. This helps explain the reason why lots of Muslims are interested in investing and moving here.

Just a few examples: the Abu Dhabi-based fund AABAR owns 5.04% of Unicredit; the Abu Dhabi-based fund Mubadala acquired 100% of Piaggio; and the Bahrain sovereign fund Mumtalakat invested in KOS, a leading Italian company specialized in health and social care. Moreover, in the last years, Qatar has also been very active in Italy with investments in the real estate, hotels, transportation and fashion sectors. To this last regard, it is worth mentioning the acquisition of Valentino by the Emir of Qatar.

Given the strong ties between Italy and Islamic countries, can Islamic finance be an opportunity to enrich Italy’s economic, financial and cultural heritage? What has been done so far to catch this chance?

Broadly speaking, one of the first steps to be taken to attract Islamic investors is to allow them to invest in Shariah compliant products.

Given the strong ties between Italy and Islamic countries, can Islamic finance be an opportunity to enrich Italy’s economic, financial and cultural heritage?

The offering of such products in Italy does not require the adoption of new rules from a strictly civil law perspective. In 2014, in a study named ‘The Islamic finance in the legal and economic Italian context,’ CONSOB, the Italian supervisory authority for the financial product market, stated that Islamic finance does not conflict with Italian financial principles, being that the latter is not characterized by an ethical or religious connotation. The most widespread Islamic financial instruments can fall in the categories of “transferable securities” pursuant to Article 1, paragraph 1-bis, and “EU financial instruments” pursuant to Article 93-bis of the Italian Consolidated Financial Act.

Again from a civil law point of view, Islamic finance-related contracts may also be deemed admitted in Italy pursuant to Article 1322 of the Italian Civil Code, which allows atypical contracts (contracts without a specifically tailored regulation), provided that they are aimed at pursuing interests worthy of protection pursuant to the law. In fact, the main principles of Islamic finance, namely the prohibition of Riba, the prohibition of Haram activities, the prohibition of Maysir and Gharar, are not in conflict with Italian general civil law principles.

As further pointed out by CONSOB, a critical issue in the spreading of Islamic finance in the Italian legal system (both in terms of financial instruments and Islam-related contracts) is rather represented by the tendentious lack of univocal interpretation of certain Shariah principles and, as a consequence, by a margin of uncertainty in the configuration of Shariah-based legal notions and instruments. In fact, there are some financial products, services and instruments that are considered to be Shariah compliant only by some commentators and not by others.

Such an uncertainty is a significant deterrent to the implementation of Islamic finance in Italy. This is the reason why support from the two main international Islamic authorities appointed to provide guiding principles for Islamic financial institutions and industries (AAOIFI and the Islamic Financial Services Board) would be opportune to help other States adopt Islamic finance-related products in their own legal system.

The above having been said, an obstacle to the implementation of certain Islam-related contractual structures, such as, Murabahah, Ijarah and Istisnah, arises from a tax perspective and lies in the issue of double taxation.

All of such contracts are made up of two underlying agreements:
- Murabahah and Istisnah consist of two sale and purchase agreements, one between the bank and the supplier, whereby the bank purchases the good from the supplier at an agreed price, and the other between the bank and the client, whereby the bank sells the good to the client at a price higher than the one paid to the supplier;
- Ijarah is made up of a sale and purchase agreement between the bank and the supplier, whereby the bank purchases the good (the client needs) from the supplier, and a lease agreement between the bank and the client, whereby the bank makes available the good to the client at a periodic fee higher than the price paid to the supplier.

Under the Italian law, the individual agreements making up each of the above contractual structures would be considered separate contracts, as such taxed on an individual basis. In 2017, the VI Finance Committee of the Chamber of Deputies of the Italian Parliament, chaired by Maurizio Bernardo and supported by a
working group of tax experts, introduced a draft law into Parliament to regulate the tax treatment of Murabahah, Ijarah and Istisnah.

Based on the so-called “substance over form principle” which, applied in the instant case, allowed to consider the two underlying contracts forming Murabahah, Ijarah and Istisnah as one single contract due to the connection existing between them, the draft law stated that persons who enter into Murabahah, Ijarah and Istisnah would have been subject to substitute tax only, as per Article 17 of Presidential Decree no. 601 of the 29th September 1973 (Article 3, paragraph 12, of the draft law).

The draft law regulated the issuance by the Italian government of Sukuk. Article 4, paragraph 1 of the draft law defined Sukuk – just for tax purposes – as “financial instruments” to be assimilated to Italian bonds (therefore subject to the ordinary taxation as per Article 26 of Presidential Decree no. 917 of the 22nd December 1988), and further stated that their issuance – the publication of the offering prospectus – had to comply with the requirements set forth by Articles 94 and 98-bis of Legislative Decree no. 58 of the 24th February 1998 in relation to the offering to the public of financial instruments and financial products.

Although formally assimilated to Italian bonds, it is important to note that Sukuk are not fully equivalent to Italian conventional bonds. In fact, as stated by AAOIFI in 2008, Sukuk are asset-based instruments and, specifically, “certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity”. On the contrary, Italian conventional bonds are debt instruments, which entitle the owner to receive the money back, without conferring a right on any underlying asset. Although introduced to Parliament, the draft law was never discussed due to a political turnover further to elections.

Another idea recently discussed, particularly in the Municipality of Turin, which has not been implemented yet, is the setting up of an Islamic bank in Italy. The Bank of Italy does not seem to have a hostile approach to the idea, but a lot of concerns are still open.

An Islamic bank can be set up in three alternative ways:
1) By creating a fully-fledged Islamic bank in the territory
2) By creating a branch of an Italian bank, with a focus on Shariah compliant products
3) By creating an Islamic window within an Italian bank

Generally speaking, the most significant issue related to the creation of an Islamic bank in Italy is represented by the different notion of banking activity in Islamic finance.

The Islamic banking system is built on Shariah principles and, more specifically, on the profit and loss sharing principle, pursuant to which the profits and, sometimes, the losses associated with each individual investment are shared between the bank and the client as indicated in the relevant underlying contract.

At the end of the agreed period, if profits have accured, the client is entitled to receive the amount of the investment back plus a share of the profits generated by the investment. If the investment has generated losses, depending on the nature of the underlying contract, losses are borne by the client (Mudarabah) or by both the bank and the client (Musharakah).

Other niche areas, such as food, tourism and fashion, have also been recently touched by Islamic influence, also due to Italy’s strategic geographic position and well-established cultural and political ties to Islamic countries.

Let’s think of Halal Italia, which, together with CO.RE.IS. (Islamic Religious Committee in Italy), is responsible for granting Halal certifications to products that comply with Shariah requirements, and of Modest Fashion, a concept which landed in Italy during the Turin Fashion Week.

Another niche example of Islamic impact on the Italian industry and culture is art. Italy is one of the countries with the highest number Islamic artworks in the world and only recently new initiatives emerged to enhance the Islamic art through exhibitions and cultural events.

To conclude: one of the major obstacles to the development of Islamic finance in Italy is the little information and knowledge about actual Islamic culture. The degree of penetration of Islamic finance in Italy also depends on an improved understanding of Islamic cultural world and traditions.

Understanding Islamic culture is a chance to elaborate on new financial instruments, which can increase the number of exchanges and investment between Italy and Islamic countries, and an occasion to face new perspectives. ☺️

"On behalf of IFAAS, I would like to avail this opportunity to congratulate you on the 15th Anniversary of excellence at IFN, you have been doing a great job and we wish you all the best in the years to come.

Keep up the good work!"

Najib Al Aswad, Director, IFAAS

January 2020
In 2009, former activists of the Muslim Student Association of Cote d’Ivoire AAEMCI created Al Barakat, an Islamic microfinance in Daloa in the center of Cote d’Ivoire. In 2010, Muslim intellectuals in the CNFI National Committee of Islamic Finance created the first Islamic microfinance in the Ivory Coast called Raouda Finance.

On the 10th December 2014, the president of the Republic of Ivory Coast, Alassane Ouattara, met Dr Ahmad Mohamed Ali, the president of the IsDB in Jeddah, Saudi Arabia and signed a number of memorandums on multilateral cooperation to support the Ivorian economy.

The cocoa producer’s inaugural local currency Sukuk, with a five year maturity, was subscribed by regional and international institutional investors, as well as retail investors from the eight members of the West African Economic and Monetary Union (WAEMU), who were impressed by the economic prospects of Ivory Coast. Region-wise, 56% of Sukuk was allocated to West Africa and 6% to North Africa, while Middle Eastern buyers snapped up to 38%. This landmark transaction won two awards granted by IFN: Sukuk Deal of the Year (2015) and African Deal of the Year (2015).

The Africa Islamic Finance Forum (Africa IFF) 2015 was held in Abidjan on the 17th to 18th September 2015 under the patronage of the government of the Cote d’Ivoire, in association with the IsDB and the Islamic Corporation for the Development of the Private Sector (ICD). This exclusive, invitation-only event was specifically for and the Islamic Corporation for the Development of the Private Sector (ICD). This exclusive, invitation-only event was specifically for the benefit of local and international market players to explore the development opportunities in Islamic finance in the Cote d’Ivoire, both locally and regionally, concentrating on building the market and exploring its exceptional potential through inward investment and international collaboration.

Africa IFF 2016 was held also in Abidjan, from the 17th to 18th October 2016, bringing together local and international market players to explore development opportunities in Islamic finance in Africa. This marked the listing on the Bourse Régionale des Valeurs Mobilières (BRVM) of five sovereign Sukuk issuances from Senegal, Ivory Coast and Togo.

The OIC council of foreign ministers in Abidjan 2017 hosted the 44th session of the Council of Foreign Ministers of the OIC from the 10th to 11th July 2017, with adoption of various relevant recommendations. RAPFI, an African network for the promotion of Islamic finance, was created on the 22nd June 2018 in Benin. Launched in November 2018, RAPFI consists of nine member countries in Africa with a head office in Abidjan. It conducted the first Shariah auditing qualification training in the region with 15 professionals from five countries.

On the 2nd and 3rd March 2018, the BCEAO Central Bank of West African States issued its first instructions regulating Islamic finance activities in its member countries including Cote d’Ivoire.

Amendments were made to the Microfinance Act 2019, which was adopted by the parliament and the Senate, authorizing microfinance activities in Ivory Coast.

In 15 years of development, Islamic finance achieved so many milestones in terms of promotion, Sukuk issuance and Islamic financial institutions. There are many other aspects of this industry to develop, but depending on how dynamic the Ivorian economy is, there is no doubt that the future of Islamic finance in this country is bright.
Transformational moments of Islamic banking and finance in Jordan

There are no doubts these days that Islamic banking and finance has achieved enormous advancement in the global economy. The question is, to what extent is Jordan still playing major roles in the industry?

In The State of the Global Islamic Economy Report 2019/2020 by Thomson Reuters, Jordan ranked seventh among the top ten countries in the global Islamic economy, while Malaysia is still leading the industry followed by the UAE, Bahrain and Saudi Arabia. The Islamic finance industry was estimated to be worth US$2.5 trillion in total assets in 2018 and forecast to reach US$3.5 trillion by 2024. Furthermore, Jordan ranked seventh place in Islamic finance, eighth place in Muslim-friendly travel and third in pharmaceutical and cosmetics.

The formative years of the Islamic finance and banking industry started when the Jordanian government issued a special law for the establishment of the first Islamic bank – Jordan Islamic Bank – in 1978. In 2000, the law was replaced by the private law for Islamic banks; this law organized the operations for Islamic banks and their own regulatory issues. Islamic International Arab Bank followed after two decades in 1997. By 2003, only two banks shaped the industry.

In 2010 and 2011, Sahwa Bank – formerly Jordan Dubai Islamic bank – and Al-Rajhi Bank were established respectively. Total assets reached JOD7.95 billion (US$11.21 billion) in 2018 from only JOD1.36 billion (US$1.92 billion) in 2003, showing an increase of around five times. Total deposits increased 5.42 times, total equities increased 6.51 times and direct facilities increased 12.10 times, illustrating the huge increase in all indicators for Islamic banks over the past 15 years.

The Jordanian banking system consists of 24 banks, with 848 operating branches inside Jordan and 188 outside the country. Local banks represent 16 banks (three of them Islamic), while foreign banks are eight (one Islamic). In total, Jordan has four operating Islamic banks.

Islamic banks inside Jordan have around 164 branches and 438 ATMs distributed throughout the kingdom. In 2018, the total assets of Islamic banks were 16.37% of the total assets of the whole banking system, and the total deposits and total facilities of Islamic banks were 17.28% and 23.67% respectively. Total equities were 13.01%. This illustrates the increasing growth of Islamic banks in the Jordanian banking system.

In the past, Islamic banks introduced basic products such as current accounts, savings, Wakalah, Murabahah, Murabahah, and joint investment. Facilities for retail were also introduced through Card Hasan, Murabahah, Ijarah, and financing of benefits, car and housing. The retail sector presented other products such as Visa cards, transfers (inward and outward), foreign exchange and safe boxes. Nowadays, products have become more sophisticated with modern shapes for both deposits and facilities, including Musawamah, Ju’alah, Tawreed, and portfolio of Sanadat Muqaradah and investment through certificate of deposits.

Islamic banking in Jordan focused on replicating traditional banking activities with new high-technology applications involved, such as mobile banking, internet banking, EFAWATEERCom (direct bill payment), security protection for services, domestic transfers and local account payments. In other words, high-technology services were the most prominent activity in Jordan’s Islamic banking sector.

In the capital market, the Jordan Securities Commission organized a workshop named ‘Obstacle for issuing Islamic Sukuk in Jordan,’ exploring the most important obstacles by a group of speakers. The main findings were government obstacles like slow actions taken from the moment of preparation to issuance, and investor obstacles. Other obstacles were very low interest rates compared to conventional financing instruments for the same periods, inefficiency of the secondary market in trading Sukuk and the multiple Shariah opinion committees towards the instrument of Sukuk.

Jordan is characterized by stability and distinguished international relations, with a grade ‘BB’ and a stable outlook. The country’s population reached 10 million in 2017 and it has significantly contributed to the Islamic banking industry – for example, Jordanian Islamic banks were the first Islamic banks to apply Islamic finance tools such as Istisnah and Ijarah in modern contracts. Jordan was also the first country which organized special laws for Sukuk. In conclusion, Jordan is a main player in the Islamic finance industry.

Table 1: Comparison performance for Islamic banks between 2003 and 2018

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<td>No. of banks</td>
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<td>164</td>
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<td>No. of branches inside Jordan</td>
<td>1716</td>
<td>4,294</td>
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<td>No. of workers</td>
<td>57</td>
<td>438</td>
<td>6.68</td>
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<tr>
<td>JOD: Jordanian dinars (millions)</td>
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<td></td>
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<tr>
<td>Total assets</td>
<td>1,361.02</td>
<td>7,950.44</td>
<td>4.84</td>
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<td>Total deposits</td>
<td>1,074.55</td>
<td>6,902.16</td>
<td>5.42</td>
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<td>Total direct facilities</td>
<td>444,653</td>
<td>5,824.25</td>
<td>12.10</td>
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<tr>
<td>Total equities</td>
<td>105.9</td>
<td>795.288</td>
<td>6.51</td>
</tr>
</tbody>
</table>

Table prepared by the researcher from several sources.

Table 2: Islamic and conventional banks in Jordan (includes local and foreign banks)

<table>
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<tbody>
<tr>
<td>Numbers - unit</td>
<td>20</td>
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<tr>
<td>No. of banks</td>
<td>684</td>
<td>164</td>
<td>848</td>
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<tr>
<td>No. of branches inside Jordan</td>
<td>188</td>
<td>0</td>
<td>188</td>
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<tr>
<td>No. of workers</td>
<td>16,968</td>
<td>4,294</td>
<td>21,262</td>
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<tr>
<td>No. of ATMs</td>
<td>1,434</td>
<td>438</td>
<td>1,872</td>
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<td>JOD: Jordanian dinars (millions)</td>
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<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>40,622.60</td>
<td>7,950.44</td>
<td>48,573.04</td>
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<tr>
<td>Market share – total assets</td>
<td>83.63%</td>
<td>16.37%</td>
<td>100%</td>
</tr>
<tr>
<td>Total deposits</td>
<td>33,038.36</td>
<td>6,902.16</td>
<td>39,940.52</td>
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<tr>
<td>Market share – total deposits</td>
<td>82.72%</td>
<td>17.28%</td>
<td>100%</td>
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<tr>
<td>Total direct facilities</td>
<td>18,786.16</td>
<td>5,824.25</td>
<td>24,610.39</td>
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<tr>
<td>Market share – total direct facilities</td>
<td>76.33%</td>
<td>23.67%</td>
<td>100%</td>
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<td>Total equities</td>
<td>5,317.539</td>
<td>795.288</td>
<td>6,112.827</td>
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<tr>
<td>Market share – total equities</td>
<td>86.99%</td>
<td>13.01%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Association of Banks in Jordan, 2018. Table prepared by the researcher.

Nafith Nazal is an Islamic banking specialist, selected among the top 500 leaders in the Islamic Economy 2015, and a certified financial and investment advisor and statistical analyst in Jordan. He can be contacted at nafez1974@yahoo.com.
The question of whether or not there is any Islamic finance development in Kazakhstan is not easy to answer. There is definitely strong support from the government of Kazakhstan for Islamic finance as an alternative source of funding for infrastructure, SMEs, agriculture and such. But although Kazakhstan adopted relevant legislation for domestic Islamic banking transactions such as the governed Kazakh law more than ten years ago and established the Astana International Financial Center (AIFC) based on the Dubai International Financial Center’s model three years ago, Islamic finance is still in the early stages of its development and Islamic products are rarely used.

According to the National Bank of Kazakhstan (NBK), as of 2019, the share of Islamic banking assets account for only 0.21% of the total banking sector assets in Kazakhstan. One may argue that there is more talk about Islamic finance rather than real business all these years and that there is no real market demand for Shariah compliant finance in Kazakhstan. Thus the big question of whether there is any real development of Islamic finance in Kazakhstan or not.

Recent developments

In efforts to become the Islamic financial center of the Eurasian Economic Union and Central Asia, Kazakhstan has so far adopted three sets of legislative amendments in 2009, 2011 and 2015. The AIFC that was established in 2018 adopted the Master Plan (Roadmap) for the development of Islamic finance in Kazakhstan, which provides measures for developing Islamic finance activities in the country in terms of further legislative changes and such. Because of the aforementioned initiatives of the government of Kazakhstan that created a specific legal and regulatory framework for Islamic finance, there are two fully operating Islamic banks in Kazakhstan – Al Hilal Bank and Zaman Bank, which was previously a commercial bank but received permission from the National Bank of Kazakhstan (NBK) in 2016 to convert into an Islamic bank.

In addition, an Islamic leasing (Ijarah) company – Kazakhstan Ijara Company; an Islamic mutual insurance company – Mutual Insurance Company; an Islamic leasing (Ijarah) company – Kazakhstan Ijara (NBK) in 2016 to convert into an Islamic bank. An Islamic banking license authorizes a Kazakh Islamic bank to conduct, inter alia, the following specific operations: accept interest-free demand deposits, and finance commercial operations through the purchase/sale of goods or by way of participation in projects, leasing and such. In February 2016, the first project in the framework of Islamic finance using the Ijarah product (Islamic leasing) was implemented in Kazakhstan by Development Bank of Kazakhstan. In addition, Islamic Bank Al Hilal expanded its range of services by launching Islamic banking products for individuals in 2017. Islamic insurance Kazakhstan law specifically provides for such concepts as Takaful and Takaful operators. Islamic insurance under Kazakh law is a system of mutual protection where one policyholder pays to reimburse the losses of another policyholder, the pool for which is managed by a Takaful operator. Takaful must be carried out by Kazakh Takaful operators only.

Islamic capital market

Kazakh Islamic securities certify the right of their holder for the portion of the material assets and the right to the disposal of such assets and the income derived from such assets, services and other assets of the particular projects for financing of which Islamic securities have been issued. Kazakh Islamic securities include shares and units of Islamic investment funds, Islamic lease certificates, Islamic participation certificates and other securities recognized as Islamic securities by Kazakh law. Importantly, Kazakh Islamic securities may be paid only in cash. The prospectus of Islamic securities shall be approved by the so-called council on the principles of Islamic finance that may be engaged by the issuer based on the agreement.

In 2012, the Development Bank of Kazakhstan issued a RM240 million (US$53.87 million) 5.5% Sukuk Murabahah facility under its RM1.5 billion (US$336.66 million) Islamic medium-term note program. To the best of our knowledge, however, these Sukuk facilities were issued on a cross-border basis and were governed by foreign rather than Kazakh law (issued in accordance with Malaysian law) and therefore cannot be considered as Kazakh Islamic securities. Interestingly, the board of directors of the Development Bank of Kazakhstan, on the 23rd February 2017, decided to annul this RM1.5 billion program with full satisfaction of current liabilities by the 31st December 2017. According to the Ministry of Finance, Kazakhstan plans to place Sukuk on the AIFC exchange in the next two years. The placement of sovereign Sukuk will be the huge step forward to the development of the Islamic finance in Kazakhstan, and a sign to the investors that the government of Kazakhstan is particularly interested in Islamic finance.

Conclusion

Taking all of the aforementioned points into account, Kazakhstan, evidently, already has a decent legal and regulatory framework for both the domestic Islamic finance industry and for cross-border Islamic finance transactions and, therefore, it seems that there is a real development of the Islamic finance in Kazakhstan. Such developments, however, are made in small steps.
Islamic finance in Kenya - the journey so far

Kenya currently has three fully-fledged Islamic banks, several conventional banks with Islamic windows, Takaful companies, Islamic investment banks and Shariah compliant savings and credit cooperatives.

Regulatory milestones and challenges

In light of the government's 2030 vision of achieving a vibrant market for Shariah compliant products and propelling Kenya toward becoming an Islamic finance hub of the region, the Banking Act, 1989 was amended through the Finance Act of 2008 to allow for the recognition of the concept of "returns" as consideration for money lent/borrowed as opposed to "interest".

Encouraged by the amendments, the subsequent years from 2008 were characterized by the emergence of several new branches of existing Islamic banks together with the formation of various Islamic financial institutions such as Crescent Takaful Sacco.

In 2015, the Islamic Finance Project Management Office (PMO) was set up by the government to develop an institutional, policy and regulatory framework for the Islamic finance industry. Additionally, it was tasked with the mandate of addressing the lack of awareness of Islamic finance products and services locally, and the preparation of the National Shariah Governance Framework.

The PMO's efforts began bearing fruit in 2017 when further substantial progress was made in the regulatory field. The Finance Act of 2017 amended various statutes, such as the Stamp Duty Act and Income Tax, in a bid to recognize Islamic finance principles and products. The Public Finance Management Act was also amended to recognize Sukuk. The Insurance (Amendment) Act, 2016 came into force in 2017 to formally recognize the Takaful model.

In continuation with its mandate, the PMO has compiled whitepapers relating to various financial sectors such as banking and finance, the capital markets, Takaful, microfinance and so on. These whitepapers set out the additional legislative amendments and other measures that need to be put in place for the sustained growth of Islamic finance in Kenya.

In spite of the progress made thus far, the current regulatory environment is not sufficient and more needs to be done towards the industry's growth. First of all, conventional banking and Shariah compliant banking are subject to the same set of laws (save for exemptions granted to institutions providing Islamic finance). This is in contrast to global best practices. For example, Malaysia has a distinct and separate legal framework for Shariah compliant banking and conventional banking thus accelerating the development of Islamic finance in Malaysia.

Further, there is a need for the establishment of a national Shariah board, to exercise effective independent oversight in order to enhance uniformity across the industry. As it stands, each bank has its own Shariah board that overlooks the compliance of the Islamic bank's activities to Shariah standards. This could potentially lead to confusion and uncertainty relating to the principles applicable in Islamic finance transactions, as what is deemed permissible by one Shariah board may not be viewed as such by another.

Going forward

According to the Islamic Finance Country Index of 2019, Kenya has slipped down three places in the global rankings to stand at position number 24 compared to 21 in 2018.

This slight dip in performance in the global rankings can be attributed to the above-mentioned regulatory challenges that Kenya is facing, a lack of enough well-trained professionals and a general misconception among the Kenyan public that Islamic finance is specifically for those practicing the Islamic faith, among other factors.

Despite this, Kenya has made several positive strides over the past few years. The Kenyan government, through commissioning of the PMO, is constantly pushing for additional reforms which will go a long way in providing an enabling environment for the flourishing of Islamic finance.

In conclusion, there is undoubted potential for the growth of Islamic finance in Kenya. We look forward to a stronger industry in the coming years and we hope that the government's plan to roll out the maiden Sukuk that has been in the pipeline for a few years now comes to fruition. The opportunities are immense as industry players seek to benefit from the Government's goodwill to grow Islamic finance. There has also been a significant push by Islamic finance players in Kenya towards sensitizing the public through regular trainings and seminars.

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Islamic finance services in Kuwait likely to see more prominent role in coming years

It is a true pleasure to be taking part in this great occasion celebrating IFN’s 15th anniversary as a leading source of information and trends in the Islamic finance space.

Using this analogy, I would like to share with you how in 15 years the Islamic finance landscape has evolved and changed in Kuwait. The first trigger was the introduction of the Islamic Banking Law No 33 of 2003. This paved the way for the market to become regulated after 26 years from the incorporation of Kuwait Finance House (KFH) which had a monopolistic position. This has led to the transformation of KFH to be supervised under the Central Bank of Kuwait (CBK) and divesting from non-core banking assets. The first competition to arrive was Boubyan Bank, which was established in 2004.

This was followed by the Kuwait Real Estate Bank — which had operated in Kuwait as a conventional finance lender since 1973 — which converted to Shariah compliant status in 2007 and rebranded as Kuwait International Bank. In 2010, Ahli United Bank (AUB) of Kuwait also converted its business to operate in the Islamic market. The same year saw Warba Bank, a new Shariah compliant institution, obtain a license to conduct business in Kuwait. Hence, Kuwait has moved in 15 years from one bank to five strong Islamic banks.

The steady stream of market entrants has established a growth trend for Shariah compliant finance that has outpaced the conventional segment in recent years. The assets of Kuwait’s five Islamic banks expanded faster than their traditional counterparts in every year but one. Islamic banks recorded a 22.5% growth in their net income in 2018, compared to 15.9% among conventional institutions. Shariah compliant assets now account for 40% of the country’s banking sector, according to the IMF.

On the other hand, the once-vibrant Islamic investment company sector — which had played a key role in the growth of Islamic finance in the GCC, setting up Islamic finance institutions and products — was shaken up by the financial crisis of 2008 and was exposed to a huge mismatch between its assets and liabilities. This has led to the collapse of a number of the leading names such as The Investment Dar, Aref Investment Group and a host of other companies. Islamic investment companies are now down to 21 from over 30 institutions that have either liquidated, restructured or merged.

Following the global financial crisis and following the drive to set supervisory and controlling regulations which support an attractive and competitive investment environment according to best international practice, the Capital Markets Authority (CMA) was established in 2010. Over the past nine years, the CMA has established new rules and regulations in the market, which played a big role in including Kuwait into the emerging markets indices. At the same time, such new regulations posed a new challenge for investment companies in terms of compliance cost and reduction of licensed activities.

Moving forward, the landmark transaction of this year is the KFH–AUB consolidation which is close to being completed — it won’t be the only large-scale merger in the Kuwaiti financial sector, but it will be the sixth-largest bank in the GCC. KFH offered to buy Bahrain’s AUB in an all-share deal that is valued at about US$8.8 billion. KFH plans to issue one share for every 2.33 shares of AUB. Regulators’ approval is being obtained and the consolidation is likely to go ahead by the first quarter of 2020.

A new Sukuk framework was introduced in late 2015. It established for the first time the requirements for appointing trustees and setting up SPVs, as well as rules on governance and ensuring Shariah compliance. Consumer protection is also highlighted in the regulations, with requirements for a credit rating for public issuance and the need for approval by both the CMA and the CBK.

The introduction of a comprehensive regulatory framework for Sukuk issuance represents an important advance for the Islamic finance services sector. Kuwait is an active center of conventional bond issuance — 43 outstanding bond issues from Kuwaiti corporates while the country made its first international sovereign issuance in March 2017 — but the lack of rules for Sukuk offerings has hindered the development of Shariah compliant debt. The law bill is now under consideration with the parliament; once approved, it will allow for the issuance and listing of local Sukuk.

Outlook

Kuwait’s Public Debt Law of 2008 is under discussion but the parliamentary nature of Kuwait’s political system means that broad legislative change is complex and lengthy, thus upgrading the entire issuing environment is a long-term undertaking. With the new proposed Sukuk law and the new version of the Public Debt Law, Islamic banks will play a role in upcoming sovereign Sukuk issuance.

Despite some regulatory challenges, the World Bank places Kuwait among the top 10 countries in terms of the development of its Islamic economy. Assessed in the areas of financial size, governance, awareness and social contribution, Kuwait ranks seventh globally — higher on the leaderboard than some regional financial centers and even superseding some global pioneers of Islamic finance such as Indonesia. Kuwait’s Islamic finance services sector, which already plays a crucial function in the economic life of the country, is likely to see its role become more prominent in the coming years.
Luxembourg: Fulcrum of the eurozone for Islamic finance

The Islamic finance market will be worth US$3.5 trillion by 2024 and the large majority of assets that are held in deposit accounts bespeak an imminent growth as the market matures. The stable economy of Luxembourg houses a culture of innovation and flexibility to cater to new financial instruments. The country is one of 10 countries with a rating of ‘AAA’ and is the fifth largest Islamic fund center internationally. Luxembourg is a pioneer in hosting an exchange platform for sustainable and green securities and is a premier wealth management center in the eurozone. The role of Luxembourg over the last four decades, which signifies a long-standing partnership with the financial communities of Muslim countries in Asia and the Middle East relevant to the Islamic finance industry, has been highlighted below in key developments and notable features.

Luxembourg’s financial system has a legal and regulatory framework that has the provision to host products with diverse norms. Tax impositions for Shariah compliant instruments have been elaborated upon while reiterating the fact that the supervisory body has no say in the Shariah, which is essential for the successful realization of Islamic finance products. The Luxembourg financial sector supervisory authority (Commission de Surveillance du Secteur Financier – CSSF) and the insurance sector regulator (Commissariat aux Assurances – CAA) are adept at handling the authorization and supervision of Islamic financial structures. Luxembourg has a standard value added tax (VAT) rate of 17%, which is the lowest in the EU (average rate is 21.3%).

Luxembourg offers a wide range of investment vehicles, both regulated and unregulated and any Undertakings for Collective Investment in Transferable Securities (UCITS) can be set up as a Shariah compliant fund for distribution to retail and institutional investors. Alternative investments like real estate, private equity, hedge funds and venture capital can be structured using a Risk capital Investment Company (SICAR), Specialized Investment Funds (SIF), Reserved Alternative Investment Fund (RAIF) or Undertakings for Collective Investment (UCI) Part II depending on the requirements. A number of Shariah compliant securitization vehicles (SV) have been set up in Luxembourg, which are tax neutral.

Luxembourg holding company (SOPARI), family wealth management company (SPF) and SIF can be used to manage a portfolio of business interests in compliance with Shariah. 61% of the global assets held in microfinance investment vehicles (MIVs) are domiciled in Luxembourg and UCIs, SICARs, SIFs and RAIFs can be used to build Shariah compliant microfinance funds. Islamic investment funds catering to ESG standards can be sold to the European institutional asset management market. Luxembourg Takaful products are being sold to France, Germany, Asia and the Middle East.

Luxembourg Stock Exchange (LuxSE) is the principal center for listing Sukuk, which can be done in the regulated market, the Euro multilateral trading facility (MTF) market or the LuxSE securities Official List (SOL). The SV may be used to issue several classes of Sukuk. A depiction of Sukuk issuances in the country since 2002 and their issue sizes can be seen below.

There still exist challenges encompassing liquidity, regulatory impositions, standardization needs and mass acceptance of the Islamic finance sector. However, the tax regime, a diverse financial investment toolbox and fintech initiatives, housed in a culture of flexibility in Luxembourg, indicate a progressive economy that is in a state of continuous enhancement to accommodate novel financial instruments. As an ethical business, recommended even by the Vatican, Islamic finance has an optimum domicile in Luxembourg to strengthen its global progress.

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Key developments

1978 : Establishment of first Islamic financial institutions
1983 : First European Takaful company
2002 : First security exchange to list a Sukuk
2008 : Establishment of task force for Islamic finance promotion by government
2009 : Launch of specialized Islamic finance training courses
2010 : First central bank to join the IFSB; circulars for treatment of Islamic finance structures; founding member of the International Islamic Liquidity Management Corporation facility
2011 : Clarification of certain Sukuk prospectus requirements; 8th IFSB seminar was hosted
2013 : Publishing of best practice guidelines for Islamic funds by the Luxembourg Fund Association
2014 : First sovereign state to issue a Sukuk in EUR
2015 : Commission de Surveillance du Secteur Financier (CSSF) and Qatar Financial Markets Authority sign an MoU related to securities
2016 : A seminar on Islamic microfinance chaired by ADA
2017 : CSSF and Financial Services Authority, Abu Dhabi sign a MoU.
2019 : Sukuk Summit by IDB hosted by Luxembourg.

Notable features

First largest Islamic fund center outside the Muslim world
First to authorize an Islamic insurance company in Europe
First market to list Sukuk in Europe
First European central bank to join the IFSB
First sovereign state to issue a euro-denominated Sukuk.
Top three Sukuk listing center in Europe
Shariah compliant sub-funds can be categorized under Luxembourg Undertakings for Collective Investment in Transferable Securities (UCITS) fund
Luxembourg funds are distributed in 70 countries.
First university to initiate a research project in utilizing emerging technologies for Islamic finance

Figure 1: Sukuk issue size

Source: Data taken from Deloitte’s Luxembourg: a prime location for Sukuk issuance

Malaysia Global Sukuk 2007
Solidarity Trust Services 2008
Dubai Global Sukuk FZCO 2009
Tabreed Financing Corp. 2009
Sarawak Corporate Sukuk 2009
Stichting Sachsen-Anhalt 2009
Pakistan International Sukuk 2010
Wings FZCO 2012
IDB trust services 2010
Gold Sukuk DMCC 2010
QPEIC Sukuk LLC 2016
Salam Bounian Development Company Sukuk 2018
Petronas Global Sukuk 2014
Al my’iar Capital S.A. 2010 (6%)
Goldman Sachs 2019
Republic of South Africa 2020
Luxembourg 2019
Government of Pakistan 2019
Petronas Global Sukuk 2020
Government of Pakistan 2021
Government of Pakistan 2022
Malaysia: Building resilience and invigorating growth toward achieving Sustainable Development Goals

Islamic finance: An integral component of Malaysian financial system and economy

Islamic finance in Malaysia has reached greater heights domestically and globally. From a niche market, the industry has now become a household name. Islamic finance has brought positive impacts to society, by providing financial access to many segments of the underserved and unserved to encourage wealth creation and shared prosperity. This journey, spanning over the last four decades, is one that is incremental and measured (Diagram 1).

Today, the Islamic financial system has become an integral component of the overall financial system in Malaysia. The Islamic banking industry commands 36.6% of total banking assets, while the Takaful industry stands at 16.3% of total net contribution (Diagram 2). In 2018, the volume of annual Islamic interbank transactions reached RM4.3 trillion (US$1.06 trillion). The Islamic capital market represents 61% of Malaysia’s overall capital market which comprises market capitalization of Shariah compliant equities and Sukuk outstanding.

Globally, the country continues to be at the forefront with 48.8% market share of total global Sukuk outstanding and 33.8% of Islamic assets under management. The success of the Malaysian Sukuk market is evident by various innovative and cutting-edge financial structures including the world’s first exchangeable Sukuk and green Sukuk. The ecosystem put in place also attracted multilateral institutions and multinational corporations to issue Sukuk to meet diverse capital and funding needs.

The comprehensive ecosystem that has been developed in Malaysia is globally recognized, with Malaysia in leading position in the Islamic Finance Development Indicator (IFDI) for six consecutive years. The IFDI is a composite weighted index that measures the overall development of the Islamic finance industry. The IFDI aggregates scores across five component areas — quantitative development, knowledge, governance, corporate social responsibility, and awareness.

Creation of an enabling ecosystem that delivers value-adding propositions

Malaysia’s endeavor to create a vibrant and dynamic Islamic financial system is anchored on the vision of developing a Shariah compliant system that is capable of serving the diverse and evolving needs of the economy. The inherent nature of Islamic finance that promotes productive economic activities enhances the prospects for inclusive growth.

