

**FinanceMalta**  
**8<sup>th</sup> Annual Conference**  
**21<sup>st</sup> May 2015**  
**Venue: Hilton Malta**

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**Islamic Finance**  
**How plausible is it for Malta?**

# Outline

**Growth trajectory**

**Malta SWOT Analysis**

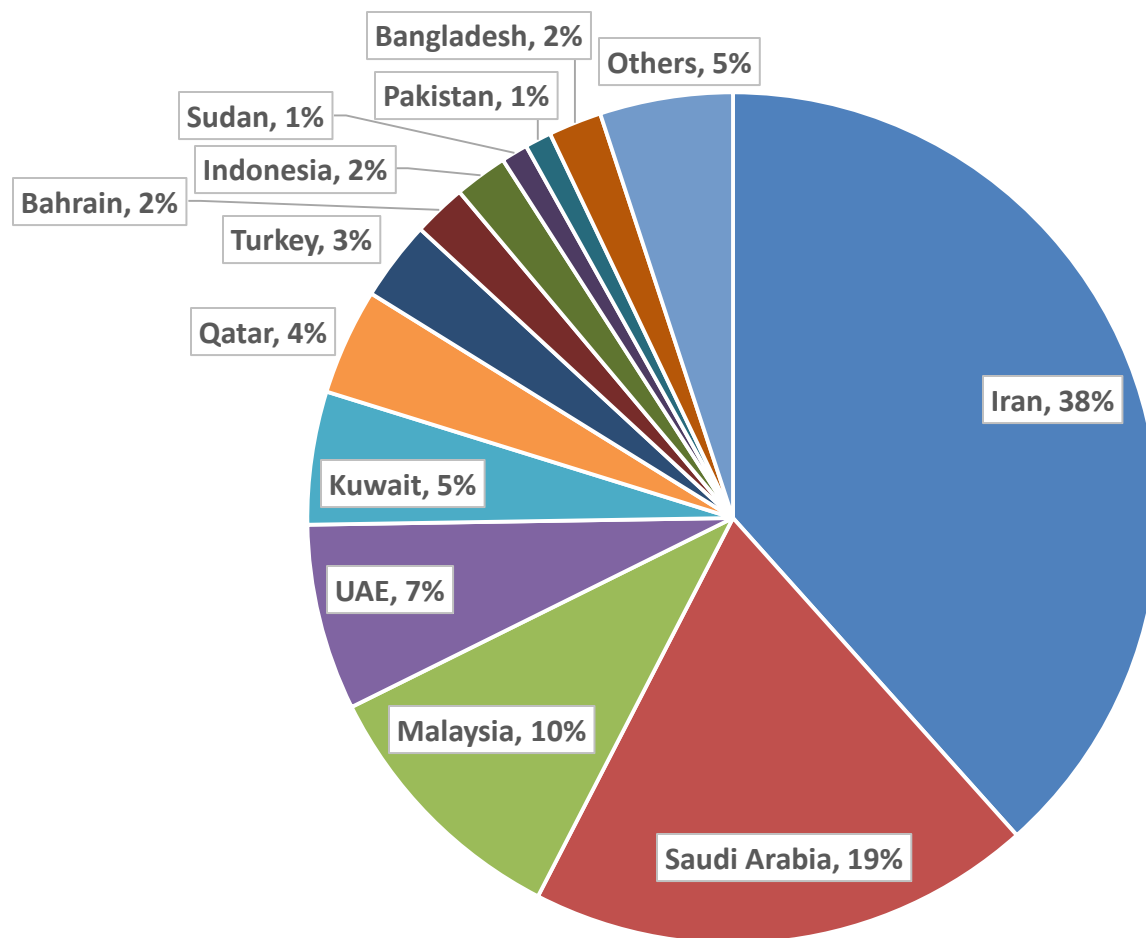
