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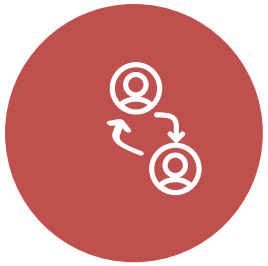
The Need of Research-based Innovation for Islamic Finance Industry

Prof Dr Azmi Omar
President & CEO

8th African Islamic Finance Summit, 23 March 2022

Agenda

1.  Challenges Facing Islamic Finance Industry

2.  Share good practices and experience in resolving some of the issues

3.  Recommendations

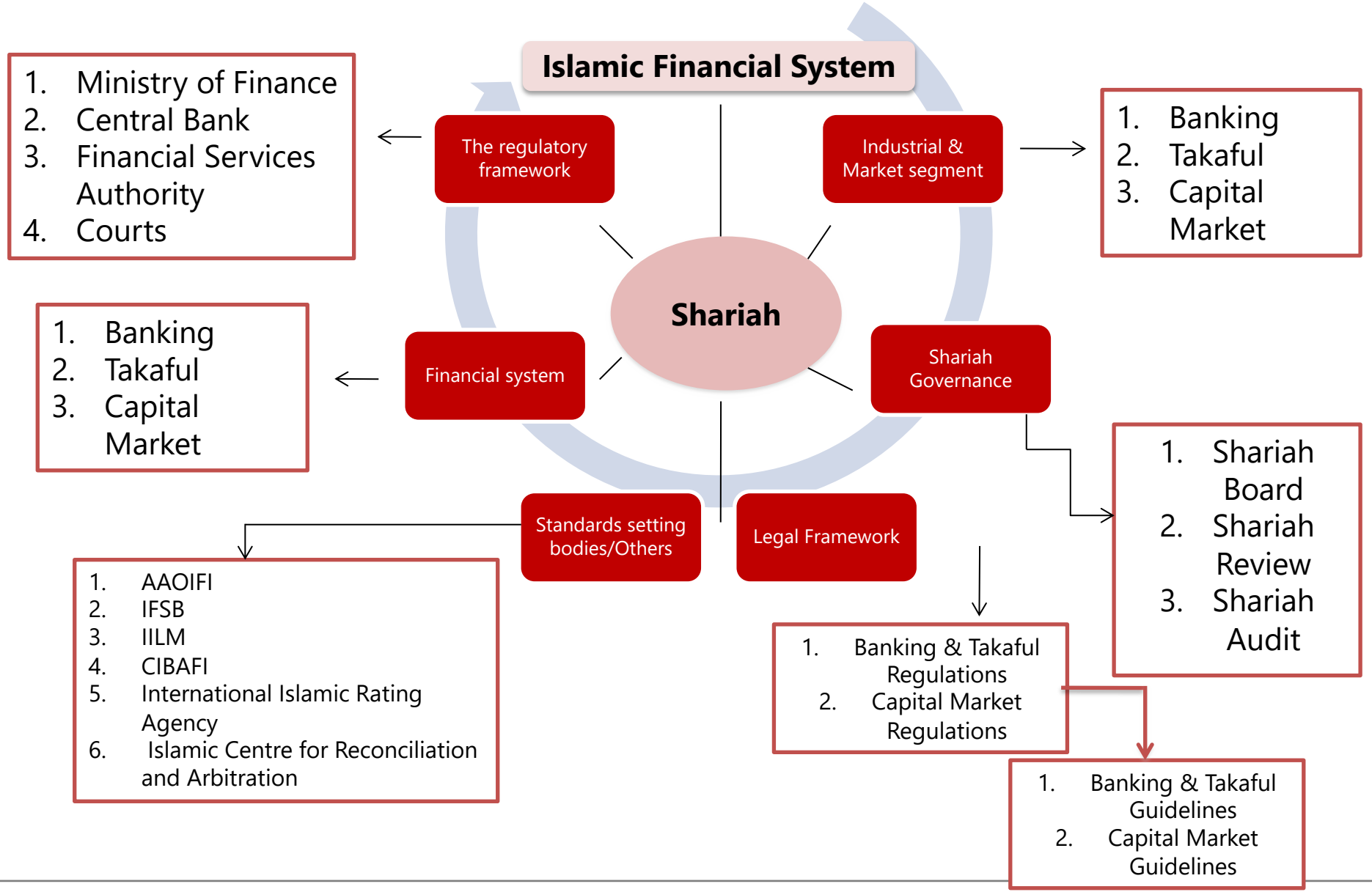
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Introduction

