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IFN WORLD LEADERS SUMMIT REPORT

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DISCUSSION INTRODUCTION

BRAVE NEW WORLD: THE OPPORTUNITIES FOR A BACK-TO-BASICS APPROACH AND HOW ISLAMIC FINANCE CAN AND WILL FLOURISH

The world has changed. How our industry - global Islamic banking, finance and investment - chooses to respond to these changes may be a generation defining moment. How can Islamic finance mobilize to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the vital SME and corporate sector? Can Islamic finance use this opportunity to become truly responsible, inclusive and ethical? How can we as an industry ensure this is substance over form on a permanent basis? What opportunities do the UN Principles for Responsible Banking offer Islamic financial institutions, and what obligations and responsibilities to their stakeholders are placed on those institutions? How can the core values of Islamic finance be further applied to sustainable and socially responsible finance and investment strategies? We ask a respected panel for a new roadmap to success for Islamic banking, finance and capital markets.

YOUR PANEL

**SOHAIB UMAR**

*Advisor – Islamic Financial Services
Development, Central Bank of Bahrain*

**HAJARA ADEOLA**

*Managing Director and Chief Executive,
Lotus Capital*

**MOHAMAD EL KHALIL**

*Director, Head of Prudential Supervision,
Dubai Financial Services Authority*

**TAYYABA RASHEED**

*Head of Investment Banking Group,
Faysal Bank*

**YASSER GADO**

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IFN WORLD LEADERS SUMMIT: DIGNITY IN ACTION

One of REDmoney's seminal events, the annual IFN World Leaders Summit provides a unique opportunity for the industry's most influential figures to openly debate the most pressing issues facing Islamic finance in the GCC region. Although sadly this year we could not all congregate in Dubai in person as on previous occasions, the online event lost none of its power and potency, with dynamic discussions cutting right to the heart of some of the most crucial and cutting-edge developments in the industry — and of course, its position and path forwards in the wake of 2020's global coronavirus pandemic. LAUREN MCAUGHTRY writes.

Brave new world

The GCC is expected to be one of the key drivers in the expansion of Islamic finance, with both the governments of the coalition and the region's corporates already instrumental in driving forward the growth of Islamic bonds. Despite the headwinds, Sukuk issuance is still expected to top US\$100 billion this year — but what more can players do to ensure the industry stays healthy? In the first session of this exclusive three-day event, Sohaib Umar, the advisor for Islamic financial services development at the Central Bank of

Bahrain, hosted an in-depth debate looking at the opportunities for a back-to-basics approach, discussing how Islamic finance can flourish in today's extraordinary environment.

With the world changing so rapidly, how should our industry — global Islamic banking, finance and investment — respond to these changes, and how can Islamic finance mobilize to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the vital SME and corporate sectors?

The panel welcomed distinguished guests including Hajara Adeola, the managing director and chief executive of Nigeria's Lotus Capital; Mohamad El Khalil, the director and head of prudential supervision at the Dubai Financial Services Authority (DFSA); Tayyaba Rasheed, the head of the Investment Banking Group at Pakistan's Faysal Bank; and Yasser Gado, the treasurer of the IsDB. The detailed discussion ranged across a wide variety of issues, focusing on how Islamic finance can leverage the COVID-19 crisis to become truly responsible, inclusive and ethical, and how we as an industry



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All sectors of the economy are facing a difficult time, and the financial services industry — including the Islamic finance industry — has been impacted"

— Mohamad El Khalil



can ensure this is substance over form on a permanent basis.

"We need to begin to look at how we can codify ethics into our operations and make it a focus of what we do," explained Hajara, in a debate that drilled deep into the complexities of

product development. "If we create the right products, the liabilities will come. An example is Tabung Haji in Malaysia — they were able to create a long-term liability product, because the right proposition was there, and they were able to deliver it very efficiently."

Tayyaba gave the panel valuable insight into the current conversion process that Faysal Bank is undertaking to change from conventional to exclusively Shariah compliant — possibly one of the largest conversions in the world, and a unique experiment in Pakistan; while Yasser revealed new details around the funding process for the IsDB, and how this venerable institution is and will continue to support the industry as it grapples with the new challenges thrown up by the global pandemic.

Finally, the DFSA's Mohamad El Khalil explored the outlook for Dubai and the wider Islamic economy — a prospect that while challenging, is also exciting. "All sectors of the economy are facing a difficult time, and the financial services

"If we create the right products, the liabilities will come"

— Hajara Adeola



industry — including the Islamic finance industry — has been impacted," he emphasized. "But Dubai has always believed that out of challenges, opportunities emerge — and that is certainly true for Islamic finance. Today, despite the challenging conditions, we see promising potential for this industry, with opportunities to move ahead and flourish."

To hear more about any of the three sessions, and to hear these conversations in full, listen to the event for free at www.redmoneyevents.com. 🎧



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KEY TAKEAWAYS

What should the Islamic finance industry do in the next five to seven years to remain relevant and to continue to prosper? The following are some suggestions:

Differentiate itself from its conventional counterpart by offering real solutions to real problems (and not simply mimic conventional products)

- Make good use of technology
- Focus on the customer
- Think out of the box
- Be the leader, not just a follower, and
- Improve the positioning of the industry, emphasizing on its global appeal (ethical, responsible, value-oriented).

