

## Misys Equation

# Islamic Banking & Finance Solution

Islamic Banking is quickly becoming recognised as one of the key growth areas in the international financial markets. With a value already estimated at between \$200-\$300bn, it is an industry that is expected to grow at between 10 and 15% over the next five years. In addition, it is estimated that some 80% of Banks in the Middle-East will convert fully to the Islamic Banking model in the next decade.

### Global appeal

Although the Middle East is still home to most of the world's 260-plus Islamic Banks, a growing number of Banks operating in the marketplace are domiciled elsewhere. Local players such as Malaysia's Bank Islam Malaysia and the United Kingdom's Islamic Bank of Britain are being joined by Citibank, HSBC's Amanah and UBS' Noriba subsidiary, further emphasising the growing importance of this market.

### The Islamic Banking model

Broadly speaking, there are three Shari'a rules which make Islamic Finance different. First is a bar on involvement with industries considered sinful, or *Haram*, such as those involved in gambling or alcohol. Second is a strict ban on *Riba*, which means that Muslims are prohibited from taking or giving interest. Finally, there is an injunction to avoid *Gharar*, meaning excessive risk-taking or uncertainty.

#### Islamic Banking

- + Growing market
- + 260 banks and increasing
- + Reach expanding beyond the Middle East

#### Special Requirements

- + Ethical investment principles
- + Ban on Riba usury
- + Avoidance of Gharar - excessive risktaking

#### Islamic Financing Products

- + Murahaba
- + Ijara / Ijara Wa Iqtina
- + Al Tawarruq

#### Profit Distribution and Sharing

- + Range of acceptable calculation methods
- + Monitor the profitability of pools monthly
- + Distribute Bank and investors' shares Fees and Charges
- + May be defaulted at the time of origination
- + Included in the repayment schedule
- + Amended / waived if required

#### Finance Workflow

- + Workflow-based system
- + Automatically updates asset register
- + Generate deferred payment schedules

#### Proven Experience

- + Three decades, 70+ Banks in the Middle East
- + Market leader in retail banking
- + Robust, flexible, scalable solutions
- + IBM iSeries technology

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Banking Awards 2007 - Winner  
Best Core Banking Solutions Provider, Islamic Finance

**...every bank must be able to meet** local regulatory reporting and operational requirements. This can be a challenge in itself, especially in non-Islamic countries where central Banks and other regulatory bodies may impose requirements which conflict with Shari'a standards and principles

**Timely allocation of profit to depositors based on historic performance can challenge the conventional operations of many western Banks' systems and processes.**

#### CHALLENGES SET

##### The challenges

The rules used to define what is an acceptable Banking product are established centrally in some countries and in others are open to local interpretation. For Banks creating new products, this presents the first challenge. Islamic deposit / investment transactions are based on the principle that profit and loss is shared. For those new to Islamic Banking, this presents a fresh challenge around the pooling of assets and liabilities and the calculation of profits. Timely allocation of profit to depositors based on historic performance can challenge the conventional operations of many western Banks' systems and processes.

##### Increasing competition

The size and growth of Islamic Banking has started to attract the attention of international players and new entrants alike. Thus many "conventional" Banks are now offering Islamic products and services through Islamic "windows", typically a self-contained subsidiary. New start-up Islamic financial institutions have been prepared to offer more competitive products and services to build market share. As the market has grown and become more competitive, the pace of innovation in products and services has accelerated.

##### More demanding customers

As customers' financial sophistication and awareness increase, so do their expectations of high quality service. Today, people are accustomed to being able to rapidly obtain finance approvals. This adds to the challenges facing Islamic Banks.

##### Quest for higher productivity

Not only do manual processes increase errors, re-work and customer complaints, they also adversely affect a Bank's ability to maintain competitive pricing for its products and services.

##### Increasing regulatory burden

The need for transparency and accountability in the global financial markets has led to a wide range of new regulations. For Islamic Banks, in addition to meeting international regulations such as IAS 39 and Basel II, additional regulations such as those defined by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) must also be met.

Equally, every Bank must be able to meet local regulatory reporting and operational requirements. This can be a challenge in itself, especially in non-Islamic countries where central Banks and other regulatory bodies may impose requirements which conflict with Shari'a standards and principles.

**Based on Shari'a-compliant** Balance Sheet and Profit and Loss formats, the profit allocation model allows Banks to specify the rules for splitting profits.

## CHALLENGES MET

### The Misys solution

Using the power of the market-leading Equation™ Banking platform as a starting point, Misys has drawn upon its decades of experience to offer its customers a complete solution to their Islamic Banking needs. The Misys Equation Islamic Banking and Finance Solution has been designed specifically to facilitate and automate Shari'a-compliant Banking operations, to maximise revenues and customer service levels, whilst minimising costs and risk.

Enhancements to the core Equation solution have been made in a number of key areas to support the specialist Islamic Banking and Finance model.

### Finance instruments

Banks can amortise and recognise profit from Islamic finance transactions in a variety of ways, all of which are in keeping with Shari'a law. The model supports straightline amortisation, amortisation based on the reducing finance capital balance and cash received only.

