



14th IFSB SUMMIT 2019

**PROCEEDINGS OF
THE INAUGURAL IFSB INNOVATION FORUM
REVITALISING CREATIVITY AND SUSTAINING
COMPETITIVE VALUE**

AND

**THE 14TH IFSB SUMMIT 2019:
ISLAMIC FINANCE FOR SUSTAINABLE DEVELOPMENT
IN THE ERA OF TECHNOLOGICAL INNOVATIONS**

Jakarta, Indonesia | 12 - 14 November 2019

Organised by



Hosted by






ABOUT THE ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The IFSB is an international standard-setting organisation which was officially inaugurated on 3 November 2002 and started operations on 10 March 2003. The organisation promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The standards prepared by the IFSB follow a stringent due process as outlined in its Guidelines and Procedures for the Preparation of Standards/Guidelines, which includes holding several Working Group meetings, the issuance of exposure drafts and organising public hearings/webinars and reviews by the IFSB's Shari'ah Board and Technical Committee. The IFSB also conducts research and coordinates initiatives on industry-related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end, the IFSB works closely with relevant international, regional and national organisations, research/educational institutions and market players.

For more information about the IFSB, please visit **www.ifsb.org**





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Pre-Summit (12 November 2019)

**IFSB INNOVATION FORUM:
REVITALISING CREATIVITY AND
SUSTAINING COMPETITIVE
VALUE INVESTMENT SCHEMES**

1ST INNOVATION FORUM GALLERY



IFSB INNOVATION FORUM:

REVITALISING CREATIVITY AND SUSTAINING COMPETITIVE VALUE

THE IFSB INNOVATION FORUM – A NEW PLATFORM FOR EXCHANGE

The IFSB Innovation Forum is a new biennial event to enhance knowledge about the latest technological developments, coordinate initiatives, and provide a platform for exchanging views on most recent innovative Islamic finance instruments and regulatory approaches. This is the first time Innovation Forum organised by the IFSB that brings together regulators, policymakers, Islamic Financial Institutions, start-ups and FinTechs, academic and research institutions, financial services providers, legal practitioners, Shariah advisors and other stakeholders to cultivate innovative thinking and dialogue in the Islamic financial services industry (IFSI). It shall foster the understanding and development of an efficient, competitive, sound and innovative IFSI in a rapidly changing global socio-economic environment.

“REVITALISING CREATIVITY AND SUSTAINING COMPETITIVE VALUE”

was the theme of the forum with the aim to push Islamic finance to the next frontier. This forum, which is expected to feature as a regular biennial series, is an effort undertaken by the IFSB to creatively think and discuss the topics on the promotion and development of innovative Islamic finance solutions that is vital to create the competitive edge needed to

sustain the Islamic financial services industry going forward. The coverage of the forum consists of conceptualised products, instruments, services, mobile applications and other offerings which exhibit an element of innovation and forward-looking creativity.

The participants of the forum in addition to learning the latest innovations, creativity and initiatives taken by the Islamic finance market players were also able to share experiences and the development of Islamic finance (products, market, instruments, institutions, etc) in all the regions. Furthermore, all parties engaged in the forum gained multiple benefits such as knowing the latest development of Islamic finance, learning from other countries Islamic finance products, regulation and experiences, business developments and network, and initiatives to up grade and up lift their Islamic finance businesses into the next (upper) stage of development. Particularly for the regulators and authorities, they might assess their regulations in comparison with others to complement, and even improve them further. Currently, regulations with regard to start-ups and FinTechs were also amongst the interesting topics in the event.

OPENING AND KEYNOTE SPEECHES

The first Innovation Forum on Revitalising Creativity and Sustaining Competitive Value was held in Jakarta, Indonesia, on 12 November 2019 as a pre-event of the 14th IFSB Summit. It aimed to showcase innovative Islamic finance products and services with a substantial impact on financial inclusion, economic growth and sustainable development. The focus was on technological innovations that are needed to create a competitive edge for the Islamic financial services industry in the digital era, while simultaneously identifying potential regulatory and supervisory concerns.

In his opening and welcoming remarks, the Secretary-General of the IFSB, **Dr. Bello Lawal Danbatta**, stressed the importance of the Innovation Forum as an opportunity for regulators and market players to debate recent technological developments, identify risks and opportunities, and generate new ideas for better a regulation to foster the growth of the IFSI. The Innovation Forum shall promote global cooperation and contribute to the capacity building of regulators and Shari'ah scholars to sustain the development of Islamic finance and render its economic value.

In his keynote speech, the Governor of Bank Indonesia, **H.E. Dr. Perry Warjiyo**, gave three strategic drives for Islamic finance to embrace the digital era: policy innovation, technological innovation, and sustainable development innovation. These strategies will advance the development of the Islamic economy by fostering inclusive economic growth through innovations in the Islamic finance sector. Furthermore, he dwelled upon challenges and opportunities of digitisation for the financial sector in general and Islamic finance in particular in an era of synchronised global economic slowdown, volatile global financial markets, and the diminishing globalisation. He illustrated how digitisation and the widespread use of cell phones contributed through FinTech innovations to an unbundling of financial services and enhanced financial inclusion.

In an Islamic system, finance is tied to real economic activities, and innovations that reduce the cost or expand the scope of financing contributing to the inclusive growth of the economy. The global sovereign Sukuk for infrastructure financing, tradable Sukuk as monetary policy instruments, green Sukuk and retail Sukuk are such Sukuk innovations that have stimulated the real economy and tackled the global slowdown in Indonesia.

The digital economy is growing very fast. FinTech can promote financial inclusion by increasing the efficiency and speed of financial services in many different ways. For example, Bank Indonesia is introducing a digital payment system and a QR code standard (Quick Response Indonesia Standard [QRIS]) for cashless payments in the country, and it encourages FinTech start-ups and opens banking through APIs (Application Programming Interfaces) to interlink with incumbent financial institutions. Islamic finance operations shall link with the real sector performance to contribute to the economic growth and the social welfare for the present and future generations. Innovation in Islamic finance such as green Sukuk will support economic sustainability. Not only is the Islamic commercial sector which can take benefit from digitalisation but also is the Islamic social finance. For example, QRIS supports the mobilisation of funds by the fast, convenient and dependable payment of Zakah, Sadaqah and Awqaf through QR codes.

PANEL CONTRIBUTIONS



Dr. Salma Abbasi

Chief Executive Officer of eWorldwide Group, was the moderator of the panel session that looked at the transformative power of financial technology across the entire financial ecosystem: processes, products, organisations, client relations and measures of success. The composition of the panel ensured that the issues are highlighted and assessed from different perspectives.

Mr. Hussam Sultan

Regional Head, Commercial & Transaction Banking (Islamic) at CIMB, sees a potential for blockchain to become a game-changer in trade financing compared to the traditional way through letters of credit. CIMB Islamic in Malaysia compared the two techniques for a real trade transaction and found that the blockchain was faster and more efficient. It can be particularly attractive for Islamic banking when combined with product tracking in the real economy so that consumers can be assured of a complete halal value chain – ‘from farm to fork’ (including finance).



Mr. Matthew Martin

Blossom Finance - USA & Indonesia, drew the attention to tokenisation as a new technology on the blockchain by which digital representations of (partial) ownership of real assets (digital “tokens”) are created. They allow retail investors to invest small amounts in high-value assets. Another example of the use of blockchain in a financial inclusion context is smart contracts that standardise and automate the issuance of small-volume Sukuk, which may be purchased from an investor platform. The substantial

cost reduction through smart contracts afforded a non-profit micro-finance bank in Indonesia to raise funds from the capital market by issuing Sukuk.

Ms. Joann Enriquez

CEO of Raeed Holdings and its subsidiary, IAP Integrated Sdn Bhd, explained the concept and mechanism of the Investment Account Platform (IAP). Investment accounts in Malaysia are truly profit and loss sharing with no guarantee of the principal. Fund seeking businesses can apply for the listing on the IAP, the IAP provides a rating, and all participating banks receive the applications. In a kind of crowdfunding procedure, the banks can select and subscribe to portions of the applications and invest investment account holders' funds accordingly.

**Dato' Adissadikin Bin Ali**

Managing Director of RHB Islamic Malaysia, expects that banks and FinTechs will intensify their collaboration in efforts to deliver a positive impact for people and the planet while making a profit. There are examples in Malaysia for collaborations where funds from investment accounts are channelled through a platform into impact projects or employed by a telecom company to extend microloans.

Mr Han GuangYu (Abdullah)

HLC Foundation and Technologies, pointed out inherent limitations (scalability, speed) and efficiency issues of (public) blockchains of the Bitcoin and Ethereum type. A superior alternative could be based on the directed acyclical graph (DAG) approach. A (permissioned) block-DAG focused on the Islamic economy should be developed with the requirement that Shari'ah scholars and regulators shall license applications to run on that blockchain. A stablecoin payment system could be one of these applications.

**Dr. Yahia Abdul Rahman**

Lariba Banking Group – USA, the real innovation is not technology but how to bring riba free banking to the market, i.e. to make it attractive to customers of all faiths. With regards to technology and applications, the sustainability of applications and the reliability of the application developers shall be vetted, and costs and benefits, as well as risks and rewards of technology, have to be assessed and controlled.

CONCLUDING REMARKS

The technological advancement is inevitable to sustain the growth momentum of the Islamic financial industry in embracing the digital era of 4.0. The policy makers, regulators, and key market players of the industry have to work hand-in-hand to adapt the seamless technological development embedded in the products and services offered to the customers in order to maintain its competitiveness with the conventional counterparts. Innovation is also another important aspect that can sustain the industry's growth in the foreseeable future.

POINTS TO PONDER

- The basic principles of Islamic finance that uphold fairness and transparency would lead to socially responsible development which further links economic growth to social welfare.
- Technological development moves at a much faster pace than the regulators can catch up with.
- Shari'ah scholars debate whether organised tawarruq is permissible or not, but technology has even moved one step further to avail automated Tawarruq.
- Tokens as the standardised units of ownership of assets (= digital containers) can revolutionise the global finance and commerce as cargo shipping containers revolutionised the global transport before.
- Value-based intermediation is about "banking for PPP" – profit, people, planet.
- E-wallets operated by telecom companies with a large subscriber base creates big data that can be used for assessments of credit-worthiness of people and (small) businesses.

- Riba-free banking is based on co-investment based on profit-sharing principles instead of renting money.
- Banks relying on big data should remember that the databases and networks are not in their hands.
- The owners of the infrastructure of the internet economy will assume financial leadership of the digital economy.

INNOVATIONS PRESENTED

1. Block Chain based Trade Financing – CIMB Islamic Bank Malaysia

This is an open source platform in the market that mirrors existing real trade financing transaction through the issuance of Letter of Credit (LC) with the execution of transaction in less than hour. The Shari'ah contract in this platform is a murabahah based contract in which the purchaser proposed the financing with one Islamic bank then the seller confirms immediately with the correspondent banking to execute the sale transaction. Through the blockchain mechanism, visibility, trust, and turnaround time have improved significantly. This product is aimed to support the evolving the halal industry development with the easiness of traceability of the halal product.

2. Block Chain based SmartSukuk – Blossom Finance

This is a blockchain platform meant for individual and institutional investor to subscribe the profit-sharing based Sukuk. The investors can the Sukuk in the form of token through seamless cross-border transactions. Blossom's SmartSukuk supports a variety of structures depending on an institutions needs and project specifics that encompass construction projects, Islamic microfinance development, and manufacturing projects. By supporting the microfinance development, the SmartSukuk enhance the financial inclusion.

3. Investment Account Platform – IAP Integrated Sdn Bhd

This is an internet based multibank investment portal. The portal will facilitate efficient intermediation by the Sponsoring Banks to match financing requirement of ventures with investment from retail and institutional investors via Investment Account (IA). IAP Integrated aims to be the leading multibank platform for Shariah compliant capital mobilisation, supported by a conducive ecosystem.

