

SPECIAL PROGRAMME
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**MODERN TRENDS OF ECONOMIC
DEVELOPMENT**
ALTERNATIVE BANKING SYSTEM FOR MUSLIM STATES
MALAYSIA SHOWCASE

By:
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This is a second book on the subject written by the authors which aims to deepen the knowledge and understanding of the conventional insurance principles and practices as well as the principles and practices of takaful. Whilst the earlier book entitled *'Fundamentals of Takaful'* was written to provide theoretical and practical aspects of takaful, this book strives to bring readers to the next level of understanding on a more holistic premise. Drawing from the wide experience of the authors as pioneers in the industry, it is felt that the business of takaful shall be better understood with the appropriate prior knowledge in insurance. The wealth of the experience and knowledge of the conventional insurance industry over 400 years historical development, are surely lesson to be learned by the proponents of takaful especially in the development of its legal principles. In general, scholars of the Shari'ah have decreed these principles to be permissible in Islam and of paramount importance in the theoretical and practical development of takaful in the modern financial landscape.



RUSSIA
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КОНТРАКТНАЯ ОСНОВА ИОЛАМСКОГО БАНКИНГА

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What is IBFIM?

IBFIM is an **industry-owned** and **Regulator-linked** institute whose objective is to serve the needs of the **Islamic finance industry stakeholders** in talent and business development.

Since 2001, IBFIM has been conducting training programmes as well as extending business and Shariah advisory services. IBFIM's tagline "**Your Islamic Finance Business Partner**" manifests its close rapport with the industry and its wide range of services.



MALAYSIAN
INVESTMENT BANKING
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'..... to increase the pool of bankers and takaful operators who are knowledgeable and competent, efforts will be directed to promote human capital development to support the envisaged growth of the industry via establishing an industry owned institution on Islamic banking and finance dedicated to train and supply a sufficient pool of Islamic bankers and takaful operators as required by the industry....'

FINANCIAL SECTOR MASTERPLAN

Recommendation 5.2

(Bank Negara Malaysia: 2001)

Established institutions for talent development agenda within the financial sector

FINANCIAL SECTOR BLUEPRINT 2011-2020

Recommendation 5.3

(Bank Negara Malaysia: 2011)

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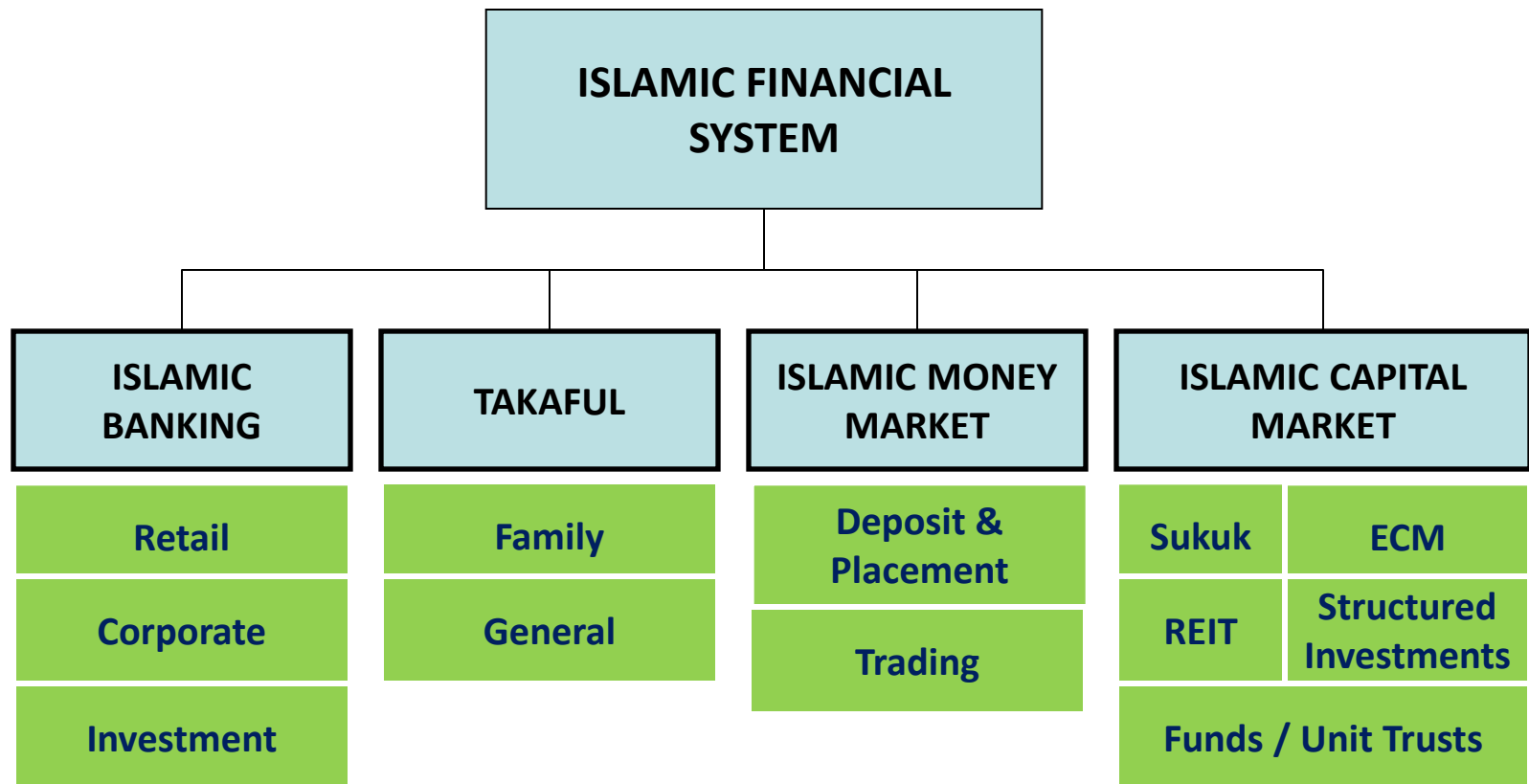
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Ex CEO Etiqa Takaful



