

IMPORTANCE OF IT SOLUTIONS IN SUPPORTING ISLAMIC BANKING ACTIVITIES

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Agenda

- Specialities of Islamic banking transactions/workflow
- Requirements to be met by IT solutions

SPECIALITIES OF ISLAMIC BANKING IT SOLUTIONS

- ✦ The Islamic banking products (e.g. the MM deals – Murabaha, Mudharabah) have **complex structure** to meet the requirements of Shariah
- ✦ Several products are **composed of few commodities/assets buy/sell transactions** having very strict rules and workflows

Islamic forward dealing instruction [TRASSET_ISLAMIC_FW v.2.2.15]

Instruction: Isl.Fw Ticket: 951 Status: Made by: Admin Checked by: Trade date: 17.02.2007 Trade No.: ISFV0704800006017

Transfer to MM desk PIP: Tr. price: 0.00

Portfolio/Book: FOREX/Yazen Al Khudairy - Trading Customer: GIB, BAHRAIN MM book:

BUY

Planning

Value date: 17.02.2007 Currency: USD Maturity date: 11.03.2007

Spot Exch.Rate: 1.31500000 Fw.Points: 500.0000 Fw.Exch.Rate: 1.36500000

Funding rate: 5.3500 Rate points: 45.0000 Customer rate: 5.8000

Execution

Plan Maturity Amount: 1,350,000.00 Maturity Amount: 1,349,821.27 Buy fw.Price: 1.00358459

Plan buy amount: 1,345,231.90 Buy amount: 1,345,053.80 Buy price: 1.00004000

Plan Profit: 369.94

SELL

Planning

Value date: 17.02.2007 Currency: EUR Maturity date: 11.03.2007

Deposit rate: 3.3000

Execution

Plan Maturity Amount: 1,025,053.07 Maturity Amount: 1,024,917.36 Sell price: 0.762020

Tenor days: 22

Calc.Fw rate: 1.31700498

Profit Calculation Profit Ccy: USD Gross sales profit: 371.20 Brokerage fee: 53.80 Net sales profit: 317.40

Commodity trading

Comm. value date: 17.02.2007 Commodity name: COP Metric tone Quantity: 1,345,000.0000 Outstanding Amount: 178.73

High Grade as per London Metal Market Spec. Quantity: Generate PoA Deal

Commodity trade details

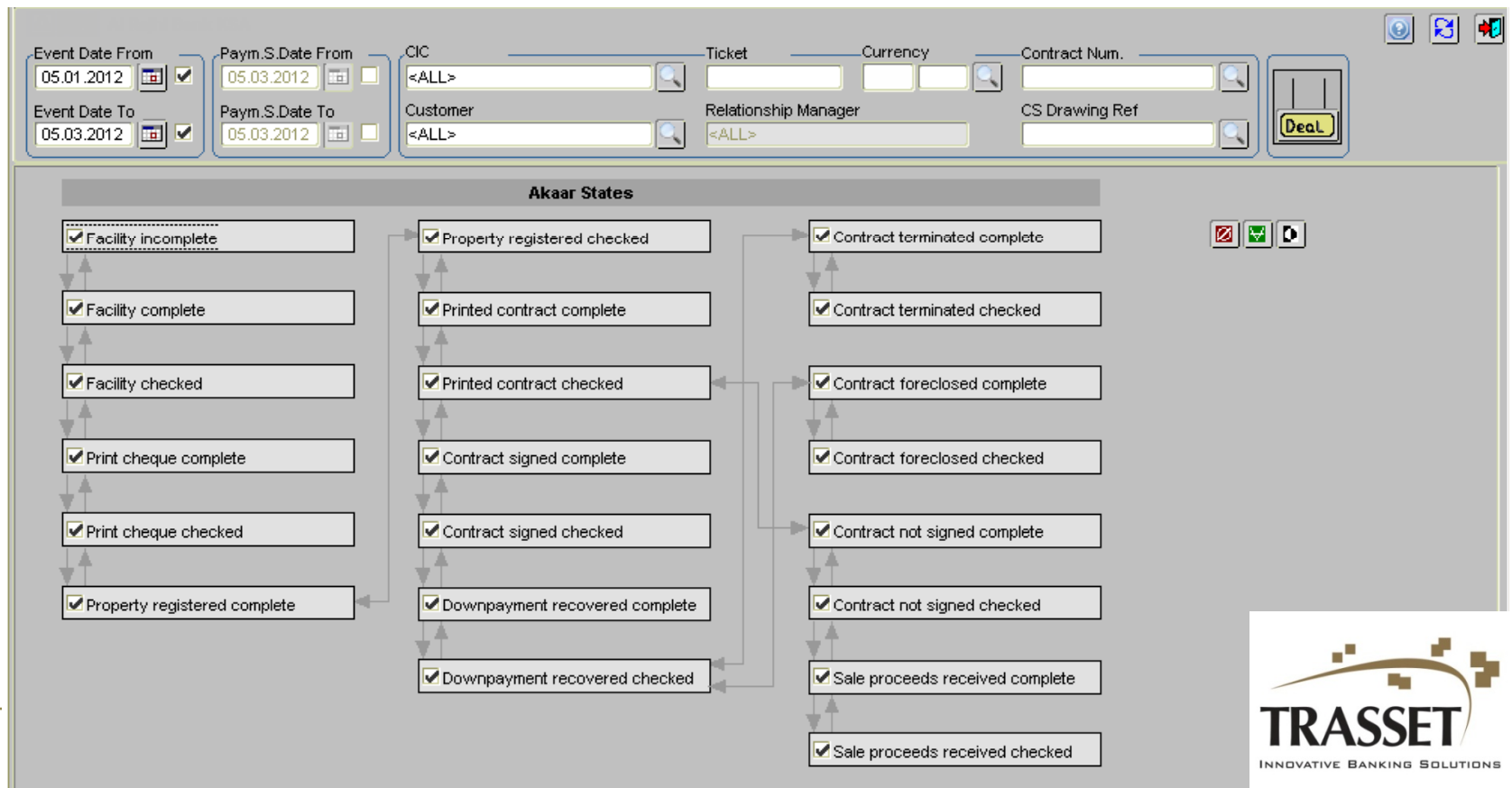
Broker Name	Amount	Quantity	Price	Fee%	Fee	Manual Fee
DAWNAYDAY, LONDON	1,345,000.00	1,345,000.0000	1.00000000	0.0040	53.8000	<input checked="" type="checkbox"/>