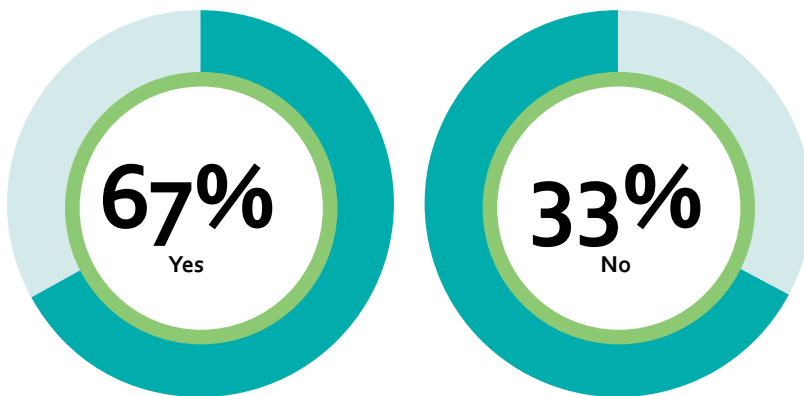
Sohaib Umaris the advisor for Islamic financial services development at the Central Bank of Bahrain.



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Speakers

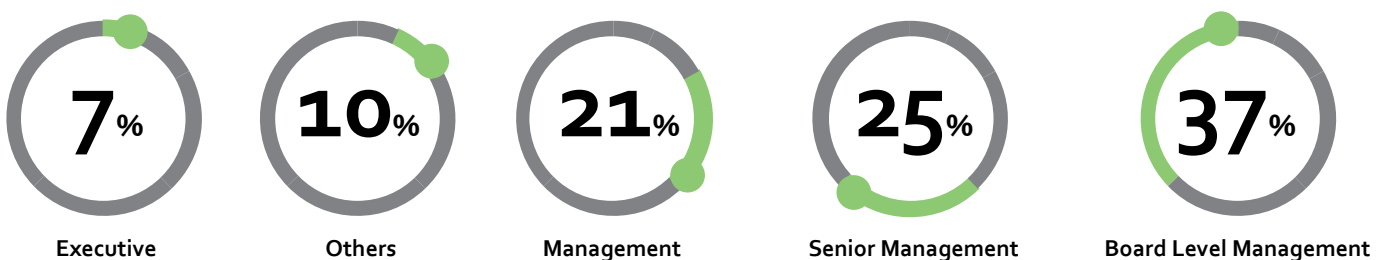


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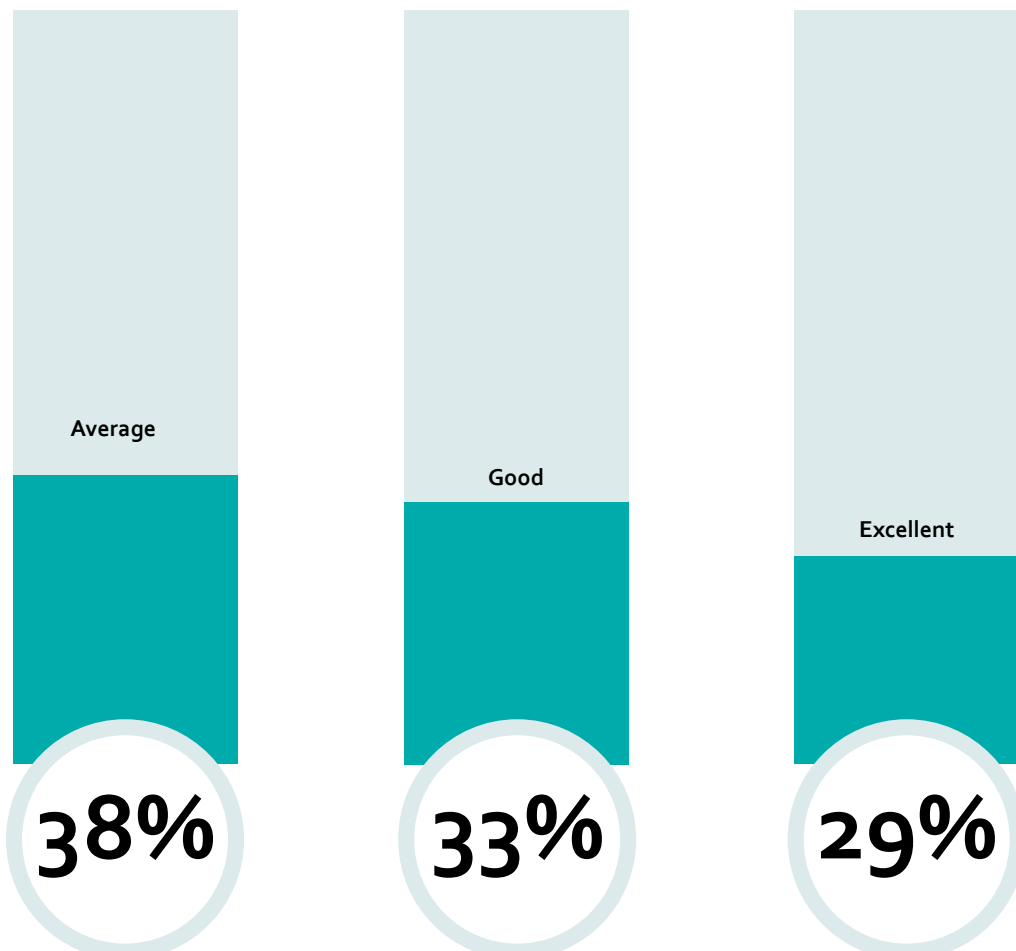


