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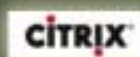
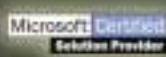
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Editor's Note

Welcome to this supplement, accompanying the March 2005 issue of the International Banking Systems Journal, in which we look at core systems for the ever expanding Islamic banking sector.


This supplement complements our recently published inaugural 'Who, What, Where Guide to Islamic Banking Systems' which provides a detailed overview of the market, its systems and suppliers. The construction of that Guide has been an interesting learning curve. We already knew the back office systems market inside out, through specialising wholly on this sector. We also know some of the Islamic institutions and systems, through our on-going coverage. However, delving deeper into the subtleties and issues of Islamic banking was a fascinating process.

Talking to users, there is no doubt that many of their day-to-day issues are exactly the same as those of their non-Islamic counterparts. Indeed, many institutions span both disciplines, offering Islamic and non-Islamic banking. However, even the term 'Islamic banking' is a misnomer, with much debate about its definition. There is no definitive answer, which adds to the complexity of offering compliant services and building the infrastructure to support them.

One thing that everyone agrees on is that this sector is growing rapidly. This is evident from the number of institutions that have moved to serve the market. We look in detail at one of the most high profile, Islamic Bank of Britain, which is targeting the country's 1.8 million Muslims. Across the globe, in traditional and non-traditional Muslim countries, the accessibility of this form of banking is ever-increasing. This is due to the number of institutions offering Sharia banking, as well as due to the growing breadth and sophistication of the product offerings.

As with all banks, Islamic institutions need a solid base on which to prosper, with the core back office systems a vital part of this. As will be seen, there are a lot of parallels between the banking sector and systems sector, with a similar growth in the number of compliant offerings, so the choice is becoming ever broader for an Islamic institution seeing a compliant platform,

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INTERNATIONAL BANKING SYSTEMS

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Islamic banking goes mainstream

The fast growing Islamic banking market is driving the need for compliant core systems, and the suppliers are reacting to that need

There is no doubt that, today, Islamic financial systems and interest-free banking have become reality. From early, tentative beginnings, the number of institutions has multiplied and the level of banking has become more sophisticated. This is not only in traditional Islamic countries but across the globe. All of the indications are that the growth will continue, with Islamic banking now that more accessible to would-be customers. It is centred on dedicated Islamic banking institutions (in their domestic markets as well as cross-border) as well as traditional banks offering Islamic products.

Of the dedicated institutions, there are three sorts. Some are now long-standing providers of this form of banking; a growing number have converted to full Islamic banking, with this an accelerating trend (National Bank of Sharjah is an example); and others are start-ups. The latter camp includes institutions in the Gulf, Middle East, Asia (Islamic Bank of Thailand is a recent addition) and Europe (Islamic Bank of Britain in the UK is the latest high profile arrival).

As a sort of hybrid, a number of traditional banks have been opening specialised Islamic banking operations and branches to offer products according to Sharia principles. For example, in the UK alone, Barclays Capital, HSBC, ANZ Grindlays, LloydsTSB and West Bromwich Building Society have all done so, with Yorkshire Bank known to be among those following. Quite a few commercial banks in the Gulf region have also started to offer Islamic products alongside non-Islamic.

There are now active retail banks, investment banks, funds management companies, insurance and Takaful operators (offering insurance where resources are pooled to help the needy), Modaraba associations, and industry bodies. The need by Muslims for institutions in which they can deposit their savings and borrow in accordance with Sharia principles (Islamic rulings based on the Holy Quran and the

Sunnah, i.e. the teachings of the Prophet Mohammed) is being met. Today, Islamic banking is accepted as an ethical and viable financial system. As such, it is not surprising that many non-Muslims have been drawn to it as a more attractive, fair way of banking.

This supplement is primarily focused on the systems that underpin Islamic banking. This is our area of expertise and is an aspect of this form of banking which seems to be lacking in coverage. Basically, the early days of Islamic banking saw largely manual processes to support the relatively simple products. Over time, bespoke applications were developed, largely on an in-house basis, to handle the capture of data and accounting. The in-house route is still common - so a lot of Islamic institutions will not feature in the customer lists of the software package suppliers. Some of the larger institutions in the Gulf have considerable IT resources and have been largely self-sufficient. However, as with the banking market in general, a clear trend is a shift away from the in-house development towards packages.

The emergence of mainstream banking systems to support Islamic banking has, not surprisingly, more or less occurred in parallel with the development of this form of banking per se. Manual processes or elementary software applications were sufficient all the while the product set was narrow and the customers were few. However, the need for improved automation came with the increase in sophistication and volumes.

There have been two main sources of supporting applications. First, there are a few that have been built from the ground upwards as pure Islamic banking systems. The suppliers of these are typically small and localised. By focusing solely on this segment, they were limiting their market but have been able to claim the high-ground, using the origins of their applications as a

selling point. The most common roots of these niche solutions are projects for specific banks, the results of which have been turned into commercial offerings.

