

**BPM Report # 126**

**BUSINESS AND POLITICS IN THE MUSLIM WORLD**

**Weekly Report on Global Islamic Finance and Business in the Muslim World**

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## ***GLOBAL FINANCE & GLOBAL ISLAMIC FINANCE***

### **Islamic finance growing and running parallel to conventional finance**

Sunday, June 27, 2010

Research shows that conventional finance will not hold for long and one alternative is Islamic finance, said Sumith Adhietty, Managing Director, LB Finance at the company's launch of Islamic Finance Unit in Colombo this week.

He said that it is the right time with the country recovering from a prolonged civil war and the financial market getting back to normal after the recession to launch this scheme. They also see a great potential for 'Al Salamah' Islamic finance in Sri Lanka in the future.

He said that they believe that as a responsible corporate citizen they have a responsibility to the people in the North and East to help them recover their lost pride. With this in mind, to go along with the government's Re-awakening the North and the East programme they have massive expansion plans for the area.

He said that they have identified particularly in the East, a high demand for Islamic finance. In fact recent research they have done in the area shows that conventional banks will not be able to hold on their own, particularly in those areas where there is a predominantly Muslim population. Even in other parts of the country, Islamic Finance is catching up fast.

As an organization sensitive to market changes this paved the way for their entry in to Islamic finance market. LB Finance has been doing well in the last few decades and there is a growing demand for Islamic Finance and it has become more prominent during the recent years after the global financial crisis. And thus it is right time now to get into Islamic Financing after the prolonged civil war as the financial market in the country is settling to normalcy.

At this launch LB Finance introduced four Islamic Finance products such as Ar Rahn, Shariah Compliance Gold Loan; Mudarabah Investment Accounts; Murabaha, Trade Financing and Ijarah, Islamic Shariah Compliant Leasing.

<http://www.sundaytimes.lk/100627/BusinessTimes/bt12.html>

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### **Global Islamic finance industry targets AED7.3 trillion (US\$2 Trillion) in the next five years**

Monday, 28 June 2010

The global Islamic finance industry has been forecasted to touch the AED7.3 trillion (US\$2 trillion) mark in the next three to five years. However, Islamic finance has not reached even three percent of the 1.6 billion Muslims globally.

The growth of Islamic finance has been slow but steady. Industry analysts are of the opinion that the sector will witness growth in the areas of retail, consumer banking, small and medium sized enterprises (SME) commercial banking and investment banking towards the end of 2010.

"There has been a growth in Islamic banking among non-Muslim nations as they are more receptive. However, in the next five years, there will be more focus and participation from Muslim nations," said Mohd Razif Abdul Kadir, Deputy Governor, Central Bank of Malaysia.

As per market reports, demand for Islamic banking will come from consumer confidence in the markets. Early 2011 will see a return to normalcy across Islamic finance markets with a focus on innovation and exploring untapped segments. There would also be a greater push towards finding other areas such as fund management, which will attract much attention from the industry.

"Investors are shifting their preferences to more stable and well-grounded fundamentals. Innovation and diversification of our offerings is necessary as investors today are more cautious," added Muhsen Mohammed Al-Haribi, CEO, Sorooh Investments.

[http://www.arabianbusiness.com/press\\_releases/detail/41813](http://www.arabianbusiness.com/press_releases/detail/41813)

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### **Islamic Development Bank to fund Bangladesh ship-to-shore oil pipe**

Monday, 28 June 2010

Dhaka: The Islamic Development Bank has signed an agreement with Bangladesh to provide \$129 million for building a "single point mooring" in the Bay of Bengal to carry petroleum from vessels moored at an outer anchorage to on-shore depots, a top government official said.

The Bangladesh government would provide the remaining cost of the \$140 million project, said a senior official at the state-run Bangladesh Petroleum Corp. He added that the project was expected to save around \$10 million annually over the cost of bringing ships into port. It would also reduce fuel unloading time by about 20% or to two to three days, from 12 to 15 days currently, and thus raise fuel handling capacity he said.

Bangladesh's Finance Minister, A.M.A. Muhith, signed the deal with the Jeddah-based development lender in the capital of Azerbaijan last week. The facility would help unload both crude and refined petroleum from mother vessels in the deep sea without landing in the port, said the finance minister on his return from Azerbaijan Saturday, adding that the unloaded oil would be brought ashore via pipeline.

BPC currently pays \$5.50/mt to small vessels owned by the state Bangladesh Shipping Corp. to ferry petroleum ashore from larger vessels moored at the outer anchorage in the Bay of Bengal. The platform would save BPC around \$8/mt incurred by the vessel transfer.

The floating platform would be built southwest of Kutubdia Island in the Bay of Bengal, 70 kilometers from the port of Chittagong. A 77-km, 36-inch diameter pipeline would link Bangladesh's lone state-owned Eastern Refinery with the single point mooring.

The facility would help meet growing demand for fuel as Bangladesh's annual oil imports are expected to grow 33% from 3.65 million mt/year to 4.85 million mt/year as Bangladesh's new gasoil- and furnace oil-run power plants are expected to start operation shortly.

Bangladesh has approved installation of over a dozen oil-fired power plants to help ease the country's electricity crisis within the shortest possible time.

"We will float an international tender shortly for building the off-shore platform," said the BPC official. Construction of the platform is targeted for 2011, he said.

<http://www.platts.com/RSSFeedDetailedNews.aspx?xmlpath=RSSFeed/HeadlineNews/Oil/8850507.xml>

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### **Australian initiatives to boost Shariah-compliant projects**

Monday, 28 June 2010

LONDON: In a clear statement of intent, the Australian government has launched a series of initiatives that when completed and hopefully adopted will make the country one of the most proactive Islamic finance markets in the Asia-Pacific Region.

Australia is a relative newcomer to Islamic finance and has been left behind by the surge in interest in other Asia-Pacific countries such as Korea, China, Hong Kong, Japan, Singapore and Thailand. Muslim countries in the region, especially Malaysia, Indonesia and Brunei, are spearheading the recovery in global Islamic finance, especially through Sukuk issuances and consumer finance.

Thus far Australian financial institutions have been limited in their involvement in the Islamic finance space. Lately, Australian investment bank and financial services provider, Macquarie Group, was engaging with Gulf Finance House to invest in equity for an Islamic asset management joint venture as part of a capital restructuring plan, but the plan never took off. Australian fund manager LM Investment Management Ltd. was involved in the launch of the LM Australian Alif Fund in 2009, which exclusively sought to invest in selected diversified Australian realty portfolios.

Sen. Nick Sherry, assistant treasurer of Australia, at the launch of a new book, titled "Demystifying Islamic Finance — Correcting Misconceptions, Advancing Value Propositions," in Sydney recently confirmed that the Australian Board of Taxation at his request is undertaking a comprehensive review of Australia's tax laws "to ensure that, wherever possible, they do not inhibit the expansion of Islamic finance, banking and insurance products."

The terms of reference for the review include recommendations on Commonwealth (federal) tax laws, and findings on State and Territory tax laws, that may be impediments to Islamic finance.

The board will consult progress in this respect in other jurisdictions such as the UK, Luxembourg, France, Malaysia and Indonesia.

"The guiding principle for the board is that the tax treatment of Islamic financial products should be based, wherever possible, on their economic substance rather than their form. I would emphasize that this review is not about creating special treatment — which no one in this area has ever asked me for. Rather, it is about creating a level playing field for the provision of Islamic financial products into the Australian market," he said. Indeed the mandate of the Board of Taxation is to provide the government a final report by June 2011.

This review should also be seen in conjunction with a cross-government review of the regulatory environment launched by Australian Minister for Financial Services Chris Bowen with a similar goal of flattening out any inhibitors to Islamic finance operations in Australia.

The government is keen to emphasize the benefits that Islamic finance can bring to Australia and its great potential for creating jobs, wealth and contributing to financial and social stability. Australian bankers stress that there is a growing awareness - both in the community and also among policy makers - of the potential of Islamic finance in Australia. "We are taking a keen interest in ensuring there are no impediments to the development of Islamic finance in this country, to allow market forces to operate freely. This is in line with our commitment to foster an open and competitive financial system, and a socially inclusive environment for all Australians."

Australia has one of the world's largest contestable pools of investment fund assets. At the end of 2009, Australia had A\$1.3 trillion of funds under management, which is equivalent in size to the domestic equity market capitalization and almost 110 percent of the country's nominal GDP. Australia's investor base is both sophisticated and outward looking, with significant exposures to global markets and alternative asset classes.

The Australian asset management industry has proven strengths in portfolio construction, risk management, wealth advisory, distribution capabilities, funds administration, and custody services - and is looking to export services to South East Asia and the Middle East region. Similarly, the sector has a strong and deep set of financial management skills and expertise, along with complementary skills in areas such as the law, that can be brought to the table in the wholesale Islamic finance sector. "We also have global leading skills in real estate and infrastructure financing — two areas with great potential in relation to wholesale Islamic finance activity as they both involve very real underlying assets, something we all know is needed in Shariah-compliant projects," stressed one Australian banker.

In the last year or so, the potential benefits, that Islamic finance could bring to Australia has been identified by several key independent reports. The Australian Financial Center Forum published a report that identified Islamic finance as a possible means of accessing offshore pools of savings from the Middle East, to provide more diversified and competitive funding for Australia's investment needs and access to such products to the country's half a million Muslims under financial inclusion policies. The report encouraged amendments to the tax law that would ensure that Islamic finance products have parity of treatment with conventional products.

Sen. Sherry said the book "Demystifying Islamic Finance" is important because it "will go a long way toward dispelling the misconceptions which have, in some quarters, built up around Islamic finance."

Australia like some other countries also have those opposed to facilitating Islamic finance on the misconceived grounds that "Islamic finance is used to spread terrorism, that it is a vehicle to promote the world domination of Islam over other faiths, or that it is designed to replace conventional financing."

Sen. Sherry dismissed these views as ridiculous but admitted that they are of concern, albeit it small. He called for continuing the community dialogue, increasing awareness of the truth and highlighting the facts that Islamic finance like its conventional counterpart is bound by strict laws and regulations, including anti-terrorism and anti-money laundering laws.

"In addition, the Shariah prohibition of betting and gambling means that Islamic banks can use fewer risk-hedging techniques and instruments than conventional banks. As the world learned to its cost, the excessive use of risk-hedging instruments led to the growth of 'toxic assets' during the global financial crisis," he explained.

