

بيت التمويل الكويتي  
Kuwait Finance House



Global Islamic Finance Forum 2010

Islamic Finance Opportunities:  
Country and Business Guide 2010

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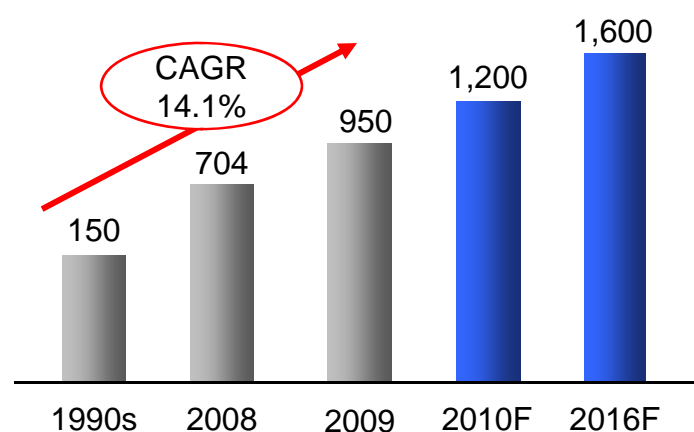
# CONTENT

- **Overview of the Islamic Finance Industry**
- **Snapshot of the Islamic Finance Industry**
- **Countries & Jurisdictions**

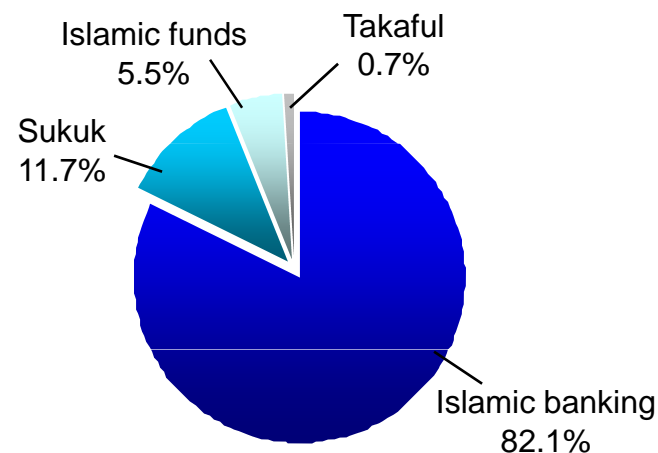
# ISLAMIC FINANCE: WHERE WE ARE

- Islamic assets have expanded at a CAGR of **14.1%** from USD150bln in the mid-1990s to around USD1.0tln in 2009
- The industry has demonstrated its competitiveness and resilience during the global financial crisis period
- Post crisis, apart from Muslim majority countries, Islamic finance is making headways into new jurisdictions
- Efforts are being focused on the further development of Islamic financial markets, its infrastructure and enhancing the legal, regulatory and supervisory framework
- As at end-2009, Islamic banking represented 82.1% of the Islamic finance assets followed by Sukuk (11.7%) and Islamic funds (5.5%)
- The IFSB expects the global Islamic finance assets to reach **USD1.6tln by 2012**

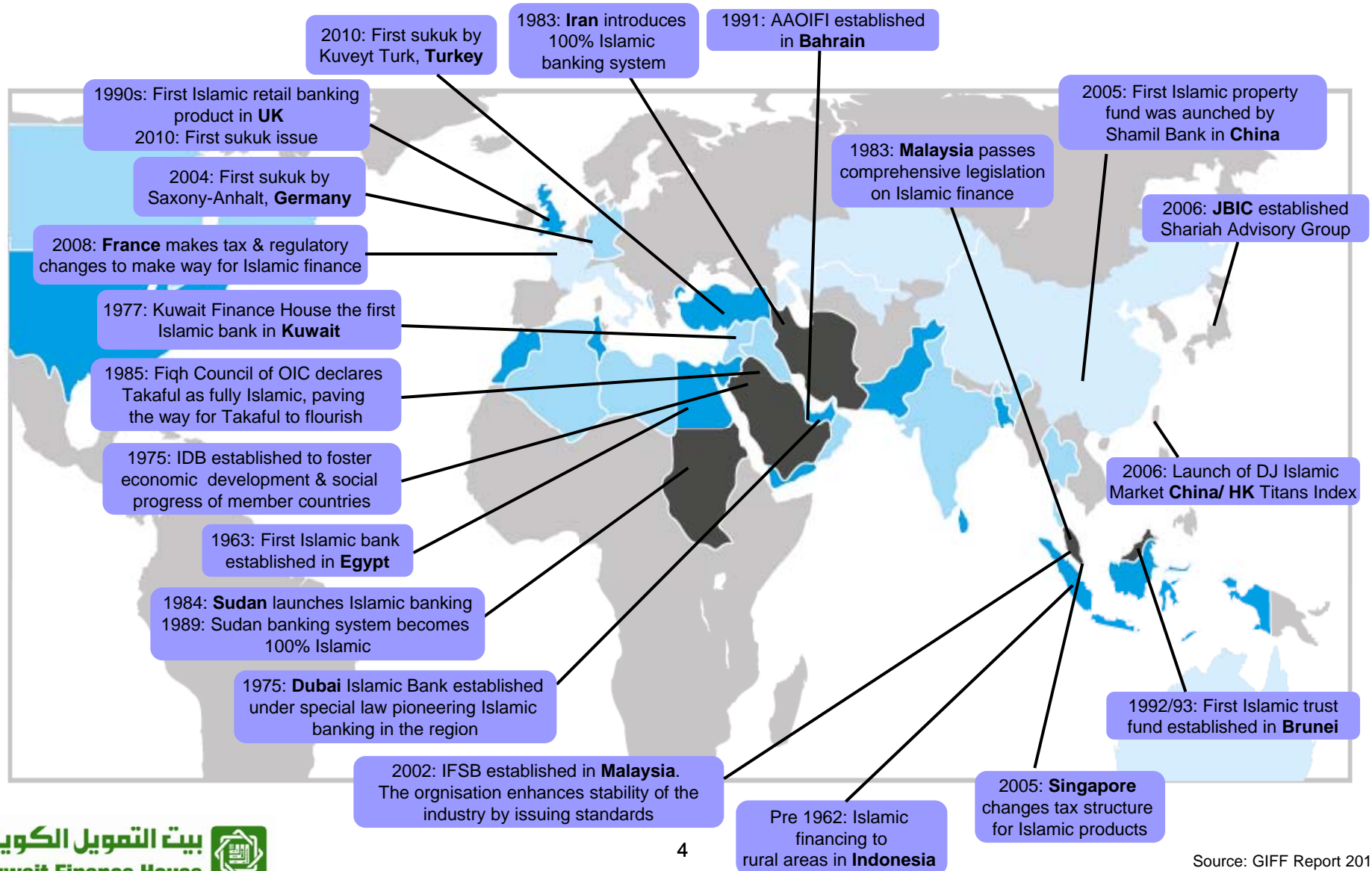
Islamic Finance Assets Trend, USD bln (1990s-2012F)



