

# **Islamic Finance in US: Arrived, But Is It Growing?**

**9<sup>th</sup> Annual Symposium on  
Islamic Banking & Finance  
Pasadena, California  
March 30, 2002**

**Presented By  
A. Rushdi Siddiqui  
Director, Dow Jones Islamic Index Group  
(609) 520-4681  
[rushdi.siddiqui@dowjones.com](mailto:rushdi.siddiqui@dowjones.com)**



## **Presentation Over-View**

- **Interest in Islamic Products**
  - Religious Sentiment & Prods/Perform?
- **Islamic Mortgages**
- **Islamic Funds**
- **Expectations Not Met (Yet)!**
- **DJIM vs. FTSE Islamic**
- **Licensees & their Demands**
- **DJIMs vs. Conventional comparison**



## **Islamic Investing has arrived, BUT is it Growing?**

- **Religious sentiment & Products/Perform**
- **Shariah Scholar (1987)**
- **Western Players (WMC, Citi, Permal)**
- **Islamic funds (100+)**
- **Global Index Providers (DJI & FTSE)**
- **Fund Rating (Lipper & Micropal)**
- **Conferences/Seminars**
- **Media Coverage**

## **Where are We?**

- **Demographics & Psychographic**
- **Islamic Home Finance**
- **Islamic Vehicle/Equipment Financing**
- **Islamic Property Insurance**
- **Islamic Investing**
- **Islamic Charge Cards**

## Facts about US Muslims:

- 6-9 Million, but as low as 1.28 M
- Concentrated in 6-7 geographic pockets
- 60% College Grads (WSJ- 2/15/02)
- 50% make \$50,000 (WSJ)
- ML opening: Indian/Minority Unit
  - ‘Explosive Growth in size & wealth’ FT (2/21)
  - ‘Minority clients may be key to success for financial firm over next 50 years’
- UK: Muslim millionaires “Hot New Sector”
  - 5,400 with \$5B in liquid assets (FT Advisor-2/4)

**DOWJONES**  
Indexes

## Islamic Home Finance

- Most sought after Islamic product
  - Purchase and Refinance
- Community Based Initiatives:
  - MSI, Samad Group, BMI, Ameen Housing Corp., Toronto Housing Corp, *LARIBA (American Finance House)*
- Institutional:
  - UBK, HSBC, Capital Guidance, Freddie Mac, others to follow...

**DOWJONES**  
Indexes

## Islamic Home Finance (cont'd):

### Constraints:

- Product- Musharaka, Murabaha, Ijara
  - Expensive (large down & short term)
- Application approval- no/bad credit
- Shariah Compliant issues
  - Deductibility
  - Property insurance
- Money- Demand is \$B, and supply is \$M
  - Securitization
- Staff- Supply/Interest, Training, etc.
- Qard hassan
- Customer Service & support

**DOWJONES**  
Indexes

## Islamic Mutual Funds/Portfolios

- **Available since 1986 (Amana Income Fund)**
  - Azzad, Allied, Islamia, Capital Guidance, BBH(?), others
  - About \$64M in combined assets under management
- **Fatwa of Sheiks Usmani, El-Naggar & Tug (1987)**
- **Wellington, Citibank, UBS, etc.**
  - Mandate driven
  - Gulf based High Networths & Institutions
  - Internal benchmark
- **Dow Jones Islamic Market Index (1999) & FTSE**
  - DMI & TII Euro Small Cap Islamic Index
  - Resistance by some fund manager but not their clients
    - Regional weightings, concentration on sectors, turnover, back-testing data, etc.

