

# Recent Developments in Islamic Finance

**Melikşah Utku**

*CEO - Albaraka*

**6<sup>th</sup> COMCEC CAPITAL MARKETS REGULATORS FORUM MEETING**

*31 October 2017*

*Istanbul, Turkey*

**I. Islamic Finance and innovative spirit**

**II. The Recent Situation**

**III. The Road Ahead**



# Islamic Culture and laws are open for learning from other cultures

*from Monometalist Monetary System...*



NAC 29 #693 4.49g

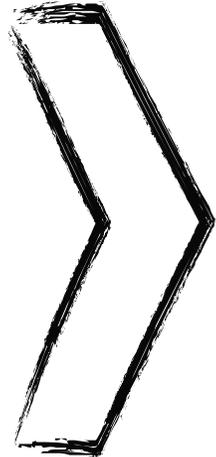
Gold dinar of the Byzantine Empire



Silver drachm of the Sasanian Empire

*...to Bimetalist*

Integration and synthesis of two different currencies:  
dinar and drachm

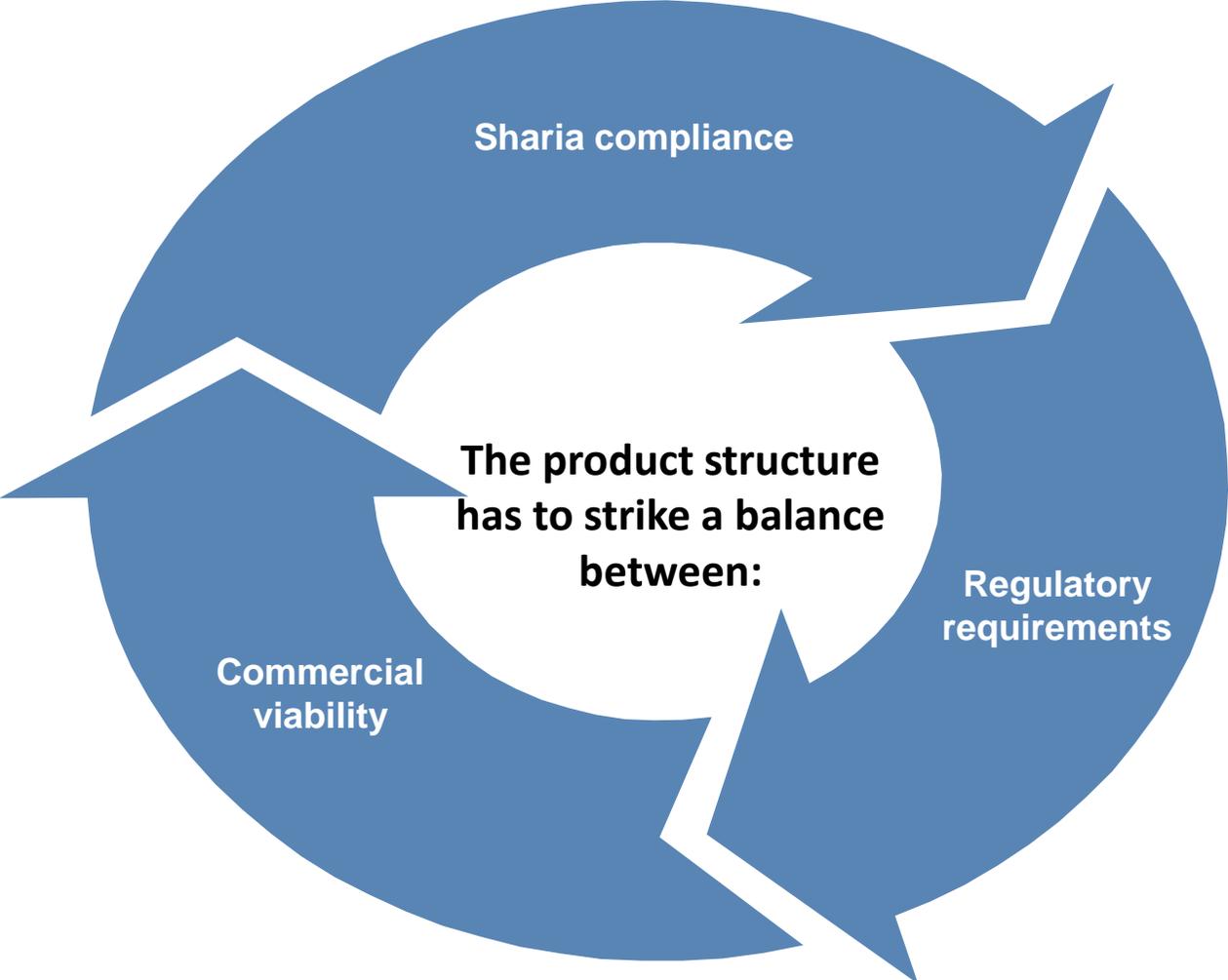


Coins of Islamic Caliphate

**Besides learning from other civilizations, Islamic financial culture has an experienced innovative spirit, as well**

|                             | <b>Mudarabah</b>                              | <b>Commenda</b>                     | <b>Venture Capital</b>              |
|-----------------------------|---|-------------------------------------|-------------------------------------|
| <b>Started</b>              | 6 <sup>th</sup> century                       | 11 <sup>th</sup> century            | 20 <sup>th</sup> century            |
| <b>Mean of the business</b> | Caravans                                      | Ships                               | Mostly; the Internet                |
| <b>Parties involved</b>     | Owner of the capital & Manager of the capital | Capital provider & Travelling party | Investors & Start-ups & other firms |
| <b>Occurs in</b>            | <b>Muslim Society</b>                         | <b>Mediterranean region</b>         | <b>Whole World esp. US</b>          |