Today, Islamic finance plays a crucial role in supporting infrastructure development and business activities, enabling access to financial protection, and promoting risk-sharing mechanisms for investment activities. According to the International Shari’ah Research Academy for Islamic Finance using figures from 2012 to the third quarter of 2015, 61% of the world’s infrastructure Sukuk was issued out of Malaysia.

The North-South Expressway, the longest expressway in Malaysia, and the Kuala Lumpur International Airport are examples of projects that utilized Islamic financial instruments with efficacy. More recently, the MySalam protection scheme — a national initiative launched in 2019 to help the lower income households cope with financial hardship due to critical illness and hospitalization — exemplifies the potential for Islamic finance to deliver meaningful impact to society.

The Islamic fund management industry, which serves as one of the main channels for capital mobilization, has grown 4.5 times over the last decade, from RM37.6 billion (US$9.26 billion) in 2009 to RM172.89 billion (US$42.56 billion) as at the end of June 2019, according to Securities Commission Malaysia (SC).

Investment accounts as a distinct Shariah compliant asset class and source of funding for Islamic banks now represents almost 11% of the total deposits in the Islamic banking system (unlike Islamic accounts are able to retain funds for a longer period of time and enjoy the opportunity to earn more returns but with more restrictive withdrawal conditions).

In developing the Malaysian Islamic financial system to where it stands today, efforts by regulators and market players have been multifaceted. Significant focus was accorded to the development of financial infrastructures and institutions as well as addressing the unique needs of key constituents within the Islamic financial ecosystem (Diagram 3). This includes continuous enhancements through legislative reforms and regulatory reviews to provide enabling environment for end-to-end Shariah compliance. The Central Banking Act 2009 has codified legal recognition of the Islamic financial system alongside the conventional financial system and elevated the position of the Shariah Advisory Council (SAC) as the highest point of reference on Shariah matters involving Islamic banking and Takaful.

The Capital Market and Services Act also recognizes the SAC of the SC as the central authority for the ascertainment of Shariah matters for the Islamic capital market. The Islamic Financial Services Act 2013 (IFSA) introduced a more solid foundation for the application of contract-based regulatory framework for Islamic financial business.

This has paved the way for the development of 14 Shariah standards providing both Shariah and operational requirements to facilitate effective implementation of Islamic financial transactions. The development of these standards followed a transparent and structured process, where scholarly opinions from multiple schools of thoughts are carefully considered and applied with customization to the local context.
Diagram 2: The Islamic finance landscape in Malaysia

Key driver in global Sukuk and Islamic funds

- Global outstanding Sukuk (Sept 2019): 48.8%
- Global Islamic asset under management (Sept 2019): 33.8%
- Market share of total global Islamic financial asset as at 2018:
  - Malaysia: 51.2%
  - Others: 66.2%

Steady growth in banking and Takaful

- Islamic banking: 21%
- Takaful: 18%

Ranked 1st as the most developed Islamic finance market
Islamic Finance Development Indicator, ICD-Refinitiv 2019

- Ranked 1st in quantitative development
- Ranked 1st in awareness
- Ranked 1st in governance
- Ranked 1st in knowledge

Diversified players offering Islamic financial services

- Islamic banks: 15
- ReTakaful operators: 4
- Islamic windows: 6
- Training and education entities: 101
- Takaful operators: 15
- Development financial institutions: 53
- Islamic fund managers: 42
- Professional ancillary services eg legal, Shariah, firms, etc: 6

Innovative financial solutions and policy developments in meeting sustainability objectives

- Value-based intermediation initiative
  - World’s first SDG Sukuk
- SRI Sukuk and SRI Fund Frameworks
  - World’s first SRI & green Sukuk
  - Shariah-compliant SRI equity fund

Dynamic financial markets

- Islamic money market: 2018 Islamic interbank transaction RM4.3 trillion (US$1.06 trillion)
- Bursa Suq Al-Sila: RM24.3 billion (US$5.97 billion) average daily values traded
- 173 trading participants

Diagram 3: Effective functioning of the Islamic financial system within the dual financial system

- Central Bank of Malaysia Act 2009
- Islamic financial Services Act 2013
- Capital Market Services Act 2007
- Government Funding Act 1983
- Malaysia Deposit Insurance Corporation Act 2011
- Asian International Arbitration Center
- Judicial system
- Ombudsman for Financial Services

Islamic banking

- Creation of an Islamic banking system that enable Islamic bank to offer risk-sharing product that is commercial viable eg through investment account
- Strong emphasis on adherence to Shariah compliant through Shariah governance

Islamic capital market

- Sukuk requirement based on different structures of Islamic contracts
- Ensure adherence to Shariah compliant pre, during and post of issuances

Takaful

- Application of concept of mutuality/risk sharing in Takaful, guided by prudential and Shariah requirements
- Role of Takaful operators as Wakil to act in the best interest of participants
- Requirement to maintain segregation of funds

Islamic money market

- Short-term intermediary to provide a ready source of investment based of Shariah principles
- Money market operations via segregated pools of liquidity
- Separate cash and securities clearing accounts

Effective intermediation process for respective financial segments

Efforts were also undertaken by the Malaysian Accounting Standards Board and Malaysian Institute of Accountants to strengthen the accounting, auditing and disclosure standards of Islamic financial institutions. In the capital market sphere, the Malaysian Sukuk market is well supported by financial infrastructure and facilitative guidelines that contribute toward a more efficient price discovery process.

The SC has also issued regulatory expectation on disclosure standards and protection for corporate bond and Sukukholders. These have enabled the creation of an efficient platform for Sukuk issuance and trading activities in Malaysia. Altogether, these reinforcing measures to build a comprehensive ecosystem have led to the creation of a vibrant market and formation of linkages between the various components of the financial system to function effectively.

Today, Malaysia is among the few countries globally that has significant global market shares in all core business segments of
Spearheading the future of Islamic finance

Islamic finance is a natural steward of sustainable finance. The underlying tenets of Shariah emphasize maximizing positive value creation and prevention of negative impact to wider stakeholders namely people and planet. Building on this clear proposition, the Islamic financial industry in Malaysia is charting a growth path for the industry to offer a system that is not only competitive but able to demonstrate the reality of ‘finance beyond profit’.

Efforts in spearheading the alignment of finance to support this vision are undertaken by the regulatory bodies and the private sector. The implementation of value-based intermediation (VBI) encapsulates the industry’s vision to be more impact-driven by strengthening the role of financial intermediation in generating positive impact while mitigating the negative impact. VBI paved the way for a number of innovative financial solutions eg financial solutions for women entrepreneurs and the Islamic index-based investment scheme which embeds environmental, social and governance principles.

The issuance of the Value-based Impact Assessment Framework (VBIAF) in November 2019 provides guidance on risk management systems and practices in the process of integration of social and environmental considerations in financing and investment decision-making process. Takaful operators are also embracing VBI. The industry has formed a dedicated task force to formulate a strategic roadmap to advance VBI in business offerings and practices. The sustainable and responsible investment (SRI) frameworks for both investment funds and Sukuk issued by SC have led to widening the range of SRI products in the Islamic capital market space. Nine green Sukuk have been issued to finance solar and small hydropower projects and green buildings since the first world’s green Sukuk was issued in the country in 2017.

Islamic social finance is also instrumental in catalyzing innovation in financial solutions. Examples of initiatives incorporating social finance features include MyWakaf and Sadaqah digital platforms as well as microTakaful collaboration with social service bodies to extend financial protection to ‘hardcore poor’ families.

Mobilization of social finance through MyWakaf is further accelerated in projects that aim to elevate the socio-economic wellbeing of the community namely healthcare, education and economic empowerment activities. Advancement is made by leveraging on the ready physical infrastructures and digital outreach of commercial driven yet impact-focused Islamic financial institutions in Malaysia.

The global financial landscape is evolving rapidly and Islamic finance is poised to deliver greater impact in fulfilling the needs of the economy, society and the environment. These encouraging developments are setting the stage for Islamic finance to fully realise its full potential. The foundation nurtured over the years in Malaysia sets the industry on a path toward supporting sustainable economic growth and realising the Sustainable Development Goals. This growth will accelerate as the industry adapt and adopt new technologies and productive innovation. Impact-driven Islamic finance, which embodies the objectives of Shariah, will continue to shape positive transformation in the Malaysian economy as well as globally.

“...economic prosperity in the long run cannot exist without social equity and environmental responsibility”

Governor Nor Shamsiah Mohd Yunus
Globally, the Islamic capital market (ICM), particularly the Sukuk market, has registered double-digit annualized growth, with numerous innovations entering the market. Some of these innovations are evident within the sphere of ICM, with the outlook for ICM continuing to be optimistic as the industry embarks on more innovative products and services in tandem with growing trends such as financial technology and sustainable investments.

Over a span of more than two decades, Malaysia has built a distinguished track record for innovation in Islamic finance. A key factor to this success lies in the concerted commitment and involvement of policymakers, from regulators to the government, to develop this sector from infancy. As a result of this, the Malaysian Islamic finance landscape today boasts a comprehensive framework covering regulatory, legal and tax aspects as well as a robust Shariah governance framework.

The Securities Commission Malaysia (SC) has played a key role in developing a facilitative regulatory ecosystem to drive the growth of the ICM. Fuelling growth and innovation in the ICM involves a collective endeavor, one that comprises regulatory, legal tax, tax and Shariah aspects, as well as the industry. This development has led to greater innovation and collaboration resulting in a broader and deeper market that has seen increased participation from issuers, investors and intermediaries. All these have translated into a vibrant and thriving ICM with significant potential for further growth.

Building on Malaysia’s strength in the ICM, the SC continued to lead initiatives to establish Malaysia as a regional leader for sustainable and responsible investment (SRI). The SC had propagated early on that the global trends toward investments that address climate change and social issues would become a major force in the financial landscape. The SC’s Capital Market Masterplan 2, a 10-year strategy blueprint for the period 2011-20, recognizes the role of the capital market in supporting the sustainability agenda.

Similar to sustainable finance, Islamic finance aims to promote and enhance sustainable development through the principles of fairness, equality, shared prosperity and financial inclusion. Such commonalities are deeply rooted in the underlying principles of Maqasid al-Shariah that make clear the requirement for the protection of Maal or property and Nasl or progeny as example. The natural fit between Islamic finance and sustainable finance, in light of its fundamental principles of risk-sharing and sustainability, can prove critical in financing investments to address Sustainable Development Goals (SDGs).

A major development in the SRI sphere includes the launch of the SRI Sukuk Framework in 2014, which facilitated the issuance of the world’s first green Sukuk out of Malaysia in 2017. As at October 2019, 10 SRI Sukuk have been issued, out of which nine issuances were channelled toward financing solar farms, small hydropower projects and green building. Malaysia is also home to the world’s first SDG Sukuk issued in 2018. This significant progress is reflected in Table 1.

The development of the regulatory landscape toward a more sustainable economy expanded further with the issuance of the Guidelines on

| Table 1: Issuances of SRI Sukuk under the SC SRI Sukuk Framework (as at October 2019): |
|---|---|---|---|---|---|
| No | Issuer | SRI Category | Principle | Utilization | Facility size (RM million) | 1st Issuance date | Issuance size (RM million) |
| 1 | Ihsan Sukuk | Social SRI | Wakalah | Trust school | 1,000 | 18/6/2015 | 200 |
| 2 | Tadau Energy | Green SRI | Ijarah, Istisnah | Solar farm | 250 | 27/7/2017 | 236 |
| 3 | Quantum Solar Park (Semenanjung) | Green SRI | Murabahah | Solar farm | 1,000 | 6/10/2017 | 955 |
| 4 | PNB Merdeka Ventures | ASEAN Green SRI | Wakalah, Murabahah | Green building | 2,000 | 29/12/2017 | 1,135 |
| 5 | Sinar Kamini | Green SRI | Wakalah, Murabahah | Solar farm | 245 | 30/1/2018 | 245 |
| 7 | Pasukhas Green Assets | ASEAN Green SRI | Wakalah, Murabahah | Hydro | 200 | 28/2/2018 | 17 |
| 8 | Telekosang Hydro One | ASEAN Green SRI | Wakalah, Murabahah | Hydro | 470 | 6/8/2019 | 470 |
| 9 | Cypark Ref | Green SRI | Murabahah | Solar farm | 550 | 11/10/2019 | 550 |
| 10 | Edra Solar | ASEAN Sustainability SRI | Wakalah Murabahah | Solar farm | 245 | 11/10/2019 | 245 |
| Total | | | | | 6,200 | 4,275.3 |
The ecosystem for Islamic fund management had been enhanced by a developmental-driven vision, when in 2017, the SC launched the Islamic Fund and Wealth Management Blueprint to establish Malaysia as a leading international center for Islamic fund and wealth management. The blueprint outlines three mutually reinforcing strategic thrusts, namely strengthening Malaysia’s positioning as a global hub for Islamic funds, establishing Malaysia as a regional center for Shariah compliant SRI, and developing Malaysia as an international provider of Islamic wealth management services.

Currently, there is a diverse range of Islamic Collective Investment Scheme (CIS) funds in the market managed by both foreign and local fund managers. As at end November 2019, there are 24 fully-fledged Islamic fund management companies including one that offers automated discretionary portfolio management services to investors operating in Malaysia, half of which are wholly foreign-owned. Moving ahead, the strengthening of the SRI ecosystem in Malaysia is a key priority for the SC, in view of the growing relevance of SRI while leveraging on the country’s strengths in the ICM. In charting a strategic direction vis-à-vis the evolving market landscape, the SC has developed the Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap) which serves to guide domestic and regional efforts to accelerate the growth of the SRI segment.

Toward this end, the five-year SRI Roadmap has identified 20 strategic recommendations to drive the development of a facilitative and vibrant SRI ecosystem and position Malaysia as a SRI center in the region. These include, among others, widening the range of SRI instruments, increasing SRI investor base, building a strong SRI issuer base, instilling strong internal governance culture, and designing an information architecture in the SRI ecosystem. One of the immediate initiatives to be rolled out under the SRI Roadmap is a revision of the SC’s SRI Sukuk Framework. The revised SRI Sukuk Framework has expanded the list of eligible SRI projects, enhanced disclosure and reporting requirements, and clarified the role of external reviewer. Another ICM initiative to augur the SRI segment is the upcoming introduction of positive screening for Shariah compliant listed equities, as well as amplifying the focus on developing the Waqf model toward financing socially-beneficial endeavors.

Another avenue that has seen greater traction for growth is the increased participation especially among individual or retail investors via the digital platforms. The advent of technology and digitization has far-reaching implications on society. Today, the pace of change in financial markets is rapidly accelerating via the use of new technology, allowing for the emergence of innovative market-based financing models. The local fintech industry is now home to alternative market-based financing platforms such as equity crowdfunding (ECF) and peer-to-peer financing (P2P) as well as a diverse range of fintech players including digital investment managers, digital asset exchanges and property crowdfunding operators.

These new alternative capital-raising avenues allow for greater democratization of finance for the underserved small businesses and entrepreneurs with innovative business ideas to raise the necessary funding through the capital market including the ICM. These platforms have also proven to be an effective channel in improving financial access and inclusion through digital growth, as well as attracting the younger investors. As at November 2019, there are 10 ECF and 11 P2P registered recognized market operators (RMO). Ethis Ventures was registered as the first Shariah compliant ECF RMO, while Ethis Capital was the first Shariah compliant P2P RMO, with seven successful campaigns amounting to RM648,040 (US$159,089). Conventional RMOs are also allowed to offer Islamic ECF and P2P campaigns.

The digital landscape witnessed further breakthrough in innovation when international fund management company Wahed Invest Technologies received a licence in 2019 to undertake an Islamic fund management activity through a robo-advisory platform. In combining sustainability and fintech, the inter-play between these two trends for ICM may contribute toward a new age of Islamic finance in which investors are facilitated by digital technology toward more inclusive investment solutions that also help to achieve positive social and environmental impact. Malaysia is also acknowledged as a leading Islamic economy ecosystem for the sixth year running by the State of the Global Islamic Economy Report 2019/2020. Some of the key contributing factors to this success are the country’s established innovations and leadership roles, which have become reference points for other jurisdictions to enhance their regulatory frameworks for Islamic finance.

The prospects for the ICM in Malaysia remain highly favorable as several new growth drivers are expected to provide the impetus for the next stage of development. SC will continue to intensify efforts to enhance the regulatory environment to progress these developments. Throughout the years, the SC continues to monitor and review its regulatory approaches through extensive collaboration and engagement with the industry stakeholders. The ICM has been innovating expeditiously throughout the different phases of its development, attracting more investors, and market players to the fore. This has culminated in a comprehensive ecosystem that can readily offer investors and issuers a vast array of ICM solutions. This factor coupled with a new age of fintech and its merging with Islamic finance and sustainability, bodes well for the vast potential of the ICM.

This article was contributed by the Securities Commission Malaysia

Chart 3: Notable initiatives in the Malaysian capital market

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiative</th>
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</table>
| 2018 | • Establishment of RM6 million (US$1.47 million) Green SRI Grant Scheme which is tax exempted
|      | • Issuance of ASEAN SBS and ASEAN SUS
|      | • Launch of the SC’s Islamic Fund and Wealth Management Blueprint
|      | • Issuance of social Impact Sukuk by Khazanah (Second tranche) with retail portion
|      | • Issuance of world’s first green Sukuk under SRI Sukuk Framework
| 2017 | • Issuance of ASEAN GBS followed by inaugural ASEAN Green Bond
|      | • Issuance of the SC’s Guidelines on SRI Funds
|      | • Tax incentive for SRI Funds for three years from YA 2018 to YA 2020 and extended for another three years from YA 2021 to YA 2023 (2020 Budget)
|      | • Launch of the SC’s revised MCCC
| 2016 | • Tax incentive for SRI Sukuk Issuers for five years from YA 2016 to YA 2020 and extended for another three years from YA 2021 to YA 2023 (2020 Budget)
| 2015 | • Inaugural issuance of social Impact sukuk under SRI Sukuk Framework by Khazanah
|      | • Introduction of Sustainability Reporting through Bursa Malaysia Listing Requirements
| 2014 | • Issuance of the SC’s SRI Sukuk Framework
|      | • Launch of FTSE4GOOD Malaysia index
|      | • Issuance of MICL

Moving ahead, the strengthening of the SRI ecosystem in Malaysia is a key priority for the SC, in view of the growing relevance of SRI while leveraging on the country’s strengths in the ICM. In charting a strategic direction vis-à-vis the evolving market landscape, the SC has developed the Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap) which serves to guide domestic and regional efforts to accelerate the growth of the SRI segment.

Toward this end, the five-year SRI Roadmap has identified 20 strategic recommendations to drive the development of a facilitative and vibrant SRI ecosystem and position Malaysia as a SRI center in the region. These include, among others, widening the range of SRI instruments, increasing SRI investor base, building a strong SRI issuer base, instilling strong internal governance culture, and designing an information architecture in the SRI ecosystem. One of the immediate initiatives to be rolled out under the SRI Roadmap is a revision of the SC’s SRI Sukuk Framework. The revised SRI Sukuk Framework has expanded the list of eligible SRI projects, enhanced disclosure and reporting requirements, and clarified the role of external reviewer. Another ICM initiative to augur the SRI segment is the upcoming introduction of positive screening for Shariah compliant listed equities, as well as amplifying the focus on developing the Waqf model toward financing socially-beneficial endeavors.

Another avenue that has seen greater traction for growth is the increased participation especially among individual or retail investors via the digital platforms. The advent of technology and digitization has far-reaching implications on society. Today, the pace of change in financial markets is rapidly accelerating via the use of new technology, allowing for the emergence of innovative market-based financing models. The local fintech industry is now home to alternative market-based financing platforms such as equity crowdfunding (ECF) and peer-to-peer financing (P2P) as well as a diverse range of fintech players including digital investment managers, digital asset exchanges and property crowdfunding operators.

These new alternative capital-raising avenues allow for greater democratization of finance for the underserved small businesses and entrepreneurs with innovative business ideas to raise the necessary funding through the capital market including the ICM. These platforms have also proven to be an effective channel in improving financial access and inclusion through digital growth, as well as attracting the younger investors. As at November 2019, there are 10 ECF and 11 P2P registered recognized market operators (RMO). Ethis Ventures was registered as the first Shariah compliant ECF RMO, while Ethis Capital was the first Shariah compliant P2P RMO, with seven successful campaigns amounting to RM648,040 (US$159,089). Conventional RMOs are also allowed to offer Islamic ECF and P2P campaigns.

The digital landscape witnessed further breakthrough in innovation when international fund management company Wahed Invest Technologies received a licence in 2019 to undertake an Islamic fund management activity through a robo-advisory platform. In combining sustainability and fintech, the inter-play between these two trends for ICM may contribute toward a new age of Islamic finance in which investors are facilitated by digital technology toward more inclusive investment solutions that also help to achieve positive social and environmental impact. Malaysia is also acknowledged as a leading Islamic economy ecosystem for the sixth year running by the State of the Global Islamic Economy Report 2019/2020. Some of the key contributing factors to this success are the country’s established innovations and leadership roles, which have become reference points for other jurisdictions to enhance their regulatory frameworks for Islamic finance.

The prospects for the ICM in Malaysia remain highly favorable as several new growth drivers are expected to provide the impetus for the next stage of development. SC will continue to intensify efforts to enhance the regulatory environment to progress these developments. Throughout the years, the SC continues to monitor and review its regulatory approaches through extensive collaboration and engagement with the industry stakeholders. The ICM has been innovating expeditiously throughout the different phases of its development, attracting more investors, and market players to the fore. This has culminated in a comprehensive ecosystem that can readily offer investors and issuers a vast array of ICM solutions. This factor coupled with a new age of fintech and its merging with Islamic finance and sustainability, bodes well for the vast potential of the ICM.
Transformation of the Malaysian Islamic banking landscape in the last 15 years

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When IFN was incepted in 2004 a sesquidecade ago, Malaysia was in the early stages of becoming an international Islamic financial center. Certain Islamic finance transformation measures planned in the first of Malaysia’s 10-year Financial Sector Master Plan (FSMP 1) were accelerated. The sector was liberalized just two years after FSMP 1 was launched. By 2004, Bank Negara Malaysia (BNM) announced that up to three foreign Islamic banking licences will be granted to qualified foreign players. Kuwait Finance House became the first foreign Islamic bank in May 2005, followed by Al Rajhi Banking & Investment Corporation.

I was at RHB Group then. We were in talks with a Bahrain-based banking group, but for some reasons the third licence eluded us. Instead, Qatar Islamic Bank and several investors were awarded the third licence that later formed Asian Finance Bank (now part of MBSB Bank).

Unperturbed, RHB Group managed to convince BNM to hasten the transformation of domestically owned Islamic banks by allowing Islamic banking windows, popularly known as SPI to become fully-fledged Islamic subsidiaries.

RHB Bank’s SPI was among the pioneer and has been operating for close to a decade, profitably. So, in 2005, RHB Islamic Bank became the first Islamic subsidiary to be granted a licence to operate as a fully-fledged Islamic bank.

Along the journey, proactivity and close collaboration on both sides ensured the passage was cleared. BNM agreed Banking and Financial Institutions Act 1989 had to be supplemented by an order to make this a reality. By 2005, there were six Islamic banks in Malaysia with 766 branches, and this represented merely 14% of total financial institutions in Malaysia and 34% of total branches in the country.

The market share of assets, deposits and financing stood at 11.3%, 11.7% and 12.1% respectively. Interest in Islamic finance globally began to gain momentum. Saxony-Anhalt became the first non-Muslim sovereign Sukuk issuer in 2004 with its EUR100 million (US$111.35 million) Sukuk.

2005 was also the year I became a central banker. The 20% market share was already set in FSMP 1 as the growth target. BNM knew that to achieve this, much more needed to be accomplished and measures needed to be in place and further intensified. Locally
owned foreign banks’ SPI were allowed to convert into Islamic subsidiaries. HSBC Amanah became the first in 2007. HSBC was also the first foreign-owned Takaful operator the year before. As the landscape reshapes, ministries, government agencies, policymakers and regulators need to be aligned to better position the country as an international Islamic financial center, hence the creation of Malaysia as an International Financial Centre (MIFC) in 2006, with a cross-cutting membership at the High Level MIFC Exco chaired by the then Governor Dr Zeti Akhtar Aziz. During this period, forums, seminars, summits and events were held, some of them in collaboration with IFN to further publicize this initiative. Coverage by IFN was and is both timely and reliable. In the decade that followed, international financial centers began to take stronger and more serious interest in Islamic finance. Among them:

- Hong Kong, which began its preparatory work to clarify Islamic finance regulatory approach
- Japan, whose push mainly came from Japanese corporates in Malaysia with Aeon Credit Service Malaysia, became the first to issue Sukuk in 2007
- UK, whose government changed the tax treatment to better suit Islamic finance. The education sector there also expanded offerings of Islamic finance courses.
- France, following the Jouini-Pastré report of 2008
- Luxembourg, which was clear on its ambition to become a hub for Islamic funds

With the rapid growth of Islamic finance globally, the industry faced a talent crunch. BNM formed the International Centre for Education in Islamic Finance (INCEIF) in 2005 in anticipation of this by producing market-ready Islamic finance talents.

As more regions, countries and centers conduct Islamic finance on a cross-border basis, Shariah certainty became the cornerstone. To provide certainty, the Central Bank of Malaysia Act 2009 was passed, where the duality of the financial system in Malaysia and the binding position of Shariah resolutions of the National Shariah Advisory Council (SAC) were entrenched. Despite critiques and challenges, the highest court of Malaysia ruled that the relevant SAC provision was indeed constitutional. The case involved the Islamic bank, in which I served as general counsel then.

Today, centralized SAC is increasingly becoming the norm across Islamic finance jurisdictions as they become systemically important and, in some instances, at inception of Islamic finance. They include the UAE, Kuwait, Nigeria, Pakistan, Sudan, Indonesia and Oman. Malaysia now has 16 Islamic banks, and this is 30% of total number of institutions in the country, with 2,192 branches or 88% of total branches.

For every 10 bank branches in Malaysia, a customer can expect the Islamic banking in almost nine of them. The growing trend is to convert into becoming a fully Shariah compliant institution. The market share of assets, deposits and financing in 2018 have all well surpassed the 20% target. Islamic financing in 2018 is at 36.6%. Islamic banking in Malaysia continued to grow despite the great financial crisis of 2008.

Regional and global presence are commonplace as Malaysian-based Islamic banks join the international league table to help arrange and distribute the sovereign Sukuk, including that of the UK, Hong Kong and Indonesia, as well as the IsDB. All this was made possible by further measures to internationalize and increase connectivity with the rest of the world while ensuring robustness and resilience of the industry under FSMP 2 that will end next year. They included the formation of the International Islamic Liquidity Management Corporation (IILM) in 2011 to address liquidity issues of Islamic financial institutions globally, and the formation of the International Shariah Research Academy (ISRA) as the repository of applied Shariah knowledge in 2008.

Since 2012, the world is confronted with tectonic shifts in business models and technology disruption blurs borders and enables outreach in proportions, scale and intensity never imagined. Today, two-sided markets created by platforms where co-creation between user and provider of utilities is at the core and leveraging on the network effect are common features of the economy, which is increasingly digitalized. The world is also faced with increasing concerns on the accelerating climate change, food and water security concerns as well as increasing wealth disparity. The role of finance in these issues are pivotal as they sit as a large vertical within platforms.

To remain relevant and to sustain the growth momentum, the next decade is about serving the previously unserved and underserved in ways that they wish to be served. These fintechs are already capturing a slice of this market and the size is rapidly growing. Payments, funding, investments and insurance fintechs are growing rapidly. Traditional banks are collaborating and even building similar platforms. The question now is, to remain relevant, what should be the desired business model of Islamic banks?

The views in this article is of the author's and in no way represents the view of CIIF or PayNet Malaysia.
The Maldives

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The Maldives is a 100% Muslim country. Islamic finance in the Maldives was introduced 15 years ago. The journey of developing Islamic finance in the Maldives has not been so long, but today the number of players in the market is 12. For a small country like the Maldives, having 12 Islamic finance providers is adequate.

In 2003, when Amana Takaful Maldives started its operation in the Maldives, it opened an agency office called Amana Takaful Sri Lanka. Until the 4th March 2010, the company operated through a local agent with a temporary license. Upon receiving a license from the Maldives Monetary Authority (MMA) which is the regulator, the company ceased its operations through the agent and commenced functioning independently.

In 2012, the company declared a surplus payout of 10% to its participants. On the 23rd March 2011, Amana Takaful Maldives was reregistered with the Ministry of Economic Development as a public limited company. The shares of the company are listed on the Maldives Stock Exchange.

In 2014, the Allied Insurance Company of the Maldives introduced Family Takaful for the country for the first time. It introduced its Takaful window, Ayady Takaful, and in 2016, the company introduced Family Takaful for the country for the first time.

In the Maldives up until now, there is no separate legal framework for Takaful to regulate the Shariah governance aspect of it. As such, there is a need to develop a Takaful framework for the country and it is hoped that the MMA will soon adopt it. The regulatory deposits kept with the MMA by Amana Takaful need to be managed in a Shariah compliant manner.

Also, to prepare the financial statements and for the accounting of Takaful, a regulatory direction is required to make the practice consistent with Shariah requirements and to have a uniform practice in this regard among industry players. The regulatory differences between General and Family Takaful need to be outlined clearly as well.

The first Islamic bank, Maldives Islamic Bank, was established in the country in 2011. This year, shares of Maldives Islamic Bank were offered to the public. As such, it would be the second Islamic equity listed on the Maldives Stock Exchange. The IPO of Maldives Islamic Bank was oversubscribed, proving the ever-growing demand for Islamic finance in the country.

According to the official public announcement made by Maldives Islamic Bank, at the closure of the IPO, a total of 17,713 applications were received from 16,146 investors resulting in an IPO subscription value of MVR356.53 million (US$22.71 million), meaning the IPO of the bank was oversubscribed by 46%. In 2015, the Bank of Maldives (BML) opened its Islamic window, BML Islamic, and the opportunity for the whole country to use Islamic banking was opened as BML has wide coverage in the whole country.

To introduce Islamic banking, the MMA enacted the Islamic Banking Regulation 2011 and also formed an apex Shariah Advisory Council prior to that. As such, it is not wrong to state that Islamic banking is regulated separately in the country.

The Housing Development Finance Corporation (HDFC) of Maldives has been offering Islamic home mortgage financing products to the public via its Islamic window, HDFC Aman, since 2012. It is the first company to offer Sukuk in the country and this year it has opened for subscription its and the country’s third Sukuk. For hire purchase, private companies like Alia and Litus are offering Islamic hire-purchase products.

The Maldives Center for Islamic Finance was established by the government in the hope of strategizing the Maldives as an international Islamic finance center. There is potential for the country to become the hub for Islamic tourism and the government is exploring the possibility of introducing Islamic tourism to the country.

Halal certification is also an area that could be expanded to tap into the Halal industry and diversify into the Halal economy. Furthermore, via the SME Development Finance Corporation, it is hoped that Islamic finance products will be available for SMEs.

Amana Takaful Maldives is the first Shariah compliant equity listed on the Maldives Stock Exchange. There is interest-tainted income received from regulatory deposits kept with the MMA which according to the financial reports of the company is recognized as income and dispensed to charity as donation.

The income from deposits with the MMA for the years 2017 and 2018 was MVR19,998 (US$1,273.76). In 2016, the gross written Takaful contribution of the company crossed MVR100 million (US$63.77 million).

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Morocco: From alternative financing to participative finance

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According to the Global Islamic Finance Report 2019, Morocco witnessed the most important leap in terms of ranking in the Islamic finance country index. Indeed, in 2019, Morocco moved to the 19th rank at a global scale from the 48th in 2018. Based on ongoing projects, Morocco can further improve its position in the next few years.

From 2005 to 2020, Morocco moved from a pure conventional financial system to a hybrid financial system that integrates Islamic financial institutions and comprehensive legal and regulatory frameworks that aim to create a competitive industry. This report presents the main milestones related to the implementation of Islamic finance in Morocco during the last 15 years.

Alternative financing instruments

The alternative financing experience in Morocco showed that the successful implementation of the Islamic finance industry in any country requires the set-up of a comprehensive legal and regulatory framework. Indeed, in 2007, the financial authorities introduced for the first time a recommendation that defines the principles governing three Islamic products that are Murabahah, Ijarah and Musharakah. This first regulatory framework focused on the products and ignored the different aspects related to the business models, the Shariah governance and the other specificities of the industry. The central bank worked together with the association of banks to issue accounting entries and legal contracts based on AAOIFI standards.

In 2010, the Moroccan government introduced amendments related to the tax framework to ensure neutrality between conventional and alternative products. At the same time, the largest conventional bank in Morocco, Attijariwafa Bank, created its subsidiary (a finance company) specialized in alternative financing, Dar Assafa.

By the end of 2011, the total size of alternative financing assets were estimated at EUR70 million (US$77.94 million), representing only 0.1% of the total finance system in Morocco. This weak market share was justified at that time by the following arguments:

- Absence of a clear Shariah governance system to reinforce the credibility vis-à-vis the public
- Absence of any communication by banks to promote Islamic banking products
- Low geographical coverage by institutions offering alternative products
- High cost of financing for alternative instruments compared to conventional

Moving to a participative finance system

The financial authorities and the government of the Kingdom of Morocco adopted a different approach based on three main pillars:

- Moving from being product-focused to business model-focused
- Moving from banking focus to a comprehensive financial system focus
- Reinforcing the Shariah credibility of the whole system through the set-up of a Central Shariah Board.

In November 2014, the law n°103-12 related to the Credit institutions including dispositions for participative banks was voted in the parliament.

In 2015, a royal decree was issued related to the creation of the central Shariah board in the Higher Council of Ulama. Moreover, in July 2015, the central bank issued a ciruclar related to the licensing process of participative banks and windows.

In September 2015, the law n°59-13 related to the insurance sector including dispositions for the Takaful sector was voted by the parliament.

In November 2015, license applications for fully-fledged participative banks were submitted to the central bank while license applications for participative windows were submitted in April 2016.

In January 2017, the central bank issued a notification related to the applications admitted. Indeed, the licenses were granted to five fully-fledged participative banks and to three participative windows.

In July 2017, the contracts related to opening current accounts and home Murabahah financing were approved by the Higher Council of Ulama. Therefore, participative banks and windows started offering their products.

In 2018, the Higher Council of Ulama approved new contracts for the participative sector including car Murabahah financing, equipment Murabahah financing, Wakalah bil Istithmar, etc.

In 2019, the first sovereign Sukuk issuance was made by the Ministry of Finance while the law n°87-17 related to insurance including new dispositions based on the Higher Council of Ulama’s recommendations was voted. Moreover, the Higher Council of Ulama approved the investment accounts contract.

By the end of September 2019, the total size of participative financing assets is estimated at US$800 million, mainly concentrated on home financing with US$700 million.

Finally, during the last four years, many other reforms were conducted such as the implementation of a Shariah compliant sovereign guarantee fund, a Shariah compliant stock index and the set-up of appropriate prudential rules.
The year was 2011, and the tumultuous events in the Middle East and North Africa dominated global attention. Just south of the Sahara, something of a different kind was brewing in Nigeria. The outspoken governor of the Central Bank of Nigeria (CBN) took the courageous step of announcing the introduction of non-interest banking services in the country (implementing rules established by his predecessor). In a society with underlying religious tensions, the idea of offering financial services based on Shariah was politically daring. A heated public debate ensued and Jaiz Bank, which had been in the offing since 2004, opened shop as the first Islamic bank in Nigeria.

The controversy that accompanied the licensing of the first non-interest bank might lead one to erroneously assume that it was the first Shariah compliant financial service offering in the country. On the contrary, African Alliance, one of the nation’s oldest insurers, broke ground when it established a Takaful window seven years earlier in 2004, while Lotus Capital, a Shariah compliant asset manager, had opened its doors in 2006.

So if a Nigerian in 2011 was put in a time travel capsule and transported to December 2018, he would doubtless be surprised to see investors—institutional and individuals alike—from across the religious spectrum scrambling to subscribe to a government Sukuk, in fact the second sovereign Sukuk in two years. Our 2011 Nigerian with also have marvelled to see an Islamic index on the Nigerian Stock Exchange (NSE), a number of Islamic banking window operations and multiple mutual funds, registered with the Securities and Exchange Commission (SEC), adopting a Shariah compliant approach to investing with subscribers once again spanning all aspects of the religious divide.