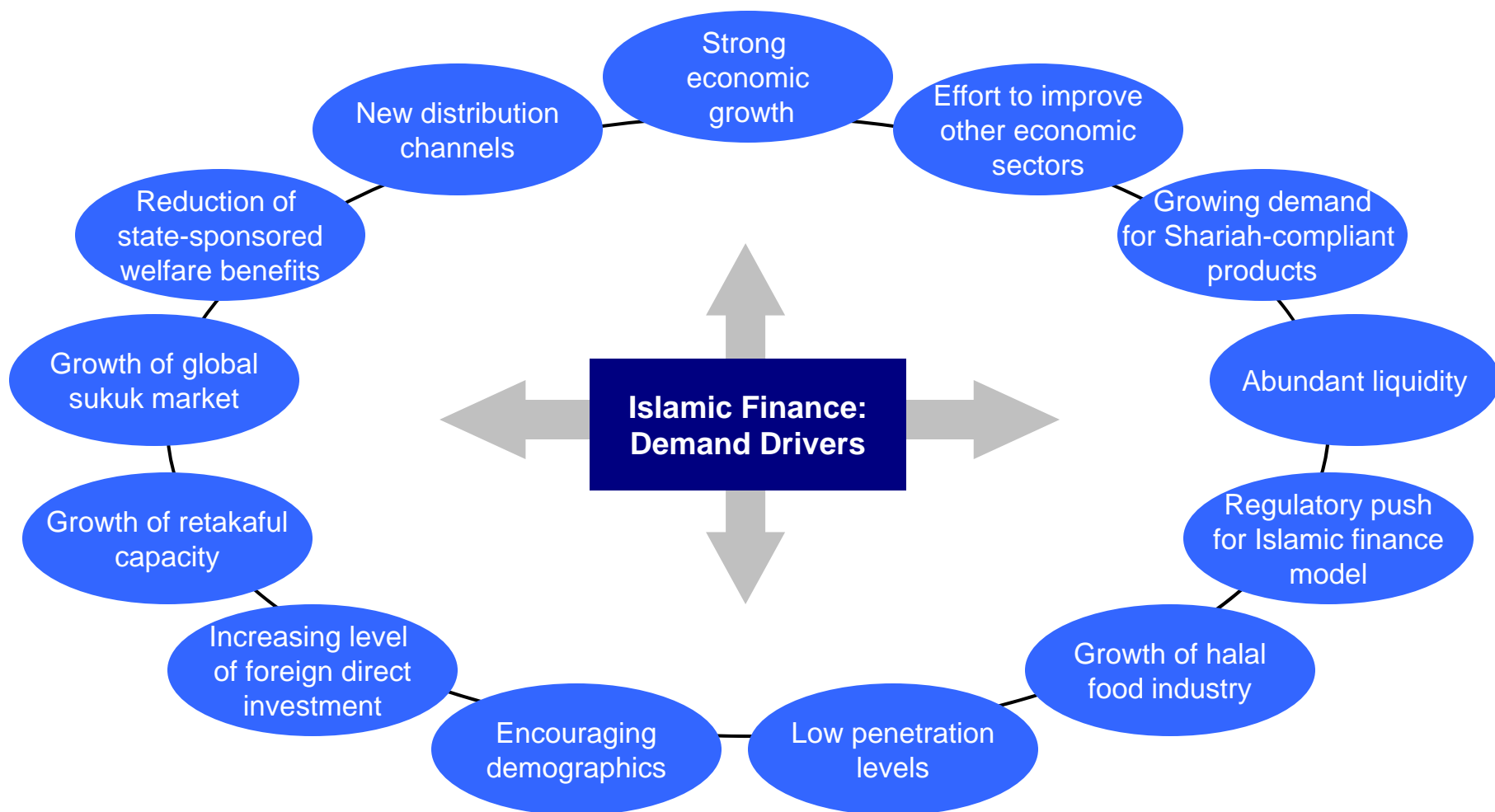
Breakdown of Islamic Assets (2009)



