

Index-Based Investment Products that will Help Drive Takaful Growth

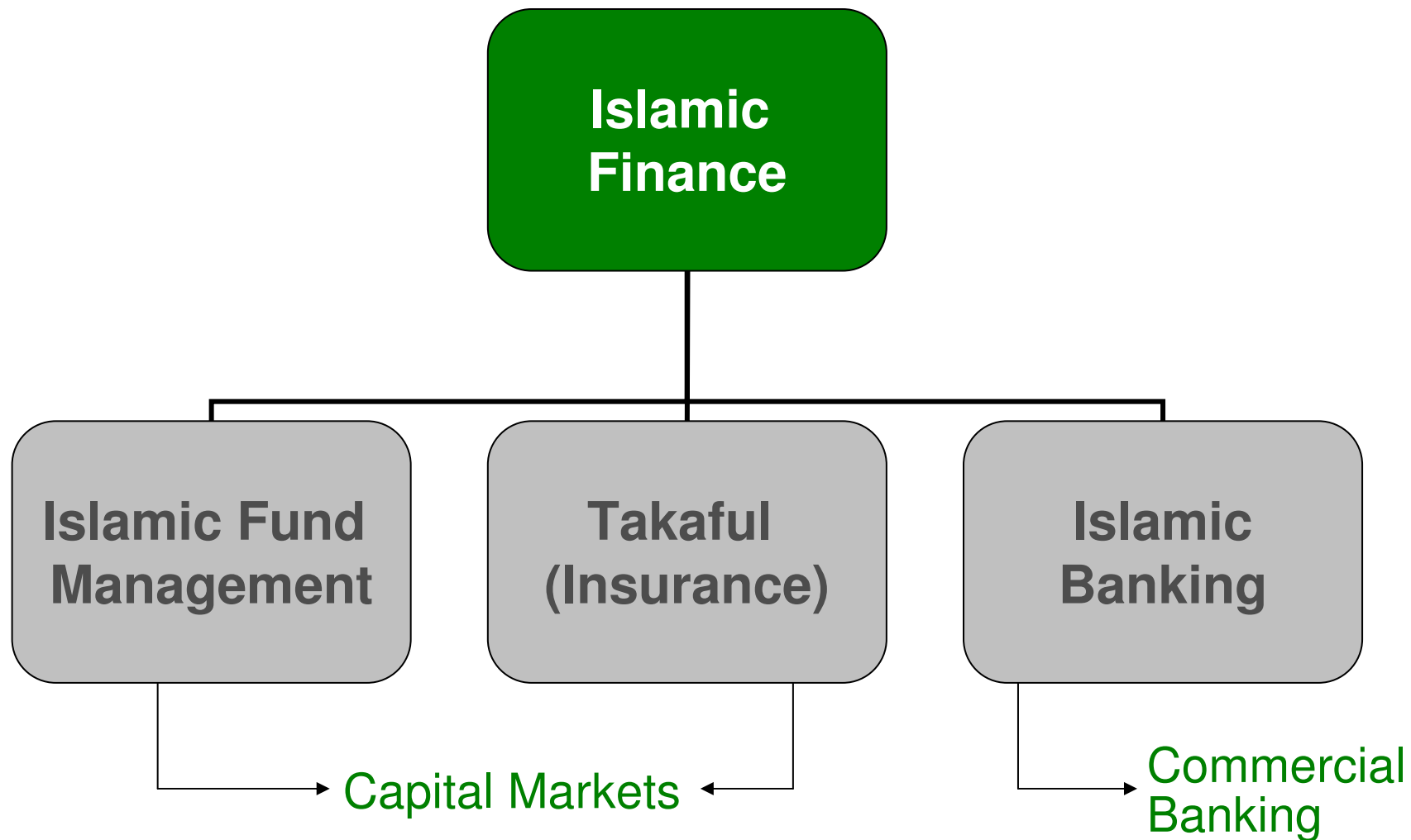
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13 April 2010



