

Overview of Existing Islamic Financial Instruments

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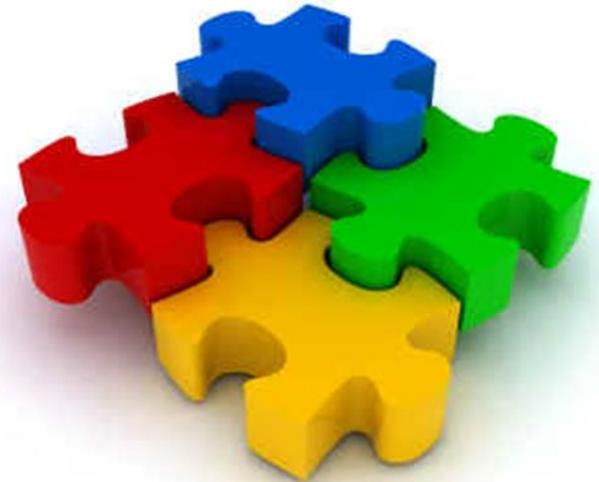
9th Meeting of the COMCEC Financial Cooperation Working Group

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Methodology of the report

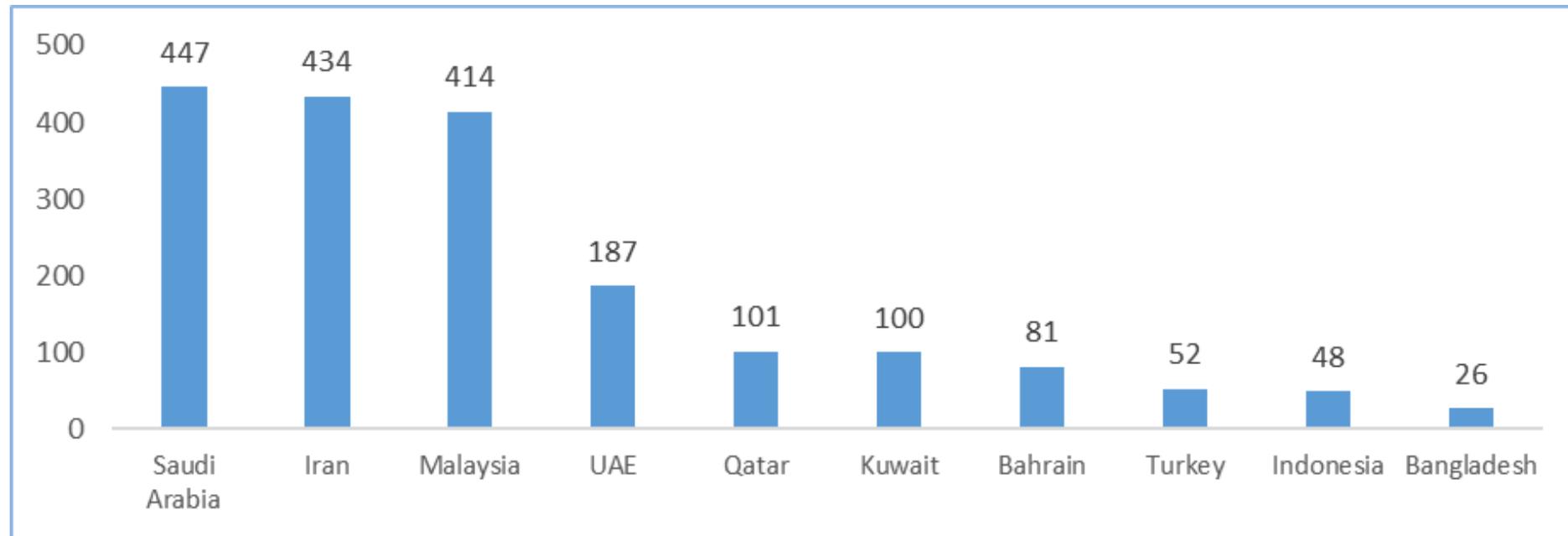
- Qualitative Approach
- Field visit
- Interviews