In the intervening period between 2011 and now, the journey of the Nigerian Islamic finance industry has been a roller coaster ride: from the highs of the launch of the first Islamic fund by Lotus Capital in 2008 or the first Sukuk issuance by Osun state government in 2013, to the lows of the interminable wait for a compliant liquidity instrument for Islamic finance institutions. In all, the mainstreaming of the industry has continued apace and the wary reception of the days of yore has given way to a warmer embrace.

Key to the progress of Islamic finance has been the regulators. In the build-up to the debut sovereign Sukuk issued in 2017, regulators rolled out a series of guidelines that laid the groundwork for a successful offer. From rules guiding investment in Sukuk by pension funds from the National Pension Commission (PENCOM), to listing rules by the NSE and Financial Markets Dealers’ Quotation (FMDQ) Exchange, the foundation of a good regulatory framework has aided the increasing acceptance of the industry in Nigeria. In fact, the CBN, in the wake of stiff opposition to its introduction of non-interest banking, embarked on a civic awareness campaign to reassure the public.

In a similar vein, the SEC, after releasing guidelines for Sukuk issuance in the build-up to Osun Sukuk, began public education on non-interest finance. It goes without the saying that these regulatory campaigns complemented the efforts of industry operators at raising public awareness and understanding. This also involved persuading devout Muslims that the services or securities being offered are compliant. To provide assurance on this front, the CBN established a Financial Regulation Advisory Council of Experts (FRACE) that ensures the Shariah compliance of Islamic banking services.

Islamic finance has come a long way in Nigeria; however, I reckon that tremendous effort is still required to put Islamic finance in its rightful place within the Nigerian economy and at par with global peers. A case in point is the Sukuk market, which is yet to see a corporate issuance despite multiple public sector issuances. Also, despite the proliferation of Islamic funds within a relatively short period, the total assets under management of these funds as a percentage of the industry’s total is still at single digits, despite the large Muslim population.

Although new sector players continue to spring up—a new non-interest bank and two Takaful operators have received licenses so far this year—the Nigerian Islamic finance space can benefit from more participants who are expected to make collective efforts towards improvements in reach and service delivery, product development and advocacy. The prospects are bright with new players emerging and the PENCOM (the largest repository of national savings) announcing the creation of an Islamic pension fund. We would therefore not be surprised if the Islamic finance landscape was totally unrecognizable 15 years from now.
Growth of Islamic finance in offshore financial centers

Cayman Islands

The Cayman Islands has, for over a decade, been a jurisdiction of choice for GCC-based participants for the formation of SPVs to issue Sukuk and enter into other Islamic financing transactions and for the setting-up of Islamic collective investment vehicles, particularly private equity funds.

Cayman Islands SPVs have featured in numerous high-profile Sukuk offerings by governments and related entities (including the Kingdom of Saudi Arabia, the Emirate of Sharjah and Bahrain Mumtalakat), financial institutions (such as Ahli United Bank, First Abu Dhabi Bank and Qatar Islamic Bank) and corporates operating in diverse industries (such as Almarai Company, Etihad Airways and Majid Al Futtaim Properties).

Notable transactions include:
- Dubai Islamic Bank’s 2015 issue of US$1 billion Tier 1 capital certificates which used an innovative Mudarabah structure incorporating a contingent non-viability clause.
- Emirates Airline’s 2015 issue of US$913 million amortizing Sukuk in connection with a UK Export Finance-backed financing of four A380s. This transaction used a complex structure involving three Cayman Islands SPVs. It was the first time that Sukuk had been used to pre-fund the acquisition of aircraft and the first-ever Sukuk financing for A380 aircraft.
- Saudi Arabia’s 2017 issue of US$9 billion Sukuk under its international Sukuk issuance program which uses a Cayman Islands subsidiary company as the issuing vehicle.

Recognizing the growing importance of the Islamic finance market, the Cayman Islands legislature pioneered legislation several years ago to (i) lend flexibility to its naming conventions for corporate entities and (ii) create further legal certainty and efficiency for those seeking to issue Sukuk through a Cayman Islands SPV. The Companies Law of the Cayman Islands permits a company to have a dual foreign name, which may be in Arabic script. In 2008, it introduced amendments to its Mutual Funds Law and its Banks and Trust Companies Law to clarify that Sukuk instruments are alternative financial investments falling outside of the scope of such laws, an approach that is consistent with international stock exchanges and the accounting rules generally applied to Sukuk instruments.

Ireland

Ireland has become increasingly popular as a domicile for the listing of Islamic debt instruments. In 2019, Saudi Arabia issued US$3.5 billion of global medium-term notes listed on the Irish Stock Exchange. Ireland and the Cayman Islands are often utilized together, as was the case with the Saudi Arabian government’s Trust Certificate Issuance Programme, which in 2017 listed on the Irish Stock Exchange using a Cayman Islands SPV as the issuer.

The Central Bank of Ireland has entered into an MoU with the Abu Dhabi Global Market (ADGM) free zone in the UAE and the first ADGM-authorized manager has been approved to act for Irish collective investment schemes. The Irish financial regulator has established a dedicated team specializing in Shariah compliant funds in order to expedite the review and approval process. This may be of interest to UK-authorized Islamic financial institutions that wish to passport into the EU following the UK’s withdrawal from the EU.

Jersey

Jersey offers Islamic investors many of the benefits of other established offshore financial centers, including a flexible legal system incorporating a contingent non-viability clause.

Notable users of Jersey SPVs for Islamic Sukuk programs include Jersey SPVs. Jersey is also home to a growing community of audit, administration and supervisory expertise focused on Shariah structures. Jersey-based professionals have experience in the specific requirements of Shariah supervisory boards and the preparations leading up to the issuance of a Fatwa and ongoing monitoring of Shariah compliance.

Jersey has also, through its private trust company regime, become a popular choice for the domiciling of family trusts, which are often established in connection with Shariah inheritance planning.

Luxembourg

Luxembourg is the fourth-largest Islamic fund center, ranked by the number of Islamic funds established in the market. It offers a wide range of investment vehicles (regulated and unregulated) that are either fully subject to taxation or benefiting from tax exemptions or deductions. The tax authorities in Luxembourg have provided clear guidelines on the tax treatment of certain Islamic finance products. Like Ireland, the Luxembourg financial services regulatory has concluded an MoU with the ADGM, and has also concluded a similar MoU with the Qatar Financial Markets Authority.

This article is intended to provide only general information for the clients and professional contacts of the legal services division of the Maples Group. It does not purport to be comprehensive or to render legal advice. 
Oman’s Islamic finance and banking sector grows despite regional economic woes

Oman’s Islamic finance sector has continued its impressive growth in 2019 and, as at the date of this article, comprises two fully-fledged Islamic banks – Alizz Islamic Bank and Bank Nizwa – and six Islamic windows. According to a statement made by Tahir Al-Amry, the executive president of the Central Bank of Oman (CBO), the Islamic finance sector in the country had grown by OMR4.59 billion (US$11.89 billion) by the end of June 2019; in comparison, it stood at OMR4.4 billion (US$11.4 billion) and OMR3.8 billion (US$9.84 billion) at year-end 2018 and 2017 respectively.

The CBO’s annual report for the year 2018, issued in August 2019, provided further details on the substantial growth of the Omani Islamic finance sector, including an increase in the number of branches of Islamic banking entities from 46 in 2014 to 81 in 2018. Islamic banks constituted about 13% of the total banking sector assets in the sultanate at the end of 2018, and increased to around 13.4% by the end of June 2019.

Further, according to the Islamic Financial Stability Report 2019 issued by the IFSB, the Omani Islamic banking sector is now among the 15 largest Islamic banking sectors in the world by total assets. It is, moreover, performing well when compared to other economies within the GCC, even under the negative economic conditions resulting from the crash of oil prices.

The Islamic Financial Stability Report 2019 has provided that relative maturity of the industry, coupled with economic headwinds and credit rating downgrades, have led to a moderation in growth rates in Oman, with assets, financing and deposits now growing at 14.7%, 21.5% and 18% respectively. Oman’s Islamic banking assets have constituted 0.7% of the global Islamic banking assets market as indicated in the below graph.

Additionally, the government has continued to rely on Sukuk for the financing of its development projects and expenditures, issuing in 2018 5.92% Sukuk certificates worth US$1.5 billion due 2025. It is noteworthy that all of the government-issued Sukuk facilities have been structured under Ijarah due to its practicality and its recognition in the international securities market.

The growth of the Islamic banking and finance market has been accompanied by a series of legislative and regulatory reforms, the aim of which is to, inter-alia, boost foreign direct and private investments in the Omani market, and grow the financing market. Chief among such reforms is the passing of a new law for the regulation of commercial companies (Royal Decree No. 18/2019), which recognized the right of all joint stock companies and special purpose vehicles to issue Sukuk, and imposed additional regulations and requirements with regards to the issuance of both bonds and Sukuk in a separate chapter.

Other laws which have been issued as part of the government’s strategy to overhaul the different investment sectors include the issuance of a new foreign capital investment law (Royal Decree 50/2019), which allows for whole-foreign ownership of companies, subject to certain requirements; issuance of a new, comprehensive bankruptcy law (Royal Decree 53/2019); and issuance of new privatization and private-public partnership laws (Royal Decrees 51/2018 and 52/2019 respectively).

Additionally, a major tax reform has been introduced through the Ministry of Finance Decision No. 14/2019, which exempted revenues from bonds and Sukuk issued by the government and licensed banks in Oman from the application of the withholding tax. Additionally, the Capital Market Authority, on the 15th May 2019, announced that, on the basis of a royal directive, withholding tax applicable to dividends from bonds and Sukuk issued by the government and licensed banks in Oman reaching resolution, and setting out the procedures to follow prior to, during and after the resolution process. The Bank Resolution Framework did not, however, take into account the special considerations that should be given to Islamic banks and the special nature of their transactions.
Islamic banking in Pakistan

Pakistan is among the pioneers of Islamic finance. After some initial attempts at introducing a Shariah compliant financial system in the late 1970s, major steps were taken in the 1980s to bring the whole banking and financial system in conformity with Shariah principles. The pioneering work of the 1980s, particularly on the legal and regulatory front, has been a source of guidance and inspiration for many countries that initiated Islamic finance in the 1980s and 1990s. The attempt to transform the whole system however, met with limited success domestically primarily due to inadequate infrastructure.

This led Pakistan to adopt a gradual approach for transformation of the banking system into a Shariah compliant one at the start of this millennium wherein Islamic and conventional banks were allowed to operate simultaneously in the country. This approach has proved to be a success since its re-launch in 2002. The industry’s asset base has now reached to PKR3 trillion (US$19.34 billion), equivalent to 13.8% of the country’s overall banking system assets as of the end of September 2019. Similarly, deposits of the Islamic banking industry now stand at PKR2.41 trillion (US$15.53 billion), constituting 16.1% of the overall banking industry’s deposits.

Currently, 22 Islamic banking institutions (five fully-fledged Islamic banks and 17 conventional banks with Islamic banking branches) are providing an array of Shariah compliant products and services through their network of 2,979 branches across the country. Further, 1,353 Islamic banking windows are operated by conventional banks to enhance their outreach for deposit mobilization.

The State Bank of Pakistan (SBP) has played a critical role in the growth of Islamic banking in the country over all these years. Promoting Islamic finance has remained an important component of strategic goals of the central bank, performing a dual role of regulator and facilitator for the industry. The SBP over the years has introduced a conducive legal framework, implemented key regulatory reforms and prudential measures to ensure financial stability and to meet the evolving needs of the industry.

The SBP is among the few regulators that have laid down a comprehensive and multi-tiered Shariah compliance framework to ensure Shariah conformity of Islamic banking operations. Being cognizant of the challenge of liquidity management, the SBP has been working on developing multiple solutions for the Islamic banking industry. In this regard, besides issuance of domestic and international sovereign Sukuk by the government, a significant milestone is the introduction of the Shariah complaint open market operations (OMOs).

The SBP is actively engaged in promotion, training and capacity-building of the industry. To address the awareness and misconception issues, the Islamic banking industry under the umbrella of the SBP, is running an awareness campaign whereby targeted seminars and conferences are being organized for business community, academia, bankers and policymakers throughout the country. Similarly, a number of initiatives have been taken to build the industry’s human resource capacity and skills mix. The SBP’s membership and active engagement with international Islamic institutions like the IFSB, the AAOIFI and the International Islamic Financial Market and collaborations with other central banks have helped the growth of the Islamic banking industry both locally and at the global level. Owing to its efforts for promoting Islamic banking in the country, the SBP has been voted as the Best Central Bank for Promoting Islamic banking by IFN of REDmoney Group. The SBP had also won this award in 2017 and 2015.

Some other key steps in promoting the Islamic finance industry in Pakistan are: the adoption of global reporting standards, rationalizing initial capital requirements for Islamic banking subsidiaries, facilitating the conversion of conventional banks into Islamic banks, the adoption/adaption of the IFSB and the AAOIFI standards, Shariah compliant refinancing schemes for exporters, guidelines on Islamic microfinance, issuance of strategic plans for sustained growth of Islamic banking, establishing three Centers of Excellence in Islamic Finance Education at well renowned educational institutions, and introducing tax neutrality for Shariah compliant banking.

The growth and development of complementary parts of Islamic banking ie capital markets, mutual funds and Takaful, is essential not only for the Islamic banking industry but also for the overall growth and development of the country. In this regard, the SBP has been effectively collaborating with the Securities and Exchange Commission of Pakistan (SECP), the capital markets regulator, to promote Islamic finance as a whole. The steps taken by the SECP in last few years mainly include establishing a dedicated Islamic Finance Department at the SECP, issuing Takaful rules and Sukuk guidelines and launching the All Share Islamic Index, which are likely to catalyze further development of overall Islamic finance industry in the country.

Islamic finance has the potential to contribute to inclusive economic growth by increasing access of formal financial services to underserved sectors like SMEs, agriculture, low-cost housing and microfinance. Recognizing the importance of these strategic sectors toward economic development, the SBP has also assigned indicative targets to the banking industry including Islamic banks institutions for the SME and agricultural sectors.

Catering to these sectors can also help the Islamic finance industry to play its due role toward social welfare and poverty alleviation. Further, the use of digital channels to reduce cost and improve efficiency of Islamic banking institutions are being worked out in collaboration with the industry. Moreover, the SBP is also encouraging the Islamic banking industry to expand its outreach to unserved urban and rural regions.

Pakistan being a Muslim-majority country has vast potential for Islamic banking and finance growth. The government and the SBP have strong commitment to promote Islamic finance in the country through an enabling regulatory and policy environment, while industry stakeholders too are eager to tap into the available opportunities for increasing their footprints across the country. It is believed that Islamic finance and its related fields will flourish more in the days to come, catering to both domestic and international markets. (9)

This article was contributed by the State of Pakistan.
Pakistan is located in a great economic, political and strategic region. South Asia is home to well over one fifth of the world’s population, making it one of the most populous geographical regions in the world. In the South Asian context, Pakistan is the second largest country having important strategic endowments and development potential. It is a junction of South Asia, West Asia and Central Asia, a way from resource-efficient countries to resource-deficient countries. The country is well-connected with regional markets with a vast population, large and diverse resources, and untapped potential for trade, banking and finance.

The financial system in Pakistan is playing a vital part in the country’s economic development. The financial system is headed by the State Bank of Pakistan (SBP) and the Securities & Exchange Commission of Pakistan (SECP). The major part of the financial system – banking – is supervised by the SBP, which monitors the entire banking sector, development financial institutions and microfinance banks. The non-banking segments such as leasing companies, investment banks, Modarabas, and mutual fund, insurance and REIT management are being supervised by the SECP. Islamic finance is also one of the key components of the overall financial system in Pakistan.

Until the first half of the 20th century, Islamic finance was more or less just an idea or a hypothetical concept. Now, the shape of Islamic finance has completely changed; the concept has been made clear to a great extent by users and service providers of Islamic services. The demand for Islamic finance has remained well, with work on the Islamization process starting in the early 1980s. In the said period, some landmark changes were introduced in the

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legal framework, including amendments in the Banking Companies Ordinance, the enactment of Modaraba Companies and Modaraba Framework, and so on. However, the experiment of the 1980s could not produce desired results mainly due to an abrupt transformation without having proper operational and regulatory framework.

Efforts towards the Shariah compliant banking system in Pakistan were relaunched in 2001 and the SBP issued its first Islamic Banking Policy in the same period. The policy stated that the Islamic banking industry should be promoted side-by-side with conventional banking. 2002 was marked as a year when the first Islamic bank in Pakistan was given the license to offer a complete range of Islamic products. The new paradigm was based on a model that allowed Islamic banking to operate in the country within an alternative and parallel system as fully-fledged Islamic banks or as separate and dedicated Islamic banking branches of conventional banks. This approach has proved to be a success as reflected by its considerable progress.

The Islamic banking industry in Pakistan has made impressive growth and its share has increased from scratch in 2002 to nearly 16% of the overall banking industry in terms of assets of overall size of conventional banks. At present, the network of the Islamic banking industry consists of 22 Islamic banking institutions, i.e. five fully-fledged Islamic banks and 17 conventional banks having standalone Islamic banking branches, having a total branch network of 2,913 by the end of June 2019.

The SBP has been playing a leading role in the promotion and development of Islamic banking in the country on sound footings, to reach a point of recognition both at the local and international level. The central bank is one of the few regulators that have introduced comprehensive legal, regulatory and Shariah compliance framework for the Islamic banking industry; it has won the global award on the best central bank promoting Islamic finance for the year 2018.

On the non-banking side, the SECP is also playing its leading role for the promotion of Islamic finance through the non-banking and capital market segments. Within the regulatory regime, the commission regulates important elements of the Islamic financial services industry, including Modarabas, Takaful companies and windows, Islamic mutual and pension funds, Shariah compliant REITs, Islamic capital markets and Shariah compliant listed and private companies.

Within the non-banking Islamic financial sector, Modarabas are playing a significant role in the three decades, being the pioneer in providing Islamic financial services in Pakistan. At present, 28 Modarabas are operating in Pakistan’s financial market as listed entities and engaged in various Shariah compliant business activities.

The Islamic Finance Department (IFD), which was established in 2015 within the SECP, has done a remarkable job for the growth of the industry, carrying out functions of Shariah regulations, product development, market awareness, Shariah securities market development, formation of news and amendments in existing laws. Last year, the SECP notified the Shariah Governance Regulations 2018, the landmark regulations entailing a comprehensive Shariah governance framework for Shariah compliant companies and securities.

Some of the notable contributions of the SECP for the development of Islamic finance during the past few years include:

• The launch of Islamic shares index
• Allowing a 2% tax rebate for Shariah compliant listed manufacturing companies
• Tax neutrality for Sukuk issuances vis-a-vis conventional securities
• The introduction of Shariah compliant companies and securities
• The issuance of the Sukuk (Privately Placed) Regulations 2017

Conclusion

During the last decade and a half, the Islamic financial services industry has made impressive progress and completely changed the landscape of Islamic finance within Pakistan. The industry has delivered several innovative Shariah compliant products and services which have met the needs and demands of faith-based customers to a great extent. Islamic financial institutions have the potential to be major contributors towards the growth and broad-based development of a country due to their closer link with real economic activities. The aim is to create a more equitable financial system that should have positive and tangible impacts on the economy and people at a grassroots level.
Undoubtedly the most significant development in Islamic banking and finance in the Philippines is the recent passage of Republic Act No. 11439 entitled An Act Providing for the Regulation and Organization of Islamic Banks. This law expressly empowers the Bangko Sentral ng Pilipinas (BSP) to license Islamic banks in the Philippines in addition to Al-Amanah Islamic Investment Bank, which is currently the only existing bank of its kind in the country.

Moreover, the BSP may now license foreign Islamic banks to operate locally, apart from allowing local conventional banks to open Islamic units within their organization. The expected increase in the number of players will augur well for a more robust market on Islamic banking and finance in the Philippines.

15 years in review

For the past 15 years, and indeed quite a few decades heretofore, Islamic banking and finance in the Philippines has been in the doldrums. This was partly due to the BSP’s reluctance to recognize that it already had the authority to license more Islamic banks under the General Banking Law of 2000. The BSP, however, had chosen not to move without a very clear licensing mandate from the Congress of the Philippines. The desired clarity only came with the passage of the Islamic Banking Law (Republic Act No. 11439) in 2019.

Based on its clear marching order in the new law, the BSP is now formulating a regulatory framework for Islamic banking and finance, with the assistance of the Asian Development Bank and certain Philippine government agencies including the Department of Finance, the Securities and Exchange Commission, as well as the Bureau of Internal Revenue, which is crafting a set of regulations enabling tax neutrality between Islamic banking transactions and their conventional analogues.

Prospects

With the regulatory framework and tax neutrality in place, Islamic banking and finance in the Philippines will certainly get a much-needed boost to grow and develop more robustly in 2020 and the coming years. BSP Governor Benjamin E Diokno gave the assurance that the BSP, as the regulator of the entire banking sector in the country, will “continue to pursue measures that enhance access to quality financial products and services as well as foster the overall welfare of financial consumers.” According to him, the Islamic Banking Law is “expected to widen the opportunities for Muslim Filipinos, including those from the Bangsamoro region, in accessing banking products and services.”

The BSP might start the process of energizing the Islamic banking sector by initially allowing universal banks to establish their respective Islamic units. These will have to be segregated from the conventional or non-Islamic units of those banks. Foreign Islamic banks will have to choose one of the following modes of entry in the Philippine banking sector, namely: (i) establish a wholly-owned local banking subsidiary; (ii) acquire an existing local bank; or (iii) form a local branch; in each case with BSP approval.

In conclusion, the future of Islamic banking and finance in the Philippines has never been brighter with the passage of the Islamic Banking Law. With BSP guidance, there is reason to be optimistic that the Philippines will once more be a regional leader in this field.
The last 15 years have seen the rapid macroeconomic development of Qatar, which has driven the huge progress made to realize Qatar's ambition of becoming a recognized Islamic finance center. The financial crisis marking the beginning of this period highlighted the resilience of Islamic financing, its inherently conservative approach minimizing exposures to the risks at the root of the crisis. Qatar's financial industry, including the Islamic financing sector, found itself well-placed during this time to finance the acquisitions and investments in foreign assets at prices depressed by the effects of the financial crisis.

Growth and regulation of Islamic finance

The Islamic banking sector was, at the start of this period, open to both Islamic banks and conventional banks authorized by the Qatar Central Bank (QCB) to provide Islamic financing products through Islamic windows. The Central Bank Law, Law No. 13 of 2012, implemented ostensibly on monetary policy and supervisory concerns, prohibited conventional banks from operating such Islamic windows, requiring them to cease providing Islamic finance products and to transfer their outstanding Islamic liabilities to the Islamic banks.

Today, Islamic finance in Qatar, predominantly utilizing the Murabahah and Ijarah structures, is provided by the four Islamic banks regulated by the QCB – Qatar Islamic Bank (QIB), Barwa Bank, Qatar International Islamic Bank (QIIB) and Masraf Al Rayan, together with certain investment banks including QInvest and Al Rayan Investment, which are supervised by the Qatar Financial Centre (QFC) under the Islamic Finance Rules introduced by the QFC Regulatory Authority in 2005.

Islamic banks listed on the Qatar Stock Exchange are also regulated by the Qatar Financial Markets Authority (QFMA). Efforts have been made in recent years between the QCB, OFC and QFMA to develop a consistent legal regime and regulatory/supervisory practices to further the development of Islamic finance. Both the QCB and the QFC require Islamic financial institutions regulated by them to establish their own Shariah board and to implement AAOIFI compliant governance standards.

In 2013, the first Shariah compliant equity index, QE Al Rayan Islamic index, was established.

The Sukuk market in Qatar has mainly been the preserve of the Qatari government. From its first Sukuk issued in 2003, almost 75% of Sukuk currently outstanding are government issuances. The first Qatari corporate Sukuk was issued in 2006 by the Qatar Real Estate Investment Company. Ten years later, Ezdan Holdings became the first Qatari company to issue a Sukuk on the international capital markets.

Following legislation issued by the QCB at the start of 2014 to implement Basel III, both QIB and QIIB issued Tier 1 Sukuk in 2016, which were compliant with the regulatory requirements relating to capital adequacy and market liquidity risk of Basel III.

Key events

Any retrospective of Qatar will, of course, be dominated by three key events, each having a significant effect on shaping the economy and, in turn, the development of financing and Islamic financing in Qatar.

The award, in November 2010, of the 2022 FIFA World Cup hosting rights was the catalyst to domestic investment in infrastructure, tourism and hospitality and, combined with the country's 2030 Vision and the first and second National Development Strategies, saw the drive to a more sustainable economy diversified away from oil and gas, which historically accounted for more than half of the GDP of Qatar, and which the Islamic banks have been instrumental in supporting. The secured syndicated Murabahah financings provided by QIB to Nakilat, the national LNG transportation company, in 2013 were among the largest Islamic financings in the market that year.

However, the drive to a diversified economy was brought into stark relevance by the precipitous decline in mid-2014 of the oil prices, which has had significant ramifications on the economy.

The blockade of Qatar by the UAE, Saudi Arabia, Bahrain and Egypt in June 2017 led to government intervention to stabilize the economy, including the taking of measures via the QCB by way of public sector deposits to maintain liquidity in the banking sector. The blockade’s impact on the profitability and growth of the banking sector was therefore not as significant as the effect on other sectors of the economy such as air travel and shipping.

Current state and outlook for Islamic finance

Today, the Islamic finance market is generally viewed as mature and profitable. The four Qatari Islamic banks are among the largest in the world, with total assets valued at approximately US$100 billion generating revenues of approximately US$10 billion, 25% of which are attributable to Islamic financings relating to real estate, construction and insurance.

While liquidity has been maintained due, in part, to government intervention, the challenges facing the Islamic financing sector in recent years have been in finding profitable markets outside an increasingly competitive domestic market.

Islamic banks are investigating financings in foreign markets including in Europe and are seeking to innovate and find solutions in regtech, particularly with respect to issues relating to Shariah compliance, and fintech in Islamic financing products to enhance profitability in the domestic market. Focus is also turning to markets where investment has previously been considered difficult to structure in compliance with Shariah.

A noteworthy example is the development of Shariah compliant structures which permit Islamic investors to invest in certain conventional private equity funds, where previously the leveraging of assets, fundamental to the investment strategy of such funds, would have prohibited or restricted the investment ability of Islamic investors.

In 2019, a further indication of the maturation of the Islamic finance market in Qatar saw the QCB announce plans to centralize the governance and regulation of the Islamic finance industry, including a proposal to establish a centralized Shariah supervisory committee for Islamic banks operating in Qatar.
The first Islamic financial institution in Russia was Badr Forte Bank established in 1991. The bank was holding official conventional banking license of the Bank of Russia, but the owners and top managers tried to invent instruments and banking products which are Shariah compliant and acceptable to banks under the current legal environment. Badr Forte Bank offered Mudarabah-based investment accounts for depositors and partners and financed customers’ needs based on Murabahah.

The first Islamic financial company from the Islamic segment of the domestic stock market was investment fund BKS-Fund Halal, established in 2007. Badr Forte Bank was not in operation for long as, after 15 years of successful business, the regulator terminated its banking license, accusing the bank of violating the anti-money laundering laws. But the real reason for the withdrawal of the banking license was that the dissatisfaction of some large state-owned banks having special relations with the Central Bank of the Russian Federation was due to the fact that a number of big clients left them for Badr Forte Bank.

The first Takaful company, Itil, was founded in Kazan (Tatarstan Republic) in 2005. Unfortunately, Itil was closed after only one year in operations because of the lack of demand, and errors in the company’s financial policy.

**Table 1: Financial institutions providing Shariah compliant products in Russia**

<table>
<thead>
<tr>
<th>No</th>
<th>Name of financial institution and location</th>
<th>Year of starting transactions</th>
<th>Instruments and products</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Express Bank (Mahachkala, Dagestan Republic)</td>
<td>2010</td>
<td>Halal debit and credit cards, FX operations, purchase and sales of golden and silver coins</td>
<td>Banking license was withdrawn at the end of 2012 due to bankruptcy</td>
</tr>
<tr>
<td>2.</td>
<td>Financial House Amal (Kazan, Tatarstan Republic)</td>
<td>2010</td>
<td>Mudarabah, Qard Hasan, debit cards, Murabahah, Ijarah, Istsishah, Salam</td>
<td>The structure of the company includes several legal entities: consumer society, leasing company, trade company, Islamic branch of conventional bank</td>
</tr>
<tr>
<td>3.</td>
<td>Commercial bank Ellips (Nizhny Novgorod, Volga region)</td>
<td>October 2011</td>
<td>Islamic payment cards</td>
<td>Organized as a special Islamic branch with a separate correspondent account with the regulator</td>
</tr>
<tr>
<td>4.</td>
<td>AF Bank (Ufa, Bashkorkostan)</td>
<td>December 2011</td>
<td>Halal debit cards</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>THB Lya Riba Finance (Mahachkala, Republic Dagestan)</td>
<td>2012</td>
<td>Attraction of deposits based on Murabahah, customer and trade financing based on Murabahah, Halal plastic cards</td>
<td>Comradeship focused on retail transactions with population, individual businessmen and SME</td>
</tr>
</tbody>
</table>
The second generation of Islamic financial institutions was established in Russia after 2010.

In early 2011, AK Bars Bank made the first deal of attracting foreign investments using Islamic financial principles, when conventional banks in Russia used commodity Murabahah and palladium as basic commodity to attract US$60 million and later US$100 million for the Russian Halal industry.

Review of modern situation

Existing Islamic financial institutions – Financial House Amal and Lya Riba Finance – show good financial results, attracting more customers among the population and business structures, and seeking support from the government and policymakers. A number of large, state banking corporations, following the demand from their customers, are trying to find financial solutions close to Shariah compliant instruments. Thus, Sberbank offers leasing of the assets based on Ijarah while Vnesheconombank has a set of Halal financial products at its branch in Abu Dhabi, the UAE.

The Central Bank of the Russian Federation coordinated the 2015 Participating Banking Working Group and is trying to improve the legal and methodological environment of Islamic finance in Russia. In order to form strong demand for Shariah compliant instruments at the national real and financial markets, the Bank of Russia supports educational programs at leading universities and included Islamic finance in federal programs to increase the financial literacy level in Russia.

Some of the universities, like the High School of Economics, made joint educational programs with the AAOIFI by offering a Certified Islamic Finance Accountant diploma to its graduates. Plekhanov University of Economics attracted the International Association of Islamic Business and made joint full-pledge educational programs according to the real needs of Islamic professionals.

The first issuance of Sukuk took place in 2018 at Kazan. Although the total amount is very small – around RUB1 million (US$17,000), it showed a real technical and legal possibility of issuing Sukuk in Russia. New regions in Russia began to support the Islamic way of doing business, oriented on the social impact of Halal activity in the Russian economy.

The Samara region hosted the 2019 Volga Investment Summit & World Halal Day, which was the fifth region after Tatarstan, Baskorkostan, Dagestan, and Chechnya to officially, at the level of regional government, announce its support of Islamic finance and the Halal industry. Other annual events such as Halal Expo, Kaspiy Expo and Kazan Summit became remarkable grounds for discussions on Islamic finance topics for domestic and international experts, professionals and policymakers.

Conclusion

Nowadays, despite a growing interest in Halal business and Islamic financial products in Russia, the growth speed of the Islamic finance sector is unsatisfactorily low. The reasons are:

1. lack of an appropriate regulatory framework for Islamic financial institutions;
2. shortage of qualified professionals in this area;
3. lack of Islamic financial infrastructure;
4. difficulties in methodology;
5. misunderstandings among the target segment of consumers.

However, Islamic finance in Russia has very prominent reasons for its development. For banks, the offering of Shariah compliant services is a sign of respect to Muslims on the one hand, and on the other, the expansion of the product line, diversification of assets and investment portfolio and finding sources for additional profits. The Russian markets in general can attract excess liquidity of Islamic investors if they can offer acceptable instruments. Islamic financial products can be used within the current legislation; Islamic financial assets are innovative, flexible and have promising prospects. It’s time to use these possibilities.
Saudi Arabia endorses Islamic finance accelerators, spurs industry growth

As of March 2019, the Kingdom of Saudi Arabia’s Islamic finance assets were estimated at US$299 billion. The number positions the Kingdom as the industry’s front-runner, making it the world’s biggest Islamic finance market. While the industry has arguably experienced slower growth around the globe, it is expected that the Kingdom’s Islamic finance market, already the largest in the world, to expand based on demand from corporate and retail clients, and a supportive regulatory environment. The growth is partly driven by the growing venture capital and SME initiatives of the kingdom.

The growth of the sector in the Kingdom is primarily driven by its recent endorsement of several industry accelerators, particularly the adoption of fintech disruptive solutions and inclusive standardization.

Fintech disruption can promote the growth of the Islamic finance industry in several ways, mainly through the faster execution of deals and the better traceability of transactions. Fintech promotes the ease and speed of transaction, which Islamic finance industry players can benefit from to enhance their product offering. Fintech solutions can also improve the traceability of transaction in several ways, primarily through reducing exposure to transaction security issues and identify theft, improving the traceability of underlying assets by helping investors, for instance, better understand the risks related to Sukuk in their portfolios, and improving the traceability of cash flows, which could help issuers implement swift corrective measures if one of the underlying assets underperforms.

The endorsement of fintech as a driver of the financial sector’s growth in the Kingdom is recent but appears to be moving by the speed of light. In October 2018, the Saudi Arabian Monetary Authority (SAMA) launched the Fintech Saudi Initiative to support the fintech ecosystem in the country and promote the kingdom as a fintech hub. Among other mandates, the initiative included the development of a regulatory sandbox to test new ideas and concepts, and accelerate the growth of fintech in the region and attract international talent. The initiative was launched in February 2019 and to date, 21 service providers have been licensed under the fintech sandbox. As a consequence of the sandbox, SAMA recently promulgated a new framework for e-payment systems which is currently under public consultation.

Several large banks in Saudi Arabia have also realized the potential of fintech to transform the Islamic finance industry. Riyad Bank, one of the largest financial institutions in Saudi Arabia, has allocated SAR100 million (US$26.7 million) to newly-launched fintech start-up investments and partnership programs. Riyad Bank’s CEO stated that the fund will also offer research and development support for start-ups alongside capital injections.

Al Rajhi Bank, the Kingdom’s second largest bank and the world’s largest Islamic bank with total assets of over US$97 billion, initiated a digital overhaul of its operations to improve its Islamic lending and financing products. Al Rajhi’s deputy CEO, Waleed Al Mogbel, stated that the transformation will “enable us to transform faster, drive out complexity and lower our overall total cost of ownership.”

Another driver is the adoption of inclusive standardization, particularly that of Shariah interpretation and legal documentation. For issuers, standardization would mean less complexity and faster Sukuk issuance time. With respect to investors, standardization improves the capacity to understand the risks related to instruments and avoids situations where money is lost due to incorrect interpretation of the legal provisions of Sukuk contracts in a specific way.

In 2017 and in an effort to adopt standardization, SAMA joined international standard-setting body AAOIFI. While SAMA has not officially adopted the organization’s standards, the move is considered a major action by SAMA to standardize industry practices and ease cross-border transactions in the kingdom.

Moreover, Saudi Arabia is actively working with exchange houses elsewhere in the GCC to encourage dual listings. It is expected that companies that wish to list in Saudi Arabia will refinance any conventional debt and endeavor to be deemed Shariah compliant to benefit from the Saudi public’s interest in favoring Shariah compliant listed companies.

In conclusion, despite the forecasted slow growth of the industry in the coming years, the Kingdom is slated to be the driver of the Islamic finance industry’s growth by endorsing new ways to conduct business. These methods have the potential of further solidifying Saudi Arabia’s position as a market leader in Islamic finance.

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This expectation of growth is not surprising in light of Saudi Arabia’s ambitious Vision 2030, one of the elements of which is the Financial Sector Development Program (FSDP). Launched in 2017, the FSDP is the most prominent of the ten delivery programs to realize the Vision 2030 goals by 2020. The FSDP contains explicit initiatives which will focus on enhancing the current product offerings in the kingdom (e.g. debt capital markets, savings products, etc.). While S&P Global Ratings expects the global industry to grow more slowly in 2019-2020 (a low-single-digit growth rate over the next two years), Saudi Arabia is slated to become among the few sources of industry growth.

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Prospects of the Islamic finance industry in Senegal

According to the World Bank's report dated the 15th April 2019, especially with the start of oil and gas production expected in 2022, the country is expected to maintain in the coming years, than 6% since 2014, a momentum which, according to the World Bank, the country is expected to maintain in the coming years, than 6% since 2014, a momentum which, according to the World Bank, will be propelled by the sector's infrastructure projects.