**Who will benefit?**

**How different is it?**

**Implementation  
approaches**

**Conclusion**

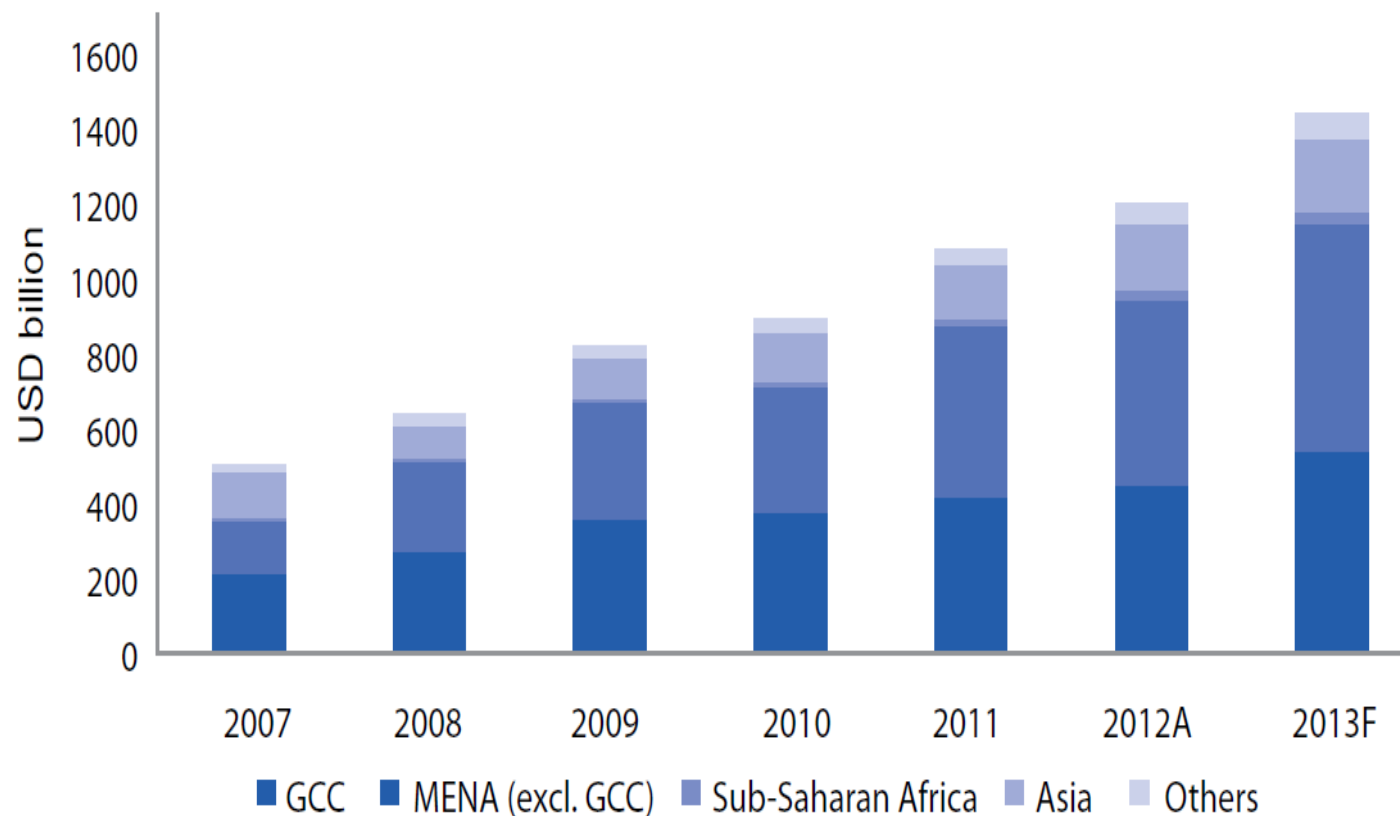
# Growth trajectory



Source: Islamic Financial Services Industry - Stability Report 2014

# Growth trajectory

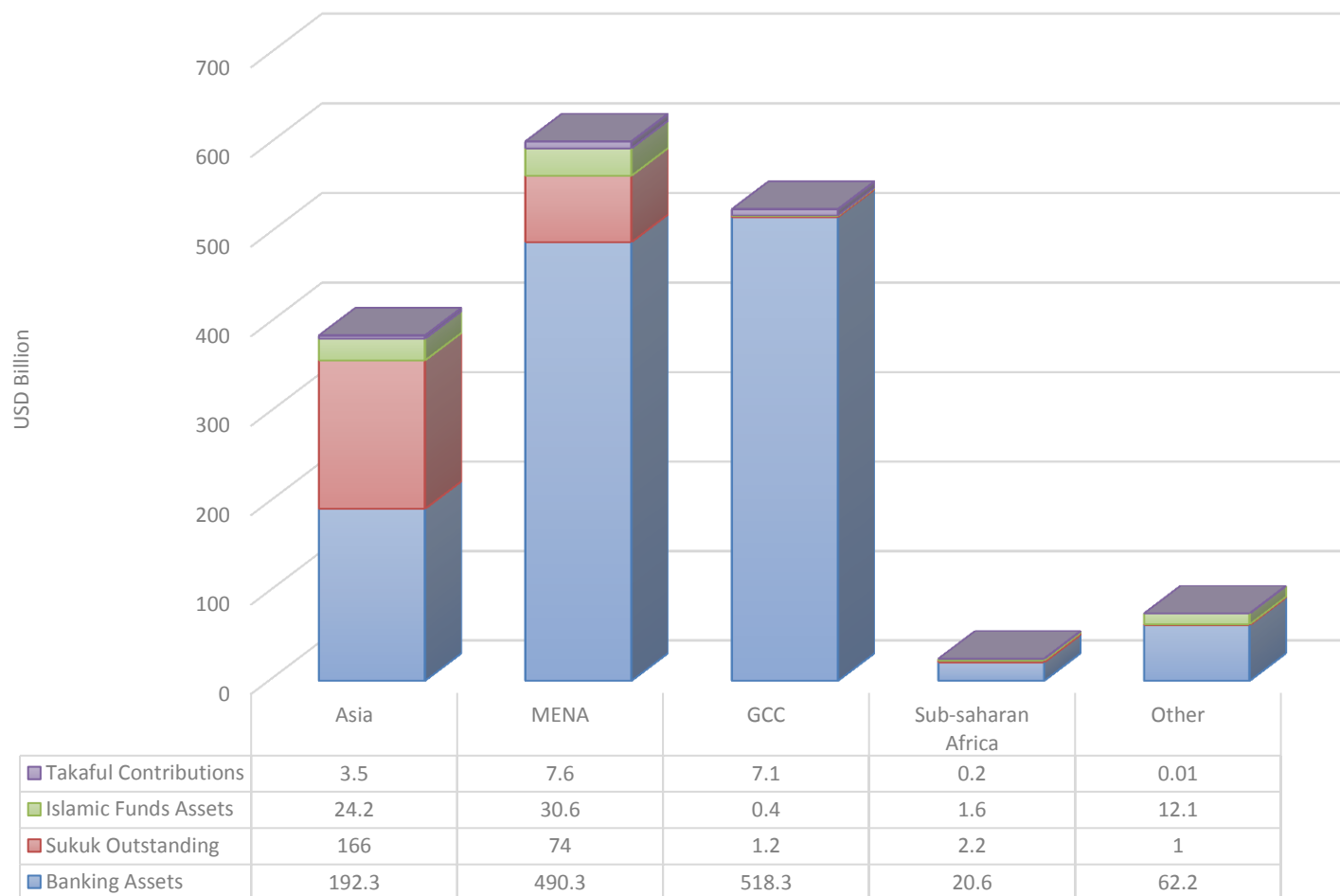
Islamic Banking Assets Growth Trend (2007–2013F)