Islamic Finance Past and Present

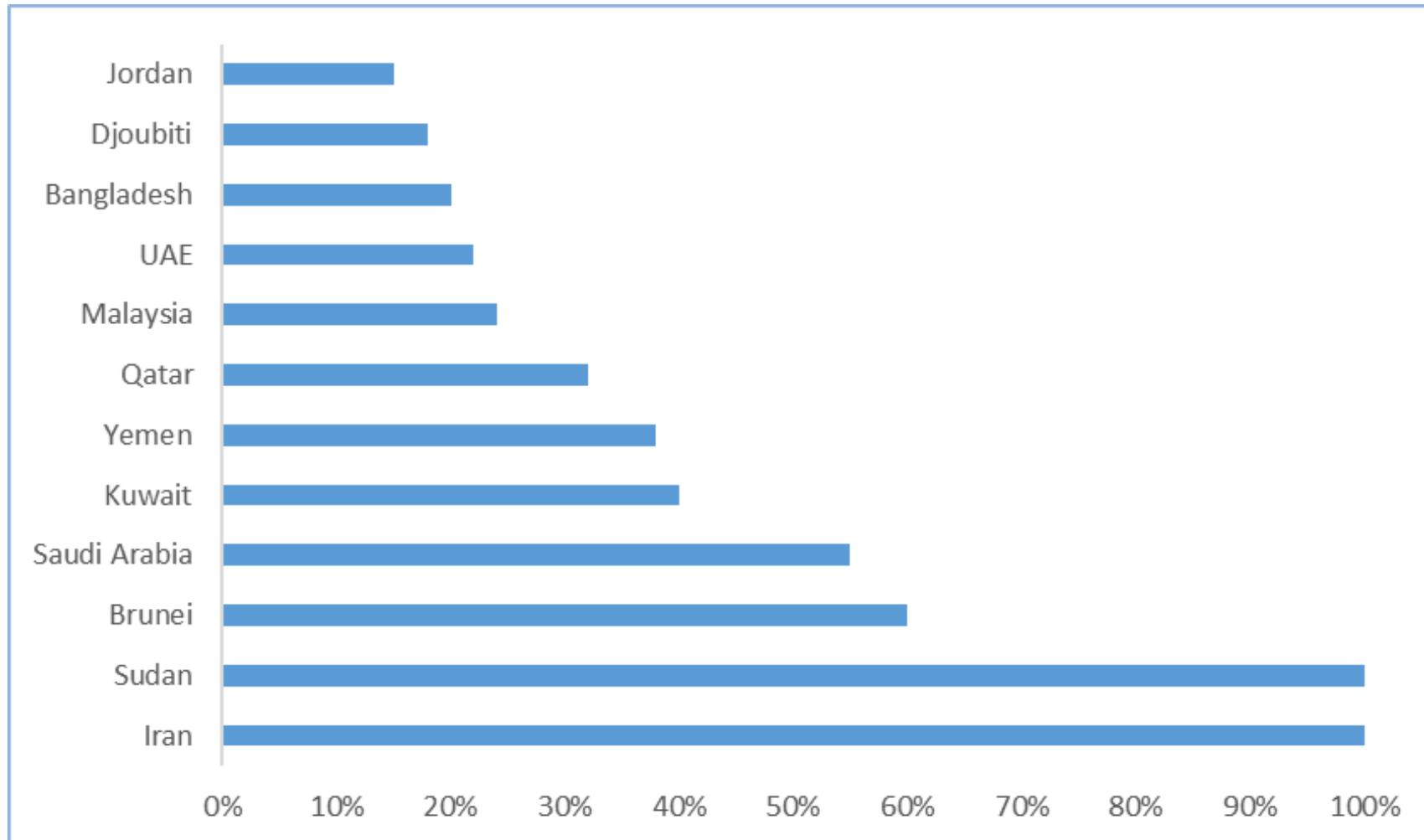
- Origin of Islamic Banking
- Different phases of Islamic Banking
- IFI total size USD 1.893- USD 2.1 trillion (IFSB report 2017)
- Presence in 90 countries (50 Muslim Countries)
- 12 jurisdictions in which IBI had share of 15% in the banking industry
- Double digit growth
 - IB (78.9%)
 - Islamic Insurance (takaful) (\$23.2 billion in size)