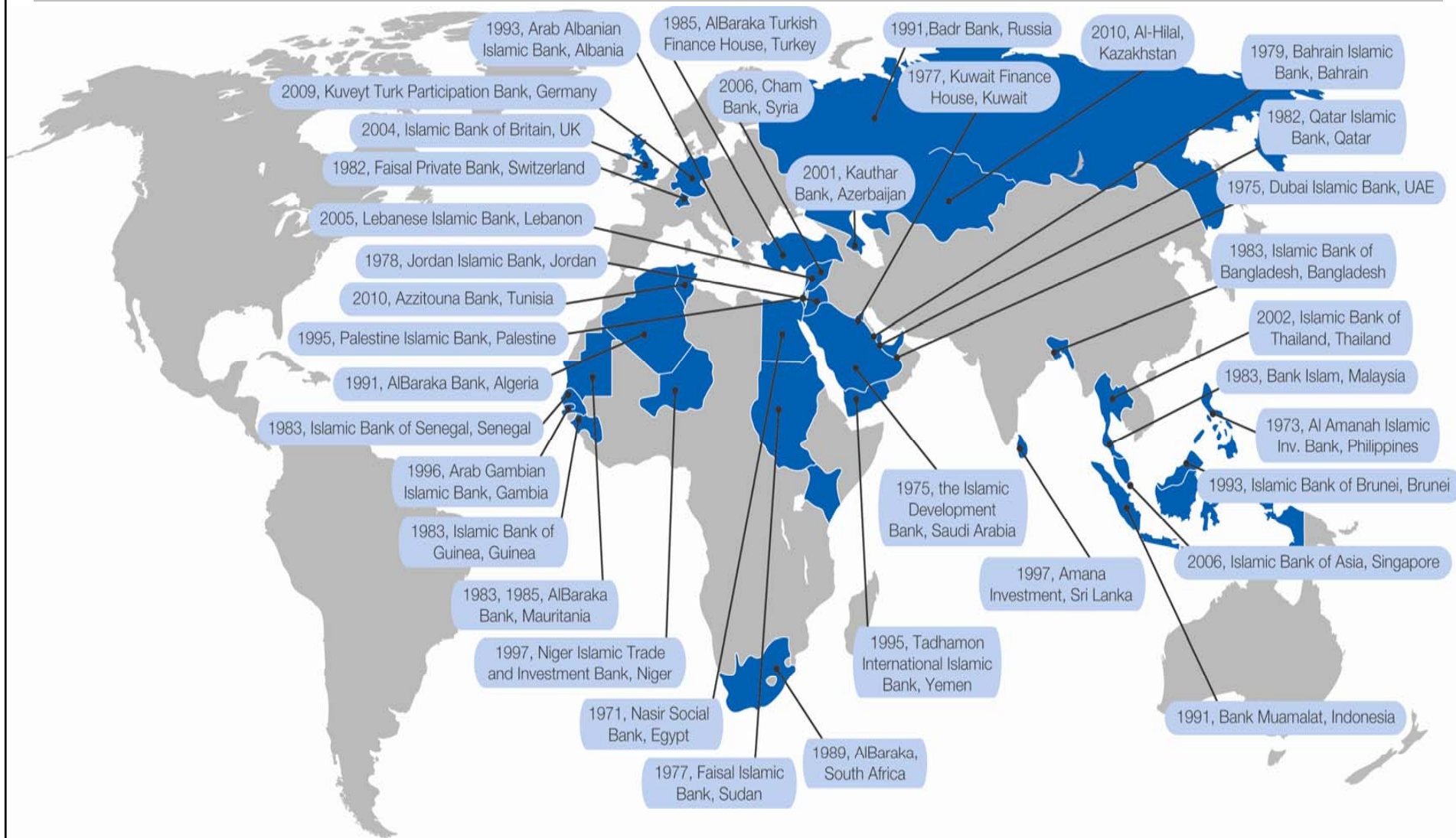
# A GLOBAL INDUSTRY



# FACTORS FUELLING GROWTH OF ISLAMIC FINANCE



# ISLAMIC BANKS TODAY...

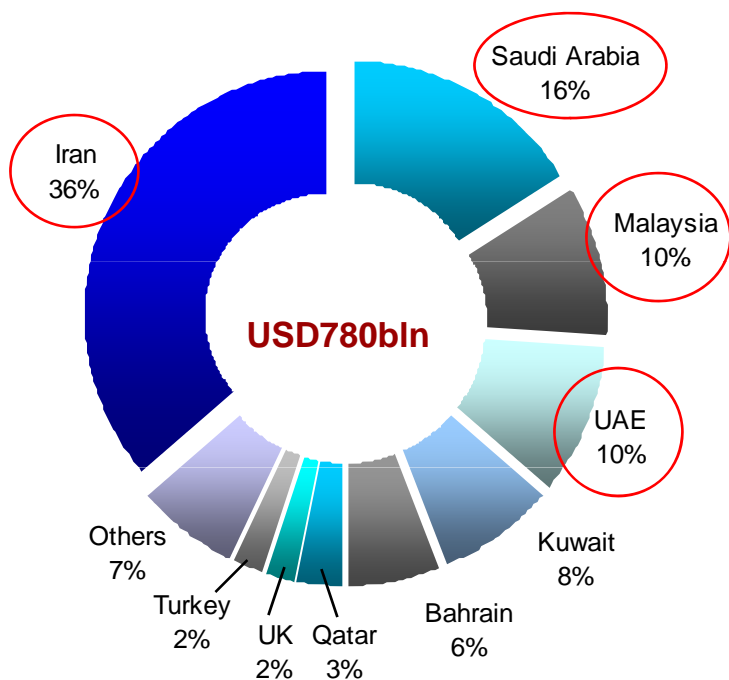


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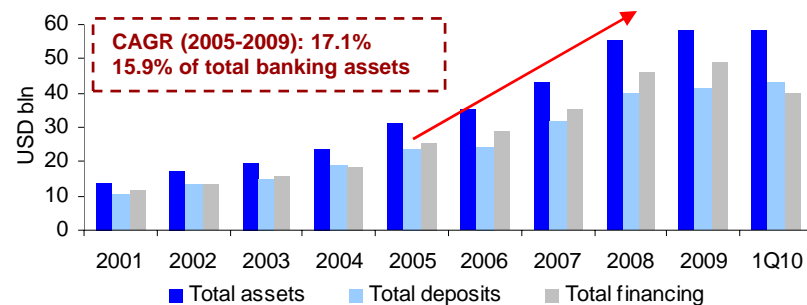
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# GLOBAL ISLAMIC BANKING INDUSTRY

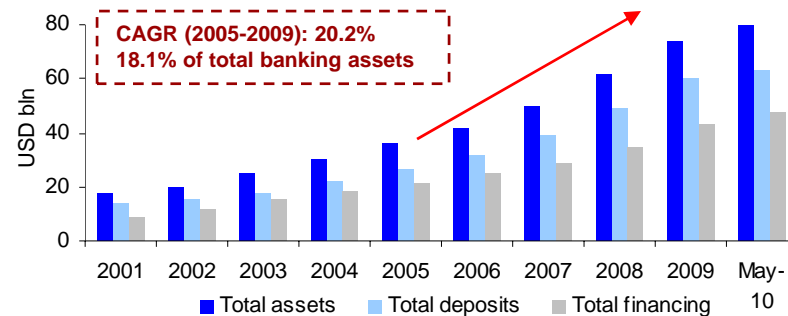
Share of Global Islamic Banking Assets (2009)



