



PARLIAMENTARY UNION OF THE OIC MEMBERS STATES (PUIC)
The importance of Islamic Banking System at the age of global financial crises

Claudia Segre

Kampala, 28th January 2010

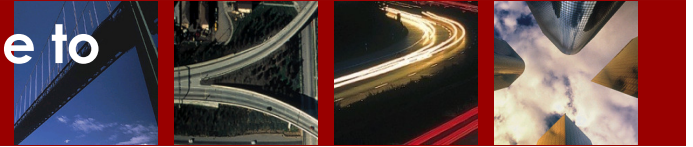
Contents:

- **Islamic Banking: from foundation to face with global financial crises**
- **Developments in Islamic banking instruments**
- **An ecumenical approach to islamic banking system: *homo economicus* at center stage**
- **Conclusions**

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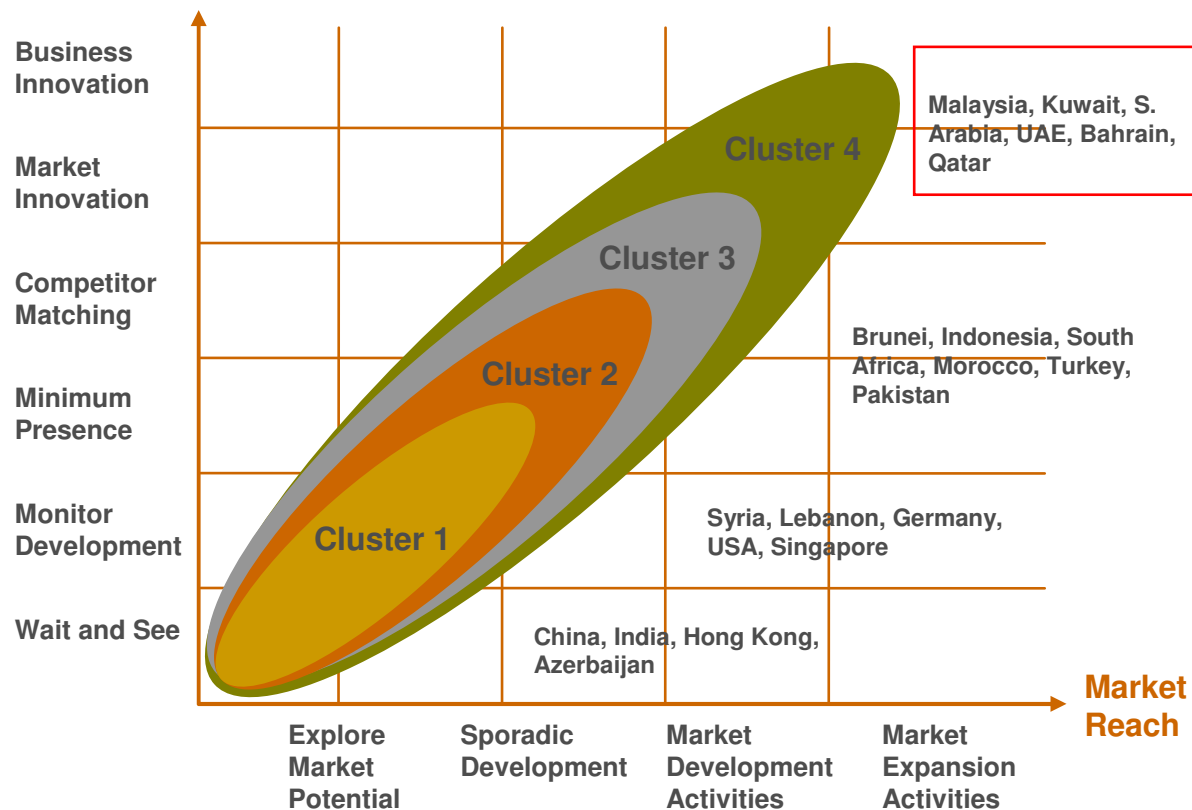
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Islamic Market evolution in the world: from niche to mainstream of the Malaysian Best Case



- Islamic finance do not represent a tradition of Arab countries
- It is the expression of financing needs and skills availability of Islamic Countries
- UAE, as well as Malaysia, are aggressively looking to consolidate their position as a major, innovative, international Islamic financial destination.

Level of Commitment

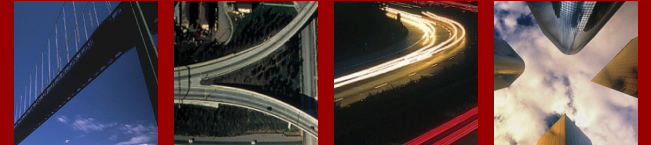


Malaysian Market Highlights:

- About 55% of the country's 27m people are Muslim.
- The first Islamic Bank was incorporated in 1983
- Islamic banking sector has grown at a 28% rate in the past 15 years.
- In the 12 month ending July 2009 the Islamic banking asset increase 10.2% and accounted for 14.2% of the total banking assets.
- The expectation is for a total of 50 bn USD of Sukuk issuance in the medium term .
- Market supports more than 17 Islamic banks, including 3 foreign Islamic banks, 7 conventional banks with Islamic windows and 9 Takaful operators. **New Mega islamic banks foundation to be finalized .**
- In April 2009 PM Najib Razak introduced new financial sector liberalization measures: **islamic banking licenses 100% foreign owned, 2 new family Takaful licenses**

Sources: Reuters, 13 April 2008, and OPEC's Monthly Oil Market Report:
www.opec.org/home/Monthly%20Oil%20Market%20Reports/2007/mr022007.htm

Islamic Market evolution in the world : The Mega Islamic Banks



- ME Central Banks commitment for green light for new Islamic banks: CBK Bank of Kuwait and the Middle East and Thailand (supported by Malaysia) and Sri Lanka;
- But Mega Bank projects still in place: from Sheikh Saleh Kamel, Chairman of Al Baraka Banking Group, heading an alliance to launch the world's biggest Islamic bank before , with an initial public offering of \$3 billion and initial capital of \$10 billion.
- Bank Negara Malaysia has received several enquiries on the proposed setting up of a mega Islamic financial institution with a paid up capital of at least US\$1 billion
 - ✓ The issuances of banking license has been approved since April 2009
 - ✓ The new bank must maintain a minimum capital funds that is unimpaired by losses of RM300 million at all times and a minimum paid-up capital of at least 1bln\$
 - ✓ The new commercial bank may have a foreign equity interest of up to 100% (currently the Central Bank hold a 30% stake in domestic player to assure the development of credit facilities also in rural areas).
 - ✓ **Two foreign banks has been shortlisted at Dec 2009**
 - ✓ Announcement is expected be made before the end of 1H 2010; successful applicants may commence operations with effects from 1 Jan 2011.

Actual trends are far behind first unsuccessful 2004 sukuk issuance in Europe: Land Sassonia-Anhalt



SACHSEN frn 2009:
 It is the first experience of Islamic Finance European borne.
 It is a Sukuk issuance of the Sassonia-Anhalt Land, a German County, in the form of Ijara Sukuk for a total amount of 100 mln Eur.
 The deal missed its aim of satisfy the request of the large Muslim community in the region.
 In fact, with a minimum size of 500k+500k it was not suitable for retail investors.

| STICHTING SACHSE SACHAN Float 09 | | NOT PRICED | |
|---|--------------------------|-----------------------------|-----------------|
| ISSUER INFORMATION | | IDENTIFIERS | |
| Name | STICHTING SACHSEN-ANHALT | Common | 019825230 |
| Type | Special Purpose Entity | ISIN | XS0198252305 |
| Market of Issue | Euro-Zone | BB Number | ED5640450 |
| SECURITY INFORMATION | | RATINGS | |
| Country | NL | Currency | EUR |
| Collateral Type | Bonds | S&P | AA- |
| Calc Typ(| 21)FLOAT RATE NOTE | Fitch | AAA |
| Maturity | 8/13/2009 Series | Composite | AA |
| NORMAL | | ISSUE SIZE | |
| Coupon | 2.054 Floating S/A | Amt Issued/Outstanding | |
| S/A | EURIBOFLAT ACT/360 | EUR | 100,000.00 (M)/ |
| Announcement Dt | 8/ 2/04 | EUR | 100,000.00 (M) |
| Int. Accrual Dt | 8/13/04 | Min Piece/Increment | |
| 1st Settle Date | 8/13/04 | 500,000.00/500,000.00 | |
| 1st Coupon Date | 2/14/05 | Par Amount 500,000.00 | |
| Iss Pr | 99.95200Reoffer 99.952 | BOOK RUNNER/EXCHANGE | |
| HAVE PROSPECTUS | | CITI-sole | |
| | | LUXEMBOURG | |
| CPN RATE=6MO EURIBOR FLAT. MOD FOLLOW BUS DAY CNVTN. UNSEC'D. IJARA SUKUK TRUST CERTIFICATES (ISLAMIC LEASING BOND). SAXONY BOND. | | | |

- 1) Additional Sec Info
- 2) Floating Rates
- 3) ALLQ
- 4) Corporate Actions
- 5) Ratings
- 6) Custom Notes
- 7) Identifiers
- 8) Fees/Restrictions
- 9) Prospectus
- 10) Sec. Specific News
- 11) Involved Parties
- 12) Pricing Sources
- 13) Related Securities
- 65) Old DES
- 66) Send as Attachment

After 2004, date of underwriting of this bond, no other Islamic deal followed. The reasons could be found either in the unsuccessful issuance in terms of allocation as well as in the lack of commitment of German regulators in order to grant German banks the possibility to deal with Islamic products.
In fact German banks, in order to operate with Sukuk products, need know how and jurisdictional allowance (Sharia board) that must be found trough the partnership with foreign banks. Those need often erode the profitability of the deals.

