

# Islamic Finance

## Market Developments & Opportunities

May 16, 2007

Paris Dauphine



# Where is this increasing wealth going?

→ King Abdullah Economic City, Saudi Arabia



→ Burj Dubai, UAE



→ Mall of the Emirates (Ski Dubai), UAE



→ The Palms Dubai, UAE



## ... and raising consumption of luxuries



### Middle East watch sales surge

Luxury watch brands are facing a global slump, but the Middle East market is booming.

October 05 - 2003 at 10:01

### ME offers rich pickings for DaimlerChrysler

DUBAI — "The Mercedes Car Group is achieving record sales in the region," said DaimlerChrysler's Middle East President. "The launch of two new models of Mercedes-

### Middle East leisure boat market reaches all-time high

Driven by strong growth in tourism in the region and increasing interest in marine sport and off-shore fishing, demand for boats and pleasure cruisers has reached an all-time high in the Middle East.

United Arab Emirates: Wednesday, November 2, 2005

Khaleej Times 12 December 2005

### A waiting list for the latest Bugatti

BY LUCIA DORE (SENIOR CORRESPONDENT)

"Already there is a one-year waiting list in the GCC for this handcrafted car, of which about five a month are manufactured. The car is priced at 1 million euros (4.3 million Dhs) excluding tax and transport costs."

## Business Times

Khaleej Times 14 December 2005

### Gulf to find place in world's top superyacht markets in a decade

BY A STAFF REPORTER

DUBAI — The Arabian Gulf region will be among the world's top four superyacht markets within 5-10 years, according to a global transport finance expert.

"The Gulf has a strong maritime tradition that dates back over 200 years and it's natural that it develops its relationship with the sea.

This region currently has over 130 yachts in service which is almost 5 per cent of the world fleet

### Dh2b land sold out in 48 hours

BY A STAFF REPORTER

Khaleej Times 15 December 2005

DUBAI — Dubai Waterfront — the world's largest waterfront development — this week once again came into the spotlight and caught the attention of investors.

Khaleej Times 9 December 2005

### Sales of Rolls Royce rises 36pc in the Middle East

BY FADI FAHEM

"The Middle East is one of the most important markets for Rolls-Royce, accounting for around 15 per cent of our world-wide sales."

Last year, Rolls Royce sold 792 units world wide, up 36 per cent from, the previous year. "

