



Salient Features and Challenges of Islamic Asset Management

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Moral Values and Financial Markets:
Islamic Finance against Financial Crisis

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Key Developments

- Credit Crises and its Aftermath
- Increasing Importance of BRIC and Eastern Economies
- Emphasis on Ethical and SRI Funds
- Importance of SWFs
 - Norway

Islamic Finance Market

- Estimates of Size
 - Bankers Magazine – November 2009
 - US\$822 Billion
 - IFSL (International Financial Services, London), 2009 Islamic Finance Report
 - US\$729 Billion
 - Ernst & Young Takaful Report 2009
 - US\$7.5 Billion (Takaful Contributions)



IFSL RESEARCH

ISLAMIC FINANCE 2009

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FEBRUARY 2009

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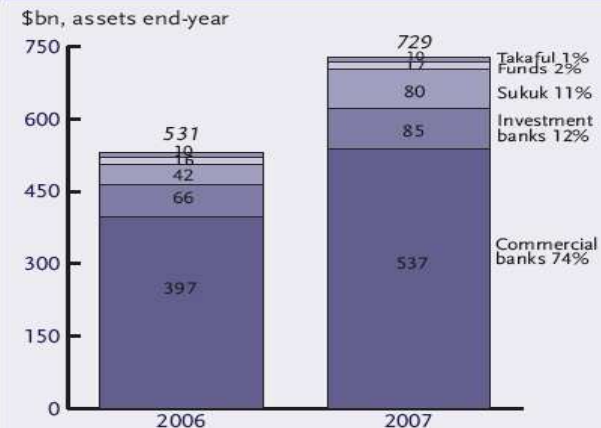
Islamic finance has been developed in its modern form over the past three decades, although its key principles, as set out in the side panel on page 7, remain unchanged. This report, the second that IFSL has published on *Islamic Finance*, features the countries and sectors that are leading the way. The report highlights the growing UK position in the market, and indicates where Islamic finance has been impacted by the global economic downturn.

OVERVIEW

The global market for Islamic financial services, as measured by Sharia compliant assets, is estimated to have reached \$729bn at end-2007, 37% up from \$531bn in 2006 (Chart 1). Islamic commercial banks accounted for the bulk of the assets with investment banks and Sukuk issues making up most of the remainder. The developing funds and Takaful sectors also made a contribution. Key centres are concentrated in Islamic countries including Iran, Saudi Arabia, Malaysia, Kuwait, UAE and Bahrain (Chart 2). The UK, in 8th place, is the leading Western country with \$18bn of reported assets, largely based on HSBC Amanah.

The Islamic finance industry has felt the influence of the credit crunch and downturn in the global economy in 2008, with a drop in Sukuk issuance and a fall in the value of equity funds. Islamic banks, however, have been less affected than many conventional banks because they are not exposed to losses from investment in toxic assets nor have they been dependent on wholesale funds, as they are prohibited from these activities.

Chart 1 Global assets of Islamic finance



Source: IFSL estimates based on The Banker, Ernst & Young, World Islamic Funds @ Capital Markets Conference

Islamic Financial Asset Holders

- Islamic Financial Institutions
- Institutional Funds
- Sovereign Wealth Funds
- HNW Individuals
- Retail Investors

Islamic Asset Management

- Priority Target for Key Institutions
 - CIMB-Principal Islamic Asset Management - Malaysia
 - BNP Paribas – Singapore / Malaysia
 - NCB Capital – Bahrain
 - SocGen – Singapore
 - Credit Agricole Asset Management - Singapore
 - Prudential Assurance Company – Malaysia
 - Bank Sarasin-Alpen – Dedicated Islamic Wealth Management

Prudential starts Shariah-compliant fund management business

Prudential has launched a new asset management business in Asia to tap into the region's Islamic population.

Prudential Al-Wara' Asset Management Berhad will be based in Malaysia and start with about £267m in funds under management.

Tidjane Thiam, Prudential chief executive, said: "Prudential is one of Asia's leading financial services institutions and this next stage of development for our asset management business is particularly significant as it enables us to leverage our strengths to support the development of an important and yet previously under-served sector of the economy."

Prudential Al-Wara' will target institutional investors across Asia and the Middle East, but will be open to others overseas, including in Britain.

Asset Classes and Products

- Short Term Cash
- Equities
- Sukuks (Bond Class)
- Property
- Alternative Assets

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Typical Asset Allocation for an Insurance company

Cash	10-15%
Debt securities	75-80%
Equity	10-20%
Alternative assets	< 5%

5

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Adobe Reader - [Ghazala Takful Asset Allocation.pdf]

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Asset Allocation for Takaful companies

IDEALLY.....		And in Reality	
Cash	10-15%	Cash	40-45% ↑
Debt securities	60-70%	Debt securities	10-15% ↓
Equity	10-20%	Equity	25-30% ↑
Alternative assets	5-10%	Alternative assets	10-20% ↑

6

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Telling Results of the Markowitz Efficient Frontier

For an expected return of 8%

Asset Class	% Allocation Takaful	% Allocation Conventional
Cash and cash equivalents	50.9%	35.9%
Long term debt instruments	15.0%	42.0%
Equity (US and global)	26.1%	16.1%
Alternative Investments	8.0%	6.0%
Total	100.0%	100.0%
Risk (Standard Deviation)	5.2%	4.8%

