THE EVOLUTION OF WEALTH MANAGEMENT IN THE WORLD OF ISLAMIC FINANCE

Views from the Islamic finance wealth management community

2019

hubbis

Jersey Finance
Delivering Insight • Driving Innovation

Foreword

Jersey Finance has a long and successful history in the Middle East, in Asia and across the globe, working with key partners to represent and promote Jersey as a leader in both conventional and Islamic finance wealth management solutions. We champion the competitive position of Jersey's finance industry, both locally and internationally, supporting the highest regulatory standards and the most attractive products and services to suit the needs of international investors, including creating an attractive business environment in Jersey that supports investors in their Islamic finance objectives and their wealth management needs.

We are delighted to have worked together with Hubbis on this White Paper that researches the evolution of Islamic finance wealth management, which is a fascinating sub-set of the growing universe of global Islamic finance, and one that offers both immense opportunities for all involved, but also, it is more than fair to say, immense challenges.

I will not pre-empt the findings and the insights of this White Paper here but will instead focus on our commitment at Jersey Finance to supporting the evolution of both wealth management in all its guises and Islamic finance in all its many manifestations.

I invite you to read this fascinating, thought-provoking report and the detailed overview on Jersey that follows, but I wish here to emphasise our long experience in both wealth management and Islamic finance and our continuing and growing commitment to both these dynamic sectors.

We believe that our experience of the business practices, the financial markets, the cultures, the mindset and the priorities of the high-net-worth individuals (HNWIs), their families, and of course, the wealth management community at large set us apart from other leading international finance centres (IFCs) and prepares us for an even more successful future working in the world of Islamic finance wealth management, as it grows and evolves.

Jersey offers tax neutrality, a wide range of wealth management and investment vehicles, effective regulation - our confidential and compliant register of beneficial ownership being a case in point - high-quality workforce, and highly experienced service providers. And we are working tirelessly to expand our reach.

Furthermore, we believe that Jersey remains one of the best regulated IFCs, a position that has been acknowledged by independent assessments from some of the world's leading bodies including the OECD, World Bank and the IMF.

These messages have been well received in the GCC countries for more than a decade, leading to a Jersey Finance regional office in the United Arab Emirates (UAE) that was established in 2011. Jersey's history in the GCC dates back considerably further, as we have long recognised that the enormous progress in wealth generation, as well as historical links, would provide a platform for exciting growth for our services across the region.

Our efforts to differentiate Jersey in the world of Islamic finance are paying off, and this is being seen in our relationships across the world of Islamic finance. For example, Jersey Finance now operates under a Dubai International Financial Centre (DIFC) license alongside a number of Jersey-based wealth management businesses opening in the UAE, all of whom are also increasing their focus on and commitment to that region.

And we are reaching out to other major markets in the Middle East, including Bahrain and Saudi Arabia, as well as to other leading centres in the Islamic world, especially Malaysia, Indonesia and Singapore in the Far East.

But we are not resting on our laurels. We are future-focussed and continue to review and enhance Jersey's Islamic finance proposition to meet the diverse needs of our international client base. We firmly believe that a reputational advantage is paramount today and Jersey is making every effort to differentiate itself from some of the other IFCs and align ourselves only with the very pinnacle of this industry.

Which brings me to the rationale for this White Paper, and a brief explanation of the objectives. This is not designed to be a guide to Islamic finance wealth management, it was formulated to be a thought-leadership project to highlight the many great opportunities for Islamic finance wealth management products and services, and to also open the discussion on the many hurdles and challenges that market protagonists will need to overcome in order for this segment of Islamic finance and of global wealth management to truly realise its potential in the decades ahead.

This report is, in fact, the latest in a series of Hubbis White Papers that have been published on wealth management in recent years, including two in 2018 in which Jersey Finance also partnered. The methodology adopted involves a series of three thought leadership discussions that took place in recent months in Kuala Lumpur, in Bahrain and in Dubai at which we assembled some of the leading Islamic finance and wealth management market practitioners to discuss, on an entirely open, non-attributed basis, their deep insights into the opportunities and the challenges that lie ahead.

These thought leadership debates proved a remarkable opportunity to hear from market leaders themselves - bankers, industry association leaders, lawyers, investors, wealth managers and others - at first hand.

After those three round table discussions had taken place, and after their findings had been published, Hubbis, in collaboration with Jersey Finance, conducted a detailed survey amongst the leading market protagonists, in this case leaders in the wealth management industry and the world of Islamic finance who are providing the products, services and advice to the growing client base using or seeking to use Islamic finance for their wealth management investments and solutions.

The findings of the survey and the discussions were both numerous and fascinating. They inform us and our industry on how we should work together to prosper for the future. They reassure us that the trillions of dollars of HNWI wealth across the Islamic world can indeed gradually find more of a home in the world of Islamic wealth management.

The insights from the survey have been combined with the deep insights from the thought leadership discussions and, together with the knowledge that Hubbis holds through its body of relationships and perennial work within the Asia Pacific and Middle East wealth management markets to form the basis of the editorial for this report.

Finally, on behalf of Jersey Finance, I would like to thank our partner in this endeavour, Hubbis, and the numerous wealth management experts who gave their time, their expert views and predictions to make this assessment a very worthwhile and insightful exercise.

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Executive Summary

Islamic Wealth Management: A Market on the Rise

The world of Islamic finance has made great strides forward in the past two or more decades, yet Islamic wealth management lags well behind. The reality today is that Islamic wealth management is still in its infancy, both in size and sophistication, but there is enormous potential for its rapid expansion amongst the wealthy and super-wealthy individuals and families in the Muslim majority countries of the Middle East, Asia, Africa, and indeed worldwide.

But there is widespread optimism this will change, as promoters of Islamic wealth management - from the providers to the regulators - are now gearing up to offer a greater array of Sharia compliant wealth management products and solutions to a client base that is generating private wealth at a remarkable rate, and that is in ever greater need of a more comprehensive Islamic wealth offering. To realise some of this great potential, there are great challenges for the market players and regulators ahead, as they seek to overcome hurdles such as obtaining a consensus on Sharia compliance, the lack of product, the shortage of expertise, the dearth of promoters and a host of other shortcomings. But it is possible, and there is a rising tide of energy driving the industry forward.

This White Paper is designed as a thought-leadership project that distils many varied insights and opinions of leading market exponents who collectively shine the spotlight on the many great opportunities and difficulties that lie ahead on the road to truly realising the market's potential in the decades ahead.

To arrive at this report's findings and insights, Hubbis, in collaboration with Jersey Finance, not only conducted the survey, but also a series of three thought leadership discussions that took place in Kuala Lumpur, Bahrain and Dubai at which we assembled some of the leading Islamic finance and wealth management market practitioners to discuss, on an entirely private and off-the-record basis, their professional views on the immense opportunities and also the significant challenges that lie ahead. Although it is clear that the hurdles to the evolution of the Islamic wealth finance market are both numerous and difficult to overcome, the conclusions of those who participated were consistently optimistic and encouraging.

A fast-growth subset of Islamic finance

Islamic wealth management is in its early stages of growth and penetration. Nobody appears to have reliable data on the market size, but it is fair to say that firstly, the market is tiny in comparison with immense and rapidly growing private wealth in the Muslim majority countries of the Middle East, Asia and Africa, and secondly, there is rapidly increasing appetite for Sharia compliant wealth management solutions amongst the Muslim wealthy and super-wealthy, worldwide.

Tomorrow's generations offer great hope for the market

Our survey and the related research highlights the growing demand amongst the 25 to 50 year old generation who will either inherit, or create, or are indeed already building even greater private wealth. These younger and largely Western-educated generations have more of a natural proclivity for Islamic wealth management, as it tends to represent a more socially-conscious model, given the tenets housed within Sharia compliant finance and solutions.

Rising demand is the leading indicator, but supply is lagging well behind

Sharia compliant financial products and Islamic finance solutions of any type are not simple to devise, and once created are all too often subject to different interpretations amongst scholars, industry protagonists and clients about their religious compliance. There might one day be an industry standardisation, our survey respondents believe this will materialise, but in truth, this remains a distant hope. The 'production' costs of products are far higher, due to a widespread lack of expertise available, complex legal and Sharia interpretation issues, documentation concerns and the lack of scale. Meanwhile, returns are lower generally than on conventional wealth management offerings. But industry players and regulators recognise many of these shortcomings and are working to improve diversity, costs, and returns.

Transparency and product agnosticism are needed

The Islamic banks appear to hold their own products in too high esteem and are not embracing best-in-class open architecture to offer their clients diversity and excellence. Meanwhile, the lack of scale in Islamic finance globally is causing the major universal and global banks to slow their expansion, with costs under pressure and better returns available elsewhere.

Malaysia set to keep its medals, while Dubai and Bahrain up their games

There is no doubt that Malaysia sits at the top of the world as the pre-eminent Islamic finance market and centre of excellence. The continuing efforts and coordination of the government and the private sector will keep it there. But both Dubai and Bahrain see the rewards ahead in the broader world of Islamic finance, and in the wealth management segment of that, and are working hard to build their expertise and credibility.

Building the onshore proposition

The global regulatory explosion has created waves of money flowing back onshore across the world of wealth management, and this is also true for the Middle East, Malaysia and for highly populous, rapidly expanding economies such as Indonesia. This offers the Islamic wealth management industry an excellent opportunity to build their onshore Sharia compliant propositions, propelled by large captive Muslim populations enjoying an economic and wealth generation boom.

