Islamic banks adopt global portfolio

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Islamic banking, once little more than an exotic curiosity, is rapidly becoming an important part of the global economy. The ambitious infrastructure projects planned for many Muslim countries are bringing an increased need for finance, and Islamic banks are expected to play an important role in some of these projects.

Globalisation and the need for alternative financing will be the key issues at the fourth annual Islamic Banking and Finance Forum, which meets this month in Bahrain. The forum, which is hosted by the Bahrain Monetary Agency, will be held at Bahrain's Le Royal Meridien Hotel from December 8 to 10.

Over the years the forum has attracted more than 1,000 delegates from over 30 countries, with over 200 banks and financial institutions taking part. The three keynote themes this year are `globalisation of Islamic finance', `the new world economic order', and `best practices and models in the global financial markets'. Victor Hawken, chief operating officer of Islamic Banking & Finance Forum (MEIDC), which is organising the event, says: `Islamic bankers have proved to be a major influencing factor in large infrastructure projects, which top agendas across several Middle East and Far East nations.'

This year the conference is being taken beyond the Arab world, to a pan-Islamic arena. Special sessions will focus on Bahrain's role as a major Islamic financial hub; the opportunities for Islamic finance in Mindanao in the Philippines, now that peace has generally returned to that once-troubled province; the development of Labuan, a Malaysian island in the South China Sea, as an Islamic offshore financial centre; opportunities for Islamic finance in the Muslim communities of North America; investment opportunities in the Chinese Muslim province of Qinghai; and developments in Islamic finance in the former Soviet Union states. Islam is the main faith in five of the central Asian states: Kazakhstan, Kirghizstan, Turkmenistan, Tajikistan and Uzbekistan.

Although the main themes of the conference will be the new geographical areas and emerging markets, conventional issues will also be tackled.

TOPICS ON THE AGENDA

Subjects for discussion will include Islamic infrastructure and project finance, Islamic leasing and lease funds, Islamic fund management, Islamic real estate investment, information technology for Islamic financial institutions, and taka ful, Islamic insurance.

Prominent speakers who have addressed the forum include Saudi Arabia's Prince Mohamed Al Faisal Al Saud, chairman of Dar Al-Maal Al-Islami; Sheikh Saleh Kamel, president of Dallah Albaraka group; Adnan al Bahar, chairman of the Dubai and Jeddah-based International Investor; Dato' Ahmad Tajudin Abdul Rahman, managing director of Bank Islam Malaysia; Dr SMH Adeli, governor of Iran's central bank; Zainul Arifin, president director of Indonesian-based Bank Muamalat; and Majid Al-Refai, chairman of Bahrain's First Islamic Investment Bank (FIIB).

Last year's conference in Dubai, in the United Arab Emirates, was told that the global assets of Islamic financial institutions exceeded US$60 billion, compared with US$5.8 billion in 1975. Three new Islamic banks were founded each year between 1975 and 1985. Today, there are 300 Islamic financial entities -186 institutions and 114 banks - in 25 countries.

Speakers in Dubai included Sultan bin Nasser Al Suwaidi, the governor of the central bank of the UAE; Dr Saleh Malaikah, chief executive of Saudi Arabia's Albaraka Investment and Development Corp; Justice Mufti Mohamed Taqi Usmani, deputy-chairman of the Jeddah- based Islamic Fiqh Academy; Andre Hovaguimian, director of the USbased International Finance Corporation; and Dr Wan Mohamed Hasni Wan Sulaiman, president of Malaysia's Abrar group.

Topics covered last year included relations between central banks and Islamic institutions, capital adequacy ratios and requirements, Shariah regulations, fund management, equity and portfolio investments, and the role of international institutions in Islamic finance. Soon after the conference, a joint venture between a Kuwaiti group and a Saudi group set up First Islamic Investment Bank in Bahrain. It launched a US$35 million two-month private placement issue to high-net-worth individuals in the Gulf states, Malaysia and Brunei. A spokesman said: `This shows this is not an Arab venture but a pan-Islamic venture.'

