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QATAR
ISLAMIC FINANCE HUB
REPORT 2019



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Senior Director – Asset Management, Al Rayan Investment

FOREWORD



Qatar is well-positioned to seize on its potential of becoming a leading interconnected Islamic finance hub. In recent years, Qatar's Islamic financial institutions have developed solid track records, entered into international partnerships and launched leading and popular products the world over. QFC and its regulator have also introduced dedicated tax exemptions for special-purpose companies facilitating Islamic financial transactions, which further improve the operating environment on its platform. Together, Qatari private and public sector initiatives have strengthened the country's ability to play a leading role in the industry's global expansion on the back of its own resilient domestic performance.

Globally, Islamic finance has blossomed in size over recent years to reach an estimated value of \$2.4 trillion and holds significant future promise. QFC has identified the segment as key to realizing the institution's Strategic Vision and has given priority for the sector's development on its platform.

In recent years, we have been working diligently to improve our regulatory, legal and tax frameworks for the Islamic finance industry. QFC has been collaborating with its partners to prepare for the launch of new and innovative products across banking, asset management and insurance streams. With a focus on innovation, QFC has focused its attention on leading global initiatives such as Bursa Malaysia (world's 1st end-to-end integrated Islamic securities exchange platform), ALGO Bahrain (world's 1st Shariah-compliant fintech consortium), and NASDAQ Dubai Murabaha Platform (world's 1st platform using Shariah-compliant certificates based on Wakala investments for financing deals).

QFC sees significant promise in Islamic finance's expansion globally and in Qatar, driving an impetus to identify concrete business opportunities on its platform. These are varied and growing rapidly — as is our list of international financial and trading partners. Product opportunities abound in Qatar, far more so when one considers the financing needs of our New Emerging Belt Initiative partners.

This comparative study identifies major developments and differences between existing Islamic finance centers and pinpoints how QFC will build further on its success to become a regional Islamic finance hub.

YOUSUF MOHAMED AL-JAIDA

Chief Executive Officer & Board Member
Qatar Financial Centre Authority

EXECUTIVE SUMMARY

Islamic finance is considered to be one of the fastest growing sectors in the financial industry. As a result, several countries are vying to become leading regional and global Islamic finance hubs. While some Islamic finance markets lead in terms of size, others are striving to attain a competitive edge through innovative regulatory oversight and supportive ecosystems, including a broad pool of qualified professionals and tax incentives.

Qatar has been rapidly developing its Islamic finance industry and is poised to become a leading hub for the sector. The industry's total assets grew by a CAGR of 8% since 2015 to US\$ 129 billion in H1 2019, constituting 33% of Qatar's total financial system assets. Recent developments outlined below are likely to result in seeing the industry in Qatar maintain these levels of growth while improving its global presence.

One key initiative set to strengthen Qatar's Islamic finance sector is the planned introduction of a centralized Shariah Board, which is expected to raise consistency and hence, improve the integrity of the industry. QFC is also collaborating with Malaysia and Turkey to establish Islamic finance hubs in their respective regions by using common technology. Other than this, steps are being taken to raise knowledge and awareness of the industry through educational initiatives and events, which should further support the industry's growth.

Islamic banking in Qatar, amounting to US\$ 107 billion in assets in H1 2019, is also being transformed in terms of its institutions. Qatar's first bank merger, between International Bank of Qatar and Shariah-compliant Barwa Bank, resulted in the newly reconstituted Barwa Bank. Meanwhile, Qatar's US\$ 1 billion takaful sector outperformed conventional insurance in terms of growth over the past two years, mainly driven by Islamic subsidiaries of Qatari insurance operators. Its non-banking financial institutions (NBFIs), consisting of financing and investment companies, reached a combined asset value of just over US\$1 billion.

With all these developments, Qatar has the necessary foundation to take its Islamic finance industry to the next level while benefiting from the experience of other Islamic finance markets. For instance, Qatar could play a major role in the takaful industry by establishing a retakaful operator that caters to the reinsurance requirements of takaful providers, both domestically and regionally, as seen in Malaysia. In addition, Qatar could further strengthen its Islamic banking regulatory framework, such as establishing a centralized Shariah Board, which would enable more commercial opportunities. Turkey has also set an example through the strategies and incentives, like state-guaranteed corporate loans and relaxed provisions, which have made it one of the world's fastest growing Islamic banking markets.

Meanwhile, Qatar's Islamic capital market consisted of US\$20 billion in sukuk outstanding and US\$399 million in Islamic assets under management in H1 2019. The government remains the most active player in the sukuk market. In addition, Qatari banks including Qatar Islamic Bank and Barwa Bank have been active as primary dealers for IILM sukuk, which are partly backed by Qatari sovereign assets, helping to facilitate cross-border Islamic liquidity management. The Islamic asset management landscape has been transformed with the introduction of the country's first Islamic ETF, which captured more than one-third of total Islamic funds' AuM in 2018. The success of the fund has encouraged the creation of new units, including another Islamic ETF that will be focused on Islamic stocks outside Qatar. Sukuk activities in Qatar can be boosted by introducing incentives that offer prospective sukuk issuers tangible benefits and capitalize on SRI and green sukuk issuance trends, which would attract demand from international investors. It can also study Islamic pension funds and introduce Shariah-complaint REITs, an investment trend that is growing increasingly in the region.

ISLAMIC FINANCE INDUSTRY LANDSCAPE IN QATAR

(2018-H1 2019, US\$ MILLION)



ISLAMIC BANKING

4 Commercial Islamic Banks

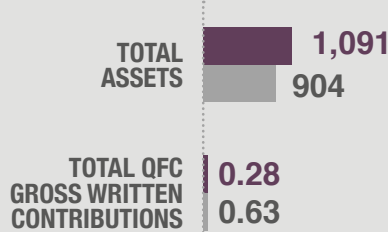
1 QFC Corporate Islamic Bank



TAKAFUL

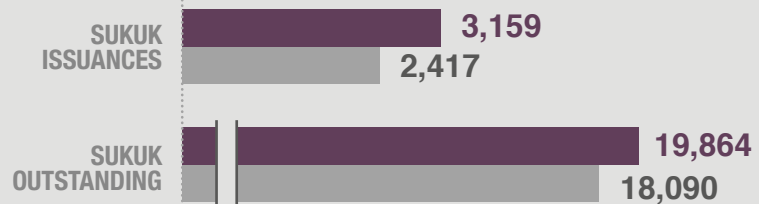
5 Takaful Operators

3 QFC Takaful Operators



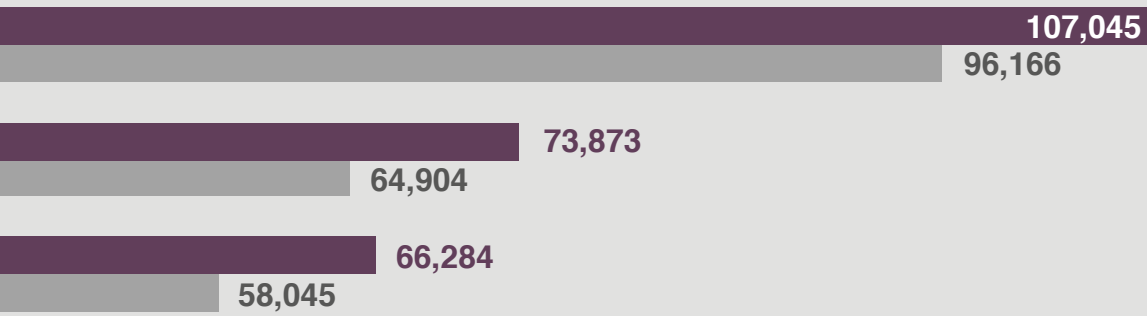
SUKUK

6 Sukuk Issued



ISLAMIC ASSET MANAGEMENT





TOTAL



+



+



+



+



=

US\$ 129
BILLION



NON-BANKING ISLAMIC FINANCIAL INSTITUTIONS

3 Finance Companies

TOTAL ASSETS 852
852

2 Investment Companies

TOTAL ASSETS 157
157

2 QFC Investment Banks

TOTAL ASSETS 1,653
1,802

1 QFC Investment Managers

TOTAL ASSETS 183
177

TOTAL INVESTMENT MANAGEMENT AuM 1,570
1,309

ISLAMIC FINANCE ECOSYSTEM IN QATAR

REGULATORY FRAMEWORK

Planned centralized Shariah Board will limit self-governance for Islamic banks

Although Islamic banks in Qatar operate separately from conventional banks, they are all governed by the same banking regulatory framework. However, the Qatar Central Bank (QCB) has recently taken a further step in enhancing Islamic banking regulations, announcing the formation of a centralized Shariah supervisory body in line with global best practice. A centralized Shariah body will create a more consistent Shariah governance framework that aligns Shariah compliance across the industry, thus reducing the Shariah risk of the Islamic banks' products and services. It will also facilitate arbitration and the settlement of disputes between Islamic banks and other stakeholders.

Currently, a decentralized Shariah governance structure is in place, in which individual Shariah boards rule on the acceptability of Shariah-compliant financial products and services is left to internal Shariah boards. The decentralized approach has also caused governance concerns stemming from perceptions of conflicts of interest. A number of Shariah scholars sit on multiple boards, often at competing Islamic financial institutions (IFIs), raising concerns that these scholars may be influenced in favor of financial institutions whose Shariah compliance they review.

QFC pioneering Islamic banking and finance development in Qatar

Qatar Financial Centre Regulatory Authority (QFCRA) first introduced a dedicated set of Islamic finance regulations in 2005. Upon Qatar Financial Centre (QFC)'s establishment, the financial center issued its Islamic Finance Rules (ISFI) that outline guidelines for Islamic banks, disclosure and Shariah governance. Following a phased approach to Islamic finance regulations, the QFCRA later issued Islamic Banking Business Prudential Rules (IBANK) in 2015, covering the operational, risk management and Shariah compliance aspects of Islamic banking. The QFCRA ensures to continuously update these regulations, with the most recent amendments to take effect in 2019-2020.

QFC has also been actively collaborating with entities outside Qatar to further develop its regulatory framework and expand its Islamic finance platform. QFC joined the Islamic Financial Services Board (IFSB) — a leading international Islamic finance standard-setting body — as an associate member in September 2019. This membership will provide QFC access to technical assistance from the IFSB in implementing its prudential standards for IFIs, demonstrating QFC's continued commitment to developing the Islamic finance industry in Qatar.

More recently, QFC is in the process of signing MoUs with Turkey and Malaysia to attract Turkish and Malaysian IFIs to expand their networks and operations into the region, through the QFC platform.

Sukuk opportunities from China renminbi internationalization

A key area of the QCB's Second Strategic Plan that will drive growth in Islamic finance is the development of a regulatory framework to support Chinese renminbi-denominated Islamic capital market products such as sukuk. This follows the introduction of the Middle East's first Renminbi clearing center in QFC in 2015, designed to facilitate burgeoning trade between China and the Gulf countries under China's One Belt, One Road Initiative.

Qatari banks have been tapping new markets such as China, where there is significant interest in Qatar's highly rated bonds, in order to diversify their funding sources and bridge any funding gaps. Qatar National Bank raised CNY 750 million (US\$ 118.9 million) in February 2018 and a further CNY 500 (US\$ 73.45 million) in January 2019, both through 'Dim Sum' bonds in the offshore renminbi market. The bank also issued two Formosa bonds in January 2018 and April 2019, raising US\$720 and US\$850m, respectively. The initial issuance was listed on the Taipei Exchange while the second issuance was dually listed on both the Taipei and London stock exchanges. The success of these issuances and the development of a regulatory framework governing renminbi-denominated Islamic financial instruments could pave the way for similar sukuk issuances by Islamic banks and other issuers in Qatar, and encourage sukuk issuances in other Asian markets. This is particularly so for countries with large Islamic finance markets such as Malaysia and Indonesia.