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SESSION EVALUATION

BRAVE NEW WORLD: THE OPPORTUNITIES FOR A BACK-TO-BASICS APPROACH AND HOW ISLAMIC FINANCE CAN AND WILL FLOURISH





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THE NEW NORMAL: HOW DO ISLAMIC CAPITAL MARKETS, INVESTMENT BANKING AND RESPONSIBLE FINANCE INITIATIVES IN THE GULF LOOK TODAY?

What has changed for potential issuers since March and what new challenges do they now face? What specific factors will directly affect fixed income spreads in the coming 12 months and will we see restructurings, workouts and re-financings in the region? What do new Sovereign Sukuk issuers bring to the Gulf region; what structures, opportunities and risk tolerance will satisfy investors in the coming year, and how will issuers meet these requirements? What will we see with regional project and infrastructure finance and what liquidity is now available for large scale projects? What role do new technologies play in driving growth and innovation in capital markets? What role can pandemic and disaster recovery bonds play and how can Islamic finance solutions feature? How can Sustainable Development Goal 3 – promoting health and wellbeing – be made an achievable priority and what do SDG bonds, and potentially SDG Sukuk, offer?

YOUR PANEL



ANITA YADAV
CEO, Global Credit Advisory



DR AISHATH MUNEEZA
Chairman, Ayady Takaful Shariah Board
and Chairman, Shariah Board of Allied
Investment



CHEONG SAY LIM
CEO, Lootah Global Capital



DR MOHAMED DAMAK
Senior Director, Global Head of Islamic
Finance, S&P Global Ratings



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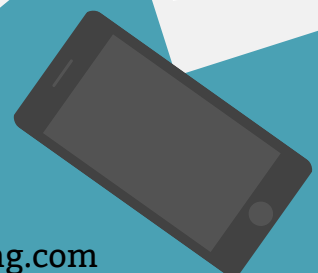
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THE NEW NORMAL

In the second session of the event, we explored what the Islamic capital markets, investment banking and responsible finance initiatives look like in the Gulf today, as the coronavirus changes the way that institutions go about their day-to day business.

The panel, ably hosted by Global Credit Advisory CEO Anita Yadav, zeroed in on the capital markets to look at what has changed for potential issuers since March, what new challenges they now face, and what factors might affect their position and their capital-raising opportunities over the coming 12 months. The discussion dived into a sophisticated debate around the role played by sovereigns compared to corporate issuers, and what liquidity is now available for large-scale projects and investments.

To kick things off, Dr Mohamed Damak, the senior director and global head of Islamic finance at S&P Global Ratings, gave a detailed summary and forecast of the Sukuk space — and it was surprisingly optimistic. “When we started the year, we were expecting a slightly better economic performance from core Islamic finance countries in 2020, versus 2019,” he admitted. “We were also in the middle of very

supportive market conditions, and we were expecting a very stable volume of Sukuk issuance. Then the pandemic and the drop in oil price decided otherwise: the macroeconomic picture shifted completely, with the economies going into deep negative territories. What we have observed since then is that central banks asked financial institutions to support their corporates, and opened the liquidity taps, not only in the region but globally — and that has changed the picture overall for the industry. For the banks in the region, we think that mid-single digit growth is a fair assumption, given that the current recession is likely to be followed by a mild recovery. For the Sukuk market, we revised our expectation earlier in the year to drop to around US\$100 billion of issuance this year, from US\$162 billion in 2019.

“But more recently, because of better than expected market conditions, a window of opportunity has opened for issuers. For example, if you look at

“Overall, in 2020 the Sukuk market will be down compared to 2019, but interestingly the volume of issuance in foreign currency will be up for the year — explained by banks, multilateral agencies and sovereigns”
– Dr Mohamed Damak



the Dubai Sukuk that was issued a few weeks ago, it was oversubscribed more than 6.5 times. Overall, in 2020 the

Sukuk market will be down compared to 2019, but interestingly the volume of issuance in foreign currency will be up for the year — explained by banks, multilateral agencies and sovereigns. The corporates aren't issuing as much, they are holding onto cash to try and reduced their capex. But we have seen some innovation in the midst of all this negativity. We have seen ESG [environmental, social and governance] alignment, social Sukuk being issued, we have seen some advancing of the standardization agenda. We have also seen some challenges, but innovation is still happening."

Anita noted that in terms of Islamic banking, one of the key things we are seeing is Islamic banks becoming bigger and bigger by way of merging with each other. Both in Saudi, in the UAE, there are positive developments happening, and consolidation is changing the face not only of the banking industry, but of the capital markets, as larger players are able to take on larger and more influential roles.