Top 10 Countries by Islamic Financial Assets



Source: ICD-Thomson Reuters Islamic Finance Development Indicator 2016

Islamic Banking Share in Total Banking Assets by Jurisdiction



Different Modes used by the current IFIs

- Mudharabah
- Musharakah
- Diminishing Musharakah
- Salam (deferred sale with full payment in advance)
- Istisna (order for manufacture)
- Ijarah
- Murabahah (cost plus sale)
- Wakala (agency)
- Qard
- Pawn Broking (al-Rahnu)



Deposit products in Islamic banking

Deposits products in Middle East North Africa Malaysia and Indonesia

PRODUCT/PROCESS	MIDDLE EAST	NORTH AFRICA	MALAYSIA
Savings Account Based on : Wadiah Mudarab, Qard	Mudharabah and Qard are standard offerings	Mudharabah and Qard are standard offerings	Wadiah is more popular than Mudharabah
Current Account based on: Wadiah Mudharabah Qard	Qard and Mudharabah are standard offerings	Qard and Mudharabah are standard offerings	Qard and Commodity Murabahah
Fixed Deposit based on: Mudharabah, Commodity Murabaha Wakalah	All three are popular products, especially within GCC countries	All three are popular products	Commodity Murabahah/Tawarruq
Recurring Deposits/Saving Plan to increase deposits	Popular scheme offered to customers as a “forced saving plan”	Popular scheme	Slow take-up as Takaful unit-linked plan is more attractive to customers
Structured Products	Products are offered to selected customers	Products are offered to selected customers	Products are offered to selected customers
Profit Distribution	Adopt guideline issued by AAOIFI on Mudharabah-based products	Adopt guideline issued by AAOIFI on Mudharabah-based products	Adopt guideline issued by AAOIFI but more refined and complex

