



CURRENT FINANCIAL CRISIS :

Appeal & Potential of Islamic Finance

Takaful Gambia Ltd
& Bank PHB Gambia
5 March 2009 - Banjul
(Abdul Khudus Naaim, Malaysia)

COVERAGE

- Some Headlines
- Capitalism Is Dead
- Islamic Finance Characteristics
- Performance & Outlook
- Challenges
- Going Forward

SOME HEADLINES

- Islamic financial institutions (FIs) largely insulated?
- Shariah compliant finances showed resilience!
- Opportunities for expansion in Islamic finances!
- Collapse in free market economy?

CAPITALISM IS DEAD

- Free market economy (capitalism) has vanished and visible hand of the government regulation is back
- *Paul Krugman:*
 - Communism failed because people lost faith in the system
 - You may dislike capitalism even if you feel as a system it will fail eventually, yet it does the job well because your family needs the money you earn from the system
 - Capitalism can run even flourish in a society of selfish cynics
 - Now everybody seems cynical about the system

CAPITALISM IS DEAD

- Over reliance on market and not enough regulation promote and result in the present mess (*Amarytya Sen, Economic Nobel Prize 1998*)
- Self correcting market activities is a flawed principle (*Joseph Stiglitz*)
- Living in & on credit is simply a bad lifestyle (*Joseph Stiglitz*)
- Wall Street, G8 economies, Bretton Woods institutions collapsed on free market activities
- Government regulatory system prevented complete meltdown like China, India, Brazil

ISLAMIC FINANCE – KEY ELEMENTS

- Shariah principled (halal) transactions / activities
- Materiality, substance & validity of transactions
- Mutuality of risk & profit sharing (*mudharabah, musyarakah, murabaha etc*)
- Avoidance of riba (interest), maisir (gambling), gharar (uncertainties)
- Financial transactions supported by substantive underlying economic activities
- Money is not a commodity but a medium of exchange, store value & unit of measurement

ISLAMIC FINANCE - CHARACTERISTICS

- Funds are used and channelled in real business and reduces over exposure to risks associated with excessive leveraging
- Concept of owners of capital (*ra'asul maal*) and entrepreneur (*mudharrib*) in capital & risk management
- Mutual risk & profit sharing compels transparency, good governance and discipline conduct of business
- Financing in real economy and not in speculative transactions/ventures

APPEAL OF ISLAMIC FINANCE

■ Datuk Seri Zarinah Anwar

Chairman, Securities Commission, Malaysia

- The financial crisis has demonstrated resilience of the Islamic financial market
- Investors may prefer investment products that are simpler and more reliable
- Shariah compliant products avoid excessive speculation and backed by real economic transactions
- These are inherent characteristics that distinguish Islamic products from some of the more complex structured products

ISLAMIC FINANCE PERFORMANCE

- Asian financial crisis 1997/98 has not affected Islamic financial market
- Current global financial crisis has not affected too much the Islamic financial market
- Islamic financial market can be affected due to general slowdown and reduction in demand for funding facilities
- Islamic capital market has about 14.3% of the market share (*Malaysia*)
- Islamic finance has registered compounded growth of 28% over last 15 years (*Malaysia*)

RECENT PERFORMANCE

- Global Dow Jones Islamic Index down by 24% (conventional 26%)
- Sukuk issues fell 55% in 2008 to USD15b (2007 USD34b) – partly due to AAOIFI new Shariah ruling
- Middle East property market showed shrinkage in value as much as 30%

ISLAMIC FINANCE POTENTIAL

– GLOBAL

- Muslim population worldwide 1.8 billion and estimated to grow to 2.5 billion by 2020
- Asia Pacific has close to 1.0 billion Muslim with USD450 billion banking assets i.e. 60% of total Islamic banking assets
- Intra-Islamic countries trade comprise 6% of world trade, intra-Islamic export USD135b in 2005, intra-trade of IDB member countries 13.6% of their total trade
- Islamic banking assets grows by 14.3% i.e. RM186.6 billion in 2008 (*Malaysia*)
- Market share 12% & market penetration is still small & relatively untapped (*Malaysia*)