- Today, Islamic Finance is available in almost every continent of the world
- From an initial beginning in mid-1970s, modern Islamic Finance now encompass Banking, Takaful, Sukuk, Capital Market and recently Islamic Social Finance
- Its growth has been impressive – double digit prior to Covid-19 pandemic and now expected to be double digit again from 2022 onwards.
- Notwithstanding a double-digit growth rate for more than four decades, Islamic Finance has yet to achieve its full potential.
- In the Muslim world we see increasing poverty, huge gap in inequality (income and wealth), financial exclusion, environmental damage and digital divide.

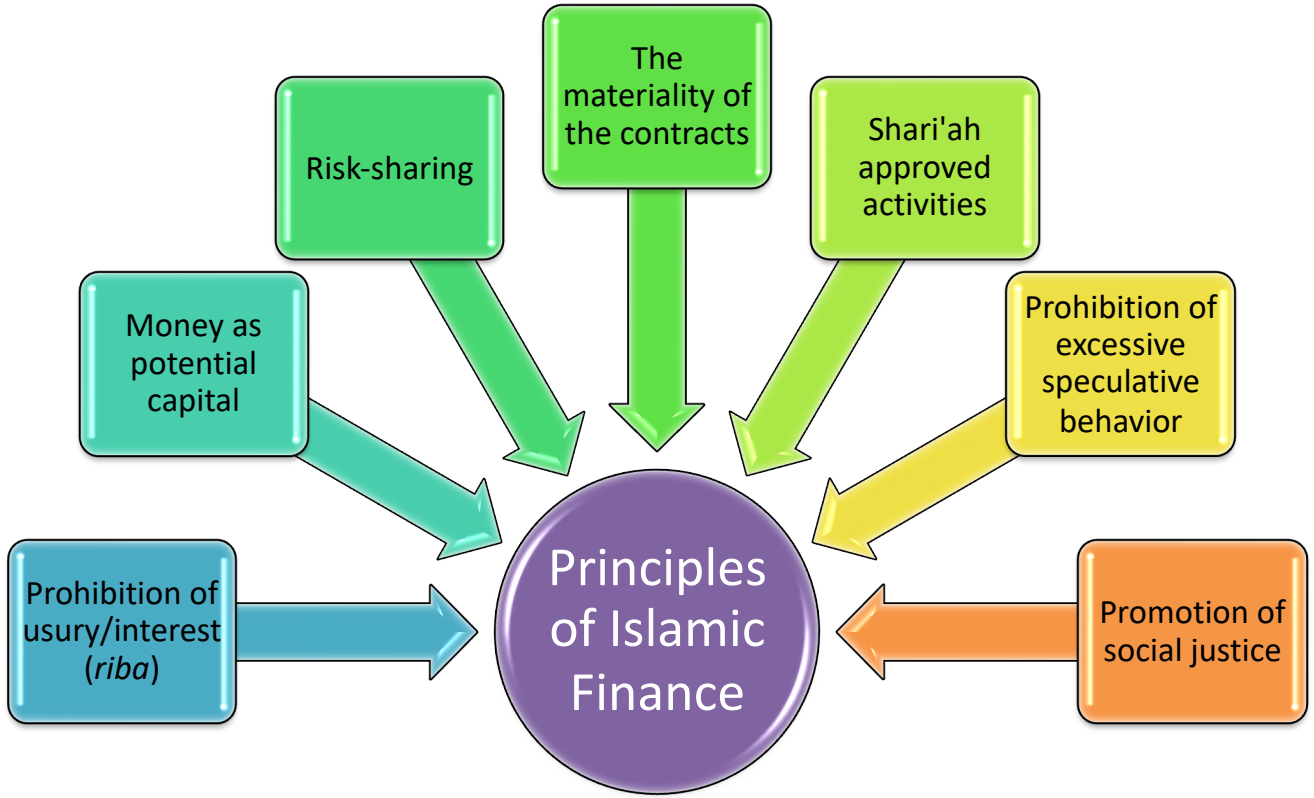
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Shariah & The Composition of Islamic Financial System



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Principles of Islamic Finance