4. FinTech for financial inclusion – RHB Islamic Bank


This is FinTech platform enabled with e-sadaqah through QR codes. The platform is a joint collaboration through Association of Islamic Banking Financial Institutions Malaysia (AIBIM) that has a charitable motive. The platform lists all charitable bodies and mosques within the deposit based customers so that they can donate through their mobile banking platform to any listed charitable bodies.

5. Block Chain based Digital Payment System (Qitmeer) - HLC Foundation and Technologies

Qitmeer is the first public chain that is dedicated to serving the ecosystem of ethical finance, socially responsible investment and Islamic Finance, which aims to act as the overall financial infrastructure to seamlessly converge all these areas, thereby enhancing financial inclusion. Qitmeer is a new generation-public chain based on Block DAG which adopts a collaboration model in the mining over the traditional competitive model, thereby achieving a desirable balance of typical blockchain metrics, such as the security, openness, fairness and scalability.

6. LaRiba Financing Model – LaRiba American Financing House

The uniqueness of the LaRiba model is that “not renting money”. Instead, the model's approach in each transaction as an investment. The market rental value of the property financed determines attractiveness as an investment. It is important to note that each property like a car, a home, a commercial building has two rights of ownership. The first is the ownership of title to the property called “Milkul Raqabah” (the ownership of the neck). The other right is the right to use the property (Haqul Manfa'aa – the usufruct). For example one can own a car or a house but he or she can rent out the right to use the car or the house by leasing it.

The background features a light gray wavy line that curves from the top left towards the bottom right. On the right side, there is a network diagram consisting of various sized gray circles connected by thin lines, resembling a molecular or digital structure. A horizontal light blue band spans the middle of the image, serving as a backdrop for the text.

IFSB Summit (13-14 November 2019)

**14TH IFSB SUMMIT 2019:
ISLAMIC FINANCE FOR
SUSTAINABLE DEVELOPMENT
IN THE ERA OF TECHNOLOGICAL
INNOVATIONS**

14TH SUMMIT SESSIONS GALLERY



ISLAMIC FINANCE FOR SUSTAINABLE DEVELOPMENT IN THE ERA OF TECHNOLOGICAL INNOVATIONS

The IFSB Summits aim to provide a platform for the key regulators, thought leaders and market players of the global Islamic financial services industry to discuss issues and challenges pertinent to the industry's growth and development, especially from a global regulatory and supervisory perspectives. In line with this aim, the theme of this year's Summit, "Islamic Finance for Sustainable Development in the Era of Technological Innovations" is of the high significance and relevance to the future of the global Islamic finance.

This 14th IFSB Summit 2019 has differentiation values from the IFSB previous summits in which the theme is timely and relevant to adapt with the industry revolution 4.0 and technology advancement era that inevitable impacts to the Islamic financial industry. In this 14th IFSB Summit, we introduced the Pre-Summit event that showcases innovative Islamic finance products that adapts with the technological development presented by key Islamic banking players across the region.

DAY 1

13 November 2019

OPENING AND KEYNOTE ADDRESSES

WELCOMING REMARKS



In his opening and welcoming remarks, the Secretary-General of the IFSB, **Dr. Bello Lawal Danbatta**, highlighted that the theme of the Summit points to the future of Islamic finance. He stressed that economic challenges, environmental awareness and technological innovations will change the traditional understanding of how the financial industry should operate. Sustainability is a growing concern among investors, industry players and regulators who have become particularly concerned about the environmental impacts of financial activities. Technological developments have led to the emergence of conceptual innovations and new tools in the Islamic financial

services industry. Technology is not seen as a disruption but as an opportunity to drive the growth of Islamic finance and enhance sustainability and financial inclusion. However, these developments need a strong regulatory, supervisory and legal underpinning that will address particular cyber and FinTech risks. They may also promote resilience, a level of playing field, and the Islamic social finance instruments to improve the social development goals as well as the overall resilience of the industry.

KEYNOTE ADDRESSES



In his keynote address, the Governor of Bank Indonesia and Chairman of the IFSB Executive Committee (EC), **H.E. Dr. Perry Warjiyo**, referred to Indonesia as an example for how digital technology can advance the Islamic finance, the Islamic economy, and the welfare of the ummah. Digitisation has made it quick and easy to open a bank account, transfer money, or get financing. Then, to speed up the development of Islamic finance, five strategies should be pursued by the regulators, industry players and other related partners, which are:

- Support for the digital transformation of banks: Islamic banks are challenged by the unbundling of financial services because they have not been fast enough to move from the traditional into open banking with apps for funding, financing, transfer, et cetera.
- Interlink Islamic banks with FinTech in an open banking environment: the creation of shadow banking through FinTech initiatives should be avoided. Instead, FinTechs should be linked with open banking through application programming interfaces (APIs).
- Encourage entrepreneurship and start-ups in finance and other industries by creating a conducive regulatory environment.
- Develop a fast payment system and financial market infrastructure.
- Strengthen cross-border collaboration and cooperation among Islamic countries.

Digital transformation is the way to go to be more inclusive, sustainable, and prosperous.



In her keynote speech, **Dr. Zeti Aziz**, former Governor of Bank Negara Malaysia, identified three major global trends with essential implications for Islamic finance, namely:

- Technology-led innovation disrupts current structures, but it has a tremendous potential to enhance the effectiveness and efficiency of the financial system.
- The growing awareness of economic, social and environmental calls for the support of a long-term sustainable growth agenda by financial institutions.
- To stop rising inequalities – partially caused by unconventional policies that pushed asset prices to record highs – and prevent social unrest, more balanced growth and inclusive development are needed.

The current wave of technological disruption and rising concern on

environmental sustainability can present opportunities to unlock new frontiers for Islamic finance. New technologies such as smartphones and web-based financial services play a crucial role in advancing the financial inclusion agenda.

The principles of Islamic finance call for a financial system that is both anchored to the real economy and has a positive social impact while adopting good governance. If practice applies these principles, Islamic finance is a model that is ethical, moral, inclusive and sustainable. In fact, Islamic finance has expanded its product offerings in new growth areas such as thematic Sukuk, including green, blue and SDG Sukuk and Shari'ah compliant impact investing and ethical investing as well as banking products anchored on sustainability.

On the other side, the downside of technological innovation may invite new risks such as improper use of data, fraud, cyber-crime, money laundering, and – more general – the potential of FinTech to significantly change the nature and scope of financial risk as traditionally understood. Furthermore, technology enables innovations that not captured by the existing supervisory and licensing framework and the ambit of the financial sector regulators. A coherent and well-thought-out policy mix will be needed to ensure a smooth transformation of financial systems or whole economies while preserving financial stability. The cross-border nature of financial technology requires supervisory coordination, information sharing, and the development of international benchmarks to harmonise and guide regulatory and supervisory practices.

In conclusion, the emerging trends offer Islamic finance with its focus on value-driven finance and the ability to provide financial solutions that can bridge the sustainable development gaps and address financial inclusion issues a new frontier for growth. The emerging trends offer Islamic finance new frontier for growth, with its focus on value-driven finance and the ability to provide financial solutions that can bridge the sustainable development gaps and address financial inclusion issues.



In a keynote address via video, **The Honourable Tun Dr. Mahathir bin Mohamad**, Prime Minister of Malaysia, expressed his gratification at the positive development of the global Islamic finance industry and its positive impacts on the financial system in general and financial inclusion in particular. As the principles of Islamic finance require financial transactions to be supported by actual trade or business-related activities, the Islamic financial sector is closely linked with the real sector. This link may also discourage the risk of being over-leveraged. The Islamic financial industry may, therefore, be a source of stability in the international financial system.

The IFSB through its prudential standards in the recent 15 years, has been active in supporting the stability and soundness of Islamic finance globally. In a world where Islamic finance has already achieved importance in 12 countries and is gaining traction and market share in many others, the IFSB has reinforced the potential for the stability of the international financial system. Technological innovations not only present new challenges in the regulation of most Islamic and conventional finance, but they also offer tremendous opportunities for financial inclusion, sustainability, and mainstreaming Islamic finance.

APPRECIATION CEREMONY

The Secretary-General of the IFSB, **Dr. Bello Lawal Danbatta**, delivered tokens of appreciation to the sponsors and partners of the IFSB Summit.

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LEVERAGING ISLAMIC FINANCE TO ENHANCE SOCIO-ECONOMIC INCLUSION AND SUSTAINABLE DEVELOPMENT

Sustainable development is typically classified into three broad dimensions - economic, environmental and social sustainability. Inherent within the principles of Islamic finance are the concepts of socio-economic inclusion, welfare and social justice and an emphasis on financing being closely linked with the real economy, among others. These inherent characteristics represent the potential of Islamic finance to play a more significant role in enabling the effective resource mobilisation needed to achieve economic and environmental sustainability, enhance accessibility to financing, and utilise social welfare tools for more inclusive financing. The session aims to discuss on how Islamic finance can create more significant impacts across these dimensions through inclusive and responsible financing and to identify issues that need to be addressed by the regulators, standard setters and international organisations in achieving these objectives.

Panel Contributions



The chairman of the panel session, **H.E. Turki Almutairi**, Deputy Governor, Saudi Arabian Monetary Authority (SAMA) identified as areas to be touched upon the enabling environment and ecosystem for sustainable and responsible Islamic financing, issues and challenges in mobilising Islamic Finance to promote social, economic and environmental sustainability, regulatory aspects in facilitating and promoting sustainability-based initiatives in the industry. Opportunities in the Islamic Financial Services Industry (IFSI) with a view of the enhancing financial inclusion was discussed as collaborative efforts in fostering sustainable economic growth.



Mr. Peter Kruschel, Director, International Policy, Financial Stability, Regulation, Federal Financial Supervisory Authority (BaFin), confirmed that sustainability is very high on the political agenda in Germany and that some forms of regulation are needed for sustainable finance. However, there is no common standard on transparency and no universally accepted definition of “green assets”. This opens the door for mis-selling and “greenwashing”. In this case, the regulators have to ensure that banks assess all risks of a transition towards environmental sustainability (a “green economy”) in their financing business.

From a regulatory perspective, a segment such as “green finance” could be promoted by clear and internationally accepted definitions of core terms and concepts like “green bonds”. Additionally, to enhance trust, a rating system with widely applied criteria should be installed.



Dr. Firas Raad, The World Bank, Country Manager for Malaysia, pointed out that mitigation of climate change is a major UN sustainable development goal (SDG) with an estimated shortfall in its financing of around US\$2.5 trillion globally. This gap has to be filled mainly by the private sector. Financial institutions have to play a crucial role in directing the flow of financial resources towards a low carbon economy. Islamic finance can play a supportive or even transformative role due to the alignment of its principles and foundations with the global pursuit of greater planetary sustainability, social cohesion and economic prosperity.

Sukuk can be used to mobilise resources to finance infrastructure projects, while Musharakah and Muḍārabah financing can be used for the financial inclusion of the poor through innovative business models, and Takaful can increase the resilience of individuals and businesses exposed to catastrophic events and shocks.

However, the Islamic finance sector is still relatively small and dominated by the short-term Murabaha bank financing with a tendency to neglect profit and loss sharing but mimics conventional financial products. For the Islamic finance industry to exploit its potential in supporting the SDG agenda, improvements should be made in the legal and regulatory framework, corporate governance and risk management practices, standardisation and capacity building.

The example of Malaysia shows the five key elements that are required to ensure a supportive ecosystem for Islamic finance namely: enthusiastic and competent regulators, an adequate and adaptable regulatory framework, an active industry with vision and responsibility, institutions for capacity building in finance and Shari'ah, and partnerships with international bodies for standard-setting such as the IFSB.



