



# IFN Turkey Roadshow Borsa Istanbul Stock Exchange

**“The Growth Potential for Shariah Compliant  
Banking and Financial Inclusion in Turkey”**

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Managing Director & Vice Chairman

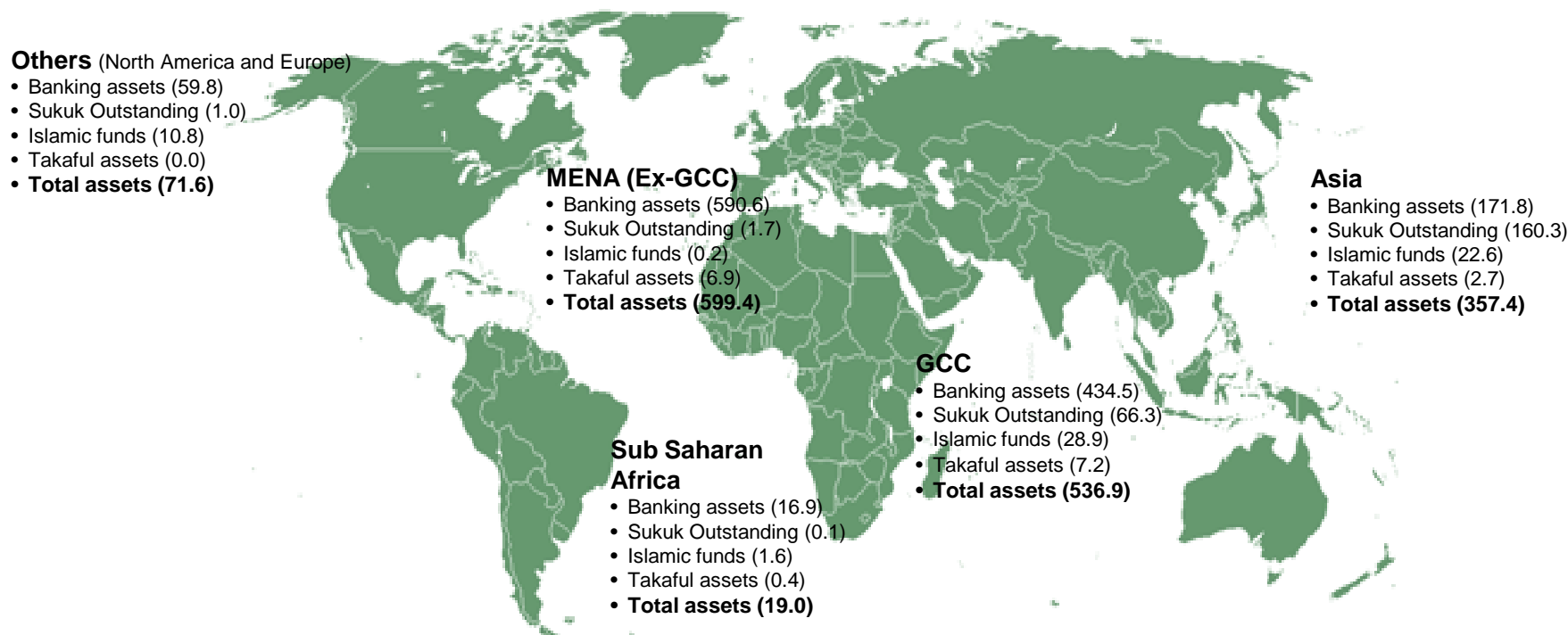
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## **Section One: Global Islamic Finance Growth**

## **Section Two: Growth Potential for Islamic Financial Inclusion**

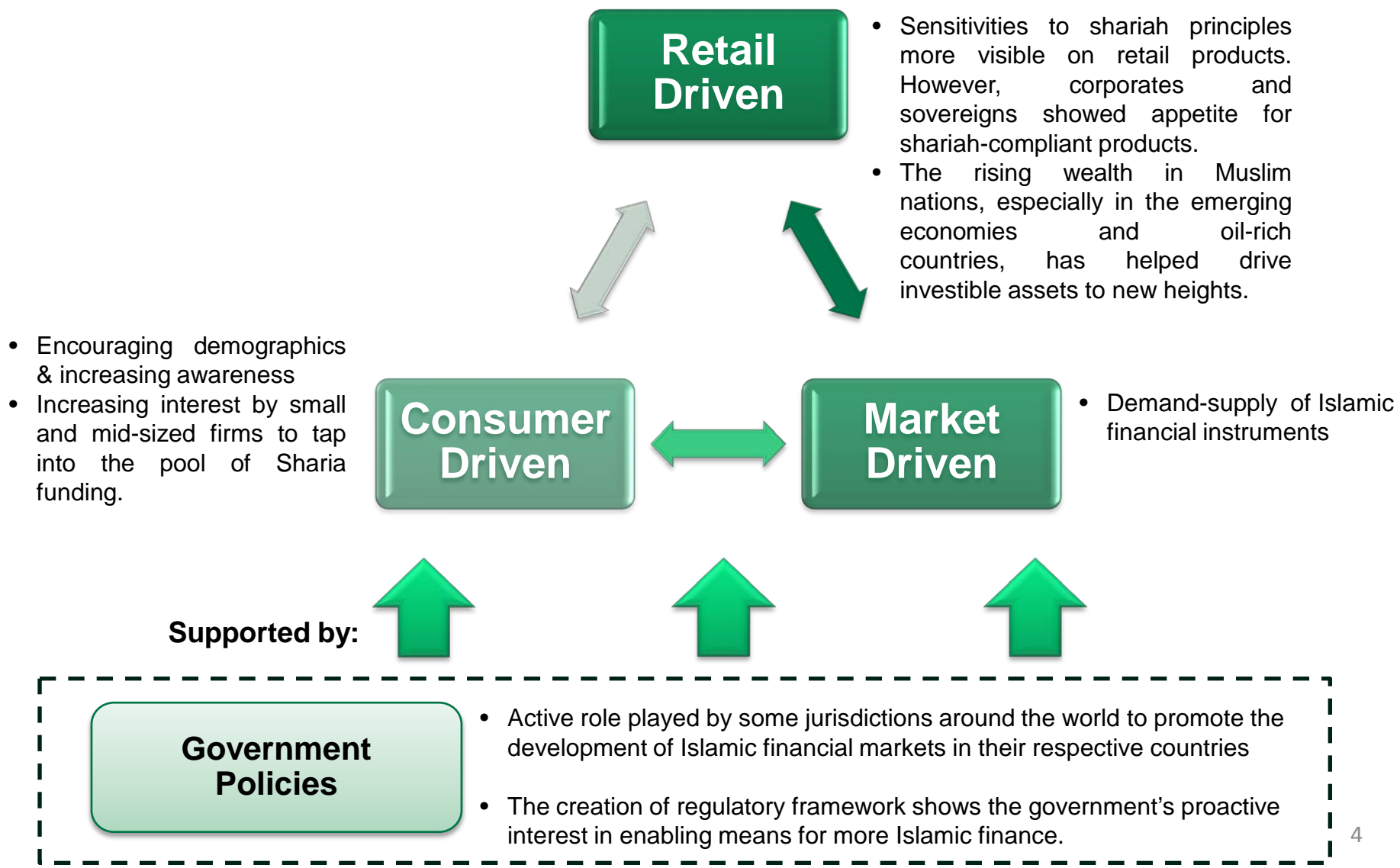
# GLOBAL ISLAMIC FINANCE INDUSTRY

## Global Islamic Finance Assets, 2012 (USD Billion)



- **Islamic finance assets were estimated at USD1.6 trillion as at end-2012**, a growth rate of 20.4% y-o-y. Between 2008 and 2012, Islamic finance assets have grown at a CAGR of 19.5% per annum. **We estimate Islamic finance assets to exceed USD1.8trillion as at end-2013.**
- Growth drivers include (1) a growing number of industry players, particularly in new jurisdictions, (2) the introduction of regulatory reforms, (3) incentives and various government-sponsored initiatives to establish Islamic financial services in various markets, as well as (4) an increase in the range of Shariah-compliant products and services.
- Market consensus is that total Islamic financial assets will reach **USD6.5 trillion by 2020.**

