Global Developments in Islamic Finance - Challenges & Opportunities

The 8th Annual Symposium & Awards Program in Islamic Banking & Finance
Pasadena, June 2001

Islamic Finance - A Global Perspective

Overview

• The Globality of Islamic Finance
  – The Evolving Country Framework
  – the Growing Reach of Islamic Finance

• The Historical Product Profile of Islamic Finance

• The Increasing Reach and Richness of Islamic Finance

• Challenges & Opportunities for Islamic Finance
  – Building the Framework for the Islamic Finance
  – Increasing embedded Capital of IDB Member Countries
  – Achieving Consolidation and Critical Mass Harmonization of Best Standards and Practices
  – Community Banking - Reaching the unreachable
  – Asset backed Liquidity Management Program
  – Asset Origination & Asset Management
  – Establishing an Authentic Presence
  – Achieving Mainstream Relevance

• 6. Concluding Remarks
Islamic Finance - A Global Perspective
Geographic Spread

Across Middle East, South East Asia and Africa

More than two thirds of Islamic funds are from the Middle East

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Stages of evolution of the Islamic Finance Industry
- Country Framework

Stage 1
- Singapore
- China
- Uzbekistan
- Azerbaijan
- Hong Kong

Stage 2
- Oman
- Algeria
- Syria
- Lebanon
- UK
- Germany
- USA
- Albania
- Kazakhstan
- Sri Lanka

Stage 3
- Brunei
- Indonesia
- Morocco
- Turkey
- Tunisia
- Qatar
- Palestine
- Bangladesh
- South Africa
- Russia

Stage 4
- Kuwait
- Bahrain
- UAE
- KSA
- Egypt
- Jordan
- Pakistan
- Iran
- Sudan

Stage 5
- Malaysia

The growing relevance of Islamic Finance..
### Islamic Finance - A Global Perspective

#### Growing Reach of Islamic Finance

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The expanding base of Islamic Investors...

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### Islamic Finance - A Global Perspective

#### The Growing Reach of Islamic Finance

- Increasing market share in home markets
- Credibility in home markets
  - Transparency
  - Shariah credibility
  - Being Successful & conservative
  - Legality
  - Richness based on added value
  - Educating the customers
- Supporting Domestic Financial Industry
- Reaching out to other communities
- Becoming role Models for Conventional Financial Institutions
- Increasing the embedded capital of the local market
- Achieving Mainstream Relevance

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Expanding the Reach of Islamic Finance

Opening up new markets
- Educating the Regulators
- Working with Community Organization
- Seeking the Support of the Industry
  - AAOIFI
  - IAIB / IBC
  - IDB
- Working with Credible Partner
- Respecting the Traditions of the local market
- Demonstrating a long term commitment to New Markets

The growing richness of Islamic Finance...

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Expanding the Reach of Islamic Finance

Embracing e-commerce

• Opportunities in both B to B and B to C areas
• New e-commerce initiatives being launched
  – I Hilal
  – IslamiQ.com
  – Islamic Investors on line
  – Muslim investors on line

• Successful e-commerce proposition should have
  – Credible shareholders
  – Alliance of synergistic partners
  – Enabling business design
  – Value of money proposition
  – Richness
  – Convenience of use
  – Partnership culture
  – Brand awareness

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Richness profile for Islamic Finance

Available now
• OECD and Emerging market Murabaha
• Emerging market credit enhanced leasing
• Global equity funds
• Regional equity funds
• Principal protect funds
• Themed funds
  – Sector / Geography
• Commercial banking

Need more of
• OECD leasing
• Private equity in OECD
• Corporate finance advisory
• Infrastructure finance
• Quality issuers
• Takaful
• Wealth Management & Retail banking products

Coming soon
• OECD home financing
• Shariah compliant money market
• Private equity in IDB member countries

New frontiers
• Capital markets
• Convertible Ijara
• Preferred shares
• Variable risk securitisation
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Challenges & Opportunities

