

The Internationalization of Islamic Finance and the Role of International Educational Centres in Human Capital Development

Mohd-Pisal Zainal, Ph.D.

Henley Business School Malaysia

Monday, April 3, 2017

Grand Hyatt Hotel

Kuala Lumpur

Tentative Outline

Islamic Finance 101

Facts and Figures of Islamic Financial
Services Industry

The Internationalization of Islamic Financial
Services Industry

The Roles of International Educational
Centers in Human Capital Development

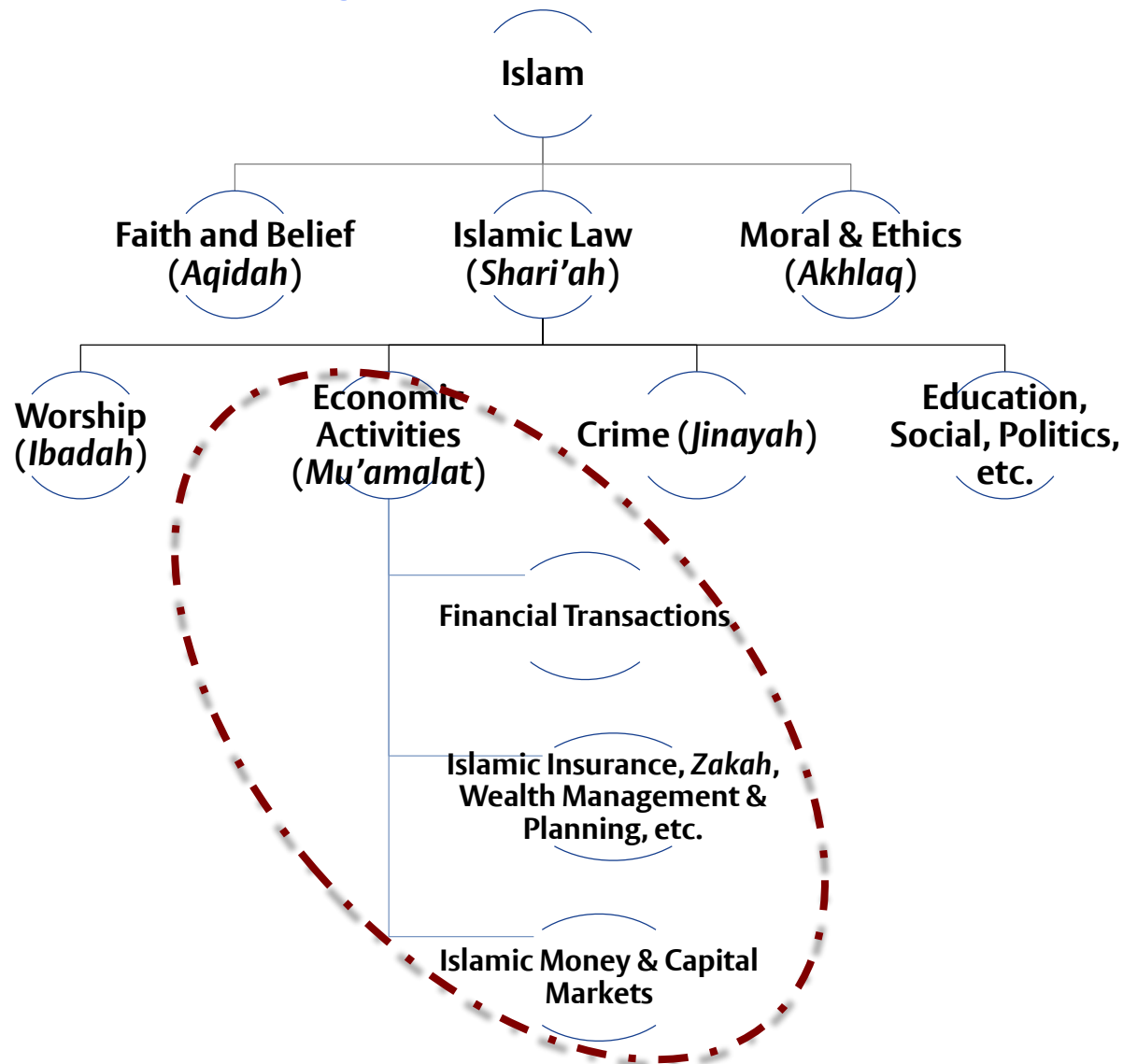
Q & A

What's Islamic Finance?

- Islamic finance *“is founded on the shari’ah principles which express an explicit intention to meet the financial needs of participants with integrity and in manner that is just, fair, trustworthy and honest, while ensuring a more equitable wealth distribution”* (MIFC, 2008, p. 50)