Overview

- Structure of Islamic finance
- Current snapshot of Islamic finance
- Products offered
- Islamic fund market
- How ETFs are redefining the fund industry
- Reaching critical mass
- What's driving the market today

A. Structures of Islamic finance



Industry snapshot

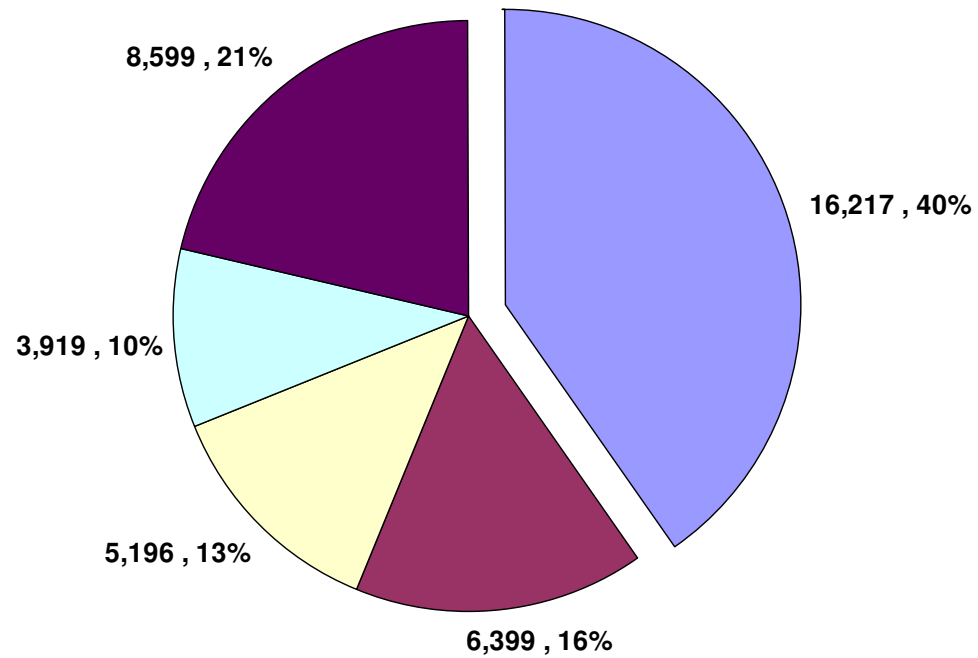
- In the middle of the 1970s, growing wealth and increasing influence in the global economy inspired Muslims to develop a new financial system that complied with Islamic philosophy.
- Today there are approximately **600** Islamic financial institutions operating around the world, including banks, mutual fund providers, and issuers of Takaful - Islamic insurance.
- Islamic financial institutions control at least **\$650** billion in worldwide assets (estimated).
- There is less than **\$20** billion in Islamic equity funds comprising over **300** funds and only **8** Islamic ETFs (exchange traded funds)
- There are an additional **300+** Islamic funds from various other asset classes including, short-term trading instruments, sukuk, real estate and private equity

Products offered

- **Banking products:**
Savings and current accounts (including *wadi'ahs*), murabaha and investment accounts, time deposits
- **Funds:**
Ijara funds, equity funds, real estate funds, commodity funds, private equity, hedge funds, sukuk funds, exchange-traded funds (ETFs)
- **Private banking and wealth management services**
- **Structured products (index-linked and others)**
- **Takaful (Islamic insurance)**
- **Stock-trading and brokering services**
- **Derivatives (such as *arboun*, *tawarruk*, *dual-wa'ad*)**

Islamic Fund market

Islamic Fund Market AUM (\$ billions)

