



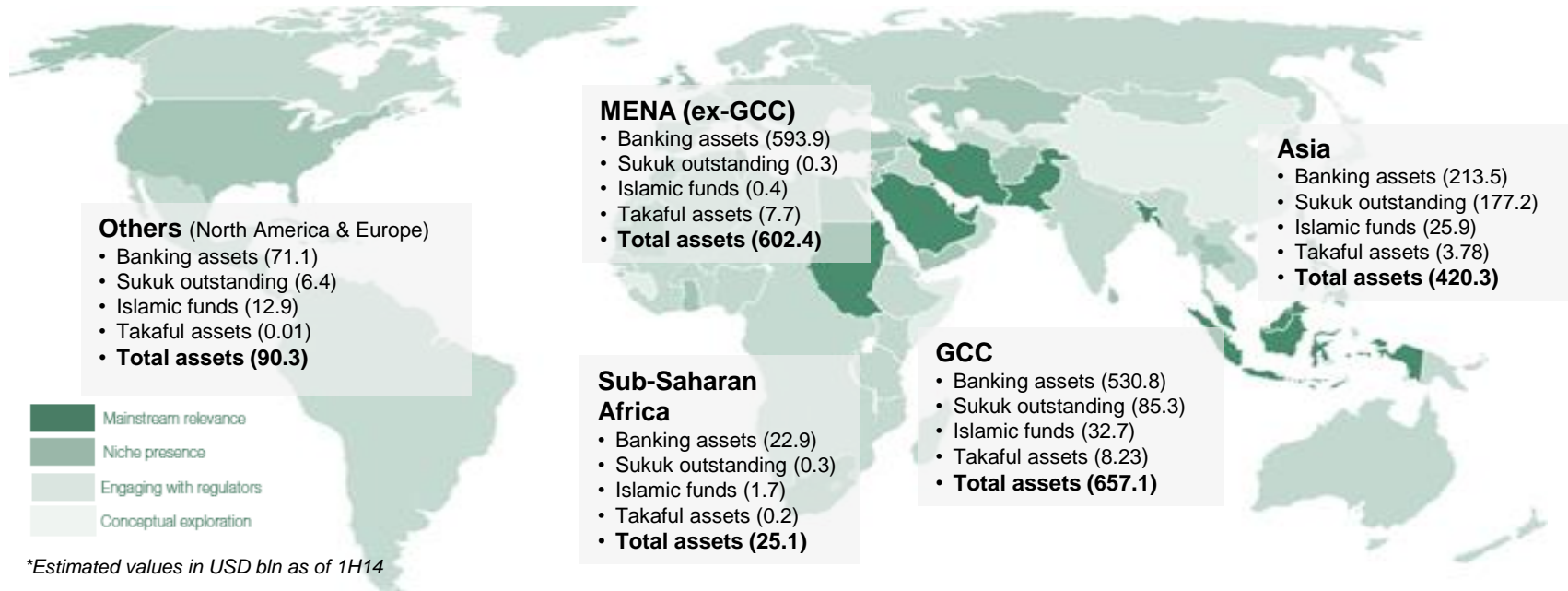
Islamic Investment in Asia: New Pockets of Growth

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Excellence in Islamic Finance Research

INTERNATIONALISATION OF ISLAMIC FINANCE

Global Islamic Finance Assets



The industry's total assets reached an estimated **USD1.9tln by 1H2014**, having grown by 16.94% a year during 2009-2013

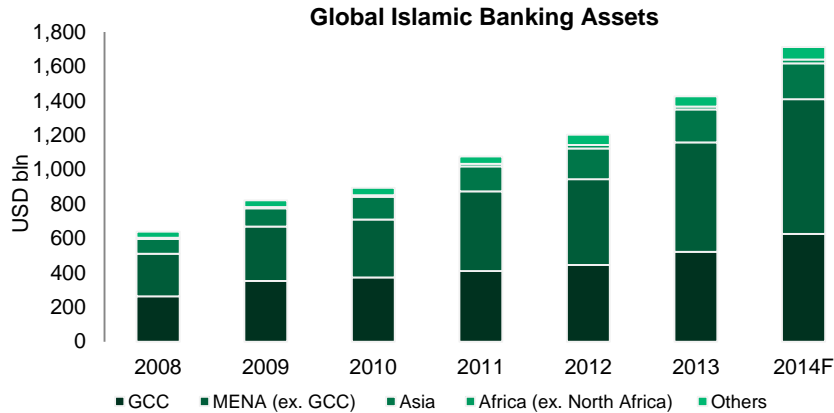
- Over the last decade, Islamic finance has gained much acceptance in the global arena as rising awareness of Shari'a compliant propositions has prompted more countries and entities to join the global cohort of Islamic finance stakeholders.
 - The industry's assets are expected to surpass the **USD2tln mark during the 3Q2014**.
 - There are at least **700 Islamic financial institutions** presently operating across **more than 70 countries**.
 - MENA – and the GCC within it – and Malaysia are key jurisdictions.