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Risk-sharing Principles

- Where are Islamic Banks in this Risk-sharing principles?
- Reality: application of risk-sharing contracts (Musharakah and Mudarabah) in bank financing represents a small percentage
- From deposit side, Investment Account uses Mudarabah, but financing on the basis of Mudarabah and Musharakah is rather limited

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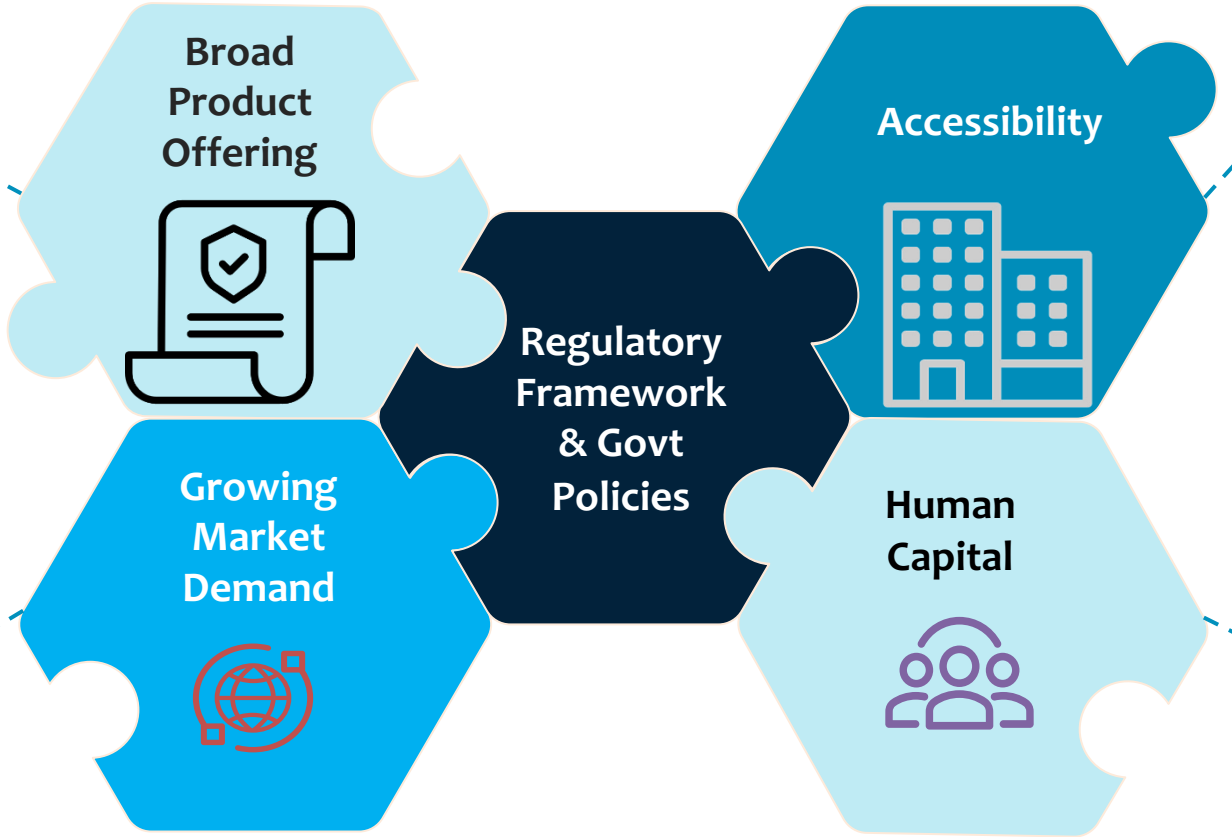
Islamic Banking

- Possible Solutions:
  - Create a dedicated Investment deposit account based on Mudarabah and financing based on Mudarabah as well. The Investment account will not be guaranteed under the deposit guarantee scheme
  - Utilise shareholders fund to finance business customers on Musharakah and Mudarabah contracts
  - Participate/establish Equity Crowd Funding Platform for risk-sharing business financing

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Critical Success Factors for Takaful

- General Takaful
- Family Takaful



- Number of Takaful & Retakaful Companies
- Omni Channels – branches, agents, banca takaful, digital

- Awareness
- Education
- Promotions & Campaigns

- Research
- Education
- Talent Development
- Conferences
- Seminars

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The Need for Research-based Innovation

