

OPALESQUE

ISLAMIC FINANCE

INTELLIGENCE



Istiqlaal Opalesque

Allocator Interview

Ahmed Muhammed Almanasreh,
CEO, Sanad Islamic Investments

Featured Structure

Call Option using Set-Off
Nikan Firoozye, Ph.D.

Industry Snapshot

Importance of Corporate Culture
in Brand Identity

Istiqlaal Opalesque

Welcome to the sixth edition of Opalesque Islamic Finance Intelligence, for this issue we aim to look further into various aspects of Islamic finance that might have been overlooked elsewhere. We begin with an editorial note that explores the linkage between the past and the present constituencies of Islamic finance (be that consumers, investors, or practitioners) or to put it in other words the generational change that is underway and the validity of applying a sustainability label to the industry.

This is promptly followed by our Featured Resource which highlights a survey of various training programs and certifications available in the marketplace, this is a far more detailed version of our earlier attempt (much credit goes to one of our readers). Similarly, the concept of brand identity (within the realm of Islamic finance) has been rarely discussed, hence we turn to the Industry Snapshot section where Joy Abdullah delves into the linkage between corporate culture and brand identity - as these relate to Islamic financial institutions.

Muqaddasah (call option using set-off) is dissected by Nikan in the Featured Structure section, a combination of murabaha and salam which might not be widely used in the market but presents a valuable illustration of how various instruments can be combined to create new permutations. Islamic Venture Capital has also been under-reported and our Allocator Interview profiles Jordan-based Ahmed Muhammed Almanasreh from Sanad Islamic Investments, who shares his views on Islamic VC in the MENA region.

Khalil once again provides food for thought in Lex Islamicus by discussing the debate over the commercialization of fatwas, whereas our Opinion Column hears from Furqan Ahmad who scrutinizes some of the core challenges being faced by the industry today. Always welcoming your comments & suggestions and a reminder that you can check the ever-growing Opalesque Islamic Finance Briefing and Opalesque Islamic Finance Intelligence, all available free in our [Online Archive](#).

Thanks & Regards,
Bernardo
Editor, Opalesque Islamic Finance Intelligence

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Photography by: Kelly Lemon,
Robert Seabrook

Insufficient Funds

Bernardo Vizcaino, CAIA

We have often made a point to emphasize what is often unsaid and otherwise unreported across the industry. This might be due to the media lacking an understanding of financial concepts or a tendency to underestimate mundane topics. Examples such as takaful, portfolio management in general and profit-sharing as a whole - these are all seemingly obfuscated by the structural maze of their sukuk cousin and its paradise for financial-engineers. Another victim of this industry noise has been the generational change that is gradually emerging across the industry. It is not a hot topic and we don't expect to see a sponsored industry report anytime soon, but it is an important trend nonetheless.

This generational change has the potential to make an impact, and this can be substantial. Take for instance the evolution of the SRI industry: a decade ago this was arguably the gulag of finance, a nice department for you to retire, a boring and unexciting corner of the financial village (for the uber cynical a convenient place to send the colleagues you didn't like). SRI today is absolutely different: it is a magnet for talent where the top graduates want to go - as they want to engage the issues, be part of the solution, get involved with the new and exciting strategies. This switch is purely driven by a generational turnover, where the youth that grew up with solar panel demos and saving the whales videos has finally had enough with the promises and wants actions.

Islamic finance is primed for a similar rejuvenation - the human capital that is brewing across campuses and schools is building a fresh and dynamic pool of talent for years to come. These young practitioners arrive with an inquisitive nature, and they are finding that the current Islamic financial system is not always reflective of its founding principles. This is bound to increase the debate of where the industry is heading and is epitomized by a collective sense of frustration: On one hand the opportunity to showcase the ethical principles of Islam seems to have been diluted into an exercise of financial formulae; On the other hand some of the industry output has become a source of ridicule - seemingly backfiring on the industry.

Further concerns are being raised when one considers that Islamic finance has gradually converged on the concept of sustainability (it is no coincidence that one of the upcoming AAOIFI standards is on Corporate Social Responsibility). In fact, we have heard several calls for the industry to adopt initiatives such as the United Nations Environment Program Finance Initiative (from Islamicfinance.de - [see reference link](#)) and the United Nations Principles for Responsible Investing ([see reference link](#)). However, scarce attention has been given to what sustainability actually means - one of the earliest and broadest definitions comes from the UN itself: "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (refer to the report of the Brundtland Commission - [see reference link](#)). This is an

Editor's Note

intrinsic and undeniable linkage between the current/present and the next/future generations.

A baptist preacher once noted that his generation had once gathered to cash a cheque on its government, a cheque that had been returned marked 'insufficient funds' as he argued that the issuer had defaulted on its community - specifically on its moral commitment to a certain group of its citizens. It seems we have come full circle when we consider that sakk (the singular of sukuk) can be traced back as a root word for cheque, and that such a financial instrument has come to represent the default of the industry on its younger constituents.

This promissory note, issued by an earlier generation of Islamic finance founders and pioneers, has been handed over to a new generation of young, energetic, and idealistic Muslim professionals. They have come from all corners of the world, we have encountered them in Casablanca, Toronto, Bankstown, Jakarta and Johor Bahru. They carry within them a very strong will to support this industry, and are certainly willing to see it flourish. Nevertheless, we hear from them a similarly-strong dissatisfaction that this same industry is failing to recognize their readiness and willingness to engage. This is not a clear cut issue and don't expect unanimous agreement, but we have heard their trials and tribulations and we know there is much discontent, one of the advantages of being non-aligned and independent is the ability to hear privately what might otherwise not be discussed publicly.