**ERNST & YOUNG**

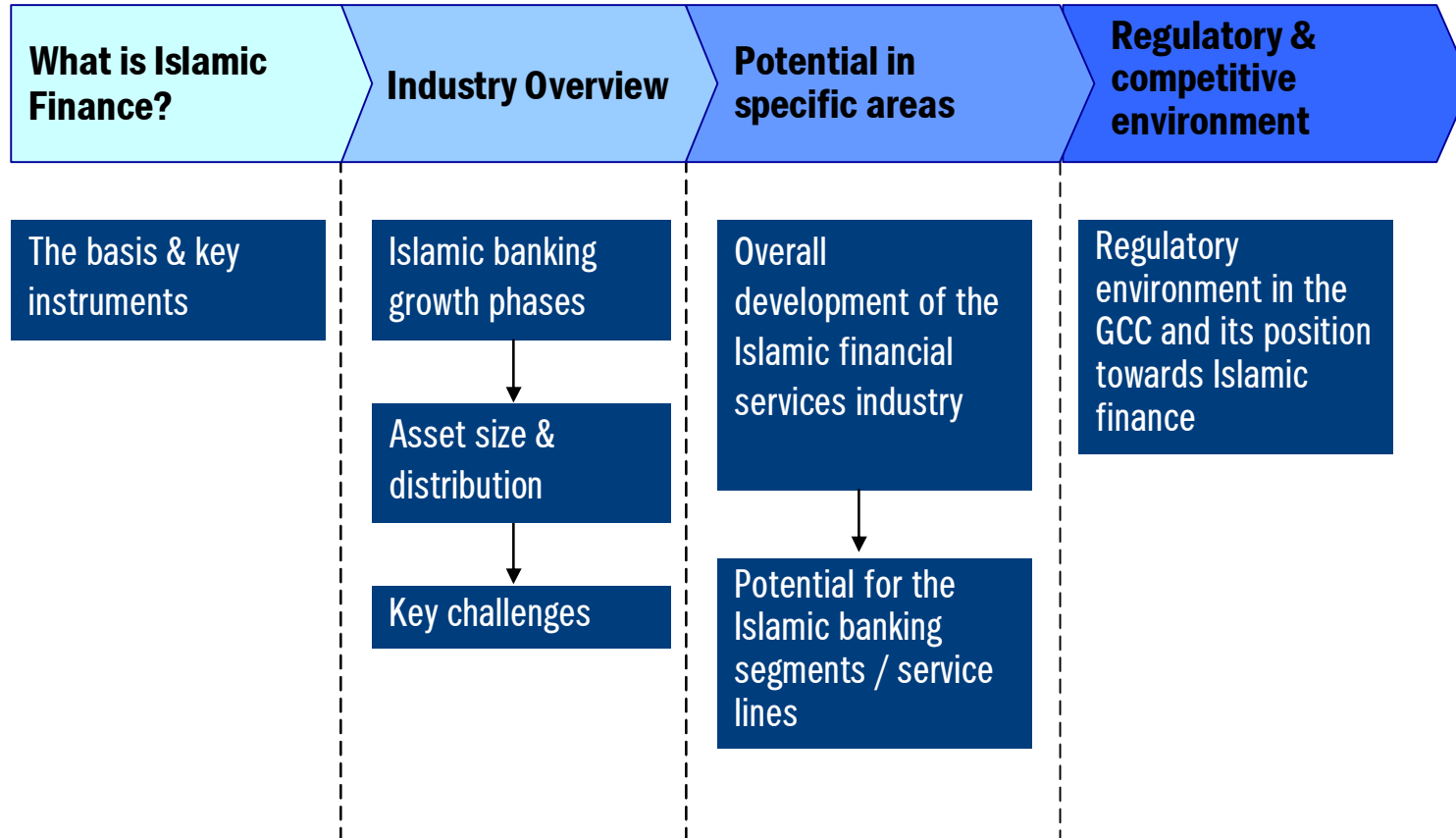
Quality In Everything We Do

## An area becoming richer and richer



- Asset Management offers a huge potential fueled by the flooding liquidity, exceptional stock market performance and lack of service
  - Onshore market size approximates US\$400 Bn by the end of 2005  
... of which only 19% is under management.
  - Offshore market which approximates US\$ 500 Bn is also an attractive option.
- **A massive market opportunity given the large market gap, the limited number of players as well as the attractive fee structure .**  
**(1.5% management fees on HNWI)**

# Preamble ...



# Islamic banking solutions should adhere to the basic fundamentals of Islamic finance...



Investment avenues in conventional finance focus on risk adjusted optimal returns but in Islamic finance financial transactions have to meet the following additional criteria

Transactions must be backed by asset	Asset backed
Prohibition of payment/receipt of interest	Prohibition of interest
Tangible assets to back instruments should not belong to prohibited industries (e.g. alcohol)	Prohibited Activities
Excessive speculative trading in financial instruments is prohibited	Speculation (gambling)
Every financial transaction must involve a level of risk to justify profits	No Pain No Gain

Shari'a Compliant Transaction

## Islamic banking solutions should adhere to the basic fundamentals of Islamic finance...



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### Implications:

All products need to be approved by the Shari'a scholars and this has several implications:

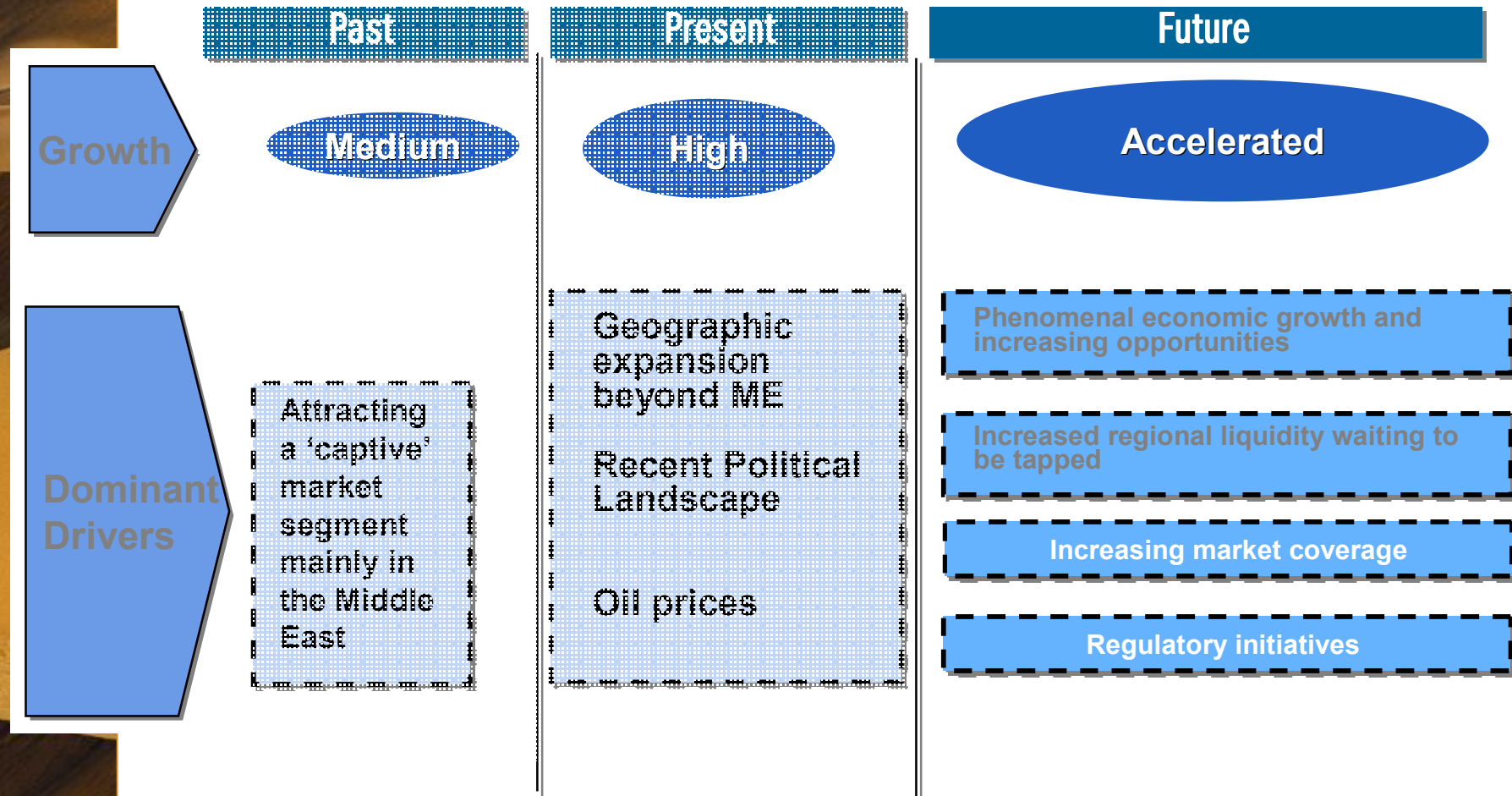
- There are limitations on services that can be provided
- Impediments to innovation exist
- Product development is time consuming and more complex

