

Islamic Finance



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GAIDAR FORUM 2015

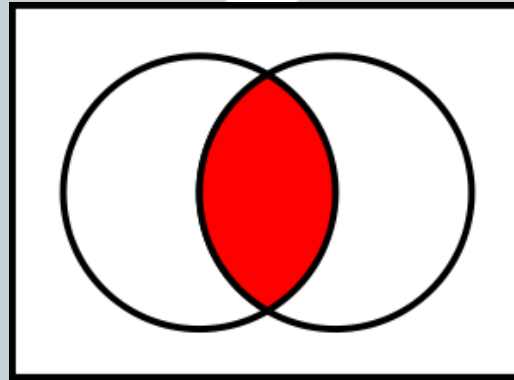


Misconceptions

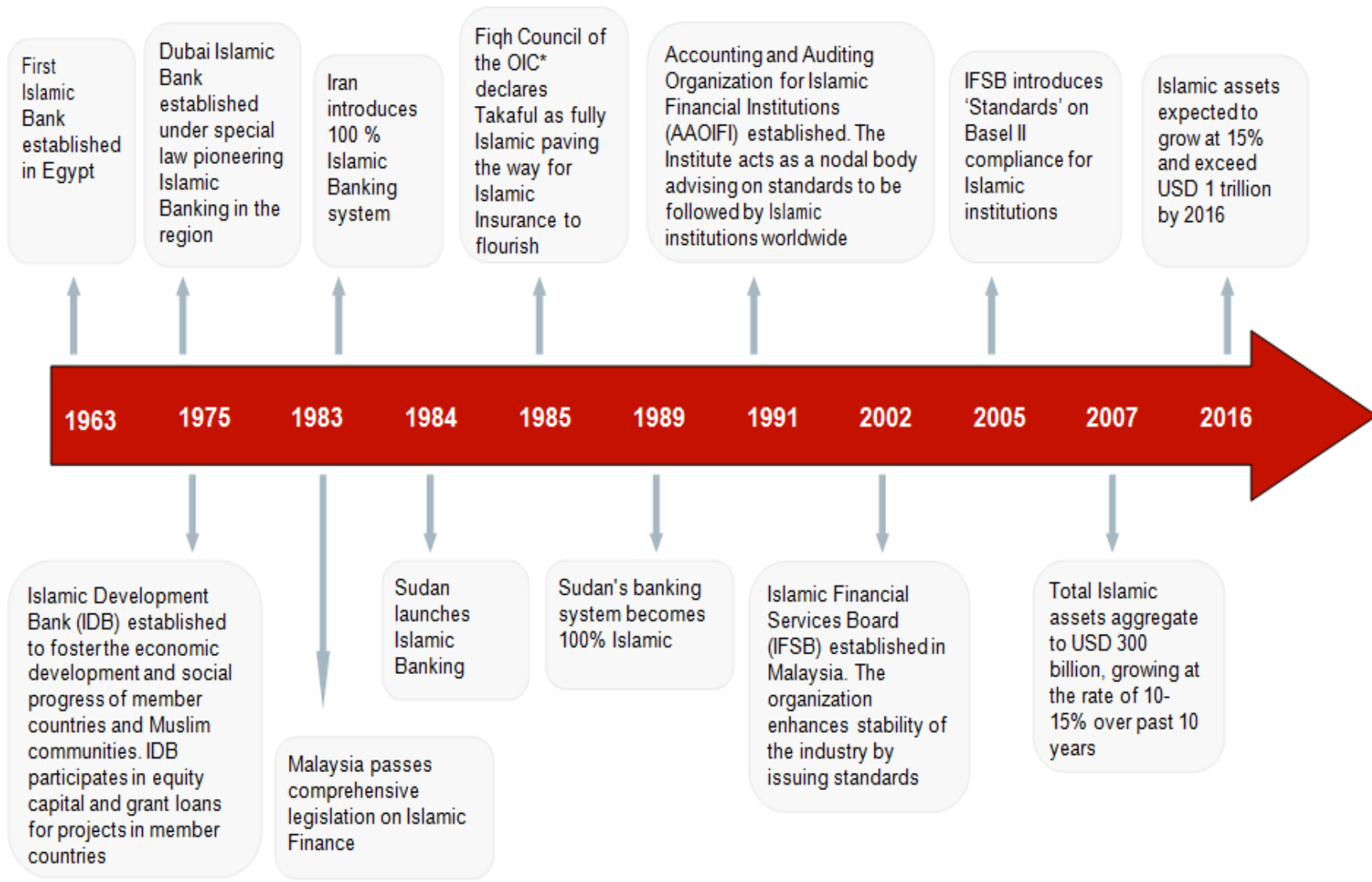


- Islamic Finance is only for Muslims
- Islamic Finance is not profitable because no interest is charged
- Islamic Finance is Oil-rich Middle Eastern Countries arrangement

Common principles between Islamic finance and traditional banking



- Same purpose: Financial intermediation
- Same Objective: Profit
- Successful Operation of Islamic banks has shown that financial intermediation is possible even without interest.



First Islamic Bank established in Egypt

Dubai Islamic Bank established under special law pioneering Islamic Banking in the region

Iran introduces 100 % Islamic Banking system

Fiqh Council of the OIC* declares Takaful as fully Islamic paving the way for Islamic Insurance to flourish

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) established. The Institute acts as a nodal body advising on standards to be followed by Islamic institutions worldwide

IFSB introduces 'Standards' on Basel II compliance for Islamic institutions

Islamic assets expected to grow at 15% and exceed USD 1 trillion by 2016

1963 1975 1983 1984 1985 1989 1991 2002 2005 2007 2016

Islamic Development Bank (IDB) established to foster the economic development and social progress of member countries and Muslim communities. IDB participates in equity capital and grant loans for projects in member countries