Source: Islamic Financial Services Industry - Stability Report 2014

# Growth trajectory

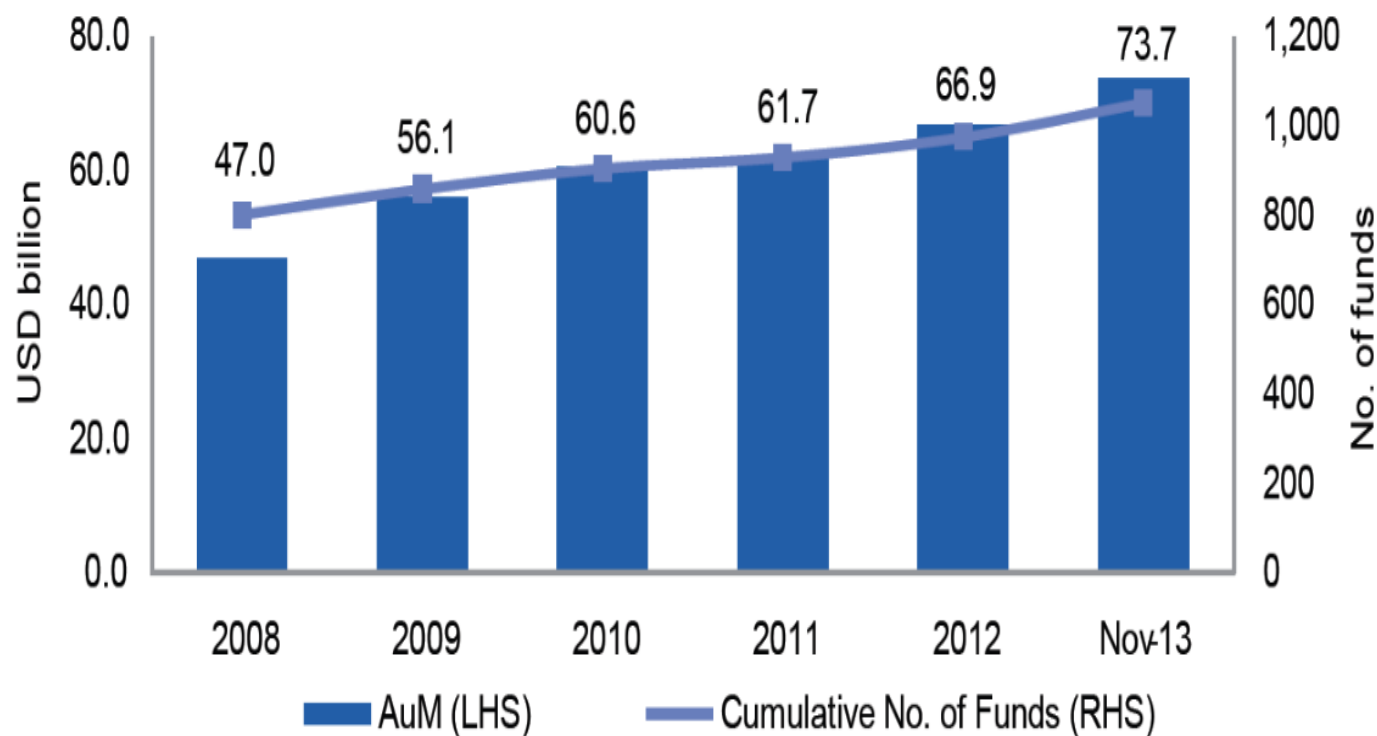
Area-Wise Categorization of Islamic Finance Assets