Cheong Say Lim, CEO of Lootah Global Capital, was positive on previous growth, but cautious about future prospects. "In the last 10 years, the Sukuk market has grown faster than the bond market. For 2009–19, the compound annual growth rate for Sukuk was about 5.2% compared to 2.3%. But in terms of total volume, the size of the Sukuk market today is about US\$490 billion of outstanding Sukuk, compared with US\$170 trillion in the bond market. So the bond market is 345 times larger than the Sukuk market," he revealed. "We have to be very careful — the comparison is not equal, but it throws into perspective how difficult it is for the

"There is greater attention to ESG, but where does Islamic finance sit in the greater scheme of things? ESG is growing very fast, but will Islamic finance lose out in relation?"

– Cheong Say Lim



Sukuk market to reach even 1% of the wider market. Sukuk is about 20% of the total Islamic finance industry's assets, while Islamic banking assets count for 70–75%. So the Sukuk market has not yet grown to its full potential. By comparison, in the conventional market, the global bond market is actually about 1.4 times bigger than banking assets — about US\$124 trillion. So there is a lot more room for Sukuk to grow.

"We need some stringent measures to be taken immediately so that there is no market panic created by opaqueness"
– Dr Aishath Muneeza



Cheong highlighted green Sukuk and digital finance as two key trends for 2010, driven by COVID-19, which has pushed the agenda of sustainability and social impact to the forefront. But he warned that Islamic finance was lagging behind when it comes to digitization, calling it a field that has yet to be truly tapped.

"Going forward though, I am not very optimistic yet," Cheong warned. "I feel that in terms of Sukuk issuance, there will be a decline — the core Islamic finance countries have slowed down in doing global Sukuk. Malaysia, Turkey, Indonesia. Even in the GCC, Dubai and Bahrain did bonds and Sukuk, not just Sukuk. Abu Dhabi and Qatar just issued bonds. We are seeing bonds issued at the expense of Sukuk. There is greater attention to ESG, but where does Islamic finance sit in the greater scheme of things? ESG is growing very fast, but will Islamic finance lose out in relation?"

Dr Aishath Muneeza, the chairman of the Ayady Takaful Shariah board and the chairman of the Shariah board of Allied Investment, called attention to the vital role of regulators in supporting progress. "If you look at the conduct of the regulatory authorities, their role has grown significantly during the pandemic," she told the panel. "The

pandemic started as a health crisis, but has led to a financial and a human crisis. We have a lot of instruments already issued in the market, but in terms of disclosure requirements for these instruments, nobody expected pandemic conditions like this, so all the regulations that were set before the crisis hit did not cater for a post-pandemic situation. As a result, the regulatory authorities need to play a vital role to ensure that the appropriate disclosure requirements are being met by public listed companies, even those which have privately placed their securities in the market, so that investors understand the implications. We need some stringent measures to be taken immediately so that there is no market panic created by opaqueness."

"It will be a law, not a standard, and should be launched by the second half of 2021, through an international treaty"
– Sohail Zubairi



Finally, Sohail Zubairi, the senior advisor to the Dubai Islamic Economy Development Centre (DIEDC) gave the panel and audience an exciting update on the progress of the new global Islamic finance law currently being worked on by the DIEDC in partnership with the IsDB using AAOFI standards to create a global benchmark law. The request for proposal was launched in 2019 and work started in earnest in May 2020. "We are now in Phase 2, which is writing the code and the law itself," he revealed. "This law will apply to all products across Islamic finance, and we are trying to coordinate with all Islamic finance countries. It will be a law, not a standard, and should be launched by the second half of 2021, through an international treaty."

To hear more about any of the three sessions, and to hear these conversations in full, listen to the event for free at www.redmoneyevents.com. 📻

KEY TAKEAWAYS

The panel was very diversified with representation from rating agencies, regulators, asset managers, banks and intermediaries. Key points raised were:

- There was renewed push by the regulators to standardize the Islamic finance contracts as evidenced by the Dubai government's extensive work in rolling out the Islamic Finance Law — scheduled for launch by mid-2021.
- Though the COVID-19 pandemic has slowed the issuance of Sukuk, innovation in the form of rolling out green Sukuk, recovery bonds, environmental, social and governance compliant Sukuk and such has gained momentum.
- The growth in Sukuk issuance over the last five years has been at a compound annual growth rate of 5.3% compared with 2.3% for conventional bonds, though this is against the backdrop of a very small size of the Sukuk universe at roughly US\$490 billion compared with the conventional bond universe of over US\$170 trillion.
- Credit quality of corporates and banks has suffered due to COVID-19 and more than 40 rating actions have been taken over the last six months in the GCC. Islamic banks generally suffer more than their conventional counterparts during economic downturns since Shariah principles prohibit the imposition of a penalty interest on defaulted loans by companies.
- Secondary market trading in Sukuk is far lower than in conventional bonds mainly due to the scarcity of Sukuk securities and investors' tendency to hold to maturity. Therefore, price action on Sukuk during the pandemic has not been as severe as on conventional bonds.



Anita Yadav is CEO of Global Credit Advisory.

More efforts are required from the governments of GCC countries to drive the Sukuk market in the region as how we see it happening in Southeast Asia. The financial position of private companies is not favorable today due to the coronavirus pandemic and as such, whether it is a sustainable and responsible investment or sustainable development goal Sukuk, sovereigns will have to lead the industry.

Emphasis was also put on the code for the global legislative framework for Islamic finance which the Dubai Islamic Economy Development Centre is preparing to issue next year. This framework will ensure that there is uniformity in Islamic finance laws adopted in different jurisdictions, and when it comes to the dispute resolution stage, it will also provide assurance of the application of Islamic law to resolve the dispute whether it is in litigation or arbitration.