Common Islamic Financing concepts application to banking products



BANK LENDING :PROFIT & LOSS SHARING CONTRACTS:

- **Mudarabah:** Mutual Fund
- **Musharaka:** Corporate Letters of Credit

NON PROFIT SHARE:

- **Ijara:** Leasing; medium to long term financing under the Islamic variant of conventional lease product, structured against an asset Used for capital equipment financing, real estate finance
- **Murabaha:** Car, Home and Real Estate Finance: usually short term for working capital needs. Structured against a trade flow, this product is used to arrange financing for raw material purchases. Cash financing also possible.
- **Bai-Salam:** Futures Contract
- **ISTISNA:**to finance the construction of buildings, residential towers, villas and related products, and manufacturing of aircrafts, ships, machines and equipment, etc.

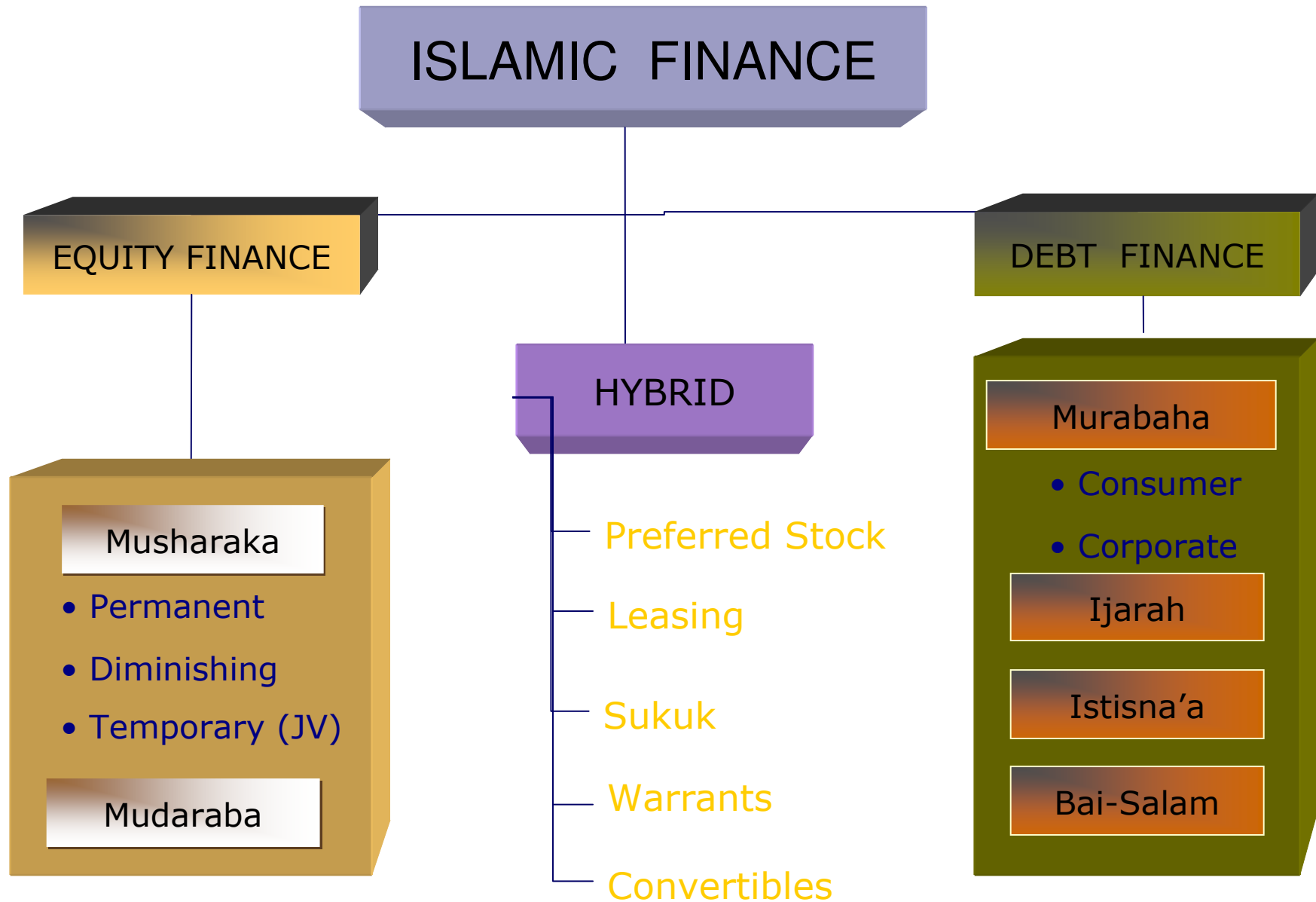
And INVESTMENT PRODUCTS:

- **Sukuk:** Islamic Bonds Issuance/ Investment Banking Capital market instrument backed by Ijara Musharaka based underlying transactions. Highly sought after product due to secondary market trading potential.
- **Takaful:** Islamic Insurance, including Life Insurance

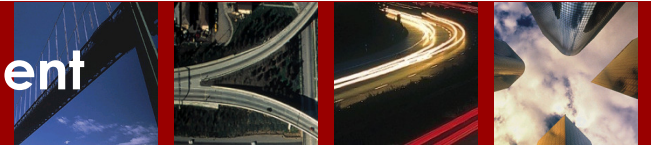
BANK DEPOSITS:(+IFSB : Islamic Deposit Insurance)

- **Wadiah:** Safekeeping/ Savings Account
- **CMMA:** Corporate Murabaha Master Agreement (Memorandum with Takaful Malaysia,ACR Re-takaful and Pension Funds)) Corporate deposits via commodity Murabaha

Islamic Finance Products Structure



Another good example of strong improvement



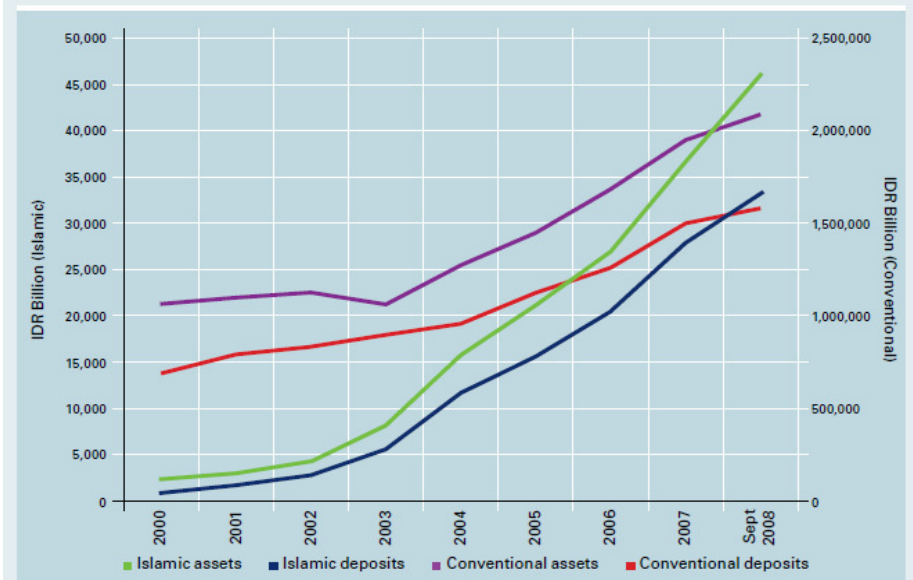
A major strength of Indonesia's Islamic banking industry is its large customer base on the funding side of its banking business. Particularly in times of low liquidity, Islamic banks in Indonesia can draw on this large and possibly more loyal, deposit fund pool to withstand the pressure of increasing cost of funds to sustain financing activities.

Total number of deposit accounts held by Indonesian Sharia banks amount to 3.7 million and constitute 2.09 percent of total banking deposit funds. In a country of approximately 209 million Muslims, this indicates a massive source of funding still untapped.

Despite its potential, Sharia banking's official presence in Indonesia was relatively recent, coinciding with the amendment of the Banking Act No.7 to account for the presence of Islamic banks and adoption of a dual banking system in 1992.

Formal development of the industry was set in place with the introduction of BI's Blueprint of Islamic Banking Development in Indonesia for the 2002–2011 period.

Islamic assets and deposits in Indonesia



Source: Bank Indonesia, Report on Islamic Banking Development 2007 & Islamic Banking statistics 2008.