**A reality; innovations in Islamic finance is more challenging!**



# But this challenge hinders potential risks, making the sector healthier

Cheap Money + Leverage



Financial Innovation

$$C = SN(d_1) - Xe^{-rT} N(d_2),$$

where

$$d_1 = \frac{\ln\left(\frac{S}{X}\right) + \left(r + \frac{\sigma^2}{2}\right) T}{\sigma\sqrt{T}} \text{ and } d_2 = d_1 - \sigma\sqrt{T}$$



Asset Bubble



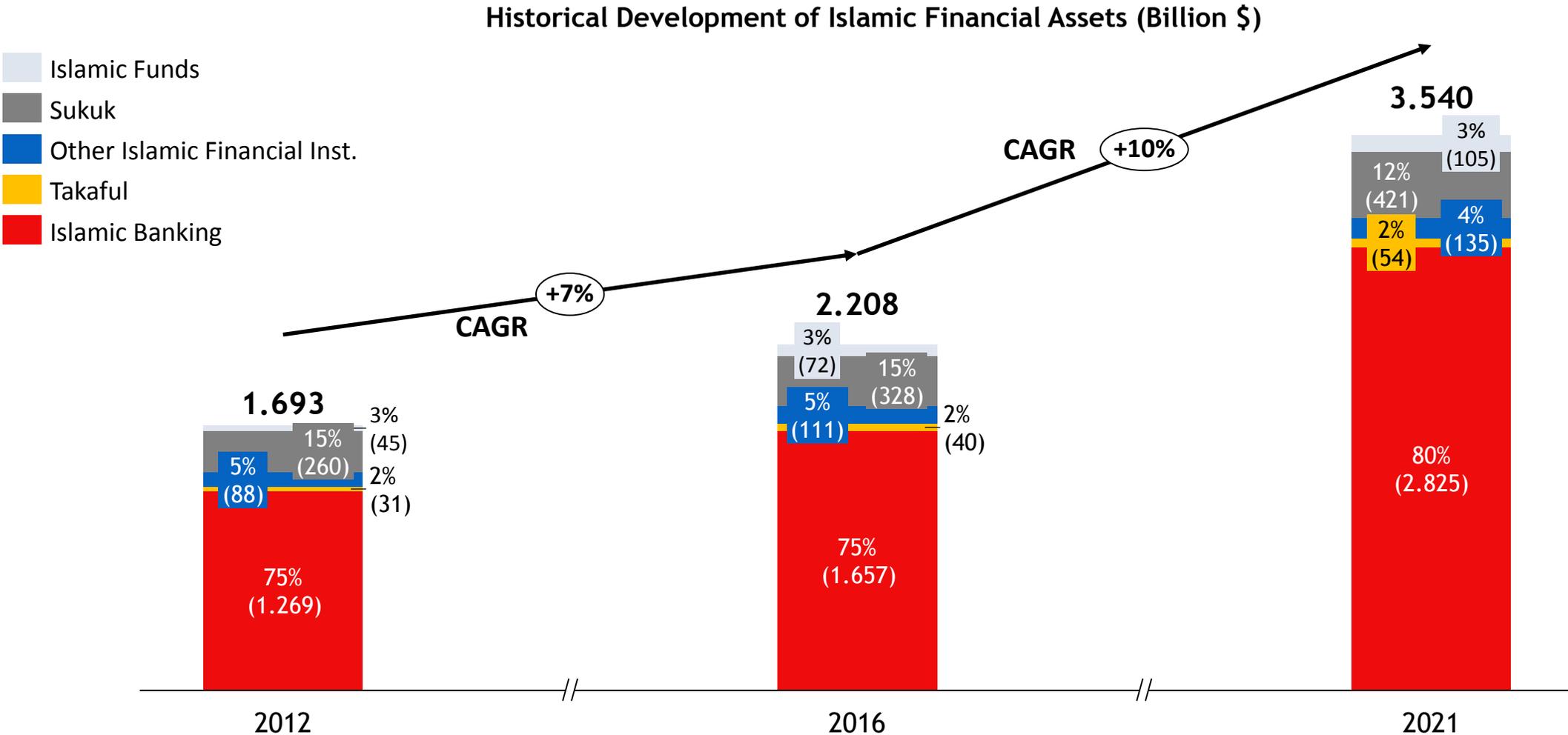
2008 subprime financial crisis was mainly rooted in increasing complexity, risk transfer and disconnection from real economics