Financing products present in different areas

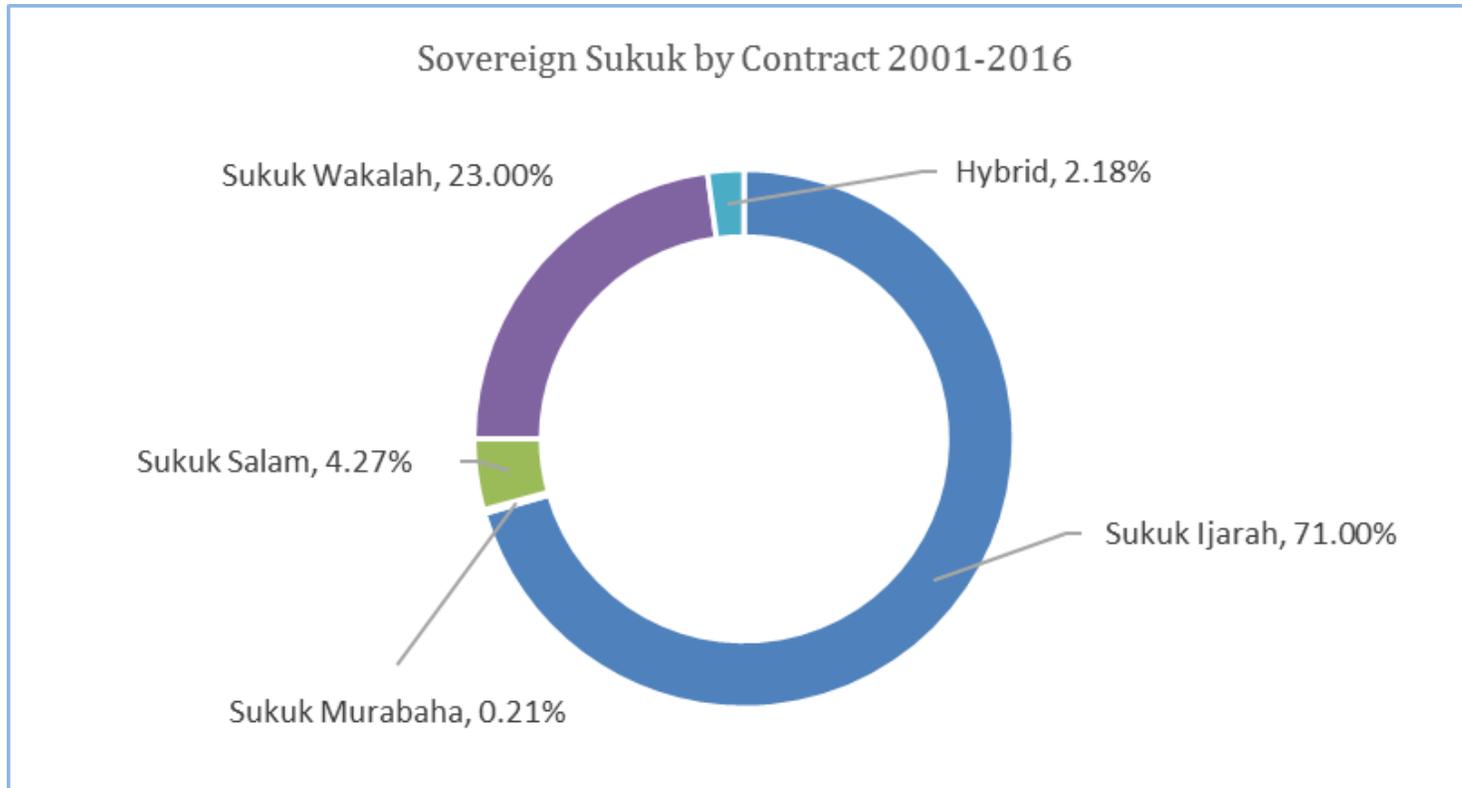
Financing products

PRODUCT/PROCESS	MIDDLE EAST	NORTH AFRICA	MALAYSIA
Monetization Products (Cash finance based on Tawarruq and Salam)	Salam structure is preferred as Tawarruq is discouraged by scholars	Salam structure is preferred	Very popular scheme based on Tawarruq concept
Vehicle Financing (Murabaha and Ijarah)	Standard offering	Standard offering	Standard offering
House Financing (Murabaha, Ijarah and Diminishing Musharakh)	Only Ijarah and Diminishing Musharakh are popular	Only Ijarah and Diminishing Musharakh are popular	Only Murabaha and Diminishing Musharakh are popular
Pawn Broking (Al-Rahnu)	Prohibited product	Prohibited product	Popular, as a form of personal financing with gold as collateral
Equipment/Industrial leasing (Operating/Financial) based on Ijarah concept	Operating and financial leases are popular	Operating and financial leases are popular	Mostly financial lease
Plant/Construction financing using Istisnaq and forward Ijarah	Both structures used but forward Ijarah is popular	Forward Ijarah is popular	Istisnaq and forward Ijarah are prevalent
Project Financing based on Musharakah and Dim Musharakah and Mudharabah	Popular form of financing	Popular form of financing	Banks not keen to offer as deemed too risky
Working capital financing based on Tawarruq, Mudharabah or Musharakah	Mudharabah and Musharakah offered but not Tawarruq as it is prohibited	Mudharabah and Musharakah offered but not Tawarruq as it is prohibited	Only Tawarruq is being offered by banks

