SUSTAINABLE APPROACH TO INTERMEDIATION: CAN THIS BE A REDEMPTION FOR ISLAMIC BANKS?

AN ISLAMIC PERSPECTIVE OF CRYPTOCURRENCIES

AN EXCLUSIVE INTERVIEW WITH
MASUMI HAMAHIRA
EXECUTIVE ADVISOR
ISLAMIC BANKING WINDOW
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NOTE FROM THE EDITOR-IN-CHIEF

What a contrast this Note from the Editor-in-Chief presents to the start of the Editorial Note included in the February issue of ISFIRE! Like everyone else, we were buoyant about Islamic finance in 2020. In a course of only two months, however, the world has seen one of the worst, if not the worst, pandemic in the known history of mankind. The ongoing COVID-19 pandemic has literally shut the world economy and all the countries. The whole world seems like a scene carved out of a Hollywood horror movie.

In the midst of the ongoing crisis, it is quite natural for us to include an article by Dr Jamshaid Anwar Chattha on the effect of COVID-19 on Islamic finance. It is perhaps the first serious attempt by anyone to write on the topic and arguably the most comprehensive analysis of what should Islamic finance do to cope with the current pandemic.

My own Pause for Thought is written around the same theme. I suggest that a global stress test should be developed for Islamic banks and applied to the top 20 to gauge the possible impact of COVID-19 on IsBF.

Apart from the COVID-19 that is rewriting the world story as of now, the April issue of ISFIRE is business as usual. We are pleased to present our cover story on Charles Hareshnape, CEO of Gatehouse Bank, who shares with us his experience of successfully running one of the most iconic Islamic banks in the Western hemisphere.

Our other interesting interviews of the issue are of: Masumi Hamahira, Executive Advisor on Islamic Finance at MUFG Bank (Malaysia); and Kuralay Yeldersbay, Founding Member of the Association of Development of Islamic Finance (in Kazakhstan), who has been chosen to feature as the ISFIRE Personality of the Issue.

China isn’t referred here only for COVID-19, as Wafee Yeung explores the prospects of developing a Sukuk market in China. This is in continuation to our focus on China in the previous issue of ISFIRE wherein I focused on One Belt One Road (OBOR) initiative in my Pause for Thought. Dr Mughees Shaukat’s article had a more detailed look into the topic.

FinTech continues to feature significantly in ISFIRE. Wajeelah Awadh explores the potential of FinTech in further spurring growth of IsBF. According to her, FinTech...
can close the gap between demand and supply of Islamic financial services, thus contributing to further growth of Islamic finance through financial inclusion. Abdessamad Raghibi offers an Islamic perspective on cryptocurrencies, a topic that ISFIRE has focused on since the start of interest in the Blockchain technology in developing digital currencies and similar products and structures. Dr Musaad Al-Razouki investigates the role of Islamic finance and the Blockchain in healthcare.

Dr Abdullah Ludeen, on the other hand, investigates the role of Islamic finance in combating financial exclusion in a country like Afghanistan.

There is a lot more included in this issue. As always, we hope that our efforts to disseminate authentic knowledge and insights into Islamic finance satisfy your curiosity. As the only print magazine in Islamic banking and finance, published from the financial capital of the world - London, we await your feedback to improve it further to maintain it as the best publication in the field.

At the end, I would like to share with our readers that Cambridge Institute of Islamic Finance continues to make progress, albeit slow but steady. We are creating a global alliance of institutions and stakeholders in Islamic banking and finance, which should have a focal point for global research in the financial sectors of the countries where Islamic banking and finance is a significant activity, i.e., the countries wherein share of Islamic banking and finance is 15% or more in the respective national financial sectors.

Happy Reading!
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ABOUT CAMBRIDGE ISLAMIC FINANCE LEADERSHIP PROGRAMME

The Cambridge Islamic Finance Leadership Programme (Cambridge-IFLP) is the first and only global leadership programme for mid to senior-level managers who are working in Islamic financial institutions or simply preparing for a leadership role in Islamic finance.

Designed and structured by Cambridge IFA, the programme is delivered by some of the most influential leaders in Islamic banking and finance.

This 5-day residential programme offers new perspectives, new thinking and new ideas in Islamic finance. Designed to challenge the current perceptions and understanding of Islamic finance, Cambridge-IFLP encourages participants to think and lead differently.

Five most outstanding attendees are chosen to receive the Cambridge Islamic Finance Leadership Awards.
HIGHLIGHTS OF CAMBRIDGE-IFLP

Cambridge-IFLP focuses on empowering participants with competence to lead in the Fourth Industrial Revolution era, and transforming them into effective and influential leaders in their respective organisations and in the global Islamic financial services industry.

With practical guidance from seasoned corporate leaders within the Islamic finance industry, participants will expand their understandings of leadership to take on the challenges that every senior leader must face.

The programme attracts a number of Islamic banking and finance professionals, Shari'a scholars, standard setters, and business leaders who participate in and deliver:

Leadership Interviews and Leadership Talks

Designed to be interactive, these sessions provide great first-hand insights into leadership values, philosophies and qualities. This allows to learn from renowned industry leaders as they reveal how they have harnessed their leadership skills and strengths to gain success.

Leadership Workshops & Leadership Activities

These sessions explore ways we look at the world as leaders, and how to leverage our best selves to lead more effectively in today’s world.

Cambridge Cases

Leadership lessons from case studies written specifically for the programme where delegates can apply theoretical knowledge and develop solution-oriented decision making.

Networking Sessions

Interactive sessions with prominent personalities and notable figures to develop new leadership perspectives and expand your network.

“Cambridge-IFLP demands nothing less than exceptional performance in leadership activities, active participation in leadership interviews and outstanding contributions to leadership talks. The breadth and content of the programme are top of the class, as the diversity of delegates as well as the speakers present an all-round approach to management and exposure to different leadership styles.”

Professor Humayon Dar, PhD (Cantab)

Founder of Cambridge-IFLP
Charles Haresnape is an exceptionally talented leader in the global Islamic financial services industry. He has brought significant changes to Gatehouse Bank since he took over as its CEO. The bank has successfully launched a new strategy to become a preferred choice by those who are influenced by ethical considerations when choosing a financial partner. Gatehouse Bank is an evolving story of mainstreaming Islamic finance in a market dominated by conventional finance. Charles Haresnape is central to this story. In this exclusive interview, he shares his insights with the stakeholders in Islamic banking and finance.

The UK is recognised as a leading Western centre for Islamic finance and a growing number of providers are now offering Shari’a-compliant products and services to individuals and businesses. In such a competitive market, how does Gatehouse Bank remain ahead of the competition?

In any competitive market, it is important to focus on the customer. We work hard to make our products as accessible to customers as possible, offering individuals straightforward and attractive home finance and savings products. We are also working hard to demystify Shari’a-compliant finance for potential customers, as there are a number of misconceptions about how Islamic finance works.

We believe that it is important to take a human approach to finance and this differentiates us from other providers. We use human underwriting supported by a computer-based approach, so customers never feel they’ve been put in a position where they’ve not been listened to when the computer says ‘no’. We take all the customers’ circumstances into account and come to a reasonable decision. That’s particularly attractive to customers with more complicated income and assets, such as international residents and expats, and I would say that the way we carefully cater to those markets is another strategy that puts us ahead of our competition.

Gatehouse has also agreed on a referral process for at least two Kuwait-based banks for accommodating clients who are looking to finance properties in the UK.

Last year, Gatehouse Bank commissioned the Islamic Finance Consumer Report. Can you share some of the main findings of this report and key lessons for the industry moving forward?

We commissioned the Islamic Finance Consumer Report in response to the lack of insight available in the UK market. The report clearly showed that Islamic finance providers need to do more work to ensure people understand how Shari’a-compliant finance works. The other main takeaway from the report was that more than half of the Muslims in the UK do not currently use Shari’a-compliant finance. This figure is both a challenge and an opportunity — a challenge in that the industry needs to do more to highlight the positive attributes of our services and an opportunity because so many potential Muslim customers are still out there.

Encouragingly, those who have used Shari’a finance in the past typically have positive things to say about it, with 7 in 10 Muslim consumers believing that Islamic finance is dedicated to the interests of the community, and a staggering 85% of existing Islamic finance consumers saying that their experience exceeded their expectations.

We know raising more awareness of our services and products is critical, and the report revealed that friends, family and colleagues are the most common sources of information among those who have never used Islamic finance. We are working on how we can use those connections to get the message out about Shari’a finance products and their benefits.

Gatehouse is committed to providing easy-to-understand information about what Shari’a-compliant finance is and the benefits it can offer. In response to this insight, we produced several animations last year to explain our approach to finance.

We believe that there remains a significant opportunity to further increase both awareness and demand for Shari’a-compliant banking in the UK. We plan to refresh the report this year to track any changes in attitudes.
Islamic finance providers need to do more work to ensure people understand how Shari’a-compliant finance works.
Gatehouse Bank recently became one of the Founding Signatories of the Principles for Responsible Banking, committing to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change. What does this mean and why is this important?

Grounded in Shari’a principles, we believe the Bank has a strong ethical compass and a transparent, fair and socially responsible product offering. As a Founding Signatory of the UN Principles for Responsible Banking, we have committed to playing our part in building a sustainable future by being accountable for the social, environmental and economic impact of our activities.

Becoming a Signatory was important to us because the banking sector has such a crucial role to play in the future. The products and services we offer and the industries we provide financial services to have a big influence on the world.

Signing up to the UN Principles was the first step and we have now begun a robust assessment of the Bank’s impact on society, the environment and the wider economy. This assessment will help us set ambitious sustainability targets that will further align our business strategy with society’s goals, as expressed in the United Nation’s Sustainable Development Goals and the Paris Climate Agreement.

To date, we are the only UK Shari’a-compliant bank to be a Signatory to the UN Principles but we would encourage others to sign up. The framework they provide will encourage us to drive our sustainability further each year and take inspired action to create value for our customers, colleagues, shareholders and the wider society.

Gatehouse Bank is known for its award-winning savings products and is also involved in real estate investment. How do you assess the development of the Bank in recent years?

The Bank was established in 2007 with a focus on Commercial Real Estate Investment and has broadened its offering as new opportunities presented themselves.

In the wake of the 2008 financial crisis, the Bank was amongst the first to enter the ‘Build To Rent’ sector, creating desperately needed housing stock for the UK renters. Construction rates had collapsed but we saw beyond the economic malaise and formed a confident long-term view that continues to benefit the country and our investors in equal measure.

The ‘Build To Rent’ sector has grown immensely since then — the total number of completed build to rent homes

“7 in 10 Muslim consumers believe that Islamic finance is dedicated to the interests of the community.”
As an ethical bank, Gatehouse will look to support customers that are currently experiencing financial difficulties due to the Coronavirus.

Business and individuals, who are struggling to meet their financing commitments will be offered payment holidays, as for savers who have a fixed term or notice account, we will allow early withdrawals, when they need funds to meet ongoing commitments.

Any customer that is struggling with their finances should contact our customer service teams, who will look to provide as much support as possible.

This is how, over time, we’ve developed a whole ecosystem of Shari’a-compliant products able to satisfy our customers’ needs.

Last year Gatehouse Bank won a number of notable awards including Best Islamic Savings Products at the 9th Global Islamic Finance Awards and Best Islamic Home Financing Platform 2019 at the 5th Islamic Retail Banking Awards. How important are these recognitions for the Bank?

It is always incredibly pleasing to be recognised by external organisations, as it suggests we are getting it right. I’m extremely proud of the whole team at Gatehouse Bank and the awards we have received are well-deserved recognition for all their hard work.

Much of the value in these awards comes from their ability to show customers who have not previously considered Gatehouse Bank, or perhaps even Islamic finance, before that what awaits them is a financial services sector that is as mature and professional as any they have dealt with before. Some of the languages might be a little different but, when you boil it down, there are many similarities between Islamic and other forms of banking and ethical standards that are becoming important to a growing number of people.

increased by 33% in 2019¹ and more than 150,000 of them are complete, under construction or in the planning stage. We continue to contribute to improving housing supply, managing two funds which contain over 1,600 rental properties in the North West of England and the Midlands.

The vast majority of build to rent investments in the UK focus on multi-apartment towers, which often come with desirable extras include gyms, cinema rooms, concierge and communal lounges to cater to the Millenial market.

However, Gatehouse Bank is focusing on the suburban single-family housing model. These portfolios are situated in locations that have a village feel and less density in areas where this type of family accommodation is in high demand. This has been very successful in the US and we expect it to grow quickly in the UK, too.

In 2017, we decided to significantly extend our offering to individuals. We extended the range of competitive savings products we offered and launched our Buy-to-Let proposition, which has proved to be very popular with the UK, expat and international landlords.

Then in 2018, we introduced our first Home Purchase Plan (HPP) for homebuyers and we have been delighted by the response we have received from customers.

¹British Property Federation
How has Gatehouse Bank’s business model and strategy changed to adapt to digitalisation, as well as to take advantage of its benefits?

As a bank with no branch network, we invest heavily in technology. We completely rebuilt our website in 2018 to improve customers’ experience, making it more straightforward and intuitive.

We have also invested significant amounts in the systems that underpin our operations, with the development of a Shari’a-compliant home finance platform, to launch our award-winning Home Finance proposition.

The digital investment will remain a key focus as the volume of customers we engage with increases.

What are the key factors of the Western market that affect Islamic banking and finance practice in the UK? How do you integrate these factors in making Islamic banking a universally ethical alternative to conventional banking in the country?

An increasing number of banks in the UK are now focusing on their ethical and sustainable credentials. However, they offer conventional finance, which as a Shari’a-compliant provider, we would say limits their ability to be truly fair and transparent with customers.

Islamic banking is, of course, based on the key principles that money should not, in and of itself, generate more money and risk should be shared. They are central to Gatehouse’s ethical Shari’a-compliant position.

We take our responsibility to society and the environment seriously. Our Shari’a principles ensure our business and operations are conducted in a fair manner and that our products are transparent, fair and socially responsible.

We prohibit the use of our funds to support the arms industry, alcohol, tobacco, adult entertainment and gambling. Our principles encourage trading and enterprise that generates wealth for the benefit of the whole community.

What is your outlook for the future of Islamic finance both in the UK and globally?

We believe the outlook for Islamic finance in the UK is incredibly positive. Shari’a-compliant banks can make their mark by offering specialist finance products to customers poorly served by conventional providers. We should also look to attract more Muslim customers, as many have voiced their concerns in our research over how Shari’a-compliant the industry’s products are.

“Some of the languages might be a little different but, when you boil it down, there are many similarities between Islamic and other forms of banking and ethical standards that are becoming important to a growing number of people.”
We have seen that there is a large untapped market out there and it is critical that we do more to raise awareness and understanding amongst all consumers, of any religion or none, to Islamic finance and its benefits. This work is already well underway, aided by the regular appearance of Shari’a-compliant products at the top of the best buy tables but we cannot be complacent.

Internationally, commercial Islamic finance is the area seeing the fastest growth and we would expect this to remain the case over the course of the next decade.

**What is your personal focus for the next 12-18 months? What change do you hope to implement bank-wide?**

Gatehouse will continue to focus on the customer, providing them with attractive products and high-level service, as this will ensure we continue to grow at an impressive rate.

We will also continue to play our part in raising awareness of the benefits of Islamic finance.

**Now towards some personal questions. As a CEO, how do you motivate your team? Please share with our readers some of the leadership secrets and your leadership approach.**

For me, leadership is primarily about giving direction and motivation. My key mantra is to treat people as you would like to be treated yourself. When you think of a great boss you have worked for and then a not so good one, the qualities become obvious.

**A number of personalities must have influenced you throughout your career. Whom amongst them you would consider as your greatest mentor or inspiration?**

I worked for a senior executive in RBS Group during the early 2000s. His style was straightforward, you knew what was required of you and he covered your back when necessary. I have been heavily influenced by people who have had appalling leadership qualities. I believe that it was a good way to learn what not to do! I feel that insufficient leadership development is given to potential leaders – way before they become leaders.

We take our responsibility to society and the environment seriously. Our Shari’a principles ensure our business and operations are conducted in a fair manner and that our products are transparent, fair and socially responsible.
I have an excellent relationship with our Chairman, Fahed Boodai and benefit from his commercial expertise.

**What are some of the biggest lessons you have learnt in your career?**

Learning to be resilient is a huge benefit. Things often go off track, but being able to see through the “fog” is important. A solution often comes to you, as long as panic does not set in. Not panicking, when others around you may be panicking, is a great quality of a leader.

**What excites you about your current role?**

The chance to work with great and like-minded people. It is refreshing to move out of big banks and develop a smaller bank, instilling, where sensible, an entrepreneurial spirit.

**What would be your advice to the younger generation of Islamic bankers?**

Think early about your leadership qualities and seek the support of mentors you see in action. Most leaders will offer their time to someone who shows the right spirit and application.
After the Global Financial Crisis (GFC) almost a decade ago, many extraordinary transformations have taken place in the global financial system. A novel coronavirus, referred to as COVID-19 pandemic, is the new “black swan” in town. Both the speed and magnitude of this pandemic spread engulfing the whole world has been greater than the GFC.

It is not discriminating between borders, race, ranks, and faiths. From “flattening the curve” to “herd immunity” and “social distancing” to “prudent distancing”, everyone is offering suggestions. One of the many worrying issues around COVID-19 is the spread of pseudoscience, recommending everything from giving up ice cream to drinking bleach, and being caught up in the hysteria and the continuous stream of bad news.

I have never felt more dispirited while writing than the present case. Fear of the unknown remains dominant in our mind as the menace of the unprecedented economic and human crisis of this proportion unfolds. This pandemic is not only a threat to the global financial system bringing dramatic economic effect bigger than the GFC but also underlies long-lasting psychological implications.
Who would have thought two quarters ago about this pandemic, which is slowing down everything? There are challenging times ahead for countries and financial institutions as financial conditions are tightening (see Figure below). Global financial markets are crashing, airlines are grounded due to cancellation of thousands of flights and countries imposing a ban on travel. Crude oil prices have dropped to the lowest in 18 years. Sharp increase of uncertainty in financial markets worldwide has widened the credit spreads broadly across markets. Currencies have been hit hard against the USD. Significant policy rates cut and open-ended quantitative easing have resulted in global bonds yield declining. Business confidence is falling off a cliff as cross-border trade has been disturbed that provides critical streams of foreign exchange. All of these conditions bring negative implications for businesses which will ultimately impact the financial sector as well as the fragile gig-economy.

The question is: are we headed for recession? The IMF Managing Director, Ms Kristalina Georgieva confirmed during the Opening Remarks at a Press Briefing on March 27, 2020, that “we have entered a recession – as bad as or worse than in 2009”. One can certainly concur with her that “a key concern about the long-lasting impact of the sudden stop of the world economy is the risk of a wave of bankruptcies and layoffs that not only can undermine recovery but can also erode the fabric of our societies”. While the G20 have reported fiscal measures totalling some USD5 trillion or over 6% of global GDP, the question remains: is it enough?