# ISLAMIC FINANCE INDUSTRY GROWTH DRIVERS



# RECENT DEVELOPMENTS OF ISLAMIC FINANCE

## Recent Developments of Global Islamic Finance in 2012/2013

### United Kingdom

- UK's first Islamic Finance Taskforce was launched in March 2013.

### Turkey:

- Issued its first debut dollar-denominated sovereign sukuk in 2012
- Issued two lira-denominated sovereign sukuk
- In March 2013, a participation bank issued lira-denominated sukuk

### Egypt:

- Sukuk Law was passed by the parliament

### Kazakhstan:

- Government passed the first ever Islamic Finance Development Roadmap 29 March 2012

### Palestine:

- A new bank named Al-Intaj Bank was inaugurated in Gaza on the 27th May with capital of USD20mln.

### Bahrain:

- The Central Bank of Bahrain has designed a four-point framework for Islamic finance.

### Pakistan:

- A nine-member Shariah advisory board has been established by Pakistan's Securities and Exchange Commission (SECP) to oversee Islamic finance transactions in the country.

### Malaysia:

- Introduced Islamic Financial Services Act 2012 (IFSA)

### Singapore:

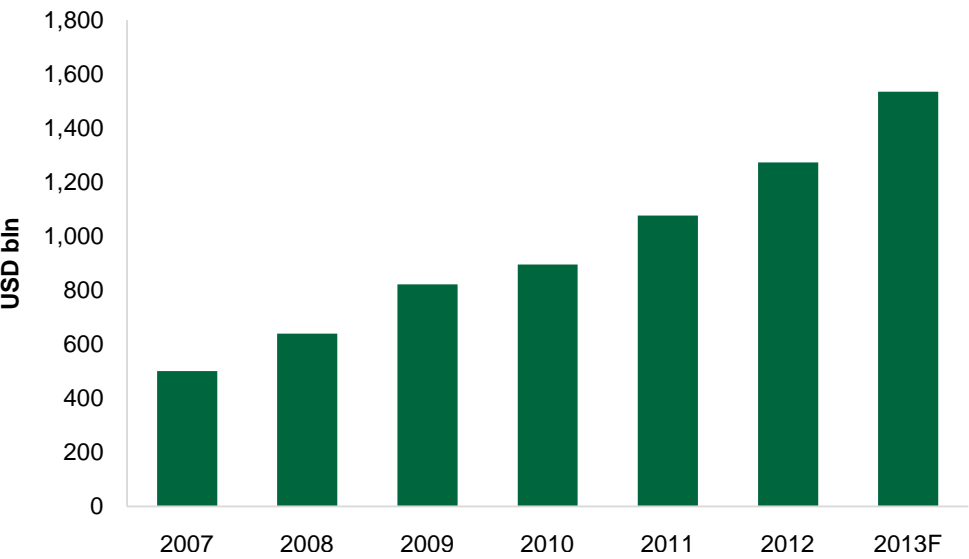
- MAS working closely with authority and government agencies to support the growth of Islamic finance industry

### Indonesia:

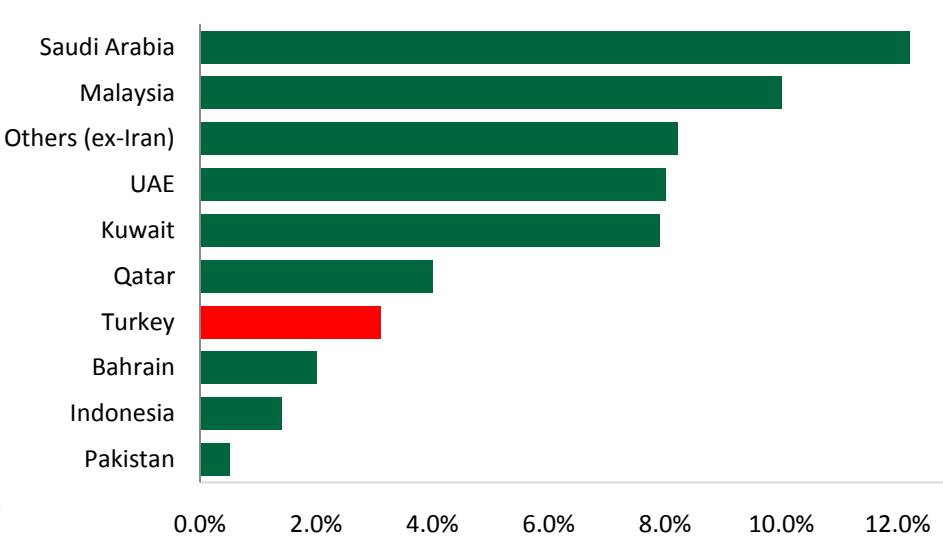
- The Finance Ministry has set stricter down payment requirements on Islamic financing for automotive purchases.

# GLOBAL ISLAMIC BANKING INDUSTRY: GROWTH TRENDS

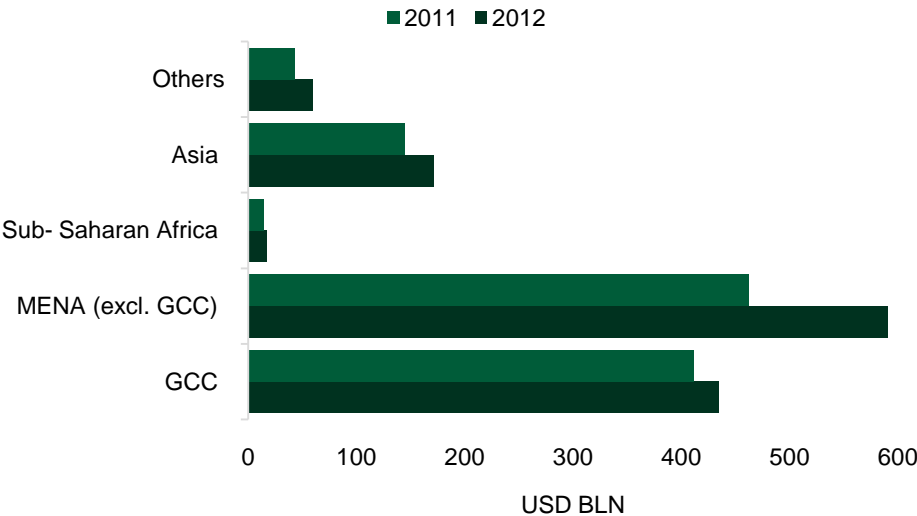
Global Islamic Banking Assets (2007-2013F)