Islamic Banking Sectorial NPF

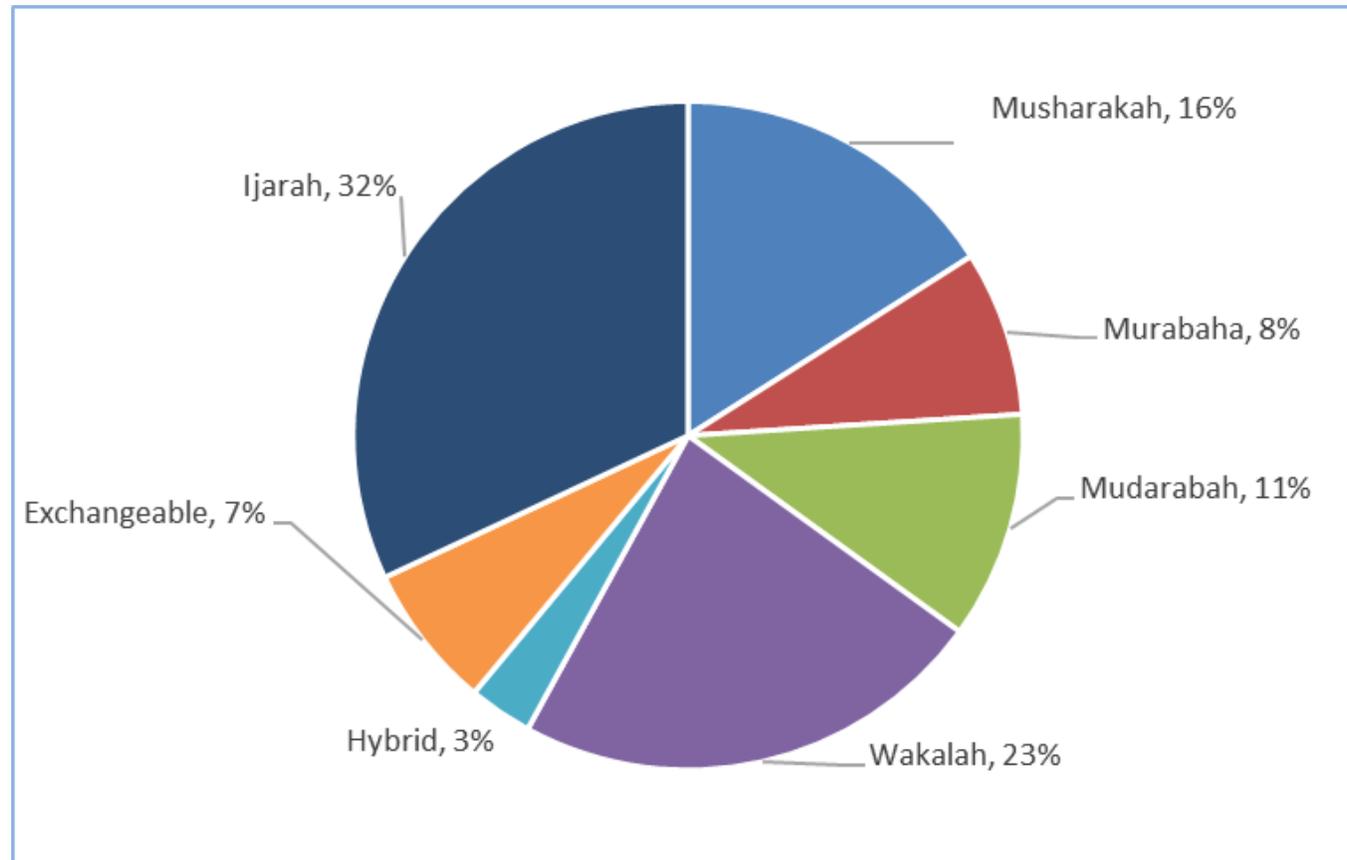
	Real Estate	Manufacturing	Household	Construction
Bahrain	29%	10%	13%	13%
Bangladesh	6%	30%	1%	3%
Brunei	22%	11%	10%	20%
Indonesia	15%	10%	8%	6%
Jordan	12%	8%	52%	6%
Malaysia	11%	11%	35%	15%
Oman	10%	1%	64%	25%
Saudi Arabia	1%	11%	30%	15%