Mr. Ijlal Alvi, CEO of the International Islamic Financial Market (IIFM), illustrated that socially responsible investing has a much higher share in the conventional finance (around 25%) than in Islamic finance (where out of a global Sukuk issuance of around US\$123 billion not more than US\$2 billion were socially responsible or green Sukuk, mainly from Malaysia, Indonesia and the World Bank). Islamic financial institutions may look at a global market potential of around US\$3 trillion if they become attractive not only for Muslims but also for everybody who wants to invest in a socially responsible way. IIFM (sometimes in cooperation with conventional standard-setting

bodies like ISDA or LMA) has developed standardised documentations for various types of Sukuk and other Islamic finance instruments to increase transparency and cost efficiency and solve legal issues.

Accepted standards can help to mobilise funds for a particular market as the example of the ICMA Green Bond Principles for the green and socially responsible bond market illustrates. Specific guidelines for Islamic finance require much detailed work to ensure Shari'ah compliance and compliance with civil or common law. Therefore, a collaboration of standard setters is helpful. Finally, smart contracts as the codification of certain elements in a document can also help to rationalise the procedures.

Another area on which to concentrate is micro-finance. Commercial banks have profit targets and must meet laws and regulatory requirements with specific ratios for capital, liquidity, and so on. That makes it difficult for them to become an active agent microfinance. As an alternative, banks may create separate entities to which they contribute 1% or 2% of their entire profits to set up a Waqf fund to develop micro-finance.



Mr. Simon Gray, Division Chief of Technical Assistance of Monetary and Capital Market Department, International Monetary Fund (IMF), noted that a shift from financial market development towards value-based finance implies that some concepts and metrics such as efficient market pricing, profitability, and liquidity become less useful because different people prioritise different values, pursue multidimensional goals and have different time horizons.

There are some similarities between money market mutual funds – which developed since the 1970s and kickstarted the great financial crisis in 2007 – and Islamic investment accounts. Money market mutual funds are legally investments where the money is at risk, but they were marketed as if they were deposits (for example, users were given an ATM card and cheque book). When the great financial

crisis hit, people found out that this is not true. There was a considerable gap between expectations and the past practice, between the legal and financial reality. There is a similar conceptual blurring of investment accounts which are contractually investment products but treated by many banks as deposits (with ATM cards and cheque books). New technologies bring new people into the market with no financial experience. They need clarity and simplicity in terms of products and communication, and mingled investment/deposit products give them neither.

Clarity about the ecological or social substance of their products should be provided to customers by a dedicated monitoring entity in the governance structure of an Islamic financial institution (separate from the Shari'ah board).

Bricks and mortar banks, bank managers have a connection to their customers and know what is of value to them. Digital banks only know their customers as data; they don't know their values. It is possible to extend the scope of finance, but the price is the loss of that local knowledge and personal touch that might be needed to generate the sort of economic developments locally that some people want to see.

Concluding Remarks

Sustainable and responsible Islamic financing development is pertinent to promote the inherent ethical values of Islamic finance that is in line with the Sustainable Development Goals (SDGs) international agenda. The enabling environment and ecosystem are detrimental factors in mobilising Islamic Finance to promote social, economic and environmental sustainability with robust regulatory frameworks in facilitating and promoting sustainability-based initiatives in the industry.

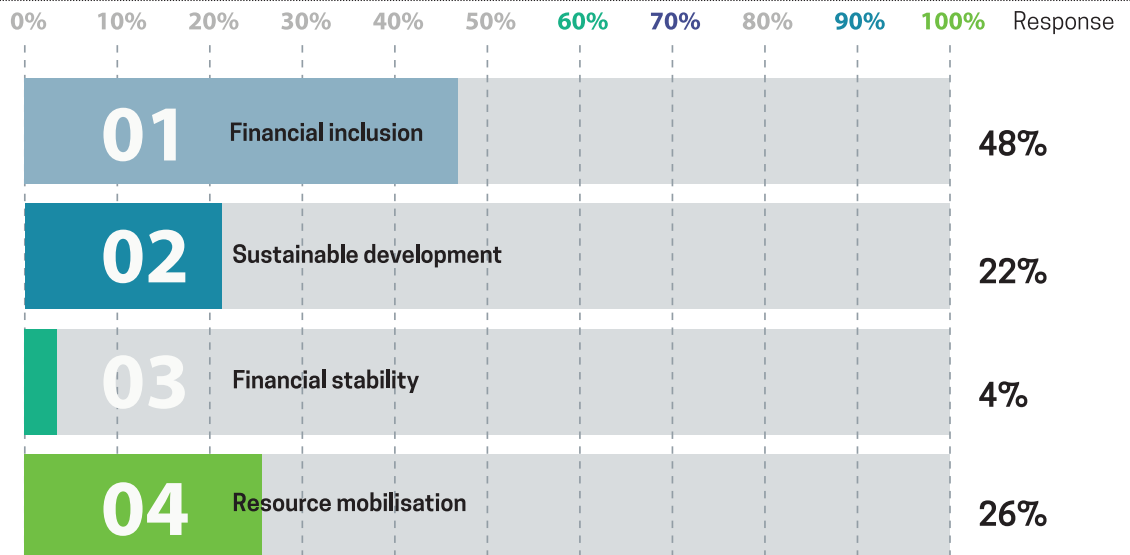
Points to Ponder

- There is a need for commonly accepted standards when marketing products relating to environment and sustainability.
- There are different views on the scope of sustainability. For example, is nuclear power seen as green or not?
- Sukuk infrastructure projects have to take into account that assets in this sector have relatively high risk weights.
- Because of the direct link to physical assets and its profit and loss sharing arrangements, Islamic finance encourages the provision of financial support to productive enterprises.
- In spite of progress in recent years, Islamic finance is still relatively small and represents only 1% of the global financial system, which means considerable room for future growth.
- OIC countries account for 22% of the world population, 7% of global GDP, and 40% of the world's poor (who live on 1.25 dollars or less per day).
- To sustain and expand the long-term role of Islamic finance, standardisation of products and documentations should be a priority.
- Enhancing capacity and talent management to increase the number of skilled professionals is crucial for the growth of the Islamic finance sector.
- Blossom Finance has issued in Indonesia a first microfinance Sukūk with a size of around 50,000 USD.
- New technology shall not only provide existing services more efficiently to existing users but extend the reach of finance to new users who are less financially literate.
- Banking supervisors are not used to dealing with telecom companies and other non-bank providers of some financial services.
- Supervisors need to work out why they should regulate non-banks and determine whether they have the legal powers to relate to them.
- Regarding the mobilisation of funds, regulators should not promote but only facilitate specific modes of finance. The regulators' role should be passive rather than active.
- It is challenging to communicate clearly and simply on a product that itself is very complex. Thus, the products may need to change as well as the style of communication.

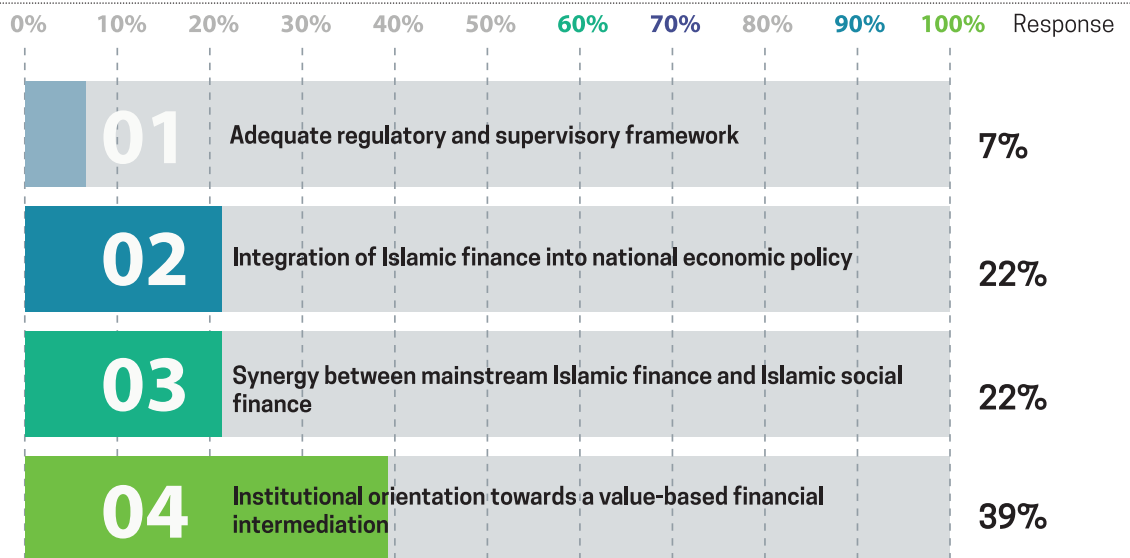
SLIDO OPINION POLL

Participants: 23

Which of the following desirable outcomes of Islamic finance is the most challenging to be addressed?



Which among the following do you consider most pertinent for enhancing socio-economic inclusion and sustainable development through Islamic finance?



Session 2:

MAINSTREAMING ISLAMIC FINANCE THROUGH TECHNOLOGY: BUILDING A ROBUST REGULATORY ECO-SYSTEM

In the fast-paced changing regulatory environment, policymakers face continuous pressure to develop strong regulations and support a robust eco-system. Technological innovation is one of the key emerging challenges for regulators and supervisors in the financial sector. While embracing financial technology is essential, it should not compromise the safety and stability of the financial system. As the finance industry is exploring the emerging risks in the technological innovation space, unique risks specific to Islamic finance may also emerge. A myriad of Shari'ah-related issues deriving from rules and principles, compliance, governance, requisite talent scarcity, and cross-border jurisdictions may be amongst the challenges faced by regulators and supervisors. This session aims to discuss critical issues and impediments that merit regulators and international standard setters attention in technology adoption regulatory space with due regard to unique risks arising from Shari'ah-related matters. This platform allows lessons drawn from regulatory and supervisory experiences which may promulgate the industry best practices.

Panel Contributions



The session was chaired by **HE. Dr. Wimboh Santoso**, Chairman Board of Commissioners, Financial Services Authority of Indonesia. He set the background by highlighting that technology as a tool can extend the coverage of financial services to remote areas, speeds up processes in financial institutions, reduces costs and leads to cheaper prices. Moreover, financial apps match with the digital lifestyle of the consumers. A key question to all panellists was: How can technology create benefit to customers and contribute to the development of Islamic finance.



Mr. Fahad Yateem, Director of Islamic Financial Institutions Supervision Directorate, Central Bank of Bahrain, shared his view that talking about sustainability, inclusiveness, equality, solidarity and the SDGs is almost like talking about *Maqāṣid al-Shari'ah* and the foundation of Islamic banking. If FinTech helps to achieve these goals, Islamic banks should give priority to its application. The Central Banks of Bahrain encourages local banks to adopt FinTech while at the same time tries to understand the risks involved.

In accordance with that the regulators have to ensure the safety and soundness of the financial system, but they should also be flexible and receptive in appreciating FinTech and innovative ideas. That does not leave FinTech unregulated but allows for experiments with crowdfunding, robo-advice, reinsurance aggregation, open banking and crypto assets in a regulatory sandbox. Capacity building institutions and start-up accelerators have been established. RegTech is applied for eKYC, and SupTech started with the online transmission of all data for prudential supervision.

A comprehensive ecosystem has been created, but if banks do not become more proactive, they may miss the opportunities of technological innovations and get disrupted by newcomers. Regulators embracing and welcoming start-ups must be mindful not to create oversaturated markets with too many small service providers with insufficient resources to deliver high-quality services and sustain in the long run. International collaboration is required to come up with a complete regulatory framework that minimises regulatory arbitrage when applied in all jurisdictions.



Dr. Umar Oseni, Acting Chief Executive Officer, International Islamic Liquidity Management Corporation (IILM), suggests that a strategy for FinTech to mainstream Islamic finance should start with a simple mobile technology for delivering financial services like M-Pesa in Kenya. In the next stage, blockchain technology and smart contracts become important, but the innovative products should be accessible and bring benefits to the man on the street. FinTech should promote financial inclusion. Blockchain can support transparency and stability, but it is not necessary to run a digital

retail bank that offers easy access to everybody through mobile phone. Regulations of blockchain, cryptocurrencies and other technologies should ensure maximum consumer protection.