The second source has been the standard banking package that has been adapted for Islamic banking. Most of the systems covered in this supplement fall into this category. Clearly, for the suppliers, the main benefit is the ability to be able to sell to all forms of banks, whether Islamic or not. At the same time, there is debate as to what is actually needed for full Islamic banking support. The level of adaptation varies from one system to another, from the relatively straightforward changing of screens and reports, to substantial reengineering to adapt the underlying processes or the addition of modules for Islamic-specific products. The best indication of the level of support is probably to look at the user lists: a system which is used in a variety of broad Islamic institutions is likely to have wider support than one that is used in a single site.

There also seems to be a type of hybrid solution, somewhere between these two forms, which comprises Islamic banking support built outside of a standard package but using aspects on the host solution such as the Customer Information File and general ledger.

There is also the complication, as pointed out in the editorial note, that there are different interpretations of Sharia, in part varying from one country to another. This brings difficulties for suppliers and banks alike. A general rule is that the fewer changes to a system, the less risk in the implementation. Most Islamic banking systems projects appear to need customisation, regardless of the breadth and depth of the system. At times, the implementation can be under way while the definition of the products is still in the hands of the advising Islamic scholars. Any institutional Islamic investment body has a Sharia Supervisory Board which rules on the compliance of financial products and transactions.

It should be pointed out that not all institutions offering Islamic banking products have their own systems to support these. The concept of 'white labelling' is well understood in all forms of banking and can be perfectly applied to Islamic banking. This is where an institution offers a product as its own, but with the booking and processing of that product undertaken by a partner institution. West Bromwich Building Society is an example, having started to offer mortgages supplied by Ahli United Bank in 2002. In fact, this is not 'pure' white labelling, because the source of the supplying bank is identified within West Bromwich's marketing material, so is visible to the customer. The concept of an institution offering processing of Islamic banking products on an ASP basis, or within some other form of outsource arrangement, is feasible but probably some way off.

Most of the current systems stem from niche regional players or multi-national suppliers. They form a subset of the overall banking systems suppliers, with a fair number of applications having missed out on Islamic banking support to date. Understandably, for commercial reasons as well as due to the complexities and variations, suppliers do not tend to build Islamic support without a partner bank. Although the directory portion of this supplement is reasonably well populated with applications, there is still a lack of choice.

Having said that, additional applications are being brought into the fold all the time. The latest is I-flex Solutions' Flexcube which, according to our annual sales league table, was the best selling back office system around the globe in 2002, 2003 and 2004 (see this month's IBS for the latest table). I-flex is working with Shamil Bank in Bahrain to adapt Flexcube for Islamic banking, with the implementation under way by the end of 2004. A successful project would add another important application to the list of tried and tested solutions from which an Islamic banking institution can choose. No doubt other applications will go the



LloydsTSB - a recent entrant

same way.

To a large extent, the first systems to be made compliant have been broad in nature, for core banking across both retail and commercial. It might be that the next systems to be adapted will be more niche ones, in parallel with the evolution of the banking market itself. As the products become more sophisticated, so additional support will be needed. This might also see the rise of new developments, particularly if the differences between Islamic and non-Islamic banking in these sorts of areas are so wide that they cannot be addressed by customisation. The Islamic investment equity funds market is one of the fastest growing, with around 100 such funds by the end of 2004. At the time, the Institute of Islamic Banking and Insurance estimated that total assets managed exceeded \$5 billion, with average annual growth of 12 to 15 per cent. A number of major, established players have launched such products of late. There is now the Dow Jones Islamic Market

Index and the FTSE Global Islamic Index. There is also a website - www.failaka.com - which monitors the performance of such funds and provides a comprehensive list.

There is also growing interest in Sharia-compliant derivatives, as instruments of hedging rather than as tools for speculation. Towards the end of 2004, Robert Pickel, CEO of the International Swaps and Derivatives Association (ISDA), said that ten to twelve global banks had already come up with Sharia-compliant derivatives. ISDA's remit, as a bank-owned body, is to encourage and nurture these types of financial products. ISDA is interested in developing the documentation to support such Islamic derivatives, with this effort fitting well with its stated aim of encouraging the development of derivatives within the Middle East.

For areas such as this, it is fair to assume that the initial volumes will be low, so they might be supported by the manual processes, work-arounds or spreadsheets of an immature market, but with

compliant applications coming not far behind as the market evolves. Such instruments also come with significant risk implications, so will need supporting risk management systems and metrics.

The suppliers and systems covered in this supplement are probably not exhaustive. Indeed, as we undertook our research for our 'Who, What, Where Guide to Islamic Banking Systems', additional relevant suppliers became apparent. This actually delayed the publication date while we added to the initial list. That guide is intended to become an annual publication, so we are always interested in finding other suppliers for inclusion. As such, we welcome suggestions, or any other feedback.

