

Growth & Development of Islamic finance via Conventional Institutions?

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Presentation Overview

- **Niche Market Participation**
- **Why Interested?**
- **Immediate Commitment**
- **Stakeholder Replies & reaction**
- **Continued Commitment**
- **Lessons Learned**



Stages in Islamic Finance

Stage One	Stage Two	Stage Three	Stage Four	Stage Five
Concept	HNR & Retail	IFI	Reach & Breadth	Goal
Russia, Singa. S.Africa, Hong Kong Nigeria	Oman, Algeria, US, UK, Canada	Brunei, Turkey, Pakistan, Qatar, Indo.	Bahrain, Malaysia, Saudi, Kuwait, UAE	Reg., Shari'ah Central banks, etc.

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Players & Products Timeline

Stage One 1970-1980	Stage Two 1980-2000	Stage Three 2000 Plus
IDB, DIB, DMI, Dallah	Citi, WMC, Dow Jones, FIIB, SEDCO, HSBC, ADIB	Islamic Windows & Subs & Divisions
Short term, trade, low value added	Funds, indexes, isitisna, salam, etc.	VC/PE, Bonds, MM, Infra., etc.

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Niche Market Participation

- **Involvement since 1980s**
 - Englehard, Kleinwort Benson, Citi, Abn-Amro, CSFB, J. Aaron, Ford, Exxon, etc.
- **HNW and Institutional**
 - Community based initiatives in west
- **Deal flow Direction**

Niche Market Participation

- **Presentation Not About;**
 - **Islamic Windows or divisions**
 - Requirements
 - **Conversions**
 - NCB (Saudi), Nat'l Bank of Sharjah (UAE)
 - **Shari'ah Issues**
 - SSB, personal, training, Chinese walls, co-mingling, etc.

Sample of Conventional Firms

- **Law firms**
 - King & Spalding, Clifford Chance, Stephenson Harwood
- **Accounting firms**
 - Ernst (Bahrain)
- **Private Equity & Venture Capital**
 - Maplewood Partners, Nevis, CSFB
- **Management Consultants**
 - McKinsey (TII/Albaraka Merger)

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Sample of Conventional Firms

- **Investment banks (mandate driven)**
 - Goldman, ML, JP Morgan, Lazard, Pic Tet, UBS, Nomura, etc.
 - Exception: Permal/SEDCO (Al-Fanar)
- **Commercial banks**
 - Citi-Islamic, HSBC-Amanah, NoRiba
 - Application to be submitted in UK
- **Hedge Funds**
 - Shari'ah Funds

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Growing & Diversifying The Niche Market

- **Islamic Banks**
 - Country/Regional
 - Murahaba (80-85%)
- **Muslim Country Bank Branches in the west**
 - Affinity with conventional products
- **Community based initiatives**
- **Deep pocketed Muslims in west**
- **Western Institutions**

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Why (Should Be) interested?

- **Internal, External or news related**
- **Existing markets saturated**
- **Demographics**
 - **US, UK, & Canadian Muslims**
 - Better than most Muslim countries
 - Favorable regulatory infrastructure
 - Credit profile of customers
- **Physical presence in Muslim countries**
- **Scholars involved?**

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Why (Should Be) interested?

- **Examine Community based initiatives**
 - Capital issues
 - Trust
 - Marketing & PR
 - Regulatory compliance (UBK & OCC rulings)
 - Training, personnel, service/support, etc.
 - Distribution
- **Conventional players involved?**
 - Where involved?
 - Entry barriers

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Why (Should Be) interested?

- **How Add Value?**
 - **Citi-Islamic (1996 Bahrain)**
 - M. Shroogi
 - **Dow Jones Islamic Indexes (1998 US)**
 - **FTSE (1999 UK)**
 - TII
 - **HSBC-Amanah (1999 UK)**
 - Zarir Cama, Iqbal Khan
 - **UBS' NoRiba (2002 Bahrain)**
 - Ismail Dadhboy

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Why (Should Be) interested?

- **Islamic Mortgages in US**

- **Community Based initiatives (1980s)**

- LaRiba --> Freddie Mac
- MSI
- Ameen Housing
- Samad Group

- **Foreign Bank Branch**

- UBK's Al-Manzil

- **institutional**

- HSBC-Amanah (2002)
- Guidance Residential (2002)

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Why (Should Be) interested?

- **Islamic Equity funds in US & UK**

- Amana (1986 \$37M AUM)
- Allied (2000 \$17M AUM)
- Azzad (2000 <1M AUM)
- Islamia (2000 Merged)

- **Flemings (Oasis) SAMBA's (SCMI)- CLOSED**

- Al Medina Fund (closed)
- Al Safwa Fund (closed)
- Halal Mutual Fund (Closed or winding down)
- Parsoli Global (?)
- Redmane Bentley (2002)

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Why (Should Be) interested?

- **Demand based products/countries**
 - HSBC-Amanah launch Ijara mortgages in Canada
 - Role of Freddie Mac and Fannie Mae
 - Takafol
 - Takafol USA inactive
 - HSBC-Amanah announced;
 - Property, Life, Mosque, & PMI by end 2003
 - Available in GCC in summer 2003
 - Vehicle/Equipment financing

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Immediate Commitment

- **Senior Management**
 - Company wide support
 - Charges of discrimination
- **Politics and sensitivities**
 - Global & local events
- **Budget & Break even**
 - Personnel
 - SSB
 - Marketing and PR
 - Travel

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Immediate Commitment

- **Time Frame**
 - Trail balloon & WOM
 - Hallow launch
 - Where to launch
 - SSB presence vs. Mkting ploy
 - Press conf of Media & Bankers
 - Service & support ready
 - Handle criticism

Stakeholder Reaction & Replies

- **Media**
 - Ethnic/Islamic
 - Islamic hedge fund
 - Conventional
 - Islamiq.com
- **Western financial institutions**
- **Retail**
 - Job Opportunities
 - Well received vs. Ulterior motive

Stakeholder Reaction & Replies

- **Competition (expanding pie)**
 - Adds credibility & legitimacy
 - Grows the niche market
 - Lariba/Freddie Mac
 - HSBC-Amanah
 - Guidance Residential
 - Fannie Mae
 - DJIM
 - FTSE Global Islamic Index series
 - Citi-Islamic
 - UBS' NoRiba
 - Confirms decision to launch

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Continued Commitment

- Expand Shari'ah Board
- Additional products
- Branch out
- Dealing with 'failures'
- Updating marketing materials
- Media
- Expand customer service/support
- Conference circuit/sponsorships

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Lessons Learned

- **Receptive to Suggestions**
- **Due Diligence of market place**
- **Commitment from top**
- **SSB**
- **Financial, not political, message**
- **Continued commitment (give back)**
- **Traction**