Share of Global Islamic Banking Assets (2012)



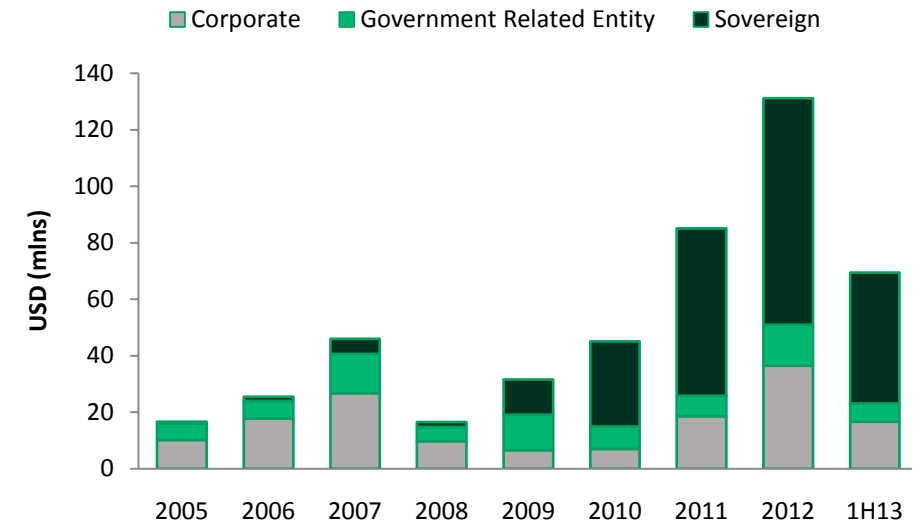
Global Islamic Banking Assets by Region



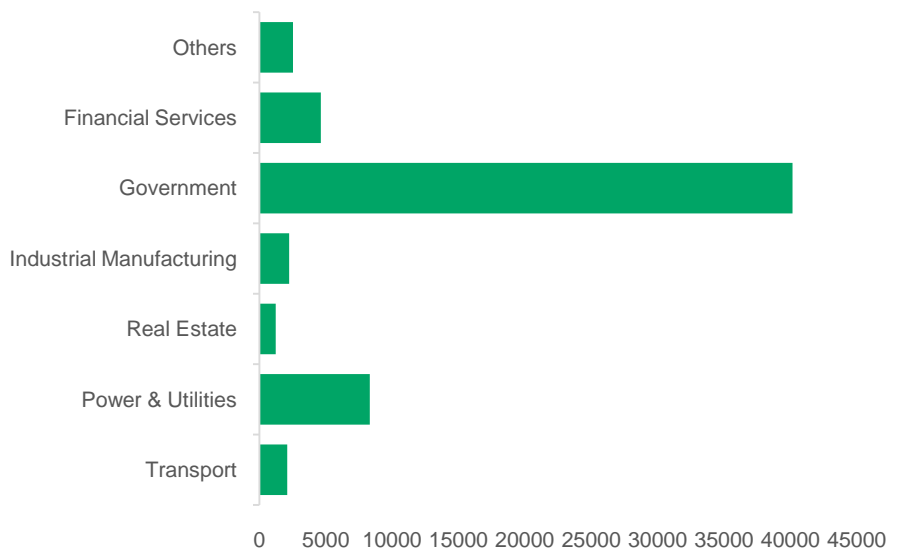
- The Islamic banking industry has produced strong growth (2007-2012 CAGR of 20.4%).
- Islamic banking gained popularity pre the global financial crisis in a number of jurisdictions. Countries such as Turkey, Indonesia, the UK and Thailand saw Islamic banks emerged, each looking to gain a first mover's advantage.
- Despite the positive developments expected moving forward, the deteriorating global economic environment, a shortage of education and product awareness in some jurisdictions as well as legal and tax issues are some of the challenges faced by the Islamic banking industry.

# GLOBAL SUKUK INDUSTRY: GROWTH TRENDS

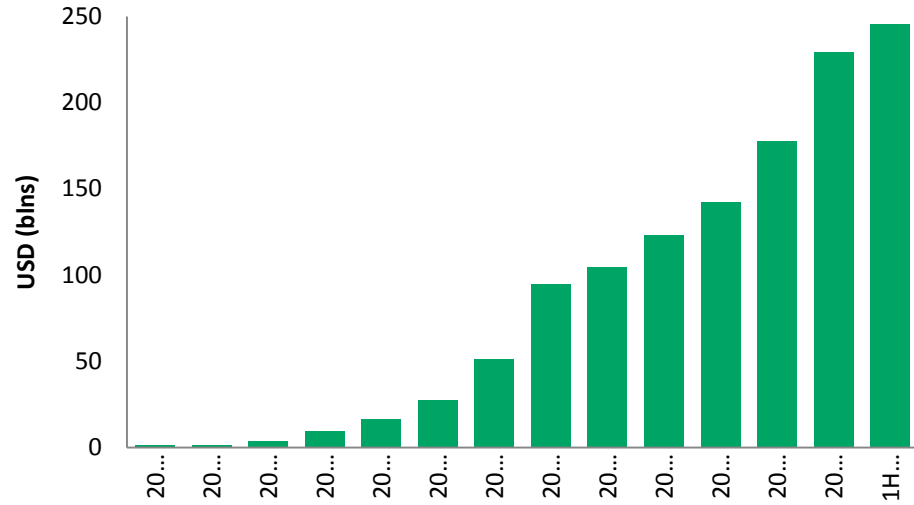
Sukuk Issuance by Issuer Type



Sukuk Issuances by Sector (1H13)



Sukuk Outstanding Trend

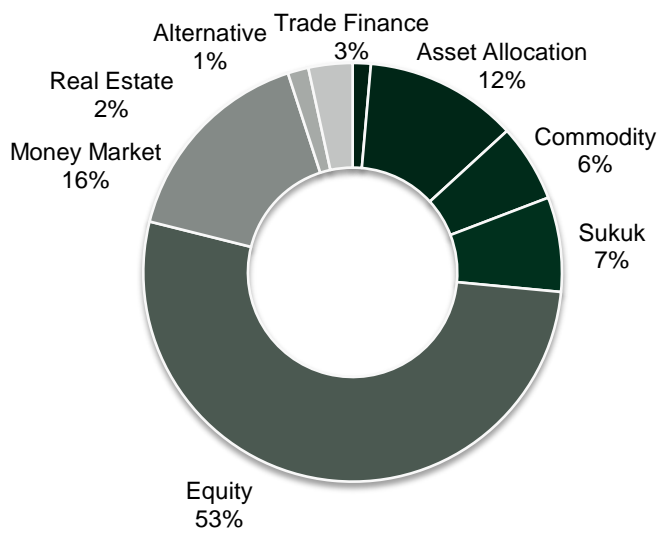


- The global sukuk market continues to show strong growth momentum in 2013 after a bumper year in 2012 that saw issuances rise 54.2% y-o-y.
- The 2007-2012 CAGR for total Sukuk outstanding was 19.35%.
- As at 1H13, sovereign issues continue to lead sukuk issuances followed by corporate issuances.
- By sector, most sukuk issuances originated from the sovereign (government) as at 1H13.
- Apart from the sovereign issuers, power and utilities was the second largest sector to issue sukuku due to the massive infrastructure plans supporting economic development while issuances from the financial service i.e. banks were done to support capitalisation .

