



# 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

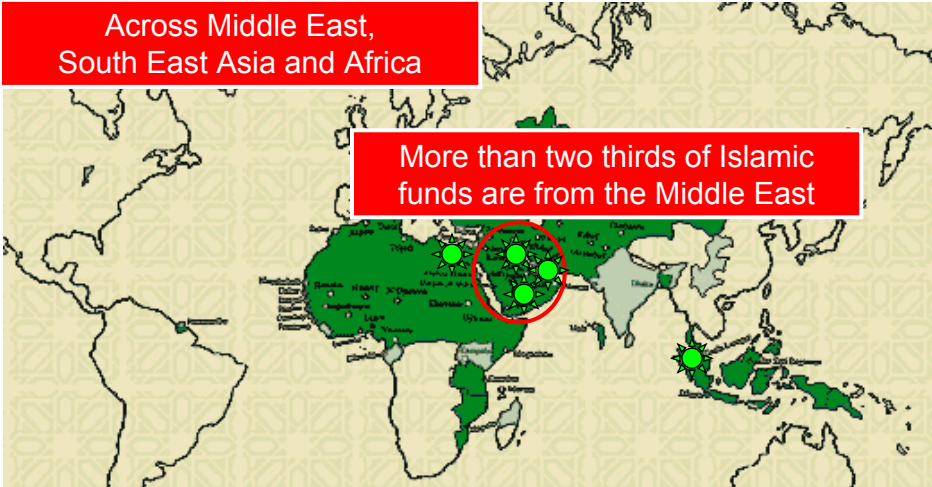
- **The Globality of Islamic Finance**
  - The Evolving Country Framework
  - the Growing Reach of Islamic Finance
- **The Historical Product Profile of Islamic Finance**
- **The Increasing Reach and Richness of Islamic Finance**
- **Challenges & Opportunities for Islamic Finance**
  - Building the Framework 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

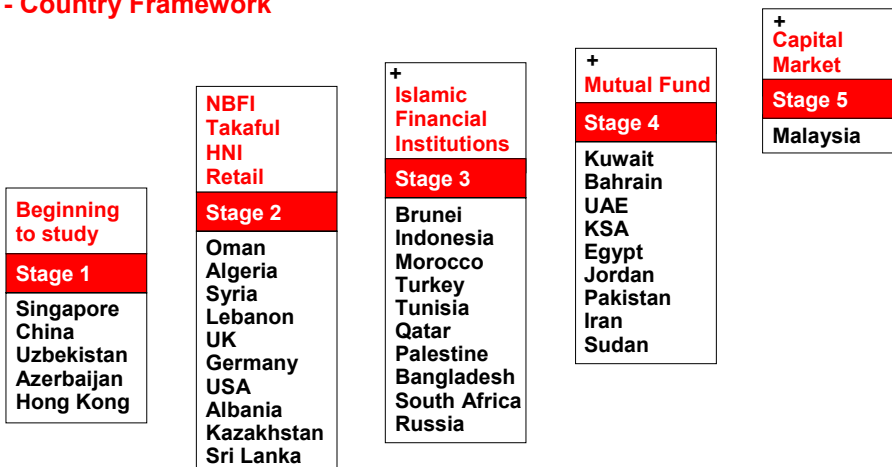


HSBC 

## Islamic Finance - A Global Perspective

### Stages of evolution of the Islamic Finance Industry

#### - Country Framework



The growing relevance of Islamic Finance..