Many of them try to deposit this cheque (by engaging this industry as consumers, practitioners or just mere observers) only to find that the issuer seems to be bankrupt (in so far as its principles and priorities). Their response varies tremendously: denial (head in the sand acceptance), despair (how to engage? how to contribute? where to begin?), dismay (after encountering an often unpleasant reality), even distaste for the real industry they uncover. But many forge ahead, even if it is from the sidelines, they want to build on the positives: driving purpose (emphasize the original objectives of the industry), damage control (cleaning up what has been built thus far), deterrence (push aside the nonsense and protect consumers), and most importantly development (the improvement and betterment of the industry as a whole).

Islamic finance might be based on divine scripture, but this does not make it a perfect industry (after all it has been designed and built by mortals). Nevertheless, this industry has certainly been blessed - but not from the top echelons of power but rather from the very bottom (not by idealistic and visionary leaders but by hard-working and dedicated individuals). It might not be perfect in the first place, but this is the challenge - to engage this imperfect industry and collectively work towards a better version of itself.

The check might have bounced but it is clear that this generation is willing to extend a facility to the industry for it to reorganize its priorities and avoid a moral liquidation. This generation is writing a new cheque for the future, one that is default-free (to the chagrin of the profit-sharing purists). So much to look forward to.



Your feedback and comments are very important to us, please feel free to contact the author via [email](#).

Islamic Finance Training Programs & Certifications 2.0



Sincere thanks to Mansoor Munir Ahmed for compiling this great resource, we present a portion of it but the [full listing is here](#)

Intermediate Level - Legal Studies

1. **Diploma in Law - University of London**: A distance learning course consisting of four units. It is a qualification in its own right and also provides an entry route to the LLB. Successful completion of the Diploma gains credit for the first four subjects of the LLB degree. A number of British universities recognize the Diploma as an entry qualification for becoming a second-year, campus-based LLB student. This diploma will pave the way in ones career toward Masters in Islamic law. This program can be completed in 1-5 years.
2. **Executive Diploma in Islamic Law (Islamic Banking) - IIUM**: This course has a duration of 1 year on a part time basis, and is conducted in English. It is suitable for those with some experience in the Islamic finance industry. Here are some prerequisites:
 - SPM 3 credits with 3 years of working experience, or
 - STPM 2 principles with 2 years of working experience, or
 - Diploma recognized by IIUM with 1 year working experience, or
 - Degree in any discipline recognized by IIUM
 It is being conducted by Harun M. Hashim Law Centre, International Islamic University, Malaysia.
3. **Bachelor of Laws (LLB) and Diploma in Law - University of London**: A programme for those who intend to obtain an LLB degree of international standing providing the first step on a career route to doing LLM in Shari'a or Islamic law Applicants who already have an undergraduate degree acceptable to the University may complete the LLB in two years through the nine-unit Graduate Entry Route. This can be completed in 3-8 years (or a minimum of 2 years on the Graduate Entry Route).
- 4a. **LLB (Honors) - IIU**: A 5 year (13 semesters) degree programme, anyone who has accomplished his A/level or F.A (having at least 50% marks) can apply.
- 4b. **LLB - IIU**: A three year (7 semesters) degree programme course. The candidate should have at least Bachelor or equivalent degree from a recognized University, with at least 50% marks (C Grade).
- 4c. **B.Sc in Islamic Banking & Finance - IIU**: This programme {B.Sc (Hons)} is a 4 year program offered to candidates with alternative background such as: a) Candidates holding Higher Secondary Certificate from a Board of Intermediate and Secondary Education in Pakistan or equivalent qualification from recognized institutions within the country or abroad; b) Candidates with at least 45% marks in aggregate are eligible to apply. Preference will be given to candidates having studied Economics/Mathematics/ Statistics. Admissions are offered purely on merit in which the entry tests play important role. Foreign candidates may apply provisionally on the basis of paper qualification.