**I. Islamic Finance and innovative spirit**

**II. The Recent Situation**

**III. The Road Ahead**

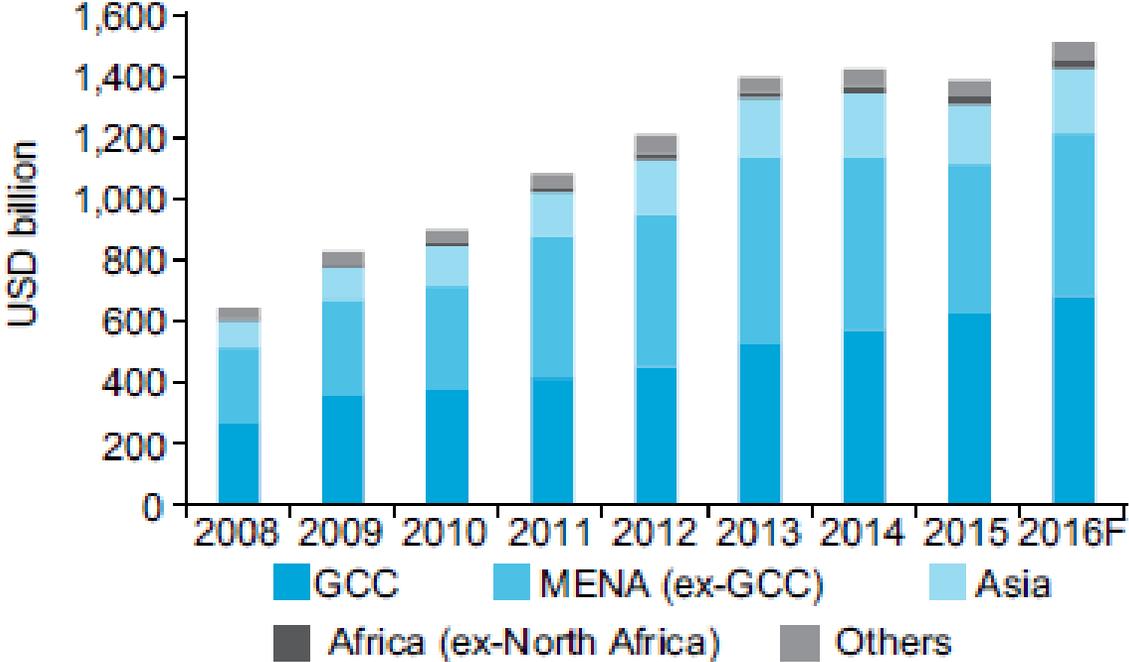
# Demand for Islamic Financial Assets is increasing day by day



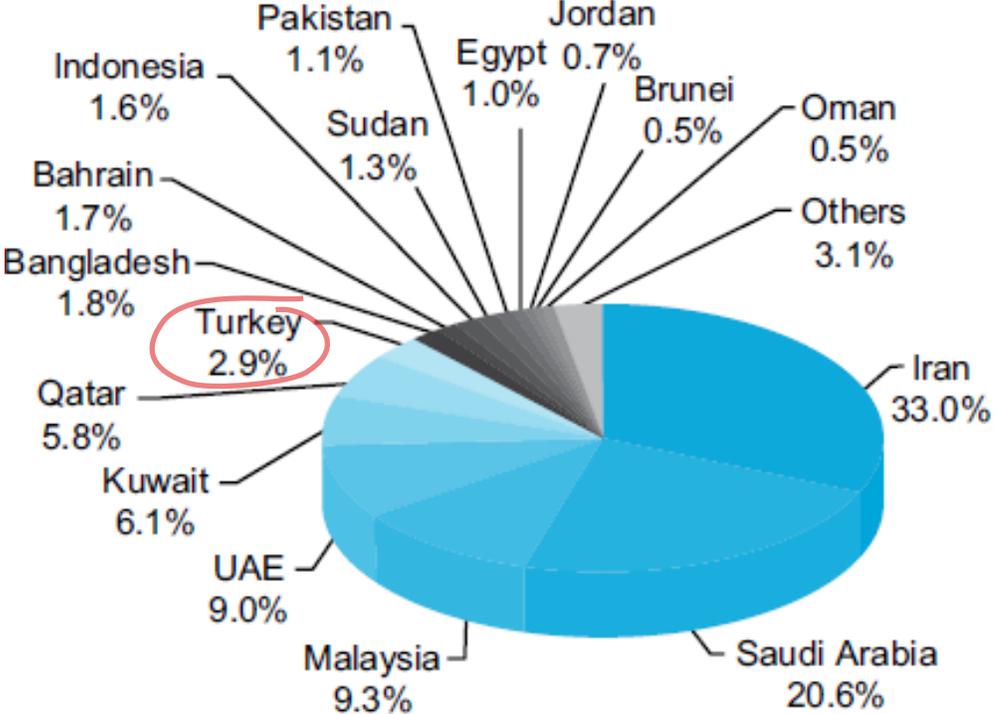
Source: Thomson Reuters

**Although USD term banking assets having partially lower growth in last few years - it was due to USD appreciation – main trend has a sound performance**

