

Islamic Finance forum

What markets and sectors do you foresee as the forerunners for Islamic finance in 2007?



I see the property and infrastructure sectors as being the most fertile for Islamic finance in 2007, since the inconsistencies between the western financial system and Islamic values are least in these areas.

CHRIS COOK: *Principal, Partnerships Consulting LLP*



ENCORE

The space available for the expansion of the Islamic banking and finance market is so vast it can hardly be quantified. The two areas where there will be substantial growth are in asset securitization and asset management. These are also natural areas where Islamic banking can take meaningful market share from international and local conventional banks.

Asset securitization is simply the collection of cash flows from various asset classes - leases, rents, and other annuity-type payments - and putting them into special-purpose vehicles. This suffices the issuance of massive quantities of Sukuk. Asset securitization alone should be responsible ultimately for hundreds of billions of dollars of new Islamic bonds. It will get to a point that even giants such as Ford Motor Credit will probably issue Sukuk against equipment, plant and even automobiles. Furthermore, a similarly large amount of long-term fixed asset financing expected from Indonesia, Malaysia, Pakistan and the GCC should keep a steady large volume pipeline of new Islamic bonds coming.

Islamic asset management was virtually impossible, except for the most wealthy individuals and institutions, until very recently. Since Sukuk cannot be purchased by the vast majority of Muslims, there were no true efforts to assemble pools of money according to modern portfolio theory. We saw the world's first Sukuk fund launched in 2006. There will be many more, thus creating portfolios that meet the most rigorous professional standards for Islamic savers.

In other areas Islamic banking and finance will fail to make any real inroads. For example, we're now seeing efforts by some private Islamic investing institutions to reach across international borders into very aggressive markets, in direct competition with some of the biggest international private equity names. There is not yet in place the specialized talent to support this kind of deal making by most Islamic financial institutions, nor will that be relieved any time soon. Worse, some Islamic houses tolerate transfer pricing of private equity deals that would put you in jail if done in other jurisdictions. I predict some failures especially in the Islamic private equity community, with at least one blow up causing a major scandal.

JOHN SANDWICK: *Managing Director, Encore Management S.A*



I would expect the record Saudi Arabian government spending announced for the next financial year to have major favorable consequences for Islamic finance. Four further economic cities are planned in addition to King Abdullah economic city, which will eventually become the transportation hub for the Red Sea. Many of the infrastructure projects would involve Shariah compliant contracts, especially syndicated Islamic finance and new Sukuk issuance.

It is significant that the Saudi Capital Markets Authority approved new regulations for Sukuk last summer, giving the green light to issuers and their banks.

Dubai International Financial Exchange (DIFX) is also expected to aggressively bid to have the Sukuk listed and traded in Dubai - it is already the leading trading centre in the Gulf for Sukuk, but its ambition is to overtake Kuala Lumpur and be the world's number one.

Islamic banks from the Gulf would continue to expand in Asian markets: Dubai Islamic Bank in Pakistan and beyond, and Al Rajhi Bank and Kuwait Finance House in Malaysia.

As for Indonesia, there is not much happening as Islamic finance remains on the margins, but India could be a market to watch out for, although 2007 may be too early. India has a larger Muslim population than Pakistan, its strong historical ties with the Gulf are being restored, and its economy is increasingly strong. The main constraint is government bureaucracy and the suspicion of its Hindu majority, but pragmatism and tempting business opportunities in Islamic finance may win the day.

PROFESSOR RODNEY WILSON: *Director of Postgraduate Studies, Durham University*

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