**FIGURE: TIGHTENING UNDERWAY – PROBLEMS FOR FUTURE ECONOMIC GROWTH**

*(Financial conditions indices, standard deviations form mean)*

![Tightening Underway - Problems for Future Economic Growth](source: IMF)
Financial sector, including Islamic finance, is certainly going to be impacted because of the above conditions. In this context, I tend to address the following key questions in this modest piece:

- What is the potential impact on Islamic banks (IBs)?
- How IBs can measure the impact with stress testing?
- How to navigate through this tough time?
- What should be the role of various stakeholders such as regulators and standard-setting bodies for Islamic finance?

This pandemic is not only a threat to the global financial system bringing dramatic economic effect bigger than the GFC but also underlies long-lasting psychological implications.

POTENTIAL IMPACT AND IMPLICATIONS FOR ISLAMIC BANKS

The COVID-19 brings a range of potential implications for all types of financial institutions. Being a part of global finance, Islamic finance is no exception as it continues to operate in a similar economic and financial environment. It brings various credit, market, liquidity and operational risks implications proportionate to the size of an Islamic bank, complexity and nature of the dominant portfolio (e.g., real estate, financing-driven, financial investment) and the economy in which it operates.

Let us briefly look at what kind of implications the COVID-19 brings to Islamic banks through a balance sheet approach.

First, the significant decline in domestic and global economic activity brings huge business disruptions. This brings an important implication for sovereign central banks when their rating is downgraded due to the ongoing domestic and global economic outlook, taking into account both monetary and fiscal measures, and their likelihood to honour their debt obligations. This indicates impacts of rating migrations (downward; e.g., AAA to AA) of counterparties (banks, corporates, SMEs, and PSEs) under the standardised approach, which ultimately has an impact on the funding costs as well as Risk-Weighted Assets (RWAs) in capital adequacy.

Second, when central banks are relaxing the policy rate to boost the sluggish economy, the return on investment for placement with the central bank as well as lending to government by banks will attract low investment return. In such a situation, the new financing will also attract low return, and existing financing will be affected by the non-payments due to closure of businesses and people being unemployed for a certain period. Thus, bringing non-performing financing (NPF) high and depleting the provisions. The NPF has implications for expected credit losses (ECL), write-off, and liquidity. This will bring a drag on the profitability of IBs, which will consequently affect the retained earnings, and capital buffer subsequently.

Third, as global financial markets crash - especially, when in developed markets investors sell-off and in emerging markets when investors pull out billions of USD investment - there is an impact to local stock exchanges, bringing negative consequences to financial investment
and Shari’a-compliant instruments. Both yields and value of an investment will go down significantly and will have an influence on the investment income of IBs. Furthermore, real estate investment will be having a downturn and a correction in market valuations due to a decline in demand and relocations.

Lastly, the value of foreign liabilities (FX) surges sharply due to the depreciation of the local currency. The FX market has shown significant volatility. On the other hand, the structural investments by the IBs in their subsidiaries and affiliates can also bring negative implications due to the disruption of business domestically and abroad. Last year, IFSB Islamic Financial Services Industry Report also pointed out the prolonged depreciation of several emerging markets’ currencies from 2017 towards Q3-2018, which led to a decline in the dollar value of assets.

MEASURING THE IMPACT AND IMPLICATIONS - STRESS TESTING AND REVERSE STRESS TESTING

Now let me address how the impact can be measured. Similar to the GFC, the COVID-19 pandemic has put significant emphasis on the role of stress testing within risk management. Stress testing should form an integral part of the overall governance of the IBs. The ultimate responsibility for the overall stress testing programme is with the board of directors (BOD).

Just like medical unpreparedness has been exposed by this pandemic, similarly, banks will be exposed by not having in place a pandemic scenario that is “low-frequency – high-impact event” which may not be reflected in historical data” or “fat tails event” in their stress testing. Such an event can have catastrophic consequences.

Two quarters ago, the above scenario may not be envisaged by the risk management team and given due consideration due to its plausibility, but now this is a reality.

IBs should include in their stress testing not only the worst-case scenarios but it should also be complemented with reverse stress testing (i.e. striking off a whole business line and estimating whether the IBs can survive). The macro model should not only capture significant drop in macroeconomic variables such as GDP due to significant drop-in business activities in various economic sectors causing unemployment, among others, but also should include spillover effect through trade, tourism, travelling, hospitality, etc. In particular, IBs must pursue a more thorough analysis of risk transmission and contagion mechanisms (including “ripple and reinforcing effects” from a primary stress scenario extending to other markets or products) and also reflect better risk correlations which may vary in stressed conditions.

A key concern about the long-lasting impact of the sudden stop of the world economy is the risk of a wave of bankruptcies and layoffs that not only can undermine recovery but can also erode the fabric of our societies
Severity is to be understood in the light of the specific vulnerabilities of the respective IBs, which might not be equal to the perspective of the total economy. A simple country- or region-specific macroeconomic stress scenario may be less relevant to some IBs’ risk profile than others – for example, if they have a specific industry exposure which is countercyclical, or if their risks are primarily international and less impacted by national scenarios. Deployment of stress testing should be proportionate to the IBs’ size of balance sheets and the extent of their interconnectedness.

A reverse stress test induces an IB to consider scenarios beyond its normal business settings and highlights potential events with contagion and systemic implications. Therefore, reverse stress testing starts from a known stress test outcome (such as breaching regulatory capital ratios, or a liquidity crisis) and then asking what events could lead to such an outcome for the IB. As such, reverse stress testing complements in an important way the existing stress testing framework. It requires an IB to assess scenarios and circumstances that would put its survival in jeopardy, thereby identifying potential IB-wide business vulnerabilities.

Other than conducting reverse stress testing, IBs should include the following key factors in their stress testing exercise (for details, see IFSB-13):

- Significant decline in domestic economic activity;
- Significant deterioration of anchor macroeconomic variables (e.g., oil) or sectors (e.g., tourism, real estate, recreation, etc.);
- Impacts of rating migrations (i.e., historical default experience of IBs of counterparties within specific rating classes (AAA, AA, A, etc.) of different counterparties (retail, corporate or sovereign) under the standardised approach and its impacts on RWA in capital adequacy;
- Adverse shifts in the distribution of default probabilities and recovery rates;
- Policy for determining and allocating provisions for doubtful debts;
- The forced defaults (due to cash flow shortages) and planned defaults (higher probability of default by counterparties and loss given default);
- Fluctuations in values in tradable, or marketable, assets (including Sukūk);
- Equities (stocks) (including those in liquid and/or non-liquid markets);
- FX fluctuations and volatility arising from general foreign exchange spot rate changes in cross-border transactions;
- Severe constraints in accessing secured and unsecured Shari’a-compliant funding;
- The ability to transfer liquidity across entities, sectors and borders taking into account legal, regulatory, operational, and time zone restrictions and constraints; and
- Liquidity reserves and regulatory required ratios (such as LCR and NSFR).

NAVIGATING THESE CHALLENGING TIMES – THE ROLE OF VARIOUS STAKEHOLDERS

As per the IFSB PISIFIs latest data, we should bear in mind that Islamic finance is facing these challenges from a position of overall strength. However, this should not stop IBs taking into account the above stress testing to ensure their continuity and sustainability. In particular, it is worth noting that the global Islamic banking industry experienced only 0.9% growth in assets to close at approximately USD1.57 trillion (2Q17: USD1.56 trillion) and thus its share in the overall IFSI has slightly contracted to 71.7% (2017: 76%) (IFSB IFSI Stability Report, 2018). This monotonous growth over the period was attributed mainly to the depreciation of local currencies in terms of the USD, especially in some emerging economies with a significant Islamic banking presence. With this trend and the ongoing deterioration in global economic and financial conditions, growth in the Islamic banking sector is certainly being threatened by the devastating effects of COVID-19 outbreak.
ROLE OF ISLAMIC BANKS

We should bear in mind that unless one is unable, it is very reprehensible delaying to pay one’s debts. Taking into account the above implications for the IBs arising out of their balance sheet; firstly, the IBs should provide relief to the customers (individuals, companies, SMEs) which are adversely affected by the COVID-19 in line with their respective central bank instructions.

In such a difficult time, we should remember that Allah SWT, in the Holy Quran in Surah Al-Baqara, instructs creditors to be patient with the debtors who are having a hard-financial time. Grant them time until it is easy for them to repay: “And if someone is in hardship, then [let there be] postponement until [a time of] ease. But if you give [from your right as] charity, then it is better for you, if you only knew.” (2: 280).

In terms of classification and provisioning standards (e.g. rescheduling, refinancing or reclassification), IBs should bear in mind that Shari’a rules and principles do not allow to refinance debts based on renegotiated higher markup rates; however, debt rescheduling or restructuring arrangements (without an increase in the amount of the debt) are allowed.

Secondly, the IBs should continue paying compensation in appreciation of the banks’ employees for their work during the holidays or when working remotely.

Thirdly, to fulfil the Maqasid al-Shari’a, IBs should divert all of their CSR activities and budget in a Fund established by the government or by other organisation(s) fighting for the COVID-19. Subject to the respective SSB’s approval, the IBs can pay the Zakat to this Fund for the COVID-19.

CENTRAL BANKS – REGULATORS’ RESPONSE AND NEEDED MEASURES TO SUPPORT IBS

Both the governments and central banks have come forward in Islamic finance jurisdictions to provide monetary and fiscal stimulus packages and instructions respectively. These measures have provided breathing space to the banking sector and the overall economy during the lockdown period.

It is commendable how various central banks (e.g. BNM, CBK, CBUAE, QCB, SBP, and SAMA) have announced several regulatory, supervisory and administrative measures in support of efforts by banking institutions to assist individuals, small and medium-sized enterprises and companies to manage the impact of the COVID-19 pandemic.

These measures include, among others, moratorium and/or restructuring of financing facilities for a certain period, special discounts to essential sectors for exports, liquidity facilities to banks via various tools under open market operations, procedures to ensure swift and efficient operations, uninterrupted access to financial services to the general public, prioritising working remotely within the banks’ business continuity plan, and disinfection of vaults and currency notes.

Other than deferring the implementation of the Basel III and its equivalent IFSB regulatory standards for IBs, the regulators should also allow the IBs to drawdown from their regulatory reserves built during the periods of strong financing growth and their capital conservation buffer of 2.5%.
First, on the prudential side, the Basel Committee’s oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS) has endorsed on March 27, 2020, a set of measures including deferring Basel III implementation (see Table below) to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of the COVID-19 on the global banking system:

- The implementation date of the Basel III standards finalised in December 2017 has been deferred by one year to January 1, 2023;
- The implementation date of the revised market risk framework finalised in January 2019 has been deferred by one year to January 1, 2023;
- The implementation date of the revised Pillar 3 disclosure requirements finalised in December 2018 has been deferred by one year to January 1, 2023;

Second on the accounting side, on March 27, 2020, the IFRS has also issued a key statement on the expected credit losses (ECL) recognition and key steps to be taken by the banks in the light of current uncertainty resulting from the COVID-19.

The regulators can also allow IBs to operate below the minimum liquidity coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) of 100% for a certain period. In this context, IBs could be given a timeline to restore their buffers within a reasonable period after January 2021 to comply with the original requirements.

Moreover, the regulators may also provide some relief to the IBs in terms of NPF threshold for the year 2020 and selected write-off for genuine cases being adversely affected during the COVID-19 pandemic.

The supervisory haircut on collateral values could also be reviewed by the central banks to provide some relief to the IBs in terms of calculating the minimum regulatory capital ratio for the year 2020.

Lastly, regulators can also put restrictions on dividend distribution by IBs until the NPF issues are resolved and all the regulatory requirements are restored.

ROLE OF STANDARD-SETTING BODIES – IFSB AND AAOIFI

The role of standard-setting bodies for Islamic finance such as the IFSB and AAOIFI is pertinent to look at, given the recent developments at their respective counterpart, the Basel Committee and the IFRS.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Original implementation date</th>
<th>Revised implementation date</th>
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<tbody>
<tr>
<td>Revised leverage ratio framework and G-SIB buffer</td>
<td>1 January 2022</td>
<td>1 January 2023</td>
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<tr>
<td>Revised standardised approach for credit risk</td>
<td>1 January 2022</td>
<td>1 January 2023</td>
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<td>Revised IRB approach for credit risk</td>
<td>1 January 2022</td>
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<td>Revised operational risk framework</td>
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<td>Revised CVA framework</td>
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<td>Revised market risk framework</td>
<td>1 January 2022</td>
<td>1 January 2023</td>
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<td>Output floor</td>
<td>1 January 2022; transitional arrangements to 1 January 2027</td>
<td>1 January 2023; transitional arrangements to 1 January 2028</td>
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It is worth recalling that IFRS 9 sets out a framework for determining the amount of ECL that should be recognised. It requires that lifetime ECLs be recognised when there is a significant increase in credit risk (SICR) on a financial instrument. Both the assessment of SICRs and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. The statement by the IFRS further indicates that in assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. In this respect, several regulators have published guidance commenting on the application of IFRS 9 in the current environment.

In the above context of Basel Committee and IFRS, there is a certain role to be played by the IFSB, and AAOIFI. In particular, IFSB should review the Basel III equivalent standards implementation date, especially the latest document on Revised Capital Adequacy Standard (ED-23, which is still not yet published), and ensure the implementation date for new requirements as per the Basel III to provide a level-playing field to regulators.

On the other hand, the AAOIFI has issued FAS 30 (Impairment Credit Losses and Onerous Commitments), equivalent to IFRS 9 and it should provide some clarity and explanation on the ECL recognition for IBs during this time taking into account moratorium by regulators. The guidance from these bodies would be helpful to the supervisors regulating IBs in their respective jurisdiction.

CONCLUSION

We are facing extraordinary time with this COVID-19 pandemic. Though circumstances are unprecedented, lessons will be learned surely. In such times, both FinTech platforms for IBs and RegTech for regulators are probably winners. As things normalise, economic engines would re-start, people will go back to work, and planes would take-off. Pandemic like this may become ‘new normal’ in future compared to a “black swan” event. Hence, IBs should pursue agility and resilience. IBs should include such pandemic in their stress testing for sustainability and business continuity.

On the outlook of Islamic finance, being cognizant of this challenge to have a view at this junction; if this pandemic is contained mid of this year; a partial rebound in 2021 could be expected before heading to 2022 for a full-scale rebound. A concerted effort is needed by international bodies such as IFSB, AAOIFI, IIFM, CIBAFI, and IsDB on a coordinated response to COVID-19 for the financial stability of Islamic finance.

While we will see more academic empirical studies moving forward on the actual assessment, IBs should demonstrate compassion during these exceptional conditions. This compassion from IBs’ BOD and senior management should be two-fold: towards customers by giving them some relief and grace period for their debt payments and selfless staff who are at the frontline and/or back office. It is not only time to be kind and compassionate with the staff, but also show kindness to their loved ones by allowing them to work at home with pay.

IBs shareholders should be ready and well prepared for the remedial actions of the above stress testing including strengthening capital buffers. The IBs’ BOD should also provide some flexibility to the senior management on the performance targets for 2020. We should remember that difficult times need extraordinary measures. Together, with unity and resilience, we can all get through this.

Lastly, as this COVID-19 pandemic unfolds, I want to express my sincere thanks to folks - stocking the shelves at the local and those who are in the frontline to provide us services without interruption —who are unsung heroes of the crisis.

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We shall start with your life-long employer - Mitsubishi UFJ Financial Group (MUFG) - where you have spent 21 years. Is it owing to your Japanese heritage or is there something unique about MUFG that stopped you from looking around for opportunities?

I have been happy and proud to work for MUFG since I joined in 1999 owing to Mitsubishi Group heritage, namely “Sankoryo”. Mitsubishi UFJ Financial Group (MUFG) is a part of the larger Mitsubishi group.

The various Mitsubishi group companies are incredibly diverse and involved in a vast range of businesses. Yet, despite this great diversity, group companies have maintained one common philosophy that continues to underlie their activities, even after more than 150 years. That shared philosophy is capsulated in a creed articulated by the fourth president of the Mitsubishi organisation, Koyata Iwasaki, in the 1930s.

Today this philosophy is referred to as the “Three Principles” (called “Sankoryo” in Japanese). Although more than 80 years have passed since the philosophy was codified, the spirit and values of Sankoryo are still alive and current in the Mitsubishi group companies, both in their business dealings and their activities aimed to help society.

• “Shoki Hoko” – Corporate Responsibility to Society

Striving to enrich society, both materially and spiritually, while contributing towards the preservation of the global environment.

Commerce is a public undertaking and one requiring corporations to take responsibility for many of the interests affecting the countries in which they operate. This philosophy has been the cornerstone of Mitsubishi’s management policies right from its beginning. In order for a corporation to create sustainable prosperity, it must operate in a manner that is conducive to achieving this goal for the greater society.

• “Shoji Komei” – Integrity and Fairness

Maintain principles of transparency and openness, and conducting business with integrity and fairness.

President Koyata was known to have repeatedly cautioned Mitsubishi managers against focusing blindly on profits and losing sight of the Group’s adherence to high standards of ethical behaviour amid unprecedented competition, urging them to respond to competitors’ unscrupulous business practices with integrity and forbearance. He reminded them often of the importance of meeting the expectations of their customers and the public by exhibiting high ethical conduct in all their transactions. He was also well known for his observance of cultural differences around the world and the local customs of the communities in which Mitsubishi conducted business.
"Ritsugyo Boeki" – Global Understanding through Business

Expand business, based on an all-encompassing global perspective.

At the outbreak of the Pacific War, President Koyata made a bold statement about friendship between international business partners now separated by war, “We count many British and Americans among our partners. They have undertaken many projects with us and so should peace come again, they will once again become good and faithful friends.”

You are perhaps the only Japanese who has shown persistence and commitment towards Islamic banking and finance. Our readers would like to learn how you encountered Islamic banking and finance and what impressed you so much that you have spent the last 9 years of your career specialising in this niche.

The core value of Islamic finance, namely Maqasid Al-Shari’a attracted me the most.

The mission assigned to me when I was posted to Malaysia was to expand the Islamic banking business for MUFG. Because of that, naturally, I had to learn and understand the Islamic way of life, which is the foundation of Islamic finance. I was very surprised to notice that there are many similarities between the Islamic way of life and that of the Japanese, especially from the ethical point of view.

Since most of the readers are professionals in Islamic finance and familiar with the ultimate objectives of Shari’ah or the Maqasid Al-Shari’a. Safeguarding religion, intellect, wealth, life and lineage are the pillars to the ultimate objective of Shari’a, which is to achieve justice.

On the other hand, the Japanese culture is very much ethic-oriented and believe in ethical values that are very similar to the objectives of Shari’a. In Japan, the promotion of dignity, knowledge, trustworthiness, social rights and social justice is very much emphasised.