The Islamic banking market is one of the most active and fast growing, with no sign of a slow-down. It is already global, with nearly all Muslims now having the option of this form of banking; it is also becoming more competitive and sophisticated. These two latter trends alone drive improved

Systems categorisation

Most of the systems listed in the main section of this supplement are broad, so cover retail and wholesale. Our choice of which systems to cover has been dictated by a number of criteria. First, the system must look to be proven in this domain – it is not sufficient for a supplier to claim Islamic banking support without any instances of live sites. We have also had to restrict ourselves to international systems – in other words, offerings that are sold outside of a single country or limited region. Finally, we have focused on the core back office systems, with it not being feasible to include more niche applications.

There are a couple of exceptions to the ‘proven’ rule, which are basically systems which we believe might be worthy of consideration by an institution looking for a complaint offering. First, we have included Infosys’ Finacle. This is an increasingly important core retail offering and we believe it is only a matter of time before it gains a first Islamic customer and, by so doing, gains full support through a joint development project. This is exactly the route taken by Infosys’ arch rival, I-flex Solutions. According to Infosys’ global head of sales and marketing, Merwin Fernandes, the supplier has done a gap analysis for Islamic banking. By mid-February 2005, he was claiming ‘quite a few serious prospects’. Some aspects would be supported by existing parameterisation but he admitted that a fully fledged Islamic version would need enhancements at the accounts and general ledger level, as well as support for some sophisticated products, so this level of support would only come through working with a first taker.

The other system that we have included which as yet does not have any Islamic banking takers (or any takers at all, for that matter) is Netsol’s treasury-centric InBanking. This has Western European origins, having been bought as an unfinished product by the US/Pakistan company. The flexibility of the system would suggest the ability to support Islamic products without major enhancements; the geographical make-up of the supplier also suggests that this might come sooner rather than later.

The question of trade finance systems was a thorny one and we took a fair bit of advice on this. The conclusion is that there is not a great deal of difference between Islamic and non-Islamic trade finance, so that there is usually the ability to allow for this in the set-up stage, particularly in newer, parameterised systems. As such, we have decided to include the trade finance systems on the basis that these will be relevant to Islamic banks and that this is an important activity for most of them.

If you were looking to categorise the systems covered here, then they could be divided as follows:

Universal Banking:

Autosoft (Autobanker), BML (ICBS), Fact (Banxware), Fidelity (AllProfits), I-flex (Flexcube), ICS (ICS Banks), Infopro (ICBA), Infosys (Finacle), Leadsoft (PcBank), Microlink (Mibs), Millennium (Mibs), Misys (Equation and Bankmaster), Path (iMAL), Polaris (Intellect), System Access (Symbols), Temenos (Globus/T24).

Retail Banking:

Elsag (EBIS/SIBI, SIB2000), Fidelity (Systematics), FNS (Bancs), Harland (Phoenix), Nucleus (FinnOne CBS), Silverlake (SIBS).

Wholesale Banking:

CCK (Infinity/Guava Ops), Infosys (Finacle Treasury), Misys (Midas/MidasPlus), Netsol (InBanking).

Trade Finance:

China Systems (Eximills), CSI Banktrade (Banktrade), Harland (Tradewind), Misys (Trade Innovation), Polaris (Intellect Trade), Surecomp (IBSNet, Imex).


Private Banking:

ERI (Olympic).

automation, as do the increases in customers and transaction volumes. Thus, all the suggestions are that this segment of the banking systems market will be characterised by considerable activity over the next few years, with plenty of other institutions entering the arena.

IBS plots new name sales each year and this results in our Annual Sales League Table. In 2004, the top suppliers were I-flex, with 36 orders for Flexcube; Temenos, with 28 orders for Globus/T24; and Summit with 16 orders for its system of the same name. The full table can be found on our website, www.ibspublishing.com. Clearly, only a small number of orders were for Islamic banking systems, but most suppliers have woken up to the fact that this is an important sector.

As should be clear from the above outline, an Islamic bank can either go looking for a proven Islamic banking system or it could base its selection on finding the best system that meets its business requirements, regardless of whether that system has been tailored to date for this sector. Shamil Bank presumably took the latter approach when it chose Flexcube and then decided to work with I-flex on the Islamic banking enhancements. There is no doubt that other suppliers would like to move their systems this way, so would like to work with banks to do so and would offer appropriate commercial incentives. Infosys is a case in point (see box, left). Thus, Islamic banks might consider a somewhat broader search than limiting themselves to only the tried and tested.

Either way, these systems are at the core of the bank, have a major impact on the cost base, are increasingly the focal point for control and management information, and have a significant impact on customer service. From being an operational backwater, most banks now view their back offices as strategic. For an Islamic institution, many of the selection and implementation challenges are the same as for their non-Islamic counterparts. We cover the core systems market on an on-going basis in our monthly flagship IBS Journal; Islamic banking has been a key subject over the last couple of years and will no doubt continue to be one of the most active areas of investment going forward. 

