

ISLAMIC FINANCE

Global Perspective

Current State & Future Outlook

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Global Perspective

Sources: IFSI Stability Report 2013, IDB Monograph 2013, IDB ISFD Report

Key Socio-economic indicators of IDB Member Countries

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Indicators	Global	IDB Member Countries	Ratio of 3 to 2 (Per Cent)
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
I. Population (Billion)	7.2	1.6	23
a) Education: Adult Literacy (Per Cent)	84	72	
b) Health Expenditure (Per Cent of GDP)	9.2	4.6	

4 MCs have a population greater than 100 Million:

- Indonesia 244 Million
- Pakistan 179 Million
- Nigeria 165 Million
- Bangladesh 150 Million

Key Socio-economic indicators of IDB Member Countries

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Indicators	Global	IDB Member Countries	Ratio of 3 to 2 (Per Cent)
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
II. GDP (in US\$ Trillion)	84.97	6.2	7.3
a) Growth Rate (Per Cent)	3.2	5.5	
b) Per Capita Output (in US\$)	12,400	5,757	46.4
III. International Reserves (in US\$ Trillion)	12.95	1.6 *	12.4
IV (a) Global Financial Assets (in US\$ Trillion)	150		
IV (b) Islamic Financial Assets (in US\$ Trillion)	1.5		
b) Ratio of Islamic Fin. Assets to Global Fin. Assets (in Per Cent)	1.0		

*In 2011, 39 IDB MC's had more than US\$1 billion each in reserves, with 5 countries having reserves in excess of US\$100 billion:

Saudi Arabia	US\$541 billion
Algeria	US\$183 billion
Malaysia	US\$132 billion
Indonesia	US\$107 billion
Libya	US\$100 billion

**Total Islamic Finance Assets US\$ 1.5 Trillion in Year 2012, which consist of 90%, the remaining 10% is of Islamic sukuk and Islamic Investment funds.

Conclusion....

Holistically, viewed in the global perspective, the contrasts of Muslim *Ummah vis a vis* the world as a whole are as under:

- Population of Muslim *Ummah's* is 23% of the world
- Adult Literacy of Muslim *Ummah* is 72% against 84% of the world
- Health Expenditure to GDP ratio is 4.6% in Muslim *Ummah* against 9.2% of the world
- GDP of Muslim *Ummah* is 7.3% of the world
- International Reserves of Muslim *Ummah* constitute 12.4% of the world
- Islamic Financial Assets constitute 1% of the world Financial Assets.

In short, except for GDP growth, on all other counts Muslim *Ummah* is way behind the global ratios.

Current Scenario of Islamic Finance

Current status of Islamic Financial Industry (IFI)

- ✓ There are two main variants of IFI:
 - a) Qatar model where FI is either fully Islamic or fully conventional
 - b) Rest of the world model having a fully Islamic bank or a Islamic window in a conventional bank.
- ✓ Overall, the average ROE of IFI recorded in 2011 declined to 11.3% from a high of 17.9% in 2007.
- ✓ Assets of IFIs have grown at a compound annual growth rate (CAGR) of 40.5% since 2004.
- ✓ Average total equity of IFIs has grown by 43.3% per annum since 2004.

Current status of Islamic Financial Industry (IFI)

- ✓ *Islamic financing growth outlook continues to be positive, growing 50% faster than overall banking sector.*
- ✓ 20 IFIs in 7 countries (including GCC, Malaysia and Turkey) make up 55% of the total IFIs assets.
- ✓ 13 IFIs have an equity base of more than \$1 billion.
- ✓ 10 of the world's 25 Rapid Growth Markets (RGMs) have large Muslim population and offer strong growth prospects for Islamic Financing sector (retail, SME, trade finance, wealth management)
- ✓ Demand for SUKUK instruments will continue to grow, outpacing global supply and providing opportunities for banks to establish and grow their Islamic term financing (redeemable capital) advisory platforms

Current status of Islamic Financial Industry (IFI)

- ✓ According to IMF study post-2008 financial meltdown, the IFI model helped to limit the adverse impact on profitability of Financial institutions.
- ✓ Islamic banks credit and asset growth performed better than conventional banks post 2008 financial meltdown.
- ✓ IMF also observed that external rating agencies reassessment of Islamic banks risk was generally more favorable than that of conventional banks.
- ✓ IFI as a whole achieved standardization in Accounting, Auditing and documentation with little or no progress by Islamic Financial Rating Agency .

Challenges of Islamic Finance

Outlook and Challenges

- ✓ To be either a strategic or niche player in the global financial industry.
- ✓ To ensure that IFI achieves credible milestones in substance besides forms.
- ✓ To bridge the gap between product niche and product innovation.
- ✓ Face the challenge of enhancing the risk management capability of IFI.
- ✓ Upgrade the skill set of personnel and technology of IFI.
- ✓ Upgrade the cost efficiency of Sukuks to bring it on a par with conventional debt instruments.
- ✓ Upgrade the liquidity management skills and tools of IFI's for achieving typically higher liquidity buffers to address the risks.