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FIIB's former chief executive, Majid Al Refai, said at the conference last year: `Islamic banking should not be seen as a niche, but as good as other products. Currently Islamic banks offer short- term tools with returns of 5% to 6%. We are looking to make the quantum leap to medium-to-long term products with returns of 15%, 20% and even 30%, like project finance and venture capital. Our aim is to create credit-rated medium-tolong-term investment tools with returns comparable with existing conventional products, so that financial advisers the world over can advise their clients to invest with us on the basis of returns, rather than because they are Islamic.'

As Islamic banks look to financing major infrastructure projects, this factor will become more important. Infrastructure projects have become a feature of international banking conferences over the past few years. The World Bank says the developing world will need trillions of dollars to finance the kind of projects necessary to keep the engines turning. The Asian Development Bank said in 1994 that close to US$1 trillion will be needed over a little more than a decade to finance the infrastructure needs of the Asian region alone.

Clearly, term-lending institutions cannot be the sole providers of such large sums. At the same time, the ideal instrument of infrastructure development, bond markets, have yet to be exploited fully in the developing world, where Islamic banks expect to play an increasingly important role towards it in the coming years.

The development of a major gas field in Qatar, the construction of the new international airport in Kuala Lumpur, and the development needs of southern Africa, combine to create an infrastructure tab of close to US$250 billion.

The forum, which is the premier meeting of its kind internationally, will provide a natural platform for interaction between the Islamic financial community, conventional banks and financial institutions, government and academia. Industry analysts expect it to promote the exchange of business information, knowledge, and a greater understanding of Islamic financial concepts and practices in the world.

Besides interactive meetings focusing on the latest developments in the Islamic financial industry, MEIDC's Hawken expects discussions on new investment opportunities in the emerging Muslim markets and model banking practices.

NEW AWARD

In addition, the prestigious Islamic Banking and Finance Excellence Awards has a new award this year. The Dealmaker of the Year Award will go to an individual investment banker or team using Islamic-based financial instruments in a major project financing exercise.

The other leading awards are Banker/Financier of the Year and Lifetime Achievement Award. Over a thousand alumni at the conference nominate candidates for the awards. In 1996, the Life-time Achievement Award went to Sheikh Saleh Kamel, president of the Dallah Albaraka Group, for pioneering the implementation of Islamic Values worldwide. The Islamic Banker of the Year Award went to Nabil Nassief, president and chief executive officer, Faysal Islamic Bank of Bahrain.

As the recent economic downturn in some parts of Southeast Asia and the hammering of some currencies and global stock markets have shown, the time has come for products, concepts and ideas that take a longer-term perspective. Conventional methods have worked in the past, but if the global economy is to sustain its long bull-run and avoid the pitfalls of deflation or depression, new and innovative ideas, which are ethically sound and conceptually co-operative and collaborative, will be needed. Islamic banking alone cannot perform this task, but any attempt at global recovery without including this vital, and phenomenally-growing component of international finance, will be insufficient.

Islamic banks are spread across the world and can provide a wider perspective than conventional banks, some of which are driven by short-term principles.

Islamic banks often respond to different economic cycles, and can look at projects with a certain detached perspective, which insulates them from the governing consensus of the financial community.

Like all banks, Islamic banks cannot run on anything other than sound business principles. But Islamic banks bring a unique set of products to the table, which can make the global financial industry more powerful at this critical time of the world's economic history.

Solutions to some of the structural problems will inevitably take time, but the Bahrain conference this month will take the dialogue further by introducing Islamic financiers to new opportunities in new markets. Conventional banking communities, too, will get the chance to see what the Islamic banking world and its principles have to offer.

A dialogue of that nature can only make the world richer.

Salil Tripathi

Speakers at this year's conference, to be held in Bahrain (above), will introduce financiers to new opportunities in new markets

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