TAX FRAMEWORK

Competitive tax environment supports Islamic finance through equal treatment

Qatar offers businesses a competitive tax environment to firms registered with both QFC and Ministry of Commerce and Industry taxed just at 10% on locally sourced income. The country's tax regime also features a number of concessions, including: (i) the exemption of investment vehicles, dividends and qualifying capital gains in QFC and (ii) the absence of income tax on individuals and the exemption of the share of GCC nationals (who are residing in Qatar) in companies' profits in the State. These concessions are continuously reviewed to ensure that they are in line with international standards and best practices.

In QFC, the tax regulations provide a very clear framework for the treatment of Islamic Financial Institutions and transactions. The underlying principle of this framework is to ensure (at least) a parity of treatment of these institutions and transactions with their conventional counterparts.

While being principle-based, this approach also involves providing detailed rules aimed at explaining what the parity of treatment means and how it applies in different cases. As a consequence, the regulations offer tax adjustments to cater for variations in accounting standards (AAOIFI and IFRS) or treatment of funding costs. This combination of provisions stating a general principle and provisions providing details makes the

QFC approach in taxing IFIs and transactions unique in the region.

Qatar differentiates itself from other neighboring markets in another critical way: clear tax designation of special purpose vehicles (SPVs). Since sukuk generally involve the creation of a SPV(s), QFC tax regulations specifically offer the possibility to exempt such SPVs if they are solely established to support or facilitate Islamic financial transactions.

In addition, QFC recently introduced an amendment to the tax regime of asset managers allowing these to elect for the 0% concessionary rate if they meet certain requirements related to their economic substance in Qatar and expressed in terms of number of skilled employees (investment professionals), amount of salaries, operating expenses and AuM. This concession, which has been designed taking into account the OECD's principles on Base Erosion and Profit Shifting (BEPS), applies to IFIs carrying on asset management activities (provided they meet the requirements).

Introduction of VAT — treatment for Islamic financial services in Qatar needs to be on par with conventional services

Some of the GCC States have introduced Value Added Tax (VAT): the UAE, Saudi Arabia and Bahrain. This has had an impact on Islamic financial services, which involve many more taxable transactions compared to conventional finance.

Tax treatment for Islamic finance varies greatly across the GCC. The UAE, for example, excludes

Islamic financial facilities with profit rates from the list of financial products and services subject to VAT. Saudi Arabia and Bahrain, on the other hand, exempt margin-, interest- or spread-based services but they tax fee- or commission-based services. The VAT laws in Saudi Arabia and Bahrain provide parity in the treatment of Islamic and conventional financial services, so long as an Islamic financial product has the same intended objective as its conventional counterpart and achieves the same effect.

Theoretically, Islamic and conventional financial products are subject to equal VAT treatment, for financing activities and fees, in both Saudi Arabia and Bahrain. However, if there is any significant difference in the purpose and circumstances of an Islamic financial product, the VAT treatment will be considered on a case-by-case basis. For example, in an Islamic financing product such as commodity Murabaha, the only income recognized for VAT purposes is the profit margin and not the sale of the underlying commodity transaction by a financial institution to the customer as that does not constitute any VAT event. This is because the title assigning ownership over the commodities transferred by the Islamic financial institution to the customer is not intended to remain with the customer permanently. However, if such transaction were to be taxed, it would become an added cost to the customer and would create an uneven playing field between Islamic and conventional transactions, drastically reducing competitiveness in the former.

Qatar has yet to introduce VAT. Should VAT be assessed on financial services in Qatar, it would be essential for regulators in Qatar to maintain parity between the VAT treatment of Islamic and conventional financial products and services. Without it, Islamic finance would struggle to remain competitive. This should be done in a clear and transparent manner to retain consumer and investor confidence. Thus, there will be a need for tailored workshops and awareness campaigns for consumers on the VAT framework and its applicability to Islamic finance products ahead of its implementation.

EDUCATION AND AWARENESS

Building human capacity in Islamic finance

For the Islamic finance industry to maintain its current rapid growth it is essential that there is greater awareness of its benefits among the public and that professionals are equipped with the specialist knowledge required for its development. Experience in the conventional finance industry alone is not enough as Islamic finance professionals also need to be knowledgeable in the Shariah law governing financial concepts and products.

According to the ICD-Refinitiv Islamic Finance Development Indicator, Qatar has eight institutions providing Islamic finance education. These institutions offer courses, degrees and other qualifications covering Islamic finance-related themes such as Islamic banking and Islamic jurisprudence.

Universities and affiliated bodies in Qatar published 30 research papers on Islamic finance between 2016 and 2018, on topics including sukuk, Islamic banking, Islamic accounting, and Islamic legal issues.

The Centre for Islamic Economics and Finance (CIEF), Qatar Faculty of Islamic Studies at Hamad Bin Khalifa University, is one of the country's prominent academic institutions offering Islamic finance education. The university offers an MSc in Islamic Finance and PhD in Islamic Finance and Economy, which center on the national priorities set out by the Qatar National Vision 2030. The center also produces research and analysis on various aspects of the industry both locally and internationally, as well as hosting events and coordinating with other research providers. Another university offering a course in Islamic finance is Qatar University.

The importance of Islamic finance is also recognized by the QFC Authority, which has partnered with Qatar Finance and Business Academy (QFBA) to include the subject in the academy's 'Kawader' training initiative to develop human capital within the financial services sector. Islamic finance, Islamic banking and takaful are all covered in the program, which aims to train new graduates as Islamic finance professionals. Apart from this, Islamic finance qualifications accredited by the Chartered Institute for Securities & Investment and the Chartered Institute of Management Accountants can be obtained from a number of training partners in Qatar.

Greater consumer awareness would spur improvements in Islamic finance services

For consumers, greater awareness and understanding of Islamic financial services would help increase the adoption of Islamic financial products, and the expectations that awareness raises would force the industry to offer better products and services. Awareness is measured in terms of news reports and events concerning Islamic finance. Qatar's Islamic finance industry was covered in 1,266 news publications during 2018. In addition, Qatar hosted six Islamic finance-related events including roundtables, symposiums and seminars.

The annual Doha Islamic Finance Conference is one of the most influential industry events in Qatar. The fifth edition of the conference, held in March 2019, looked further into digital Islamic finance and touched on its regulation, as well as the transformation of the industry through modern techniques and the risks posed by the digital world such as cyber security. The conference also hosted the announcements of a couple of Islamic finance milestones for QFC: the launch of the proposed Islamic Power Bank, as well as Qatar's first proposed digital gold-backed currency "I-DINAR".

EXECUTIVE INSIGHTS INCEIF

Prof. Dato' Dr. Azmi Omar
President & Chief Executive Officer, INCEIF



1. What was the rationale behind (the) introduction of Value-based Intermediation (“VBI”) for Islamic banking institutions in Malaysia? How does it compare with other existing environmental, social and governance (ESG) reporting standards that are in use in Qatar and Europe?

The rationale behind VBI is for Islamic financial institutions to deliver the intended outcomes of Shariah, comprising the protection of faith, life, intellect, lineage and wealth. This may be done through their practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment which are also in line with their shareholders’ sustainable returns and long-term interests.

VBI serves as a distinct milestone in the development of the Islamic banking industry in Malaysia as it takes it to the next level. Thus far, the focus has always been on ensuring compliance with Shariah for all Islamic financial products and services. Recognizing the fact that Islamic financial institutions have to go beyond offering Shariah-compliant products and services to remain competitive, the United Nations Sustainable Development Goals (SDGs) serve as an excellent opportunity in which the Islamic banking industry may make a

direct and positive impact on the economy, community and environment. In fact, it is high time for the wider impact of financing to be taken into serious consideration as the world that we live in today is interconnected.

To realize the full potential of Islamic financial institutions in playing their role towards the fulfilment of the SDGs, VBI came into the picture. It aims to change the current practices, conduct and offerings in the Islamic banking industry where the focus has been on short-term objectives, the financial aspect as the only performance measurement, innovation for the sole benefit of shareholders, practicing good conduct only due to regulations, and limitations on the roles of key stakeholders such as consumers and employees.

It is envisaged that VBI will enable a value-based and impact-driven mindset for Islamic financial institutions where long-term objectives are the new center of attention, as people and the planet are prioritized alongside profit. This would lead to having a more comprehensive performance measurement which is based on both financial and non-financial aspects and inadvertently pave the way for innovation which creates value for all. VBI is also expected to inspire a ready willingness

by Islamic financial institutions to practice good conduct even in the absence of regulations and allowing for the greater participation of key stakeholders in all financing decisions.

Towards this end, following the Strategy Paper on VBI issued by Bank Negara Malaysia (BNM), in collaboration with the founding members of the VBI Community of Practitioners (VBI CoP) in March 2018, a taskforce for the VBI Assessment Framework (VBIAF) was subsequently established to spearhead its strategic development. INCEIF has the privilege of chairing this taskforce while the Islamic Banking and Takaful Department of BNM co-chairs. The VBIAF Consultative Document was drafted by INCEIF in collaboration with BNM, the World Bank and World Wildlife Fund Malaysia and it was released in October 2018 for feedback from the public.

As to the observation that VBI is similar to ESG, while VBI shares a multitude of similarities with ESG, particularly in their intended objectives, it diverges from ESG in its fundamentals as VBI is underpinned by Shariah. What this means is that the values and priorities are identified and determined by Shariah, which is primarily derived from the Quran and

Sunnah. In essence, these values and priorities are all intended to fulfill the aforementioned outcomes of Shariah.

2. Although the initiative is being launched in phases, how was it initially received by local players and do you foresee this framework being launched internationally?

The initial response has been positive. This is made possible by the eager participation from the VBI CoP, which consists of IFIs. These institutions have also expressed their intention to become early adopters of VBI. In fact, the founding members of the VBI CoP, comprising Bank Islam Malaysia, Bank Muamalat Malaysia, Agrobank, HSBC Amanah Malaysia and CIMB Islamic Bank, collaborated with BNM for the Strategy Paper.

Also, CIMB Islamic Bank has embarked on its journey to implement VBI, and INCEIF was mandated with developing a sustainability strategy, financing and valuation framework in addition to sustainability financing policy and sector guidance for the bank.

This project required a comprehensive bench-marking based on global best practices, qualitative and quantitative analysis of global ESG databases and indexes, an in-depth industry and academic literature review, consultation with technical experts, as well as extensive engagement with key stakeholders in the social and environmental sustainability sphere. Through this process, key material environmental and social issues were identified and recommendations were made.

As for an international adoption of VBI, this is certainly possible. The unique value proposition of VBI is the fact that it will provide a distinct identity to the current Islamic banking industry where Islamic financial institutions can offer more than just Shariah-compliant products and services. They would be able to make a positive impact on the economy, community and environment directly.

It goes without saying that an international adoption of VBI would require the full commitment of local regulators and the local Islamic banking industry. While VBI encompasses values which are universal, local regulators and Islamic financial institutions may need to adopt VBI by customizing their practices, conduct and offerings to suit the local context and needs.

3. Sustainability is becoming a global trend. What is your outlook for Islamic finance institutions in other jurisdictions in introducing VBI-based products within the next five years?

The outlook is positive because there is an emerging participation from local, regional and global stakeholders such as asset owners, investors, fund managers and regulators, and increasing awareness from the masses. It may be expected that in the next five years more Islamic financial institutions will jump onto the bandwagon by introducing products and services which are VBI-friendly. We look forward to a more active involvement in VBI from Shariah scholars and Shariah Committees.

However, it is reasonable to expect that most Islamic financial institutions will take a phased approach to focus on small initiatives which they can implement immediately with convenience to build the momentum towards a full implementation of VBI rather than revamping or reinventing the wheel altogether.