Senegal, with a population estimated at more than 15 million and 95% of which are Muslims, has posted economic growth of more than 6% since 2014, a momentum which, according to the World Bank, the country is expected to maintain in the coming years, than 6% since 2014, a momentum which, according to the World Bank, will be propelled by the sector's infrastructure projects.

Senegal's banking landscape is strongly dominated by conventional finance activity. It consists of 25 banks including one Islamic bank with a very large market share and a single bank with an Islamic window. The Islamic Bank of Senegal occupies a remarkable place with its offer of products and services in accordance with the rules and principles of Islamic finance. It is positioned as the seventh bank according to the local statistics of the Professional Association of Banks and Financial Institutions of Senegal (APBEFS) as at the 30th June 2019.

The microfinance sector is performing significantly. At the end of 2018, 303 Decentralized Financial Systems (SFD) were listed in Senegal. According to the report for the second quarter of 2019 of the Directorate of Regulation and Supervision of Decentralized Financial Systems (DRS/DFS), the microfinance sector recorded 3.19 million accounts opened, with a total deposit of XOF132 billion (US$223.9 million). This shows the big capacity and performance of the sector.

However, the Islamic microfinance environment in Senegal has only one player. This is the UM-PAMECAS, which is the only microfinance institution to have developed a window dedicated to Islamic finance.

The insurance industry is marked by the presence of a single Takaful window called SEN TAKAFUL, while the financial intermediation sector presents a single offer of Islamic Common Investment Funds called FCP AL BARAKA.

The Islamic finance market in Senegal does not have many players despite the country's enormous business potential.

The overall analysis of Senegal's economic activity shows that the environment is largely dominated by conventional finance activities. But given the advantages and prospects of Islamic finance, we can say that this industry will grow very quickly with the will of the state and the support of investors. Senegal's economic fabric is strongly dominated by SMEs, which include the enterprising, the very small, the small and medium-sized enterprises.

However, the majority of the informal sector labor force does not have an account in either a bank or a microfinance institution. Entrepreneurs face barriers to their development and access to finance remains the most difficult. According to the Choose Africa Initiative, only 20% of SMEs in Africa have access to a bank loan and 87% of start-ups have no access to financing. As a general rule, they either do not have eligible guarantees for banks, or the rate that is applied by Decentralized Financial Services does not make their operations profitable. This situation leaves a very broad scope for institutions that want to develop Islamic finance activities in Senegal. Given the potential of these entrepreneurs, it is really timely for any investor to enter this almost untapped field in Senegal. The range of products and services that meet the standards of Islamic finance is highly anticipated, and a lot of business sectors will be positively impacted.

With a wide range of financing and investment offers in compliance with ethical finance rules, we will see a rise of start-ups, SMEs and SMIs in Senegal. The tools and techniques of the Islamic financial industry perfectly meet their needs and will enable the growth of this sector. Islamic finance, by its nature, its sources and its principles, offers a real opportunity for anyone who believes in morals and ethics to conduct a healthy business, profitable and beneficial for his community.

So, it is up to us to put in place the right framework to develop an ethical financial industry that can meet the needs of everyone.
Singapore has made significant economic progress since the 1960s. From an entrepot, its economy is today one of the most stable in the world, with no foreign debt, high government revenue and a consistently positive surplus. With a Muslim community close to 15% of a 5.7 million multiethnic population, the central bank welcomes Islamic finance. In addition, the minister in charge of Muslim affairs mentioned that religious teachers are well placed to serve in many various fields, such as social work, counseling, Islamic finance, law and beyond.

History
The Muslims in Singapore are special, being the only community whose affairs are regulated in the following national statutes.
- The Administration of Muslim Law Act (AMLA) replaced the Muslims’ Ordinance and Mohammedan Advisory Board after Singapore gained independence from the British.
- The AMLA covers finance and personal property matters as social work, counseling, Islamic finance, law and beyond.

Over time, business entities became keen on Islamic finance as follows:
- Early efforts were initiated by local organizations such as MENDAKI and the Singapore Malay Teachers’ Cooperative in the 1990s.
- Takaful products were launched by Keppel Insurance in 1995.
- Islamic finance diploma programs were conducted by the International Islamic University of Malaysia with the Muslim Converts Association of Singapore in 1999.

In 2005, the then-senior minister Goh Chok Tong and minister Tharman Shanmugaratnam of the Monetary Authority of Singapore (MAS) expressed the government’s interest to develop Islamic finance in Singapore.

Other major developments:
- In 2008, CIMB arranged a SG$1 billion (US$740.31 million) Sukuk program established by City Developments as the first Sukuk program established by a local company and assisted by Allen & Gledhill.
- In 2009, Standard Chartered Bank and the Islamic Bank of Asia arranged a SG$200 million (US$148.06 million) Sukuk program established by the MAS to equalize the treatment with government securities.
- In 2010, Khazanah Nasional issued a SG$1.5 billion (US$1.11 billion) Sukuk facility in Singapore, the largest Sukuk issuance by a foreign issuer.

Regulations
The same level-playing field adopted by the MAS means that more concerted efforts are required by the banks to boost Islamic banking businesses.
- In July 2001, the Banking Act was amended to disallow banks

### Table 1: Islamic finance development in Singapore

<table>
<thead>
<tr>
<th>Year</th>
<th>Developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>First step by a government body (ie Islamic Religious Council of Singapore (MUIS)) to transact the first deal relating to Musharakah bonds valued at SG$25 million (US$18.51 million).</td>
</tr>
<tr>
<td>2005</td>
<td>The MAS became a full member of the IFSB to contribute ideas to develop global prudential standards and guiding principles for the Islamic financial services industry, broadly defined to include banking, capital markets and insurance segments.</td>
</tr>
<tr>
<td>2009</td>
<td>The MAS issued ‘Guidelines on the Application of Banking Regulations to Islamic Banking’. It was later revised on April 2010 for clarity in policy and regulatory treatment of Shariah structures. (These guidelines are principles or ‘best practice standards’ that govern the conduct of banks doing Islamic banking and complement the Banking Act which are passed by parliament and have the force of law and published in the Government Gazette.)</td>
</tr>
</tbody>
</table>

### Table 2: Influential Islamic finance players in Singapore

<table>
<thead>
<tr>
<th>Category</th>
<th>Influential players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulators/authorities/others</td>
<td>Monetary Authority of Singapore, Islamic Religious Council of Singapore, Singapore Exchange, Wares Investments, Singapore Sukuk, Singapore Malay Chamber of Commerce and Industry (SMCCI)</td>
</tr>
<tr>
<td>Banks</td>
<td>Malaysian banks – CIMB, RHB, Maybank, First Abu Dhabi Bank and Qatar National Bank, Macquarie Bank</td>
</tr>
<tr>
<td>Business/financial consultancy/venture funds</td>
<td>Financial Alliance Islamic Wealth Advisory, Stejar Consulting Group, Ascent Islamic, HTHT Advisory Services, Quest Ventures</td>
</tr>
<tr>
<td>Takaful</td>
<td>ST &amp; T International, United Overseas Insurance</td>
</tr>
<tr>
<td>Shariah consultancy</td>
<td>Pergas Investment — Financial Shariah Advisory &amp; Consultancy, Five Pillars, IdealRatings</td>
</tr>
<tr>
<td>Crowdfunding</td>
<td>Ethis, Kapital Boost</td>
</tr>
<tr>
<td>Education provider</td>
<td>IslamicEvents.sg, Singapore Islamic Finance Academy, Halal Universe</td>
</tr>
<tr>
<td>Technology</td>
<td>Infinity Blockchain Holdings, Finterra, Collab Dean</td>
</tr>
<tr>
<td>Organizations/interest groups</td>
<td>AMP Singapore, Islamic Business &amp; Finance Society (Singapore Management University), IFIISG Group (Whatsapp), Muslims in Finance (Telegram)</td>
</tr>
</tbody>
</table>

Source: Author’s own

Source: Gulf Asia Shariah Compliant Investments Association
from engaging in non-financial activities such as property management, trading in goods and such. This is to prevent banks from losing their core focus on banking and financial activities which have led to global economic crises in the 1980s and 1990s. However, this anti-commingling policy could have effectively prevented the conduct of Islamic banking in Singapore as Islamic transactions require banks to be involved in non-financial activities. Hence, amendments to the Act are necessary to allow banks to undertake non-financial activities with Shariah structures.

- As a prudential regulator, the MAS does not prescribe what constitute Shariah compliance. This is the same approach adopted by other secular jurisdictions (such as the UK, Hong Kong, France, Ireland and the US). Nevertheless, the MAS will come down hard on financial institutions with slack corporate governance and risk management.

- The MAS requires banks to have their own Shariah expertise, rulings and oversight. Overall, as part of a single regulatory framework, a financial institution carrying out Islamic financial activities has to comply with the same set of rules and regulations as any banks in Singapore, namely the Banking Act, Banking Regulations, Notices and Directives.

- The Committee on Future Asatizah hopes to develop the Singapore Islamic College with a broad-based curriculum of Islamic sciences

The following are the major events which have shaken the Islamic finance industry in Singapore:

- In 2012, HSBC Group stopped offering Takaful services in Singapore as the investment criteria were not met. However ST&T International launched a range of Takaful products in April 2013, in collaboration with United Overseas Insurance (such as an Umrah scheme and the Emergency Medical Assistance-AMTAS scheme).

- In 2015, the Islamic Bank of Asia of DBS Group was unable to achieve economies of scale and hence stopped offering Islamic financing facilities to customers, though the group still focuses on private equity and fee-based investment banking.

- In 2016, Sabana Shariah Compliant Industrial REIT, the world’s largest Shariah compliant REIT by assets, declined in business, causing a management shake-up where senior executives left and a new CEO appointed.

- In addition, international conferences on Islamic finance stalled since 2015 until the WIBC Capital Markets Summit Asia returned to Singapore in July 2019.

Future and challenges

The following are some challenges ahead:

- Flats managed by the Housing and Development Board (HDB) have been the tenet of Singapore’s affordable public residential housing for the masses. The Muslim community has been longing for a Shariah compliant version of HDB financing since 2010 but this has not materialized although banks have previously engaged the authorities such as the Central Provident Fund Board.

- MUIS recently announced that some Fatwa rulings need to be reviewed to ensure relevancy to the current context. More resources are required to look into the religious concerns of the community, especially on financial matters.

- As cost of living increases, many people may resort to other means to earn extra income. Many may get involved in ‘Halal’ foreign exchange trading, pyramid schemes, binary options and bonds which were thought to give Shariah compliant income arising from scanty religious opinions. Meanwhile, although scholars generally allow the use of technology to facilitate business transactions, a majority of them are not inclined to the application of cryptocurrencies as money.

Conclusion

Singapore is one of the Asian countries with the most ‘soft power’ and sits atop many world rankings, ahead of Norway, Switzerland and Denmark due to its robust digital financial infrastructure and advanced digital government services. Hence, the role of MAS is crucial for Singapore to become a global haven of financial stability. Out of 48 countries assessed, Singapore ranked 29th on the Islamic Finance Country Index (IFCI) with respect to the state of Islamic banking and finance and its leadership role in the industry on a national level and benchmarked to an international level.

Besides Islamic finance, Singapore can consider looking for opportunities in the Halal space. Globally, Singapore was highly ranked in the Halal areas of the following sectors:

- Modest fashion
- Media and recreation, and
- Pharmaceuticals and cosmetics.

Examples (sourced from DinarStandard) include:

- What’sHalal which has a Halal traceability to connect the end-to-end process of a supply chain
- A strategic partnership between Elite Partners Capital and SMCCI to develop a Halal production facility costing up to SG$100 million (US$74.03 million)
- One-Agrix sourcing for Halal ingredients using blockchain, and
- Indonesia’s Traveloka promoting Muslim-friendly travel by getting a US$420 million funding led by Singapore’s sovereign wealth fund, GIC.

Where Islamic finance is concerned, the Singaporean government can enhance the current legislation by empowering MUIS to coordinate both Islamic finance and Halal business activities through the AMLA.

Lastly, the Committee on Future Asatizah hopes to develop the Singapore Islamic College with a broad-based curriculum of Islamic sciences. Hence, public education has to be ongoing until Islamic social finance is able to effect financial inclusion, promote humanitarian welfare and boost the economy, eventually elevating Singapore to be a holistic international business hub.
Global Islamic finance industry continues to expand

The global Islamic banking and finance industry continues to gain traction and grow steadily in recent years, as demand for Shariah compliant investments and availability of Islamic financial instruments increases.

According to a report by the IFSB, the global Islamic financial services industry recorded a continuous improvement for a third straight year in terms of its total worth in 2018. The combined total worth of the three broad sectors of Islamic financial services industry, namely Islamic banking, Islamic capital market and Takaful, is estimated to have grown 6.9% year-on-year to US$2.19 trillion as at the second quarter of 2018, compared with the US$2.05 trillion recorded at the end of 2017.

A growing Islamic finance ecosystem in Singapore

In Asia, where the Islamic finance industry has grown substantially over the last two decades, the appetite for Shariah compliant products remains strong. One of the most powerful drivers of Islamic finance has been demographics, which is playing to the Asia Pacific region’s advantage where two-thirds of the world’s Muslims reside. Strong regulatory support, sizable investor base and innovation in product development have also been key to this growth trajectory.

Due to the nature of Shariah compliant products, it has over time become more appealing to mainstream investors who view them as a form of diversification. In fact, some asset managers have turned to Shariah compliant investments as part of their environmental, social and governance (ESG) investment considerations, which take into account moral and ethical values, beyond financial gains.

SGX offers capital raising and investment solutions for the global Islamic finance industry

As Asia’s most international, multi-asset exchange operating equity, fixed income, currency and commodity markets, Singapore Exchange (SGX) is well-placed to offer global investors, corporates and institutions avenues to partake in the Islamic finance growth story.

Based on the FTSE ST Singapore Shariah Index, there are 38 SGX-listed companies that meet a clear set of Shariah principles and are deemed Shariah compliant. These companies come from real estate, REITs, consumer, healthcare, technology and maritime and offshore sectors, offering investors diverse investment opportunities within the Shariah compliant space.

Launched in October 2018 jointly by FTSE Russell, SGX and Singapore Press Holdings, the FTSE ST Singapore Shariah Index is the first index that tracks Shariah compliant companies listed on SGX. It was created to meet the growing demand for appropriate benchmarking tools that can be used as the basis for Shariah compliant investment products and potentially pave the way for creation of more Shariah compliant products. SGX also offers the best liquidity among the Asian exchanges for the world’s largest Gold ETF – the SPDR Gold Shares ETF. The total assets under management of the SPDR Gold Shares ETF listed on SGX has exceeded US$1 billion as at October 2019, with a year-to-date growth of 16%.

This ETF was certified to be fully compliant with Shariah standard in 2017, offering Islamic investors an innovative and cost-efficient means to access the gold market. This marked an important step in addressing the demand for gold in the US$2 trillion Islamic finance market. More retail and institutional investors now have access to a cost-effective gold-backed investment product, in addition to the ability to buy bars, coins and jewelry.

In terms of capital-raising, as Asia’s largest listing venue for international debt securities, SGX supports a diversified range of Sukuk issuances from Asian issuers in particular. To-date, SGX has welcomed over 30 Sukuk with amount issued of more than US$26 billion. Issuers that have listed Sukuk on SGX include Axiata Group, Sime Darby Global, Tenaga Nasional, Sabana Treasury, Serba Dinamik Holdings, IHH Healthcare, Republic of Indonesia, Khazanah Nasional and Garuda Indonesia.

Outlook for the global Islamic finance industry

The global Islamic finance industry has been growing over these past three decades and it continues to benefit from the support from all participants within the ecosystem. As Asia’s leading financial center at the heart of Southeast Asia, Singapore will continue to play a part in enhancing connectivity and investment flows between the Middle East and Asia, and facilitate the continued growth of Islamic finance in the region.

This article was contributed by Singapore Exchange.
Looking at 15 years of the Islamic finance sector in South Africa, one can notice that in addition to one Islamic bank (Al Baraka SA) and one Shariah compliant asset management firm (OASIS Crescent), the market has grown to several Islamic windows, Takaful solutions providers and investment agents. Such an environment has created competition, growth, and importantly, market penetration. Some of the local brands have even outgrown the local market and brought their Shariah compliant financial products to other jurisdictions like the UK and Ireland, among others.

As one of the rapidly emerging non-Muslim-majority country hotspots, South Africa has undoubtedly made its footprint by developing a Shariah compliant financial market, with most of the large banks offering Islamic products via its windows, Shariah compliant pension funds, and a wide variety of Shariah compliant investment products.

As the economic situation in the country continues to deteriorate, unemployment rates are increasing and are reaching its peak. Disruption waves of the fourth industrial revolution have hit the market space; South Africa is looking for avenues to stabilize its growth. Another positive aspect from the deal for the coming year is that looking into the financial sector, as more and more jobs are being cut at the large banks in South Africa, which are often the most significant Islamic financial windows, secular challenges will eventually open the way for innovative retraining of the laid-off staff.

In conclusion, I recommend watching out for a combination of ‘the GCC and Islamic finance,’ working closely in the areas of mining and agriculture in South Africa.
Ahamed Imruz Kamil is the head of Islamic finance at Richard Pieris Finance. He can be contacted at imruz@rpcfinance.com.

Islamic finance has been in existence in Sri Lanka for almost two decades by now, with the humble beginning of Amana Investments in 1997, the first Islamic finance institution established to provide Islamic banking services which was almost an unregulated institution then. There were a few more institutions that commenced Islamic finance in the 2000s to compete with Amana, but those institutions were not regulated and disappeared in a couple of years due to financial constraints.

The growth of Islamic finance started to thrive in Sri Lanka after 2005. The government of Sri Lanka took the initiative to enact the Islamic banking concept through amendments made to the Banking Act No 30 of 1988 in March 2005 (Act No 2 of 2005), making Sri Lanka one of the first non-Islamic countries in the world to enact legislation in the finance sector.

An increasingly confident Muslim population and a growing middle class have contributed toward creating demand for Islamic finance in Sri Lanka and we have witnessed the entry of many players subsequent to the amendment of the Banking Act. Many non-banking financial institutions (NBFIs) along with commercial banks in Sri Lanka have opened Islamic banking units (IBUs) to provide services to the Muslim community.

Further, the Central Bank of Sri Lanka has issued directions to those institutions to maintain separate books of accounts for their Islamic banking operations; however, there is no separate regulatory framework for Islamic financial institutions in the country, but those institutions come under the existing regulatory framework adhering to the Central Bank of Sri Lanka (CBSL) rules on risk management, governance and best practices.

Current progress

Islamic banking has got off to a very good start and has been growing with rapid pace until 2016. Almost all major conventional banks and NBFIs have opened their stand-alone IBUs and one fully-fledged Islamic finance institution (Amana Bank) licensed by the CBSL is operating in Sri Lanka today.
NBFI sector growth is somewhat above the growth of the conventional NBFI sector with some institutions recording over a 30% growth in some segments despite their small balance sheet sizes until 2016. In the recent past, the growth momentum was pushed back due to dogmatic elements and the economic recession witnessed in Sri Lanka. We believe this current dwindling momentum will continue for some time until the newly elected government make changes in the minds of the people for cohesion.

Sri Lanka had an interesting story in Asia with a lot of positives but with the recent setback in the growth of Islamic finance pushed back, the major players will think twice before moving forward. A research study conducted in Sri Lanka in 2016 indicates that the total number of players in the industry has increased to 43 players compared to 37 players in 2012. It is worth noting that we have witnessed the entry of more Takaful operators in the recent past; currently five major insurance operators have their Takaful operations in Sri Lanka, growing above the banking sector growth. Research conducted by a focus group reveals the following information on Islamic banking in Sri Lanka. The customer base has grown at a steady rate compared with the year-ends of 2017 and 2018 as indicated in the chart. According to the finding of the study, the total asset base increased from LKR104.9 billion (US$573.27 million) to LKR122.6 billion (US$670 million) in the Islamic banking industry in Sri Lanka and the number of staff employed increased from 1043 to 1253. Of these, the Takaful sector accounted for 60% of the total workforce.

In a mixed and multicultural society like Sri Lanka, penetration of the market beyond the Muslim community is both necessary and vital to ensure continued growth.

According to past studies, awareness of Shariah compliant finance only really picked up from 2005 and after the 2019 Easter Sunday terror attack, the images of Islam and Muslims have been scrutinized while the thrust on Islamic finance created confusion in the minds of other faiths. In a mixed and multicultural society like Sri Lanka, penetration of the market beyond the Muslim community is both necessary and vital to ensure continued growth. In this regard, many IBUs of banks, finance companies and insurance service providers have initiated efforts to move away from Arabic names for products and have plans to use more indigenous terms.

Conclusion

With the commencement of the second half of the 21st century, the world panorama showed a gradual transition of its geopolitical phase toward a geoeconomic one and during the mid of the 21st century, top brass Muslim intellectuals and scholars felt the need to invigorate their religion-political and economic policy to bring the life of Muslim masses in conformity with the Shariah on one hand and compatible with the modernizing world on the other. The Islamic banking and finance sector in Sri Lanka, owing to some political as well as legal issues that turned out to be the impediments in the course of its development, has seen a significant scarcity of large-scale adoption of this sector in the Sri Lankan financial markets. Keeping in view the religious conviction of the Muslims living as minorities and actively involved in sociopolitical and economic affairs, there is an immediate need for the business community and social activists to convince the government to support the alternative financing system in Sri Lanka.
Islamic finance in Syria: Does the crisis matter?

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The banking sector in Syria was affected like many other sectors during the last eight years due to the war in the country. However, the effect on the banking sector was more severe as it is closely linked to other economic sectors. Islamic banks showed a robust performance during the crisis. Three Islamic banks in Syria, namely Cham Bank, Syria International Islamic Bank and Al Baraka Bank Syria showed a growth in their assets during the last 10 years including the crisis years.

Al Baraka Bank Syria recorded the highest total assets in 2018 with SYP366.18 billion (US$1.7 billion) (26.7% growth) and Cham Bank with SYP156.71 billion (US$729.4 million) (15.6% growth).

The shifting down of Cham Bank assets in 2017 could be because of the US sanctions on the bank in the same year; however, the bank showed a positive growth in 2018 and likewise Syria International Islamic Bank which was sanctioned in 2012. Both banks showed an ability to overcome the challenges from the sanctions.

The three Islamic banks also showed a positive net income in 2018, led by the Al Baraka Bank Syria (SYP4.35 billion (US$20.25 million)) followed by Syria International Islamic Bank (SYP2.36 billion (US$10.98 million)) and Cham Bank (SYP858.44 million (US$4 million)) respectively.

2017 witnessed a downward slump in the net income figures for all Islamic banks. During the crisis, the Syrian pound values were harshly depreciated due to many factors. In 2016, the value of the Syrian pound reached a very low level for the first time (US$1 to around SYP650 compared with US$1 to around SYP47 in 2010). 2017 witnessed improvement and appreciation in Syrian pound, with the changes and instability in the Syrian pound reflected in the income statement of Islamic banks as their unrealized profit from their capital structure position increase or decrease. Due to the appreciation of the Syrian pound in 2017 compared with 2016, the unrealized income obviously decreased and was reflected in the net income decrease of Islamic banks.

Islamic banks’ figures continued their upward trend in 2019, reflected by positive growth in net income, assets and shareholders’ equity. The net income in the third quarter of 2019 was SYP4.58 billion (US$21.32 million) for Al Baraka Bank Syria, SYP3.96 billion (US$18.43 million) for Syria International Islamic Bank and SYP1.51 billion (US$7.03 million) for Cham Bank.

The stocks of Islamic banks showed a very active tradability (volume and values) on the Damascus Stock Exchange (DSE). Cham Bank joined Syria International Islamic Bank and Al Baraka Bank Syria and become one of the leading stocks on the DSE in November 2019. Consequently, the three Islamic banks are now part of the leading index in the market. The last week of October 2019 showed that Syria International Islamic Bank led the market and acquired 40.6% of market trading (trading volume 108,752 stocks), Al Baraka Bank Syria acquired 16.92% with a trading volume of 32,543 stocks and Cham Bank 6.24% with a trading volume of 16,948 stocks.

Islamic insurance (Takaful) in Syria

Two Islamic insurance companies operating in the insurance market in Syria, Al-Aqeelah Takaful Insurance and Syrian Islamic Insurance, acquired around 5.4% of the insurance market in the country in the third quarter of 2018 (4.2% for Al-Aqeelah and 1.2% for Syrian Islamic Insurance). The 5.4 percentage may look small but it is not due to the fact that Syrian Insurance Company which is the government owned insurance company controlled around 69% of the market, and if we focus on the private insurance market, Al-Aqeelah Takaful Insurance ranked second with a 14% market share and Syrian Islamic Insurance was the penultimate company in the rankings with a 4% market share in the third quarter of 2018.

The main contributions of the market come from two main insurance branches which are car insurance and medical insurance with more than 75% of market contributions, and this concentration is considered one of the weaknesses of the insurance market and Islamic insurance market in Syria, due to the fact that this two branches are characterized by the rapid payment of compensation (high frequency of accidents) and very low profit rates compared to other branches.

In addition to that, the crisis resulted in more concentration due to many factors including the decrease in foreign trade export and import, a slowdown of construction projects and the difficulties in reinsurance operations as many international reinsurers have stopped their dealings with Syrian insurance companies.

Despite eight years of the Syrian crisis, sanctions and other non-preferable external and internal circumstances, Islamic banks and Islamic insurance companies had a good performance during the last 10 years, reflected in their financial results and the continuity of providing services to the extent that the general situation allowed. The industry is expected to continue in upward growth in the upcoming years as the general conditions in the country are improving year after year.
Islamic finance development in Tunisia

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Over the past 10 years, the Islamic finance industry in Tunisia has made significant progress and has undergone a drastic transformation, developing a resilience to the political and legal uncertainties and complexities toward Islamic finance issues, compared with the previous period characterized by its domestic confusion with political Islamism and as a consequence resulting in the lack of state support and low familiarity of potential customers with Islamic banking.

Undoubtedly, making progress in this field is a major challenge owing to the context of economic difficulties related to the democratic transition which has increased pressure on the development of the Islamic financial landscape, despite certain major changes related to tax provisions (Finance Act for 2014, the exemption of the profit margin from value-added tax and the avoidance of double taxation on the transfer of properties), to certain legal provisions (Sukuk law and Islamic funds law in 2013 in addition to Takaful law in 2014) and to the formal legal recognition of Islamic banking activities (banking law in 2016).

The banking law introduces Islamic finance transactions (Murabahah, Ijarah, Mudarabah, Musharakah, Istisnah, Salam, Wadaii Istithmariya) and also allows all banks to carry out Islamic finance transactions, subject to getting an approval from the Central Bank of Tunisia (CBT) (full approval or Islamic windows). On the 14th October 2019 came the eagerly awaited circular announced by the CBT which defines these transactions and provides their regime.

The Tunisian banking system consists of 23 full-service banks, of which five banks are specialized (three Islamic banks, one SME financing bank and one microfinance bank). The three Islamic banks are:

- Al Baraka Bank, the first non-resident bank founded in 1983 which was transformed into a resident bank in January 2014, and
- Wifak International Bank (WIB), the first leasing institution converted into a resident bank, which was granted a banking license in November 2015 and authorized to transform its conventional activity to Islamic banking.

Zitouna Bank in 2016 developed the activities of the only Islamic microfinance institution, Zitouna Tamkeen, in partnership with the IDB.

In addition, there are:

- three Islamic mutual funds: ATID Fund (March 2009), Al Kaouther Fund (March 2010) and UGFS Islamic Fund (December 2014), and
- three Islamic investment funds: Theemar Investment Fund (February 2013), FCPR MAX-Jasmin (November 2013) and FCPR ZITOUNA MOUCCHARAKA I (March 2019).

Furthermore, three Takaful institutions have been created since 2011: Zitouna Takafal (January 2011), El Amana Takafal (April 2013) and Al Takafulia Insurance (June 2013) in addition to Tunis Re which created its window Tunis Retakafal in January 2011 to meet the needs of the domestic market.

Another component of the Islamic financial landscape is Best Lease (1999), a subsidiary of Al Baraka Bank which is the only operator in the market of Islamic leasing in Tunisia. The major component, namely the banking sector, showed a steady increase of net banking revenue of the three banks between 2015 and 2018, according to their income statements, and also encouraging signs of improvement in the net income of the Islamic banking sector as a whole. Individually, Zitouna Bank, which is driving up the sector profitability, realized between 2015 and 2018 more than twice as much net banking revenue as Al Baraka and more than three times as much net income as both Al Baraka and WIB.

On another note, WIB succeeded, following the emergence of participation certificates (a hybrid title with a fixed part of its yield and a variable part) issued by Zitouna Bank (in 2015 and 2017) and Best Lease (in 2017 and 2018), in raising another TND15.24 million (US$5.31 million) in 2019, through the issuance of first-time Islamic bonds in the country, after raising TND15.4 million (US$5.37 million) in 2018. These Islamic bonds were issued through a public offering using a portfolio of Ijarah financing as the underlying asset. In the development context, the IDB Group approved as of the end of 2018 a total financing of US$802 million for projects and operations under the second Member Country Partnership Strategy (MCPS) 2018–20, in addition to a total financing of US$781 million under the completed MCPS 2013–16.

Most importantly, it is essential to contribute to the current arsenal of regulations and supervision matters, where Shariah compliance should be well defined, and to boost the profit and loss-sharing mechanism which in time will create a robust ecosystem where this emergent industry could stimulate economic development.

Any public opinion or media appearance is the author’s independent personal opinion and should not be construed to represent any institution with whom the author is affiliated.

Chart 1: Islamic banking sector performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Zitouna</th>
<th>AlBaraka</th>
<th>Wifak</th>
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<tbody>
<tr>
<td>2015</td>
<td></td>
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<td>2016</td>
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Net income

Net banking revenue

Source: Author’s own

Chart 2: Islamic banks’ individual performance

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Net income 2015

Net income 2016

Net income 2017

Net income 2018

Source: Author’s own

Any public opinion or media appearance is the author’s independent personal opinion and should not be construed to represent any institution with whom the author is affiliated.
Turkey strengthening its position as Islamic finance hub

Ayse Nur Tepebasi is the international relations specialist at the Participation Banks Association of Turkey. She can be contacted at aysenuraydin@tkbb.org.tr.

With a nominal GDP of US$766.43 billion, Turkey is the 19th-largest economy in the world with a unique geostrategic location, acting as a bridge between Europe, the Middle East and Asia, which makes it ideally positioned to be one of the leading players in developing markets. Islamic finance has come a long way in Turkey since its beginnings in the 1980s. The sector emerged with a government decree in 1983 followed by the establishment of the first ‘special finance house’ in 1984. These institutions did not share the same status as other commercial banks, creating a negative perception both at home and abroad.

With the issuance of the new Banking Law in 2005, the term special finance house was changed to participation bank, enabling a level-playing field for these banks. In recent years, the government views the Islamic finance sector as a strategic area and in order to support the industry, major regulatory and infrastructural reforms are being made.

The government became a market player in 2015 with the establishment of the first state-owned participation bank, Ziraat Participation, followed by the establishment of Vakif Participation in 2016. In March 2019, Emşak Participation Bank was established, making a total of six players in the market.

Throughout the years, participation banks have displayed positive growth as they continue to strengthen their position in the financial sector. As of September 2019, the total asset size of the participation banking sector reached TRY257 billion (US$43.02 billion), accounting for more than 6% of the sector (Chart 1).

Participation banks in Turkey have taken advantage of fintech developments and they are highly advanced in developing and investing in new technologies. The banks consider fintech as a tool contributing to financial inclusion and providing improved services to their customers at lower costs. A number of banks have been engaging and investing in fintech start-ups by organizing trainings and hackathons to support fintech entrepreneurs.

Aiming to diversify their distribution channels and reach a wider customer base, some participation banks have introduced digital banking platforms. For example, in 2015, Kuveyt Turk Participation Bank launched ‘Senin Bankan (Your Bank)’, which is the world’s first interest-free digital branchless banking platform. The platform provides banking services to customers without the need to go to a branch and offers a wide range of services from applying for a credit card to financing or life insurance.

Chart 1: Total assets and market share of participation banking

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In 2018, Albaraka Turk Participation Bank launched Europe’s first digital Islamic bank, Insha, for its overseas customers in Europe. As new business models evolved and competition among banks increased, it is expected that other participation banks in Turkey will take a more active role in the adoption of fintech solutions.

Parallel to the growth in the banking sector, the Sukuk market in Turkey has displayed sustainable growth, aiming to gain a larger share of the global Sukuk market. According to the IFSB, Turkey was the fifth-largest Sukuk issuer accounting for 8.3% of overall Sukuk issuances in 2018.

The first Sukuk regulation was introduced in 2010 under the name of ‘lease certificates’ allowing the issuance of Sukuk Ijarah. In 2011, tax exemptions were provided followed by a new regulation in 2013, allowing the issuance of Sukuk in different structures. In 2016, a tax reform was introduced, eliminating tax inequalities between Sukuk types, which made Sukuk more attractive for issuers and investors. The domestic Sukuk issuances of the Turkish Treasury (the Treasury) and private Sukuk issuances of participation banks totaled TRY32.4 billion (US$5.42 billion) in 2018, up from TRY7.1 billion (US$1.19 billion) in 2015, displaying a significant increase due to tax reforms and new participation banks in the market.

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The Treasury has become a regular Sukuk issuer since its first issuance in 2012 and has contributed to the development of Sukuk markets through innovative approaches. In September 2016, Turkey issued an inflation-linked Sukuk facility in the domestic market to broaden the investor base and diversify borrowing instruments and still continue to regularly issue this form of Sukuk. Further to this innovative approach, the government has launched gold-denominated Sukuk in 2017.

In Turkey, gold is considered as an important traditional investment and used as a gift in ritualized occasions. However, physical gold is kept out of the economy by individual investors. Designed to appeal to the public, gold-denominated Sukuk aim to bring the idle gold into the financial system and encourage retail savings. From its first issuance up until June 2019, the Treasury has collected 36,457 kilograms of gold from investors for the issuance of gold-denominated Sukuk. Corporate Sukuk issuances have been dominated by participation banks, but recently corporates have also shown interest in Sukuk as an alternative source of funding, which is expected to enable the growth of the Sukuk market.

In terms of the insurance sector in Turkey, Takaful has shown a positive growth in recent years, contributing to the development of the Islamic finance industry. The first General Takaful company, Neova Insurance, was introduced to the market in 2009. Four years later, Katilim Emeklik ve Hayat (Katilim Pension and Life) started operations as the first Family Takaful company.

In 2017, the Turkish government introduced the first regulation on Takaful, which includes the permission for insurance companies to operate Takaful windows. According to the law, window-based companies are subject to the same regulation with fully-fledged operators but are given a period of three years to either transform into a fully-fledged Takaful company or set up a separate entity.

After 2017, with the new law, the Takaful sector has picked up momentum and has displayed a significant increase in its market share. As of today, there are four fully-fledged Takaful companies and eight windows providing Takaful services. As seen in Chart 2, the sector reached TRY22.3 billion (US$37.31 million) in 2018, accounting for 4.31% of the market, a significant increase from TRY383 million (US$64.12 million) in 2014.

On the regulatory front, there is no separate Islamic banking law in Turkey; participation banks and conventional banks are subject to the same banking law. However, the Banking Regulation and Supervision Agency (BRSA) has been implementing regulatory requirements through sub-regulations.

In 2018, the Central Advisory Board was set up with the decision of the BRSA under the Participation Banks Association of Turkey. In September this year, the BRSA issued a communique on the in-house advisory boards of participation banks, which are now called advisory committees, outlining the appointment of board members, their independence, duties and authorities as well as working rules and procedures. This will reduce differing practices among participation banks and improve the Shariah governance framework.

Further regulatory developments such as the definitions of financing methods of participation banks and the license for investment and development banks to conduct Islamic financing operations have been introduced by the BRSA.

Islamic finance has made commendable progress with efforts from the public and private sectors and it will continue to be one of the important strategies of the government to promote Istanbul as a financial hub. The 11th Development Plan (2019–23), prepared by the Presidency of Turkey, includes measures to ensure that the Turkish participation banking sector gains a higher market share in the global market.

