

HUMAN CAPITAL DEVELOPMENT SUSTAINING THE GROWTH OF ISLAMIC FINANCE

The growth of Islamic finance in the past decade has been extraordinary. As the industry expands into untapped markets, there is a need to develop new talent that understands the industry and its underlying Shariah principles to support this growth. In response, Malaysia has undertaken initiatives to support the development of a highly skilled Islamic finance human capital workforce.

15 November 2013

Developing Talent in Islamic Finance: Critical for Sustaining Growth of the Global Industry

Recognising the crucial needs for talent advancement, many public and private institutions, notably in Malaysia, have proactively undertaken initiatives to support development of a highly skilled Islamic finance workforce.

Islamic finance currently represents one of the fastest growing sectors of the global financial system. The once nascent sector of about USD150 billion assets in the mid-1990s has steadily grown since then at a compound annual growth rate (CAGR) of more than 15% to

surpass an estimated USD1.7 trillion in assets as at 1H2013 . Critical to sustaining growth of the global Islamic finance industry is the availability of a highly skilled and talented human capital workforce that can drive the future developments and innovations of the industry. As the global financial system endures newer challenges following the onset of the financial crisis of 2008-09, the need for expertise in the Islamic financial sector is more pressing given the highly volatile and dynamic nature of the financial markets which requires more innovative Shariah-compliant financial solutions from the Islamic financial institutions to meet market needs.

Islamic Finance Human Capital Requirements by 2020

Impressive Growth of the Global Islamic Finance Industry

Assets to exceed USD1.8 trillion (2013F); CAGR 15.2% (1995-2013)

Assets estimated to tip USD6.5 trillion mark by 2020

Critical Need for Talented Human Capital

Estimated 1 million professionals required globally for Islamic finance by 2020.

Malaysia alone needs an additional 56,000 finance (Islamic and conventional) professionals by 2020

Source: The Malaysian Reserve, KFHR

As per industry estimates, the global Islamic finance industry is poised to require one million professionals by 2020 in various job functions and roles to meet the human capital needs of the Islamic financial institutions². Quite often it is regarded that there is a shortage of experts in the current financial industry workforce who understand the principles and depth of Islamic financial markets, and potentially drive the industry forward while maintaining its growth momentum. Islamic finance requires experts who not only have comprehensive knowledge of finance, but also technical knowledge on Shariah. Some of the critical job functions where talent is needed in the sector include Shariah-compliant product developers and

“Malaysia’s financial sector is projected to grow at an annual rate of 8%-11%”

financial engineers who are responsible for structuring innovative Shariah-compliant financial solutions tailored to meet the dynamic market needs. In addition, the industry stands to benefit substantially with the addition of talented business leaders who understand the ethical principles of Islamic finance and, in turn, can generate wider acceptance of Islamic financial products from all segments of the market. Talent is also crucially required in the Shariah departments of Islamic Financial Institutions (IFIs) which are responsible for overseeing overall operations to ensure they comply with Shariah principles. Job functions in this department include Shariah auditors, Shariah reviewers, Shariah researchers and Shariah compliance analysts. Overall, the talent

required to fill in the above highlighted roles is unique as the individual must have a knowledge combination of finance, economics and Shariah principles, while being dynamic, innovative and creative enough to lead the industry forward. In order to develop such types of talent, the Malaysian government has in several instances introduced a number of measures that aim to support the development of a highly skilled Islamic finance workforce.

Islamic Finance Human Capital Development and Talent Enrichment Initiatives by Malaysia

Human capital development (HCD) is one of the key pillars of the Malaysian Government’s Economic Plans in its efforts to increase the technical skills, creativity and innovation required to drive Malaysia’s knowledge-based economy. The recently tabled Budget 2014 notably allocated RM54.6 billion in various schemes to support Malaysia’s human capital development. Specifically for the financial sector, the Financial Sector Blueprint 2011-2020 released by the country’s central bank, Bank Negara Malaysia, includes talent development as one of the key focus areas. During 2011-2020, Malaysia’s financial sector is projected to grow at an annual rate of 8%-11%, while its contribution to the nominal GDP is estimated to increase to between 10%-12% by 2020, up from an 8.6% contribution in 2010. Bank Negara Malaysia estimates that an additional 56,000 people would be required to support the financial sector growth by 2020, with specific talent needs in areas such as wealth management, Shariah advisory, corporate finance and investment advisory services.