Shari'a Compliant Transaction

# Growth phases reflect favorable trends...



## Growth phases





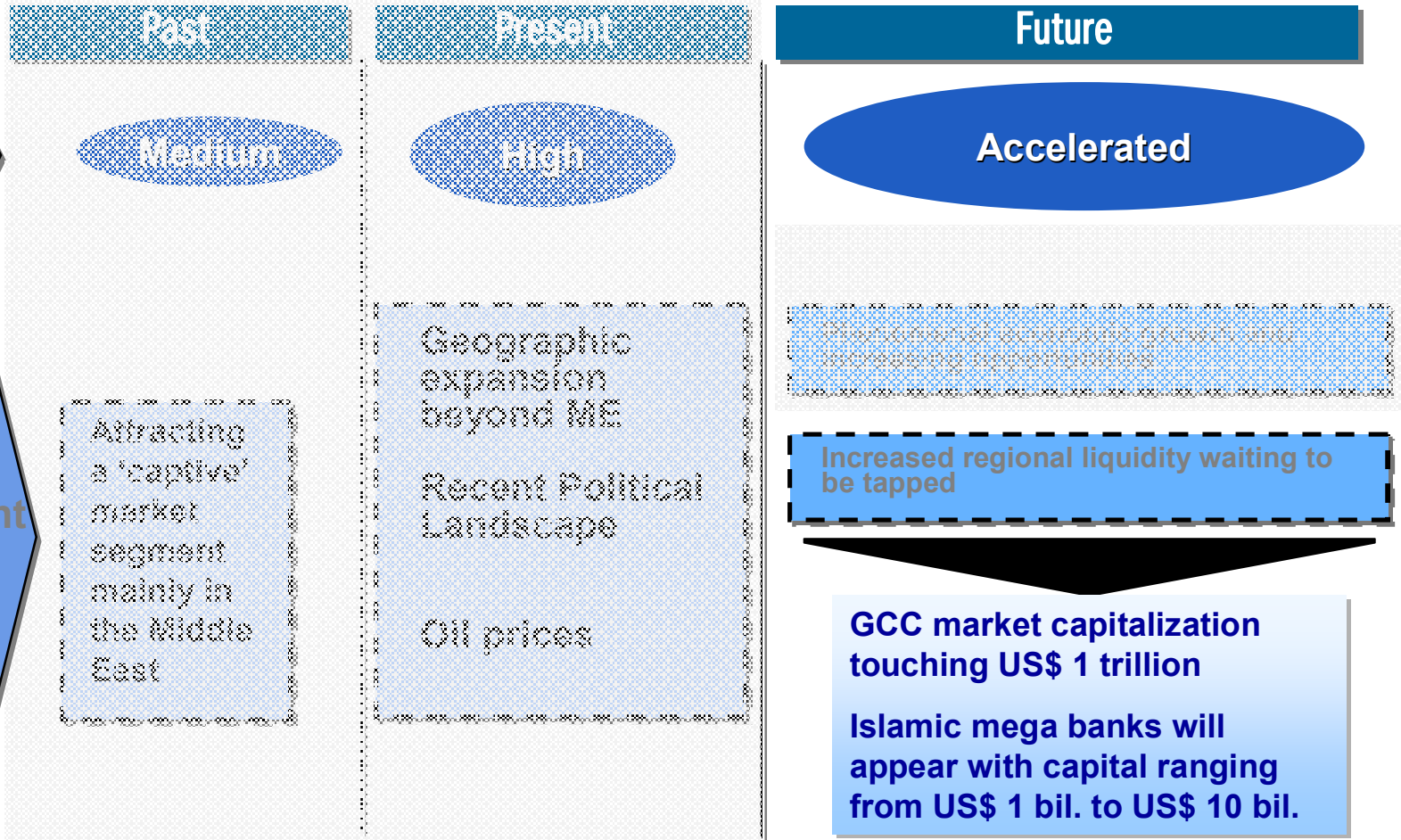
# Growth phases reflect favorable trends...