**Change in Islamic Banking Assets**



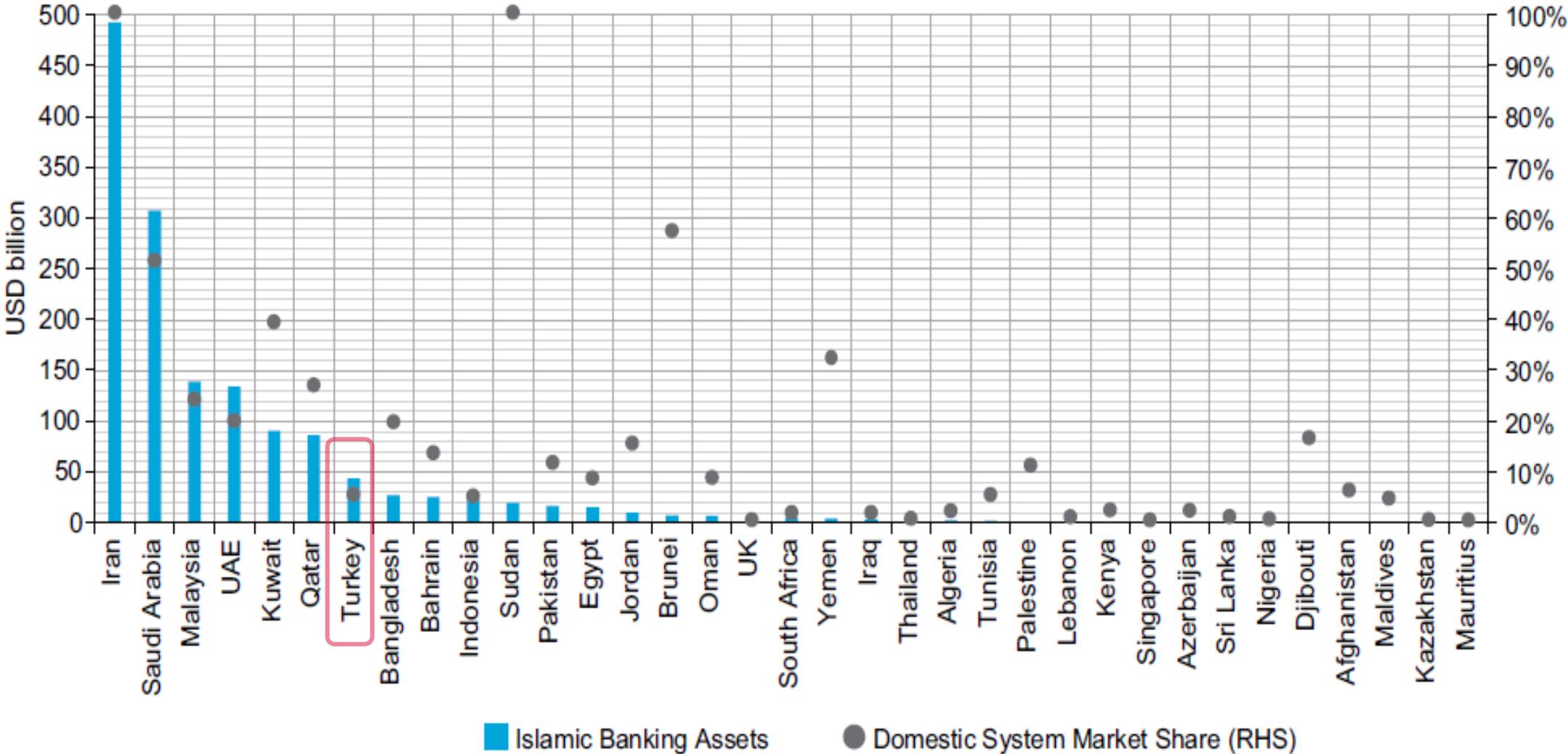
**Shares of Global Islamic Banking Assets**