STRONG GROWTH ACROSS SECTORS

1

Islamic Banking

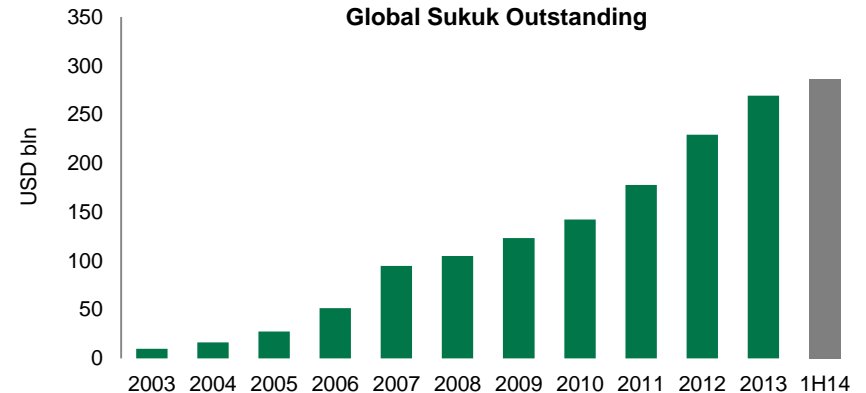
The value of global Islamic banking assets reached an estimated USD1.53tn as at 1H2014, at a CAGR of 17.4% during 2008-2013



2

Sukuk

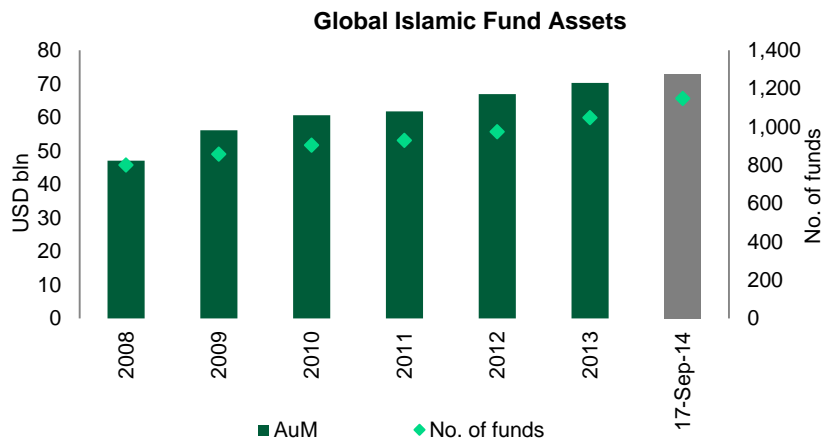
Global sukuk outstanding reached USD286.41bln in 1H2014, a 6.3% expansion YTD and a 16.8% growth y-o-y



3

Islamic Funds

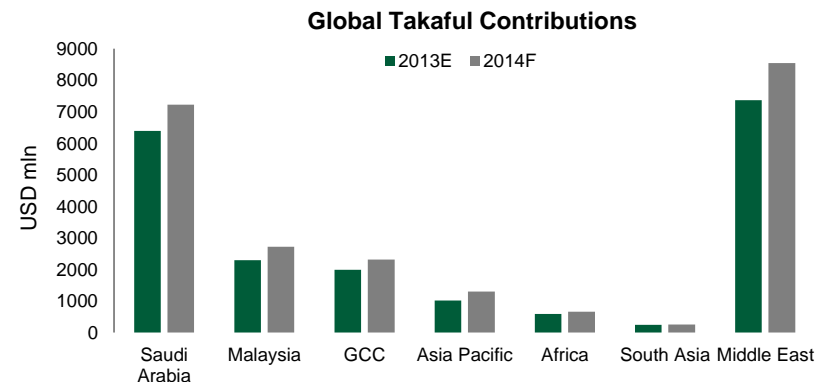
The global Shari'a compliant fund management sector has reached 72.9bln in assets under management



4

Takaful

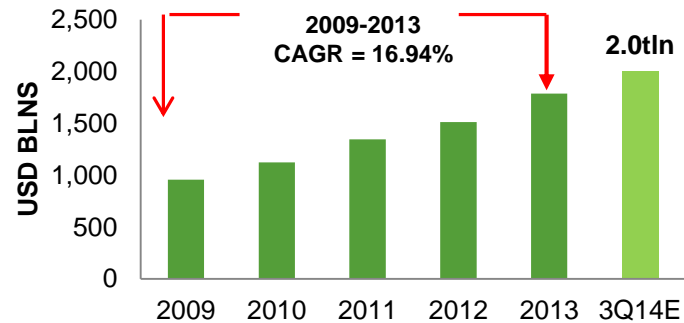
Gross takaful contributions are estimated to have amounted to USD21.5bln as at 1H2014



ISLAMIC INVESTMENT IN ASIA

Islamic Investment in Asia: New Pockets of Growth

Global Islamic Finance Assets Growth Trend
(2009-3Q2014E)



Banking and
financial services
penetration

Cross border
funding

Poverty alleviation
and financial
inclusion

Infrastructure
financing

Integration with
Islamic Socio
Economic Vehicles

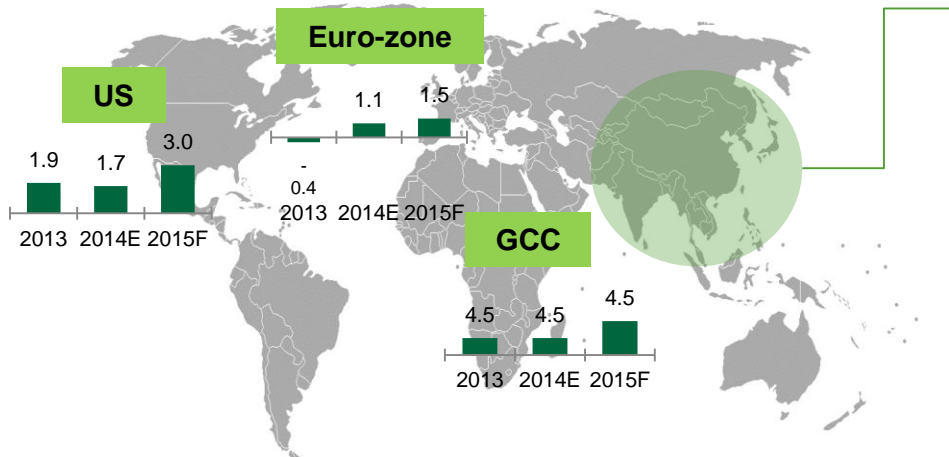
Trade facilities to
support intra and
inter trade activities