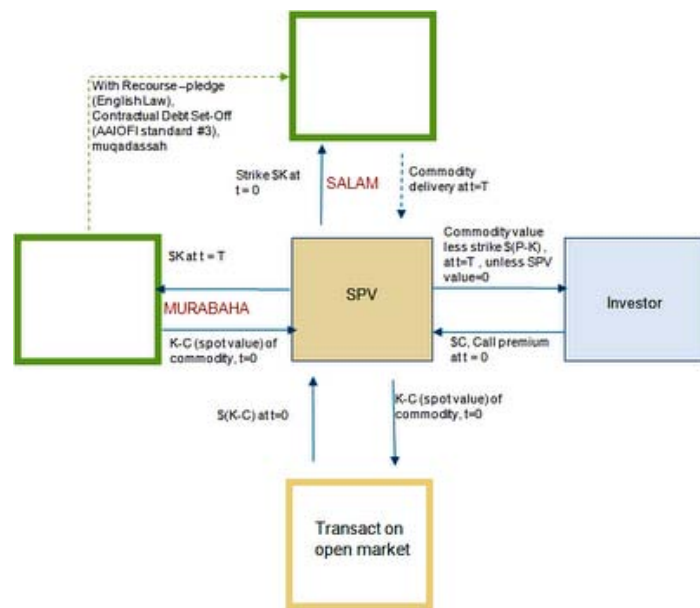
Featured Resource

5. **[Post Graduate Diploma in Islamic Banking and Insurance - IIBF](#)**: The diploma aims to engrave the basic operational and fundamental theories on which the whole banking structure is designed. More details can be found on the website given below, its cost is £1,000 and is a distance learning course benefiting those who intend to carry it out on their own time.
6. **[Post Graduate Diploma in Islamic Banking - IIU](#)**: Can be achieved by candidates holding BA/B.Sc/BBA/B.Com degree or equivalent qualification from a recognized institution. Admission is granted purely on merit basis through admission test and interview. Preference will be given to nominees of Banks and Financial Institutions. The good thing about this course is that every student will be required to present a workshop on a project prescribed by the faculty, which will be evaluated accordingly. Alternatively the student will be required to join internship with an Islamic financial institution for a period of 6-8 weeks. The performance of the student will be evaluated by a committee of examiners in the faculty on the basis of the report submitted by the head of host institution.
7. **[Post Graduate Diploma in Islamic Banking & Finance - The Institute of Islamic Banking & Finance](#)**: An exclusive threshold Gateway Programme designed as a Distance Learning Program to offer knowledge resources in a comprehensive and compact manner motivating students to explore further avenues for knowledge. Any Graduate in any discipline from a recognized university with simple ability to understand English language as the entire material is designed in English language. MBA/BCom candidates enjoy convenience of understanding the subject with ease.
8. **[Postgraduate Diploma in Islamic Business and Finance \(PGDIBF\) Program - IBFNet](#)**: To qualify for entry to the Postgraduate Diploma in Islamic Business and Finance program, applicants normally must have completed CeIB/CeIP/CeIA (All of these courses have been mentioned in this database).
9. **[Postgraduate Diploma in Islamic Banking & Finance - Al Huda CIBE](#)**: Intended to impart the comprehensive knowledge of Islamic Banking and Islamic Insurance with its true sense and concept in the people who are unrelated to the banking or insurance professions. The purpose of the course is to equip the graduates with the Shari'a principles of Islamic finance to fulfill the global needs of human resources and to produce well equipped professionals with the knowledge of Islamic financial concepts and products.
10. **[Chartered Islamic Finance Professional \(CIFP\) - INCEIF](#)**: An online course which claims to equip its participants with extensive knowledge in Wealth Management, Takaful, Islamic Structured Products, Regulation & Supervision and Consultancy. To qualify the participant must have a recognized Bachelor Degree in any field; or a Diploma from a recognized institution with a minimum of 5 years working experience in the related banking or insurance industry.
11. **[Graduate Diploma in Islamic Economics and Finance \(PGDIEF\) - Al Jamia Al Islamiya](#)**: A 10 months integrated course on Islamic economics and finance dealing with subjects such as Islamic economics and their measures in Qur'an and Hadith, Accountancy with Computer application (Tally & Peachtree) and Functional Arabic etc.

Call Option using Set-Off

By Nikan Firoozye, PhD

Options have value - it is one of the core concepts of modern finance. This optionality can be manufactured as in a financial instrument such as a derivative option or it can be embedded in mundane day to day choices (companies can choose to default, individuals can pay their mortgage in advance, we can skip a day at work, etc). Thus options are everywhere, some might not be very wise choices and others might be totally unknown to us since they might expire without ever being exercised.



Specifically in finance, options have been monetized (i.e. a significant part of the industry is built on how to price them) and they are typically used to transfer risks from an issuer to a buyer/holder of that instrument. It is this risk transfer (as opposed to risk sharing) that precludes Islamic financial institutions from using these instruments. Much of the pricing/valuation of options centers around payoffs, so a financial transaction might not be a derivative in a puristic sense but its payoff might be identical.

Arriving at a call option through debt set-off is a case in point. Also known as muqaddasah, a debt set-off will necessarily observe AAIOFI shariah standard number 3, which states that setoffs are possible as long as: 1) they involve the same counterparties (e.g., I owe you and you owe me) and 2) the notional is the same and 3) the maturity is the same. These can even be made contractual. There is also some leeway if notionals are different and maturities are different. Here we profile the basic set-off.

In the diagram above we see the cashflows for a call-option. This structure has been used for Principal Protected Commodity Notes (just adding on a separate SPV with murabaha to synthesize the zero-coupon bond) by some large commercial Saudi banks and super-large continental European banks. The procedure is as follows:

- Investors puts up \$C (call premium) at $t=0$, which is supplemented with the Murabaha (effectively borrowing $\$(K-C)$ strike price less call premium-worth of a commodity at time $t=0$).
- The commodity is sold on the open market to raise $\$(K-C)$.
- The premium and proceeds of commodity sale with total value of $\$K$ are invested in a Bay-al-Salaam contract.
- This Salaam contract is used as collateral (through a “pledge”) for the Murabaha and recourse to the SPV is limited to this Salaam contract.
- At maturity, the commodity is delivered and will be sold (on the open market) under a separate wakala arrangement.

Now there are two possible scenarios at maturity $t=T$

1. Commodity price $P > K$ the strike. Commodity is delivered into salaam, sold, proceeds are used to cover the monies owed in murabaha, and the remainder $\$(P-K)$ is paid to investor.
1. Commodity price P the strike. In this case, the commodity is delivered and sold, but proceeds cannot cover the murabaha and the bank will exercise its recourse to receive the value from the proceeds of the salaam sale. The SPV is wound down with no further recourse.

Effectively, investor receives $\max(P-K, 0)$ at time $t=T$, the payoff of a call option.

Some see the combination of Salaam and Murabaha as a suspect means of preventing forward sales, since they clearly can synthesize a forward (although scholars rarely try to limit this). If we move beyond these possible objections, then combining Salaam, Murabaha and Debt Set-off, allows for a wide variety of payoffs. Certainly AAIOFI standards alone show that debt set-off is allowed and it can be contractual. Here, the salaam and the murabaha have the same maturity and same notional, so what is owed on one can be used to offset the other by contract with no further recourse or implications. The SPV and pledge allow it to take place from an English Legal perspective.



