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4D APPROACH TO SELECTING THE RIGHT ISLAMIC BANKING SYSTEM

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WHILE THERE ARE OVER 75 RECOGNISED CORE BANKING SOLUTION PLATFORMS ACROSS THE WORLD, IT IS A SMALLER SUBSET OF THIS NUMBER THAT QUALIFY TO PROVIDE END TO END ISLAMIC BANKING FEATURES. IF ONE CONSIDERS THE SELECTION OF A CORE BANKING SYSTEM AS A SCIENCE IN ITSELF, IT WOULD BE ONLY FAIR TO SAY SELECTING AN ISLAMIC CORE BANKING PLATFORM IS A SHADE MORE COMPLEX - BOTH FROM THE STANDPOINT OF DEFINING THE EXPECTATIONS CLEARLY, AND MAKING THE RIGHT CHOICE OF AN APPLICATION THAT BEST MEETS THE REQUIREMENT. HOW DOES ONE GO ABOUT DETERMINING THE BEST FIT SOLUTION FOR THE BANK?

Here is a quick guide with four dimensions of focus: 'the 4D approach' to selecting the right Islamic banking system.

1. DEFINE YOUR NEEDS

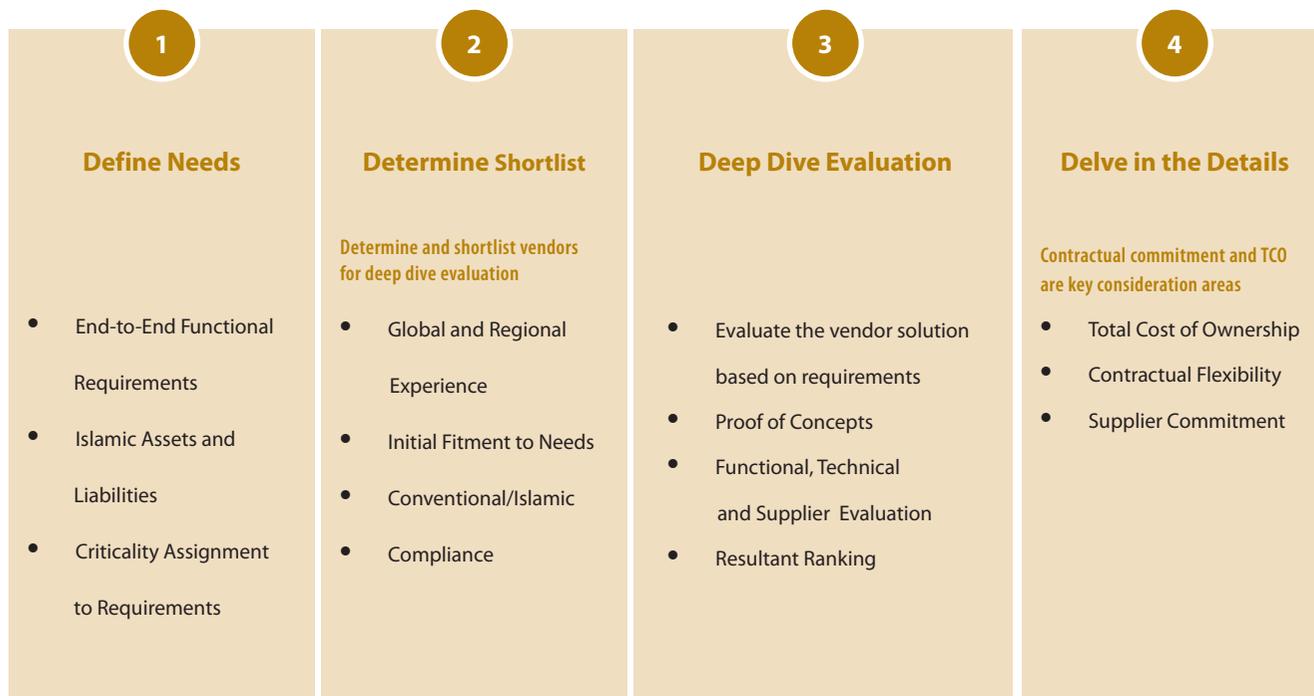
The requirements from an Islamic banking standpoint tend to be specific based on both the region in which it operates, and also the directives as provided by its Shari'ah Board. A well-defined requirement document would need to focus on the Islamic products and processes that are key for the bank. A good business requirement specification (BRS) document, which includes all key requirements would typically have 5000+ features typically listed, which forms the basis for the detailed evaluation. This includes developing and managing Islamic asset products, finance scheduling, and also the origination, maintenance and termination of contracts. Similarly, on the liability side, the approach and methodology related to the profit calculation

- including the frequency of profit calculation and disbursement, profit calculation approach and provisions such as charity contributions are key to be well defined upfront.

In addition to the needs of Islamic products, a BRS document would also need to address other typical features expected of a solution - CIF (customer information file), credit, operations, branch functionality, GL, channel integration, MIS (management information system) and reporting, among others. To make a holistic and balanced evaluation, it is important to also classify the requirements into three buckets - critical to have, good to have and nice to have, ideally with a 30% to 35% distribution in each bucket.