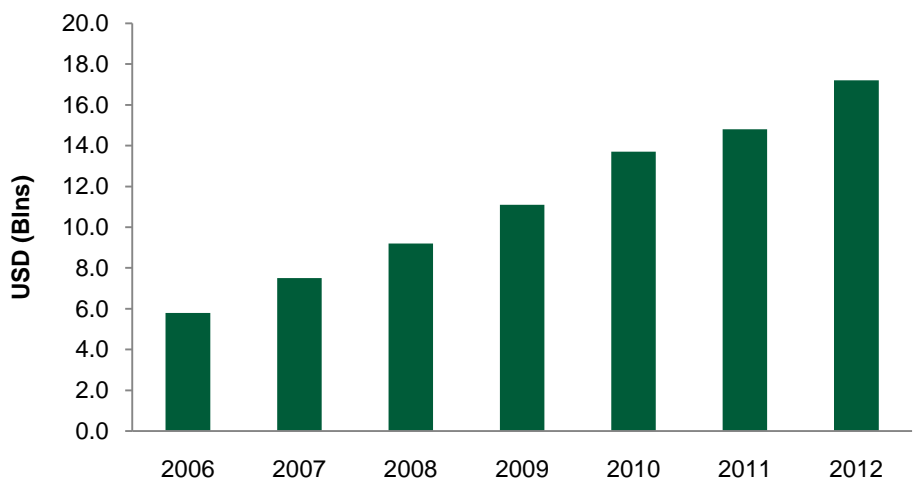


# GLOBAL ISLAMIC FINANCE ASSETS: ASSESSMENT OF GROWTH

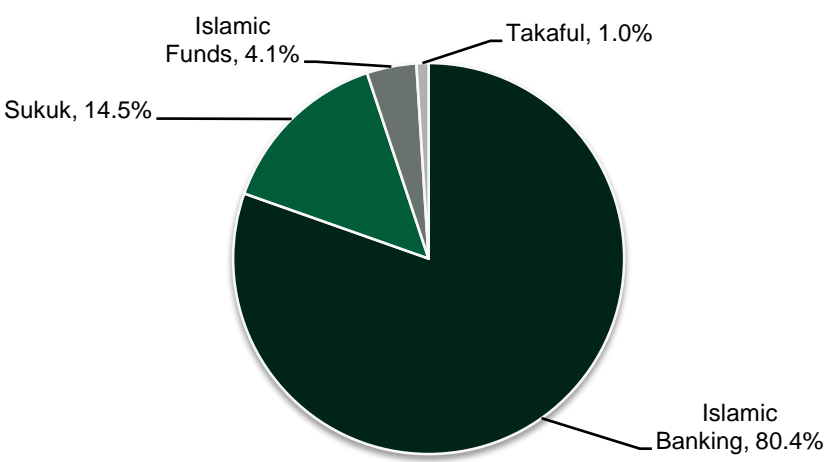
Islamic Funds Assets by Asset Class, 1H13



Global Gross Takaful Contributions (2006-2012)



Share of Global Islamic Finance Assets by Segment 2012



- Islamic Banking segment continues to dominate the portfolio of Islamic finance assets with 80.4% share in 2012, slightly lower from 81.3% in 2011.
- The Sukuk segment has grown in proportion to 14.5% in 2012, up from 13.7% in 2011.
- The Islamic Funds segment has also slightly gained share in the portfolio with 4.1% share of the Islamic finance assets.
- Although Gross Takaful Contributions increased to USD17.2bln in 2012 (reflecting a 16.2% y-o-y growth), its share in Global Islamic finance assets fell to 1% compared to 1.1% in 2011.



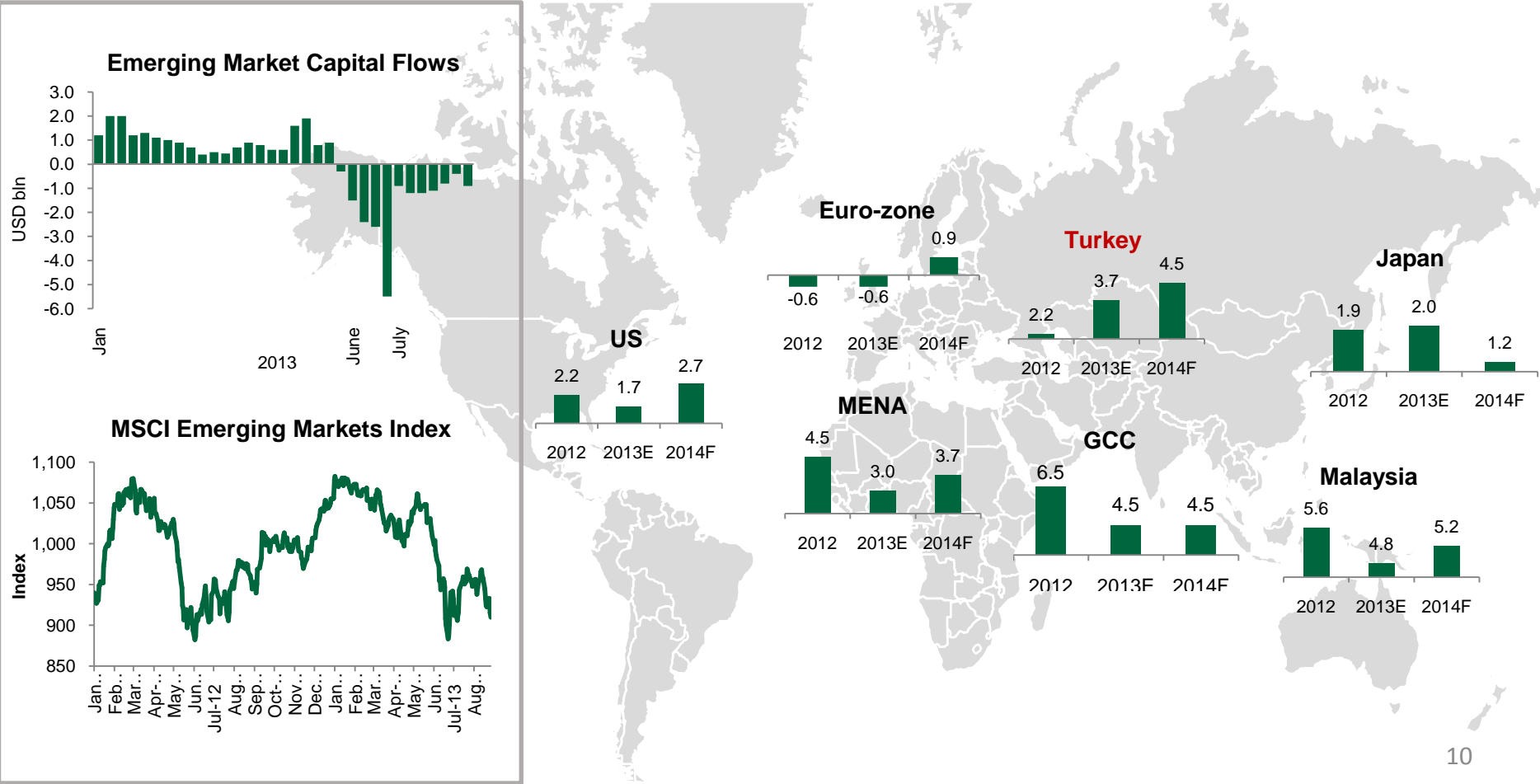
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**Section Two: Growth Potential for Islamic Financial Inclusion**