Entrepreneurship and
SMEs

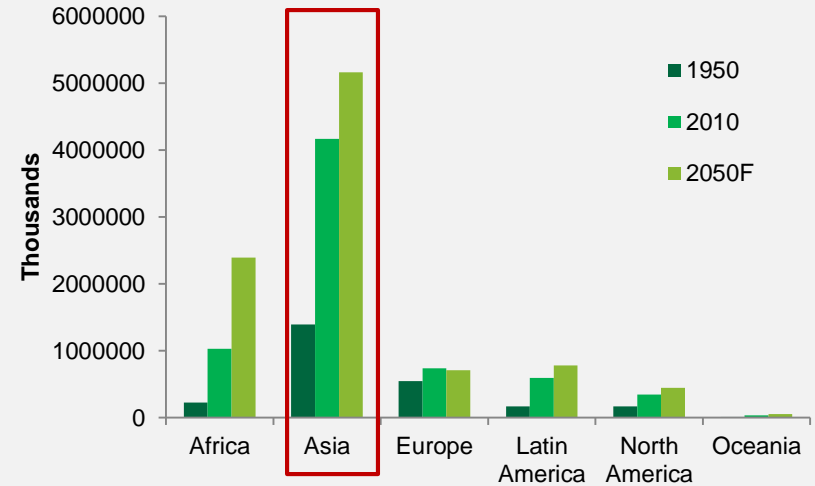
Takaful/Insurance
Penetration

GLOBAL ECONOMIC GROWTH: ASIA IN THE BRIGHT SPOT

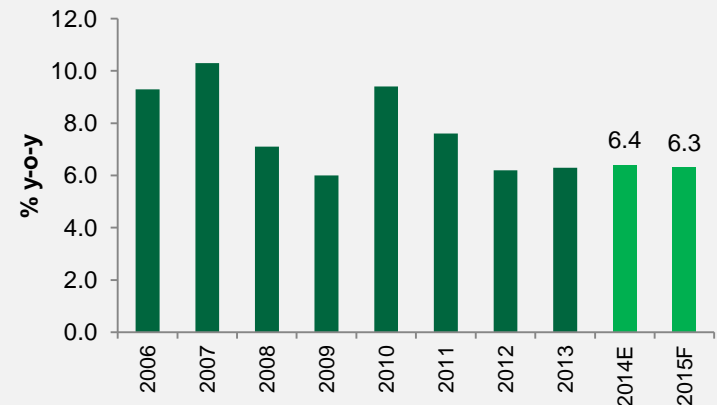
- ✓ Global growth is projected at 3.4% in 2014 and 4.0% in 2015 (2013: 3.2%), with stronger growth in advanced economies to offset weaker growth in emerging markets. Continued policy efforts are needed to secure a more robust recovery.
- ✓ **As the most dynamic region in the world, Asia has an important role to play in shaping the agenda for balanced and sustainable growth.**
- ✓ Economic growth in Asia continues to outpace the rest of the world, with the region rapidly increasing its importance in the global economy, and real GDP growth will average 6.4% annually in Asia in 2014-2015.
- ✓ Currently, three of the world's four largest economies by purchasing power parity (PPP) are Asian; China, India and Japan already account for a quarter of the world economy, with that share increasing to 30.0% by the end of the decade.



More than half of the world's population lives in Asia, and fast growing populations will create a demand for various goods and services

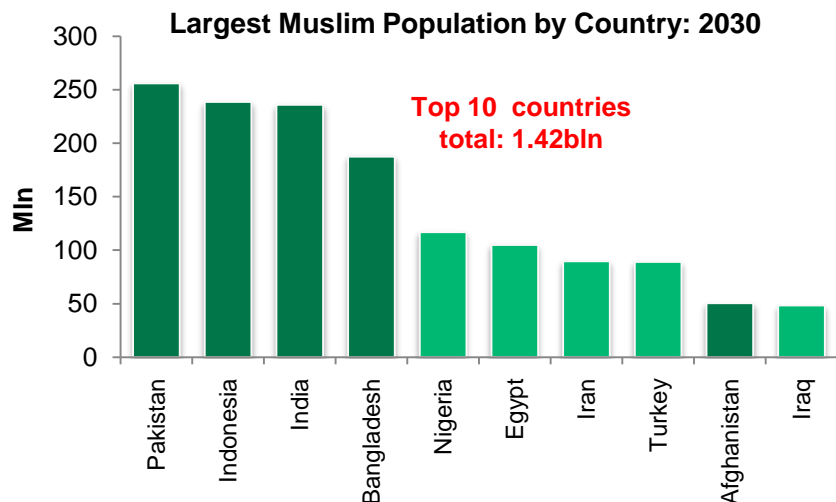


Asia's GDP Growth Trend (2006-2015F)



CATALYST TO IMPROVE LEVEL OF BANKING PENETRATION IN ASIA

Favourable demographic structure, rising middle income segment, constitutes a huge and growing consumer market, which can heighten the demand for a wider spectrum of Islamic financial products and services



