

# Modern Islamic Finance

**Seminar at the National Council of US-Arab Relations  
Islamic Finance and the Global Economic Crisis**

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9:00 – 11:30 a.m.

***The Rotunda Ballroom, The Ronald Reagan Building, Washington DC***

by

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# A Unique Financial system

- “Islamic Finance is the only example of a **financial system** directly based on the ethical precepts of a major religion, providing not only investment guidelines but also a set of unique investment and financing products.”

# Origins

- God did not say, “Build Me a bank.”
- Modern Islamic Finance grew from the post-WWII quest for Muslim identity
- Islamic Finance is not a competing “ism,” but simply finance subject to another regulatory authority
- Shariah as a principles-based legal system is capable of development and subject to interpretation

# the Basics

- **Money is a measure of value**
  - not a commodity
- **Debt is a responsibility**
  - not to be traded
- **Finance aims at the creation of real goods and services**
  - No notional constructs or exchanges
- **Participatory Finance**
  - Interested rather than “Disinterested” Finance
  - Not based on lender-borrower relationships
- **Risk and Reward Sharing**
  - Partnerships Encouraged... all kinds



# AN Alternative

- **Islamic banks do not lend money**
  - What about the NIM?
- **Islamic investment funds do not invest in bonds**
  - How are portfolios balanced?
- **Islamic treasuries do not invest in T-Bills, CDs, or money markets**
  - What about liquidity and risk management? ... the regulators?