Working harmoniously with offshore centres

Islamic finance markets that are working assiduously and energetically to build the primary relationships with the end-users, the main ones being Malaysia, Dubai and Bahrain, can work harmoniously with other centres such as London and Jersey, where there is a significant and growing expertise in Islamic finance broadly and where there is already deep wealth management expertise. While some of the main centres are upgrading their trust and other regulations and legislation for relevant Islamic wealth management structures, including estate planning and transmission, there is an growing rationale for coordination between onshore and offshore solutions and expertise to leverage the experience and bodies of skills in other dedicated offshore financial centres, for the enhancement of the potential, as well as to improve the quality of the solutions offered to Islamic wealth clients.

Islamic finance can make a real impact

Sharia finance extols the virtues of social cohesion and community development and is therefore ideally suited to align itself with the worldwide movement towards socially responsible investing (SRI) and products offering high environmental, social and governance (ESG) values. Leading market players, therefore, expect this to play an ever-larger role in the wealth management efforts of the industry and the clientele.

Boosting skills, building communication

Even amongst their own potentially captive client base, the main protagonists in the universe of Islamic finance conceded that understanding of Sharia finance is poor. Moreover, the expertise of the providers themselves leaves much to be desired. Finally, the main parties involved must build better, more targeted and effective communication between the various cogs of the business, between the regulators, the governments, the industry members, the associations and of course the clients, actual and potential. And as the industry is making its concerted effort to expand the products and to improve distribution and information, technology in the form of digital solutions and fintech will help oil the wheels of progress.

Growth and Opportunity

Islamic wealth management has been growing rapidly in volume and diversity but is in its infancy. There is indeed no reliable data on the size of the Islamic wealth management market, but it is certainly negligible in comparison with the multi-trillion dollar conventional global wealth market.

By way of indicative size, the Bahrain-based industry body, the International Islamic Finance Market (IIFM), reported in the 8th edition of its annual Sukuk Report in late July this year that USD123.2 billion of new Sukuk [Islamic financial certificates, or Sharia compliant bonds] were issued globally in 2018, while capital markets data provider Dealogic reported that global bond market issuance registered a massive USD5.433.64 trillion in the first nine months of 2019.

In other words, the Sukuk market is but a speck of sand on a beach in comparison, and it is likely that the Islamic wealth market is even smaller in terms of assets under management (AUM). Yet, from little acorns, mighty oaks do grow, and there is widespread optimism that the Islamic wealth market will continue to grow apace, albeit from very modest levels today.

Experts we canvassed for this White Paper confirmed their views that there is certainly a growing appetite for Sharia compliant products, even though using Islamic finance is the more expensive option for borrowing and returns for Islamic wealth investments are generally lower than on conventional finance. One expert reported that most new applications for financing are moving in favour of Islamic, while in past years it was 70/30 in favour of conventional options.

When asked if in the next five years more HNWIs and families will use Islamic finance for their wealth management needs, a resounding 96% of respondents said yes. And the replies indicated that 52% believe Muslim clients will continue to dominate demand, while 48% believe at least 80% of demand will be from Muslim HNWIs. Most of the demand is likely to come from the GCC/Middle East, with Asia - particularly Pakistan, Malaysia and Indonesia - producing the next highest demand, followed by Africa.

Individuals are expected to create the most demand for Islamic wealth products and services in the coming years, while demand amongst families and family offices will also rise, but perhaps not as rapidly. This suggests that the industry is achieving some of its goals of spreading the word on Islamic wealth management.

The younger generations will drive the growth

Our survey results indicate that most of the demand is currently in the 50-70 year age group, but that the 25-50 year old age group will create the most increase in demand for Islamic wealth management products/solutions in the next five years.

Interestingly, experts at our thought leadership discussions had observed that the younger generations of Muslim HNWI wealth management clients are more and more receptive to Islamic finance and Sharia compliant products, partly because these are believed to fit in well with the other investment considerations of the younger generations, such as environmentally friendly and socially impactful investment.

Having been largely educated overseas and having generally become more aware of the range of Islamic options available, an increasing number of these younger generations of Muslims prioritise socially impactful investment over conventional investment, even if the latter may offer higher returns.

When assessing Islamic wealth management products and solutions, there is very often a need for Muslim HNWIs to consider their social and religious observance as well as their preferences for return or yield, in other words, to balance their liking for returns on the one hand and their obligations to the community and to their prophet on the other. Compromises will be made by the less conservative of these investors, but the originators of Islamic finance wealth management products and solutions must bear these issues in mind as they seek to develop the market and as they look to the younger generations for the growth required.

While demand is rising, supply is under pressure

There is somewhat of a chicken and the egg situation in the Islamic wealth market. The lack of diversity in the product chain is restricting the rise in demand, and as the demand is held back, so there is a lesser economic rationale or impetus to create or offer new products.

A core issue is the difficulty in creating Sharia compliant financial products and solutions of any type, largely because there are many different interpretations amongst scholars, industry protagonists and the clients about whether a product is indeed compliant. And as the vast majority of those we surveyed said that clients are firstly seeking Sharia compliance, the ability of the industry to offer those is paramount to the development of the Islamic wealth market.

It is telling that when asked what percentage of Islamic wealth management products/solutions currently offer genuine Sharia compliance, the answers were very varied, with nearly 30% saying that more than 95% of products are Sharia friendly, and more than 33% stating that less than 50% are compliant. In other words, even for those products out there, the industry is unsure of what they represent in terms of pure Sharia compliance.

There was also hope expressed amongst the eminent participants of our three thought leadership gatherings that there might indeed one day be a single standard, or codification, for Islamic finance transactions, structures and documentation. However, naysayers, of whom there are plenty, argue the reality might be more disappointing, as Sharia interpretations vary widely, not just amongst the scholars, but also amongst the players in the industry, the regulators, and of course the end-users.

The truth appears to be that Islamic finance will likely always have differentiation of Sharia interpretations, as it is founded on religious principles, but it also appears true that in order for it to blossom further and expand beyond its current borders of product and market, practitioners should diligently and energetically strive to narrow the gaps in interpretation, even if they will probably never be able to close those gaps completely.

Some experts at the discussions also argued that the diversity in Sharia interpretations is a marker of diversity that is necessary, allowing for different types of investments that cater to various segments of society, reflective of the cultural diversity of the investor base.

There is certainly hope amongst those we surveyed, that parties will work better together within countries, across regions and potentially globally to encourage the creation of a universal code or standardisation of Islamic finance within the next decade. In fact, some might believe this is wishful thinking, but 83% of our respondents said they believe this will happen within the next decade, although they warned that is this does not materialise soon, Islamic finance will remain a niche market, and Islamic wealth management an even more marginal proposition.

Another core issue is the cost of products and the lower returns. As it takes considerably longer and is notably more expensive in terms of process and legal documentation to create Sharia compliant solutions than conventional outcomes, the upfront cost is higher and the ongoing returns tend to be lower.

When asked what the major hindrances to the development of Islamic finance wealth management products might be, our survey results highlight the lack of capable market practitioners, the lack of valid certification for the profession, the complexity of Sharia interpretation, and the lack of return compared with conventional products as the core reasons for the market's shortcomings. Additionally, it is evident that transparency in the sector must improve, and the range of products and service providers must expand.

But there is another issue here, another conundrum, as experts at the discussions highlighted the reduction in the supply from the Islamic arms of the universal and the major global banks, with anecdotal evidence offered that they have actually been scaling back their Islamic wealth and finance offerings. Evidently, the market's modest momentum and other factors challenges highlighted here have conspired to cause this situation.

Experts reported how clients in the GCC and Saudi Arabia are increasingly frustrated by the lack of choice and also the costs, with many who would add to this market gravitating towards taking up conventional financing or making conventional Western investments, whereas by preference, they might want to opt for a greater Sharia component in their personal and family wealth solutions.

And the Dana Gas crisis of 2018 had muddied some of the waters. When asked what impact the Dana Gas crisis had on the development of the Islamic finance wealth management market, 37.5% of respondents said it was significant, 50% said it was moderate, but only 12.5% said it was not significant.

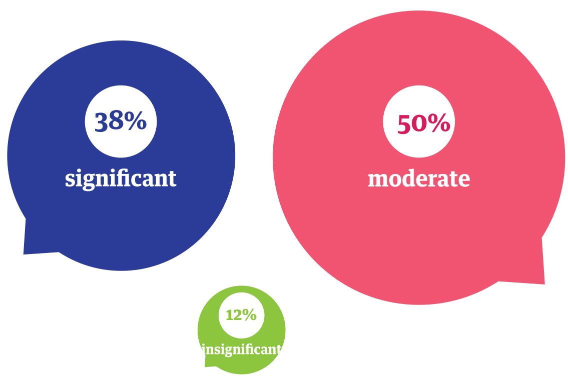
But what is certain is that those who participated in our survey believe that the way forward for the market to thrive and expand is through more products. But they also recognise the conundrum the market faces - to achieve this the market requires better communication amongst peers, regulators and with end-users. The market requires the universally accepted code/standard of Islamic finance, greater technical expertise, and better regulation/ governance. Only the legal profession manages to avoid the 'positive' criticism implied in these results.

Too much proprietary product, not enough open architecture

Another restricting factor is that the Islamic banks are too centred on selling proprietary Islamic finance product instead of selling the best of class, so whichever bank an investor approaches, they are selling their products first, whereas a shift to more open architecture would be beneficial for the market in the longer-term.

In fact, more than 83% of respondents stated that the banks/providers offer too much proprietary Islamic finance product, in other words, not sufficiently open architecture. The anecdotal evidence from the thought leadership discussions is that this is because the management of these institutions is highly conservative, and the slow pace of growth combined with the higher cost of creating products leads to this mindset. However, the reality is that this is also counter-productive - a small shop with few offerings is more likely to fail than a department store that offers best-in-class products and service.

