

# **Prospects and Outlook of Islamic Wealth Management: Post Global Financial Crisis**

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## **1. History of the Islamic Financial industry**

The practice of Islamic economics can be traced back to the early development of Islam. In the 1970s and 1980s, a movement was founded to expound on the formal and organized body of knowledge known as the 'Islamic economics'. Through its application, it would methodically transform the economic institutions of the Muslim societies into modern institutions, yet more harmonized with Islamic norms and principles. The phenomenon is widely accepted as part of the global Islamic renaissance to reform Islam's legacy in modern times. However as Islamic banking and finance (IBF) is identified as the most attractive sphere for Islamizing the economy, there was a paradigm shift in the 1990s skewing towards the banking and finance sphere only. It is noteworthy to point out that the evolution of the IBF industry within the past decades has been overwhelming.

## **2. Modern Day Islamic Banking and Finance**

Islamic finance has marked an exponential development around the globe over the three last decades, indicating an enormous demand for *Shari'ah* compliant scheme. Although relatively young and vibrant, Islamic finance has demonstrated one of the fastest growing elements of global financial system since its inception in the late 1970s (Halabi. et.al. 2004). This is evident by a report issued by KFH-Research whereby it stated that the total value of Islamic financial assets almost reached USD1.6 trillion as at end of Year 2012. In addition, there are over 300 Islamic financial institutions (IFIs) that are operating in about 75 countries across the globe, comprising of banking, *takaful* and capital market sectors.

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### 3. What is Islamic Wealth Management (IWM)?

The historical root of IWM can be traced back to the basic Islamic concepts of wealth and extends to the various structures of Islamic financial products and overall financial planning. Dr. Omar Clark Fisher who is the Strategic Advisor to the Board of Takaful Operator Solidarity in Bahrain, sums up that the Islamic understanding of wealth comprises of four dimensions namely distribution of wealth (inheritance), donation of wealth (*zakah*), plans for wealth accumulation and preservation as well as the correct attitude about wealth.<sup>3</sup> Through successful overall management of wealth in accordance with the embargoes of Allah Almighty, this will help Muslims to achieve happiness in this world and hereafter. Excellent Muslims are those who plan for the happiness in both worlds as described by The Almighty in Surah al-Baqarah verse 201: “And there are men who say: Our Lord! Give us good in this world and good in the hereafter, and defend us from the torment of the fire.”

In addition, with the growing demand of modern day Islamic banking and finance, IWM is seen as a service that best caters to these growing needs. As stated above, with the total value of Islamic financial assets almost reached USD1.6 trillion as at end of Year 2012, this is a clear sign that IFIs need to up their game from just providing high yielding investment products only. Nowadays, IFIs are trying to shift their clients into a wealth management system which offers comprehensive *Shari'ah* compliant products and services. Although these services are offered in Europe for many years through the conventional methods, the present trend is to shift these clients and their assets back to the Middle East through IWM. For example, the Lebanese high net worth individuals (HNWI) has been amongst the first wealthy Arab clients who have sent their money to Zurich whereby the flow of funds has been undeterred by the pressure applied to Swiss banking secrecy laws in recent years. Additionally, some USD1.5 trillion of Gulf Cooperation Council (GCC) countries funds are held in assets worldwide vested in treasuries, equities, corporate bonds and funds, whereby the region accounts for 3.2% of the global high net worth population.

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<sup>3</sup> Gerard Al-Fil, “Islamic Wealth Management: Niche or New Wave?”, *AMEinfo.com*, Feb 2011, [www.ameinfo.com/257689-more1.html](http://www.ameinfo.com/257689-more1.html) accessed on 7 Jul 2013

Thus with the recent awareness of the rising demand for Islamic wealth management products, Islamic banks in the United Arab Emirates (UAE) as well as conventional banks with Islamic windows have since allocated resources to the management of HNWI. Some of these set-ups include Al Dana Wealth Management at the conventional Commercial Bank of Dubai and Siraj at Abu Dhabi's First Gulf Bank. In addition, Gulf Finance House (GFH) Investment Bank is also moving forward in commissioning this initiative, whereby the clients are transferred into a more dedicated Islamic wealth management programme. This is to create a vibrant portfolio for all of its HNWI, introducing a congruence of products and solutions to cater to this growing class of investor.