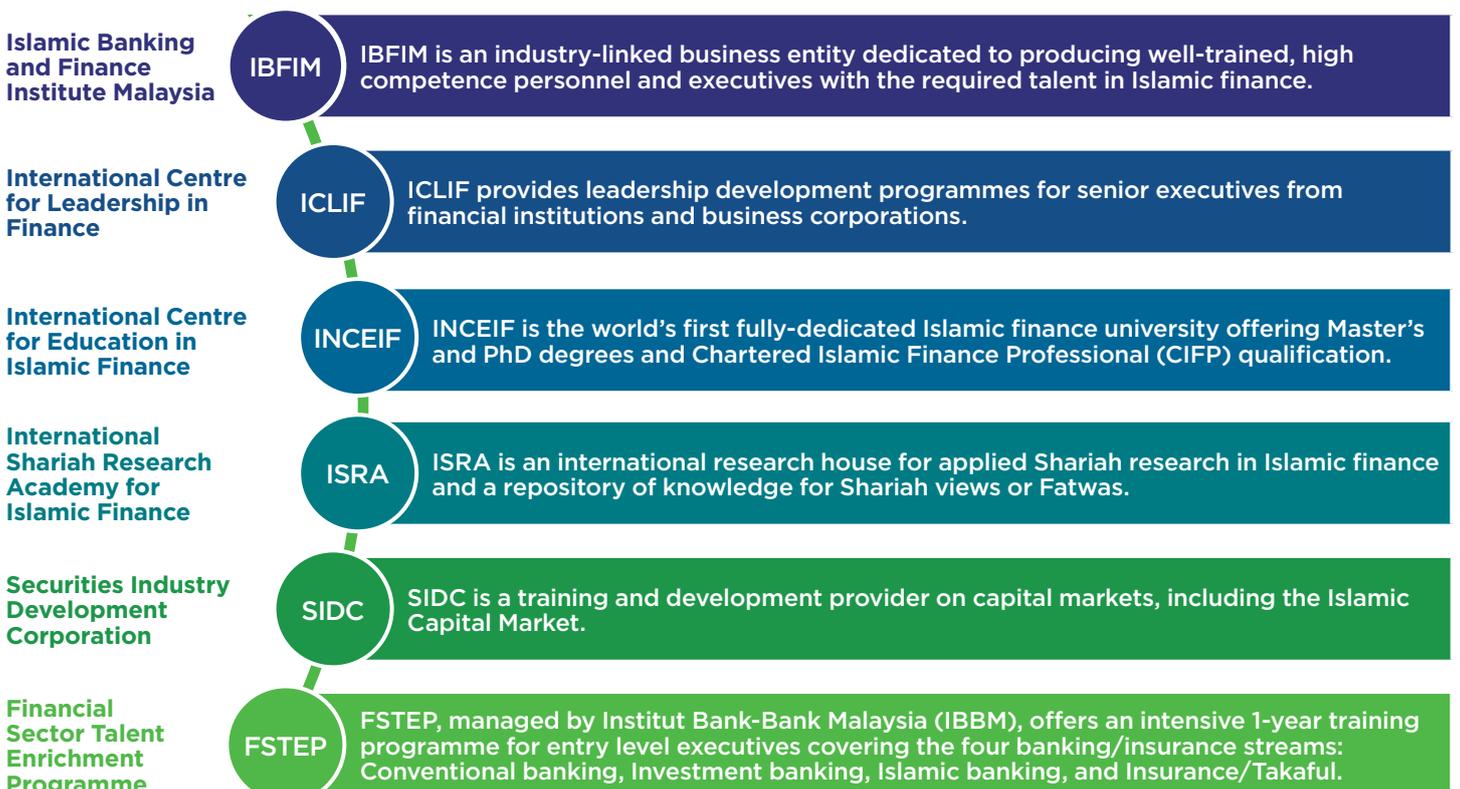
² The Malaysian Reserve

The Islamic financial system in Malaysia has developed considerably over the last decade to turn into a progressive and competent sector of the Malaysian financial system. As at end-2011, the Islamic financial industry in Malaysia is attributed to have contributed 22% to the total financial assets, compared with 6.9% in 2000 while employing 11% of the financial sector’s workforce. Moreover, it is projected 22,400 or 40% of the additional 56,000 employees required to support the Malaysian financial sector during 2011-2020, would be specifically needed by the Islamic financial industry.