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EXAMPLE ISLAMIC SOLUTION PROVIDERS

COMPANY	SYSTEM	WEBSITE	EXAMPLE ISLAMIC CLIENT
Autosoft Dynamics	Autobanker	www.autosoftdynamics.com	Prime Commercial Bank First Women Bank
<p>Based in Pakistan, Autosoft rose from the ruins of BCCI Bank. The founder was involved in the design of BCCI's software and, after the collapse, set up a company. Recently the solutions went through an overhaul, resulting in the launch of Autobanker II in 2003. The system is fully Islamic compliant and, once it has been fully tested in the domestic sites, the company plans to expand beyond its own borders.</p>			
BML Istisharat	ICBS	www.istisharat.com	Unstated
<p>Lebanon-based, BML's ICBS system was developed with a group of banks in Lebanon. It does well in its home market, but also has ambitions beyond those shores. It has broad Islamic functionality with four users currently offering limited Islamic products.</p>			
CCK Financial Solutions	Guava Ops	www.cck.com.au	Claims five Malaysian Islamic sites Including Affin Bank Berhad and Bank Negara
<p>Australia-based, CCK's flagship back office solution, Guava Ops, is a rewrite of an earlier offering developed in 1978. The Guava Treasury Management Solution covers front, middle and back office functionality for Islamic treasury departments as well as conventional ones.</p>			
China Systems	CS Eximbills/Eximbills	www.chinasystems.com	Emirates Islamic Bank
<p>Mainland China-based, China Systems is purely a purveyor of trade finance solutions, and if both iterations are taken into account, can rightfully claim to be the market leader. It has a strong presence in the Gulf region, with a fair few Islamic banking institutions as users.</p>			
CSI Banktrade	Banktrade	www.banktrade.com	Claims a number of banks using Islamic version including Public Bank in Malaysia
<p>New York-based, CSI is probably the oldest trade finance software house, with its Banktrade solution installed in many small to medium sized players. To ensure regional compliance, the system has a number of geographic sub-systems, including Islamic banking. This is installed in a number of banks.</p>			
Elsag Spa	EBIS/SIBI - SIB2000	www.elsag.it	Al-Rajhi Banking & Investment Corp.
<p>Italy-based, Elsag has enjoyed a long and fruitful association with Saudi Arabia's Al-Rajhi Banking & Investment Corporation. Its SIB2000 solution was developed in cooperation with the bank and is now deployed across all of the 400 or so of the bank's branches.</p>			
ERI	Olympic	www.eri.com	Noriba Bank
<p>Switzerland-based, ERI's Olympic system is the most widely installed private banking system. The fact that the system has been enhanced for Islamic banking shows the extent of this form of finance. Work on the Islamic version was carried out for Noriba Bank in Bahrain, part of the UBS Group.</p>			

COMPANY	SYSTEM	WEBSITE	EXAMPLE ISLAMIC CLIENTS
<p>Fidelity Information Systems</p> <p>USA-based, Fidelity inherited a number of systems from companies it has acquired. Two of these, Systematics and AllProfits, which both of came from Alltel, are applicable for Islamic banking and are live at a number of Islamic sites. Citibank uses the Systematics solution for its operations in Bahrain, Oman, Turkey and UAE.</p>	Systematics/AllProfits	www.fidelityinfoservices.com	<p>Citibank Riyadh Bank Union National Bank</p>
<p>Financial Network Services</p> <p>Australia-based, FNS marketed an in-house developed retail back office system, Finet, later renamed Bancs. Despite its age, the system has been the subject of ongoing development and continues to gain a healthy number of new clients. It has broad Islamic functionality which, claims FNS, is developed on a client-to-client basis. The Islamic functionality is sold as part of the overall Bancs integrated solution or as stand alone.</p>	Bancs	www.fns.com.au	<p>Amlak Finance National Bank of Dubai Bank Keshavarzi Bank of Kuwait and Middle East Bank Negara Gulf Bank National Commercial Bank</p>
<p>Fact</p> <p>Jordan-based, Fact is a subsidiary of Jordan Islamic Bank. Its Islamic banking system was originally developed in JIB's IT department in 1996. The system has broad Islamic functionality. Today, Fact operates across banking, insurance, and financial and managerial arenas.</p>	Banxware/Orabank	www.fact.com.jo	<p>Aqsa Islamic Bank Barakah Bank Egyptian Saudi Finance House Jordan Islamic Bank Nilein Bank Al-Falan Bank</p>
<p>Harland Financial Solutions</p> <p>USA-based, Harland acquired the Phoenix Banking System in 2004 from London Bridge Software via Fair Isaac. It has a reasonably impressive client list, with a clutch of these, gained via Kuwait-based International Turnkey Systems, using the system for Islamic banking.</p>	Phoenix/Tradewind	www.harlandfinancialsolutions.com	<p>Abu Dhabi Islamic Bank Al-Rajhi Foreign Exchange Dubai Islamic Bank Industrial Bank of Kuwait Qatar Islamic Bank</p>
<p>I-flex Solutions</p> <p>India-based, I-flex has become a notable player on the back office systems market over the last decade. It claims its flagship Flexcube system supports a wide range of Islamic banking products and its win at Shamil Bank will bring this aspect into focus.</p>	Flexcube	www.iflexsolutions.com	Shamil Bank
<p>Infopro Sdn Bhd</p> <p>Malaysia-based, Infopro's ICBA solution delivers full front-to-back office functionality and covers retail, wholesale, general ledger and electronic banking, servicing both conventional and Islamic banking fields. The Islamic system was built from the ground up with a complete set of fully Sharia concepts and principles.</p>	ICBA	No known website	<p>Affin ACF Finance UMH Toyota Capital RHB Bank KFH Ijarah</p>
<p>Infosys Technologies</p> <p>India-based, Infosys has a retail banking system, Finacle, which, claims the supplier, has Islamic functionality, with more planned. Although it has no takers to date, it can only be a matter of time before this vendor begins to make inroads into the Islamic banking world.</p>	Finacle	www.infosys.com	None
<p>Intl. Computer Systems</p> <p>While it has its headquarters in the UK, the bulk of its 240 staff reside in Jordan. Most of its clients are in the Middle East, although it does have one European client, Greece's Emerald Bank. The ICS Banks system has full Islamic functionality.</p>	ICS Banks	www.icslondon.com	<p>Jordan Commercial Bank Palestine Commercial Bank International Bank for Trade & Investment Bank of Baghdad</p>