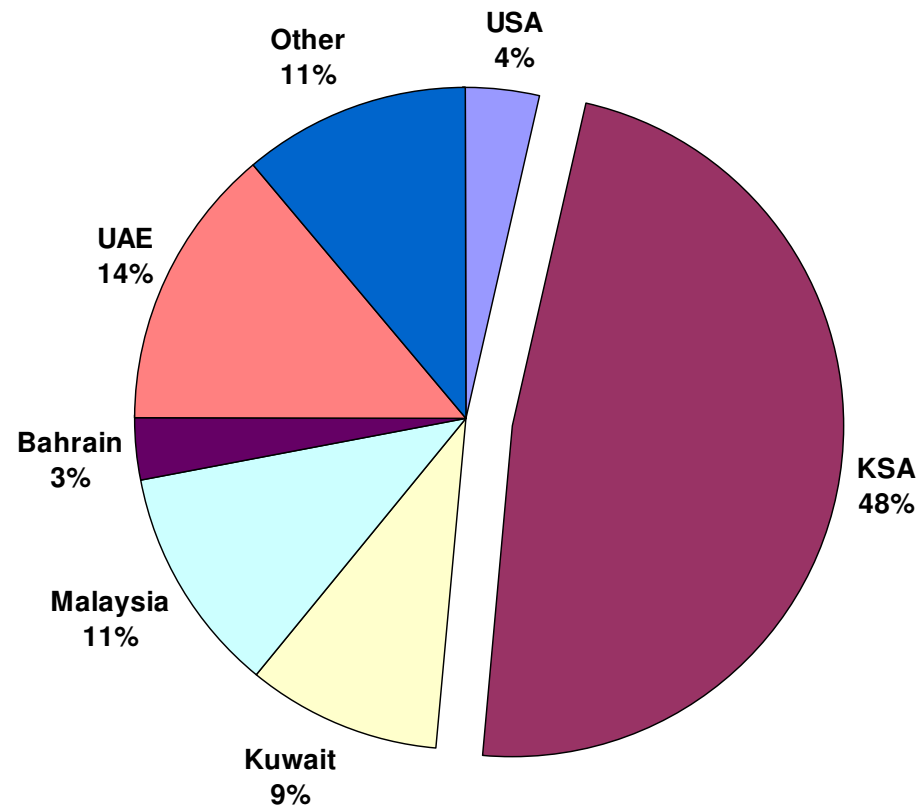


Equity Fixed Income Real Estate and PE Commodities Other

Source: Ernst & Young, Islamic Funds and Investment Report 2009

Islamic Fund market

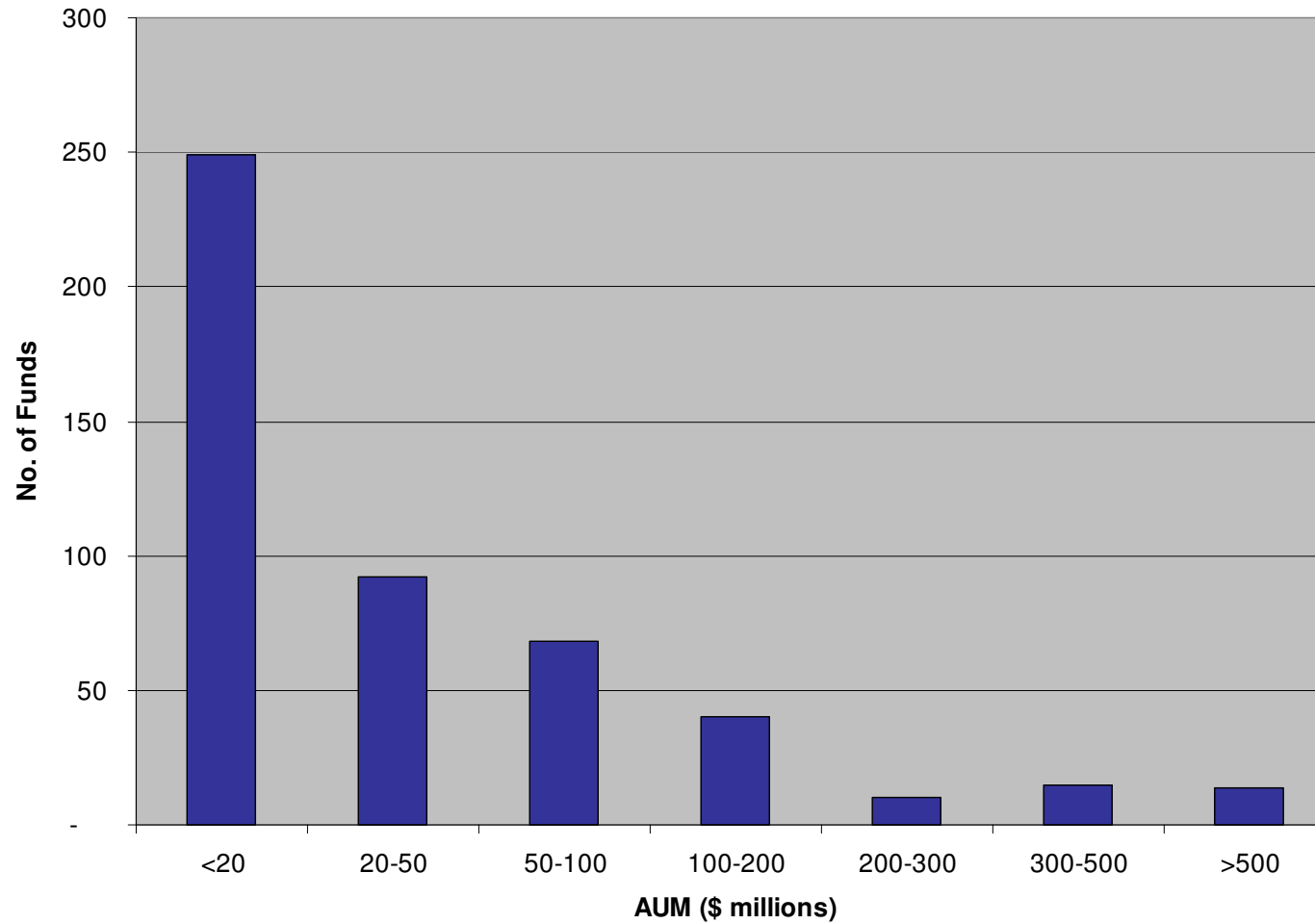