Source: PSIFIs, IFSB; IFSB Secretariat Workings

# Iran, Malaysia and Gulf countries are dominating Islamic banking

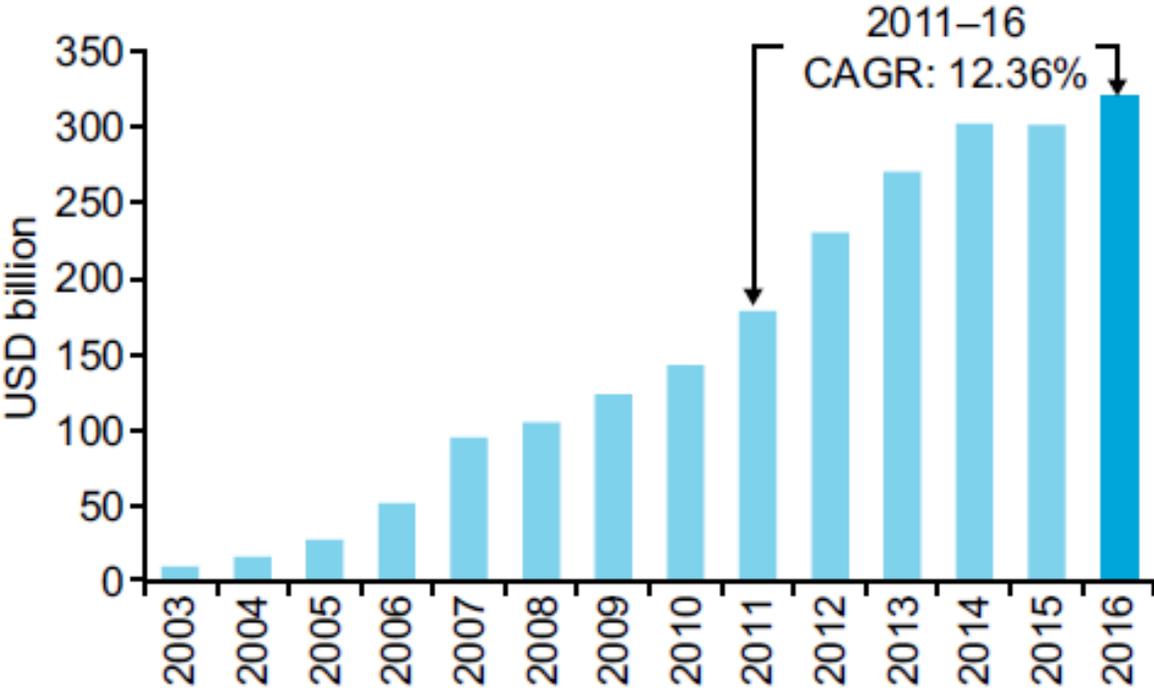
Islamic Banking Assets and Market Shares (2016)