2. DETERMINE THE SHORTLIST

Although historically banks have adopted an approach to building Islamic features around conventional core banking platforms, a whole new breed of Islamic banking solutions is now available for banks to make an informed choice



from. While the large conventional core banking solution providers such as Infosys, Misys, Oracle FSS, Silverlake Axis, TCS Financial Solutions and Temenos have all built an offering for the Islamic banks complimenting their respective conventional offering, we also find solution providers such as BML Istisharat, ITS, Path Solutions and ICSFS with offerings that are more Islamic focused. The key here is to determine the right shortlist from the vendors from the above list, to whom the request for a proposal (RFP) is sent, inviting a formal proposal for a deep dive evaluation.

In order for the determining the shortlist of vendors, defining the context is critical. There could be three typical scenarios, when it comes to the context of an Islamic banking system selection:

- a. The bank is a pure-play Islamic bank
- b. The bank has two separate offerings - one is conventional and the other is Islamic
- c. The bank is conventional, but looking to also have an Islamic window

Each of the above scenarios bring different constraints and requirements, both from a functional architecture and co-existence of multiple solutions, and the technical implications where different platforms would need to interface, especially where the bank is having both a conventional and Islamic offering. In addition to the functional and technical qualifications, the initial shortlist would need to be determined based on the kind of regional presence, successful references with similar banks and the overall comfort that the bank can draw.

3. DEEP - DIVE EVALUATION AND COMMERCIAL

Invariably, one would find most of the RFP requirements are claimed to be met by each of the solutions in the market. Validating a vendor's claim is both an art and a science. One has to be clear on what you want to see, or you would end up seeing what the vendor would like to show! Remember, demonstrating the solution features is the daily job of the pre-sales team of the supplier, but is almost a once-a-decade event for a



bank! Typically, four to five day reviews per solution would be adequate for a reasonable understanding, and the degree of conformance to the claim made on feature availability.

While evaluating the features on both asset and liability products are important, the focus and emphasis in a typical Islamic system evaluation tends to get more skewed on the construct of the asset products, as they generally get to be more complex and bank specific, driven by respective Shari'ah principles. Typical Islamic products functionality that are critical in an evaluation include murabaha, ijarah, istisnaa, musharaka, mudarabah, tawaruq and salem, among others. Islamic liability products including wakala, profit calculation and distribution methods (pool / fund based) and Islamic trade finance and treasury features also have their unique attributes that need to be evaluated. Another important validation would also include compliance to AAOFI (Accounting and Auditing Organisation for Islamic Financial Institutions) standards that are adopted by most Islamic banks.

Just as the functionality of the solution is critical, it would also be important to validate the technology platform and the architecture of the solution carefully. Typical parameters for an evaluation would include system design, performance and scalability, flexibility for future product development, security, data integrity, integration capabilities and user interface.

Additionally, a good evaluation should also consider the supplier organisation and its financial strength, global and regional experience, implementation track record, kind of support provided and the overall long-term outlook as evidence of its track record. An evaluation ranking should be based on all the three considerations - functional, technical and

supplier credentials.

4. DELVE INTO THE DETAILS - CONTRACTUAL

The devil is always in the detail. While a techno-functional evaluation would help determine and rank the top two or three-best-fit vendors, the final fitment choice is best made based on the supplier who makes it to the better part of the following three-point checklist:

- Who is best positioned to deliver a smooth implementation? This is a function of the quality of the project plan, the degree of customisation effort, and most importantly the relevant experience as evidenced by the team proposed. Having skilled professionals with deep Islamic banking understanding is a critical success factor.

WHILE EVALUATING THE FEATURES ON BOTH ASSET AND LIABILITY PRODUCTS ARE IMPORTANT, THE FOCUS AND EMPHASIS IN A TYPICAL ISLAMIC SYSTEM EVALUATION TENDS TO GET MORE SKEWED ON THE CONSTRUCT OF THE ASSET PRODUCTS, AS THEY GENERALLY GET TO BE MORE COMPLEX AND BANK SPECIFIC, DRIVEN BY RESPECTIVE SHARI'AH PRINCIPLES.



- Who is willing to make the right contractual commitment? This is critical. Suppliers who are too rigid about their contractual terms and statement of work are equally challenging as those who may be too flexible and bend backwards!

- Who has the most effective 'total cost of ownership'? The pricing of a core banking solution is generally not just about the licence, customisation or implementation cost. It is also about the maintenance over the next five years, the indirect costs of hardware and other third party solutions that need to be in place to use this solution.

Even after you have completed all of the above, the one important factor that would help you make the final decision is the commitment and sponsorship at the senior most levels of the supplier organisation. At the end of the day, what matters to the management is what matters to the rest of the organisation. It's important that the project is of high importance to the CEO of the supplier organisation - and that does matter!

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