



OLYMPIC<sup>®</sup>

BANKING SYSTEM

# ISLAMIC BANKING

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*Overview*

Islamic Banking offers banking system technology new challenges – the OLYMPIC Banking System from ERI has been proven to meet the challenge.

Islamic Banking products have and are being implemented on the OLYMPIC Banking System in a number of sites in the Middle East. This further demonstrates the flexibility and adaptability of the OLYMPIC Banking System in many different banking environments, as ERI's geographically-diverse, large and prestigious customer base testifies.

In ERI's experience the detailed implementation of each product may vary according to the Shariah supervisory body of the bank. Thanks to the inherent flexibility and high level of parameterisation in the OLYMPIC Banking System, ERI will be able to adapt the existing financial product parameters and screen layouts to meet the individual demands of the bank.

The following are some examples of Islamic Banking transactions which can be processed, in the OLYMPIC Banking System:

### MURABAHA

This contract is used for buying for example property, goods or vehicles. The bank buys the goods and immediately sells to the client at cost plus an agreed profit. These transactions are often conducted via an immediate commodity buy & sell transaction through brokers organised by the bank where the proceeds go to the client for credit or the bank for a deposit.

### MUSHARAKA

It is a Joint Venture product where a number of partners may jointly benefit from the investment. Income includes profit share and appreciation from assets value which may be split at an agreed rate between the partners. Equally any loss is shared proportionately.

Variations include *Shirkat ul milk* and *Shirkat ul aqd*. The latter has sub-variants *Shirkat ul amwal*, *Shirkat ul amal* and *Shirkat ul wajooh*.

### DIMINISHING MUSHARAKA

This product is often used in house purchase, but can be used for businesses or goods. The bank jointly buys a property and then charges a rent to the client. The ownership of the house may split into units that are then bought back by the client and the rent reduces proportionally.

### MUDARABA

This is where a pool of investment funds from one or a group of partners is managed by the bank. The investment can be restricted to specific business areas. Income is earned from profit share not appreciation of assets. Profit share proportions must be agreed up front but any loss is born by the investor. It operates for the depositor like a savings or investment account. This product can also be certificated to mature at a date and these certificates can be traded.

### QARD HASAN

This is a free loan made on socio-economic grounds for those in need of welfare or for educational purposes.

### SUKUK

These are financial certificates but can be seen as an Islamic equivalent of a bond. However, fixed income, interest bearing bonds are not permissible in Islam, hence Sukuk are securities that comply with the Islamic law and its investment principles.

## PROFIT/LOSS SHARING

Instead of interest income or interest expense the methods of earning income are on a Profit/Loss sharing basis. This is based on agreed rates. The losses are distributed on a proportional basis whereas profits are distributed according to the agreed rate. The banks portion of profit is calculated net of certain expenses and then pooled and used for a variety of functions some of which include paying bonuses to current account holders. Often the profit sharing process will typically include retention of a portion that is used to smooth out profit distributions that may be negative or fluctuate wildly.

## OTHER PRODUCTS

A number of other products that are used by Islamic banks for example Wadiah - a discretionary bonus savings account, Istisna – for project finance, Salam – for trade finance can also be processed by the OLYMPIC Banking System.

## ERI

ERI is a well established and substantial international group specialising in the design, development, distribution and support of the integrated, real time banking and asset management software package: OLYMPIC Banking System.

Operating in the major financial centres of Europe, ERI's policy is to be close to its clients and is consequently present in, Geneva, London, Lugano, Luxembourg, Paris, Singapore and Zurich.

ERI employs in excess of 500 highly qualified staff members with a strong focus on providing comprehensive, quality software, successful system implementations and ongoing high level maintenance and support for clients. 300 banks and financial institutions across 50 countries in Europe, USA, South America, Japan and Asia have already chosen the OLYMPIC Banking System.

## How to contact ERI

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