THE RISALAH

CHARTERED INSTITUTE OF ISLAMIC FINANCE PROFESSIONALS™

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LEADING THE WAY

Special Edition

CHARTERED INSTITUTE OF ISLAMIC FINANCE PROFESSIONALS

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Executive, Membership Operations & Administration

Contact for The Risalah:
marketing@ciif-global.org

www.ciif-global.my
www.facebook.com/ciif
www.twitter.com.ciif

Publisher :
Chartered Institute Of Islamic Finance Professionals
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LEADING THE WAY

Assalamu'alaikum and a very warm "HELLO AGAIN" to all our respected members.

It has been quite some time since the last issue of the Risalah, and I would like to first take this opportunity to apologise for the extended absence of the newsletter. Truly, we have had numerous activities and engagements, both at the individual and institutional levels, that we felt it was necessary to focus on continuing the work on various fronts. Nevertheless, we do owe our members an update on all things happening with the Institute, and as such I am pleased to present our bumper issue for 2018/2019 to cover our activities and events over the past 18 months or so.

As many of you who follow our social media may already be aware, in January 2018 we embarked on an ambitious pilot programme with Bank Rakyat to deliver the Chartered Professional in Islamic Finance (CPIF) qualification through the bank's "The Islamic Banker" management trainee programme. What began as a small effort to work with one of the industry's foremost Islamic banks has quickly evolved into a full-fledged programme that has been run in partnership with INCEIF and covers 2 batches comprising a total of 57 candidates. As at 23rd September 2019, we have completed the first 3 levels of the CPIF with Batch 1, and the first 2 levels with Batch 2. The programme will be completed by early 2020 for Batch 1, whereas Batch 2 will complete theirs before the end of 2020.

Both Batch 1 and 2 candidates have completed the Foundation and Intermediate level examinations, with Batch 1 due to take the Proficient level papers in October 2019. I wish to share that on average, the passing rates for Foundation and Intermediate level are 73% and 56% respectively, which reflects the progressive difficulty of the programme. However, this is only the beginning, and it is our aim to ensure that the rigour of the CPIF is constantly reviewed and refined over the next few years until we have reached a point of stability and consistency.

Since the last issue of the Risalah, we have seen 2 Annual General Meetings (AGMs) in conjunction with the CIIF Hari Raya (Eid ul Fitr) Open House celebration with members and honoured guests. In 2018, we welcomed 3 new Grand Councillors: Dato' Haji Syed Moheeb bin Dato' Syed Kamarulzaman (Dato' Syed Moheeb was a previous Deputy President of the ACIFP before the transformation to the CIIF), Ms Azleena binti Idris, and Mr Elmie bin Dato' Aman Najas. The 3 Grand Councillors have served with distinction and have added their considerable knowledge and experience to bolster the Grand Council's composition. In the 2019 AGM, we welcomed 2 new Grand Councillors: Datuk Seri Ahmad Zaini bin Othman, and Mr Muhammad bin Md Husin, and we are certainly looking forward to their inputs and leadership to complement the already dynamic roster of Grand Councillors.

I wish to now share some important updates regarding the CPIF programme. As members will no doubt have been aware, we had initially intended to launch the programme in 2018, and subsequently revised the date to mid-2019. We are not expecting delays and the need to ensure that the content quality is of a certain standard, we are now expected the Foundation, Intermediate and Proficient levels for the Banking track to be completed by Q4 2019, with the Takaful track to follow in early 2020. As for the Chartered level modules, we expect that the beta versions of the study texts will be ready before end 2019 to be piloted with Bank Rakyat's Batch 1 candidates in Q1 2020. These delays are regrettable, but I believe it is necessary to ensure that the content is at an acceptable level of quality before being released for public enrolment. At the same time, our commitment to continuous improvement means that we will have on-going engagements and consultations with the industry at large to ensure that we keep pace with developments and ensure our syllabus remains relevant.

In relation to the CPIF, we have also been working on the development of the members' portal that will provide the main avenue for enrolling into the CPIF programme once it has been completed. Following the initial launch of the portal earlier in 2019, we have since worked on a revamp of the portal's architecture and infrastructure to ensure that there would be no more unexpected glitches and bugs that afflicted the first rollout. Additionally, we are taking this time to also expand the capabilities of the portal so that we may introduce e-learning modules once ready. This should allow our international members to be

more connected with the CIIF, until we are ready to establish proper presence outside of Malaysia.

On collaborations and engagements, I am pleased to inform that we have garnered interest from various parties, including the government. Specifically, the Polytechnics and Community Colleges Department (JPPKK) under the Ministry of Education Malaysia (MoE) invited the Institute for several discussions and sharing sessions in support of its efforts to revise and enhance the curriculum of the polytechnics across Malaysia that are offering courses in Islamic banking and finance. The primary objective of these engagements is to improve the offerings towards increasing the employability of graduates and strengthening industry ties with the faculties of the polytechnics. This effort by the Institute is in addition to other initiatives with other institutions of higher learning in Malaysia, and we are working towards signing several Memoranda of Understanding (MoU) in support of talent development and industry partnerships. Watch this space for more updates!

Speaking of the industry, I am extremely pleased to share that in 2018 the Institute signed several Joint Declarations with the Islamic financial institutions here in Malaysia through which we have secured the commitments of industry players to support the Institute's membership and qualifications be ensuring that their senior management become CPIF-holders, and that they will encourage their high potential employees to take up the CPIF qualification with career enhancements for those who successfully complete their professional examinations. As the CPIF was still under development, the Institute designed and delivered a series of fast-track masterclasses for senior leadership to be on-boarded as members. These were the Chartered & Fellowship Masterclasses (CFM) that was conducted in partnership with MindSpring Sdn Bhd and was specifically tailored to suit industry leaders to facilitate their strategic education towards becoming CPIF-holders. The CFM was also a platform to upgrade existing members who have served as CEOs in the industry as Fellow members, holding the "Fellow Chartered Professional in Islamic Finance" (F.CPIF) designation. In total, we held 7 cohorts, with 98 participants from both the Islamic banking and Takaful institutions. We are pleased to inform that Dato' Badlisyah Abdul Ghani, President of the CIIF, was one of the handful of members to receive this prestigious recognition, along with 10 other members of the Institute.