Note:

- 1st Era: Islamic finance attempts to provide **alternatives** to all instruments under conventional finance, similar objective and outcome but different transactions and features
- Current Era: Islamic finance attempts to **distinguish** its instruments from conventional with value-added objective and outcome, different economic impact and certainly different transactions and features; based on profit and risk sharing methods

Banking in Malaysia

We have 54 banks consisting of 16 commercial Islamic banks, 6 Islamic banks windows, 6 Development banks windows, 4 Islamic international currency business unit (ICBU) banks and 22 conventional banks.

- ❖ **Stand-alone full fledge Islamic banks**
- ❖ **Subsidiaries of conventional banks**
- ❖ **Islamic windows**
- ❖ **International Islamic banks**

WHAT IS ISLAMIC BANKING?

BNM's Definition:

Islamic banking is banking based on **Islamic law** (Shariah). It follows the Shariah, called fiqh muamalat (Islamic rules on transactions). The rules and practices of fiqh muamalat came from the **Quran** and the **Sunnah**, and other secondary sources of Islamic law such as opinions collectively agreed among Shariah scholars (**ijma'**), analogy (**qiyas**) and personal reasoning (ijtihad)

OBJECTIVES OF ISLAMIC BANKING

- **Offer Islamic financial services**
*Focus on offering **Shariah based** banking*
- **Facilitate stability in money value**
*Money as **medium of exchange** and not commodity and hence, it leads to stability in the value of money and enable it as a reliable unit of account*
- **Economic development**
*Establishes direct and close **relationship** between bank and entrepreneur through banking contracts e.g. musharakah and mudharabah which leads to economic development of a country*

OBJECTIVES OF ISLAMIC BANKING

➤ **Optimum resources allocation**

*Islamic banking optimizes **allocation of scarce resources** through investments of financial resources into projects*

➤ **Equitable distribution of resources**

*Ensures **equitable distribution** of income and resources among bank, depositors and entrepreneurs through profit-sharing approach*