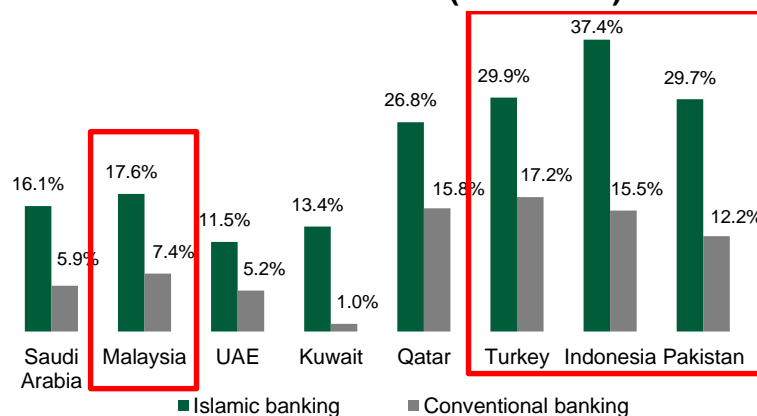
Source: Pew Research

Asia: Average GDP Per Capita at PPP (2006-2012)

Asia's Sub-regions	Average GDP per Capita at PPP (current USD)			
	2006	2008	2010	2012
Central and West Asia	USD3,738	USD4,592	USD4,867	USD5,982
East Asia	USD20,205	USD22,801	USD24,661	USD27,234
South Asia	USD3,032	USD3,600	USD3,717	USD4,666
Southeast Asia	USD13,629	USD14,442	USD15,295	USD16,528
The Pacific	USD3,678	USD4,304	USD4,266	USD4,313*

Source: ADB

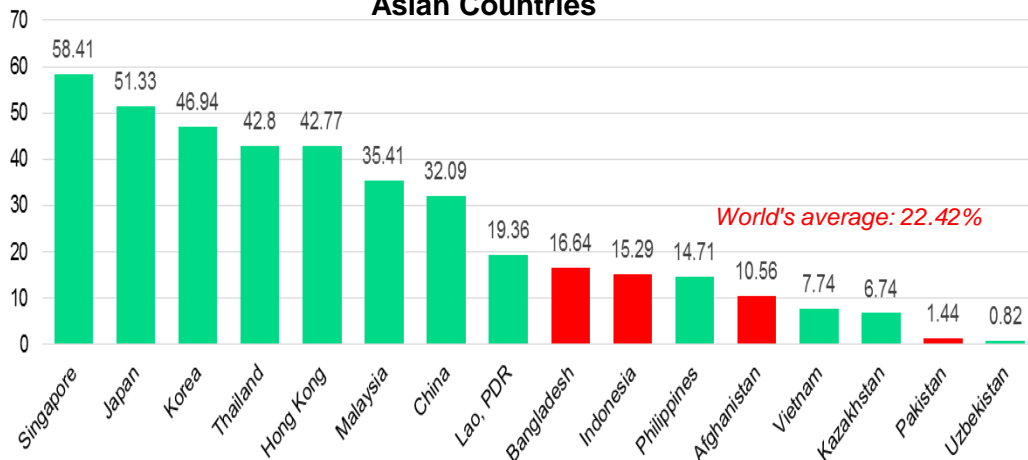
CAGR of Islamic and Conventional Banking Assets: Selected Markets (2008-2013)



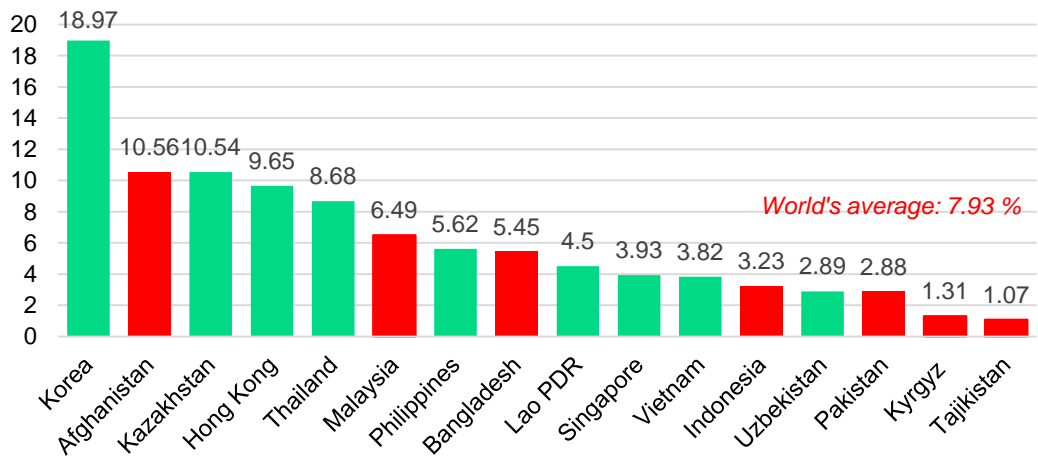
- Global Islamic banking assets reached an estimated **USD1.5tn** as at **1H2014**, having recorded a **CAGR of 17.4%** between 2008 and 2013
- **Asian jurisdictions** cumulatively make up the third largest domicile area for Shari'a compliant banking assets -13% share. By 2020, more than 60% of Muslims is located in Asian region
- During the period from 2008 to 2013, the highest CAGR in Islamic banking assets have been recorded in **Indonesia** (37.4%), **Turkey** (29.9%) and **Pakistan** (29.7%).
- The Islamic banking sector, which comprises the majority of global Islamic finance assets, is forecasted to amount to almost **USD1.7tn** by end-2014.