When we look back at the history of Islam, we can see that when the companions of the Prophet had to migrate from Mecca to Medina, they lost their wealth and social status. However, the people of Medina were willing to share their wealth, houses, and other provisions, and a public sharing system was introduced that later on allowed for the prosperous growth of their civilization. Even back then, people were helping those in need while some even gave all of their wealth to charity to ensure that the Maqasid Al-Shari’a are upheld.

In 2011, Japan was hit by an earthquake. It was one of the worst natural disasters that had ever-hit in history of Japan. Through the media, people around the world were touched by how the Japanese strived to overcome the tragedy. Driven by their strong ethical values, from the early stage, people responded very quickly by donating food, clothing and other necessities from all over Japan to the affected areas.

Being a part of the Islamic finance industry in Malaysia has proven to me that people are all the same, despite their differences in cultures or religions, there is a great common ground in human attribute that is, we all do care.

You are an accomplished Islamic finance expert in Islamic banking and finance. Would you like to share our readers with the details of your key roles in award-winning deals? What cultural and technical challenges this posed to come up with the structures acceptable to your bank, Shari’ah scholars, regulators and other parties involved?

Fortunately, I have been involved with multiple award-winning deals such as the first Islamic Project Finance with Wakalah, the first Wakalah Syndicated Corporate Financing, the first Auto Finance Securitization, the world’s first Japanese Yen Sukuk and the first Sukuk placement to Japanese investors etc. While handling these deals, the major challenge faced was to make sure that there is harmonisation between the Japanese Banking Act and the objectives of Shari’a.

A key solution for these challenges is the Wakalah structure, which is globally acceptable not only in Asia but also in the GCC countries because of its innovative nature and flexibility.

Safeguarding religion, intellect, wealth, life and lineage are the pillars to the ultimate objective of Shari’a, which is to achieve justice.
Islamic FinTech is in vogue. You have shown interest in developing technology-based Islamic financial products. Don’t you think that technology is being over-emphasised in Islamic banking and finance?

I think it is true that Islamic FinTech is in vogue, as this is the global direction that the Islamic finance industry is moving towards.

First, there is the Central Bank Digital Currency (CBDC) initiative, namely “Central Bank to assess the potential case for Central Bank Digital Currencies” released by the Bank of England on January 21, 2020. The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Sveriges Riksbank and the Swiss National Bank, together with the Bank for International Settlements (BIS), have created a group to share the experience as they assess the potential cases for CBDC in their home jurisdictions.

I foresee this initiative will lead to innovation by other central banks as well who supervise Islamic finance in the Asian and GCC countries.

Secondly, similar to other mainstream markets, the Islamic finance industry is also moving fast to leverage FinTech such as Blockchain and Green financing in their strategies. We have seen recent developments in Islamic finance market where FinTech companies are starting to establish Centres of Excellence in relation to AI innovation.

Through the optimisation of Islamic finance with Blockchain and AI, customer satisfaction can be enhanced with higher quality service at lower costs. Also, the Islamic finance industry can make further progress in the financial inclusion by optimising micropayments technology under Blockchain etc.

What, in your view, could be the most innovative application of Blockchain technology in Islamic banking and finance?

I believe Blockchain with Distributed Ledger Technology will contribute to the further development of Islamic Finance. The major difference between internet and Blockchain is, you can only send ‘information’ through the internet and not ‘value’, although the internet technology has developed a lot.

Thanks to the invention of Blockchain technology, you are able to send value. Let me share an example for the understanding of Blockchain in the case of passport. You are able to send your passport information via the internet but not the original passport. This on one hand ensures that you have the soft file of passport, while on the other hand, your counterparty will face difficulty in proving that the soft file of the passport they received is in fact legit.

If the government starts to register passport on Blockchain in the future, you would be able to send your original passport through Blockchain. In another word, your original file of passport will no longer be with you after you send your passport through Blockchain and your counterparty can prove that they hold your original passport thanks to the verification by Blockchain.

I believe Blockchain can lead to innovative disruption in the Islamic finance industry too. The common agenda in the Islamic finance industry is the trading fee for commodity Murabahah transaction. Many Islamic banks and customers would like to decrease the trading fee of Commodity Murabahah transaction because it is the additional cost not in conventional finance. Central banks may introduce CBDC on Blockchain in the future, while the commodity exchange could introduce commodity token, the digital certificate of commodity on Blockchain. Thereafter, the Islamic finance industry could further reduce administrative costs with the application of Atomic Swap by which Islamic banks and customers could exchange CBDC and commodity token at the same time on Blockchain without the counterparty risk and complicated operation via the trusted third party.

Blockchain will help Commodity Murabahah transactions to be efficiently Shari’a-compliant, as Islamic banks cannot sell a commodity before owning it to comply with Shari’a. Therefore, they need to organise and record the sequence of the commodity transaction, which currently is a very manual and convoluted process; using Blockchain, we can enjoy the timestamp ledger function. It is very helpful for Shari’a review process as well because distributed ledger under Blockchain is immutable and traceable. Blockchain can be very suitable and efficient to Islamic finance. Nevertheless, there are some imminent challenges in the application of such technologies in Islamic finance that are still in the evolutionary stage.

Blockchain will help Commodity Murabahah transactions to be efficiently Shari’a-compliant, as Islamic banks cannot sell a commodity before owning it to comply with Shari’a.
What view do you take on the future of Islamic banking and finance to Western banks in the US or the UK?

Islamic economy is expanding because the Muslim population is steadily increasing from 20% to 25% of the world population. Actually, global markets like the US and the UK could attract big investors from the GCC and Asian countries, if they can organise their Islamic finance economy. In addition, local investors in the US and UK can also invest in lucrative opportunities in the local Islamic financial industry. The current challenge faced by Western banks is the lack of talent in the discipline of Islamic finance, locally.

Malaysia has for long established itself as a global player in Islamic banking and finance. However, now Indonesia is fast emerging as a recognised Centre of Excellence for Islamic banking, Islamic microfinance, takaful and Islamic capital markets. What is your view on the frontier Islamic financial markets?

Islamic finance market is expanding not only in Malaysia and Indonesia but also in the GCC and Asian countries such as Brunei.

One of the promising Islamic finance frontier is the Islamic ESG (Environmental, Social, and Governance) transactions such as Islamic Green Financing and Islamic Sustainable Linked Financing, which are in line with Maqasid Al-Shari’a.

Islamic economy is expanding because the Muslim population is steadily increasing from 20% to 25% of the world population.
As a prominent specialist in Islamic derivatives and risk management solutions, what in your view is hindering the growth of Islamic investment solutions globally?

The issue is that there is a discrepancy in the supply and demand of talent in Islamic finance. Although it is not an easy task to increase the number of Islamic finance professionals, we need to make effort in collaboration with Islamic banks, professional bodies, universities and regulators.

In addition to your full-time job and other industry engagements such as Grand Council for Chartered Institute of Islamic Finance Professionals (CIIF), you are also pursuing a PhD at the International Islamic University Malaysia. What is your area of research and what motivated you to pursue doctoral studies in this field?

My research area is Wakalah sukuk, which contributes a lot to the development of the global sukuk market. I would like to bridge the efforts between the industry and academia, so that innovation could take place through mutual collaboration.

In addition, I hope to promote Islamic finance in countries where it is still not well recognised yet such as Japan and the US.

What are your career plans for the future? You have spent the last 20 odd years with MUFG. What would you like to achieve by the time you retire?

My dream is to make the world a better place through further alliances between the two industries, Islamic finance and Blockchain.

I would like to contribute to the development of Islamic Blockchain by taking up the role of a bridge between the Islamic finance industry and the Blockchain industry by utilising my experience for the development of new financial products and global network in various areas.

One of the promising Islamic finance frontier is the Islamic ESG (Environmental, Social, and Governance) transactions
Would you like to give a message to the younger generation of Islamic banking and finance practitioners?

I believe that the key factor for the younger generation to become global leaders in the Islamic Economy in the next decade is to keep great passion and to update their knowledge in the new frontier area like FinTech and Blockchain.

For example, a “Patent war” is happening in Blockchain.

Global giants such as Alibaba, Mastercard and IBM as well as Blockchain companies such as nChain in the UK are rushing to apply a lot of patent in Blockchain so that they can secure the future huge global market and you can find those names in the Blockchain patent league table.

I believe if you are aware of these new trends and technological advancements, it will help your career development in the long run. Again, “please keep yourself updated” to become a future global leader in Islamic economy.
The key factor for the younger generation to become global leaders in the Islamic Economy is to keep great passion and to update their knowledge in FinTech and Blockchain.
Since the resumption of the issuance of the national debt by the Ministry of Finance of China in the 1980s, China’s bond market has undergone more than 30 years of hardening and testing, and the achievements have been tremendous. Not only has it played a major role in the domestic economic construction, but after becoming a member of the Asian Bond Market Initiative, it has also played a positive role in the rapid development of the Asian bond market and in responding to the impact of the financial crisis and achieving regional economic recovery. However, compared with developed countries, China’s bond market still has some gaps, mainly in terms of small scale, few varieties, imperfect market system, single market participants, slow bond liquidity, and imperfect related systems. As an important part of the Asian bond market, the sustained development and gradual opening of China’s bond market is not only an inevitable requirement for the deepening of the financial market system but also a consistent development direction of the Chinese government and relevant departments.
In terms of bond financing, China can study and promote more international financial institutions to issue RMB bonds domestically or foreign currency bonds issued by domestic and overseas institutions. Therefore, the development of Sukuk will have an inestimable positive effect on the economic construction of China itself, Asia and the world. Specifically, China can accelerate the gradual entry of qualified Islamic financial institutions into the domestic bond market, and at the same time also enter the financial bond market in the Islamic world. This will not only help enrich the main market participants in China but also increase the breadth and depth of the development of the domestic bond market.

At present, China’s bond issuance is mostly guaranteed by the credit and assets of the issuing entity, which naturally sets up obstacles for SMEs to issue bonds. Relatively speaking, Sukuk is more concerned about the reliability of the project assets than the creditworthiness of the issuer. First, by introducing Sukuk, the scope and types of issuers can be expanded, and also the size of China’s securities market. Second, the innovation of the issuance mode can enhance the liquidity and efficiency of internal funds in the bond market. Finally, strengthening the ties between the currency and the capital market can improve China’s bond maturity structure.

The construction of the Belt and Road Initiative (BRI) can promote bilateral and multilateral economic cooperation and also increase China’s international influence, which will have traction on investment hot spots. The construction and development of the BRI are inseparable from the financing operation of the capital market. The development of Sukuk will have a huge boost to China’s capital market, because of the priority participants in the BRI and their hubs as well as most of the countries in the “two corridors and one area” are Islamic countries. In the capital markets of these countries, Sukuk has played an important role in its economic construction in recent years.

According to the statistics of Allalah Consulting, as of the end of 2013, the total issued amount of Sukuk has reached USD270 billion, of which Malaysia accounted for 59%, ranked first in the market, Saudi Arabia 14%, United Arab Emirates 8%, Qatar 7% Indonesia 5%, Pakistan, Turkey and Bahrain each accounted for 2%, and other countries overall accounted for about 1%. At the same time, in the BRI strategy, these countries will play an indispensable link to connect with other relevant countries.
Furthermore, among the eight-member states of the Shanghai Cooperation Organisation (SCO), five are Islamic countries, namely Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Pakistan. China has become the main trading partner of these countries. While among the organisation’s observer states and dialogue partners, Iran, Afghanistan and Turkey are all Islamic countries. At present, many Islamic countries have taken a step forward in developing Islamic financial business, and gradually formed a dual financial system, that is, the situation where Islamic and conventional financial systems coexist. In view of the growing trend of the Islamic financial market in recent years, the four Central Asian countries are also actively working to build domestic Islamic financial centres to attract more investment and financing. Therefore, as a leader of the SCO, China already has the prerequisites for the development of Sukuk and even the Islamic financial market as a whole.

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ISLAMIC VERSUS CONVENTIONAL STOCK MARKET INDICES PERFORMANCE
EMPIRICAL EVIDENCE FROM TURKEY

DR KAMOLA BAYRAM
The first Islamic Index was established in the Dow Jones Market in December 1995 to enable Islamic fund managers to list businesses in the capital markets. Since its establishment, investment in Islamic stocks has experienced remarkable growth. According to a 2011 report by the consulting firm PricewaterhouseCoopers (PwC), Shari’a-compliant funds grew at an annualised rate of 26% in the first ten years of this century. The report further states that “an inflection point” in their growth occurred between 2002 and 2003 when petrodollar liquidity multiplied and capital markets in the Gulf Cooperation Council countries matured to enable investment.

A report by the Malaysia Islamic International Financial Center states that total global Islamic assets under management were USD70.8 billion at the end of the first quarter of 2017. Consequently, various capital markets and financial institutions around the world have now established their Islamic indices. For example, the Kuala Lumpur Stock Exchange Shari’ah Index (KLSESI) introduced by Bursa Malaysia (the Malaysian Stock Exchange) is considered to be an important mechanism of promoting the accomplishment of the Islamic capital markets plan. According to Walkshäusl and Lobe (2012), Shari’a-compliant assets are in excess of USD939 billion worldwide and over 600 Islamic funds are available, thus investors are shifting their assets from actively managed mutual funds to passive index-based investments. Islamic investment is based on Shari’a principles, that is, it prohibits activities with elements of usury (riba), gambling (mäsih), and ambiguity (gharar) and also prohibits activities like producing products or delivering services, which are against Islamic teaching such as pornography, producing/selling alcohol, casino etc. Therefore, all Islamic financial products listed in the Islamic Index need to be Shari’a-compliant and different additional are sometimes used in screening the permissible companies as well.

The rapid growth of Islamic finance in general and Shari’a-compliant stocks, in particular, arises the question of whether Islamic funds/stocks have a better performance or if there is no significant difference with the performance of their conventional counterparts. We conducted a study to compare the performance of Islamic and conventional stock market indices in Turkey, namely KATILIM 50 and BIST100 by using Two-Sample Test of Hypothesis from May 15, 2015 to December 31, 2016. We also examined the causal relationship between both stock market indices in the short-run using Granger (1969) Causality Test.

The findings of parametric Z-test revealed that there is no statistically significant difference between the performance of both indices namely KATILIM 50 Index and BIST 100 Index during the time frame of the study. Further, the Granger Causality findings indicates an absence of a causal relationship between the two stock market indices in the short-run. This suggests that the stock market in Turkey is informational efficient and non-violated with the Efficient Market Hypothesis concerning the available information of both indices. The findings of this study, therefore, provided a useful channel for Muslim investors to participate in the Turkish capital market by investing in Participation Index and fulfil their religious beliefs without sacrificing any financial performance. The findings of this study, therefore, provides relevant input for investors and policymakers to further support the development of Islamic stock market as an alternative investment choice.
Moreover, companies are required to achieve some financial ratios to take part in the index. The rate of total interest-bearing debt of companies to market capitalisation shall be less than 30%; the rate of interest-bearing cash and securities to market capitalisation shall be less than 30% and the rate of income from above mentioned fields to total income shall be less than 5%. On the other hand, BIST Stock Indices have been created to measure the price and the return performances of a group of stocks traded on Borsa Istanbul.

BIST 100 Index (Index Code: XU100) is a capitalisation-weighted index composed of National Market companies except for investment trusts. The constituents of the BIST National
100 Index are selected based on predetermined criteria directed for the companies to be included in the indices. Existence of a Sharia-compliant stock market gives the Muslim investors a choice of an alternative investment, which is in line with the Shari’a rules and principles. Hence, the Islamic stock market investment in Turkey is considered an alternative investment window through which Muslim investors can participate in the stock market with a religious conscience. However, there still exists an argument among investors whether the performance of Shari’a-compliant stocks is better compared to their conventional counterparts.

In this study we compared the performance of Participation 50 Index, which represents top 50 companies with the biggest public market capitalisation and do business in compliance with Shari’a rules, and therefore aims to compare the performance of Shari’a-compliant stocks versus conventional stock market indices represented by BIST 100, to assist investors in making investment decisions and creating an optimal portfolio diversification investment strategy in the Turkish stock market. In other words, the study aims to examine the application of portfolio theory in the context of the Turkish stock market.

GRAPHICAL ANALYSIS FINDINGS

The purpose of conducting graphical analysis in this study was to figure out and understand the behaviour and movement of both indices namely KATILIM 50 and BIST 100 whether there is a positive or negative association. Furthermore, it is interesting to have a deep understanding of the behaviour of stock market indices since stock index can provide investors with a good idea of how the overall stock market or a certain portion of the stock market is performing. Understanding the market index behaviour can also be useful for measuring the performance of one’s portfolio against a specific benchmark.

Figure 1 displays the movement and performance of both indices in Borsa Istanbul, which indicates that the overall performance of both indices is negative during the time frame of this study. KATILIM 50 and BIST 100 indices sharply dropped by almost 15000 points between May 2015 to November 2016. As the KATILIM 50 and BIST 100 indices were traded at 35000 points on May 15, 2015, to almost 20,000 points by the end of November 2016.

Figure 1: Prices Movements of Both Indices KATILIM 50 and BIST 100 over the Period May 15, to December 2016.
This might be attributed to the internal and external political crises. These challenges may give a negative effect on the country’s local stability and the investment environment as a whole, including the stock market.

Figure 2 displays the dynamic volatility of both stock market indices’ returns, which indicates that the return of the BIST 100 index was more volatilized than KATILIM 50 index. In other words, KATILIM 50 index exhibits more stability than the conventional BIST 100 index. The highest increase in the dynamic negative volatilities was marked during July 2016, which may be due to the risk of a domestic political crisis that resulted in panic among investors, resulting in return reduction and more volatile and unpredictable behaviour for future stock market returns in Turkish stock market.

Figure 2: Returns Movements of Both Indices KATILIM 50 and BIST 100 over the Period May 15, to December 2016.
THE PAIRWISE GRANGER TEST FINDINGS

Table 1 presents the findings of the Pairwise Granger causality test between KATILIM50 and BIST100 indexes for different levels of lags such as daily, weekly, monthly and quarterly.