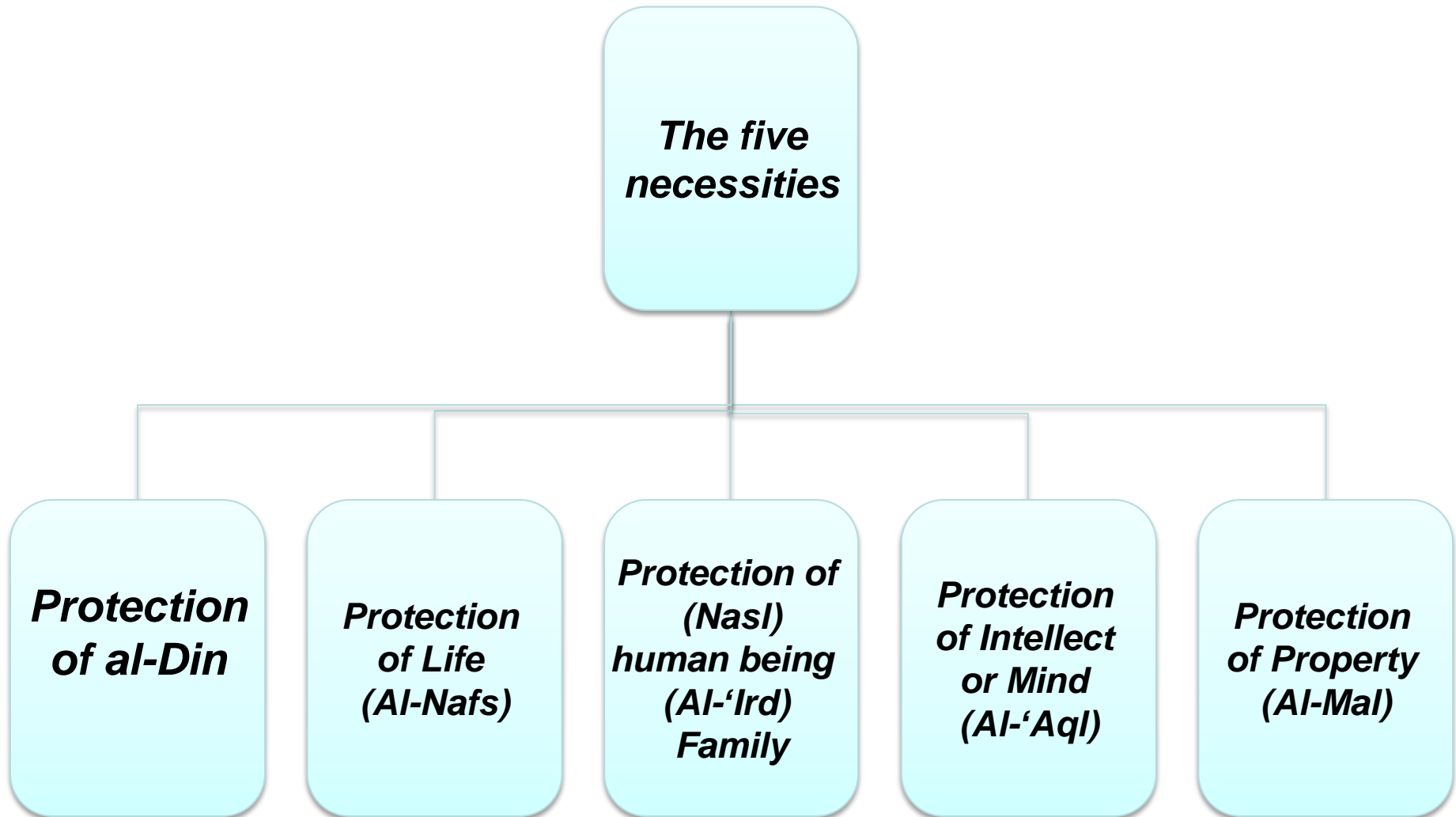
➤ **Optimist approach**

***Profit-sharing principle** encourages banks to participate in long term gains and this require proper studies to safe guard banks and investors*