Malaysia passes comprehensive legislation on Islamic Finance

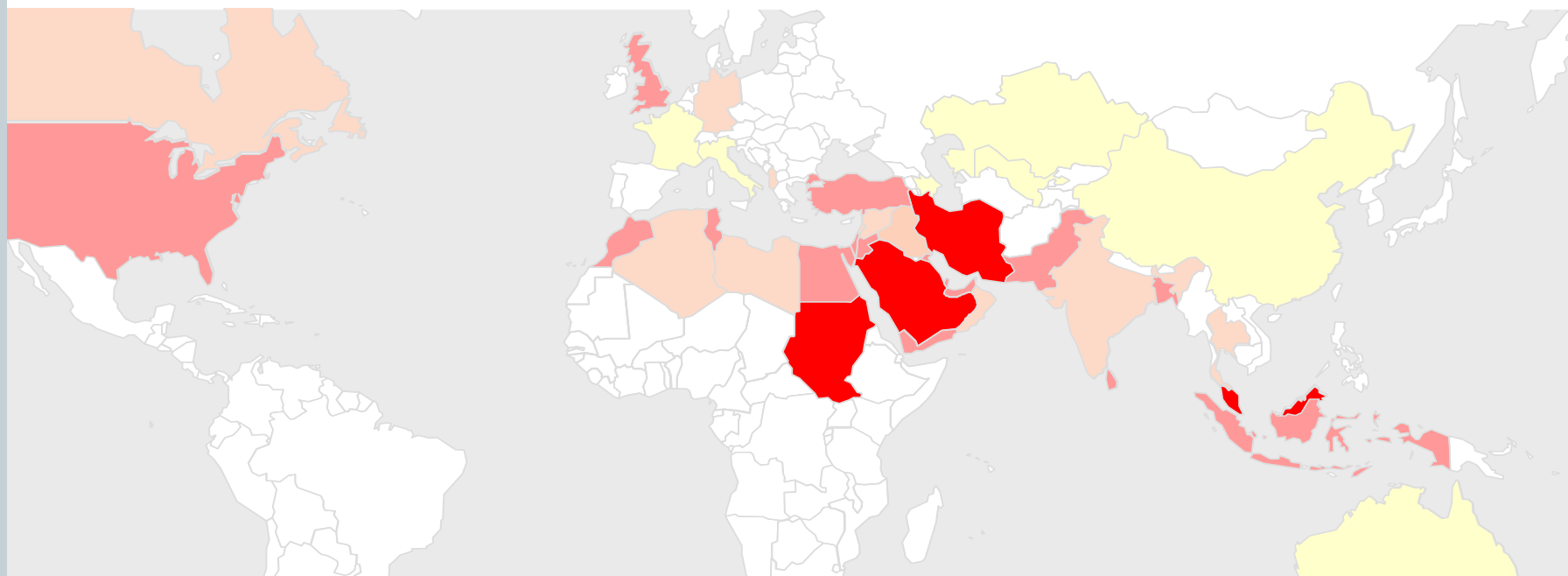
Sudan launches Islamic Banking

Sudan's banking system becomes 100% Islamic

Islamic Financial Services Board (IFSB) established in Malaysia. The organization enhances stability of the industry by issuing standards

Total Islamic assets aggregate to USD 300 billion, growing at the rate of 10-15% over past 10 years

Islamic finance industry is developing a global reach...



- Mainstream relevance**
- Niche presence**
- Engaging with regulators**
- Conceptual exploration**

Source: HSBC Amanah

What is Islamic Finance?



- Islamic finance requires all transactions to comply with Shari'a principles (Shari'a is the body of Islamic religious law).
- Islamic finance must observe a prohibition on earning interest (riba), on uncertainty/speculation (gharar) and investment in 'unethical' businesses, products or services (such as alcohol, tobacco, gambling)

What is Islamic Finance 2?



- Shari'a compliant products are typically backed by or based on an identifiable and tangible underlying asset;
- The investor and investee share the risk of all financial transactions.
- Under Shari'a law money is used to measure value and is not an asset in itself.



- Islamic finance has progressed tremendously from modest size of about US\$150 billion in mid-1990s. Over the past decade, it has grown by 14% p.a., despite global financial crisis, to an estimated US\$1.1 trillion in 2011. It is expected to reach US\$1.8 trillion by 2016.
- More than 600 Islamic financial institutions operating in more than 75 countries, offering a wide range of products and services.



- **Shariha –Compliant Equities:**
 - Dow Jones Islamic Market World Index has 2,510 component stocks from 54 countries with total market cap of USD17.7 trillion as at end-Aug 2012
 - Technology is largest sector (22%) followed by Oil& Gas (17%) and Healthcare (17%)
- **Sukuk (Bonds) USD243 billion outstanding as at end-June 2012 (source: IFIS)**
- **Islamic Funds:USD50 - 60 billion in NAV/AUM**

Facts & Figures – Evolution

Over the years the complexity of the products has increased

2005+

Commercial Banking

Project finance and syndications

Equity and Funds

Ijarah (Leasing)

Sukuk (Bonds)

Structured alternative assets

Liquidity management tools

2000's

- Commercial Banking

- Project finance and syndications

- Equity & Funds

- Ijarah (Leasing)

- Sukuk (Bonds)

- Structured alternative assets

1990's

- Commercial Banking.

- Project finance and syndications

- Equity

- Ijarah (Leasing)

