

Malaysia is currently the leading global hub for Islamic finance, analysts say, with Indonesia, Pakistan, Thailand and Singapore competing along with Hong Kong. afp

Islamic finance demand to rise to \$4tn in 5 years

Islamic Banking News, UAE

DUBAI: Global demand for Islamic finance will surge to \$4tn within five years from the current \$400bn to satisfy investor appetite for new banking products and services, Standard & Poor's Corp said yesterday.

"Investors' appetite for Shariah-compliant vehicles is growing. The increase to \$4tn is a massive jump. It will happen in the medium-term, in the next three-five years," Torsten Hinrichs, a managing director at the international ratings agency, told Zawya Dow Jones at a company seminar in Dubai.

The growing trend for Islamic finance is supported by demand from cash-rich investors in the Persian Gulf seeking new investment opportunities in their home region, which is witnessing an economic boom fueled by record revenues from three years of high oil prices.

With new investment opportunities opening up in the Gulf, "significant volumes of money" are flowing back to the region, Hinrichs said.

This in turn is also driving demand for banking products and services compliant with Islamic law, or Shariah. New products and services are being made available by banks in the GCC states and Muslim countries in Asia and are increasingly becoming rival offerings to conventional banks, S&P said in a press release yesterday.

"The market share of Islamic banks currently stands at 12% in Malaysia and 17% in the six GCC countries. Retail banking services and issuance of Islamic notes, or Sukuk, have been and will continue to be frontrunners in the global Islamic finance boom," S&P said.

It said it expects the value of global Sukuk to hit \$100bn by 2010. "Mounting demand around the world for Shariah-compliant-financial products and services is fueling the Islamic banking industry's buoyant expansion," said S&P credit analyst Anouar Hassoune.

S&P yesterday also launched Shariah-compliant indexes tracking Gulf stocks in the Gulf states to capitalise on growing demand for Muslim investment products. - Dow Jones Newswires

The banking institutions must break into the Islamic finance industry in order to expand their businesses in the Middle East, where large-scale projects are in progress thanks to rising oil prices, an analyst was quoted as saying.

With the continuing surge in oil prices, the Islamic finance industry is expected to double by 2010 to 1 trillion dollars.

Hong Kong aims to become a world centre for Islamic finance

Uncategorized, Islamic Banking News, Hong Kong

HONG KONG: Hong Kong aims to become a world centre for Islamic finance, luring Middle Eastern investors keen to grab a slice of the booming Chinese economy, the city's financial secretary said Tuesday.

John Tsang said the southern Chinese city was ideally placed to help oil money from the Islamic world get access to infrastructure and other development projects in the mainland. "I believe Hong Kong can play an important role in generating new, reliable and potentially lucrative investment opportunities for this capital," he told a conference on Islamic Finance here.

The huge demand for capital in the mainland, in particular infrastructure projects, could be funded by Islamic bonds, or Sukuk, which are suited to such large-scale investments, Tsang said.

"Hong Kong can be expected to play a significant role in structuring and financing Islamic investment products to meet the needs of mainland borrowers," he said.

Tsang said the city's financial institutions had already begun work on making sure the legal and taxation systems will allow products compatible with Muslim laws.

He added some banks had already started creating products to try and secure part of the worldwide market, which has swelled in recent years to between 700 billion and a trillion US dollars on the back of high oil prices.

Hong Kong's Chief Executive Donald Tsang announced in his policy address last year that developing Islamic banking would be a priority for the territory. He will make a trip to Kuwait, Saudi Arabia and the United Arab Emirates next week to try and drum up business.

It also guarantees that funds will not be invested in certain industries, such as those involved in alcohol or gambling, which are prohibited under Islam.

There are around two million Muslims in the UK and around 100,000 Muslim firms, many of which regularly make or receive international payments through the 250 Islamic banks worldwide.

Diana Brightmore-Armour, chief executive of corporate banking at Lloyds TSB, said: "Lloyds TSB has established itself as one of the leading providers of Islamic finance across the UK. But we are now seeing a rising demand, from Muslim businesses and personal customers, for Islamic banking across borders.

"We've designed this account to help the growing number of Islamic banks across the world, which deal with our customers' transactions.

"We're providing the missing link in the chain, so now any person or business receiving payments from abroad into their own Islamic account knows the money will be dealt with according to Islamic law, from start to finish."

The new account is the latest in a series of Shariah compliant products launched by Lloyds TSB in the past two years, including a current account, business and corporate account, a mortgage product and an investment fund.