There is a recent debate on the use of innovative technologies (AI and robo-advice) for advice on the Shari'ah compliance of products. The AI-based e-fatwā has become a reality, but it comes with the disclaimer that there is the possibility of an error. Hence, the robot's advice on Shari'ah issues should be checked and verified by a human being. Under Shari'ah, the human element is essential in fatwa making.

Cryptocurrencies are very controversial, and some cryptocurrencies were fraudulently marketed as Shari'ah compliant coins which they were not. Regulators should be watchful – in the interest of consumers and investors protection – about how banks and start-ups label and market their products.



Mr. A. K. M. Amjad Hussain, Executive Director, Bangladesh Bank, informed that the share of the Islamic banks in Bangladesh is only 25% of the banking industry while 90% of the population is Muslim. Islamic banks are profitable but reluctant to accept FinTech due to a shortage of knowledge. It may be a task for the regulator to motivate banks to adopt advanced technologies for product innovations. However, mobile banking is powerful. In fact, the banking services are delivered by one of the biggest mobile service providers of the country.

FinTech regulations are emerging to address risks in blockchain, robo-advisory, artificial intelligence, robotic process automation, and other new technologies. The regulator has to consider not only stability and consumer protection but also Shari'ah issues. The central bank has introduced, among others, online reporting of prudential data, and electronic payment gateway and oversight framework for effective payment supervision, and licensing policies for payment providers and mobile finance companies.



Mr. William Coen, Former Secretary-General, Basel Committee on Banking Supervision (BCBS), shared his global perspective on regulation. Regulators should not protect banks against FinTech rather guide banks on how to conduct FinTech to support the banking operations. Their main concern is the soundness and stability of the financial system. Banks have to take a strategic position on how to take advantage of technology. The biggest challenge for banks (and even more for regulators and supervisors) is attracting the right kind of human resources with FinTech competencies.

FinTech firms don't play the same role as banks. For example, most FinTechs do not accept deposits. It is not correct to say that because FinTechs are providing bank-like services, they must be regulated like a bank (under the mandate of BCBS). An early global regulation could stifle a vital, growing industry, and there are no indications for a global FinTech regulation any time soon. Supervisors are concerned with cross-border contagion spill-over effects that threaten the stability of the financial system. Such contagion effects from FinTech are currently not discernible. International institutions like BCBS, IMF, and others watch carefully cross-border flows for early detection of stress or pressure points.

Regulatory and supervisory authorities need to communicate with banks and FinTech firms and can serve as innovation facilitators through, for example, regulatory sandboxes, accelerators, catalysts, or innovation hubs. Regulators and supervisors should also communicate cross-border with each other about their strategic positioning, techniques and experiences as well as for comparative self-assessments.

Concluding Remarks

The Islamic financial industry development is not detachable from the emerging risks that could impede the industry's growth. Among others, the emerging risks are the technological innovation space, debatable Shari'ah-related issues deriving from rules and principles of the contracts, compliance, governance, requisite talent scarcity, and cross-border jurisdictions coordination. Hence, the policy makers, regulators, and relevant stakeholders have to coordinate in tackling the emerging risks to foster the sustainable development growth of Islamic finance.

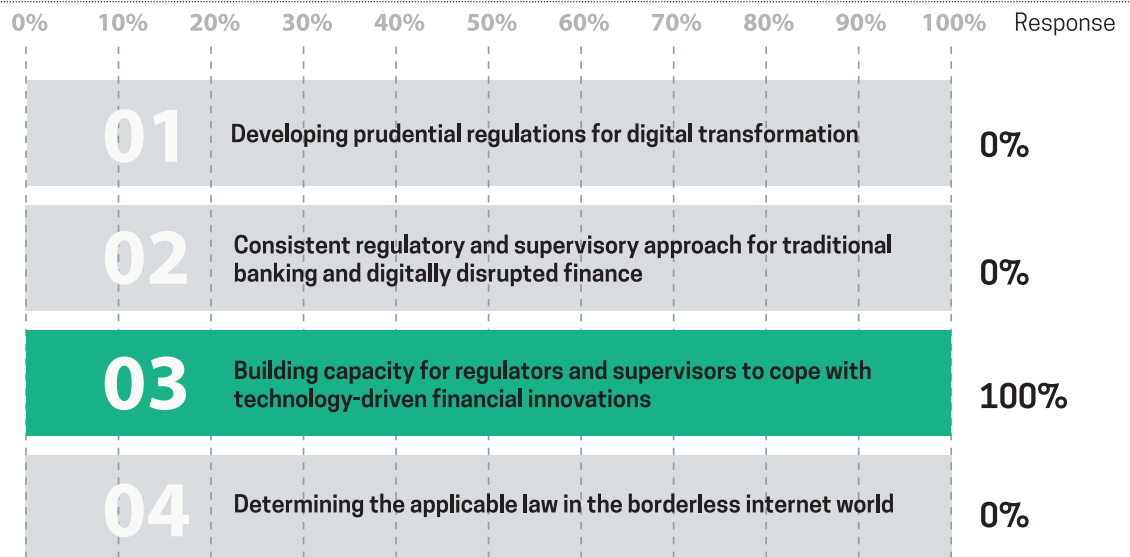
Points to Ponder

- *Maqāṣid al-Shari'ah* and the sustainable development goals of the UN system are complementing each other in achieving the social welfare.
- Whatever technology a country adopts, customer protection shall be paramount.
- The licensing of too many start-ups can create over-saturated markets with a later need for consolidation, mergers, and exits.
- Any technology adoption that can lead to financial exclusion must not be prohibited but shall be put under surveillance and develop gradually.
- FinTech can assist banks and other companies to be more Shari'ah compliant through organising Shari'ah process
- The human element is essential when it comes to Shari'ah compliance or Shari'ah governance.
- "Islamic FinTech" has to be Islamic from end to end, and its Shari'ah compliance has to be proven before that label can be used for marketing.
- FinTech goes beyond borders, and people can use technology anywhere in the world. Therefore, regulatory authorities should collaborate.
- Cross-border issues and regulatory arbitrage are still unresolved issues.
- Bankers asked the BCBS to regulate FinTech.
- Millions of people around the world can take advantage of technology to get financial services more conveniently, faster, safer, and in an innovative manner.
- Supervisors have to deliver supervisory services as efficient as possible. They should leverage innovative technology to perform better.
- There are no cross-border contagion spill-over effects from FinTech that threaten financial stability and warrant global regulatory action.

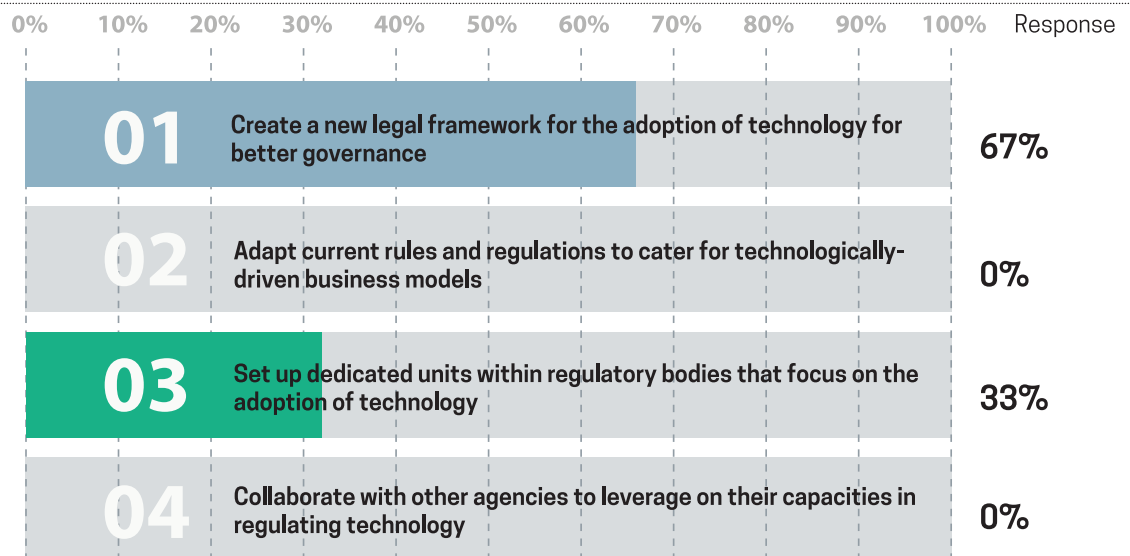
SLIDO OPINION POLL

Participants: 3

Which of the following you consider as the most challenging in building a regulatory eco-system within the technology adoption space.



What should be the top priority for building a robust regulatory eco-system to mainstreaming Islamic finance through technology adoption?



Session 3:

BROADENING ACCESS AND RESILIENCE IN DIGITAL ISLAMIC FINANCE: OPPORTUNITIES AND CHALLENGES

Notwithstanding the inherent value proposition that Islamic finance offers, it still represents a marginal share of the global financial system. Broadening access to Islamic finance, therefore, is imperative for improving financial inclusion especially towards enhancing socio-economic development within the tenets of the Shari'ah. The role of the Islamic market players in this regard is essential, especially when offering innovative Islamic finance products and services in a manner that leverages on technological advancement without infringing on the value-based intermediation essentials of Islamic finance. The panel highlights opportunities and strategies to unlocking the potentials of the various Islamic social finance platforms via technology. This is in addition to insights into efforts of the market players to promote financial inclusion and strengthen AML/CFT and cyber-risk resilience in Islamic finance.

Panel Contributions



The session was chaired by **H.E. Dr. Yakup Asarkaya**, Second Chairman, Banking Regulation and Supervision Agency, Turkey. He outlined that Islamic finance provides many opportunities for financial inclusion and social finance. He shared Turkey experiences on how to broaden access to digital Islamic finance and discuss opportunities and strategies to unlock the potentials of the various Islamic social finance platforms via technology.



Dr. Yahia Abdul-Rahman, Chairman of the Board and Chief Executive Officer, LARIBA-Bank of Whittier, reflected on reasons for the low penetration of ribā-free banking. A large majority of Muslims do not see the differences between conventional and Islamic banking. Others find it is more expensive, too difficult to understand or questionable in its Shari'ah quality. LARIBA-Bank did not prioritise the internet but used bank branches and print media to produce something that touches the hearts and minds of the people, that presents ribā-free banking as the spot of a new lifestyle.

Ribā-free banking depends on the consumer. It is not enough to contact customers only through digital channels. There must be a human contribution to advise customers on finance and banking or to enforce things like the know-your-customer rule. To know your customer, it is not sufficient to get his birth date and address. You need to know the background of the customer. For this, LARIBA-Bank asks for a resume and checks with people in the community.

This does not mean that LARIBA-Bank does not use technology. It does run full internet facilities and is technology-bound. Computing power and applications are provided by external companies which creates a form of dependence and specific risks. The advantage is that the board of director can choose among apps and providers and pick those that best match the goals that the bank wants to achieve for its customers. A neutral body should have tested the apps. In the United States, the apps have to meet specific quality standards. Unfortunately, not many Muslim countries do have such testing institutions. Besides, the bank needs to worry about the sustainability of the developer. If the bank goes out of business, the bank may be in serious trouble.



Mr. Adrian Gunadi, Co-Founder and Chief Executive Officer of Investtree, noted that around 60% of the Indonesian population is still unbanked, but the mobile penetration has reached 133% (= more than one mobile phone per person) and the internet penetration increased to 60 to 70% and now also covers most of the tier 2 and tier 3 cities. Since 2015, FinTech start-ups evolved in Indonesia to leverage technology and data to accelerate financial inclusion. Since 2016, the regulatory framework is developing, starting with the peer-to-peer or marketplace lending regulation for an industry that

experienced explosive growth from around US\$20 million of loans generated in 2016 to US\$5 billion in 2019. Regulation plays a critical role. In Indonesia, FinTechs have to be registered and licensed for the regulatory sandbox. Regulators have to strike a balance between a light touch and consumer protection. Self-regulatory organisations can support the authorities by developing a code of conduct and collecting and sharing relevant data with the regulator.

