

Islamic finance evolving

Islamic finance has significantly evolved over the past decade, as this is also apparent by the number of Islamic financial institutions and the number of people preferring this way of banking, AKASH ANAND writes.



TECHNOLOGY

By Akash Anand

A key element of this trend is the notion of justice apparent in the Shariah law. Although the financial institutions in both the conventional and Islamic finance domains perform more or less the same activities, ie attract new clients, develop new products that comply with regulatory requirements, etc, there are the elements of investments made by the banks, the active participation in businesses and the sharing of profit and risk that lead more people to preferring a more 'socially responsible banking alternative'.

In the recent Deloitte 2014 report on Islamic finance, it was presented that Islamic finance institutions have a set of specific requirements that will be best met with the utilization of modern Islamic finance technology designed for their needs that will provide "flexibility, scalability and more customer-centric features".

An EY report also identified 25 "rapid growth market" countries for Islamic finance which they predict will account for half of the global GDP by 2020. Of these, 10 have a high percentage of Muslims in the population. In addition, Iran accounts for nearly half of the banking assets in Islamic banks worldwide. Three-quarters of the rest is in the QISMUT nations (Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey) where growth has averaged 6.5% per year for the last five years.

Other research material also indicates the expansion of Islamic banking and finance as an alternative finance approach. The developments that are taking place in the marketplace also emphasize the importance of easy to use and maintain computerized systems that offer a reduced total cost of ownership and enhanced features tailored to the industry. Modern platforms can incorporate the desired functionality to allow institutions in the sector to achieve the agility when dealing with conventional banks and when designing new products for their clients

to help them establish long-standing relationships.

Technologies have evolved to allow faster and more efficient collaboration and although there is no 'right or wrong', the systems that can accommodate effectively the needs of Islamic and conventional banks can include the preferred technology for easier collaboration.

According to the Malaysia International Islamic Financial Centre (MIIFC) Community, banks worldwide are moving toward a digital marketplace. In order to meet changing customer behaviors and the emergence of new entrants, more challenges are appearing for the established institutions. These challenges also affect the business and operational models of the banks. Reducing costs requires banks to automate work, or adapt to ongoing digitization by improving their web and mobile capabilities and refining physical networks. New capabilities are also required to capture growth and manage risks more effectively.

“ Reducing costs requires banks to automate work, or adapt to ongoing digitization by improving their web and mobile capabilities and refining physical networks ”

This trend is spreading not only across the Middle East and Asia but also in the US and Europe as the new alternative way of banking. Globally, Islamic banking has been growing in



double digits, ie the assets of Islamic banks grew at an average rate of 17% per year between 2008 and 2012. This is almost two to three times the growth of conventional banking during a similar period.

Client-centric solutions enable Islamic banking and finance institutions to achieve their full potential with Islamic centric systems. The systems are incorporating the Shariah compliant functionality to allow banks and financial institutions not only to comply but most importantly to create new products, offer flexibility to their clients and accommodate possible changes in the contract with the client. The Islamic banking and finance solution allows for the complete management of banking operations, wealth management, insurance and financing tailored to Islamic banking practices accommodating the following:

- Full Islamic product support based on the principles of Murabahah, Mudarabah, Musharakah, Ijarah, Istisnah and Salam. The bank may come up with variations of these products using simple parameters.
- Complete product lifecycle management, from quotations management to facilities write-off. Different workflows may be dynamically defined for different products at any stage of their lifecycle to ensure compliance with the bank's policy.
- Multiple pricing policies can be created including fixed profit percentage, benchmark interest rates, units purchase, profit distribution and loss-sharing.
- Effective risk management allowing for rapid on-the-spot risk assessment.
- Advanced deposit management, covering restricted and unrestricted investment, Wadiah deposits, time deposits, current accounts and more.
- Sophisticated profit distribution

Continued

capabilities, supporting a virtually unlimited number of pools dynamically set up by the bank, resulting in accurate and transparent distribution procedures.

- An integrated teller platform, covering all branch operations through a complete and modern environment.
- Complete support of the Arabic language including concurrent user support for 'right-to-left' systems.
- Islamic financing for corporate and retail customers.

These allow the institutions to achieve:

- Compliance to regional regulatory requirements
- A single point of reference to accommodate future requirements when the bank expands
- Improved communication with customers due to powerful KYC and CRM tools
- Operational efficiency due to its easy-to-use environment, and
- Value for money when integrating to other systems.

As the sector is evolving, the institutions would need to select solutions that meet current and future development requirements, allow the institution to be compliant with the Shariah law, cover all lines of business, have a workflow and product factory engine to help them grow with a low total cost of ownership and allow them to offer a unique selling point. The use of modern technology tools such as mobile and cloud technologies can also benefit and support the sector requirements with the aim of delivering a unique customer experience.

For Islamic banking institutions, technology can be pivotal by deploying innovative solutions that not only cover the current business dynamics of Islamic banking but also anticipate how the future shall evolve by offering flexibility to meet future needs, in order to progress and advance the business. Therefore, having a solution that can offer this flexibility in the interpretation of Shariah compliance within the application seamlessly is extremely critical. ☺

Akash Anand is the head of Middle East, Africa & Asia Pacific Regions and the managing director of regional affairs at Profile Software. He can be contacted at aanand@profiles.com.



IFN FORUM
KUWAIT
 2015



Kuwait Forum
 19th October 2015
 JW Marriott Hotel, Kuwait City

Maximizing Islamic banking and finance opportunities in Kuwait's robust economic landscape

Kuwaiti investors have long been recognized as highly active investors not only in the GCC but also in the US and Europe. As Kuwaitis continue to look for innovative Shariah compliant investment options the country's regulators have begun the process of revising laws to allow for more domestic activity in the Shariah compliant space.

With new regulations in place to develop the Islamic capital markets in Kuwait and more in the pipeline the IFN Kuwait Forum 2015 will once again focus on both inward as well as outward investment, opportunities for Sukuk and outlook for real estate investment globally.

REGISTER FREE NOW at
www.REDmoneyevents.com

LEAD LAW PARTNER		MULTILATERAL STRATEGIC PARTNER		ASSOCIATE PARTNER	
KING & SPALDING		ICD		ASAR	
EXECUTIVE PARTNERS					
AL MARKAZ	AL TAMMI & CO.	DDCAP	EIGER	GATEHOUSE	baton global
EXCLUSIVE KNOWLEDGE PARTNER		HUMAN CAPITAL PARTNER		LEAD MEDIA PARTNER	
THOMSON REUTERS		JARDINE		IFN Islamic Finance NEWS	
STRATEGIC MEDIA PARTNERS		LANYARDS SPONSOR		RESEARCH PARTNER	
BUSINESS		GLOBAL WYZZ		INVESTMENT BUSINESS GROUP	
MEDIA PARTNERS					
ASIA FIRST		LENSA NEWS		thebusinessyear	
Capital Business		FLAME NEWS		Oath	