## Islamic Finance - A Global Perspective

### Growing Reach of Islamic Finance

1970's	1980's	1990's	2000 +
<ul style="list-style-type: none"> <li>• Retail</li> </ul>	<ul style="list-style-type: none"> <li>• Retail</li> <li>• HNWI</li> <li>• IFI's</li> <li>• NBFi's</li> </ul>	<ul style="list-style-type: none"> <li>• Retail</li> <li>• HNWI</li> <li>• IFI's</li> <li>• NBFi's</li> <li>• Institutions:               <ul style="list-style-type: none"> <li>- Pension Funds</li> <li>- Endowment Funds</li> <li>- Religious Affairs Ministry</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Retail Investors</li> <li>• HNWI</li> <li>• IFI's</li> <li>• NBFi's</li> <li>• Institutions:               <ul style="list-style-type: none"> <li>- Pension Funds</li> <li>- Endowment Funds</li> <li>- Religious Affairs Ministry</li> </ul> </li> <li>• Governments:               <ul style="list-style-type: none"> <li>- Local Govt/ Municipalities</li> <li>- Central Bank</li> <li>- MOF</li> <li>- Investment Agencies</li> </ul> </li> </ul>

The expanding base of Islamic Investors...



## 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**



## Islamic Finance - A Global Perspective

### Expanding the Reach of Islamic Finance

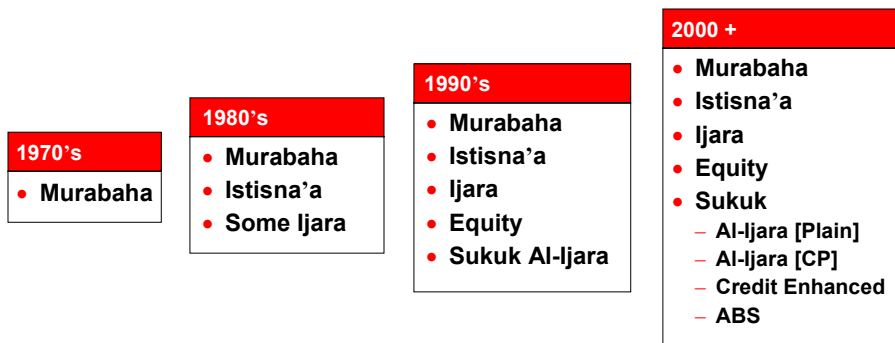
#### Opening up new markets

- 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



## Islamic Finance - A Global Perspective

### Historical Product Profile of Islamic Finance

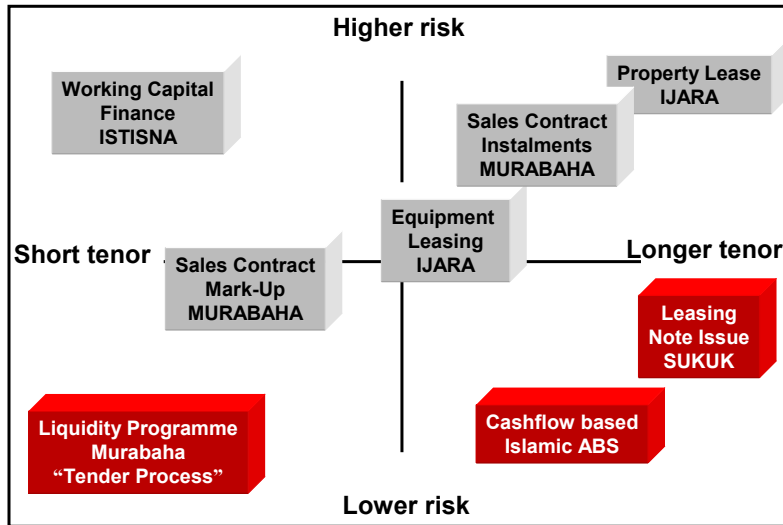


The growing richness of Islamic Finance...



