WORKSHOP 2 : PRODUCT DEVELOPMENT AND INNOVATION TOWARDS SUSTAINABILITY OF ISLAMIC FINANCE INDUSTRY

SESSION 2 : PRODUCT DEVELOPMENT AND INNOVATION - PROSPECTS AND CHALLENGES

RETAIL BANKING

by:

Dato’ Wan Ismail Wan Yusoh
Bank Islam Malaysia Berhad
PRODUCT DEVELOPMENT AND INNOVATION

- Establishment of Islamic Financial System in Malaysia
- Principles of Product Development and Implementation
- Driving Factors in Product Development and Innovation
- Evolution and Innovation of Retail Banking Products
- Prospects and Challenges
ESTABLISHMENT OF ISLAMIC FINANCIAL SYSTEM IN MALAYSIA

- Islamic financial services in Malaysia started in 1960s with the establishment of Islamic cooperative societies and Lembaga Tabung Haji.

- Bank Islam came into being in 1983 resulted from the resolutions of “Kongress Ekonomi Bumiputra” and “Kongress Ekonomi Islam”.

- This was followed by the licensing of first Takaful operator, introducing Islamic financial and capital market ... and today, a comprehensive Islamic financial system.

- Bank Islam was requested to set-up an outfit to assist the development of Islamic banking and finance system by providing consultancy services, in-house training, seminar and conferences to the interested parties local and abroad. This was carried out through its subsidiary, BIMB Institute of Research and Training Sdn Bhd (BIRT) and later transformed into a national body, Islamic Banking and Finance Institute Malaysia Sdn Bhd (IBFIM).
MORE THAN A QUARTER OF CENTURY EXPERIENCE IN ISLAMIC FINANCE HAS SET THE FOUNDATION FOR ISLAMIC BANKING TO EVOLVE INTO A COMPETITIVE OFFERINGS, PROVIDING EFFICIENT PLATFORM FOR INNOVATION.

TODAY, ISLAMIC BANKING OFFERS A COMPREHENSIVE RANGE OF ISLAMIC FINANCE INSTRUMENTS UNDER BOTH FIXED AND FLOATING PRODUCT STRUCTURES TO MEET THE DEMAND OF CUSTOMERS.

IN CONCLUSION, THE DEVELOPMENT OF ISLAMIC BANKING IN MALAYSIA CAN BE DIVIDED INTO 4 STAGES NAMELY:

- INTRODUCING ISLAMIC BANKING SYSTEM
- STRENGTHENING THE INFRASTRUCTURE
- POSITIONING AND CREATING MARKET NICHE
- MOVING INTO THE GLOBALISATION ERA
**PRODUCT DEVELOPMENT PROCESS**

1. **Product Conceptualisation**
   - Idea Screening
   - Business & Opportunity Analysis

2. **Product Development**
   - Research & Development
   - Business & Opportunity Analysis
   - Product Development & Testing

3. **Approval**
   - Specific Product Approval

4. **Commercialization**
   - Launching
   - Advertisements & Promotions
   - Post Implementation Review

**Shariah**, **Product**
GOVERNANCE FOR PRODUCT DEVELOPMENT

Product Development Committee → Shariah Supervision Councilor → Risk Committee → Board of Directors → Central Bank
3 LINES OF DEFENCE

1st Line of Defence: The Risk Taking Units
- Any staff who are directly involved in ensuring Shariah requirements in their functional area.
- The overall ownership of the risk environment and responsibility to manage Shariah Compliance Risk therefore, reside with them.

2nd Line of Defence: Risk Control Units
- Shariah Compliance team under Shariah Divisions and Shariah Compliance Risk Control Committee.
- Responsible for development and maintenance of the Shariah Compliance Policy and its implementation.
- It should ensure report on Shariah Non Compliance and Potential Shariah Non Compliance is assessed, rectified and tracked.

3rd Line of Defence: Independent Assurance
- Shariah Audit function under Internal Audit Division whose role and responsibilities are to provide independent assurance to the Audit Examination Committee and Board of Directors on the effectiveness of the Shariah function within the Bank.
RECONCILIATION OF UNDERSTANDING

- HARMONISATION OF KNOWLEDGE AND UNDERSTANDING BETWEEN BANKERS AND SCHOLARS

- EXAMPLES OF MISUNDERSTANDING:
  - Income Recognition Methods
  - Floating Charge over Future Assets

- COMPREHENSIVE PRODUCT TRAINING ESPECIALLY ON SHARIAH ASPECTS

- GLOBAL HARMONISATION OF ISLAMIC BANKING AND FINANCE PRACTICE
EVOLUTION OF SOCIO-ECONOMIC NEEDS

- FIXED VS FLOATING RATE FINANCING
- FLOATING VS FIXED DEPOSIT RETURN
- DEBT VS EQUITY BASE FINANCING
- CASH VS ACCRUAL ACCOUNTING
- PRODUCT COMPETITIVE EDGE/FEATURES
- BANCA TAKAFUL AND WEALTH MANAGEMENT
- STRUCTURED DEPOSIT PRODUCTS
FACTORS IN PRODUCT DEVELOPMENT AND INNOVATION