## Growth phases

Growth

Dominant Drivers



# Growth phases reflect favorable trends...



## Growth phases

Growth

Dominant Drivers

Past

Medium

Attracting a 'captive' market segment mainly in the Middle East

Present

High

Geographic expansion beyond ME

Recent Political Landscape

- Islamic Bank of Britain setup
- First Islamic commercial bank in Canada being setup
- Saxony-Anhalt Sukuk issued in Germany
- Singapore interested in positioning itself as an Islamic Wealth Management center

Future

Accelerated

Fundamental economic growth and increasing opportunities

Increased regional liquidity waiting to be tapped

Increasing market coverage

Tapping the untapped markets

Increasing focus on sub segments

Increase in awareness and establishing acceptance

# Growth phases reflect favorable trends...



## Growth phases

Growth

Dominant Drivers

Past

Medium

Attracting a 'captive' market segment mainly in the Middle East

Present

High

Geographic expansion beyond ME

Recent Political Landscape

Oil prices

Future

Accelerated

Phenomenal economic growth and increasing opportunities

Increased regional liquidity waiting to be tapped

Increasing market coverage

Regulatory initiatives

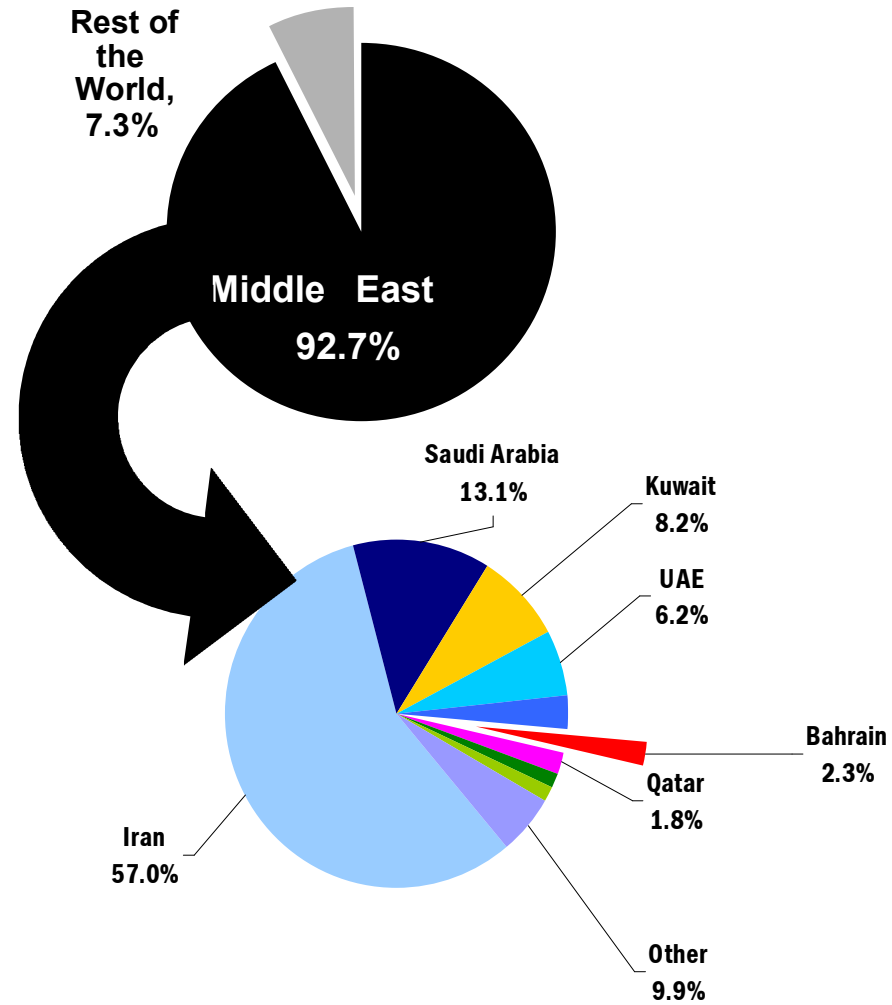
Increasing transparency

Establishing track record

# The Future? Tapping the untapped markets...



## Share of Islamic Banking Assets 2004

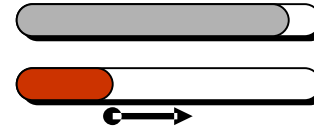


# But key challenges need to be addressed...

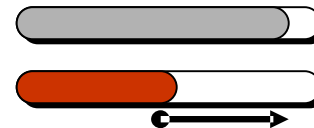


## How the Islamic banking industry compares with its conventional counterpart?

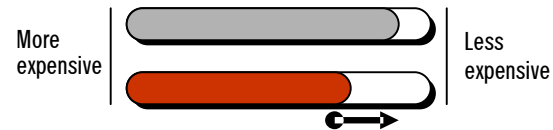
Human capital



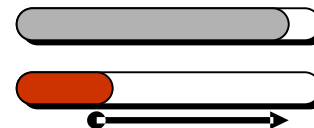
Procedures and documentation



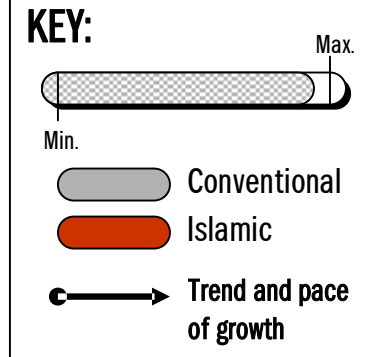
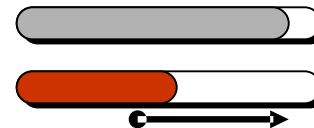
Pricing



