



THE PULL OF ISLAMIC FINANCE

Islamic asset management is attracting global attention for its ethical value that encourages optimal use of economic resources.

BY 2020, there will be about 2.5 billion Muslims worldwide. But while Islam may be the fastest-growing religion, the investment needs of Muslims have not been fully met.

More is expected of Islamic asset management. The market, while still in its infancy, is already growing at a phenomenal rate of 15-20% per annum.

Regional banks like CIMB Group are setting up Islamic teams abroad. CIMB Islamic teams in Singapore, Brunei, London and Bahrain are attaining accolades for their deliverables.

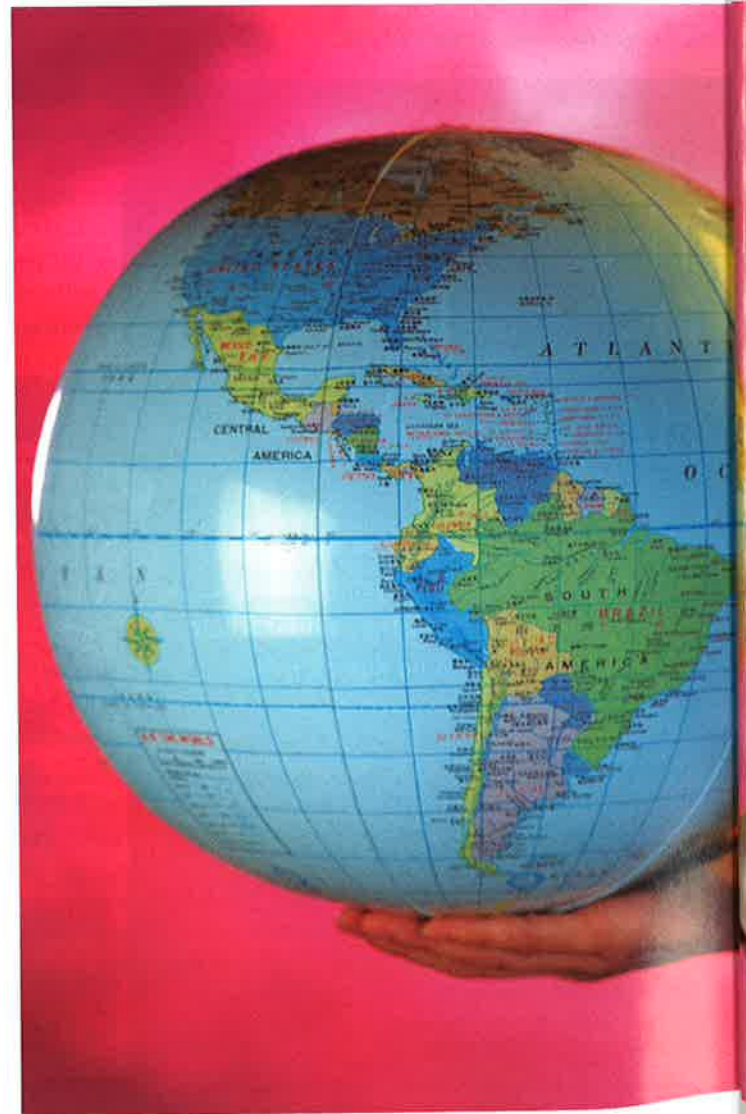
But what we are seeing now is merely the tip of the iceberg.

The rapid growth of the industry can be attributed to three key factors: the 9/11 incident, the consistent surge in crude oil and natural gas prices since 2008 and the recent steady depreciation of the US dollar.

In the past, the United States was the primary market for investors from the Gulf States. However, the 9/11 incident has resulted in a re-evaluation of their diversification strategies. The incident has turned Middle Eastern investors away from the US market, causing them to shop around for new investment opportunities. Their focus has shifted to markets in Asia and Europe.

Oil wealth has revolutionised the global fund management business. The high price of oil has brought about social and economic change to investment behaviour. Influential families based in the Gulf Cooperation Council (GCC) states control more than US\$3.8 trillion.

Unlike in the West, families can hold political and economic



power in this region and authority is given to a sole central family figure. It is this individual that makes all the investment decisions.

While this trend is expected to continue beyond 2009, excess liquidity, from the perspective of Middle Eastern investors, needs to be utilised efficiently beyond their traditional fund houses in the US. Islamic asset management now gives these investors an ethical and shariah-compliant choice.

On top of this, the US government has allowed its currency to depreciate. This was done to make US exports cheaper to the rest of the world and help the US weather the current financial storm.

However, the depreciation of the greenback has made US-denominated assets relatively less attractive to investors. More importantly, GCC countries have started to shift their investment to be shariah-compliant.

In the past, surplus liquidity from the rise in the oil price had led to a bull run across equity markets in the GCC countries. In 2003 and 2005, price-earnings ratios became distorted, and a significant correction was obvious to the astute investor.

The inevitable downturn came in the first quarter of 2006 with the Gulf markets losing almost half of their value over the remainder of the year. Due to the equity boom from 2003 to 2006, investors in the GCC were very GCC-centric. Market capitalisation in Saudi Arabia, the largest equity market in the

Islamic world then, was badly affected.

However in recent times, the Gulf economies have been resilient in the face of the global economic crisis. Gross Domestic Product (GDP) growth in Saudi Arabia for 2010 is estimated to be 4.1% while the United Arab Emirate's GDP growth for 2010 is forecasted to be 3.7%.

Due to this recovery, the leaders of Dubai have aspirations to transform it into the Islamic gateway to the Middle East market. This has led to heavy investment in infrastructure to resemble Canary Wharf of London. Investors have called Dubai 'the London of the Middle East'.

This investment in infrastructure reflects the traditional preferences of Middle Easterners to invest in properties. However in recent times, even this is changing and many Middle Easterners have started to invest in public investment instead of private equity.

Whilst they have slowly and surely taken new interest in public investments via equity and bond markets, there have been tie-ups by Middle Eastern investment houses with global houses. Its sole objective is to build and transfer investment skill-sets and re-engineer them into Islamic talents within the Middle East.


The GCC states are consciously developing their knowledge in Islamic asset management. In the interest of transfer of knowledge, there are occasional strategic tie-ups between investment houses in Dubai, Abu Dhabi, Bahrain, Kuwait and Riyadh with global investment houses like Goldman Sachs, UBS, Blackrock and Templeton.

The market for Islamic assets is not limited to extremely wealthy investors from the Middle East. Roughly 23% of the world's population is Muslim and their preferences are encouraging providers of Islamic funds.

Another factor that has propelled Islamic asset management into the mainstream is increasing interest from non-Muslim investors, a trend that is clearly evident in Malaysia, Indonesia, Japan and London.

In August 2009, Petroliam Nasional Bhd issued a five-year US\$1.5 billion sukuk. The breakdown of investors for the sukuk, which was 6.28 times oversubscribed, are: 47% from Asia, 27% from Europe, 13% from Malaysia, 7% from the Middle East and 6% from Japan.

The high subscriptions from Europe and Japan reflect a recent trend where more and more non-Muslim countries are favouring Islamic finance. They are attracted to Islamic asset management not for its religious underpinnings but because it represents an ethical choice that encourages optimal use of economic resources.

The Islamic asset management industry has come of age. After being in the market for four decades, it has shown formidable progress in the last five years. No other financial industry, market or jurisdiction in the last decade has experienced such a remarkable 'gravitational pull'. 



The writer is chief executive of CIMB-Principal Islamic Asset Management Sdn Bhd.