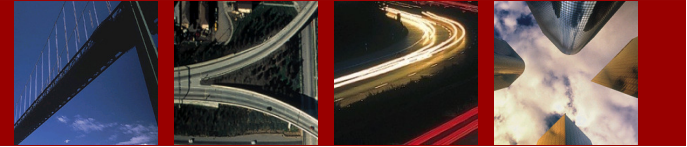
Table of comparative development of Indonesian and Malaysian Islamic banking industries

| | Indonesia | Malaysia |
|--------------------------------------|--|--|
| Number of full fledged Islamic banks | 3 | 17 |
| Development Targets | 10 percent total banking asset market share by 2013 | 20 percent total banking asset market share by 2010 ⁵ |
| Unique developments | Branding of Islamic Banking industry under the IB logo | Development of Malaysian Islamic Financial Centre |
| Money market infrastructure | Interbank Financial Market (PUAS) | Islamic Interbank Money Market (IIMM) |
| Sharia governance bodies | Dewan Syariah Nasional | Shariah Advisory Council |
| Legislation | Act. No. 21 of 2008 on Sharia banking | Islamic Banking Act 1983 |

Source: Bank Negara Malaysia, Monthly Statistical Bulletin, November 2008.

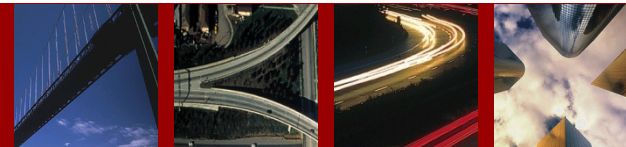
Bank Negara Malaysia's Governor, Zeti Akhtar Aziz, 'The Malaysian banking industry – gearing up for excellence, May 2002.

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Recent trends in Islamic Finance (1)

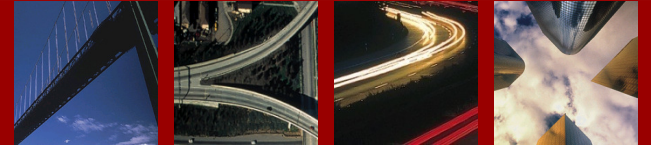


- Islamic Financial market was **not directly exposed to the US subprime crisis 2007-2009**.
- **Product innovation** from simple to complex products & structures.
- **Support from Governments** & regulators worldwide.
- **Increasing number of players**, new Islamic FI's as well as windows of conventional banks.
- Growing oil consumption in set to increase back again oil price and expand **demand for financial products & investments in Middle East**
- **Appealing economic growth in North Africa** and in some countries of SSA
- **Growing education level** of immigrant in western countries is set to increase demand for financial products: Islamic finance could be preferred



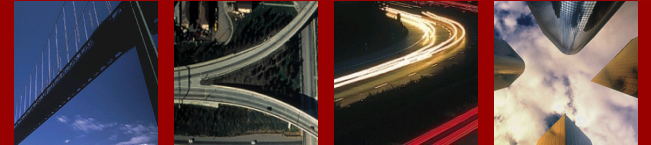
ISLAMIC FINANCE GROWTH

Recent trends in Islamic Finance (2)



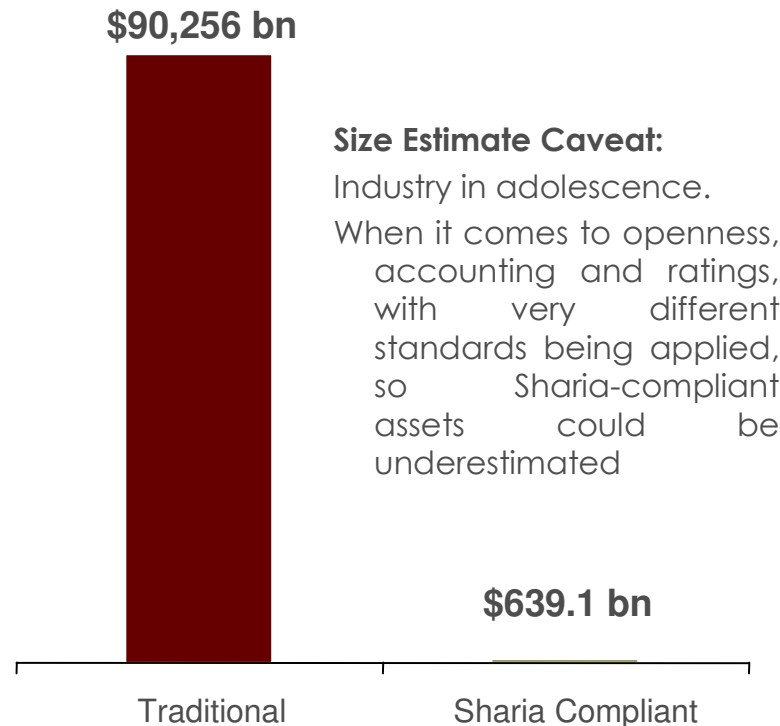
- ❖ Real Estate Bubble and tough market have put constraints on new issues during the first part of 2009 but the market is rapidly recovering
- ❖ The GCC bond market showed a strong successfully reopening this year, thanks to the transparency improvement due to increased coverage by rating agencies
- ❖ The availability of new instruments for retail investors such as ETF and mutual funds enhanced accessibility for inventors
- ❖ The key developments in Islamic finance over the past year have been the growth in new institutions, especially Islamic investment banks, in the Gulf and also in London.
- ❖ **The so called Mega Islamic Banks such as Noor Islamic Bank in Dubai and Al Hilal Bank in Abu Dhabi, both opening with large capital bases, are providing the new face of Islamic finance.**

Recent trends in Islamic Finance (3)



Scale of Global Banking Assets by Type

(\$US Billions, FY2008)



Size Estimate Caveat:

Industry in adolescence.

When it comes to openness, accounting and ratings, with very different standards being applied, so Sharia-compliant assets could be underestimated

Note: (1) Traditional Banking Assets of *Banker* 1000 vs. *Banker* magazine's 500 largest 500 Islamic banks, 2008

Source: The *Banker* magazine, March 2009

❖ The expectation for the market as a whole is for the achievement of a compounded annual growth of 20% annually until 2020 to 13 trn. USD.

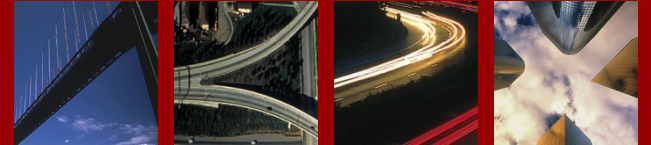
❖ At the beginning of 2009 16 bn USD were held in Islamic Equity Funds

❖ The number of firms reporting Sharia-compliant assets rose by 57 to 280 this year, from 221 last year.

❖ There are clearly still 334 institutions not reporting SCA's and a number of international banks with Islamic subsidiaries, not willing to provide basic information.

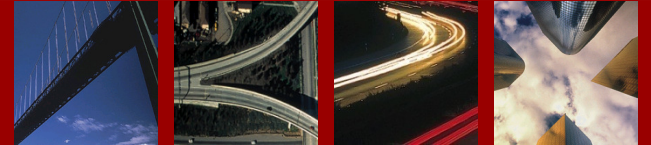
❖ The number of registered institutions continues to grow, reaching 614 this year, compared with 524 last year.

Recent trends in Islamic Finance (4)



- ❖ Main areas of concern regarding the growth of Islamic finance are related to its heavy **reliance on real estate** market, to the **governance of financial institutions** and to the **standardization of contracts**.
- ❖ In some countries, like UAE, **implicit public guarantees has already been made explicit** in order to hedge banking asset from panic that spread on the market in the deep of the crisis.
- ❖ Still some problem rose regarding different **interpretation of Sharia law** from different scholar.
 - ❖ Different interpretation are in place since the beginning of Islamic Finance revival in 60's. In some countries investing in some assets considered Halal such as alcohol and leisure is permitted also for banks and funds
 - ❖ Restrictive interpretation of Sharia lead one of Aaoifi (Accounting and Auditing Organization for Financial Institutions) Scholar to say that as much as 80% of current Sukuk structure could be declared not Sharia compliant.
 - ❖ Main criticism rose about Musharaka and Mudaraba Sukuk and Commodity Murabaha that are deemed on the hedge of compliance because they offer a repurchase undertaking that look like a guaranteed return.