BANKING ACCOUNTS PENETRATION IN ASIA

% of Population above 15 years that Saved at Financial Institutions in Asian Countries



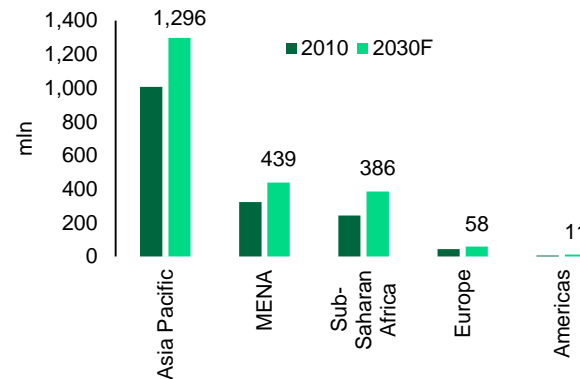
% of Adults Who Use Account at a Financial Institution for Business Transactions or for Both Business and Personal Transactions (% age 15+)



Access to Credit – By Source of Borrowing

Region	Formal Financial Institution (%)	Friends and Family (%)
World	9%	22.8%
MENA	5%	31.1%
South Asia	8.7%	19.5%
SSA	4.7%	39.9%

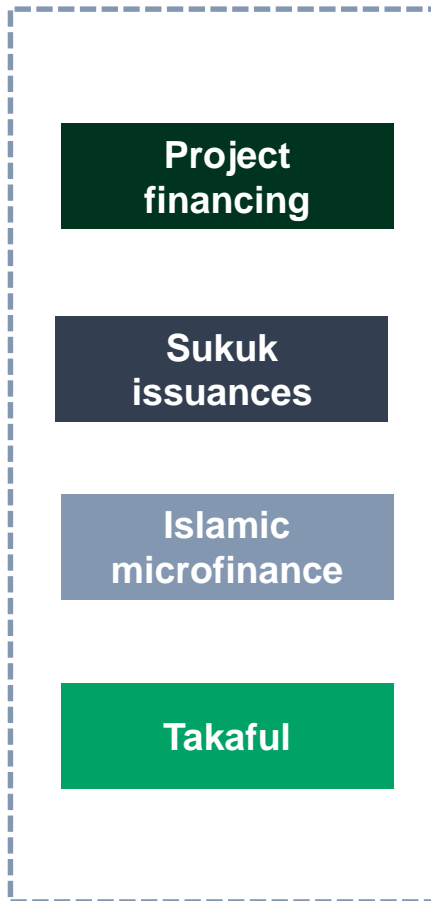
Current and Projected Muslim Population (by Region)



10 out of 30 emerging markets have large Muslim populations

STRONG POTENTIAL FOR WAQF TO BE DEVELOPED

Synergies between IF and Waqf



**Project
financing**



Islamic Da'wah Foundation Malaysia, issued waqf shares in 2006, to fund construction of training centre. The shares were endowed entirely to the waqf.

**Sukuk
issuances**



Majlis Ugama Islam Singapore (MUIS) issued a sukuk based on partnership (Musharakah) with its investors, to purchase and develop several prime properties.

**Islamic
microfinance**



All registered takaful companies in Pakistan operate on the basis of a wakalah-waqf hybrid model.

Takaful



Part of a donation (USD130mln) to the IDB, was registered as the Fa'el Khair Waqf, and utilised to provide Qard financing to cyclone victims in Bangladesh. Later, 1/3rd of programme funds was repatriated into the waqf and invested in Islamic avenues to cover administrative costs.

ISLAMIC FINANCING FOR SMEs

Apart from banks, multilateral development agencies and crowd-funding platforms have leveraged on IF

- Islamic Corporation for the Development of the Private Sector (ICD) and the World Bank have partnered with several banks and SME-related institutions in Bahrain, Tunisia, Kenya and many others
- The world's first Shari'a-compliant crowd-funding platform was formed in 2012 in Egypt, with aim of "bridging the gap between microfinance and big venture capital while prioritising ethics"
 - Driven by private sector
- However, regulatory framework for crowd-funding still at nascent stages:
 - Malaysia's Securities Commission Malaysia recently released a public consultation paper seeking public feedback on the proposed regulatory framework for equity crowd-funding

Diverse range of IF contracts for SMEs' financing needs

Project and contract financing
Mudharabah
Musharakah

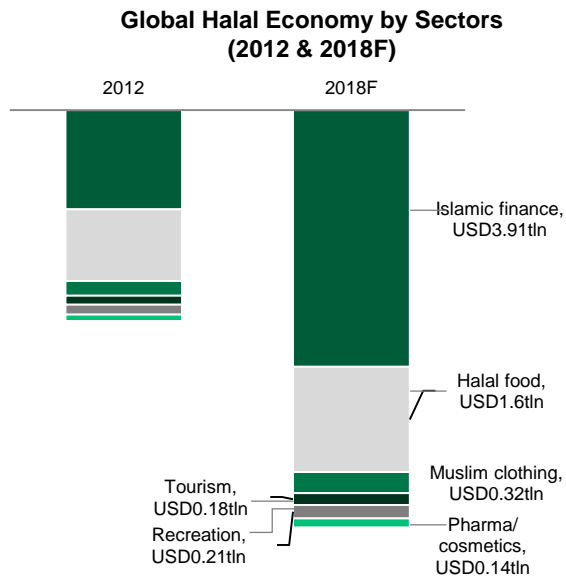
Working capital
Murabahah

Cash line facility
Tawarruq

Asset purchase
Istisna'
Murabahah
Ijarah
BBA

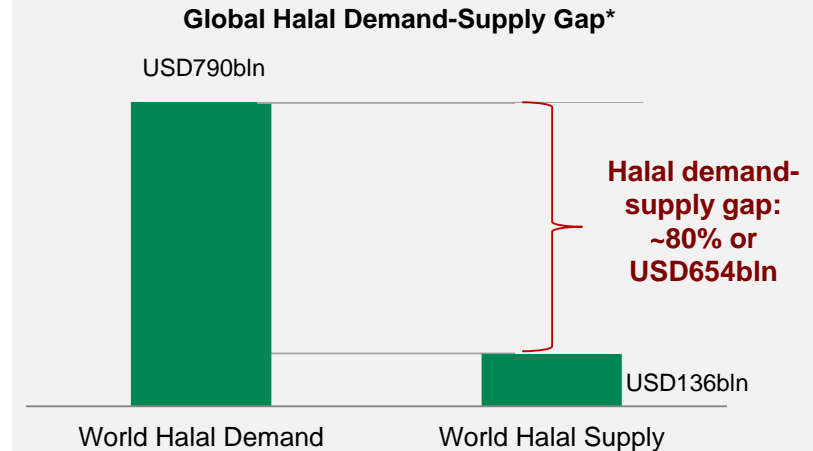
ISLAMIC FINANCE TO SUPPORT HALAL SECTORS OPPORTUNITIES