- 1. Market Demand
  - Research
    - To understand the level of awareness about Takaful – public, students, business community, corporates and government
    - To educate – public, students, business community, corporates and government about Takaful
    - Devise the right promotion and campaign tools
- 2. Product Offering
  - Research
    - Types of products to meet the demand of the market – general and family
    - Start with basic simple products and later develop innovative products

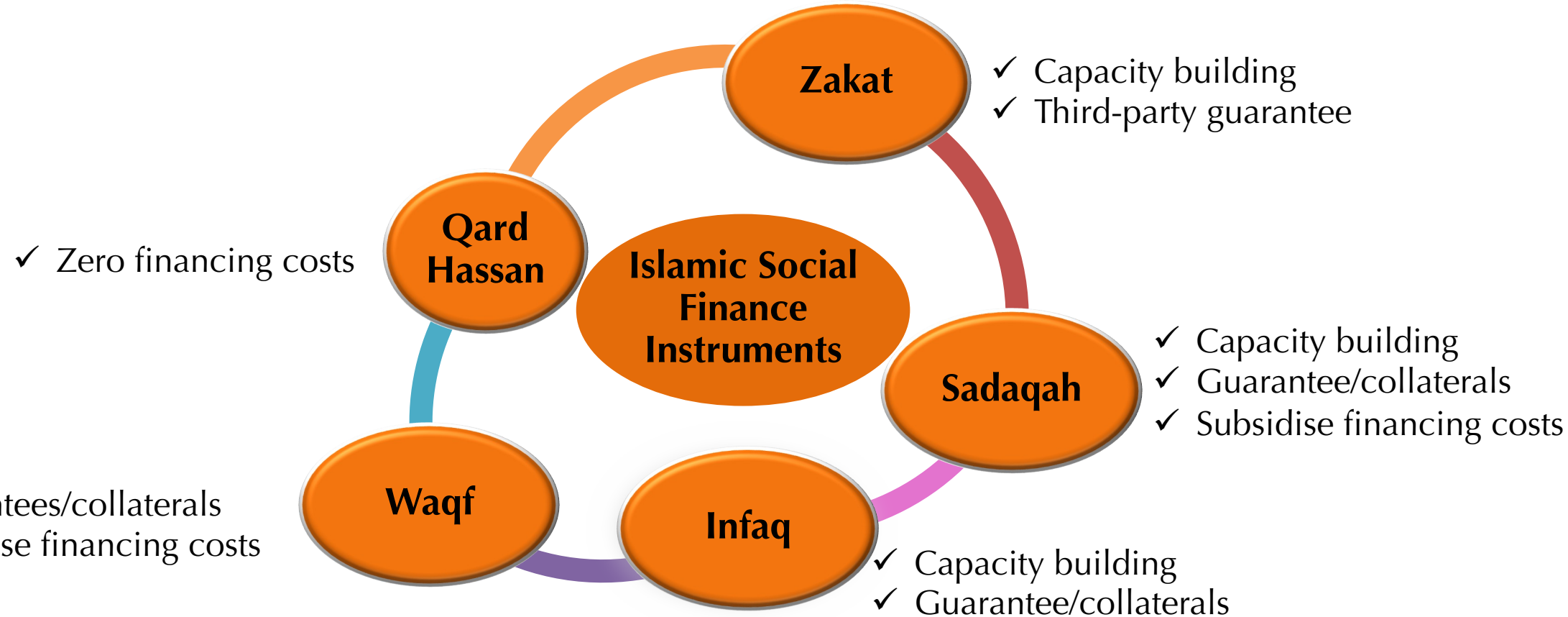
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- 3. Accessibility
  - Research
    - How to market the Takaful products? What works and what doesn't?
    - Takaful branches, banca Takaful, agents, digital
- 4. Human Capital
  - Talent development
  - Research
  - Others