The innovations and sustainable growth of different sectors support the creation of the Islamic finance ecosystem in Turkey and it is clear that the sector will take an increasing role in contributing to the country’s economy, which is set to be one of the key players in the global market.
The UAE’s Islamic finance evolution

Islamic banking has been a growth area for the last 12 years, with most GCC countries trying to build their Islamic financing capabilities and create domestic Islamic finance hubs. It is not surprising that given the geographical proximity of the UAE along with the religious and cultural links, it is becoming an emerging global hub of Islamic asset management. Especially within the UAE, Dubai has created and attracted massive investments, which has fueled the growth within Islamic finance.

Just looking at Islamic banking 10 years back in the UAE, it was all about basic deposit accounts and now it has reached a point where banks are offering products and services that mirror commercial banks. It is no longer just about the ethical side of things, rather it is competitive in rates, returns, and services, moving beyond what it used to be. Islamic finance has achieved size, scale and market share and customer attention to disrupt the current banking system.

Accessibility to Islamic instruments has grown rapidly, with 85% of the UAE’s banking population exposed to Islamic banking products. Historically, Dubai is home to the world’s first commercial Islamic bank (Dubai Islamic Bank) with a 9% financing market share in the UAE and the largest Islamic financial market (NASDAQ Dubai). In the last 12 months, conventional banks’ total assets saw a growth rate of 4-4.5% while Islamic players have been growing at 7%. In the UAE, Islamic banking penetration is expected to cross 25% in coming years.

Islamic banking continues to gain traction in the UAE market, going from a single-digit market share to over 18% as adoption is increased by both Muslim and non-Muslim consumers. Around 55% of UAE consumers has at least one Islamic banking product in 2018, and the market will witness a 12% increase in the number of non-Muslim banking customers likely to adopt an Islamic finance product in the future.

In addition, the Dubai International Financial Centre (DIFC) in recent years has marked a significant rise in Islamic assets being managed and is the 8th global financial center. The DIFC consists of more than 40 firms offering Shariah compliant products and services, making it a catalyst for the growth of Islamic finance and springboard to reach a Muslim population of over 600 million in the Middle East and Africa region alone. In 2018, Dubai Investments announced to lead a consortium of investors to launch Arkan Bank, a wholesale Islamic financial institution with an initial paid-up capital of US$100 million, as the first home-grown Islamic bank to operate from the DIFC.

Apart from creating a market-leading environment for Islamic financial services to thrive, the sector continues to evolve, which is evident with the Sukuk industry maturing. Over the past years, we have seen a number of debut Sukuk issuances increase substantially. The UAE is projected to issue more than US$8 billion in Sukuk, compared to US$8.5 billion last year. Dubai remains one of the world’s largest centers for Sukuk listings by value at US$62 billion, with DIFC-based Nasdaq Dubai at US$60 billion.

Furthermore, to support the tremendous growth, many initiatives have already been launched, such as the Dubai Global Sukuk Centre, the Dubai Centre for Islamic Finance, the Global Islamic Economy Summit and Islamic Economy Award. In 2018, the overall Islamic economy accounted for 8.3% of Dubai’s GDP, while the Halal industry made up 5.8% of total Dubai trade volumes. We see the government proactively spending money on setting up fintech companies in the Islamic finance space while launching a well-defined criterion for the listing of Islamic products on the local stock exchanges.

To continue the tremendous progress, institutions will need to keep improving the regulatory framework and ecosystem to accelerate the growth within Islamic finance. The efforts to standardize this industry need to strike a balance between providing a predictable Shariah infrastructure and allowing innovation to create new products and structures. Moreover, there is still progress that needs to be made in developing new financial instruments based on Shariah principles to increase investments through convergence between Islamic economy sectors. One of the key challenges of any Shariah compliant product is to structure products that commercially mirror or duplicate the commercial terms of those offered in the conventional market, while at the same time meet the relevant Shariah requirements.

It is important to reflect at the journey that the UAE has taken to reach this point and appreciate the exceptional growth it has achieved in the region at a fast pace in such a short period. The initiatives and strategies coupled with a supportive ecosystem reinforces the UAE’s reputation as the Islamic banking gateway to the Middle East, North Africa and South Asia.

Reading IFN has become a daily ritual. It keeps me up to date with the latest happenings in Islamic finance industry in a very crisp format and easy to read format. I wish team IFN the very best!

Ali Allawala, Global head of Islamic retail banking, Standard Chartered Bank
Islamic finance in the US

Aside from the millions in Sukuk issuances by East Cameron Gas, General Electric and Goldman Sachs and the billions in Islamic funds and under Islamic asset management in the US, plus Islamic investing, and Islamic insurance or Takaful, the main area of Islamic finance in the US in 2019 was in Islamic home financing. The offering of retail investment products in the US is hindered by the fact that banks in the US allow consumers to share in profits, but not in losses.

Under US regulations, a depositary amount must not be at risk and the system requires the backing of deposits by federal deposit insurance up to specified limits. In terms of equity investments, the US has had the Dow Jones Islamic Index among others since 1999. The index combines Islamic investment principles with the traditional Dow Jones Index to allow Islamic investing in the US. In 2019, the gross annual dollar value of retail Islamic finance transactions in the US is approximately US$4 billion.

Although there is no nationally chartered Islamic bank in the US, there are 25 Islamic financial institutions operating in the US including University Bank’s subsidiary — the University Islamic Finance, LARIBA/Bank of Whittier, Devon Bank and Guidance Residential, among others.

University Islamic offers home financing in the form of the Ijarah home financing model in California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Texas, Virginia and Washington, deposit accounts and Islamic mutual fund shares.

SHAPE Financial Corporation modified the deposit product it offers through University Bank so that the principal is guaranteed, and the deposit-holders share only in bank profits and not losses. SHAPE offers asset financing and deposit account products in the US, Canada, Singapore and Lebanon. JPMorgan started Islamic banking in 2013 and currently offers products in debt and equity capital markets, investor products, cash management and Murabahah liquidity products, risk management and asset management funds.

Standard Chartered (UK) conducts Islamic finance worldwide through its Islamic arm ‘Saadiq’. Devon Bank in Chicago offers a mix of Islamic products including Islamic home, construction and business finance. Devon Bank also offers commercial Murabahah and Ijarah transactions for real estate acquisitions to business customers in Arizona, California, Colorado, Florida, Georgia, Illinois, Indiana, Michigan, Minnesota, Missouri, North Carolina, Ohio, Oregon, Texas, Utah, Virginia and Wisconsin.

LARIBA/Bank of Whittier (CEO: Dr Yahia Abdul Rahman), based in California, offers banking and home financing across the US in all 50 states. LARIBA offers a lease-to-purchase model with terms of up to 30 years, or a variation of the Ijarah model to finance homes, automobiles and medical clinics and equipment. LARIBA also offers leasing with declining equity for the construction of single-family homes and finances small businesses and trade.

Guidance Residential offers home financing through its declining balance co-ownership program or a variation of the Musharakah in


Saturna Capital, an investment advisor and fund management company, manages funds which are invested in Shariah compliant mutual funds, including Amana Mutual Funds such as the Amana Income Fund, Amana Growth Fund, Amana Developing World Fund and the Amana Participation Fund. Other Islamic investment firms include Arcapita, Azzad Asset Management (Azzad Funds) and Allied Asset Advisors (the Iman Fund).

These institutions are state-chartered entities subject to the same state and federal regulatory guidelines, corporate governance, banking and insurance operations and tax treatment as conventional financial institutions in the US including the requirement to be insured by the Federal Deposit Insurance Corporation. The US has not adopted any federal legislation specifically addressing Islamic financing as of yet.

Although Islamic financial institutions may be qualified to do business in different states, the majority of an Islamic financial institution’s assets are located in the institution’s home state and licensing and other conditions must be satisfied with respect to any state where the Islamic financial institution seeks to be qualified as a bank or mortgage or loan finance provider.

In 1997, the Office of the Comptroller of the Currency in the US issued two rulings approving the Ijarah and Murabahah structures for home financing. These structures have now been approved by the federal government, the New York State Banking Department and the banking authorities of several other states. Furthermore, the relevant authorities have removed the double tax jeopardy of these products where tax was incurred by the initial purchase and at the transfer of final payment.

The tax authorities in New York and other states have handled this issue by eliminating double tax burdens on a case-by-case basis where the Shariah compliant structure was equivalent to a conventional financing structure. In 2008, the New York State Tax Department determined that no real estate transfer tax is due when the deed is transferred by a bank to its customer at the end of the lease term in accordance with the terms of the Ijarah arrangement.

Currently, institutions such as Bank of Whittier/LARIBA in California, University Islamic in Michigan, Devon Bank in Chicago and Guidance Residential in Virginia, among others, offer Islamic home financing in the US. The Federal National Mortgage Association (Fannie Mae) and the Federal Home Mortgage Corporation (Freddie Mac) purchase Shariah compliant mortgage contracts from financial intermediaries, allowing providers to originate further mortgages.

In 2007, Freddie Mac purchased more than US$250 million in Islamic home financings, a small fraction of the enterprise’s US$1.77 trillion in activities. For the purposes of this short article, the author will focus on the Islamic home financing product offered by Bank of Whittier/LARIBA.

The no-interest Islamic home-financing of LARIBA/Bank of Whittier is based on two concepts: (1) commodity indexation and (2) marking to market. The no-interest discipline clearly states that fiat (paper) money can be used, and the US dollar may continue to be the reserve currency of the world along with maybe the euro, but...
Within the market, the rent is that of the market rent of the facility in the marketplace. With federal and state regulatory approvals in effect for Islamic home financing in the US, there is an increase in the number of institutions providing Islamic home finance above and beyond the major providers of Bank of Whittier/LARIBA, Devon Bank, University Islamic and Guidance Residential in the US, including Ijara Community Development Corporation and Ameen Housing Cooperative of California plus others.

For 2019 and ahead, Islamic home finance is the future of Islamic finance in the US with room for Sukuk, Islamic funds and asset management, Islamic investing and Islamic insurance or Takaful; however, in general, Islamic finance remains a niche segment of the larger conventional financial world for Americans.

In terms of the Takaful or Islamic insurance business such as offered by AIG through Risk Specialist Companies, Lexington Insurance Company and Zayan Takaful among others, the US has a state-regulated insurance system whereby each state determines its own licensing requirements for insurers.

In order to obtain a license, a company must demonstrate that it has the experience and management capability to run the company and show that it is financially sound. Insurers are also required to justify their premium rates.

In addition, companies must fulfill the solvency requirements set by the state. Furthermore, there may be limits on the types and concentration of investments made with ‘held’ reserves. These issues should be addressed in the state and federal Takaful laws.

The biggest challenge in introducing Takaful, Sukuk and Islamic finance in the US is the First Amendment of the US Constitution, which prohibits the making of any law respecting an establishment of religion or impeding the free exercise of religion as well as the Establishment Clause (Murray v. Geithner).

In Murray v. Geithner, a case was filed against the federal government challenging the permissibility of bailout money provided to AIG under the Emergency Economic Stabilization Act (EESA) legislation saying it violated the Establishment Clause.

The Act gives the US Treasury the ability to purchase troubled assets from any institution. In this case, EESA was used to purchase US$40 billion in AIG shares.

AIG conducts Takaful business in Bahrain and the US. The plaintiff alleged that tax dollars were going toward the financing of Shariah products and activities. The court found that the EESA legislation and the AIG bailout were created for a secular purpose and did not violate the First Amendment of the Constitution.

In the US, the only type of Takaful being offered includes commercial and residential property insurance. There is no specific disclosure or reporting requirements for Takaful, Sukuk or Islamic funds that differ from conventional products under applicable federal or state banking, insurance and securities laws.

Court disputes will be dealt with by applying applicable state law or foreign law, if the governing law of the contract is that of another country, and US courts will not comment on whether an agreement or contract complies with Shariah principles.

Although there is a green light for Islamic finance in the US, Islamic financial institutions may be at a disadvantage in possibly not being able to gain access to federal funds. Islamic institutions may also experience compliance issues as well as legal challenges. There are currently no listings of Sukuk on US security exchanges.
Islamic finance in the UK over the past 15 years

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2020 has arrived and so has the UK in the world of Islamic finance. Over the past 15 years London has emerged as an important Islamic finance destination. Research by global property advisors the CBRE Group found that 44% of the US$13 billion invested by Middle Eastern sovereign wealth funds and businesses went into London.

My career in law is also 15 years old and I have therefore seen first-hand how Islamic finance has grown from a marginal specialism to a more dynamic one. In my opinion, over the past 15 years London has become the centre of excellence and the leader in Islamic finance outside of the Muslim world.

This article will attempt to show how Islamic finance in the UK has evolved over the past 15 years and what future direction it can take.

Islamic banking

The past 15 years have arguably been the most dynamic as far as the development of Islamic finance locally. During these years we have witnessed the launch of the UK’s first standalone Islamic finance bank, Al Rayan Bank. The bank which was initially known as the Islamic Bank of Britain later rebranded itself after being acquired by the Qatari entity Masraf Al Rayan. Masraf Al Rayan has recently announced that during 2019 it has achieved a net profit of QAR2.18 billion (US$596.2 million), up 2.3% from the previous year. Al Rayan Bank became the first bank in the world to issue a public sterling Sukuk in a non-Muslim country.

A recent report suggests there are approximately 20 banks which now provide an Islamic finance window. This is evidence that banks have recognized the business opportunity in this growing sector. However, it has not all been about growth. Some other lenders have withdrawn their Islamic finance windows as in their experience there was not a strong uptake in their offerings. I have seen first-hand lenders like HSBC, Lloyds, Bank of Ireland, and Bristol and West shrink their personal and home purchase Islamic products.

Takaful

It would be fair to say that the Takaful insurance sector in the UK has flopped. The commercial and car insurance markets have not had the uptake that was expected. During the past 15 years, providers of these niche sectors have entered the market but many have withdrawn. There simply has not been the demand with conventional providers being the preferred go to due to their strong creditworthiness.

Deals

Over the past 15 years it has been the high-value deals that used Islamic financing which have enhanced London’s reputation as a center of excellence for Islamic finance. It has been Islamic finance over the past 15 years that has been used to wholly or in part help fund London’s changing skyline by funding real estate schemes such as the Shard, Harrods, Chelsea Barracks and the Olympic village. Outside of London I was involved in several private rental sector development schemes in the north of England which were funded in part using Islamic finance. The firm also acted on an Islamic finance deal purchasing a former Rolls Royce site in Scotland.

In addition to real estate, Islamic finance has been used by Investment Dar and its sister company, Adeem Investment, to purchase their 78% stake in Aston Martin, making this one of the first UK-based assets to be financed in such a way.

Islamic finance has also been used for domestic infrastructure projects such as the part-financing of the London Array wind farm. In 2014 the UK government became the first western government to issue a sovereign Sukuk. The Sukuk received very strong demand, with orders totalling around GBP2.3 billion (US$565.38 million), and allocations made to a wide range of investors including sovereign wealth funds, central banks and domestic and international financial institutions.

The London Stock Exchange has listed approximately 57 Sukuk with an approximate total value of US$51 billion.

Islamic finance education

Over the past 15 years the UK has seen a steady increase in reputable universities offering Islamic finance courses. We have seen the likes of Aston Business School, the University of Cambridge, Durham, SOAS University of London and London School of Economics all offer Islamic finance courses for postgraduates. This is evidence of the increased market scope of Islamic finance in the UK and the importance the UK now plays as an Islamic finance centre of excellence.

Future of Islamic finance

With its inherent emphasis on ethical investment I am hoping that with the UK’s push toward a switch over to electric vehicles, Islamic finance will help play a part in the development of the nation’s infrastructure. Foreign direct investment into the UK is set to increase post-Brexit and hopefully we will see more big ticket Islamic finance activities in 2020/21.

If Islamic finance is to really take off in the sphere of non-Muslim personal banking requirements, there needs to be a greater information drive and perhaps less Arabic jargon for the ethical financing message to be really understood.
Overview of Islamic finance in the West African Economic and Monetary Union

The total population of this area exceeds 110 million people. It should be noted that about 60% of this population are Muslims, with a percentage close to 90% in countries such as Senegal and Niger, and that all these countries are members of the IsDB.

After seven years of GDP growth, at an annual average of 6%, according to the WAMU monetary policy report, the growth of the union’s economic activity is expected to be established at 6.7% in 2019. The dynamic of economic activity in the union should be consolidated in 2020, with a forecast growth rate of 6.5%.

The WAMU financial system has many supervisors:
1. The money market is supervised by the regional Central Bank of West African States and the Banking Commission.
2. The capital market is controlled by the Conseil Régional de l’Épargne Publique et des Marchés Financiers (CREPMF), the capital market authority.
3. The insurance sector is supervised by the Inter-African Conference on Insurance Markets, and
4. The pension funds are controlled by the Inter African Social Security Conference.

When it comes to Islamic finance, West Africa is certainly one of the most attractive regions. Two Islamic banks in Niger and Senegal operate in the WAMU and five Islamic bank branches opened by Coris Bank Group are in Burkina Faso, Benin, the Ivory Coast, Mali and Senegal. In the microfinance sector, we noted five microfinance institutions — one each in Burkina Faso, the Ivory Coast, Mali and two in Senegal — offering Islamic services.

On the capital market sector, despite the absence of a regulatory framework dedicated to issuing Islamic financial products, four countries, namely Senegal, Togo, the Ivory Coast and Mali, have issued a total of six long-term Sukuk Ijarah which amounted to XOF864 billion (US$1.47 billion) by using the regulatory framework of the mutual fund securitization set up in March 2010.

Following the new regulatory framework promoting banking and money market products, as well as Islamic microfinance, the CREPMF is working on a project that will lead to the adoption of Islamic capital market regulations.

The main actions already carried out are:
- Membership of IFSB as an associate member in December 2016
- Organization of a workshop for WAMU capital market authority and market participants on the implementation of IFSB standards in July 2018 in Abidjan, the Ivory Coast
- Signing of an MoU with the Islamic Corporation for the Development of the Private Sector on the fringes of the 44th IsDB annual meeting held in Marrakech on April 2019, for technical and financial assistance with the regulatory framework project for Islamic capital markets (Sukuk, Islamic ICS and any related Islamic financial product)
- Participation of the internal unit to the IFSB-FIS workshops on IFSB standards for regulatory and supervisory authorities for the Islamic capital market and Takaful sectors in October 2019
- Signing an MoU with FSD Africa in November 2019, for the purpose of contributing to the financing of the implementation of Islamic finance
- Translation of IFSB standards into the French language for best adaptation and implementation in the WAMU by internal services, and
- Participation in the IFN Sovereign Sukuk Dialogue 2019 in Washington DC.

Adapting a regulatory framework to Islamic finance, particularly to Sukuk issuance, will contribute to developing a new source of funding suitable to the private sector and SMEs.

The approach is to create a relevant ecosystem for Islamic capital markets even if BRVM, the regional stock exchange, had been ranked the first Islamic financial place in 2016. For Sukuk, the new rules will be profitable for both the private and public sectors, not only for the public sector as seen currently.

In this context of sustained economic growth, the WAMU states have developed ambitious national development plans that should enable them to achieve emergence during the next decade. The financing of these plans supported by the WAMU authorities at the highest level requires the mobilization, at a low cost, of significant long-term capital to fill the deficits in infrastructures (roads, bridges, schools, airports, hospitals, etc) in WAMU countries. Sukuk therefore appear to be privileged instruments to address this need.

• Sharing experience with Otoritas Jasa Keuangan (the Indonesian capital market authority) in October 2018 and with Malaysian key financial players in November 2018
• Designation of a representative of the CREPMF as a member of the IFSB Working Group on Investor Protection in Islamic Capital Markets whose work began in January 2019
• Setting-up of an internal unit dedicated to Islamic capital markets whose main activities cover the following aspects:
  a) the proposal of the draft regulations on Islamic financial instruments (Sukuk and Islamic mutual funds), listing rules and indices composition, Shariah boards and such, and
  b) the follow-up of exchanges with external partners (IFSB, Islamic finance news and such) as part of the development activities of Islamic capital markets in the WAMU

COUNTRY REPORT
West Africa

January 2020
Boubyan Bank finds the right Path to fuel its digitalization strategy

Boubyan Bank, originally established as a Kuwaiti Public Shareholding Company in 2004, is a fully-fledged Islamic bank in Kuwait and the GCC with KWD4.6 billion (US$15.11 billion) in assets as of the first quarter (Q1) of 2019. It is the first Islamic bank of Kuwait that was listed on the Kuwait Stock Exchange in 2016. Boubyan offers banking services to both private and corporate customers, dealing specially in Islamic transactions like digital Murabahah service, Ijarah finance and Wakalah investment. The bank managed to record a 16% growth rate in net profits in Q1 2019, continuing its growth trajectory since 2010.

In order to maintain this growth trajectory and to implement its digitalization strategy, there was a need to upgrade the bank’s core banking system. The bank is known for offering innovative digital banking services and the current two-tier core banking architecture was limiting the bank’s ability to deploy new digital channels.

Additionally, as the bank kept growing, the system in its current state lacked the processing power to handle the growing number of resources and multiple transaction requests.

In light of the above, the bank wanted to initiate a ‘digital transformation’ process in its overall operations. According to Sherif Fouad, the head of information technology group at the bank: “The aim was to include provisions for performance enhancement and scalability by taking care of the locking issues, reduce the HST size and deploy a multi-thread scheduler for batch processing (EOD).” The bank also wanted to migrate from a two-tier architecture to a service-oriented architecture (SOA) that could seamlessly integrate the bank’s channels with third-party systems and develop into a customized engine system that would reduce time-to-market, especially for new products. “Therefore, a decision was taken to upgrade the system,” Fouad said.

Implementation

Fouad explained: “For the first phase of the implementation project, the bank followed the roadmap set by consulting firm McKinsey & Co, and due to its comfort level and past experience with Path Solutions, it directly approached the supplier for the system upgrade. Path Solutions has completed the digital transformation of more than 130 Islamic financial institutions and offers a comprehensive range of financial technology for mobility, risk management and compliance.”

“Other offerings of the fintech company include strategic consulting, data migration, project management and support services. The bank was already on iMAL system deployed by Path Solutions in 2005, and the only way to meet its aforementioned aggressive target was to upgrade the system to the most recent version of iMAL R14.1 across all its branches.”

The process of upgrading the bank’s core banking system was not an easy one, due to the tight timeline. The project kicked off in March 2018 and the system was rolled out within eight months, with go-live announced in November 2018.

A Stage Gate strategy approach was followed to implement the system. Under this approach, the system was under constant scrutiny of the Boubyan Bank team at every stage of its implementation. This essentially meant that the project team was constantly reviewing and validating the outcomes from the system, right from the product customization stage to the final test run so that changes are made at intervals as and when they were needed, rather than at the time of system delivery. Twenty members from FTE Boubyan Bank and 10 from Path Solutions were assigned to the project, with a few temporary resources helping across various phases of the project cycle.

The project was fairly complex as it involved not only moving from a PowerBuilder two-tier architecture to a Java-based three-tier one, but also upgrading the database from an older Sybase 15.7 version to version 16. The operating system also had to be migrated completely from the older Unix system HP-UX to Linux.

During the implementation process, the biggest challenge that the team faced was that of an aggressive timeline. As mentioned above, the rollout took place in a stipulated time of eight months.

This tight deadline was a conscious decision by the bank based on its digital strategy, and a confederated team was prepared to handle it efficiently. From the bank’s side, the entire project was driven by the leadership, with close involvement of the CEO of the bank, Adel Abdul Wahab Al Majed. All general managers were also part of the steering committee, which met bi-weekly to make the transition quick and smooth.

KEY FACTS

- Bank: Boubyan Bank
- Headquarters: Kuwait
- Supplier: Path Solutions
- Solution: iMAL R14.1
- Timeline: 8 Months
Managing the onboarding team and dealing with the change in the scope of work was effectively tackled through detailed planning and constant monitoring at each step. A separate war room was dedicated to Path Solutions for disturbance-free communication and the executive management were directly involved to ensure healthier control and pragmatic progress as per the requirements of the bank. It also accommodated bank customization requests, the most important one being to allow for a multi-threading system so that it could run multiple tasks in parallel.

Eventually, the system was tested and implemented with complete compatibility. One of the challenges faced during this phase was to achieve database tuning and data warehouse migration from the old to the new system. The system was put through rigorous tests via an external testing vendor that helped in automating the script. It undertook multiple performance tests such as integration testing (with 30+ systems), performance and security testing, data archive test, business intelligence and reporting tests, web services testing in addition to the conventionally followed system functional tests.

The rollout of the system was finally carried out using the Big Bang approach, rather than a modular approach. This was done because the bank was changing its database and, unlike under the modular approach where the system goes live in parts over a period of time, limitation in the bank’s legacy system did not allow running the new and legacy systems simultaneously until the full rollout.

**Result**

The end-to-end time period of implementation was eight months, and the system went live in November 2018. The highlight of the successful implementation was that the downtime required during the go-live for switching from the old system to the new one, which usually takes two to three hours, was not more than 15 minutes. No major issues were detected during or after the go-live.

The bank has benefitted from the upgrade in many ways. It has improved the efficiency of processes, with the reduction in end-of-day processing time from seven hours to just 30 minutes. The file processing time is also reduced drastically from two hours to less than 20 minutes. The wait time on database is now shorter and transactions are faster at the database level.

Moreover, since the new upgrade is based on a new and secure application server, it does not give direct access to users thereby reducing the risk of data breach. Unlike the previous system, the new web display is now capable of showing all the required screens available for the entire omni-channel network. This new concept, known as dynamic file display, is one of the most important features of the new system that enhanced the operational functionality of the bank.

Another milestone achieved is that it enabled the bank to go live with the SWIFT gpi upgrade, which was previously limiting the bank’s expansion plans. With phase one being successfully accomplished, the bank is currently implementing phase two of the project. Phase two will comprise of regular upgrades and functionality improvements in mobile banking, internet banking and so on, pertaining to the bank’s strategy of accelerating digital transformation.

**Conclusion**

Boubyan Bank was happy with the time discipline with which Path Solutions was able to complete the project. The pinch of a system upgrade was not felt by customers due to the methodological planning and competent execution. The detailed planning and effortless execution was the result of the teams from both sides – bank and supplier – meeting weekly and bi-weekly and undertaking rigorous pilot tests before the final go-live. This system overhaul was almost like implementing a new core banking system at the bank, which was pulled off with great efficiency by both parties.

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**Chart 1: High-level functional modules implemented**

- Islamic corporate finance
- Islamic retail consumer finance
- Islamic treasury
- Customer service management
- Monitor
- Cash flow monitoring
- Assets
- Multi-threading scheduler

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*Illustration: Powering Islamic Financial Markets*
Islamic institutional asset management - It’s all to play for

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“‘The only constant in life is change’ – Heraclitus

As a 32-year veteran of the asset management industry, I have seen much change since my first days working in asset management. Back then, mobile phones were a work of science fiction, everything was typed using a typewriter and there were no computers in the office! Fast forward just over 30 years and we have huge processing power in our pockets, AI is replacing RP (real people) in providing investment advice and an ‘algo’ trading makes sub-second investment decisions without human intervention.

The global asset management industry has burgeoned in size over the intervening period, but what of Islamic institutional asset management? The scorecard is mixed. Undoubtedly, we have seen some great growth, but I can’t help feeling that there is so much more to come.

On the retail and private client side of the coin, we have seen some great strides with the number of product offerings increasing every year, management fees coming down and broad awareness of the benefits of investing Islamically growing. Sadly, it feels like similar developments are lacking on the institutional side. But why? What needs to happen for the institutional side to catch up?

To help shed some light on the answer, it might be helpful to break the problem into its constituent parts.

Are there structural impediments?

Not really. Institutions are not short of vehicles through which to invest, nor are they short of investments themselves, though in some jurisdictions, the creation of certain structures does need looking at in terms of tax efficiency, especially in the real estate field.

The Takaful industry could certainly benefit from liberalization regarding where and how they invest. This is a complex matter, but there are plenty of examples in Europe and Anglo-Saxon nations of how conventional insurance companies can invest and diversify their exposures, eventually creating large insurance portfolios. Having managed a number of Takaful mandates myself over the years, I have first-hand experience of how positive change can be effected.

Is it a supply side problem?

On the margin, there is work to do here. There is real depth in the availability of asset management solutions in the core asset classes of equities and Sukuk, with the latter offering far better diversification than it did 20 years ago.

On the other hand, the Islamic asset management industry has been slow to respond to the shifts toward ESG and alternatives. Outside of real estate, alternative investments appear to remain under allocated by institutions versus their conventional counterparts, and this need not be the case. There are products out there, but more work needs to be done to educate as to their behaviour and suitability and more options need to appear on the market over the coming years.

Is it a demand side issue?

It is here that I believe the crux of the issue resides. Luckily, it can be addressed both by top-down and bottom-up initiatives, though a note of caution is required – there are no quick fixes!

From the top-down perspective, there needs to be a clear strategy from the leadership of each country to effect change. Sovereign wealth funds, large state-owned institutions, central banks and pension funds can all play a powerful role in driving the Islamic asset management industry forward.

In many cases, the aforementioned currently collectively invests hundreds of billions of US Dollars in conventional markets. This has the twin effect of deepening capital markets overseas and enriching their talent pools, while at home, domestic capital markets suffer from low liquidity and difficulty in attracting or keeping talent. Imagine if there was a measured program over the next decade – or even 20 years – of shifting the allocation away from conventional toward Islamic.

For the industry to truly thrive and reach its potential, there are still a number of big-picture issues that need to be resolved

The knock-on effects would pay dividends on many levels, enhancing employment and developing the talent pool and infrastructure. At a macro level, it would provide each country with significant income from domestic financial services, a vital component of the strategic development of many countries in terms of economic diversification.

From a bottom-up perspective, harnessing the collective power of individual investors is also vital. The widespread uptake of personal pensions and long-term savings plans has added hundreds of billions to the conventional asset management industry; most of this ends up in the hands of institutional managers, be they in-house or external. The same power could be harnessed in Islamic markets.

For example, it is estimated that there are 1.8 billion Muslims in the world. Imagine if 5% invested US$10 per month for 10 years to help, for example, fund their Hajj or pay for a wedding. That adds up to US$108 billion – without investment growth! From this simple calculation, one can see the power that bottom-up shifts in behaviour can bring. Once again, governments can play a part in this by ensuring that incentives to save are promoted, and that populations are educated as to the benefits of saving, thus allowing private sector solutions to flourish.

As we stand in 2020, we should all celebrate the growth of institutional asset management over the last couple of decades, but we must not be complacent. For the industry to truly thrive and reach its potential, there are still a number of big-picture issues that need to be resolved. ☞
Crowdfunding is the process of collecting multiple small contributions, using an online funding platform, to finance an enterprise. Original versions of this historic method can be tracked back to as early as the 1700s, when loans were given to low-income families in rural Ireland. However, it first gained real traction in the US in the early 2000s for musicians to raise money for recording.

This original concept was applied to other markets, and in 2006, debt-based crowdfunding emerged as an investment vehicle in the US, and a year earlier in the UK. Debt-based crowdfunding lets individual borrowers apply for unsecured loans (not backed by collateral) and, if accepted by the platform, borrow money from “the crowd,” then pay it back with interest. P2P platforms generate revenue by taking a percentage of the loan amounts (a one-time charge) from the borrower and a loan servicing fee (either a fixed annual fee or a one-time percentage of the loan amount) from investors. The application process is free for borrowers. Investors earn interest on each loan (or package of similar loans), assuming the borrowers make timely payments.

After its success in the west, the concept was brought to other regions, in countries such as the UAE, Malaysia and Indonesia. After some initial difficulties, regulation was rolled out to reduce common problems such as collecting late repayments.

The opportunity for Shariah compliant peer-to-peer lending was clear due to the regions’ large Muslim population, with Malaysia having 61%, Indonesia 87% and the UAE 76%. Many Islamic fintech companies have taken the concept and companies in the UAE have been supplying peer-to-peer loans to Shariah SMEs for several years now.

Benefits of Islamic crowdfunding

A real benefit of Islamic crowdfunding platforms is that they assess SMEs based on multiple factors, using quantitative financial assessment as well as more qualitative measures of creditworthiness to assess an application. This means business owners are also evaluated on aspects such as leadership skills, character and projected growth, rather than purely focusing on financials and collateral.

This can be of real benefit to the growing number of digitally based SMEs that struggle to access conventional finance due to a lack of tangible collateral. In spite of limited assets, these businesses may have a unique proposition, valuable intellectual property assets or strong brand equity, all of which would work in their favor on a crowdfunding platform, due to its more multifactorial approach to business assessment.

With the evident growth of digital businesses, an increasing number of SMEs are likely to investigate alternative finance, such as Islamic crowdfunding. However, it remains just as critical, to optimize their chances of success, that they ensure they get the basics right by establishing a clear strategy, effectively managing their accounts and minimizing their banking lines.

The key players

Malaysia, Indonesia and the UAE are utilizing Islamic fintech in their growth strategies and are developing regulatory sandboxes, which offer entrepreneurs a variety of resources as a means of testing and expanding their business model. These incubators promote a “test and learn” approach to new fintech ventures, allowing regulators to recruit, support and quickly assess the business potential prior to full commercial roll out. Initiatives like these are providing entrepreneurs the tools and knowledge to succeed and ensure a dedicated approach to driving talent in Islamic fintech.

With Islamic fintech firmly established in the UAE, the race for Islamic fintech capital in APAC is hotly contested. In 2016, the Malaysian government introduced a P2P financing framework, making it the first country in Southeast Asia to regulate the sector. The government also stated in their 2019 budget to set aside US$12 million for a co-investment fund that will invest in equity crowdfunding and P2P financing campaigns.

The SME Finance Forum estimates that 9.22% of Malaysia’s SMEs are financially constrained, giving a US$14 billion finance gap, which makes a large potential market for alternative financing. The year 2020 brings opportunity for this market, when Malaysia plans to launch their first Shariah compliant crowdfunding platform.

Meanwhile in Indonesia, in 2016, a report from the International Finance Corporation and USAID described Indonesia’s SME market as one of the fastest growing sectors in the country, yet in 2018, AFTECH reported that there are still 49 million underbanked, leaving a huge potential for P2P. Also, in 2018, Indonesia’s Financial Services Authority stated that they would revise P2P regulations to accommodate the growing Islamic P2P sector, giving it room to flourish.

Islamic crowdfunding is a nascent industry, but one that still has a lot of opportunity. As many governments pledge significant investment into technology and innovation, the future for Islamic crowdfunding is looking bright.
A closer look at Sukuk and debt capital markets

The Islamic finance industry continues to gain ground, with analysts predicting it will reach around US$4 trillion in assets globally in four years. It is systemically important in many jurisdictions now, including the GCC region and Malaysia, and is growing in the Middle East, Asia and even Africa.

This article takes a closer look at Sukuk and debt capital market (DCM) developments over the past 15 years and examines the issues that could boost growth. Where Islamic finance is active, Sukuk issuance has risen significantly, not only in volume but in participants, diversity of structures and innovation (see Table 1). We even saw non-Islamic countries like the UK, Luxembourg, Hong Kong and South Africa issuing Sukuk.

At Fitch Ratings, we look at Sukuk issuance from many dimensions, including the ten largest, most active markets in Islamic finance: the GCC, Malaysia, Indonesia, Turkey and Pakistan (see Table 2). In our other numbers, the total Sukuk volume rated by Fitch as at the first half of 2019 reached US$99.4 billion. Internationally, US dollar Sukuk issuances in the GCC, Indonesia and Turkey dominated Islamic DCM activity in recent years, while Malaysia continues to be the largest Sukuk market, albeit mostly in local currency.

Challenges facing Sukuk and DCM

Sukuk and DCM still have a long way to go, with challenges in three distinct dimensions:

- Shifting corporate funding from bank loans to Sukuk and bonds is paramount. Issuers in the GCC currently see the economics for issuing Sukuk or even bonds as less advantageous than taking out a loan from a bank and a more costly and time-consuming endeavor. Banks are also primarily funded by deposits from customers and governments rather than capital markets. Regulations, processes and costs for Sukuk and DCM in general need to be optimized for them to compete with traditional loans.

- Standardization issues continue to place limitations on the Islamic finance industry. Sukuk documentation, product structures and financial reporting need to be addressed regionally and internationally to achieve a common understanding and then build confidence over the medium to longer term.

- On top of that, the geopolitical and economic uncertainties in the operating environments where Islamic finance is active continue to be a challenge, particularly in the GCC.

Developing green bonds and Sukuk

Efforts to develop green bonds and Sukuk products continue, including Shariah compliant investments in renewable energy and environmental assets in some countries, but this market is in its infancy. New issuances including environmentally green Sukuk, socially responsible Sukuk and even Sukuk with some blockchain elements have risen recently, and is an interesting trend to watch. Following last year’s first ever sovereign green Sukuk, Indonesia issued another green Sukuk this year. Also this May, Dubai’s Majid Al Futtaim Group issued the world’s first US dollar benchmark corporate green Sukuk, and the first green Sukuk issued by a corporate in the GCC.