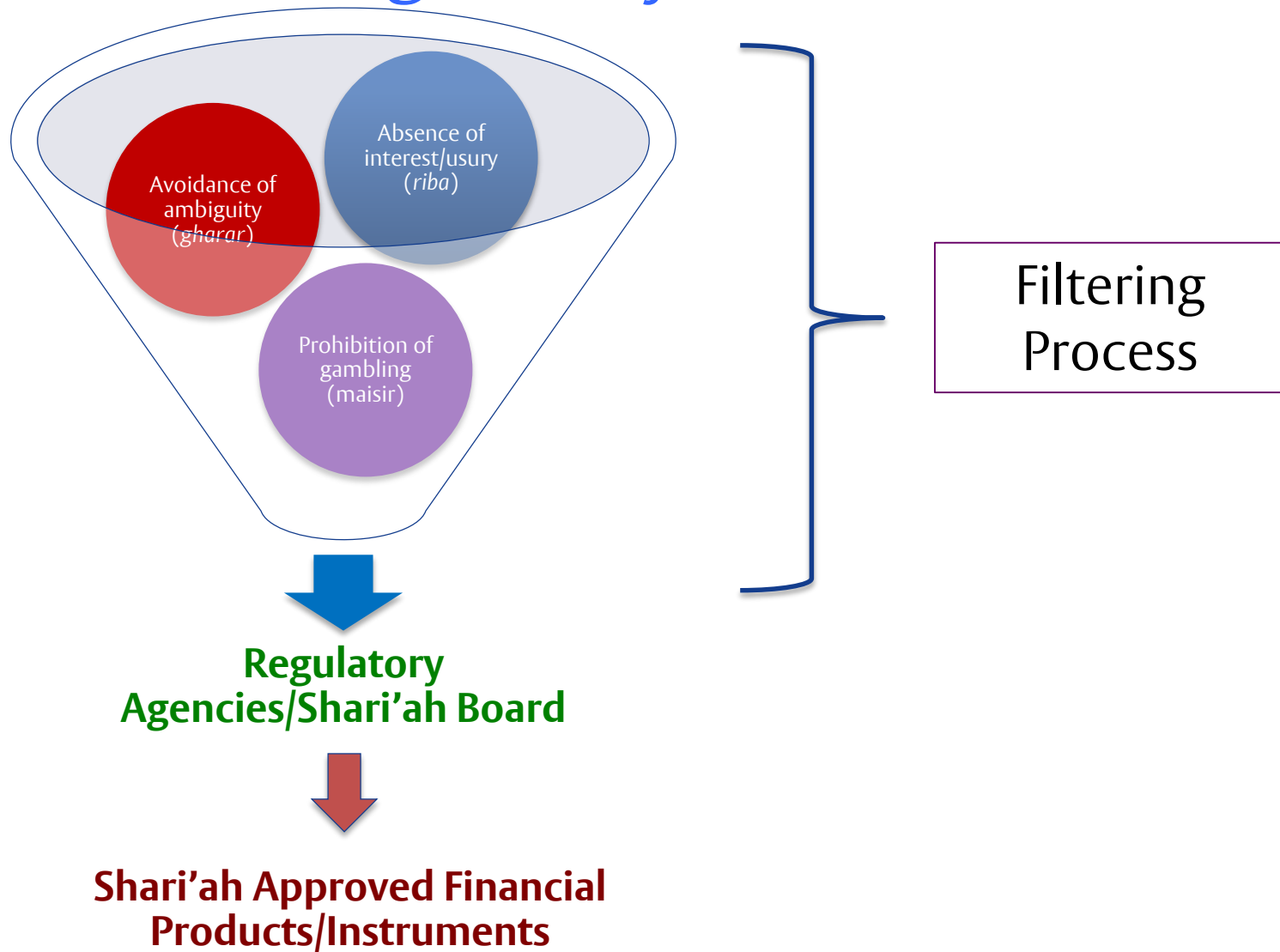


Islamic Finance 101: The Islamic Eco-System



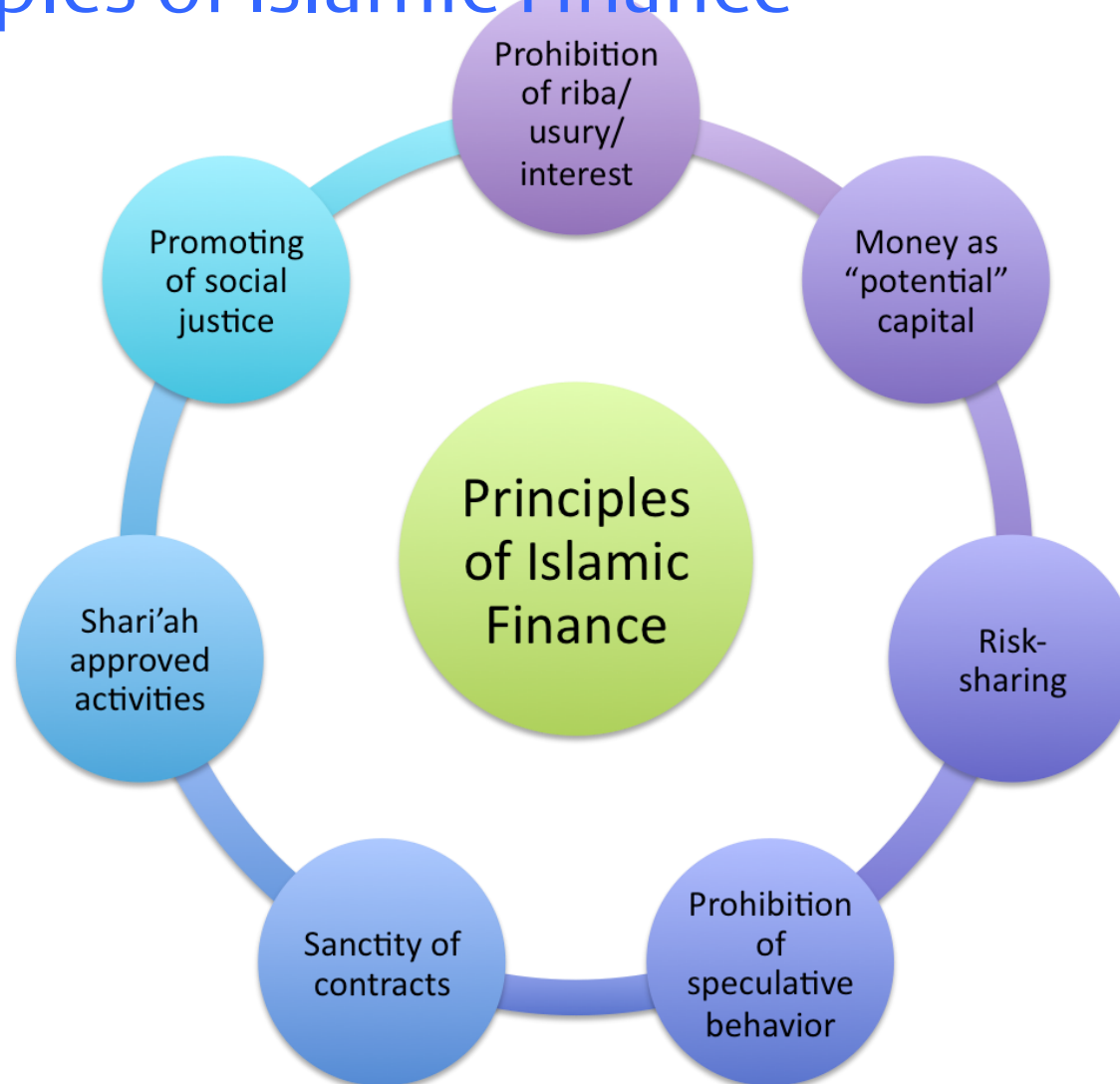
Islamic Finance 101:

The Islamic Regulatory Framework



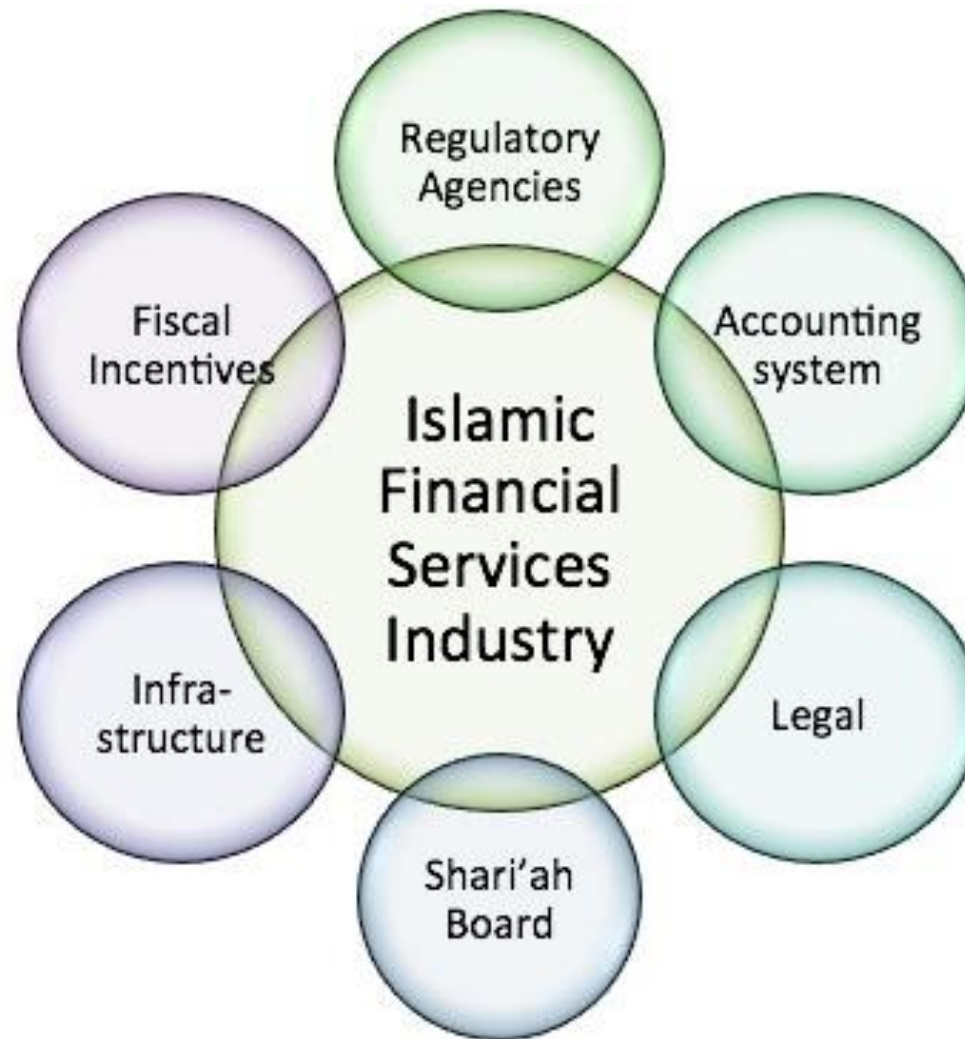
Islamic Finance 101:

The Principles of Islamic Finance



Source: Ansari et al. 2010. *The Stability of Islamic Finance: Creating a Resilient Financial Environment for a Secure Future*, pp. 4-5 ; see also Standard & Poor. 2010. *Islamic Finance Outlook 2010*, p. 61; and Vicary Abdullah & Chee. 2010. *Islamic Finance: Why it Makes Sense*, pp. 4-7.

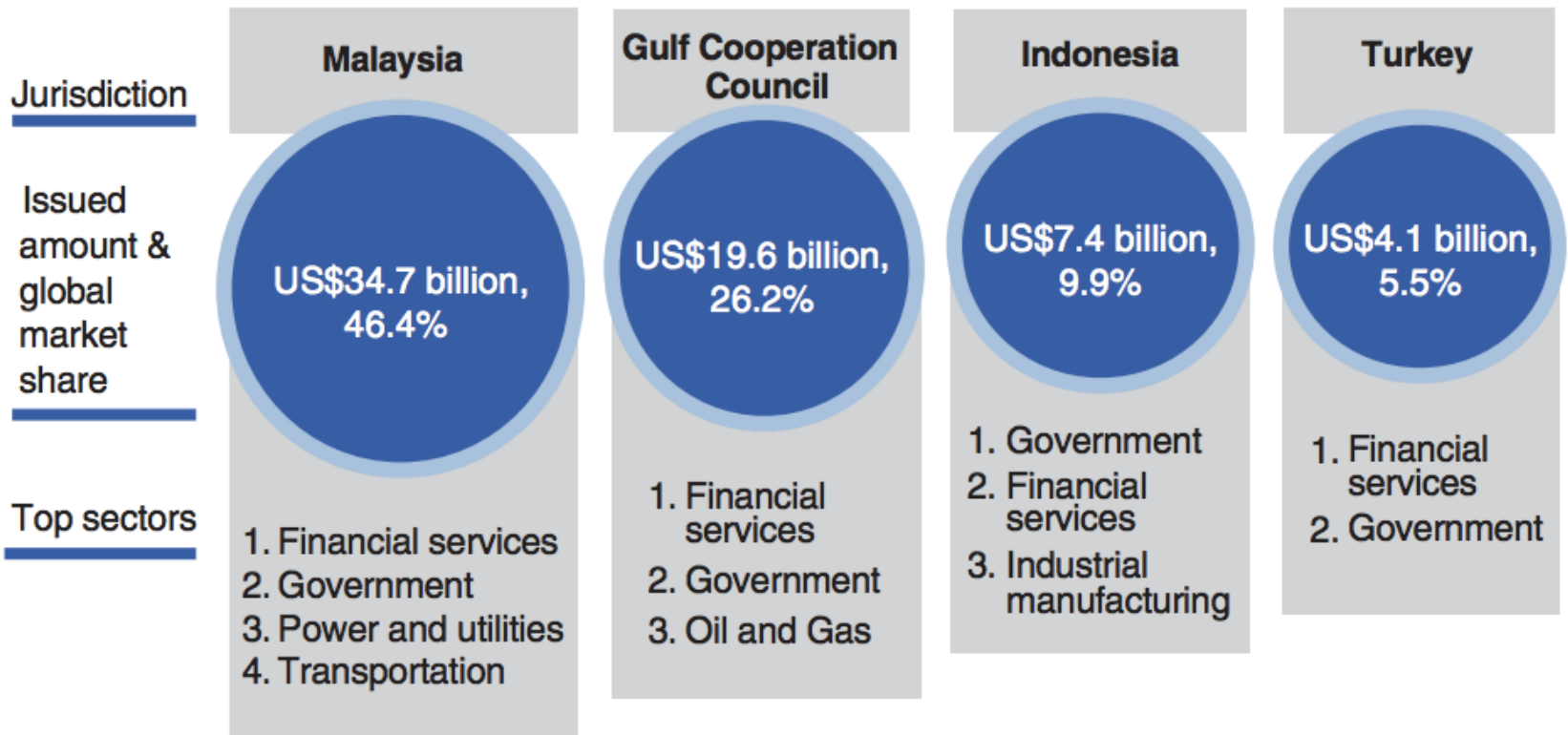
The Paraphernalia of the Islamic Financial Services Industry