FinTechs are now collaborating with banks in areas such as channelling, credit scoring or wealth-tech, but also with other digital industries such as e-commerce or ride-hailing where FinTechs provide the financial services component. This often happens in the background, embedded in the front-end user interface of a platform developed for another primary purpose such as ride-hailing.

FinTechs are also accelerating the growth of Islamic finance: The National Shari'ah Council of Indonesia issued a fatwa on the Shari'ah compliance of FinTech solutions in 2018. Since then around 10 Islamic FinTech platforms have been registered, providing mainly Shari'ah compliant financings. Islamic financings contribute about 10% to Investtree's lending portfolio with good growth perspectives.

FinTechs now play a significant role in credit scoring. Banks typically rely on financial statements or credit histories which micro and small enterprises (MSMEs) rarely have. However, they probably do have "digital footprints" from their activities as traders in e-commerce marketplaces or from the use of payment gateways or cloud accounting. These data can be used by FinTechs to analyse the creditworthiness of MSMEs. Since the digital footprints are continuously evolving, dynamic credit scoring models (with probably a higher predictive quality than the traditional bank methods) can be applied in the risk management of financiers.



Professor Volker Nienhaus, IFSB Consultant from Germany noted that the financial exclusion could be voluntary or involuntary. If people who are considered voluntarily self-excluded for religious reasons are not only worried about Riba but also about indebtedness, then the predominantly debt creating contracts of Shari'ah compliant crowdfunding platforms would not solve the exclusion problem.

Involuntary exclusion in the era of digital banking should not be a problem of accessibility where access to financial services providers could be established through digital means. However, there may be supply-side problems: Banks do have deposits that could be used for the financing of unbanked and MSMEs, but they may not willing to serve this segment because of too high costs per transaction. Non-depository FinTechs may be ready to serve but can mobilise only limited resources. A significant increase of available funds for unbanked and MSME financing could be achieved if banks cooperate with local non-bank financial institutions as intermediaries for "the last mile". This could reduce risks and costs per transaction. A similar result could be obtained by integration of commercial banking and Islamic social finance. An upcoming technical note of the IFSB on "Financial Inclusion and Islamic Finance" will give some hints.

Another approach for cost reduction could be the automation of procedures by smart contracts. They would be most useful in complex settings where several contracts are involved and have to be executed in a specific order. However, Shari'ah issues may emerge once several contracts are

combined in one auto-executing and unstoppable smart contract.

Digital platforms could help to broaden the access of SMEs to profit and loss sharing (PLS) modes of finance. A precondition for PLS is the thorough evaluation of entrepreneurial projects which goes beyond the assessment of creditworthiness. It would be prohibitively expensive for individual banks to acquire evaluation expertise in a wide range of different industries for risk-controlled portfolios. But if a platform operator would provide this expertise and allow banks to make scalable investments into vetted projects, evaluation costs would be shared and reduced so that risk-controlled portfolios of PLS investments could be structured. Credit scoring methods based on digital footprints and predictive big data analytics can play a supportive but somewhat limited role for the evaluation of business plans, and users have to be aware of possible biases and a backward or status quo orientation of the data.



Mrs. Sharifatul Hanizah Said Ali, Executive Director, Islamic Capital Market Development (ICMD), Securities Commission Malaysia (SC), shed light on the contribution of capital market FinTechs to the broadening of access to finance and to the resilience of the system. The speed of innovation makes product-specific regulations nearly impossible, and over-regulation that stifles innovation must be avoided.

Objectives of the Islamic capital market regulation are - as in the other segments of Islamic finance - inclusivity and sustainability. Inclusion means to bring a considerable number of people with no previous experience to the market. Therefore, a successful inclusion strategy based on technology-driven innovative products and business models requires investor protection at the highest level and effective risk management to maintain the resilience of Islamic finance. For sustainability and resilience, the proper management of data is crucial.

Islamic finance in Malaysia has benefited much from the implementation of long-term strategic plans. These plans were in harmony with the demand of a growing young population and their modern digital and *halāl* lifestyle. The median age is 24 years, internet penetration has reached 85% and smartphone penetration 75%. There is a willingness of young people to start their own businesses, and digital platforms have created new options to get financing for start-ups. Malaysia has licensed 21 financing platform operators, three digital assets exchanges and one property crowdfunding entity.

The digital platforms allow small retail investors to place savings in capital market products, but new instruments quickly attract sophisticated investors, and there is the danger that small investors get sidelined. Given the objective of inclusivity, the regulator has to be mindful on how to reach the masses and connect them with new investment opportunities.

An actual success story worth mentioning is a crowdfunding project by which scholarships for more than 500 students from underprivileged backgrounds were crowdsourced with a return of 10% for the investors.

Currently, only a few platform operators provide Shari'ah compliant services, and the regulator would like to see their number grow. Shari'ah advisors support the platform operators to structure the instruments. The growth of the *halāl* economy will offer more opportunities for Islamic finance in the future.

Concluding Remarks

Financial inclusion agenda has been vital discussions within the sustainable Islamic finance agenda development space as the financial inclusion can broaden the access of low-income society to obtains the financing for their micro-business that can accelerate the real sector development. Broadening access to Islamic finance coupled with innovative technological development with the FinTech platform is the next step approach to enhance the outreach of the low-income segment of the society.

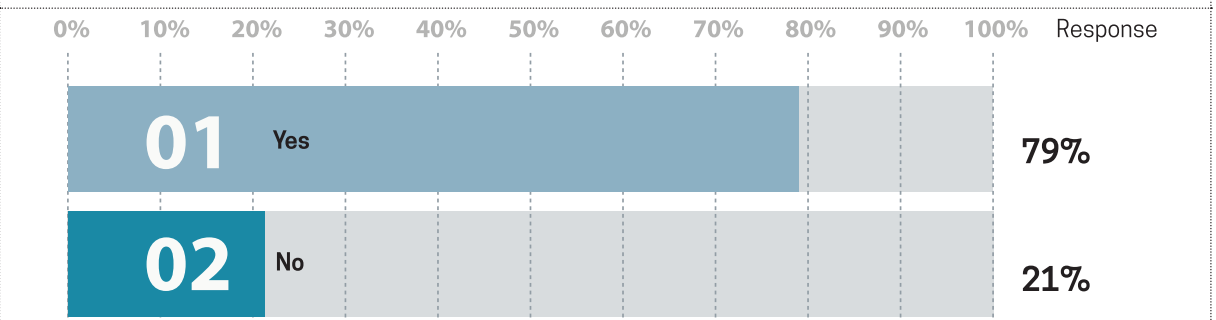
Points to Ponder

- Whether the low penetration of Ribā-free financing is due to a lack of technological advancement is a matter of dispute.
- It is desirable to develop a consistent program in retail banking to teach every citizen the advantages and the added value of Ribā-free banking.
- FinTech financing in Indonesia is at nurturing stage and – with 2.5% of the total industry – very small, but the development can catapult to the new level of development with strong growth potential.
- Technology will further accelerate the access, penetration, and adoption of Islamic finance in Indonesia.
- Indonesia is at a tipping point, with more and more collaboration between traditional financial institutions and new technology players.
- Many MSMEs adopt cloud accounting in Indonesia.
- In FinTech, the user interface (UI) is critical for the user experience (UX). If the UX falls short of customer expectations, adoption of the respective technology (UI) will be weak.
- Retail investors can purchase Indonesia's Green Šukūk through a multitude of channels, including traditional banks and FinTech platforms appointed by the Ministry of Finance.
- An individual SME financing may be quite risky, but a well-balanced portfolio of SME financings should reduce risks and grow not less than the overall economy.
- Islamic finance may still be small, but technology is an enabler, and with the right approach, its growth can be accelerated.
- It is necessary to create awareness and capabilities among people to manage investment and banking solutions available to them.
- Malaysia's capital market regulator encourages smaller companies to come for listing. Particularly for SMEs, digital ECF and P2P platforms have been licensed.
- Capital market regulators always are concerned that investment products which are sold to customers match their needs.
- All FinTech players have to meet capital requirements, and an ISO certification shall ensure that their system is resilient. This licensing is part of the sandbox.

SLIDO OPINION POLL

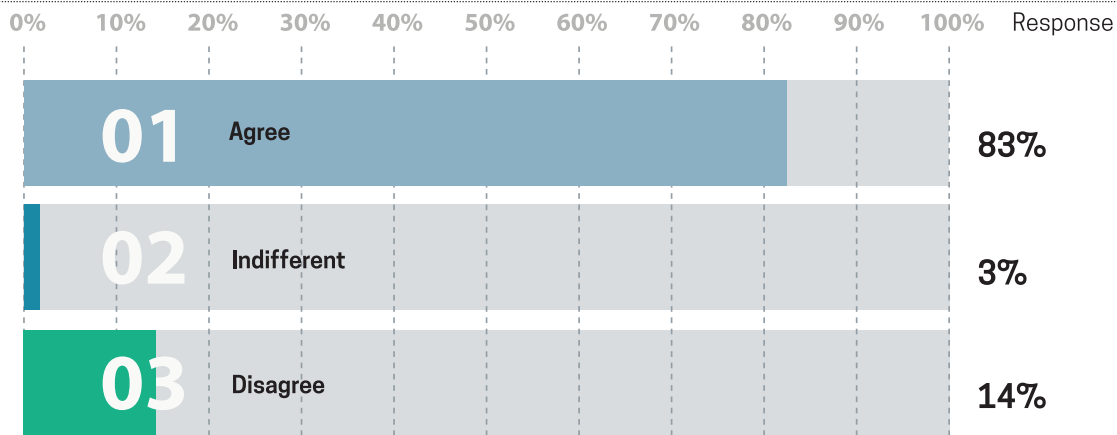
Participants: 34

Are there peculiar digital risks that may impede the use technology to innovate Islamic finance transactions and activities?



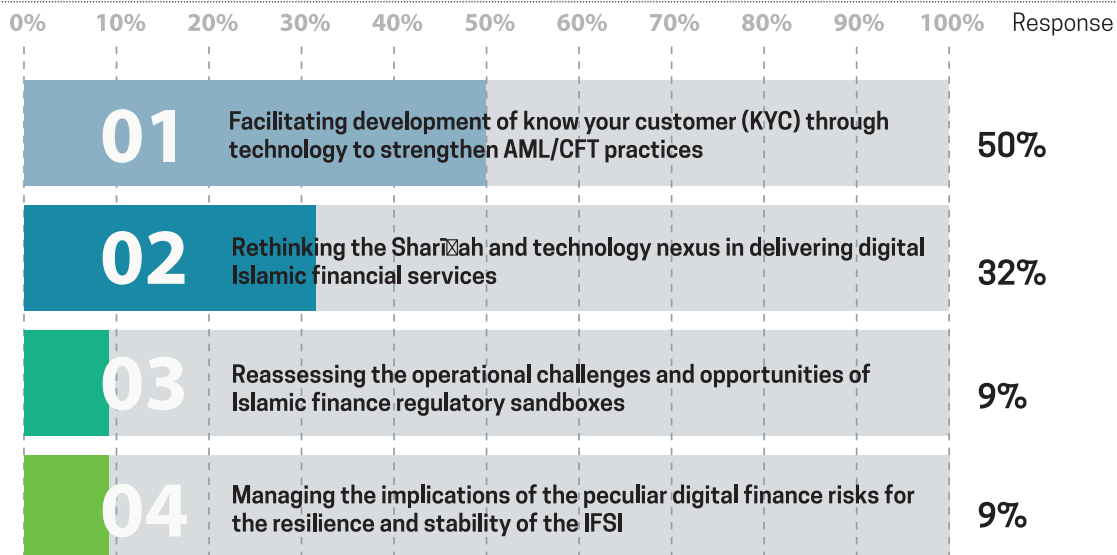
Participants: 35

Should Shari'ah scholars be involved in the development of digital products and financial apps in view of a perceived 'Shariah neutrality' of technology?