Looking ahead towards the future, I wish to highlight 3 main items: Firstly, the launch of the CPIF is expected to take place later this year. In preparation for the launch, we are aiming to ensure that the members' portal will be up and running by 7th October 2019 to facilitate enrolments for the programme. The launch will be held together with a special conferment ceremony for all the participants of the CFM, where a total of 11 members will be awarded the Fellow member status, whilst the remaining 87 members will be awarded the Chartered member status.

Secondly, following the most recent Food For Talk event that was held on 28th August 2019, we plan to have another couple of the Food For Talk series before the end of the year. The Food For Talk events qualify for CPD, so members are encouraged to participate in order to accumulate their points. Please look forward to further news on these events.

Finally, we have already taken the steps towards internationalising the Institute's footprints, with our international strategy for establishing chapters and strategic partnerships already underway. The strategic plan also includes running short courses overseas with selected partners, and is aimed at enhancing the Institute's global visibility and increasing its international membership base.

What I've mentioned so far is but a fraction of what we have been, and will be, doing for the Institute. As we go along, we will no doubt face greater challenges than ever before, and I am certain that the Institute will be able to overcome these with grace and confidence. I say this based on the fact that we have faced, and overcome, many challenges already, and we have kept moving forward towards achieving our objectives. I sense that we are approaching the tipping point for the Institute, and I pray that we will achieve great success in the coming months and years.

Given the abundance of work to be done, I expect that we will be providing more updates soon. We look forward to your continued support and participation in our events. Until then, I wish everyone well and I pray that we all end the year on a successful and positive note.

Together, let's lead the way for more professionalism and ethical practices in Islamic finance.

Dr Azura Othman
Chief Executive Officer

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CIIF EVENTS CALENDAR

UPCOMING EVENTS: QUARTER 4 2019









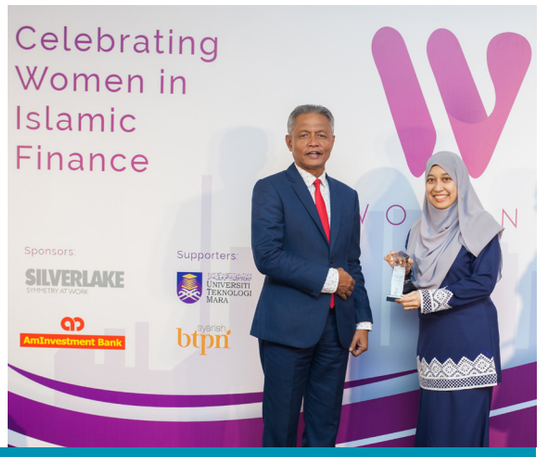




CHARTERED INSTITUTE OF ISLAMIC FINANCE PROFESSIONALS

2018 NEWS & EVENTS





Women-i Awards Ceremony & Gala Dinner

The CIIF CEO, Dr Azura Othman was listed in the Top 100 List of the Most Influential Women in Islamic Finance developed and published by Cambridge IF Analytica, a UK-based think tank and financial intelligence house. The award was given during the inaugural Woman-i Gala Dinner and Awards Ceremony that was held at Hilton Hotel Kuala Lumpur, on 4th April 2018. Among other recipients were the CIIF Members, Madam Foziakhatoon Amanulla Khan (CIIF Grand Councillor), Dr Irum Saba (CIIF Grand Councillor), Yang Mulia Raja Teh Maimunah Raja Abdul Aziz, Ms Azleena Idris, Madam Joann Enriquez, and Dr Liza Mydin.

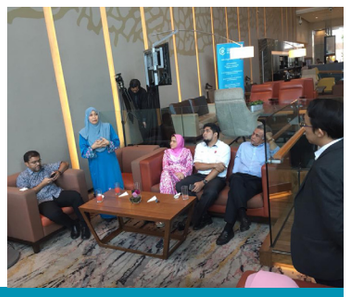




CIIF Industry Review

The Industry Review was held with various Islamic banking and Takaful CEOs and Heads of Departments in attendance. The primary objective of this event was to seek the inputs and feedback from the practitioners with respect to the overall structure of the Chartered Professional in Islamic Finance (CPIF), in particular on the Foundation and Intermediate level modules. About 30 participants from the industry were involved, including representatives from Bank Negara Malaysia.





CIIF Members' Engagement

The CIIF organised a members' engagement event at Hilton Hotel, Kuala Lumpur, during which members were updated on progress of the professional programme, Chartered Professional of Islamic Finance (CPIF) and on other activities that the CIIF has been involved with.









CIIF 2nd Annual General Meeting

The CIIF 2nd Annual General Meeting (AGM) was held on 28th June 2018, at Pullman Kuala Lumpur City Centre Hotel and Residences. The event started at about 2:00pm followed by the Eid al-Fitr Gathering for members and affiliates. The AGM was lead by the CIIF President, YBhg. Dato Badlisyah Abdul Ghani and the CIIF CEO, Dr Azura Othman. During this AGM, three (3) new Grand Councillors were elected, namely Dato' Haji Syed Moheeb Dato' Syed Kamarulzaman, Ms. Azleena Idris, and Mr. Elmie Dato' Haji Aman Najas.







FSI Aidilfitri

2018 was the last year of the FSI Aidilfitri celebration hosted by the Asian Institute of Finance (AIF). The event was held in collaboration with other affiliate institutions: Asian Banking School (ABS), Asian Institute of Chartered Bankers (AICB), IBFIM, SIDC, and the Malaysian Insurance Institute (MII). It was certainly a joyous and memorable event.









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2019 NEWS & EVENTS





Malaysian Tech Week 2019 (MTW19)

Grand Councillor, Ms. Azleena Idris, was a panellist for at MTW19 for the session titled "Investor Talk: Raising Halal Money". MTW19 was a week-long conference that brought together the Malaysian Corporates, Ecosystem Partners, Investors, Regulators, and Tech Start-Ups alongside delegates from across the world.







CIIF 3rd Annual General Meeting

The CIIF 3rd Annual General Meeting (AGM) was held on 25th June 2019, at Grand Hyatt Kuala Lumpur. The meeting was held in the morning, followed by the CIIF Members' Raya Gathering which ended in late afternoon. During this AGM, two (2) new members from the industry were elected as Grand Councillor. We welcomed Datuk Seri Ahmad Zaini Othman and Mr. Muhammad Md Husin on board!