COMPANY	SYSTEM	WEBSITE	EXAMPLE ISLAMIC CLIENTS
<p>Leadsoft</p> <p>Bangladesh-based, Leadsoft has two distinct banking applications, both of which support Islamic banking. BankIslamic emanated from a project at a Saudi organisation and is currently being used at Al-Shamal Islamic Bank in Sudan, while PcBank is used in around 17 banks, of which four are Islamic institutions.</p>	PcBank/BankIslamic	www.leads-bd.com	<p>Al-Arafa Bank Shah Jalal Bank Exim Bank Oriental Bank Al-Shamal Islamic Bank</p>
<p>Microlink Systems Sdn Bhd</p> <p>Malaysia-based, Microlink is not widely known outside its domestic market. However, its win at Islamic Bank of Thailand is a first step in an ambitious expansion strategy. Islamic banking support was added around 1997 and then fleshed out as a result of a contract signed in 1999 with Bank Rakyat. Today, the vendor claims broad Islamic functionality.</p>	Mibs	www.microlink.com.my	<p>Bank Rakyat Islamic Bank of Thailand</p>
<p>Millennium Info. Solution</p> <p>Bangladesh-based, Millennium's software has its roots in Islamic Bank Bangladesh Limited (IBBL), so its claim to have built its system from scratch for Islamic banking would appear well founded. The company is actively eyeing overseas markets, including the Middle East, Malaysia and Pakistan.</p>	Mibs	www.mislbd.com	<p>Al-Arafa Bank Islamic Bank Islamic Bank Bangladesh Limited</p>
<p>Misys RBS</p> <p>UK-based, Misys is, without doubt, the leader in the back office systems market based on the number of users. The Misys Retail Banking Systems division markets the Bankmaster offering, along with Equation. The latter is used widely in the Middle East and, nearer to Misys' home, it was taken to support Europe's first Islamic bank, Islamic Bank of Britain.</p>	Equation/Bankmaster	www.misys.com	<p>National Bank of Sharjah Islamic Bank of Britain</p>
<p>Misys WBS</p> <p>UK-based, Misys Wholesale Banking Systems markets the Midas/MidasPlus solutions that are Misys' only wholesale banking offerings with Islamic functionality. In addition, Trade Innovation, its trade finance system, is also relevant. While Midas/MidasPlus has comprehensive Islamic functionality, Trade Innovation does not currently have any specifically developed modules to handle Islamic banking. However, Islamic Bank of Britain opted to install Trade Innovation alongside Equation as it is possible to tailor the system to be compliant.</p>	Midas/Trade Innovation	www.misys.com	<p>Islamic Bank of Britain</p>
<p>Netsol Technologies Inc.</p> <p>Netsol's InBanking has no Islamic banking customers but, given that the bulk of the company is in Pakistan and given the flexibility of the system, Netsol claims that it could support Islamic products, so is probably worthy of inclusion in this table.</p>	InBanking	www.netsoltek.com	<p>None</p>
<p>Nucleus Software</p> <p>India-based, Nucleus' breakthrough came, as with many other Indian suppliers, with an order from Citibank. Even today, Citibank remains a key customer with FinnOne sites around the globe. The system has comprehensive Islamic functionality, and two Middle Eastern banks have implemented these features.</p>	FinnOne CBS	www.nucleussoftware.com	<p>Arab National Bank UFC</p>