Facts & Figures of Islamic Financial Services Industry

The Global Sukuk Market

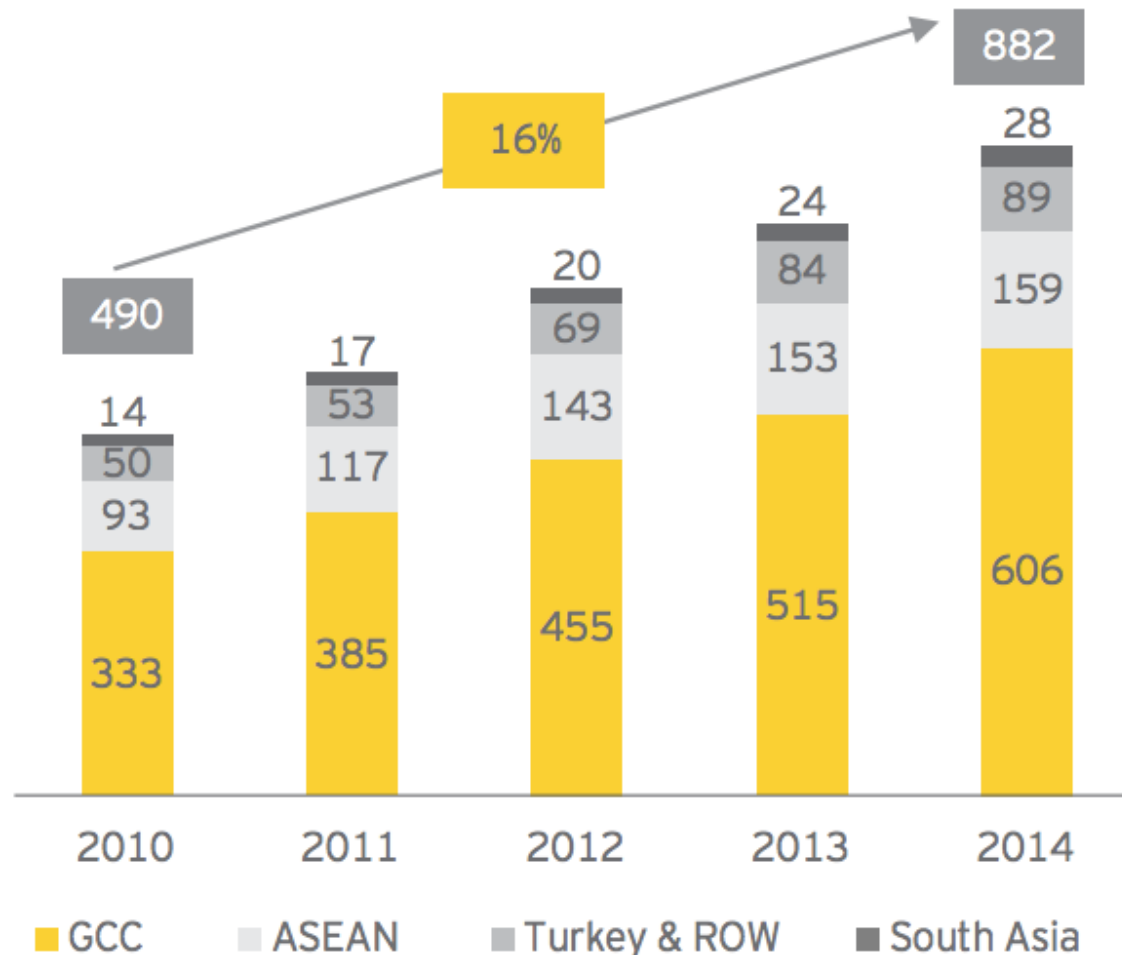
Top Sukuk Markets in 2016



Sources: Thomson Reuters, MIFC estimates

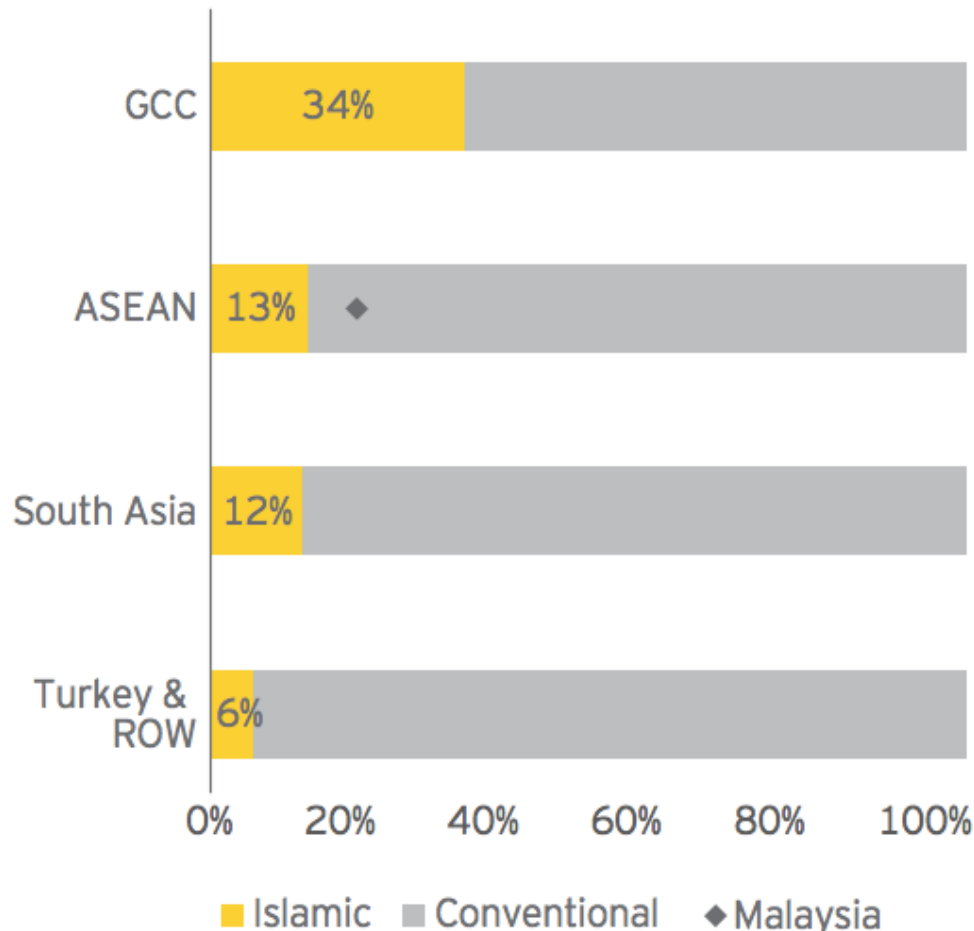
The Global Islamic Banking Data

