

Overview of Islamic Economic System in *Shariah* law

This slide covers the details related to the economic system based on guidelines given in the shariah law. It consists of a means by which economic or governments organize and distribute available resources, services, and goods within a country.

Chapter 3: Institutions and Markets in Islamic Finance

Exploring the Structure, Components, and Framework of Islamic Financial Systems

Islamic economic system involves organizations, institutions, and social values that govern the production, exchange & consumption of goods and services.

Islamic economics is different from other economic systems like capitalism, communism, socialism, and mixed economies.

Conventional economy is categorized by borrowing to finance some current purchases, while the Islamic economy disallows interest.

Material gain is encouraged for Muslims, but it should be obtained in a respectful way that considers the well-being of others and promotes happiness for their families.

This video is 100% accurate, suitable to your needs and perfect for your personal education.

Outline

1 Islamic Financial System



2 Islamic Financial Institutions



3 Infrastructure Institutions



4 Other International Bodies



5 Islamic Financial Markets



6 Shariah Governance







Institutions & Markets in Islamic Finance

Islamic Financial System


Introduction

- ✓ Shares **similarities** with conventional financial system structure
- ✓ Comprises **financial institutions** and **markets**

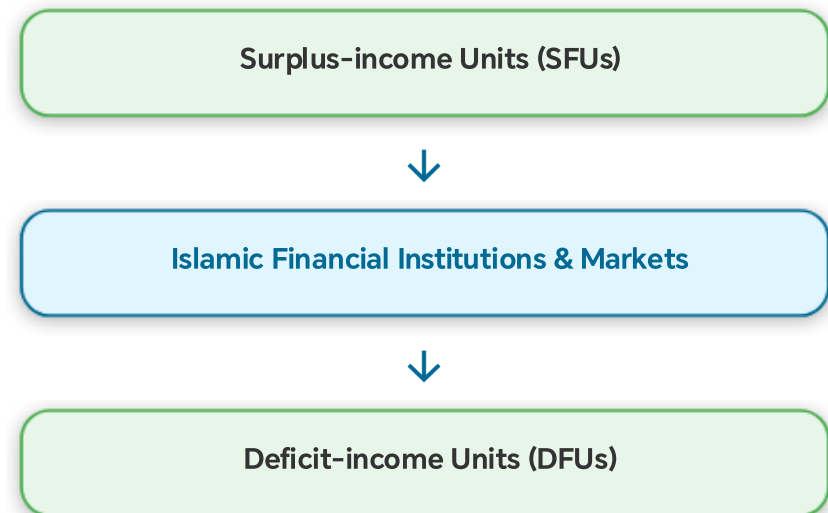
Components

-  Islamic banks
-  Islamic insurance (takaful) companies
-  Islamic mutual funds
-  Other finance companies

Function

- ↓ Channeling funds from **SFUs** to **DFUs**
-  Units: business firms, government, households, foreigners

Islamic Financial System Flow



Modern Day Islamic Banking Categories



Co-existing with Interest-based Banks

1 Single Islamic Bank

Example: Al-Hilal Islamic Bank in **Kazakhstan**

2 Multiple Islamic Banks

Egypt

Qatar

Bahrain

Bangladesh

3 Islamic Windows

Conventional banks providing Islamic financing

Malaysia

Qatar

Egypt

Saudi Arabia



All-embracing Islamic Banking System

🌐 Countries with Full Islamic Banking

Sudan

Iran

Entire banking system based on Shari'ah

🕒 Iran's Islamic Banking History

Nationalized all banks after the Islamic Revolution in **1979**

🏢 Malaysian IFS Components

Islamic Banking Institutions

Islamic Money Market

Islamic Capital Market

Takaful Industry

Non-Banking Institutions

Islamic Financial Institutions

Types of Institutions



Islamic Banks



Takaful Companies



Mutual Funds



Finance Companies



Institution of Waqf

Takaful Operation



Tabarru' (Donation)



Mudharabah Model



Wakalah Model



Hybrid Model

Development of Islamic Banks in Malaysia



Bank Islam Malaysia Berhad (BIMB)

Established after Islamic Banking Act

Listed on Kuala Lumpur Stock Exchange



Bank Muamalat Malaysia Berhad (BMMB)

Commenced operations



MBSB Bank Berhad

Incorporated

Became full-fledged Islamic Bank after acquiring Asian Finance Bank

Infrastructure Institutions Supporting IFS in Global Development



IFSB

Established: 2002

- ✓ **International standard-setting body** for Islamic financial services
- ✓ Promotes **soundness and stability** of Islamic finance industry
- ✓ Issues standards on Risk Management, Capital Adequacy, Corporate Governance

📍 Kuala Lumpur



IIFM

Founded by central banks

- ✓ Focuses on **Islamic capital & money market** (ICMM) segment
- ✓ Standardizes Islamic financial **products, documentation, and processes**
- ✓ Founded by Bank Negara Malaysia and Islamic Development Bank