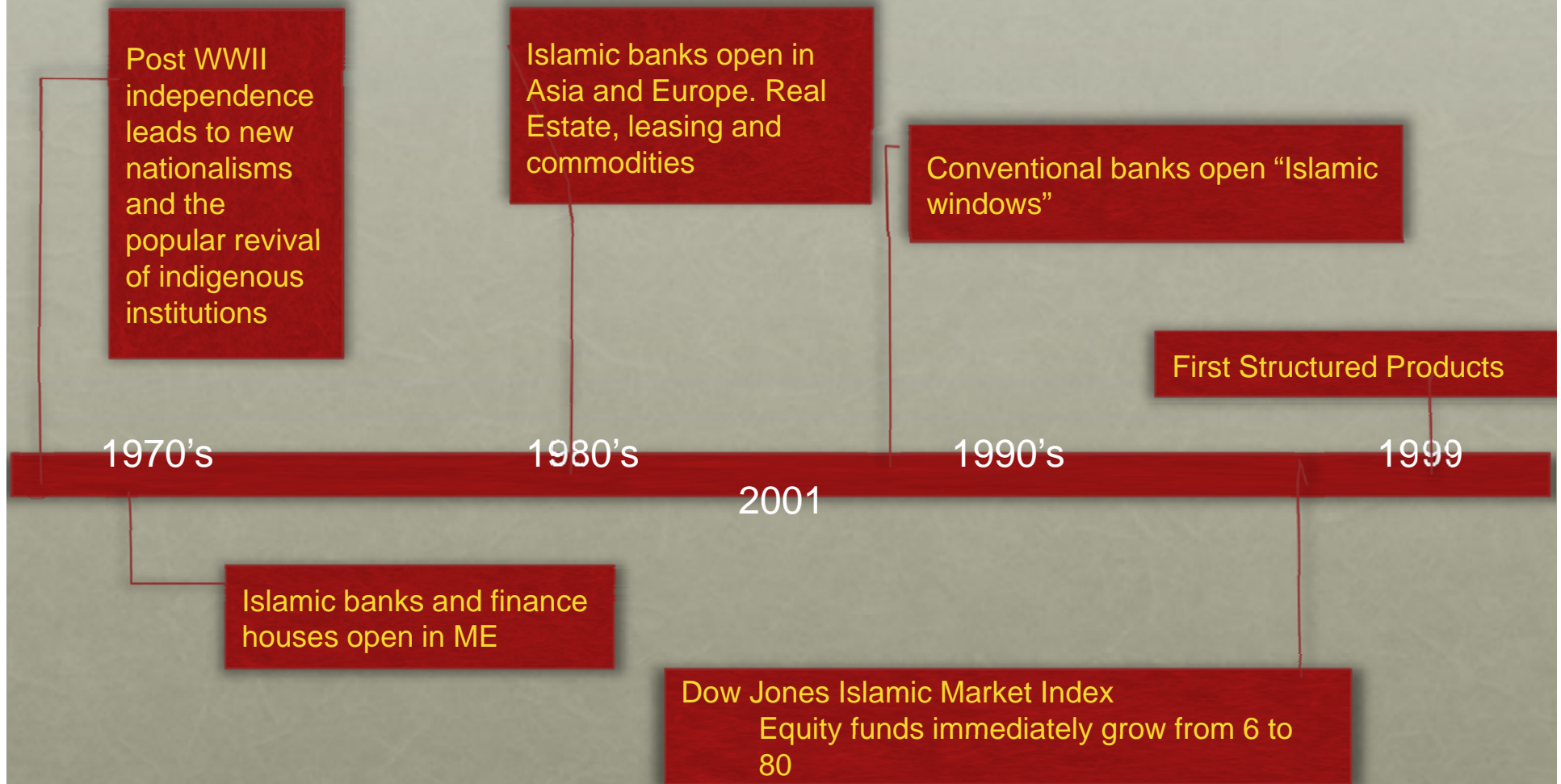
# Making it Work

- Conception
  - Collaborative effort between business, legal and Shariah teams throughout product lifecycle
- Development
  - Adapting classical Islamic contractual models
  - Conversion of conventional products
    - Similar market with similar demands
- Certification
- Oversight of ongoing operations
  - Increased Transparency

# Shariah Supervision

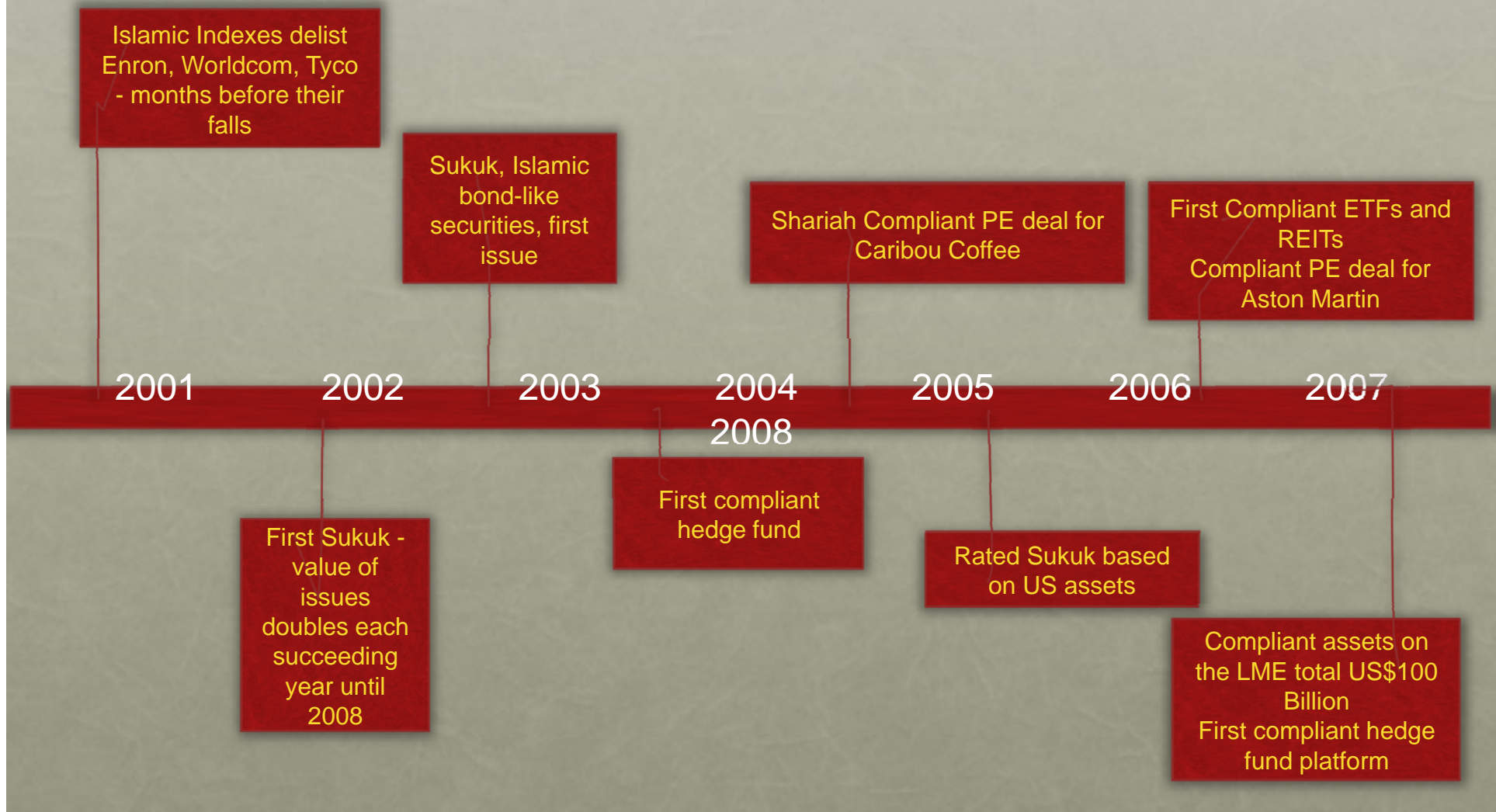
- **Purpose:** Credibility and Authenticity
- **Function:** End-to-end lifecycle oversight with adherence to international Shariah Standards
- **Composition:** Shariah scholars w/specializations
  - Three scholars at least
  - Selection criteria
    - Local, regional or international representation
    - The Wall Street Shaykhs
      - Working the network
- **Popular Option:** Shariah Advisory Firms
  - Choose-n-chase or plug-n-play

