

## SECTION 3: INDUSTRY SPOTLIGHT

The Islamic Financial services industry is growing at a phenomenal rate. What emerged as a niche industry has now pervaded almost every major financial market in the world. Markets are seeking to introduce Islamic products in various forms as either Islamic Finance, Shari'a-Compliant Finance, or even Alternative Finance, but whatever title is used, it is without doubt one of the fastest growing financial sectors in the world.

Banking Industry	<ul style="list-style-type: none"> <li>• The total size of the Islamic Banking industry is currently estimated to be USD 800 billion to USD 1trillion, and an estimated global potential of USD 4 trillion.</li> <li>• Growth rate is 15%-20% per annum</li> <li>• Within the next 8-10 years, the Islamic banking industry is estimated to capture half of the savings of the worlds 1.6 billion Muslims.</li> </ul>
Funds	<ul style="list-style-type: none"> <li>• Assets under management in Islamic Funds are estimated to be between USD 50 billion to USD 70 billion.</li> </ul>
Sukuks	<ul style="list-style-type: none"> <li>• The total value of sukuks issued to date is valued at USD 88 billion. USD 13 billion worth of which are listed on the DIFX.</li> <li>• 44% of the total sukuks issued originated from the GCC in 2007.</li> </ul>
Takaful	<ul style="list-style-type: none"> <li>• Global Takaful contributions are currently estimated to be approximately USD 4.3 billion and estimated to reach USD 7.4 billion by 2015.</li> </ul>
Worlds Muslim population	<ul style="list-style-type: none"> <li>• Middle East and North Africa <ul style="list-style-type: none"> <li>- 204 million Muslims</li> </ul> </li> <li>• South East Asia <ul style="list-style-type: none"> <li>- 16 million Muslims in Malaysia</li> <li>- 195 million Muslims in Indonesia</li> </ul> </li> <li>• Sub-continent <ul style="list-style-type: none"> <li>- 439 million Muslims in India, Pakistan and Bangladesh</li> </ul> </li> <li>• Other <ul style="list-style-type: none"> <li>- 16 million Muslims in UK, US, Germany and France</li> </ul> </li> </ul>
<p>*Figures courtesy of HSBC Amanah , S&amp;P, EurekaHedge Data 2007, Islamic Finance News, ICMIF, IFIS, Grail Research</p>	

## **Challenges and opportunities ahead for Islamic Finance**

The global financial system has seen the rise of Islamic Finance. As it approaches its fourth decade, the Islamic financial services industry has spanned across the globe – reaching into Islamic and non-Islamic jurisdictions, as well as secular and secular Islamic jurisdictions.

There are clearly a number of potential challenges facing the industry, including innovation, standardisation, and streamlining.

### **Need for innovation**

The Islamic financial services industry has taken great strides in offering competitive products to its customers, vis-a-vis their conventional counterparts. However, for an industry which is approximately four decades old, there is so much more potential to be uncovered. Innovation is needed both in terms of what is offered to customers, but also from a liquidity management perspective. There should be more innovative structures for short term liquidity, for example the current reliance has been on commodity Murabaha, which led to use of the ‘controversial’ Tawarruq structures.

Other alternatives should be introduced into the market, in many areas of Islamic Finance, including short term Shari’a compliant liquidity, such as short term Sukuks. However, it is important to ensure that such innovation remains in keeping with the underlying principles of Shari’a. It is therefore essential, at this next phase of development for Islamic finance, that the industry, both Islamic and conventional, understands that Shari’a-compliant finance has a legitimate purpose and is not just an artificial alternative to conventional finance. Innovative structures, although necessary to the next stage of development, should remain in line with the spirit of Shari’a.

### **Standardisation**

Standardisation in Islamic finance would inevitably reduce some of the costs and time faced by financial institutions offering Shari’a compliant products. To achieve this, there would need to be standardisation, or at least an agreed set of fatwa’s issued by Shari’a scholars, in respect of financial transactions.

Although standardisation of fatwa’s would not alleviate the differences across the Schools of Thought, it would at least provide some indication of what structures would be acceptable from a Shari’a perspective.

To begin to aid the industry, some jurisdictions collate fatwa’s issued in

their market which can act as a useful aid to those structuring Islamic financial transactions.

Collation of fatwa's may also facilitate innovation in the industry, particularly if there is a general understanding of how basic transactions should be structured. Innovative concepts could then be introduced and discussed with the Shari'a scholars.

The work of the IFSB and AAOIFI is important in not only encouraging and facilitating standardisation, but in raising the international profile of Islamic finance.

### **Regulatory streamlining**

To aid the growth of the Islamic financial services Industry, greater streamlining and co-ordination of regulatory requirements may facilitate the growth of the industry.

The DFSA entered into a mutual recognition arrangement with Malaysia for the cross border flow of Islamic funds. This initiative was recognised in November 2007 with the award for Best Regulator being awarded jointly to the DFSA and SC, Malaysia.

This arrangement itself has much potential, including providing a model for other jurisdictions or be furthered by a full 'passporting' arrangement, similar to that operating across Europe for Islamic funds across the MENA region which could present a unique opportunity for the industry.

### **Opportunities**

Although there are key challenges facing the industry, the opportunities, at this juncture are endless. New products are being structured continuously, from Shari'a-compliant hedge funds based on Arboun and Salam structures, to Shari'a-compliant ETFs and REITs. There is also a growing interest in providing Shari'a-compliant finance at a micro level through the structuring of certain Islamic contracts into models for Shari'a-compliant microfinance.

The DIFC, as indicated in this document, is promoting the importance of Islamic finance and has already put in place a framework conducive to its development.

These are just the foundations and much more can be done for the sustainable development of the Islamic financial services industry. As a financial centre, the DIFC has clearly indicated its ability and its commitment for it to become the centre of excellence for Islamic finance.