Sovereign Sukuk by Contracts

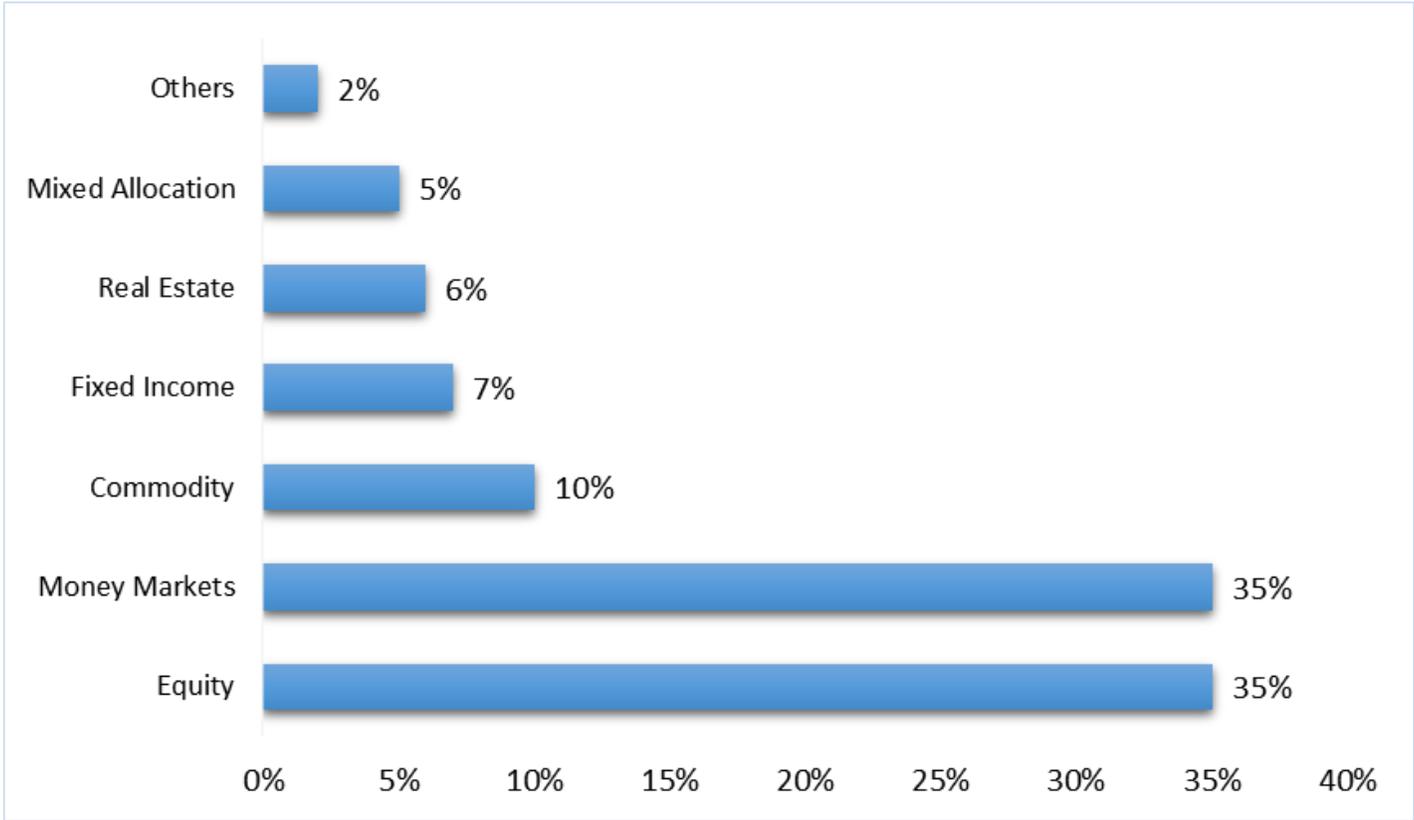


Source: IIFM 2017₁₁

Corporate Sukuk and Sovereign