

Future of Islamic Finance

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PLAN

- **WHAT** is Islamic finance?
- Its historical evolution – **PAST**
- **HOW** is it doing? – **PRESENT**
- What is its **FUTURE**?
- Conclusions

WHAT is Islamic Finance? [1]

- It is about offering financial solutions to those who are:
 - are **constrained** by religious prohibitions of
 - Interest
 - Contractual uncertainty
 - Gambling
 - are **driven** by ideals of social justice

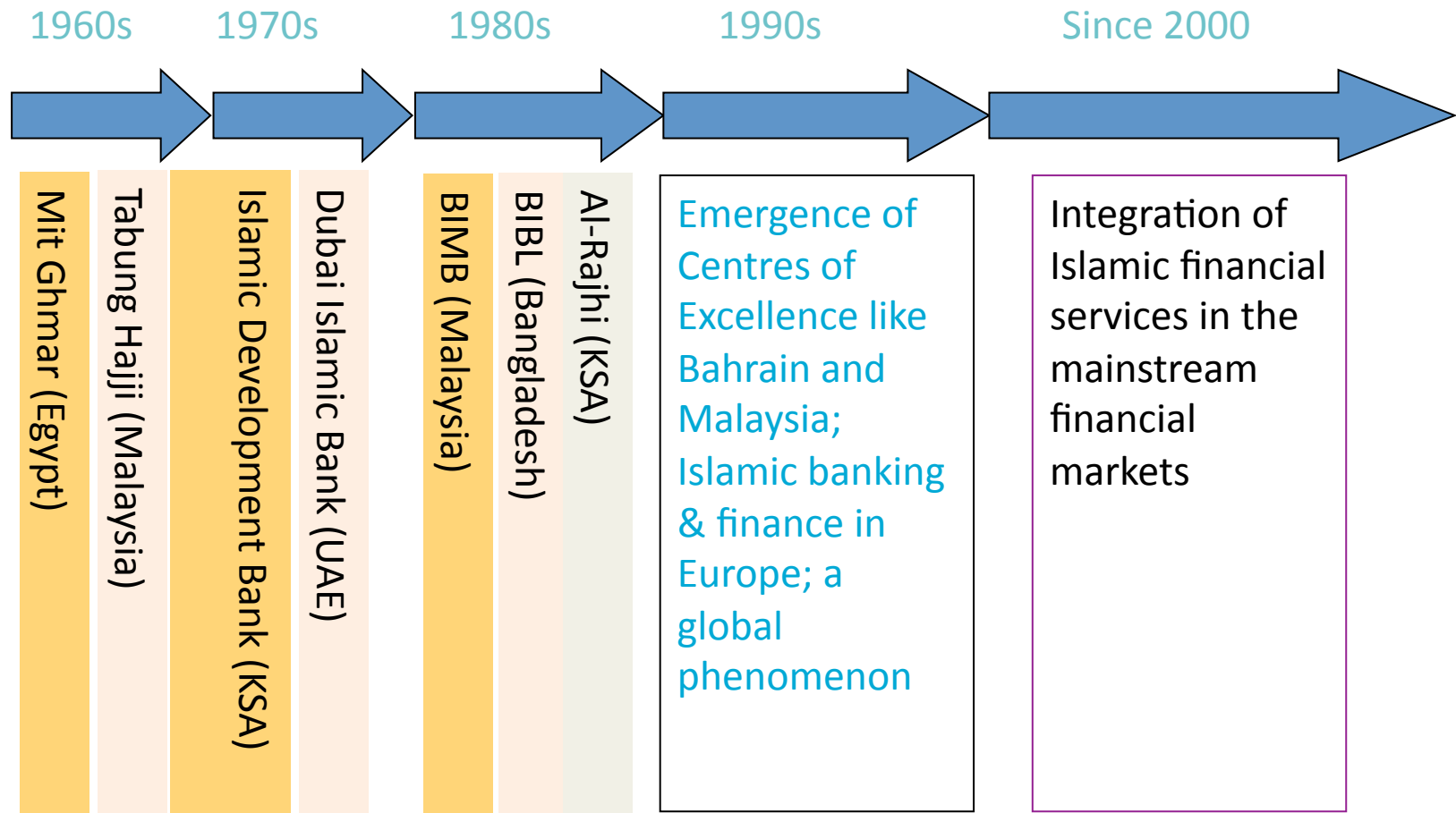
WHAT is Islamic Finance? [2]

- Any transaction that is based on interest and/or is based on terms & conditions violating Islamic contract theory is prohibited
 - Mortgages X
 - Credit cards X
 - Bonds X
- Investment in unethical activities is also strictly prohibited