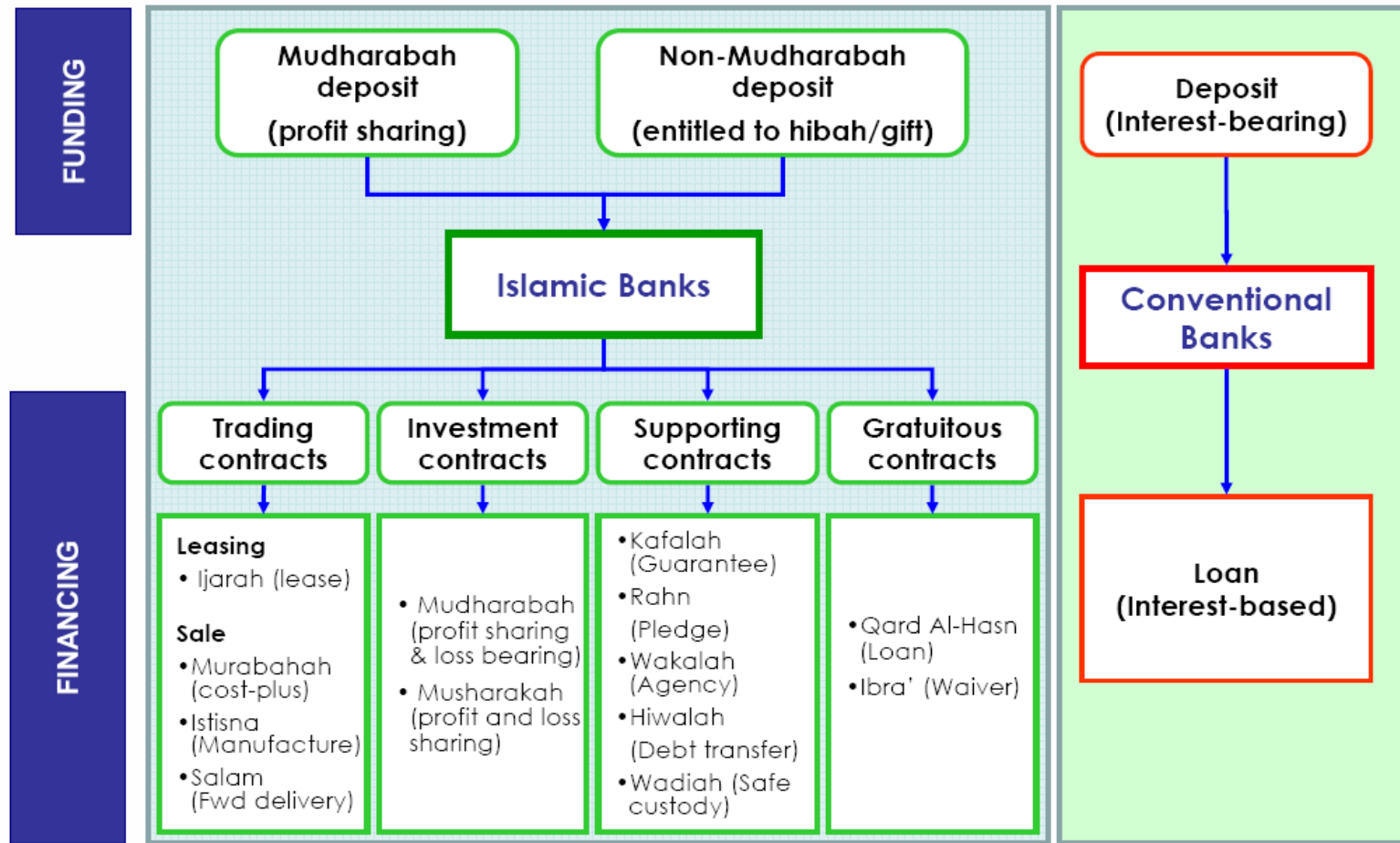
SALIENT FEATURES OF ISLAMIC BANKING

- All **operations**/ transactions are in accordance to Islamic/ Shariah Principles
- **Accounting system** is totally separated from those under conventional system
- Business (deposits/ financing) are **ONLY** for **HALAL** business activities
- **Shariah Committee** will ensure that all operations/ transactions are in accordance to Shariah Principles

