



Recession Fears: Challenges and Opportunities during recessions

Focusing on Shariah Fraternity

MAKHTAR ABDULLAH

Chief Executive Officer

Association of Shariah Advisors in Islamic Finance Malaysia (ASAS)

Content

01

Introduction:
The Recession Fears

02

Impact from
Previous Recession Cycles

03

Impact on
Islamic Finance

04

Impact on
Islamic Social Finance and
Islamic Fintech.

05

Opportunities Taken

06

Conclusion:
Navigating Through The
Recession

Introduction The Recession Fears

The global economy is facing a challenging time with the fear of recession looming large. While it may seem like a negative situation, there are opportunities to be found amidst the challenges. This presentation will explore the impact of recession on wealth management, Islamic finance, and Islamic social finance focusing on Shariah fraternity.

Shariah fraternity is referring to Shariah scholars, Shariah Advisors, Shariah practitioners in the industry which include the industry direct workforce (workers), professionals and academicians.

The aim of this presentation is to provide insights into how Islamic finance and Shariah fraternity can navigate through the recession and emerge stronger. We will discuss the challenges that come with recession and how they can be turned into opportunities for growth and development.

How Malaysia is addressing this issue in a unique way that will be exemplary to other Islamic finance jurisdictions.



Impacts from Previous Recession Cycles

Islamic finance which includes Islamic banking, Islamic capital market, takaful and Islamic wealth management are an area that are significantly impacted during a recession. The value of assets such tends to decline during a recession, leading to a decrease in the net worth of individuals and organizations. However, this also presents an opportunity for Shariah fraternity to re-evaluate our readiness towards better outcome once the economy recovers.

Wealth creation, wealth accumulation, wealth protection, wealth purification and wealth distribution are acceptable to Islam within the Shariah boundaries.

In addition, diversifying clients' portfolios can help mitigate the risks associated with traditional assets and provide a more stable source of income during a recession. New asset classes and products structure call for more versatile Shariah fraternity.

Previous recession circles from 1980s (during the early Islamic finance era) proved the resilient of Islamic finance maybe because of the size, risk taken and exposures.

4 major global recessions are mainly 1975, 1982, 1991 and 2009 followed by impact on 2020-2022 Covid 19, 2023.

50 years old Islamic finance posses new challenges to all Islamic finance stakeholders especially Shariah fraternity.



Impact on Islamic Finance

Islamic finance is based on principles of ethical and socially responsible investing, which makes it well-positioned to weather the storm of a recession. During a recession, there is an increased demand for ethical investments that align with the values of investors. Islamic finance offers a range of investment products such as Sukuk (Islamic bonds), Takaful (Islamic insurance), and Shariah-compliant equities that are designed to meet the needs of socially responsible investors.

Moreover, Islamic finance also emphasizes risk-sharing between investors and entrepreneurs, which can help distribute the risks associated with investments more evenly. This approach can help reduce the impact of a recession on individual investors and promote greater financial stability within the economy.

But regulatory changes made on the conventional institutions also impacted Islamic finance industry.

1st & 2nd Generation Shariah fraternity challenges (1980s – 2000)

3rd – 4th Generation Shariah fraternity challenges (2001 – 2019)

5th Generations Shariah fraternity challenges (2020 – present)



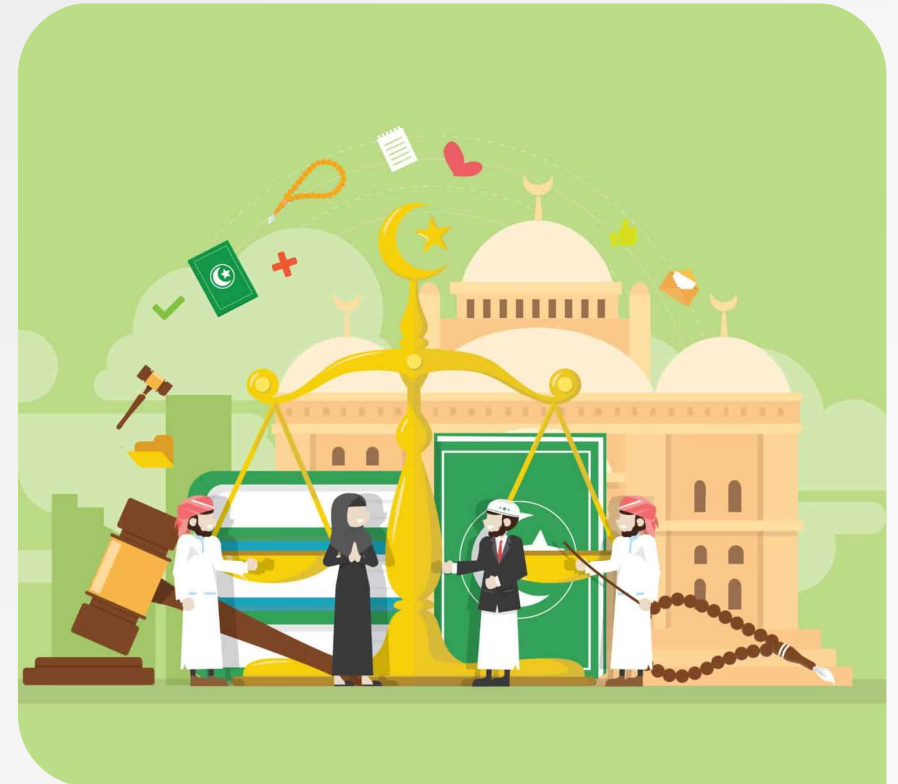
Impact on Islamic Social Finance and Islamic Fintech

Unlike the previous recessions, post covid 19 pandemic and the coming recession that everyone are talking about bring a new important components into Islamic finance spectrums. The social finance which will differentiate Islamic finance from conventional finance,

Islamic social finance refers to the use of Islamic finance principles to address social and humanitarian issues. During a recession, there is often an increase in poverty and unemployment, which can lead to social unrest and instability. Islamic social finance offers a range of solutions to address these issues, including Zakat (Islamic charity), Waqf (endowment), and Qard al-Hasan (interest-free loans).

Islamic social finance now are leveraging on the Islamic banking established platforms as well as Islamic Fintech and become more transparent and inclusive.

These instruments can be used to provide financial assistance to those in need, support small businesses, and fund social welfare programs. By leveraging the principles of Islamic finance, Islamic social finance can help alleviate the negative impact of a recession on vulnerable communities and promote greater social cohesion and stability.



Opportunities taken

Closing the gap between the Shariah educated and Non – Shariah educated human capital.

Continues assessment via certifications and Continues Professional Development (CPD) initiatives.

International presents and knowledge sharing.

Widen-up Islamic finance spectrums with Islamic social finance and Islamic fintech components.

Strategic collaborations with wider stakeholders and professionals.

Structured Shariah fraternity succession plan role-out.



Conclusion: Navigating Through the Recession

In conclusion, while a recession can be a challenging time, it also presents opportunities for growth and development. By re-evaluating investment strategies, diversifying portfolios, and leveraging the principles of Islamic finance and social finance, individuals and organizations can navigate through the recession and emerge stronger.

Human capacity building is very important components to prepare for all stakeholders and all levels needs / demand.

It is important to remain vigilant and adaptable during a recession, but also to stay true to one's Shariah values and principles. By doing so, we can not only survive the recession but also contribute to building a more resilient and sustainable global economy.