AUM by Country (% of total market)



Source: Ernst & Young, Islamic Funds and Investment Report 2009

Islamic Fund market

Number of Funds by AUM



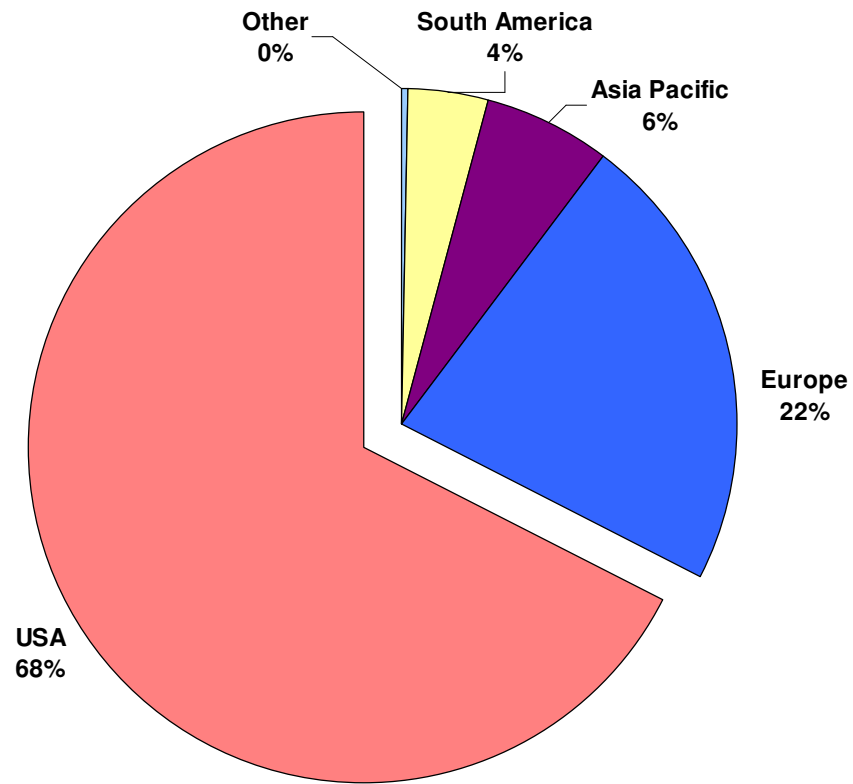
Source: Ernst & Young, Islamic Funds and Investment Report 2009