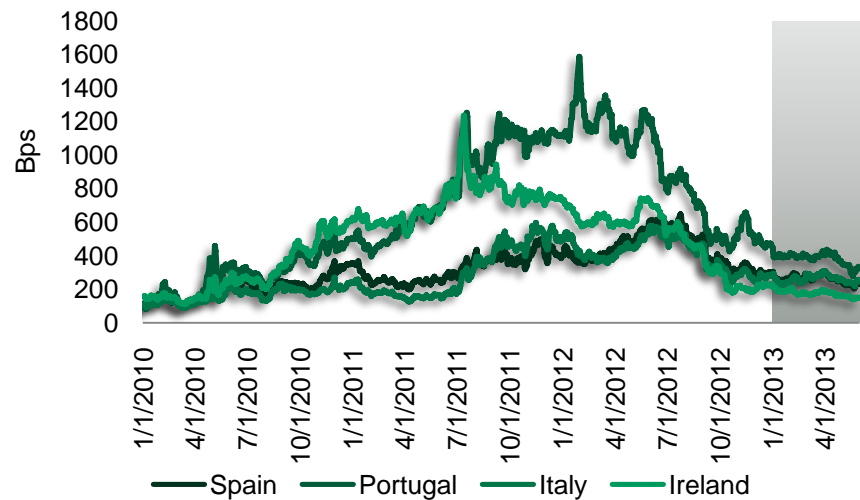
# GLOBAL GROWTH: ISLAMIC FINANCE FOR FINANCIAL INCLUSION

- ✓ Global growth is projected to remain subdued at slightly above 3.0% in 2013, due to weaker domestic demand and slower growth in several key emerging market economies, as well as a more protracted recession in the euro area.
- ✓ Downside risks to global growth still dominate including the possibility of a longer growth slowdown in emerging market economies – given risks of lower potential growth, slowing credit, and possibly tighter financial conditions if the anticipated unwinding of monetary policy stimulus in the US leads to sustained capital flow reversals.

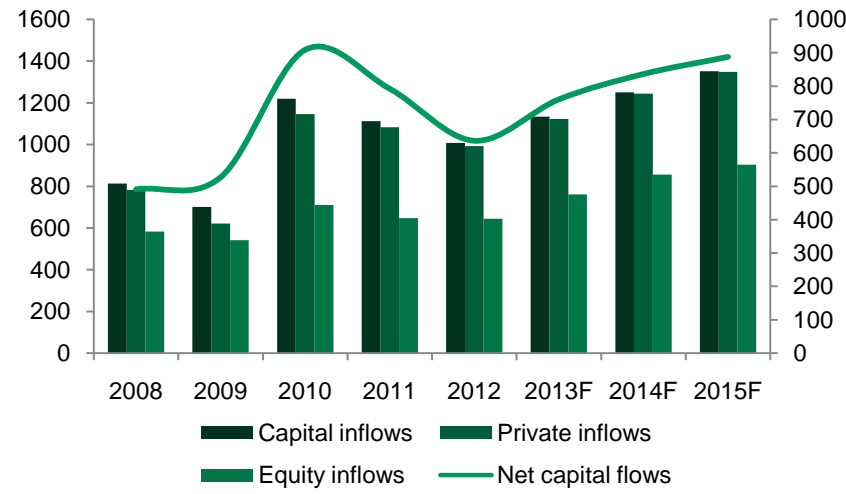


# FORECASTED CAPITAL FLOWS TO DEVELOPING COUNTRIES

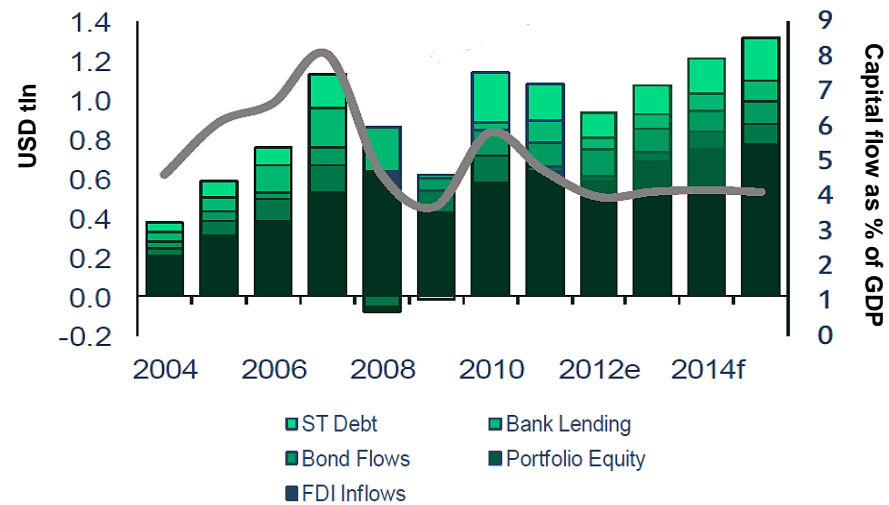
Improvement in Sovereign Default Risk in Europe



Capital Flow Trend to Developing Countries



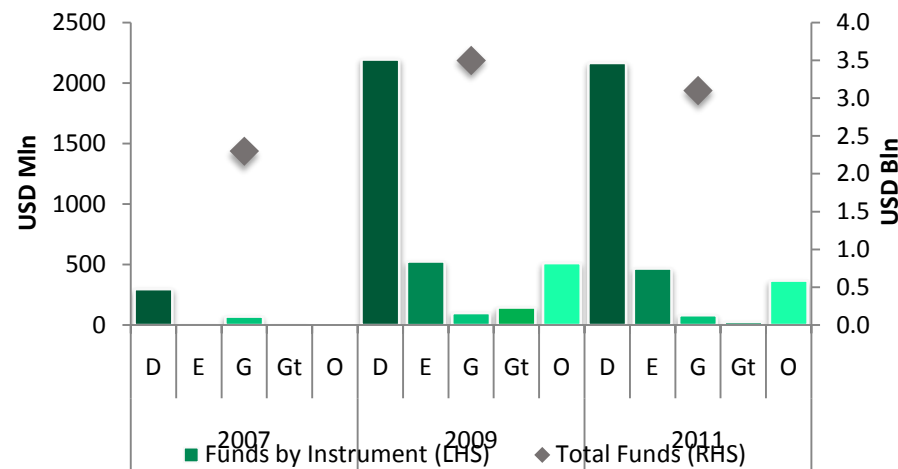
Breakdown of Capital Flows to Developing Countries



- Investors sentiments on sovereign risk have abated, however remains cautious particularly within the Euro zone and capital reversals in emerging markets.
- Global capital flows as percentage of GDP are expected to be flat following concerns over moderating growth in key emerging market economies.
- The cautious economic environment should drive Islamic financing activities as Islamic finance has proven its resilience through the previous financial crisis.