**DOWJONES**  
Indexes

## Islamic Funds (Courtesy of Failaka.com)

- **Largest Islamic Funds**
  - Al-Ahli Global Trading (NCB) \$503M
  - Alfanar/SEDCO (Permal) \$171M
  - Al-Ahli Small Cap (NCB) \$171M
- **Largest Islamic Managers**
  - Wellington Mgmt (Boston) \$727M
  - Permal (New York) \$336M
  - Deutsche Asset Mgmt (EU) \$134M
- **Largest Islamic Sponsors**
  - NCB (Saudi Arabia) \$935M
  - SEDCO (Saudi Arabia) \$336M
  - Keppel Insurance (Singapore) \$98M

**DOWJONES**  
Indexes

## Islamic Funds (Courtesy of Failaka.com)

- | <b><u>Year</u></b> | <b><u>No.of Funds</u></b> | <b><u>Assets (\$M)</u></b> |
|--------------------|---------------------------|----------------------------|
| • 1996             | 29                        | \$800                      |
| • 2000e            | 98                        | \$5,000                    |
| • 2002             | 100+                      | \$3,300                    |
- 34% decline (aum)!
  - What Happened?

**DOWJONES**  
Indexes

## Islamic Funds (Courtesy of Failaka.com)

- **Times Are Changing:**

- Year      No. of Funds      Type of Funds

- 2000                      23                      8 GE & 5CP/B

- 2002                      11                      1 GE & 5CP/B

- **What Does This Mean?**

**DOWJONES**  
Indexes

## Islamic Funds (Courtesy of Failaka.com)

- 15 Largest Funds

- 1 has \$25,000 mini
- 3 with up-front load
  - 1 has >2% Load
- 1 has >2% fees
- \$108 M ave size

- 15 Smallest Funds

- 3 have \$25,000 mini
- 9 with up-front load
  - 6 have >5%
- 6 have >2% Fees
- \$4.4 M ave size

**DOWJONES**  
Indexes

## **MMA Survey (2001): Faith & Wall Street Intersect**

- 8/10- religious/spiritual investors
- Women (63%) more likely than men (49%)
- Ages 25-44 (55%)
- African Americans & Family with minors (57%)
- 80% never heard of religious funds
- 60% are will try now/future
- Sin industries
  - Alcohol, Tobacco, Gambling, Abortion its products
- Identify as Protestant, Catholic, Fundamental Christian
- Where are the Muslims?
- What are the implications?

**DOWJONES**  
Indexes

## **Islamic Mutual Funds/Portfolios**

- **Conditions Ripe for Growth in US:**
  - Population, Shariah, Awareness, Managers, Islamic Index, etc.
- **But What Happened?**
  - Distribution channels (assets, duration, niche-play)
  - No-Load (no incentive for brokers)
  - Marketing (road shows, seminars, etc.) & Call centers
  - No Peer Review (No Morningstar --> Failaka.com)
  - Shariah issues (standards) Amana vs. Allied/Azzad
    - VC (or PE) is preferred route of investing
  - Reliance on Imams (not trained)
  - Risk averse (Volatility) & No Islamic MM or CDs
  - Lack of interest (ahead of its time)
  - Performance to conventional market

**DOWJONES**  
Indexes

## Muslim Country Situation

- **56 Muslim countries**
- **30 have stock exchanges**
- **16 allow direct FPI (ex. Not Saudi Market)**
- **Situation in OIC countries:**
  - GCC/MENA not investable map
  - Capital Flight (\$800B from GCC)
  - Currency, Inflation, & Political risks
  - Regulatory environment & Corruption
    - Illiquid, Free float (ADR alternatives)
    - Malaysia & Indonesia in DJGI
  - Lack of opportunities

## What Can Be Done?

- **Overcome Ignorance, Inertia and Inaction**
- **Education & awareness --> Avoid fraud**
  - Conferences, Websites, Marketing mats, papers, etc.
- **Educate the Imams and Boards of Mosques**
- **Approach your institution for Islamic products**
  - They do not want to lose business
- **Approach western financial institutions**
  - Dow Jones Index example
- **Approach institutions offering Islamic products**
  - Demand based play
  - Cap protection, Islamic MM, Index linked CD, Islamic ETF, VC fund

## Or Be Marginalized!

- Or keep hearing;
  - \$150B+
  - Growing at 15%
  - 1.2B customers (Really?)