- Halal sectors worldwide were valued cumulatively at USD3.2tn in 2012 and are forecasted to reach **USD6.4tn by 2018F**.
- Islamic finance has a **distinct competitive advantage** with regard to servicing the halal market over its conventional counterpart.
 - Islamic banks** can facilitate trade, SME, working capital and leasing financing deals.
 - Halal investment options may also be explored through **Islamic private equity funds**.



*Based on totals of expenditure of Muslim consumers & Islamic finance assets

- The current **world halal demand-supply gap** is estimated at USD654bn*.



*For five product categories only: Food & Beverage; Industrial & Chemical; Cosmetics and Personal Care; Pharmaceuticals; Ingredients.

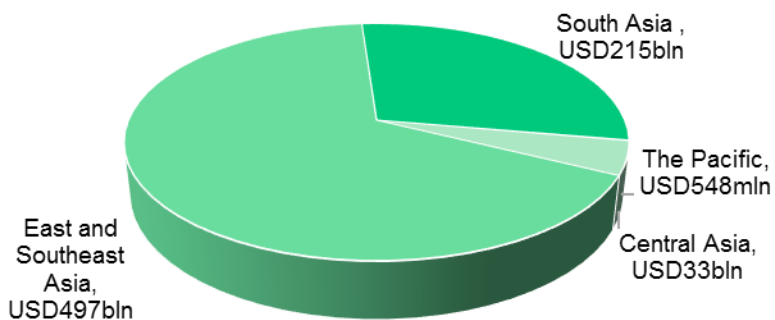
End-to-End Shari'a Compliance:

Islamic financial services solutions are essential to ensure the Shari'a compliance of the entire product/service supply chain for brand integrity and Islamic investing purposes.

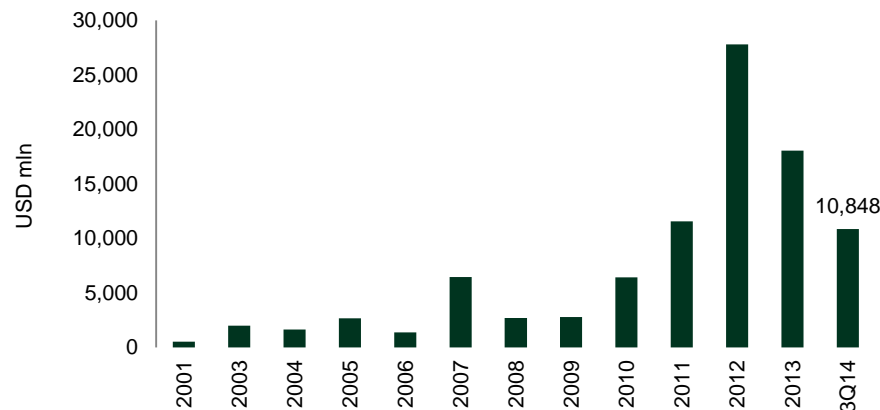
SUKUKS HAVE POTENTIALS TO SUPPORT INFRASTRUCTURE NEEDS

Islamic finance could partly shoulder the region's infrastructure financing needs, given that sukuk have gradually emerged to be a viable alternative for infrastructure financing

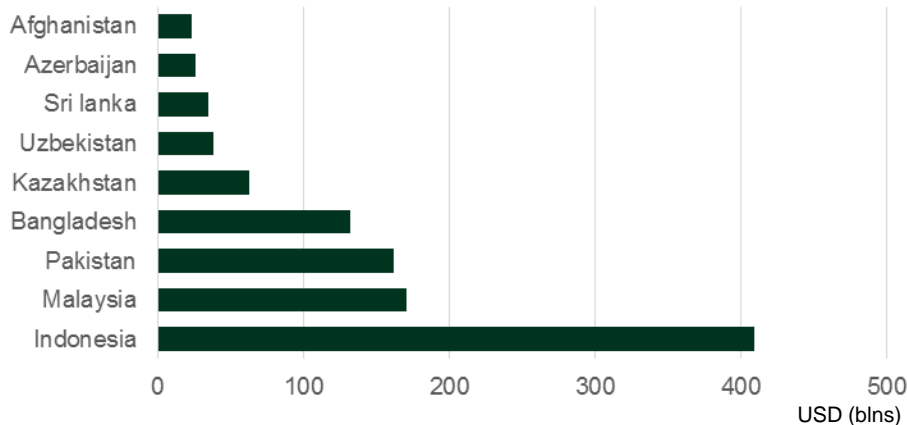
Annual Infrastructure Investments Needs in Asia (by Sub-Regions)