What impact has the Dana Gas crisis had on the development of the Islamic finance wealth management market?



This is borne out in the survey, as three quarters of those we polled believe that despite the seemingly waning interest amongst universal and global banks in their Islamic finance offerings, it is they, through their Islamic bank subsidiaries, and not the dedicated Islamic banks that will be most successful in the years ahead.

Malaysia to retain its pre-eminence, Dubai and Bahrain gearing up

Malaysia will remain one of the top Islamic finance hubs and centres of expertise, education, and excellence, especially as this sector is so well supported at the government and central bank levels, as well as through other institutions. Malaysia holds around 70% or more of the global Sukuk market, and the biggest issuance of Sukuk emanates from the country itself, which has for many years been at the cutting edge of the development of Islamic finance.

Looked at from a global perspective, Malaysia does indeed offer the best infrastructure and framework for Islamic finance, but no Islamic finance jurisdiction yet offers a wide enough range of investment opportunities to satisfy the needs, or expectations of investors, including family offices.

When asked which countries are developing the most efficacious Islamic finance trust laws, solutions and expertise, all vital parts of the wealth management proposition, respondents voted resoundingly for Malaysia, while Dubai, Bahrain and, interestingly, Indonesia, the next most effective for these types of solutions.

Malaysia, of course, has a significant portion of its population who are Muslim, but its population at about 32 million is only just over 10% of the vast 270 million population of Indonesia, and as around 88% of those people are Muslim, the country enjoys a vast, young, captive and rapidly-growing home market.

Meanwhile, even though the greatest percentage of HNWIs are in the oil-rich, low populations countries of the region such as the GCC countries, Dubai and Bahrain count more than 420 million in total in the Middle East population, of which the vast majority are also Muslim, giving those markets a large, potentially captive market if they can boost their Islamic wealth expertise and proposition.

Private wealth creation throughout most of the economies in Asia is remarkable, often exponential, for example, China is reportedly minting a billionaire a week, while Malaysia and Indonesia have their fair share. In short, the market is large, and rapidly growing, for wealth management in every shape and form. And in the Middle East, the oil-rich countries are diversifying their economies, the region is boosting its capital markets, and the rich and super-rich continue to diversify their assets across different sectors and regions around the globe.

When asked which countries are currently the most sought-after jurisdictions for Islamic finance wealth management products/solutions, Malaysia again came out the clear winner, with Dubai second, although interestingly Bahrain clearly has work to do to boost its proposition and prominence.

Moreover, when questioned as to which countries will enjoy the most growth in demand as jurisdictions for Islamic finance wealth management products/solutions in the next five years, Dubai came out the leader, indicating that the country is taking many of the required steps to boost its financial markets and its overall Islamic wealth management expertise.

Malaysia is also expected to perform well, but again respondents saw less demand evolving for Bahrain, as yet, indicating instead that demand in Indonesia will rise more sharply, little surprise perhaps given the estimated roughly 250 million Muslim population of that country, which has a young and fast-growing demographic.

Nevertheless, it is also possible to extrapolate that Indonesia will not punch its weight. Very few of our respondents highlighted Indonesia when asked which governments/regulatory jurisdictions are the most progressive in the development of Islamic finance wealth management. Instead, and again these replies tally with the broad narrative we uncovered in the survey as well as our thought leadership discussions, Malaysia came out top.

Interestingly, the survey highlighted how Bahrain is evidently making the right steps to boost its Islamic wealth proposition, with more than 26% stating that Bahrain will be amongst the more progressive of such jurisdictions. In other words, the country's leaders, its regulators, its Islamic finance bodies and the market participants are indeed making a collective effort in the right direction.

Bahrain was in the past both the leading Middle East conventional financial centre and at the forefront of Islamic finance worldwide. Its pre-eminence has slipped in the past decades, with the emergence of other Islamic finance hubs in Malaysia, Dubai and Jersey, all of which have grown in both professionalism and intent.

But Bahrain clearly appears intent on regaining its former eminence and continues to work on new strategies to achieve that goal, including a coordinated effort from the government, the central bank and the reputable Islamic finance institutions and the several eminent Islamic finance bodies housed there.

Notably, Bahrain is benefitting from a recent upgrading of its trust laws and infrastructure, which should significantly boost the country's proposition as a regional wealth management centre for the GCC. Bahrain today offers excellent mechanisms and infrastructure for wealthy families to structure their wealth onshore and remains a preferred advisory hub for Saudi families, for example.

The onshore and offshore solutions and structures will both grow together

The global regulatory tsunami is sweeping more and more money onshore across the globe. The wealth management markets in general in the GCC, Malaysia and Indonesia will benefit from this, and there is thus even more impetus to develop more onshore solutions as well as more Islamic finance expertise and legal infrastructure in both Sharia and Common Law.

Malaysia is perhaps the best positioned to offer a broader array of Islamic wealth management products and services to the global community, and can appeal to many Muslim HNWIs as a new domicile, offering excellent lifestyle, solid laws and judiciary, good regulations, zero inheritance tax, and of course a deep based Islamic finance market.
In the GCC, the gradual yet inexorable movement of those jurisdictions into more globalised norms of regulation and taxation, means that they will be able to win over a larger percentage of their captive HNWI market, as well as appealing as regional financial centres to the HNWIs and families from across the Middle East and surely from Africa, where there is a large and growing Muslim population but very limited financial markets expertise of any type.

There is also a great onshore opportunity for estate planning, family governance and proper succession planning for the HNWIs and ultra-HNWIs who have experienced tremendous growth in their wealth over the past 30 to 40 years. It is indeed time to really put an overlay of governance on all that wealth structuring, to ensure the families and their wealth endure for future generations, as is very much in evidence in the conventional global wealth management arena.

Indeed, estate planning in Islam involves more than just personal or family concerns. Experts at our thought leadership gatherings noted that a Muslim's charity extends to the hereafter, so wealth management product

creators and service providers must also bear that in mind. The 'Zakat', the payment made annually under Islamic law on certain kinds of property and used for charitable and religious purposes, can, therefore, be incorporated into contracts so that an investor has comfort that Zakat is appropriately included in wealth management structures and asset distributions from estates.

Yet the disciplines of estate planning, wealth accumulation and preservation remain rather private matters for Muslims in general, that is the prevailing culture. These matters should be more openly and comprehensively organised through a better discipline of wills and structures, a wider roll-out of family offices to help manage these matters, and an effort to bring greater transparency.

With all this in mind, there is a well-documented increase in HNW families seeking structures and jurisdictions to realise their asset protection and estate planning objectives. Such clients, wherever they are from, should work with the offshore financial jurisdictions that offer the most robust trust structures, legal integrity, and a high-quality base of professionals and services.

The main Islamic finance markets with the constant access to their captive local and regional private clients, in other words Malaysia, Dubai, Bahrain, and to a lesser extent Indonesia, should work in the IFCs where there is a significant and growing expertise in Islamic finance, and which also boast long and extensive conventional wealth management expertise. Of course, some of the main Islamic finance centres are currently improving their trust infrastructure and other regulatory standards for Islamic wealth management structures, including estate planning and transmission, but there is a clear rationale for the onshore and offshore centres to leverage each other's relationships, expertise and capabilities for Islamic wealth clients.

ESG, SRI and ethical structures have key roles to play

The inherent obligations of a Muslim are towards social cohesion and community development. Just as the world of conventional finance and conventional wealth management is gravitating towards socially responsible investing (SRI) and products offering environmental, social and governance (ESG) standards, so too the Islamic finance world is following suit.

When asked if incorporating new investment principles such as SRI and ESG will help boost the Islamic finance wealth management market, a resounding 92% of respondents said yes.

Moreover, experts at the discussion noted that there is some strong logic derived from the scriptures, as there is a clear commonality between socially responsible investing and Islamic finance because the principles of Islam basically aim to direct finance to the real economy, promote sustainable development, promote business that benefits the community, and therefore offers benefits for the society as a whole.

All these reasons add to the impetus of the Islamic finance industry and the wealth management segment to offer more impactful investments. However, it is not easy to achieve this, and sometimes some flexibility must be adopted, said experts at the discussions. There is a fundamental difference between ethical financing per se (which can utilise interest-based debt structures and generally does) and Islamic finance based structures, which have a prohibition on interest all together but do not necessarily tick all the boxes of, for example, green investment or sustainable investment. This makes it tough to meet the goals of complying with both sets of requirements.

If well-structured, this is possible, so, for example, a guest had pointed to a planned Saudi Arabia fund to provide finance to SMEs in Africa to invest in food production, using Sharia-compliant financing, but under a Murabaha wrapper, remarking how positive it is to see pure Sharia-compliant structures funding ethical projects.

Indeed, Islamic finance is ideally suited to longer-term project finance, adding another set of opportunities. The next phase should be taking the liquidity of the Islamic investment community into more impact focussed funds and sectors. This is directly in keeping with trends in wealth management as well, as many of the globe's HNWIs and ultra-wealthy seek out more sustainable and impactful investments.

But very often, some flexibility and compromise might be required, in order to achieve some, but not perhaps all, of the desired objectives. Although some of the 'Sharia-lite' solutions can be considered by many conservative practitioners and investors as completely non-compliant, an expert in the Dubai discussion noted that compromise might be valid when it comes to areas where there are few, or no, other sources of funds, for example, trade finance, where people are raising money, to lend to Africa in particular, and thereby help develop those economies and those communities.