Sukuk Structure

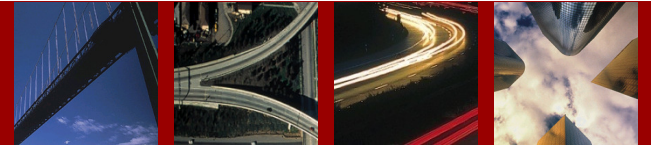


AAOIFI definition of Sukuk:

'certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity'

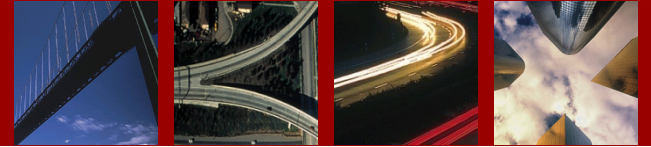
- Debt security v. unregulated Collective Investment Schemes
- Most Sukuk are asset-based rather than asset-backed
- Sukuk are certificates representing ownership of an underlying pool of assets
- Insolvency/default – recourse is usually to the purchase undertaking (unsecured claim) and not the assets
- Rating reflects the credit of the provider of the purchase undertaking

Sukuk: 2009 Underwriter ranking



| Debt - Islamic Bonds | | | | | | | <input type="checkbox"/> Exclude Self-led |
|--------------------------------------|------------------------------|------------------|--------------|------------------|---------|---------------|---|
| <input type="checkbox"/> Custom Date | Year | 2009 | Period | Year | View | Rankings | |
| Rankings | | | | | | | |
| | Underwriter | Rank | Mkt Share(%) | Amount USD (Mln) | Fees(%) | Issues | |
| 1) | CIMB | 1 | 21.6 | 3,820.83 | n/a | 73 | |
| 2) | HSBC | 2 | 14.4 | 2,553.57 | n/a | 22 | |
| 3) | AmlInvestment Bank Bhd | 3 | 12.0 | 2,124.34 | n/a | 38 | |
| 4) | Standard Chartered PLC | 4 | 8.3 | 1,462.62 | n/a | 17 | |
| 5) | Maybank Investment Bank Bhd | 5 | 6.0 | 1,060.68 | n/a | 30 | |
| 6) | Samba Financial Group | 6 | 5.8 | 1,033.21 | n/a | 2 | |
| 7) | Dubai Islamic Bank | 7 | 3.1 | 546.58 | n/a | 4 | |
| 8) | Citi | 8 | 2.8 | 500.00 | n/a | 1 | |
| 9) | Morgan Stanley | 8 | 2.8 | 500.00 | n/a | 1 | |
| 10) | RHB | 10 | 2.6 | 465.53 | n/a | 32 | |
| 11) | Mitsubishi UFJ Financial | 11 | 2.4 | 425.95 | n/a | 2 | |
| 12) | UBS | 11 | 2.4 | 425.95 | n/a | 2 | |
| 13) | Deutsche Bank AG | 13 | 2.4 | 420.00 | n/a | 2 | |
| 14) | Abu Dhabi Commercial Bank | 14 | 1.9 | 333.33 | n/a | 1 | |
| 15) | BNP Paribas Group | 15 | 1.7 | 303.33 | n/a | 2 | |
| 16) | Calyon | 16 | 1.4 | 250.00 | n/a | 1 | |
| 17) | Barclays Capital | 17 | 1.2 | 216.67 | n/a | 1 | |
| 18) | Bank Islam Brunei Darussalam | 18 | 1.0 | 170.00 | n/a | 1 | |
| 19) | Bank Muamalat Malaysia Bhd | 19 | 0.9 | 161.51 | n/a | 6 | |
| Market Statistics | | | | | | | |
| Total Amount | | 17,673 USD (Mln) | | Issues | 170 | #Underwriters | 40 |
| | | | | | | Fees(%) | 1.250 |

Sukuk: Most recent trades



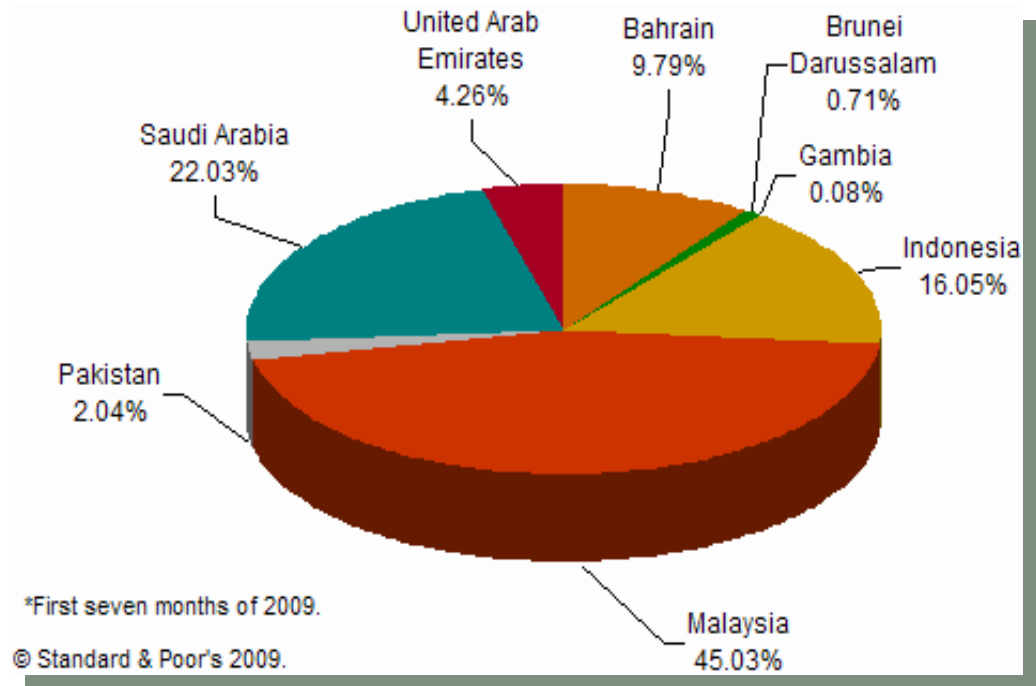
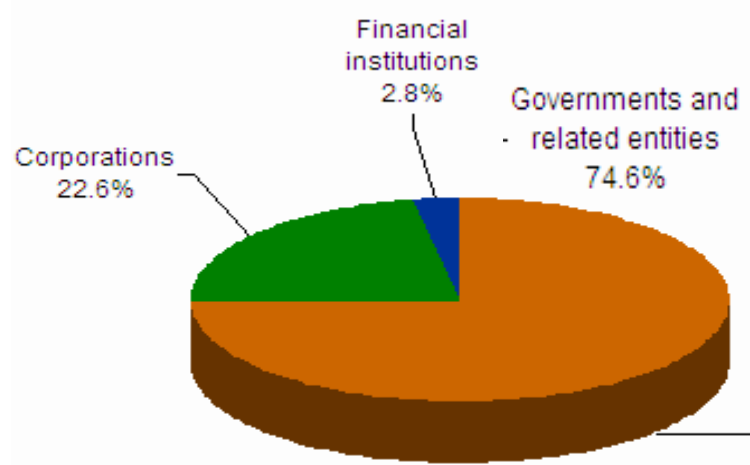
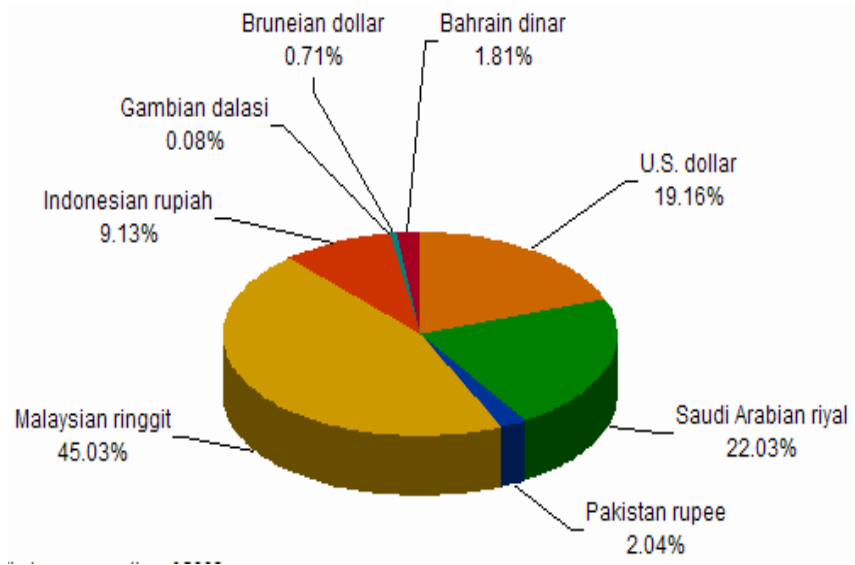
Source: Islamic Finance Information Service

New Issues: Islamic Bond Market

| Issuer | Cpn (%) | Mty (M/D/Y) | Sprd (BP) | Outstand Amt (Mil) | Book Mgr (*=group) | Note |
|--|---------|-------------|-----------|--------------------|--------------------|-------------|
| ----- MONDAY, DECEMBER 21 ----- | | | | | | |
| ----- FRIDAY, DECEMBER 18 ----- | | | | | | |
| ----- THURSDAY, DECEMBER 17 ----- | | | | | | |
| 1) Kerala Plans First India Islamic Bonds as Dubai May Curb Income | | | | | | |
| ----- WEDNESDAY, DECEMBER 16 ----- | | | | | | |
| 2) BNM SUKUK BHD | ZERO | 02/25/10 | | MYR 500 | | 63 DAY ANN |
| ----- TUESDAY, DECEMBER 15 ----- | | | | | | |
| 3) SBI SYARIAH | WI | 01/13/10 | | IDR | | 28D ISL ANN |
| 4) CITYDEV NAHDAH | 3.565 | 12/15/13 | | SGD 50 | CIMB | 4YR 3.565% |
| ----- MONDAY, DECEMBER 14 ----- | | | | | | |
| 5) CAGAMAS BERHAD | 3.44 | 12/21/12 | | MYR 210 | | 3 YRS 3.44% |
| 6) CAGAMAS BERHAD | 2.97 | 12/21/11 | | MYR 135 | | 2 YRS 2.97% |
| 7) CAGAMAS BERHAD | 2.55 | 12/22/10 | | MYR 80 | | 1 YR 2.55% |
| ----- FRIDAY, DECEMBER 11 ----- | | | | | | |
| 8) Mitra Adiperkasa Sets Coupons for Islamic, Conventional Bonds | | | | | | |
| ----- THURSDAY, DECEMBER 10 ----- | | | | | | |
| 9) MALAYSIA ISLAMIC | ZERO | 12/10/10 | | MYR 100 | | 364D 2.096% |
| ----- WEDNESDAY, DECEMBER 9 ----- | | | | | | |
| 10) SBI SYARIAH | 6.462 | 01/06/10 | | IDR 580B | | 28D 6.4616% |
| 11) BNM SUKUK BHD | ZERO | 02/11/10 | | MYR 500 | | 63D 1.984% |