Participants: 44

Which among the following do you consider most pertinent for broadening the outreach of Islamic finance via technology?



Day 2

14 November 2019

Session 4**EMERGING TECHNOLOGY AND INNOVATION IN ISLAMIC FINANCE:
OPPORTUNITIES AND RISKS**

The adoption of innovative technologies and business models is a prominent emerging trend that is fast changing the ecosystem of the financial services industry. However, alongside the potential opportunities and benefits for the IFSI, standard-setters and regulators need to be cognisant of the potential new risks. Thus, developing a fit-for-purpose regulatory and supervisory regime is imperative, notwithstanding the formidable challenge it presents in balancing the objectives of facilitating innovation while ensuring effective risk management and financial stability. The session aims to look at the emerging trends and new developments in technological innovation in the IFSI, their benefits and potential risks. It also aims to highlight the opportunities and current gaps that need to be addressed in order to provide a supportive and competitive environment for the adoption of innovative technology in the IFSI whilst preserving financial stability.

Panel Contributions

The chairman of the session, **Mr. Fauzi Ichsan**, CEO of Indonesia Deposit Insurance Cooperation (IDIC), suggested to cover emerging trends of technological innovation in Islamic finance and related Shari'ah and regulatory issues, including specific risks, and to share experiences with digital services and crowdfunding.



Mrs. Salma Abbasi, Chairperson and CEO of eWorldwide Group, called for the use of advanced digital technology in Islamic finance to fight hunger and poverty and to sustain refugees and migrants. The "Blockchain for Zero Hunger" of the World Food Programme and M-Pesa in Kenya are success stories. But a replication in other settings requires collaboration of several actors from the private and public sector (including regulators) which cannot be taken for granted. It is also important to be realistic what kind of technology can be adopted and appropriately handled by people and institutions in a particular country. Long-term investments are needed for systemic transformations.

In a rapidly changing complex and technologically borderless world, holistic frameworks and operating guidelines are needed to bring a code of conduct and ethics into the system. The guidelines and standards must be developed through collaboration of people with expertise in different areas (such as technology, finance, development, Shari'ah) and a commitment to change. It is important to take a holistic perspective that captures horizontal and vertical supply chains as well as metropolitan and rural areas to make sure that everybody will benefit from technological transformations. An example of the holistic approach is an agricultural project that uses satellite technology to monitor the health of crops, digital platforms to link farmers with takers, and mobile technology to provide micro-finance services. Another example combines the creation of job opportunities for unemployed youths with the closing of a talent gap in FinTech by converting frustrated social media addicts and hackers into cybersecurity specialists.

It is important to create some models to see how different types of Islamic finance can actually support the SDGs at the grassroots for financial inclusion especially of women and rural communities.



Dr. Shaikh Nizam Yaqubi, Shari'ah scholar, reminded the audience that anything new, when introduced in society, always triggers a lot of discussions and differences among scholars about the permissibility, benefits and harms. The introduction of coffee and tobacco or the radio illustrate controversies at an early stage of innovation. Regarding FinTech, no Shari'ah scholar has objections against the use of digital technology, provided it is done properly. As it can add convenience and speed while reducing operational costs and human errors (especially those that lead to a violation of procedural Shari'ah compliance rules), its adoption should be encouraged. There are no

fundamental objections against innovations such as crowdfunding, e-commerce, smart contracts, mobile payments, trading platforms, and so on. Shari'ah scholars will, of course, look into procedures and details to verify the compliance with Shari'ah principles.

The scholars have an idiomatic saying: In order to be able to give proper ruling on something, you have to have proper perception. If your perception is correct and complete, your ruling will be correct and complete. If your perception is not complete and if you don't have all the information and data necessary, then your ruling will not be as proper as it should be.

Shari'ah scholars should encourage the use of technologies that reduce operational gaps and human errors. In many Islamic banks, after the digitalisation and computerisation, human error was reduced to nearly zero because the computer will not accept, for example, to sell something before the bank can buy it. Before using these digital technologies, these errors were repetitive and found in Shari'ah audits.

A particularly controversial innovation are cryptocurrencies. There are many divergent views on this – not only of Shari'ah scholars but also of regulators – because the perception of this innovation is not yet clear. There are many different types of cryptocurrencies, and it is very difficult to give one ruling that covers all. Instead, the ruling has to take into consideration underlying assets, the regulatory framework, the intended use of the cryptocurrency, and so forth. Differences of opinion will settle down after the perception, definitions, and underlying assets are clear.



Mr. Aamir A. Rehman, Senior Advisor, Islamic Finance, United Nations Development Program (UNDP), summarised findings of the recent progress report on "Harnessing Digitalization in Financing of the Sustainable Development Goals"¹. Digital finance can empower citizens by access to new information, financial intermediation through platforms, and greater control over financial decisions.

Digitalisation can support the SDGs in five areas: identifying opportunities, improving governance and regulation, managing information, fostering capacity building, creating common reference points to track progress.

All these areas are relevant to Islamic finance: New opportunities have been identified in micro-finance, SRI and green Sukuk with a retail segment, and the mobilisation of Islamic social finance instruments – Zakāh, Awqaf, Sadaqah – for sustainable development. Activities in this area can be supported by the Global Islamic Finance and Impact Investing Platform, established by the UNDP and IsDB in 2018². Governance of Zakāh and Waqf institutions and their SDG impact are the concern of UNDP in projects with the Indonesian Zakat Authority (BAZNAS) and the World Zakat Forum. UNDP practises information management in cooperation with IFSB for cross-border knowledge sharing around Islamic finance and its use for sustainable development. UNDP is engaged in capacity building for central banks, capital market authorities and Zakāh agencies. The IFSB and IsDB have drawn up

¹ This report was published by the UN Secretary-General's Task Force on Digital Financing of the Sustainable Development Goals in September 2019, <https://digitalfinancingtaskforce.org/wp-content/uploads/2019/09/Task-Force-CoChair-Interim-Report.pdf>

² <http://www.gifiip.org/>

a framework and a roadmap for the development of Islamic finance, and it is essential to track the progress of the industry. UNDP can offer support for tracking the industry's SDG alignment.

The Islamic finance stakeholders are not alone in what they are looking to achieve in terms of progress in financial technology and digitalisation. To the degree that digitisation in Islamic finance can support the SDGs, there is much to be learned and much benefit to avail from being part of the broader SDG movement.



Mr. Arup Charterjee, Principal Financial Sector Specialist, Asian Development Bank (ADB), drew the attention to issues not covered sufficiently: wealth preservation, rural exodus, and longevity risks.

There is a need to preserve income and wealth once it has been created. Community-based insurance schemes and micro-takaful could be viable solutions that also reduce contingent liabilities of the government in terms of looking after people should a disaster or calamity strike.

The youths are migrating to the city. If the rural exodus continues, agricultural production will shrink and the dependence on food imports will increase. Opportunities have to be created for the youth to remain in the villages which include possibilities to earn income at a scale comparable to urban areas. Comprehensive packages may be needed. For example, a combination of remote sensing technology and financial technology could ensure that farmers get finance based not only on their transaction history but on their monitored actual production, get fair prices through digital marketplaces, and get an insurance cover that protects them against losses of income in cases of calamities.

Life expectancy is increasing, and there will be people – such as farmers or MSME owners in the informal sector or widows (as women on average live longer than men) – who have not saved enough to take care of their old age income and health care requirements. Society must take care of them, but it also has an obligation that people who are willing and able to save will find appropriately safe long-term investment opportunities. Islamic finance with its dominance of short-term banking and its minuscule volume of retail Sukuk is presently not in a position to provide the required investment opportunities. Financial technology may contribute to a transformation of Islamic finance in this direction.

Concluding Remarks

Accelerating technological development has to be anticipated by the policy makers and regulators with the tailor made regulatory and supervisory regime that can foster the sustainability of the Islamic financial industry's growth. Effective risk management has to be balanced to maintain the financial system stability in embracing such technological development. Digitalisation is also imperative for the development of Islamic social finance that covers Zakāh, Awqaf, and Sadaqah that can play vital role in alleviating the poverty.

Points to Ponder

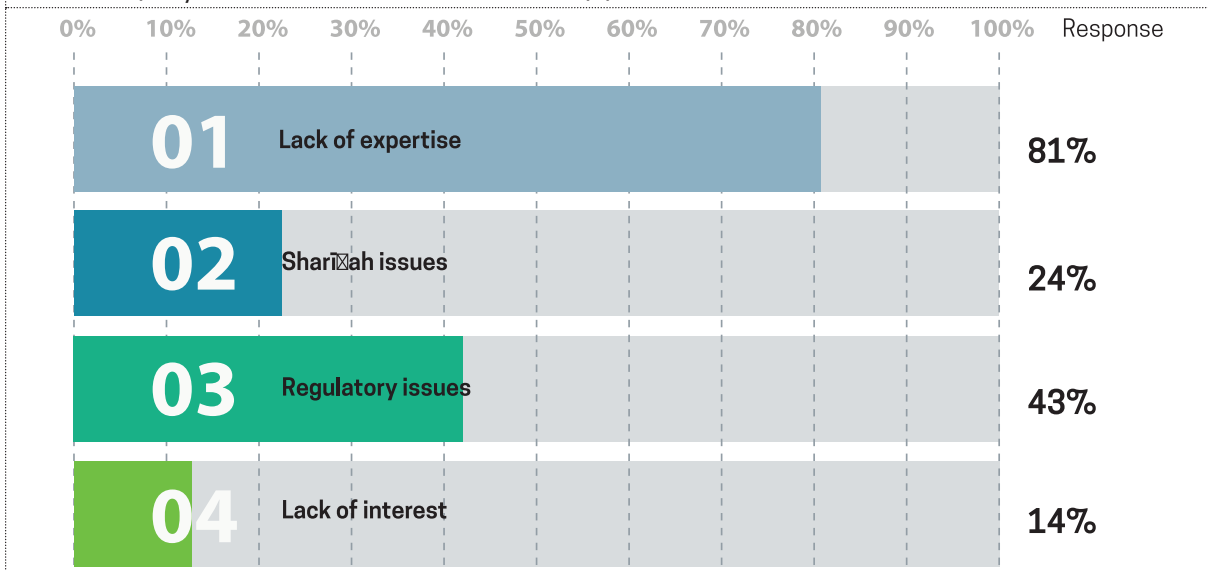
- Technology and innovation can bring to Islamic financing huge benefits to do social good and to support fast-tracking the SDGs.
- It is necessary to have a truly realistic roadmap of what technology can be adopted, internalised and kept under control.
- Intergenerational collaboration for entrepreneurship, where knowledge comes from the elder, will help to reduce risk.
- You cannot fight technology. You have to learn how to use it, how to benefit from it, how to take the positive things and leave the negative things.

- No Shari'ah scholar has objections to applying technology properly to improve operations and procedures and make things easy and user-friendly.
- Anything that is new will have lots of views on it because the perception is not yet clear. It will take time until it settles down.
- In digital finance, 90% of the data that is available today did not exist two years ago
- Zakāh, Awqaf, and Sadaqah have been playing a role in sustainable development for centuries.
- The SDGs serve an important role in identifying what needs to be achieved, but also in providing ways to measure progress.
- Individuals and SMEs have been used to concessional financing from governments, to doles after a major calamity, and to certain cash transfers and grants to reduce poverty.
- There is much talk about value chain financing but not about value chain risk management. Wealth and income created from such investments must be preserved.
- The young population is an advantage in many countries, but the demographic dividend comes with longevity risk.
- Technology has to be blended with innovative financing instruments, to enable people to invest in appropriate instruments that meet their needs at different stages of their lifecycle.
- The regulator needs to calibrate the risks, understand the risks and come up with adequate protective mechanism so that the investments which individuals make are not lost.
- Regulators must look at managing risks in a more proportionate manner and tailor regulations to the risk characteristics of the technology.
- "We have not inherited the earth from our fathers; we are borrowing it from our children" (Lester Brown).