Dr Aishath Muneeza is the chairman of the Ayady Takaful Shariah Board and the chairman of the Shariah Board of Allied Investment.

It was an interesting panel session and one of the major takeaways was the initiative by the UAE to develop a unified global legislative framework (global law) in Islamic finance.

This highly strategic and important project would go a long way toward the standardization of legal principles for Islamic finance, including for the Islamic capital market.

Other useful takeaways include the fact that the growth of the global Sukuk market in the last 10 years, from 2009 to 2019, has outpaced that of the global bond market but in terms of total outstanding volume, the global bond market dwarfed the global Sukuk market by about 345 times.

Yet another takeaway was the pertinent point that just because a transaction is Shariah compliant does not mean it has environmental, social and governance compliance as well.

Future innovations to watch out for include sustainable Sukuk and the digitalization of Sukuk.



Cheong Say Lim is CEO of Lootah Global Capital.

S&P Global Ratings believes that the global Islamic finance industry growth will slow down in 2020–21, due to the significant slowdown in core Islamic finance economies in 2020 and the expected mild recovery in 2021. However, we are of the view that the drop in oil prices and the coronavirus pandemic have created an opportunity to transform the industry in a significant and positive way. We see three areas for that:

- Islamic finance social instruments can help core countries, corporations and individuals navigate the current conditions, with market participants eyeing Qard Hasan, Zakat, Waqf and social Sukuk. The IsDB and Malaysia were the first movers. We expect similar issuances in core Islamic finance countries and believe they could help put the Islamic finance industry back on environmental, social and governance investors' radar.
- Streamlining Sukuk issuance will restore its attractiveness to issuers, by reducing complexity and time to market, putting it on par with conventional bonds. Stakeholders are realizing the importance of inclusive standardization.
- Higher digitalization and fintech collaboration could create a nimbler operating environment, and promote financial inclusion in core Islamic countries.



Dr Mohamed Damak is the senior director and global head of Islamic finance at S&P Global Ratings.

KEY TAKEAWAYS

I spoke at yet another high-substance event at the IFN World Leaders Summit brought by REDmoney Group, with the difference this time that it was a virtual event. It is always a pleasure to benefit from Dr Mohamed Damak's thoughts — he has made such a difference at S&P — but hearing Cheong speaking with clarity was a new experience for me.

The discussion by the panelists on the new normal for the Islamic capital market, investment banking and responsible finance initiatives was fairly absorbing and must have benefited the participants. Dr Aishath's thoughts were highly relevant to the new normal and in my opinion she has the distinction of being the first female Shariah scholar in the industry.

Overall, the session was masterly conducted by a veteran of Dubai's banking industry, Anita Yadav, who gave all panelists an equal opportunity to have their say and kept them fully focused on the topic by asking good questions.

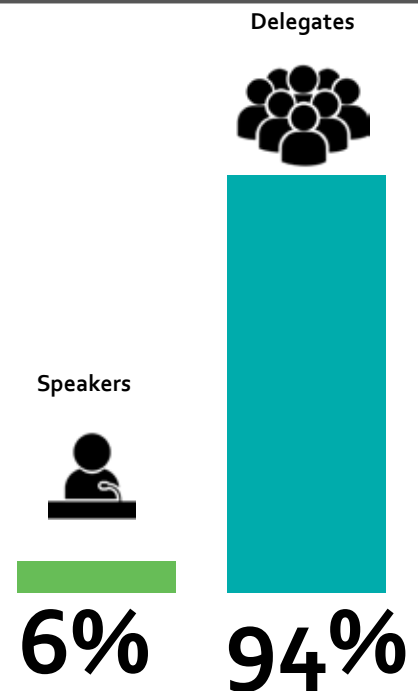
Sohail Zubairi is the senior advisor at the Dubai Islamic Economy Development Centre