OVERVIEW OF ISLAMIC FINANCE IN QATAR



BANKING



BANKING (H1 2019)

	CONVENTIONAL	ISLAMIC
Number of Commercial Banks (local and foreign)	13 	4 
Number of Specialized Banks	1 	—
Total Commercial Banking Assets (US\$ Mn)	 107,045	292,801
Total Commercial Banking Credit (US\$ Mn)	 77,873	193,873
Total Commercial Banking Deposits (US\$ Mn)	 66,284	160,566
Number of QFC Corporate Banks	9 	1 
Total QFC Corporate Banking Assets (US\$ Mn)	8,410 231	

New Islamic banks on the horizon

Currently home to four full-fledged Islamic banks, Qatar has also seen the impact of the wave of banking mergers that hit the GCC following the oil price crisis of 2014. A merger announced in 2018 between two Qatari banks — Barwa Bank and the conventional International Bank of Qatar (IBQ) — reduced the total number of banks in the country to 17, while the number of Islamic banks remains four. The operational consolidation of the two banks was finalized in April 2019, operating under the name Barwa Bank, making it the third largest bank in Qatar. With combined total assets of US\$ 22 billion, it is intended to boost operational scale and combine the banks’ strengths in terms of retail, corporate and private banking services, along with wealth and asset management.

The launch of a fifth Islamic bank was announced earlier

this year in 2019 — Power Bank, which is set to become the largest energy-focused Islamic lender in the world, with a targeted capital of US\$ 10 billion. Power Bank will finance private and government energy-related, capitalizing on Qatar’s powerful presence in the global energy market, particularly with regards to liquefied natural gas.

Qatari Islamic banks launching fintech solutions

A supportive fintech ecosystem is crucial to the future development of Qatar’s Islamic finance industry. The key driver of its adoption by Islamic banks has been customer demand for seamless digital banking services such as mobile banking apps. The government is already actively promoting fintech under its Second Strategic Plan for Financial Sector Regulation (2017-2022). Qatari Islamic banks are also progressing on this by launching

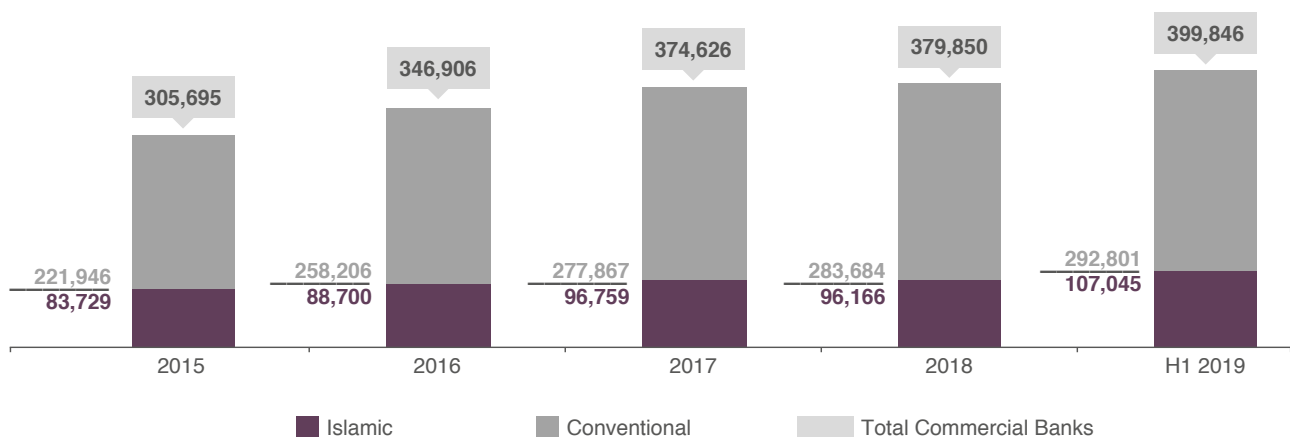
their own digital solutions, which is helping Qatar in its quest to become an Islamic fintech hub.

Qatar Islamic Bank, for example, has launched a digital onboarding service for prospective clients, who can now easily open accounts through the bank’s app without having to visit the physical bank. The app also allows clients to raise pre-approved finance. Barwa Bank is also targeting full digital transformation, introducing its own digital application and plans to launch a point-of-sale (POS) product. The bank has also created the role of Chief Digital Officer as part of its management team.

Commercial banking sector in Qatar maintains asset growth

Total commercial banking assets in Qatar amounted to US\$ 400 billion by the end of H1 2019. Islamic banking accounts for

COMMERCIAL BANKING TOTAL ASSETS GROWTH (2015–H1 2019, US\$ MILLION)



the largest share, or 82%, of the Islamic finance industry in Qatar in terms of assets, with a total value of US\$ 107 billion in the first half of 2019. Islamic banking assets saw a significant rebound in the first half of 2019, with double-digit growth of 11.4% since 2018, compared with a marginal decline of 0.2% in conventional banking assets. This follows a 0.6% decline in Islamic banks' assets during 2018.

Domestic credit was the biggest constituent of total assets for both Islamic and conventional commercial banking, which respectively contributed 64% and 60% of total assets for H1 2019. This was followed by investments. Islamic banking is more concentrated on domestic investments than is conventional banking, with a share of 19% of total assets compared to conventional banking's 9%.

Private sector credit growing for Islamic banks, unlike the public sector

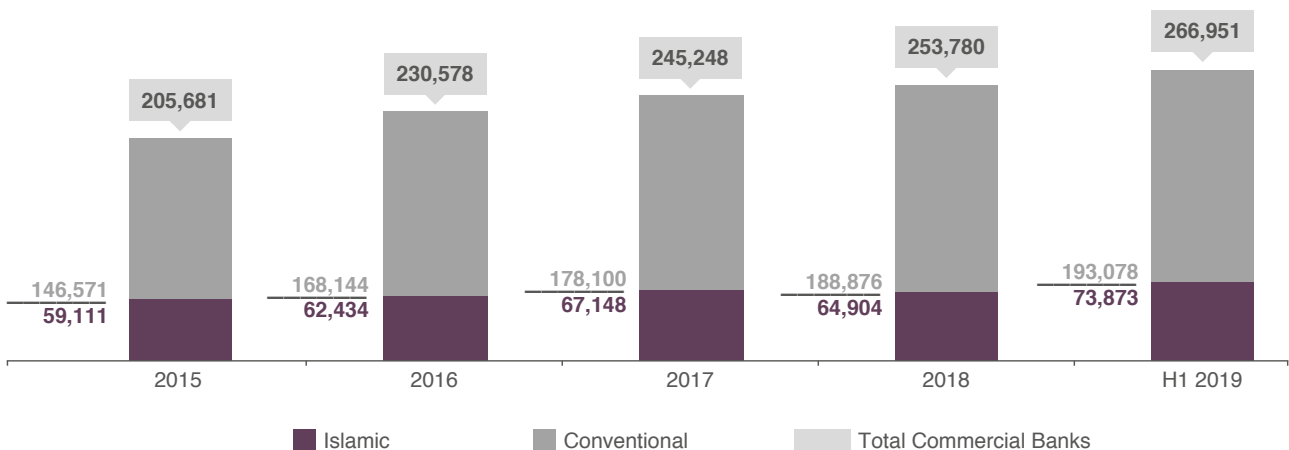
Total commercial credit and financing extended by banks in Qatar grew by a CAGR of 7.7% between 2015 and H1 2019 to US\$ 267 billion. Islamic financing facilities accounted for 28% of total credit extended to clients during H1 2019 up from 25% in 2018, as growth in Islamic bank financing of 13.8% outpaced conventional bank loans that declined marginally during this period. This growth in Islamic financing facilities has been primarily driven by double digit growth in lending to the services (58%), general trade (18%) and industry (16%) sectors, as the Qatari government continued to forge ahead with economic development plans to boost private sector contribution to the economy. In recent years, the government has implemented policies and

initiatives to encourage Public Private Partnerships (PPPs), self-sufficiency and SME development as part of the Qatar National Vision 2030, which has so far increased non-oil contribution to GDP to 64% in Q1 2019 from 47% in 2014.

Overall public sector credit declined by 7% during the first half of 2019 as oil prices stabilized and Qatar's budget surplus grew, thus reducing government funding requirements. The public sector's share of overall credit decreased from 34% to 30% within these six months. Although this translated to a substantial decrease in government borrowing from conventional banks by 11.5% during the first half of 2019, Islamic banks witnessed healthy growth of 17% in this segment albeit from a much smaller base.

Credit to the domestic private sector accounted for 72% of

COMMERCIAL BANKING TOTAL CREDIT GROWTH (2015–H1 2019, US\$ MILLION)



Islamic banks' lending portfolio during H1 2019, compared to a smaller share of 57% with conventional banks which have been traditionally more dependent on business from the public sector. Within the domestic private sector, real estate and services received the greatest share of Islamic bank financing during the same period, accounting for 29% of total financing facilities.

Real estate downturn imposes risk for banking sector

Real estate has received the largest share of private credit in Qatar as commercial banks finance commercial projects near Doha as well as residential compounds outside of the city. However, a marginal downturn in the country's real estate market over the past three years presents risks to both the conventional and Islamic banking streams, according to a report in May 2019 from ratings agency Fitch. Rental prices in Qatar have softened by 20% over the past three

years, and some Islamic banks have already begun reducing financing to the real estate sector.

On a more positive note, incentives introduced through a reformed freehold real estate law for foreign owners in the commercial and residential sectors will make the Qatari market more buyer- and tenant-friendly over the coming years. Prices that are more competitive will result in a higher number of transactions in the future as can be seen in the 20% jump in transactions volume for the first quarter of 2019 compared to the same period last year.

Public sector deposits fall as oil prices and economy stabilize

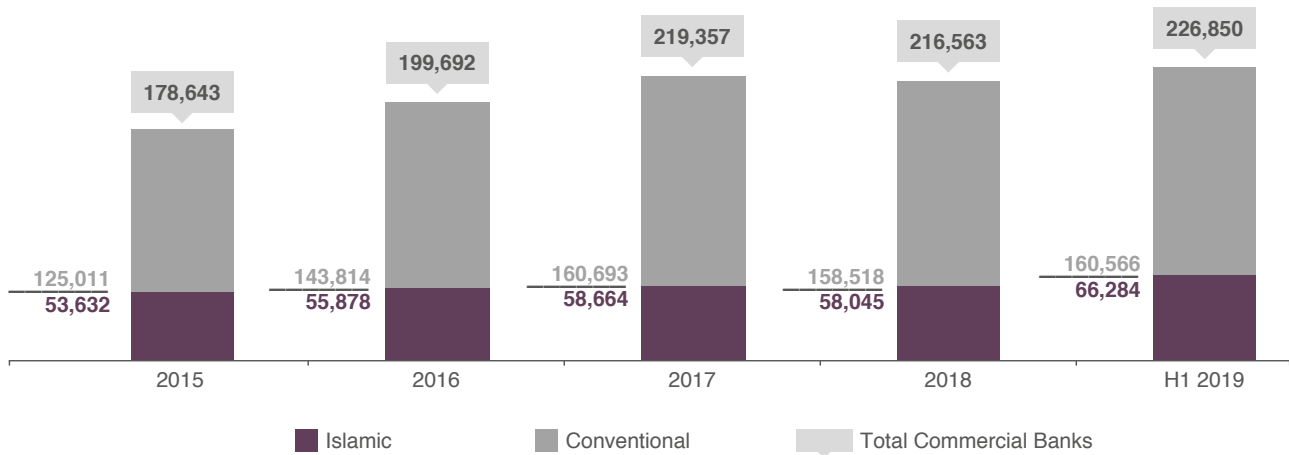
Overall deposits for Qatar's banking system recovered in the first half of 2019, as growth picked up to 1.9% driven by foreign deposits. Overall deposits had declined by 1.5% during 2018 due to the withdrawal of some public sector deposits

that had been placed by the government in recent years to support liquidity in the banking sector as volatile oil prices among other risks made for a challenging economic environment.

