

Islamic Finance news

A REDmoney Product

Vol. 6, Issue 36 11th September 2009

The World's Global Islamic Finance News Provider

Islamic Finance news
ROADSHOW
2009

BRUNEI

20th October 2009

Is a herd mentality needed?

Despite the improving financial and economic scenario in many parts of the world, including the US and parts of Europe, circumstances continue to be challenging, not only for the conventional finance practitioners but also their counterparts in Islamic finance.

The stubbornly sluggish credit flow is sustaining a vicious cycle of businesses floundering for lack of working and investment capital, while lenders fear expanding their non-performing loan portfolios in a weak economic environment, should they open the liquidity tap.

Islamic financial institutions (IFIs) are better positioned to convert the cycle into a virtuous one with their focus on real economic activities and productive use of money, such that they not only improve their own financial situation but also inject some zest into the economies they operate in.

However, most of them prefer to mimic their conventional counterparts in keeping their coffers sealed, opting to stick to only the markets and clients they habitually associate with.

Not enough of the IFIs are heeding echoing calls to venture into new and emerging markets. This isn't like having to venture into the unknown Lost World — countries like Australia, Hong Kong, Korea and even Japan are weaving the welcome mat.

Over in Africa, it is not just the northern and southern parts that are being groomed for sustained Islamic finance activities but also the western and eastern seaboard.

The UK's vigorous promotion of Islamic finance is creating waves across the channel, with Luxembourg, Italy and some others looking

seriously at encouraging Islamic finance, as the excesses of conventional finance continue to turn off potential clients.

To directly compete with London, France seeks to create a new European hub for Islamic finance focusing on wholesale banking and Sukuk. Its ambition is to create a market of about EUR100 billion (US\$144 billion) in time.

Analysts reckon that there will be a stream of Shariah compliant property or corporate financing deals and some Sukuk issues over the coming two years in a country, which has over five million Muslims, Europe's largest such community.

Across the world India is playing catch-up to neighboring Pakistan's Islamic finance action.

While the Indian government is still mulling over how to facilitate this alternative financial system, the Kerala state government is finalizing plans to set up an Islamic bank shortly with a capitalization of INR10 billion (US\$206 million).

The assumption that Islamic finance activities should focus primarily on Muslim communities has been shown to hold little water. It requires just as much effort to draw the Muslims as it does the non-Muslims.

So, IFIs will do well to steer away from presumptions and look afresh at how they should expand their scope of business. Key factors in this respect are innovation and market creation.

There are quite a few IFIs which relish this challenge, but can this become a herd mentality? (f)

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