## DJIM vs. FTSE Global Islamic Index Interim Tolerance Parameters

- |   |  |
|---|--|
| • DJIM- 2/9/99  | • FTSE 11/99   |
| • DJI's Shari'ah Board (5)                                | • TII Shari'ah Board (4)                                   |
| • Shks. Usmani, Abu-Ghuddah,<br>Yaquby, Elgari, DeLorenzo | • Shks. Al-Yaseen,<br>Faidhulla, Al-Madhkpur,<br>Al-Sharif |
| – D/MC <33%   | – D/A <33.33%  |
| – C + IBS/MC <33%   | – Purify all impermissible<br>income                       |
| – AR/Assets <45%  | • FTSE Calculates/Maintains                                |
| • DJI Calculates/Maintains                                | • 944 stocks   |
| • 1640 stocks, 34countries, \$9<br>Trillion               | • Semi-annual review                                       |
| • Quarterly review  | • 5 Islamic Indexes  |
| • 30 Islamic Indexes                                      |  |
| • Nearly 30 licensees                                     |  |

## Top 10 DJIM Holdings

<u>April 2001</u>	<u>August 2001</u>	<u>Jan. 2002</u>
• Cisco Systems	Microsoft	Microsoft
• Intel	Exxon Mobil	Exxon Mobil
• Exxon Mobil	Pfizer	Pfizer
• Pfizer	Intel	Intel
• <u>IBM</u>	BP Amoco	<u>IBM</u>
• BP Amoco	Glaxo SmithKline	Johnson&Johnson
• Vodafone Group	Johnson & Johnson	BP PLC
• GlaxoSmithKline	Merck	Vodafone
• Merck	SBC Communication	Glaxo SmithKline
• Microsoft	Cisco Systems	Cisco Systems

**DOWJONES**  
Indexes

## Sample DJIM Licensees

- Permal/SEDCO (US/Saudi)
- Abu Dhabi Islamic Bank (UAE)
- Allied Asset Advisors (USA)
- Azzad Asset Management (USA)
- Brown Brothers Harriman (USA)
- Oasis Asset Management (South Africa)
- Rockefeller Group (USA)
- SAMBA (Saudi-American Bank)
- UBS (Switzerland)
- HSBC (UK)
- Al-Tawfeek (Saudi Arabia)

**DOWJONES**  
Indexes

## Sample Licensees

- Deutsche Asset Management (Germany)
- iHilal.com (UAE)
- Bank Al-Jazira (Saudi Arabia)
- Dexia
- JP Morgan Chase (USA)
- Al Bank Al Saudi Al Fransi (Saudi Arabia)
- Schroders (UK)
- Allied Irish Bank (UK)
- StrategicNova Funds (Canada)
- Albert Asset Management
- Capital Partnership



## Demands of Licensee Fund Managers

- **DJIM Universe in Format**
- **Performance Monthly Files:**
  - **Country breakdown**
  - **Global sector breakdown**
  - **Regional/Country sector breakdown:**
    - Americas
    - N. America
    - Europe
    - UK
    - Japan



## DJIMs & Counter-Part Indexes

<b>DJIM -18</b>	<b>US -16</b>	<b>Tech -33</b>	<b>Can -8.7</b>	<b>A/P -23</b>
MSCI -17	S&P -13	QQQ -32	TSE -13	D A/P -21
<b>JAP -30</b>	<b>ENE -9</b>	<b>TLS -18</b>	<b>HCR -14</b>	<b>DW x US -26</b>
N 225 -23	D ENE -4	D TLS -30	D HCR -24	EAFE -22
<b>UK -15</b>	EM +5	US L,M,S	EU L,M,S	Euro L,M,S
FT 100 -16				

**DOWJONES**  
Indexes

**DOWJONES**  
*Indexes*

**The markets' measure.**