Your feedback and comments are very important to us, please feel free to contact the author via [email](#).

Interview with Ahmed Muhammed Almanasreh, CEO, Sanad Islamic Investments

Sanad Islamic Investments is a Shariah compliant venture capital firm based in Jordan which provided VC fund management, venture creation, and advisory consultations on technology, media, telecom, education, and healthcare in the MENA region. Ahmed is Chairman & CEO of Sanad II, he completed his Ph.D. in 1996 in EE from the University of Alabama in Huntsville. He joined Photronix (Malaysia) as the R&D manager for the period 98-02 where he helped in starting up this venture, developing its products, securing funding and introducing it to the world. Later, he joined the Hashemite University where he served as the chairman of the ECE then EE departments for the period 03-07. He was short listed for both ASTF business proposal competitions in Riyadh '04 and Kuwait '06. He was invited as a jury member for QRNEC, QR scholarship program, SABEQ and other national committees. He also served in organizing committees of several international conferences. He has published about 20 technical articles and he recently was involved in starting up four ventures dealing with different technological-based products & services. He was recently certified by the American Academy on Financial Management as a Certified Private Equity Specialist.

Q. It has been often noted that the MENA region has a high degree of exposure to private equity investments – but not necessarily venture capital. Does this reflect an untapped market or do regional investors simply shun away from investing in start-ups or early stage companies?

Private Equity in the MENA region is still facing challenges as the financial crisis unfolds both globally and regionally. Figures from GVCA, KPMG 2008 annual report shows (Figure 1) an increase in size of funds raised in 2008 compared to those in 2007. However, as 2010 is emerging, de-leveraging continues and cash available for the finance of this industry is scarce. Fund managers are having a hard time closing announced funds and it is more difficult for new funds to raise capital.

It is further illustrated (Figure 2) that the VC industry is still facing more critical challenges. Although public and selected private organizations are trying to adopt and encourage establishment of western model of VC in the region, this industry is not bouncing back. The case in my opinion is challenged by many

issues. Failure of regional governments on acting according to their belief of the critical role that the VC industry plays in building a sustainable economy comes on top of the list. An 'ecosystem' to help this industry flourish and to support currently seen entrepreneurial movement in the region is very much required. In particular, introducing entrepreneurship to the education system is of extreme importance. Not to forget the need to have continuous awareness of significance of knowledge-based economies. Consequently, weak deal flow suitable for VC industry has resulted. I also find it important to underline the risk-aversion business culture in the region being one barrier in the way of having the region to establish this much sought-after VC industry. Moreover, the business sector in this region has a strong appetite for quick returns. In summary, PE/VC industry in this region is not guided by long term economic strategies, and fund managers shun away from investing in start ups and early stage deals. However, we don't blame them since they act on the cash (short-term) interest of their investors, we appeal before them and all stakeholders to have hands together to solve this problem and face these challenges.

Allocator Interview

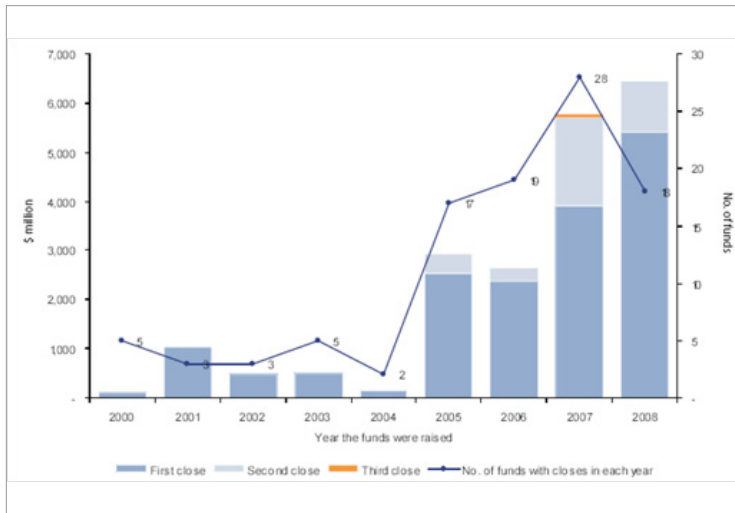


Fig. 1: Funds raised per year
 Source: PE & VC in the Middle East, Annual report '08, GVCA and KPMG

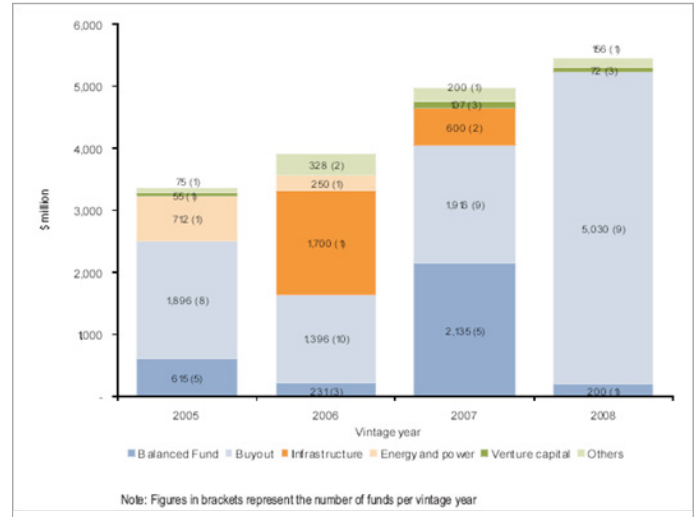


Fig. 2: Vintage funds by investment focus
 Source: PE & VC in the Middle East, Annual report '08, GVCA and KPMG

Q. When it comes to identifying investment opportunities, do you observe any significant differences between conventional and Shariah compliant VC? What are the significant distinctions?