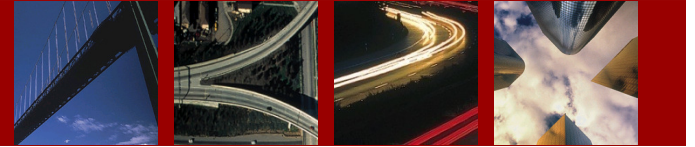
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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Sukuk trends by currencies, entities and countries



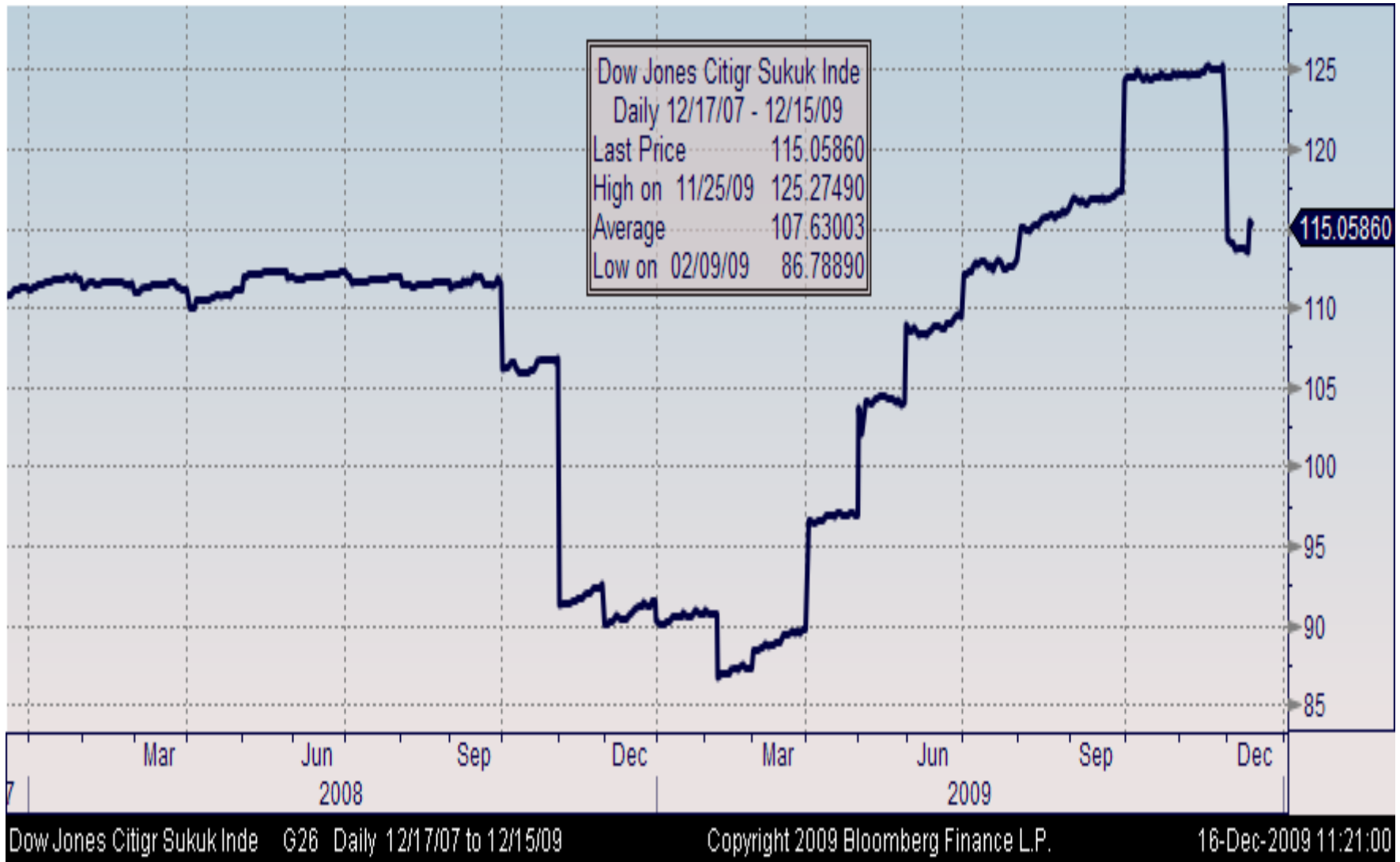
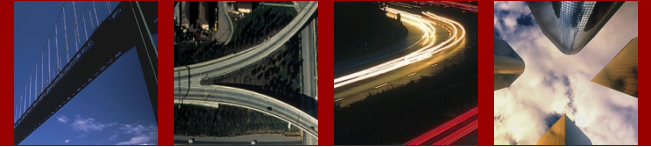
*First seven months of 2009.
© Standard & Poor's 2009.

Sukuk: from Shock to Top (1)

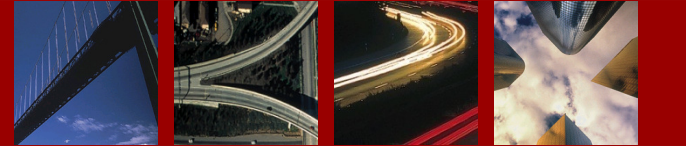


- Investors fled the Islamic-debt market last year. Sales of international and domestic Sukuk plunged almost 55 percent to \$14 billion as oil and real-estate prices slumped and eroded Middle Eastern wealth.
- Oil fell 54 percent in 2008, the most since at least 1987.
- Dubai home prices have tumbled about 50 percent from their peak in 2008's second quarter and may drop another 20 percent this year after a construction boom created thousands of houses just as demand began to evaporate.
- The Dow Jones Citibank Sukuk index lost 22% from Sept. 30 2008 to March 9 2009 due mainly to investor's risk aversion that hit globally all the emerging markets
- From the low of 2009 the index is now +43.5%. It more than doubled the 20,4% rise of the IBoxx USD Investment Grade index in the same period.
- Global Sukuk bond market is estimated as 130 USD bn.

Sukuk: from Shock to Top? (2)

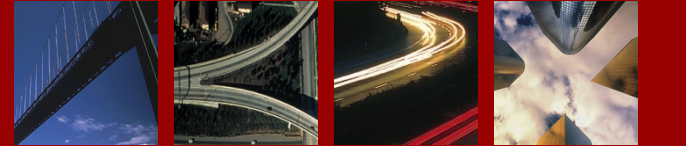


Investment grade Sukuk issuer still Yielding as speculative rated entities: Dubai case



- ✓ The **Dubai government set up a \$2.5 billion Islamic bond program as part of a \$6.5 billion fund-raising plan as the emirate seeks to sell international bonds for the first time in more than a year.**
- ✓ **Nakheel**, a unit of government-controlled **Dubai World (BBB+)**, owes more than \$5 billion by 2011 in Islamic bonds and is among the biggest losers in a real-estate crash that cut home prices in half. The company has been a “litmus test” for the debt of other emirate-owned enterprises.
- ✓ Dubai World has guaranteed Nakheel's (the developer of palm-tree shaped Island off the Dubai coast and the market's biggest issuer) December bond, the offering prospectus says.
- ✓ **In May 2009, Nakheel negotiated with banks to push back the repayment date to November from July.** Future revenue from property sales was used as security for the debt, which was bought by Emirates NBD PJSC, Mashreqbank PSC, Noor Islamic Bank PJSC and Samba Financial Group.
- ✓ The company was thereafter **subject to major restructuring with the merging into the parent company Dubai World, Job cuts and debt refinancing.**

Investment grade Sukuk issuer still Yielding as speculative rated entities: Dubai case (2)



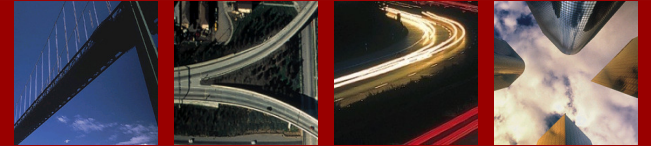
The government of Abu Dhabi and the Central Bank of the UAE announced that it has agreed to provide \$10 billion to the Dubai Financial Support Fund, allowing Dubai World to repay \$4.1 billion of Islamic Sukuk bonds that are due to be paid on 14th December.

"As a first action for the new fund, the Government of Dubai has authorised \$4.1 billion to be used to pay the Sukuk obligations that are due."

"The remaining funds would also provide for interest expenses and company working capital through April 30, 2010 - conditioned on the company being successful in negotiating a standstill as previously announced."