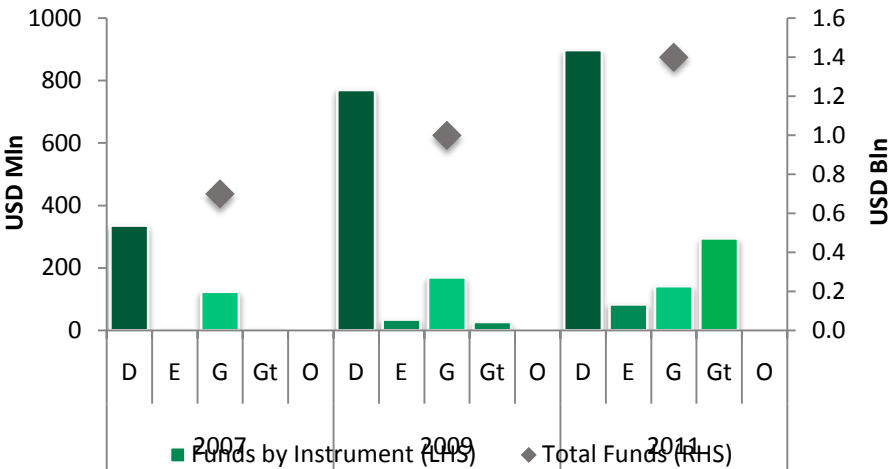
# REGIONAL MICROFINANCE FUNDS

Eastern Europe & Central Asia

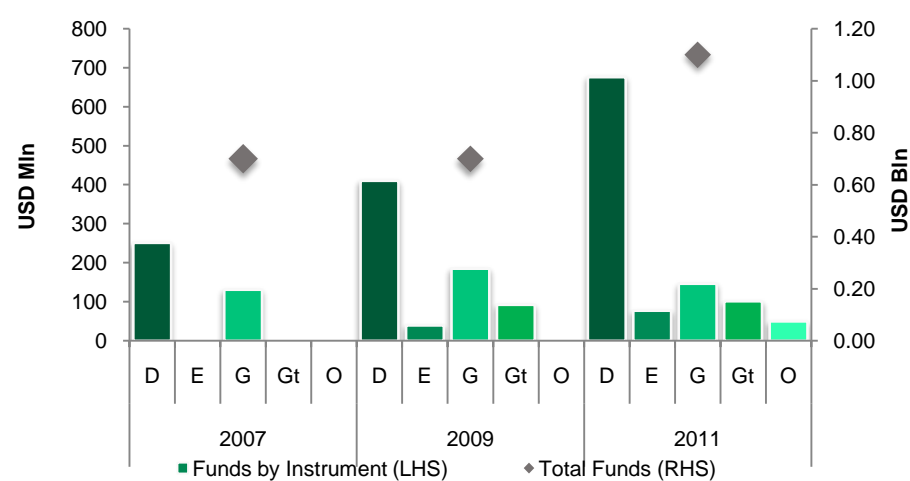


Note: D=Debt, E=Equity, G=Grant, Gt=Guarantee, O=Others

East Asia & Pacific



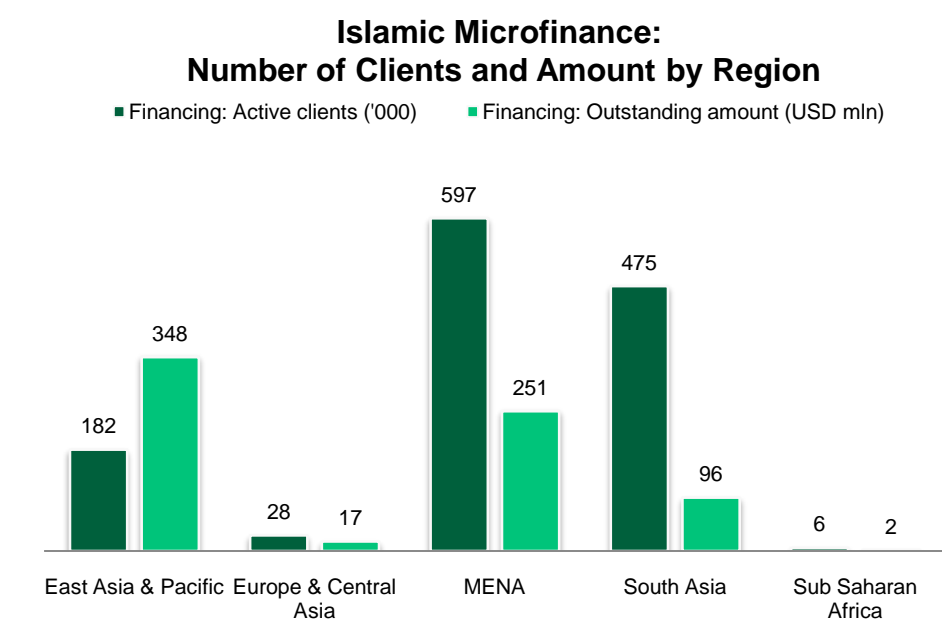
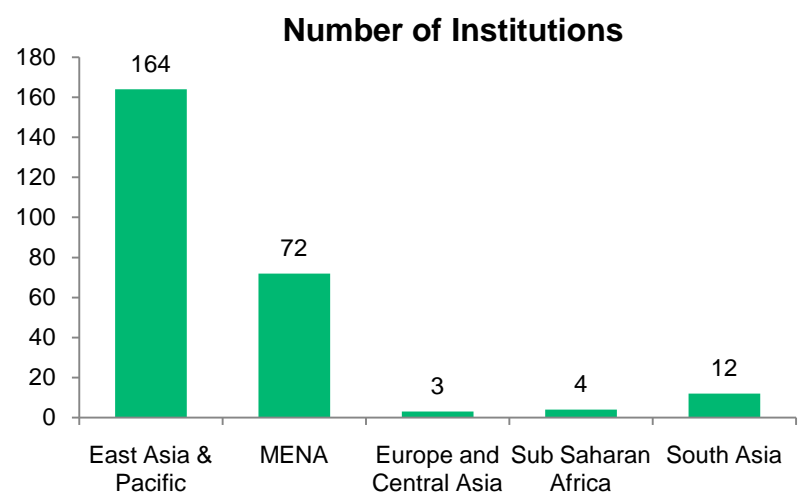
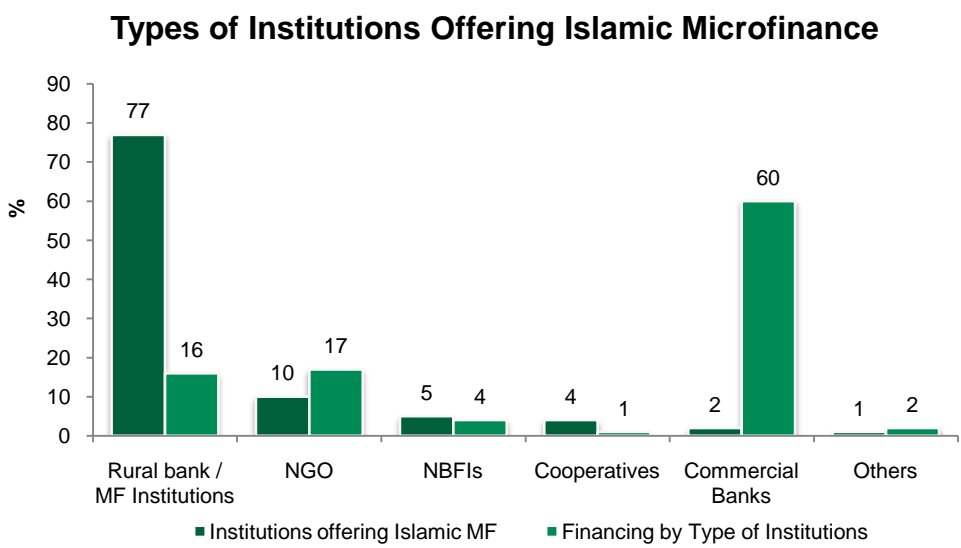
Middle East and North Africa (MENA)