Source: Islamic Financial Services Industry - Stability Report 2014

# Growth trajectory

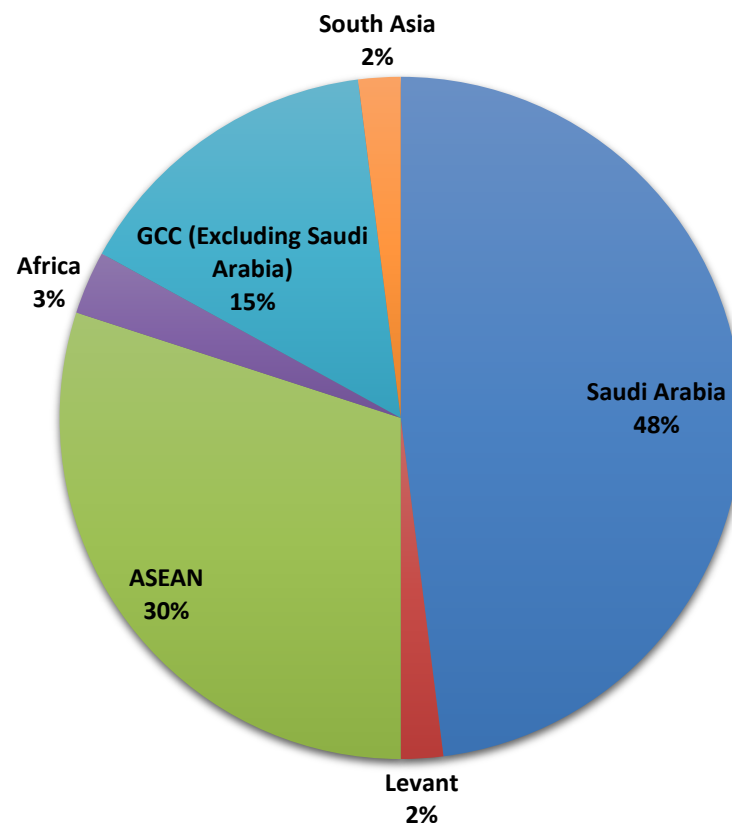
Growth in Assets under Management (AuM) and Number of Islamic Funds



Source: Islamic Financial Services Industry - Stability Report 2014

# Growth trajectory

Global Gross Takaful Contribution, 2014 (Exc. Iran)



Sources: World Islamic Insurance Directory 2014, Middle East Insurance Review EY analysis

# Malta SWOT Analysis

## Strengths

- Malta being part of European Union
- Well established financial services industry
- Strong economic performance and environment
- Robust legal and regulatory framework
- Low foreign debt
- Low unemployment
- Strategic geographical location
- High quality of the human resource
- Political stability
- Milder climate
- Growing political will to promote Malta as Islamic finance hub



# Malta SWOT Analysis

## Weaknesses

- **Small and ageing population**
- **Lack of local demand for Islamic finance**
- **Lack of local skill on Islamic finance**
- **Existing legal and regulatory framework not conducive for Islamic finance (double taxation and levies)**

# Malta SWOT Analysis

## Opportunities

- **Passporting opportunity for GCC Islamic banks, Malta being an EU country**
- **Growing demand for Islamic finance in European countries**
- **Strong Islamic finance demand from North African countries where it is currently lacking**
- **Ability to attract Sharia compliant FDI to support developmental projects to augment Maltese economy**
- **Great prospects to attract large investment for Halal food and tourism**
- **Prospects to offer equity-based financial solutions to local businesses**
- **Opportunity for UoM and MCAST to attract foreign students by offering masters and doctorate courses on Islamic finance**

# Malta SWOT Analysis

## Threats

- Emergence of other Islamic finance hubs in the not so distant regions (Tunisia, Turkey)
- Perception issue (Islamic finance or alternate finance, etc.)
- Strong influence of EU laws and regulations
- Regional economic and political instability, particularly from some North African states
- Possibility of lukewarm international response to Malta's Islamic finance initiatives
- Strict immigration laws, limiting the influx of industry experts

# Who will benefit?

## Prospective Beneficiaries of Islamic finance in Maltese Economy

### Public Sector (by function)

General Public Services

Defence, Public Order  
and Safety

Economic Affairs

Education, Housing,  
Health and Social  
Protection

Govt. related entities  
(GRES)