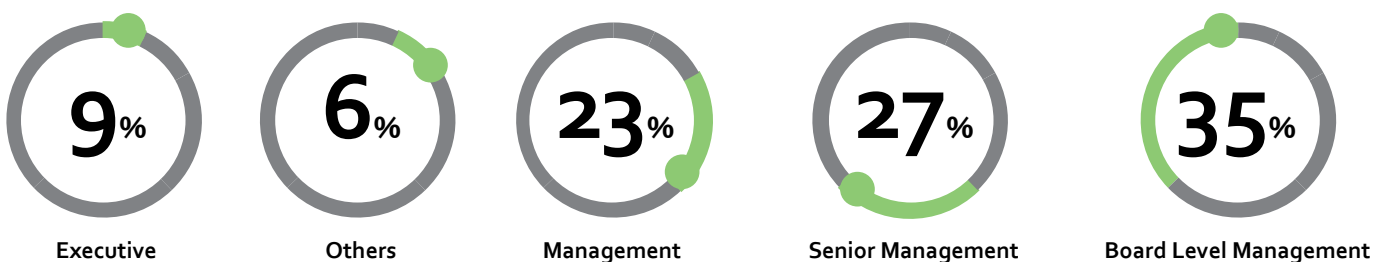
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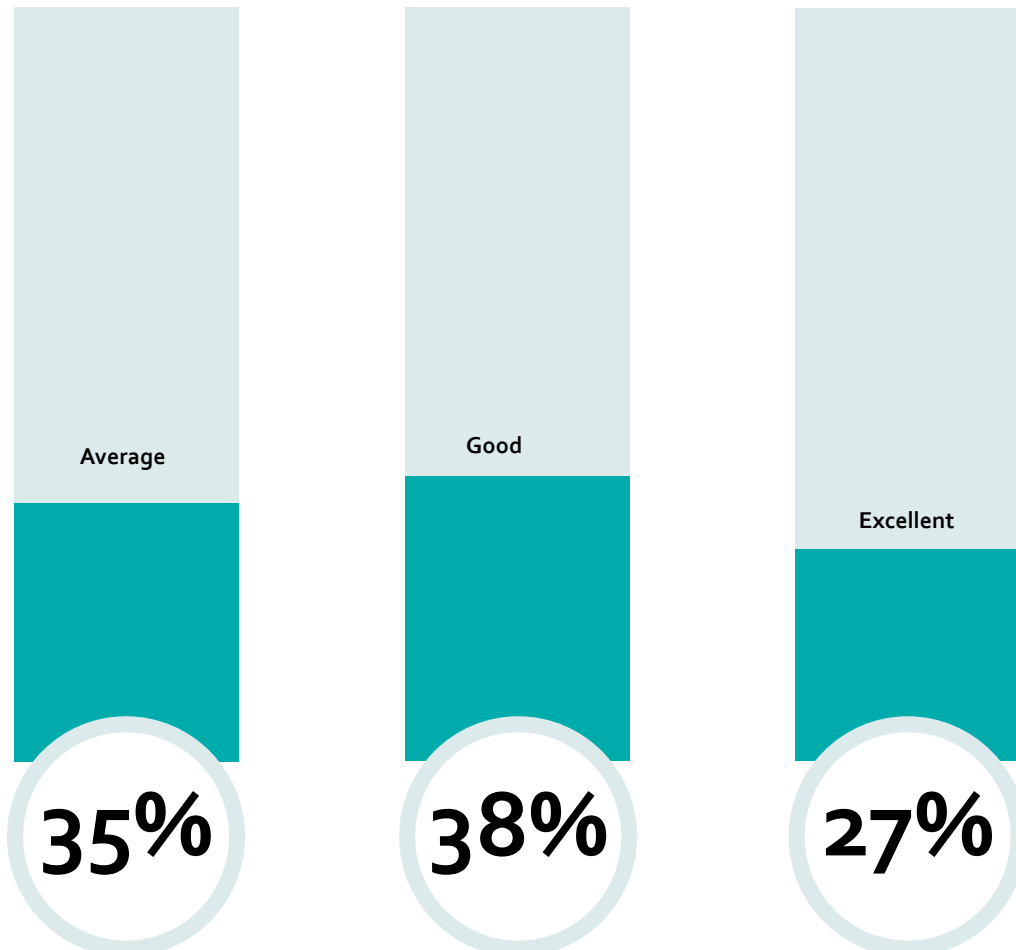
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SESSION EVALUATION

THE NEW NORMAL: HOW DO ISLAMIC CAPITAL MARKETS,
INVESTMENT BANKING AND RESPONSIBLE FINANCE
INITIATIVES IN THE GULF LOOK TODAY?



DEEP DIVE INTO DEEP TECH: DRIVING FINANCIAL TECHNOLOGY AND DIGITIZATION IN THE REGION

How is Shariah compliant Fintech contributing to financial inclusion domestically and globally? What is currently the most exciting Shariah compliant FinTech vertical? What are the major challenges and opportunities facing regional banks in their digitization programs and strategies for the adoption of financial technology? How is digitization within regional banks driving effective segmentation and the development of ever more efficient product delivery channels? What does deep-tech such as artificial intelligence and machine learning offer, who are the major players and how are they changing financial services in the region? Where and how can FinTech play a meaningful role in key Islamic social financial activities such as Takaful, Zakat and Waqf?

Moderator:

YOUR PANEL



VINEETA TAN

Managing Editor, Islamic Finance news



HASAM KHAN

CEO, Rabt



JORGE CAMARATE

Partner, Strategy&, part of the PwC network



MOHAMMED KATEEB

Group Chairman and CEO, Path Solutions



RAHEEL IQBAL

Managing Partner, Codebase Technologies



YAKUP SEZER

CEO, Insha Digital Bank and Insha Ventures



DEEP DIVE INTO DEEP TECH

The last session of the event focused on financial technology and digitization in the region, with a spotlight on how Islamic institutions are handling the process of digital transformation, and how Shariah compliant fintech is contributing to progress. Moderated by IFN's very own Vineeta Tan, the panel included Hasam Khan, CEO of Shariah travel fintech Rabt; Jorge Camarate, a partner at Strategy&, part of the PwC network; Mohammed Kateeb, the group chairman and CEO at Path Solutions; and Raheel Iqbal, the managing partner at Codebase Technologies.