Sukuk by Contracts 2001-2016



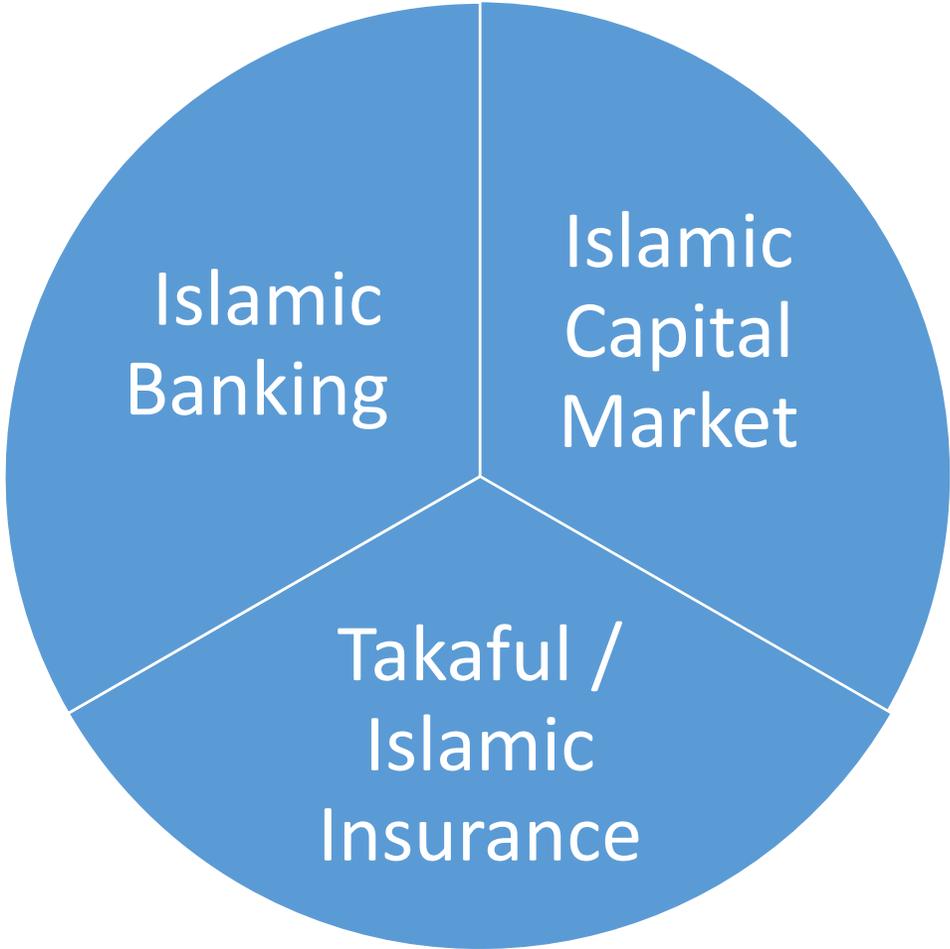
Global Islamic Fund Assets by Asset Class (2016)