Key inhibitors and growth drivers for international investors

In the short term, investor and issuer sentiment could be impacted by geopolitical situations in the GCC. In the medium term, there will be higher Sukuk refinancing needs. We expect governments and corporate entities to increase their share of Sukuk gradually and continue issuing regularly. The UAE and Saudi Arabia are expected to dominate the US dollar corporate side of issuances, in the medium term.

Four key issues that could boost growth:

- Build the relatively small and shallow local and regional institutional investors, such as pension funds, Takaful/insurance companies and mutual funds (with the exception of Malaysia’s more developed market).

- Establish greater confidence in the currently untested regulatory/legal framework. Adopting effective and efficient regulatory and legal structures is key to bolstering the industry, and also crucial for creating reliable investor protection.

- Sukuk still lacks the scale and mass of issuances to meet some international investors’ prerequisites in many countries, like limited secondary market liquidity, either due to Sukuk structure tradability issues or buy and hold inventories, or the underdeveloped diversification of products.

- Developing a strong regional track record in economic Sukuk performance and increasing investor confidence in key areas, such as risk levels, ease of access, cost and transparency, to attract international investors.

Several long-standing structural obstacles to the Islamic finance market’s growth remain; the industry is struggling to keep pace with the rapidly changing regulatory environment and gaining acceptance from international investors, so standardization is key. Regulatory limitations and concerns could hinder the ability of Islamic finance institutions like Islamic banks, Takaful and fintech companies to forge ahead and adopt new models linked to various fintech themes, but on the other hand, if utilized efficiently, it could help the industry tremendously.
What do Islamic banks need to do to become digital-ready and relevant?

As digital banking is becoming the talk of the town, more and more non-financial entities and traditional banks are leaning toward a leaner and customer-focused digital model. Many reasons being that digital channels allow for a more convenient and hassle-free interaction between the customers and banking services, faster turn-around-time (TAT) between services and products rendered, minimal-to-no intervention when applying for products and services, including many more other benefits. Digital banking practices over the past few years have started to be adopted by traditional banks as norms, mainly since customers are now getting more accustomed to doing their banking via their smartphones and other digital channels from the comfort of their own homes.

The logistical aspect of driving down to the branch to perform branch operations has started to see its extinction as banking services are getting more robust and automated. Traditional banks have started to merge with their digital arms slowly or have started to work in tandem with digital service providers to upscale the offerings to their customers for the following reasons:

- Customer stickiness;
- Lower acquisition costs; and
- Deposit mobilization.

Where do Islamic banks stand in this digital revolution? An untapped market of immense potential with a global asset and transaction size of over a US$1 trillion, Islamic banks are slowly on the rise to catch up and capitalize on the same benefits that conventional banks have via digital transformation and innovation.

In 2017 the GCC saw the rise of digital banking as numerous organizations in the Islamic banking space started going digital. With platforms such as Jazeel by KFH Bahrain and Al Baraka Bank’s Insha, Islamic banking has rekindled the customer attention and engagement, and challenges to rival the same experiences as conventional. Banks, not only Islamic but also conventional, need the following key ingredients to achieve a true digital customer experience:

- An agnostic layer of digital banking logic which can seamlessly connect to any legacy infrastructure and system
- A predefined set of out-of-the-box application programming interface (APIs) built on open technologies to enable API-driven functionalities and performance, not to mention scalability and agility

These elements enablement of a faster time-to-market with performance to match. No need to redevelop technologies as out-of-the-box open APIs already have most of the business needs and logics covered.

Cutting down the development and go-live timelines to enter the market faster than the competition with proven success.

A corporate mindset that shows openness to and acceptance to ‘integration’, with a technology stack to follow teams and management that understand the importance of digital innovation and change. Supporting the vision and mission of the organization and enabling the growth of the organization to remain relevant and sustainable through the inclusion of new digital practices and innovations.

The intention to deliver a world-class customer experience

Developing and enhancing the customer offering whilst prioritizing the customer and the value that a good customer experience can overcome almost all the challenges faced by any institution. Catering to the needs and wants of a customer not only allows for the most powerful form of brand awareness (word-of-mouth marketing) but simultaneously ensures customer stickiness and loyalty that no amount of money can buy.

The above being the four essential pillars to transform and enable almost any organization within any industry to deliver a digital experience, the last one being the most important as a positive customer experience is one that would drive revenue.

Islamic organizations are slowly starting to explore the four pillars of digital innovation, however, due to constraints in practices and technology budgets, are only able to get around with inefficient or incomplete workarounds that are way beyond their actual worth. Islamic banks without a digital strategy or roadmap face extinction not only from a technology standpoint but also from an overall customer proposition and journey. The shift from an account-based relationship to a customer-focused relationship is key with Islamic organizations upscaling their offerings to better serve the market needs and wants.

Partnering with the right technology and enablers that are not commercially driven will allow for a true digital banking phenomenon irrespective of the Islamic or conventional banking proposition. Islamic finance organizations that choose to adopt a digital mindset and remove the barriers to change stand a higher chance at competing globally alongside their conventional banking counterparts and peers. Providing to their existing and prospective customers enhanced access to Shariah compliant products and services not only ensures that they prosper but ultimately improve the overall market share on a global scale.

Employment of digital banking platforms allows organizations within any industry to create additional revenue streams that not only improve customer satisfaction but also utilize data-driven initiatives to continue to allow for additional revenue streams and innovations to be developed. A well thought-out digital strategy with the right technology partner becomes a gift that keeps on giving and ensures long-term market relevance for Islamic finance institutions. Openness to change, an acceptance of the importance of digital innovation and a well thought-out product/platform strategy are key for Islamic institutions to embrace the benefits that digital banking has to offer and go forth and conquer the space of banking and finance as a whole itself.
The development path of Islamic finance education from Islamic economics to Islamic finance

Over the last years, the Islamic finance industry has attained a different prevalence on the global financial markets. According to the Islamic Finance Development Report, the growth rate of the sector has grown year-on-year by 11% to US$2.4 trillion in assets in 2017 or by a compound annual growth rate of 6% from 2012. It is expected to maintain the pace shortly to grow to US$3.8 trillion in assets by 2023 or an average projected growth of 10% per year (Reuters, 2018). Thus, several related aspects of the Islamic finance industry development are attracting more and more attention from various financial quarters and other specialists internationally.

One aspect of Islamic finance that has yet to garner attention is Islamic finance education. Although it is widely agreed and acknowledged that education should play a crucial role in the supply of trained and qualified workforce that the industry needs, the depth and development of Islamic finance education is not as vibrant and well-developed as it should be.

Unfortunately, there are no signs that the situation may change dramatically in the coming years. The Islamic finance development indicator, which measures the overall development of the Islamic finance industry, shows a low global average value of nine points in knowledge, compared to the global average of awareness and governance at 16 and 13 points respectively (Reuters, 2018).

The origin of Islamic finance education

Before becoming an academic degree, Islamic finance entered the academic world under the umbrella of Islamic economics programs. Later, various faculties and institutes were established to specialize in fully-fledged programs in Islam.

Finance education, the primer of Islamic economics education, came relatively very early. Islamic economics courses outline numerous economic issues such as production, distribution and consumption. Concerning financing, the course material seems to have supported the practice of participatory approaches of financing over debt-based modes.

And in terms of consumption, it forewarned consumption behavior that heavily counts on credit and to consume modestly according to real income rather than expected credit created out of thin air. Eventually, faculties and institutes started to develop Islamic finance at the educational level through the Islamic law of contracts and its fundamentals taught within faculties of economics.

In the early process of outlining Islamic finance programs, academicians faced several difficulties in how to address economic and finance issues from an Islamic perspective. On the curriculum development stage, pioneers got to choose between creating a new and distinct science discipline or introducing an Islamic perspective into conventional economics and finance courses.

Recently, the second option, seems to have practically dominated, as evidenced by the imitation of conventional instruments via the Islamic financial engineering that has been permitted by Shariah scholars. This approach requires a serious and profound reflection on the relationship between substance and form on the one hand, and the conditions of the possibility of the emergence of Islamic finance as a subject of knowledge on the other.

Deviation of Islamic finance education

With the onset of its emergence over the past four decades, Islamic banks have dominated the Islamic finance landscape, representing 71% of global Islamic finance assets distribution in 2017 (Reuters, 2018). These contemporary Islamic banks are generally launched as private commercial enterprises. Their stockholders are businessmen who expected to get all the financial services provided by conventional banks in a Shariah compliant method. Their purpose is not to change the economic system; the result is a deviation in Islamic finance education to a different perspective.

The deviation in Islamic finance education happened when Islamic bankers took up Islamic economists’ opinions of a systemic superiority of Islamic finance in promoting Islamic banking. But the operating system of Islamic banks contrasts the Islamic economists’ models. Islamic banks continued to shy away from the profit-loss sharing approach of financing and functional Shariah compliant instrument equivalents for interest-based loans.

The replication of conventional banking products encouraged conventional banks to enter the Shariah compliant business by setting up Islamic windows or subsidiaries. In such an environment, the Shariah compliant mimicking of conventional products by reverse-engineering deviated Islamic finance education from the path of Islamic economics.

This led to Islamic finance programs that are governance-business disciplinary oriented. Universities and institutes started offering Islamic finance programs under business schools, with courses that teach skills and application of Islamic finance in the industry rather than being overarching, broad and more theory-based.

The Islamic finance degree therefore became a weak-interdisciplinary degree, lost among Shariah compliant, governance and business application topics, leaving the big picture of Islamic economics education behind.

The way forward

Shariah is important in Islamic finance education and plays an essential role in the jurisprudence of transactions, Fiqh Muamalat and understanding Islamic contracts, but Islamic finance programs should not be limited to and rely entirely on Shariah courses. It should instead go back under the umbrella of Islamic economics, and the foundation of the courses should be an understanding of economic and financial theories, and then establishing Islamic economic thought and worldview.
Family offices: The rollercoaster ride of the past decade

Family offices are a traditional structure whereby wealthy families participate in wealth management through investments and re-investments of their own portfolios. Family offices have been increasingly trending in the past few years, and even more astonishing is the increasing amount of wealth being managed by them. With this growing trend in the past 15 years, families have become capable of making transactions which previously could only be made by huge corporations or private equity firms.

These are some of the key aspirations of family offices:

- Wealth management
- Privacy
- Asset protection
- Philanthropy

Over the past decade, the number of family offices have equated to almost 10,000 entities globally. With such tremendous growth, large banks have now endeavored toward appointing senior bankers to manage family offices exclusively. According to The Wall Street Journal, circa three dozen hedge funds have been successfully converted into family offices, succeeding in silence and writing off extremely large cheques.

Most second and third generations of these family offices are keen on becoming part of impact investments, compared to their patriarchs, to make social and environmental impact alongside financial return. This includes – but is not limited to – climatic changes, people, governance and ethics.

Family offices are now used in many different contexts unlike in the past, and may not be only used for managing wealth and re-investments but also include services like setting up charitable foundations, investments with sustainable impacts, and venturing into real estate and private equity, particularly via direct investments which offer these family offices greater operational control and re-investments of their own portfolios. Family offices have been developed products that complement the sustainable/impact-based investments pertinent to Islamic foundations and products that are distinct from conventional banking.

Thus, this has led to increasing the need for banks to set up their Islamic financing arms and appoint bankers that advise on investments pertinent to Islamic foundations and products that are distinct from conventional banking.

The US has roughly 3.4 million Muslim residents, most of which are high net worth families wanting to have 100% of their portfolios to be Shariah compliant. This need led to Hajdari Group launching Investhalal, a project which adapts Islamic contractual structures and development of products that are reconciled and in line with Islamic principles/foundations.

The most recent development in the GCC is Dubai Cultiv8 Investments, a subsidiary of Mohammed Bin Rashid Fund for SMEs, announcing a multi-million-dollar investment in Wahed Invest through its technology fund. The Shariah compliant digital investment advisor enables servers from any financial bracket to invest in a diversified portfolio of ethically responsible stocks and Sukuk.

In essence, family offices are adapting Shariah compliant financial practices along with sustainable investments, raising them as market leaders. However, with the fast-evolving market, Islamic financial institutions need to develop and adapt with changes and provide products that cater to such fund investments to differentiate the Shariah banking system from the conventional one.

Thus, the main challenges that Islamic scholars may have to overcome are developing products that complement the sustainable/impact-based investments for the benefit of society as a whole and their internal portfolio while ensuring compliance to religious beliefs and financial gains. This applies especially when setting up structures in place for succession planning such as trusts/foundations that are in line with Shariah, but is also flexible enough to meet the patriarchs’ wishes in terms of growth and wealth distribution across generations.

Looking ahead at the next decade, with this tremendous growth of family offices, Islamic scholars need to come together to fill in the grey areas within the Shariah compliant banking industry so that family businesses can flourish ethically and sustainably, since most of us are aware that currently, Islamic financial markets have limited instruments and restricted access to short-term funding options in raising liquidity compared to conventional markets.
The development of the global Sukuk market from an indexing perspective

The global Sukuk market has enjoyed tremendous growth since 2013. As measured by the Dow Jones Sukuk Total Return Index and the S&P Global High Yield Sukuk Index, the US dollar-denominated Sukuk market experienced a compound annualized growth rate of nearly 18%, driven by increased issuance from sovereigns and supranationals, as well as strong investor demand for Shariah compliant securities. Historically, the majority of issuances has come from Saudi Arabia and Malaysia; however, the past three years have witnessed an increasing number of issuers from new markets, as well as a deeper and broader investor base.

The recent growth of the global Sukuk market is likely to accelerate, as GCC issuers are poised to refinance in order to fund increasing deficits and as new entrants continue to come to market. Most notably, several African sovereigns will likely enter the market next year, and Egypt has set up a Shariah supervisory committee to oversee Sukuk issuance. Furthermore, corporate issuers in both Indonesia and Malaysia have begun to shift funding sources away from traditional bonds in favor of Sukuk.

The relatively nascent green Sukuk initiative could also stimulate issuance, as efforts to combat climate change gain traction, building on the inaugural green Sukuk transactions in Malaysia and Indonesia. The most recent green Sukuk transaction was a US$750 million issuance from the government of Indonesia earlier in 2019. The Indonesian government also issued the world’s first sovereign green Sukuk, a US$1.25 billion five-year instrument, to finance green projects.

The Sukuk market could grow significantly in the near term

From an investor’s perspective, Sukuk garnered some of the best performances of all global fixed income asset classes over the past five years. As of the 31st October 2019, the Dow Jones Sukuk Total Return Index had a year-to-date performance of 10.14%, while the S&P Global High Yield Sukuk Index returned 11.75%. Compared to the S&P Global Developed Aggregate Ex-Collateralized Bond Index, the Dow Jones Sukuk Investment Grade Total Return Index outperformed by over 300bps over the same period. Taking volatility into account, the Dow Jones Sukuk Total Return Index had a five-year risk-adjusted return that was more than triple that of the S&P Global Developed Aggregate Ex-Collateralized Bond Index.

The strong risk-adjusted performance could be attributed to a number of factors inherent to Sukuk, including the quality of most Sukuk issuers and the characteristics of the Sukuk securitization process. Many Sukuk issuers are sovereign nations, supranationals and other government-related entities. The high-quality nature of issuers supports the strong credit fundamentals of the underlying Sukuk structure. Some market participants also point to the Shariah prohibition of Riba and Gharar. In lieu of interest, the return to an investor must be linked to profits and derived from a shared risk assumed by both the issuer and investor, unlike traditional bonds, in which the degradation of an issuer’s credit fundamentals materially impacts the probability of repayment of interest or principal.

Looking ahead, the Sukuk market could grow significantly in the near term, as key Islamic capital markets continue to enhance the issuance standards and structures and strengthen regulatory requirements. With global yields nearing all-time lows enhancing the issuance standards and structures and strengthen regulatory requirements. With global yields nearing all-time lows, oil prices stay moderate or turn lower.

While the Sukuk market’s support will continue to come primarily from investors based in the Muslim world, it is expected that Sukuk will attract the attention of some of the world’s largest and most significant institutional investors in the US, Europe and Asia, as many may view Sukuk as an effective way to invest in some of the fastest-growing regions of the world.
Fintech in Islamic countries - Past, present and future

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Modern digitalization strides with previously unimaginable speed, yet financial technology has been around for centuries before the internet. Some might even say that paper money was an exemplary achievement of fintech at the time. It was a reimagining of the old way of carrying out transactions. Now the same thing happens as we transition from fiat currencies to the web.

Over the centuries, the Islamic world did not fall behind in terms of banking. It just developed in its own direction and at its own speed. It can be dated all the way back to 609–632 when the Qur'an first saw the light of day and Islamic finance adopted the principles stated in it. Since then, Islamic finance has been the unique market phenomenon that we’re studying to this day.

The last 15 years of Islamic fintech

Of course, due to the development of technology, the last 15 years have been transformative for Islamic finance, too, especially in terms of integration into Western economies and technology penetration with Muslim populations.

“Islamic finance is a challenge for anyone with a Western upbringing, however, the enormous potential of this market for innovative fintechs can be recognized from the very beginning. Many tech companies held back entering Islamic countries in the 20th century, but given the mind-boggling speed at which this market is growing, it’s safe to say that Islam’s approach to lending is slowly but steadily gaining more popularity, not only in the East but in the West as well.

“No more than ever, Islamic countries need advanced tech to reach more people. To address that, we’ve even created an Islamic banking edition of our end-to-end lending automation platform,” commented Dmitry Voronenko, the CEO and co-founder of TurnKey Lender, on the challenges and potential for fintech development in Islamic countries.

For a while, Islamic markets were rather self-sustained and functioned in parallel to the rest of the world. But things changed with the last wave of fintech innovation.

There’s a study by EY that looks into the countries with the highest fintech usage. China (69%) and India (52%) took the first two spots for one specific reason which they share with many Islamic markets – they didn’t have the opportunity to grow the physical banking infrastructure Westerners did and therefore are forced to embrace digital-only innovation faster.

So even though Islamic countries aren’t traditionally known for technological advancements, over the last 15 years, this banking market segment has seen steady and even surprising growth. In 2018 alone, year-on-year growth came to 11% and equaled US$2.4 trillion. And even though it doesn’t compare to the sheer size of the European or US sector, the growth rate is astonishing.

This outstanding trend can be discounted to the headstart Western market segments have or the inability of many lenders to adjust to Riba laws. But in reality, this only means one thing: the Islamic banking sector is hot. And while fintech used to reach these countries with a delay, savvy entrepreneurs now dedicate resources to rolling out Islamic versions of their solutions as soon as possible.

The present and bright future of Islamic fintech

Let’s look at some stats in support of the statement that fintech solutions aimed at Islamic finance are in huge demand.

Approximately 0.5% of financial assets worldwide are under Shariah compliant management according to The Economist magazine.

0.5% isn’t much, right? Not exactly. In the book FinTech in Islamic Finance Theory and Practice, Umar A Oseni notes that Shariah compliance is still paramount for fintech solutions in Islamic finance, and this should be based on the same principles applicable to commercial transactions, with particular reference to the prohibited elements in commercial contracts and operations for financial services.

And if we look at the more high-level world statistics, we see that 1.8 billion Islam adherents around the globe make up about 24.1% of the world population. These people are looking for a Shariah compliant fintech. Nonetheless, out of that 24.1%, only 0.5% have access to Islamic financial products.

This shows just how big the need for innovative fintech solutions is and how much money there is to be made in Islamic banking.

Final thoughts

With more countries embracing Shariah compliant banking on the legislative level each month, the potential users’ pool is growing at a very high speed. Looking at the past and the present of the Islamic fintech market, there’s no doubt that it has huge potential and those fintech companies and entrepreneurs who join the wave now will bear fruits tomorrow.

Table 1: The history of fintech, globally and on a very high level.

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Source: Zibur | Global Institute of Technology
Gold trading and the Dubai Gold & Commodities Exchange

Tobias Young is the head of Product Development and Strategy at Dubai Gold & Commodities Exchange. He can be contacted at tobias.young@dgcx.ae.

IFN was launched in 2004, a year before the Dubai Gold & Commodities Exchange (DGCX) was formed. Having brought news, views and commentary on the financial markets to the world for the last 15 years, it feels only right that we should look back to our beginnings together.

DGCX was formed in 2005, and as the name suggests, the first product was gold. From small acorns grow mighty oaks, and in this respect, on its first day of trading on the 22nd November 2005, the DGCX traded 126 lots. The DGCX gold contract is a kilobar contract which originally settled via physical delivery before being amended to cash settlement only.

At the time of DGCX’s launch in 2005, gold was trading at US$490 per ounce, a far cry from where we see prices today. Gold was in the middle of a fantastic bull-run that took it up to US$726 on the 12th May 2006, before dropping back to US$542 by the middle of June.

From there, sideways movement ensued into the middle of 2006 before the beginning of the rally that saw it peak at over US$1,800 in 2011 despite gold futures trading at a significant premium at the time. A level which we have not seen since despite the world becoming a more mass media harmonized yet geopolitically risky place.

The fall in gold coincided with the end of what is often termed the ‘commodities super cycle’ which lasted long after the great financial crisis of 2008-9 as the traditional hedge against risk was maintained.

IFN really stands out in the world of Islamic finance. It continues to be a force to be reckoned with in the Islamic financial services industry.

Bahador Bijani, Vice-chairman, Securities and Exchange Organization of Iran
As we move forward, gold has eased back and only in late 2018 and 2019 have we seen the foundations for the recent movement go higher.

Although not aligned, we can see that peaks in the gold price often coincide with a spike in volume as can be seen from the total gold volumes traded on DGCX.

Gold remained the only product on the DGCX until the 28th March 2006, when a silver contract was added and traded 1,158 lots on its first day, with gold having grown to over 1,200 lots.

In Table 3, the silver price chart and trading pattern followed that of gold, although the one thing that changed was the dynamic; when looked at together, gold has experienced a greater demand uplift and therefore greater price rise than silver. This can be seen in Table 4.

As of today, gold is trading at just under 85 times that of silver, with volumes on the DGCX emphasizing gold’s importance as well as the aforementioned ratio.

Over the years DGCX has added a number of additional gold contracts to its product suite encompassing the pricing benchmarks of India, China and most recently and notably, Shariah compliant Spot Gold, with loco Dubai delivery. This has aided the volumes on the chart seen above.

The most recent addition of the Shariah compliant spot gold is the GCC regions first and the world’s only exchange-traded Shariah compliant gold contract, with its backbone founded within a regulated exchange environment, conforming to IOSCO standards and the contract itself to AAOIFI standards.

Further to this, the local contract for the Islamic world has also received the blessing of vaunted Shariah scholarly advisors, Minhaj and Amanie. Whilst also receiving recognition from the World Gold Council.

In addition, all trades are settled and cleared through the DGCX’s globally recognized Dubai Commodities Clearing Corporation (DCCC). Delivery and exchange of gold and money takes place in a secure regulated environment with the clearing house acting as a guarantor to all trades.

Gold has continued to grow on the DGCX and despite other products being added, today accounts for almost 5% of volume traded on the exchange.

While we look into the future and consider additional gold products to list, including a mini-gold product in partnership with RAKBANK, we suspect that despite recent price rises, that before we both hit our 25-year anniversaries, all that glitters may not always be gold, and there is a possibility that silver will regain its charm.
It has been fascinating to witness how the Halal industry has evolved over the past few years. There has clearly been a lot of activities as companies, organizations and even countries strategize to position themselves in this growing marketplace.

The global Halal market of 1.8 billion Muslims is no longer narrowed to food and food-related products. The industry has expanded beyond the food sector, comprising cosmetics, health products, pharmaceuticals and medical devices, as well as service sector components such as marketing, logistics print and media, packaging and financing.

Furthermore, with the increase of the Muslim population, the Halal industry has extended further into lifestyle offerings including Halal travel, fashion and hospitality.

Halal food and beverage leads Muslim spending by category at US$1.37 trillion, followed by clothing at US$283 billion, media and recreation expenditure at US$220 billion, and the tourism expenditure and consumer pharmaceuticals and cosmetics at US$189 billion and US$156 billion respectively.

Several countries have taken the lead in the development of the Halal industry including Malaysia, followed by the UAE, Bahrain, Saudi Arabia and Indonesia. These countries took serious action in the development of the Halal industry. Malaysia is introducing new initiatives to accredit Halal certifiers worldwide, issuing the first Islamic fintech crowdfunding license and launching a new certification scheme for Muslim-friendly hospitality.

Meanwhile, the UAE announced a new banking law that came into force in September 2018, stating that each Islamic financial institution will have to establish an approved internal Shariah supervisory committee and internal Shariah auditing processes. The UAE also introduced new regulations in May 2019 regulating Takaful and Sukuk issuance both inside and outside the country.

Bahrain has pushed the Islamic finance sector toward digitization, supported by the launch of Bahrain Fintech Bay and Bahrain Islamic Bank as the first full-fledged digital bank. Saudi Arabia carried transformational phases last year to fully open itself to international tourism and invest largely to develop the kingdom for tourism while announcing an e-visa system for 49 countries.

At the same time, Indonesia made a significant move with the launch of its Halal Economy Masterplan 2019-24 and the establishment of the National Shariah Finance Committee, with the main goal of pushing the role of the Islamic economy in driving economic growth. This masterplan strengthens collective efforts to push Halal tourism in the country, and further develop a robust and strong ecosystem of business across Halal food, Muslim fashion and Islamic finance.

The Halal market is not exclusive to Muslims, and has gained increasing acceptance among non-Muslim consumers who associate Halal with ethical consumerism. Many non-Muslim countries such as Japan, Australia and Thailand have recognized the emerging global trend in consumerism towards Halal products and services, and now try to tap into the Halal industry.

Japan is one of a few countries focused on attracting 1 million Muslim travelers a year. The upcoming 2020 Olympic Games to be held in Japan is an opportunity to attract Muslim tourists, and Japan is offering free visas for Muslim tourists, particularly from Indonesia, Malaysia and Thailand.

Meanwhile, Australia, the largest meat exporter, is recognized as a world leader in Halal meat production. The country targets to export its Halal meat to the Organization Islamic Committee (OIC) countries, where the value of the export has reached AUD1.42 billion (US$823.46 million) in 2013-2014 (Australian Government Department of Agriculture, 2015).

In addition, Thailand has become one of the largest Halal food exporters in the global market due to the Thai government’s urge to develop Thai Halal food products to help push the country’s exports.

Opportunities in the Halal industry are attractive, particularly the revenue developments from technology evolution in each sector. Halal traceability platforms in the food industry, for instance, is able to connect the entire supply chain from producers to auditors and certifying bodies, while fintech companies are considering Shariah compliant products as financing alternatives for businesses. In the Halal lifestyle sector, app-based Islamic lifestyle services can be one of the significant investments for investors, governments and businesses.

Is the Halal industry becoming more attractive than before? The Halal market is not exclusive to Muslims.
Firstly, I should like to congratulate IFN on their 15th Anniversary. May you all have many more successful years ahead. It has been a privilege to be associated with you since even before Day 1!

Secondly, I would like to address some thoughts on the subject matter in hand. I will try to avoid a review from a historical perspective, detailing the journey in chronological order and trying to remember and remind you of all the facts. If I try to do that it will be both clumsy and will probably not cover everything that should be covered.

I would much prefer to reflect from the basis of my own story and engagement with the industry, which now extends well over 25 years. While doing that, I would like to touch on some of the triumphs, recall some of the pitfalls, express some concerns and describe some of the opportunities that relate to the human capital market for the global Islamic finance industry.

With your permission, I would like to go back even further than the 15 years IFN has been extant. About 27 years ago, I was consulting on a major systems implementation at a Malaysian bank. My area of expertise was business process re-engineering. The bank was putting in a core system to handle accounting and loan processing and needed to re-focus on doing things under central control rather than distributed at the branches.

The steering committee asked me to come to a meeting and said, “You are the banking process expert. What do we need to do to open an Islamic window, which we have just been asked to do by Bank Negara Malaysia (BNM)?” I had no response, other than a rather weak joke about Islamic architecture. I had never before that day heard anything about Islamic finance, let alone an Islamic window.

So, if I can compare then with now, in essence, it was pretty much a blank sheet of paper. No formal courses or certifications, very little literature and a handful of subject matter experts. Roll forward a decade to around the time that IFN started up, the situation had changed dramatically. Business had grown significantly; financial institutions were going beyond windows and opening subsidiaries and even stand-alone institutions. Where are the resources coming from, was the cry! The floodgates opened and everyone was scrambling to set up training facilities, offer certification and provide advice on how to grow and develop the market further. The focus was very much on financial institutions, and in particular, banks, so that conventional practitioners could be converted to being Islamic finance practitioners. Some interesting numbers started to emerge regarding how many people needed to be trained in order to fuel the growing demand for resources. With the benefit of hindsight, we now know that these estimates were somewhat inflated.

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Human capital market for the global Islamic finance industry

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So, I hear yourself asking, “Where is he going with this anecdote?” Well, the committee asked me to find out and report back in two weeks. I looked and I asked but I could not find any literature, courses or information on Islamic finance at all. There was nothing, until I was recommended to meet someone who had been instrumental in the set-up of Bank Islam. The rest, as they say, is history! It was only through personal interaction with an experienced practitioner that I was able to learn the fundamentals, the values and the various contracts and constructs that were then available in the early 1990s.

So, if I can compare then with now, in essence, it was pretty much a blank sheet of paper. No formal courses or certifications, very little literature and a handful of subject matter experts. Roll forward a decade to around the time that IFN started up, the situation had changed dramatically. Business had grown significantly; financial institutions were going beyond windows and opening subsidiaries and even stand-alone institutions. Where are the resources coming from, was the cry! The floodgates opened and everyone was scrambling to set up training facilities, offer certification and provide advice on how to grow and develop the market further. The focus was very much on financial institutions, and in particular, banks, so that conventional practitioners could be converted to being Islamic finance practitioners. Some interesting numbers started to emerge regarding how many people needed to be trained in order to fuel the growing demand for resources. With the benefit of hindsight, we now know that these estimates were somewhat inflated.
Here I will pause for a moment and reflect on a recent conversation I had with one of the founding fathers of Islamic finance in Malaysia. He was engaged in start-ups and transformation as well as providing a basis for training in Islamic finance. He recalled that in a conversation with the then governor of BNM, Dr Zeti Akhtar Aziz, when she asked about the development of human capital for the Islamic finance market, he responded, “Do you want to breed monkeys or train monkeys? (He made no apology for the use of language). The challenge of course was to breed a better-educated individual to meet the future needs of the market as well as to provide specific training that would enable practitioners to execute their duties more thoroughly and efficiently.

This is, in a nutshell, the profound challenge that any industry needs to meet. Keeping a balance between growing and developing the gene pool, while ensuring that the genes are taught to adapt and develop in an ever-changing environment.

There is no doubt that change will always happen

During the last 15 years, we have seen a proliferation of training courses ranging from a couple of hours to several months. In the early years, they were all pretty much hit-and-miss. Today we have standards, accreditation and the ability to search for a range of options to generally fit the requirements of most elements in the market. We have also witnessed a significant growth in the number of degree and post-graduate programs which have been built around fuelling the demand of the Islamic finance market as perceived around 2005.

The good news is that many capable practitioners have been produced and some significant research has been done to assist the market to grow. Standards have been enhanced; international accreditation has been achieved and the gene pool has been improved and strengthened.

However, what we have today with regard to infrastructure and outcome, while far exceeding the expectations we had 20 years ago, may no longer fit the needs of a rapidly changing market place which has grown far beyond filling the requirements of the financial institutions in the industry.

Once again let me cite from my personal experience at INCEIF – The Global University of Islamic Finance, and a visionary initiative based on the knowledge that we had on the potential and growth in the market in the early 2000s. I was at INCEIF from mid-2011 until mid-2017. At the beginning of my tenure, I met with numerous students face-to-face and online. One of the things they kept asking me, as I came from the industry, was, “Can you please help me find a job in the industry?”

In 2011, I would say that the expectations of 80% of our student base was that they would return to or find a job in an Islamic finance institution.

From 2015 onward until my departure in June 2017, there was a profound about-turn in student expectations. By 2017, in my personal estimation, the proportion had flipped to only 20% wanting to find a job in an Islamic financial institution and the remainder wishing to be engaged in a start-up, fintech, professional services and such.

This raises a very serious question about the relevance of the programs to support the ever-changing needs of the market. There is no doubt that change will always happen. However, the speed of change is so much faster than anyone would have predicted in 2004. This presents more challenges for the “breeding” program than the “training” program. Training programs can be adapted and developed pretty quickly, and the market is a great leveller in identifying what works and what delivers good value.

The universities and business schools that have developed comprehensive programs to improve the gene pool over the last decade or so are now challenged to justify their relevance to a market that bears no resemblance to what it looked like in 2004. There are needs to understand digital marketing and the digital economy, risk management, sustainability, climate change, fintech and the psychology of decision-making and customer behaviour, to name but a few. How can a university, which is constrained by a regulatory environment that is not conducive to rapid change, possibly cope?

So we find ourselves 15 years on and with the significant benefit of hindsight. We have achieved growth and have improved the development of human capital significantly during this period. Better programs, better accreditation, better organization and better engagement.

However, we have not done as well as we should in focusing on future needs and anticipating the direction of the market. It is a difficult task, no doubt, but to be perfectly frank, I do not think we are as well-organized as we should be to prepare for the future of Islamic finance. Do not get me wrong, we are not failing, or at least not yet. We are simply not applying ourselves enough in a collaborative environment to ensure that we prepare our young resources for the challenges that undoubtedly lie ahead.

Preparing for a massive transformation is undoubtedly something that we will have to do to meet the challenges of sustainability and climate change. The path of the Maqasid Al Shariah and the development of Islamic finance can have a lot to say in our ability to sustain and thrive in this new environment. We need to ensure that we do just that. Education is the most powerful weapon that we have at our disposal and we must collaborate and deploy it wisely so we develop the human capital we need for both now and in the future.

As ever, there is much to do and not a moment to lose.
Innovation in Islamic finance and how millennials are driving the future of the industry

Banking is undergoing a tremendous change, and admittedly, this can be unsettling for many given that it is an industry that is seen lagging to others in evolution since it was established hundreds of years ago. But today, the millennials and the upcoming Generation Z are demanding so much more than before. Their lives revolve around the devices in the palm of their hands. Digital is how they see the world and those not aligning themselves to their demands are sure to be left out, even disappear. This is especially true for Islamic banking, which is perceived by many, particularly millennials as an unconventional financial institution, and perhaps even traditional and antiquated.

But, Dubai Islamic Bank (DIB) as one of the fastest growing and among the most progressive Islamic financial institutions in the world is changing all that. Marrying the traditional values of the business model with the dynamic and on-the-go requirements of the millennials, the bank is ready to truly redefine the customer experience through its fresh approach in the cluttered world of digitalization. The mantra is simple – DIB is a Digitally Intelligent Bank.

And what does that translate into – simply using the appropriate technologies that focus on enhancing customer experience which will help generate more business leading to higher revenues and lower cost as efficiency increases.

Today, digital transformation presents numerous opportunities for banks, as it has the potential to increase efficiencies, diversify revenue streams, and strengthen agility in the market. From a Shariah compliant banking point of view, it is paramount to integrate disruptive technologies such as fintech, blockchain and artificial intelligence (AI) into the operations. However, there are some challenges. For DIB and other Islamic banks, the primary hurdle is to maintain a business model that is flexible enough to maneuver within the Shariah compliance umbrella.

It’s no secret, the global fintech industry is expanding exponentially and is expected to be three times its current size over the next five years – in excess of US$150 billion. So, it is no longer wise for any financial institution, including Islamic banks, to ignore it. That said, the approach matters. Collaboration is key here and it therefore makes complete sense for banks to complement rather than compete with them.

However, any digitalization strategy must be driven by the positive change to the customer experience and crafted to deliver a convenient, fast, fulfilling and enjoyable experience across all touch points. And given the efficiencies fintech can bring to the table, a bright future is foreseen for partnerships between fintech companies and legacy banks, expected to further accelerate the evolution of the Islamic banking industry.

Then, there is the fast growing impact of AI and robotics, which will have a marked effect on the banking industry, particularly on the workforce. AI will unarguably reduce the need for human intervention when it comes to making judgements and analysis-based decisions in a consistent manner, clearly impacting certain types of roles.