Food for Talk: Re-imagining Home Ownership

The Food for Talk series started again recently. The first casual sharing session for the year of 2019 was with Prof. Dr. Rosylin Mohd Yusof, Professor of Islamic Finance and Director of Shariah Governance and Islamic Finance (ISGaIF), Universiti Utara Malaysia (UUM). During the session, Prof. Dr Rosylin shared her team's research work on home ownership and financing being practised today, and proposed an innovative and technology-driven approach to suit the future needs of home-buyers.









23rd World Conference of Banking Institute (WCBI)

The CIIF delegates Ms. Azleena Idris (Grand Councillor) and Mr. Abdul-Samad Saadi (Associate Director) attended the 23rd WCBI held at Guildhall, London. The conference was focused on the challenges faced by the banking industry to grow and achieve sustainability, particularly in the age of disruption. The CIIF delegates also had the opportunity to engage with various institutions and professionals from a diverse background of nationalities and sectors. One of the main highlights included a visit to The London Institute of Banking & Finance (LIBF), one of the most prestigious professional body for banking professionals. The LIBF celebrates its 140th anniversary this year.









Industry Briefing: Shariah Governance Policy (SGP)

The CIIF organised an Industry Briefing on Shariah Governance Policy (SGP) that was delivered by the CIIF Honorary Treasurer, Dr. Syed Adam Alhabshi. The briefing discussed the recent issuance of Bank Negara Malaysia's Policy Document, going over the changes from the previous Shariah Governance Framework, and the potential impact that professionals should look out for following its implementation.







Food for Talk: Prophetic Leadership

The second Food For Talk of 2019 on Prophetic Leadership was delivered by guest speaker, Sheikh Dr. Tawfique Chowdhury. He is one of the founders of Mercy Mission Malaysia, a non-profit organisation supporting Muslims around the world who shared his thoughts on faith and humanity. The talk was about reflecting on the various leadership qualities shown by the Prophet Muhammad SAW such as authenticity, visionary leadership, decisiveness, and courage.







Belanjawan 2020

Dr. Azura Othman was invited as a panellist to discuss Malaysia's Budget 2020 that was broadcasted live on TV9's Facebook Online platform.

CHARTERED INSTITUTE OF ISLAMIC FINANCE PROFESSIONALS

CHARTERED AND FELLOWSHIP MASTERCLASS (CFM)

The Chartered and Fellowship Masterclass (CFM) was a 2-day programme aimed at on-boarding industry leaders holding key positions as Chartered members of the CIIF towards attaining the CPIF* designation. The CFM is also aimed at elevating eligible members of the CIIF currently holding the CPIF designation as Fellow Chartered members of the CIIF. The objective of the CFM is to support the professionalisation of industry practitioners towards attaining the CPIF designation as part of the industry-wide commitment to professionalise the Malaysian Islamic Finance Industry.

The commitment was done through the signing of Joint Declarations on "Industry-Wide Commitment to Professionalise the Malaysian Islamic Finance Industry" with three of the primary industry associations for Islamic finance-AIBIM, MTA and ADFIM. This was a significant milestone for the entire Islamic finance industry in Malaysia and follows the spirit of the commitments under the Islamic Finance Profession Charter.

Following the successful completion of CFM which began in September 2018 and ran for seven (7) cohorts up to April 2019, the CIIF will be welcoming 87 professionals from amongst the industry leadership who will be conferred the Chartered member status, and 11 professionals who will be the first to be conferred the status of Fellow Chartered mMember holding the designation as Fellow Chartered Professional in Islamic Finance (F.CPIF).

**Note: CPIF is the acronym for the Chartered Professional in Islamic Finance professional designation*



Datuk Seri Ahmad Zaini Othman,
Chief Executive Officer, MBSB
CFM Participant Cohort 7

"After going through this course, I reset my mind and had a re-think (on the industry). We often overlook or do not realise the truth in the values and principles of Islam in running the Islamic financial business. The core values of integrity, honesty, positivity versus those negative values that are happening too much around us."



Ms Teresa Wong Lai Fun, Chief Risk Officer of Zurich General Insurance Malaysia Berhad & Zurich General Takaful Insurance Malaysia Berhad
CFM Participant Cohort 3

"Professionals should, and must, conduct businesses with integrity, honesty, and transparency, especially in Islamic finance as we uphold Shariah principles, which makes us role models not only to Islamic (finance) practitioners, but also to our conventional counterparts."

Moments of Chartered & Fellowship Masterclasses 2018 & 2019















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Moments of Chartered & Fellowship Masterclasses 2018 & 2019
















TRANSFORMING THE TAKAFUL INDUSTRY: STEPPING UP THE GAME

It is not something new that Takaful in Malaysia, especially Family Takaful, is considered one of, if not the most matured and advanced Takaful industries globally. It has grown tremendously from where it started back in 1984, the year the legendary Takaful Act 1984 was enacted; an independent legislation spelling out rules to conduct a Shariah compliant insurance system - the first of its kind in the world. Malaysia has since become a main point of reference for other upcoming markets searching for a practical ecosystem to help expedite development in their respective markets. WAN AHMAD NAJIB WAN AHMAD LOTFI explores.

A robust regulatory and governance system

Over the years, the Takaful ecosystem in Malaysia has evolved to become the structured regulatory and governance Takaful system it is today. There are more clarity in the parameters as well as expectations, including both Shariah and non-Shariah aspects of the business. The Takaful Act 1984 has even collapsed into a comprehensive and centralized yet compact Islamic Financial Services Act (IFSA) 2013.

IFSA 2013 boldly puts forward stringent yet practical Shariah and governance requirements that emphasize on ensuring customers' interest is of the upmost priority. It explicitly spells out clear responsibilities and accountability straight to the top which, if not fulfilled, could attract huge sums of fines or penalties. The seriousness of ensuring Shariah compliance supported by a structured governance system was elevated. It needs to be managed holistically and embedded in the overall structure, system and culture of an Islamic financial institution.

The evolution of the Takaful regulatory system does not show any signs of slowing down, instead the pace has continued to increase exponentially over the past few years. We have seen the issuance of numerous Shariah standards and enhancements to existing regulations to help facilitate and accelerate the industry's development.

2019 will be an exciting year as there will be major enhancements to two main frameworks: the Shariah Governance Framework and the Takaful Operational Framework, each tackling the fundamentals of Takaful operations and product structures.