Shariah finance continues to prosper and gain momentum worldwide and particularly in the region. According to the Ernst & Young 2008 World Islamic finance report, assets of this class is forecasted to exceed \$2.7trillion by 2010. However, most of this growth has been so far on the development of corporate structures, but there is increased demand on underlining growing Shariah compliant investments.

As Shariah compliant VC firms come to the scene, we recognize significant differences when compared to their conventional counterparts. In regard to investment opportunity identification, we see that Shariah compliant firms avoid investing in unethical and Shariah unlawful products or services. These include the production and distribution of alcohol and pork-related products, arms industries under the current world regime, hotels, casinos, and conventional banks and insurance companies. Beyond that, it is generally accepted that any haram (improper) revenue of target investment counting for up to 5% of total revenues is considered a viable investment. In such a case, purification of income to count for this percentage of haram is commonplace, and this is usually done under the supervision of a Shariah board.

Q. The scope of Shariah compliant investment products now spans the entire globe, however do you find any specific areas (i.e. geographies, sectors, currencies, etc) which are still not properly covered by venture capital firms?

Although Shariah compliant investment has widely spread, there are certain areas in MENA region that are considered of potential for growth. Some regional countries have taken more steps toward developing this industry than others. Jordan for example has taken the initiative of calling for proposals for managing two VC funds. The funds are anchored by Jordanian Government and European Investment Bank, and the fund is expected to be announced soon. However, countries like Syria, Iraq, Yemen, Sudan, and Algeria are of potential for VC industry deal flow. As to sectors, most of deals at the current stage are of IT field. This is justified due to many reasons including relative low barrier to innovated entry in this field. The huge market for social web services is another driver. Descent IT education in the region has helped as well. However, other sectors like agriculture, healthcare, and media are areas to be looked at carefully and require unleashing their potential. Some funds have started looking into these sectors specifically.

Q. Would you maintain that this universe of compliant investments carries a problem of quantity (more products needed) or quality (better managers needed)? Or both?

Allocator Interview

In the context of improper industry avoidance relating to Shariah compliant VC, such sector restriction is not a foreign concept to investors. Fund investment diversification is a well-known practice in this investment arena. This implies having few sectors only under consideration of the fund managers. Moreover, alternative structures for Shariah compliance that is continuously developed by Shariah boards constitute a way to mitigate the quantity issue of this universe. However, I do believe we suffer a quality issue according to which more experienced people are to be attracted to this domain and trained on Shariah compliance rules. Meanwhile, Shariah boards are bridging some of this gap.

Q. The VC industry in conventional/traditional finance has matured over several decades, does this present Shariah compliant VC with a distinct limitation with regards to attracting experienced professionals and having the relevant background in seeding activities?

It is widely accepted that the use of PE and VC within a properly constructed partnership is a true manifestation of Shariah business principles. This makes utilizing conventional VC experienced professionals seamless. However, and as I mentioned elsewhere, training on Shariah rules and guidelines to better perform their jobs is all what it takes those professionals to adapt to this universe. In fact, has the situation been otherwise, Shariah compliant VC would have suffered serious issues regarding experienced professionals and consequently regarding the performance of the industry as a whole.

Q. VC is by definition an illiquid investment product - to what extent can this be mitigated and are there any other issues (such as sector concentration, lock-ups, idiosyncratic risk, etc) that investors should be aware of?

Shariah compliant fund based investment is as illiquid as its conventional counterpart. Nothing much can be done to manipulate this fact. Moreover, there are industrial sectors that are avoided due to Shariah rulings which ultimately come from the simple objectives of causing no harm and protecting the societies (these sectors were mentioned previously). However, due to structuring and ethical issues, Shariah compliant VC may be considered as lowering for example some of the conventional risk associated with this type of investments. In structuring deals, investors are given equal rights and borne equal

risk although profit shares might vary. Leveraging is restricted to a situation where riba or interest is avoided.

Q. How do you see the VC industry developing in the MENA region – in particular with regards to industry support for entrepreneurs and the level of innovation in the project pipeline?

The VC industry is growing in the region. Reason behind that is improvement in deal flow especially in the IT field. This has been further motivated through the realization of success stories such as Maktoob. Furthermore, more people are realizing the importance of having a VC industry after the financial crisis has stripped-off some of the improper invested liquid allocation and the need to establish real economy. In addition to that, a strong VC industry is required if PE industry plans to sustain and prosper in the region. On the other hand, we have seen more public and private initiatives, in some countries like Jordan and UAE, targeting a complete 'ecosystem' in this domain which ultimately will support entrepreneurs and encourage innovation. We have started to see some of the fruits of these efforts manifested in the level of innovation in business plans seeking funding.

Q. What are some of the key trends that you are monitoring in the industry (with regards to new products, new markets, etc)? Which would you argue holds more opportunity and where is the greater potential for growth?

Most of the MENA countries are relatively new markets for the VC industry. Some of these countries haven't seen any VC activities yet, although potential innovation in deal flow does exist. We look forward to tap such deal flows. Recession-resistant industries like healthcare and education are promising sectors that have not been fully explored yet as well. Other sectors like agriculture hold promise in this region especially if implemented in countries like Sudan. Turkey is one of the most promising markets in the region as well. If we extend our interest beyond this region, then areas like Southeast Asia and Central Asia are of potential markets to PE/VC industries. Overall, we are likely to see more of regional and global funds interested in Shariah compliant investments.

Fatwa Incorporated

By Khalil Jarrar, J.D.