Japan's megabanks tap into Islamic finance business

Islamic Banking News, Japan

Tokyo - Japanese megabanks are trying to increase their presence in the Islamic finance industry, Japanese media reports said Tuesday.

Bank of Tokyo-Mitsubishi UFJ has invested in Malaysian investment bank CIMB with a 30-per-cent share in the global business of issuing Islamic bonds, or Sukuk.

Another Japanese financial giant Sumitomo Mitsui Banking Corp helped finance construction of oil refineries in Saudi Arabia in 2006 and Kuwait last year as part of its strategies to tap Islamic finance for investments in petrochemical plants and large-scale projects in the Middle East, Jiji Press said.

October as defaults on subprime mortgages triggered a credit crisis that threatens to tip the U.S. economy into recession.

By contrast lenders in the Gulf and Malaysia, the global hubs of Islamic finance, have barely reported any subprime related losses. Bahrain-based Arab Banking Corporation ABCB.BH, a conventional lender which has an Islamic arm, on Sunday reported a 38 percent fall in 2007 net income on subprime writedowns.

"From the financial results, we have not had any kind of indication that there have been any damages to the balance sheets as a result of this."

"This does not mean that Islamic finance is risk free. We still have some concern about the concentration of risk ... There is a lot of focus on real estate," Maraj said, adding that tools to allow Islamic lenders to hedge risk should be developed.

The subprime crisis could provide the Islamic banking industry with greater opportunity for growth, both from conventional retail customers looking for an alternative, and also from the collapse of Western asset prices.

"Maybe Islamic banking will be a safe bet for them," he said.

"I think opportunities exist in the United States and Europe as a result of this financial distress. The high valuation of the assets will come down."

Islamic transfer scheme launched by UK Bank

Lloyds TSB has launched a new bank account that enables Muslims to transfer money around the world without breaking the rules of Islam.

The group claimed its Islamic Nostro Account was the first of its kind to be offered by a mainstream Western bank. When individuals and businesses send money to other countries the funds are passed through a Nostro account.

The Lloyds TSB account is designed to comply with the principles of Shariah law, and it does not pay interest on any money held in the account and does not offer an overdraft facility.

Complicating matters is the lack of a globally accepted qualification as a sharia scholar, just as there are no globally accepted standards for sharia rules, which are to some extent open to interpretation.

Illustrating this, the head of sharia structuring at one of the world's largest banks, who spoke on condition of anonymity, disagreed with Dahlawi on what it takes to be a scholar.

He said it was better for students to learn through apprenticeships with scholars who can trace their learning to Islam's roots.

"I don't care whether they have a PhD or not," he said. "The way traditional Islamic teaching has been handed down is not through certificates or degrees. You need to trace your teaching back to the Prophet. It's a lineage of understanding."

Islamic banks shielded from subprime

Islamic Banking News, Malaysia, USA, Bahrain

Islamic banks have been largely shielded from the U.S. mortgage crisis, which may even open doors for expansion beyond traditional strongholds in Arab and Asian markets, Bahrain's central bank governor said.

Islamic banks should have shunned collateralised debt obligations linked to subprime, or high risk, mortgages because such complex instruments do not comply with Muslim law, Rasheed al-Maraj told the Reuters Islamic Finance summit on Monday.

Islam bans lending on interest and trading of debt. Scholars vet every stage of a transaction to ensure compliance with sharia, or Islamic law, making it unlikely that risks were lurking in the balance sheets of unsuspecting lenders, he said.

"In Islamic banking, there is no black box that needs a genius to unwind it," Maraj said. "Many of these conventional products that have been under stress lately are very complex and need special risk management tools

"In Islamic banking you will not have this kind of thing. Some of these products would not be sharia accepted."

Global conventional banks from Citigroup to UBS have written down more than \$80 billion (40 billion pounds) in credit market losses since

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Bank, BNP Paribas, Dow Jones, Lloyds TSB, Citi Bank, Standard Chartered and others.

He is also a board member of the Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions, one of the world's top Islamic finance standards bodies.

In Britain — the most active European market in the Islamic banking scene — the Financial Services Authority watchdog in November highlighted possible "significant" conflicts of interest in that concentration of expertise.

"The shortage of appropriately qualified scholars ... raises concerns over the ability of sharia supervisory boards to provide enough rigorous challenge and oversight," the FSA said in a report on the industry.