During a visit to the Middle East in April, Sen. Sherry reiterated that "the Gulf region is at the heart of international Islamic finance, which has experienced very strong and very consistent growth, even in the face of the global financial crisis, growing at around 10 percent per annum for the last decade. The value of worldwide Islamic financial assets was \$822 billion in 2009 and this is projected to reach \$1.6 trillion by 2012. Moody's Investor Services see a global market potential of at least \$5 trillion at maturity. Australia is in a great position to capitalize on this growth, particularly in the wholesale market — one of our closest neighbors is Indonesia, with the world's biggest Islamic population and we have a global leading edge in funds management. My message is that in Australia we have what the wholesale Islamic finance market is calling out for. These opportunities extend across the board - to Islamic insurance, or Takaful, and to Shariah-compliant asset-backed securities, or Sukuk."

The Australian initiatives in facilitating Islamic finance must also be seen in the context of the vital relations between Malaysia and Australia in this area. Last month, Governor of Bank Negara Malaysia Zeti Akhtar Aziz and Australian Treasury Secretary Ken Henry signed a memorandum of understanding (MoU) to facilitate cross border co-operation in the financial services industry, including Islamic finance and the regulation of financial products. It also follows up on the deliberations of the high-powered Malaysian business and banking delegation that visited Melbourne and Sydney in December 2009. The key areas of focus under the MoU are capacity building and human capital development in the financial services industry; information exchange and experience in the legal, regulatory and supervisory frameworks; facilitating the development of an effective and conducive financial market infrastructure; and enhancing cross-border financial activities, including research on Shariah matters in Islamic finance products and services to promote consistent application for cross-border transactions.

<http://arabnews.com/economy/islamicfinance/article74620.ece>

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## **WCOA to promote Malaysia hub of Islamic finance**

Tuesday, June 29, 2010

DUBAI - Malaysia would use the 18th Edition of World Congress of Accountants 2010 (WCOA) to promote the country as a hub of Islamic finance, a top official of the event organizer said.

The WCOA, which is also dubbed as the ‘Olympics’ of the accountancy profession, is being held in Malaysia for the first time. The theme of the event is ‘Accountants: Sustaining Value Creation.’

Since its inception in 1904, the World Congress, which has been held every five years since 1977 and every four years since 2002, is the foremost international event for the accountancy profession.

“There are multiple objectives of the event and one of these objectives is to promote the country as a hub of Islamic finance,” Abdul Rahim Abdul Hamid, President, Malaysian Institute of Accountants (MIA) told Khaleej Times in an exclusive interview on Monday.

“Malaysia is very excited to make the country as a hub for Islamic finance and the forthcoming World Congress is an opportunity to help promote the vision,” Abdul Hamid said.

The MIA is organising the WCOA 2010, which will be held from November 8-11, 2010 in Kuala Lumpur, Malaysia. The mega event is expected to be attended by over 6,000 delegates from 124 countries.

Malaysia is already recognized as a major player of Islamic finance in the world, but this forum will provide an opportunity to get involved over 6,000 accountants in the world who will get additional benefits of Islamic finance awareness, Abdul Hamid said.

The four-day event will have four plenary sessions and 35 concurrent sessions. There is one plenary session and two concurrent sessions to focus on Islamic finance, he said.

He said the choice of Malaysia as the host for WCOA 2010 by the International Federation of Accountants is indicative of the trust and confidence of the global financial and business community in the high professional standing of the Malaysia accountancy profession.

One of the regions, which the MIA is looking to attract strong representation from is the Middle East, and in an effort to lift the profile of the World Congress, the President of the MIA stopped in the UAE.

“This region is important for us and we are expecting around 600 delegates from the region,” Abdul Hamid said, adding: “I am visiting six countries in the region.”

“Our presence in the region is a clear message that how serious we are to get people there for the event,” he said.

He said this is a highly respected and well-attended global forum attracting a meeting of influential communities to share in the latest information, innovative ideas and to exchange views on a platform of international and regional interest.

The event will witness sharing and exchanging ideas on the latest business and global economic trends and receiving updates on the latest developments in international accounting and auditing standards.

The WCOA 2010 will offer a wide selection of speakers and panel discussions on all aspects. The speakers will include international or local leaders and practitioners who will share their wisdom and knowledge covering various exciting topics.

The WCOA 2010 will explore issues related to key areas that directly and indirectly affect the continued relevance of the professional accountant in the coming years.

### *Topics*

Key issues affecting today's dynamic business landscape such as the latest in financial and business strategies, present and future trends in management and marketing, information communication technology, trade and regulations issues, Islamic finance, accounting, ethics, governance and standards will be explored and deliberated upon.

[http://www.khaleejtimes.com/DisplayArticle.asp?xfile=data/business/2010/June/business\\_June540.xml&section=business&col=](http://www.khaleejtimes.com/DisplayArticle.asp?xfile=data/business/2010/June/business_June540.xml&section=business&col=)

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### **U.A.E. Plans Shariah Money Markets after Law: Islamic Finance**

Tuesday, June 29, 2010

The United Arab Emirates, the second-largest Gulf economy, may follow Malaysia, Bahrain and Indonesia in selling Islamic securities with maturities of less than 12 months as legislators consider establishing a local debt market, according to Royal Capital PJSC.

Islamic bills would give Shariah-compliant banks more investment options, said Ahmed Talhaoui, Abu Dhabi-based head of investment at Royal Capital, which is 44 percent-owned by United Gulf Bank BSC, an investment bank in Bahrain. The U.A.E.'s eight Islamic banks held \$49.8 billion of deposits at the end of 2009, or about 19 percent of the total, central bank Governor Sultan bin Nasser al-Suwaidi said at an Islamic banking conference in Singapore on June 14.

Banks that adhere to Shariah principles "are facing a maturity mismatch," Talhaoui said in an interview yesterday. "They are keeping a lot of deposits but their options are limited. Some banks are playing a dangerous game, which is essentially to match short-term liabilities with investments in Sukuk," or Islamic bonds, which have longer maturities.

Malaysia, the world's biggest market for Islamic bonds, Bahrain and Indonesia sell bills to help soak up cash in the financial system and set benchmarks for short-term bond sales. Lawmakers in the U.A.E. are considering a proposal to establish a government securities market by the end of the year, al-Suwaidi said in March.

“Short-term liquidity management at Islamic banks and other financial institutions,” is a challenge, al-Suwaidi said this month in Singapore. “This is not a straightforward issue and has been under discussion between Islamic banks and the central bank. There is now a reasonable proposal to advance a solution for this issue.”

### *Difference in Yields*

Saeed Abdullah Al-Hamiz, executive director of the banking supervision department at the U.A.E. central bank, didn't immediately return e-mails or phone calls to his office seeking comment on the legislation. Governor al-Suwaidi said on March 15 that the legislation was in the final stages.

“The law will create a liquidity instrument that will carry, not the guarantee of the central bank, but assurances that the central bank will buy it for a certain price,” al-Suwaidi said at that time.

Transactions in Islamic finance are based on the exchange of assets rather than interest to comply with Shariah principles. Global sales of Sukuk fell 23 percent to \$6.5 billion so far this year, according to data compiled by Bloomberg. Issuance totaled \$20.2 billion last year, up from \$14.1 billion in 2008.

### *Malaysia Bonds*

The average gap between yields on Islamic bonds and the London interbank offered rate widened 2.4 basis points, or 0.024 percentage point, yesterday to 433. The spread has narrowed 37 basis points so far this year, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index.

The difference between the average emerging-market yield and Libor narrowed four basis points yesterday to 583, based on the EMBI+ index from JPMorgan Chase & Co. It shrank 52 basis points so far this year, or 15 basis points more than the average spread for Sukuk.

The yield on Malaysia's 3.928 percent Islamic notes due June 2015 rose one basis point today to 3.517 percent, according to prices from Royal Bank of Scotland Group Plc.

### *Bill Auctions*

Malaysia's central bank sold 500 million ringgit (\$155 million) of 91-day Islamic bills at a weekly auction yesterday. The yield on the securities rose four basis points to 2.68 percent from last week. Malaysia began weekly auctions of Islamic central bank bills in 2006.

Bahrain's central bank sold 12 million dinars (\$32 million) of three-month Islamic bills yesterday. The profit rate on the notes rose to 0.88 percent from 0.85 percent at the previous sale on May 31.

The yield on Bahrain's 6.247 percent note due June 2014 fell one basis point to 3.494 percent today, according to Bloomberg bond trader composite prices. The yield reached a year-low of 3.437 percent on June 22.

Pakistan plans to start issuing Islamic Treasury bills and will announce an auction schedule before June 30, Syed Wasimuddin, a central bank spokesman, said in an e-mail yesterday. The nation had 42.2 billion rupees (\$494 million) of outstanding domestic Sukuk as of April 30, less than 1 percent of its 4.6 trillion rupees of regular debt, according to data from the central bank.

"It's fundamental to the industry," said Harris Irfan, head of Islamic products at Barclays Capital in Dubai. "Right now we rely on using the London interbank offered rate as a benchmark and that has its inherent criticisms. But what alternative is there? There is no Islamic Libor."

*Bloomberg*

<http://www.businessweek.com/news/2010-06-29/u-a-e-plans-Shariah-money-markets-after-law-islamic-finance.html>

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## **Senegal seeks Bahrain help in Islamic finance**

Tuesday, June 29, 2010

MANAMA -- The government of Senegal is looking to Bahrain to help develop its Islamic Finance industry. The countries leaders are convinced that as it develops as a financial centre it could provide a gateway for Bahrain institutions to tap into the entire sub-Saharan Africa region.

Senegal-based SYM International Finance Corporation, in partnership with the government of Senegal, yesterday took part in a forum at Gulf Hotel as part of its efforts to assist the Senegal government to promote the Senegal Financial Services Centre and attract more private investments.

Leading bankers from the country gave a comprehensive presentation on the centre to more than 40 financial services practitioners, with emphasis on its structure, actors, general regulatory framework, business activities and main products.

The forum was coordinated by the Bahrain government, through the Foreign Ministry, with the assistance of the Central Bank of Bahrain and the Bahrain Chamber of Commerce and Industry. The Bahrain Association of Banks was in charge of technical and logistical organization of the event.

The Senegal government, through the ministries of Economy and Finance, Foreign Affairs and International Co-operation, was fully involved in the organization of the event.

It collaborated with SYM International Finance Corporation to make the event a great success.

The Senegal Embassy played a crucial role in the preparation of the event and coordinated on behalf of the Senegal side diplomatic, technical and logistical organization of the event.

"Bahrain is a hub for both Islamic and conventional finance and we want to build ties with its financial sector and learn from its experience," said SYM International Finance Corporation chief executive officer Dr Birahim Seck.

"I have worked extensively in the US and Europe and I know that the outside world knows what Bahrain means to the Islamic finance industry.

"We want to learn from this and attract investment to Senegal.