COMPANY	SYSTEM	WEBSITE	EXAMPLE ISLAMIC CLIENTS
<p>Path Solutions</p> <p>Kuwait-based, Path Solutions has offices in Beirut and Bahrain dedicated to sales and marketing for the region. The company has three main integrated front-to-back office systems, iMAL (for Islamic banking and investment), iFinance (handling Islamic retail consumer financing activities), and eBIS (catering for investment and commercial banks).</p>	iMAL	www.path-solutions.com	<p>Abu Dhabi Islamic Bank TII Arab Islamic Bank First Islamic Investment Bank First National Bank Gulf Finance House National Investment Company</p>
<p>Polaris Software Lab</p> <p>India-based, Polaris has the Citibank-derived retail, treasury and trade finance offerings that came via Orbitech and are now marketed as Intellect. The suite apparently has broad Islamic functionality and, in early 2004, this was taken by the relatively new Islamic Bank of Thailand.</p>	Intellect Suite	www.polaris.co.in	Islamic Bank of Thailand
<p>Silverlake System Sdn Bhd</p> <p>Malaysia-based Silverlake also has a company, Kalix, to act as the marketing arm for the Middle East. Islamic support for its SIBS solution not only includes basic Islamic banking concepts but also more specialised products. The company has implemented its Islamic banking solution in over ten banks to date. It also has ambitions to enter the European and USA markets.</p>	SIBS	www.silverlake.hu	<p>Bank Islam Islamic Bank Islamic Development Bank Perbadanan Tabung Amanah Islam Takaful Islamic Development Bank</p>
<p>Surecomp</p> <p>Canada-based, Surecomp markets two trade finance solutions, Imex and IBSNet. While both systems are strong in the USA, there has been a fair amount of international success, in part for IBSNet via a distributor agreement with Kindle (now part of Misys RBS). Surecomp has a clutch of users in the Middle East, including Jordan, Lebanon, Oman, Saudi Arabia, and UAE.</p>	Imex/IBSNet	www.surecomp.com	Unstated
<p>System Access Pte Ltd</p> <p>Singapore-based, System Access has a broad Oracle-based retail banking and treasury offering, Symbols, that has moved over the years outside its domestic and neighbouring markets. It has good Islamic coverage with a number of sites in the Middle East and North Africa. Recently, it has made inroads into Pakistan.</p>	Symbols	www.systemaccess.com	<p>Burgan Bank Muslim Commercial Bank National Bank of Pakistan Faysal Bank</p>
<p>Temenos Systems SA</p> <p>Switzerland-based, with an Islamic banking support office in Dubai, Temenos has one of the most successful single solutions on the market that has been aggressively sold around the world. The system, Globus, has recently undergone a revamp, dubbed T24. Globus/T24 has comprehensive Islamic functionality, including support for Islamic credits, private banking and investment products.</p>	Globus/T24	www.temenos.com	<p>Best Bank Al-Rajhi Banking & Investment Corp.</p>

Further information concerning the above suppliers and systems, along with an in-depth overview of Islamic banking and the banking systems market, can be found in the recently published 'Who, What, Where Guide to Islamic Banking Systems, 2005' from IBS Publishing.

The above directory only includes core back office systems, so does not include those for areas such as leasing and consumer finance (eg 3i Infotech's Triton, Netsol's Leasesoft or Nucleus' FinnOne) nor for other specialist areas.

The Progress of a Pioneer

Islamic Bank of Britain had a fair few challenges but it has made good progress since opening for business in September of last year

As the first European Islamic banking entity, Islamic Bank of Britain has caused quite a stir. From both a systems and business perspective, it was breaking new ground. Having opened its doors for business last September, how has it fared in both aspects?

Some of its challenges were common to any start-up; others stemmed from its unique status. It was established in mid-2002 with financial backing of £14 million from a range of Islamic investors. Over 40 per cent of the shares are in the hands of the Qatar royal family; a number of Islamic banks are shareholders, including Qatar Islamic Bank. Other banks have provided expertise and help, while the bank's senior management all have extensive banking backgrounds. In early 2003, Michael Hanlon was recruited as managing director (he is ex-Barclays and Raiffeisen) and Stephen Hinds was brought in as assistant general manager and head of operations (he was ex-Arab Banking Corporation). There were only a couple of employees for most of the rest of the year but particular strategic groundwork was done by Abu Dhabi Islamic Bank (from which has come the bank's chairman, Abdul Rahman Abdul Malik).