Capturing a larger share of business from the public sector, the impact of the withdrawal of government deposits has had a more pronounced impact on conventional banks as the case with public sector credit. Public sector deposits with these banks further dropped by 8.3% during H1 2019, leading to a 2.4% decline in total conventional deposits. Islamic banks on the other hand, benefitted from greater exposure to the private sector which resulted in 14.2% growth in total deposits during this time. This was mainly driven by non-resident deposits and private sector deposits, which grew by 83.6% and 12.8% respectively.

Even though deposit growth has recovered, its pace remains lower

COMMERCIAL BANKING TOTAL DEPOSITS GROWTH (2015–H1 2019, US\$ MILLION)



than credit growth indicating further widening of the credit-deposit gap and mounting pressure on bank liquidity. This has led some Qatari banks, including Qatar National Bank and Qatar Islamic Bank, to tap international bond markets to diversify their funding base.

Gradual return of non-resident deposit flows into the Qatari banking system

Foreign customers' confidence in Qatar's banking system

had been restored after major rating agencies upgraded their outlook for the banking sector from negative to stable. As a result, non-resident deposits for Qatari banks, through their international branches and subsidiaries, have seen continued recovery growing by 17.3% during the first half of 2019. Foreign deposits had bounced back by 23.5% in 2018 after some earlier major withdrawals. Islamic banks witnessed significant expansion in foreign deposits

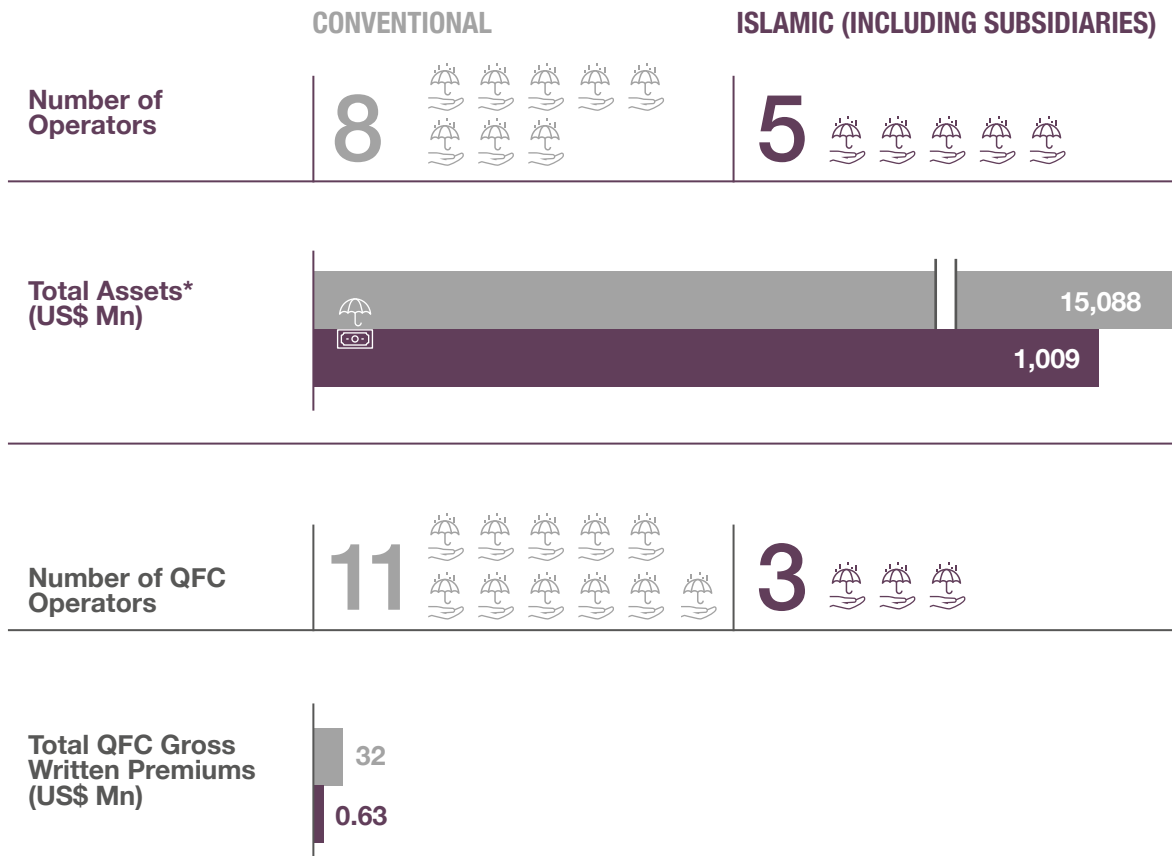
reaching 83.6% from 2018 figures. Islamic banks in Qatar have been actively expanding their international networks, tapping into nascent Islamic finance markets such as the UK and Morocco and capitalizing on their existing wealth of expertise and cost efficiencies.

Islamic banking assets saw a significant rebound in the first half of 2019, with double-digit growth of 11.4% since 2018.

INSURANCE



INSURANCE (H1 2019)



*There is a paucity of data on Qatar's insurance sector. Consequently, figures included above and below are estimated values for the insurance sector operating under the QCB jurisdiction based on a sample of the largest insurers, which control 95% of sector assets.

Takaful has fared better in the Qatari market and has outperformed conventional insurance assets growth over the past two years.

Takaful outperforming insurance in growth, driven by takaful subsidiaries

Qatari takaful assets were estimated at US\$ 1,091 million, or 7% of the overall insurance sector's total assets for the first half of 2019. Takaful assets grew by a CAGR of 5% since 2015, compared with total insurance asset CAGR of 11%. Takaful's underperformance was largely due to a decline in assets between 2015 and 2016 for Qatar Islamic Insurance Company, which has 27% of the country's total takaful assets.

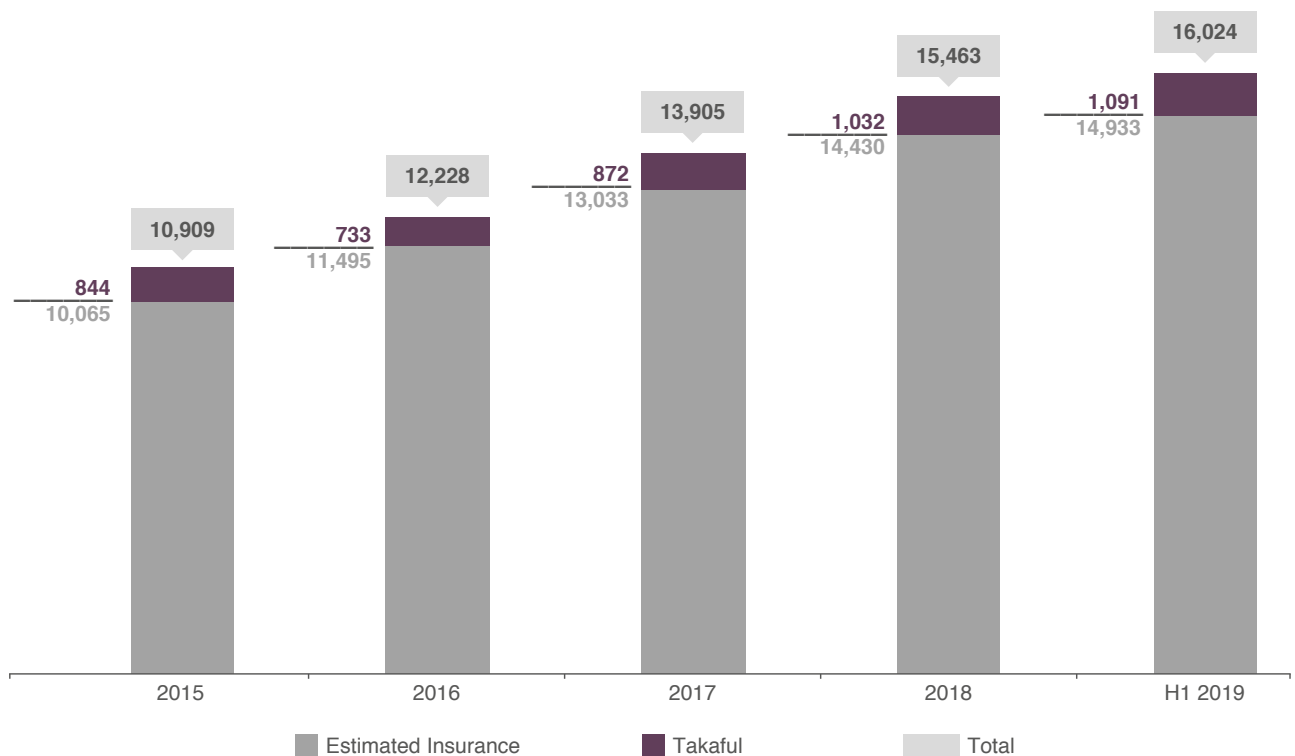
More recently, however, Takaful has fared better in the Qatari market and has outperformed conventional insurance assets growth over the past two years, growing 6% during the first half of 2019, compared with the conventional insurance sector's growth of 3%.

The largest drivers of takaful growth are the conventional insurance operator's Islamic subsidiaries, which have a collective market share of 45%. Qatar Insurance's takaful arm, Damaan Islamic Insurance, and General Takaful Company

both saw double-digit growth, while Doha Insurance's takaful unit saw triple-digit growth due to the addition of takaful-specific shareholder assets.

The conventional insurance and takaful sectors' growth shows their resilience in the face of challenging global and regional economic conditions. The growth is being driven by non-life insurance and business stemming from infrastructure projects being built as part of Qatar's National Vision 2030 and preparations for the 2022 FIFA World Cup.

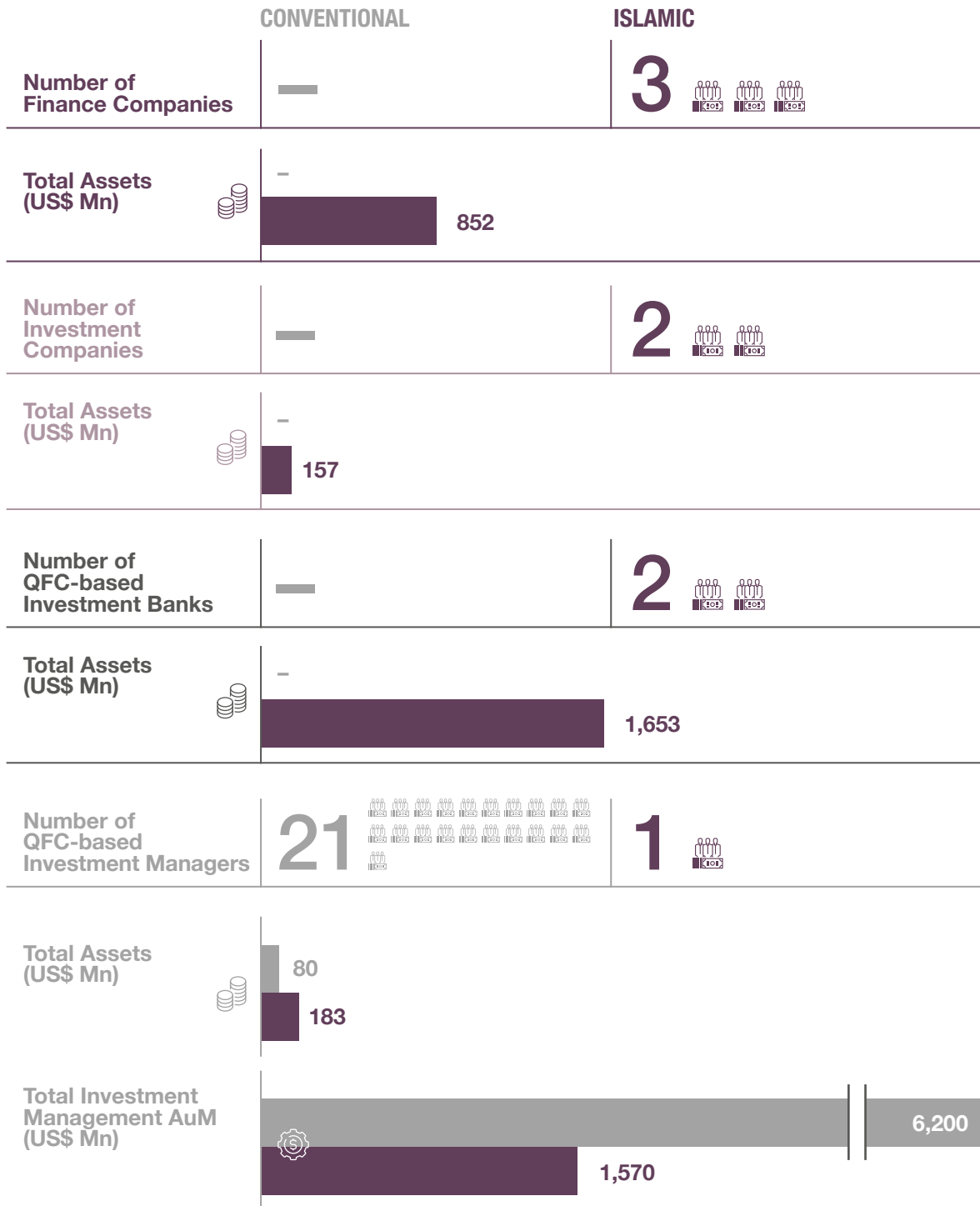
INSURANCE ASSETS GROWTH IN QATAR (2015–H1 2019, US\$ MILLION)