More education and better communication are both vital

The Islamic finance community must work harder and more comprehensively to encourage the regulators, the government and even the state governments in certain countries to understand and resolve the potential conflict of laws between Islamic law and civil English-based or other laws. If this can be sensitively managed, it will greatly enhance the roll-out of Islamic finance wealth management offerings, from the wealth creation to the preservation of assets and estate succession.

An attendee in Malaysia, for example, contended that there is no real platform or champion within the Malaysian Islamic wealth industry to push for more private wealth management products and solutions. Greater efforts should, therefore, be made to coordinate the various bodies, both private, national and at state levels, to drive the Islamic private wealth management industry forward.

With the right levels of activity and coordination between industry associations and other bodies, there is optimism that they can lobby the government and regulators to come up with the right policies and the best framework.

While more Sharia compliant Islamic finance solutions are needed in the wealth management segment, there is also, therefore, a compelling need for market players to boost understanding of Sharia-compliant finance structures and solutions to the Muslim and non-Muslim issuer and investor communities. If not, the market risks stagnation at worst, or at best failing to fulfil its true potential.

Technology can also help market participants boost the Islamic finance offering, improving market access and the take-up of Islamic wealth solutions by all levels of wealth, from mass affluent to HNWIs. Embracing emerging technologies to deliver new solutions and new connections to clients is a key driver in the global conventional wealth management market, and so too should it be in this space.

Fintech for Islamic finance can, therefore, emulate some of the progress made in the world of conventional finance and help reach a larger universe of potential customers. Innovations in technology are also helping reduce costs all round. Moreover, technology can also help with the time records of Islamic financings, a very important element of Sharia compliance.

We asked if fintech will provide a major impetus to Islamic finance wealth management in the next five years, and a resounding three-quarters of respondents said yes.

One expert at the Dubai discussion had, for example, highlighted how the UK is at the forefront of the use of fintech for Islamic finance, noting, for example, the planned launch of a new platform specifically for property investment in the UK but targeted at the GCC investors.

Other solutions are in the pipeline, for example, a new Sharia-compliant direct lending fintech business in the UK for SME finance into the real estate sector for refurbishment development, financing bridge facilities and some investment facilities. Not only does this reduce costs, but it allows a model whereby investors can share in the upside while remaining Sharia compliant.

Certainly, a key takeaway from the three thought leadership discussions was that for Islamic finance to play a greater role in wealth management there must be a more concerted and professionalised effort from exponents across the globe, to help overcome the many challenges ahead, and realise the many opportunities on offer.

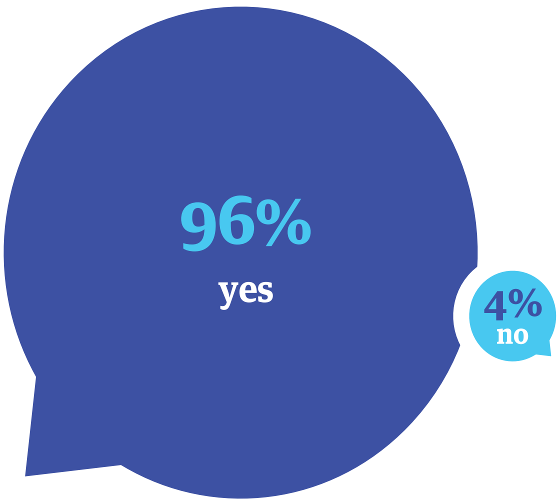
An attendee in Bahrain noted how the oldest Islamic finance professional qualification provider globally is actually 'The Bahrain Institute of Banking & Finance,' (BIBF). It has the great advantage of being a recognised and reputable training institution as much as an educational establishment, meaning that it works with those who require skills to practice in the industry, rather than purely focusing on theory. BIBF is expanding its reach around the globe.

But whatever progress thus far, experts conceded it is not enough and argue that in order to boost its proposition, Islamic finance needs not only to develop more products but also needs to communicate its values and its efficacy to the captive and the non-Muslim world. Moreover, returns need to be somewhat elevated to compete more genuinely with conventional finance options.

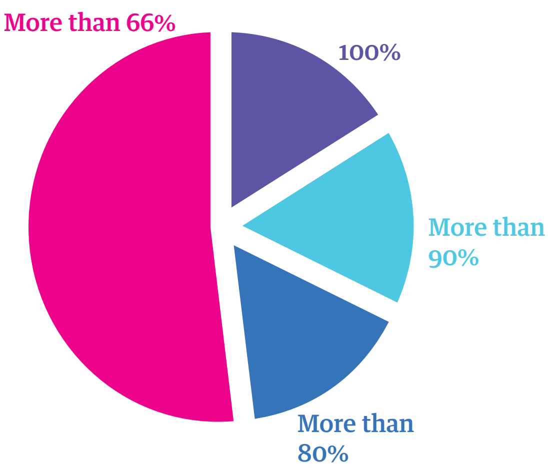
When asked if the industry works hard enough to communicate with the regulators and governments to encourage the development of Islamic wealth management, two-thirds of those we surveyed said 'no'. An expert noted that there is never enough effort that can be put into this initiative, and that the steps must be bold, energetic, but also constructive and consultative in nature, keeping in mind what the end-user community is looking for and how the wealth managers and advisors could best advise, and also protect the wealth of their HNW clients.

The Evolution Of Demand

Do you believe that in the next five years more high net worth (HNW) individuals and HNW families will use Islamic finance for their wealth management needs?



What percentage of demand will come from Muslim HNWIs?



The world of Islamic finance has been on the rise for the past several decades, and especially since the global financial crisis threw a glaring spotlight on the shortcomings in the universe of conventional finance and its financial institutions.

Experts believe that the trend towards Islamic finance is driven by improving education and worldliness amongst HNWIs in the Middle East and in Asia, and especially amongst the second and third generations who, if there is a choice, will increasingly tend towards the Islamic option if such a solution is available, or can be created.

The respondents to our survey resoundingly confirmed the rising demand for Islamic financial solutions and services amongst the world's HNWIs and their families for their expanding wealth management needs. Moreover, the rising demand will come not only from Muslims but also from non-Muslim clients.

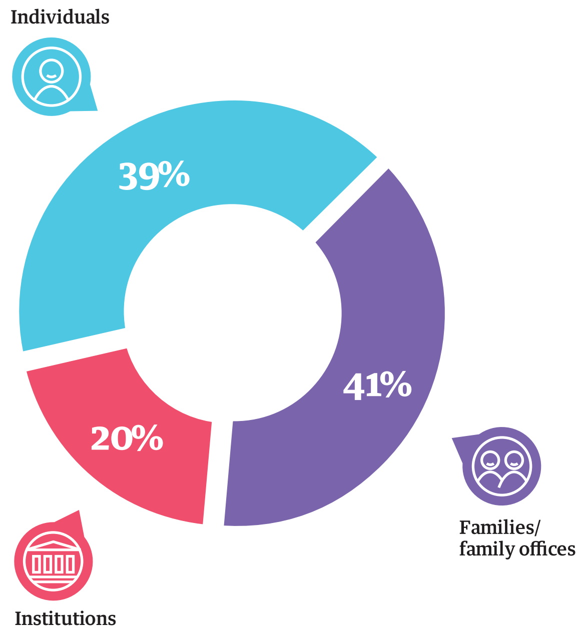
Amongst the Muslim HNWIs, as a broad generalisation, there are those who want to embrace Sharia products wholeheartedly and without question. There are those who actually look at it all spiritually, almost as part of their calling. And there are those who will readily accept either a Sharia or non-Sharia product because they are very liberal and prefer to make decisions based on returns and pragmatism. But in all three categories, experts confirm that there is significant growth in demand for, or in curiosity about, Islamic finance wealth management solutions.

Wealth creation in the Islamic world is remarkably robust. The Middle East is enjoying an economic expansion amidst the ongoing diversification of its economies from the former reliance on oil and related products. In Asia, the remarkable growth of private wealth is even more dynamic than the astonishing and ongoing GDP expansion across the region. And there, Malaysia is the prime example of a market that has worked energetically to hone both its conventional finance and Islamic finance expertise, with the government and the regulators both working in tandem to boost Islamic finance alongside conventional offerings.

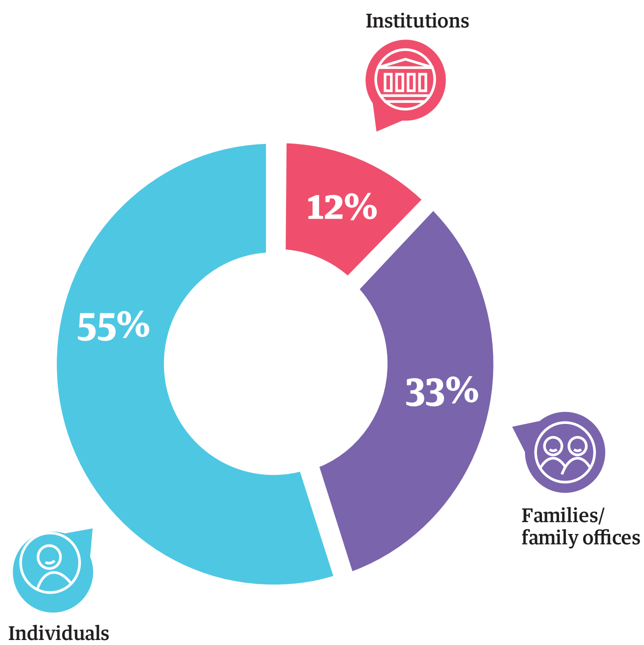
There is a great opportunity for Islamic wealth management investments, as well as for all the associated wealth management services such as estate planning, family governance and proper succession planning for the HNW and ultra-HNW Muslim families who have experienced tremendous success and growth in their wealth over the past 30 to 40 years.