To address the human capital needs of the Islamic finance industry, the Malaysian government has proactively taken a number of initiatives which could put the country on track to become a global leader in the supply of human capital in Islamic finance. Bank Negara Malaysia

has become the pioneer regulatory body to introduce the first fully-dedicated global Islamic finance university in 2005, the International Centre for Education in Islamic Finance (INCEIF), which offers postgraduate Master’s and PhD degrees and a professional chartered qualification, Chartered Islamic Finance Professional (CIFP). To date, INCEIF has had over 2,000 students enrolled from more than 80 countries and has been awarded the “Project of National Interest” status by the Malaysian Prime Minister in 2010, in recognition of INCEIF’s role in the development of the human capital for Malaysia’s growing Islamic finance industry. INCEIF has also engaged in key strategic partnerships and collaborations with international bodies and global academic institutions such as the World Bank, the Islamic Financial Services Board (IFSB) and the University of Reading (UK), in order to synergise research, knowledge

Islamic Finance Human Capital Development Environment



Source: BNM, SCM, KFHR

and learning. Apart from INCEIF, Malaysia has a diversified range of providers offering academic and training programmes for Islamic finance. There are now more than 30 public and private education institutions offering Islamic finance related courses or subjects.

In terms of industrial training, Malaysia has the Islamic Banking and Finance Institute Malaysia (IBFIM) which is designated as an industry-linked business entity dedicated to producing well-trained, high competence personnel and executives with the required talent in the Islamic finance industry. IBFIM is also supported by the Asian Institute of Finance (AIF), an institute which works closely with its four affiliated bodies including, (apart from IBFIM), Institut Bank-Bank Malaysia (IBBM), the Malaysian Insurance Institute (MII) and the Securities Industry Development Corporation (SIDC)). AIF is committed to elevating Malaysia's role as a premier provider of comprehensive solutions for the financial sector across the region. Industrial training in Malaysia is not limited to entry-level and mid-level professionals alone, as the ICLIF Leadership and Governance Centre offers programmes for top executives/senior management geared towards developing future business leaders for the financial industry.

Malaysia is also keen to develop a pool of Shariah experts conversant in both Islamic law of contracts and business aspects of Islamic financial operations. In this regard, the International Shariah Research Academy (ISRA) was established as a dedicated international research house for applied Shariah research in Islamic finance to develop Shariah experts in areas including contemporary Shariah issues relating to risk mitigation, liquidity management and hedging. ISRA also provides a number of scholarships to talented individuals with a Shariah background in order to develop skills required for providing services to the Islamic finance industry. Additionally, Bank Negara

Malaysia has commendably established an endowment fund amount to RM200 million with the primary objective of enhancing the knowledge, research, talent and intellectual discourse in the field of Shariah and Islamic finance.

Malaysia has also pioneered to introduce Islamic capital market (ICM) human capital development programmes through the SIDC, the training and development arm of the Securities Commission Malaysia. SIDC offers an annual Islamic Markets Program (IMP), aimed at participants from both emerging and developed countries in helping them analyse the philosophy and fundamentals of

“Malaysia has also pioneered to introduce Islamic capital market (ICM) human capital development programmes”

ICM. The IMP trains participants to distinguish between various ICM products, to evaluate Islamic equity, sukuk and derivatives as alternative means of financing and investment to conventional products, and to assess the significance and essentials of corporate governance, risk management and sound regulation in promoting Islamic markets.

In a recent development, a Curriculum and Training Task Force on Islamic Finance has also been set up in Malaysia, led by the International Islamic University Malaysia (IIUM), and members representing key stakeholders of the Islamic finance education sector in Malaysia. This initiative aims to specifically address gaps in the Islamic finance curriculum and talent development in order to meet the high demand of the thriving Islamic finance industry.

Overall, developing the next generation of Islamic finance executives and experts remains a key priority area of the Malaysian government and its regulators, Bank Negara Malaysia and Securities Commission Malaysia. With a number of initiatives in place, it appears Malaysia is well on its road to becoming the global leader in the supply of Islamic finance human capital. Moving forward, Malaysia aims to achieve global recognition and credibility for its Islamic finance education and training programmes. The Finance Accreditation Agency (FAA), has recently been established to serve as an international and independent quality assurance and accreditation body for the financial services industry, which has the mandate of providing learning programmes evaluation, accreditation, and institutional audits that will contribute

“Bank Negara Malaysia has introduced a standard setting and accreditation infrastructure through its entity Asian Institute of Finance (AIF)”

towards the development of quality assurance and promotion of learning initiatives within the financial services. The Association of Chartered Islamic Finance Professionals (ACIFP) has also been set up as a chartered professional body entrusted to raise the quality standards and professionalism of Islamic finance practitioners. In terms of Shariah advisors, the Association of Shariah Advisors in Islamic Finance (ASAS) has been established to ensure professionalism among Shariah advisors and experts of Islamic finance, locally and internationally, as envisaged under the FSBP 2011-2020. These efforts are likely to centralise the setting of standards in Islamic finance and while developing quality training programmes to meet the expectations and needs of the Islamic financial industry.