"Senegal has become a hub for financial services in West Africa. Most of the international companies and financial institutions operating in the West Africa region are using Senegal as their regional headquarters.

"In this regard, banks in Bahrain have an unprecedented opportunity, given the financial, economic and political stability of Senegal, and through excellent diplomatic relations between Senegal and Bahrain, to use Senegal as a gateway not only for West Africa but also for the entire sub-Saharan Africa region," he added.

<http://www.istockanalyst.com/article/viewiStockNews/articleid/4258987>

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### **Egypt Islamic finance sector faces uphill battle, lacks political will**

Thursday, July 01, 2010

EGYPT is likely to remain an Islamic finance laggard, hit by bad press from corruption scandals and a government keen to buttress its secular credentials and stymie Islamists ahead of elections next year.

The birthplace of Islamic finance, Egypt is the sixth-biggest Muslim nation with 80 million people, but only 3 percent to 4 percent of its \$193 billion (R1.4 trillion) banking industry is Islamic, according to last year's report by consulting firm McKinsey.

United Arab Emirates Islamic assets, by comparison, account for 46 percent of the market, while even in Turkey, with its highly secular political and social structure, Islamic assets account for 42 percent of total banking assets.

This disparity is politically induced, according to Ashraf Mohamed Talaat, the manager of Islamic banking at National Bank of Egypt.

"We can catch up to other regional markets in the (Gulf) areas and Malaysia if there is political will in Egypt for Islamic finance. Experts need a green light from the political side," he added.

However, that political will - ahead of long-awaited presidential elections next year to elect President Hosni Mubarak's successor - and consumer demand, is lukewarm.

Engaging consumers will be hard, especially as millions of Egyptians were stung by Ponzi schemes in the mid-1980s, when a number of money management companies touted Islamic investments at returns above local interest rates.

"The firms involved in the scandal weren't technically Islamic banks, but the fact that they used the Islamic label was consequential," said Ibrahim Warde, adjunct professor at The Fletcher School of Diplomacy at Tufts University.

While there was grassroots interest in Islamic finance, even among practicing Muslims, there was a lot of suspicion, he added, a situation the government had done little to dispel as it fought rising conservative Islamic sentiment.

Following the exposure of the Ponzi schemes, Egypt's foremost Muslim cleric, Sheikh Mohammed Sayed Tantawi, issued a fatwa stating simple bank interest was permissible, as long as it was not excessive.

The move effectively sidelined the need for Islamic finance by giving a religious stamp of approval to conventional banking, although with elections looming, the government was in two minds about how to handle the sector, Warde said.

"There is fear that the Muslim Brotherhood and other groups could use the promotion of Islamic finance for political gain, but at the same time there is a view that the government could attract some Islamic groups by doing more to embrace Islamic finance. But it's a risky strategy," he said.

The Muslim Brotherhood is the main challenger to the ruling National Democratic Party in parliament, where its members have a fifth of the seats, far more than any other opposition group. However, analysts expect the group's presence to shrink as the government works to undermine the Brotherhood's position.

Muslim Brotherhood members are often held in security sweeps and its attempts to field 5 000 candidates in local council elections since 2007 were all rejected. Earlier last month, none of its candidates were elected to the Shura council - seen by some analysts as a dress rehearsal for parliamentary elections.

On a practical level, Islamists were unlikely to invest in official financial structures for fear that the government would confiscate their funds, warned the experts.

There was "no sufficient evidence" it was used to support their political positions, said Grail Research's managing director for the Middle East and Africa, Kurian Thomas.

That reticence is evident in the Egyptian government's tentative moves to expand the fixed income market by formulating rules for the issuance of Sukuk, or Islamic bonds.

The head of the Egyptian Financial Supervisory Authority said in April that Egypt planned to issue its first regulations governing Sukuk in the second half of this year, but remained cautious about its potential.

*Courtesy: Reuters*

<http://www.busrep.co.za/index.php?fSectionId=565&fArticleId=5536602>

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### **KFH signs strategic partnership agreement with Islamic Finance Club at GUST**

Thursday, July 01, 2010

Kuwait Finance House (KFH) signed a strategic partnership agreement with the Islamic Finance Club at the Gulf University for Science and Technology (GUST) for one academic year, which reveals KFH's keenness on introducing Islamic economy and its applications, since it firmly believes in the importance of cooperating with academic and scientific research centers.

The club focuses on training students and increasing their knowledge concerning Islamic economy, in addition to introducing them to various Shariah compliant services and products that it offers in Kuwait and overseas. The club also has academically specialized personnel who serve as councilors.

Such an agreement is a model of the paradigm agreements that KFH has signed lately to support bodies with specialized activities, which include signing a cooperation agreement with the International Diabetes Association to reinforce KFH's social role in fields, such as health, education, and youths.

The club organizes various activities for GUST students that include regular local and international participations in conferences, forums, and lectures that are specialized in Islamic economy, which broadens the horizons of the students by teaching them the fundamentals of Islamic banking and finance, in addition to services such as Ijarah, Murabaha, and Istisnaa.

The agreement allows several KFH employees to participate in training programs, in addition to prioritizing KFH's participation in conferences organized by the club.

<http://www.zawya.com/story.cfm/sidZAWYA20100701105449/KFH%20signs%20strategic%20partnership%20agreement%20with%20Islamic%20Finance%20Club%20at%20GUST>

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## ***ISLAMIC BANKING & INSTITUTIONS***

### **Stability during financial crisis lends momentum to Islamic banks**

*Despite past failures said Islamic finance has strong potential to become more prominent in the Canadian market*

Tuesday, June 29, 2010

Islamic banking institutions have weathered the global financial crisis better than their conventional counterparts and are rapidly gaining momentum worldwide, but the sector in Canada continues to face considerable headwinds, a panel of experts said on Monday.

At an Islamic finance conference in Toronto on Monday, speakers commended the impressive performance of Islamic financial institutions and investment products during the financial crisis.

“Islamic banks have been more resilient,” said Shahzad Siddiqui, a Toronto-based author and lawyer with expertise in Islamic finance.

The speakers partly attributed the resilience of the sector to the fact that Islamic banking institutions – as part of their compliance with Shariah law -- avoid high levels of leverage and risk, and avoid engaging in speculation. As a result, these institutions have a higher level of stability than many conventional financial firms.

Shariah-compliant investment products also avoid these riskier practices, and as a result, are often less volatile than conventional products. These stable features have helped these types of products gain popularity – among Muslim investors and non-Muslims alike – during the volatile market environment of recent years.

As an example, two Shariah-compliant mutual funds operated by Washington-based Amana Mutual Funds Trust have seen their assets under management surge in recent years to US\$2.8 billion. Even though the funds are designed to be compliant with the principles of Islamic faith, only a small proportion of their investors are Muslim, according to Stephen Ranzini, president and CEO of Michigan-based University Bank, which has an Islamic banking subsidiary.

“The results were so compelling that the business found them, and so today, 90% of the customers are non-Muslim,” he said.

The panelists noted that Shariah-compliant mutual funds in Canada have not generated this level of interest, and as a result, many efforts to launch these types of products have failed. Ranzini said that in order to be successful, it’s critical for Shariah-compliant products to have appeal among the broader population – not just the Muslim population.

## *Courting Islamic finance*

“You have to have a product that’s fundamentally profitable, and good,” he said.

In addition, he noted that these types of products tend to take time to become profitable, and as a result, require very patient capital.

“You have to have the patient capital behind the product, because this is not going to turn [a profit] in a year or two, or five,” Ranzini said.

He suggested that past failures of Shariah-compliant products in the Canadian market may have resulted from firms failing to provide a sufficient period of time for the products to generate assets.

Other challenges for the Islamic finance sector in Canada include a lack of standards and regulatory oversight; and a lack of education among investors and industry members, the panelists said.

They called for the financial services industry to make Islamic finance education and training more accessible to employees.

“Education is extremely important,” said Ayse Yuce, a professor of finance at Ryerson University.

Despite these hurdles, the panelists said Islamic finance has strong potential to become more prominent in the Canadian market.

“On the retail side, with the Muslim community doubling every 10 years, we see a sizeable market,” said Omar Kalair, president and CEO of UM Financial, a Toronto-based firm specializing in Islamic finance. He expects to see a growing number of Shariah-compliant financial product offerings in the years ahead.

<http://www.investmentexecutive.com/client/en/News/DetailNews.asp?Id=54172&cat=147&IdSection=147&PageMem=&nbNews=&IdPub=>

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### **Islamic bank in £40m swoop for BT base**

Friday, July 02, 2010

Yorkshire: UK ISLAMIC bank Gatehouse has invested £40m in a slice of prime Yorkshire real estate after buying communication giant BT's regional headquarters.

The bank bought One Sovereign Street in Leeds from UK fund manager La Salle on behalf of Royal Mail Pension Fund in one of the region's biggest property deals so far this year.

With conventional lenders rationing credit, Islamic finance institutions such as Gatehouse are increasingly competing with them to finance non-Islamic companies and projects.

One Sovereign Street represents Gatehouse's first real estate acquisition in Yorkshire after acquiring the headquarters building of Proctor & Gamble in Weybridge, Surrey in December 2009 and a portfolio of student accommodation units in Liverpool and Loughborough in March 2010.

The 139,000 sq ft building, which was built in 2002, is let to BT until September 2020.

The deal reflects a yield – the rent generated by a property expressed as a percentage of its valuation – of almost seven per cent.

Adam Cavanagh, vice president of real estate at Gatehouse, said: "This latest acquisition brings the total value of our UK portfolio to more than £100m.

"This is a major transaction, particularly in a recovering market, and makes a significant addition to the high quality portfolio that we have established for our clients over the last six months. It is clear that the appetite from Islamic investors for prime real estate investments remains unabated, and we look forward to working on further acquisitions in the near future."

DTZ acted for Gatehouse Bank on the acquisition, while UK fund manager La Salle, on behalf of Royal Mail Pension Fund, were advised by Stephenson Day.

Tim Cameron-Jones, investment director at DTZ, said: "This recent deal demonstrates the strong opportunities available for investors in the Leeds office market."

Meanwhile, two other Yorkshire office buildings have been sold in deals totalling £12.5m.

The Portergate on Ecclesall Road in Sheffield, which is let to Aviva Life and Pensions, was sold to Invista Foundation Property Trust for £10m, while City House, above Leeds train station, is believed to have been sold for £2.5m.

The sale of the 50,343 sq ft Portergate building, which is located on the edge of the city centre, reflects a yield of almost 10 per cent.

It is let to Aviva Life and Pensions for a further nine years without break at a rent of £1m.