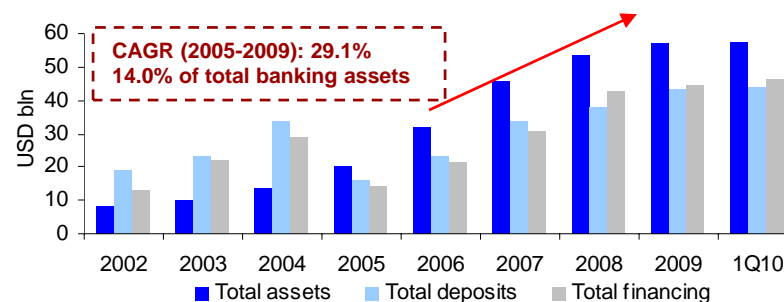
Islamic Banking: Saudi Arabia



Islamic Banking: Malaysia



Islamic Banking: UAE

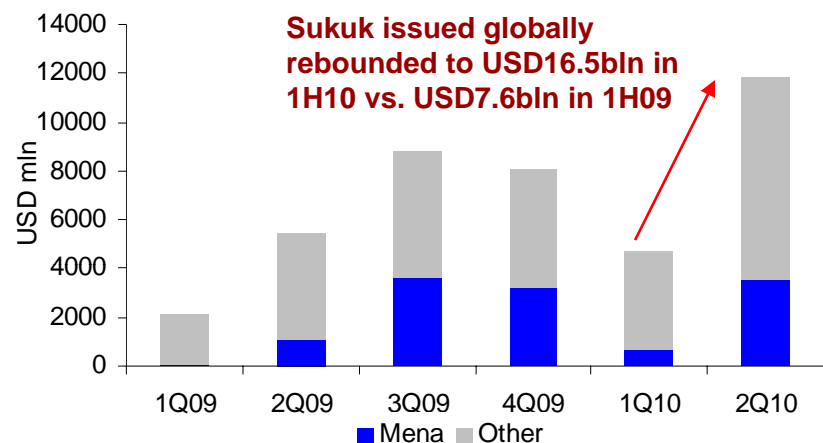


➤ Islamic banks' market shares are currently 10% in Malaysia and 43% in the GCC. Iran has the largest market share at 36%

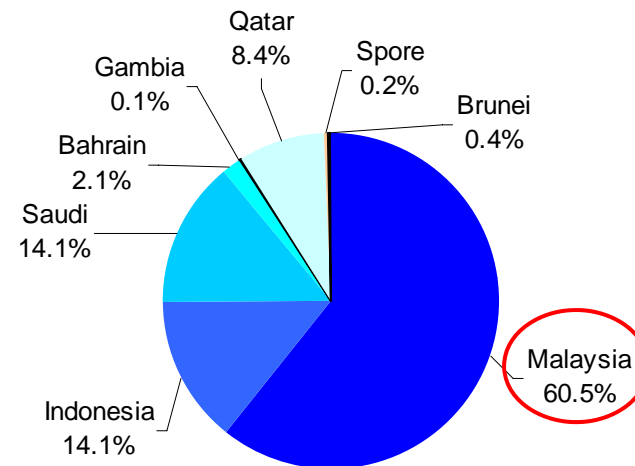


# GLOBAL SUKUK MARKET

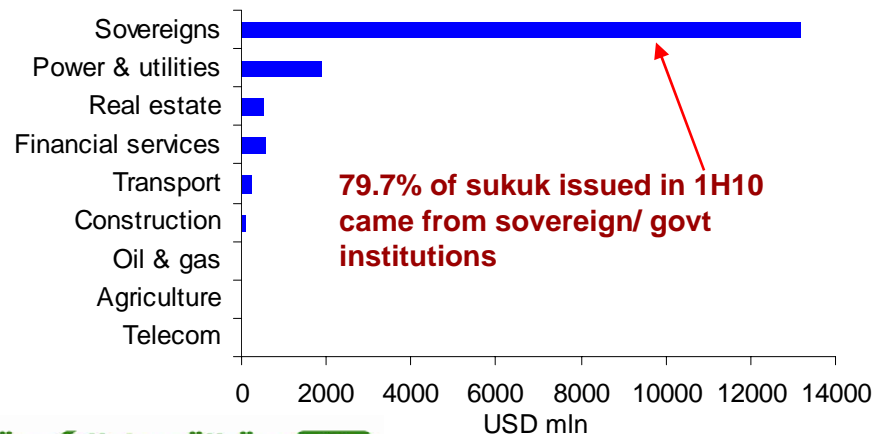
Global Sukuk Issued Quarterly Trend (2009-1H10)



Global Sukuk Issued by Country (1H10)



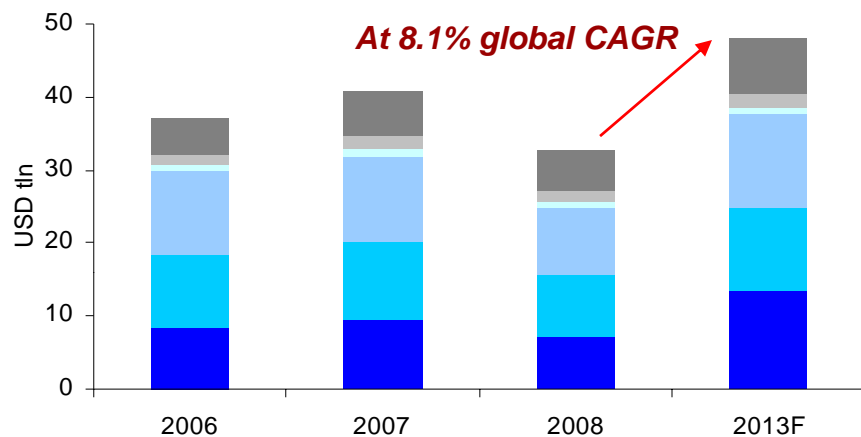
Global Sukuk Issued by Sector (1H10)



- In 1H10, total sukuk issued globally increased by 116.3% yoy to USD16.5bln
- Malaysia continued to dominate the global primary sukuk market
- Approx. 79.7% fundraisers were sovereign and quasi-sovereign entities
- Expect 2010 sukuk issuances to come in at a conservative estimate of **USD30bln**

# ISLAMIC WEALTH MANAGEMENT & FUNDS

Global HNWI's by Region (2006-2013F)



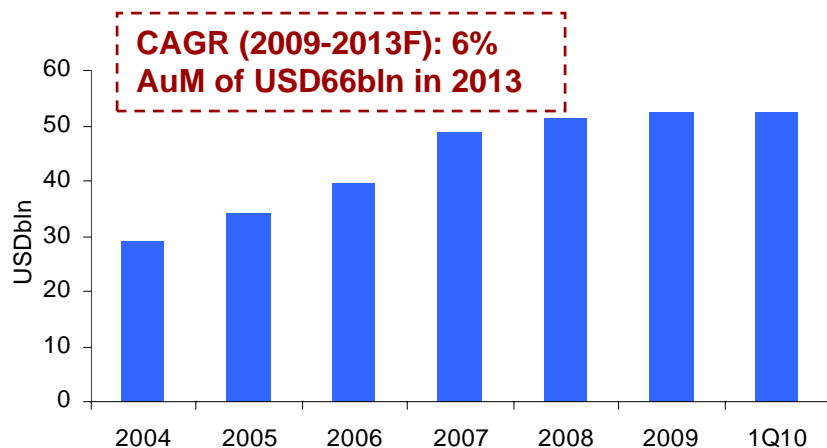
**Annual growth rate 2008-2013F**

|               |       |
|---------------|-------|
| Latin America | 6.8%  |
| Middle East   | 5.7%  |
| Africa        | 4.1%  |
| North America | 7.0%  |
| Europe        | 6.5%  |
| Asia Pacific  | 12.8% |