SPECIALITIES OF ISLAMIC BANKING IT SOLUTIONS

- ❖ Due to the above mentioned specifics, banks are running higher (operational) risk
- ❖ Although efforts are made continuously to move the Islamic banking towards a standardization, there is a long way to go as there are **different Shariah regulations on country level and on individual institution level** - based on the decisions of financial institutions' own Shariah board
 - Same products might be not Shariah-compliant in different countries (e.g. Islamic derivatives)
 - Same products have different structure in different countries/banks /no international standards (e.g different types of contracts to be signed, different mandatory elements of the transaction processing)

PROCESS EXAMPLE – WORKFLOW

Strict succession of processing steps for an interbank MM deal, Murabaha structure (please compare with a conventional transaction) –
Sales desk (term and conditions) – *Investment desk* (commodity purchase) – *Back Office* (settlement) – *Broker* (Holding certificate) – *Sales desk* (signed documents) – *Client* (Power of attorney)



REQUIREMENTS TO BE MET BY A COMPREHENSIVE ISLAMIC BANKING SOLUTION

Conclusion: in order to remain competitive, the processes have to be backed up by highly automated IT system

- ❖ Has the knowledge to manage the product-specific Islamic banking activities
- ❖ It is flexible enough to adapt to the local and individual Shariah board requirements and workflows
- ❖ Continuous monitoring of the processes with built-in checkpoints to avoid the possibility of breaching the strict rules (e.g. commodity can not be sold to client before receiving the Holding Certificate from the broker)

REQUIREMENTS TO BE MET BY A COMPREHENSIVE ISLAMIC BANKING SOLUTION - contd...

- ❖ Manage special cases – e.g. the client refuses to step in the deal while commodity was already purchased
- ❖ Huge number of contracts/printouts to be generated automatically by the system at any stage of the deal
- ❖ Different steps of the transactions will be executed by different departments (Sales Desk – Investment Desk - Back Office, etc.), thus a proper information flow between the departments has to be managed by the system – real time / STP concept

REQUIREMENTS TO BE MET BY A COMPREHENSIVE ISLAMIC BANKING SOLUTION - contd...

- ❖ New products should be implemented just through parameterization – especially the workflow engine should be modifiable by the users themselves
- ❖ Auditability: the complex workflows should be auditable, turnaround time to be calculated for the end-to-end process

Instead of running two or more separate applications, an integrated solution

- ❖ increases the profitability ,
 - ❖ lowers TCO and reaction time
 - ❖ has a positive effect for Bank level exposure and liquidity consolidation
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Thank you for your kind attention!

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