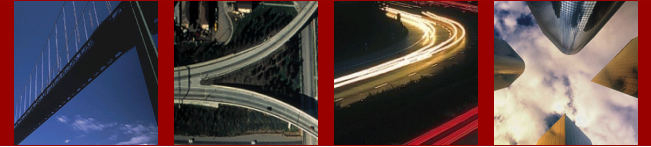
Sheikh Ahmed also said that Dubai would announce a comprehensive reorganisation law, a framework that is based upon internationally accepted standards for transparency and creditor protection.

Sukuk: areas of technical development (1)



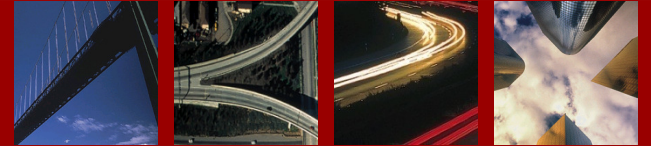
- ✓ Restructuring process of Sukuk linked to deep discounted real estate market are still undergoing all around the world. Several sukuk issuers have defaulted in the credit freeze's aftermath.
 - ✓ In May, Kuwait-based Investment Dar Co. reneged on a \$100 million bond maturing in 2010, triggering concern about untested restructuring laws for such debt. (12 Oct 09)
 - ✓ Saad Group, in the Saudi Arabian oil city of Al-Khobar, also doesn't yet have an agreement with holders of its defaulted \$650 million sukuk (7 oct. 09)
 - ✓ Houston-based East Cameron Partners LP, which issued \$165.7 million of sukuk, sought bankruptcy protection in October 2008. The debtor is working on a "consensual plan of reorganization," according to a Sept. 3 filing in U.S. Bankruptcy Court in Lafayette, Louisiana.
- ✓ **Areas of uncertainty remain about the handling of the post-default restructuring of Sukuk.**

Sukuk: areas of technical development (2)



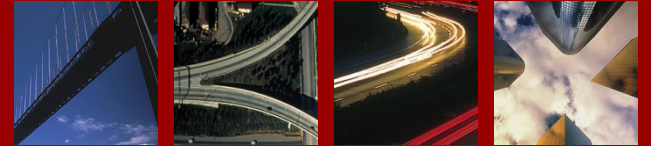
- ✓ Sharia does not allow the use of derivatives due to the prohibition of Gambling (quimar) as well as Uncertainty (Gharar).
- ✓ Given the fact that Sharia encourage trading, and that **risk management is crucial to modern society, Islamic Banks developed new products in order to hedge their position.** At present time the Sharia compliant instrument used to manage trading risks are:
 - ✓ Down payment (Arbun) to receive the goods with deferment (It has a structure and economic output similar to an American option). This is accepted only by one of the four school of law
 - ✓ Prepaid Sales (Salam Sale), that expose the buyer to the full upward development in price as far as it does not own the goods. This is an exception in Sharia rules that has been created for those goods that are likely to be ready at a certain time in the future.
- ✓ Should be noted that it is not permitted to defer both payment and delivery in the contracts and that they are not tradable in any case.

Sukuk: areas of technical development (2)



- ✓ The International Swaps and Derivatives Association (ISDA) expects to write Sharia-compliant new contract for Islamic debt by December 2009.
- ✓ The draft will be done in coordination with the International Islamic Financial Market board (IIFM) that is the body set up to promote Islamic money and capital markets.
- ✓ This could form the base for the development of more derivative products, which have remained controversial between scholar for their potential as speculative instruments
- ✓ Spurring single-name CDS liquidity and potentially making outstanding Sukuk deliverable into the swap.
- ✓ Depending upon the degree of financial innovation, this contracts could be not suitable for Islamic Investors, even is they could trigger Sukuk demand and boost primary market issuance also in western markets.

Takaful: Islamic Insurance (1)

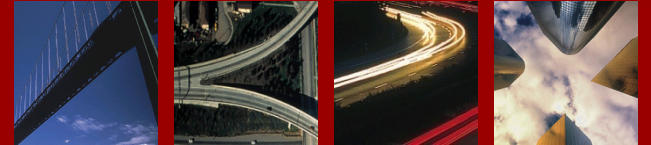


- ✓ Takaful - Islamic insurance - is founded on two main principles:
 - ❖ the cooperative principle
 - ❖ the principle of separation between the funds and operations of shareholders.
- ✓ The ownership of the Takaful (Insurance) fund and operations pass to the policyholders.
- ✓ The premiums collected from the policyholders are considered as donations and they constitute the Takaful fund from which all claims are reimbursed.
- ✓ At the end of each financial year, after deduction of expenses, any remaining cash surplus will be returned to the policyholders in the form of cash dividends or distributions.

Takaful principles :

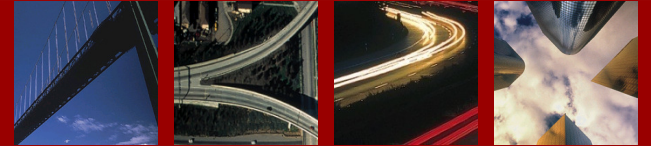
- ✓ Policyholders cooperate among themselves for their common good.
- ✓ Every policyholder pays his subscription to help those that need assistance.
- ✓ Losses are divided and liabilities spread according to the community pooling system.
- ✓ Uncertainty is eliminated in respect of subscription and compensation.
- ✓ It does not derive advantage at the cost of others.

Takaful: Islamic Insurance and new developments (2)



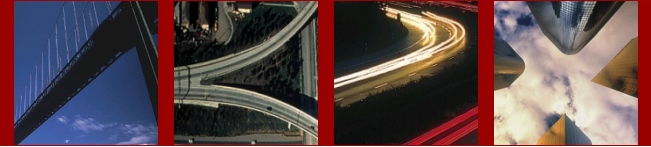
- Takaful business is different from the conventional insurance in which the policyholders, rather than the shareholders, solely benefit from the profits generated from the Takaful and Investment assets.
- The Investment assets (representing the Takaful fund that accumulate over the retained reserves, surpluses and provisions) are invested by the shareholders who manage the company on behalf of the policy holders. The shareholders (asset manager) are rewarded with a percentage of the profit on these investments.
- Takaful represent a fast growing area for mutual fund manager and insurer specialized that could take advantage from the banking experience/expertize also trough the implementation of a system of Islamic Insurance Window trough the mere segregation of takaful funds.
- **Gruppo Generali has been granted from UAE Ministry of Economy to issue Insurance Contracts sharia compliant under Takaful structure (UAE insurance mkt numbers: 4.7 mld \$ premiums , 16% life and 84% P&C, 30% growth from 2008,insurance penetration still standing at 1.7% of GDP)**
- **The new frontier is the Micro-takaful:**
 - It is aimed at targeting high risk (frequently poor) persons
 - It grant small benefit packages
 - It benefit from the support of Zakat and Government subsidies.

Takaful: Islamic Insurance (3)



- Contemporary execution of Takaful has existed for less than three decades. After the Fatwa issued by the Fiqh Council of Muslim World League in favour of Islamic insurance in 1975.
- Reinsurers (Swiss Re, Hannover Re and Munich Re) entered the takaful market in 2005 while only in 2008 the first british Takaful was approved by the FSA
- In 2008 the Islamic Financial Services Board (IFSB) released exposure draft on governance for Islamic Takaful operations
- At the end of last year Takaful companies were 181, with Takaful available in 27 countries with a market share between 5% to 30%.
- Actually the estimated capital invested in Takaful is at 3.5bn USD. By 2015 the amount invested is estimated to top 14,5 bn USD USD by the end of 2015 with as much as 35 bn USD of asset Under Management.