The survey also highlighted which categories of clients currently use Islamic wealth management products/ solutions, and which are most likely to expand their usage of such solutions in the near future. Families and family offices are currently driving demand, followed by individuals and then institutions, while demand amongst individuals is anticipated to grow the most in the coming several years.

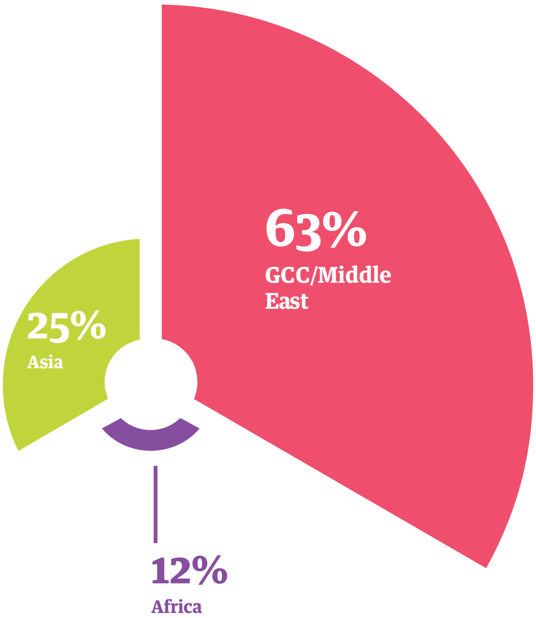
Which categories of clients currently use Islamic wealth management products/ solutions?



Which categories of clients will create the most increase in demand for Islamic wealth management products/solutions in the next five years?



Which regions will create the most demand for Islamic wealth management products/ solutions?



And as to which countries are currently the most sought-after jurisdictions for Islamic finance wealth management products/solutions, Malaysia topped the list, followed by Dubai. Interestingly, Dubai is considered likely to grow the most, followed by Malaysia, and then Indonesia.

These findings tally neatly with the opinions expressed in our three thought leadership discussions. Malaysia is the most advanced market, but its growth will be challenged by other markets such as Dubai, which due to its widespread Islamic finance, regulatory and market initiatives will draw many clients from the GCC region to return that had migrated their demand to Malaysia.

Malaysia itself will continue to grow and draw in pockets of demand from across the globe and from neighbouring, far more populous countries, such as Pakistan and Indonesia.

While Indonesia itself is evidently intent on boosting its Islamic finance market, especially aimed perhaps at the retail and mass affluent markets, as well as aiming to cater for the demand from HNWIs who have repatriated such vast sums of money in the government's tax amnesty.

There is little doubt amongst the respondents that the GCC/Middle East will create the most demand for Islamic wealth management products/solutions. Moreover, the end-users of the solutions are likely to become younger, and rapidly so as the 25-50 year-old age group is anticipated to produce the most growth in demand within the next five years.

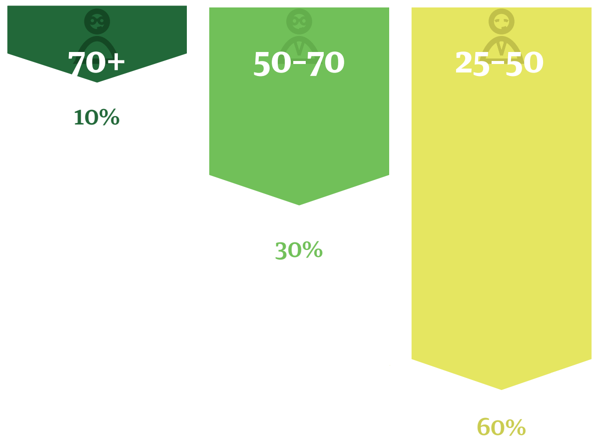
The growth is there for both the offshore and onshore propositions. With their holdings internationally, wealthy Muslim families have been forced into proper structures because of taxation and regulatory requirements, and now for their local assets and their many companies that are family-owned, there is a growing need for better structures and proper governance, as the Middle Eastern region, for example, tightens its regulatory environment and demands greater compliance than ever before.

Demand for Islamic finance solutions and structures are rising directly as a consequence, for example, Dubai and Bahrain are revamping their trust regimes to accommodate this rising demand for onshore structures.

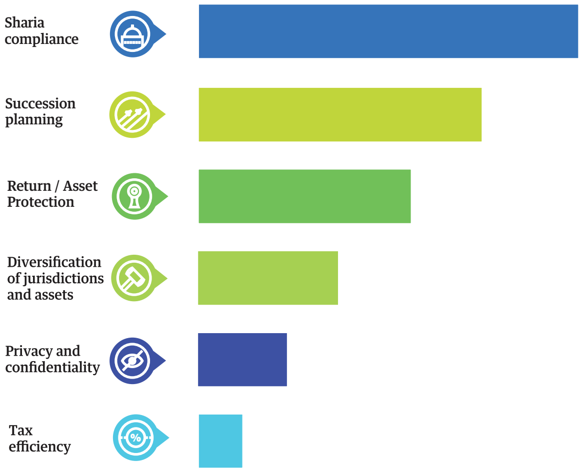
But as the Islamic finance industry continues to develop and to globalise, is the Islamic finance segment for the wealth management market fit for purpose and able to grow apace alongside the remarkable expansion of private wealth across the planet, and especially in Asia and the Middle East, home to most of the world's Muslim population, and of course increasingly throughout Africa, as that continent's economic wealth expands.

Which age groups currently use Islamic wealth management products/solutions?

Which age groups will create the most increase in demand for Islamic wealth management products/solutions in the next five years?



What do clients most want out of their Islamic finance wealth management products/solutions?



The short answer is no, it is not yet fully fit for purpose and nor is it in any sort of state or position to keep pace with the demand for wealth management products and services from the rapidly expanding Muslim population of high-net-worth individuals (HNWIs), or to potentially reach out to the world of non-Muslim HNWIs and offer them interesting and valuable alternatives to their conventional products and solutions.

But there is undeniably great potential, and also an increasingly dynamic effort from the more successful markets such as Malaysia and from those jurisdictions that want to boost their Sharia compliant financial sectors, such as Dubai, Bahrain, as well as Jersey, Indonesia, London and Singapore. Islamic finance and Islamic wealth management have been growing tremendously in Malaysia. Islamic finance offers an outstanding avenue for investors to preserve their wealth and family offices are expanding dramatically fast in this region, and Malaysia will no doubt remain one of the top Islamic finance hubs and centres of expertise, education, and excellence.

This is especially true as the sector is so well supported at the government and central bank levels, as well as through other institutions. Malaysia holds around 70% or more of the global Sukuk market, and the biggest issuance of Sukuk comes from there.

There are few who would argue that Malaysia does indeed offer the best infrastructure and framework for Islamic finance, but it is also the case that no Islamic finance jurisdiction yet offers a wide enough range of investment opportunities. For example, in Malaysia, it remains tough to convince the Malaysian asset management companies to convert their daily trading into a Sharia platform. They continue to prefer the conventional route because it offers higher returns than Sharia-compliant products, even though the authorities and the exchanges are working hard to promote Sharia.

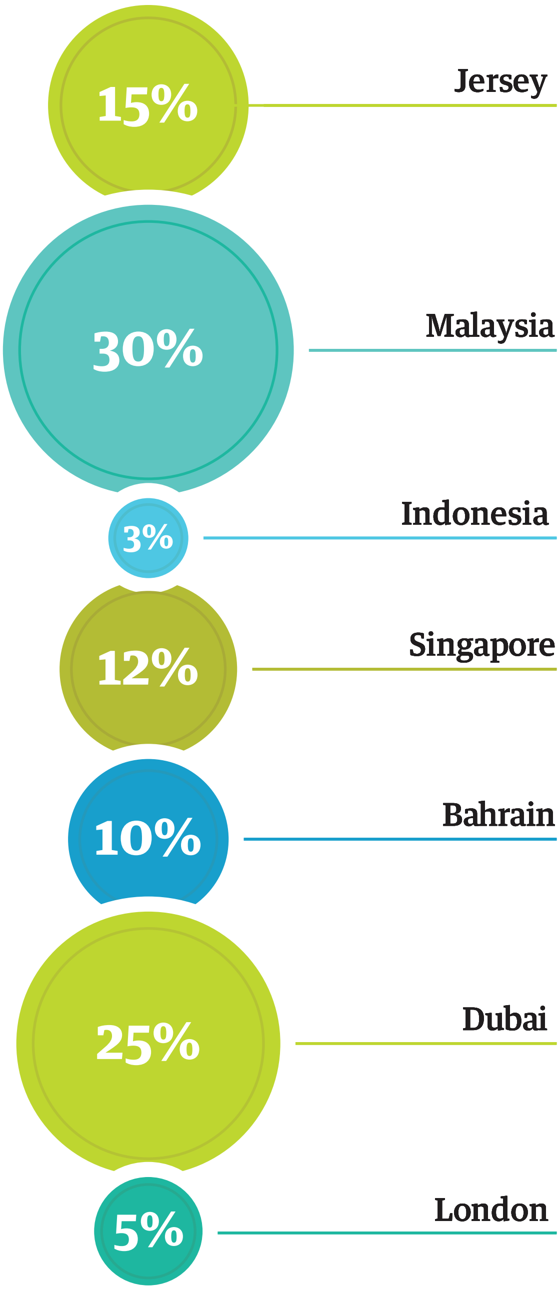
Yet for every instance of disappointment, there is more evidence of growth, either actual or potential. When Hubbis and Jersey Finance held our Bahrain round table, one expert highlighted how out of 10 new mortgage transactions conducted locally, seven would now be Islamic and three conventional, whereas in the previous five years the relationship would be more the other way around. And that is despite the fact that the fees that charged, the legal charges and the longer due diligence that has to be completed for the Islamic mortgage, mean these solutions are both more expensive and more time-consuming than for conventional investments.