Building the Framework for Islamic Finance Industry

- Historic lack of an enabling framework

- Creating the infrastructure for Islamic Finance in:
  - IDB member countries
  - Other markets with Muslim communities
  - Cross border framework

- Global Shariah Standards - AAOIFI initiative

- Regulatory framework

- Building Industry Institutions
  - AAOIFI, IAIB (IBC), HIFIP

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Challenges and Opportunities

Increasing Embedded Capital IDB Member Countries

- Jointly building the framework for Islamic Finance Industry

- Promoting Transparency & Corporate Governance

- More investments in the infrastructure sector

- More of infrastructure funds targeted
  - Private equity
  - Mezzanine
  - IJARA

- Resident and Non-Resident Investor Programs

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**Islamic Finance - A Global Perspective**  
**Challenges and Opportunities**

**Consolidation & Critical Mass**
- Mergers within the Islamic Finance Industry
- Build Critical Mass in
  - Products
  - People
  - Systems
  - Fum’s
  - Legality
  - Earning power
- Joint ventures between IFIs and Industry partners

**Harmonisation of best Standard and Practices**
- Accounting and Auditing
  - Fiduciary Standards
  - Documentation
  - Shariah Standards
- Benchmarking
- Ratings
- Risk Management
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Challenges and Opportunities

Reaching the unreachable

- Significant Muslim communities in UK, USA, Germany, France, India
- Untapped markets of the future
- Partnering with local institution could provide access
- IFI would do the structuring, local institutions could distribute
- Access through Internet
- Respecting local traditions
- Bringing out Indigenous Shariah Compatible Products

Community Banking

- Large Muslim Communities in Europe and USA
- Community Banking
- Ethical Investments
- Affinity Marketing
- Need for an Islamic Finance Proposition
- Educating and Convincing the regulators
- Shariah based financial planning
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Challenges and Opportunities

- Asset backed Liquidity Management
- Islamically compliant portfolio of leases trading to meet liquidity management needs of the Islamic Finance sector
- Commercial paper comparable to A1/P1 risk-return instruments
  - The program requires access eligible high quality leased assets
  - Mainly originated from the USA; over $2 billion to date
- International Islamic Money Market initiative
  - LOFSA (Labuan), BMA (Bahrain), IDB, Indonesia, Sudan & Iran
  - Salam Liquidity Product

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Challenges and Opportunities

Asset Origination
- Growth if IF has created asset deficiency
- Began with “Murabaha” trade finance
- Short-term oil and commodity linked
- Gradual shift to Istita and Ijara
- Tenure stretching
- Covenant based project finance
- Islamic tranches in big ticket deals
- Proactive Transaction Origination Strategy
  - Sharing of credit experience
  - Good deals are bid deals
  - Working with MNC’s and ECA’s
Challenges and Opportunities

Asset Management
- Opening of Equity as an asset class
- Fund managers partner with IFI
- R&D leads to growth if Islamic equity fund
- Tracker funds launched
- Equity benchmarks created
- Leasing companies get involved in asset backed financing
- Transfer of technology and know-how taking place
  - Strategic alliances
  - Joint ventures

Authentic Presence
- Code of Ethics
- Shariah Allegiance Statement
- Commitment to recruit the best
- Invest in training and career development
  - Shariah Training for Bankers
  - Banking Exposure for Aspiring Shariah Scholars
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Challenges and Opportunities

Mainstream Relevance of Islamic Finance
• Creating the framework
• Educating the regulators
• Broadening and deepening the market
• Making Islamic Finance competitive and convenient
• Expanding the reach and richness of Islamic Finance

Islamic Finance - A Global Perspective
Concluding Remarks

• Islamic Finance has come a long way from its humble beginnings
• The reach of Islamic Finance is expanding to make it a Global industry
• The richness of the Product Offering is making it a more competitive industry
• The US Markets and Investors are becoming increasingly important for this growing industry
• Key challenges remain in the area of Capital Markets and Liquidity Management
• The Industry is poised for Growth and Evolution

Thank you