NON-BANKING FINANCIAL INSTITUTIONS



NON-BANKING FINANCIAL INSTITUTIONS (H1 2019)



Increased focus on SMEs

Central bank-regulated non-banking financial institutions in Qatar, excluding takaful, consist of investment and financing companies that are all Shariah-compliant. The number of these companies has remained unchanged since 2012, indicating limited growth and development in this sector. Two investment companies are licensed by QCB, Investment House and First Investment Company, which offer investment banking, asset management and real estate investment services. Investment companies witnessed a decline in assets to US\$ 157 million as a result of a decline in financial investments and investments in associates. Finance companies in Qatar are non-deposit-taking institutions and compete with Islamic banks in retail lending

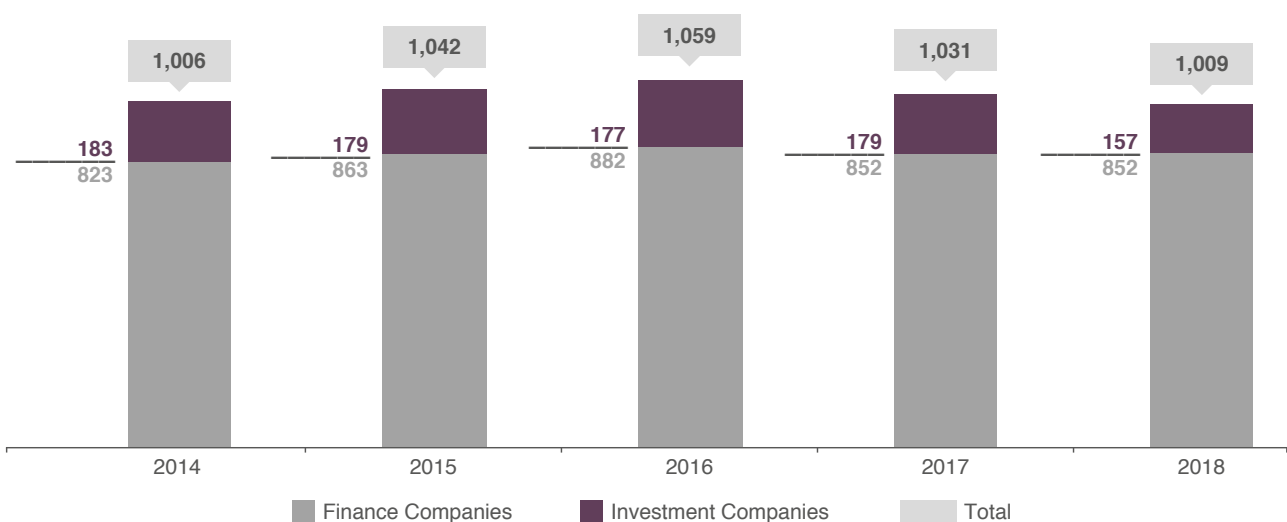
such as auto financing and smaller-ticket financing for both residents and non-residents. Only three financing companies operate in Qatar — Al Jazeera Finance, First Finance Co., and Qatar Finance House Co. — with total assets at US\$ 852 million.

SMEs account for a growing share of financing portfolios, due partly to the caps placed on consumer financing by QCB in 2011 amid concerns that increased credit could lead to higher default rates. Caps were placed on charges and profit rates, as well as on the value of consumer loans, which have impacted finance companies' profit margins, particularly as they do not have access to cheap funding such as bank deposits. The shift towards SMEs is also a result of continued government spending on infrastructure and

other projects, and of Qatar Development Bank's Al Dhameen SME loan guarantee program, which promises to repay up to 85% of borrowed funds through a letter of guarantee.

Al Jazeera Finance, the largest of the three financing companies, announced earlier this year to increase the share of SME financing to 60-70% of its QAR 1.2 billion financing portfolio in 2019, by creating new products tailored to SMEs and micro businesses as part of its new strategy and in line with the Qatar National Vision 2030. SME financing accounted for around 50% of the company's total financing during the first half of 2018.

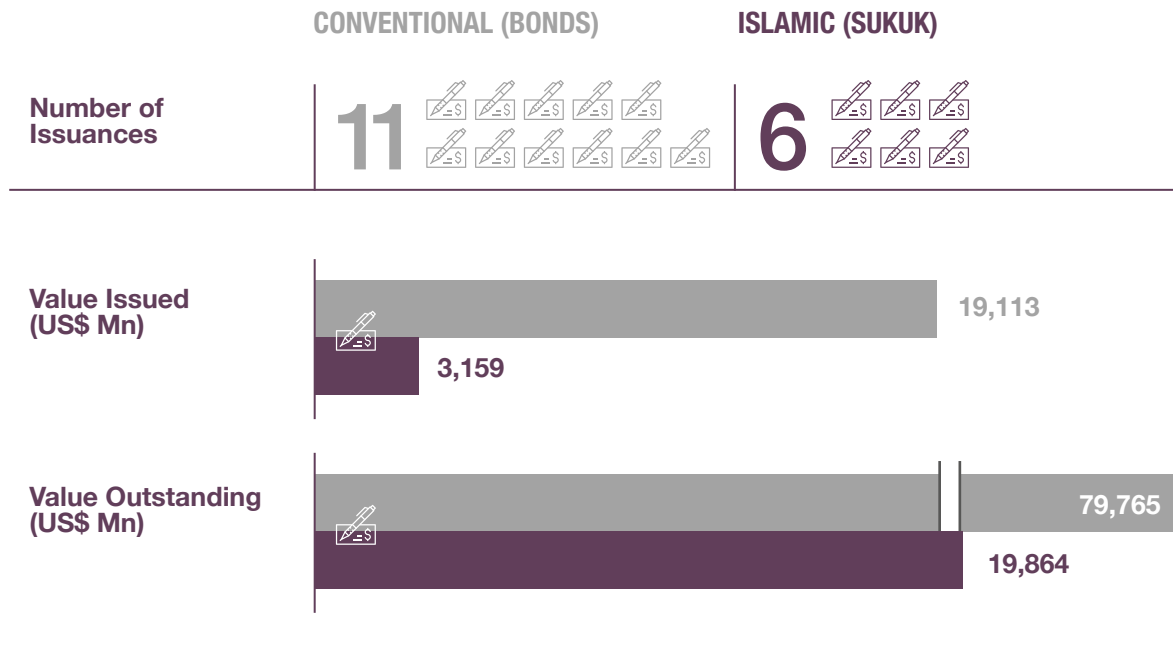
NON-BANKING FINANCIAL INSTITUTIONS ASSETS GROWTH IN QATAR (2014–2018, US\$ MILLION)



CAPITAL MARKETS



CAPITAL MARKETS (H1 2019)



Government remains most active player in Qatari sukuk market

The Qatari market saw continued sukuk activity during the first half of 2019, however sukuk accounted for only 14% of total debt issuance mostly from government issuances. This lower share of sukuk resulted from the sale of a US\$ 12 billion jumbo conventional government bond. This heavily oversubscribed issue demonstrated Qatar’s attractiveness to international investors. The bond was issued in three tranches, with 5-, 10- and 30- year maturities.

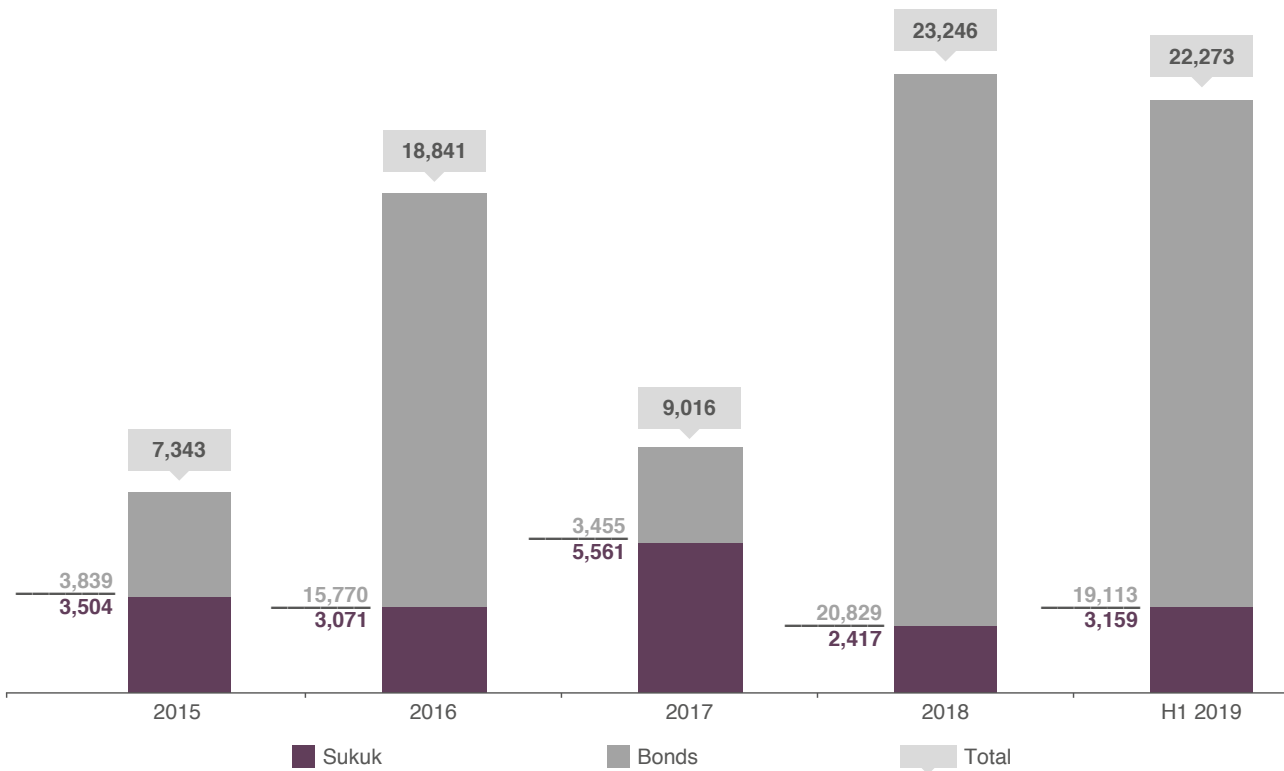
Shariah-compliant bonds issued by the Qatari government during H1 2019 mostly had 5-year maturities, compared to a more varied medium-term maturity profile of 3, 5 and 8 years in 2018. Issuing sukuk with longer maturities (10 years and longer) would help the government establish a benchmark yield curve and facilitate better pricing of other capital market products such as corporate sukuk. This point has already been addressed in the government’s Second Strategic Plan for regulating the financial sector. As a result, the government

remains the backbone of the sukuk market in Qatar as they help finance its various projects and investments while developing the local financial market.