- In terms of regional funds\* committed by microfinance providers, with the exception of Eastern Europe and Central Asia, regions such as East Asia & Pacific and MENA have charted growth in commitments in 2011.
- Throughout the various regions, debt financing/loans continues to command the majority of financing instruments from 2007 to 2011.
- However, the East Asia & Pacific region registered a huge increase in equity financing as DFIs moved to support the SMEs.
- **SME's in Turkey mirrors that of EU quite closely. In terms of numbers, SMEs in Turkey account for at least 90% of enterprises and 78% of employment while EU at also 90% and 67% in 2011 respectively.**

\*The funds referred here have not been separated between conventional and Shariah-compliant.

# ISLAMIC MICROFINANCE PROFILE & DISTRIBUTION



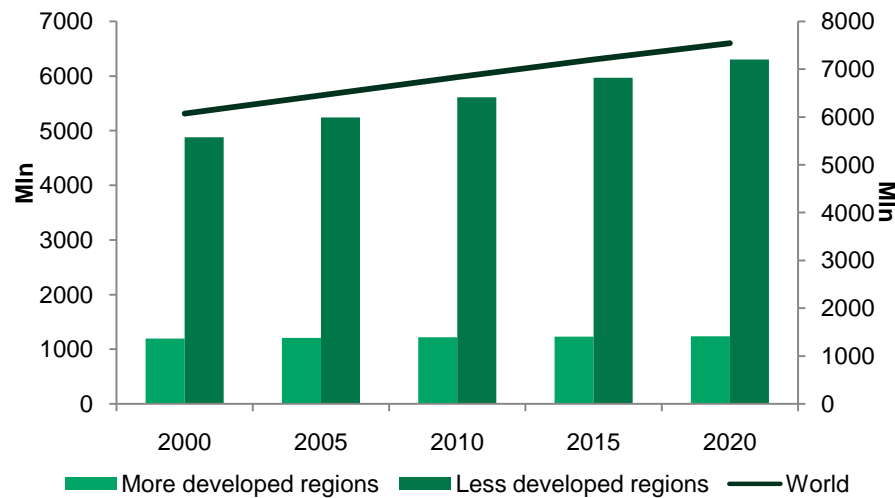
Islamic microfinance remains minute compared to the global market.

It was earlier ascertained by The Consultative Group to Assist the Poor (CGAP) that:

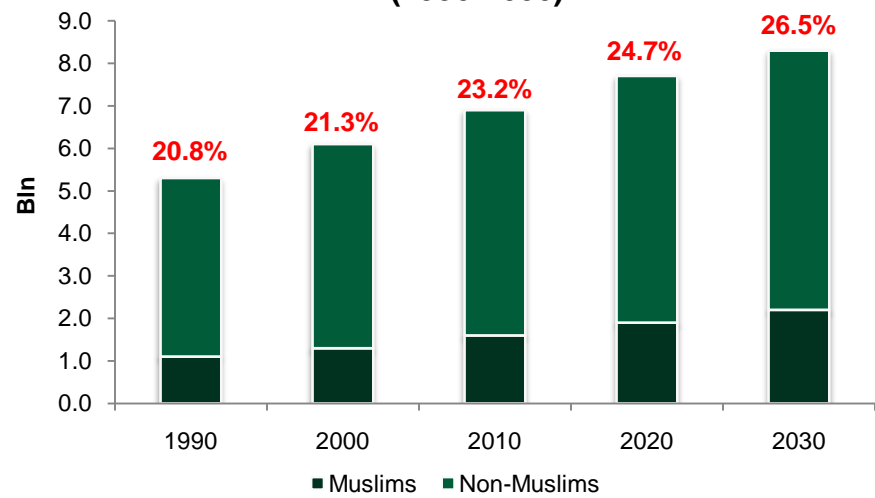
- 33% of the world poor population consists of Muslims
  - ✓ From this amount approximately 72% do not use any formal financial services products or services.
  - ✓ Meanwhile, it was gauged 20-40% of Muslims refrain from utilising interest based financing.
- The type of institutions that provides Islamic microfinance are rural banks followed by NGOs.
- However according to provision of financing, commercial banks were the most active followed by NGOs.

# GLOBAL MUSLIM POPULATION

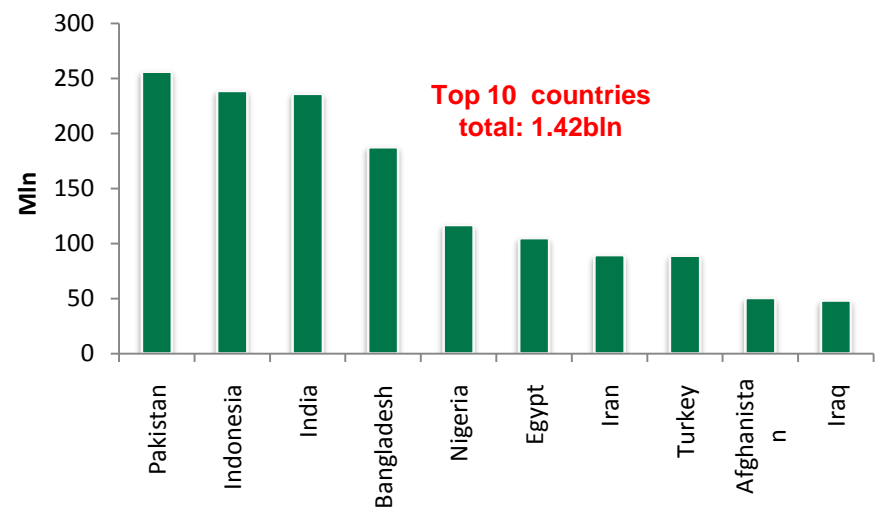
Global Total Population (2000–2020)



Proportion of Muslim vs. Non-Muslim Population (1990-2030)



Largest Muslim Population by Country: 2030



- Global population is expected to touch approximately 7.5bln mainly comprised of population from the less developed countries (84%) in 2020.
- From this projected global population, the Muslim population is expected to comprise approximately 25% of global population in 2020.
- From the majority of the Muslim population, the top 10 most populous Muslim country will account for 1.42bln Muslim globally.

# DEVELOPMENT STRATEGIES OF FINANCIAL INCLUSION

- **Financial inclusion strategies** are characterised by planned actions, conceptualised, defined and mutually agreed **on a national level**, and ideally prepared by the public sector supported by the private sector to encourage broad innovation and development in line with MFI targets. Strategies can integrate public and private sector actions to address various barriers to financial inclusion, and can also focus on high-impact, high-priority areas, such as **SME lending**.