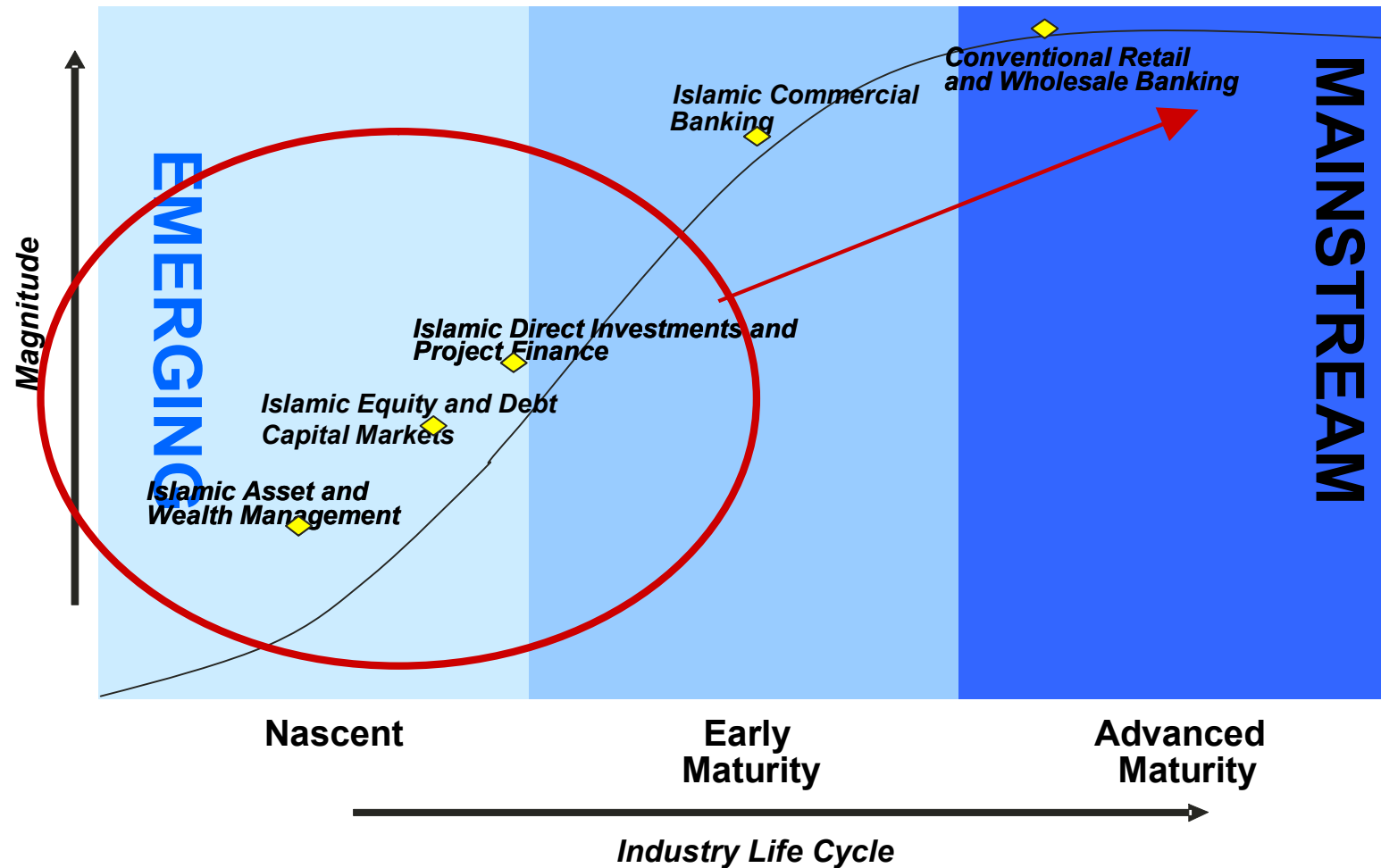
Consumer awareness



Liquidity management



# There is potential in Islamic investment banking and wealth management...



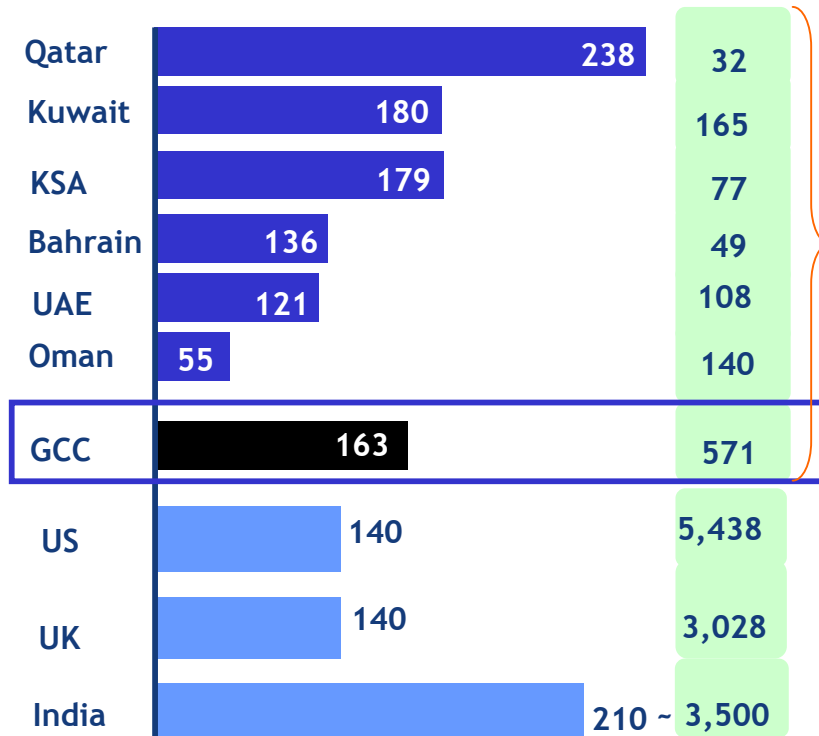
# There is potential for investment banking as illustrated by buoyant equity markets...



