



TEMENOS
THE BANKING SOFTWARE COMPANY

Islamic Banking

Flexible and efficient Shari'ah compliant solution enabling innovation, scalability and digital engagement with financial institutions' clients.





“We are delighted to appoint Temenos as our strategic technology partner for our digital transformation. Temenos digital banking platform will enable us to transform faster, drive out complexity and lower our overall total cost of ownership. Temenos has a worldwide reputation for robust, innovative banking software and an extensive presence and commitment in the Saudi Arabia. With Temenos we will be able to introduce new and innovative products more quickly and help reduce operational costs, as well as offer a cutting-edge digital experiences to our customers.

Mr. Waleed Al Mogbel, DCEO, Al Rajhi Bank

Turning challenges to opportunities with Islamic Banking



Challenges

- Compliance with Shari'ah auditors pre-requisites
- Risk Management
- Gaining market shares
- Manual processes
- Challenging market entry
- High operating cost



Opportunities

- Complete Shari'ah compliance
- Improved profitability
- Managed risk
- Quality products and services
- Automated Straight Through Processing
- Multi-channel, multi-country solution



Market Background

Islamic banking is growing faster than its conventional counterparts. To maintain this growth, Islamic banks must reinvent their business models by focusing on enhanced efficiency, ongoing compliance, and differentiated customer service and solutions. This is essential to acquire and retain their customer base whilst scaling up operations to meet global competition.

Inefficient

Islamic banking profitability generally lags behind that of conventional banking in the same markets, with operating expenses on average being 50% higher¹. Many Islamic banking processes remain manual, involving a multitude of documents and layers of decision makers. This can be particularly cumbersome as asset transfer is often involved with Islamic banking.

Low product penetration

Expensive products, low service levels, and an inability to create tailor made products means that Islamic product holding is significantly lower (2.1 per cent) than the conventional average of 4.9 per cent². However, growth can be achieved by operating on a single, functionally rich system supporting all lines of Islamic banking business. This supports agility to launch new products quickly and easily (keeping costs down and passing savings onto customers).

Digital Opportunity

According to EY World Islamic Banking Competitiveness Report, Islamic banks are still a third of the size of their traditional counterparts in national markets. In addition, they have a big gap in terms of return on capital, “a more inclusive business strategy and digital-first approach can easily help fill that void.” Generally, online banking services, mobile banking, online bill payment, payments

between individuals and account-to account transfers are seen as a positive growth for digital adoption. To compete a strong digital strategy should be introduced to support cross-selling; with customers for increasing the number of product holdings and value of transactions. Furthermore, customers in the three main Islamic banking markets (The Middle East, Africa and Asia) are thriving in terms of digital banking service use. These three regions are highly mobile and have greater access to the media and technology. And from a business banking perspective, digital offers a lot more convenience, especially for people based in rural areas.

Growing wealthy

Many Islamic states have residents with a higher than average level of individual wealth. The total assets of this market is now US\$ 2.9 trillion³ and are predicted to reach US\$3.8 trillion⁴ over the coming years. This offers financial institutions (FIs) high returns without the expense of servicing a large numbers of clients. To service these important clients, FI's need a specialist, fully compliant yet agile portfolio management solution.

The unbanked

An estimated 72% of people living in Muslim-majority countries can be defined as unbanked, because they shy away from financial services that do not conform to their faith. This presents a fantastic opportunity for new local banks and more established players to enter the market.

1. Ernst & Young World Islamic Banking Competitiveness Report 2014–15 (Participation Banking 2.0)

2. Ernst & Young World Islamic Banking Competitiveness Report 2014–15 (Participation Banking 2.0)

3. IDC – Thomson Reuters Islamic Development Indicator 2018

4. Thomson Reuters: Islamic Finance Development Report 2018

Overview

Temenos Islamic Banking services the Islamic banking community with Shari'ah compliant, flexible solutions that have been specifically designed to support wealth, retail, corporate and treasury bank needs. This range of highly scalable, established solutions means that you can now easily and efficiently create new Islamic banking products, offer world class services and insure all your operations are Shari'ah compliant. Solutions are available on-premise or in the cloud.

Temenos Islamic Banking, with its scalable innovative technology, provides superior features for Islamic banks to offer their customers Shari'ah compliant products and the best digital experience.

Complete Shari'ah compliance

All Islamic Banking modules adhere to Islamic laws whilst benefiting from our award winning infrastructure. We support a comprehensive range of Islamic products, including Murabaha financing and commodity Murabaha for retail and corporate clients, diminishing Musharaka, financing Ijara, Tawaruq, Qard Hasan, Bai Al Salam, Istisna'a and Parallel Istisna'a, Islamic trade finance products, profit management system to manage unrestricted investment accounts. In addition to Sukuk, commodity Murabaha, reverse Murabaha and FX for bank treasury. Furthermore banks can use Temenos Product Builder to create additional structure of Islamic financing specific to them or their local market.

Increases profitability and growth

Islamic Banking clients have reported growth at double their target rate; robust new products can be launched quickly and easily, increasing your customers product ownership and in turn improving retention and profitability through our customer analytics modules. Our product builder enable banks to design and develop their own new products according to their individual needs at no extra cost.

Ultimate efficiency

You can enjoy stronger operating metrics than your peers: on average, a 36% higher return on capital, a 31% higher return on assets and an 8.6 point lower cost-to-income ratio than those still running legacy software. Some Islamic Banking clients have reduced development time by 40%; most routine processes can be automated, reducing error and manual intervention rates, saving you time and costs. Temenos Islamic Banking is also parameter driven and easily customized at user level boosting business agility and productivity simultaneously.