Global Islamic Finance Human Capital Development

Unlike in Malaysia, where both public and private institutions drive human capital developments in Islamic finance, efforts in other countries are mainly driven by private sector universities and institutions which offer Islamic finance related qualifications. Notable exceptions are the multilateral bodies such as the Islamic Development Bank (IDB) and its affiliated organisations which provide various Islamic finance talent developments programmes. For instance, The Islamic Corporation for the Development of the Private Sector (ICD), an IDB-affiliate, has developed its Islamic Finance Talent Development Program (IFTDP) as a means of addressing the shortfall in Islamic finance human capital in its member countries. Similarly, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is another multilateral body that provides Islamic accounting and Shariah auditing certifications.

Most recently, the Emirate of Dubai has witnessed the launch of a Dubai Center for Excellence in Islamic Banking and Finance (DCEIBF), a groundbreaking initiative through the Hamdan Bin Mohammed e-University (HBMeU). DCEIBF aims to support human capital development in the Islamic banking and finance sector in Dubai and globally through the implementation of a comprehensive curriculum.

According to the Islamic Finance Development Indicator (IFDI), released by the Islamic Corporation for the Development of the Private Sector (ICD) – an IDB affiliate – the United Kingdom is the global leader in Islamic finance education with over 60 institutions offering Islamic finance courses and 22 universities offering degree programmes specialising in Islamic finance. UK is followed

Global Islamic Finance Education and Training Institutions (Selected Countries)

Global Jurisdictions:

- 420 institutions offering courses in Islamic finance
- 113 universities offering Islamic finance degrees

United Kingdom:

- 60 institutions offering courses in Islamic finance
- 22 universities offering Islamic finance degrees

United Arab Emirates:

- 31 institutions offering courses in Islamic finance
- 9 universities offering Islamic finance degrees

Pakistan:

- 22 institutions offering courses in Islamic finance
- 9 universities offering Islamic finance degrees

Source: IFDI by ICD-IDB, KFHR

by Malaysia which is attributed to have 50 course providers and 18 universities offering degree programmes. United Arab Emirates and Pakistan come in the third and fourth place respectively with UAE having 31 course providers and nine universities offering degree programmes while Pakistan having 22 course providers and nine universities offering degree programmes. Overall, IFDI indicates 420 institutions globally offered courses in Islamic finance and over 113 universities globally offered Islamic finance related degrees.

Conclusion

The Islamic finance industry’s growth performance has been exceptional over the last decade and to sustain this growth, it is essential to enhance the pool of talented Islamic finance professionals who can drive innovation in the industry, leading to a wider range of products and services to meet the dynamic needs of the market. As the Shariah-compliant financial system expands into newer markets globally, the need for Islamic finance professionals will be even greater to support the growth and

development of the industry in these infant jurisdictions.

In this regard, notable measures have been undertaken by the Malaysian government to address the imminent challenges of a gap in the supply of Islamic finance qualified personnel required to support the industry’s growth. The Malaysian Islamic financial marketplace is well established with sound regulatory frameworks and infrastructure to drive innovation in the global Islamic financial industry. With various efforts to enhance human capital, Malaysia is on track to become the global leader in the supply of Islamic finance professionals. Additionally, multilateral bodies such as the IDB and its affiliated companies are also playing a significant role in developing human capital for Islamic finance. Overall, collective efforts by various jurisdictions and multilateral bodies globally will help build up a talented Islamic finance workforce pool that could drive innovation, leading to a wider range of Shariah-compliant financial solutions required to meet the dynamic needs of international markets.

Disclaimer

The copyright and any other rights in the selection, coordination, arrangement and enhancement of the information in this publication are owned by Bank Negara Malaysia. No part of this publication may be modified, reproduced, published or transmitted without prior permission in writing from Bank Negara Malaysia and the relevant copyright owner.

Although every effort has been made to check the accuracy and completeness of this publication, Bank Negara Malaysia accepts no responsibility or liability for errors or omissions, if any. The information published here is only up-to-date at the time of printing, and is not exhaustive and may be updated from time to time on the website: www.mifc.com. Bank Negara Malaysia appreciates any feedback or suggestion for improvement.

Copyright© 2013 Bank Negara Malaysia.
The MIFC logo is a registered trade mark in Malaysia.
All rights reserved.