Hinds set out the complexities during the preparations: 'There is no clear specification for system suppliers to meet. Some scholars will accept one thing, some will not. So you cannot supply Islamic banking out of a box.' While the list of suppliers in this supplement that claim to have compliant systems may look fairly long, the need for compliancy immediately limits the choice. Given that the bank wanted to source its core back office system from a supplier that was deemed able to support it in the UK, that choice became even more limited. Indeed, the bank came up with only four applicable systems, comprising Misys' Midas and Equation, the SIBS system from Malaysia-based Silverlake (this supplier has a UK partner), and the Phoenix system which at



that time resided with UK-based London Bridge. Of these, the only company that was felt able to give sufficient reassurances on support was Misys. With largely a retail slant, the emerging bank selected Equation as well as Misys' trade finance system, Trade Innovation. It also took a card management system from Nomad Software and a regulatory reporting system from another UK company, STB. The bank signed for the systems in early 2003 but implementation really kicked off in November. As with all banks, it put in place its anti-money laundering processes; it took watch list checking software from French company, Fircosoft (this is sold as part of Misys' Compliance Watch offering).

Meanwhile, the process of gaining approval from the FSA dragged on. 'Small incremental steps,' was how Hinds described it in March 2004. 'It is easy to forget that this is a big deal for a regulator'. It was grappling with Islamic banking for the first time and needed to get it right because, once the licence had been granted, it would not be easy to rescind it.

During this time, the bank's committee of Sharia scholars was starting to study the

proposed products. The fluidity of the products meant that the systems implementations were not that straightforward, although a lot of the task was to do with setting parameters within Equation. The configuration work was carried out in London but the systems were physically installed in the bank's operation in Birmingham.

The FSA's approval came through in August of last year. Since then, according to the bank's sales and marketing director, Alun Williams, things have gone to plan. 'However, being realistic, no one really knew what was going to happen.' The first branch was opened on the Edgware Road in London; the first product was an Islamic savings account. This first branch was not typical because it was not in a strong community area, he says. In January 2005, the bank opened its second branch, in the Small Heath area of Birmingham. At around this time, the bank added a Sharia compliant current account and personal finance facility. In mid-February, it opened a branch in Leicester.

Three additional branches are on the way, with one in West London (Southall),

one in East/Central London (Whitechapel), and a second branch in Birmingham (this city has the largest Muslim population in the UK after London). By the end of the year, says Williams, the intention is to have at least ten branches. The next locations are likely to be Manchester and Bradford.

The breadth of products is also set to expand. Home finance is in the pipeline. This and other forms of finance throw up their own challenges, as the bank is not allowed to provide finance without an underlying real transaction. So, from the perspective of a mortgage, the bank has to actually own the house before it can finance its sale to the customer. Traditionally, this has meant that Islamic mortgages have been expensive, not least because - until recently - a consumer in the UK would incur stamp duty twice. In fact, this latter issue has been addressed by the Bank of England, which set up a working group a couple of years ago to try to encourage more UK Muslims to use the banking system. The removal of the double stamp duty was a key recommendation. There has been a lot of support from regulators and authorities, says Williams, including the Inland Revenue and HM Treasury.

The bank is also intending to provide variations of consumer finance products. In terms of cards, it already has a cash card, a form of charge card is on the way, and the bank is also working towards an Islamic credit card, although the latter is a particularly tricky area. 'We have opinions as opposed to answers,' admits Williams. The bank will also look to come up with 'specific customer propositions' so, over the next few months, it expects to have extended offerings for small businesses as well as for mosques and charities, as well as potentially offerings tailored to families, students and high net-worth individuals.

Effectively, Islamic Bank of Britain is meant to be a broad retail bank. Its breadth of products and sole focus on Sharia banking are the differentiators from other banks in the UK. Some Muslims will be happy to take Sharia compliant products from non-Sharia compliant banks, others will not. Through market research, the bank felt that around 20 per cent of the Islamic community want to do Sharia-compliant banking, 20 per cent were not prepared to make a faith-based decision, and the rest

would use an Islamic bank if it made commercial sense to do so. There has been an educational slant to its marketing efforts, with the need to explain the concepts.

The uptake has apparently been in line with initial targets. There has not been a great deal of analysis of where those customers have come from at present, as it is relatively early days. However, Williams feels that a surprising number are non-Muslims, attracted by ethical banking.



There have also been some overseas customers opening accounts in the UK. The bank has a stated aim of moving into continental Europe once it has been trading for a couple of years. Williams points out that France and Germany have large Muslim populations and this has been backed up by the number of enquiries from these countries. The bank even has a French speaker in its call centre, along with other more obvious language resources.

One other expectation is that there will be heightened competition. HSBC and West Bromwich Building Society were already offering Sharia products; LloydsTSB has followed. Other banks are evaluating the market and there are rumours of another start-up on the way. 'A lot of people are keeping an eye on us,' says Williams. 'Competition is a good thing - it keeps us on our toes and raises the profile for Islamic banking.' 

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Automation on the increase

They has been a lot of activity in the Islamic banking sector over the last twelve months or so...