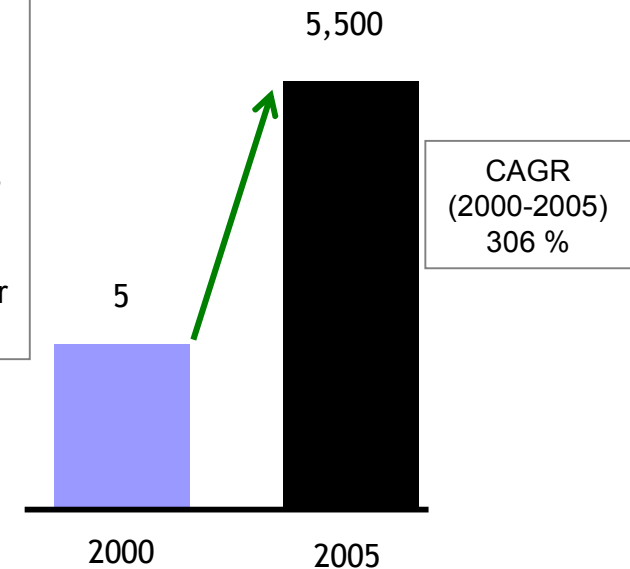
**Capital Market Depth (2005)**  
(Market Cap/GDP) %

**No. of companies listed**

**IPO Capital Raised in GCC (US \$ mil.)**



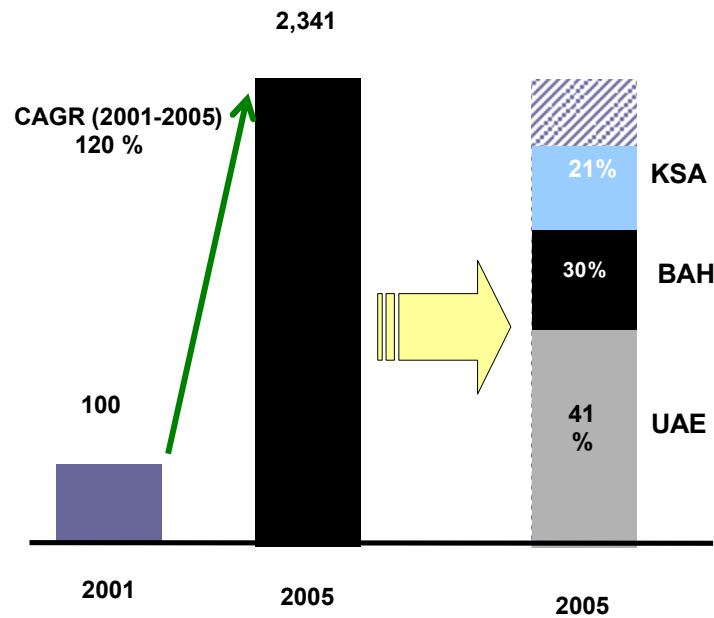
Relatively lower number of listed companies indicates great potential for growth.



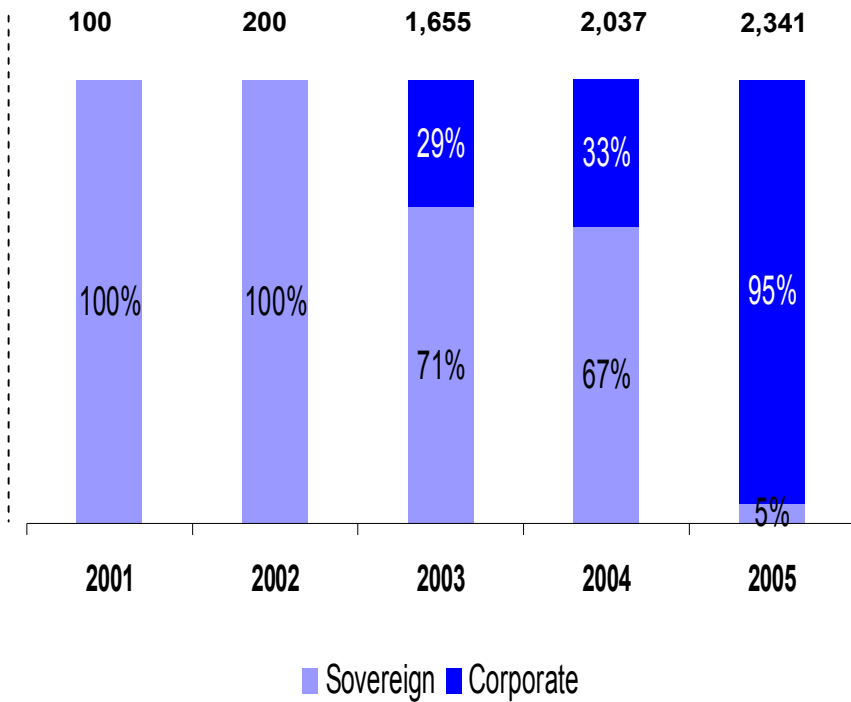
# Excess liquidity and increasing interest is also driving the region's Sukuk markets...