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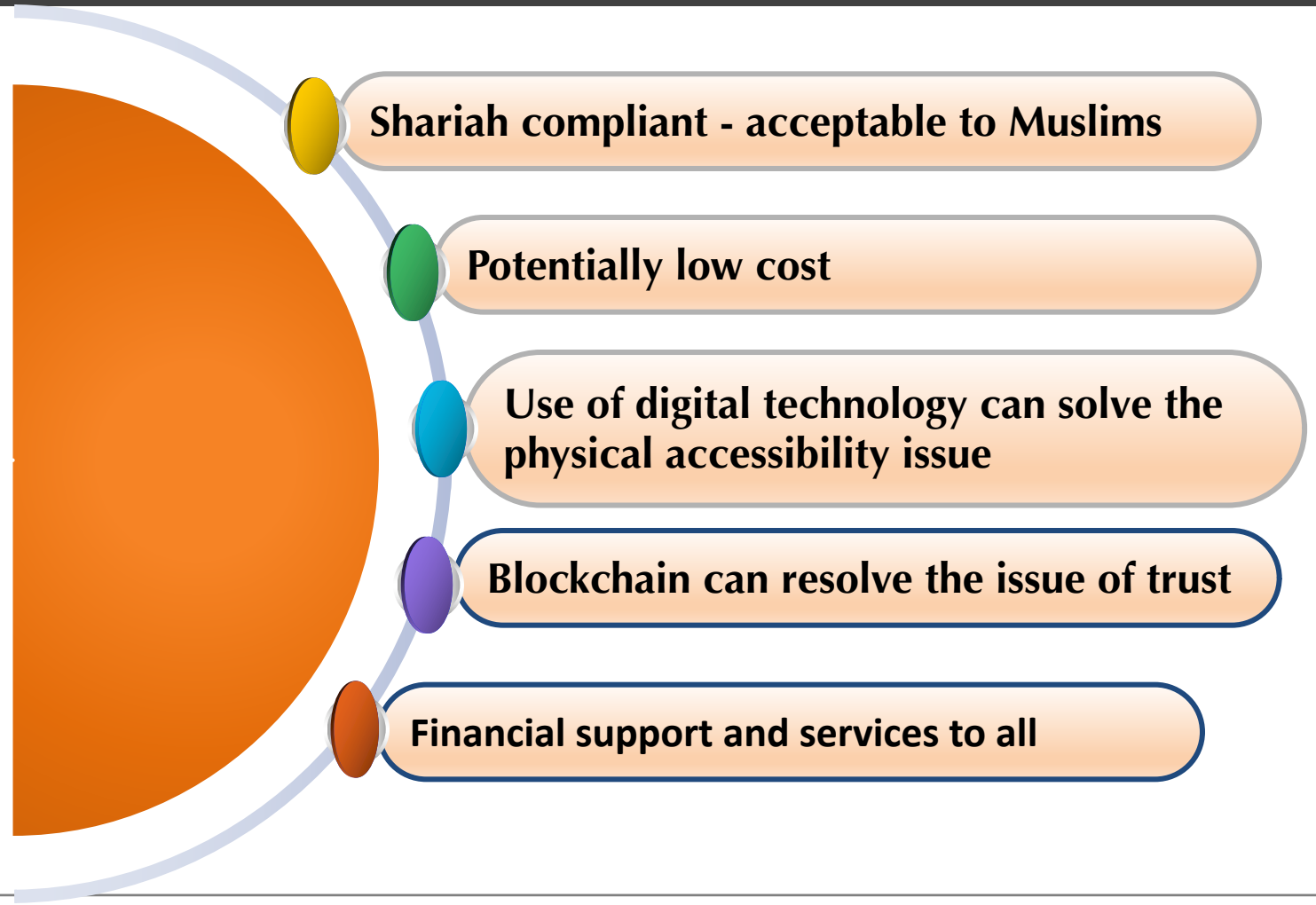
Financial Inclusion

Islamic Social Finance Instruments for Financial Inclusion



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Islamic Social Finance instruments to enhance Financial Inclusion



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Examples of ISF solutions to enhance Financial Inclusion

- Cash waqf deposits at financial institutions
  - Fixed maturity period during which the profits are earmarked for certain social and charitable projects; at the end of the maturity period, the depositors could withdraw their cash waqf placements
- Takaful products with waqf component (Malaysia)
- Micro takaful
- ESSN Turkey – for refugees in Turkey - uses bank & bank card for financial assistance
- Angsur Indonesia – financing apps for university students
- E-Wallet (e-Tunai)
  - Malaysian government assistance for the poor through e-wallet

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Conclusion

- Islamic Finance needs to address its issues and challenges in order to realise its full potentials
- Some of the solutions which have been implemented in several jurisdictions may be replicated subject to further research for adaptation
- Islamic Social Finance is currently outside the ambit of financial sector. It's important to mainstream Islamic Social Finance into the Islamic Finance eco-system.

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