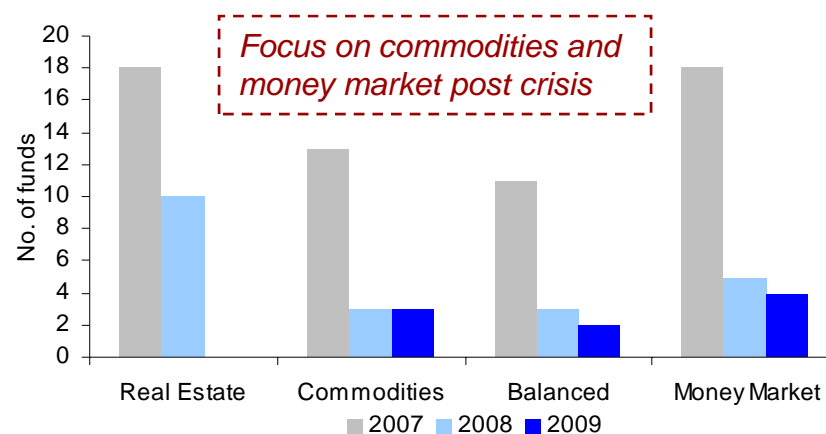
Global HNWI's wealth is projected to grow at a CAGR of 8.1% for 2008-2013F, from USD32.8tln in 2008 to **USD48.5tln in 2013**

Asia Pacific and the Middle East seeing the biggest increase in wealth

Islamic Funds AuM (2004-1Q10)



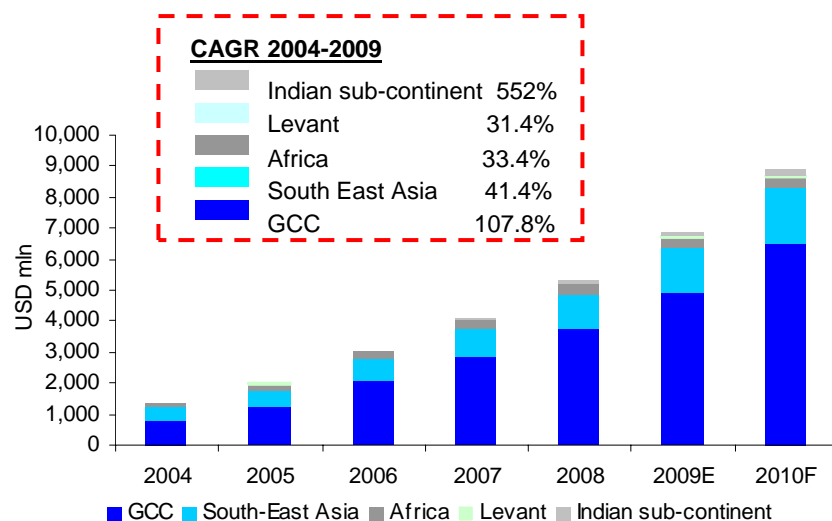
Number of Islamic Funds Launched by Asset Class (1Q10)



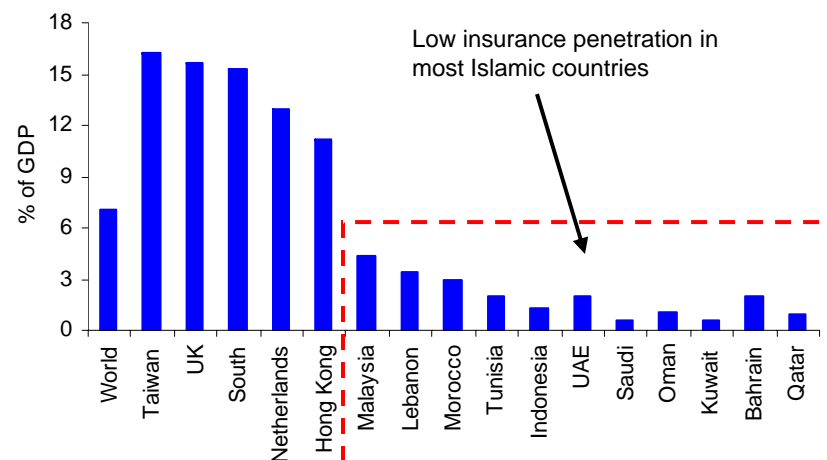
# GLOBAL TAKAFUL

- Global gross Takaful contributions continue to post healthy growth, reaching USD5.3bln in 2008 and estimated at **USD6.9bln in 2009**
- Takaful contributions by region – GCC 70.4% (Saudi 54.8%, UAE 10.2%) , South East Asia 21.5% (Malaysia 16.7%, Indonesia 3.5%), Others 8.1% (Sudan 5.3%)
- Potential of the Takaful industry is enormous. Insurance penetration in most Islamic countries is low at 1.4% of GDP vs. global average 7.1%, UK 12.4%, US 9.4% and emerging markets 2.8%
- Strong fundamentals suggest global contributions could reach **USD8.9bln by 2010**

Global Gross Takaful Contributions (2004-2010F)



Written Life & Non-Life Premiums as a % of GDP (2008)