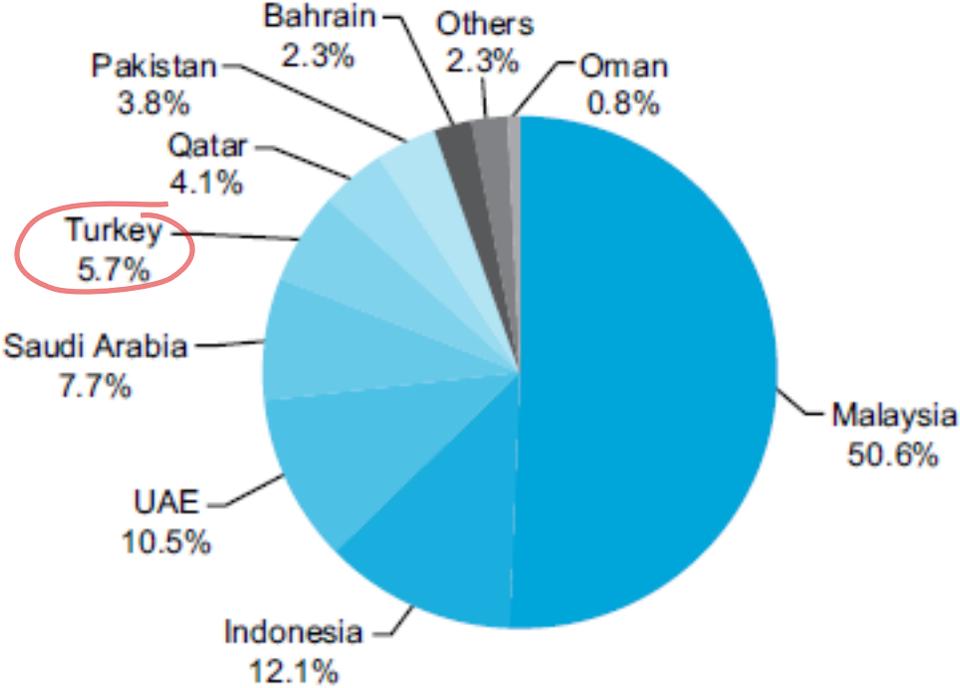
Source: IFSB Stability Report

# While Sukuk market has a robust growth, Malaysia has more than %50 of the market by itself

Global Sukuk Outstanding Trend



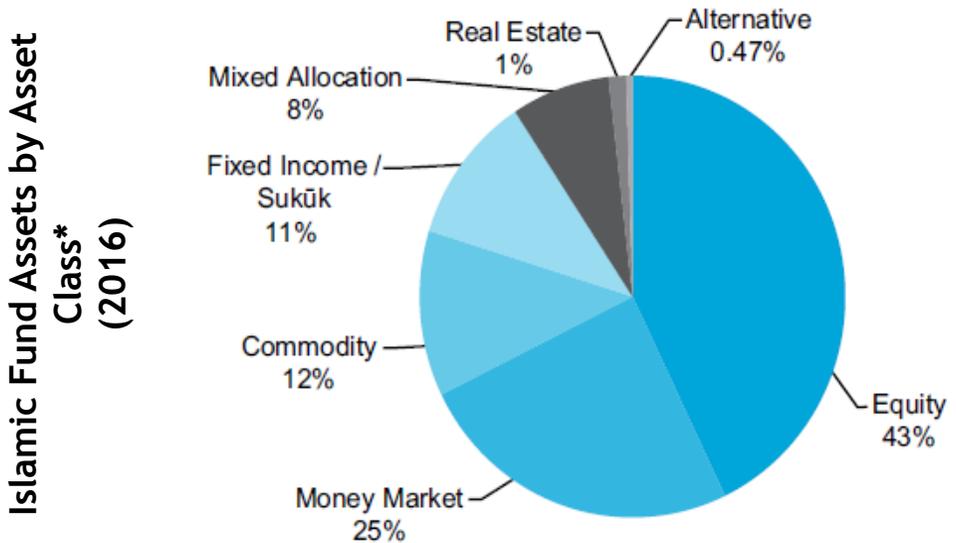
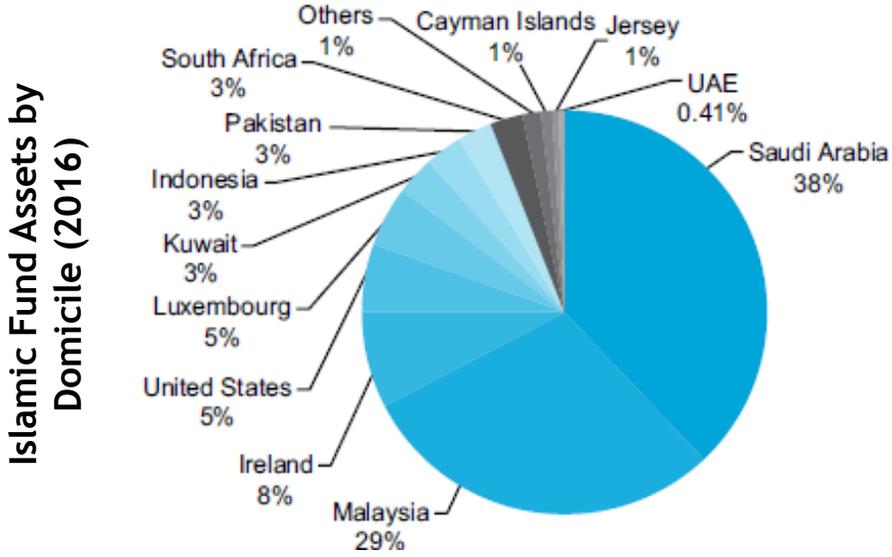
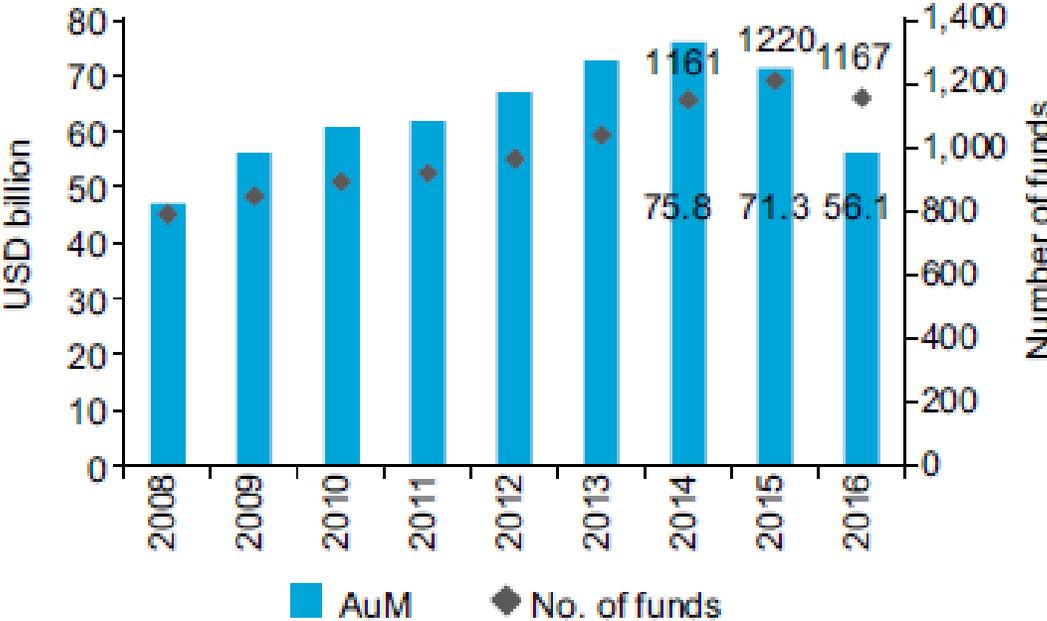
Sukuk Issuances by Jurisdiction and Share (2016)



Source: IFSB Stability Report

**Islamic funds has decreased both in volume and numbers in recent years, due to high concentration and lack of economies of scale (affects operational efficiency)**