ETFs are redefining the fund industry

Why are investors around the world increasingly investing in ETFs:

- Passive investing has been proven to outperform active funds over the long term.
- ETFs are an efficient low-cost way to invest in equities.
- Since ETFs must track an index, the rules are clear and transparent leaving investors with peace-of-mind.
- ETFs are an attractive tool that lets investors from around the world access local markets.

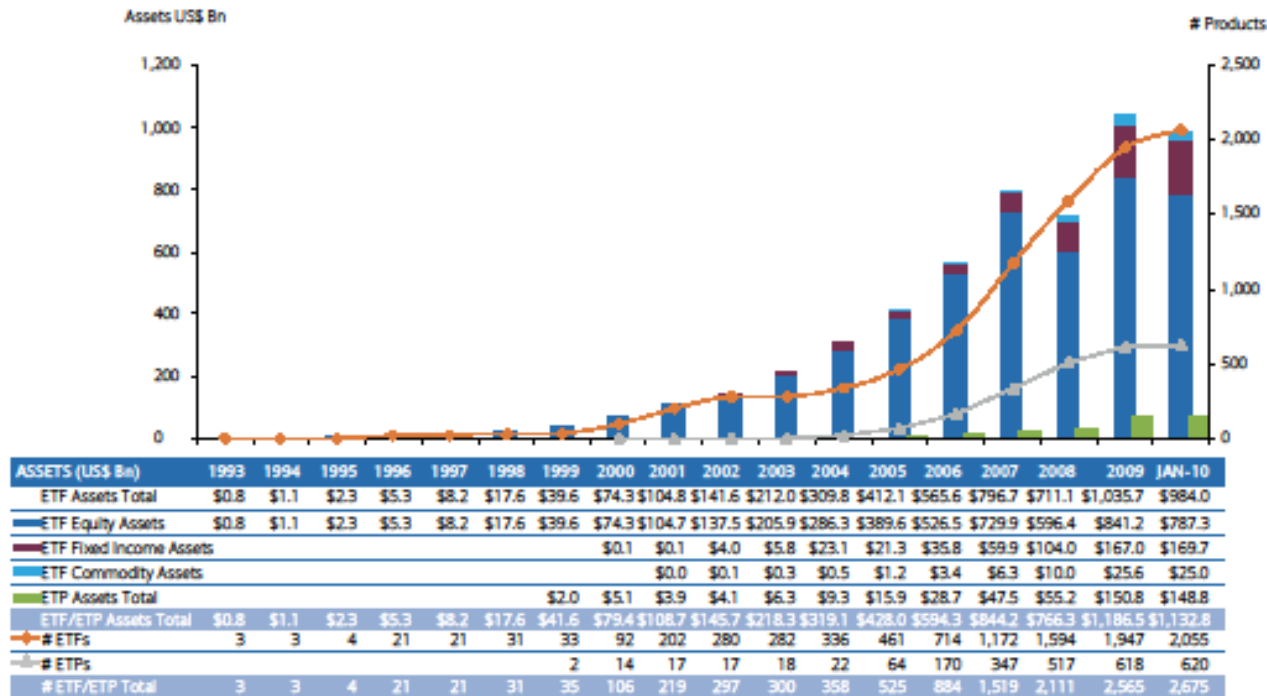
ETF assets under management by region



Source: Blackrock

ETFs are redefining the fund industry

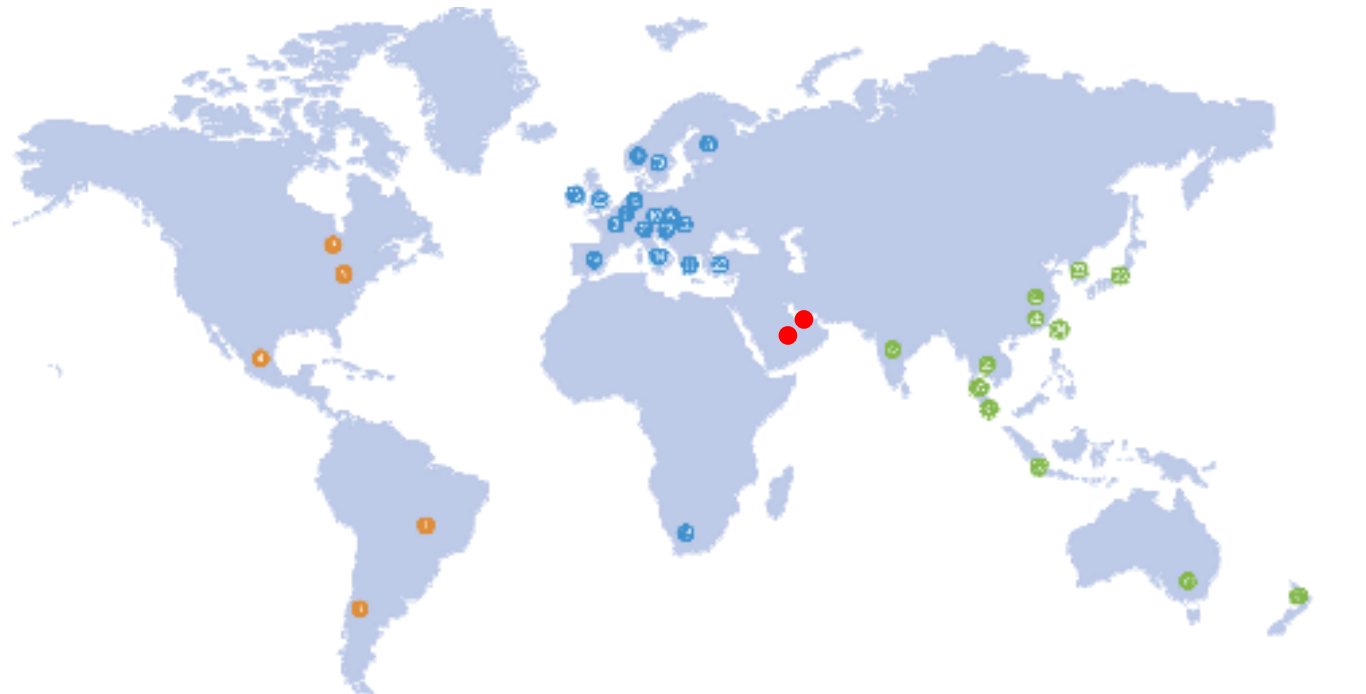
Figure 1: Global ETF and ETP asset growth, as at end January 2010



Source: ETF Research and Implementation Strategy Team, BlackRock, Bloomberg

Source: Blackrock

Exchanges where ETFs are currently listed



Source: Blackrock

How will Islamic finance reach critical mass?

- Attract a non-traditional client base (i.e. non-Muslims)
- Simplified Product Development
 - Assess clients needs or market demand first
 - Look out for client interest first (watch out for high fees)
- Opening New Delivery Channels
 - Wealth managers
 - Fund supermarkets
 - “Open-architecture”
- Developing Core Products
 - Basic market needs have not yet been met
(equity funds, ETFs, income funds, long-term savings solutions)
- Client Education
 - Create new demand by educating your target market
- Tapping New Markets
 - Takaful today represents greatest untapped potential in Islamic finance

What's driving the Islamic market today?

- In the GCC, local and regional investments only
 - Exchange traded funds (ETFs)
 - Structured products based on an index
 - Sukuk and sukuk funds
 - Some/growing interest in commodity funds
 - Unmet demand for fixed-income products especially for Takaful companies
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- Back to basics investing styles, nothing complex or difficult to explain; hedge funds and derivative-type products have never worked in Islamic finance