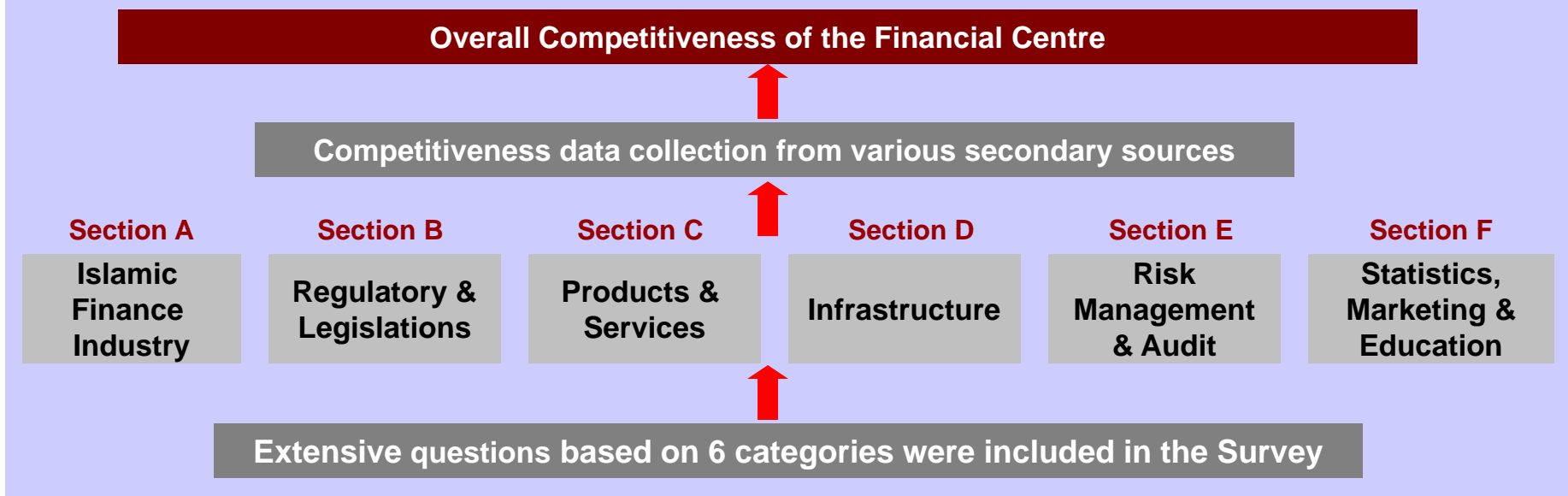


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# ISLAMIC FINANCIAL CENTRES: A COMPETITIVE REVIEW

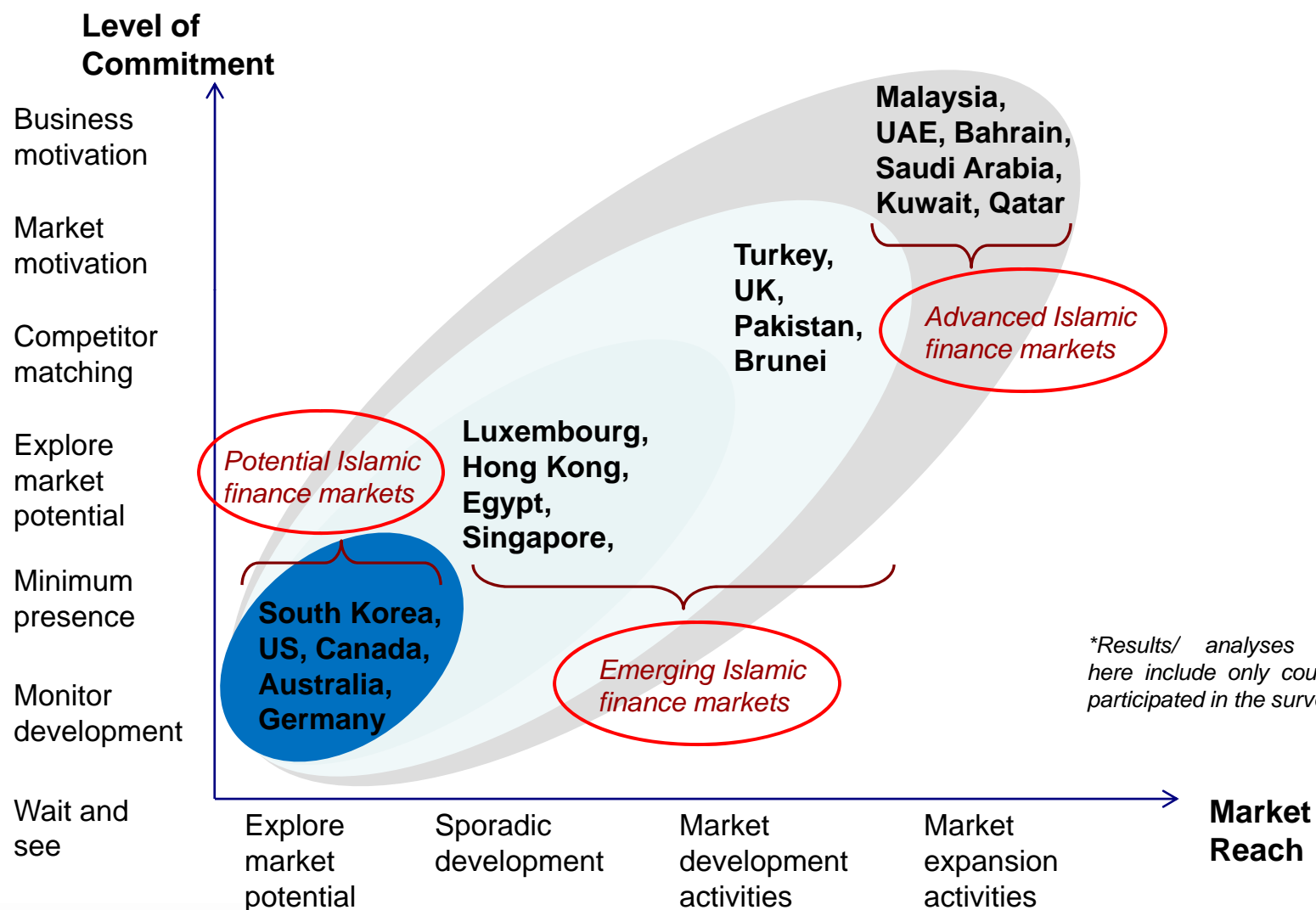
## Approach to Competitive Ranking Exercise



## Survey Participating Countries

| Asia        |               | GCC            | Europe       | North America | Africa  |
|-------------|---------------|----------------|--------------|---------------|---------|
| ✓ Malaysia  | ✓ South Korea | ✓ Kuwait       | ✓ Turkey     | ✓ Canada      | ✓ Egypt |
| ✓ Brunei    | ✓ Australia   | ✓ UAE          | ✓ Luxembourg | ✓ US          |         |
| ✓ Singapore | ✓ Pakistan    | ✓ Saudi Arabia | ✓ UK         |               |         |
| ✓ Hong Kong |               | ✓ Bahrain      | ✓ Germany    |               |         |
|             |               | ✓ Qatar        |              |               |         |