The five fundamental of necessities

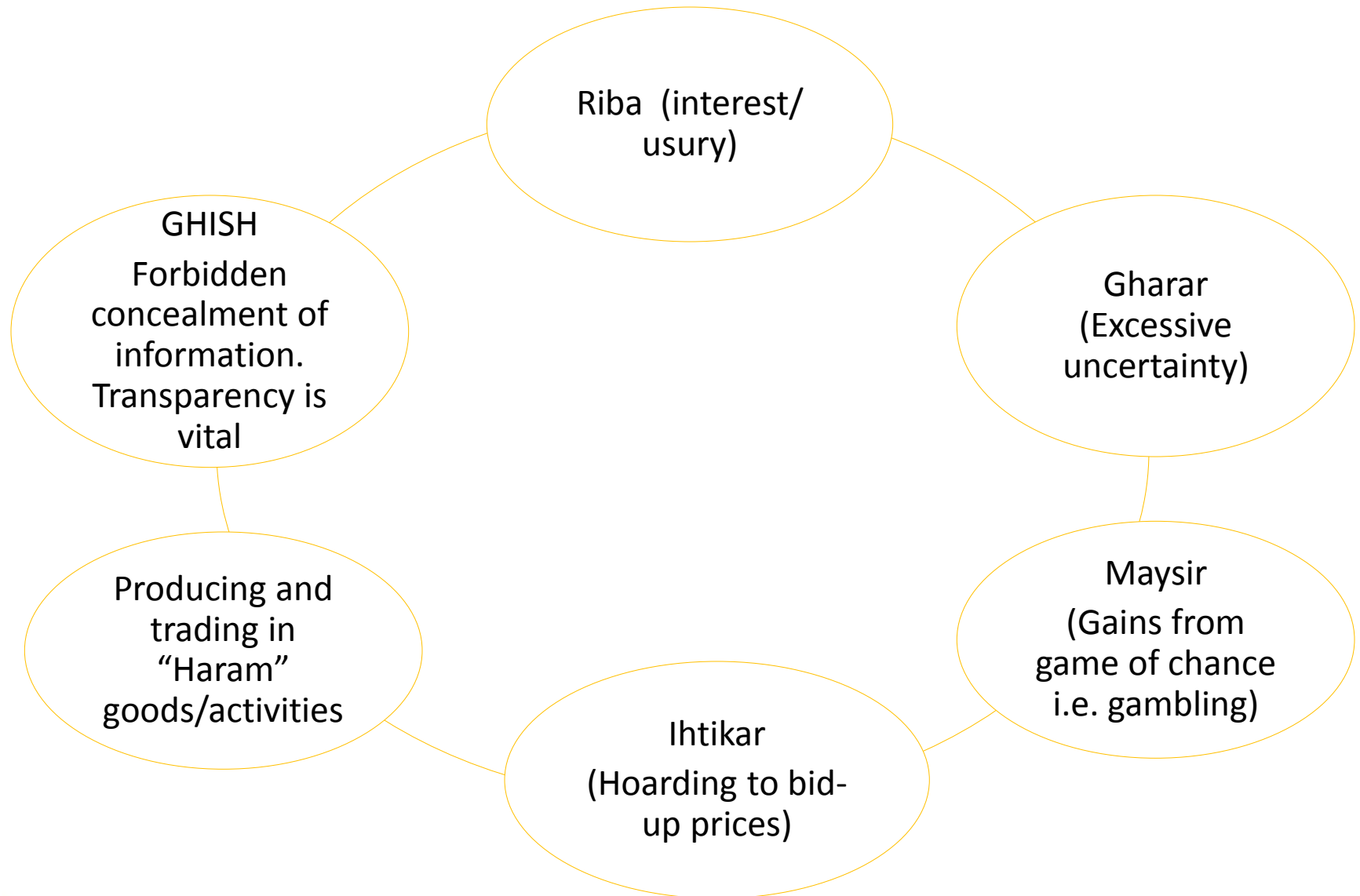


ISLAMIC VS CONVENTIONAL BANKING



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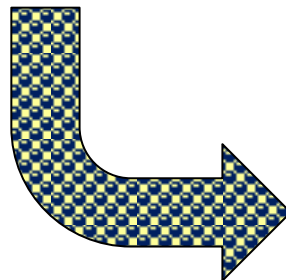
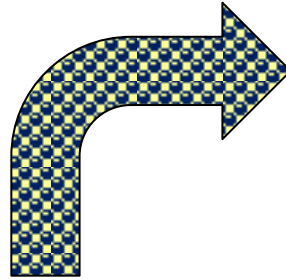
WHAT ARE THE ELEMENTS NOT APPROVED UNDER ISLAM?