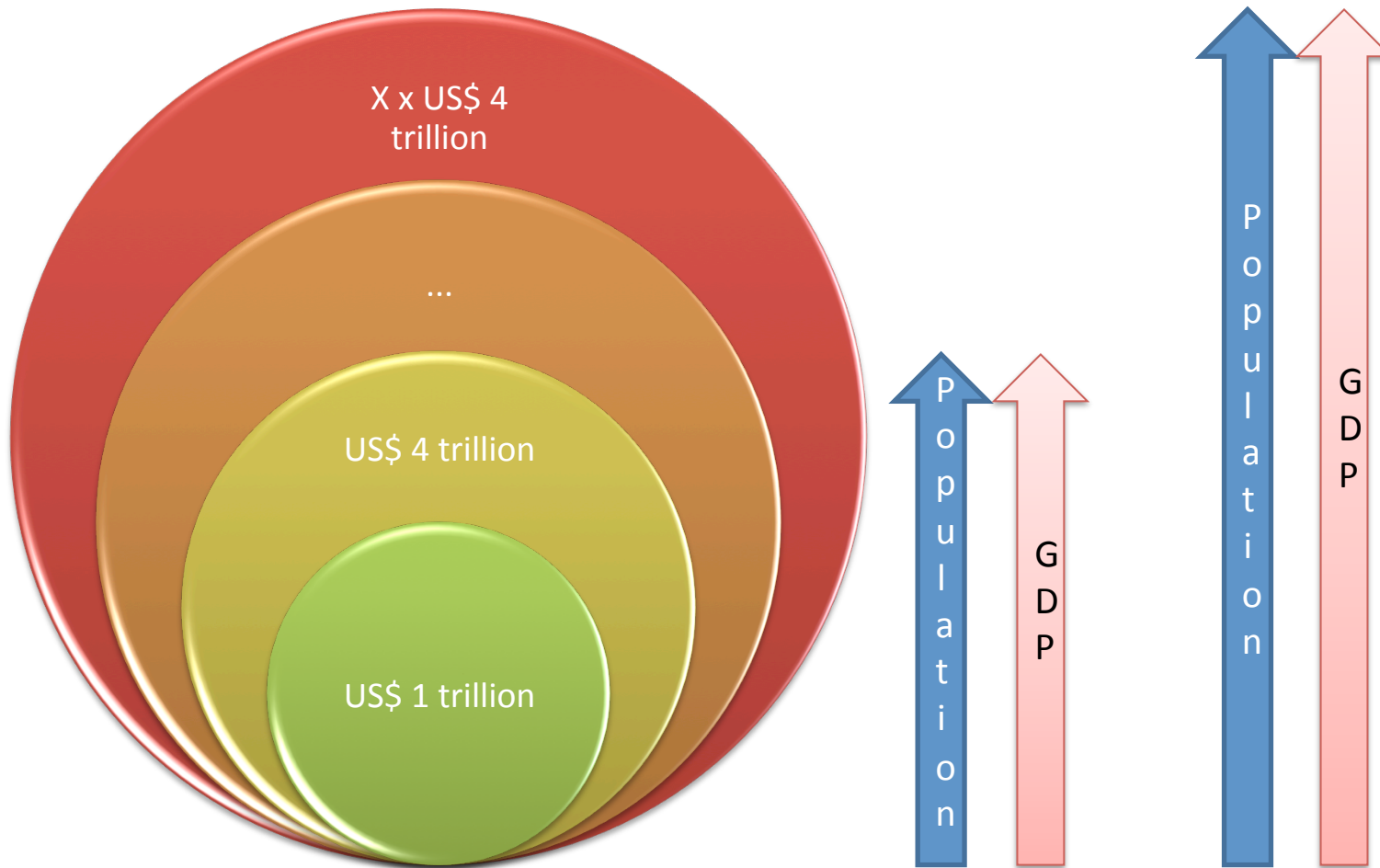
WHAT is Islamic Finance? [3]

- Islamic financial products are
 - Trade-based
 - Partnership based
 - Services oriented

Historical Evolution



The Current State of Affairs



Islamic Finance and the Financial Crisis

- Islamic finance tends to be affected by a financial crisis with a lag – **crisis resistant**
 - 12-18 months lag
- In Malaysia, Saudi Arabia and other countries Islamic banking keeps on growing – **> 20% annual growth**
 - In some areas, slowdown is visible like Islamic bonds

Future of Islamic Finance [1]

- Bright with huge potential
 - Once peace returns to countries like Iraq and Afghanistan, Islamic banking will play a significant role in re-building
- Awareness in the West
 - One of the best promoters of Islamic finance are the Western regulators

Future of Islamic Finance [2]

- Islamic finance is being increasingly perceived as a tool for social reforms
 - Dragging the Muslims from “mosque to market”
- “Median Muslim” likes Islamic finance
 - Educated, above average income and wealth, exposed to multiculturalism, below 30

Future of Islamic Finance [3]

- Western financial institutions consider Islamic financial products like “organic products”
 - Price premium
- Increase in sophistication
 - Products are as good as conventional
 - Islamic bankers are earning as much as their conventional counterparts

Future of Islamic Finance [3]

- Increase in academic and professional qualifications
- More than 60% of graduates of Shari'a and law schools prefer to work in a financial institution (in Malaysia)

Conclusions

- Islamic finance isn't a fad – it is going to stay
- West should adopt and promote it
 - Good business
- Islamic finance is a business not a religious phenomenon
 - People from all faiths are playing the game