Duncan Owen, chief executive of Invista Real Estate, said: "This acquisition is part of our strategy of acquiring properties with good fundamentals, which provide the company with exposure to high quality tenants and above average income yields but are generally located in areas that have been largely overlooked by the market."

The sale of City House is one of the first big sales from the former Kenmore Property Group empire, which went into administration last November.

It is Bruntwood's fifth acquisition in the city in as many years. Comprising 120,000 sq ft of office space over 12 floors, the building is currently in a shell condition having been stripped out by the building's previous owners.

Now, family-owned Bruntwood plans to work with Network Rail and Leeds City Council to regenerate the building in a multi-million pound refurbishment, incorporating Grade A offices and serviced offices for all sizes of business.

The acquisition of City House will bring Bruntwood's total office space offering in Leeds to 390,000 sq ft, spread across the buildings of West One, Hepworth Point, West Gate and 14 King Street.

### *Busy time on the property market*

The sale of BT's Yorkshire headquarters comes amid a flurry of deals which are currently taking place in Leeds.

Kings Court, a 48,000 sq ft building on King Street, is rumoured to be under offer to a fund. The building, being sold by the Alliance Trust, is currently home to law firm Walker Morris and it is thought it could be sold for more than £10.5m.

Meanwhile Park Place, a 39,000 sq ft building which is let to the Job Centre, is also under offer to an unknown buyer. The Prudential is selling the building for around £8m.

Prince William House, on Queen Street is also under offer to property company Ripley Capital.

<http://www.yorkshirepost.co.uk/businessnews/Islamic-bank-in-40m-swoop.6398481.jp>

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### **BIB, Zain Bahrain sign Web services deal**

Saturday, July 03, 2010

Manama: Bahrain Islamic Bank (BIB) and Zain Bahrain, a leading telecom service provider, have signed an agreement to offer BIB clients online facilities to pay their Zain accounts.

The new agreement will enable Bahrain Islamic Bank clients to pay their bills or to top up their prepaid accounts online via eBisB.com.

“We are committed to adding convenience to the everyday banking needs of our clients and through this beneficial partnership with Zain Bahrain, we have broadened the variety of services that we currently offer to our clients on a daily basis,” said AbdulRahman Mohammed Turki, general manager retail banking of Bahrain Islamic Bank.

“We are offering our clients different accessibility of our entertaining services at their comfort,” he added.

Linda Al Jamea, Zain Bahrain’s commercial support director, said: “Zain Bahrain is very pleased to sign this agreement with Bahrain Islamic Bank. The bank is an integral part of the Bahraini

business community and we are proud to work in conjunction with them to add the convenience of our services to our customers.”

*TradeArabia News Service*

<http://www.tradearabia.com/news/newsdetails.asp?Sn=BANK&artid=182393>

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### ***SUKUK (ISLAMIC BONDS)***

#### **Pakistan, Turkey, Axiata Plan Sukuk Sales: Islamic Bond Alert**

Sunday, June 29, 2010

The following borrowers are expected to sell Islamic bonds, which use asset returns to pay investors to comply with the religion’s ban on interest.

Global sales of so-called Sukuk fell 23 percent to \$6.48 billion so far this year, according to data compiled by Bloomberg. Issuance totaled \$20.2 billion last year, up from \$14.1 billion in 2008.

**PAKISTAN:** Pakistan plans to sell Sukuk in the domestic market for the first time in two years to fund its budget deficit, a spokesman for the central bank said. The State Bank of Pakistan will offer the Shariah-compliant debt in the first quarter of the fiscal year that starts July 1, and details will be announced this month, Syed Wasimuddin said. The Islamic republic plans to sell 35 billion rupees (\$409 million) of Sukuk in the domestic market, the News newspaper reported on June 23, citing an unidentified government official.

**TURKEY:** Turkey will consider selling yen-denominated bonds or Islamic securities as it seeks to reduce its reliance on dollars for public financing, said Emre Balibek, the Treasury’s deputy general director for public finance. He didn’t provide details. Turkey is rated Ba2 by Moody’s Investors Service and BB by Standard & Poor’s.

**AXIATA GROUP BHD.:** Southeast Asia’s second-biggest mobile- phone operator plans to sell as much as 4.2 billion ringgit (\$491 million) of Islamic bonds by the end of July to refinance debt, according to Chief Financial Officer Yusof Annuar Yaacob.

**JORDAN:** Jordan may sell conventional or Islamic bonds internationally to help the government with its finances and take advantage of low borrowing costs, Finance Minister Mohammad Abu Hammour said, without specifying the size and timing of the sale. The country is rated Ba2 by Moody’s and BB by S&P.

**INDONESIA:** The Southeast Asian country plans to sell as much as \$650 million of Islamic bonds in October, having scaled back and delayed an original proposal to raise \$750 million in July. The government may pick three of 11 shortlisted foreign- investment banks as joint lead managers for the sale, said Dahlan Siamat, the ministry's director of Islamic financing. Indonesia will also sell rupiah-denominated Sukuk to individual investors in the first quarter of 2010, part of its plans to sell retail Islamic bonds annually, Siamat said. The nation is rated Ba2 by Moody's and BB by S&P.

**PT PERUSAHAAN LISTRIK NEGARA:** Indonesia's state utility company plans to sell 500 billion rupiah (\$55 million) of Islamic bonds and 2.5 trillion rupiah of conventional notes in July to fund expansion of its electricity transmission network.

**ISLAMIC DEVELOPMENT BANK:** The Jeddah-based bank plans to raise \$1 billion from the sale of Islamic bonds to finance projects in member countries, the Saudi Press Agency reported, citing President Ahmed Mohammed Ali. The bank is currently working on raising funds for a \$12 billion program for the development of Africa, initiated in 2008, Ali said June 9.

**CAGAMAS BHD.:** The Malaysian national mortgage company hired Al-Rajhi Bank and RHB Capital Bhd. to help it sell around 1 billion ringgit of Islamic bonds this month, according to people familiar with the plan. The Kuala Lumpur-based company is developing a new type of Sukuk acceptable to investors in the Middle East, Chief Executive Officer Steven Choy said last month. The bonds are being developed in conjunction with Al-Rajhi Bank and a total of 10 billion ringgit may be sold, Choy said.

**AHMED SALEM BUGSHAN GROUP:** The Saudi Arabia-based company, known as ASB, plans to raise as much as \$100 million selling five-year Islamic bonds to fund projects including a mega-steel plant and a real-estate development, Arab News reported on its website, citing Mohamed H. Zakaria, senior vice president of the group. The bond will offer a semi-annual return of 125 basis points more than six-month Libor, the rate banks charge each other on loans, according to the report. ASB may ask Fitch Ratings or S&P to rate the debt, the report said.

**KHAZANAH NASIONAL BHD.:** Malaysia's state investment agency may raise as much as S\$500 million (\$353 million) selling Singapore dollar-denominated Islamic bonds to help fund its offer to double its stake in hospital operator Parkway Holdings Ltd., according to two people familiar with the plan. The sale may take place this month, according to one of them, who declined to be identified because the discussions are private.

**MALAYSIA AIRPORTS HOLDINGS BHD.:** The state-controlled airport operator may sell ringgit- or dollar-denominated bonds to meet its funding needs, it said in a stock exchange filing. The company may sell 1 billion ringgit of Sukuk and \$500 million of conventional bonds to fund its second low-cost airport project near Kuala Lumpur, Reuters said. It hired CIMB Group Holdings Bhd. and Citigroup Inc. for the sale, the report said.

**QATAR ISLAMIC BANK SAQ:** The Gulf state's biggest Shariah-compliant bank plans to sell as much as \$750 million of Sukuk in the second half, Chief Executive Officer Salah Mohammed Jaidah said. Talks with rating service providers have been completed for the company's first Islamic debt offering, he said.

**SAUDI ELECTRICITY CO.:** The Arab world's largest utility company may issue global Sukuk bonds in 2011 after April's sale of 7 billion riyal (\$1.9 billion) of Islamic notes, according to Executive Director of Treasury Fahad Alsudairy.

**CAHAYA JAUHAR SDN.:** The unit of Malaysian developer UEM Land Bhd. plans to sell 114 million ringgit of Islamic bonds, according to a statement from RAM Holdings Bhd., a Malaysian rating service company. RAM assigned a preliminary rating of AAA, its highest, to the bond. Proceeds will be used to repay loans and pay contractors and suppliers working on the first phase of the project, RAM said.

**GENERAL ELECTRIC CAPITAL CORP.:** The unit of General Electric Co. plans to issue its second Islamic bond in late 2010 or 2011, Reuters reported, citing Aris Kekedjian, chief executive of GE Capital Middle East and Africa. It sold \$500 million of Shariah-compliant bonds in November.

**NAKHEEL PJSC:** The property unit of Dubai World, which is restructuring \$10.5 billion of debt, plans to sell Islamic bonds that will give an annual return of 10 percent to trade creditors, two people familiar with the proposal said in April. The deal is conditional on trade creditors representing at least 95 percent of the value of all claims agreeing to the deal. On May 13, the company reached agreement with trade creditors for more than 50 percent of the claims and repaid 3.6 billion dirham (\$980 million) of bonds due on the same day.

**QATARI DIAR REAL ESTATE INVESTMENT CO.:** The Qatari developer may raise \$1.5 billion selling 10-year conventional bonds and five-year Islamic securities, said a person familiar with the plan. HSBC Holdings Plc and Barclays Capital are among banks expected to manage the sale, which could be completed in the next three months, the person said.

SUDAN: Sudan expects to raise \$300 million selling Islamic bonds by the end of this year to fund development projects, central bank Governor Sabir Mohamed Hassan said. Sudan had initially planned the bond sale last year.

*Bloomberg*

<http://www.businessweek.com/news/2010-06-28/pakistan-turkey-axiata-plan-Sukuk-sales-islamic-bond-alert.html>

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## **Dubai Rescue Means Stocks Lose to Sukuk in Second Quarter: Islamic Finance**

Thursday, July 01, 2010

Islamic bonds returned more than Shariah-compliant stocks for the second straight quarter, helped by Dubai World's May accord with creditors to restructure \$23.5 billion of loans.

Fixed-income securities from the Persian Gulf, "in particular Dubai, will extend gains in the next three to six months," said Ahmad Alanani, the London-based associate director for the Middle East and North Africa at Exotix Ltd., an investment bank specializing in illiquid bonds, loans, equities, structured finance, capital raising and asset management. "As Dubai cleans house, the region will continue to attract investors."

The HSBC/NASDAQ Dubai US Dollar Sukuk Index, made up of Islamic bonds from Indonesia to Saudi Arabia, rose 0.8 percent in the three months ended June 30 compared with a 12 percent drop in the Dow Jones Islamic Market World Index as global equities tumbled, according to data compiled by Bloomberg. The HSBC index gained 5 percent in the first quarter compared with a 2.4 percent advance in the stock index, the data show.