The system also allows the Bank to stop profit amortisation automatically based on the status of the repayments made under the finance agreement. Profit continues to be calculated by the system but is amortised to a separate set of 'contingent profit' accounts.

### Fees and charges

Misys Equation Islamic Banking fully supports Ijara contracts - one of the most important Islamic financial instruments. In addition to the increased complexity of the workflow required, the instrument commonly attracts additional service fees and charges, which the Bank is obliged to pass on to the customer.

Equation's automated fee- charging system ensures that responsibility for charges is removed from the user, eliminating the errors associated with manual intervention.

### Profit distribution

This module provides each bank with facilities to tailor profit calculations according to the product set. A profit and loss structure is created which reflects the income and expenses for finance and investment transactions funded by the pool and the Bank.

Based on Shari'a-compliant Balance Sheet and Profit and Loss formats, the profit allocation model allows banks to specify the rules for splitting profits.

### Islamic finance workflow

The order of steps between a customer indicating an interest in acquiring an asset and physically taking delivery or right to use is critical to ensuring that the transaction is acceptable in Islamic terms. The Misys solution addresses this issue by ensuring that all Islamic finance- origination activities are conducted in strict Shari'a compliance.

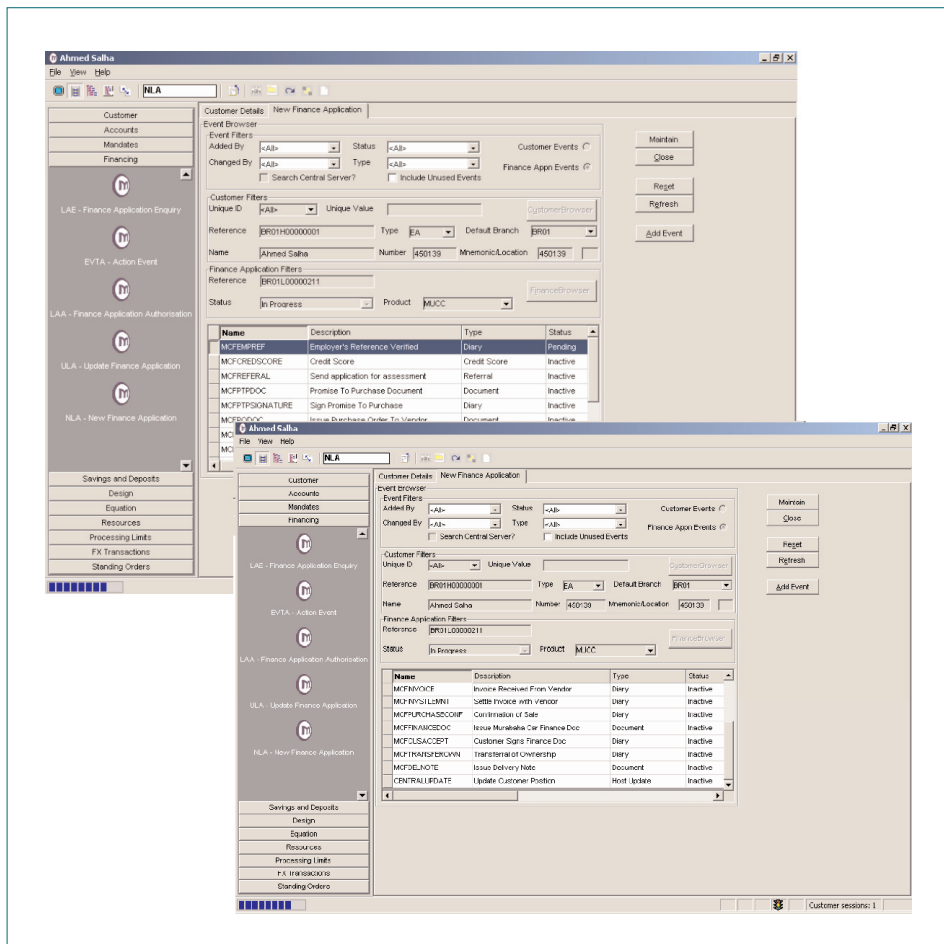
**With three decades' experience** in Islamic markets and in excess of 70 clients in the Middle East, Misys has a long history of providing innovative, flexible solutions tailored to specific requirements.

### Your complete solution

With three decades' experience in Islamic markets and in excess of 70 clients in the Middle East, Misys has a long history of providing innovative, flexible solutions tailored to specific requirements. Through this new solution, we are uniquely positioned to help you meet the challenge of Islamic Banking head on, turning opportunities into profits.

### Key benefits

- + Maximise revenue opportunities;
- + Increase competitiveness;
- + Improve customer service;
- + Minimise operational risk;
- + Leverage existing investment in banking technology;
- + Ensure compliance with rules and guidelines.



For more information on how Misys can help you, please visit: [www.misys.com/banking](http://www.misys.com/banking)

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