Additionally, when it comes to customer service and tasks such as data entry, these can be completed with greater efficiency and accuracy with machine learning and AI. That said, this is a natural consequence of progress – just as the automobile replaced the horse-drawn carriage, this change is inevitable.
It’s no secret that Islamic finance has been the driving force behind the global Islamic economy, which has evolved into a US$2.5 trillion market today and expected to hit US$3.4 trillion in 2024. If you include other key pillars such as halal food, travel, tourism, entertainment, art and culture, and fashion, then it’s clear that the entire Islamic economy is witnessing robust growth.

The recent years has seen a surge in Islamic finance in Middle Eastern countries as well as globally. This was underscored by the Fitch forecast of a more stable operating environment for GCC Islamic banks in 2019 as relatively higher oil prices support growth and maintain strong liquidity in the region. But now, the entire structure of banking is shifting rapidly in the Middle East, thanks to the advent of digitization. In the Islamic financial sector in particular, the power of data and technology will play a significant role in driving a competitive growth.

Another challenge is the oft-propagated myth that Shariah compliant banking is exclusively for Muslims. This belief is rapidly dissipating and DIB’s growth and progress is a clear proof of that. While digitization continues to encourage the influence and wider adoption of Islamic banking, it’s the emergence of new Halal economies that are expected to have a profound effect on the Islamic banking sector in the near-to mid-term.

That brings us to the most important piece of the puzzle – the customers, particularly, the digital natives and millennials. As the lines between the digital and physical realms become increasingly blurred, it is paramount for Islamic banks to prepare for the approaching shift in not only their technology, but also customer mindsets.

"The future of Islamic banking is bright; however, it will only materialize when banks keep a keen eye on the changing customer preferences and craft their digital transformation around it and not the other way round. That would be a folly that could cost them dearly."

In this hyper-connected world, millennials look for instant gratification. The millennial customers are tech-savvy, seeking simplicity, speed and accessibility anywhere and anytime. According to studies, and looking closely at the UAE only, millennials make around 36% of the population. It is naïve for any institution to disregard their needs, or expect them to visit a branch for any financial activity. That’s why it’s critical for Islamic banks to invest more in their digital transformation and integrate the latest technology-based offerings into the customers’ daily lives.

DIB continues to invest in digitalization to ensure that we do not alienate the new generation of customers and provide them with the exact banking experience they seek. In fact, in the near future almost all of the bank’s customer base will comprise of digital natives, so it would be wise to keep pace with the changes and ensure that the tools and the technology - are in place to deliver the products and services that they expect.

Dr Adnan Chilwan is the Group CEO of Dubai Islamic Bank

The Fourth Industrial Revolution, has brought with it several challenges for the banking industry. And the Islamic banking industry will change profoundly with greater proliferation of disruptive technologies. Today, the banking profession is moving rapidly towards the integration of technology in daily banking operations, and financial activities at large. Take fintech. It is introducing new ways of operating, and altering the traditional processes of daily banking operations. Consequently, the market is increasingly competitive for banks, as customers now demand a seamless digital banking experience. As the global fintech industry grows, this is only going to accelerate.

While some, especially in terms of technology adoption, might perceive Islamic banks as more traditional, Islamic banks are actually increasingly leveraging digital banking to reach out to customers, including younger ones. At DIB, we have been continuously implementing technologies and digital solutions over the past few years. Take Smart Bank, one of our digital innovations, or the new DIB website, which is designed to improve our customers’ digital banking experience.

However disruptive they may be, the future of Islamic banking is one which is digitally inclined and one that connects with the customers in a meaningful way. It is important to understand the customer pain points and then craft a digital strategy that addresses them. The future of Islamic banking is bright; however, it will only materialize when banks keep a keen eye on the changing customer preferences and craft their digital transformation around it and not the other way round. That would be a folly that could cost them dearly.
Traditionally, there has been considerable support for Shariah compliant finance in the countries that now form the GCC. Until the second half of the 20th century, however, no model for Islamic banking that would meet the financing needs of the region existed. Consequently, conventional banks filled the gap. This was also reflected in the regulatory regime for banks in these countries.

For instance, the Saudi Arabian Monetary Agency (SAMA), established in 1952, was originally modeled after conventional central banks. And while the Saudi Arabian Banking Law of 1966 introduced Shariah compliance as a principle in banking in the kingdom, SAMA paid little attention to Islamic banking when building a modern banking industry in Saudi Arabia during the 1970s. Those seeking to establish Islamic banks in the Kingdom were quickly frustrated and turned towards Asia.

Other Gulf countries were more welcoming to Islamic finance. Notably, the Emir of Dubai in 1975 passed a decree providing for the establishment of Dubai Islamic Bank and the Kuwaiti legislator approved the establishment of Kuwait Finance House in 1977. Bahrain and Qatar followed by enacting Islamic finance-related legislations just a few years later. Saudi Arabian authorities, however, remained much more reserved with respect to Islamic banking.

SAMA was reluctant to license Al Rajhi Bank as the first Islamic bank in the kingdom, due to concerns over how this would affect the conventional banking industry. When a banking license was granted to Al Rajhi Bank in 1987, the kingdom did so not only out of a new support for Islamic banking but also because Al Rajhi Bank already had significant deposits and the regulator deemed it preferable to have it regulated by SAMA. After SAMA issued a banking license to Al Rajhi Bank, Oman was the only holdout among the six GCC countries. It took until the early 2000s for Islamic banking to take root in the sultanate.

Around the same time Kuwait took steps to further develop its banking law regime to accommodate Islamic banking. In 2004, the Kuwaiti legislator amended the country's Central Bank Law and brought Kuwait Finance House under the regulatory authority of the Central Bank of Kuwait.

Furthermore, the new Islamic finance regulations included in the amended Central Bank Law sought to open the sector, thus far dominated by Kuwait Finance House, to competition. Following the amendment, the Kuwait Real Estate Bank changed its name to Kuwait International Bank and converted into an Islamic bank, and a new Islamic bank – Boubyan Bank – received its banking license.

Regulations of Islamic banking in the Gulf, however, remained rather rudimentary. While other GCC countries followed the example of Kuwait and amended their regulatory regime for banks to address Islamic finance, these regulations seldom went beyond a few articles in statutes mainly focusing on conventional banking. This resulted in the GCC Islamic finance industry developing in a comparatively loosely regulated environment, resulting in a lack of transparency and significantly varying standards.

In particular, the Sukuk market suffered from this lack of specific regulations, which was prominently demonstrated in the Dana Gas case (IFN Volume 16 Issue 19, p.17). Furthermore, lack of industry standards opened the doors for undesirable practices such as Fatwa shopping (IFN Volume 16 Issue 10, p.21).

Recently, legislators of the GCC countries have sought to address these shortcomings. Most notably, the UAE in 2018 adopted a new Banking Law, which, while still addressing both conventional and Islamic banking, included extensive provisions governing Islamic finance (IFN Volume 16 Issue 24, p. 20). These introduced regulatory oversight over Shariah boards and their decisions on financial products, as well as the adaptation of AAOIFI standards as a statutory requirement.

Following the implementation of the new UAE Banking Law, other GCC jurisdictions have initiated similar reform processes. For instance, Qatar in late 2019 announced it would pass banking legislation similar to that enacted in the UAE (IFN Volume 16 Issue 35, p. 22).
The Islamic leasing, or Ijarah, industry has witnessed major transformation in the past 15 years. This posed some opportunities and challenges to the leasing industry globally, from Asia, the Middle East, Africa and Europe, to South Russia and Australia.

Several regulators and multilateral organizations have recognized the importance of Ijarah to the extent that they became active players in several markets globally.

Opportunities

Nature of Islamic leasing

In Islamic finance, the nature of an Islamic leasing transaction often involves an underlying asset. Ijarah usually refers to a contract of hiring or leasing of the usufruct of an asset (such as equipment, vehicle, building), which is leased to a lessee (customer) for a set of lease payments for a fixed period, usually ending with a transfer of ownership.

Ijarah does lead to purchase (Ijarah Wa Iqtina or Ijarah Thumma Bai). This nature is often favored by both the lessor and the lessee. The lessee is a lessee (customer) who often lack adequate collaterals. Over the years, Islamic leasing reinvented itself to include home-based Ijarah models to Ijarah Mawsufah fi Zima (forward Ijarah) to Sukuk Ijarah globally.

Popularity of Islamic leasing

Islamic leasing – both Islamic financial lease (Ijarah wa Iqtina) and, to a lesser extent, operating lease (Ijarah Tashghiliyah) – has gained wide popularity globally in recent years.

This is especially the case in less developed countries like Pakistan, Bangladesh and Egypt as it especially suits the needs of micro, small and medium enterprises (MSMEs). This segment is often Shariah compliant and often lack access to financing from the traditional banking systems. This led to the prominence of Islamic Microfinance Institutions (MFIs) globally. Meanwhile, Ijarah Tashghiliyah is more common in the GCC countries, but has been recently challenged by the VAT.

Finally, Sukuk has mostly used Ijarah contracts as reflected in the growth of Sukuk Ijarah (almost 70%) as the most common type globally, from the UAE to Turkey to Malaysia.

New users – governments and financial institutions

It is worth mentioning that over the past 15 years, Islamic leasing has been commonly used by both the private sector and the public sector globally to secure their long-terms needs in terms of capital expenditures. Several multilateral organizations, such as the private sector arm of the IsDB, have established several Islamic leasing companies globally including in the Middle East and North Africa. In addition, countries in South Russia, Central Africa and Asia have been relying on Islamic leasing in the past few years.

Challenges

Shariah challenges

The Islamic leasing industry has faced some Shariah challenges in terms of the distinction between Islamic and conventional leasing.

Challenges addressed by some Shariah scholars include the inability to terminate an Ijarah contract prematurely, and wrong conventional practices exercised by some Islamic banks, such as the obligations for the lease payments to be made by the lessee, even though the benefit (usufruct) has ceased to exist. Shariah scholars and boards need to ensure the reinforcement of Shariah principles, not only into the contracts but also throughout the process, from the very start till the very end, to avoid any violations.

Regulatory challenges

The Islamic leasing industry has also faced some challenges to be able to compete with conventional leasing. This issue was addressed by several multilateral organizations such as the International Finance Corporation (IFC) and the IsDB. The challenges double taxation issues related to sale and lease-back transactions. The latter led to several regulatory amendments among several countries including the UK to allow a level playing field by eliminating such barriers. In addition, some countries addressed other legal impediments facing a lessee using an Islamic leasing, such as being in a weaker legal position than his conventional counterpart.

Accounting and IT challenges

The application of International Financial Reporting Standards (IFRS) to Islamic financial transactions is an ongoing agenda item, as IFRS Standards evolve over time. The ‘Big Four’ standards – IFRS 9, IFRS 15, IFRS 16 and IFRS 17 – may pose challenges to Islamic financial reporting. For this reason, there needs to be a collective effort to apply IFRS in a consistent manner and to improve understanding of the Standards without compromising Shariah tenets. IFRS 16 is the standard specific to Islamic Leasing financial transactions replacing IAS 17, in which issues related to the lessor versus lessee, and ownership versus the right of use are addressed. In addition, the Islamic leasing industry has witnessed major improvement in terms of the availability of supporting IT Islamic leasing solutions that meet the needs of Islamic banks and leasing companies globally, especially in the GCC.

Marketing or branding challenges

There seems to be a lack of awareness about the major differences between Islamic and conventional leasing. This is very common even among the employees of Islamic banks, who often still use the same terminology ‘interest versus Islamic lease payments’ when selling their Islamic leasing products. They often lack the education to support the Islamic leasing industry. Thus, they often fail to reinforce the differences or misbrand Islamic leasing altogether. Islamic banks and leasing companies need to play a major role in their training accordingly.

In conclusion, the Islamic leasing industry has huge, untapped potential that needs to be addressed. The aim is to put the Islamic leasing industry on a level playing field with conventional leasing. This requires the support of several international stakeholders including regulators, policymakers, multilateral organizations such as the IsDB and IFC, AAOIFI, the Islamic Financial Services Board, Islamic rating agencies and others.
Islamic liquidity management: The journey so far

Globally, assets under the Islamic finance industry have surpassed the US$2.4 trillion mark. Digitalization, which has emerged as a revolutionary trend in financial systems, is becoming popular in Islamic finance as well. Islamic banks account for over 70% of the industry’s total assets, according to the latest available data. Islamic liquidity management instruments are still at their infancy, and there are very few instruments that meet the industry’s needs and investors’ expectations at the same time.

The main challenge in the Islamic finance industry lies in the process of providing liquidity management tools that can compete with conventional ones. Unlike conventional institutions, the dearth of liquidity in Islamic finance industry is due to a lack of tradeable instruments as Shariah restrictions limit the range of instruments that can be used for liquidity management. Islamic interbank and money markets also lack the magnitude of volume and diversification as seen in conventional markets.

Islamic banks will continue to shift toward Islamic liquidity management instruments that increase their ability to place more of their surplus liquidity with other banks or with the central bank

However, over the years, there has been improvement in liquidity in secondary market trading, helped by global Islamic players such as HSBC Amanah, CIMB Islamic (Malaysia) and Dubai Islamic Bank that have been actively involved in the trading of Sukuk papers in the secondary market. The Emirati and Malaysian markets are among the most popular stock markets that have seen high growth in liquidity. It is important to note that in November 2006, the Dubai Stock Exchange announced its restructuring plans to become the world’s first Islamic bourse.

A variety of approaches have been adopted in different jurisdictions and much work has been done to diversify the mix of available options for Islamic banks to manage their short to medium-term liquidity. Organizations providing Shariah standards such as AAOIFI and the Islamic Financial Services Board (IIFSB), established in 1991 and 2002, respectively are playing an important role in bridging this gap.

More strategies that suit the liquidity management and personal financing needs of the Islamic finance industry continue to be developed. One such product is National Bonds’ Sukuk Trading Platform that simultaneously addresses the operational requirements of Islamic banks and their customers and external stakeholders’ preferences. In liquidity management, it has the potential to be both flexible and authentic, offering an investment destination to park the surplus funds or an investment tool/model which financial institutions and central banks can utilize for providing liquidity to banks when needed.

Islamic banks will continue to shift toward Islamic liquidity management instruments that increase their ability to place more of their surplus liquidity with other banks or with the central bank. Liquidity management however continues to remain at the core of the issues that regulators need to address to ensure the healthy growth and development of the Islamic banking sector.

Since the financial crisis, new regulatory requirements under Basel III have increased requirements by banks to hold sufficient high-quality liquid assets. To overcome liquidity management issues, the International Islamic Liquidity Management Corporation (IILM) was established in 2010. Following its establishment, it marked another milestone with the issuance of US dollar-denominated, rated, tradable Sukuk in August 2013. These instruments have contributed in enhancing cross-border flows, strengthening international linkages and promoting financial stability.

In February 2009, Indonesia became the first nation to sell Sukuk targeting retail investors. Since then, Malaysia and Pakistan have also issued retail-focused Sukuk and most recently Saudi Arabia is also looking to open up the Sukuk market to retail investors. The appeal of Shariah compliant financial products has since broadened with the creation of a more active investor base and the increasing appeal of Shariah compliant financial products has since broadened with the creation of a more active investor base and the increasing number of organizations considering the Sukuk market as an alternative for raising funds.

More recently, there has been a spur in the launch of digital-only Islamic banks. Several governments with large Islamic financial systems including the UAE and Bahrain are encouraging fintech through the creation of regulatory sandboxes. Shariah scholars are also evaluating the extent of Shariah compliance in the latest innovations such as cryptocurrencies, and are actively helping fintech firms develop Shariah compliant products.

According to Reuters estimates, the Islamic finance industry, which currently comprises of nearly 1,400 institutions globally, has the potential to reach close to US$3.8 trillion by 2023. Adoption of the latest technology will play a significant role in this regard.

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Source: Reuters

Chart 1: Breakdown of Islamic finance assets (US$ billion)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>2017</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic banks</td>
<td>2,441</td>
<td></td>
</tr>
<tr>
<td>Takaful</td>
<td>1,721</td>
<td></td>
</tr>
<tr>
<td>Other Islamic</td>
<td>46</td>
<td>110</td>
</tr>
<tr>
<td>Islamic institutions</td>
<td>72</td>
<td>325</td>
</tr>
<tr>
<td>Sukuk</td>
<td>135</td>
<td>426</td>
</tr>
<tr>
<td>Islamic funds</td>
<td>188</td>
<td>783</td>
</tr>
</tbody>
</table>

Source: Reuters
Importance of M&A deals in the Islamic banking sector

Shariah compliant acquisition finance and conventional financing may be considered as economically similar in terms of mergers & acquisitions (M&A) transactions. While Islamic M&A should strictly comply with the Shariah principles, it attracts both Islamic and conventional investors. Islamic M&A deals are not limited to only Islamic investors, companies or banks; it is also possible for conventional firms or banks to be a part of M&A deals by complying with the Shariah principles. In recent years, Islamic banks, which are an important part of Islamic finance, have been carrying out Shariah compliant M&A deals for their consolidation moves. M&A deals are considered positive moves for the Islamic banking sector by creating larger, stronger and more efficient Islamic banks.

Therefore, M&A transactions between Islamic banks are of great importance. Due to the Islamic banking sector's contribution within the whole Islamic finance industry, Shariah compliant M&A deals are mainly driven by the Islamic banks'consolidation moves, which are significantly higher in value than the other sectors. It is required for any M&A transaction to satisfy Shariah criteria in order to be considered as an Islamic M&A transaction. These criteria include the nature of the financing instrument itself and the nature of the target's business.

As reported by Fitch Ratings recently Islamic bank M&As in the GCC are likely to increase as many Islamic banks still lack the market position needed to compete with large established peers, particularly in overbanked markets such as the UAE. M&A activities within the GCC and MENA regions have been increasing due to the great advantages of consolidation for financial institutions. According to data compiled by Bloomberg, the value of M&A deals in the Gulf region reached to US$33.7 billion in 2018, the highest level since 2007.

Notable developments

In light of the above explanations, it is apparent that M&A is still a developing sector in the Islamic finance industry. In the last 10 years or so, the number and value of total M&As carried out within the Islamic finance industry have increased. This can be considered as a result of the continuing intention of Islamic finance institutions to pursue growth opportunities within local and international markets, as well as their objective to re-organize into becoming more competitive institutions, to create operational efficiency and comply with regulations.

Following the drop in oil prices in 2014, GCC countries are experiencing a great number of consolidation moves as the rate of M&As has increased in value within the last few years. The GCC countries represent 79% of deal values and 73% of deal volumes for the MENA region in 2018, providing opportunity for foreign investors. Not only are the financing tools and companies’ businesses required to comply with Shariah principles, their insurance policies, which protect buyers and sellers from financial losses, should also be in line with Shariah. In 2017, American International Group (AIG), which is advised by the Norton Rose Fulbright law firm, introduced its first Shariah compliant insurance policy for M&A activities carried out within the MENA region.

It is reported that AIG is offering the said Islamic insurance solutions for M&A transactions in MENA through its partnership with Shariah compliant managing general agent Cobalt Underwriting. Such an insurance policy was an important step to ensure that all aspects of Islamic finance transactions are Shariah compliant.

The merger of National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) was the largest M&A transaction in 2016, having a value of US$14.1 billion, within the region. The said transaction is also recorded as the Middle East’s largest domestic deal of all time and made a significant contribution to the total amount of 2016 M&A deals value. This deal was a notable move to establish mega Islamic banks which can compete with their conventional counterparts.

In conclusion, M&As will always be a time of great opportunities to establish larger, stronger and more efficient Islamic banks or companies with Shariah compliant businesses. M&A is still a developing sector of the Islamic finance industry, enabling opportunities such as cost-cutting and establishing firms and banks with higher competition powers.

Table 1: Mergers

<table>
<thead>
<tr>
<th>Banks involved</th>
<th>Combined assets (US$ billion)</th>
<th>Value of deal (US$ billion)</th>
<th>Country</th>
<th>Year</th>
<th>Entity created</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bank of Abu Dhabi + First Gulf Bank</td>
<td>182.7</td>
<td>15</td>
<td>UAE</td>
<td>2017</td>
<td>First Abu Dhabi Bank</td>
</tr>
<tr>
<td>National Bank of Abu Dhabi + Emirates Bank International</td>
<td>129.8</td>
<td>Unknown</td>
<td>UAE</td>
<td>2007</td>
<td>Emirates NBD</td>
</tr>
<tr>
<td>Abu Dhabi Commercial Bank + Union National Bank + Al Hilal Bank</td>
<td>114</td>
<td>Possibly 4 in addition to Al Hilal bought for US$272 million</td>
<td>UAE</td>
<td>2019</td>
<td>ADCB</td>
</tr>
<tr>
<td>Alawwal + Saudi British Bank</td>
<td>71</td>
<td>5</td>
<td>Saudi Arabia</td>
<td>2018</td>
<td>SABB-Alawwal</td>
</tr>
<tr>
<td>Emirates NBD PJSC + Denizbanks AS</td>
<td>42.8</td>
<td>3.2</td>
<td>UAE-Turkey</td>
<td>2018-19</td>
<td>Emirates NBD</td>
</tr>
<tr>
<td>Dubai Bank+Emirates Islamic Bank</td>
<td>16.2</td>
<td>Unknown</td>
<td>UAE</td>
<td>2012</td>
<td>Emirates Islamic Bank</td>
</tr>
</tbody>
</table>

Chart 1: Ten years of M&A activity in the GCC
Islamic microfinance: A small force for good but growing

Over the last 15 years, microfinance has evolved significantly. Particularly following the 2007 crisis, the industry has re-embraced its original poverty reduction and social impact mission and, by extension, the need of putting consumer protection principles at the forefront as over-indebtedness gave the movement founded by Prof Muhammad Yunus a bad name. But there is still a significant proportion of people left without access to a bank — especially in Muslim-majority countries where there are an estimated 400 million people unable to save money, borrow for emergencies and investment purposes or receive remittances from friends and relatives via a financial institution.

But putting an exact figure on the size of the Islamic microfinance sector is extremely difficult since providers range from banks to cooperatives and everything in between. Yet the World Bank-housed Consultative Group to Assist the Poor (CGAP) has taken the lead in researching the sector and has carried out surveys in 2006 and 2011 showing a significant growth in client numbers over the years.

Overall, on the funding side, the IsDB has been one of the key sources of working capital for the sector, albeit mainly for commercial microfinance institutions. Both the IsDB Group’s Islamic Solidarity Fund for Development and the Islamic Corporation for the Development of the Private Sector have provided technical assistance, lines of financing and direct investment to a number of Islamic microfinance institutions reaching hundreds of millions of dollars over the years.

On an industry-wide scale, the CGAP has taken the lead in identifying innovative business models and products and has twice run the global contest: the Islamic Microfinance Challenge. The first, held in 2010, was won by Yemen’s Al Amal Bank. The second contest was held in 2013–14 which was won by the Wasil Foundation (Pakistan) for its innovative Salam product. The Islamic Microfinance Challenge has been co-sponsored by the IsDB, the German International Co-operation Agency, Al Baraka Banking Group and Triple Jump.

A major breakthrough is also that professional training is now globally available, although limited to a small number of providers, one being the Frankfurt School of Finance & Management and the other being the Al Huda Centre of Islamic Banking and Economics, with both offering online/distance learning courses.

The way forward

With the Islamic microfinance industry being literally so small, it is still under the radar of self-regulatory bodies such as the IFSB and AAOIFI. This means that products on offer in the sector are not following a common standard, with wide implications, for example, for the availability of loans software, technical assistance, capacity-building or product development which often remain limited to single microfinance institution initiatives. Standardization, especially in the product field, would be critical for the future growth of the sector when Shariah compliance comes more strongly into focus as the sector grows and needs to differentiate itself against conventional competitors.

However, the current AAOIFI product standard for Qard Hasan, a product which many Islamic microfinance institutions are relying on, was drawn up with commercial banks in mind which have a suite of revenue-generating financial services to subsidize soft loans. But for microfinance institutions which serve poor and low-income customers, perhaps solely through Qard Hasan, full cost-recovery opens up Shariah non-compliance risks under the current AAOIFI interpretation. The standard-setting body will have to address this to support — in conjunction with more grant funding — the growth of the Islamic microfinance industry.
Islamic ratings: Stagnant past but its future should be transformed

Before taking any view on how Islamic rating should emerge and come forward to navigate its own way through the timeline, the following excerpts (sourced from Wikipedia) on the historical transformation of conventional credit rating agencies may help set context.

As the market grew beyond that of traditional investment banking institutions, new investors again called for increased transparency, leading to the passage of new, mandatory disclosure laws for issuers, and the creation of the Securities and Exchange Commission (SEC). From 1930 to 1980, the bonds and ratings of them were primarily relegated to American municipalities and American blue chip industrial firms. In the late 1960s and 1970s, ratings were extended to commercial paper and bank deposits. Structured finance was another growth area of growth.

Why is the above context relevant? It is because there was nothing like a credit rating model or tools to undertake credit rating, just the initiative of service providers to fill a gap. The role of the government to set up platforms like the SEC and the allocation of resources by stakeholders to have tools and skills set on a systematic basis set the tone for the credit rating agencies’ growth.

For instance, the wheel was not reinvented, but it was invented to cater to the needs of the growing broad-based economy.

Today the scale of global economy and related financial sectors could never be possible without the contribution of credit rating agencies, though the agencies have been criticized for their role during financial crises.

Islamic rating should come forward and allocate resources with the same fervor and vision. Their focus should be global and beyond proving their point of defending Islamic finance principles. The objective should be that their product would be a useful tool for the whole world and whoever wishes to use it should do so on its merit.

Data that can be used to run models, produce results, validate and calibrate defaults or otherwise of the historical performance of financial or non-financial entities already exists, to take rating forward on a distinct and value-added basis. The next 15 years should mark the distinct and leading role of Islamic ratings in the world, not in books but on the ground.

Reviewing the development cycle of the Islamic credit rating methodology, and the transformation of its approach from rating Sukuk and Islamic financial institutions starting in 2000-2005 until present, may not highlight substantial differences for a number of reasons. One may be the level of real economic development and the depth of the financial sector of countries where Islamic banking and finance mostly find its forte, ie Islamic countries.

Another reason may be that there is no rating methodology and tools built upon the foundation of Islamic principles; the methodology adopted to rate Sukuk and Islamic financial institutions is a version of a general or structured conventional credit rating criteria and methodology.

At the core of its technique and tools, conventional credit rating methodology is founded on non-Shariah compliant principles. There is, however, a recent initiative to develop a methodology to rate the fiduciary responsibility of Islamic banks.

Whatever change that could be attributed to the transformation in approach of Islamic rating is a by-product of developments and challenges faced by conventional credit rating agencies globally, as well as their methodological responses. Thus, Islamic rating, being a small sub-sector of international and other rating agencies, has experienced a passive transformation.

Generally, conventional credit rating agencies dealing with Islamic finance institutions and Sukuk ratings explain their stance towards adopting a Shariah-neutral methodology on the basis of addressing credit risk and not legal compliance with Shariah, as it is more a matter of expert opinion and not objective fact.

Obviously, conventional credit rating agencies are not expected to research Shariah principles and develop a rating methodology for Islamic financial institutions and other non-financial sectors as they will find themselves in a conflicting situation of assigning two different ratings to the same entity, one based on conventional criteria and the other on Shariah. It will be a real challenge for them to defend the merit of each and have a probability of default quantitative data set for each.

The other critical point is when an entity is deemed to have defaulted under one criterion and not defaulted under another. To address this issue, Islamic rating needs to have separate and independent criteria, with revised (or re-invented) quantitative tools and qualitative factors in light of Islamic jurisprudence.

Now, turning to the forward-looking transformation of the Islamic rating approach, one has to give due regard to the progress of conventional credit rating agencies. Their principle has been very simple: in order to do something right, you, at times, have to do something wrong and keep rectifying yourself as you move forward.

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While of course in its simplest form, Shariah compliant real estate investment has existed for an eternity, with individuals buying properties themselves – most likely on an all-cash basis – and choosing to manage them appropriately, it is the involvement of international investment managers that is our focus here.

As Islamic Finance news launched towards the end of 2004, the global Islamic real estate industry had had, from my perspective, a relatively short five years of accelerated growth behind it. I had been with Citigroup over this period, working with Middle East investors to bring a US fund model into the UK, HSBC Amanah had established their global real estate fund and Credit Suisse and others were also getting active.

**Until the music stopped**

The years 2005 to 2007 was a period of substantial geographic expansion. Working closely with Shariah scholars and taking structuring lessons learned from acquiring properties in the US and the UK, the industry expanded across continental Europe and beyond.

Optimism was running high, with annual investment volumes swelling, fund allocations increasing and the wider Islamic industry rapidly expanding. Largely delivered previously through so-called Islamic windows of banks or fund managers, this period also including the establishment of several dedicated Islamic banks in London, pushing the industry on again.

Governments and tax authorities were frequently keen to accommodate and, in many cases, encourage this momentum, with tax changes to ensure a level playing field for the Shariah structures required.

**The Great Recession**

From 2008 to 2010, it was a time of pause and rebuilding. Such was the fall in asset values across the globe and across sectors that Islamic real estate could not be immune. Investors came out of the Great Recession substantially more cautious and wanting significantly more control of individual acquisitions, no longer keen to support blind funds. And so, deal by deal, confidence was rebuilt, and activity started to grow.

While investors wanted to get back on the horse, a great number of the finance banks were more cautious. The industry relied – and still does – on the conventional banks to provide the leverage on such transactions. Post-recession risk teams were in control and many decided that they didn’t want to support the necessary Shariah legal structures, as the additional level of complexity was either a real concern to them or not something they could prioritize while they were licking their wounds elsewhere.

**Optimism again**

Since 2011, the Islamic cross border real estate industry has grown from strength to strength. With increased levels of scrutiny, investors valued the contribution of independent investment managers able to support and deliver their investment wishes.

While there is no consistent source for the volume of Shariah compliant real estate investment, Real Capital Analytics comes close, with its analysis of Middle East cross border property investment being a helpful proxy, but also possibly misleading.

As you would imagine, the headlines are often grabbed by the sovereign wealth funds of the Middle East making US$500+ million investments, which were as much about strategic deployment of wealth as they were about producing a steady income. This activity peaked in 2015, with Real Capital Analytics recording over US$35 billion of cross-border investment, fuelled by an oil price which had remained above US$100 for a few years.

With a new US$40-80 price range for oil establishing itself from 2015, the sovereign wealth fund activity fell and indeed reversed in many cases with capital being repatriated. However, the activity of other investors was at least maintained and indeed has seen more substantial growth over the last 12 months.

Alongside this has been the growth in the volume of Islamic REITs over the last few years, with Saudi Arabia, Bahrain and others actively encouraging their establishment.

Meanwhile, innovation has been seen with crowdfunding fintech managers again tapping into investors’ desire to select their own investments, often at a very granular level.

**Conclusion**

So, where are we now compared to 15 years ago? In short, the Islamic real estate industry has substantially matured and geographically diversified, with a critical mass of professionals able to assist in most global markets.

The industry rode the market exuberance like so many into the Great Recession, but came out stronger, listening to investors more and quickly adapting to deliver what was demanded.

No longer the niche sector of 2004, the industry finds itself being compared to conventional property investment managers and realising that its environmental, social and governance credentials, born out of Shariah compliance, have a wider audience beyond Islamic investors.
Regulation and supervision are important factors for economic development, efficiency, and stability. This is true in particular for the financial sector. Regulations include all mechanisms to conduct and structure activities. For the financial sector, these cover the needs concerning various processes such as entry into banking, internal/external reviewing, liquidity, provisioning, etc. In parallel, the role of supervision of activities is to avoid crises or to mitigate their effects and to support public confidence, for example in the banking system, by defining the neutral means to help sound and safe discipline for the development of banks.

The Islamic finance sector includes Islamic banks (including Islamic investment banks), insurance (Takaful) undertakings and Islamic collective investment schemes (CIS), each of which has its specific regulatory and supervisory requirements.

The first time a number of financial regulators, namely central banks and monetary authorities, openly supported Islamic finance was when the IFSB was established in 2002, and this support still continues to date, and has been complemented with support from insurance regulators and supervisors in countries where these functions are not provided by the central bank. Although the AAOIFI was the organization that spearheaded the establishment of the IFSB, the latter was established by a group of central banks (together with the IsDB) when they took over from the AAOIFI, after its conference with the IMF in 2000.

An illustration of differences between Islamic and conventional finance and the resultant regulatory and supervisory issues is given by comments of the IMF on the balance sheet items termed investment accounts by the AAOIFI (which are more precisely called ‘profit sharing investment accounts’ (PSIA)) that were as follows:

"Investment accounts [ie PSIA] can be compared to CIS, in which participants have mandated their fund managers to manage their investments. Both [holders of PSIA] Investment Account Holders (IAH) and CIS participants:

(i) entrust their money to be invested and managed by a fund manager (that is, the Islamic bank in the case of IAH and the CIS operator in the case of CIS participants);
(ii) have minimal rights in controlling the conduct of the fund manager; more often they would have to vote with their feet — that is, move their investment away if they find the fund manager’s performance is unsatisfactory ie IAH show what they think about their investment by either continuing to place their funds with the Islamic bank as argued in a paper co-authored by the author and Simon Archer.

In addition to the comments of the IMF, one may note that, in most cases, CIS participants stand in a better position than IAH, since securities regulation usually ensures that CIS operators meet stringent requirements before they can operate a CIS. CIS participants enjoy more rights — in particular, concerning their access to information.

Furthermore, CIS participants often know the net asset value of their investments, which would allow them to dispose of the investments swiftly in a secondary market.

Furthermore, it may also be noted that while CIS are usually controlled by capital markets regulators, IAH or PSIA are managed by Islamic banks, and in most jurisdictions in which Islamic banks exist, they (IAH or PSIA) are usually controlled by central banks. Archer and the author call for capital markets controllers to be involved in regulating IAH/PSIA by suggesting that IAH/PSIA receive some of profits.

Islamic banks provide PSIA, which are governed by a contract known as Mudarabah that is compliant with the Shariah, to their customers as an alternative to interest-bearing deposit accounts. When using the Mudarabah contract, Islamic banks act as entrepreneur or manager (Mudarib) and the customers are the providers of funds.

The AAOIFI divides investment accounts into restricted and unrestricted. The latter are treated as ‘on-balance sheet’, on the liabilities and equity side, while the former are ‘off-balance sheet’, and typically appear under the balance sheet as ‘funds under management’. This is because the funds of unrestricted investment accounts typically are commingled with other funds on the Islamic bank’s balance sheet and may be withdrawn at short notice, like conventional deposit accounts.

Restricted investment accounts are treated as ‘off-balance sheet’ because the customer has a choice as to the asset allocation, as in conventional investment funds. Islamic banks use restricted investment accounts less frequently than unrestricted investment accounts. It is not used so frequently. In both cases, under the Mudarabah contract, the customers bear the risk of loss provided it is not due to the misconduct and negligence of the Mudarib, ie the Islamic bank in this case.

Islamic banks are normally required to have a special type of governance organ usually called the Shariah board, which is an independent body of specialized jurists in Fiqh Muamalat. At a minimum, Islamic financial institutions can appoint a single Shariah counsellor. The Shariah board is usually appointed by either the board of directors or the general assembly. This has raised the issue of the independence of Shariah board. It is argued that in most cases, the Shariah board would favor the management or shareholders at the expense of the investment account holders.

According to the AAOIFI, the Shariah board is entrusted with the responsibility of directing, reviewing and supervising the activities of the Islamic financial institution. Countries such as Indonesia, Bahrain, Kuwait, Pakistan and Malaysia have developed guidelines for Shariah supervisory boards in their respective countries.

In Malaysia, a Shariah Advisory Council was recognized in 1997 to determine Islamic law regarding Islamic financial institutions, and in 2009 became the “sole authoritative body” for Shariah for that country’s Islamic finance industry. It was set up at the central bank, Bank Negara Malaysia. The individual Shariah boards that exist in each Malaysian Islamic financial institution provide a second layer of supervision.

In Indonesia, all Islamic banks are required to have a Shariah supervisory board. The national Shariah board of Indonesia issues Fatwas on all Islamic financial products created in Indonesia. Bank Indonesia, the central bank, uses the Fatwas to control the Indonesian Islamic financial industry, and the individual Shariah supervisory boards ensures the national Shariah Board’s Fatwas are followed. In April 2015, for example, the national Shariah board approved Shariah compliant currency hedging tools and a standard contract template for Shariah compliant repurchase agreements.

The Fatwas issued by the Shariah boards are binding on the Islamic financial institutions in the jurisdiction and also on conventional banks that offer Islamic products in respect of those products.