The average yield on corporate and government Islamic bonds dropped seven basis points, or 0.07 percentage point, to 6.29 percent last quarter, according to the HSBC/NASDAQ Dollar Sukuk Index.

*Safe Structure*

Debt in developing markets gained 1.2 percent in the past three months, JPMorgan Chase's EMBI Global Diversified Index shows. The MSCI World Index, which tracks more than

1,600 stocks, was down 13 percent in the same period. Bonds in the \$1 trillion Islamic finance industry are based on the exchange of assets rather than interest to comply with the Shariah principles. Companies in the Dow Jones index are screened by a board of religious scholars to meet requirements on debt levels and limited involvement in industries such as alcohol and tobacco.

“The performance of Sukuk is relatively better than conventional debt because their structure is safe as these are asset-based,” Muhammad Asad, who manages the equivalent of \$210 million as chief investment officer at Al Meezan Investment Management Ltd., said yesterday in an interview in Karachi, Pakistan. “They performed better than regular debt even during the subprime and European financial crisis.”

#### *‘Financial Risks’*

Shariah-compliant stocks lagged behind bonds as more than \$7 trillion was erased from the value of global equities since April 15, when markets peaked following the collapse of Lehman Brothers Holdings Inc. Concern Europe’s debt crisis and China’s efforts to contain inflation will stifle the economic recovery may also affect the Sukuk market, according to National Fullerton Asset Management Ltd., which oversees the equivalent of \$160 million.

“We have to keep in mind the global financial risks before investing in conventional or Islamic bonds or stocks,” Sajjad Anwar, head of NAFA Islamic Multi Asset Fund, a unit of National Fullerton, said in an interview yesterday in Karachi. “It’s not just because the Islamic bonds or stocks at any stage have performed well, they will continue to do well. It really depends on the market and economic conditions.”

Global sales of Islamic bonds have fallen 24 percent to \$6.5 billion so far in 2010 from the same period last year, according to data compiled by Bloomberg. Sukuk sales rose to a record \$31 billion in 2007.

#### *Bond Yields*

The Dow Jones Citigroup Sukuk Index, which measures the performance of Islamic bonds, closed at 120.87 on June 29, the highest level since Nov. 30, and leaving it 3.5 percent short of

the record set Nov. 25. The index rallied 1.9 percent in the second quarter. The difference between the average yield for emerging-market Sukuk and the London interbank offered rate widened 41 basis points, or 0.41 percentage point, to 443 in the second quarter, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index.

The average yield gap on emerging-market debt and Libor narrowed 23 basis points to 584 basis points, based on the EMBI+ index from JPMorgan Chase & Co. That is 141 basis points more than the average spread for Sukuk.

The yield on Malaysia's 3.928 percent Islamic notes due June 2015 fell four basis points this week to 3.56 percent at 2:52 p.m. in Kuala Lumpur, according to prices from Royal Bank of Scotland Group.

#### *Dubai World*

Dubai World, one of Dubai's three main business groups, said in May that creditors agreed to restructure \$14.4 billion of bank loans and \$8.9 billion of government liabilities to resolve a debt crisis that roiled global markets last year. Nakheel PJSC said yesterday it began making payments to its biggest contractors as the property company owned by Dubai World seeks new terms on \$10.5 billion of unpaid bills and loans.

The yield on Nakheel's \$750 million fixed-rate Islamic notes gained seven basis points to 16.8 percent today, according to Bloomberg composite bond trader prices. The price fell 0.3 cent to 106.825 on the dollar.

"The markets in the Middle East look constructive," said Mohieddine Kronfol, a managing director at Algebra Capital Ltd. in Dubai, who favors Islamic bonds from Malaysia, Dubai and Indonesia. "We are working through a lot of important credit issues and will continue to trade cautiously over the next three months." California-based Franklin Resources Inc. owns 40 percent of Algebra Capital.

*<http://www.bloomberg.com/news/2010-07-01/dubai-rescue-means-stocks-lose-to-Sukuk-in-second-quarter-islamic-finance.html>*

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## **Pakistan Plans Sukuk Bills to Lure Gulf Banks: Islamic Finance**

Friday, July 02, 2010

Pakistan, the world's second-largest Muslim nation, plans to expand its Shariah-compliant banking industry and attract more investors from the Persian Gulf by boosting sales of Sukuk bills.

State Bank of Pakistan is seeking to sell Sukuk maturing in a year or less in the domestic market in the quarter ending September, spokesman Syed Wasimuddin said in an e-mail yesterday. The plan is part of an effort to double Islamic banking services in the next three years to 12 percent of the total. The securities pay profit rates rather than interest.

“Islamic banks and Shariah-compliant mutual funds are dry in terms of investment opportunities,” Irfan Malik, head of fixed income at National Fullerton Asset Management Ltd., which has the equivalent of \$160 million in assets, said yesterday in an interview in Karachi. “Securities of less than one-year maturity and Islamic interbank lending will attract local and foreign investors. We will participate in the auction.”

Pakistan, whose population of 170 million is second to Indonesia among Muslim nations, is aiming to attract the wealth of the oil-rich Persian Gulf to help finance its budget deficit and revive an economy hurt by nine years of fighting with the Taliban militants.

### *Deficit Widens*

The government said last month the \$150 billion economy has suffered a loss of about \$35 billion since the fight against the Taliban that spread from neighboring Afghanistan in 2001 hurt investment. The cost to deploy 100,000 troops in the northwest tribal areas widened the country's budget deficit to 5.6 percent of gross domestic product last fiscal year ended June 30, exceeding the target of 4.9 percent.

At least 41 people were killed and 175 were injured when two suicide bombers blew themselves up at the shrine of a Sufi saint in Pakistan's eastern city of Lahore yesterday, Khusro Pervez, Lahore's commissioner, told reporters. The attack came a month after 100 people were killed in twin attacks on mosques of the minority Ahmadi community in the city.

Pakistan is selling Islamic debt to finance a deficit projected to be 4 percent of GDP in the year started July 1.

Global sales of Islamic bonds fell 24 percent to \$6.5 billion so far this year, from the same period in 2009, according to data compiled by Bloomberg. Issuance totaled \$20.2 billion last year, up from \$14.1 billion in 2008. Pakistan raised \$600 million from its first sale of Sukuk in the overseas market in January 2005. Acting central bank Governor Yaseen Anwar said in June more developed money markets would help create benchmarks for Islamic products.

“Geopolitical uncertainty is keeping Gulf investors wary of investing in Pakistan,” Abdul Kadir Hussain, chief executive officer at Mashreq Capital DIFC Ltd., which manages \$2 billion of mainly Gulf assets, said in an interview in Dubai yesterday. “Investors need definitive clarity on the political front before committing funds in this market. The long-term implications of the war with the Taliban aren’t clear.”

### *Trailing Malaysia*

The difference between the average yield for emerging- market Sukuk and the London interbank offered rate narrowed two basis points yesterday to 441, and 26 basis points so far this year, according to HSBC/NASDAQ Dubai US Dollar Sukuk Index.

The yield on Malaysia’s 3.928 percent Islamic notes due June 2015 fell four basis points, or 0.04 percentage point, to 3.54 percent this week, according to prices from Royal Bank of Scotland Group. The government sold \$1.25 billion of the notes in May, its first international offering in eight years.

Pakistan’s Islamic banking industry is a 30th of the size of Malaysia’s, which has the world’s biggest market for Sukuk.

The 303.3 billion ringgit (\$93.2 billion) of assets held by Islamic banks in Malaysia accounted for 19.6 percent of the total last year, the central bank said in March. Pakistan’s equivalent deposits, at 300 billion rupees (\$3.5 billion), are about 6 percent of the total, according to State Bank of Pakistan’s website.

### *Islamic Banks*

Bank Negara Malaysia, which began selling Islamic bills weekly in 2006, had 14 billion ringgit of outstanding short-term notes as of June 30, according to central bank data.

Pakistan has 42 billion rupees of local-currency denominated Islamic notes outstanding, the State Bank of Pakistan’s website shows. That compares with 260 billion ringgit in Malaysia, according to data compiled by Bloomberg.

Middle Eastern banks make up half of Pakistan's Shariah-complaint lenders. These include Al Baraka Islamic Bank, owned by Bahrain's Al Baraka Banking Group, the United Arab Emirates-based Dubai Islamic Bank Pakistan Ltd. and Emirates Global Islamic Bank. Al Baraka Banking offers Shariah-compliant corporate loans, housing and car financing in Pakistan through its Islamic unit.

### *Foreign Investment*

Faysal Bank Ltd., based in Bahrain, and Bank Alfalah Ltd., owned by the Abu Dhabi Group, are conventional lenders offering Islamic services in Pakistan.

Issuance of short-term and long-term Islamic securities will address the problem of a lack of investment opportunities for the mutual fund industry, according to National Fullerton's Malik. Without a developed money market, funds are holding Sukuk until the debt matures, he said.

Companies based in the U.A.E. invested \$209 million in the 11 months through May in Pakistan, or about 9 percent of total foreign investment, according to the central bank's website. The Gulf nation was the fourth-biggest investor after the U.S., U.K. and the Netherlands.

In 2006, Pakistan sold a 26 percent stake in Pakistan Telecommunication Co., the biggest phone-service provider, to Emirates Telecommunications Corp., the U.A.E.s largest phone company, for \$2.6 billion.

### *Bloomberg*

<http://www.businessweek.com/news/2010-07-02/pakistan-plans-Sukuk-bills-to-lure-gulf-banks-islamic-finance.html>

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## ***TAKAFUL (ISLAMIC INSURANCE)***

### **Al Mansouri issues rule to regulate Takaful Insurance**

Sunday, June 27, 2010

Abu Dhabi -- Minister of Economy Sultan Bin Saeed Al Mansouri has issued an ordinance on the system of Islamic insurance, the first of its kind being ratified on the level of Arab countries and the best on the level of Islamic states.

Deputy Director General of the UAE's Investment Authority Fatima Mohammed Ishaq Al Awadi said that the UAE is the pioneer in systematising the business of Takaful companies on the Gulf and Arab levels as the UAE system is considered the best among similar systems in other countries.

The ordinance to formulate the Takaful Insurance into a unified system comes in the light of the need to regulate and organise the functioning of the insurance firms specialising in Islamic Insurance known as the Takaful Insurance, Al Awadi added.