Dynamic and conducive regulatory environment - aligning to market expectations

The market today is far different from before: it is now consumer-driven and digitally enabled. With information literally being at

> *"The end goal is to create a great customer experience by leveraging on digital as the enabler"*





the touch of a finger thanks to technology, consumer demands today have gone off the charts — they demand:

1. Product sophistication but expect it to be presented in a simpler manner
2. Higher service level demanding accuracy, accessibility and immediate response but at a lower price, and
3. Top class professionalism beyond traditional advice and services.

There have been numerous enhancements to regulations in various forms and areas, encouraging and setting the right environment for operators and insurers to react and adapt to these market changes. The tone of the new era of regulations is set to be dynamic and empowering but at the same time, does not compromise on prioritizing customer interest first, propagating a high level of professionalism and imposing strong governance. It intends to provide room for innovation while providing assurance to the public that their money is well taken care of.

In the last decade, various new requirements have been introduced in phases to facilitate these changes. They come in many forms: liberalization, push for diversification of new channels especially online channels, professionalism behavior triggers via a balance scorecard, clearer disclosure requirements for better transparency, independent assurance frameworks and probably at the top of agenda, digital and technology innovation.

There have been continuous initiatives and incentives encouraging the digital agenda such as the focus on e-payments, online portals and channels, sandbox environment for safe prototyping, approval leniency for technology rollout, cloud services usage and many more. The dynamic regulatory outlook illustrates how the financial industry is changing rapidly with the birth and availability of new technologies. We have seen the usage of blockchain, big data, artificial intelligence, robotic process automation, application programming interface and many others being incorporated into processes to improve service delivery and efficiency to customers as well as business partners.

More needs to be done

While we have seen many achievements and improvements, more needs to be done for the industry to really create a meaningful impact on the market. Takaful in Malaysia is reaching its 35-year mark but the penetration rate is still low hovering at 15%, and alarmingly this has been the trend for the last five years.

This triggers attention considering the demographic outlook in Malaysia is in favor of the Takaful industry. By 2030, young Malays (who are Muslims) below the age of 35 years old would form 41% of the population. Coupled with improvements in household income and a higher balance income for a household to spare (2016: 42% balance income), Takaful still offers a palatable opportunity despite the developments observed in the past decade.

If we were to analyze further, the main stumbling block stopping us from improving the penetration can be pinned down to the ability to reach out and provide protection to underserved markets such as the low-income group (B40) and market segments such as the disabled community. The main challenge remains the same as before: to identity a cost-efficient distribution channel bundled with a meaningful protection offering suited to these market segments.

An innovative and sustainable business model fair to all the parties involved is much needed — the assurance of continuous protection to customers while ensuring the Takaful operator can make business and financial sense from offering products and services to these segments. A win-win business and operational solution is the only way for it to be sustainable in the long run.

VBI: Future of Takaful

In March 2018, a strategy paper on value-based intermediation (VBI) was issued by Bank Negara Malaysia, together with the founding members of the VBI Community of Practitioners. The intention of VBI is to strengthen the roles and impact of Islamic finance for the community; a conscious effort to elevate Islamic finance to the next level. VBI goes beyond the business objectives of an Islamic finance institution where it needs to also consider the longer-term positive impact the business would have on the community at large.

Operationalizing this intention, VBI falls back to the objectives of Shariah, refined to practical underpinning thrusts that form the basis for collective actions by Islamic financial institutions as follows:

- Best conduct
- Self-governance
- Entrepreneurial mindset, and
- Community empowerment.

From another perspective, VBI is about creating shared value, a concept recently introduced to mainstream businesses. Shared value refers to policies and procedures that improve the competitiveness of a business while simultaneously enhancing the economic, environmental and social conditions in communities it serves in a structured and planned way. The business does not only look at the value it can create for shareholders but also how it can give back to the people while staying true to its core business.

Takaful itself is a form of VBI — the concept of Tabarru' (donation) of pooling to help one another in a way embraces the underpinning thrusts of VBI. However, it needs to go beyond the technical definition, as on the surface if we look at products, services and distribution channels, Takaful is not much different from conventional insurance. The industry will need to revisit and evaluate some of its fundamentals to identify and determine the real and sustainable impact it can have on the community.

The digital era: Get on board or be left behind

The digital era is here to stay — more like it has replaced the norms of yesterday. No Takaful player today can compete without embracing digital — be it in terms of technology adoption or the way of doing business such as entering e-commerce.

However, the most of us make the mistake of simply jumping onto the bandwagon without understanding the objectives of applying technology to a process or solution. The last thing we want to do is spending tons of money on a digital solution or technology for the sake of doing it — doing it just because everyone else is doing it.

Financially in the long run, a digital solution is meant to create a more cost-efficient way of doing business. This would translate to lower costs being transferred to customers, which also means products can be priced to be more affordable and competitive. In the bigger picture, technology and its corresponding cost savings are meant to create better value to customers.

With new technologies flooding the Takaful and insurance space, the Takaful industry and its players need to continuously evaluate and identify the benefits and differentiating factors these technologies can bring to the business in order to remain competitive and not be left behind.

The market might not be fully digital-ready yet for Takaful — there is still a large market out there that expects some form of human interaction in their customer experience. If we were to dissect the different segments, there would probably be two extreme groups of people at each end — a group that is totally digital at one end and a group that prefers traditional ways on the other.

The majority of people fall in the middle, probably forming between 60% and 70% of the market: digital tools form a significant part of their life — information searching, communication, etc, but when making important decisions, they still look for final assurance from an actual human being.

This gives Takaful operators all the more reason to identify innovative ways to bridge this paradigm by embedding digital into its processes with the intention of creating a meaningful online to offline customer experience. In the end, what makes the difference is not the digital component but the customer experience it creates, which is all about convenience, speed and accuracy. The end goal is to create a great customer experience by leveraging on digital as the enabler.

The time has come for the Takaful industry and its players to step up the game and transform to remain competitive as a business and more importantly, to remain relevant to the ever-demanding consumers out there.

This article was first featured in the IFN News on 19th June 2019. Reproduced with permission.

