

Emirates Islamic develops innovative Islamic derivatives solutions

With the global Islamic finance industry showing steady growth in the last few years, the UAE’s Emirates Islamic (EI) has taken the initiative to develop innovative Islamic derivatives solutions to serve the market. NESSREEN TAMANO reports.

The global Shariah finance sector recorded a 4% year-on-year increase to reach US\$3.38 trillion in 2023, noted the IFSB, and shows no signs of slowing down: the industry is projected to grow to US\$6.67 trillion by 2027 according to the LSEG’s Islamic Finance Development Report 2023.

Matching this trend, Islamic derivatives are set to grow exponentially. The global industry has taken steps to provide Shariah compliant derivatives for different business purposes including hedging, enhancing credit profiles, managing market risks related to benchmark rates and currency and commodity price fluctuations.

In line with these developments, EI has embarked on a mission to pioneer innovative solutions for the UAE and the GCC region. The bank’s suite of Islamic derivatives products addresses a wide range of financial needs, providing businesses with effective solutions for risk management and hedging.

These offerings include profit rate hedging products, designed to

mitigate risks associated with profit rate volatility and enabling businesses to stabilize their financial planning and foreign exchange products that help clients manage foreign exchange exposures including economic risks and exchange rate fluctuations.

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“Each of the products has variants to serve multiple hedging and commercial purposes, granting clients much-needed flexibility and ensuring that Islamic finance stays on the track of sustainable growth. Notably, EI’s Islamic derivatives product suite is rich and has been structured in a manner that carefully addresses Shariah principles and economic benefits efficiently,” said

Ebrahim Qayed, the Head of Treasury & Markets at EI.

The Central Bank of the UAE has played a pivotal role in supporting these innovative Islamic derivative solutions by introducing detailed and flexible regulations, Ebrahim noted. With this regulatory framework in place, EI has succeeded in signing and onboarding several counterparties to utilize Islamic derivatives to the maximum of benefits and flexibility that could be attained.

The use of Islamic derivatives comes with numerous challenges, one of which is tailoring the derivatives to the specific needs of the counterparties without compromising regulatory and Shariah requirements across jurisdictions. “This shows EI’s unique position to leverage its solid infrastructure and expert manpower well-versed in the Islamic finance and treasury markets, to explore more Islamic derivative products and contribute to the development of the wider Islamic finance market.”

EI’s objective is the standardization and harmonization across jurisdictions of its hedging instruments, documentation and mechanisms, showcasing its robust infrastructure and highly skilled team of experts in Islamic finance and treasury & markets, reinforcing its strong position in the Shariah finance treasury space, the bank added. ☺