ISLAMIC FINANCE POTENTIAL

- AFRICA

- Current global Islamic finance market between USD750b to USD1 trillion (*IFSB*)
- Global Islamic finance market may expand to USD2.8 trillion by 2015
- African Islamic finance industry estimated to expand to USD235b (*Moody's review March 2008*)
- Current Islamic banking asset about USD18b i.e. 8% of market size
- 412 million Muslims, size of combined African economy USD469b (2007)

ISLAMIC FINANCE - CHALLENGES

- Capitalisation, resources & liquidity
- Product innovations, pricing & competitiveness
- Systems, customer service & support
- HR, skills, talent & training
- Differing Shariah interpretations
- Investment avenues, instruments & opportunities
- Legal framework, regulatory & supervisory regime

GOING FOWARD

- Global stimulus package announced so far almost USD2 trillion
- Managing Islamic financial institutions during turbulence – risk of default, higher insurance claims (moral hazards)
- Rooms for expansion of Islamic banking & takaful (Islamic insurance)
- Micro-financing & micro-takaful (insurance)
- Mobilisation of wealth, promoting of Islamic common market, concept of gold dinar
- Next downturn cycle - 7years? (*Qur'anic narration of Prophet Yusuf a.s. interpreted dream*)

[thank you]

q & a

contact :

abdul khudus naaim

ks & associates

chartered accountants

16-1-1a, jalan medan pb2a, seksyen 9, pusat bandar bangi

43650 bandar baru bangi, selangor, malaysia

t : +6 03 8925 8454 * f : +6 03 8926 8454

email : aknaaim@streamyx.com

ABDUL KHUDUS MOHD NAAIM

FCCA (UK), CA (M), ATII (M)

Partner

KS & Associates, Chartered Accountants



- Abdul Khudus Mohd Naaim is a fellow of the Association of Chartered Certified Accountants United Kingdom, a chartered accountant with the Malaysian Institute of Accountants, an associate of Malaysian Institute of Taxation and an associate of Institute of Co-operative & Management Accountants. Khudus is also a graduate of Diploma in Accountancy, Universiti Teknologi Mara.
- On completing the accounting diploma in 1975, Khudus articulated with an international audit firm Messrs Arthur Young & Co, Public Accountants, Kuala Lumpur and continued with Messrs Ramoss Jassen & Partners, a medium-sized chartered accountancy firm in London for four and a half years. He then spent one year with the London office of Luxembourg based Islamic financial group, Islamic Finance House PLC, London as their Accountant.
- Khudus served for about seven years, the last position being senior finance manager with Syarikat Takaful Malaysia Berhad, a company listed on the Malaysian Securities Exchange before taking up the Director of Corporate Affairs, Emile Woolf Group of Colleges of Malaysia. He came back into public accountancy practice in 1997.
- In a professional capacity, he currently sits on the board of directors and member of the audit committee of some companies listed on the Malaysian Securities Exchange and also that of the London Stock Exchange. He is a member of the Technical Committee of the Malaysian Accounting Standards Board (MASB) and also the Deputy President of the Malay Accountancy Firms Association of Malaysia. He was appointed a board member of the Muslim Youth Cooperative Society in 1997 and retired as Vice Chairman in 2006.
- Khudus is an approved company and cooperative's auditor. He is also a licensed liquidator, a qualified company secretary and a tax agent. Apart from the auditing, taxation and company secretarial appointments, he has been acting in the corporate recovery engagements for Pengurusan Danaharta Nasional Berhad (national asset management company) and some financial institutions.
- In the takaful and Islamic finance related engagements, Khudus has been acting as consultant, trainer and technical adviser to the operation of takaful companies in Malaysia, Brunei, Indonesia, Middle Eastern countries, West Africa, Thailand and Mauritius. Khudus has also been undertaking speaking engagements and presenting papers on takaful subjects in and outside Malaysia over the last fifteen years.