Wan Ahmad Najib is the chief strategy and digital distribution officer of FWD Takaful operator in Malaysia and the honorary treasurer of the Chartered Institute of Islamic Finance Professionals (CIIF).
He can be contacted at wan.najib@fwd.com

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ISLAMIC BANKING IN MALAYSIA: SEARCHING FOR NEW GROWTH TRAJECTORY

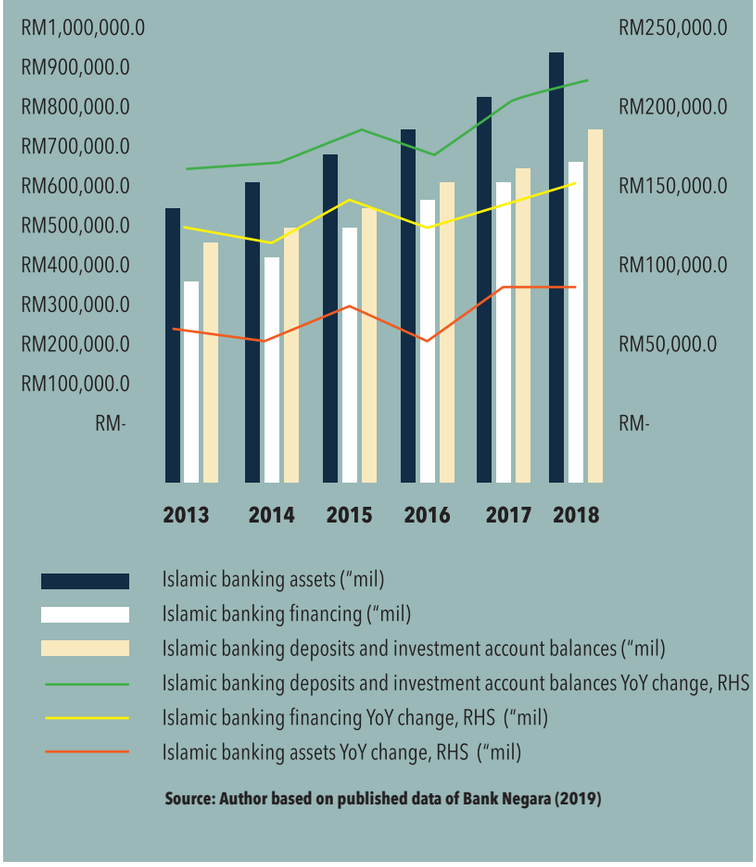
In late March this year, the Central Bank of Malaysia (BNM) released its annual report and financial stability and payment systems report. It is encouraging that Islamic banking continues to grow, be it in total assets, financing, deposit and investment account balances (Chart 1). Assets stood at RM916.7 billion (USD218.8 billion) in 2018, a 10.5% increase from the previous year. Financing grew by 10% or RM668.7 billion (USD159.6 billion) and the same 10% growth rate is also observed in aggregate deposit and investment account balances at RM742.25 billion (USD177.14 billion).

> *"The expectation on greater transparency, accountability and clarity on how the Bank's products and services create value for them is heightened"*



Upon closer look, there are signs of moderating growth, particularly if measured in market share terms (Chart 2). Except for financing which registered a modest 1.7% growth in market share, total assets and combined total deposits and total investment account balances in 2018 grew slower than 2017. The usual reasons cited:

Chart 1: Islamic Banking Growth



Source: Author based on published data of Bank Negara (2019)

- A larger base, thanks to decades of robust growth. In absolute terms, a more sizeable growth is required for the percentage to be bigger. This is consistent with other key and maturing Islamic banking jurisdictions which has hed systemic importance (Malaysia accounts for 9.1% of global Islamic banking market share).

- The impact of slowing economic growth, uncertainties due to trade tensions internationally and transitioning government. trading nation, the impact on Malaysia is felt even more.

- Relatively unchanged customer segments. Islamic banks and conventional banks continue to serve the same customer segments with similar offerings, Shariah compliance is the differentiator thus competing for finite market share.

At macro level, Malaysia is in "re-boot". After 61 years, 2018 General Elections saw the end Barisan Nasional coalition rule, toppled by a less than 3-year old coalition, Pakatan Harapan. Reliance on financing growth fuelled by public infrastructure spending should be lessened as austerity drives kicks in. Arguably, many attributed the win to:

- Social and digital media, which became the main source of credible information semination, engagement and influence;

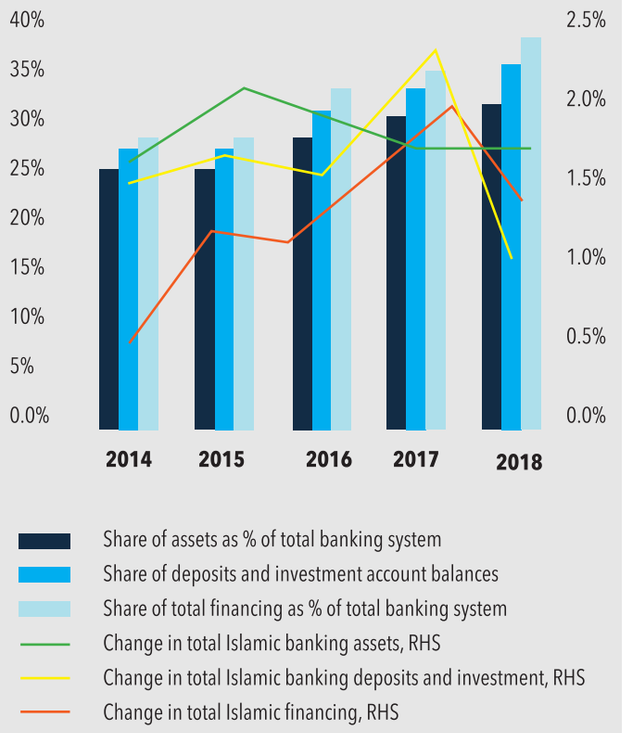
- Millennials, who out of over 82% voters who turned out to vote, account for 41% of the registered voters, the single largest age group, many of whom were voting for the first time; and

- The general public abhorrence of the 1MDB, Felda dan many other rampant misuses of public funds.

Digital engagement, a younger mass market and the importance of ethics and integrity changed Malaysia. Given the changed landscape, Islamic finance fraternity in Malaysia should reflect on its raison d'etre and to what extent should this be recalibrated. When first introduced, it was for pious Muslims who shun banks due to non-Shariah compliant elements. Starting with a savings institution to perform the Haj, it is now a complete alternative system. Universal values meant non-Muslims customers are equally welcomed and in some Islamic banks, form the majority of their affluent or high net worth customers.