Table 1: Pairwise Granger causality Test Results

<table>
<thead>
<tr>
<th>Lags: 1</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Null Hypothesis:</td>
<td>Obs</td>
<td>F-Statistic</td>
<td>Prob.</td>
</tr>
<tr>
<td>BIST100 does not Granger Cause KATILIM50</td>
<td>409</td>
<td>0.29803</td>
<td>0.5854</td>
</tr>
<tr>
<td>KATILIM50 does not Granger Cause BIST100</td>
<td>1.72570</td>
<td>0.1897</td>
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</table>

<table>
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<tr>
<td>Null Hypothesis:</td>
<td>Obs</td>
<td>F-Statistic</td>
<td>Prob.</td>
</tr>
<tr>
<td>BIST100 does not Granger Cause KATILIM50</td>
<td>405</td>
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<td>0.3115</td>
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<tr>
<td>KATILIM50 does not Granger Cause BIST100</td>
<td>1.42896</td>
<td>0.2128</td>
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</table>

<table>
<thead>
<tr>
<th>Lags: 30</th>
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<tr>
<td>Null Hypothesis:</td>
<td>Obs</td>
<td>F-Statistic</td>
<td>Prob.</td>
</tr>
<tr>
<td>BIST100 does not Granger Cause KATILIM50</td>
<td>380</td>
<td>0.91805</td>
<td>0.5938</td>
</tr>
<tr>
<td>KATILIM50 does not Granger Cause BIST100</td>
<td>0.94317</td>
<td>0.5555</td>
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<table>
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<tbody>
<tr>
<td>Null Hypothesis:</td>
<td>Obs</td>
<td>F-Statistic</td>
<td>Prob.</td>
</tr>
<tr>
<td>BIST100 does not Granger Cause KATILIM50</td>
<td>290</td>
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<td>0.6170</td>
</tr>
<tr>
<td>KATILIM50 does not Granger Cause BIST100</td>
<td>0.90446</td>
<td>0.6751</td>
<td></td>
</tr>
</tbody>
</table>

The findings indicate that the KATILIM50 and BIST100 do not Granger cause one another in the short-run during the study time frame. This means KATILIM50 and BIST100 are independent in the perspective of prediction in Turkey capital market. The non-existence of a relationship between the KATILIM50 and BIST100 in the short-run is perhaps due to companies’ underlying business. One possible concept that can be drawn from this finding is that the stock market in Turkey is informationally efficient and showing the proof on the Efficient Market Hypothesis with respect to predictable behaviours between the Islamic and conventional stock indices. In other words, the value of both indices (KATILIM50 and BIST100) cannot be predicted using the available information in the short-run.
TWO-SAMPLE TEST OF HYPOTHESIS FINDINGS

Despite the study having investigated the behaviour and relationship between the KATILIM50 and BIST100 indexes in Turkish Stock Market, investors still need such information about the performance of both indices to make the right investment choice and decision, resulting in creating an optimal portfolio investment. To this end, the study conducted the Two-Sample Test of Hypothesis to compare the performance of two indices. Table 2 presents the Z-statistic test findings, which has a value of 0.097146156 that is less than the critical value of the two tails, which is 0.922610327. Therefore, the study cannot reject the null hypothesis that advocates there is no difference between the Islamic stock market return (KATILIM 50) and the conventional stock market return (BIST 100) in Turkish capital market at the significant level of .01.

<table>
<thead>
<tr>
<th></th>
<th>KATILIM 50</th>
<th>BIST 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>-25.751117</td>
<td>-28.94226</td>
</tr>
<tr>
<td>Known Variance</td>
<td>194116</td>
<td>248294.5</td>
</tr>
<tr>
<td>Observations</td>
<td>410</td>
<td>410</td>
</tr>
<tr>
<td>Hypothesized Mean Difference</td>
<td>0</td>
<td></td>
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<tr>
<td>z</td>
<td>0.097146156</td>
<td></td>
</tr>
<tr>
<td>P(Z&lt;=z) one-tail</td>
<td>0.461305163</td>
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<tr>
<td>z Critical one-tail</td>
<td>1.644853627</td>
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<tr>
<td>P(Z&lt;=z) two-tail</td>
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<tr>
<td>z Critical two-tail</td>
<td>1.959963985</td>
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CONCLUSION

This study utilised the Two-Sample Test of Hypothesis to compare and investigate the performance of KATILIM 50 index and BIST100 index in Borsa Istanbul throughout May 15, 2015, to December 31, 2016, using daily frequency data. Further, the study also examined whether both indices have cause and effect relationship during the same time frame of the study using the Pairwise Granger (1969) Test.

The overall findings show that both KATILIM 50 and conventional BIST100 indexes have no differences in their return and the level of performance. This finding suggests that investors can invest in both indexes however, as for Muslim investors it is difficult to participate in conventional indexes with non-Shari’a-compliant features. Thus, this finding suggests that Muslim investors may consider Islamic indexes which are Shari’a-complaint to satisfy their religious beliefs and achieve the same level of returns with Conventional counter-part. Besides, the result of Granger (1969) Test showed the absence of causality between both indices. This suggests that the stock market in Turkey is informationally efficient and non-violated with the Efficient Market Hypothesis with respect to the available information of both indices.

The policy implications that can draw from the findings of the study are twofold. Firstly, the evidence of absences causal association between both market indices may have a significant impact on investors’ portfolio diversification investment opportunities. Secondly, the evidence of equality in terms of capital gain and degree of performance for both indices would provide relevant inputs to further support the development of a vibrant Islamic stock market as a potential alternative to the current conventional counterparty.
Exclusion of Afghans from the formal financial system remains a major challenge for the Da Afghanistan Bank (Central Bank of Afghanistan). World Bank’s Global Findex Database indicates that only 15% of the population in Afghanistan had an account with the banks in 2017. Although the number of banks and their branches has considerably increased in...
the aftermath of banking liberalization in 2003, people’s exclusion from the mainstream banking system remained huge. A major reason cited for not using banking services is it not being Shari’a-compliant.

To increase financial inclusion and include more faith-based customers into the formal financial system, introduction and promotion of Shari’a-compliant banking system was considered necessary by the Da Afghanistan Bank (DAB). An Islamic financial system comprises of Islamic banking, Islamic capital & money markets and Takaful (Islamic insurance). However, in the case of Afghanistan, the DAB only focused on Islamic banking and did not pay sufficient attention to the other components of the Islamic financial system.

To promote financial inclusion and attract more faith-based customers, the Da Afghanistan Bank has granted a licence to the first Islamic banking window (IBW) in 2008. And since then a total number of six Islamic banking windows are granted licenses and currently operating. However, the window system could not contribute much to the financial inclusion and IBW’s total assets remained AFN16.49 billion (USD215.55) million in 2017 that is around 5.2% of total banking assets.

Later on, when the Da Afghanistan Bank realized that the window system does not effectively contribute to financial inclusion, the DAB decided to boost financial inclusion through introducing full-fledged Islamic banks and licenced first full-fledged Islamic bank in 2018. DAB aimed that with licensing full-fledged Islamic bank more faith-based customers will be included in the banking system and its full fledge Islamic branches will reach to entire Afghanistan.

This decision of the central bank has positively contributed to the asset growth of the Islamic banking industry and as per the data IFSB compiled, total assets of the Islamic banking industry has increased to AFN32.03 billion (USD418 million) as of the third quarter of 2019, almost doubled the amount of total Islamic
banking asset versus USD215.55 million at the end of 2017. Meanwhile, the share of Islamic banking in the total banking system of Afghanistan has increased to 10.74% at the end of 2019 in comparison to 5.2% at the end of 2017.

However, despite all the growth Islamic banking assets has seen, the Islamic banking industry is still not profitable and remained excessively liquid. The unprofitability is mainly due to excess liquidity and limited avenues of investments and financing available for the Islamic banking industry. Hence, this limited choices of investment and financings negatively impacted the profitability of the Islamic banking industry. And ultimately it will threaten the financial inclusion agenda via the Islamic banking industry.

As mentioned earlier, the Islamic financial system is comprised of; Islamic banking, Islamic capital & money markets and Takaful (Islamic insurance). But in the case of Afghanistan, Islamic banking is the only component of the Islamic financial system currently operating. This stand-alone position has made Islamic banks more vulnerable in terms of asset and liquidity management and limits the investment and financing avenues for the IB industry.

Therefore, to achieve financial inclusion agenda via Islamic finance, the central bank of Afghanistan should establish a comprehensive Islamic finance infrastructure inclusive of all components of the Islamic financial system. For instance, the central bank should establish and support Islamic inter-bank money market, introduce Shari’a-compliant monetary policy tools at the Central Bank level i.e. receive and provide liquidity from and to Islamic banks based on Shari’a-compliant methodologies. In addition, Da Afghanistan Bank in collaboration with the ministry of finance and other relevant financial authorities should develop legal and technical infrastructure for Sukuk and Takaful (Islamic insurance) industry.

Hence, developing a comprehensive ecosystem for a complete Islamic financial system will certainly contribute to the financial inclusion in Afghanistan. Otherwise, the stand-alone Islamic banking industry will face difficulties in its assets and liquidity management and will not effectively contribute to financial inclusion. Standing alone position will keep the IB industry unprofitable and may not provide compatible profit to its faith-based customers in comparison to its conventional counterparts. Which may ultimately lead the IB industry into failure in the long term.
WOULD YOU LIKE TO PROMOTE YOUR BUSINESS IN ISFIRE?

CONTACT US

+44 (0) 207 078 7297  isfire@cambridge-ifa.net  https://isfire.net
In recent months, the Iranian financial system has seen a lot of fluctuation and a considerable amount of cash flow to and from its different segments.

The novel COVID-19 outbreak has shown its effects on international financial markets and in this situation many investors are trying to find the best markets for their investment portfolio management. Meanwhile, regardless of the decisions taken by the financial system policy maker (i.e. the ministry of financial affairs and economy of Iran), the Iranian capital market and banking system are trying to attract the much needed investors’ attention. The banking system uses deposit rates as a critical arm to absorb money and simultaneously many investors who are more risk-takers prefer to enter the capital market.
instruments with the hopes of earning more than the less risky banking deposits.

It is notable that based on the Iranian constitution, financial products such as equities, bank deposits or other debt-based instruments should follow Islamic principles. It is illegal in the market to launch or to trade any financial instrument that contradicts the Islamic principles. Considering this fact, the Iranian financial system is one of the most unique financial frameworks, which legally wholly comply with Islamic principles.

In Iranian financial system, the Money and Credit High Council is in charge of determining the deposit rates for many banking deposits and announces different deposit rates for different types of deposits at the beginning of the Iranian New Year (i.e. March 21). One of the reasons relates to the Central Bank's plan to manage the money outflow from banks to the real economy. Notably, lending rates have a very important role in this regard, because many segments of the real sector economy such as auto-making factories and related industries, healthcare, tourism and other manufacturing companies greatly depend on the lending rates, which the banks ask for when providing the needed money to such institutions.

With all the aforementioned points, during recent weeks there was a huge demand in the capital market indices upward trends and as a result mini-deposit holders may prefer to use capital market instruments rather than the banking products for their investment. Such potential flow of the money may result in extracting the deposit holders' money from bank accounts and moving toward the capital market instruments and subsequently result in reducing the bank's power for protecting the real economy.

Herewith, the Central Bank of the Islamic Republic of Iran announced that there is no plan on the table for reducing the deposit rates. Right at this moment, it seems that changing the deposit rates will have a negative effect on the banks' performance and may reduce the banks' stability. However, in the future, reducing the deposit rates might be a good option on the table for protecting the real sector of the economy. Let's wait for a suitable time for that change.

Majid Pireh is the Head of Islamic Banking Group at Securities and Exchange Organization of Iran and Banking PhD Student at Allameh Tabatabaei University, Tehran; Islamic Republic of Iran. He may be contacted at: majidpireh@gmail.com
he AIFC aims to support economic growth and foster the development of financial services in Kazakhstan and the region by enhancing human capital development, providing services in accordance with international standards and the best practices of the leading financial centres and establishing Nur-Sultan as the financial & logistics hub of the vast Eurasian region. The AIFC is a modern financial hub for the countries of Central Asia, Eurasian Economic Union, Caucasus, Western China and Mongolia.

Following an ambitious goal of becoming the top 30 financial centres of the world in the long-run, the AIFC focuses on the development of its core pillars.

The key features of the AIFC is an attractive business environment and the presence of the Astana Financial Services Authority (regulatory body), the AIFC Court, the International Arbitration Centre and the Astana International Exchange (AIX). The independent AIFC bodies, the AIFC legal and regulatory regime ensure fairness, justice and greatly enhance the credibility of Kazakhstan in the eyes of foreign investors community.

The AIFC fulfils the development of all its pillars through the following benefits such as tax exemption (corporate income tax, personal income tax, land tax, property tax); simplified currency, visa and labour regimes for participants and employees of the AIFC; modern offices spaces; as well as connectivity of Nur-Sultan with the key financial centres around the world via direct flights and open sky policy.
The creation of the Astana International Financial Centre is one of the key steps of the Plan of the Nation of the First President of the country - Elbasy “100 concrete steps” (steps 24, 70, 71, 72) aimed at diversifying the economy and developing financial industry.

The AIFC Jurisdiction is based on the principles, norms and precedents of the law of England and Wales (Common Law).

- There are 6 pillars of AIFC: Capital Markets, Asset Management, Private banking, FinTech, Islamic Finance and Green Finance.
- In 2019, the AIFC became a hub for more than 350 companies from 35 countries.
- AIFC ranks 1st place among the financial centres of Eastern Europe and Central Asia, ahead of Istanbul, Warsaw, Budapest, Moscow and Baku.
- AIFC has been awarded the Global Islamic Finance Awards (GIFA): Institutional Support of Islamic Finance (2018); Initiatives for the Development of Human Capital (2018); An individual nomination for Policy Development in the field of Islamic Finance (2018); and the Global Islamic Finance Leadership Award (2019).

The AIFC Court and International Arbitration Centre became the 1st in Central Asia Region launch the eJustice filing system.

- In 2019, the AIFC was named Overall BRI project or initiative of the year according to the authoritative global publication ASIAMONEY.
- The AIFC court and the IAC signed 17 memoranda of cooperation with leading dispute resolution centres in Eurasia, Asia and Europe.
- The reservations of the AIFC Court and IAC have been included in over 1300 contracts as the preferred forum for dispute resolution.
- AIFC Court employs 12 justices
- The International Arbitration Centre - 37 arbitrators
- About 30 types of financial and market activities, as well as 5 types of auxiliary activities can carried out at the AIFC.
- AIFC creates an innovative environment for financial activities.
- The Astana Financial Services Authority launched a specialized regulatory environment - FinTech Laboratory - to test new financial services and technologies.
- In FinTech Laboratory, 18 companies are licensed to provide various types of activities, including: Digital asset management; crowdfunding; Automated investment management (Robo-advisory); Islamic finance; Factoring.
- AIFC participating companies have already made investments in various projects of the Republic of Kazakhstan in the amount of more than US$130 million.
- The Astana International Exchange received the status of a “recognised stock exchange” from the HM Revenue and Customs of the UK, becoming the only exchange with this status in the CIS and Central Asia.
Polymetal - Listing of the first foreign issuer at the AIX.

About AIX $216 million of equity capital was raised at the AIX - this is several times more than the equity capital raised on the Kazakhstan stock market over the past three years.

AIFC operates on a Single Window Principle.

AIFC Expat Centre has no analogues among CIS countries.

AIFC Expat Centre renders over 5,700 services.

More than 100 start-ups based at the Fintech Hub AIFC.

At the Fintech Hub hosted the regional stage of Visa Everywhere Initiative.

More than 50 technology, ICT and fintech companies are registered in the AIFC jurisdiction.

AIFC became an official business partner with the Centre for the Fourth Industrial Revolution of the World Economic Forum (WEF C4IR).

The report “Overview of the Financial Sector in the Region”, prepared by the AIFC in partnership with the audit companies Deloitte, KPMG, and PwC, is presented.

AIFC Law Pro Bono Office organises bi-weekly pro bono sessions free of charge.

AIFC volunteer law firm participants conducted 10 bono sessions, providing more than 50 clients with free legal aid.

Adherence to international standards

AIFC acts in the field of financial services regulation are developed on the basis of the best international standards and principles established by international organisations:

- International Organization of Securities Commissions (IOSCO)
- Basel Committee on Banking Supervision (BCBS)
- International Association of Insurance Supervisory Authorities (IAIS)
- Islamic Financial Services Council (IFSB)
- Organization of Accounting and Audit of Islamic Financial Institutions (AAOIFI)
- International Financial Consumer Protection Organisation (FinCoNet)

Astana Financial Services Authority organised International Investor Week in 6 cities of Kazakhstan under the auspices of IOSCO.

The International Investors Week is attended by financial regulators from 80 countries on 6 continents.
BUREAU FOR CONTINUING PROFESSIONAL DEVELOPMENT

TRAINING AND DEVELOPMENT OF HUMAN CAPITAL IN ISLAMIC FINANCE
Bureau for Continuing Professional Development (BCPD) has initiated development of best certification programmes in Kazakhstan with the purpose of forming a pool of professionals in the sphere of Islamic finance starting from 2017. The Bureau has selected top programmes from international certification and education institutions, and organised trainings for professionals and local community. Currently the BCPD is offering the following certification programmes:

**Bahrain Institute of Banking & Finance** (BIBF, Bahrain):
- Advanced Diploma in Islamic Finance (ADIF).
- Certified Shariah Advisor and Auditor (CSAA)

**Chartered Institute for Securities & Investments** (CISI, Great Britain):
- Islamic Finance Qualification (IFQ).

**International Centre for Education in Islamic Finance** (INCEIF, Malaysia):
- Professional Certificate in Islamic Finance (PCIF).

**Accounting and Auditing Organization for Islamic Financial Institutions** (AAOIFI, Bahrain):
- Certified Islamic Professional Accountant (CIPA)
- Certified Shariah Advisor and Auditor (CSAA)

The Bureau had also organised **Train the Trainer Programmes** to develop trainers in Islamic Finance certification for further development of educational programmes in this direction. They are:

- **Train the Trainer Program Certified Training Professional by Finance Accreditation Agency (FAA, Malaysia)** in June 2017, 9 trainers have been accredited
- **Train the Trainer Program INCEIF – Professional Certificate in Islamic Finance**
- **Train the Trainer Program INCEIF – Professional Certificate in Islamic Finance**
- **Train the Trainer Program INCEIF – Professional Certificate in Islamic Finance**
- **Train the Trainer Program INCEIF – Professional Certificate in Islamic Finance**
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- **Train the Trainer Program INCEIF – Professional Certificate in Islamic Finance**

BCPD has a pool of internationally certified trainers in Islamic Finance.

BCPD is the exam centre for all above mentioned certifications.

336 people were retrained in three years (2017-2019) in BCPD certification programmes, workshops and other educational events.

Over 400 grants awarded to candidates who have successfully completed training.

43 conditional grants were issued to stimulate professional development of financial sector specialists and universities’ teaching staff.

**Islamic Finance Week** – A platform for discussions in the Islamic finance industry and education issues – conducted annually in Autumn.

First Islamic Finance Week 2017 was conducted in September 18-22 in Nur-Sultan. Main goal of the conference was exchange of international experience and building constructive dialogue with market participants and international partners on issues of development and increasing awareness about Islamic finance in Kazakhstan and the region.

Second Islamic Finance Week in 2018 raised important issues of the Islamic finance industry development in Kazakhstan and all over the world, and also created a dialogue platform for industry professionals, academia and businesses with the purpose of infrastructure development at the Astana International Financial Centre. It should be noted, that AIFC Bureau has been awarded one of the most prestigious prizes in the sphere of Islamic Finance – Global Islamic Finance Awards (GIFA) on September 29, 2018: for «Human Capital Development Initiatives» in the area of Islamic Finance.