Strong prospects for corporate sukuk in 2019 despite weak 2018

The first quarter of 2019 saw the return of corporate sukuk issuances from QIB and QIIB, compared to none in 2018, which was in line with low overall corporate bond issuance, with just 16 issues by two corporates last year. This echoed the downward price pressures the

BOND AND SUKUK ISSUANCES IN QATAR (2015–H1 2019, US\$ MILLION)



Qatari fixed income market witnessed in 2018, partially a result of the US Federal Reserve raising its interest rates four times across the course of the year.

So far, 2019 has presented a ripe environment for fixed income issuance, with the US abandoning further rate hikes and following Qatar’s improved issuer rating since the second half of 2018 by the Big Three rating agencies: Fitch, Moody’s and Standard & Poor’s. Qatar’s long-term issuer rating was raised from ‘negative’ to ‘stable’

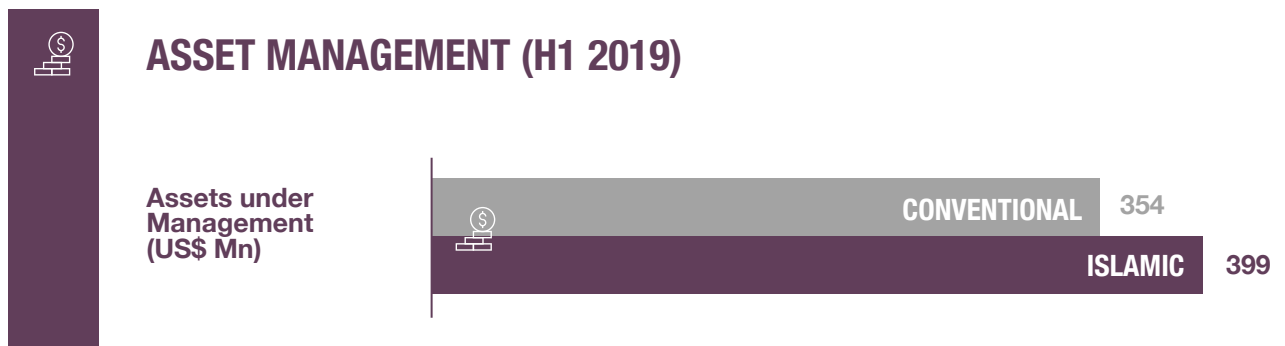
because of its evident ability to withstand financial and economic pressures while pursuing prudent macroeconomic policies.

Supporting cross-border Islamic liquidity instruments

On the global front, Qatar also plays a role in facilitating cross-border Islamic liquidity management as a key stakeholder in the IILM Sukuk Program. One of the 10 sovereign and supranational members, QCB holds a 30% share of the IILM corporation and provides sovereign assets that back some of the program’s

short-term issuances. IILM sukuk are issued with a maximum tenor of six months and are considered high-quality, rated A1 by S&P as they are partially backed by high-rated, tangible, sovereign and supranational assets. Moreover, two of Qatar’s Islamic banks — Qatar Islamic Bank and Barwa Bank — act as primary dealers for the IILM sukuk program, in turn facilitating easier access to these sukuk locally for the purpose of Islamic liquidity management.

ASSET MANAGEMENT



The Islamic asset management sector in Qatar doubled over the past five years in terms of AuM, which reached US\$ 399 million in H1 2019 — more than half of total AuM. This shows how successfully the Islamic finance industry has already captured opportunities in Qatar’s fund and wealth management sectors.

Qatar’s first Islamic ETF, innovative funds boon for Islamic fund management

New Islamic funds were launched last year including an exchange traded fund (ETF) managed by Al Rayan Investment. The Al Rayan Qatar ETF, the country’s first Islamic ETF, represents 37% of total Islamic funds’ AuM in Qatar, amounting to US\$ 147 million in H1 2019. This makes it the largest ETF not just in Qatar, but in the GCC. It also makes Qatar one of just nine jurisdictions to have so far rolled out Islamic ETFs.

Al Rayan Qatar ETF tracks the performance of the QE Al Rayan Islamic Index. Apart from offering

broad sector diversification and implementing a Shariah screening approach, the rules-based index follows liquidity criteria that help provide a suitable weighting mechanism for the stocks in the index. Building on the success of the Al Rayan Qatar ETF and an earlier, non-Islamic ETF launched last year by Qatari investment firm Amwal, the Qatar Stock Exchange is also preparing to launch two new ETFs: one focused on gold and the other on Shariah-compliant stocks outside of Qatar.

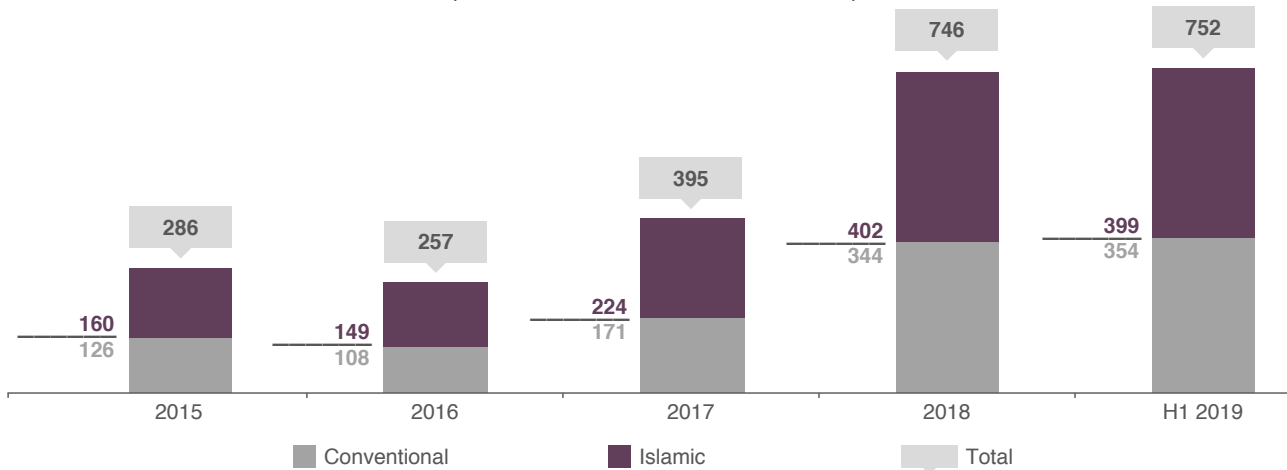
In 2017, QInvest launched the QINVEST SQN Income Fund series, through its Ijara platform with an innovative strategy that invests in the leasing of revenue-generating equipment across developed markets. Offering an annual payout of 7%, the launch of the initial fund in 2017 was met with strong demand from investors. As a result, two more funds were launched in 2017 and 2018, in collaboration with SQN Capital, a global specialist in equipment leasing.

All three funds were significantly oversubscribed, with the Ijara platform reaching US\$165 million in value in less than two years. Islamic funds have witnessed increasing demand in recent years, especially from international investors with conventional investment mandates, seeking diversified exposure and high yields during the current economic slowdown.

Qatar’s openness to foreign ownership aids Islamic asset management growth

Another incentive that has boosted the Islamic asset management sector in Qatar is the increase of the foreign ownership limit on Qatari-listed companies to 49% from 25%. This has attracted significant foreign investment flows that helped boost the main QSE index by more than 20% last year, encouraging greater foreign investment in Shariah-compliant stocks, particularly financial and energy companies. The increase has been enacted as part of Qatar’s commitment to

MUTUAL FUNDS AuM IN QATAR (2015–H1 2019, US\$ MILLION)



increase foreign ownership limits upon its upgrade to emerging market status on the MSCI global Emerging Market Index in 2014. Qatar received a similar upgrade on the FTSE Russell Global Equity Index Series, over two equal tranches in 2016 and 2017, further enhancing the stock market’s depth and liquidity and expanding its international investor base. In addition, the move by the Qatar Financial Markets Authority (QFMA) to enforce a 1:10 stock split of listed companies’ shares in June 2019, where the nominal value of a share became QAR 1 instead of the previous QAR 10, has increased the number of shares in the market tenfold and has attracted more international investment interest.

The Al Rayan Qatar ETF, the country’s first Islamic ETF, represents 37% of total Islamic funds’ AuM in Qatar, amounting to US\$ 147 million in H1 2019.

EXECUTIVE INSIGHTS QINVEST

Tamim Hamad Al-Kawari
Chief Executive Officer, QInvest



1. We understand that QInvest has become the leading investment bank inside Qatar. Beyond Qatar, however, what has been your most innovative new product launch?

While most of our activities are concentrated in Qatar, we are also increasingly taking advantage of opportunities outside Qatar. Qinvest's real estate unit currently focuses largely on transactions across selected cities in the region, Europe and the United States — where our network and knowledge base is strongest. However, recently QInvest has taken its in-house expertise and applied it to a fast-developing nearby market: Turkey. Through our partnership with RE-PIE, QInvest has launched a fund directed at Turkish commercial properties that have lease agreements with tenants denominated in foreign currencies (primarily the US dollar). The fund has assembled a collection of grade A properties, including an Embassy, which offers reliable returns. This Turkish-focused fund has attracted a range of institutional interest – including that of Turkish pension funds, which have recently been mandated to invest 5% of their capital in alternative assets (such as real estate).

2. What is your largest fund size launched to-date, and does it involve an international dimension beyond Qatar?

Our largest series of funds is a joint one, totaling over US\$ 1 billion, which we created together with SQN Capital and which recently completed its third and largest fundraising. We partnered with SQN Capital Management because of their global expertise in equipment leasing — which for this Ijara fund comprises the underlying collection of assets. The business equipment is all based in developed markets, chiefly the United States. This series of Shariah-compliant funds allows investors an opportunity to place capital in a vehicle backed by real operating assets in a secure and stable market, facilitating attractive returns amid low volatility. These aspects have driven strong institutional demand, which stands in contrast to uneven strategies currently identified with equity, bond, real estate or commodity markets. At QInvest, we are proud to have jointly put together the leading and largest Islamic equipment leasing funds in the world.

3. Has QInvest facilitated any Islamic investments with sovereign wealth funds outside of Qatar?

Yes, we have. There is an interest in Islamic finance, and we cater to a range of sophisticated clients in the space. While I cannot disclose all our active business, I can share there is growing interest for tailored needs in the Islamic space. We recently joined forces with reputable partners to launch sector dedicated funds. The funds are starting relatively small, mirroring different projects that vary in size, scope and geography. The objective is to be able to structure these funds in an Islamic fashion while providing a reliable and proven way to guarantee future generations' wealth. Fortunately for us, we have been able to assemble a highly accomplished team, developing new Islamic finance structures and products to deliver on expanding sophisticated client needs.