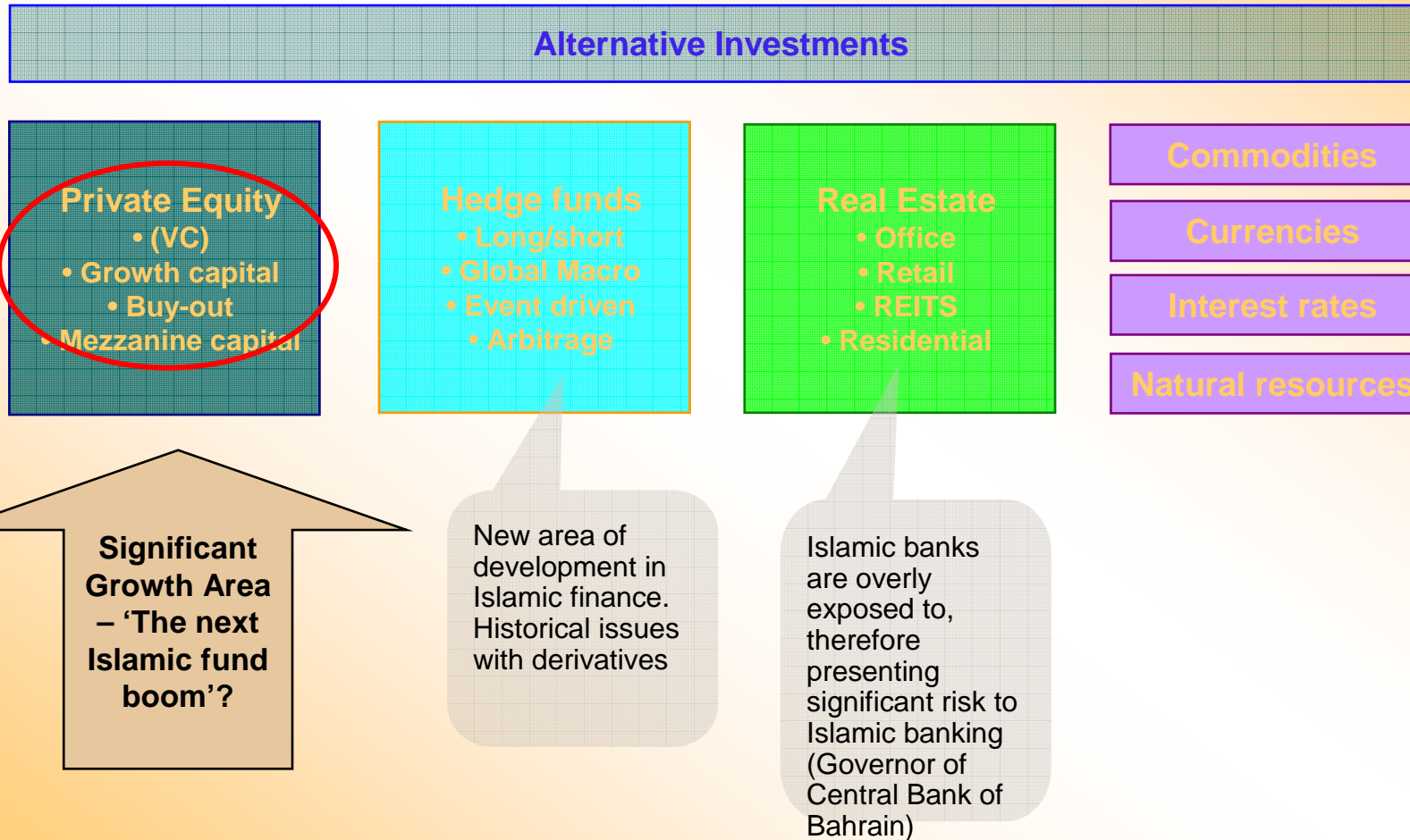
For an expected return of 10%

Asset Class	% Allocation Takaful	% Allocation Conventional
Cash and cash equivalents	25.9%	5.0%
Long term debt instruments	15.0%	53.3%
Equity (US and global)	45.6%	31.6%
Alternative Investments	13.5%	10.0%
Total	100.0%	100.0%
Risk (Standard Deviation)	8.2%	7.4%

19

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Alternative Investments Asset Classes



Source: Diagram, adapted from EVCA Paper on PE

Alternative Assets

- Look Through & “Black Box” Syndrome
- Exchange Traded Funds
- Hedge Funds

Look Through & “Black Box” Syndrome

- Look Through
 - Universe of Shari’ah Compliant Assets
 - Asset Bears the Risk / Rewards
- “Black Box”
 - Risk / Reward from Unidentified Sources
 - Risk / Reward not Linked to Asset Performance

Exchange Traded Funds

- ETF - Concept
- ETFs Universe
- SBL – Stock Lending & Borrowing
- Can it be done using *Wa'ad* contracts?

Hedge Funds

- Options & Futures
- *Salaam / Arboun / Wa'ad*
- *Wa'ad* (Promise) in Common Law
- Unilateral *Wa'ad*
- Replicating the Economics of a Short with a pair of Unilateral *Wa'ad*

Corporate Finance Products

- Asset Class Availability for IFIs
- Key to Providers of Retail Products
 - Takaful, Savings, etc
- Sukuks
 - Corporate Sukuks
- Corporate Musharakah Certificates
 - Corporate Balance Sheet

Shari'ah Compliant to Shari'ah Based

- Shari'ah Compliance
- Mirroring of Conventional Finance Product Offerings
- Assessment of Pros and Cons
- Research into Underlying Objectives
- Shari'ah Based Products

Challenges and Future Directions

- Capacity Constraints
- Increasingly Demand Driven
- Transparency and Corporate Governance
- Shari'ah Compliant to Shari'ah Based
- SRI and Ethical Dimensions
 - Shariah Implications
- Investing in Emerging Markets
 - Direct
 - Indirect



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