The attraction is both value and values driven. Value driven because it makes financial sense as among others compounding of rates or charging excessive late payment penalties are prohibited. Rate sensitive customers look for Islamic banks. Values driven because due to such prohibitions, Islamic banks must treat customers in a fair and transparent manner. It is the default setting. Ethical seeking customers also look for Islamic banks.

Chart 2: Islamic Banking Market Share Growth



Source: Author based on published data of Bank Negara (2019)

Waqf, zakat and sadaqa as financial tools enables wealth to be shared and distributed yet remains largely underexplored. Recognizing its features, International Monetary Fund and World Bank (WB) have embarked on efforts to build and support Islamic finance expertise with WB giving recognition to Islamic finance in poverty eradication and boosting shared prosperity. The ethical and responsible dimensions of Islamic finance have



also allowed for sukuk to be linked with Socially Responsible Investments (SRI) and Environmental, Social and Governance (ESG) principles particularly in financing Sustainable Development Goals 2030 (SDGs). The reach is thereby widened to climate-aligned bonds investors which is a USD1.45 trillion universe (Climate Bond Initiative, September 2018). USD15 billion originated from ASEAN and 42% of the ASEAN green bond market is sukuk. Malaysia pioneered the first Green Sukuk in July 2017 with the MYR250 million Tadau Energy and has the largest amount outstanding in ASEAN at USD5.7 billion. Thanks to among others, SRI Sukuk framework issued by Securities Commission and the ASEAN Green Bond Standards. Local university, Universiti Teknologi MARA became the first university in the world to issue a green sukuk when it financed a 5MW solar power plant on an abandoned mine which land was barren for almost 40 years in April 2018. The modest RM57 million (USD13.6 million) issuance is just a start. It is thinking of tapping the market again.

BNM's Value Based Intermediation (VBI) launched in 2018 is another effort to extract and bring to the forefront, the intrinsic ethical and sustainability considerations embedded in Islamic banking and takaful.

Ethical banking looks at social and environmental considerations in doing business, hence the triple bottom-line of people, planet and profit. Principal networks include the Global Alliance on Banking on Values, European Federation of Ethical and Alternative Banks as well as International Association of Investors in the Social Economy. Data varies on the exact size of this market, but after the 2008 Global Financial Crisis (GFC), such banks are thriving. Loans growth at Triodos UK grew 20% in 2010 and recorded the same growth percentage in the first 4 months of 2011. The Co-op had a 40% increase in its corporate loans book in 2010 and 80% more retail customers switching to them in 2009. Another aspect is UNEP's Principles for Responsible Banking that will be launched this September at the UN General Assembly. Designed to complement SDGs, Paris Climate Agreement and relevant national and regional frameworks, there are 6 principles designed to make signatory mainstream banks create positive impact and reduce negative impact of banking to the environment and society. So far, only 1 Malaysian banking group is a signatory, CIMB.

Arguably these initiatives would again result in Islamic finance competing with other providers in the same space but with estimates of SDG private financing gap at $2.5 trillion per year in developing countries alone (UN, April 2019), there is plenty of room. Furthermore, the green, ethical and responsible themes are changing all industries globally.

Assessing climate risk with financial and credit risk is imminent. G20 central banks recognized the potential climate risk impact to financial stability. Network for Greening the Financial System (NGFS) expanded this across central banks and supervisors in 36 countries. BNM is a NGFS member.

Without a doubt, the trust deficit caused by GFC significantly changed banking customers expectations. To regain trust, customers expect beyond profitability and bottom-line. The expectation on greater transparency, accountability and clarity on how the Bank's products and services create value for them is heightened. Increasingly, customers want their funds to be intermediated not only for their benefit but also for causes they believe in. In other words, a more responsible intermediary.
What gets measured gets done. Henceforth, growth is expected to be tracked by value creation - the positive social and environmental outcomes and negative impact minimized. More is expected, especially from Islamic finance owing to its ethical roots. The result is hopefully new, different and more meaningful growth trajectories.

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Azleena Idris is on the Grand Council of the Chartered Institute of Islamic Finance Professionals, the Islamic finance industry flagship professional body where she is also the Professional Education and Academic Committee Member.

A former central banker whose primary responsibility was to formulate strategies and policies for Islamic financial infrastructure and industry development, she is currently General Counsel/ Head of Legal of a foreign-owned Islamic bank in Malaysia.

ISLAMIC FINANCE: AN ALTERNATIVE SYSTEM TO MOBILIZE FUNDS FOR LONG TERM CLIMATE ADAPTATION AND MITIGATION FINANCE

"Islamic Finance" or "Participatory Finance" as it is sometimes referred to, has an important role to play in the allocation of financial resources and thus societal investment and development. We are living at a time where mans impact on the earth as a whole is becoming more evident. Climate change, global warming (or cooling), periods of drought and foods, sea level rising, more intense storms are combining with increasing populations to present all nations with a highly volatile and changing environment in which to plan families, cities, towns, economic activities, farming, power generation and all other decisions. Underpinning this is the need to allocate financial resources to these activities in a logical and appropriate manner. Do banks lend money for big shiny new high powered cars and trucks, or for over priced homes (thereby driving their prices ever higher) or do they make loans for irrigation, small wind and hydro power plants? Should investors and owners be allowed to seek maximum returns for their money with high interest rates and high expected internal rates of return, (which is what we have been doing), or should they try something different for their benefit, their children's benefit and the benefit of society and the world as a whole. There are essentially two ways to react to the changes we are facing. You can try to "mitigate" and invest in systems that will reduce the changes that are driving the volatility. Or you can "adapt" and try to invest in projects and systems that will make you able to be "resilient" in the case where your city gets flooded or a severe drought and famine , or a human made catastrophe such as war, cause large numbers of desperate people to seek shelter and life in your neighborhood. The need for resilience to increasing natural and manmade negative impacts can also mean that you need to change the whole system and way of doing things, not just building higher dams, bigger water reservoirs, more nuclear power plants. Today we can see that the massive investments needed to "mitigate" the situation we are in are not being made. Therefore there is a growing need for "adaptation" finance. This has been noted by the World Bank because of the growing gap between both public and private funding needs and sources. Currently funding for



climate mitigation and adaptation is less than 5 percent of projected needs. Contributions from high-income country governments are reducing due to "fragmentation and the vagaries of political and fiscal cycles" combined with the personal beliefs of some leaders. Developed nation commitments to fund USD 100 billion per year to developing nations by 2020 is falling short not only because the current funding level is on average 57 billion USD a year (2013/2014 annual average) , but because the target funding mix for this money of a balance between funding for mitigation and adaptation is skewed towards mitigation with only 16% (approximately 10 billion USD per year) provided as public finance to specifically support adaptation. Islamic Finance is a mechanism that can play an important role in providing adaptation and mitigation finance as well as in meeting the financing needs of the SDGs by assisting the mobilization of finance.