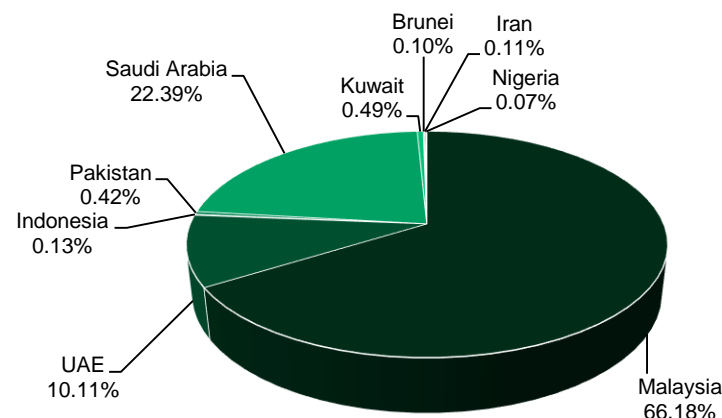
Infrastructure Sukuk Issuances (USD mln per year)



Annual Infrastructure Investment Needs in Selected Asia Countries

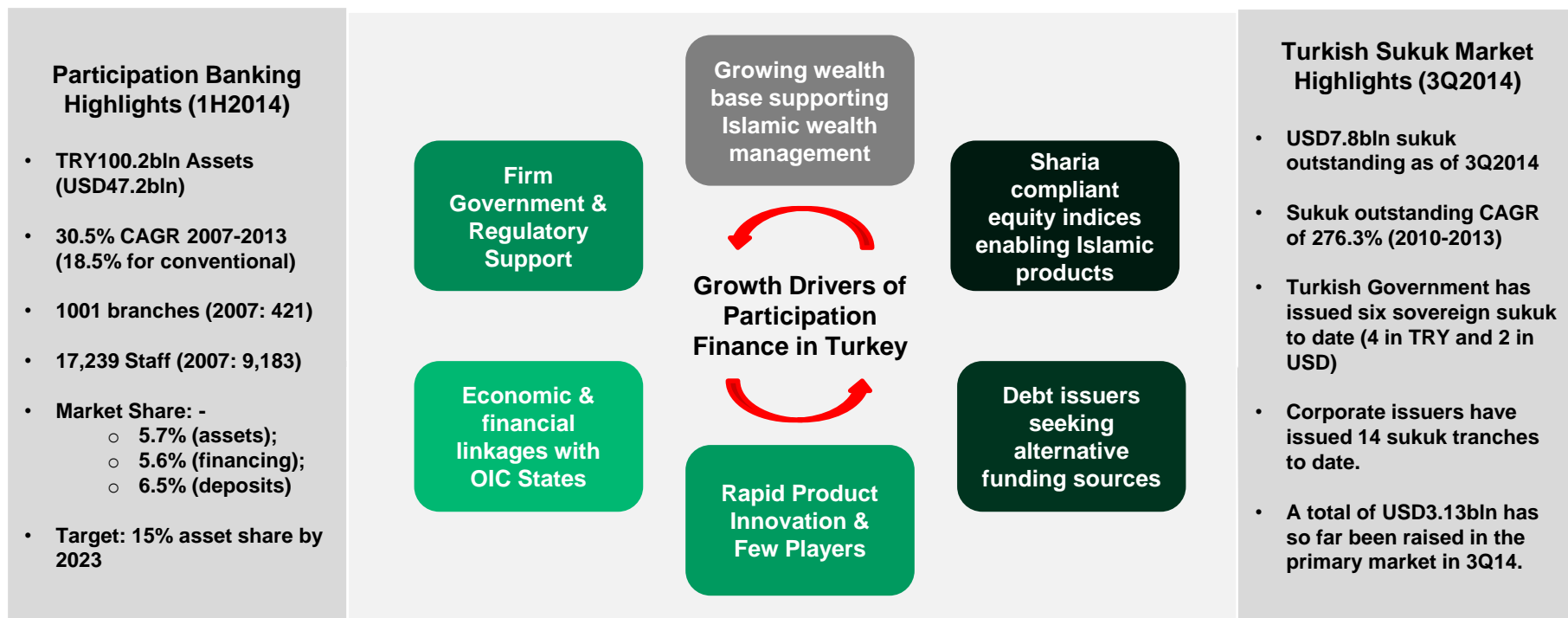


Infrastructure Sukuk Issuances (by contract)



PARTICIPATION FINANCE IN TURKEY: OUTSTANDING PROGRESS

- ❑ In a span of less than a decade, the Turkish participation finance sector is rapidly emerging as a frontrunner in the global Islamic finance industry:
 - The landmark 'The Partnership Banks Law No. 5411', approved in November 2005, kick started the modern participation banking industry while the debut participation investment certificate (sukuk) was issued by Kuveyt Turk in 2010
- ❑ As of 1H2014, the Turkish participation banking industry ranks as the **seventh largest globally** in terms of assets while the Turkish sukuk sector is the **sixth largest globally** in terms of sukuk outstanding as of 3Q2014.



OVERALL PROSPECTS REMAIN BRIGHT, UNDERPINNED BY STRONG FUNDAMENTALS

Islamic banking

Takaful

IF assets to surpass USD3.5tn by end-2018

Islamic funds

Sukuk

- Growing Muslim population; greater acceptance by non-Muslims
- Financial inclusion objective
- Real economic activity (expansion, working capital)
- Protection against uncertainties and crises

-
- Shari'a compliant and ethical investments
 - Cross-border liquidity flows
 - Financing for major infrastructure and corporate projects
 - More high net worth individuals

GLOBAL FINANCIAL RISKS; ISLAMIC FINANCE NOT INSULATED

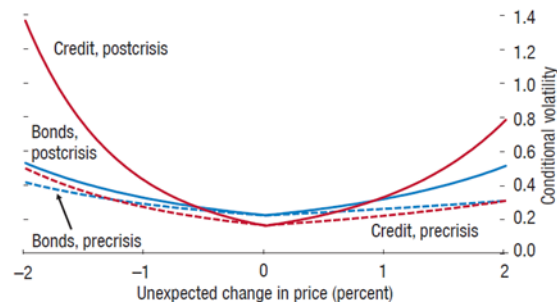
Islamic finance is not an insulated market – **increased market and liquidity risks at global level** - magnify market shocks and liquidity risks and provide additional challenges to global financial markets



Regulatory transformation will demand an increase in the depth and breath of liquidity investment tools suitable for the industry and an adaption to radically different growth strategies.