International Participation banking assets* (US\$b)



The Global Islamic Banking Data

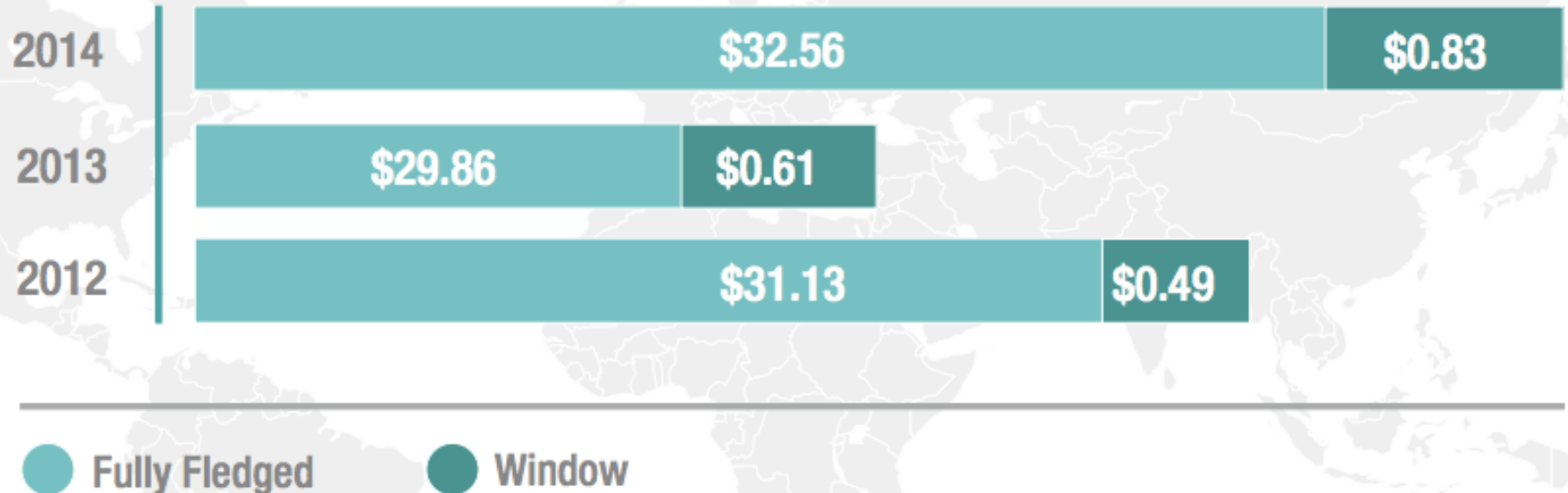
Share of Participation banking assets*



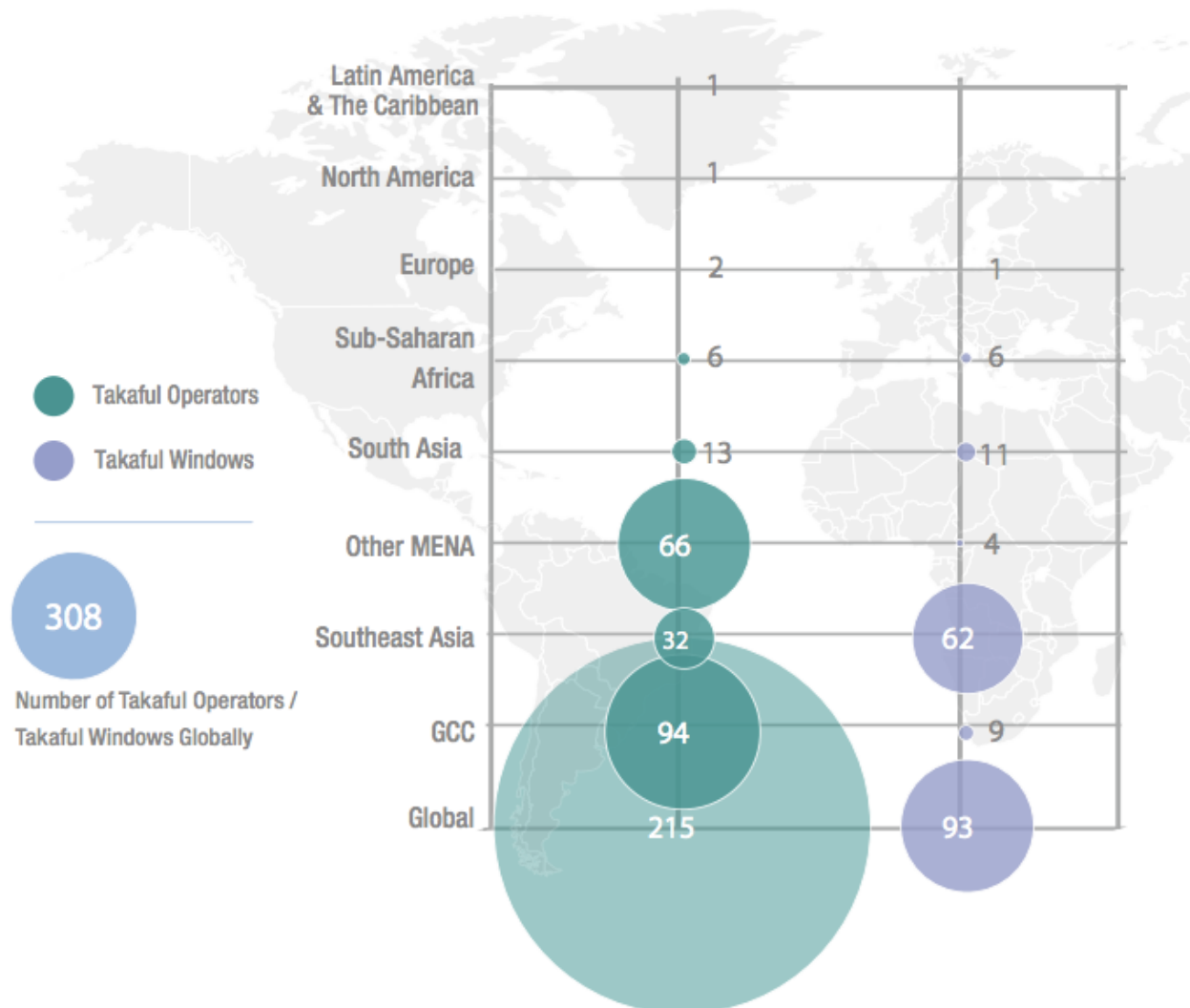
The World of Islamic Insurance (*Takaful*)