Climate Adaptation is defined as "The process of adjustment to actual or expected climate and its effects. In human systems, adaptation seeks to moderate harm or exploit beneficial opportunities. In natural systems, human intervention may facilitate adjustment to expected climate and its effects." This is based on the definition used by the Intergovernmental Panel on Climate Change (IPCC,



2014). Adaptation finance is more difficult than mitigation finance because adaptation as a process has many components that all need funding . The broad categories of options/issues to deal with climate adaptation are structural, physical, social, and institutional. Adaptation options tend to be overlapping rather than stand alone unrelated and un-connected projects common in mitigation projects, such as wind farms, irrigation projects, nuclear power plants, and adaptation investments are often pursued simultaneously as part of integrated personal, corporate, local, regional and national adaptation plans.

Adaptation finance is more complicated than mitigation finance because adaptation plans, programs and projects require adequate information on risks, technologies, systems, processes and thus the associated areas of required investment. These in turn are based on a forecast and analysis of the success of global investments in climate change mitigation investments and thus the potential needs for adaptation. With the charged geopolitical situation currently in the world and the withdrawal by some nations from the Paris Agreement, meeting the target of a maximum increase in global warming of a maximum of 2 degrees Celsius from pre-industrial times will be made more difficult. Thus the success of climate mitigation efforts may be reduced and the demands for climate adaption funding may be larger in number and larger in investment amounts required to adapt to increasingly severe climate change situations than those now predicted. Complicating the financing issues, the world has not yet fully recovered from the 2008 financial crisis and may be entering the next cyclical business downturn with weak government funding availability, and high global private and public sector debt. Traditional geopolitical maneuvering and resulting control over resources makes matters even more uncertain. As noted in the Mercer Climate Change Report 2015 "Climate change forces investors in the 21st Century to reconsider their understanding of economic and investment risk." However the Mercer Report approach is based on institutional investors using advanced tools to address management of large investment portfolios and thus related risks, these tools do not tend to apply to the micro, medium, and small enterprise investments which make up the majority of business in most countries and the numerous private investment decisions made by the worlds farmers and families.

> ***"the world's Muslim population is expected to increase by about 35% in the next 20 years, rising from 1.6 billion in 2010 to 2.2 billion by 2030 which will represent 26.4% of the world population enabler"***

An important segment of the world's population currently does not generally prefer the conventional system now in place, and its interest based economic model. This segment is the population that follows the Islamic faith. Based on research by Pew, the world's Muslim population is expected to increase by about 35% in the next 20 years, rising from 1.6 billion in 2010 to 2.2 billion by 2030 which will represent 26.4% of the world population. Islamic/ Participatory Finance has been growing at almost 20 percent per year which according to an IMF report seems to point to its broad appeal, partly owing to principles that govern Islamic financial activities, including equity, participation, and ownership.

The global Islamic financial services industry had an overall total value of USD1.88 trillion as of 2015. It is broken down into three main components 1) Islamic banking segment, 2) Islamic capital markets segment and 3) the Islamic insurance or Takaful segment. There are two main types of products: profit and loss sharing instruments (PLS) and mark-up contracts; and financial certificates that are similar to bonds, which are known as "sukuk". Different financial products based on the structures of Mudarabah, Musharakah, Ijarah, Wakala, Salam, Istisna, Qard-e-Hasan etc. and hybrid structures such as Diminishing Musharakah, Wakala-Waqf etc. are used across all three segments. Islamic finance is based on ethical principles whose foundation is Islamic religious law (i.e. the Shari'ah).

The main features of Islamic Finance are that

a) paying interest is prohibited. Because of this Islamic banks use financing contracts that create exposure to the real sector of an economy and must therefore ensure efficient risk management.
b) parties to a financial transaction must share both the risks and the rewards that may be attached to it; thus excessive losses and profits are minimized.
c) uncertainty (gambling) or speculation are prohibited but risk-taking is allowed/expected when all terms and conditions in a financing agreement are clearly stipulated and known and understood by all parties. d) each financial transaction must relate to a tangible and/or identifiable underlying asset, ensuring that Islamic banks remain connected to the real economy.

In conventional interest-based systems allocation of credit is based on the creditworthiness of the borrower, whereas, in an Islamic financial system, it is the productivity of the project that is more important. This encourages the channeling of credit/investment to productive projects/activities; and provides an important basis for climate change related adaptation and mitigation investments and the related social and economic development investment.

700 million of the world's poor live in predominantly Muslim nations, many of which are already environmentally stressed. Because the majority of poor nations rely on agricultural based economies, livelihood choices are already limited, so decreasing crop yields threaten famines and financial destitution. The macroeconomic costs of the impacts of climate change are highly uncertain, yet have the potential to threaten development in many countries. As a result climate change adaptation funding for the poor is crucial. The main funding mechanism for financial inclusion has been microfinance and Islamic microfinance provides an important source of funding at this level to finance personal, farming/ microenterprise financing for local and regional climate adaptation and mitigation investments that can double as economic development / poverty reduction activities. Islamic Insurance (Takaful) provides an option for micro risk mitigation. In takaful, risk is to be shared through mutuality. The majority of takaful providers are set up as hybrids of mutual and proprietary insurance, in which a for-profit shareholder-owned company operates the mutual takaful pool. Insurance coverage is provided by the takaful participants to each other through the participants' takaful fund, and the takaful operator manages the underwriting and investment on behalf of the takaful participants. This can play an important role in mitigation and adaptation finance.