In Malaysia, for example, one leading local equity market practitioner highlighted how amongst his wealthier friends and acquaintances in Malaysia, their priority when they look for investment products or their adviser or the wealth management company they will work with for their personal assets is to seek out real Islamic Sharia compliance, not just a product with a Sharia label.

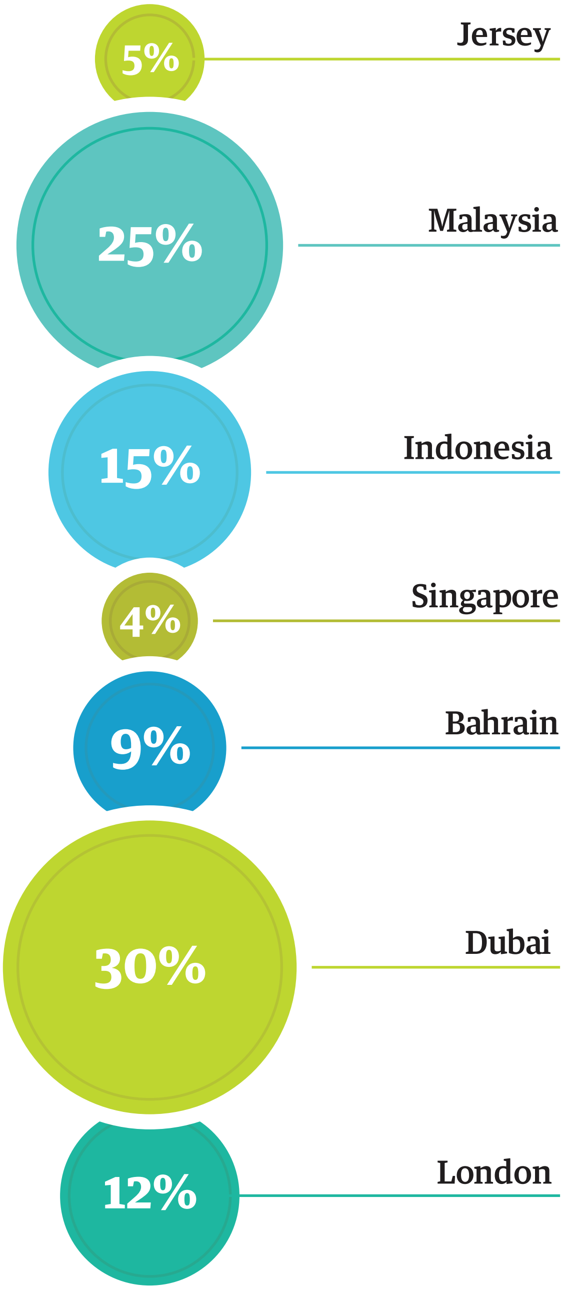
A panel member at one of our discussion pointed to the growing use of Sharia-compliant structures for foundations, for which Jersey is, for example, serving an important role.

This expert noted that Jersey has robust trust law and as a jurisdiction, it serves well for families and family offices, and we continue to see interest in philanthropic objectives being achieved by those families. "For this type of ethical investing, foundations and trusts, we consider Jersey a good home, and for asset protection and estate planning also, which is another area of growing importance to our clients."

Which countries are currently the most sought-after jurisdictions for Islamic finance wealth management products/solutions?



Which countries will enjoy the most growth in demand by percentage as jurisdictions for Islamic finance wealth management products/solutions in the next five years?



Another guest had highlighted the frequent use of Jersey for trusts, especially for Saudi Arabia, Kuwait, and Bahrain where inheritance is conducted through Sharia rules, and particularly for international assets, for example, to help avoid daughters being bypassed in the inheritance process.

Bahrain is seemingly intent on boosting its Islamic finance and wealth management proposition. Bahrain had in the past been the most prominent financial centre in the region historically and was a leading Islamic finance centre of excellence and innovation, the epicentre of Islamic finance for the region. But few can deny that it has suffered from intense competition from around the world and the region in the past two to three decades, and its star has faded significantly.

But as one expert who works with a prominent multi-family office based in Bahrain - serving local families in addition to families from Saudi Arabia, the UAE, and Kuwait - highlighted at our Bahrain thought leadership discussion, Bahrain is intently building on its long history as a leading financial and Islamic centre to try to reclaim the spotlight from both Dubai and from Malaysia, which have both thus far been more dynamic in developing their Islamic finance propositions.

Bahrain also wants to avoid losing out to developments taking place in Saudi Arabia, which of course boasts the highest population in the region and therefore a potential captive market as the country opens its economy and gradually liberalises and modernises its financial sector.

The question now is, therefore, whether Bahrain can pivot rapidly towards innovation and new avenues in terms of both conventional and Islamic finance. Many believe so, with its position within the region, which is the global epicentre of the Islamic faith.

In its favour, Bahrain is home to 'The Accounting and Auditing Organization for Islamic Financial Institution' (AAOIFI), the international not-for-profit body with a mission to achieve standardisation and harmonisation of international Islamic finance practices and financial reporting in accordance to Sharia.

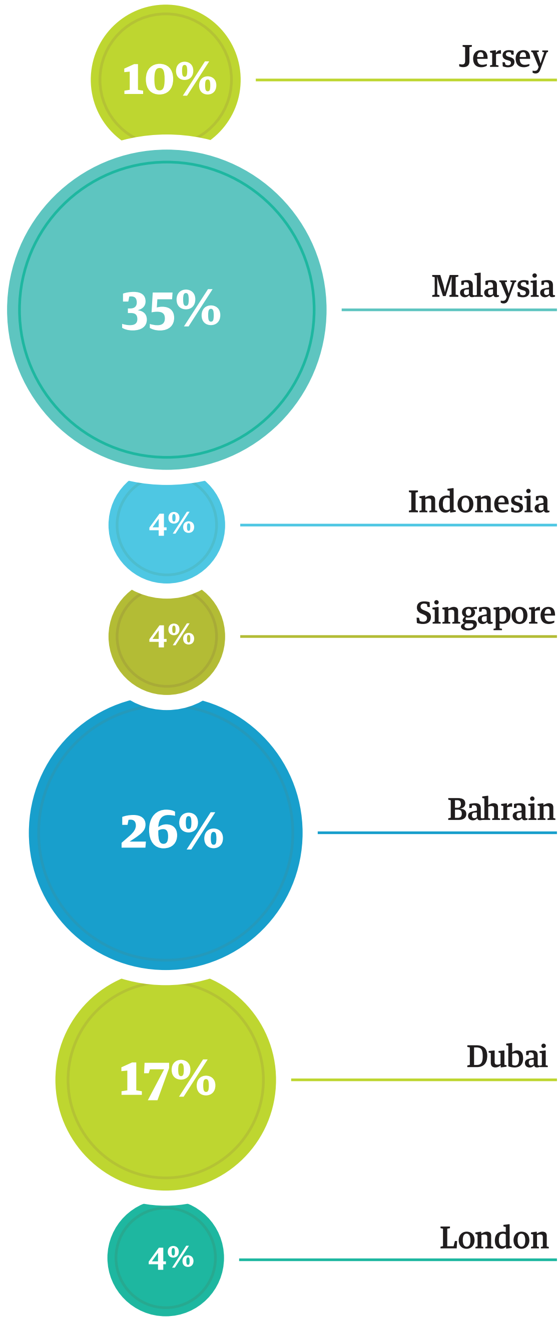
Its objectives are to develop accounting, auditing, governance and ethical thought relating to the activities of Islamic financial institutions taking into consideration the international standards and practices which comply with Islamic Sharia rules; and to harmonize the accounting policies and procedures adopted by Islamic financial institutions through the preparation and issuance of accounting standards and the interpretations of the same to the said institutions.

Another key mission is the preparation and issuance of auditing and governance standards and preparation and issuance of codes of ethics for Islamic financial institutions.

The reach of the AAOIFI is extending well beyond Bahrain as it, and Bahrain itself, are making greater efforts to improve standardisation in Islamic finance at home and globally. In particular, for fintech, the standardisation of documents will be key moving forward.

Bahrain is also home to the International Islamic Financial Market (IIFM) a reportedly neutral and non-profit infrastructure development organisation. IIFM is hosted by the Central Bank of Bahrain in Manama. Its mandate is to develop standardised Sharia-compliant Financial Documentation, Product Confirmations and Guidelines for the Islamic Financial Services Industry (IFSI), with the vision of achieving active and well-regulated trading and capital flows across the full spectrum of Sharia-compliant financial instruments internationally.

Which governments/regulatory jurisdictions are the most progressive in the development of Islamic finance wealth management?



Another reputable organisation based in Bahrain is the Islamic International Rating Agency (IIRA). Established in 2005, it has been set up to provide independent assessments to issuers and issues that conform to principles of Islamic finance.

IIRA's special focus is on development of local capital markets, primarily in the region of the Organisation of Islamic Countries (OIC) and to provide impetus through its ratings to ethical finance, across the globe. IIRA was founded as an infrastructure institution for the support of Islamic finance as conceived by the Islamic Development Bank (IDB). This puts IIRA in league with system supporting entities like AAOIFI and IFSB.