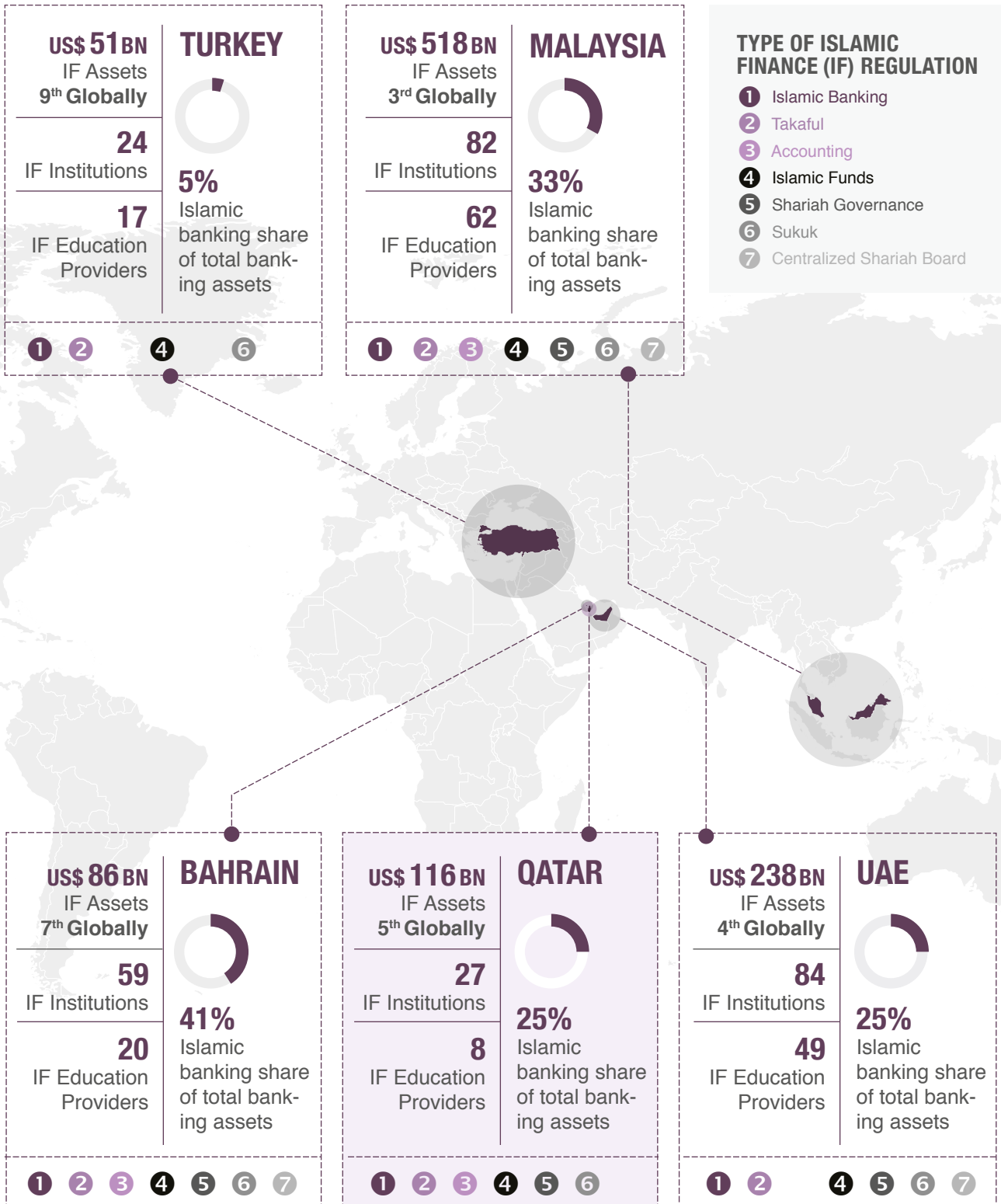


West Bay, Doha.

QATAR AS A CONTENDER TO BE THE REGIONAL ISLAMIC FINANCE HUB



ISLAMIC FINANCE ECOSYSTEM IN DEVELOPED COUNTRIES



Source: Islamic Finance Development Indicator Report 2019.

Islamic Finance Regulatory Framework Comparison

Sector Regulation	Qatar		Malaysia		Bahrain	UAE	Turkey
Islamic Banking	QCB	QFCRA	Bank Negara Malaysia	Labuan FSA	Central Bank of Bahrain	UAE Central Bank	Banking Regulation and Supervision Authority
Takaful	QCB	QFCRA	Bank Negara Malaysia	Labuan FSA	Central Bank of Bahrain	Insurance Authority	Undersecretariat of Treasury
NBFIs	QCB	QFCRA	Securities Commission Malaysia	Labuan FSA	Central Bank of Bahrain	UAE Central Bank	None
Sukuk	QFMA	QFCRA	Securities Commission Malaysia	Labuan FSA	Central Bank of Bahrain	Securities and Commodities Authority	Capital Markets Board
Islamic Funds	QFCRA		Securities Commission Malaysia	Labuan FSA	Central Bank of Bahrain	Securities and Commodities Authority	Capital Markets Board

Dedicated law or act
 Supplementing another law, amendments or guidelines

Islamic Finance Tax Framework Comparison

Tax Type	Qatar	Malaysia	Bahrain	United Arab Emirates	Turkey
Income Tax	None imposed	Certain provisions on Islamic transactions according to Malaysia's Income Tax Act	None imposed	None imposed	10% individual income tax for Ijara certificates earnings issued onshore
VAT	None imposed	Goods and Services (GST) tax is imposed, in parity with conventional finance products	VAT is imposed, in parity with conventional finance products	VAT excluded for Islamic financial facilities with profit rates	VAT exemption to all types of sukuk transactions
Stamp Duties	None imposed	Some stamp duty exemption orders for certain Islamic finance products	None imposed	None imposed	Duties exemption to certain sukuk transactions
Sukuk SPV	Tax exemption for qualifying QFC registered special purpose companies (SPC) established to facilitate Islamic finance transactions	SPVs created for qualifying SC Islamic securities are not subject to tax. Tax neutrality policy is applied for sukuk issuances	None imposed	None imposed	Exemption for sale of assets between the originator and the sukuk SPV

POSITIONING QATAR AS AN ISLAMIC FINANCE HUB

In the following section, we look at potential directions towards establishing Qatar as an Islamic finance hub, based on global practices implemented in a selection of leading jurisdictions within different Islamic finance sectors.

Islamic Banking

A key step to enhance the growth prospects of Qatar's Islamic banking sector would be to make it a strategic government priority, supported by dedicated initiatives and incentives exclusively targeting Islamic banks. Such incentives may include relaxed banking provisions, as has been implemented in Turkey.

Qatar's Islamic banking sector stands to gain a competitive advantage in the region and attract more international business through the adoption of a more progressive approach centered around sustainability. By identifying Islamic finance with sustainable practices, Islamic finance in Qatar would evolve from offering conventional products that are made 'Shariah-compliant' to introducing 'Shariah-based' products that offer added benefits — becoming more aligned with the principles of Shariah.

In October 2019, ESG reporting for listed companies on the Qatar Stock Exchange became mandatory following its voluntary introduction in 2016. Qatar's four Islamic banks are all subject to these requirements. However, more considerable efforts are required to get Islamic banks

and financial institutions to rethink their business models to ensure the sustainability of their offerings as well as their bottom lines. The Value-based Intermediation financing and investment framework introduced by Bank Negara Malaysia in 2018, is a model that can be extended to Qatar and would be the first in the region.

Establishing specialized Islamic banks, focused on areas such as energy, sustainable investment and venture capital, would attract more international business to Qatar. In addition, as standalone Islamic digital banks emerge in the region, Qatar's existing Islamic banks can gain competitive advantage locally by collaborating with fintech players to establish their own digital banks, aligning their brands and offerings with the evolving needs of their clientele.

QFCRA enforces dedicated Islamic banking regulations — the Islamic Banking Business Prudential Rules (IBANK) — while those outside QFC are governed by an overarching QCB Law supplemented by specific guidance for Islamic banks. As the largest sector within Islamic finance, Islamic banking warrants its own regulatory framework under the QCB's purview. As with Bahrain's Islamic banking framework, this will provide assurances to investors and new Islamic banks that all such institutions are held to the same governance and Shariah standards in all aspects from operations to risk management. This could be further enhanced by enforcing mandatory compliance with AAOIFI standards and the establishment of a centralized Shariah council.

Takaful

Takaful has gained little traction in Qatar (less than 1% penetration), indicating substantial growth opportunities if the government makes it more of a priority and there is greater public awareness. Takaful contributions in Qatar are mainly sourced from property and liability coverage for corporates, with substantial opportunities in personal lines (family takaful), particularly medical takaful. The takaful sector is yet to benefit from a more robust regulatory framework, particularly for family takaful given its low penetration. Like Malaysia and the UAE, Qatar could enforce the legal separation of general and life takaful businesses, allowing an appropriate grace period. Such a move would encourage local takaful firms to focus greater attention on family takaful lines, which would boost the segment's long-term growth.

Retakaful business in Qatar is mainly carried out through foreign providers, which can potentially use QFC as a base for their Qatari business. Permissible by some Shariah scholars, takaful operators may resort to conventional reinsurance if a Shariah-compliant option is not available, resulting in some leakage of takaful contributions to the conventional sector. Introducing stricter retakaful rules, such as those enforced in Malaysia and the UAE, would ensure the full Shariah-compliance of takaful operators in Qatar as well as spur the establishment of domestic retakaful providers to accommodate their requirements. These regulations could either restrict ceding takaful contributions

to Shariah-compliant firms, or provide strict conditions for permitting conventional reinsurers to accept takaful business.

Sukuk

The Qatari government has maintained regular sukuk issuances over the past five years, making Qatar the fifth largest issuer globally. Corporate issuances have mainly come from Islamic banks raising Tier 1 capital, with potential for further issuances targeting Asian investors.

Although corporate issuances have been limited in the last couple of years, the aviation and shipping sectors present an opportunity to boost the corporate sukuk offering in Qatar. With the presence of a major global airline and the rise of maritime hubs in the region, companies in both sectors enjoy significant stock of tangible assets which are ideal for backing sukuk. Moreover, these large corporates make ideal candidates for issuing sukuk since they require substantial financing for working capital with a long-term horizon.

The QFMA governs sukuk through its “Rules for the Offering and Listing of Sukuk and Bonds on Financial Markets.” Meanwhile, QFC follows a tax treatment for sukuk that ensures no additional tax liability compared to conventional instruments.

Building momentum in Qatar’s sukuk market will require expanding its issuer base to include both local and foreign corporates, through initiatives that offer prospective issuers tangible benefits. Qatar can

encourage more issuances from local corporates by offering cost savings through reduced issuance fees. Following the practice in Malaysia, Qatar can also attract foreign corporate issuers by offering tax exemptions covering sukuk-specific issuance expenses. Such incentives could also be applied to specific structures or types of sukuk, with the aim of diversifying the offering in the market and attracting a wider, more international, investor base as a result.

With several renewable energy projects underway in Qatar, as well as the drive for sustainable development gaining traction in the region, Qatar is yet to tap the SRI and green sukuk markets. These types of sukuk not only offer the government and corporates an alternative funding option for their green projects, but also allow them to tap new foreign markets with investors seeking socially responsible investments.

Retail investors in the sukuk market have been largely overlooked, despite some jurisdictions taking steps to issue sukuk targeting this segment. However, the rapid development of fintech in Qatar is promising to enable local exchanges to facilitate individuals’ investment in sukuk, in addition to the introduction of lower investment limits. Instimatch Global, a fintech startup that recently established operations in QFC, is planning to introduce a solution that breaks down sukuk tranches to sizes that can be traded by retail investors. Incorporating fintech solutions in the development of QSE’s

trading infrastructure would improve investor’s access to the market, as well as enhancing the transparency and cost-efficiency of issuing and trading sukuk.

Islamic Funds

The Islamic funds market in Qatar is centered on Shariah-compliant mutual funds. It enjoys a unique standing, accounting for over 50% of overall mutual funds, with Islamic investment managers dominating the market.