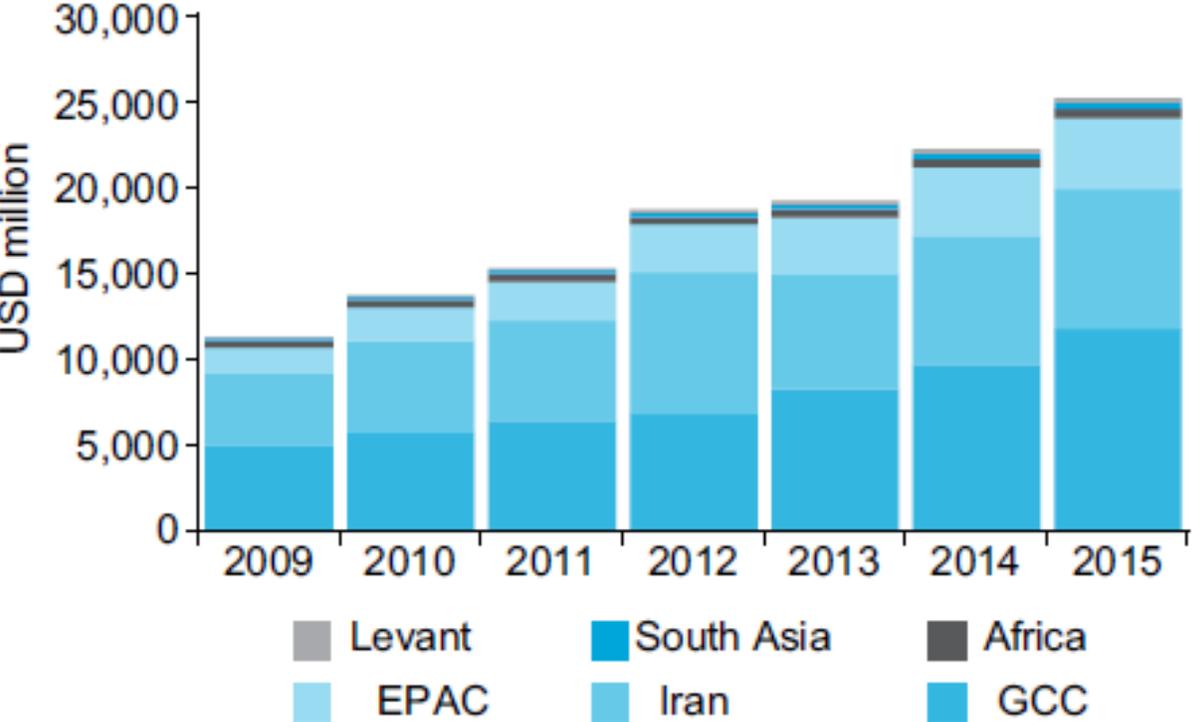
**Assets under Management and Number of Islamic Funds (2008-2016)**



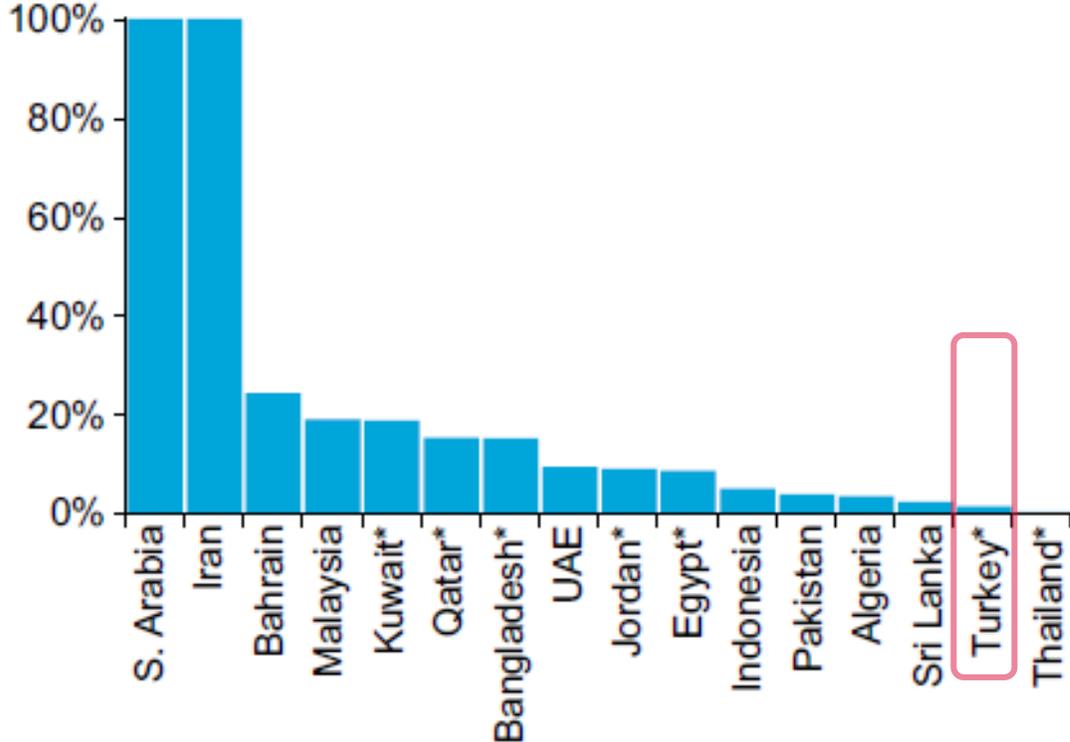
Source: IFSB Stability Report

# Compared to conventional insurance, takaful enables risk minimization through risk sharing model and has a strong growth path

Takaful Gross Contributions by Country Groups (2009-2015)