SLIDO OPINION POLL

Participants:

What do you consider as possible reason(s) for the limited adoption of Fintech in Islamic Finance? (May choose more than one answer(s))



RIF Foundation: Launch of the report

RESPONSIBLE FINANCE – ETHICAL AND ISLAMIC FINANCE: MEETING THE GLOBAL AGENDA

The session was moderated by Blake Goud, CEO, Responsible Finance & Investment (RFI) Foundation. The report³ was presented by **Dr. Zeti Aziz**, former Governor of Bank Negara Malaysia.

The report looks at inbuilt elements that support growth and development in ethical and Islamic finance. The report considers the differentiating aspects as well as the common aspects and areas of cooperation in five chapters:

- Finance and serving the economy
- Finance and bringing value to society
- Finance and environmental sustainability
- Ethical aspects of finance
- Responsible finance and financial stability

Both forms of finance aim at bringing long-lasting benefit to the economy, the society, and the environment.

- (H) The first chapter looks at finance in supporting the economy. Initially, finance was a means to an end by mobilising and allocating financial resources to drive growth and development. But over time the link between finance and the economy eroded. Finance became an end in itself and caused the Great Financial Crisis (GFC) in 2007-2008. The global response were wide-ranging regulatory and supervisory reforms and enhanced crisis resolution capabilities, but also calls finance must return to its basic function to add value to the economy.

Ethical finance focusses on environmental, social and governance (ESG) considerations, social inclusion, and the development of entrepreneurship. It promotes an efficient allocation of resources, has a long-term orientation, avoids short-term and high-risk activities, and shuns speculation.

Bringing real economic value to the economy is explicit in Islamic finance. Finance must be supported by a genuine activity and reinforces the link with the real economy, thus adding value to the economy by intermediation on the basis of profit-sharing.

Ethical finance expanded significantly. In early 2019, ethical finance investments have reached more than US\$30 trillion and funds guided by ESG considerations US\$70 trillion. There is a differentiated global ecosystem with agreements, compacts, screening technologies, reporting, indexes, and so on.

Islamic finance assets are US\$2.4 trillion, comprising banking, takāful, other Islamic financial institutions, and Sukūk, and they are expected to grow to US\$3.8 trillion by 2023. The growth of Islamic finance is significant, but far behind growth rates of 20 to 30% for ethical forms of finance. The more advanced Islamic finance jurisdictions have ecosystems comparable to those in ethical finance (with screening, reporting, indexes, etc).

³ Responsible Finance – Ethical and Islamic Finance: Meeting the Global Agenda, November 2019, <http://rpt.rfi-foundation.org/download.html>

- (2) The second chapter looks at socially responsible finance. The focus of both Western and Islamic socially responsible finance is on inclusion, economic progress of every segment in society, and avoidance of investments that are harmful to society. Societal aspects in conventional financial practices are less clearly defined than those related to the environment.

In Islamic finance, the intent is more clearly articulated and the system: promote and advocate for entrepreneurship, while also addressing poverty and inequality, promote human development, promotes fairness, advocate social trust and solidarity. Waqf, Sadaqah, and Zakāh are various forms Islamic social finance.

Overall, Islamic finance has a more elaborate and precise structure than ethical finance, but the lack of a consistent structure didn't prevent ethical finance from growing very rapidly at the rate several times higher than the growth of Islamic finance. It is because ethical finance is taken forward by many different groups, from the United Nations and national governments over banking groups and pension funds to businesses in the real economy and environmental and social activists.

- (3) The third chapter notes that environmental sustainability is increasingly integrated into finance. There is awareness of the effects of climate shocks and the impact of the environment on the economy and society.

In ethical finance, the most attention is given to environmental sustainability. Islam gives clear instructions not to plunder the environment, and this must also be observed in Islamic finance. Ethical finance has a clear framework for environmental sustainability to which the Shari'ah governance process with its sector and entity screening can be extended to. Further elements, among others, are negative lists, sustainability reports of corporations and financial institutions, capital market indices, and impact investment approaches. Western finance has developed innovative financial instruments such as climate bonds.

The objective of environmental sustainability is achieved Islamic finance through a set of core values – treatment of the environment in the just and fair manner, taking the middle path of moderation, avoid wastage, trust and custodianship of the earth, treatment of every living being with mercy and the negative screening to exclude activities that are harmful. In practice, green sukuk and SRI Sukuk have emerged as new asset classes, and Shari'ah compliant sustainability fund has been established.

- (4) The fourth chapter relates to the ethical aspects of finance. Western finance was impacted by a breakdown in values. Since the GFC the essential role of ethics and trust in finance is widely recognised. Ethics has a great fundamental role in ensuring that funds are really channelled to productive activities. The virtues that needed are honesty, integrity, concern for others, justice, good governance, fairness in decision-making, transparency, accountability, and competence. While both ethical finance and Islamic finance integrate ethical values, their observance remains voluntary and cannot be legally enforced.
- (5) The fifth chapter reflects on the recent global response on financial stability challenges. There were more than a hundred crises in the three recent decades. The global response is regulatory reforms and strengthening the supervisory oversight. Forward-looking surveillance has aggressively been enhanced and resolution and crisis management capabilities have been upscaled.

Ethical finance can contribute to financial stability. Through its long-term orientation it can avoid destabilising short-term transactions and high risks activities. Strict

governance processes and the ESG framework lead to a high degree of transparency and greater accountability. The same can be found in Islamic finance, but in an even more pronounced way. Finance is linked to the real economy and the system does not allow overleveraging. The principle of profit and loss sharing implies a kind of built-in risk management in Islamic finance. A well-structured governance system – comprising a regulatory authority, a Central Shari’ah board on the national level, and Shari’ah boards of the individual Islamic finance institutions – allows a centralised assessment of stability threats.

The global stability architecture includes the Financial Stability Board (FSB), the Bank of International Settlements, and the IMF and the World Bank with their financial sector assessment programmes (FSAPs). National regulators cooperate with these international institutions. FSB initiatives as well as FSAPs stability assessments of the IMF are also of relevance for Islamic finance. IFSB and AAOIFI are international standard setters for Islamic finance. Furthermore, principles of Islamic law and ethics are globally shared and underpin the Shari’ah compliance of Islamic finance. There may be divergences in the application of the principles between Shari’ah boards, but the fundamentals are consistent and convergent.

In conclusion, ethical finance and Islamic finance share common goals and characteristics such as: ethical values, inclusion, economic well-being, long-term orientation, sustainability, and provision for the interests of the next generation. They differ with respect to the weight given to the environment and to adding value to society. Islamic finance is strongly anchored to the real economy and has strong built-in elements of financial stability. When we look at the screening in the strategies and approaches, it operates with a Shari’ah screening methodology that is consistently applied, and ethical finance adopts the ESG consideration, wide-ranging screening processes to assess its adoption. Both have ensuring fairness and inclusivity, and both adopt principles of transparency, disclosure and good governance.

Ethical and Islamic finance should collaborate to create a greater awareness of the potential role of this form of value-based finance and its contribution to the global economy. They can share experiences and work together for a more structured approach to the building of a culture of ethics and trust in finance and the development of ethics standards and codes of conduct. Maybe the RFI Foundation can bring the different groups together and create a platform for collaboration towards common goals.

Session 5

THE WAY FORWARD FOR ISLAMIC FINANCE



The closing session was chaired by **H.E. Dr. Perry Warjiyo**, Governor of Bank Indonesia. The experience of three countries – Malaysia, Indonesia and Oman – and one international standard setter – AAOIFI – will illustrate achievements and challenges of digital innovation for the way forward of Islamic finance regarding social progress, economic growth, and sustainable development. Based on international best practices and countries experience, strategy and policy directions were discussed on how to cope with many challenges arising from the digital technology and its regulatory framework.

The progress in digital banking and FinTech opens tremendous opportunities for advancing Islamic finance further, but it is not without challenges. Regulators have to strike a balance between the impact of technological innovations and structural transformations and the stability of the financial system. They have to prevent undesirable developments such as the emergence of shadow banking, regulatory arbitrage, occasions for money-laundering, and so on. Regulators may also find it necessary to prohibit particular applications of new technologies within their jurisdictions – such as the use of blockchain-based cryptocurrencies in Indonesia.

The way forward can be summarised by the following points:

- it is necessary to build a complete ecosystem that comprises instruments, infrastructure and regulation
- it is necessary to measure the impact of Islamic finance on the real economy and its contribution to achieving the SDGs, the financing of infrastructure, financial inclusion, building up of the green economy.
- It is necessary to cooperate for a coordination of national strategies
- it is necessary to intensify capacity building and awareness creation efforts.

Panel Discussion



H.E. Nor Shamsiah Mohd Yunus, Governor of Bank Negara Malaysia, shared Malaysian experience whereby the Islamic finance has been developed since two decades ago with the motivation of the financial inclusion for the Muslim community. She also highlighted that Islamic finance has reached the critical mass by continuous efforts of the regulators and market players to create a robust ecosystem with sound regulations to spearhead the Islamic finance development in Malaysia.

More importantly, she explains how Islamic finance developed in Malaysia in four phases that were charted in two strategic plans, the Financial Sector Masterplan 2001 to 2010 and the Financial Sector Blueprint 2011 to 2020.

- The first phase started in 1983/84 when the first Islamic bank and the first takaful company were set up. The objective was the inclusion of those parts of the Muslim community which did not have access to financing because of their religious beliefs.
- In the second phase, Islamic finance was scaled up and mainstreamed, and the regulatory framework and robust Shari'ah governance system was developed. The capital market, takāful, and the payment system were added. Tax neutrality for Islamic financial instruments created a level playing field vis-à-vis conventional finance.
- The third phase was leveraging technology for innovation, diversification, and wider outreach. Digital payment and financing platforms emerged as well as platforms for the collection and distribution of zakāh, awqaf, and sadaqah.

- The fourth phase started recently. The goal is to promote “impact banking” with a greater nexus between Islamic finance transactions and sustainable development goals through value-based intermediation, meaning that financial products and services generate a positive impact for customers with no negative impact for society. The industry itself has come up with the Investment Account Platform, a kind of peer to peer lending platform through which Islamic banks invest funds of their investment account holders in Shari’ah compliant projects which have been rated by the platform operator.

After the Asian financial crisis of 1997, Malaysia started the development of the bond market which is now the biggest in thousand these Asia. Today the majority of the bonds issued are Shari’ah compliant sukuk to finance infrastructure. For issuers, sukuk have become more attractive than bonds because they attract investors from both the conventional and the Islamic sphere.

Takāful is the smallest segment of Islamic finance and accounts for 19% of the total insurance products in Malaysia. Prudential regulation and market conduct supervision do not only ensure the Shari’ah compliance of takaful products but also prevents mis-selling.

Bank Negara Malaysia (BNM) with the Malaysian Accounting Standards Board has been engaging the International Accounting Standards Board (IASB) to take account the peculiarities of Islamic finance. A working group on Islamic finance has been set up so that aspects of relevance for Islamic finance can be injected at the formulation stage of IFRS, BNM promotes transparency on the Shari’ah aspects of products and how transactions are structured – from the rulings of the Shari’ah advisory Council to the individual financial institutions. Then it’s up to the customers whether a product meets their own criteria.



H.E. Dr. Sri Mulyani, The Minister of Finance of Indonesia, observed that a soul-searching has begun in many capitalist countries in the West where environmental and social responsibility gets accepted by more and more governments and business leaders. In contrast, these responsibilities are inherent in the Islamic economic system because they are a constituent of people’s belief in Allāh. Therefore, Shari’ah compliant instruments like SRI or green şukūk can develop very fast in Muslim countries like Indonesia that are seeing a growing appetite for Islamic financial products.

In Indonesia, Islamic banking legislation and regulation was introduced in the 1980s, legislation for şukūk in the 2000s and for takaful only recently. Being a latecomer, Indonesia can learn from other countries such as Malaysia, for example about the importance of tax neutrality.