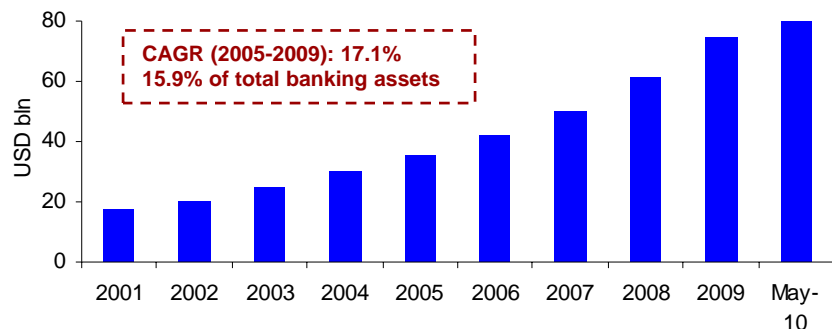
# CLASSIFICATION OF ISLAMIC FINANCE MARKETS



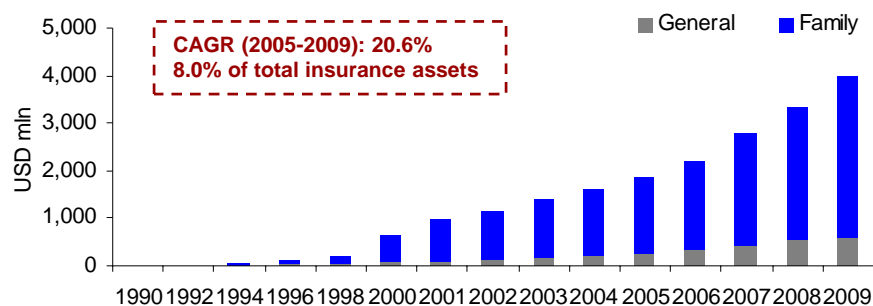
*\*Results/ analyses presented here include only countries that participated in the survey*

# MALAYSIA'S ISLAMIC FINANCE INDUSTRY

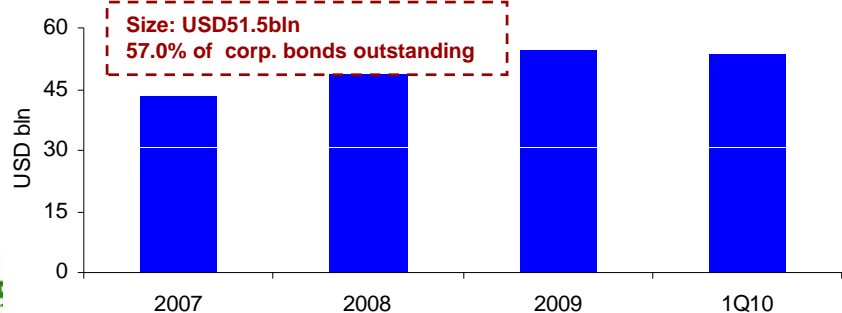
### Islamic Banking Total Assets



### Takaful Assets Growth



### Outstanding Corporate Sukuk



### Regulatory Bodies Related to Islamic Finance

#### Bank Negara Malaysia

- Formulation, management, supervision and reporting of Islamic finance policy and direction. Also promotes the industry

#### Securities Commission

- Banking regulatory and supervisory authority

#### Shariah Advisory Council of BNM

- Ascertainment of Islamic law in Islamic finance business and transactions on a national level

#### Shariah Advisory Council of SC

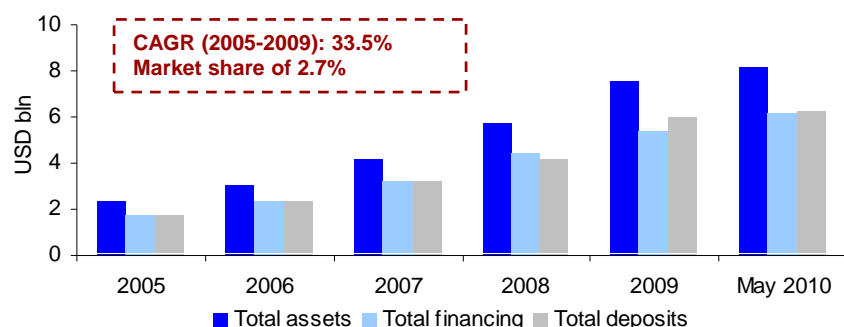
- Advise SC on all Shariah matters related to the development of the Islamic capital market
- Oversees the registration and development of Shariah advisors

# INDONESIA: CHARTING THE NUMBERS

Number of Islamic Players & Assets Size

| Market segment | No. of players                   | Total assets |                     |
|----------------|----------------------------------|--------------|---------------------|
|                |                                  | USD bln      | % of Islamic assets |
| Islamic banks  | 10                               | 3.1          | 40.0                |
| Takaful        | 39 (incl. 3 retakaful operators) | 0.2          | 2.6                 |
| Islamic funds  | -                                | 0.1          | 0.7                 |
| Sukuk          | -                                | 4.4          | 56.7                |

Islamic Banking Total Assets



Regulatory Bodies Related to Islamic Finance

## Ministry of Finance

- Formulation, management, supervision, reporting of national policy, implementation policy and technical policy in Islamic finance