Recent and planned launches of Shariah-compliant ETFs indicate efforts for asset managers to attract international investors. ETFs also enable asset managers to tap the retail market, as this fund structure makes it more accessible to retail investors. Leveraging this position, the launch of further Islamic ETFs and the introduction and regulation of Shariah-compliant pension funds and REITs would place Qatar in line with developed Islamic fund markets such as Malaysia. Shariah-complaint REITs, in particular, offer real estate investors and owners an innovative solution to capture the real estate asset’s value and growth. QFCRA has already passed amendments to its CIS rulebook to allow the introduction of REITs, while QSE is looking into a listing framework for these funds.

A majority of these funds are established by larger QFC-based managers, which are subject to QFCRA’s Collective Investment Schemes Rules. The development of a strategic plan for Islamic funds and wealth management at regulator level (QFCRA and QFMA) would provide further support, enhancing global

The adoption of Islamic fintech in Qatar offers a great opportunity for expanding the retail market for Islamic financial institutions, especially Islamic banks.

competitiveness. The strategy is encouraged to focus on developing comprehensive regulations guiding the establishment or issuance of new types of funds and their operations, as well as outline more conducive rules for the operation of foreign investment managers.

As the sustainable and responsible investment trend strengthens, the last few years have seen the launch of new Shariah-based ESG funds in Malaysia, as the country moves to the adoption of sustainable investment frameworks under the VBI initiative. Qatar can capitalize on this trend, backed by a sustainable and responsible investment framework, which would create a unique selling point attracting further demand from conventional investors with ESG mandates.

Islamic Fintech

Fintech adoption across Islamic finance jurisdictions is witnessing rapid development, catching up with the global trend that has witnessed remarkable growth so far. Investments in Shariah-compliant fintech, in particular, account for less than 1% of global fintech investments leaving much potential to be realized.

Proactive government support and a comprehensive ecosystem will be essential to boost fintech and Islamic fintech adoption in Qatar. Qatar's financial regulators have developed a national fintech strategy as one of the main objectives of their current joint strategic plan for financial regulation. As part of this strategy, the QCB is looking to develop a fintech regulatory sandbox supported by dedicated fintech regulations, following the examples of fintech regulation in Malaysia and elsewhere. QFC has also been working on expanding its platform to license and include fintech companies, under its framework for non-regulated financial services, as part of the national fintech strategy.

Collaboration and knowledge sharing with established fintech hubs and innovation centers has been a cornerstone for fintech strategy in major Islamic finance markets like Malaysia. Both QCB and QFC have embarked on strategic collaborations, such as QFC's 2018 MoU with Beehive — a European collaborative innovation fintech platform, in October 2018.

The adoption of Islamic fintech in Qatar offers a great opportunity for expanding the retail market for Islamic financial institutions, especially Islamic banks. It is estimated that Islamic fintech will be attracting 150 million banking customers by 2021. The use of fintech solutions based on blockchain and artificial intelligence (AI), would help Islamic financial institutions reduce the costs of their products and services, as well as offer customers a smoother customer experience.

Islamic fintech can also enable Qatari institutions to delve into retail capital markets through micro-sukuk and Shariah-compliant robo-advisors, which have already taken off in Southeast Asia. The use of blockchain technology can enable smaller Islamic financial institutions and corporates to issue sukuk in smaller lots at low cost, making them attractive and affordable for individual investors. The technology would also be useful for asset and wealth managers to take on business from individuals outside the HNW market, offering lower cost services for smaller investments through robo-advisors.

EXECUTIVE INSIGHTS

AL RAYAN INVESTMENT

Akber Khan
Senior Director – Asset Management, Al Rayan Investment



1. What was your experience in launching the Al Rayan Qatar Exchange Traded Fund (QATR)? What were the main challenges that you faced during the structuring and launch of the fund?

Launching QATR was no small feat and took a collective 5 years to achieve. Primary challenges centered around introducing an ETF into a financial market where neither the regulators, finance professionals or professional service firms had the necessary prior experience or full knowledge on how to execute such a project. Broadly, this challenge mirrored that of other fast-developing capital markets, where the expertise of debuting such innovative products is concentrated in developed financial centers such as New York and London. With Qatar having some unique market practices and features meant solutions couldn't simply be copied from mature developed ETF centers.

At Al Rayan, we identified the need and local customers for QATR — and refused to be daunted by the naysayers that said it could not be done from Doha. Consequently, we took charge by investing heavily

in our own capabilities during the incubation period of the product. In tandem, we worked alongside our partners at Qatar Stock Exchange and the Qatar Central Bank to turn it into reality. While at inception, Qatari regulators were myriad and seemingly overlapping, in the end, our interactions with them helped produce the region's most comprehensive ETF regulatory rule book — directly resulting in the region's largest ETFs. In fact, QATR is the largest Sharia-compliant equity ETF in the world.

2. Given that the fund has Qatar-only assets, to what extent has this contributed towards attracting interest from international investors?

QATR was designed and targeted at the local investment community, however interest in it has been resounding. Al Rayan was overwhelmed with the response from individual investors — on listing day, retail demand was so strong, QATR alone counted for 22% of the stock exchange's volume.

Since then, numerous local institutions have incorporated our ETF within their asset allocation

universe, which has solidified its appeal. They have been attracted by the convenience of being able to buy and sell the market with just one share, the competitive fee structure and the benefit of the ETF having a liquidity provider (LP). An LP ensures tightness of the bid-offer spread during the trading day as well as certain levels of liquidity for the ETF shares. As a result, the ETF is often more liquid than many of the shares in its underlying index. For an institutional investor in a market with variable liquidity, this feature takes on added importance.

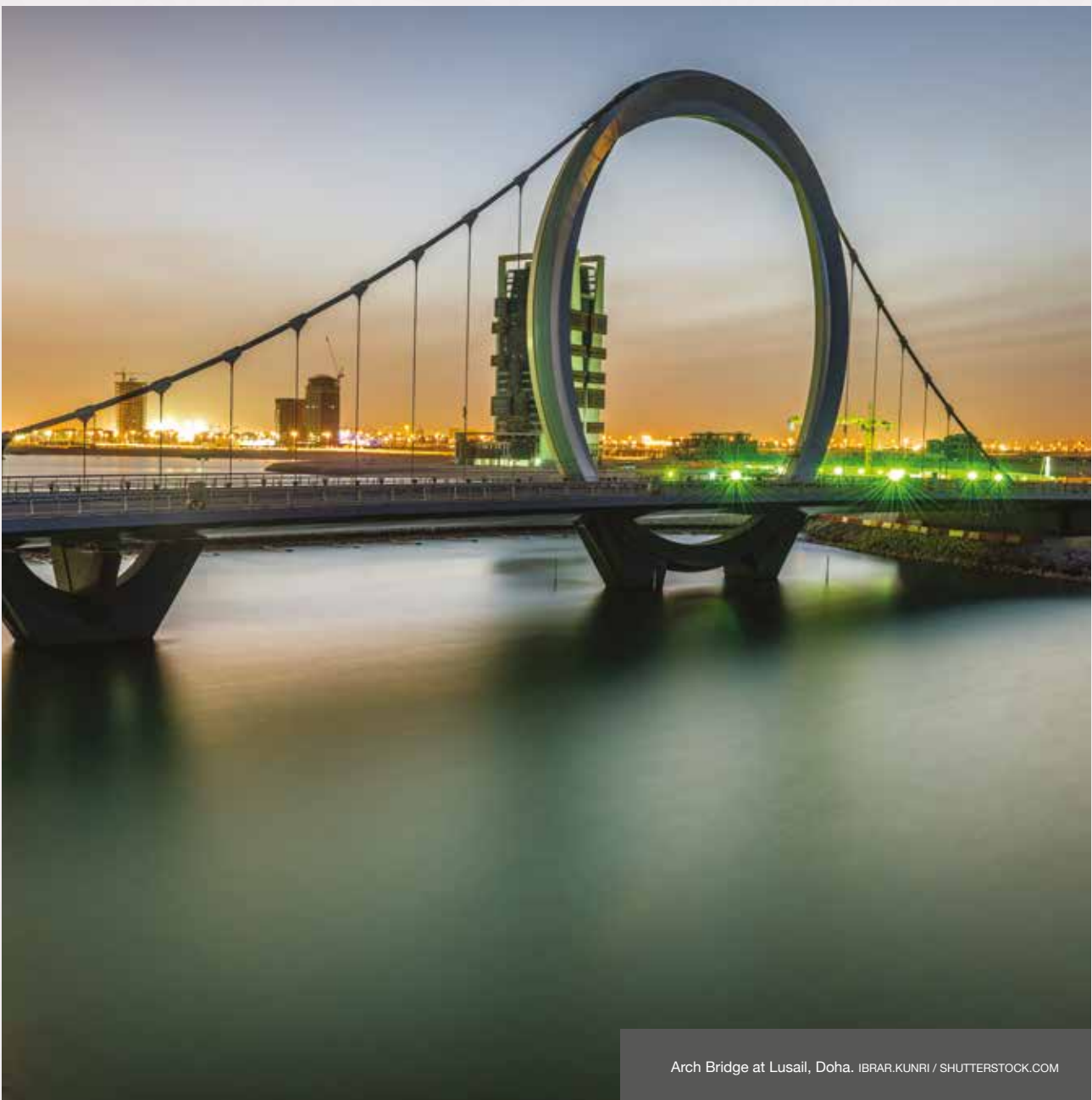
Given active managers in developed markets use ETFs intensively, we were not entirely surprised by the take up from local institutions, but the extent of inclusion has impressed us. The success of QATR has led us to channel our capabilities to further develop this area and we would like to launch at least one other ETF.

3. Do you foresee more international demand for similar product launches out of Qatar? What role can regulators play to boost cross-border investments in such funds?

To answer simply: yes. For now, there are two ETFs in Qatar, with QATR being the largest. However, this is a \$6 trillion market globally and there is certainly room in our marketplace for more. Given

our multifaceted experience with QATR we have developed a clear edge in the design, launch and operation of Qatar-based ETFs; we are hoping to list another ETF in Doha, one that has greater

appeal to investors outside of Qatar. This is an exciting time for capital markets in Qatar and Al Rayan is proud to play a leading role through the launch of such innovative homegrown products.



Arch Bridge at Lusail, Doha. IBRAR.KUNRI / SHUTTERSTOCK.COM



CROSS-BORDER PARTNERSHIPS

Businesses and governments from different countries are beginning to forge cross-border partnerships to offer a range of Shariah-compliant financial services.

Partnerships can be in the form of cross-border regulation. The UK-Turkey Islamic fintech Working Group, supported by TheCityUK and Borsa Istanbul, is seeking to adapt the UK's regulatory model for fintech to Islamic fintech, with the ultimate aim of raising financial inclusion among Muslims. Conversely, the working group found that the UK could learn from the provision of financial support to fintech companies by Turkey's participation banks through accelerator programs.

Another noteworthy cross-border partnership in the Islamic finance space is between Indonesia and Malaysia. Bank Negara Malaysia and the Indonesian Financial Services Authority (OJK) have signed a MoU to enhance banking supervisory cooperation and coordination. They also agreed to give their banks greater access to each other's markets. This agreement will play a big role in facilitating cross-border trade and investment between the countries.

On top of this, the Indonesian and Malaysian stock exchanges have signed a MoU on collaboration to enhance their capital market offerings and broaden the usage and availability of Islamic liquidity and products. They also joined forces in 2016 to develop a global center for Islamic capital markets.

Another collaboration — between Qatar, Turkey and Malaysia — involves the use of common platforms and technology. This was part of an initiative announced in December 2018 to meet the needs of Islamic financial markets.

QUICK & EASY SET UP



Step one

Submit
Business Case



Step two

Submit Application
for Licence



Step three

Receive Licence
& Begin Operations

Are you ready to take your
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