"We are seeing people offering services in a far more cost-effective manner, enabled by new technology," noted Camarate. "Regulators have been far more supportive, and that has really contributed to the take-off in fintechs, but customers have also changed, as have attitudes towards financial services. Have we seen this in the Islamic financial sector? Yes. I have worked with several large Islamic financial institutions in the region who

"We are seeing a lot of innovation in the Islamic fintech space, especially around peer-to-peer financing and financial inclusion"

- Jorge Camarate



have very ambitious plans when it comes to digital transformation. We are seeing a lot of innovation in the Islamic fintech space, especially around peer-to-peer financing and financial inclusion."

Reassuringly, it also looks as if Islamic institutions are keeping their end up when it comes to the digital race, without losing too much ground to their conventional peers.

"In the near future, you'll be hearing some really interesting new developments that Islamic financial institutions in the region are doing right now," said Camarate. "It's fair to say that some Islamic institutions are lagging quite far behind, but that's no different to what we see in the conventional finance space. It's a really mixed picture, but my view is that those leading Islamic financial institutions are investing and are certainly ahead or at least on par with their conventional peers. It's a level playing field when it comes to the digital space right now."

"But the biggest challenge is the readiness of the banks for this huge digital transformation. Some banks have an appreciation of the size of the challenge, but others do not really grasp the depth of the problem"
 – Mohammed
 Kateeb



Mohammed highlighted the changing circumstances that have forced these institutions to evolve. "COVID-19 has been a huge thrust in terms of digital transformation, and I think the world will change forever as a result," he stressed. "But the biggest challenge is the readiness of the banks for this huge digital transformation. Some banks have an appreciation of the size of the challenge, but others do not really grasp the depth of the problem."

One of the most important issues is cultural change. The panelists urged that companies must be able to change culturally before they can get ready for this huge shift in how they do business? "Digital transformation

is not only about technology — you have to change the mindset of the company," urged Mohammed. "You need to move to distributed decision-making, agile organization and break the barriers between the different units. You have to evaluate the organization's competencies and identify the gap between where you need to be and where you are today. The problem is that we are seeing a lot of banks miscalculate that gap."

"It is about processes," added Raheel. "We can often rely on complex and arcane processes in the Islamic banking industry, and right now we are trying to rely on those same processes, but on a mobile phone. If you have a 30-page process that you are trying to digitize, that just won't work. You have to be willing to change the overall experience for the customer. Processes have to be adapted — we need a huge amount of process reengineering within the sector. Islamic finance has a lot more documentation as part of its processes — how can technology help Islamic banks cut down those processes from a physical to a much more palatable digital experience?"

While the discussion was optimistic, the panelists agreed that there are a lot of things that need to be done — and stakeholders need to work in tandem to achieve them. "It needs to be a combined force — regulatory pressure, a cultural change and so on. Technology is just an enabler," noted Raheel. "It will help you get to where you want to be, but you have to decide where that is. That's about vision. We have seen Islamic banks who have been very progressive, even more than their conventional counterparts — and we have seen Islamic banks who have not even started on their digital agenda. There is a huge lag, but COVID-19 has put a lot of pressure on these institutions to start making these decisions. There is no longer any choice."

The panel also discussed some of the more innovative concepts and ideas emerging in the market, how new innovations in technology can support them and how the Islamic finance

industry can leverage these to achieve its own unique goals. Finally, the speakers reviewed the knotty problem of regulatory support — and the delicate balance that needs to be achieved between risk and reward.

"There are so many new product ideas and concepts. But we need to solve the compliance issues first so that our customers can receive these new and innovative products," pointed out Raheel.

Among these, the security of the data is becoming ever more important, with Mohammed urging an imminent move to the cloud, supported by the regulators, in order to achieve this. But it is not always that easy.

"There are so many new product ideas and concepts. But we need to solve the compliance issues first so that our customers can receive these new and innovative products"
 – Raheel Iqbal



"Part of the challenge is that regulators need to understand and be comfortable with technology," warned Camarate. "Regulators in the financial space are known to be risk-averse, and they should be."

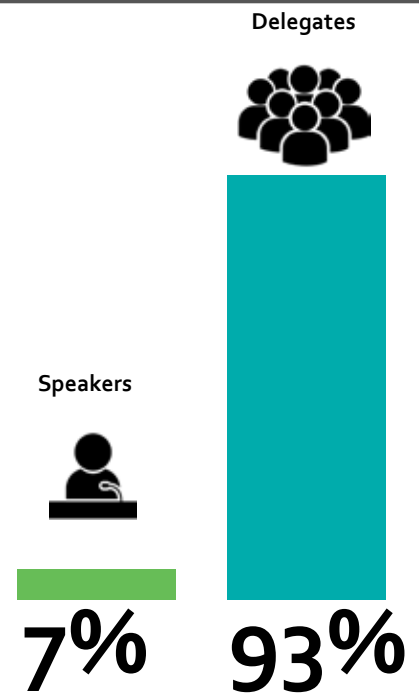
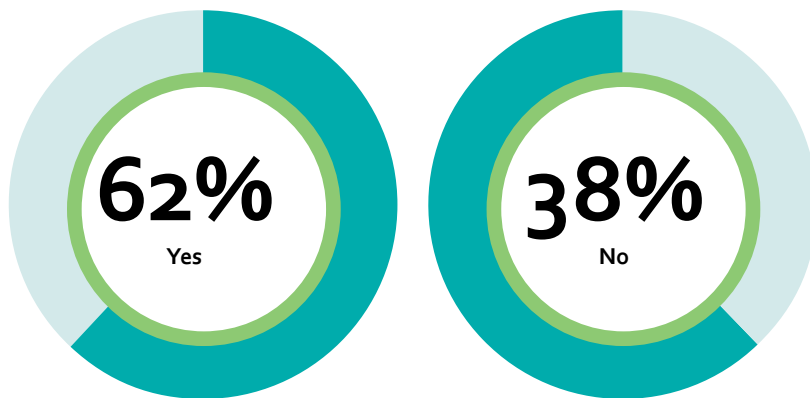
But when you get to discussions about emerging technology and new ideas that have enormous potential, they can be quite reticent. We need to find more solutions that they can experiment with and get comfortable with before they are deployed. It's a fine balancing act."