Different Takaful Models

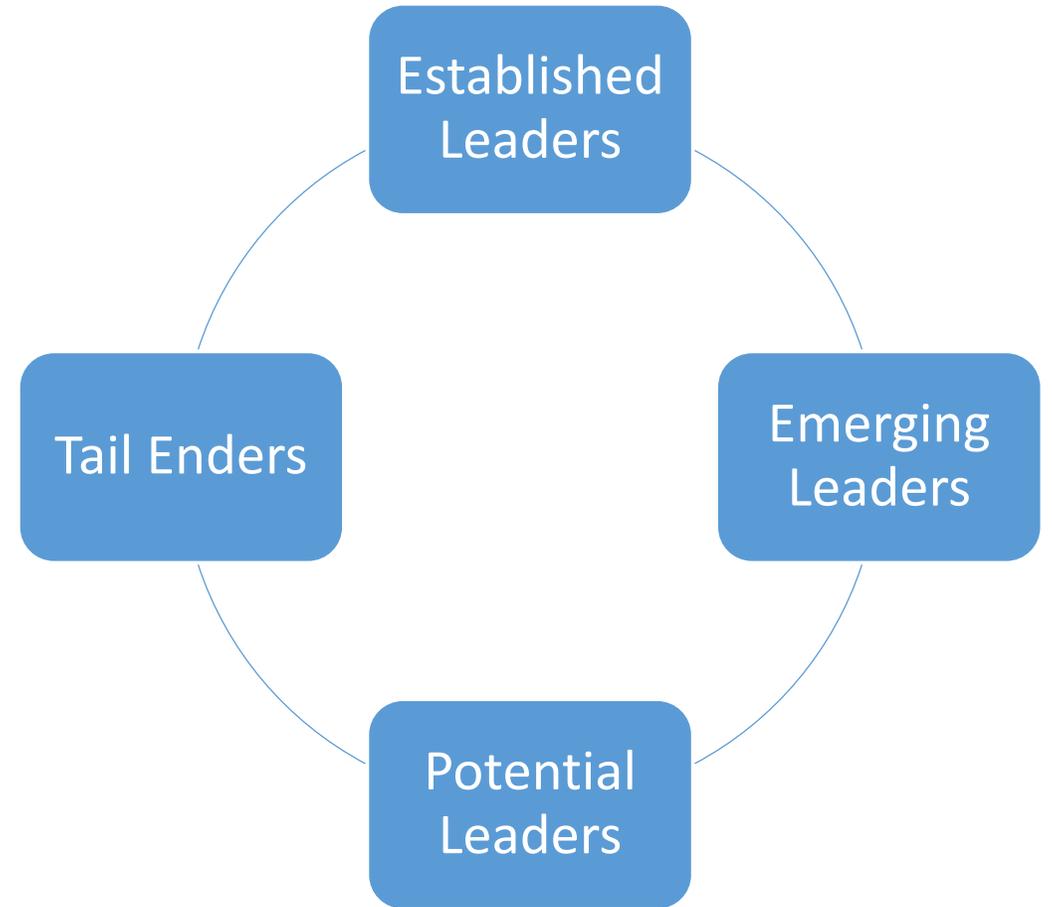
<u>Properties</u>	<u>Mudarabah</u>	<u>Pure Wakala</u>	<u>Mixed</u>	<u>Wakala-Waqf</u>
Creation of fund:	The participants (Takaful clients)' contributions	participants' contributions	participants' contributions	There is an initial donation to create Waqf
Fees:	None	Up-front fees as agreed	Up-front as agreed	Up-front as agreed
Underwriting losses:	Qard-a-hasan from Takaful operator	Qard-a-hasan from Takaful operator	Qard-a-hasan from Takaful operator	Waqf to solicit funds
Investment profits:	None	None	As per the agreed profit-sharing ratio	As per agreed profit-sharing ratio
Investment losses:	Borne by participants	By participants	Borne by Takaful operator	by Takaful operator
Operational expenses:	Borne by Takaful operator (with some exceptions)	by Takaful operator	by Takaful operator	by Takaful operator
Liquidation	Proceeds accrue to participants only	Proceeds accrue to participants only	Proceeds accrue to participants only	Proceeds accrue to participants only
Present in Jurisdictions:	Malaysia, Saudi Arabia and some GCC members	United Kingdom	Bahrain, Malaysia and Sudan	Pakistan & South Africa

The three main segments of Islamic finance:



Selected Countries in the Study

Arab	Asian	African	Non-OIC
Bahrain	Malaysia	Nigeria	United Kingdom
Sudan	Indonesia		
Oman	Pakistan		
	Turkey		
	Bangladesh		



Thank you