IILM

Established: 2010

- ✓ Creates and issues **short-term Shari'ah-compliant** financial instruments
- ✓ Facilitates effective **cross-border Islamic liquidity management**



AAOIFI

Established: 1990

- ✓ Non-profit body preparing **accounting, auditing, governance, ethics** standards
- ✓ Ensures transactions **adhere to Shari'ah principles**
- ✓ Develops Shari'ah standards for Islamic financial institutions

Other International Bodies Supporting Islamic Finance



Islamic Development Bank (IDB)

Established: 1973

Fosters **economic development** and **social progress** in member countries in accordance with Shari'ah principles



56 Member Countries



Equity Participation



Project Loans



Foreign Trade Promotion



Education and Training Institutes



INCEIF

Postgraduate study in Islamic Finance (CIFP, Masters, PhD)



IBFIM

Training, professional development, Shari'ah Advisory & Audit



Islamic International Rating Agency (IIRA)

Established: 2005

Develops methodologies for **issue/issuer ratings** and provides comprehensive rating services for IFIs



Credit Ratings



Sovereign Ratings



Corporate Governance Ratings



Shari'ah Quality Ratings

Islamic Financial Markets

Islamic Interbank Money Market (IIMM)

Introduced by BNM as a **short-term intermediary** providing investment outlets based on Shari'ah principles

Key Instruments

MII / MID



Mudharabah Interbank Investment/Deposit

Profit sharing

Wadiah Acceptance



BNM accepts surplus funds under Al-Wadiah

Hibah (gift)

GII



Government Investment Issue

Non-interest bearing

SBNMI



Sukuk Bank Negara Ijarah

Al-Ijarah (sale and lease back)

2006

INID



Islamic Negotiable Instruments of Deposit

Mudharabah contract

NIDC



Negotiable Islamic Debt Certificate

Bai Bithaman Ajil

Bay Ad-Dayn

Islamic Money Market Flow

Surplus Banks



Islamic Capital Markets

ICM runs as a **parallel market** to conventional capital market, free from **riba**, **maisir**, and **gharar**

▲ Components



Islamic Equity Market



Islamic Mutual/Unit Trust Market



Sukuk/Islamic Bond Market



Shariah Compliant Derivatives



Islamic Structured Products



Islamic Stockbroking

🏗️ Regulatory Framework



Regulated by **Securities Commission (SC)**



SC's **Shari'ah Advisory Council (SAC)** advises on ICM matters



Ensures compliance with Shari'ah principles

🏗️ Fundamental Basis: Islamic Contracts



Bai' Bithaman Ajil



Murabahah



Mudharabah





Musyarakah



Ijarah

Islamic Equity Market Screening

🔍 SAC Screening Approach

-  **Quantitative** approach: Measures financial ratios and prohibited activities
-  **Qualitative** approach: Considers public perception, company image, 'uruf (custom), and maslahah (benefit)

5% Benchmark

Activities must contribute less than 5% of TO and PBT



Conventional Banking

Gambling

Liquor

Non-Halal Food

Financial Ratio Benchmarks

33%

Cash/Total Assets





Excluding Islamic cash

33%

Debt/Total Assets

Excluding Islamic
financing/sukuk




Qualitative Analysis

-  **Public perception** of the company
-  **Company image** and branding
-  **'Uruf** (custom) and practices
-  **Maslahah** (benefit to the Ummah)

Non-Compliant Investment Guidance

Shariah Governance



Overview

-  **Shari'ah board** is an independent body entrusted with directing, reviewing, and supervising IFI activities
-  Ensures **compliance** with Shari'ah principles
-  Issues **legal rulings** (fatwas) on Islamic financial matters



BNM Shariah Advisory Council




Established: 1997

-  **Highest Shari'ah authority** in Islamic finance in Malaysia
-  Status reinforced by Central Bank of Malaysia Act 2009



Securities Commission SAC

Established under SC Act 1993

-  Ensures ICM operations **do not contradict** Shari'ah
-  Advises SC on **market development**
-  Classifies **Shari'ah-compliant securities**

Shariah Governance Structure

 **Shariah Board**



 **Supervision & Review**



Malaysia International Financial Centre (MIFC)

MIFC Initiative



Collaborative effort by regulators to **bridge and strengthen** international Islamic financial markets

Launched: 2006

Key Incentives



International Islamic Banking (IIB) Licenses



International Takaful Operator (ITO) Licenses

Focus Areas



Sukuk
Origination



Islamic Fund &
Wealth
Management



International
Takaful



Human Capital
Development

Strategic Benefits



Global hub for Islamic finance



Facilitates **cross-border** Islamic financial activities



Comprehensive **regulatory framework** aligned with international standards



Access to **skilled professionals** and Islamic finance expertise