TAKAFUL ASSETS BREAKDOWN BY FULLY FLEDGED/WINDOW

(TOTAL ASSETS - US\$ Bn)

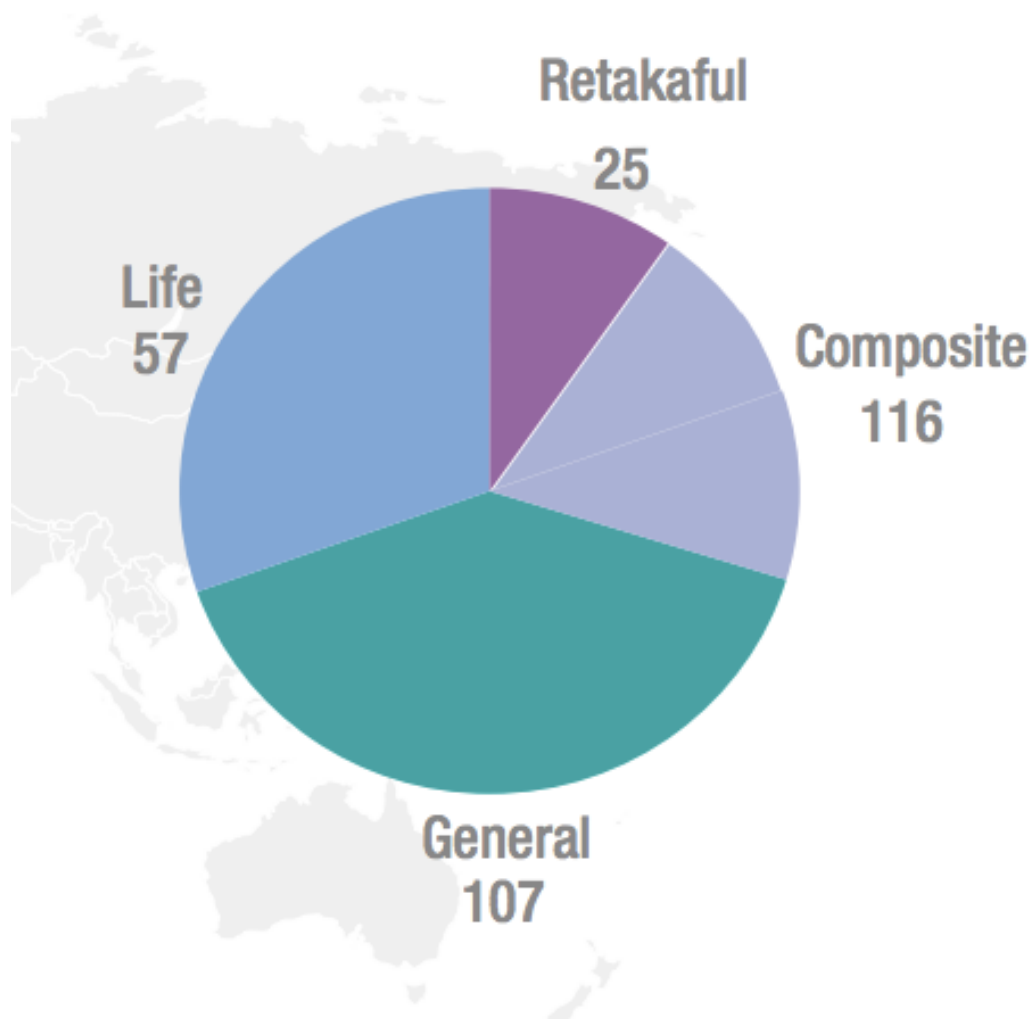


NUMBER OF TAKAFUL OPERATORS/TAKAFUL WINDOWS GLOBALLY BY REGION (FYE 2014)