An expert in fiduciary structuring based in Bahrain noted that a lot of inward investment into the UK from the GCC region comes through Jersey, particularly in real estate assets. When you have ultimate beneficial owners or businesses from the GCC, this tends to be Sharia compliant financing.

A leading banker noted that successful wealth management depends on families and family-owned businesses outsourcing their decisions towards the expert wealth management industry. In order to build confidence to outsource one needs trust, but in the GCC region trust in professional services/advisory is unfortunately still limited. The issues underlying the widespread trust deficit are the infrastructural set-ups and bad experiences by family businesses in the past.

There is also little doubt that the key jurisdictions are aiming to restore a better balance between the offshore and onshore wealth management segments, with most of them intent on keeping more of their country's private wealth onshore or bringing more of that private wealth back onshore.

Wherever a Muslim resides, opined one expert at our Malaysian discussion, the Sharia adviser needs to be very mindful of the outreach of Sharia law. He explained that when organising estate planning, he and his colleagues look carefully into the laws on Wasiat [Islamic will and testament] and how it really affects succession and other key issues. He reported that this is gaining greater prominence in Malaysia and that the country's experts are increasingly reaching out more to HNWIs from Singapore, Brunei, Indonesia, the Middle East and even expatriates who have converted and reside there.

There is no doubt that there are indeed many issues to be addressed, such as conflicts of laws between Islamic law as practised in Malaysia as opposed to English or other laws. The market practitioners are therefore raising awareness about these issues surrounding succession, inheritance and also estate planning, all of which are intimately related to the broader wealth management markets, and all of which are driving increased demand in the segment.

One expert at the Kuala Lumpur discussion, for example, noted that many Muslims and Muslim converts like to domicile themselves locally due to the well-honed Sharia laws and financial markets, and the absence of inheritance tax, making the country ideal as a centre to champion wealth management, from the wealth creation to the preservation and estate and asset succession.

Singapore meanwhile is not quite keeping pace with the Islamic finance market developments, although its position as a global wealth management centre of excellence continues to rise... and rise. But there is potential, as the growth of the wealth management market there and the assets under management flowing in from around the globe are leading to rising demand for Sharia-compliant wealth management and estate planning products.

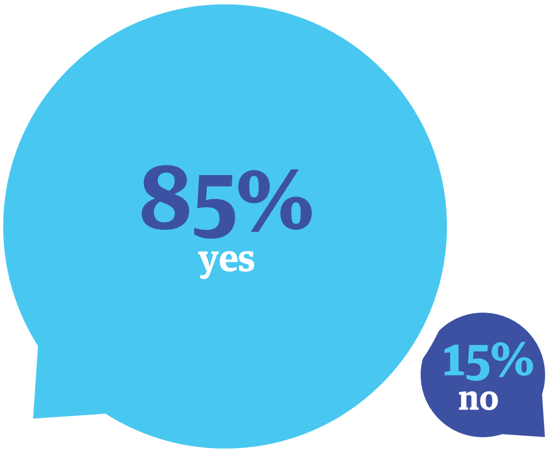
Conclusion

The demand for Islamic finance in general and for Islamic finance wealth management products, solutions and services is undoubtedly rising fast and will continue to do so. The various key Islamic financial centres around the globe - led by Malaysia and then by Dubai, Jersey/Singapore, Bahrain, Indonesia and London - are competing hard for a greater share of Islamic financing and of Islamic wealth management.

The question now is whether there is the patience required to overcome some of the key hurdles to growth if this market, which we address at length in our next chapter.

The Evolution of Supply

Do you think it is possible that a universal code/standard of Islamic finance will emerge in the next 10 years?



The Evolution of Islamic Finance Wealth Management Solutions

To be successful in the future, many believe that the Islamic finance wealth management industry must create and promote truly Sharia-compliant products and offerings, while others argue that there will need to be greater compromise amongst the investors, the providers, the scholars and the authorities.

It is certainly far from simple to create purely Sharia compliant products for two key reasons - first, it is difficult to devise such structures, and secondly, it is remarkably tough to gain a consensus that the end-product is indeed Sharia-compliant.

Standardisation is of course very important, but is it therefore realistic? The majority of our survey respondents believe that some form of standardisation of Islamic finance products and wealth management solutions is realistic within the coming decade.

But those who argue that this is improbable also stand of fairly firm ground. Accordingly, while one of the qualities of Sharia finance is the existence of different schools of thought and interpretation, the wealth management industry, to expand and prosper, should perhaps try to close those gaps, either by arriving at or near to one common standard, or by being more accommodative of different understandings and interpretations.

To standardise, or compromise?

Many practitioners, in fact, tend to agree that they ought to aim more realistically at narrowing the gaps in interpretation, which makes certification less costly and more straightforward, rather than endeavour to close those gaps completely. "We should have some cushion, some room for accommodating different views," said an expert at our Bahrain discussion.

An international lawyer at the Bahrain discussion gave his views on this matter. He noted how in his experience of working on Sharia compliant transactions he often found that the documentation might be approved easily by the Sharia board of one institution, whilst another institution may have concerns with exactly the same documentation.

"Very often it is not just about tweaking the documentation, but of wholesale redrafting to comply with the internal Sharia boards of specific institutions and of course, that can push up costs significantly," he commented. It can also, of course, delay deals or even derail them completely.

He added that he did not think there will ever be complete standardisation of interpretation, but maintained that the adoption of AAOIFI accounting standards would certainly be a step in the right direction, and that there should at least be moves towards more standardised documentation, allowing for shorter processing and keeping costs in check, and that would perhaps make Islamic finance more efficient and user-friendly.

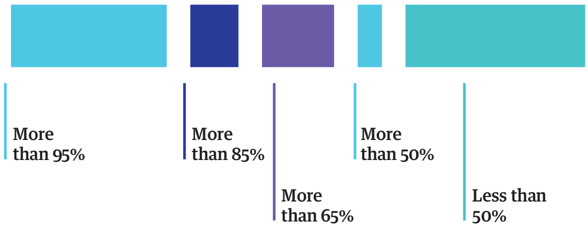
The difficulties in this broad area of Sharia interpretation were also highlighted in the Kuala Lumpur discussion, where one expert noted that there must be agreement at different levels of bodies in the country, for example between the Majlis Agama Islam, a state-level religious body which controls Sharia, and the federal government, in order to confirm individual Islamic finance deals of whatever type, he said that if these various bodies can work together more effectively and see eye to eye, this will certainly help drive the overall market forward.

"We need each and every state level to assist," said another participant at the Malaysian discussion. "We have had different states in Malaysia having different issues, but my point here is where we could have the private and public sector working together. We must be sensitive, and I think that the moment Malaysia can do this and get it right, the rest of the world will follow."

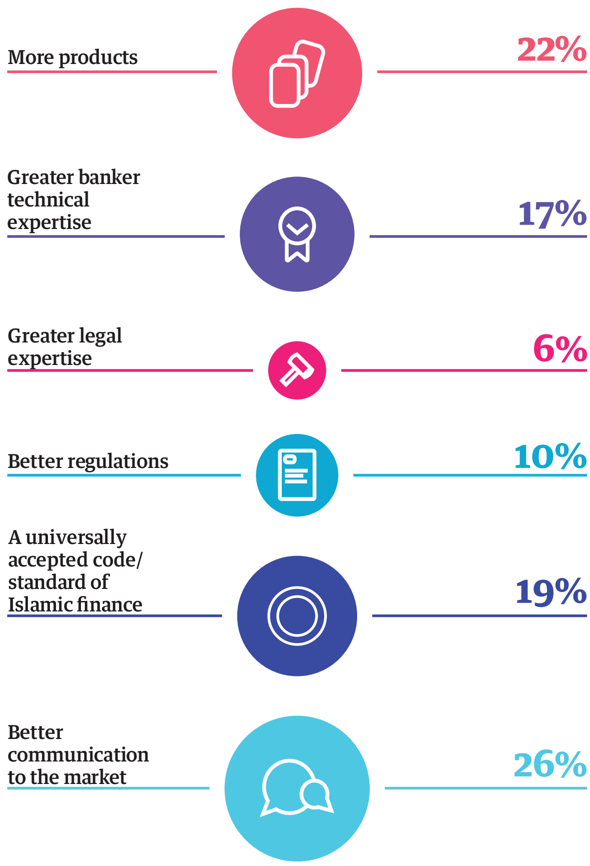
Another issue that was highlighted in the Bahrain discussion was the perception that Sharia boards can be 'played' somewhat so that if one particular board decrees that a specific product is not Sharia compliant, the bankers will go to another board seeking to obtain the required compliance label. This type of Sharia compliance arbitrage, which encompasses legal and regulatory arbitrage, is however, on the decrease, experts report, as a very gradual improvement in alignment between different Sharia boards is slowly taking place.

An expert at that event, for example, highlighted how the various bodies in Bahrain - the Economic Development Board, the central bank, the regulator, the government, the AAOIFI, the IIFM (International Islamic Financial Market) - are making ever greater efforts at coordinating more effectively than ever before.

What percentage of Islamic wealth management products/solutions currently offer genuine Sharia compliance?



What developments will most help Islamic finance wealth management to thrive and expand?



There are also other, very positive reasons for encouraging the standardisation of Islamic finance products, for example, to broaden their appeal to Muslim and non-Muslim investors.

For example, one expert we hosted noted that looking at the Sharia compliant equities universe versus the conventional Dow Jones index, in most cases the Sharia compliant list has been outperforming the Dow Jones conventional list, because, he maintained, Sharia compliance brings more financial orthodoxy into play and by default, it would eliminate the funds that are highly leveraged or the firms whose core business is not necessarily generating the revenue that might be expected.