Last month the London-based Chartered Institute of Management Accountants said the rapid growth of Islamic banking had fuelled a need for both Muslim and non-Muslim financial experts, and it hoped to set up both a diploma and perhaps a master's degree in conjunction with a university.

However, being considered a scholar skilled enough to advise on deals sometimes worth billions of dollars is not easy.

Scholars must be expert in Islamic law and Islamic banking, but also have a thorough knowledge of conventional laws and banking systems, which requires a high standard of English.

Even then, a scholar will only be taken seriously after years of experience, according to many of the delegates at a Bahrain conference on Islamic banking in December.

"You can learn the technical aspects relatively quickly," said Mansoor Ahmed, a sharia student. "But it's not as easy as that. It does take 15 or 20 years. It requires a lot of experience ... mere knowledge will mislead."

Yasser Dahlawi of consulting firm the Shariyah Review Bureau, which advises companies on sharia compliance, said scholars need at least a doctorate and a decade's experience.

YOU SAY YOU'RE A SCHOLAR?

☆ امام اعظم ابوحنیفہ رحمۃ اللہ علیہ کا سن ولادت ۸۰ ہجری اور سن وفات ۱۵۰ ہجری ہے ☆

most respected sharia scholars, told Reuters. "This industry is growing phenomenally."

Some sharia experts say it may take more than a decade to train more scholars and even the optimistic ones do not expect a new generation of scholars for at least five years.

"The industry can't wait that long," said David Pace, chief finance officer at Bahrain's Unicorn Investment Bank. "Two to three years is about enough ... The lack of scholars does not mean the industry is paralyzed but it slows down development."

Established in 2004, his bank is one of several Islamic lenders set up to tap rising demand from the world's 1.3 billion Muslims for financial services that comply with their beliefs.

Instead of interest, Islamic banks operate on the principle of sharing risk and reward among all parties in a business venture. Murabaha, for instance — the instrument on offer at the Auto mall — involves the bank buying a car and selling it to the customer for a stated profit, with payment deferred. Investment in sectors such as alcohol, pornography and gambling is prohibited.

Scholars are essential for the supervision of the industry, but a handful currently dominate the Islamic review boards at the world's top banks and financial institutions.

There is a lack of consensus on what qualifications and experience are needed for the role, and some experts ask whether the shortage could lead to conflicts of interest and inadequate supervision.

"These bankers think the wombs of mothers are going to deliver graduated sharia scholars. I tell them you have to take steps," Yaquby said.

Yaquby, who has been involved in Islamic teaching since 1976, estimated there were roughly 50 to 60 scholars in the world qualified to advise banks operating internationally on Islamic law. Ten times as many are required for the Middle East alone, he said.

SCHOLARSHIP NOT EASY

Like most scholars, Yaquby divides his time among several banks. One of them, HSBC, lists advisory roles for him at Abu Dhabi Islamic

The Worldwide

Islamic Banking, News and Views..

As Islamic banks boom, scholars are hard to find

By Mohammed Abbas - Reuters (Editing by Sara Ledwith)

The green-fronted Kuwait Finance House Auto mall on Bahrain's main showroom highway is a bank that sells cars.

Here, the motorist can pick the model that takes his fancy and, at the same time, fix up the Islamic financing and Islamic insurance to buy it — a sign of the rate at which Islamic banking is growing.

Opened in June last year to meet rising demand in the oil-rich Gulf archipelago, the bank offers murabaha-based purchase plans, a method of Islamic financing that lets customers buy automobiles without taking an interest-based loan.

As traditional Western bankers count the cost of a reckless lending spree, Islamic banking — which complies with Islam's law banning the receipt of interest — is surging. Estimated by some experts to be growing by about 15 percent a year, the sector has been forecast by management consultants McKinsey & Co to reach \$1 trillion in assets by 2010.

Even as new bank branches pop up almost daily in Bahrain — a hub for banking in the Gulf and home to one of the sector's most influential standards bodies — some bankers are worried.

Their concern is that the training of scholars essential for the Islamic banks' supervision may not be able to keep pace.

A small group of usually-robed and bearded Islamic scholars — experts in Islamic law, known as sharia — holds sway over the booming bank sector, and some in the industry wonder whether their expertise is being stretched too thin.

"There is lots of growing interest and we have many more sophisticated sharia scholars who are graduating now, (but) it's not growing fast enough to meet demand," Sheikh Nizam Yaquby, one of the world's

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