[http://www.khaleejtimes.com/DisplayArticle08.asp?xfile=data/theuae/2010/June/theuae\\_June699.xml&section=theuae](http://www.khaleejtimes.com/DisplayArticle08.asp?xfile=data/theuae/2010/June/theuae_June699.xml&section=theuae)

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### **Allianz Takaful Signs Medical Insurance Agreement with Apex Real Estate**

Monday, June 28, 2010

Allianz Takaful and Apex Real Estate Development Company have signed an agreement whereby Allianz Takaful will be contracted to provide employee medical insurance to Apex.

The agreement was signed by Allianz Takaful CEO, Dr. Abdul Rahman Tolefat and Apex Real Estate Development Company Managing Director Majed Al Khan. It will see Allianz Takaful, a wholly owned subsidiary of Allianz Group, organize medical insurance coverage of over BD 490,000 (US\$ 1.3 million) for Apex employees and their family members, including cover for international emergency medical treatment.

Majed Al Khan, the Managing Director of Apex, said “Apex Real Estate and its subsidiaries, Apex Green and Apex Properties, have witnessed operational growth leading to an increase in number of staff. As part of our initiatives to provide our employees with a professional and value-added working environment, we sought to engage a company offering a range of medical services supported by a high degree of expertise.”

The Allianz Takaful CEO, Dr. Abdul Rahman Tolefat said that “We are pleased to welcome Apex amongst our clients. We continuously seek to exceed our clients’ expectations by providing excellent service. We look forward to continuing this relationship with Apex.”

### *Allianz*

Allianz Group is one of the leading global services providers in insurance and asset management. With approximately 153,000 employees worldwide, the Allianz Group serves approximately 75 million customers in about 70 countries. On the insurance side, Allianz is the market leader in the German market and has a strong international presence.

<http://www.globalsurance.com/blog/allianz-Takaful-signs-medical-insurance-agreement-with-apex-real-estate-127920.html>

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## **UAE issues Takaful law to regulate industry**

Monday, June 28, 2010

Dubai: A new UAE law regulating the growing Islamic insurance industry will provide more transparency and oversight but the extra costs of compliance may drive consolidation in a fragmented market, lawyers said.

The Islamic insurance, or Takaful, law was issued on Sunday, placing companies under the jurisdiction of the Insurance Authority of the United Arab Emirates and giving them a year to reorganize their processes.

Under the law, every Takaful firm must have a Shariah board consisting of three qualified scholars with experience in Islamic finance.

The boards will be responsible for issuing an annual report and will fall under the oversight of a supreme committee within the authority charged with all Islamic legal opinions.

The law also sets standards for financial and accounting issues as well as rules for paying out surpluses resulting from premiums and investments.

'Up until now, companies were just trying to put insurance law in an Islamic context without any specificity,' said Peter Hodgins, partner at Clyde & Co.

'The new law aims to standardize the operating structure of all Takaful firms which will strengthen the industry.'

But any standardization process will likely result in an increase in costs that could hit an industry already struggling to make a profit. That could help spur some long-awaited consolidation, said Justin Balcombe, director of Middle East advisory at Ernst & Young.

Takaful premiums are expected to grow to around \$8.8 billion globally by the end of 2010, compared with \$3.4 billion in 2007, according to data from Ernsy & Young.

But the industry is made up of a few large players dominating the market, while smaller and mid-size firms struggle to make a profit because of the costs of Shariah boards and limits on the types of investments they can make.

'Some smaller players might just be unable to afford the cost of compliance to the changes under the law,' Balcombe said, prompting some to consider merging with a larger competitor.

Hodgins added that the UAE insurance market is extremely competitive, with only nine Takaful companies competing with over 50 conventional firms, making consolidation a likely scenario.

Hodgins said one of the major developments of the regulation is the creation of the supreme committee, which will bring consistency by providing detailed rules for the industry.

'It's a relatively radical departure from Middle Eastern standards,' Hodgins said. 'It will provide two layers of Shariah oversight, which will get rid of the criticism that there isn't any transparency or consistency in the industry.'

While the law is the first of its kind in the region, Malaysia has had similar rules in place to cover both Takaful and Islamic banking. Market watchers hope that the implementation of the UAE law may spread to other markets in the six-state Gulf Cooperation Council.

Sheikh Muddassir Siddiqui, an Islamic scholar and partner at Denton Wilde Sapte, said if the UAE's new law is properly implemented, it will provide more consumer protection and better auditing, ultimately reducing costs of business in the long run.

'I hope similar steps are taken to regulate the rest of the Islamic finance industry,' he said.

<http://www.tradearabia.com/news/newsdetails.asp?Sn=BANK&artid=182145>

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## **Takaful penetration low in Pakistan**

Wednesday, June 30, 2010

KARACHI: Takaful, an Islamic alternate to conventional insurance, has very little penetration in Pakistan, but like conventional insurance, it has immense potential as it not only shares risk but also offers fair returns, said CEO of Pak-Qatar General Takaful, Rohail Alikhan.

He was talking to the members of the banking and insurance sub-committee of the Karachi Chamber of Commerce and Industry (KCCI) on Tuesday.

There are various examples in Islamic history where it is said that humans should take all possible measures to mitigate life and property risk, he said. Risk mitigation is allowed in Islam and this is what Takaful is all about, he added.

CEO, Pak-Qatar Family Takaful, P Ahmed said that Takaful is a Halal and ethical alternate to conventional insurance, which is based on the concept of brotherhood and mutual solidarity.

He informed that Takaful is a transparent community-pooling system in which participants contribute their savings into the common fund to help those who need it most in times of financial difficulty.

Takaful operator creates the Waqf fund or the “taburru fund” where participants contribute their premiums/contributions on the basis of “taburru” into Waqf fund and claims are paid by the Waqf fund, he explained.

Ahmed said that “there is a desperate need as well as potential for Takaful in Pakistan as only about 0.6 per cent of our GDP goes towards insurance whereas in India that figure is more than 3 per cent”.

Pakistan has one of the lowest national saving rates in the world. National savings, as a percent of the GDP, declined from 20.8 per cent in 2003 to 14.3 per cent in 2009.

Ahmed said that following the introduction of Takaful rules by the SECP in 2005, five Takaful operators have entered the local insurance market: three in general and two on the family side.

He said that risk mitigation and financial protection is something that everybody needs to be concerned about. In order to do this efficiently, a tool that is not only effective in mitigating risks but also competitively priced as well as in compliance with Shariah.

Alikhan said that Takaful companies can invest their premiums in Shariah compliant investment avenues only and all the activities at Takaful companies are supervised by an independent Shariah board.

Takaful companies can invest in Shariah compliant government securities, immovable property, joint stock companies, redeemable capital, mutual funds, musharika certificates, term finance certificates and participation term certificates, he added.

“Sixty per cent of the population of Pakistan is under the age of 25, which means you have a customer potentially for 40 years,” he further added.

*The Express Tribune*

<http://tribune.com.pk/story/24653/Takaful-penetration-low-in-pakistan/>

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## **Stanchart to sell Allianz Takaful's insurance products**

Thursday, July 01, 2010,

The Standard Chartered Bank has entered into a five-year agreement with Allianz Takaful to cross sell the latter's insurance products in Qatar. Under the agreement, the bank will promote and sell Allianz Takaful's insurance products comprising plans for protection, savings, investment and child education.

"Allianz is a major global financial services provider and we are pleased to associate with the group's subsidiary in the Middle East...the general insurance services fit well as one of the wealth protection tools that complement the bank's overall wealth management solutions," Standard Chartered Bank Qatar CEO David Godwin said.

"Standard Chartered Bank enjoys a large and growing customer base which is an ideal match for our insurance plans and services," Abdulrahman Khalil Tolefat, chairman of Allianz Takaful said.

"Customers can avail the services at Standard Chartered Bank's relationship managers to tailor make Allianz Takaful products to suit their specific insurance requirements," he added.

*<http://www.gulf->*

*[times.com/site/topics/article.asp?cu\\_no=2&item\\_no=371648&version=1&template\\_id=36&parent\\_id=16](http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=371648&version=1&template_id=36&parent_id=16)*

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## **'Takaful growing 35pc faster than conventional insurance worldwide'**

Thursday, July 01, 2010

KARACHI: Takaful is growing 35 percent faster than conventional insurance worldwide with over 133 Takaful operators and \$4.3 billion market size, which is expected to surge by \$8 billion by 2012, senior officials said on Tuesday.

Addressing members of Banking and Insurance Sub-Committee of the Karachi Chamber of Commerce and Industry (KCCI), P Ahmed, Chief Executive Officer Pak-Qatar Family Takaful, said that Takaful is a Halal and ethical alternative to conventional insurance, which is based on the concept of brotherhood and mutual solidarity.

He said that Takaful is a transparent community-pooling system in which participants contribute their savings into the common fund to help those who need it most in times of financial difficulty.

"For this to happen, Takaful operator creates the Waqf Fund or the Taburru Fund where

participants contribute their premiums or contributions on the basis of Taburru into Waqf Fund and claims are paid by the Waqf Fund,” he said.

Ahmed said that there is a potential for Takaful in Pakistan as only around 0.6 percent of the GDP goes towards insurance, whereas in India that figure hovers around 3.5 percent.

“Pakistan is ranked third in the list of 11 most developed or developing economies around the world in terms of low national savings,” he said. National Savings, as percentage of the GDP, declined from 20.8 percent in FY03 to 14.3 percent in FY09, he added.

Following the introduction of Takaful Rules by the Securities and Exchange Commission of Pakistan (SECP) in 2005, five Takaful operators have entered the local insurance market, including three in General and two on the Family side. These numbers are likely to increase in the coming years, which would bring in the much-needed vitality in the insurance industry, he added.

[http://www.thenews.com.pk/daily\\_detail.asp?id=248107](http://www.thenews.com.pk/daily_detail.asp?id=248107)

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## ***ISLAMIC INVESTMENTS; EQUITIES/SECURITIES & FUNDS***

### **LB Finance launches Islamic Finance unit** MONDAY, JUNE 28, 2010

Financial trailblazer LB Finance is once again set to revolutionize the industry, this time with Al Salamah, its brand new Islamic Finance unit.

Al Salamah is to offer a wide range of financial services including investment accounts, trade financing, leasing and gold loans (pawning), all structured according to the principles of Shariah Law, and will be available to all Sri Lankans regardless of ethnicity and religion.

In the initial stages, Al Salamah will focus mainly on its Ijarah leasing service, which is one of LB Finance’s main strengths, and will also offer hire-purchase services on Murabah terms and investment accounts on Mudarabah terms. Al Salamah will also offer a Shariah-compliant Islamic gold loan (pawning) facility called Ar Rahnu due to intense demand from the Muslim community. LB Finance has been planning to launch this unit for several years but held back due to the turbulent economic conditions in the last few years. Al Salamah’s activities are to be completely independent from the main body of LB Finance, including management and financial accounting.