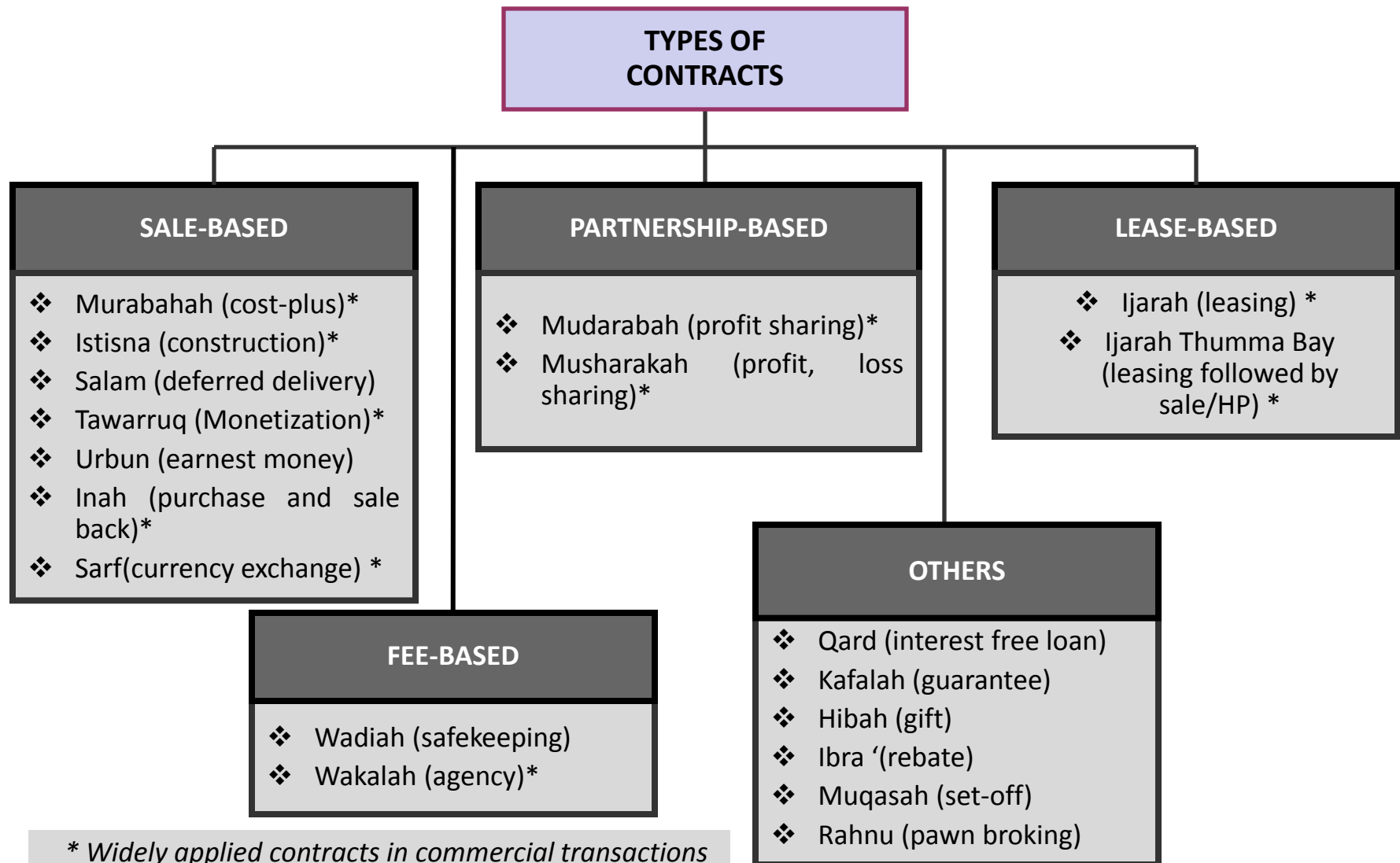
Prohibited Transactions

- Interest
- Uncertainty
- Gambling





CLASSIFICATIONS OF ISLAMIC COMMERCIAL CONTRACTS



APPLICATION OF THE CONTRACTS

Types of Contract	Use of Contract	Underlying Asset	Can Financiers take collaterals?
Murabahah	Working Capital for Assets acquisitions	Tangible asset	Yes
Ijarah	Operating/Financial Lease	Leased asset	Yes
Istisna'	Construction/Project Financing	Construction project	Yes
Mudarabah	Deposit/Working capital for business	Customer's business/project	Yes (to protect capital in case of negligence)
Musharakah	Working capital for business and asset acquisition	Customer's business/project	Yes (to protect capital in case of negligence)
Tawarruq/ CM	Deposit/Working Capital/ Hedging instruments	Commodity. Normally CPO	Yes
Wakalah	Working capital for business/ project	Customer's business/project	Yes (to protect capital in case of negligence)

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Thank You