To hear more about any of the three sessions, and to hear these conversations in full, listen to the event for free at www.redmoneyevents.com. 🎧

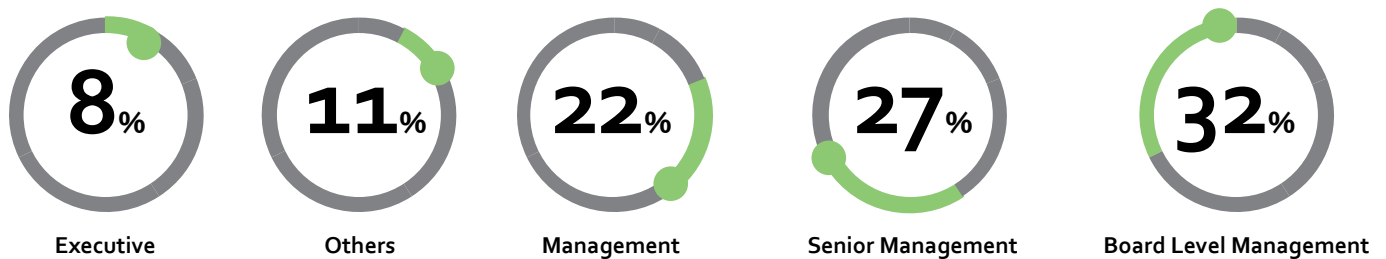


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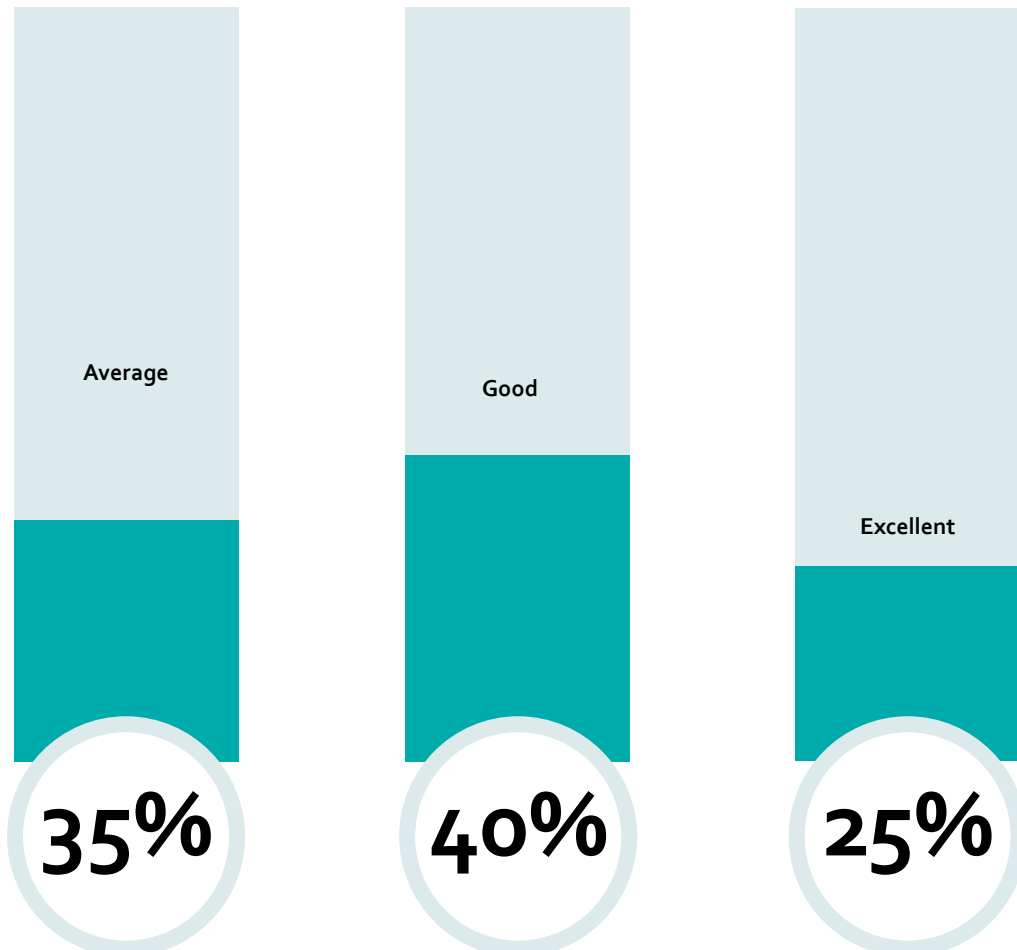
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