“Al Salamah is a name which represents safety, security, and integrity,” said Mr. Sumith Adhihetty, Managing Director of LB Finance. “All our operations will be monitored by a qualified Shariah Supervisory Council to ensure that everything we do is one hundred percent within the Shariah Law.

We will be offering four main products to start with including Mudarabah Investment Accounts, Murabaha Trade Financing, Ijarah Leasing and Ar Rahnu Gold Loans. These are tried and tested

services in the Sri Lankan market, and we are positive that we will see a great deal of response from consumers.”

It has been a very difficult few years for the financial sector in Sri Lanka and many financial institutions, conventional and Islamic, have suffered heavily and even collapsed. LB Finance, however, has been on the crest of a wave, growing from strength to strength and the company is confident that they can succeed in this pioneering endeavour. “Consumers are attracted to the interest-free element of Islamic finance, but many have been failed by institutions which were mismanaged,” said Mr. Adhihetty. “A veritable Islamic finance company based on equity and fair-play, who manages their Mudarabah Fund correctly, would seldom fail, as proven by several other players in the market who have been thriving for over a decade.”

LB Finance is certain that Al Salamah will play a key role in rebuilding the financial sector after the economic downturn of the last years as well as the war. “We believe that Al Salamah is an ideal tool to overcome the current market conditions,” stated Mr. Adhihetty. “There is a popular misconception in Sri Lanka that Islamic finance is unsuccessful, yet over half of the 10 largest commercial banking organizations in the world maintain their own Islamic finance windows, and some of the largest growths in Islamic finance around the world over the past several years have occurred in non-Muslim countries.”

“Sustainability in Islamic finance depends solely on the strength of the organization’s Shariah compliance,” said Mr. Adhihetty. “This will be our forte since we will be adhering to all the Shariah requirements with the utmost respect and stringency. Al Salamah will be guided by a well-respected and erudite Shariah Supervisory Council in addition to being monitored by the Central Bank of Sri Lanka.”

LB Finance operates through a highly-integrated network of branches offering cutting-edge solutions through services such as acceptance of deposits, leasing, hire purchase, micro-financing, inland money transfer, gold loans, agricultural equipment leasing and other credit facilities.

<http://www.dailymirror.lk/print/index.php/business/127-local/14093.html>

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## **India's Reliance Capital plans Islamic funds**

Tuesday, June 29, 2010

KUALA LUMPUR: A subsidiary of India's Reliance Capital Asset Management will launch two Islamic funds in Malaysia by July and roll out products for retail investors in two years, a company official said on Tuesday.

Reliance, India's largest asset management company, will launch a fund investing in Indian stocks next week and a quantitative global equity fund investing in the U.S., Europe and Asia in July.

Both funds would be managed out of Malaysia.

"The long-term objective is to target the retail Shariah market in the region," said Vikrant Gugnani, Reliance Capital's international businesses CEO.

"We believe the retail story in Malaysia has yet to unfold and we want to be positioned well before to take advantage of (it)."

Reliance Capital Asset Management, which manages more than \$33 billion, is part of financial services firm Reliance Capital (RLCP.BO).

<http://www.reuters.com/article/idUSSGE65S04U20100629>

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### **Deutsche platform to allocate to Shariah fund**

Wednesday, June 30, 2010

Deutsche Bank's Shariah-compliant issuance platform is set to allocate to Econophy Capital Advisors' upcoming FX strategy.

The strategy, the name of which will be determined by Deutsche Bank, will be in the form of a structured note and is slated to launch mid-September with at least \$100m. The portfolio has a \$500m capacity.

Michael Billy, managing partner of Econophy, said he decided to create a Shariah-compliant FX offering because of investor demand. "It is a market that has tremendous potential and FX in that space has pretty much been non-existent," he said.

Besides Deutsche Bank's platform, a variety of other banks have approached the Florida-based manager about being its placement agent. Including JPMorgan, Goldman Sachs, Barclays Capital, Citigroup and Santander.

The offering will have a \$500,000 investment minimum, 2/20 fees and a lock-up of 90 days maximum. Newedge is the prime broker.

<http://www.hfmweek.com/news/573837/deutsche-platform-to-allocate-to-Shariah-fund.shtml>

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### **CMA to set up Shariah investment regulations**

Wednesday, June 30 2010

The Capital Markets Authority is working to set up rules and regulations that will allow development of Shariah-compliant products.

Speaking during the unveiling of a new name by ApexAfrica Investment Bank to ApexAfrica Capital, CMA chief executive Stella Kilonzo, said her team has already visited Mauritius to study how Shariah-based investment products are operated and regulated.

“There is a lot of potential for Shariah-based investment products and we will work together to develop them,” said Ms Kilonzo in appreciation of announcement of the intention by ApexAfrica Capital to launch such products.

#### *Interest earning*

During this year’s budget speech, Finance minister Uhuru Kenyatta urged the market regulators, CMA and Central Bank, to introduce Shariah-compliant products as a way of offering Muslims investment options.

By religion Muslims are prohibited from investing in interest earning products in preference for profit sharing.

They are also forbidden from investing in alcohol and gambling industry.

Speaking at the event, ApexAfrica managing director Kassim Bharadia said his company has developed Shariah products and was in process of launching them once the regulatory mechanism is in place.

#### *Great promise*

“Demand for Shariah-based products in financial services is growing, we now have Shariah banking, and Shariah insurance products have also been developed. The area that is lagging is Shariah-based investments products, a business in which ApexAfrica Capital has planned products,” said Mr Bharadia.

Earlier in the year Central Bank of Kenya launched a Shariah-compliant bond during the second infrastructure bond to raise money for construction of roads, water and sewerage systems.

“We see Shariah investment products as an area with great promise, we have not only seen local interest but we have attracted a lot of interest from international organizations,” he said.

<http://www.nation.co.ke/business/news/CMA%20to%20set%20up%20Shariah%20investment%20Oregulations/-/1006/949588/-/3y3g4nz/-/>

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## ***ISLAMIC FINANCE EVENTS; SEMINARS, WORKSHOPS & CONFERENCES***

### **Bahrain - Senegalese Islamic Banking Forum set for Monday**

Manama: Bahrain will host a key Islamic Banking Forum with Senegal on Monday. SYM International Finance Corporation is organizing the event in cooperation with the Senegalese Government.

It aims to assist the Senegalese Government in its efforts to promote the financial services centre and attract more private investments. "An update outlining the structure, activities and products will outlined in a key presentation", Senegalese Ambassador Mafoudhi Andong told Bahrain News Agency. Bahrain's Foreign Ministry played a pivotal role in coordinating the forum, with the help of the Central Bank of Bahrain and the Bahrain Chamber of Commerce and Industry. Bahrain Bankers' Society has also contributed to the event, ensuring the technical and logistic organization. "Senegal is playing a pivotal role in promoting financial services in West Africa", Mr. Andong said. "Most international companies and leading financial firms which operate in West Africa have their regional headquarters in Senegal". He also urged Bahrain's banks to come forward and seized the unprecedented opportunities in his country, stressing prevalent financial, economic and political stability. "Bahraini bankers can also use Senegal as a gateway to West African and Sub-Saharan countries", he added. SYM International Finance Corporation is specialized in Islamic Financing banking and investment services. It arranges Islamic trade finance transactions to International investors both from emerging markets and industrialized nations, with a special focus on OIC nations. The Company aims to increase trade volume among OIC member countries; develop and help finance such trade in accordance with the principle and provisions of Islamic law. It convenes a forum for executive officials, assists countries to develop their Islamic financing system, facilitates transactions and promotes Islamic commerce. SYM International Finance Corporation arranges financing packages and transactions with leading investment institutions, including leading banks in the Middle East, North America, the UK, Europe and Asia, in addition of Investment Funds. Bahrain-based Senegalese Embassy has also played a key role in preparing the forum and coordinating diplomatic arrangements on behalf of Dakar authorities A H N BNA 1630 GMT 2010/06/26

*Bahrain News Agency*

<http://english.bna.bh/?ID=88234>

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### **Managing risk in insurance and Takaful: GCC Seminar**

*GCC companies given insight in first of its kind seminar*

On June 21, a large number of chief executive officers, chief finance officers and chief risk officers as well as board members attended the first of its kind seminar, titled "Understanding the rating process and implementing Enterprise Risk Management (ERM) for the insurance and Takaful industries". The event comes at a time when enterprise risk management is increasingly

becoming a regulatory requirement to be implemented in countries within the Gulf Cooperation Council (GCC) countries and wider Middle East region.

"The seminar, presented by Standard & Poor's, was the first of its kind to cover the Rating Agency process for Insurance companies and to introduce Solvency II - ERM (Enterprise Risk Management) by Deloitte," said Angela Bryant, ERM Senior Manager at Deloitte Middle East Enterprise Risk Services (ERS). "Solvency II helps companies not only manage risks, but also earn greater rewards for the risks they take."

Jointly hosted by Deloitte and Standard & Poor's, in association with the Emirates Insurance Association, the seminar provided a platform for a discussion of insurance industry best practices and how these can be applied to the UAE/GCC insurance sector. Claus Brinkmann, partner in actuarial insurance services from the Deloitte Munich office, was among the speakers. He shared insight on the complexity involved in implementing Solvency II in the Europe market and issues faced while implementing it. Other topics discussed during the event included the rating agency process and why ERM is given weight by rating agencies.

"ERM for insurance and Takaful companies is important as they are risk-taking entities by nature," said Fadi Sidani, partner in charge for Enterprise Risk Services (ERS) at Deloitte in the Middle East. "Thus an effective ERM helps them to identify risks, manage those risks and ensure that the risks undertaken are within the risk tolerance limits of the company. For insurance companies it is very important to ensure they remain solvent and have adequate assets to fulfill the future claims which could be payable in anything from a one-month to 20-year period, depending on the nature of insurance. Thus demonstrating solvency is vital to ensure policyholders come to them to ensure their risks. ERM is an important tool which helps insurance companies demonstrate that they view the risks seriously, understand the risks they face and are managing the risks within their tolerance limits."

#### *About Deloitte:*

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 169,000 professionals are committed to becoming the standard of excellence.

#### *About Deloitte & Touche (M.E.):*

Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu (DTT) with uninterrupted presence for over 80 years in the Middle East region. Deloitte & Touche (M.E.) is among the region's leading professional services firms, providing audit, tax, consulting, and

financial advisory services through 26 offices in 15 countries with over 2,300 partners, directors and staff. Deloitte & Touche (M.E.) is a 2009 Hewitt Best Employer in the Middle East. Deloitte is a Tier 1 advisor in the GCC region (International Tax Review World Tax 2010 Rankings). Deloitte & Touche (M.E.) is the 2010 Best Consulting Firm of the Year (The first Complinet GCC Compliance Awards).