#### 4. Locations of Islamic Wealth Management (IWM)

Europe has been one of the first movers in Islamic wealth management via financial institutions such as UBS, BNP Paribas and Dar al Maal al Islami based in Geneva. Since then, other players such as the Islamic Investment Company of the Gulf, a Bahamas-based company as well as private banks such as Garanti and Yapi Kredi in Turkey have entered the fold.

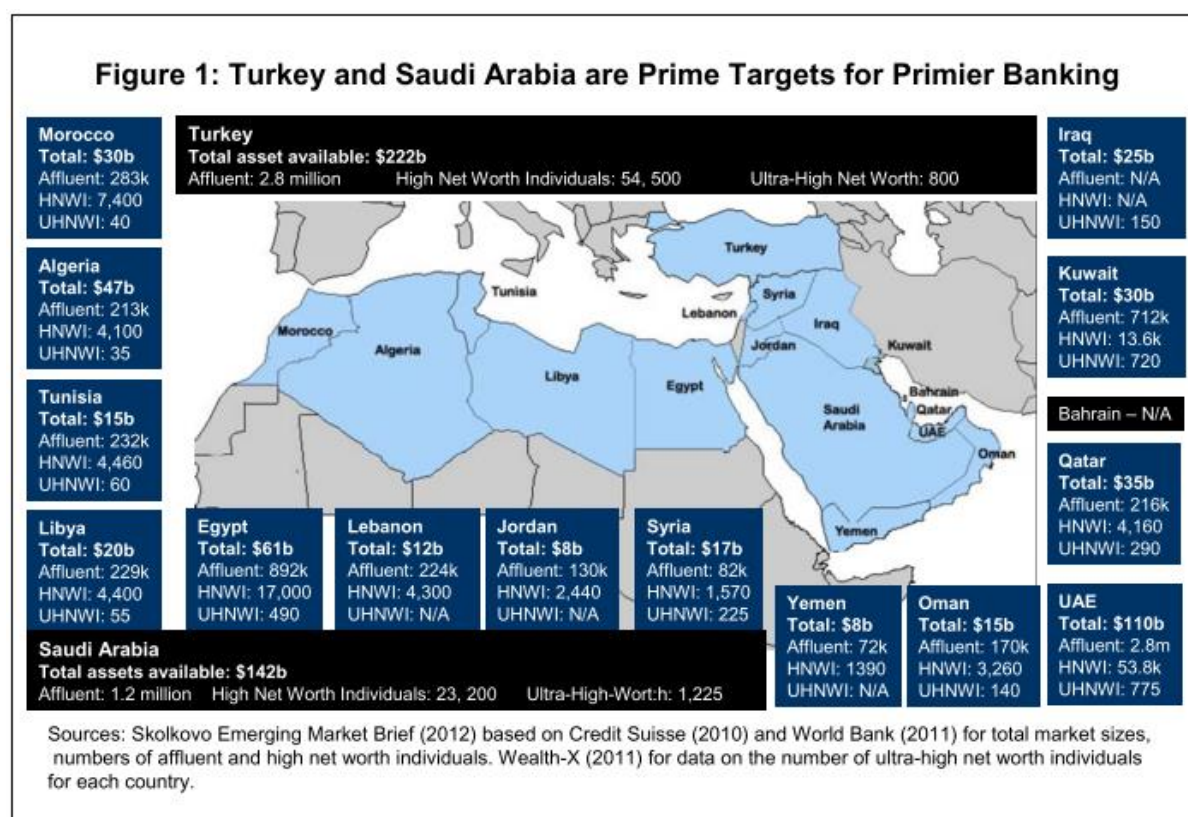


Diagram: Distribution of wealth across MENA (Source: The Middle East Institute Research Series, 2012)