# Modern Islamic Finance





# to the Present



# Sukuk stats & Facts

- In 2007 the global market doubled to exceed US\$60 Billion
- By 2010 the global market will exceed US\$100 Billion
- Sukuk are global, attracting issuers worldwide
- Growth is fueled by investment and development needs in the Gulf and Asia
- When present credit market conditions are corrected, Sukuk will return to double digit growth
- No secondary market as yet as all sukuk are oversubscribed by investors who buy and hold



*Source: Standard & Poors Report on Sukuk 2007*

# Investment Fund FACTS

- Assets held by Muslim investors exceed US\$1.6 Trillion
- By 2010 that number will rise to US\$2.7 Trillion
- Annual revenue pool for Islamic asset management will exceed US\$2 Billion in 2010
- Islamic Funds will grow from 500 in 2007 to 950 in 2010
- Key markets remain underpenetrated

*Source: Ernst & Young Islamic Funds and Investments Report 2008*

# Performance?

- Dow Jones Islamic Indexes have grown from one index in 1999 to over 75 today
- First Islamic Hedge Fund Index launched in Jan 09
- Today FTSE, S&P, MSCI all have Islamic indexes
- No Bear Sterns, Lehman, Wachovia, or any other bank or insurance company to drag down the NAV
- Morning Star ratings; Lipper, Raging Bull Awards



# Credit Crisis?

- Subprime home financings? No, but...
- CDOs? No, but...
- Derivatives? No, but...
- Leverage? No, but...
- Madoff? No, but...

# Vulnerabilities

- Over exposure to real estate and commodities
- Lack of diversification
- Lack of tools for risk management
- Over dependence on conventional sources of credit

# Opportunity

- To learn from our own mistakes and those made by others
- To share our experience... Sukuk
- To rethink the goals of Islamic Finance and focus on the ways and means of achieving them
- To emphasize the moral and ethical aspects of business and finance
- To develop the human resources necessary for real progress

# Thank You

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