### Private Sector (by industry type)

General corporate and  
commercial enterprises

Manufacturing

Retail and trading

ICT and  
Telecommunications

Real estate, Healthcare

### Financial Services

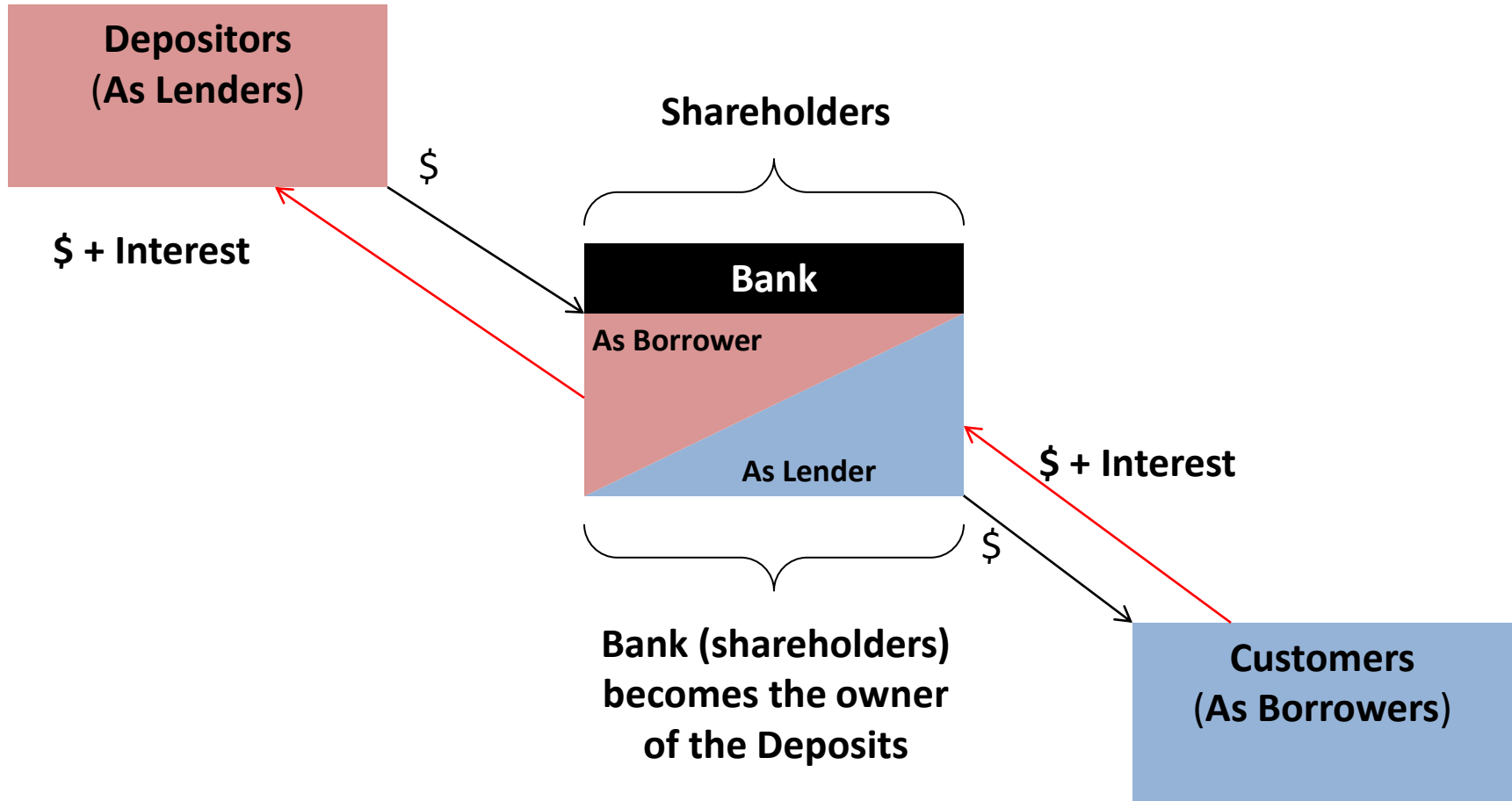