The growing middle-class in Indonesia drives the demand for Shari’ah compliant financial instruments. The government responded to this growing appetite by issuing retail sukuk for the domestic market. It was well received, particularly by investment-savvy millennials. With the growing concerns about climate change, green şukūk for institutional investors have been issued and a green retail şukūk is in the making. Some local government also plan to issue sukuk to finance projects in infrastructure, education and health. In contrast to the many sovereign issuances, corporate bond and sukuk issuances are lagging behind because of delays in passing a supportive legislation.

Key elements of Indonesia strategies for the development of the Islamic sector in finance and the real economy include:

- consumer education about Islamic economy and finance to remove misconceptions (for example that life insurance [as family takāful] is against the Shari’ah) and foster market penetration,
- a greater diversity of products that can compete in quality, efficiency, and price with conventional equivalents,
- interlinking the financial sector closer with the growing ḥalāl segment of the real economy for mutual benefits
- updating legislations, regulations and instruments related to the Islamic sector,

- elevating governance, accountability and reputation of the zakat and awqaf management to bolster people's trust in these institutions, tap more into their huge potentials, and create a bigger impact through their activities.

In addition, regulators have to protect consumers against mis-selling and overpricing (especially of products in need of explanations such as insurance or takaful policies) and should also consider how to monitor whether an advertised social or ecological impact of a product has actually materialised.



H.E. Tahir bin Salim bin Abdullah Al Amri, Executive President of Central Bank of Oman, pointed out that Oman started Islamic banking only in 2012, but it grew very fast (at around 13.4% year-on-year) to the size of US\$12 billion with a significant further growth potential. Two full-fledged Islamic banks and Islamic windows of conventional banks are operating in the country. The aim of allowing Islamic finance was the creation of options for people.

As a latecomer, Oman benefited from the experiences of countries with advanced Islamic finance systems, particularly Malaysia, when setting up its regulatory system. The regulator's learning process still continues, for example with regards to liquidity management tools. It is expected that Islamic banking will improve its competitiveness, but already now non-Islamic institutions and individuals are tapping into the industry in a big way.

The Central Bank of Oman aims at a level playing field and facilitating environment. In this regard new elements are added to the legal and regulatory system – a central Shari'ah Board (High Shari'ah Supervisory Authority of the Central Bank of Oman) and an Islamic deposit insurance scheme – and a revision of the banking law (including provisions for Islamic banking) is expected soon. Human capital capacity building is high on the agenda as is the adoption of FinTech.

Oman has the passion to make Islamic finance a success. This also requires to address the misguided notion that everything related to Shari'ah should be cheaper than its non-Islamic alternative. Consumer education is needed to establish realistic expectations about the Islamic alternative.



Mr. Omar Mustafa Ansari, Secretary General of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), highlighted that in most of the markets where it is practised, Islamic finance is reaching a reasonable maturity stage these days, and this is an appropriate time to discuss about its future direction. The mainstreaming of Islamic finance means that it is accepted as "normal" by most people, but it does not mean that it loses its underlying values and peculiar characteristics that make it distinct. The institutional structure, the mechanisms and the transactions

in Islamic finance are different from those in conventional finance. This requires an accounting and reporting system that adequately represents these differences and make them visible. To ensure transparency, it is not enough to show differences, but it is essential to reflect the true identity. This kind of transparency and reporting is of particular relevance for risk management and corporate governance.

To demonstrate its distinctiveness, Islamic finance has been focusing on the formal aspects of Shari'ah compliance, but this might not be sufficient. It is necessary to go to the next level and demonstrate that it is not only about money making under some restrictions, but that Islam is adding ethical values to finance. For instance, it has to be shown that Islamic finance is conceptually directed towards *maqāṣid al-shari'ah* which is fully in line with the social development goals. Care for the environment and the society is anchored in the religious grounding of Islamic finance [and not just an add-on to or restriction for a system of profit maximisation]. Muslims don't need to copy others, they just need to identify their identity and create a thought leadership for the whole world.

AAOIFI is not competing with other accounting standards like IFRS. Its focus is only on those kinds of transactions that are driven by specific principles coming from Shari'ah. The transaction characteristics (including its risk profile) and what the transaction actually constitutes as well as relevant Shari'ah principles have to be understood and reflected in the accounting and reporting system. AAOIFI is now limiting its standards to only those areas which are either specific to Islamic financial institutions or Islamic finance transactions executed by other parties [which are not Islamic financial institutions]. AAOIFI started to map its accounting standards with globally accepted accounting standards such as IFRS and identified gaps for the treatment of Islamic finance transactions in the conventional standards which have to be filled by its own standards.

In a globalised world, the development of national accounting standards in isolation looks anachronistic. There are many advantages in common standards that can support the long-term development of Islamic finance. Around 20 regulators and 14 countries adopt AAOIFI accounting standards fully. 13 or 14 more regulators accept AAOIFI accounting standards either for a dual reporting or as a guideline or to develop own standards based AAOIFI – altogether around 33 to 34 regulators around the globe. They are working together to reflect Islamic finance in its true spirit in accordance with the best transparency principles and risk management needs.

Concluding Remarks

Well-developed strategy and policy directions are crucial for the way forward development of Islamic finance that is nuanced with the accelerating technological development in the era of digitalisation, and also sustainable and responsible financing. Robust regulatory frameworks and conducive ecosystem have to be activated by the policy makers and regulators in facilitating the Islamic sustainable development that can be mainstreamed into the national economic policy. Hence, concerted efforts of the relevant stakeholders of Islamic finance are crucial to enhance the inclusivity of the Islamic finance in the economy to foster inclusive economic growth in Muslim countries.

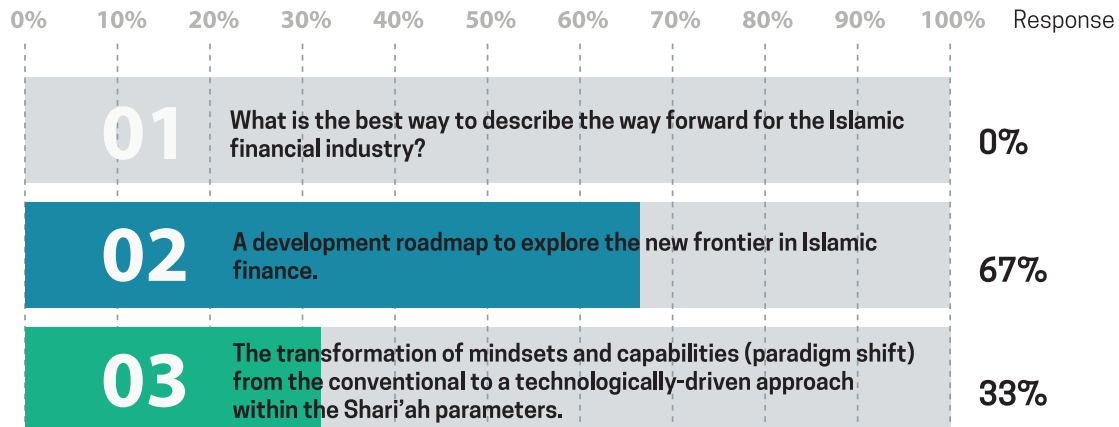
Points to Ponder

- A prospering Islamic finance industry requires a robust ecosystem with sound and forward-looking regulations.
- Regulators should promote the transparency of Shari'ah qualities of products and transactions to empower customers to make informed decisions.
- Accounting and reporting are key for the transparency of financial qualities of products and transactions. Globally accepted accounting systems (such as IFRS) can be applied, but they leave gaps in a limited number of identified cases where specific Islamic accounting rules (AAOIFI standards) are needed to reflect the true identity of these Islamic structures.
- Countries can learn from each other, for example about the effectiveness of ecosystems and how to deal with challenges or exploit opportunities posed by digitalisation.
- The growing middle class and tech-savvy millennials have become drivers of Islamic finance. Regulators and industry must respond to their demand for innovative products (such as green sukūk or SRI instruments) and digital distribution channels (for banking and takāful products or retail sukūk).
- Further growth potentials could be mobilised by closer links with the rapidly growing ḥalāl economy.
- Islamic banking is practised since more than three decades in a several jurisdictions, meaning that time has come to progress from “profit with restrictions” to a value-based intermediation and impact banking.
- Islam adds ethical value to finance, and environmental and social responsibilities are inherent in the Islamic economic system. This can be illustrated by the proximity of Islamic finance to SDGs activities such as financial inclusion programs, Islamic social finance initiatives or green and SRI sukūk issuances).

SLIDO OPINION POLL

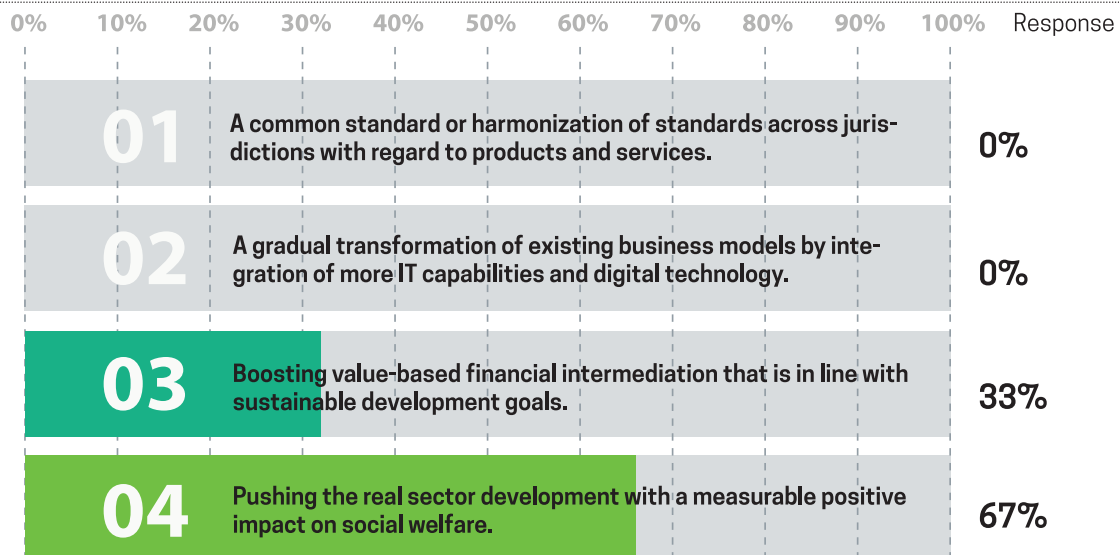
Participants: 3

Adapting to the new frontier in Islamic finance would require:



Participants: 3


What is the best way to describe the way forward for the Islamic financial industry?



CONCLUDING REMARKS

To conclude, this 14th IFSB Summit through five sessions discussed fruitful development of Islamic financial industry in relation to the rapid technological development and Sustainable Development Goals (SDGs) Agenda that were presented by the regulators, prominent scholars, and key market players within the Islamic financial industry. The key summaries can be presented as follows:

- The inherent characteristics and values of Islamic finance play a more significant role in enabling the effective resource mobilisation needed to achieve economic and environmental sustainability, enhance accessibility to financing, and utilise social welfare tools for more inclusive financing.
- Islamic financial industry has tremendous opportunities and strategies to unlocking the potentials of the various Islamic social finance platforms via technology.
- Developing a fit-for-purpose regulatory and supervisory regime is imperative, notwithstanding the formidable challenge it presents in balancing the objectives of facilitating innovation while ensuring effective risk management and financial stability.
- Innovative Islamic finance products that adapt the technological development have grown significantly. The development should be supported by regulators with timely and relevant regulation that can catapult the development.
- Regulators have to strike a balance between the impact of technological innovations and structural transformations and the stability of the financial system that can support the sustainable financing and SDGs agenda.



Level 5, Sasana Kijang, Bank Negara Makaysia 2
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
T: +6 03 9195 1400 | F: +6 03 9195 1405 | E: ifsb_sec@ifsb.org | W: www.ifsb.org