Controlled costs

A broad range of functions in diverse locations are supported. You can now cut and control costs by reducing the number of legacy applications that need to be supported, while back-office staff and operations can be consolidated to a low-cost location to produce significant business savings. The Islamic Banking also includes insightful management information modules to identify how and where your costs are incurred, to optimize resource allocation and apply savings. Offered as a cloud solution, our modules offer the predictability of paying a fixed monthly cost for their IT needs. You only pay for the services you use. And with systems being updated automatically (when upgrades become available and occur) there is no downtime or added cost.

Shari'ah wealth management

Benefit from a modular and agile Shari'ah investment management platform. You can now focus on high-value-added tasks and exception management, empowering you to serve large numbers of sophisticated investment portfolios efficiently. It can be configured to cover multiple market and regional business requirements as well restrict trades according to Islamic compliant indexes. Flexibility can also extend to functionality including non Islamic index shares through compliance monitoring.

Managed risk

The real-time Islamic Banking modules are highly automated and help you increase straightthrough processing (STP) across multiple departments, offices and countries, mitigating operational and financial risk. Temenos Islamic Banking modules can provide a transparent view of each customer's total dealings with the bank, including non-financial transactions. This ensures decisions are made on a sound basis, considering all client activities, including credit status. A 'model' core banking solution is also available which is deployed as a pre-configured solution based on Shari'ah industry standard, enabling you to deploy a world-class solution quickly and predictably to mitigate operational risk.

36%

higher return on capital

31%

31% higher return on assets

8.6

point lower cost-to-income ratio than those still running legacy software



I Functionality

Temenos Islamic Banking offers a range of Shari'ah compliant solutions that support retail, treasury, wealth, inclusive banking and corporate banks. In addition, Islamic banks can also benefit from all relevant (functionalities related to) core banking, analytics, multi-channel and risk related modules.

Temenos Islamic Banking combining processing scale with flexibility

With advanced development tools, including pre-configured services and workflows, you can now accommodate rapid expansion in existing business areas and adapt quickly to evolving customer needs for new products and services. This gives you first-mover advantage over competitors and allows you to offer a superior level of service.

Islamic Banking has been designed with efficiency as a priority

Most routine processes can be automated, supporting straight through processing (STP), reducing the number of errors and the need for manual intervention, driving down operating costs. Temenos Islamic Banking also offers solutions to support a broad range of functions in diverse locations, transforming a legacy environment. Costs can again be cut and controlled by reducing the number of legacy applications that need to be supported. Whilst back-office staff and operations can be consolidated in a low-cost location to produce significant business savings.



Temenos T24 has had a positive impact on our business. It has enabled the bank to automate and streamline processes and improved the bank's overall operations' flow. We are delighted with the latest release of T24, which will continue advancing the bank's productivity with its functional and technological enhancements. With the new T24 release, our plan is to further enhance the bank's investment management and profit management capabilities for 'Mudaraba' and 'Wakala' accounts. In addition, we plan to expand our Islamic derivatives products, and progress our Islamic mortgage financing.

Mr. Saif Al Dhaheri, COO, Al Hilal Bank





Islamic Treasury

A module offering full treasury coverage including front, middle and back office functionality while ensuring Shari'ah compliance.



Islamic Corporate

An essential, quality corporate core banking platform offering Shari'ah compliance for construction finance and working capital finance through various components including multiple Islamic finance structures.



Islamic Portfolio Manager

A sophisticated investment management platform for Islamic compliant investments offering functionality such as Islamic index trading restriction, portfolio purification (for companies no longer Islamic index listed), and the support of non-listed share purchases through special approval matrix.



Islamic Trade Finance

A complete front to back-office and trade product lifecycle management solution for Islamic corporate banks, including letters of credit (LoC), collections, reimbursements and guarantees.



Islamic Profit Distribution

A module supporting the creation of Islamic deposits deposit pools, enabling you to link sources of funds to the investment made and run all calculations to distribute profit to investors.



Islamic Deposit Builder

Islamic Deposit Builder enables Islamic Banks to build and service a variety of retail deposit solutions, through easy-to-use tools and functions.



Inclusive Banking

A range of modules that support financial inclusion in Islamic banking. Please request details on Microfinance for more information



Islamic Financing Product Builder

An infrastructure for defining Shari'ah compliant banking products, using a componentized design model to provide a highly flexible product building and servicing functionality.



Core Banking

We have a range of modules that Islamic banks can access to aid them in offering a high quality, complete Islamic financial solution. Please request details on our Core product family for more information.



Islamic Retail

An essential, quality core banking platform offering Shari'ah compliance for personal finance through various components including multiple Islamic finance structures.

Benefits of Islamic Banking



- ✓ Complete Shari'ah compliance
- ✓ Quality products
- ✓ Greater efficiency
- ✓ Lower costs
- ✓ Faster time to market
- ✓ Greater revenue growth
- ✓ Increased agility

Double

the target rate for
client growth

Fast & easy

expansion to new
territories

40%

reduction in
development time

Over 90

Islamic banking
Installation

Next Steps

To hear more on Islamic Banking, contact us at sales@temenos.com.

Temenos AG (SIX: TEMN), headquartered in Geneva, is the world's leader in banking software, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic front office and core banking, payments, fund management and wealth management software products enabling banks to deliver consistent, frictionless customer journeys and gain operational excellence. Temenos customers are proven to be more profitable than their peers: over a seven-year period, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications.

For more information please visit www.temenos.com.

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