In the last calendar year, Islamic banking has been a pocket of marked activity in the core systems sector. Which banks have been investing and which suppliers have gained?

The activity has been in traditional Muslim countries as well as non-traditional ones. An early deal came in a non-traditional one, at Islamic Bank of Thailand. This relatively new entity selected to become the first Islamic user for Polaris' Citibank-derived Intellect suite. The deal came via the Indian supplier's local partner, SVOA, which will host the software on an outsource basis. The bank is a user of Microlink's Mibs system, also sold through a Thai partner, Pro-Line Holdings. The Malaysian company appeared surprised by the Polaris decision, with Microlink's chief technology officer saying, 'as far as we know, they are still [intending] to use us'.

That deal in Thailand came in February of last year. In the same month, Iranian agricultural bank, Bank Keshavarzi, signed for FNS's Bancs. The system will support 900 branches as part of the initial contract, with the expectation that it will ultimately be applied across the bank's entire network of 2000 outlets. One reference that influenced the bank's decision was from Bank Negara, which backed up FNS's claims of Islamic banking support. In fact, the implementation did not kick off until late in the year, after all the formalities and government approvals were completed. The expectation is that plenty of other Iranian banks are due to overhaul their core IT infrastructures in the next few years.

In April, Dawood Bank in Pakistan signed to install Autobanker II from local supplier, Autosoft Dynamics, to underpin its operations. It is a recently licensed commercial bank with ambitious plans to expand quite quickly, aiming for 20 branches by 2006 and then five branches a year after this. By October, it had successfully cut over.

While May saw no new deals, Bank Negara Indonesia went live with FNS's

Bancs after an implementation lasting slightly more than a year.

August saw Gulf Finance House in Bahrain sign for Kuwait-based Path Solutions' iMAL product. The first phase of the implementation was scheduled for completion in December. The bank had approached a number of vendors before opting for Path, including Temenos and International Turnkey Systems (ITS), the Kuwait-based distributor of the Phoenix system. In the end, it felt that Path had a fuller Islamic product in iMAL, 'rather than a standard banking package tweaked to fit'.

In September, CCK Financial Solutions displaced Sungard at two member banks of the Malaysian Southern Bank Berhad group with its Guava solution. The system will be used to handle treasury functions, covering money markets, securities trading, FX and derivatives, dealing, risk management and settlement, accounting and central bank reporting. The project includes an Islamic banking module.

In October, ITS was the chosen supplier to replace Temenos' Globus at Kuwait Real Estate Bank (KREB). The contract included all hardware, software and infrastructure at the bank. The Islamic financing solution comprises ITS's own product interfaced to Phoenix and a branch automation system, Mosaic, which is also distributed by ITS. The bank also opted for the Tradewind trade finance system (which came from the same stable as Phoenix and is also resold by ITS).

By November, a project at the first Islamic banking taker of I-flex's Flexcube, Shamil Bank of Bahrain, was nearing the end of the analysis phase. The system, when installed, will support retail, corporate and investment operations. The deal was secured by Almoayyed Computers, I-flex's local partner. Implementation is under way, with the project due for completion during the third quarter of 2005.

Meanwhile, Infopro, another Malaysian vendor with a purpose-built product that, it


says, was designed from the ground up as an Islamic solution and not as a 'workaround' of its conventional banking system, announced two further orders during 2004 for the system, from KFH Ijarah and UMW Toyota Capital.

In early 2005, CCK received a letter of intent from long-standing Malaysian customer, Affin Merchant Bank (AMB), to upgrade its Infinity back office solution to the Guava Suite. AMB intends to use the suite for both conventional and Islamic banking.

Around the same time, Kuwait Finance House, parent of the already mentioned Gulf Finance House, was another to opt to take Path Solutions' iMAL solution. The institution is the largest Islamic bank in the region and also the parent of... ITS.

In February 2005, Jordan-based Future Applied Computer Technology (Fact) landed an order for its Islamic banking system, Banxware/Orabank, along with its e-banking package, e-Fact, and its FastCash ATM network solution, from newly established Sudan-based Al-Falam Bank.

And China Systems announced a trio of cut-overs for the month, including Emirates Islamic Bank for the supplier's Islamic version of its flagship trade finance offering, CS Eximbills. The implementation was a joint effort between the bank and China Systems Middle East. The vendor's local sales director, Digby Bennett, said it was effectively a greenfield site, formed with the conversion of Middle East Bank to an Islamic institution. It operates as part of existing China Systems customer, Emirates Bank Group. 'It was a natural choice to use China Systems,' he said.

This all added up to an active subset of the overall core systems market. This supplement is intended to become an annual feature of the IBS Journal, within the pages of which we plot such wins and look, via detailed case studies, at all of the aspects of this fascinating and burgeoning sector. There are no signs of a slowdown, with many more decisions to be made. 



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