The Shariah board’s activities typically include the following: certifying that the financial instruments used are Shariah compliant, calculating the Zakat payable by the Islamic financial institution and that prohibited income is not included in the institution’s receipts, as well as advising the institution on how its income is to be allocated between investment account holders and shareholders.

In some Islamic financial institutions, for example in Sudan, the Shariah board is called the Shariah Supervisory Board. Usually, a Shariah board comprises three to six scholars to advise the stakeholders of the bank on whether their operations and activities comply with the Shariah rules and principles, ie on what is Halal and what is not Halal. In that respect, the Shariah board would issue Fatwa. Shariah boards differ as to their methods of appointment, their composition and the legal status of their rulings, among other things.

Many Muslim countries, for example, Sudan, Malaysia, Bahrain, the UAE and Kazakhstan have what is known as a national or higher Shariah board to regulate Islamic financial institutions nationally. Sudan was the first country to establish its Higher Shariah Supervisory Board in 1992. It was followed by Malaysia in 1997. Sudan has also recently established a financial market regulatory authority.

In the future, it may beneficial for international financial institutions, for example the IMF, to provide finance in an Islamic form to the countries that need it, namely their ministries of finance. There are precedents to establishing specialized international institutions (for example, the Arab Monetary Fund). Also, some activities of Islamic banks should be regulated by capital market authorities rather than central banks, since the former offer investment accounts, not deposit accounts.

It is also desirable that every country in which Islamic financial products are offered establish a national of higher Shariah board, if necessary, to assure users of Islamic finance that what is being offered is Shariah compliant. This is in addition to establishing Shariah boards at the institutional level. Furthermore, the regulatory environment would be improved if, in countries in which Islamic products are offered, it were being made mandatory for Islamic financial institutions to adhere to the standards issued by the AAOIFI and the IFSB.
The special anniversary for IFN's 15th year comes two years ahead of my first own 15th anniversary writing about Islamic and responsible finance. There are reasons for celebration and cause for concern about these anniversaries. On the one hand, there have been some significant developments to move Islamic finance forward in this time. When I first began my observation of Islamic finance in 2006, the industry struggled with core operational issues dealing like liquidity management.

Islamic finance had little time for concern about the framing beyond the ethical features that arose directly from Shariah compliance. As I write today returning from the biennial Islamic Financial Services Board Summit where sustainable development was a key theme, I can definitely say we are making progress. Apart from talking about the right topics, we've also seen some progress towards operationalizing ethical and responsible finance principles in Islamic financial institutions, especially in Malaysia.

A few Islamic banks are focused intently upon revisiting their core proposition to go beyond delivering financial services in a Shariah compliant form. Others unfortunately remain complacent about the changes to the world around us over the past decade and a half.

A customer who was entering the workforce without access to Islamic finance in the mid-1970s to mid-1980s, who was in the prime of their career when IFN was founded, is now preparing to retire. Their retirement will hopefully be more secure and their conscience clearer because they were able to access Shariah compliant financial services along the way.

As they reflect on their opportunity compared to their parents' generation who lacked access to the same options in Shariah compliant financial services, it is not unreasonable for many of them to have given the Islamic finance industry the benefit of the doubt. Access to Shariah compliant financial services improved their lives compared to what their parents experienced.

Today's core customers are unlikely to share the same perspective. The median age in key markets is 27 years in Malaysia, 28 in Indonesia, and 30 in the UAE according to World Health Organization data from 2013. The median consumer has had access to a Shariah compliant alternative for their financial services needs for their entire working lives.

The Islamic finance industry has had time to adapt its practices to orient around the priorities of these younger consumers who will drive the growth of the industry for the next 20-30 years.

These consumers don't just want to have a Shariah compliant alternative, they expect to have it and many have had access their whole lives. Their expectations are driven by concerns about the environment and social considerations including financial inclusion, high levels of indebtedness and inequality.

On the environmental side, the median consumer for Islamic financial institutions today expects to be economically active until at least 2050, a point in time when the future effects of climate change will largely be set in stone. By this point, the world may have achieved a shift to net zero emissions, giving a chance for the most severe climate impacts of climate change to be avoided, with greatest benefit accruing to those in emerging markets, especially the most economically vulnerable today.

Or, we will be seeing radical impacts of a world transformed by rising sea levels and the mass migration of the 250 million people who live today at 1 meter or less above high tide. These may be joined by the migration of those at an increased vulnerability to additional sea level rises, such as the 1 billion people who live today within 10 meters above high tide.

Some environmental outcomes we face are driven by factors outside of our control, such as climatic developments caused by unforeseen tipping points which are inherently uncertain (though made more likely the higher the level of greenhouse gas concentration we emit into the atmosphere).

Although developed countries are largely responsible for past emissions, the whole world has responsibility for future emissions. It also has a responsibility to manage the way in which society adapts to address the social issues we face today, including poverty, inequality and other issues targeted through the Sustainable Development Goals.

This is the future that the median consumer faces when considering whether to choose an Islamic financial institution versus an impact, responsible, ethical or conventional alternative. The millennials, Generation Z and children of millennials will bring a similar, if not more frank perspective on the successes and failures of the orientation of the Islamic finance industry that we are creating today.

The questions we must face include "Are we prepared to transform Islamic finance, bringing in best-in-class approaches to financial services that are compatible with consumer expectations and Shariah?" and "Are we listening to the needs of our future customers?"

Our answer today to these questions will determine whether we sit on the precipice of market disruption by alternative platforms that are better suited to delivering their desired outcome.
Changing scope of risk management from 1995 to 2020

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Risk is defined as a ‘possibility of failure’. In the initial stages of corporate life during the 20th century, risk management was seen as a separate process; however, at the organizational level risk management was considered as a reactive approach and part of the internal audit exercise. But with several issues being faced over the last decade in terms of several corporate failures such as Enron and WorldCom, the risk management process has now become proactive and holistic in nature.

Risk management was often positioned largely as a compliance prerequisite and regarded as a cost of doing business. With the change in phases of global business operations, it is now seen as a higher priority mainly underpinned by marketplace volatility and organizational complexity.

The changing phase of risk management

Today’s business world is facing major challenges like terrorism, climate change, cyber security, supply chain dependability and political unrest that have been posing ongoing threats to corporate entities.

During the 1990s, the discussion regarding risk management was mainly within the banking circle where several regulatory initiatives took place especially due to the Basel requirement that requires banking institutions to have capital adequacy in terms of mitigating risks, namely credit, market and operational risks.

Although this has been seen as a push from the regulators, all the banks have considered the same as input to refine their goals and objectives.

According to the 2011 research by Accenture Global Risk Management, 98% of the respondents stated that risk management is a higher priority.

Risk management is also undergoing a significant shift as entities in all industries look to outclass their peers with change that has been taking place in the technology scene. Hence, the way forward is about encompassing risk management capabilities to work as an enabler to achieve an organization’s mission.

There are several aspects that need to be taken into consideration when moving into the next decade from 2020 onwards as explained in the following paragraphs.

Risk management is everyone’s role

During the period of 2000–10, there was often a conflict between the role of CFOs and chief risk officers (CROs) that hindered the overall decision-making process of companies. However, this situation is now being cleared out since risk management is viewed as an area that has to be covered at all levels of an organization.

According to the 2016 survey conducted by the Poole College of Management, 88% of boards are asking for increased senior executive involvement in risk oversight.

Change in global landscape of risk management

The early studies and context development in the risk management process were initially regional-centric. However, with the increase in the rate of globalization, it can be seen that several initiatives have already been started by countries from the east to the west.

According to the same 2011 research by Accenture, 90% of Latin American firms have existing enterprise risk management programs.

Risk culture-driven organizations

In the early stages, zero tolerance to risk non-compliance was only the responsibility of the risk department alone. However, in recent years, it can be seen that organizations are now transforming themselves to embed risk into their organizational culture. CROs and chief human resource officers in today’s context are aware of the need to put processes in place to have the right risk appetite among all individuals. Periodic training and awareness sessions have played a critical role in driving organizations toward a risk culture.

According to the Risk Management Association, risk culture is the “set of encouraged and acceptable behaviors, discussions, decisions and attitudes toward taking and managing risk within an institution.”

Technology a crucial player in managing risk

The technology scene has dramatically changed during the last 10 years. This has mainly supported several companies as well as led to the downfall of companies that ignored the changes taking place in the technological arena. For instance, the rise of digital currencies such as bitcoin has now challenged the role of financial institutions whereby several banks are now paving the way to move forward to a digital platform. As a result, there are new and emerging risks being faced and one of the major challenges is cybersecurity.

In conclusion, every organization, regardless of the size and scope of its business, has now taken action to ensure risk management plays a critical role. However, a mere risk management process will not be sufficient to move forward; the entity must ensure that corrective action plans are in place.
Global Sukuk demand remains materially ahead of supply

On the 3rd December 2019, the Islamic Republic of Pakistan repaid a US$1 billion Sukuk facility that had been issued five years earlier. This was one of five hard currency sovereign Sukuk to have matured in 2019 and left US$62 billion in outstanding sovereign Sukuk across 50 securities. This analysis looks at securities with at least US$200 million outstanding, or equivalent, in hard currencies.

While sovereign bonds have a very long history, the first hard currency sovereign Sukuk facility was issued in October 2003 by the State of Qatar. This seven-year, US$700 million Sukuk Ijarah issuance was far from standard: a floating profit rate, 20% amortization per annum starting in 2006 and an option to be called in 2008 — an unlikely way to launch a new sub-asset class. This issue was followed in January 2005 by Pakistan’s plain vanilla US$600 million, five-year Sukuk Ijarah.

As Chart 1 shows, after a cautious beginning, issuance began to pick up from 2011, which saw US$2 billion from Malaysia and approximately US$1 billion each from Indonesia, the UAE (Dubai) and the Kingdom of Bahrain. The US$9 billion dual tranche, five- and 10-year 144A issues from the Kingdom of Saudi Arabia (KSA) in 2017 did a great service in developing the asset class among large investors, particularly those in the US. The headlines the issues garnered, and their significant oversubscription, attracted dozens of first-time Sukuk investors globally. Nearly all sovereign Sukuk have been based on an Ijarah structure, but these KSA issuances were the first sovereign issuances structured as a Mudarabah.

Indonesia and Turkey have been the most prolific issuers, with both sovereigns raising Islamic debt very regularly since 2011.

Following the maturity of the Pakistan 2019 Sukuk, US$20 billion of sovereign Sukuk have successfully matured to date. Chart 2 shows outstanding sovereign Sukuk by country, where Indonesia (US$15...
SOVEREIGN SUKUK

Global Sukuk demand remains materially ahead of supply, presenting a significant long-term opportunity, regardless of an investor’s Shariah sensitivity

In a world where more than 15% of all outstanding bonds offer negative yields, Sukuk investors are spoilt for choice. No sovereign Sukuk have negative yields and the average yield to maturity (YTM) of all outstanding sovereign Sukuk is 2.98%. With an average credit rating of ‘BBB-’, an average coupon of 4.08% and a weighted average duration of 4.67 years, the appeal to European and Japanese investors, in particular, is extreme.

With the inclusion of all Gulf countries in the JPMorgan EMBI Index completed in September 2019, nearly all sovereigns with outstanding Sukuk are now within one or more global benchmarks. Greater scrutiny by international investors is likely to correct some of the numerous arbitrage opportunities: as an illustration, the 3% YTM of the Emirate of Sharjah 2026 (‘A+’) Sukuk offers investors a 0.5% pickup on the Malaysia 2026 (‘A-’) Sukuk despite the latter rated two notches lower.

Global balance sheets of Islamic banks and Takaful companies have been growing at 3–4% per annum; these are natural fixed income investors and can only turn to Sukuk. Yet the value of outstanding Sukuk has shown little growth over the years. To access the enormous Islamic liquidity pool, non-traditional issuers such as the governments of Hong Kong, South Africa and the UK have issued Sukuk. Global Sukuk demand remains materially ahead of supply, presenting a significant long-term opportunity, regardless of an investor’s Shariah sensitivity. It would not be surprising for other countries to enter the fray over time and the larger and more diverse the sovereign Sukuk universe, the more rapid the global acceptance.
Impact finance: The real success is when you successfully serve non-religious customers

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The latest figures of Islamic finance’s asset growth are striking. According to the 2019 State of the Global Islamic Economy Report, Islamic finance asset growth is currently around 3%. This figure contrasts with the 15% growth rate at the beginning of the current decade. The declining growth rate may seem odd because the US$2.19 trillion-worth of Islamic finance assets globally are a drop in the ocean compared to conventional finance. Moreover, there are only 12 countries with a systemically important Islamic banking sector (more than 15% market share). In my opinion, the declining growth trend shows that Islamic finance’s current value proposition and business model have reached maturity and saturation whereas it is supposed to be in a high growth trend.

Understanding client segments and Islamic financial institutions’ positioning strategy is an important element in assessing the current business model and proposing growth avenues. Many studies have been conducted to segment Islamic financial institutions’ customers based on their behavior. Although there are various approaches to segmentation, three frequent profiles emerged in these studies:

- **Conservative (religious) customers** who seriously care about Shariah compliance and, as such, do not use conventional finance instruments unless under strong constraints
- **Technical customers** who do not value the Shariah compliance attribute and view Islamic finance products as mere financial instruments. Hence, they may become clients of Islamic financial institutions if their products offer a comparative advantage in terms of pricing, customer service, distribution or product innovation, and
- **Hybrid customers** who care about Shariah compliance to some extent but will choose Islamic financial instruments only if the gap with conventional financial instruments is not very important. In that sense, those customers can end up choosing conventional products provided they are more competitive. Hybrid customers are naturally less sensitive to the Shariah compliance attribute/value proposition compared to conservative customers.

If Islamic financial institutions are to choose between the three customer segments, they will naturally favor conservative customers, followed by hybrid customers and lastly technical customers. It is clear that attracting technical customers supposes winning a stiff competition against experienced conventional institutions, which usually enjoy economies of scale and scope.

The preference for religion-sensitive customers is understandable, yet it poses a trap to Islamic financial institutions as it creates an elusive comfort zone. Indeed, as conservative clients do not deal with conventional financial companies, they can only change to other Islamic financial providers if they are not satisfied with the service quality for instance. This situation puts less competition pressure on Islamic financial institutions and hence reduces the incentive to innovate by these institutions.

Actually, as far as innovation is concerned, it is fair to say that Islamic financial institutions are lagging behind compared to their conventional counterparts. In most cases, Islamic institutions are just adapting conventional innovations and ideas to the Shariah requirements as in the case of sustainability (green Sukuk, social Sukuk, blended finance, etc) and fintech (crowdfunding, crypto currencies, chatbots, etc), to name a few examples.

Some experts argue that Islamic finance is faith-based and hence should focus only on its niche market. I believe that this is very dangerous for the survival of Islamic financial institutions in the long run, as they will always lack a strong value proposition. Furthermore, this choice is unethical toward loyal customers who will end up using expensive, inefficient or low-quality offers.

Here comes the central question: what avenues can Islamic financial institutions leverage to bring more value proposition to non-religious customers? I think the main comparative advantage of Islamic finance is to innovate in the ethical dimension (which is clearly not the case today) for two reasons. On one hand, conventional finance is progressively gearing toward impact finance.

On the other hand, ethics is in the DNA of Islamic finance, so Islamic financial institutions have the legitimacy to position themselves as leaders in this field. Blending sustainability into the business model of Islamic financial institutions requires a change in paradigm that cascades throughout the entire organization (governance, products and services, human resources, customer relationship management, information technology, finance, etc) and the first milestone is to be at par with international impact finance best practices.

Islamic finance also has to go quickly beyond this milestone by innovating and showing the way forward. Innovation can come, for instance, from internal operational excellence, from customer intimacy or from product and service superiority. This is the only way Islamic finance can move from being perceived as a niche market catering to religious customers to offering a universal value proposition for everyone, Muslims and non-Muslims alike. ☞
The commercial insurance contract operating under the fixed premium method is corrupted with excessive risk, which renders it unlawful in Islamic law. The solution lies in mutual insurance based on the principles of mutual aid and solidarity. The same is true regarding reinsurance. Raised in the wake of Islamic finance, Takaful has experienced phenomenal growth since its inception.

After the unanimous judgment delivered by the Ulama in the First International Conference for the Islamic Economy held in Mecca in February 1976 in favor of insurance under the Islamic model, the first Takaful company was founded in Sudan in 1979.

In Malaysia, a pioneer country in this field, Article 2 of the 1984 law defines Takaful as “a system based on brotherhood, solidarity and mutual assistance”. As in mutual insurance companies, although it is sought after, profit is not the primary objective.

In 2006, AAOIFI defined Takaful in Standard No 26 as an agreement between persons with specific risks and whose purpose is the compensation of damages through the payment of contributions based on donations. The mutual insurance fund thus formed may be managed according to the model chosen by a committee chosen among the participants, or by a management company.

“Whatever the model, the Takaful operator must ensure that operations are Shariah compliant.”

There are five key elements:
1. Claims are covered by a fund created by participants’ contributions. As in the mutual system, members are both insurers and the insured.
2. Insured persons are entitled to the surpluses realized by the fund.
3. The contribution takes the form of a donation (Tabarru’) or a contribution (Musahamah).
4. The Takaful fund is managed by a committee chosen by the insured or a management company.
5. All investments must comply with Shariah.

Whatever the model, the Takaful operator must ensure that operations are Shariah compliant. If there is a deficit in the subscription fund, the Takaful operator must grant an interest-free loan to settle the claims or make a recovery of contributions over the participants. To exercise the Takaful, it is necessary to be able to transpose the Shariah in respect of the legal provisions of the country in which the operator wants to exercise it if the latter does not have specific regulations.
The reinsurance of Takaful operators according to Islamic law is recognized as re-Takaful and its purpose is to enhance the performance of Takaful funds by mitigating risks. The re-Takaful fulfills two functions.

First, it serves to secure significant risks of high financial value, as well as unexpected or exceptional losses that operators are unable to cover. Second, it allows Takaful operators to expand their hedging capacities, and consequently boost their incomes.

Hence, sharing in investment returns is an essential feature of re-Takaful. This led Hannover Re and Swiss Re to integrate the Takaful reinsurance industry in 2006 and Munich Re in 2007.

In 2050, forecasts predict that Muslims will number 2.6 billion or nearly 30% of the world’s population. The prospects for the Takaful and re-Takaful industry, therefore, seem optimistic, given the low penetration of insurance in Muslim-majority countries. Persistent population growth in these countries and good prospects for economic growth offer immense opportunities.

As a sector to support the rise of Islamic finance, Takaful has experienced remarkable growth. Gross contributions increased at a compound annual growth rate of 33% between 2005 and 2010, then by 18% between 2008 and 2013 and finally by 6% between 2012 and 2017. Despite a slowdown in global growth compared to many local markets, Takaful continues to grow faster than conventional insurance.

To date, the industry has not yet reached its full potential: it represents less than 5% of the share of the insurance market in most Muslim-majority countries, and even in the most developed Takaful market like Malaysia, it represents less than 20%.

The global assets of Takaful operators reached US$46 billion in 2018 and are expected to reach US$65 billion by 2024. Globally, there are an estimated 335 operators (Takaful, re-Takaful and windows) with 115 mixed operators, 120 general operators, 78 family operators and 22 re-Takaful operators.

Nowadays, 45 countries have developed specific regulations on Islamic finance to promote its development even though the main markets are focused in Saudi Arabia, Iran, Malaysia, Indonesia and the UAE.

Improving the regulatory framework in the Takaful industry is necessary to build trust by increasing the information available to all stakeholders like investors, potential customers and brokers. Strengthening the regulatory framework is not only the responsibility of regulators; industry players must take all measures and initiatives to improve practices.
15 years of tax law changes around the world

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Fifteen years is a relatively short amount of time. However, it exceeds my entire Islamic finance career which, as a result of some UK tax law changes, began in 2005.

Tax issues Islamic finance gives rise to

Taxation, particularly when international, is often very complex. The following table illustrates how even relatively simple Islamic finance transactions give rise to complex tax questions.

Why does Islamic finance cause taxation problems?

The fundamental difficulty is that tax laws were developed in an environment when all finance was conventional. That applies not only in European and North American countries, but also for Muslim-majority countries in the Middle East and North Africa, South and Southeast Asia.

Accordingly, when Islamic financial institutions carry out transactions which are structurally quite different from those of conventional finance, albeit with virtually identical economic consequences, the tax system often gives rise to additional tax costs that do not arise with conventional finance transactions.

Do all countries face similar taxation challenges?

After carrying out my first international survey on Islamic finance in 2007, I concluded that countries fall into two broad categories. For many countries, profits and the deduction of costs from profits are

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**Transaction** | **Some illustrative tax issues**
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A man’s private residence is purchased from a third party using a diminishing Musharakah transaction. | • Is real estate transfer tax charged on both the sale from the third party to the bank, and the later sale by the bank to the customer who has been financed?  
• If the customer rents part of the house, is part of the rent he pays to the bank deductible from the rent he receives for sub-letting?
A bank provides finance to an overseas customer using a commodity Murabahah (Tawarruq) transaction. | • Is the bank’s mark-up taxable in the period when its sale takes place, or is it spread over the life of the Murabahah agreement?  
• Are the successive sales of the commodity subject to any sales or transfer taxes?  
• Does the customer’s jurisdiction give it a tax deduction for the financing cost it suffers?  
• Does carrying out the transaction cause the bank to have a taxable presence (permanent establishment in tax jargon) in the customer’s jurisdiction?
A company raises finance by setting up a special purpose vehicle (SPV) in an offshore jurisdiction, selling real estate to the SPV and leasing it back, with the SPV paying for the real estate by issuing Sukuk to international investors. | • If the real estate is worth more than original cost, does the sale to the SPV give rise to a taxable gain?  
• Does the company receive tax relief for the rent that it pays to the SPV?  
• Is any tax withheld from the rent, since the SPV is offshore?  
• Are there any withholding taxes on income which the SPV pays to the Sukuk investors?  
• Are later sales of Sukuk certificate by investors to new holders subject to any transfer taxes?

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IFN stands tall at the forefront of media for the Islamic finance industry. By proactively engaging with stakeholders and practitioners across the industry, the IFN team have successfully created a fantastic platform which doesn’t just report the news but which also educates and raises awareness. Keep up the good work!

Paul McViety, Head of Islamic banking, DLA Piper
primarily determined by analyzing the transactions undertaken using economic principles.

When it comes to computing the taxable profits of Islamic financial institutions, and computing the tax deductions which the party being financed should receive, such countries have few or no problems coping with Islamic finance. The US and Germany are two such countries. Economic analysis of the transactions normally gives a sensible answer. (Transfer taxes on assets are a separate issue.)

However, some countries require taxable profits and allowable deductions to be computed using rules that are explicitly set out in tax law, with only limited reference to the accounting or economic analysis. What such countries regard as critical is the “legal form” of the transactions. The best example of such a country is the UK.

In such countries, unless there is specific tax law, Islamic finance can give rise to nonsensical results. For example, a party providing finance using a Murabahah transaction might be taxed instantly on the financing profit (even if the Murabahah extends over many years) while the party receiving finance might not be entitled to any tax deduction at all! (Transfer taxes on assets also remain an issue.)

The UK as a global pioneer

No country has done more to address the tax law challenges of Islamic finance than the UK. This is despite having a Muslim minority of only about 5% now, and even smaller 15 years ago.

The UK’s pioneering status was evident from the number of foreign government representatives who visited me at PricewaterhouseCoopers to learn how the UK was adapting its tax law for Islamic finance. From memory, I recall visits from representatives of Singapore, Hong Kong, France, and South Korea as well as paying a visit to the Australian government.

I still remember a comment in 2009 by a member of staff at the central bank of Indonesia when I gave a presentation there on the taxation of Islamic finance. The person pointed out that the UK, with a small Muslim minority, had done more to address the real estate transfer tax consequences of Islamic mortgages than had the world’s largest Muslim-majority country!

Why was the UK such a global pioneer?

In my view it comes from the importance of the financial services industry in the UK, the availability of highly capable civil servants, and the absence of preconceptions. The absence of any official Islamic religious authorities in the UK was probably an advantage, as it enabled the tax authorities to proceed unbound by traditional thinking.

From the very beginning, the UK has followed a fundamental principle: tax law and regulatory law should be religiously neutral. Indeed, they should not mention religion at all, so whether a transaction is, or is not, Shariah compliant should never affect its tax or regulatory status.

Other Muslim minority countries have found these principles attractive to follow.

They are less important for Muslim-majority countries, which are often happy to specify that a particular tax treatment applies to a transaction only if the transaction is ruled to be Shariah compliant by, say, a national Shariah supervisory body.

A quick tour of the world

It is not practical to do a global survey of the current status without the resources of an international consulting firm. Furthermore, the status quo keeps changing.

Paradoxically, Muslim-majority countries have often been relatively slow at accommodating Islamic finance within their tax systems. For example, I surveyed the Middle East and North Africa for a taxation report published by The Qatar Financial Centre Authority in 2013. This found some adaptation of tax law for Islamic finance in many of the responding countries but at the same time there were many tax impediments remaining.

A particular issue in some Middle Eastern countries has been political stability which often means that the refinement of tax law becomes a very low priority.

Countries where Muslims are a minority have shown a surprisingly high level of interest in Islamic finance.

Many see this as a competitiveness issue. For example, in Europe countries such as France, Luxembourg, Ireland and Malta compete as locations for financial services businesses, especially in asset management. Accordingly, all have taken a strong interest in adapting their tax systems to facilitate Islamic finance. Furthermore, some countries such as France and Germany have very significant Muslim minorities, with meaningful Muslim minorities in many other European states. They want to ensure that their Muslim citizens are not excluded from accessing financial services, which was one of the key drivers for legislative change in the UK.

Similarly, the Australian government was interested in Australia becoming an international hub for financial services and wealth management for Southeast Asia, where its long-term political stability could give it a competitive advantage.

Where next?

I expect the pace of change in Muslim minority countries to be slower, since many have dealt with the basics. However, many wrinkles still need to be addressed. For example, I have written in Islamic Finance News about the tax problems when refinancing appreciated real estate in the UK.

Tax law changes will continue to be needed in Muslim majority countries. The key issue for many of them is achieving the political and economic stability required for Islamic finance to expand. Many still have high levels of poverty, and drawing more of their Muslim citizens into a reliable, low-cost, financial system should be a key priority. Once all citizens have bank accounts, many more government policy options become possible.
Islamic trade finance: Review and prospects

Globally, the volume of the trade finance industry is estimated to be US$18 trillion annually. Despite having almost a quarter of the world population, OIC countries’ share of world trade is limited to almost 10%.

In fact, gaps in trade finance provision are widest in OIC countries where opportunities to trade are increasing as global production patterns evolve. The estimated value of unmet demand for global trade finance is US$1.5 trillion annually. About 40% of this unmet demand is in developing Asia and 10% in Africa (according to the International Finance Corporation (IFC) and World Trade Organization (WTO)), where there are several OIC countries.

Conjunctures and structural factors

Over the last 15 years, the evolution of Islamic trade finance has been influenced by conjunctural and structural factors as follows:

Conjunctural factors:
- Economic crisis: After the 2008–09 financial crisis, over a million correspondent banking relationships have disappeared. This crisis compounds the problem of gaps in trade finance in certain countries because local banks require trade finance transactions to be settled in the currency of the transaction.
- Regulation: The adoption of new anti-money laundering and anti-terrorist financing regulations has increased the perception of the risk of operating in developing countries, including Muslim countries.

Structural factors:
- Trade infrastructure: The lack of basic infrastructure in a country increases the costs and risks of trade finance and creates an unfavorable business environment.
- Financial infrastructure: OIC countries need to build and promote an enabling macroeconomic environment for Islamic trade financing by developing sound financial policies, good governance and a strong Islamic banking system.
- Standardization: Different Fatwas on various Islamic trade finance products in different jurisdictions still exist. The standardization of Islamic trade finance solutions with Shariah requirements must be accelerated to facilitate Islamic trade finance operations.

Current state of Islamic trade finance

Islamic trade finance is one of the forms of trade by the OIC, especially intra-OIC. Like conventional trade finance, Islamic trade finance deals with short-term financing of import and export transactions.

The most commonly used Islamic trade finance instruments are Murabahah, Musharakah, Wakalah and Kafalah-based contracts.

According to the OIC’s annual report, the volume of intra-OIC trade (intra-OIC exports and intra-OIC imports) in 2017 reached a value of US$644.3 billion against US$556.3 billion in 2016, ie an increase of 15.8%.

All OIC countries are entitled to benefit from the International Islamic Trade Finance Corporation (ITFC), the trade finance subsidiary of the IsDB that supports trade finance transactions. The ITFC has leverage over governments and acts as a facilitator in mobilizing private and public resources to build and develop intra-trade.

The ITFC is also able to streamline the trade financing process by issuing an irrevocable commitment to reimburse on letters of credit issued under ITFC-approved finance. Since 2008, the ITFC has provided more than US$40.2 billion for trade, with commitments to its member countries. In 2017, the ITFC initiated an Africa Arab Trade Bridges Program to develop trade between African and Arab countries through focusing on global value chains, followed in 2018 by the first Islamic finance-compatible Sovereign Energy Fund.

With regards to standardization, the Bankers Association for Trade and Finance and the International Islamic Financial Market published in January 2019 a standard document from the global industry (the Framework Agreements for Participation) for the purchase and sale of Islamic trade-related risks.

This master participation agreement includes two separate standardized framework documents to support non-Shariah funded and non-funded participation agreements for trade finance transactions.

Islamic trade finance prospects

Strengthening trade’s contribution as an engine for inclusive economic growth and poverty reduction is particularly important to Muslim and least-developed countries (LDCs).

The rise of digital technologies promises to further transform international trade. Understanding how these technologies may impact world trade is essential to help maximize the gains. A series of innovations that leverage the internet could have a major impact on trade costs and international trade.

The internet of things, artificial intelligence, 3D printing, blockchain Technology and digital trade financing platforms have the potential to profoundly transform the way we trade, who trades and what is traded. The lack of a legal framework, as well as its effective implementation, is another challenge facing Islamic trade finance in many countries.

There is a need for an effective and inclusive framework which combines accounting standards, corporate governance and bankruptcy laws in terms of trade finance, in addition to legal standardization. New trade financing instruments should also be developed in line with the current needs of OIC countries, particularly the LDCs.

Conclusion

Islamic trade financing could serve as one of the key drivers to underpin further growth in the Islamic finance industry, which is expected to reach a volume of a whopping US$3.8 trillion by 2022. In this respect, Islamic trade finance needs to be developed with instruments that allow better control of risks related to trade partners or countries. International trade finance organizations and multilateral development banks such as the ITFC and the WTO need to work together to fill the gaps in trade finance and create an appropriate trade finance environment.
Transformation in Islamic treasury products in the last two decades

Islamic treasury management includes activities related to liquidity and foreign exchange management and hedging. Islamic financial institutions mainly finance long-term investments, whereas their primary source for funding is customer deposits which are short-term by nature. This maturity mismatch has always been a major concern for Islamic financial institutions, as the scarcity of Shariah compliant treasury products has compounded the limited liquidity that is available to allow banks to organize a market among them.

The most commonly used Islamic liquidity instrument by Islamic financial institutions has been the Tawarruq, an interbank placement of funds under various profit-sharing arrangements as a short-term investment mechanism, which is seen to be questionable in terms of Shariah compliance. However, the structure of the majority of available liquidity instruments is based on commodity Murabahah. Other commonly used instruments have been short-term Sukuk Ijarah which are utilized more in Bahrain, Malaysia and Pakistan.

Through the development process of the Islamic finance industry, many issues needed to be dealt with in the Islamic treasury sector, such as limited number of market participants, limited development in the Islamic secondary market, different Shariah interpretations among jurisdictions and lack of an Islamic interbank market. Trading in the secondary market of the instruments involves high transaction costs and even standard instruments based on commodity Murabahah are considered illiquid given the difficulty of converting the underlying commodity trade into cash before the maturity of the instruments.

Another problem was the lack of short-term or highly tradable, investment instruments with limited capital risk and predictable returns. These issues constrained Islamic financial institutions to hold large amounts of cash to meet short-term liquidity needs and obliged them to create bilateral commodity Murabahah deals, which dominated the development of liquidity management for Islamic financial institutions.

The first Islamic interbank market was established in Malaysia in 1994 followed by other countries such as Sudan in 1998, Indonesia in 2000, Bahrain in 2001 and Pakistan in 2008. At a glance, Islamic treasury instruments before 2010 were mostly issued in local currencies and they were mostly short-term papers. Central banks facilitated the liquidity management of Islamic banks in the UAE and Bahrain by issuing commodity Murabahah (Tawarruq) Islamic certificates of deposit with maturities of less than one year and debt-based short-term Salam Sukuk which were later replaced by asset-based tradable Sukuk Ijarah.

Given the relatively small size of the Islamic financial industry in the financial sector, it is difficult to create a local Islamic liquidity market of worthwhile size. Looking for international solutions, several organizations were also established to foster liquidity management of Islamic banks such as the International Islamic Financial Market, Liquidity Management Centre, International Islamic Liquidity Management Corporation (IILM) and Bursa Suq Al-Sila’ (BSAS).

The IILM, established in 2010, is a joint effort by several central banks and receives favorable regulatory treatment from its members of central banks. The IILM issues sovereign asset-backed type of Sukuk that are traded globally and have an active secondary market through the primary dealer networks that it formed. The IFSB Guidance Notes on the Basel liquidity requirements should provide central banks with the flexibility to accept the IILM Sukuk as high-quality liquid assets (HQLA) on the grounds of liquidity.

A wholly-owned subsidiary of Bursa Malaysia, the BSAS was established in Kuala Lumpur in 2009 as a regulated, transparent and fully Shariah compliant commodity Murabahah trading platform that strengthens the Islamic liquidity management infrastructure. On this platform, industry players undertake multi-commodity and multi-currency trades from all around the world. The IFSB’s adoption of the Basel Committee on Banking Supervision’s principles for liquidity risk management for Islamic financial institutions introduced new quantitative measures for measuring liquidity risk management for Islamic financial institutions. Taking this into account, a wider but unsatisfying range of Islamic treasury products is available for liquidity management purposes.

In Indonesia, the central bank serves the market with Islamic liquid instruments including Bank Indonesia Indonesia certificates (SBIS) and Bank Indonesia Islamic funding facilities and the repurchase (repo) of SBIS to Bank Indonesia. Islamic banks mainly use interbank Mudarabah investment certificates (SIMA) in the Islamic money market; their transactions are small as most of the Islamic banks’ liquidity extends to finance the real sector. The Islamic money market instruments include SIMA (Bank Indonesia, 2007) and interbank Islamic commodity trading certificates.

In Nigeria, the Central Bank of Nigeria (CBN) launched non-interest instruments such as the CBN Safe-Custody Account based on Wadiah, the CBN Non-Interest Asset which is a financial paper and the CBN Non-Interest Asset-Backed Securities which involve the securitization of CBN holdings in IILM Sukuk.

In Sudan, the central bank and the government provide liquidity management instruments such as Ijarah certificates (Shihab), government Musharakah certificates (Shahama), Khartoum Oil Refinery Ijarah certificates (Shama) and other government institution Sukuk. In addition, the Liquidity Management Fund was established in 2014 to be involved in the daily liquidity requirements of the banks as an SPV jointly owned by Sudanese lenders and managed by Financial Investment Bank. An Islamic liquidity infrastructure does not exist in Turkey; however, the IILM was established in 2010 to respond to this problem by a number of countries including Turkey as a stakeholder. To facilitate the liquidity management of Islamic banks, the Turkish Treasury had issued revenue indexed bonds between 2009 and 2012. These instruments were then replaced with Sukuk Ijarah, as they were criticized for not being Shariah compliant.

In Malaysia, various instruments are traded in the Islamic Interbank Money Market, including Mudarabah interbank investment, Wadiah acceptance, government investment issue, Bank Negara Monetary Notes-I, sell and buyback agreements, Cagamag Mudarabah bonds, When Issue, Islamic accepted bills, Islamic negotiable instruments, Islamic private debt securities, Ar-Rahnu Agreement-I and Sukuk Bank Negara Malaysia Ijarah.

After 20 years of development, some problems are still persistent for the Islamic treasury sector. Islamic financial institutions need new Shariah compliant liquidity instruments, markets and the facilities to satisfy conditions of HQLA of the new Basel III liquidity requirements. New models of Islamic money markets need to be developed to meet short-term liquidity. Innovation is a never-ending process for Islamic treasury instruments.
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