Takaful: Islamic Insurance New Tendency

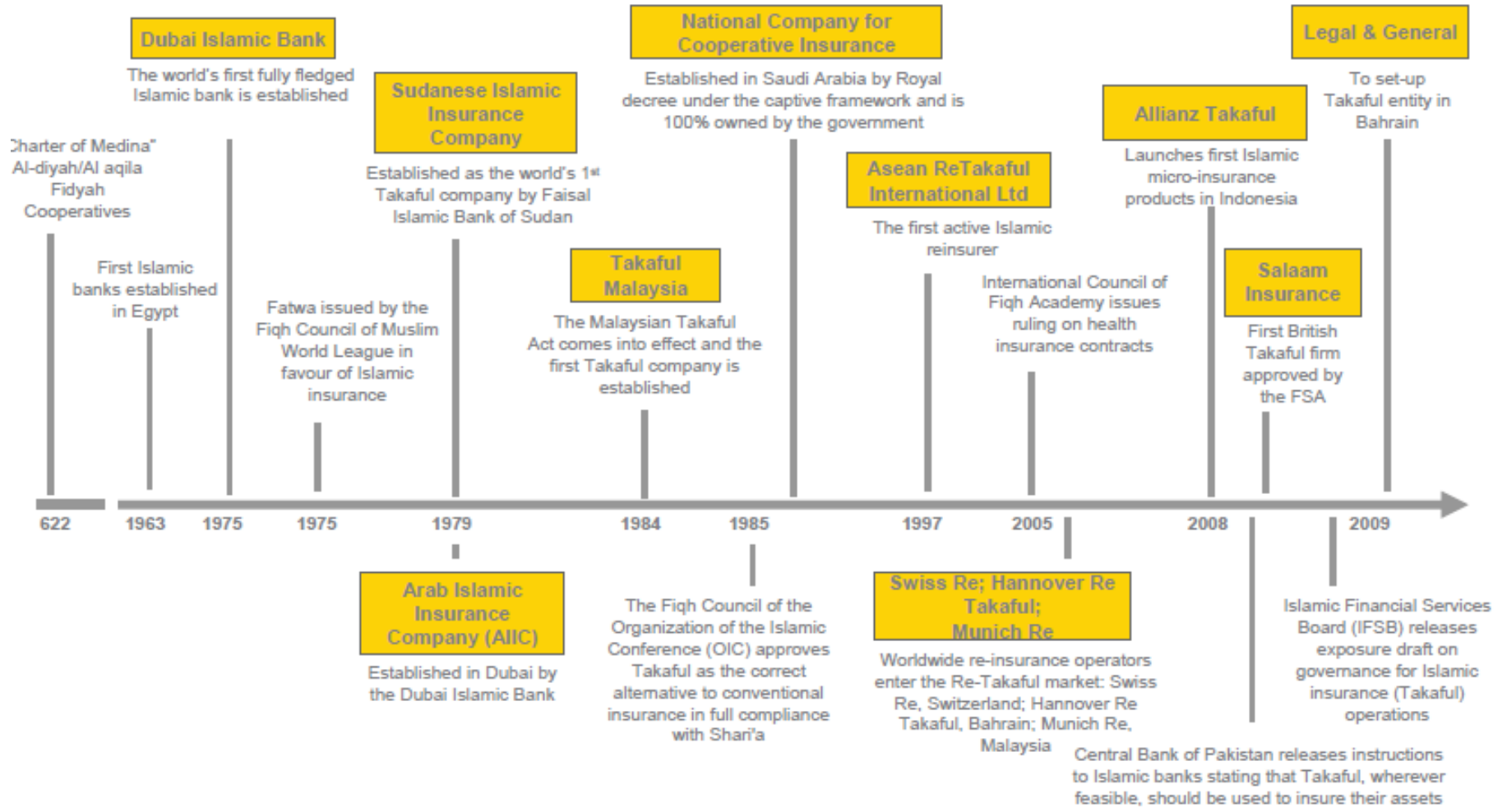
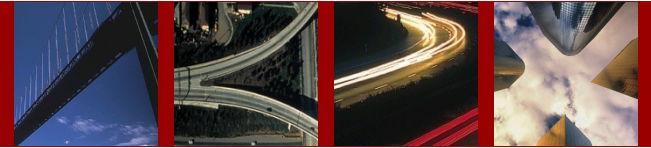


The regional insurance market entering a new phase of exciting development characterized by the introduction of tighter supervision, new compulsory insurance, liberalization and the opening of markets,

Key topics that will be in Agenda for 2010 include:

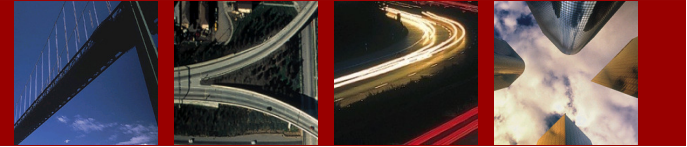
- ✓ Strengthening Industry Foundations: Defining the Next Phase of Development for the Regional Insurance Markets
- ✓ Product Development & Underwriting Trends in the Middle East: Assessing the Potential for Recovery & Growth in Key Products & Market Segments
- ✓ Strengthening the Supervision framework in the Insurance Industry: Key Regional Regulatory Initiatives
- ✓ Optimizing Asset / Liability Management in a Turbulent Environment
- ✓ Assessing the Future Outlook for the Takaful and Re-Takaful Industry

Takaful: Islamic Insurance



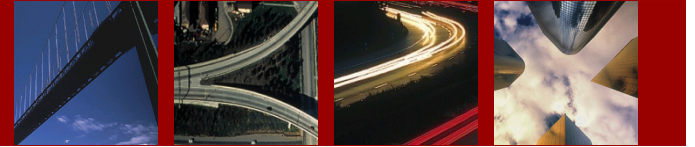
Source: Factiva; Literary Search; IFSB; Central Bank Annual Reports; Ernst & Young analysis

Contents:



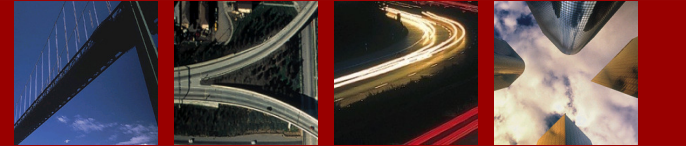
- Islamic Banking: foundations and facing global financial crises
- Developments in Islamic banking instruments
- **An ecumenical approach to islamic banking system: *homo economicus* at center stage**
- Conclusions

The Islamic finance approach to the economy



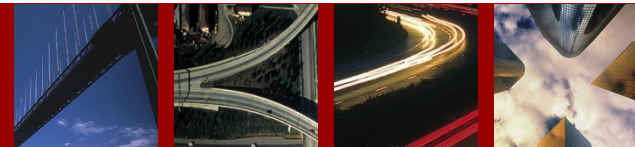
- ❖ **Islamic finance** put at center stage of its practice solid ethical principles and some extent of flexibility that could prove a breakthrough innovation with respect to traditional Anglo-Saxon finance.
- ❖ The **non-commodity nature of money** in the Islamic model means that there is no incentive in non-productive investment of money thus reducing the speculative component.
- ❖ The **risk sharing model** at center stage of Islamic finance, transparency became the only reasonable way to manage the relation between the customer and the bank
- ❖ In conclusion we could say that at center stage of the relation between the customer and the bank there is not the maximization of self-interest but the **concept of Umma, the community of believers.**

Bringing investors needs at center stage



- ❖ From this point of view the word of the encyclical letters of Pope Benedict, that consider praiseworthy every effort mad toward the embedding of ethical practice into economy, create a new area of dialogue between Islam and occident.
- ❖ All the financial models presented before have seen their genesis in a both economic and social needs of Human beings.
- ❖ **All the models, as well as the Islamic finance, were born to solve problems relating to local community that struggled to gather resources to create value.**
- ❖ **The Islamic finance model, in its most modern shape, is set to respond to challenges well above to those of that rose in the past.**
- ❖ It is meant to operate in a world that is global, complex and overly integrated.

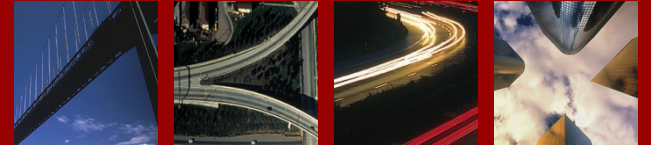
Two geographical dimension of Islamic Finance: Local vs. Global



The flexibility of the Islamic finance model is set to operate in a world characterized by two main dimension:

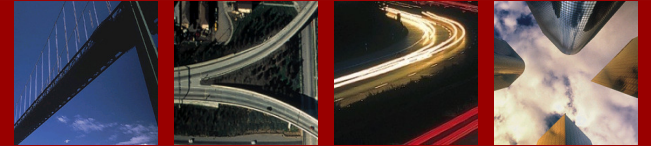
- ❖ **The local dimension:** in which retail savers and small businesses share the same habitat and the same belief. From this point of view Islamic finance answered to the need of push a virtuous circle of wealth creation under absolute transparency and respect of savers need in the form of sharia compliance.
- ❖ **The global dimension:** in which operate different type of actors.
 - ❖ Investors: that struggle to diversify their portfolios with instruments that satisfy their yield target without necessarily requiring investments in speculative or unethical instruments.
 - ❖ Global clients, that require services that fit particular need not necessarily limited to a local environment.
 - ❖ Large enterprises, that need financing in order to implement large project as well as investments in working capital.
 - ❖ Sovereign agencies and sovereign sates, that need to gather debt trough new channels that better fit their citizen needs or that expand their funding base.

Bridging investors needs with a global ethical comprehensive approach (1)



- ❖ The strong appeal of Islamic Finance is thus it's ability to develop products that are able to fill the gap between local and global needs of savers, investors, corporation and institutions.
- ❖ Islamic banking clients should not necessary be of Islamic faith. Corporates not based in Islamic countries could try to diversify their investor base trough emission of financial instruments that are sharia compliant confirming Islamic banking has a big future and not just in traditional markets but on the global stage
- ❖ Non Islamic investor could be attracted by sharia compliant product that are able to expand their efficient frontier and to expose them to new countries and new opportunity.
- ❖ Islamic finance is not thought to rise financing or to create investing opportunity. It is meant to be a new model able to create business opportunity that are valuable for both servicer and clients.