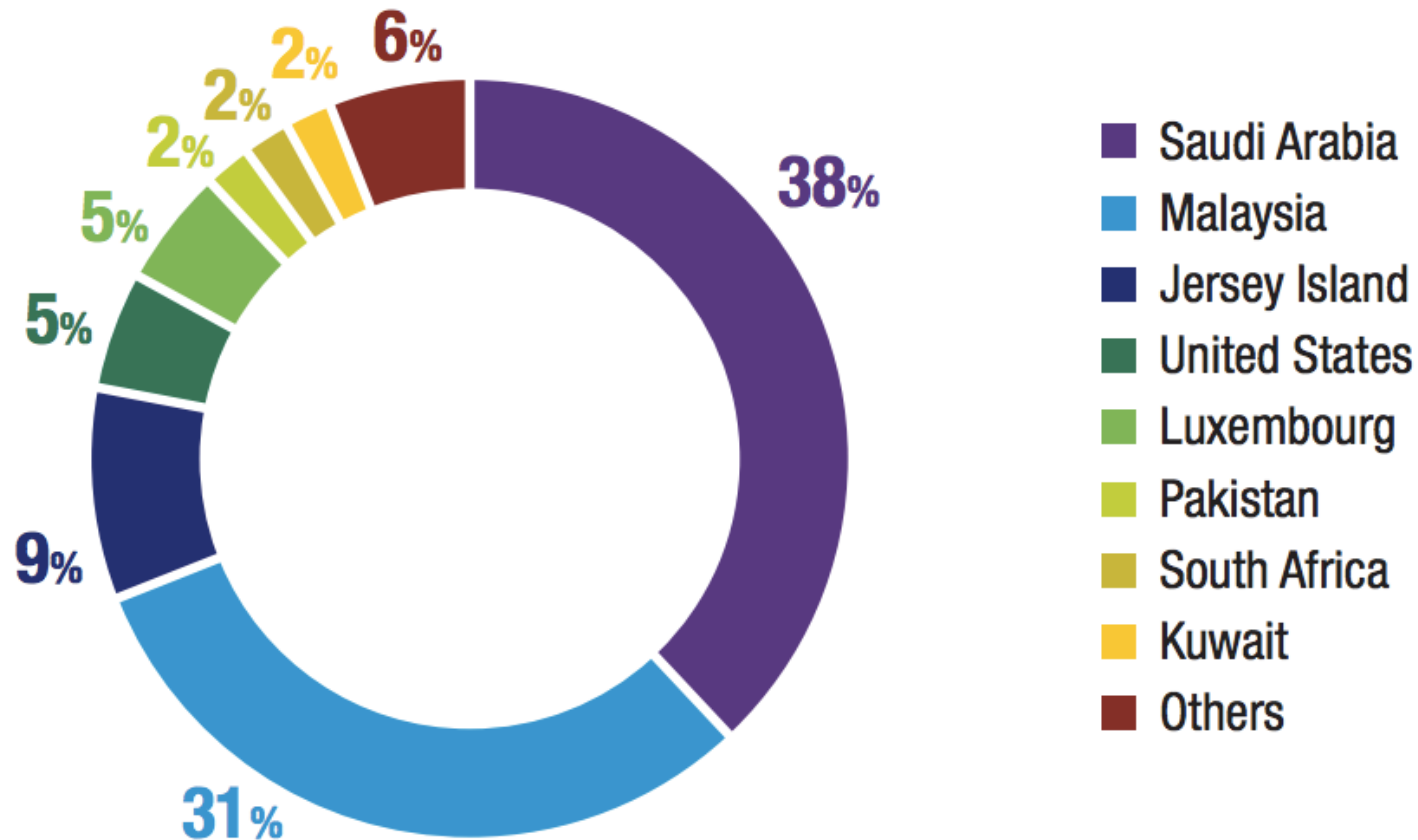
Source: Source: ICD Thomson Reuters (2015)

**NUMBER OF TAKAFUL OPERATORS/TAKAFUL
WINDOWS GLOBALLY BY CATEGORY
(FYE 2014)**



The Global Islamic Assets Under Management

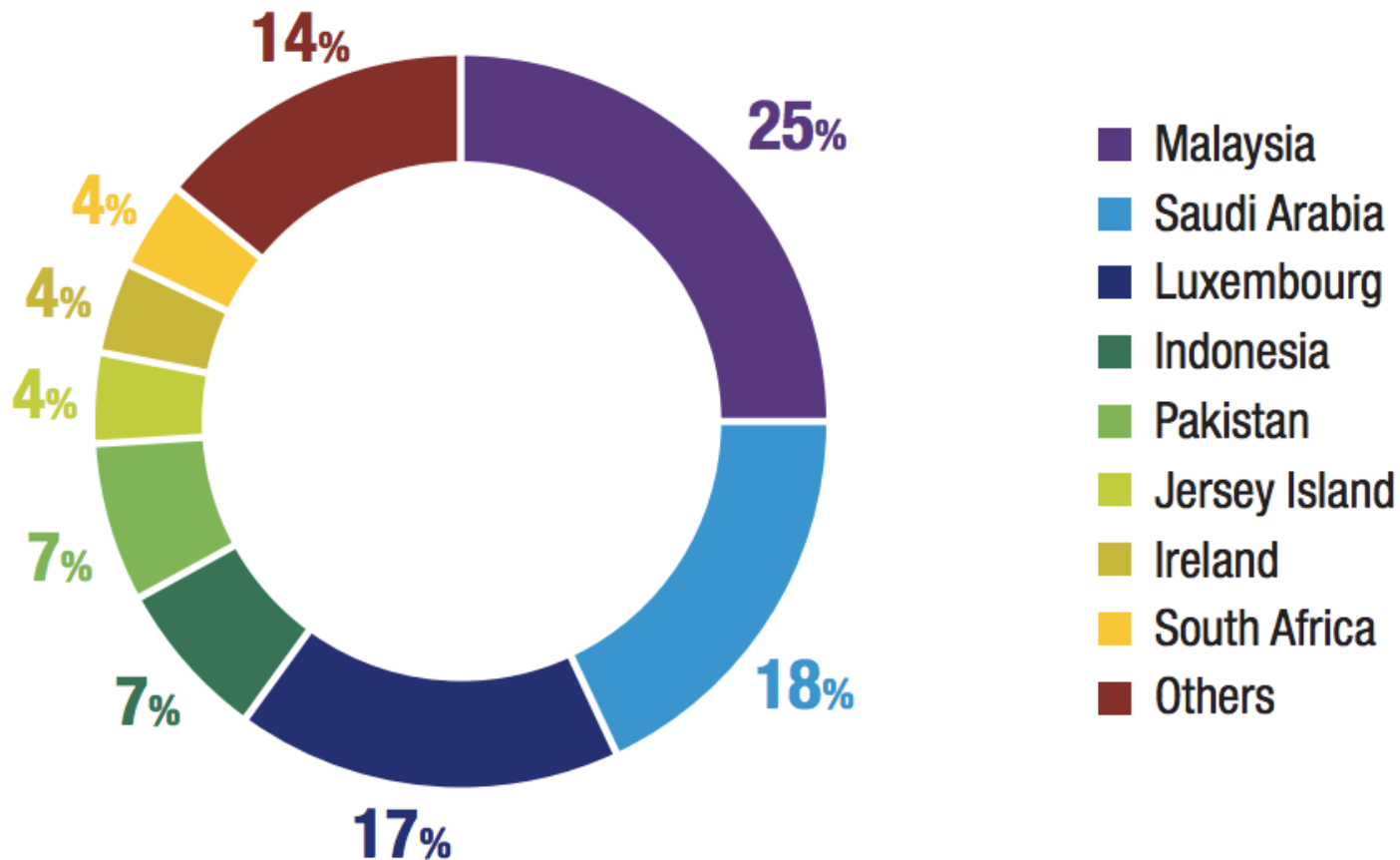
Global Islamic Assets under Management (AuM) by Domicile as of 4Q2015