Banking Institutions

Fund managers

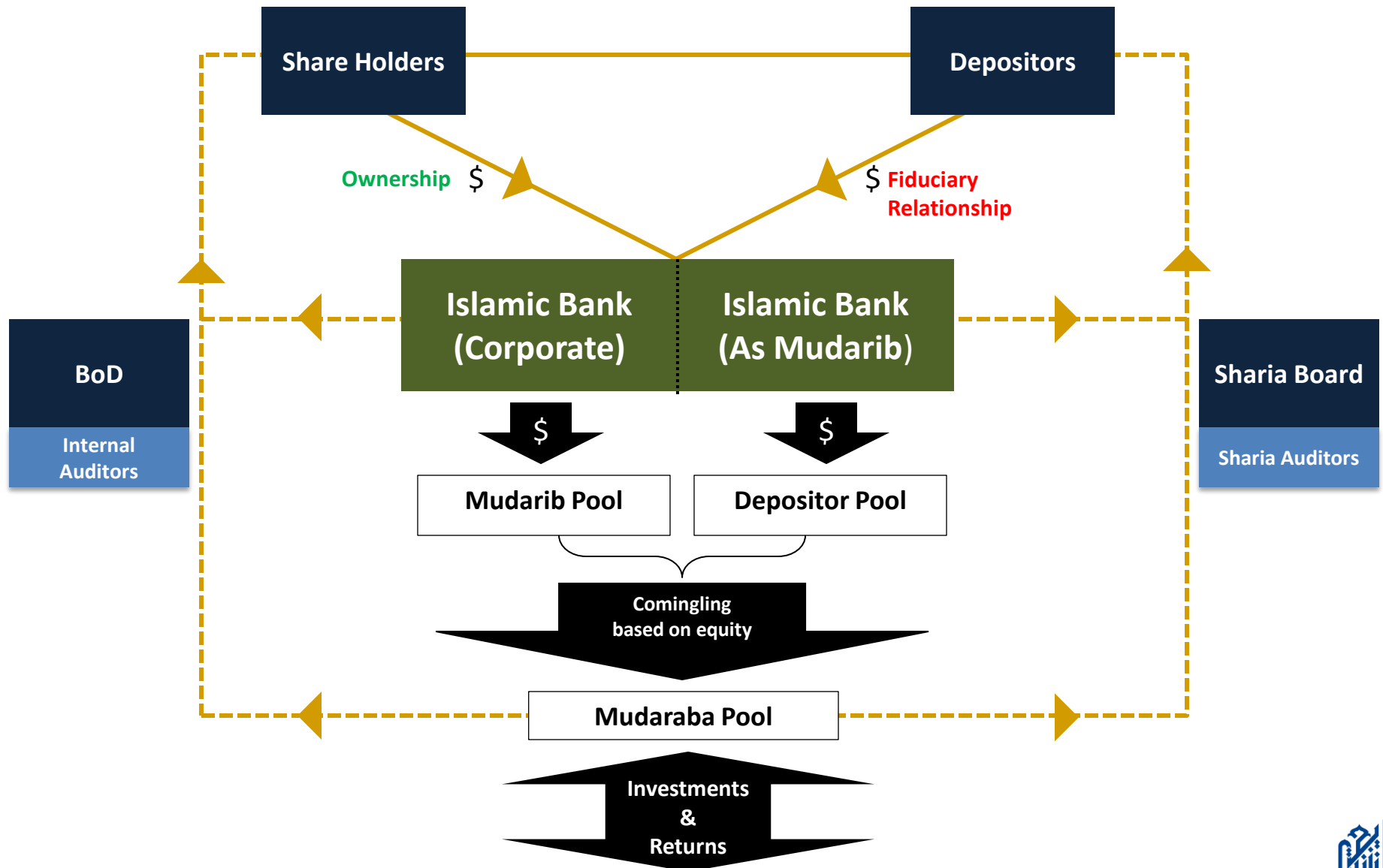
Insurance Companies

Other Financial Services

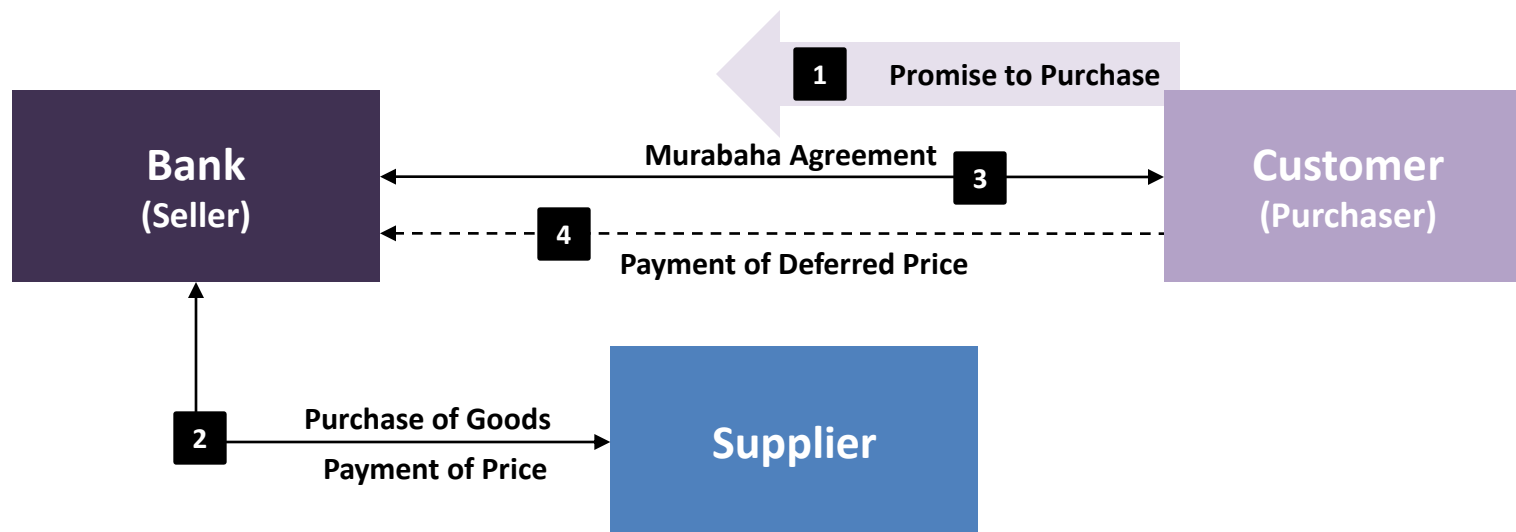
# How different is it? – Conventional Banking Model