**Islamic Finance Week 2019** was intended to involve people in developing a productive dialogue with global Islamic finance leaders in education, financial services, as well as to inspire for proactiveness to help Kazakhstan and the region in paving its unique way on leveraging local Islamic finance potential.

BCPD realises Academic Partnership Programme by opening joint centres in universities and redesigning academic programmes with the purpose to bring international expertise to universities. Thus, the Islamic finance courses within academic programmes in Finance were launched in M. Narikbayev KazGUU University with BCPD trainers, and tri-lateral MoU was signed and a joint Islamic Finance Centre was launched in Al-Farabi KazNU in cooperation with Hamad bin Khalifa University (Doha, Qatar). BCPD also initiated collaboration with the Egyptian University of Islamic Culture “Nur-Mubarak” in Almaty in 2019 to introduce the content of professional certifications to programme curriculum and to retrain teaching staff of the university.

BCPD conducts numerous Islamic finance programmes info sessions in universities and financial institutions with the purpose of raising awareness in Islamic finance education and certification issues on regular basis.

**Association of Islamic Finance Professionals** was established in June 2018. Its activities are intended to stimulate continuing professional development of specialists in Islamic Finance area.
COVID-19: AN EXOGENOUS SHOCK OR A WAKE-UP CALL FOR RE-ASSESSMENT OF ISLAMIC BANKING AND FINANCE?

PROFESSOR HUMAYON DAR
DIRECTOR-GENERAL
CAMBRIDGE INSTITUTE OF ISLAMIC FINANCE

Islamic finance is badly affected by the ongoing COVID-19 pandemic. Thankfully, however, it is not only Islamic finance that is being adversely impacted, as the whole world is suffering, with businesses being down-sized or completely shut down. Nonetheless, it shouldn’t pass by merely as an exogenous shock to the system. Rather, the following questions must pause us for a while to think:

Are Islamic banks and financial institutions going to get hit worse than other conventional players in their respective markets?

Can Islamic banks and financial institutions come out of the crisis faster than their conventional counterparts?

In the context of the last Global Financial Crisis (GFC), many industry observers and analysts argued that IsBF coped better with the adversary than many conventional financial institutions. However, that might have been due to the smaller size of Islamic banks and financial institutions, and relatively less (or no) exposure to the toxic assets. It is also heartening to observe that Islamic banks went into the COVID-19 pandemic a lot healthier than when they were hit by the GFC. Hence, recovery should also be faster, as the forecast for economic growth for 2021, globally as well as for individual countries, is certainly healthy.

There are various techniques that may be used for stress testing (see p. 23-24). As an example, stress testing in the
wake of a change in a macroeconomic variable like GDP growth may be used to illustrate the gravity of the situation.

The worst-case scenario for annual stress testing that the banks have been subjected to since the end of the GFC assumed a decline in the global GDP by 5% to 7%. With the estimated decline in GDP in EU and US of 28% to 30% (Fitch Ratings) and over 25% decline in the global GDP (Euromoney), the banking sector has already been hit with a big blow. While regional or global GDP is relevant, a more important factor would be a decline in the national GDP of the country where a particular Islamic bank operates. For example:

What would be the impact of nearly 14% (estimated for 2020) decline in GDP in Malaysia on its Islamic banking sector?

How would the largest Islamic bank in the world (outside Iran), namely Al Rajhi Bank (of Saudi Arabia) cope, given the sharp drop in oil prices and the decline in GDP growth in the wake of COVID-19?

Pakistan is expected to experience a decline of over 80% in its GDP growth rate in 2020. How is the Pakistani Islamic banking sector going to respond to this external shock?

These, and many more, questions must be answered. The risk managers within Islamic banks and similar businesses must be busy running simulations. This should not be deemed sufficient. An industry-wide assessment is essential. To start, there is a need to conduct something similar to the Supervisory Capital Assessment Program (SCAP) for the largest 20 Islamic banks to assess the stability of Islamic banking in the wake of the current crisis. Ideally, a comprehensive SCAP should be developed for the global Islamic banking industry to assess the stability and sustainability of IsBF. It is absolutely imperative to do so, given that the growth in the global Islamic AUM has been declining over the past 5-7 years.

Despite its devastating economic effects, the COVID-19 may, in fact, be a blessing in disguise for IsBF if the captains of the industry and other stakeholders take it as a wake-up call and start re-assessing its fundamental value proposition. This pandemic has unambiguously conveyed the message to each and every one that any and everything is possible in terms of risks and opportunities. The IsBF industry, therefore, must realise that it is quite possible that the demand for IsBF or supply of Islamic financial services withers away in future, following an “event” or at the end of a “process.” One may shun this view completely, but the on-going COVID-19 crisis has made nothing impossible and everything possible in terms of incidence, quantum and proportion.

A reassessment of the direction of the industry requires the exploration of the possibility of developing IsBF as a development-oriented financial intermediation model rather than a purely technical phenomenon based on Shari’a. Also, this is perhaps the timeliest warning for Islamic banks (and other service providers in the industry) to start taking technology seriously. In a situation following the outbreak of COVID-19, technology is perhaps the only winner. In the post-COVID-19 era, FinTech must play a bigger role in Islamic finance.

There is no indication of any sort that IsBF will suffer more or less than conventional banking and finance during or after the ongoing pandemic, but it is always a good idea to grab any opportunity to pause and reflect on past performances and decide the future course of action. The COVID-19 may present such an opportunity to IsBF to rethink and redefine itself. The question arises, are any stakeholders out there who are ready to seize this opportunity.

The COVID-19 may present an opportunity to IsBF to rethink and redefine itself.
WORK-LIFE BALANCE AND HOW IT AFFECTS YOU

IS WORKING HARD REALLY WORTH IT?

ZAHID UR REHMAN KHOKHER
THE DILEMMA OF WORK-LIFE BALANCE

When Harvard Business Review interviewed three best-performing CEOs of the World for 2016, they were also asked about the extent they are trying to model work-life balance for the rest of their company. The first responded briefly “I’m not a great role model”. The other said “It’s difficult to find the right work/life balance as the CEO of a global company” whereas the last one’s response was “I’m not a good role model, either.”

While most working people strive to achieve some balance between their work and other facets of life, more often than not it is considered an “ideal”, which does not exist in real life. That is one of the main reasons why “work” element in the lives of many people acquires much more predominance than all other things combined.

Nevertheless, when Bronnie Ware, the palliative care nurse and author of the famous book “Regrets of Dying” compiled the common remorse of numerous patients who have gone home to pass the last days of their lives, the most prominent regret was “I wish I hadn’t worked that hard” as it led them to “miss their children’s youth and their partner’s companionship”. The other major regret was that they should not have let their friends and relationships slip over the years by being caught up in their own lives. In her words, “Everyone misses their friends when they are dying”.

IS SEGREGATION BETWEEN WORK AND LIFE A PRACTICAL IDEA?

Before contemplating the strategies to attain balance in the work-life, a more important question is whether compartmentalising our life roles into “work” and “life” is in itself a good idea. Isn’t our life an “integrated whole” of which “work” is only a component? Doesn’t the context of work-life balance change during different phases of one’s life or have different meanings to different people? Similarly, a bigger question is whether we have a measure or a gauge to help us define whether we have attained the ideal work-life balance. Is it about the quantity or quality of those hours spent in various activities that matters?

Let’s try to untangle some of these puzzles.

The fact is that meaningfulness of life cannot be defined by a single career. If detaching the profession leaves nothing in your life, then that life cannot be considered meaningful. We shouldn’t be among those who become successful in their careers but fail in life.

To have an integrated vision of work-life balance, a better framework is to define life in terms of four kinds of relationships:

- **Relationship with Self**
- **Relationship with Work**
- **Relationship with Family, Friends and Community**
- **Relationship with the Creator**

The objective is to seamlessly integrate our professional pursuits with our other “relationships” so that we can achieve a greater sense of life, and not merely strive to become effective “time-manager” for the sole purpose of performing better at work.
However, just like the take-off safety messages announced by airlines, putting own wellbeing before the others is the right strategy. This relationship needs time allocation for many reasons.

1. to have a healthy body and mind that could help us to stay active and think creatively
2. to “sharpen the saw”, as termed by Stephen Covey – learning a new skill, language or simply a new sport
3. to plan, reflect and take breaks. Allow the mind to wander, take adequate sleep and support hobbies outside work benefits. Our faculties of organising, analysing and problem-solving develop our broader identities outside professional careers.

RELATIONSHIP WITH SELF
This relationship is often the most neglected one. Deteriorating health condition should be considered the first metric of work-life imbalance. Our life is meaningless without “us”. However, we have “workaholic identities” created by our corporate lives so that we are not perceived as slack or socially inactive. Instead, many professionals want to portray themselves as a classical “corporate warrior” – who is always available, ready to take the extra workload and willing to sacrifice personal life in favour of job responsibilities, as and when needed. This has led many to presume that availing free time is a waste of time.
RELATIONSHIP WITH WORK

In the entire discourse on work-life balance, work gets an elevated status. While work does not – and should not – be the only gauge of how we define ourselves and our successes, it still has an important place. Most of us wish to see ourselves successful in our career pursuits – not only to earn a living but also to enjoy the higher position, to cherish the achievements and to contribute to the professions we work in. However, for some others, work-life balance means where they have minimal work pressure, no impending deadlines or where they can spend most – if not all - of their time with family and friends.

Work is a trust and could be a cause of fulfilment if it is aligned with our purpose in life. Similar to all other life pursuits, without diligence, persistence and ‘love of labour’, success at workplace cannot be attained. While as important as this relationship is, we should be able to get out of this role when we have delivered our part – which will allow us to fulfil our responsibilities in respect of other relationships. Similarly, in case of contrasting pressures of impending deadlines at office and family commitments, honest dialogue with the boss and spouse to find alternatives could help instead of being stressed and distracted.

WHERE TO WORK AND HOW MUCH? WHICH ROLE IS “COMPULSORY” AND WHICH IS “ELECTIVE” IN RELATION TO PEOPLE AND THE COMMUNITY AROUND US, AND MOST IMPORTANTLY, WHAT IS THE “MINIMUM LEVEL OF PERFORMANCE” FOR EACH LIFE ROLE, WHICH CAN GUIDE OUR RE-ALLOCATION OF RESOURCES AMONG THESE ROLES.

RELATIONSHIP WITH FAMILY, FRIENDS AND COMMUNITY

Harvard Study of Adult Development is one of the world’s longest studies that has been collecting data on the physical and mental health of the research group for about 80 years. Among the key findings of this enormous exercise is that “our relationships and how happy we are in those relationships have a powerful influence on our health”. The study has consistently shown that embracing satisfying relationships cause a delay in the decline of physical and mental health, protect against discontents and are better predictors of long and happy lives than social class, IQ or even genes. Despite the importance of this relationship, most regrets of working people in their last days, as quoted in Bronnie Ware’s book, actually pertain to not allocating sufficient time to our family and close friends – which we either take for granted and continue giving priority to our work or we hope that one day we will be able to find enough time for them.

HBS professor Clay Christensen has aptly articulated this dilemma of our time allocation in his book “How Will You Measure Your Life?” Unconsciously, people allocated their extra time and energy in pursuits which grant the most tangible and immediate sense of accomplishment – which is often related to work. However, not allocating enough time for spouse and children does not yield immediate results nor does the underlying problem surfaces until it’s too late. The key lesson is that if people around you are important then you have to assign time and energy for them, resulting in lifelong and deep connections that you can rely on in the part of your life when you need them the most.
Once such roles are identified, extra available resources (such as time, energy, money) need to be deployed. If there are no extra resources available, then performance level in some other roles have to be reduced to enable the transfer of those resources to the role where minimum performance level is not being met. For example, you might be allocating more time to work or leisure that could be given to family or to keep in contact with old friends. You should be willing to drop or change some of your life roles without which you can still achieve your purpose. Such as heaving workload, company culture or the attitude of the direct supervisor that is not leaving you enough time for other “compulsory” roles (such as your spouse, son/daughter, father/mother etc.).

This could be the time to seek alternative work opportunities within or outside the company or a new career altogether. The target is that under no circumstances should the performance in compulsory life roles drops or gets below the minimum level.

RELATIONSHIP WITH THE CREATOR

Most belief systems of the world who claim to follow the divine guidance are in unison on this core point: that an All-Knowing and All-Wise Creator originated this entire universe and everything in it with a deep sense of purpose. Contrary to most other species, as a creature with speech and the ability to make intelligent choices, human beings have gained a special status in this universal design — expected to reflect on their presence in this inhabitable planet and find their purpose through divine guidance brought by His prophets and other signs of His existence in the universe. This endeavour will help them discover their relationship with the Creator.

This relationship is important because this paradigm could provide a sound basis for our definition of success or failure in life. Similarly, this link could help us define and redefine our relationship with the other three aspects of life mentioned above: how much time to give to self, work, rest and reflection. Where to work and how much? Which role is “compulsory” and which is “elective” in relation to people and the community around us. And most importantly, what is the “minimum level of performance” for each life role, which can guide our re-allocation of resources among these roles.

MAKING SENSE OF IT ALL: SOME PRACTICAL TIPS

LEARN THE TECHNIQUE OF ROLE BALANCING

Cracking relationships with family and deteriorating health are two primary symptoms that suggest that we are sacrificing some roles over others while being unable to meet their minimum expectations and requirements. In order to bring balance to this situation, a careful identification and assessment is needed for us to be able to meet the minimum performance level, as defined by our purpose-in-life.
GIVE UNDIVIDED ATTENTION TO THE ROLE-IN-HAND

To contribute most to each role, a primary principle is to be “thoughtfully present” in what we are doing. The technology was supposed to bring us ease of work through tools such as emails, text messaging, video conferencing, and project management software that could leave more room to fulfil other life roles. However, the non-stop, compulsive, and distracting use of technology, especially with the advent of mobile apps, has blurred the line between professional and personal life, and ushered us in an era of “continuous partial attention”. In this condition, we are constantly in the state of hyper-alertness and multitasking mode but are unable to give full attention to any task or role. Psychologists say that being in this condition for prolonged periods of time can result in poor concentration, hampered brain function, and elevated anxiety.

The solution is to give undivided attention to the role-in-hand to the maximum extent possible. Barring any emergency, it is possible to avoid checking new social media posts or WhatsApp messages during work time and stop following office emails or project updates when having dinner with family or friends. If during travel or vacations, following up with staff or office work is unavoidable, allocating a ‘block of time’ during the day is a better strategy, rather than continuously juggling between the both.

Remember: Technology is a good servant but a bad master.
KURALAY YELDESBAY

A TRUE CHAMPION OF ISLAMIC FINANCE IN THE CENTRAL ASIA

01 Founder of the first-ever Takaful company in Kazakhstan and the CIS region
02 Founding member of the Association of the Development of Islamic Finance (in Kazakhstan)
03 Founder of the Association of Islamic Finance Professionals
04 A distinguished alumna of Cambridge Islamic Finance Leadership Programme 2018
05 Ranked 42 on the WOMANi50 list in 2019
Islamic finance is not just a focus of my profession; it is a passion I live by and its advocacy gives me maximum satisfaction.
Kuralay Yeldesbay has earned the reputation of being an Islamic finance lady, a true culmination of what the WOMANi brand entails. Ranked as No. 42 on the WOMANi List 2019, she has emerged as an inspiring personality in Islamic banking and finance not only in her native Kazakhstan but also in the wider CIS states.

Our WOMANi Report features 300 Most Influential Women in Islamic Business and Finance. Kuralay Yeldesbay featured in the prestigious WOMANi50, a list of top 50 women in Islamic business and finance. This is a huge achievement as the list is otherwise populated with C-level influential women, including the likes of Datuk Noripah Kamso, Chairman of Bank Rakyat Malaysia (ranked first on the list) and Prof. Dr Engku Rabia Adawiah Ali, the most influential woman jurist in Islamic banking and finance (ranked third on the list).

Kuralay Yeldesbay is accredited as the founder of the first Takaful company in the CIS region. She ran the company successfully for over six years before embarking on a career that would allow her to play a role in the promotion of Islamic banking and finance regionally and internationally.

Despite immensely huge efforts by the likes of Astana International Financial Centre (AIFC) - her current employer - the Islamic banking and finance remains a peripheral activity in Kazakhstan. It is the likes of Kuralay Yeldesbay, who have taken the baton from the generation they are respectfully succeeding, to promote Islamic banking and finance in their country.

In addition to her day job at AIFC, Kuralay Yeldesbay serves as the President of Association of Islamic Finance Professionals. A body she has set up with the help of like-minded friends who feel passionate about Islamic banking and finance. The Association is now a force to be reckoned with and is being tipped as an advocacy platform for Islamic banking and finance in the wider CIS region.

Indeed, this is proving to be the case, as there is now a sister organisation being set up in neighbouring Russia. Uzbekistan and Kyrgyzstan have also shown interest in being part of a regional network to develop adequate human resources for the budding Islamic financial markets in these countries. There are many obstacles to the development of Islamic banking and finance in the countries that were once part of the Soviet Union.

The Soviet-era almost succeeded in eliminating the Islamic identity from the region. When these countries came out of the Soviet rule in the early 1990s, Muslims were only faintly linked to their Islamic heritage.

In many countries where an extremist approach was adopted to revert to Islam, it proved to be catastrophic for the Muslim communities therein. Islamic banking and finance is a moderate and modern phenomenon that offers a market-based approach to the revival of Islam in Kazakhstan and the neighbouring countries.

Kuralay Yeldesbay was born in the beautiful city of Almaty but her love for Islamic finance took her to the capital city Nur-Sultan, which is fast emerging as a Centre of Excellence for Islamic finance, owing to AIFC and its leadership. Yet, she hasn't confined herself to Kazakhstan, as her influence is reaching beyond national boundaries, earning her international fame.

I truly believe that our Association can play a key role in the development of Islamic banking and finance in the region.
We are happy that Islamic banking and finance has provided us with a constructive platform to progressively assert our Muslim identity.
A SUSTAINABLE APPROACH TO INTERMEDIATION

CAN THIS BE REDEMPTION FOR ISLAMIC BANKS?

WAJAHAT AZMI
With the humble beginning in the early 70s, Islamic finance has now become a trillion-dollar industry with its footprint across many non-Islamic jurisprudences as well. While Islamic finance witnessed a significantly lower growth between 2017 and 2018 as compared to previous years, the industry still recorded continuous improvement for the third consecutive year. The industry is estimated to be worth USD2.19 trillion as of the second quarter of 2018.

Given the longstanding criticism and the question mark on the value proposition of Islamic finance, it is high time that the industry positions itself as something of value to society. In other words, it should operate with a dual aim of maximisation of shareholders’ wealth and the fulfilment of Maqasid Al-Shari’a (objectives of Shari’a).