**GCC Sukuk Issuance (US\$ mil.)**

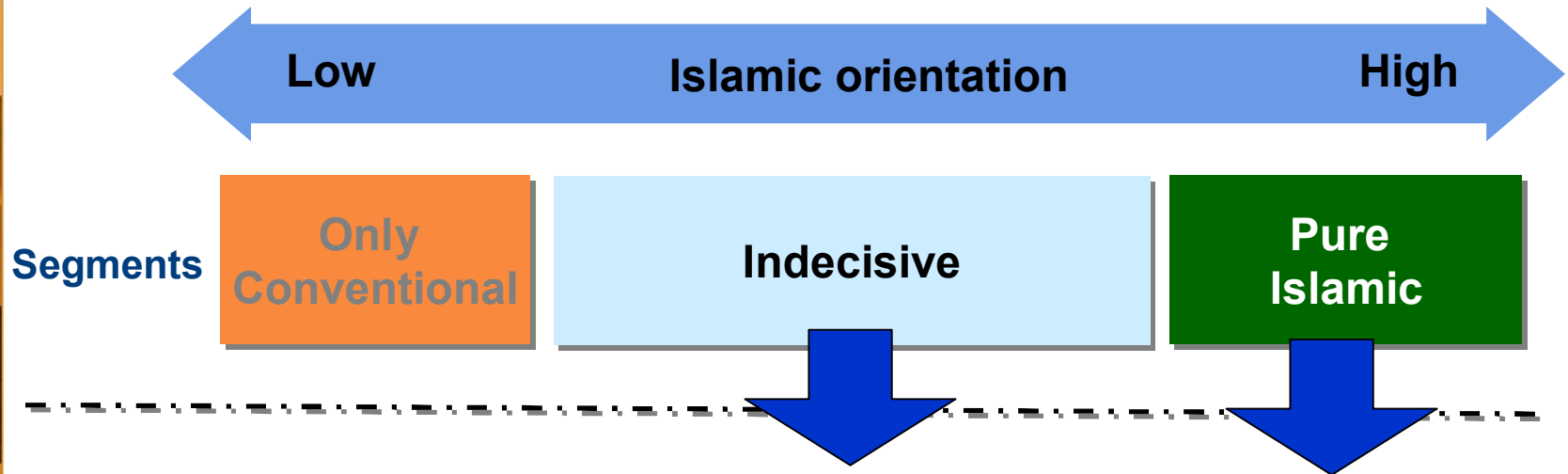


**Corporate vs. Sovereign Sukuk Issuances (US\$ mil.)**





# The bulk of the market remains untapped...



**BULK OF THE MARKET**

Why are indecisive not attracted?

- Limited product coverage
- Lack of Value-added services
- Lack of market segmentation
- Other priorities for IBs

# Trends points towards growing potential in Islamic banking



## Economic Growth & Liquidity

- Strengthened oil prices
- Solid economic growth in the GCC has led to rise in liquidity
- Increased wealth is being retained in the region as investment opportunities are improving
- Increased government spending and investment in infrastructure/ development projects

## Investors' Appetite for Shari'a Compliant Instruments

- Shari'a compliant instruments are becoming increasingly popular with investors.
- The rapid emergence of Sukuks is testament to this.
- Family businesses want to tap liquidity with desire to go public is increasing

## Privatization & FDI

- Increased GCC privatization initiatives will accelerate project finance and structured finance activity in the markets.
- FDI Potential in the GCC is strong and improving with better sovereign ratings and human development

## Regulatory Infrastructure


- Improving regulatory infrastructures.
- Liberalisation of individual markets and increased investor friendliness.
- Increased foreign participation.

## Diversification

- Diversification into non-oil sectors by GCC countries
- Investor funds have also been diversifying regionally throughout the GCC and wider Middle East region.

## Global Acceptance of Islamic Finance

- Islamic financial instruments are becoming increasingly accepted globally due to globalization.
- Foreign regulators are accepting the industry as well (e.g. US, UK, EU, Canada, Singapore)
- Entry of global players in Islamic finance



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