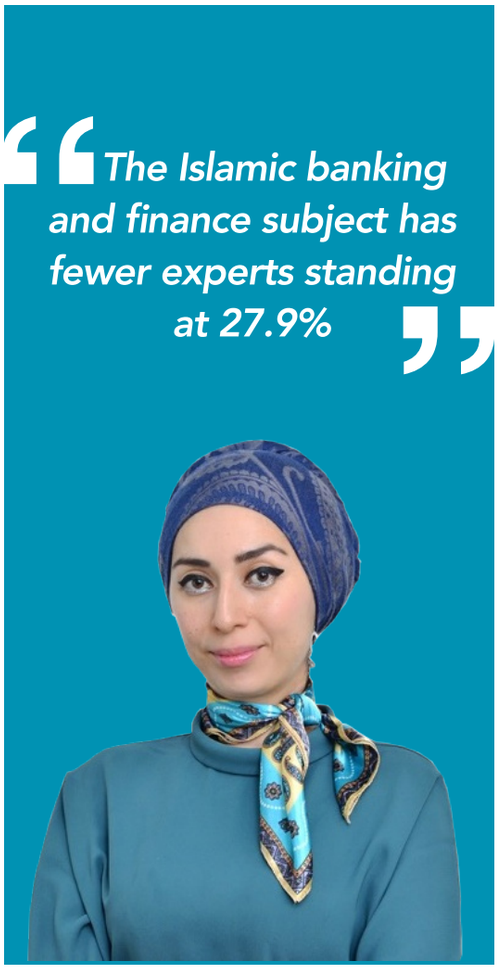
The core principles of Islamic Finance which make it more attractive to Muslim populations, include the just, fair, and equitable distribution of income and wealth during the production cycle by providing ways to achieve redistribution thereby addressing any imbalances that may occur. Its approach to redistribution is based on income-based redistribution through profit redistributive instruments and asset-based redistribution through risk sharing (dispersion of ownership). The income-based redistribution approach takes the current income distribution and aims at fairer distribution of future GDP. The asset based redistribution is a risk-sharing approach; which enables equity participation by the lower-income groups in the society. Rewards as well as the risk are shared. This is in contrast to conventional finance where risks are shifted and the investor/ lender is protected and the borrower/entrepreneur/ small farmer is at risk. The burden of risk in our volatile Anthropocene age thus falls on the weakest economic and social link. Islamic Finance provides a viable option for mobilizing climate adaptation and mitigation finance. It's emphasis on asset-backed financing and risk-sharing means that it can provide financing support for farming, micro, small and medium–sized enterprises (MSME) engaged in climate adaptation and mitigation projects, as well as investment in public infrastructure and related resilience investments. Its risk-sharing features and prohibition of speculation also suggest that Islamic finance, with appropriate new products and investment decision making algorithms, can bring an important positive reaction to the situation we face. Further research is needed to develop Islamic / Participatory financial products that will facilitate and streamline as well as scale up climate adaptation and mitigation funding. There is a pressing need for new ways of doing things, Islamic Finance can and should provide a solution.

By Mr. Matthew J. Troniak, Director of Orion Aqua Terra Investments and Senior Associate Member of CIIF

CHARTERED INSTITUTE OF ISLAMIC FINANCE PROFESSIONALS

DISTRIBUTION OF ISLAMIC FINANCE EDUCATORS IN MALAYSIAN UNIVERSITIES: IS THERE A PERFECT BLEND?

The current state of Malaysia's Islamic finance talent (educators who are involved as teachers and researchers in the various domains under Islamic finance education) in universities sees more Shariah and law experts. At least 30.1% (see Table 1) of instructors belong to this domain. The Islamic banking and finance subject has fewer experts standing at 27.9%. Even this may be understated as quite a few experts who claim to have Islamic banking and finance credentials in actual fact have undergraduate and graduate degrees in Shariah.



Other domains such as economics, management and accounting are much smaller. A possible implication of this type of talent distribution is that the degree programs are more legalistic in nature such as teaching more Shariah and law than finance.

This may be acceptable if the programs are meant to have a specialization in Shariah and law or if the programs are offered in Shariah/law faculties.

However, the majority of Islamic finance programs are focusing on banking and finance. Naturally, one would expect the curriculum to reflect more emphasis on banking and finance, economics, management and accounting and hence, a bigger number of educators who are qualified with banking and finance qualifications, but from Islamic perspectives.

From Table 1, this is not the state of affairs as most academics in banking, finance, economics, management and accounting come from conventional backgrounds, with varying degrees of exposure to the Islamic heritage. In some institutions, there are no experts in certain domains. This begs the question: who teaches their students the subjects in those domains? Could there be a danger of producing graduates with less than the minimum requirements?

More often than not, those who have no qualifications and/or exposure to Islamic perspectives of economics, finance, management or accounting are asked to teach these courses

Table 1: Distribution of Islamic finance educators by institution and domain

IIUM	10	32	12	8	10	72	17.9
UiTM	0	7	3	0	2	12	3
UKM	4	13	8	1	0	26	6.5
INCEIF	9	7	9	2	0	27	6.7
UUM	18	22	8	7	14	69	17.1
USIM	8	7	6	11	6	38	9.5
UPM	4	1	0	0	1	6	1.5
UM	15	9	3	2	6	35	8.7
USM	3	0	4	1	8	16	4
UniSZA	9	14	1	1	0	25	6.2
UNIMAS	3	0	3	0	0	6	1.5
INSANIA	5	3	3	5	9	25	6.2
KUIS	9	0	0	1	0	10	2.5
UNIMAP	2	0	0	0	0	2	0.5
UMK	6	3	1	5	2	17	4.2
UMP	0	1	0	0	2	3	0.8
UMT	1	0	1	0	0	2	0.5
UTM	1	0	2	0	1	4	1
UMS	5	2	0	0	0	7	1.7
Total	**112**	**121**	**64**	**44**	**61**	**402**	**100**

using materials that have been prepared by their colleagues.

Hence, educators become mere conveyors of others' knowledge and facilitators of knowledge rather than being genuinely qualified as Islamic finance educators.

This fact supports the statement that the demand for Islamic finance graduates clearly outweighs the supply leading to a high demand of Islamic finance educators that cannot be met currently with the talent available. Both short-term and long-term solutions to this gap need to be found.

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Dr Kamola Bayram is an assistant professor at KTO Karatay University, Turkey as well as a project consultant and advisor for project management at the International Council of Islamic Finance Educators. She can be contacted at kamolaiium@gmail.com.



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