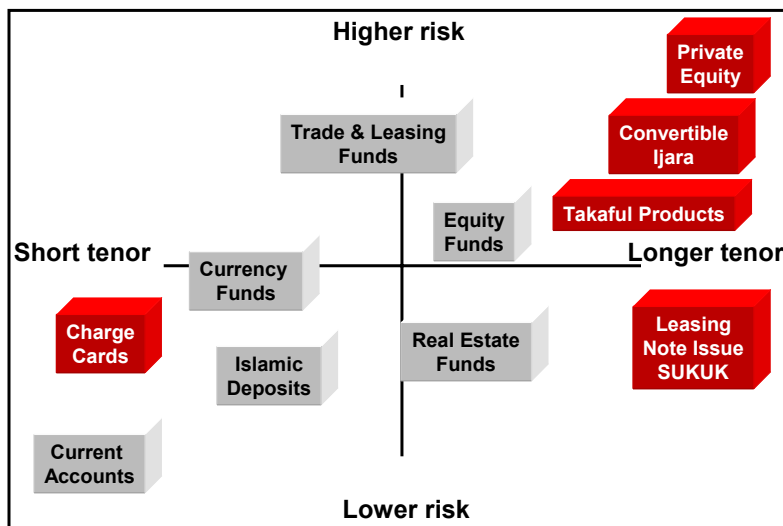
## Islamic Finance - A Global Perspective

### Richness of Financing Products



## Islamic Finance - A Global Perspective

### Richness of Investment & Cash Products



## Islamic Finance - A Global Perspective

### Expanding the Reach of Islamic Finance

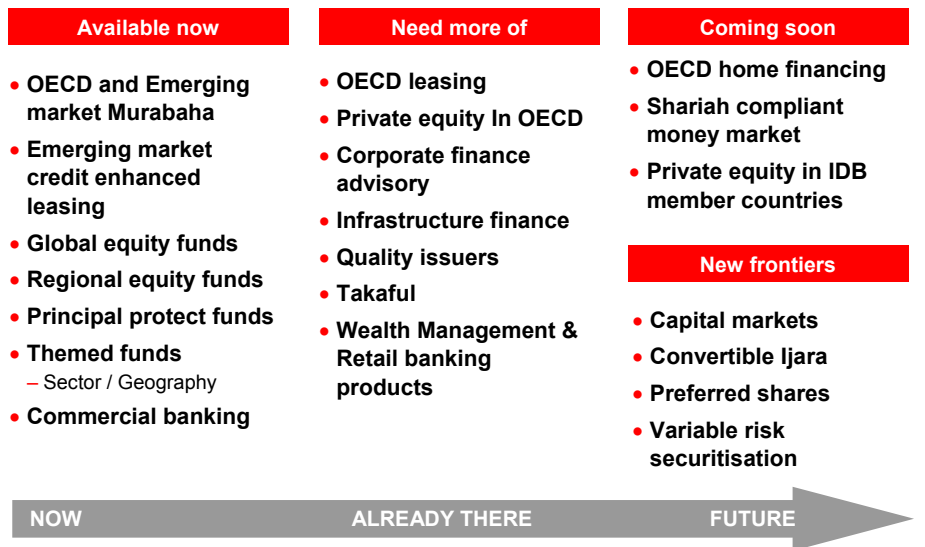
#### Embracing e-commerce

- **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



## Islamic Finance - A Global Perspective

### Richness profile for Islamic Finance



## **Islamic Finance - A Global Perspective**

### **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



## **Islamic Finance - A Global Perspective**

### **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**



## **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**



## **Islamic Finance - A Global Perspective**

### **Challenges and Opportunities**

#### **Harmonisation of best Standard and Practices**

- **Accounting and Auditing**
  - Fiduciary Standards
  - Documentation
  - Shariah Standards
- **Benchmarking**
- **Ratings**
- **Risk Management**





## **Islamic Finance - A Global Perspective**

### **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**



## **Islamic Finance - A Global Perspective**

### **Challenges and Opportunities**

#### **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**



## **Islamic Finance - A Global Perspective 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



## **Islamic Finance - A Global Perspective 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 Istisna & 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



## Islamic Finance - A Global Perspective Challenges and Opportunities

### 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



## **Islamic Finance - A Global Perspective**

### **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**