Gross Contributions by Country (2015)



Source: IFSB Stability Report

**I. Islamic Finance and innovative spirit**

**II. The Recent Situation**

**III. The Road Ahead**

**Development will come through technology**



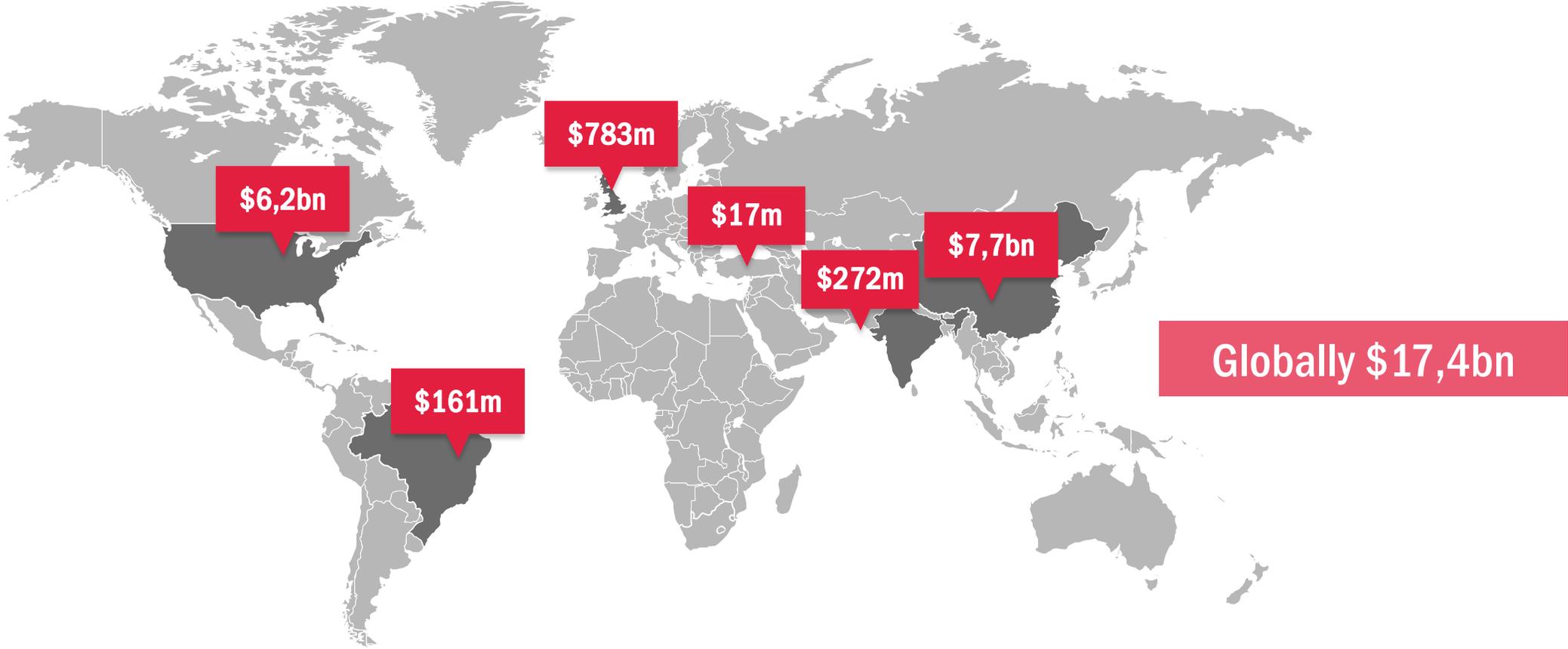
# It is time for disruptive Technologies..



**Conventional ways of business are changed by unusual competitors, which even don't have relevant infrastructure...**

|   |   |   |   |
|---|---|---|---|
| <br>UBER<br>World's largest taxi company<br>Owns NO<br><del>Taxis</del>    | <br>airbnb<br>World's largest Accommodation provider<br>Owns NO<br><del>Real estate</del> | <br>skype WeChat<br>World's largest Phone companies<br>Owns NO<br><del>Telco infra</del> | <br>Alibaba Group<br>World's most Valuable retailer<br>Owns NO<br><del>Inventory</del> |
| <br>facebook.<br>Most popular Media owner<br>Owns NO<br><del>Content</del> | <br>SocietyOne<br>World's fastest Growing bank<br>Owns NO<br><del>Actual money</del>      | <br>NETFLIX<br>World's largest movie house<br>Owns NO<br><del>Cinemas</del>              | <br>Apple Google<br>World's largest Software vendors<br>Owns NO<br><del>Apps</del>     |

As a part of digitalization fintechs also inhold great opportunities.



Global Fintech VC Deal Value 2016

Source: Pitchbook

# New ways of financing and business are growing faster than we imagine!

Crowd Funding



Peer to Peer Lending



Angel Investment



Crypto Currency (Blockchain)

As the pioneering participation bank of Turkey, Albaraka works hard to pioneer technological developments, too!



Startup Accelerator and Incubation Center



Intrapreneurship Program



Innovation Platform for Customers and Employees



Fintech Technology Transfer Program