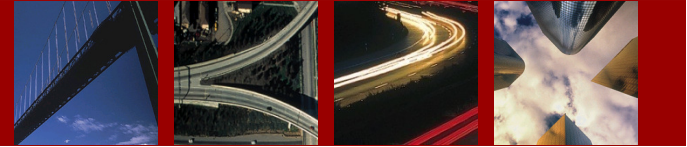
Bridging investors needs with a global ethical comprehensive approach (2)



❖ In this context is even more clear how the partnership of Financial institutions that are specialize in a full range of Sharia compliant products could prove winning for **an occident that struggle to recompose the global and the local dimension of wealth and development.**

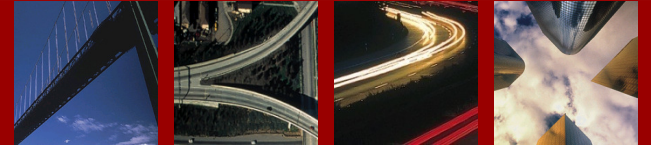
❖ Islamic banking is proposing itself as an answer to the need of a new model of finance that shift the focus form the time value of the money to the value of ideas and economic development. We expect also that that thanks to the industry's dynamism, we will observe in a short term a rebrand of the Islamic banking as a possible universal banking model which promotes mutual benefit as the basis of growth and ethic business environment.

Contents:



- Islamic Banking: foundations and face to global financial crises
- An ecumenical approach to islamic banking system: homo economicus at center stage
- Developments in Islamic banking instruments
- **Conclusions**

A Growth Path for adequacy for Europe



Feasibility study on principles of Islamic finance inside regulatory body and financial institutions (ON THE WAY!)



Analysis of UK and other countries experience



Comprehensive approach of regulators that should involve politic, sociologist, theologist, foreign experts, entrepreneur and immigrants.

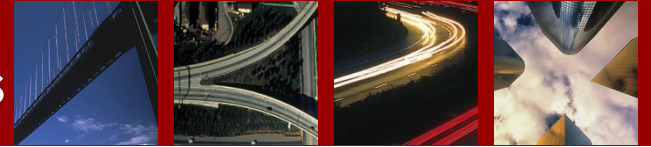


Implementation of instruments for Islamic Finance that should be innovative in order to fit better to Italian's economy peculiarity



Promotion and sales of the services trough appropriate channels

Potential of Islamic Banking for European Banks



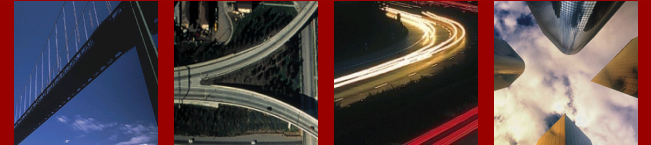
Opportunities

- ✓ Hedge to traditional credit exposures
- ✓ An integrated, complementary approach to traditional finance
- ✓ Access to rapidly expanding market share
- ✓ Further product innovation
- ✓ Expanded access to capital pool origination from Islamic Investors in the Middle East
- ✓ Partner with local providers before too many international banks recognize opportunity
- ✓ Build Islamic Wealth Management offering, which is surprisingly immature in context of Islamic finance
- ✓ Link between lending and deposit offer good chance for capital flow tracking and to avoid asymmetric info

Challenges

- ✗ War for skilled talent
- ✗ Possible customer cannibalization as existing Muslim customers move toward Islamic newly-introduced products
- ✗ Different interpretations of Sharia rulings in different geographies
- ✗ Demand for new product capabilities as banks define new Sharia compliant services
- ✗ Immaturity of market in terms of openness, accounting and ratings, with very different standards being applied
- ✗ Operational risk with IT and processing systems which underscores importance of ensuring Sharia compliant transactions are kept separate, accurate, away from traditional banking transactions.

An institutional growth framework: from Welcome banking to Open banking



DIVERSITY BANK

To improve range of financial products covering diversity needs
[deposits without interests for Muslims, ecc.]



WELCOME BANK

Products dedicated to immigrants in order to favor intercultural mediation



EQUALITY BANK

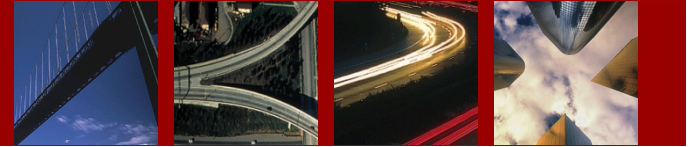
Products adding value and respect to widespread cultural identity
(Loans for: Ethic Projects and activity not in contrast to religious principles)



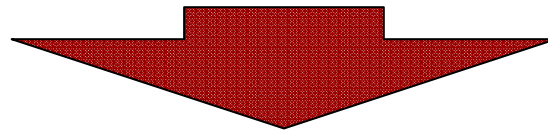
OPEN BANK

Product that exploit the open competition between the two different systems and
to improve Italian financial markets function while being a milestone in the
integration process.

2010 Plan for Incentives? Fiscal issues, new Contractual methodologies waiting for EU commitment to legislative Reforms



- ✓ Sharia banks industry need next incentive to boost up the asset growth to the optimistic level by 2010. This is along with the banker perspective that stimulus to sharia banks is still less in amount than other industry. President Director of Bank Mega Syariah Benny Witjaksono proposed a next incentive to sharia banks in the form of taxation so as to make sharia finance product have competitive value.
- ✓ The new taxation is not deemed stimulus but rather regulation with other finance products. Law on Tax is equality of treatment to other products. If it sides with sharia finance product should have tax incentive such as tax free as the mutual fund product
- ✓ The elimination of double tax should be done that way as it is meant to equalize sharia bank to conventional banks and non bank finance institutions. To speed up the asset growth, it should impose some incentives to boost up industry expansion and stimulate new inventors to come with their investments.

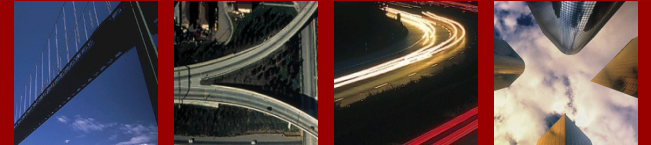


Three scenario of Sharia bank asset growth ranging from the pessimistic rise of 26 percent into IDR72 trillion, moderate scenario of 43 percent growth into IDR97 trillion, and optimistic scenario rose 81 percent into IDR124 trillion.

The Sharia bank growth in the past five years showed significant rise with the 32 percent growth and now it stands at IDR61.4 trillion. Upon seeing the macro economy fundamental condition locally and globally which tends to improve, it is predicted the 2010 Sharia bank will grow far better.

FOR ISLAMIC FINANCE TO STEP INTO THE MAINSTREAM AND OFFER A THIRD WAY, THERE WILL HAVE TO BE A RECONSIDERATION OF THE OBJECTIVES, INSTITUTIONAL FRAMEWORKS AND CONTRACTUAL METHODOLOGIES OF THE MODERN ISLAMIC BANKING AND FINANCE INDUSTRY. THIS EFFORT MUST ENCOMPASS THE FULL RANGE OF TECHNICAL AND SCHOLARLY OPINION, WITH A GLOBAL COMMON APPROACH, AND IT MUST HAVE SHARED POLITICAL SUPPORT.

First crucial step is towards Integration of Banking Systems through Islamic finance



First Steps to Integration:

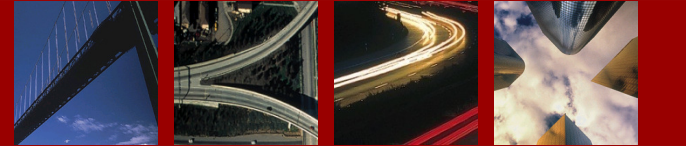
In parallel with the process of study and implementation of the coming principles from the Islamic Finance, it must be developed indispensable services for the immigrants:

- ❖ Services of money transfer (in order to simplify the remittances)
- ❖ Microcredit, with specific guarantees also to forehead of not lofty incomes
- ❖ Papers connected to employable checking accounts in Italy in the countries of origin without additional costs
- ❖ Marketing: Staff and material Multilanguage

However, the growth of Islamic finance in Europe is also being driven by other, economic and market related factors:

- ❖ Strengthening of US\$ issuance (and increase in Sterling and Euro issues)
- ❖ Growing market awareness of Islamic financial products in global markets
- ❖ International counterparties are keen for new investment and funding diversification
- ❖ UK's own Islamic banks are offering a bridge between markets
- ❖ A complete offering for Sharia's compliant investors seeking a gateway to international markets or for global participants seeking Islamic finance

To strengthen social Integration through Islamic Banking opportunities implementation



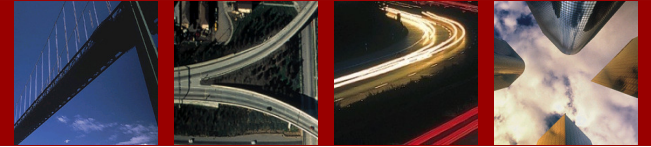
New banking improvement could become an instrument of integration of the immigrants in national and social environment.

A general improvement of the transparency and the financial system effectiveness should be achieved to overcome financial crises. The typical mutualism of the Muslim system improves the living conditions of the less well-to-do classes.

Opening to Islamic culture, global regulators would concur with the banks to establish preferential channels facing the penetration of the markets cross boarding Europe vs MENA countries .

Shariah compliant products need to have the ability to be replicated across as many markets adding that it would encourage Islamic finance to be adopted in relatively under-developed financial markets and also in the more sophisticated financial capitals of the world .

Link



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