1980's

Commercial Banking

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1970's

Commercial Banking

Overview of Islamic Finance



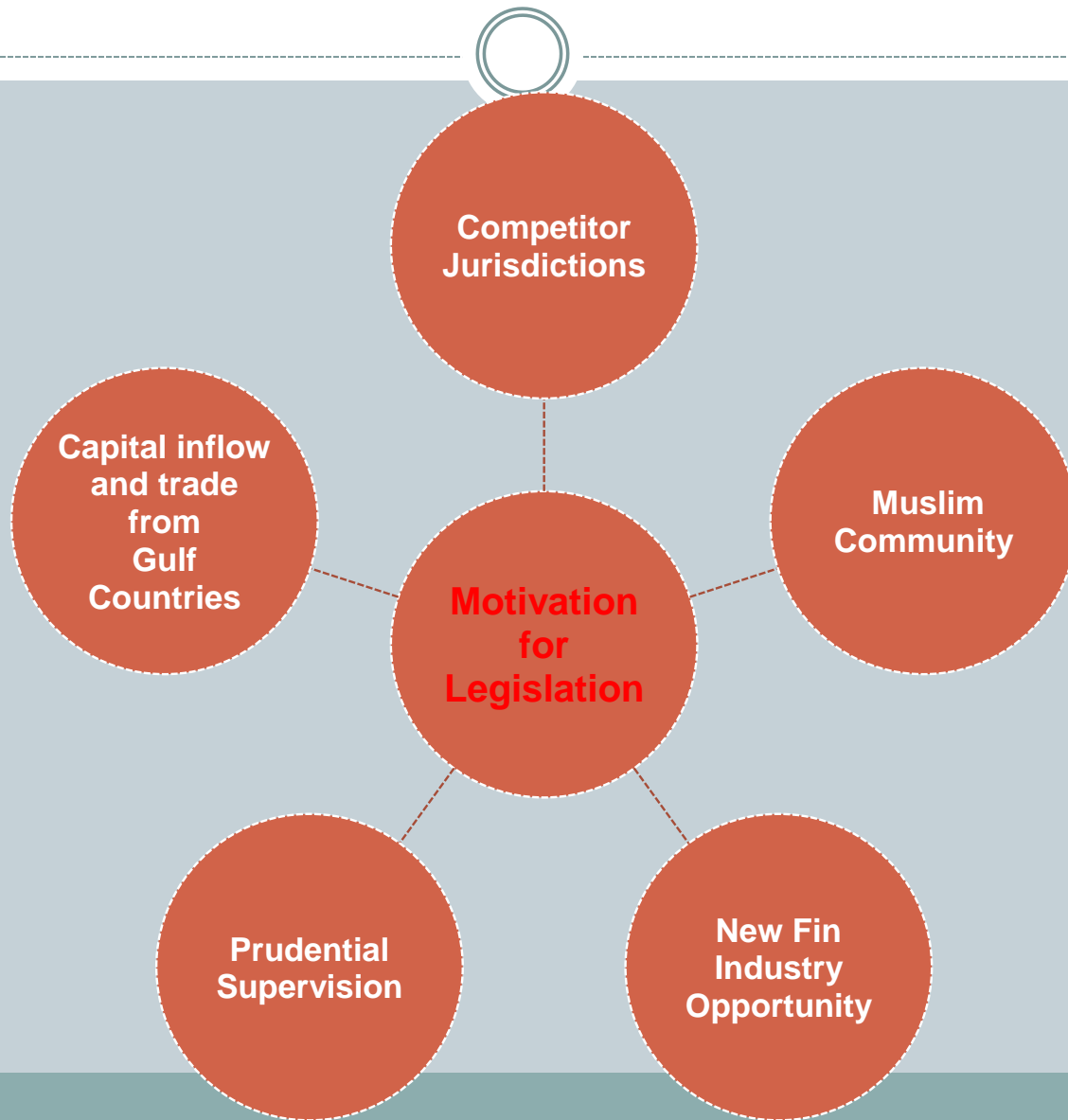
Middle East

Key
Islamic
Financial
Markets

South East
Asia

Europe

Motivation for legislation



World leading Finance Institutions



- **ABN-AMRO:**
 - Launched its first Islamic banking branch in Pakistan in 2007.
 - Launched the world's first Shariah compliant index-tracking investment product which was listed on the SWX Swiss Exchange in 2006.
- **Barclays:**
 - provides Islamic products in US, UK, Pakistan, Kenya and South Africa.
 - Introduces Islamic Mutual Funds
- **Citibank**
 - Established in 1996, the Citi Islamic Investment Bank operates in UAE and Bahrain
- **HSBC started its global Islamic finance services division in 1998. The division is headquartered in UK and has locations in US, Saudi Arabia, Malaysia, Bangladesh, Indonesia, UAE and Brunei**