The diagram above also depicted the huge potential that is in Turkey and Saudi Arabia. Recent studies have made a counter-intuitive finding that the recent political uprisings in the region will hardly dampen wealth accumulation within the region. While it is evidential that investors from MENA flock to invest abroad (70% of Middle Eastern wealth is sent overseas), policymakers and academics are none the wiser as to the specific locations in which this wealth is parked. As local wealth management services continue to be extremely under-developed, it is likely that foreign banks will increase their infiltration into MENA.

Levels of secularization have been varied across the MENA region and it is early to determine whether the Arab Uprising will streamline this situation. Nevertheless, it has been acknowledged that the availability of Islamic finance products in wealth management has been one of the significant factors contributing to the growth of the base of wealthy customers in local banks. Consequently in order to ride this trend, it would be worthwhile for local and foreign banks alike to expand and refine their suite of products within Islamic wealth management.<sup>4</sup> Competition between European and Middle Eastern services is set to intensify; Swiss banks now reassure themselves that their service is nonpareil while Emirati banks simply lower their fees and offering attractive services. For example, centers in Dubai and Qatar are recently introducing new regulations designed to attract institutions and investors in this field, whilst Bahrain, arguably the leading banking and financial services hub in the Middle East are at the forefront of applying new methods and testing new services so as to sustain their role as a local hub for IWM activity.

## **5. Status of Islamic Wealth Management (IWM) - Post-Global Financial Crises**

Islamic finance has famously been sought out for its philosophy of ethics and stability of the financial systems, especially after the global financial crisis. In addition, the religious restriction against usury, short-selling or leveraged investing works well in tandem with the current slow but steady recovery from the global financial crisis. Moreover, some of the hardest hit by the crisis were the wealthy families and individuals in the Middle East partaking in conventional

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<sup>4</sup> Bryane Michael & Nenad Apostoloski, "The Middle Eastern Wealth Management Industry: Boon or Bust?", *The Middle East Institute Research Series*, Jul 2012

financing schemes, thus opening greater doors for the Islamic wealth management system. It is noteworthy to point out that the global financial collapse has pushed the Islamic financial system to the forefront as analysts and experts recognize the reality that *Shari'ah* screening leads to lower risk, thus enabling lower exposure to sub-prime debt. Overall, Islam demands for justice, equality, cooperation and shared responsibility whereby its aims go far beyond monetary displays and growth as it upholds ethics, responsibility and market discipline. Thus taking these factors into considerations, IWM industry is facing perhaps one of its greatest prospects for both the service providers and investors.

## **6. Concluding Remarks and Suggestions**

This is the most appropriate time for IFIs to rise up and take the challenge as the potential of the IWM industry is noticeably present. In addition with the rise of the petrodollars in the Middle East, and since the global credit crunch, there has been Islamic finance rejuvenation hence creating the most perfect time to capitalize on the change. Moreover, Islamic wealth management can also take advantage of the newly set up or thriving Islamic secondary markets and unencumbered growth of wealth in MENA to gain a larger market share of the wealth management pie.

In this climate where adherence to the spirit of Islamic law via genuinely *Shari'ah*-compliant strategies is potentially less penalised, it is a golden opportunity for IWM to demonstrate the economic profitability that can come with true application of Islamic finance principles. It is thus safe to say that IWM is the way forward whereby it is not only the savior of the recent financial crisis, but also the promising bright future of modern-day Islamic banking and finance industry.

In the case of Malaysia, being an Islamic finance hub and coupled with supportive regulatory and legal framework with a track record of market leadership can be the pivotal point for the growth of IWM. Leveraging on the strengths of its wide-ranging inland infrastructure, active market making and product innovation, Malaysia's Islamic financial centre is poised to develop into a key centre for IWM to reside. However regional competition is expected.