Source: ISRA and Zawya s at 31st December 2015

The Global Islamic Assets Under Management

Number of Islamic Funds Domiciled by Country as at 4Q2015



Source: ISRA and Zawya as at 31st December 2015

The Internationalization of Islamic Financial Services Industry

The Internationalization of Islamic Finance

Sustainability of the Islamic Financial Services Industry



Cross Border Product Acceptance

- Wide range of global supply of high quality Islamic financial products and services that are able to meet the requirements of international businesses.
- Islamic finance needs to be dynamic and innovative, with diversified and comprehensive shari'ah compliant financial solutions to meet the differentiated needs of various businesses and to facilitate cross border investment.
- Having diverse and dynamic intermediaries and market participants that have global focus.

The Internationalization of Islamic Finance:

Sustainability of the Islamic Financial Services Industry

A study by Funds@Work (2011) reveals that the top twenty shari'ah scholars are holding fourteen to eighty five international board positions.



**Supervising and Regulating
Shari'ah Scholars**



**Standardized
Products**

The Internationalization of Islamic Finance:

Sustainability of the Islamic Financial Services Industry



**International
Disputes
Resolution**

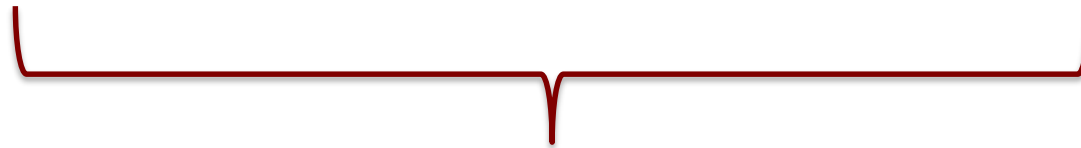
The Internationalization of Islamic Finance

Sustainability of the Islamic Financial Services Industry



AAOIFI

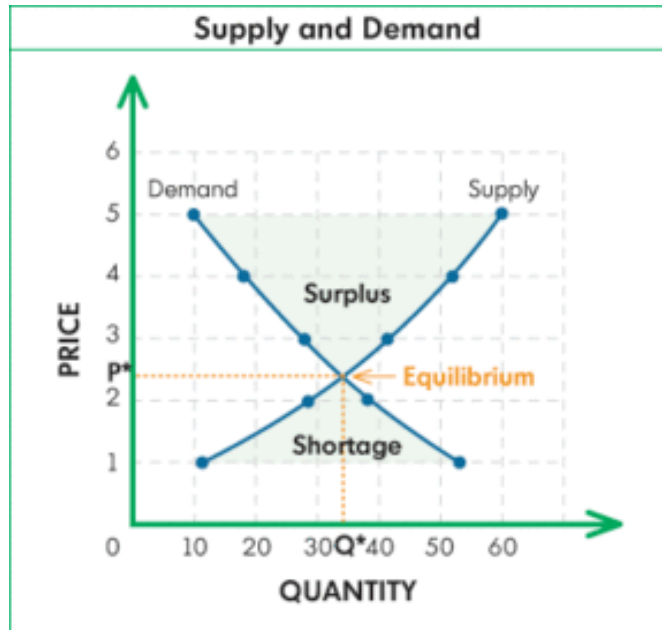
ACCOUNTING AND AUDITING ORGANIZATION
FOR ISLAMIC FINANCIAL INSTITUTIONS



Accounting and Auditing Standards

The Internationalization of Islamic Finance:

Sustainability of the Islamic Financial Services Industry



Price Discovery Mechanism

- Two Islamic finance scholars, Taqi Uthmani and Nizam Yaqubi, have expressed their concerns on the use of benchmarking in determining the price for Islamic financial instruments.
- However, in the absence of true Islamic price discovery mechanism, benchmarking is permissible under the Islamic law.
- Going forward, there is a need for the industry to develop the pricing mechanism for the Islamic financial instruments
- Thomson Reuters has introduced the Islamic Interbank Benchmark Rate (IIBR), to address this very issue.

The Internationalization of Islamic Finance

Sustainability of the Islamic Financial Services Industry



Effective linkages and connections between global financial markets will be facilitated by business enablers, particularly in the area of legislation, taxation and regulation.

Liquidity



**Innovative Financial Instruments
International Islamic Liquidity Management
(IILM)**



Developing Globally Accepted Competencies

- The new financial landscape will require world-class business talent with knowledge of the risks associated with internationalisation.
- Collaboration between academician and industry is important to support the talent requirements of the industry in its new phase of development.
- Hybrid or blended curricula.

The Roles of International Educational Centers in Human Capital Development

Issues and Challenges in Islamic Finance Talent Development

- **Shortage of Talent:**
 - According to the report of the Islamic finance task force of The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation Capital Market Regulator (COMCEC) 2013 – 82% of its survey respondent experience talent shortage in the Islamic finance.
 - Capital market – 88% shortage
 - legal and takaful – 63% shortage
 - Banking – 50% shortage.
- **Quality Programmes:**
 - Based on the FAA-IFN Human Capital Development Survey (February 2014)
 - 44.5% of the respondents indicated that the training programme offered in the industry does not meet their requirements
 - The major are of concerns: programme contents, practical components and applications, lack of input from industry practitioner

Issues and Challenges in Islamic Finance Talent Development

- **Absence of global standards for IF learning/education**
- **Lack of interaction between industry and training/ educational providers:**
 - University curricula on Islamic finance have little relevance to the ever changing needs of the industry because the industry was not consulted in the design of the curricula.
 - Greater industry input is vital while it is important that providers also make a greater effort to track the impact of their training in the workplace
- **The absence of a subject-specific and professional accreditation body for Islamic finance:**
 - There is currently a high level of dissatisfaction with the provision of training, and a need for improvement especially in terms of practical components, a more user - specific approach customised to local and sector needs, as well as an increased focus on regulation and innovation

The Roles of Henley Business School

- To make HBS presence in offering IF related education felt
- More engagement with the industry
- Executive education
- Feeder programs to IF

Q & A

Mohd-Pisal Zainal

Henley Business School Malaysia

m.p.zaial@reading.ac.uk