One of the ways of achieving the dual objective is to adopt practices that are more sustainable and promote real economic activities. The business models are evolving towards a more inclusive approach and the increasing interest in the “Triple Bottom Line” (TBL) framework.


JOHN ELKINGTON - HARVARD BUSINESS REVIEW (JUNE 25, 2018)

Figure 1: Triple Bottom Line Sustainable Framework

SOURCE: UW SUSTAINABLE MANAGEMENT — UNIVERSITY OF WISCONSIN SYSTEM
The increasing importance given to the more inclusive approach of TBL has led to a sudden surge in sustainability investing that is geared towards TBL’s investment philosophy.

Figure 2: Sustainability themed investing

**SOURCE: J SAFRASARASIN**

The above figure depicts different screening criteria used for sustainability investing and the most common of them all is the negative screening. The negative approach is similar to the Islamic screening criteria whereby the businesses/industries are screened based on the prohibition mentioned in the Quran and other primary or secondary sources. Some of the initiatives that are taken at the global level to make banking more sustainable are Principles for Responsible Banking from UNEP, Equator Principle etc.

Figure 3: Principles of Responsible Banking
therefore it provides a huge opportunity for the developing markets to tap into these investment prospects. Additionally, it opens up enormous avenues for Islamic finance to tap into the market, given the fact that total the SDG funding gap in OIC countries is close to USD1 trillion annually.

Principle 1: Review and Categorisation
Principle 2: Environmental and Social Assessment
Principle 3: Applicable Environmental and Social Standards
Principle 4: Environmental and Social Management System and Equator Principles Action Plan
Principle 5: Stakeholder Engagement
Principle 6: Grievance Mechanism
Principle 7: Independent Review
Principle 8: Covenants
Principle 9: Independent Monitoring and Reporting
Principle 10: Reporting and Transparency

However, the scope of sustainable form of finance is not limited to banking only. It has been incorporated in the investment strategies as well. The figures 5 and 6 shows the global sustainable investment universe and its distribution across five countries/regions. As we notice, most of these assets are in the developed region and therefore it provides a huge opportunity for the developing markets to tap into these investment prospects. Additionally, it opens up enormous avenues for Islamic finance to tap into the market, given the fact that total the SDG funding gap in OIC countries is close to USD1 trillion annually.

Figure 5: Sustainable Investing Assets, 2016 & 2018 (in billions of US dollars)
Given the fact that the banking and Sukuk industry is the dominant sector of the Islamic financial industry, I believe this is where Islamic finance can have huge contributions. For instance, there is growing interest among the investors in subscribing to green investments or bonds and this can be met by matching the USD1 trillion annual funding gap needed for clean energy alone. On a similar front, Islamic banks can address many pressing issues and add value to the overall community, such as;

- **ENVIRONMENTAL CALAMITY**
Addressing global warming is no more an option; it has become a necessity to leave a healthier place for our next generation. The effects of global warming on the environment are devastating, as glaciers are shrinking, the water level is rising, and there are frequent floods & drought. The total cost of disasters, caused by ecosystem disruption and global warming, is estimated to be USD300 billion.$^1$

- **UNAFFORDABLE HOUSING**
Another pressing issue, which the whole world is grappling with, be it the developing or developed market is affordable housing. About 330 million households are residing in second-grade accommodation. These numbers are expected to grow to 1.6 billion by 2025 and 2.5 billion by 2050.$^2$

1 NASA & WWF
2 McKinsey Global Institute
Recently, Standard Chartered launched the first sustainable deposit product to European investors and there are no prizes for guessing that it was received with an overwhelming response. More recently, Standard Chartered Singapore announced that they will also offer the sustainable deposit and the money will be used for infrastructure financing in Asia, Africa and the Middle East.

**THOUGHT LEADERSHIP IN ISLAMIC FINANCE**

As the sustainability trend is still in its infancy, especially in the Islamic finance industry, we need a strong thought leadership. Thought leadership is very critical in pushing the case for the sustainability agenda as it allows the leaders to embed sustainability with long-term vision and align it with their strategic and operational objectives. However, the key to successful integration of sustainability agenda is the stakeholder engagement. In other words, we need sustainability oriented leadership to bring effective change at an organisational level.

The below diagram (figure 7) depicts the proposed model of the Cambridge Institute of Sustainability Leadership (CISL) as to how the senior leadership can embed sustainability agenda into the long-term vision of an organisation.

**GLOBAL INEQUALITY**

The global inequality has been increasing for several decades now and nothing concrete has been done so far to address it. Thomas Piketty in his most celebrated work *Capital in the Twenty-First Century* argue that inequality is not a coincidence but an important element of capitalism and can only be addressed through government intervention. Although some countries have managed to pull people out from extreme poverty but the income gap continue to widen as the rich class amass an unparalleled amount of personal wealth.

Islamic finance in general, and banking & Sukuk in particular, can address this by playing an efficient intermediation function between the surplus sector and the deficit sector. Islamic banks can offer a deposit product and name it “Maqasid Driven Deposit (MDD)” and it should be made available to both retail and corporate customers. These products should be aimed at funding any of the identified sectors such as affordable housing, clean energy, SMEs etc.

Islamic finance contracts such as Mudharabah, Musharakah and Service Ijarah have an inbuilt design to address some of the major issues highlighted in Sustainable Development Goals (SDGs). As mentioned above, the annual SDG funding gap in OIC countries itself is USD1 trillion so deploying the funds is not an issue anymore.

The below diagram (figure 7) depicts the proposed model of the Cambridge Institute of Sustainability Leadership (CISL) as to how the senior leadership can embed sustainability agenda into the long-term vision of an organisation.
Among the Islamic banks, CIMB Islamic has led the sustainable agenda and has made significant strides in achieving the ambitious targets. CIMB Islamic leadership argues that the sustainability agenda shall be adopted as a business strategy to contribute positively to society without compromising on the profits.

**TASKS FOR STAKEHOLDERS**

Sustainability leadership only at the organisational level would take very long to bring about change. To bring about effective change, key partnerships need to be formed. CISL spells out the role of key segments in supporting change.

**Figure 8: Ten tasks for economic leaders**

In the above figure, CISL segregates the whole sustainability ecosystem into three key segments: Government, Finance & Business. In each segment, it outlines the key tasks that need to be undertaken.

**CONCLUSION**

The idea of bringing sustainability in Islamic finance has two major advantages. First, it addresses the long-standing criticism of cloning conventional products and providing no...
additional value to what conventional form of intermediation is doing for ages. Second, there is not only anecdotal evidence but recent empirical and scholarly works also point to the fact that combining Islamic and sustainability criteria is a more rewarding strategy in terms of performance than Islamic or sustainability investing alone. However, as mentioned above, to bring these changes we need thought leadership or more specifically sustainability leadership to drive these initiatives. Moreover, we need key partnerships among economic leaders to provide strong incentive structures for the market participants to engage in more sustainable practices. As a start, Islamic banks can take cue from Standard Chartered and start offering deposit & financing products aimed at sectors that is linked with real economy and add value to the society & community.

Figure 9: How ESG translates into improved performance

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ISLAMIC FINANCE AND THE BLOCKCHAIN IN HEALTHCARE

INCREASING MEDICAL COSTS IS A RISK TO GLOBAL HEALTH

DR MUSSAAD M. AL-RAZOUKI
As the global spending on healthcare passes the seven trillion-dollar mark, a new type of global financing mechanism is required, specifically, one that combats rampant medical inflation (700%) and taps into the potential of the growing trend of medical tourism.

Underlying this increasing cost in healthcare services is the growing global population and the rise in unhealthy lifestyle, which places a correlative burden on chronic diseases such as obesity, heart disease and diabetes. Diabetes is directly linked to the prevalence of obesity, which in many countries can plague between 30 to 66% of the population. When it comes to chronic diseases, the top 10 countries are estimated to have around 30% of the adult population with diabetes type 2. This is indeed alarming, as diabetes has been linked to an increased hospitalization risk of over 400%.

The Global Medical Tourism Market was worth over USD20 billion in 2016 and estimated to be growing at a CAGR of close to 20%. It is estimated that the global medical tourism market will reach USD50 billion by 2022.

Medical tourism is defined as travel across countries with the reason for benefiting from medical treatment of some form, which might not be accessible in the travelers’ nation of origin. This treatment may incorporate a wide cluster of therapeutic services. However, the most frequently profited services include dental care, elective surgery, fertility treatment, and cosmetic surgery. Developed nations like the US, Germany, UK, Japan, Canada, and France offer highly advanced treatments. So, patients travel to such destinations when quality care is not available in their respective countries.

High treatment costs and long waiting time surrounding the circumstances for medical procedures, advancements in technology and development of the market are major factors driving the growth of the market. Stringent documentation forms, issues related to visa endorsement, and limited protection scope are some limitations faced by this market. On the other hand, developing countries with evolving innovation and technology are fueling the market.

On a regional level, it is no secret that the Gulf Cooperation Council (GCC) governments are spending billions of dinars, riyals and dirhams on upgrading their traditional healthcare infrastructure. Local and regional newspapers are filled with stories on newer, bigger and flashier hospital projects.

THE ISLAMIC WORLD’S LARGEST HEALTHCARE ECONOMY IS SAUDI ARABIA: A USD60 BILLION HEALTHCARE MARKET GROWING AT 18% CAGR

Saudi Arabia’s most recent budget includes funds for 19 new medical cities in addition to the 102 hospitals currently under construction in the Kingdom with around 9 of these projects having strong involvement from the private sector. The Kuwaiti Ministry of Health is planning approximately USD5 billion worth of hospitals and medical towers to upgrade its current infrastructure. Abu Dhabi and Qatar are both building multibillion-dollar hospitals and medical (research) centres with both the Cleveland Clinic Abu Dhabi and Sidra Medical Research Center slated to come online within the next few years.
In Dubai, the picture is a bit different, and despite the Dubai Health Authority’s USD816 million and USD43.8 million upgrades to the Dubai and Rashid hospitals respectively, most of the hospital and clinic capacity in the City of Life is being built by the private sector, which will enjoy a rapid boost when mandatory private healthcare insurance is fully implemented.

Dubai is truly unique in the sense that most hospitals in the GCC receive vast majority of their revenue from the traditional Fee-For-Service or FFS model, whereby patients pay out-of-pocket for medical services. This is not the case in Dubai where most of the revenue for private sector hospitals comes from private health insurance reimbursements.

**ENTER THE BLOCKCHAIN AS SOLUTION TO CURB COSTS**

One solution could be a takaful inspired token that uses a blockchain-based payment system and financing solution that combats medical inflation by assigning a unit of value to certain high demand diagnostic related groups (DRGs) that are not covered by traditional healthcare insurance. Such a takaful token could be developed as an ERC-20 utility token, built using smart contracts on the Ethereum blockchain using a tired and true technological infrastructure powered by an open-source enterprise blockchain software firm working with a broad blockchain ecosystem.

This takaful token would be accepted at top hospitals and clinics, which are part of a single Patient Portal and Payment System. A key component of any successful preventative healthcare plan are the incentives used to encourage participants to lead healthier lifestyles. As a crypto-first solution, these takaful tokens can be earned through the wellness loyalty program, which will be offered to both individuals who download a Patient Portal Application as well as through customised corporate Employer Health and Wellness Programmes.

Such takaful token will provide the global healthcare industry in general and the regional Middle East and South-East Asia medical tourism sector specifically with much-needed

- Accountability
- Consumerism
- Combating Medical Inflation
• CONSUMERISM
Another interesting global trend in healthcare, which has affected other industries such as travel and tourism, is consumerism or a paradigm shift by which patients are taking increasing ownership of their own healthcare needs. Whether it is ‘shopping’ via the phone or online for the best-priced healthcare service, or even as far as self-diagnosing themselves prior to a doctor’s visit by browsing the multitude of online healthcare resources, the traditional paternal model of medicine whereby the physician’s word is the unequivocal law is slowly eroding. In particular, price transparency is an increasingly important global sub-trend since consumers have greater access to pricing information before availing the medical services. Also, insurers’ claims payments are lower, according to new research published in the Journal of the American Medical Association.

This healthcare consumerism is accentuated in the Middle East, as many Arabic medical portals do not have the proper oversight and peer-reviewed integrity as western websites. This is also enhanced by the high mobility of GCC patients who are not limited by the primary care gatekeeper model of medicine and instead prefer to be seen directly by a specialist or plunge themselves directly into an emergency room when a routine primary care visit would suffice.

• ACCOUNTABILITY
This is perhaps one of the most interesting recent global trends in healthcare and it forms the crux of the Affordable Care Act (what is known loosely as Obamacare) in the United States. The main idea is that healthcare practitioners will no longer profit from the sickness of patients, but instead will be incentivized to keep patients healthy and encourage preventative and evidence-based medicine. This is, of course, nothing new. In the Fertile Crescent in 17th century BC, the Code of Hammurabi called for physicians to be paid only if their patients were healthy.

Fast forward to the Middle East today, where the aforementioned FFS model is the norm, GCC states are trying to reconfigure their healthcare systems (in which at least 80% of the spending is covered by the government) to a more sustainable and accountable system that includes strong involvement from the private sector.

Another issue is the lack of coordination of care when it comes to the medical consumer. The average person in the USA will see about 18 different doctors in their lifetime according to a survey by GfK Roper. A similar case can be made for patients in the GCC, where it is probably an even more acute issue as many GCC patients do not have any rapport with a primary care physician and would be hard-pressed to even name their family doctor.

Within the topic of consumerism in healthcare, the Middle East has traditionally been known for outbound medical tourism to Europe, the UK, the US and even South-East Asia. But this dynamic is shifting, especially in Dubai. The GCC spends approximately USD12 billion (USD10 billion in government funds) sending patients abroad for life-saving surgeries, chronic cancer and physiotherapy.
Dubai is one of the few places in the Middle East region that has a solid medical tourism strategy and perhaps the strongest potential to become an international medical tourism hub. According to expert calculations, Dubai currently has a bed/population rate of 1.65 beds/000. The government of Dubai is planning to add over 400 hospital beds whereas the private sector will be adding around 2,486 beds which will increase the bed/000 ratio to 2.72 beds/000 in the next five years assuming a 3% growth in the population. This ratio is still far behind the 4 beds/000 ratio across the OECD but well above the GCC average of around 2 beds/000 meaning that Dubai facilities will need to attract patients (and demand) from outside of Dubai to meet this increasing supply.

MEDICAL INFLATION COMBATING

Inflation in the healthcare sector has outpaced the inflation in the CPI by almost 700% over the past 40 years according to the US Bureau of Labor Statistics. Within healthcare, the largest cost bucket is typically the remuneration of healthcare workers. Whether it is the salaries of healthcare executives, clinicians or administrative staff, it is costing more and more to staff healthcare facilities and technology has still not been as disruptive in healthcare as in other industries. Only around 50% of doctors in the USA use some form of electronic health record (EHR) according to US-based Practice Fusion, and this number is substantially lower across the GCC. Another cost barrier is the high administrative costs associated with healthcare. This is estimated to be between 24 to 31% according to the research by the New England Journal of Medicine on the United States, which many experts agree is the world’s most bloated healthcare system as healthcare spending is between 16 to 18% of the GDP (the average is closer to 3 to 4% in the GCC).

Countering the lack of transparency and organisation in patients’ health records, the purpose of the blockchain is to provide a secure and private platform to amass one’s medical data historically and in real-time. The era of fragmented patients’ records is to be bygones. This peer-to-peer network also lends itself to create an affordable and cost-saving mechanism and impact for health care cost in the long-term. How does it work? By converting real money into cryptocurrency, patients receive boosts in trade-in value with medical treatments within a supported network of hospitals and doctors. Its centralised format is an optimisation of what originally was an inflated cost structure, and is the collective and direct result of “investments”

A key takeaway is that health care, if not planned conscientiously could ultimately cost you, your family and your next generation in terms of inflated loans and unnecessary debt. It is a multi-faceted business that can both heal and harm. As a patient it is a birthright to concede with the most competent approach in your medical journey — and the intersection of Islamic Finance and the Blockchain is our vehicle.

Dr Razouki has over 15 years of experience in venture capital and private equity investment with a focus on healthcare and technology. He is the current Chief Business Development Officer of Kuwait Life Sciences Company (KLSC). Dr Razouki continues to work closely with the Council of Ministers of Kuwait and is currently advising the government on the development of the Sabah Al Ahmad National Genome Center together with the Kuwait Foundation for the Advancement of Sciences, a National Pharmaceutical Quality Control Laboratory, and the USD 1 billion Jaber Hospital project.
IRBA CELEBRATES EXCELLENCE AND BEST PRACTICES IN ISLAMIC RETAIL BANKING IN TWO BROAD CATEGORIES:

**STRONGEST ISLAMIC RETAIL BANKS** – award winners are selected based on a path-breaking Islamic banking efficiency study conducted by Cambridge IFA, which ranks over 130 Islamic retail banks.

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https://cambridge-ifa.net/events/irb_awards/irba_intro.php
FINTECH GATEWAY TO GROWTH OF ISLAMIC FINANCE INDUSTRY

WAJEEHA AWADH
Meanwhile, by looking at the increasing number of Muslims worldwide, which is expected to reach 3 billion by 2060\(^5\), the new generations will be born as digital native and will not accept the idea of visiting a branch or traditionally conducting their financial transactions. Therefore, this is another segment of customers that will eventually demand access to Islamic finance services and products through digital means and FinTech.

### ISLAMIC FINANCE AND FINTECH CORRELATION

Islamic finance is a financial system that is based on Shari’a principles, which promotes justice and forbids interest, avoids gambling and investment in prohibited activities like pork and alcohol, and prohibits risk-transfer loans etc. All these prohibited activities have been specified in Islamic law to ensure equality and fair management of wealth.

Moreover, many ethical principles are being encouraged in the Islamic finance industry including the ones related to avoiding conflict of interest, confidentiality, justice, accuracy, transparency, and avoiding the misuse of data and abuse of power. All of these principles exist in the spirit of FinTech, where it provides and ensures shared prosperity as well as growth that is more inclusive by empowering customers to use their social capital in supporting and contributing to causes of their interest.

Additionally, FinTech has a number of characteristics that go in line with Islamic finance principles and achieve its objectives such as transparency and speed of transactions, traceability and security of transactions, improved governance structure, and last but not the least accessibility to Islamic financial products and services.
The Global Islamic FinTech Report has found that the top five expected growth sectors in Islamic FinTech in 2020 will be in the areas of Crowdfunding followed by Challenger Banks, Blockchain and Crypto, Robo-Advisory and Personal Finance Management (PFM), and finally Lending. In this regard, it has been stated that the current challenges faced by these Islamic FinTech companies are primarily related to accessing capital, finding the right talent, raising customers’ awareness and education, being market regulated, and expanding into new geographical markets. Addressing these challenges shall provide a supportive ecosystem that enables the growth of the Islamic FinTech, which eventually will lead to faster growth of the Islamic finance industry worldwide.