- Emerging market economies are more vulnerable to shocks from advanced economies as they now absorbed a much larger share of the outward portfolio investment from advanced economies
 - *9 out of 10 top Islamic finance jurisdictions are classified as emerging markets by the major financial index suppliers*
- Normalization of monetary policy and interest rate adjustment may create greater impact on asset market volatility than before the crisis

News Impact to Volatility



- *E.g. After the potential bond tapering announcement by the US Fed, the global sukuk market witnessed one of the slowest quarters since 2011 and the HSBC/Nasdaq SKBI Total Return Index in 2Q2013 witnessed a three-year record loss due to the potential Fed taper.*

Key Regulatory Reforms

Basel III & IFSB - Capital

Basel III & IFSB - Liquidity

Unique Islamic banking framework

Shari'a rulings & enhanced governance expectations

Potential Impact

Risk weighted assets & revenue levels

Capital and funding pressure

Cost of funds and operational cost

Sukuk as growth and capital/liquidity instrument

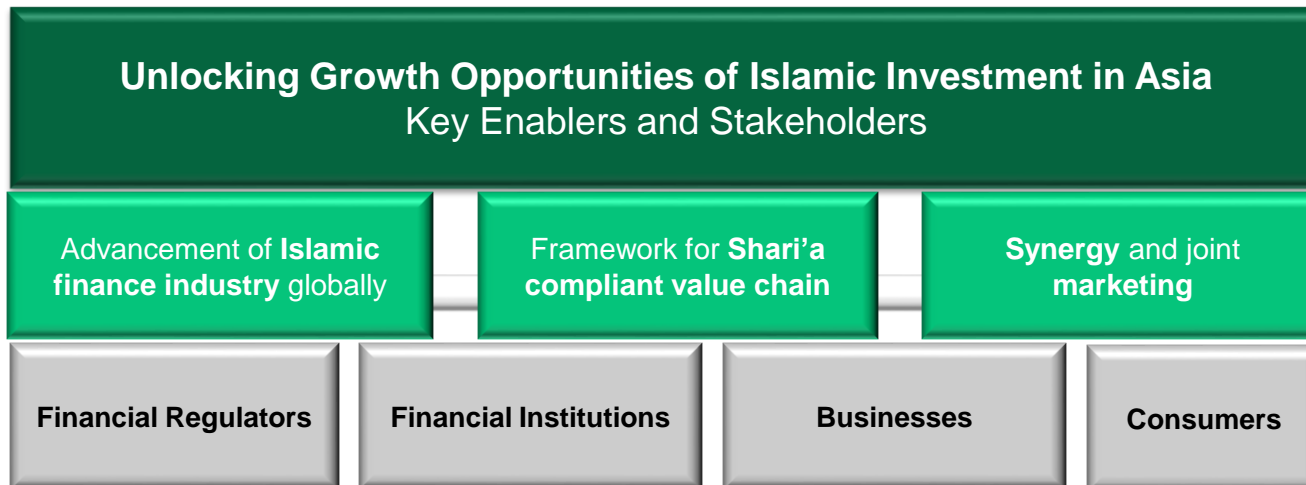
ISLAMIC INVESTMENT IN ASIA: WAY FORWARD

Growth outlook of Islamic finance

- ✓ Islamic banking and sukuk sectors are likely to sustain growth momentum in the next decade.
- ✓ Islamic asset management and takaful will grow in tandem and continue to build mass.
- ✓ Continuing sophistication in product development and legislative & regulatory frameworks should help the industry harness its inherent principles and grow sustainably.

Opportunities in Islamic finance

- ✓ Islamic finance is a valuable source of flexible alternative financing for fund seekers.
- ✓ The industry naturally converges with ethical finance, and its fundamental features are supportive of financial inclusion and stability.
- ✓ Islamic finance acts as a conduit enhancing trade and financial linkages with key emerging markets.



KFH GLOBAL INVESTMENT RESEARCH

“Best Islamic Research Firm 2013”
Islamic Finance News Awards Poll 2013



“Best Islamic Finance Research House 2014”
The Asset Triple A Islamic Finance Awards 2014



“Best Islamic Consulting Service 2014”
The Asset Triple A Islamic Finance Awards 2014



“Best Islamic Consulting Service 2013”
The Asset Triple A Islamic Finance Awards 2013

“Best Islamic Consulting Service 2012”
The Asset Triple A Islamic Finance Awards 2012

“Outstanding Contribution to Islamic Finance”

Failaka-Amanie Symposium, Dubai
April 2010

“Best Islamic Research Company”
Islamic Finance News Awards Poll 2008
January 2009

“Best Research in Islamic Finance”
Master of Islamic Funds Award
November 2007

THANK YOU

“Best Islamic Research Firm”
Islamic Finance News Awards Poll 2011
November 2011

“Contribution to Islamic Finance Research”
International Islamic Finance Forum, Dubai
May 2010

“Best Islamic Finance Research House”
The Asset Triple A Islamic Finance Awards 2009

“New Provider for Islamic Finance Research”
5th KLIFF Islamic Finance Awards
November 2008

“Best Islamic Finance Research House 2013”
The Asset Triple A Islamic Finance Awards 2013

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