<http://www.zawya.com/story.cfm/sidZAWYA20100628110128/Managing%20risk%20in%20insurance%20and%20Takaful%20>

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## ***ISLAMIC FINANCE: ARTICLES/COMMENTARIES***

### **Is Islamic finance a ‘huge flop’?**

*A recent assessment of Islamic finance as a "huge flop" is a needed wake-up call for Islamic finance on the true market size and opportunity that exists and our ability to manage demand expectations.*

BY: RUSHDI SIDDIQUI,

SUNDAY, JUNE 28, 2010

In London, an acknowledged hub for Islamic finance, the Times had an eye-catching headline recently: ‘After six years, Shariah-compliant bank products are 'huge flop.' It resulted in numerous comments by those involved in Islamic finance, reminding us all that negativity draws a reaction. But the jury is still out on the embryonic Islamic finance sector in London, and using a micro-cap size listed Islamic bank, the Islamic Bank of Britain (IBB), may be more about the entity and its offering than the viability of Islamic finance in a non-Muslim country.

Lets take a closer look at retail Islamic finance in G-20 countries like UK. IBB’s situation may have been more about the consequence of cheerleading Islamic finance by emphasizing quantity – namely the two million Muslims in the UK - over quality. Obviously not many efforts have yet been bankable.

A quick glance at Islamic retail banking in Muslim countries - Islamic finance hubs like Bahrain, UAE, and Malaysia - reveals that not one country had Islamic finance surpass an estimated 30% of all types of banking. Yet, in Malaysia, majority of the customers for Islamic finance are not Muslims, but ethnic-Chinese and they are commonly assumed to be shrewd and savvy on financing.

So, how does the industry take this successful aspect of Islamic finance in Malaysia and transplant it to the UK? Or, is there more to the story, since ethnic Chinese are the largest Islamic finance users in Malaysia, and this phenomenon may not necessarily be transferable to Britain?

### *Economic immigrants*

There is a “numbers bias” for British Muslims, as large majorities are from the Indian subcontinent - India, Pakistan, and Bangladesh. They came seeking better economic opportunities, education for their children, upward mobility, and so on. These immigrants came from countries where Islamic finance was, at best, more of a theory and less of a practice in the 1960s-70s. But although the British Islamic banking experience, from Albaraka to United Bank of Kuwait to (now) the Islamic Bank of Britain, generally resulted in a leveled regulatory and tax playing field, that has not opened the floodgates to Islamic finance. Why?

First, the British government has been talking about a sovereign Sukuk for a few years, though nothing has yet materialized. Post Prime Minister Tony Blair, each successive government has stated their enthusiastic commitment and firm support for Islamic finance, and yet the industry still awaits for this magical Sukuk.

Yes, the credit crisis has provided set-backs, but let's hope its not an opportunistic excuse for further delays. France's recent interest in being an Islamic finance hub, coupled with their comments about a corporate benchmark Sukuk could actually pressure Britain to issue a sovereign Sukuk beforehand.

Second, the inability of Islamic finance to take off at the retail level in Britain, or any other G-20 country for that matter, may be attributed to a variety of factors. The lack of interest in Islamic finance, coupled with a comfort with conventional finance, may foster the interpretation that a certain type of ‘interest’ is acceptable. Often, Islamic finance is simply too expensive, resulting in a financial ‘penalty’ for being a Muslim. For some, Islamic finance, as presently offered, is not ‘Islamic’ enough, or the scholars signing off on such products may not be well known or credible. Education may not be responsive to the needs of the bankable masses. Finally, in a post-9/11 environment, some Muslims may be concerned that if they adopt Islamic finance, they may end up on a government watch-list.

Then there is the theory that some Muslims may have a debt-averse mindset, compounded, in Britain, with the availability of ‘Islamic’ debt offerings, such as Islamic mortgages. The anti-debt mindset may be a cultural influence and/or a literal interpretation from the Holy Qur'an, which describes the permissibility of trade and prohibition against interest (2:275-79). There are countless stories of British Muslims living and operating in a cash economy, renting apartments, and accumulating enough savings over years or decades to finally buy a home in cash.

### *Education and awareness*

We have all heard about the need for education about Islamic finance, in the form of seminars, workshops, conferences, newsletters, industry organizations, or on-line courses. The slow consumer acceptance of Islamic products may then be due to incomplete education, absorption, or understanding, leaving the reaction time cycle for product buy-in much longer than expected.

But what about all the surveys and questionnaires about Islamic finance that offer support as

basis for the offering? The possibility of survey and interview bias must be factored into the formula. During the survey stage with the ‘man on the street’ and written questionnaires, there may not have been a conscious awareness of minimizing leading questions and minimizing impact of ‘politically correct’ answers. It would seem that British Muslims, like any other Muslim or non-Muslim interested in Islamic finance, want broad spectrums of products at market prices with comparable customer service and support.

However, the bottom-line is to look at the end result, as the take up of Islamic finance at the bankable retail level has not met expectations. Are a majority of British Muslims simply too old, too poor or too new to be interested in Islamic finance?

### *Back to basics*

The stakeholders pushing Islamic finance may need to have a reality check concerning retail offerings in non-Muslim countries with an established Muslim minority. The enthusiasm Islamic bankers have had for Islamic finance may not be shared by a percentage of Muslims at the retail level. The Islamically bankable population appears to be quite small, hence requiring a better understanding of demand, the right mix of product offerings, proper distribution channels, and support service.

Calling Islamic financing a ‘huge flop’ may be a needed wake-up call for Islamic finance on the true market size and opportunity that exists and our ability to manage demand expectations. Obviously, something is broken and we need to move out of the cheerleading comfort zone, realistically assessing the lack of interest by the ‘Muslim on the street’ when it comes to Islamic finance.

*Rushdi Siddiqui is Head of Islamic Finance at Thomson Reuters.*

<http://www.altmuslim.com/a/a/a/3818>

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### **Where is the hub of Shariah transactions?**

*Cross-border regulations, taxes and varying standards have fragmented sector*

If London is deemed as the foreign exchange transaction hub and New York for equities, where is the Islamic finance transaction hub? Or is this question ahead of its time? This is not the same as large dollar amount of Sukuk listed on Nasdaq Dubai or large volume of Sukuk from Malaysia.

It's less about listings, and more about liquidity, as the former is attracted to the latter.

The world's corporations, governments, banks, funds, and investors look at New York, London, Frankfurt, and Tokyo as places for deploying investments and raising capital. For Islamic finance, the usual suspects of hubs, from London to Bahrain/Dubai to Malaysia, are the appropriate places for Islamic finance transaction hubs. Thus, the concept of a single global

Islamic stock exchange or a single hub, representing the \$1 trillion (Dh3.67 trillion) industry, may not be viable because of complexities of cross-border regulations and taxes, Shariah standards, and dispersed fragmentation of Islamic finance.

The challenge in Islamic finance is fragmentation, 450 institutions in 90 countries, hence, products and players inability to act as a seamless financial community and transact. As an Islamic finance hub becomes yesterday's news, transactions or trading is the need of the hour for Islamic and conventional users. Now, the time has arrived to internationalize and institutionalize Islamic finance, meaning going from bi-lateral price discovery and liquidity, i.e., over the counter (OTC), to multiple price discovery, liquidity and transactions.

### *Islamic equity investing*

If one examines the S&P Global Shariah index, nearly 85 per cent of its market capitalisation of \$14 trillion is in G-20 countries like the US, UK, Japan, etc. Thus, Islamic equity investing is not about in Muslim countries with stock exchanges. Put differently, present day Islamic equity investing is in screened companies off of S&P 500, FTSE 100, CAX, DAX, and Nikkei, hence, an Islamic equity transaction hub are G20 countries.

### *Islamic funds*

Islamic indices are the DNA for Islamic funds. According to Lipper data, March 2010, there are 560 Islamic funds with total assets under management of \$37 billion, but only five countries represent 81 per cent of all funds: Malaysia (199 funds) followed by Saudi Arabia (146), Indonesia (44), Pakistan (35) and Kuwait (33). For Islamic funds to have the widest possible cross appeal and access, established investment vehicles like an Exchange Traded Funds (ETFs) are the need of the hour, but only 4 per cent (or 25) of all funds are passive and only 15 (2.6 per cent) are Islamic ETFs.

### *Murabaha*

It is estimated daily Murabaha transactions are about \$6-\$10 billion, and they are broker intermediated on the London Metals Exchange (LME). We have been hearing from some Malaysian bankers about 'leakage,' whereby Islamic moneys find themselves in conventional liquidity instruments. Thus, as a possible result of 'leakage,' Malaysia recently launched a commodity Murabaha platform, Bursa Suq Al Sila, but, to date, the GCC Islamic banks and subsidiaries/windows have not looked eastward to address their 'short' terms needs. Thus, short-term liquidity needs of Islamic banks are addressed in a G-20 country.

## *Sukuk*

Saudi Arabia launched a Sukuk and bond platform in 2009, although the uptake has been slow, the effort is to be commended as bank financing becoming challenging (collateral impact of crisis), Sukuk will play important part in long term financing in build-out of the economic cities, corporates, like Saudi Basic Industries (Sabic), becoming frequent issuers, and potential for Islamic mortgages bundled into listed asset backed Sukuk (when mortgage law finally approved).

But, today, a country hosted Sukuk platform may not be enough as syndicated Islamic loans and Sukuk private placement compete with public listing Sukuk. According to Thomson Reuters, Sukuk data includes:

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- Total Sukuk issues outstanding: 1546
  - Total outstanding value: \$130.7 billion
  - Total listed Sukuk: \$36.7 Billion
  - Total unlisted Sukuk \$94 Billion
  - Total Islamic syndicated loans: \$85 billion

It is well-known that supply constraint of Sukuk is hindering secondary market liquidity development, as most held to maturity accounts. Now, combine supply constraint to private placement of Sukuk (72 per cent) and use of (the efficient) Islamic syndicated loans, it means today a single Sukuk country platform becomes a challenge to attract secondary market liquidity.

## *The gateway*

The vision for Islamic finance transactions centres may be clear, but the roadway has not only domestic speed-bumps, but also nationalist pot-holes. In examining the decades of experience of conventional finance, a conclusion is a platform that is both neutral and has global reach will attract a global financial community for multiple price discovery, liquidity and transactions.

*The writer is Global Head of Islamic Finance at Thomson Reuters. Views expressed are his own and do not reflect that of his organization or of Gulf News.*

<http://gulfnews.com/business/opinion/where-is-the-hub-of-Shariah-transactions-1.649793>