1

Financial inclusion is interlinked with **financial stability, financial integrity, market conduct**, and the **financial capability of consumers**. Having said this, the resilience of Islamic finance should suit financial inclusion agenda in the current economic climate.

2

A comprehensive approach to financial inclusion addresses at least three aspects of financial services and products:

1. **Access**; increase the unbanked penetration rate
2. **Usage**; promoting usage of financial products and services to increase regularity
3. **Quality**; financial products meeting clients' needs

3

- **Consumer protection** (ethical financing)\* help build public confidence and raise demand for financial services
- **Disclosure and transparency** promotes financial inclusion, lower risk and stimulate competition

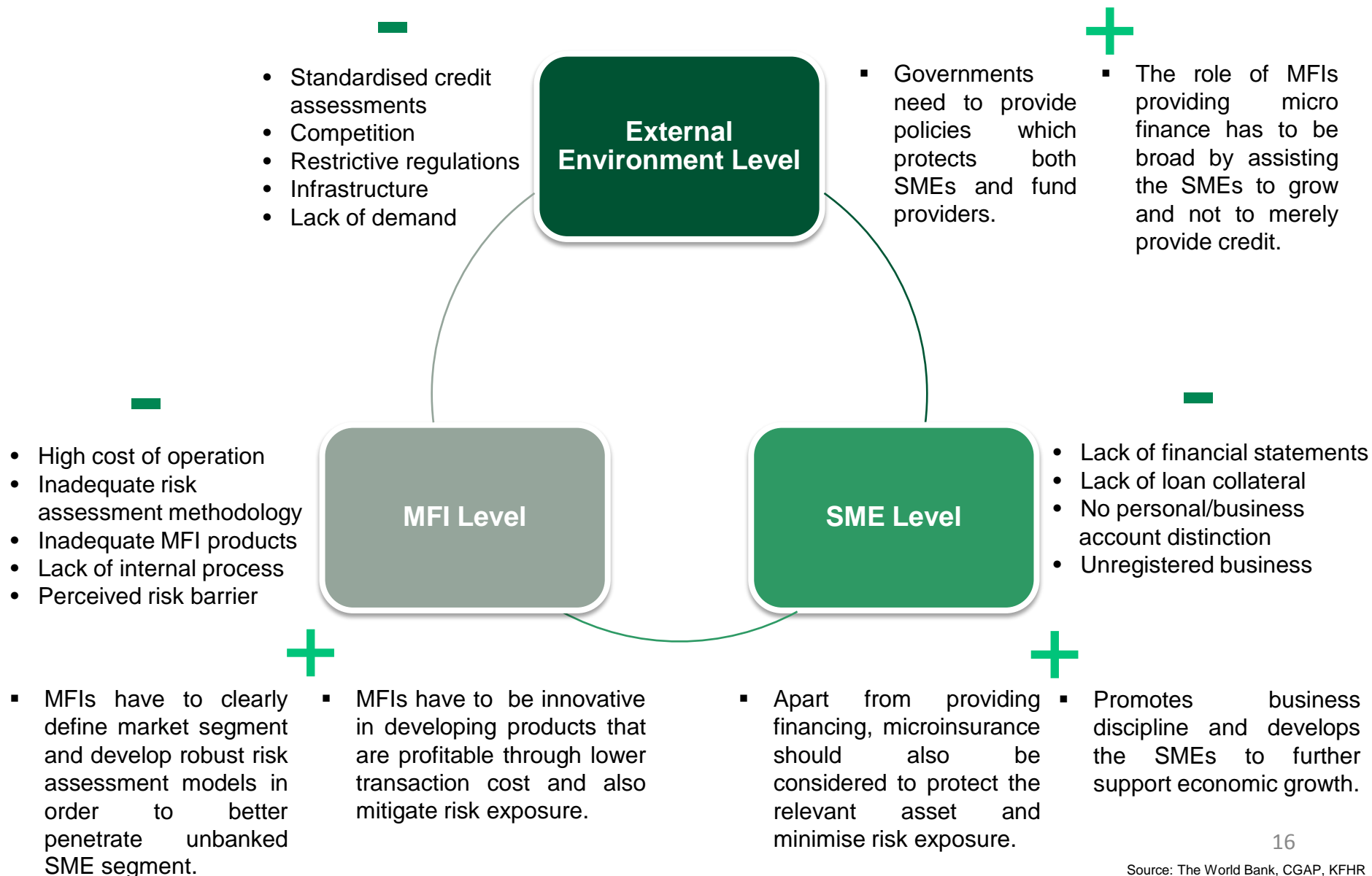
Financial inclusion
Examples of how SMEs can benefit
<ul style="list-style-type: none"><li>• Microfinance – SMEs able to secure financing to support growth</li><li>• Microinsurance – SMEs have access to insurance to reduce exposure to losses</li><li>• Regulatory reforms – regulators introduce reforms to promote innovation by MFIs to serve lower income clients</li></ul>

Financial inclusion + financial capability and consumer protection
Examples of how SMEs can benefit
<ul style="list-style-type: none"><li>• Microfinance – SMEs able to understand financial products and select best suited facility</li><li>• Microinsurance – SMEs able to understand the risks covered, premium vs. benefits and better select product</li><li>• Regulatory reforms – regulators better understand and assist the consumers, ensuring reforms have maximum impact on SMEs</li></ul>

\*Consumer protection concept included in financial inclusion is in line with Islamic finance's tenet on responsible lending.



# CHALLENGES TO AN ENABLING FINANCIAL INCLUSION ENVIRONMENT



# CONCLUSION: PROSPECTS FOR ISLAMIC FINANCIAL INCLUSION

## DRIVERS SUSTAINING ISLAMIC FINANCIAL INCLUSION

### Economic Health

- ✓ Global economic environment to promote growth.
- ✓ **Potentially increase financing activities from Islamic finance in current economic climate to support SME financing.**

### Global Islamic Finance Expansion

- ✓ Islamic banking and the sukuk market have both grown tremendously and have become mainstream financial systems.
- ✓ **Islamic micro-financing can play a major role by supporting the SMEs with access to adequate financial resources.**

### Demand for Islamic Financial Inclusion

- ✓ SMEs cater to a rather large part of the economy; **Turkey's SMEs account for at least 90% of total enterprises.**
- ✓ The increasing shift of consumer preferences to subscribe to Islamic financial products provides opportunity for Islamic micro financing to gain market share

### Challenges

- ✓ Challenges involves government bodies, Islamic financial providers and customers.
- ✓ Issues ranges from product development and pricing to sound policy setting by the government.

### Towards an Enabling Environment

- ✓ Sound policy and standard setting to ensure structured environment for Islamic financial inclusion.
- ✓ Coherent development of Islamic financial infrastructure to promote mobilisation of Islamic micro finance.

# KFH GLOBAL INVESTMENT RESEARCH

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



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



## THANK YOU

**“Best Islamic Finance Research House 2012”**  
**The Asset Triple A Islamic Finance Awards 2012**

**“Contribution to Research in  
Islamic Finance 2009”**  
International Islamic Finance Forum  
April 2009

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

**“Outstanding Contribution to Islamic Finance”**  
Failaka-Amanie Symposium, Dubai  
April 2010

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

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

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

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

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