Religions in general promotes self discipline and restraint, a recent conversation lead me to believe that most people - even the self-acclaimed righteous ones - do not realize that religion is a conviction not convenience. The argument was initiated as follows: one person suggests to another "go find the car you like, I will buy it for you with a substantial discount on one condition, give me the cash and I will carry the finance note". When I interjected stating that this type of transaction was forbidden in Islam (as a sale of Ina' where the intent was Twarruq only) to my surprise my integrity was attacked, as who am I to issue fatwa? My response was, it never was meant to be a Fatwa , it was the right response for the conversation at hand and suggested that they consult an Islamic Jurist to settle the issue.

But what came to mind after such suggestion is that free Fatwas are normally stricter than the ones that are paid for, especially when the client paying for such a fatwa is a conglomerate who only has the bottom-line in mind, with client/customer interests lower in priority.

So is Fatwa incorporated a contradiction in terms? This is not the case. While the controversy continues to boil over the role of Islamic jurists in shaping the basic principles of Islamic Finance houses, a call for the independence of jurists is overdue. There is no issue with regards to paying for such services, but this does not preclude

consumers from demanding arms-length transactions and proper firewalls in place to reduce conflicts of interest. Temptation might play a role in decision-making or tailoring a structure to meet a given requirement. Even the mere appearance of impropriety is damaging to the image and role of such jurists (not to mention the image of the industry). There are numerous stories and reports alleging inappropriate conduct by some jurists, among such allegations are lavish gifts by sponsoring banks and demands of first class airline tickets and five star hotels by such jurists. If self-discipline dictated by Islamic principles was not an enough deterrence what results do we expect?

Imagine an entity that is incorporated and adheres to ethics and self-discipline dictated by the tenants of Islam coupled with a strict professional code of conduct. Islamic principles, as we know it, does not have a complete financial system, the guiding principles are a set of negative covenants and prohibitions designed to protect the exploitation of the weaker party. Rather than reinventing the wheel, I believe that conventional banks should lead the efforts in creating Islamic financial institution as the industry has matured over the years in creating a sustainable system. Corporate governance, regulatory reforms and adhering to International law standard will become a moot issue; the only concern will be compliance with Islamic principles. Fatwa incorporated will



be playing an advisory role to make sure that new instruments or entities adhere to Islamic principles and prohibitions and commingling of funds. Combined, with regulatory standards in place and ethical Islamic standards as guiding principles will help create more sustainable Islamic Financial Institutions.

The near collapse of some Islamic Banks in the Gulf region was driven by the greed of corporate entities, jurists who lacked subject matter expertise, and bankers conformance with safeguards of the conventional banking industry. Now before some enterprising people jump on the opportunity to create an Islamic Jurist hotline for financial issues, it is time for Islamic financial entities to rethink the current path and learn from the mistakes of conventional ones and 'bank' on their experience. The only regulation left will be of those working as Islamic Jurists for the finance industry not the recreation of a whole new financial system.



Your feedback and comments are very important to us, please feel free to contact the author via [email](#).

The Future of Islamic Banking and Finance in the GCC and the World

By Furqan Ahmad, Head of Product Development Islamic Banking Division, ADCB - Meethaq

The world has suffered for too long now under Riba based banking. It is time that the passionate Islamic bankers must now stand up and make a difference. And make a difference not only in the Islamic finance industry, not only in the GCC or other regional markets, but globally. I feel that Islamic Finance is the only solution in these interesting times. The world is hungry to hear the message loud and clear. This is the right time to reveal to the international market that Islamic banking and finance industry has the solution to the global financial crises faced by many.

Under Islamic principles, the sale of debt is not allowed. A loan or debt which has to be repaid in cash is considered as "money" hence the Islamic financial system does not allow it to be sold for anything other than its par value. Secondly, the concept of risk management is different. In the current system, risk is transferred – split and sold. In the alternative Islamic financial system, risk is shared, almost like a collective insurance scheme. This means that instead of a sub-prime loan risk being sold until it reaches a bank in the Middle East or Asia, it will be managed by the original issuing financial institutions that can assess and react to any changes in circumstances.

For Islamic Finance in the GCC region the future is now. It is now time to take advantage of this God-send opportunity and truly represent the proper Shari'ah based Riba free banking and finance in terms of products, processes, and actual transactions with utmost sincere intentions, as a distinct alternative to the Riba based conventional banking system; to improve the lives and financial choices of the people all over the world through equity participation, risk sharing and fair dealings. Otherwise, Islamic banking and finance will be clubbed in as yet another differentiated product or service offered under the umbrella of Riba based Conventional banking system.

We know that the road ahead will not be an easy one. The most urgent issues of Islamic Finance of today must be tackled decisively and conclusively. The controversial issues of Tawarruq and standardization must be placed on top of the agenda by the Islamic Scholars and bankers. It would be of significant benefit to the industry to have a global body of the top 100 Shari'ah Scholars and bankers from all the active Islamic Banking hubs in the world today, to openly debate and resolve the burning issues which are causing confusion in the minds of practitioners and consumers.

The achievement of standardization will be the tipping point which will in effect bring about the much needed worldwide revolution of Islamic Finance on a global scale and replace an otherwise oppressive Riba based banking system, the disastrous impact of which has been witnessed by almost

Opinion Column

all nations of the world during the last year. Trillions of dollars of wealth have been wiped out overnight due to the inventions and use of Riba-infested instruments by financial engineers.

Islamic Accounting standards have been established by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and they have now been very well recognized by the world's apex financial institutions such as the World Bank and the International Monetary Fund. One big leap will be the consistent application of these AAOIFI standards across the Islamic financial world which will then bring about standardization of Islamic Banking worldwide. To make it happen all the national financial jurisdictions must agree to subscribe to it and adopt it unanimously.