# How different is it? – Islamic Bank Model



# How different is it? – Sale Based Contract (Murabaha)



## PROCESS

1. Promise to Purchase by Customer
2. Procurement of Goods by Bank upon payment of price
3. Sale of Goods by the Bank to Customer on Murabaha basis
4. Payment of Murabaha sale price (deferred price) by Customer to Bank as per agreed terms.

## FEATURES & EXAMPLES

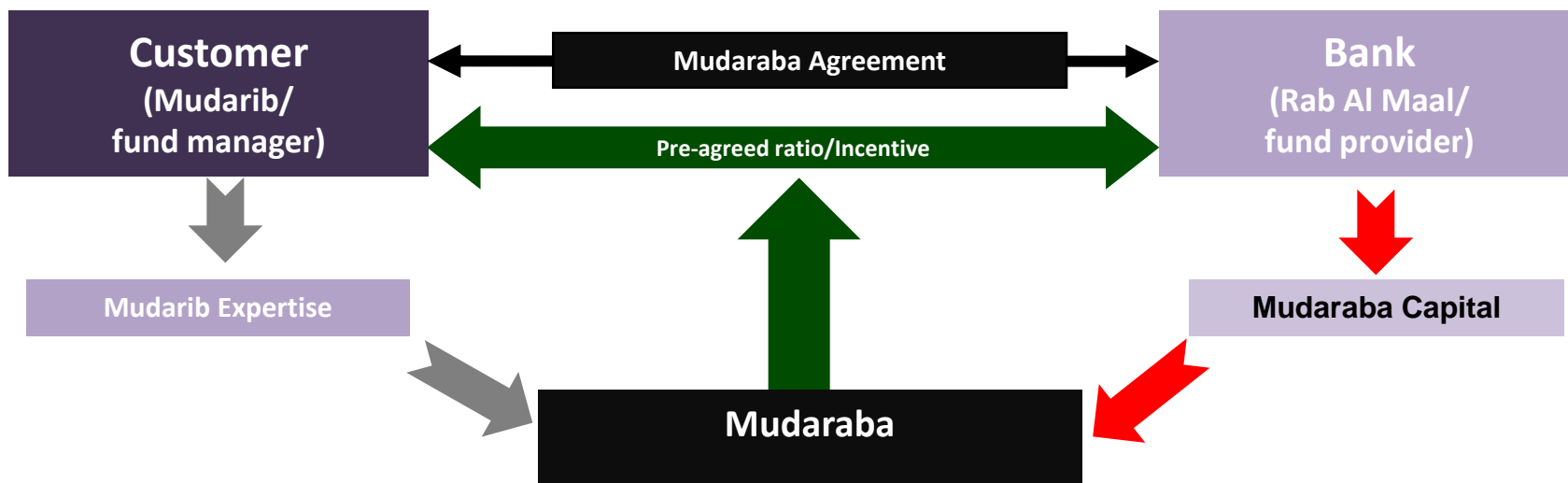
- Provides a fixed return.
- Price must be known on day-one.
- Can be entered only when Bank has acquired title & possession of goods.
- Goods must not be delivered before execution of Agreement.
- Generally used for vehicle and other short term financings.
- Normally used for short term finance.

# Applications of Murabaha

- **Murabaha is used in the following Islamic Banking Products:**
  - **Car Financing;**
  - **White Good / Consumer Durable Financing;**
  - **Trade Financing;**
  - **Import Financing;**
  - **Share Financing;**
  - **Land Purchase Financing;**
  - **Syndication Financing for Trade Purposes;**
  - **Sukuk (Non-tradable);**
  - **Commodity Murabaha based liquidity products**
  - **Islamic Repo- (Collateralized Murabaha)**



# How different is it? – Inv. Based Contract (Mudaraba)



## PROCESS

1. Mudaraba Agreement between Bank and Customer.
2. Bank provides capital to be invested by Customer as Mudarib in a Sharia compliant manner
3. Customer as Mudarib invests the capital as per business plan submitted to the Bank
4. Return on capital is distributed as per pre agreed ratio either on maturity or periodically (constructive liquidation).