## Bank of Indonesia

- Banking regulatory and supervisory authority

## Shariah Supervisory Board

- Supervision on Shariah aspects at the Islamic bank's head office

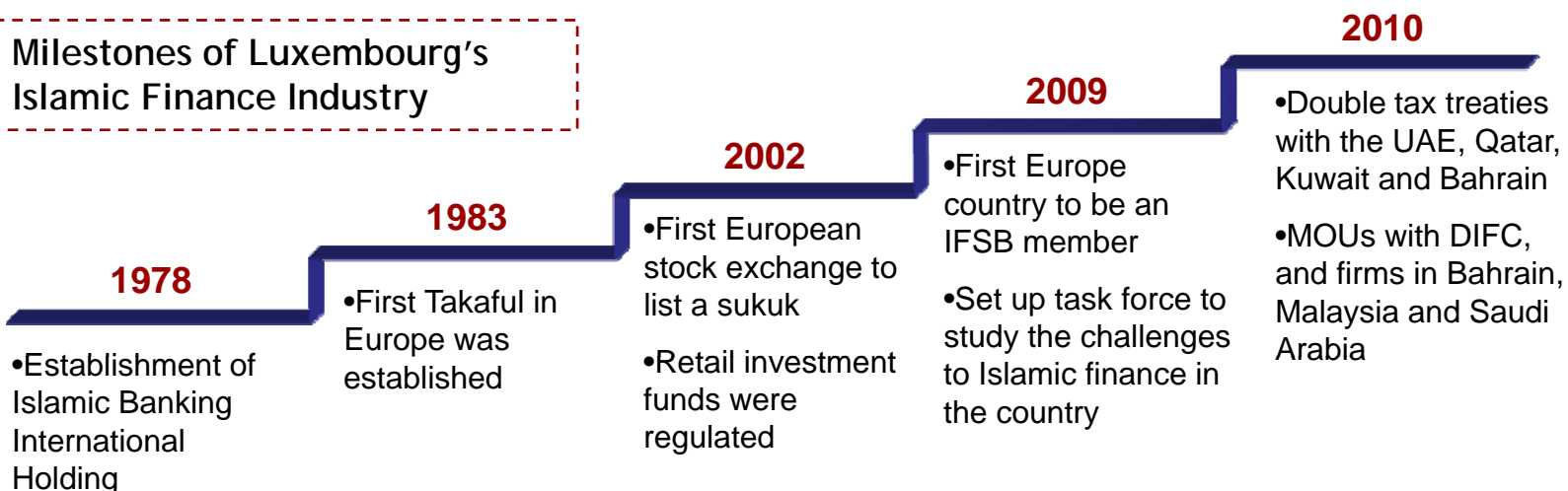
## National Shariah Council

- Issues Shariah rulings on products of Islamic banks
- Undertakes the Shariah Supervisory Board role



# LUXEMBOURG: MAKING HEADWAYS

## Milestones of Luxembourg's Islamic Finance Industry



## Luxembourg's Value Proposition

International hub for financial services and investment funds

4<sup>th</sup> largest financial centre for Islamic Investment Funds Worldwide.  
>40 Islamic investment fund units with AuM ~USD500mln

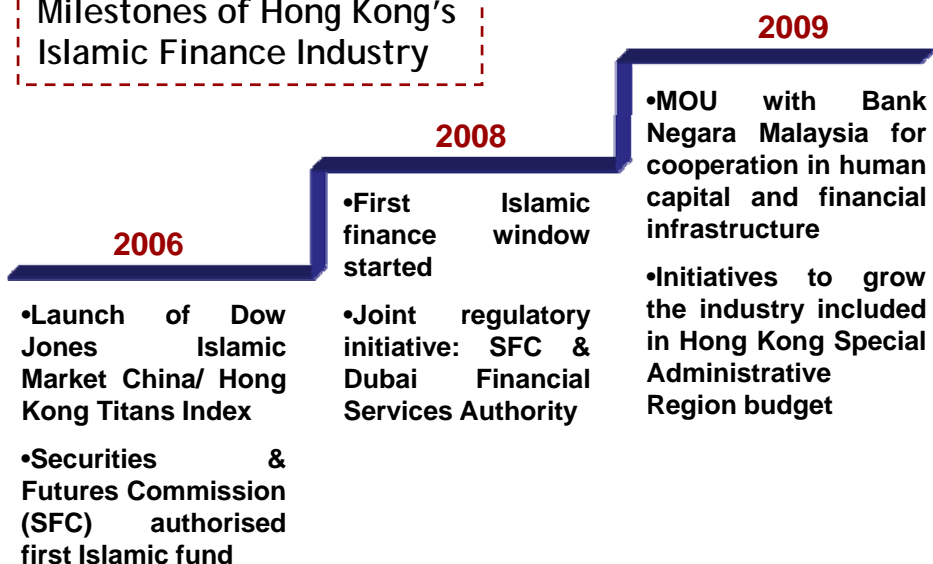
Legal & regulatory framework is well adapted for the set up of Islamic financial instruments, Islamic transactions and Islamic investment funds

Incentives for Islamic capital markets, e.g. tax treatment of Sukuk is identical of a debt in conventional finance

Strong government commitment to develop Islamic finance

# HONG KONG & SOUTH KOREA: NEW ENTRANTS

## Milestones of Hong Kong's Islamic Finance Industry



### Hong Kong's Value Proposition

- ✓ Regional hub for financial services
- ✓ Existing regulatory and taxation framework can readily support the development of Islamic equities and funds
- ✓ The Government intends to adopt a prescriptive and religion-neutral approach in the legislative amendments

## Milestones of South Korea's Islamic Finance Industry



### Opportunities for South Korea

- ✓ Islamic infrastructure financing: Jeju Island Development Plan, proposed financing by the issuance of sukuk
- ✓ Islamic asset management whereby Woori Asset Management partnering with Shariah Finance Co plan to start a new Islamic asset management company in Malaysia (2011)

# REGULATORY INITIATIVES IN NEW MARKETS

## Thailand

- The Thai cabinet approved in principle a draft ministerial regulation to allow the issuance of Islamic bonds in Thailand
- The amendment will expand the boundary of securities transactions to allow brokering, trading and arranging the issuance of sukuk

## Jordan

- The government has recently formed a committee to study mechanisms of issuing sukuk including financial, legal and technical matters

## Kazakhstan

- The government established a working group in 2009 to draw up a roadmap for an Islamic financial system
- Principles of Islamic finance were introduced in the Kazakh legislation to facilitate various Islamic financial transactions

## African countries

- The Central Bank of Nigeria introduced the Law Governing the Operation of Islamic Banks in 2009, bringing the authorisation of Islamic financial institutions on par with the same provisions relating to conventional banks
- Kenya authorised two Islamic banks following the introduction of an Islamic banking law

## France

- The latest European country to emulate the UK in overhauling its tax laws to facilitate Islamic financial transactions
- In July 10, the country passed new instructions to facilitate the introduction of sukuk, Ijarah, Murabahah and Istisna products (previously only sukuk and Murabahah)

# STRENGTHENING ISLAMIC FINANCIAL INFRASTRUCTURE

- ✓ Critical to build robust components of the financial infrastructure and strengthen key institutions to ensure the stability and dynamism of Islamic financial system
- ✓ IFSB has identified 8 building blocks aimed at further strengthening the Islamic financial infrastructure
- ✓ Challenges include human capital and enhance product development, identifying the right opportunities and delivery of appropriate returns for risk involved
- ✓ **IFSB projects Islamic assets to potentially reach USD1.6tn by 2012**



# KFH GLOBAL INVESTMENT RESEARCH



## THANK YOU

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

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

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

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

**“New Provider for Islamic Finance Research”**  
5<sup>th</sup> KLIFF Islamic Finance Awards  
November 2008

**“Best Islamic Research Company”**  
Islamic Finance News Awards Poll 2009  
January 2010

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

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