BNP PARIBAS – INCEIF CENTRE FOR ISLAMIC WEALTH MANAGEMENT

INAUGURAL PUBLIC LECTURE

by Mr. Iqbal Ahmad Khan

The Future of Islamic Wealth Management in Malaysia and the OIC World: Issues and Challenges

29 April 2013
The Future of Islamic Wealth Management in Malaysia and the OIC World: Challenges and Opportunities

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BNP Paribas - INCEIF Centre of Islamic Wealth Management Inaugural Public Lecture
Kuala Lumpur, Malaysia
29 April 2013
A historical overview: Wealth in the Islamic perspective

**ISLAM AND WEALTH**
- Vice-regency
- Trustee-ship
- Unlimited bounty

**REAL ECONOMY**
- Trade and commerce – legacy of Islam
- Outcomes of Islamic finance

**FINANCIAL MARKETS**
- Islamic finance – capitalism with a moral perspective
- Recycling of wealth – zakah, qard al-hasanah, endowment funds, waqf
The asset management industry has played a significant role in the evolution of Islamic finance...

**THE FOUNDATIONS**
- First Islamic finance institutions
- Mudaraba and musharaka in the real economy

**EARLY SETBACK**
- Lack of framework and managerial expertise
- Unprofitable ventures
- Shift to financing modes
- Lagging behind conventional products

**CROSSROADS**
- Banking or Asset Management route
- Choice made was the banking route
- Shari’a Compliant banking model

**1970**

**1980**

**1990**

**2000**

**2010**

**DEEPENING & BROADENING OF MARKETS**
- Islamic banking windows (of international banks)
- Islamic investment banks / institutions

**NEW OPPORTUNITIES**
- Accelerated additional value flow
- Opening of institutional sector, growth of asset management

**Asset management in the real economy is the future**
...as the evolution continues, Asia and the MENA region will be growth engines for the Islamic asset management industry.

Source: Standard and Poor’s “The Globalization of Islamic Finance”
The Islamic asset management industry has enormous growth potential

Ernst and Young Report:

- Global Islamic finance assets to hit $1.8 trillion in 2013
- Islamic asset management expected to grow from around US$300 billion to US$ 500 billion

Source: Ernst and Young – The World Islamic Banking Competitiveness Report
However, the Islamic asset management industry remains marginal and fragmented—and continues to lag behind its conventional peers. In 2011, each of the top 25 conventional fund managers are 50 times the size of the largest Islamic fund manager.

**Islamic Asset Management**
- Only 30% (of Islamic fund managers) – more than US$100m in AUM
- Top 10 have 80% market share
- Building critical mass is a key challenge

**Conventional Asset Management**
- Islamic AM continues to be in the shadow of the conventional AM

Industry’s control has moved from owners to managers, creating huge risks and challenges.
The Islamic asset management industry has several competitive strengths in light of the evolving economic paradigm:

### Increasing Institutional Demand
- Increasing sophistication leading to increasing number of Shari’a-compliant alternatives for institutional investors
- OIC institutional investors increasingly requesting for Shari’a-compliant investments
- Last year, Sukuk issuance in the GCC exceeded conventional bond issuance for the first time

### Continued Retail Demand
- Global middle class will grow by more than 160% in the next 25 years from 1.8 billion in 2012 to 4.9 billion in 2030
- Projected expansion of the global middle class is leading to exponential growth potential in takaful, waqf and pension funds

### Emerging Global Demand
- Fragility of the conventional financial system is leading to opportunities for institutions and markets that embrace ethical values
- The “Occupy Movements”, European sovereign debt crisis, and the Arab Spring have led to grassroots support for concrete economic reforms

Industry has the richness and reach to move forward in the evolving economic paradigm.
Islamic asset management industry could leverage on the current challenges in the economy and the growth of the Islamic finance sector

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The future growth of Islamic finance lies in the success of the Islamic AM industry
A phased approach is required to create an enabling framework for Islamic asset management

**PHASE THREE**
- Enabling Framework

**ROLE MODEL INSTITUTIONS:**
- Ownership, Mutual and Cooperative
- Highest levels of transparency and governance
- Ethics and values-based
- Client-focused

**GOVERNMENTS:**
- Fix the rule book
- Become a robust referee and not a player
- Establish PFI initiatives
- Allocate money to asset managers:
  - Infrastructure
  - SMEs
  - VCs

**RETAIL INVESTORS:**
- Educate investors on their rights and responsibilities
- Customer advocacy platforms
- Build a saving and investments mind-set
The future of the industry lies in…

1. Deliver the full proposition to the low end of the market, takaful, healthcare, and pension
2. Compete in the market through values, ethics and authenticity
3. Innovate with ethics and integrity
4. Make innovation repeatable
5. Delight the customers

Industry’s biggest opportunity remains in serving the bottom of the pyramid
“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

— Franklin D. Roosevelt
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