## FEATURES & EXAMPLES

- In case of loss, it is borne by Rab Al Maal, save in case of fraud, negligence or misconduct by Mudarib.
- Incentive mechanism could be built in to cap the return for the Bank
- Bank is Rab Al Mal and Customer is Mudarib.
- Also used for project finance
- Mudarib cannot guarantee a return, however it may provide an indication.

# Applications of Mudaraba

- **Mudaraba is used in the following Islamic Banking Products:**
  - **Deposit Placement;**
    - **Savings Account**
    - **Investment (Fixed) Deposit Accounts**
    - **Treasury Funding (both ends)**
  - **Contractor Financing;**
  - **Comingling Mudaraba (Working Capital);**
  - **Transaction/Project Based Mudaraba;**
  - **Takaful Products;**
  - **Funds;**
  - **Sukuk (tradable).**

# Implementation Approaches – Limited

## Fundamental Pros and Cons of adopting the Limited Implementation Approach

### Pros

- Provide an opportunity for Malta to debut as an Islamic finance stakeholder.
- Create an investment interest in Malta from regional and off-shore Islamic finance stakeholders, including sovereign wealth funds from GCC.
- Contribute to the growth of the Maltese economy from the introduction of targeted Islamic finance products and services.
- The legal, regulatory and supporting framework can be stress-tested for future increased implementation approaches.

### Cons

- Full potential of the Islamic finance opportunity may be not realized for Malta.
- Level playing field may not be afforded to the Islamic finance stakeholders in Malta.
- The prescribed Sharia implementation of the targeted Islamic products and services may be compromised.
- Malta's credibility as an Islamic finance jurisdiction may not be fully acknowledged by the Islamic finance industry.

# Implementation Approaches – Phased

## Fundamental Pros and Cons of adopting the Phased Implementation Approach

### Pros

- Provide an opportunity for Malta to foray as a committed Islamic finance stakeholder.
- Evoke systematic investment interest in Malta from regional and off-shore Islamic finance stakeholders.
- Possibility to position Malta as a potential hub of Islamic finance in the region.
- Contribute to the systematic growth of the Islamic finance sector in the Maltese economy.
- The legal, regulatory and supporting framework can be systematically attuned to the sustained integration of Islamic finance.

### Cons

- Potential of the Islamic finance opportunity may be realized for Malta on a longer horizon, starting with a lukewarm approach.
- Level playing field may not be immediately afforded to the Islamic finance stakeholders in Malta.
- The prescribed Sharia implementation of the Islamic products and services may be compromised until the optimum implementation phase is achieved.
- Implementation risk of the full phases due to internal and external considerations.

# Implementation Approaches – Comprehensive

## Fundamental Pros and Cons of adopting the Comprehensive Implementation Approach

### Pros

- Provide an opportunity for Malta to instantly position itself as a hub of Islamic finance.
- Evoke maximum investment interest in Malta from regional and off-shore Islamic finance stakeholders.
- Contribute to the immediate growth of the Islamic finance sector in the Maltese economy.
- A separate and parallel legal, regulatory and supporting framework can be immediately provided to nurture the sustained growth of Islamic finance in Malta.

### Cons

- Constant supervision and measures need to be adopted from legal and regulatory perspective to maintain the two alternate systems.
- Need to develop resources on an urgent basis to support and sustain the Islamic finance sector.

# Roadmap & Conclusion

## Roadmap

- **Implementation Committee**
- **Due Diligence and Feasibility Report**
- **Impact Analysis**
- **Structured Implementation: Regulatory and Supervision**
- **Capacity Building**
- **Ongoing Technical Support**
- **Traction with global Islamic finance industry**

## Conclusion

**Malta holds all what it takes to become the regional powerhouse for both, the Islamic finance as well as the Halal industry, which will generate considerable FDI and large scale employment opportunities and economic benefits. Clearly, this is the case of sooner the better.**

# CONTACT INFORMATION

**Sohail Zubairi**

**CEO**

**Email:** [sohail.zubairi@daralsharia.ae](mailto:sohail.zubairi@daralsharia.ae)

**Telephone:** +9714 2107301

**Mobile:** +971 50 6514235

**Muhammad Nazir Mian**

**COO**

**Email:** [mian.nazir@daralsharia.ae](mailto:mian.nazir@daralsharia.ae)

**Telephone:** +9714 2107302

**Mobile:** +971 50 4507448

## THANK YOU

**Website:** [www.daralsharia.com](http://www.daralsharia.com)

**Location:**

- Office 201, Al Masood Building, Al Maktoum Road, Deira, Dubai, UAE
- Office 607, Precinct Building 3, DIFC (Gate Building), Dubai, UAE