These challenges can be solved by providing a regulatory framework that understands the Islamic finance requirements as well as various technologies to issue the right regulation that will empower Islamic FinTech. Furthermore, creating fund of funds and encouraging more investment companies to invest in these Islamic FinTech can result in meeting the existing demand, while increased awareness about their potential and opportunities can address the different financial needs in a Shari’a-compliant manner and close the financial exclusion gap among the Muslim populations. Additionally, educating and reskilling the existing workforce in different markets can create the right talent pool that meets the demand of the digital and FinTech sector. All these solutions can lead to opening avenues and reducing barriers for Islamic FinTech to expand geographically.

ISLAMIC FINTECH LANDSCAPE

FinTech is changing the financial industry including Islamic finance, through different opportunities that can be tapped into for innovative Islamic financial products and services. Islamic FinTech can be defined as FinTech firms that provide Shari’a-compliant finance related products and services using digital means. These FinTech firms could be a standalone start-up or a subsidiary of an existing Islamic finance institution.

Islamic finance institutions such as banks are taking different strategies related to the Islamic FinTech to leverage its potential. These Islamic banks are using five main strategic approaches. First is acquiring Islamic FinTech or non-Islamic FinTech and using it to provide certain services to their customers. Second is investing in Islamic FinTech through venture capital arms to make profits out of these advanced business models.

The third is incubating these Islamic FinTech inside the bank to work closely with them on different innovations. Fourth is partnering with Islamic FinTech or non-Islamic FinTech by joining forces to provide a unique innovative financial product or service in the market. The fifth is using internal capabilities to create an innovative product that can be pushed into a market as a standalone Islamic FinTech.

It is worth noting that 87% of these Islamic finance institutions prefer to engage and partner with Islamic FinTech according to the Global Islamic FinTech Report in 2019. There are key markets globally that are home for different Islamic FinTech including the UK, Malaysia, Bahrain, and the UAE. As per IFN Islamic FinTech Landscape, there is a total of 113 Islamic FinTech companies that are covering 11 financial sectors such as crowdfunding, digital banking, blockchain, crypto-assets, wealth management, InsurTech etc.

At the moment, 85% of these Islamic FinTech are either seeking to be regulated or have been regulated like Beehive, Ethis Crowd, and Yielders. Meanwhile, 76% of them have been certified as Shari’a-compliant or are expecting to be certified soon. This indicates that there is a desire by Islamic FinTech to have formal representation in the markets and gain the trust of customers.

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The third model directly competes with existing banks by providing similar financial products and services to the same segment of customers. For example, Wahed is a wealth advisor online platform that uses Artificial Intelligence-based Robo-advisors to do investment for customers in a Shari’a-compliant manner. This platform provides investment advice using Robo-advisory services, which previously has only provided through fund managers in banks or other financial institutions to the same segment of customers.

The fourth model uses banks’ existing infrastructure to provide Islamic financial products and services. An example is alneo, which is a digital payment solution that replaces the traditional POS devises and allows businesses to receive payments from their customers using a mobile application. This application has been developed by an existing Islamic bank in the market (Al Baraka Turk) and launched in the market as a FinTech solution that utilises the bank’s existing infrastructure to deliver its innovative service.

The fifth model offers a new and disruptive Islamic finance product or service such as “HelloGold”. This FinTech company provides Blockchain-based platform for gold investment, which allows customers to buy and sell gold from their mobile application in a Shari’a-compliant process. This type of investment could not be possible without the existence of technologies like blockchain and therefore it is considered disruptive in the world of financial services.

Despite the slow rate of growth in the Islamic finance industry, Islamic FinTech can play a substantial role in the development of the industry through first meeting the existing demands in the Islamic world for Islamic finance products and services, second, using the different innovative models to come up with Islamic FinTech, and third overcoming the challenges these FinTech companies face. By addressing these three points, the progress of the industry can be assured and more financial inclusion can be achieved.

**ISLAMIC FINTECH MODELS**

The Islamic FinTech startups through the utilisation of different technologies have managed to come up with innovative business models that provide Islamic financial services and products digitally. The technologies used vary in term of complexity based on the model applied, where it can be as simple as Mobile Money up to using Blockchain and Artificial Intelligence. Regardless of the technologies applied, the innovation of their business models come from the opportunities in the market that these FinTech startups capitalise on to build their businesses.

There are five models that these Islamic FinTech companies have followed:

The first model focuses on serving customers that are currently not being served by banks (including the unbanked and underbanked). An example is, Insha, which is the first Shari’a-compliant digital-only bank in Germany. This digital bank provides Islamic financial services and products to the Muslim population in Germany that has limited access to such services and products. This is mainly due to the fact that most of the banks in the market are conventional and do not provide Shari’a-compliant financial services. This Islamic FinTech has grabbed the opportunity presented by the existing need of a segment in the market, not being met by the existing financial system.

The second model identifies the existing inefficiencies in the banking processes and accordingly provides better financial services. For instance, Beehive is a crowdfunding platform that provides Shari’a-compliant financing for SMEs. This platform has identified the weaknesses in the current banking system related to serving SMEs in term of high financing rates and speed of financing that results in SMEs having to wait a long time to get finances. Given these inefficiencies, the platform is providing lower financing rates than other banks in the UAE market and the speed of financing is described as fast by SMEs that have already received financing from this platform.

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**Wajeeha H. Awadh is the Section Head of Digital Banking & FinTech, Al Baraka Banking Group.**
AN ISLAMIC PERSPECTIVE OF CRYPTOCURRENCIES

ABDESSAMAD RAGHIBI
Throughout human civilisation, the continuous quest for an exchange instrument to replace primitive methods has remained a major concern. Arriving at the current form of paper money was a mere production of the economic and social evolution of humans. It is the need and the ruling socio-economic conditions that rule out which money form is best suited for the daily-life economic activities. Larousse dictionary gives a basic definition of money defining it, as a metal coin minted by the sovereign authority to serve for the measurement of values, exchanges, and savings. The European Central Bank (ECB) defines money based on three functions: a means of exchange, a unit of account and a store of value. It is the most liquid part of wealth. On the other hand, Imam Al-Ghazali in the early 11th century defines money as anything that serves as an instrument of exchange, but has no intrinsic value.

While the form of money has undergone various changes to measure value and make trade easy, the third function of money remains the subject of much academic controversy. This debate comes from the problem of whether money has its intrinsic value or not. In fact, before the invention of metal coins in the 8th century AC, we can admit money having an intrinsic value because it took the form of tangible assets, such as furs, shells, etc. However, the contemporary form of money questions this relevance. As a result, currency can be defined as any asset accepted to conduct trade as was defined by Islam.

The classical consideration of money as a commodity contradicts Shari’a as it brings more harm than good to the economy, i.e. promoting inflation and anchoring social injustice. In addition to this, units of any currency of the same denomination are equal to each other. Therefore, the possibility of making a profit by trading and exchanging them would be equal to zero. The only way to make a profit is to trade something having an intrinsic value (asset) or through the exchange of two currencies with different denominations (As-sarf). Eventually, any profit from exchanging money of the same denomination is considered riba and prohibited by Islamic Law.

The Hanafi school considers all things desired by nature and that can be stored in due time as a currency. It turns out that the two criteria of currency according to the Hanafis are, therefore, desirability and the possibility of storage. Note that the tangibility of the currency remains subject to debate among the Hanafis. Mufti Taqi Uthmani (2008) asserts that there are jurists who mention intangibility by quoting the term “Mal”. As for the Shafi’is, the usufruct can also be considered as money.

Mufti Faraz Adam (2017) suggested three conditions that summarise the consensus of money in Islamic Law. According to him, three conditions must be fulfilled to consider something to as “money” in the Islamic law:

- **Tamawwul**: consists of all things of accepted value as money by people;
- **Taqawwum**: limits the term currency to Shari’a-compliant (halal) elements;
- **Thamaniyyah**: refers to the two main functions of money being an independent standard of value and unit of account.

These three elements together frame the concept of money in Islamic law.
Cryptocurrencies and Islamic Law

Cryptocurrencies are defined as electronic virtual money combined with the principles of cryptography. The notion of ‘virtual’ refers to the fact that there is no physical (i.e. tangible) asset that underlies the existence of cryptocurrencies. Cryptocurrencies exist in digital and electronic formats in cyberspaces such as wallet, which are equivalent to bank accounts. Cryptocurrency traders’ ability to bypass government-licensed financial institutions distinguishes cryptocurrencies from centralised currencies. They rely on a decentralised system of (possibly anonymous) validators to maintain and update copies of the ledger.

The cornerstone of the crypto technology is Blockchain, which ensures the distributed verification, updating and storage of the record of transaction histories. Hence, a Blockchain is like a book containing the ledger of all past transactions with a block being a new page recording all the current transactions to eliminate double-spending problems and to ensure security for the payment network. These features are ensured through a consensus by the validators forming the Blockchain. In the case of Bitcoin, for example, this competition takes place through a process called mining. Miners (validators) compete to solve a computationally costly problem, which is called proof-of-work (PoW). The winner of this mining process has the right to update the chain with a new block and is rewarded through the creation of new coin and transaction fees.

Before conduction our comparative study on the Islamic perception of crypto, we shall first present some jurisprudence (fatwa), which tends towards the prohibition of cryptocurrencies. Sheikh Sulaiman Al-ruhayli says that the absence of a central authority regulating this type of currency creates a risk (gharar) for the people who use it, hence it is unstable and speculative. Also, he cites the absence of a value component in encrypted currencies by making a comparison with gold (an argument that implicitly refutes the use of fiat currencies). These two arguments are in most cases used by contemporary scholars to prohibit encrypted currencies.

We must ask ourselves the following question: is the obligation of a central issuing authority an essential condition for money to be Shari’a-compliant?

Throughout Islamic civilisation, the issuance and control of money remained under the aegis of the central authorities, from the first Islamic currency under Caliph Abdul Malik Ibn Marwan until the cancellation of the Ottoman Caliphate in 1924. The state monopoly on issuing and controlling the flow of money is supported by case law because of the stability it provides. The reason for this comes only from the ijtihad, which consists of efforts specific to jurists in cases where the Qur’anic texts or the Sunnah did not explicitly mention the case. Ultimately, it is an effort based on the realisation of maslahah and the elimination of mafsadah.

We can also quote the fatwa of the ex-grand mufti of Egypt, Chawki Allam, who officially took a stand against Bitcoin, which he assimilates to a game of chance, prohibited in Islam, and which he suspects of allowing the financing of terrorism. A group of eight Shari’a lawyers constituting Wifaq Al-ulama also concluded that the use of cryptocurrencies on the grounds of fraud and misuse of funds for malicious purposes should be prohibited. The ground on which their prohibition stands is also present in fiat money.

Another movement has opted for the fiqhi (Al-ibaha) rule over Mu’amalat, which consists of initial acceptance of any contract until an element of prohibition appears. So, we can cite the opinion of Professor Monzer Kahf who states that Bitcoin like any other cryptocurrency should be treated like any other currency. Indeed, the exchange of cryptocurrencies should undergo the same conditions of exchange of currency in Shari’a namely: a spot exchange and the prohibition of speculative transactions.

The rest of the Shari’a jurisdictions take a neutral stance on cryptocurrencies because of their novelty and the need to master the technical details of how this system works before issuing a Fatwa on it.
Thus, we can conclude that the different opinions given on cryptocurrencies relatively tend towards their prohibition. The main reason for that would be excessive speculation (volatility) as well as the anonymity of the transactions, which gives rise to the element of gharar.

However, in the case of encrypted currencies, network regulation and transaction verification are done using the virtual community. This community can be infiltrated by malicious elements who can use their status to undermine the proper functioning of transactions. However, the protection and solidity of the network stems from the fact that so far, an attack on the network has no economic benefit. In other words, the cost of an attack is greater than the gain that can be gained from this operation. This statement can provide a guarantee on the solidity of the network but carries in itself the element of gharar because of the uncertainty about the future technological advancements. The rapid development of quantum computing may overturn the previous claim if an improvement in the encrypted currency system does not accompany this movement.

Preserving wealth provides money with an attribute of trust with the people who use it. However, some cryptocurrencies like bitcoin have experienced exaggerated fluctuations from a value of USD12 in 2013 to reach USD11800 at the end of 2017 with falls, which exceed 10% in one month compromising the element of preservation of value. This argument extends to the fourth condition of consistency and durability. Also, a major operational obstacle may render the use of crypt inconsistent when trading in high volumes. Using summary data for Fedwire and US Debit cards, Chiu & Koepp (2018) confirms that cryptocurrencies are a much better alternative for low-value, high-volume transactions than for large-value payments. This is intuitive, as double spending...
incentives increase with the size of transactions. Hence, more mining and longer confirmation lags (which are both costly) are required when supporting large-value payments in a cryptocurrency. This conclusion would make the use of crypto for international trade exchanges, for example, hard and costly to accomplish.

The speculative nature of cryptocurrencies, as well as the ambiguity about their future security with the rapid development of extremely fast computers that can challenge the security of the Blockchain system, poses a problem for the durability of cryptocurrencies.

The second condition of liquidity (rawaj) is the acceptability of this kind of currency between people. The overall volume of transactions in the cryptocurrency market, all forms included, reached a volume of USD124.8 billion in mid-September 2017. In addition, the daily trade volume continues to increase, exceeding USD11 billion during the same period. By way of comparison, the volume exchanged for bitcoin in 2009 hardly exceeded 50 bitcoins. In September 2017, this number reached a number of bitcoin exchanges of 16.6 billion in circulation.

Finally, the condition of equity remains vague and open to several interpretations. We can say that the system for producing virtual coins and verifying transactions presents a fair model for the remuneration of agents in the cryptocurrency community. However, we must cite successive frauds and thefts from virtual wallets of cryptocurrencies and have allowed the theft of millions of dollars from the holders of these wallets. It should be noted that this is in no case a failure of the system of production and regulation of cryptocurrencies or of Blockchain but of thefts occurring at the level of digital portfolios governed by stakeholders as a service independent of the process production and verification of cryptocurrencies.

In order to follow the logic that we have outlined previously, remember that the conditions for an asset to be considered as a currency under Islamic law are as follows:

- **Tamawwul**

A significant increase in the number of Bitcoin users from 720,705 users at the end of 2011 to 6.7 million users at the end of 2013 shows the increase in acceptability of this concept by people. In addition, many commercial entities around the world now accept payments in cryptocurrencies.

- **Taqawwum**

Taqawwum requires that the currency does not contain any prohibited item (haram). Regarding cryptocurrencies,
no indication of the existence of such elements has been detected. The production process of the digital parts is based on the effort of the miners, which is consistent with the Shari’a perception of work.

• Thamaniyyah

Nowadays, cryptocurrencies are quoted against the main world currencies (USD, EUR, GBP etc.). Nevertheless, Islam demands the independence of money in the sense that it must fulfil this function in itself.

From all that has been cited so far, we can say that cryptocurrencies do not fully perform the functions of currency according to Islamic law. However, this finding does not mean that this status will remain valid forever. Thus, improvements concerning the security and regulation of cryptocurrencies could improve its status by incorporating into it the function of the unit of account as well as durability and consistency over time.

Cryptocurrencies, as well as the underlying Blockchain technology, presents a great opportunity for Muslim countries due to their characteristic of transparency and security. Of course, modifications and improvements must be undertaken to adapt these tools to Muslim countries. The economic and monetary situation of most Muslim countries, which is often subject to manipulations have harmful effects on the population, leading us to believe that cryptocurrencies with their self-regulating mechanism would provide a relative solution for its problems. However, this debate must be undertaken outside of rushed and unfounded prohibition decisions, which block all attempts to objectively study this concept. Thus, a debate must be opened by the Islamic authorities to analyse this concept more carefully along with its major benefits for the Ummah.
IS WORK-LIFE BALANCE POSSIBLE IN TODAY’S DIGITAL AGE?

As Sir Philip Nigel Ross Green, a British businessman and Chairman of Arcadia Group says, “it’s all about quality of life and finding a happy balance between work, and friends and family”.

Today, in the world that is progressively being digital and we are steadily being overridden by technological advancements, maintaining balance in all aspects of one’s life is getting increasingly difficult.

They say necessity is the mother of invention. But what if this time around we have complicated matters. Technology was invented to assist us, make our work easier and save us time. However, the opposite seems to be true. Technology is controlling us, we are working more than ever and we still don’t have time.

The digital age is increasingly facilitating technology to bleed in every aspect of our daily lives. So much so, that keeping one’s work and personal lives separate has become an impossible feat.

This world runs on balance and so do we. Working hard and long, even if we love our jobs is costing us in the long run. Research proves that productivity and efficiency decrease significantly if the mind and body are not given a vacation. The digital revolution was meant to enable us to work smart but we are still working hard.

Flexible hours and relaxed boundaries between work and life, allowing people to work from anywhere and at any time, is a double-edged sword. If utilised correctly, it can result in increased productivity, happier and motivated workforce, better teamwork and reduction in staff turnover. However, on the other hand, the penetration of work in personal lives can lead to stress, affecting the mental and physical health of employees and result in a decrease in efficiency.

Business leaders and managers need to lead the way to establish a culture where taking a break does not raise eyebrows on one’s credibility. We are more than ever in need of new practices and an open mindset. Instead of focusing on our medieval work routine, we need to embrace digital solutions that offer the flexibility to enhance our productivity, rather than extend our working day.

In uncertain times such as these where the entire world is facing new challenges, new routines and picking up new hobbies; balancing work and personal lives, and keeping a tab on technological interference has gained entirely new meanings.

This change in pace is teaching us to slow down; to stop, look and listen; to connect and reconnect with ourselves, our families and the world around us.

We asked professionals around the world their opinions on whether work-life balance is possible in today’s digital age or is it just a myth.
Digital technology is designed to be a tool that serves people, facilitates communication and connects them. 5G, Artificial Intelligence, IoT, Software Robots, Smart Cars, Smart Cities are all technological advancements driving significant benefits to industries, energy conservation, medicine and many other fields. However, new technologies have quickly penetrated into the work environment and private life. It presents an already existing huge influence on the management of companies and mode of work.

The large number of people work as self-employed or freelancers with no fixed hours, which seemingly gives them personal freedom. Yet, the boundary between business and private life is increasingly blurred, as e-mails are checked in the evenings on weekends, as they spend more time in the virtual world. The originally conceived role of helping people work less and more efficiently, turns into the opposite in which a person’s commitment to technology becomes an end in itself.

I believe that over time, people will be able to use the benefits of technology in a way that will allow them to use their free time to improve the quality of the private lives, socialising and engaging in activities, which brings them happiness and pleasure.
The short answer is absolutely “yes”, but it is extremely challenging to maintain such an equilibrium between the personal and professional life, given the high expectations digital connectivity and swiftness has brought in, be it in office or in social life.