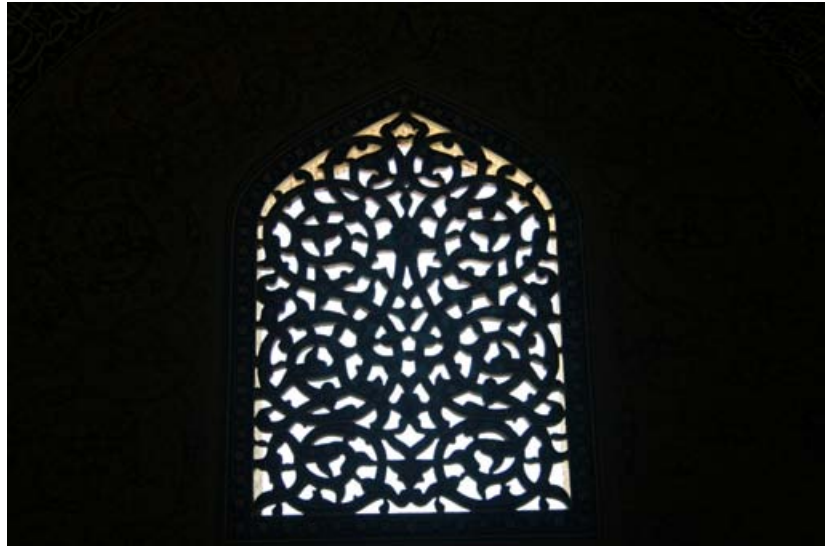
The conflicting views of Shari'ah scholars must also now stop in public forums. Instead they must have discussions on round tables with a sense of duty, purpose and single-mindedness in helping build the foundations of a most prosperous Shari'ah based retail investment and banking environment. Retail investors become confused when one Islamic Finance scholar says that a given product structure is Islamic while the other Shari'ah scholar says that the same structure is not Islamic. Consumer confidence gets hit significantly with differing Shari'ah Board opinions on products from jurisdiction to jurisdiction and region to region.

However, there is hope. Malaysia and the GCC are having more and more convergence in the views of scholars by each passing day and that is very encouraging. Malaysia now has products subscribed by the GCC standards. Some of the instruments in Malaysia are also using interpretation that comes from the Middle East. The industry is now moving away from controversial interpretation of Shari'ah to widely accepted interpretation.

Regulators are also in need of more guidance and clarity. One CEO was recently quoted as saying at a recent conference that standards setting, including regulatory, accounting and market standards, constitutes a "challenge" in the Islamic finance realm. Wherever the documentation and transaction forms can be standardized it must be done right away. Standardization is needed both in terms of contractual documentation and Shari'ah Scholarly opinions to better facilitate transactional and structural standardization in the industry.

Finally, let us not forget that Islamic finance globally constitutes one per cent of the entire financial services industry. Ratio-wise it is still small and the top priority in the future is to increase that ratio.

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Importance of Corporate Culture in Brand Identity

By Joy Abdullah, Brand Strategist

Joy Abdullah, Brand Strategist, has more than 20 years of experience across ASEAN & the Indian sub-continent in developing and managing national, regional and international brands in a wide variety of industries covering Islamic Financial services, tourism, B2b Halal, telecommunications, beverages, real estate, tobacco, hospitality and healthcare.

An organization is a non-physical entity that is brought to life through its **people**. This is even more latent in the Islamic banking industry as we know it today. Establishing a culture comes through those people understanding, accepting and developing ownership of the values in order to project that culture and thereby create a brand identity for the organization. (refer to the article “brand and the employee—importance of corporate culture” - [see reference link](#)). Such values are further crystallized where an entity follows Shariah principles.

Employees are one of the main stakeholders of any brand yet strangely enough many organizations fail to acknowledge the importance of ‘corporate culture’ in brand development and the employees role in this effort. Islamic finance institutions provide a unique chance to combine them. An organisation having strong ethics, common or shared goals and an individual development base, inspires the employee to strive for delivering to the best of his/her abilities. This comes about because the employee ‘likes’ going to work every day, ‘learns’ and is ‘appreciated’ and that makes the employee imbibe the brand values (which comes about from the corporate culture) and project it. Strong teamwork is visible. Positivity is visible. And success of individual brand activities occurs.

Employees are the first available resources for any company in pursuit of establishing a good corporate culture leading to having a profitable brand. Yet, surprisingly this is one area, where organizations spend the least amount of time. Today, companies are battling it out across various parameters to etch an identity for their

brands and yet many organisations do not have in place any internal brand engagement programs. Programs that link having a strong corporate culture to the brand experience projected by the organization. At the end of the day, a positive brand experience endures the consumer with the brand thereby creating loyalty. Loyalty based on having trust and this leads to the repeat transactions which in turn provides profits to the organization. In order to get to this stage, in today’s business world, it is critical for organizations to utilize their key resource—staff! ([see reference link](#)). In this context it seems that human capital in Islamic finance might be underutilized and perhaps even unappreciated.

So how do we develop and implement a corporate culture that brings tangible benefits to the organization?

It is possible and do-able, provided that senior management finds value in it and believes in it (see reference link). CSR is not an external effort, it is an internal exercise as well.

How can this be done :

Step 1: Identify the platform on which the culture would be based. The ethics and social norms it would want to promote and foster amongst all its stakeholders. Based on this ethical platform determine the values that the corporate brand should project/uphold.

Step 2: Inform and internalise, through a planned series of interactive workshops, these values to the employees by clearly linking them to their work functions and relating back as to

how, not projecting the same affects the brand and in turn affects the bottom-line.