TRANSFERS OF RISK

- **TRADITIONAL VS NEW CHALLENGES TOWARDS ENHANCEMENT OF ISLAMIC BANKING PRACTICE**

- **SOME EXAMPLES:**
  - **IJARAH** - FINANCIAL VS OPERATING
  - **ISTISNA** - ISSUES OF LATE DELIVERY
  - **MUDHARABAH AND MUSHARAKAH FINANCINGS**
1. DEPOSITS
- **TYPES**: CURRENT/SAVINGS/INVESTMENT/NIDC
- **CONTRACTS**: WADIAH/MUDHARABA/WAKALAH/REV BBA
- **FEATURES**: TIER RATES/LUCKY DRAW/HIBAH/PROFIT-SHARING

2. HOUSE FINANCING
- **TYPES**: FINANCING/REFINANCING
- **CONTRACTS**: BAI BITHAMAN AJIL/IJARAH MUNTAHIYAH
  BITTAMLIK/MUSHARAKAH MUTANAQISAH

3. BANCATAKAFUL AND WEALTH MANAGEMENT
- **TYPES**: TAKAFUL PRODUCTS/UNIT TRUST/WILLS WRITING/
  STRUCTURED DEPOSITS
- **FEATURES**: BUNDLING AND PACKAGING
4. VEHICLES

- **TYPES**: NEW AND USED CAR FINANCING
- **CONTRACTS**: BAI BITHAMAN AJ IL/I J ARAH THUMMA AL BAI/
  MURABAHAH FOR PURCHASE ORDERER

5. PERSONAL

- **TYPES**: PERSONAL CONSUMPTIONS ETC …
- **CONTRACTS**: BAI INAH/TAWARRUQ
- **FEATURES**: SALARY DEDUCTION OR TRANSFER/DEBT-
  CONSOLIDATION/COLLATERALISED

6. CREDIT CARD

- **TYPES**: VISA/MASTERCARD ETC …
- **CONTRACTS**: BAI INAH/TAWARRUQ/UJRAH/MURABAHAH
- **FEATURES**: CASH WITHDRAWAL/BALANCE TRANSFER/
  EASY PAYMENT SCHEME
7. DEBIT CARD

- **TYPES**: VISA/MASTERCARD
- **CONTRACTS**: UJRAH
- **FEATURES**: FROM DEPOSITS/CASHLINE

8. PAWNING

- **TYPES**: GOLD ETC...
- **CONTRACTS**: UJ RAH/QARD HASAN
- **FEATURES**: LARGER AMOUNT/LONGER TENURE
9. PAYMENT SERVICES

- Remittances
- Shared Services: ATM/CDE
- E-Payment: e-Debit/FPX
- Internet Banking
- Mobile Banking

10. SMI/SME FINANCING

- Macro Financing: Vendor Development Program
- Trade Financing: TWF/ Bill Disc/LC/LG
- Cash Line
- Asset Acquisition
- Guarantee Schemes
ISLAMIC BANKING AND FINANCE HAS PROVEN TRACK RECORDS IN TERMS OF PERFORMANCE AND ACCEPTANCE

BANKING AND FINANCE IS A VERY COMPETITIVE INDUSTRY, IBF HAS TO BEEF-UP AND KEEP ABREAST WITH THE INDUSTRY DEVELOPMENT IN ORDER TO REMAIN IN THE MAINSTREAM

COOPERATION, UNDERSTANDING AND TEAMWORK BETWEEN BANKERS AND SHARIAH SCHOLARS ARE VERY ESSENTIAL TO ENSURE INNOVATIVE PRODUCTS ARE DEVELOPED TIMELY

AWARENESS AND PROMOTION PROGRAM IS IMPORTANT TO ENSURE THE WIDER ACCEPTANCE AND AVOID MISUNDERSTANDING OF THE PUBLIC
PROSPECTS AND CHALLENGES

- Developed products which are not only met local acceptance but also able to penetrate the global market especially GCC.

- Narrowing the gap of Shariah understanding between the Gulf and Malaysia by inviting Gulf Shariah scholars to be a member of the local Shariah Supervisory Council.

- Grooming new breeds of Shariah scholars with new mindsets and capabilities that could adapt to the modern needs of financial business in terms of competencies and capabilities not only in Shariah functions but the entire range of banking functionalities. This will enrich the pool of Shariah expertise at global arena and will make a significant contribution that come from Malaysia.
Thank You

Wassalam