Work-life balance is not just an important consideration for an employee, it is equally central for an organisation to achieve efficiency and productivity through motivated workforce. While the magic reclines in a person’s ability and his background to separate work and home, the operating environment and job satisfaction at workplace certainly plays an important role in achieving work-life balance.

Within the corporate environment, one of the key things that essentially affects work-life balance is how your supervisor or manager treats you. A good supervisor – competent with professional integrity, appreciative and caring for his team - will have a positive effect on the work-life balance of a staff.

No matter what, work stress should stay at work and not perforate one’s personal life. In office we need to work smartly and everyone should try to find their “golden hour”, a time when someone is very productive. On the other hand, we should not allow the use of social media to overcome or take away time from our loved ones.

One thing I have learned is that, if you are spending quality time with your family; you are likely to succeed at work as well, despite the tough and challenging environment.
Technology through digitalisation is redefining the way we work and behave today. Our work life forms are now completely different, freer and more flexible. Every business leader can relate to this problem and face these challenges at a personal as well as organisational level. Updating one’s mindset is an important thing to do in the first place that allows us to rediscover the way we manage our work. Cultivating a culture of trust and effective communication among team members is essential for practicing flexible work policies. Inspiring success stories about work-life balance can ensure new role models.

But change is never easy and takes time. It depends on the strong commitment of the actors in the digital system of workplaces. The inability to stay away from work due to constant connections via smart phones and IoT has caused many people to juggle their work while maintaining a private life with family and friends outside the office. Self-discipline will be the next issue in the digital age. But I truly believe that the future of work will definitely be more flexible. Working smart and flexible is an ongoing journey for us to create workplaces that are more resilient and sustainable.

Dian Masyita
Professor of Finance at Faculty of Economics and Business, University of Padjadjaran
During this technologically ‘disrupted and disturbed’ digital age of IR 4.0, needless to mention that the work, life and business have been transformed due to the technological evolution. Parallelly, the work-life balance is being debated and discussed in the light of technological advancement in the mainstream for the last two decades.

Effectively managing boundaries between these two blended spectra of work and life is harder than ever in this digital age as we carry our Siamese twin siblings, i.e. gadget screens, in our pockets round the clock. I believe that the corporate work culture leads the way in this regard and influences many professionals by making them stay them online and enable them in work mode even after normal working hours. And finally making them ‘work-martyrs’ by attend calls and replying to emails regardless of the time.

As such, establishing a clear work-life boundary plays a pivotal role in maintaining a healthy, wealthy and productive mindset. As such, striving for a greater divide between work and personal life is possible and pragmatic by maintaining a ‘screenless & disconnected’ quality time and space in the personal and social life. This will shape our management and leadership skills while allowing us to propel a full potential working culture.
In the August 2016 issue of ISFIRE, we started with a one-pager to introduce standardisation of notation in Islamic economics, banking and finance (IEBF). This has emerged as a major project since then, as a number of universities engaged in the instruction of IEBF have started to adopt what were initially named as ISFIRE Notes, and subsequently renamed as Cambridge Notes. So far, we have issued 10 Cambridge Notes:

- Cambridge Note 1 on Bai’ (issued in February 2018)
- Cambridge Note 2 on Riba (issued in June 2018)
- Cambridge Note 3 on Murabaha (issued in August 2016)
- Cambridge Note 4 on Salam (issued in October 2016)
- Cambridge Note 5 on Mudaraba (issued in December 2016)
- Cambridge Note 6 on Ijara (issued in February 2017)
- Cambridge Note 7 on Musharaka (issued in February 2018)
- Cambridge Note 8 on Istisna’ (issued in April 2018)
- Cambridge Note 9 on Sukuk (issued in June 2019)
- Cambridge Note 10 on Wa’ad (issued in August 2019)

In the last issue of ISFIRE, we revised Cambridge Note 1 on Bai’ in light of feedback from the readership of ISFIRE and academia. In this issue, we have revised Cambridge Note 2 on Riba to seek further feedback from the relevant stakeholders in the industry.
WHY IS THERE A NEED FOR STANDARDISATION OF NOTATION IN ISLAMIC FINANCIAL EDUCATION?

There is no standard notation in the books written on Islamic economics and finance. In the absence of a standard, authors use their discretion to notate different Islamic financial contracts. This has not only created pedagogical confusion but has also hampered true understanding of Islamic financial contracts. We believe that the standardisation of notation will bring the following benefits to IEBF:

1. It will help develop consistent pedagogical tools to be used for education and training in IEBF;
2. Precise notation will also help in understanding the true nature of the contracts, their elements and their implications for product development and structuring;
3. The notation must also help standard setting bodies, especially Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI), which are involved in issuing Shari’a Standards; and
4. Disciplines of Islamic Economics and Islamic Banking & Finance must benefit from the standardised notation, as a wider body of literature will notate the contracts consistently.

Once Cambridge IIF has issued a sufficient number of notes, we aim to hold a special workshop on Standardisation of Notation in IEBF, to finalise all these notes into standards. In this respect, a Board on Standardisation of Notation in Islamic Economics, Banking and Finance is under formation. The interested individuals are invited to submit their expressions of interests to Professor Humayon Dar by emailing on hdar@cambridge-iif.com.

Cambridge Note 1 on Bai’

1. (A.X.B; P) represents a spot sale contract between A (seller) and B (buyer) to buy/sell a commodity X for the price P. Both the object of sale X, and price P, must be exchanged on spot. A variant of this contract may be notated as (A.X.B; P|T0), explicitly mentioning the time, T0, when the exchange of object of sale and its price be affected.

1a. (B.X.A; P) represents a spot sale contract between B (seller) and A (buyer) to buy/sell a commodity X for the price P.

Note: The first party in these Notes must always be a seller and the second party shall be a buyer.

2. (A.X.B; Y) is a barter exchange between A (seller, i.e. owner of the commodity X) and B (buyer, i.e. owner of the commodity Y) on a spot basis, whereby the commodity Y is deemed as the price of the commodity X. Another possible way of notating the barter exchange is (A.X.Y.B), whereby A exchanges a commodity X that they own, for a commodity Y owned by B.

Note: The first commodity in these Notes must always be owned by the seller and the second commodity shall be owned by the buyer.

3. (A.X.B; P|T0, T1) represents a sale contract between A (seller) and B (buyer) to buy/sell a commodity X for the deferred price P|T1 to be paid by B at a later time T1, allowing the buyer to receive the commodity upfront at time T0.

3a. (A.X.B; P|T0, T1) is essentially bai’ mu’ajjal or what is also known as bai’ bithaman ‘aajil, or a deferred payment sale contract.

4. (A.X.B; P|T0, T1) represents a sale contract between A (seller) and B (buyer) to buy/sell a commodity X for the price P|T0 to be paid upfront by B at time T0, allowing the seller to deliver the commodity during time period T or on a specific date at the end of T1.

4a. (A.X.B; P|T0, T1) is essentially a salam contract as per Cambridge Note 4 on Salam.

5. ([A.X.B; P|T0, T1],[B.X.A; P2|T2]) is an arrangement that combines two sale contracts such that A sells a commodity X to B for a price P1 at time T0 and B sells the same commodity X to A for price P2 at time T2. This may be a notation for bai’ al-‘ina whether P1 = P2 or P1 ≠ P2 and T0 = T2 or T0 ≠ T2.

Cambridge Note 2 on Riba

1. (A.X.B) represents an (unconsidered) exchange of an asset X between two parties, A and B, whereby A transfers ownership of X to B, without any reference to a consideration or price. This may also be known as an exchange of gift.

2. (A.X.B; B/X.A) represents exchange of an asset X between A and B, whereby A transfers ownership of (an amount of) X to B, while B also simultaneously transfers ownership of (an amount of) X to A.
1. (A.X.B; B.X.A |T_o, T_1) represents exchange of an asset X between A and B, whereby A transfers ownership of (an amount of) X to B at time T_o, and B transfers ownership of (an amount of) X to A at time T_1.

2. (A.X[1]:B: P_{MUR} \Pi_{MUR} T) represents a commodity murabaha arrangement between A (financier) and B (financee) arranged by a single commodity broker 1; whereby P_{MUR} is the murabaha price, \Pi_{MUR} is the murabaha profit, and T is the duration of the financing period (in years, months, or days, etc.).

3. (A.X[1.2]:B: P_{MUR}; \Pi_{MUR}, T) represents a commodity murabaha between two commodity brokers, 1 and 2.

4. (A.X[1]:B: P_{MUR} \Pi_{MUR} T, D(), R()) represents a commodity murabaha arrangement between A (financier) and B (financee) arranged by a single commodity broker 1; whereby P_{MUR} is the murabaha price, \Pi_{MUR} is the murabaha profit, and T is the duration of the financing period (in years, months, or days, etc.); D() and R() represent default and rebate clauses, respectively, such that:

\[ \text{Default Penalty} = a \times X; \text{ and} \]
\[ \text{Rebate amount} = b \times X_i \]

whereby X = amount outstanding at the time of default; X_i = amount outstanding at the time of early settlement date; and 0 ≤ a ≤ 1 and 0 ≤ b ≤ 1.

5. (A.X[1]:B: P_{MUR} \Pi_{MUR}; P_{MUR} K; 0 ≤ a ≤ 1, 0 ≤ b ≤ 1) represents a commodity murabaha based Islamic mezzanine financing arrangement between A (financier) and B (financee) arranged by a single commodity broker 1; whereby P_{MUR} is the murabaha price, \Pi_{MUR} is the murabaha profit, P_{MUR} K is the payment in kind (one-off balloon payment at the end of the financing period) and T is the duration of the financing period (in years, months, or days, etc.); N is the number of shares that B promises to sell to A in the event of default for an agreed price \( P_{MK} \).

Cambridge Note 4 on Salam

1. (A.X.B; P_{SAL} |T_o, T_1) represents a classical salam contract between A (seller) and B (buyer) to buy/sell a commodity X for the salam price P_{SAL} |T_o to be paid upfront by B at time T_o, allowing the seller to deliver the commodity during time period T_1 or on a specific date at the end of T.

2. (A.X.B; P_{SAL} |T_o, T_1) represents a salam-parallel-salam arrangement, involving three independent parties, A, B and C, whereby A sells a commodity X to B for a salam price, P_{SAL} |T_o, paid by B upfront at T_o, to receive the delivery during time period T_o or on a specific date at the end of T. The salam-parallel-salam arrangement also involves B selling the commodity X to another independent party C that pays salam price, P_{SAL} |T_o, to B at the time.
of entering into the salam contract, i.e., at $T_i \forall T_i \neq T_j$.

3. $(A, X, B; P_{SA1|T_1}, P_{SA2|T_2}, T)$ represents a three-partite
    salam-parallel-salam contract, whereby $A$ sells a commodity
    $X$ to $B$ for a salam price, $P_{SA1|T_1}$, paid by $B$ upfront at $T_1$,
    and $B$ sells the commodity $X$ to $C$ for a salam price, $P_{SA2|T_2}$,
    whether $T_1 = T_2$ or $T_1 \neq T_2$; the deliveries take place during
    time period $T$ or on a specific date at the end of $T$. This is a
    null and void contract that does not fulfill the requirement of
    independence of the two salam transactions.

Cambridge Note 5 on Mudaraba

1. $(A, K, B; \alpha, -\beta; 1; T)$ is a simple mudaraba contract between
   a Party $A$ (capital provider) and a Party $B$ (the managing
   party) in such a way that $A$ receives $\alpha$ percentage of the
   profit, $\beta$, if any. $K$ is the capital contribution (money) by $A$;
   while $T$ is the mudaraba time period. In case of losses, i.e., $-\beta$,$A$
   shall have to bear it with $\alpha = 1$.

2. $(A, X, B; P_{SA|T}, P_{SA2|T}, 0; -\beta; 1; T)$ is a mudaraba contract that
   stipulates that the capital providing party (Party $A$) will receive
   $\alpha$ percentage of the profit if the realized profit is up to a threshold
   level of profit, $\beta$; any profit over and above this threshold, i.e., $\beta$,$A$
   will be retained by the managing party, i.e., the share of $A$ will be zero ($0$).
   However, in case of the loss, $-\beta$, $A$ shall have to bear it with $\alpha = 1$.

3. If a mudaraba contract is noted with $(A, K, B; \alpha, T)$, it shall
   always be deemed as a short version of $(A, K, B; \beta; -\beta, 1; T)$.

Cambridge Note 6 on Ijara

1. $(A, X, B; R = r_1 + r_2 + ... + r_n; T)$ represents a simple ijara
   contract between $A$ (lessor) who leases an asset $X$ to another
   person $B$ (lessee) for a total rental value of $R$ to be paid in
   instalments of $r_1, r_2, ..., r_n$ for a period of $T$.

2. $(A, X, B; R = r_1 + r_2 + ... + r_n; T; P_{1}, P_{2})$ represents an ijara
   wa iqitina' contract between $A$ (lessor) who leases an asset
   $X$ to $B$ (lessee) for a total rental value of $R$ to be paid in
   instalments of $r_1, r_2, ..., r_n$ for a period of $T$; with an
   understanding that $B$ will have to buy the asset for a price, $P_{2}$,
   should it happen to default on rental payment during the term of the lease,
   and if that (event of default) does not occur $B$ will buy the asset $X$ at the end of the lease period
   for a price, $P_{2}$.

3. $(A, Y, B; R = r_1 + r_2 + ... + r_n, T)$ represents an ijara mausufa
   dzimma contract between $A$ (lessor) who leases an asset $Y$ (which
   has yet to come into existence) for a total rental value of $R$ to be paid
   in instalments of $r_1, r_2, ..., r_n$ for a period of $T$ (which may
   coincide with the time that $Y$ must take to come into existence).

4. If an ijara contract is noted with $(A, X, B; R, T)$, it shall be
   deemed as an ijara that requires a lump-sum amount of rental
   either at the start of the lease period or at the end of it.

5. An ijara contract noted with $(A, X, B; R, T)$ shall imply that the
   rental amount is required to be paid in lump-sum at the start of the lease
   period; and an ijara contract noted with $(A, X, B; R_{1}, T)$ shall imply
   that the rental amount is required to be paid in lump-sum at a specific time in future, which
   may include the end of the lease period.

Cambridge Note 7 on Musharaka

1. $(A, K, B; \alpha, -\beta; 1; T)$ is a simple musharaka contract between
   Party $A$ and Party $B$ whereby both parties contribute capital,
   $K_a$ and $K_B$, respectively, to a venture, in such a way that $A$
   receives $\alpha$ percentage of the profit, $\beta$, if any, and $B$ therefore
   receives $(1-\alpha)$ percentage of the profit, $\beta$. In case of losses, i.e., $-\beta$,
   both parties shall bear loss in accordance with $\beta$,
   whereby $\alpha = A$ or $B$; $\beta_A = K_a/K$ and $\beta_B = K_B/K$, and $\alpha = K_a
   + K_B$. $T$ is the time period for musharaka; and $\alpha$ and $\beta$
   may differ.

2. $(A, K, B; \alpha, -\beta; T)$ is a simple musharaka contract between
   Party $A$ and Party $B$ whereby both parties contribute capital, $K_a
   and $K_B$, respectively, to a venture, in such a way that $A$
   receives $\beta$ percentage of the profit, $\beta$, whether positive or
   negative, and $B$ receives $\beta$ percentage of the profit. In other
   words, $\beta = \alpha$.

3. If a musharaka contract is noted with $(A, K, B; \alpha, \beta; T)$, it shall
   always be deemed as a short version of $(A, K, B; \alpha, -\beta; 1; T)$.

Cambridge Note 8 on Istisna’

1. $(A, X, B; R = r_1 + r_2 + ... + r_n, T; P_{1}, P_{2})$ represents an
   istisna’ contract between $A$ (seller) and $B$ (buyer) to buy/sell
   a commodity $X$ (which may be manufactured by $A$ during the
   contract period) for total price of $P_{2}$, payable in instalments $P_{1}$,
   $P_{2}, ..., P_{n}$, until the time of the delivery $T$, by when the whole
   price must have been paid.
Cambridge Note 10 on Wa’ad

1. \(<A.X.B, P|b; T_o, T_1>\) represents a promise or undertaking (wa’ad) between A (promisor) and B (promisee) to buy a commodity/asset X for the price P. Both the object of purchase/sale X, and price P, may be exchanged at a future date when a Bai’ or a sale and purchase agreement may be executed pursuant to the promise. \(<B.X.A, P|b>\) represents a promise or undertaking (wa’ad) between B (promisor) and A (promisee) to buy a commodity/asset X for the price P.

2. \(<A.X.B, P|s>\) represents a promise or undertaking (wa’ad) between A (promisor) and B (promisee) to sell a commodity/asset X for the price P. Both the object of purchase/sale X, and price P, may be exchanged at a future date when a Bai’ or a sale and purchase agreement may be executed pursuant to the promise. \(<B.X.A, P|s>\) represents a promise or undertaking (wa’ad) between B (promisor) and A (promisee) to sell a commodity/asset X for the price P.

3. The notation \(<•>\) implies a non-binding arrangement as opposed to the notation (•) that refers to a binding contract.

Cambridge Note 9 on Sukuk

1. \((A,X,B; C; N, \alpha, P|P = \alpha N; T; t_ji = 1,2,3,...n)\) is a sukuk issued by an issuer A on asset to be bought by investor B, with a notional price of N. The return on the sukuk will be determined by the net revenue \(P\) generated by the asset X by way of dealing with a party C. The issuer will ensure that \(P\) is equivalent to an amount added to notional N in such a way that \(P = \alpha N \forall \alpha > 0\). The sukuk is issued for a time period T and the return may be distributed in installments on dates \(t\). The notional N must be returned at the end of the sukuk period T.

2. \((A,X,B; C; N, \alpha, P|P = \alpha N; T; t_ji = 1,2,3,...n)\) is a general notation for sukuk and may be specified for different types of sukuk.

3. For example, for sukuk al-i-jara, \((A,X,B; C; N, \alpha, P|P = \alpha N; T; t_ji = 1,2,3,...n)\) will represent a sukuk issued by an issuer A on an asset X to be bought by investors B, with a notional price of N. The return on the sukuk will be determined by the rental \(P\), which will be generated by leasing the asset to the party C involved in the structure (normally an obligor).

4. The relationship between A, B and C will be determined by sale contracts (C.X.A; P|T_o) and (A.X.C; P|T_j) as per Cambridge Note 1 on Bai’, and lease contract (A, X, B; R = \(r_1 + r_2 + r_3 + ... + r_m\); T) as per Cambridge Note 5 on Ijarah.

5. Thus, a sukuk al-i-jara may be notated like \((A,X,B; C; N, \alpha, P|P = \alpha N; T; t_ji = 1,2,3,...n)\) \((C.X.A; P|T_o), (A,X,B; R = \(r_1 + r_2 + r_3 + ... + r_m\); T), (A.X.C; P|T_j); P = R)).
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