Step 3: Get the employees involved. Get them to put down, in their own words how they would personalise ie project the values themselves and thereby project the culture internally and externally. (At this point also identify and have a few “champions” ie leaders who would in a way “police” the cultural implementation.)

Step 4: Ensure measurement. A measurable, performance indicator has to be in place which should be clearly explained to the employee and ensured that comprehension is there ie: the employee should be clear that his/her performance (in this area) will affect the company overall and therefore there is direct accountability.

Having initiated the program, keeping momentum is extremely important. This is where a structured internal communications program aimed at regularly highlighting the employee achievements, undertakings and organizational news are communicated. What this does is:

- A) It informs the organisation as to who's championing the specific activities
- B) It motivates the competitive spirit within divisions and dept.'s to do their bit and get their names on the “communication roster”

On the whole, the entire staff moves in one, planned direction, thereby projecting the desired behaviour. This benefits the brand as all stakeholders receive a “positive face” of the brand. Which in turn strengthens their relationship with the brand and leads to increasing revenue.

Yet the question that goes begging is-- Why don't companies make brand engagement for employees a priority”? ([see reference link](#))

The brand engagement begins right at the interview stage. The first interaction of a potential talent with the brand. Both have to impress/woo each other. The days of just a ‘fitting’ of skills is long past. Today, the potential employee needs to be evaluated in terms of a ‘cultural fit’ ie: behaviour and attitude. Both during work hours and out of it as a lot of time is spent in social context between colleagues and

with other stakeholders including clients. The importance of knowing if the potential employee fits in with the corporate values is critical in ensuring success of the role (the employee will handle) resulting in a positive outcome for the brand.

Bringing this into an Islamic value-based organisation, makes the ‘fit’ of the employee to the corporate values even more important and critical. Existing and potential talent, whose individual value system are aligned to the organisation's core values will be better placed through being comfortable (as the career and personal growth match is mapped) ie: a clear career direction is provided. This would lead to a positive projection of the individual's work output as there would be a perceived value of ‘making a difference/contributing’ which in turn would turn up the productivity and deliverable quality of the brand (to its clients/stakeholders). This rings true across Islamic finance institutions and especially if one considers the continuous streams of young (often Muslim) professionals seeking to engage it and make a difference.

This all goes back to a core organisational value of **transparency** - a concept that is strongly intertwined in Shariah principles. Transparency of direct communication to staff of organizational goals, feedback, expectations of the organization from its staff and vice-versa. Such a transparent culture will foster clarity of role and deliverables and most importantly, in projection of the brand and its key message.

A brand experience is the sum total experience one has with an entity and the perception one has of that entity. One of the key areas where this experience is strengthened (or destroyed) is the way the brand's ecosystem (its consumers, partners, vendors) perceive the employees of the brand they interact with. And this has far greater a impact than the advertising of the brand ([see reference link](#)).

Current corporate cultures are still largely governed by ‘command-and-control’ practices that alienate many of today's employees. Where as employees are (and should be) the key focal point for a brand in developing its relationships. By putting employees at the center of the brand experience thus changes the way senior management think about their organisational

culture. In turn this culture then creates rewarding employee experiences that in turn translate into positive and enduring customer experiences.

Yet, in spite of all the talk of 'people are our main asset', the road to 'employee-service-profit chain' success is mired in obstacles. If employees are distrusting and alienated from their organisations, what are the chances that they will provide customers and colleagues alike with a positive brand experience? And a positive experience is a must in order to have a repeat-sale/usage of the brand and, more importantly, to get referrals. Often times we talk about the image of Islamic banking from the outside world, but here we must also realize that the image from the inside is as important.

So how do we get employees to build trust with the brand and be engaged and involved with the organisation?

Engagement programs are just that—ie: they provide a one-way street of communication. Commanding what should be the perceived brand image communication. Providing content to gain a buy-in. But not really providing any means of engagement or involvement from the employee.

Involvement is the critical element. Intuitively we all understand what involvement is and how powerful a force it can be. When we are told to do something, we do it and then tend to forget about it. But when we are involved in something, we tend to be possessive and own it on an emotive level. And when emotion comes into play, passion is there, thereby enabling a strong, positive experience to take place, leading to forming trust. When trust grows, relationships are strengthened leading to repeat usage and referrals. It is no surprise that trust (amanah) is much highlighted in Islamic banking circles, but is it truly being nurtured?

When an organisation is moving into re-branding itself or it has merged with another entity and a new entity is formed, managing the cultural change becomes a top priority and

a must in order to ensure that the end result of a positive brand experience is achieved. In order to be successful in this, it's critical to have the employees' involvement. And this involvement requires that a strong group process is in place. A process where the meetings and interactions take on a deeper meaning than just to meet in order to agree to the content of the meeting. A deeper meaning where one focuses more on honest conversation, high involvement and participation leading to strong, high trust relationships. All simple, effective and yet in a corporate set up, at times, hard to do elements.

Once a strong group process is in place leading to strong relationships based on individual involvement, implementing the rest of the plan in terms of content and communication channels and programs, is not hard, as each independent employee, driving those functions, believe and own it. As a result of which, each interaction is on a more personal, emotive and honest platform. All of which lead to having a positive brand experience output.

A strong corporate culture leading to a robust brand identity can be extremely advantageous to any organization in today's competitive market place (across categories) and becomes a key differentiator to consumers for wanting to choose and remain with a particular brand vis-à-vis the competition. This is even more critical and can provide even greater added value for Islamic finance institutions. However, in order to achieve this firms will need to take the pains of **involving & engaging** their employees in a planned manner - positively worth their time and monetary investment.



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