Some extrapolate that this will end up with a better codification for the universe of Sharia compliant equity investments, and potentially better investor performance, something that will of course be well noted by Muslim HNWIs seeking both performance and compliance, as well as helping to broaden out the market for Sharia compliant investments to more non-Muslims.

There is, this particular expert had noted, no Sharia board overseeing the Dow Jones Islamic index as yet. The lack of accredited standards has certainly been an inhibitor to the development of Sharia compliant funds so in the future many hope that a Sharia compliance score will in turn help improve the quality and diversity of products.

Instead of reshuffling a portfolio or index entirely, some argue that certain basic principles can be agreed upon, and thereby allow for a Sharia score to be implemented. And experts we hosted remarked that the Islamic finance world retains a marked degree of pragmatism amongst investors who are able to compromise somewhat and not demand a full 100% Islamic compliance score and agree instead to a positive partial compliance score.

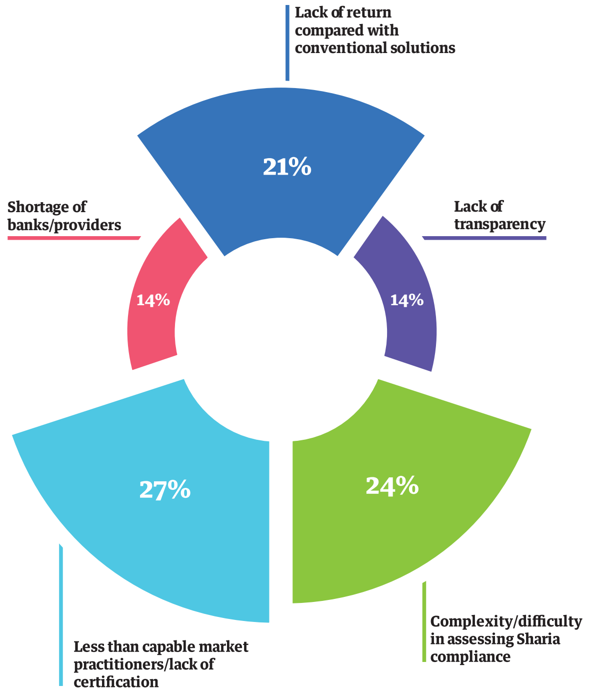
The quest for product diversity

But aside from the Sharia compliance hurdles, which remain significant for now, there is no doubt that what has prevented many investors' increasing exposure to Islamic wealth management solutions is the widespread lack of product diversity and of product track record.

This is certainly true of the fund management industry. The field of potentially Sharia compliant funds, for example, if filtered down in terms of jurisdiction, performance, and other key criteria, becomes far too limited for even a basic diversified asset management approach, whereas the conventional world of active and passive funds is truly vast, as is the potential even for huge UHNW portfolios in the hundreds of millions of to be fully diversified.

This lack of diversity in Sharia compliant investments for the wealth management community means the Islamic wealth management market continues to massively lag the conventional market in the range and array of offerings and solutions. This is a dilemma, as there is a very urgent need to expand the products away from dominance of real estate, not only to far more Sharia compliant investment funds but also towards other types of products, for example to areas such as alternative assets, such as private equity, private debt, venture capital, mezzanine finance, and other areas.

What are the major hindrances to the development of Islamic finance wealth management products?



These newer alternative finance areas are often in great need of a broader funding base in the Islamic world than is currently available, especially in the Middle East and Africa, where capital markets are thin, and the overall Sharia compliant market, therefore, represents a major gap not yet served by Islamic finance.

Yet, if adopted efficiently, their presence as an alternative could significantly boost the range of Islamic wealth management products, emulating the trends seen across the globe in the world of conventional wealth management, where more and more HNWIs and UHNWIs are gravitating towards private investments, both debt and equity of all types - from start-up funding to buyout funding - and everything in between. A guest at our Dubai thought leadership discussion had, for example, also highlighted a growth area spanning alternative finance and direct lending, with leading local banks lending under 'Murabaha' structures.

The senior representative from a global accounting major gave his insights at the Dubai gathering. "What we see is more Sharia-compliant investors in the Middle East, people with real money, looking to invest globally, but the struggle is to parallel invest with conventional investors," he reported. "We work on structures to achieve that, with a Sharia board to actually give their approvals to whatever Sharia compliant structure actually works."

He added that there are several Swiss banks, for example, that his firm has assisted in setting up commodity 'Murabaha' platforms. He explained this fits in with the trend towards the movement of funds from the Middle East, and to some extent, the Far East, looking for investment avenues in the West that work from a Sharia compliance angle. To do so, they need to find structures that combine conventional and Islamic finance across different jurisdictions.

Another expert had explained that it is always a hunt for the avenues available, for example, the US market, he said, can be more pragmatic for structuring Sharia-compliant real estate, perhaps directed to the UK market, because with the US structures, parties can use an 'Ijarah' which he suggested is perhaps more pure Islamic finance. He explained that in the US it is possible to have an SPV take conventional financing and then separate that side from the Islamic equity through any 'Ijarah', effectively thereby taking the asset on a lease.

And in order to be Sharia-compliant, there are then very often conventional tax issues that arise in those types of structures, effectively rendering some 'Ijarah' structures no longer tax-efficient or even tax compliant. Some experts point to what is now commonly described hybrid structure, which has actually been very successful over the past decade or so, resulting in multiple clients investing in UK real estate through the 'Murabaha' structure and the hybrid structure via a trust.

Some, however, do not agree with this structure, this expert reported, arguing that because the investors ultimately do not achieve ownership in the underlying real estate assets, it is deemed by many conservative Sharia investors as not compliant. However, the parties concerned will sometimes manage to convince their Sharia boards that there is no viable alternative option, encouraging them to take a more commercial pragmatic view, rather than sticking rigidly to their internal Sharia scholarly principles.

There are plenty of other examples of these types of Sharia compliance issues that inevitably arise, hindering the development of new products. For example, there continues to be a lot of work on structures to overcome the pitfalls of originating an interest-bearing loan in any transaction, which would result in non-compliance from a pure 'Taqwa' perspective.

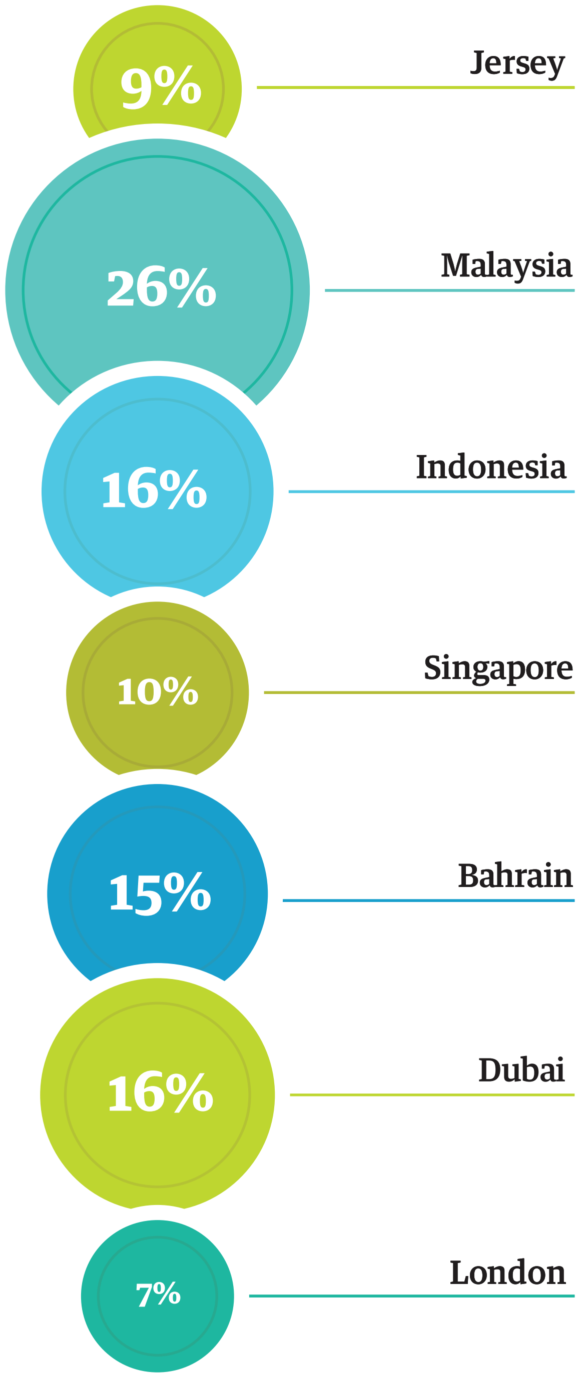
The world of Islamic finance can, therefore, be highly frustrating for the parties concerned, as they seek structures that are sufficiently Sharia compliant, yet also work from the world of secular finance.

Then there is the whole potentially 'muddy' field of where Sharia-compliant structures create regulatory issues in the conventional world of taxation in many IFCs or jurisdictions. Another attendee in Dubai, for example, had highlighted how in endeavouring to structure a 'Murabaha' with a holding company, there were some core tax issues that had arisen. These were overcome, but it required a very supportive jurisdiction and a highly sensitive interpretation and ruling.

One guest in Dubai had highlighted how for family office clients, her advisory firm is looking for more Murabaha type solutions. She explained that her firm only pitches fully Sharia-compliant products, with a considerable portion of those deals structured in Jersey, mainly three core areas of private equity, fintech investments, and real estate in the UK or in Europe.

However, as a realistic consequence for those prepared to be less conservative and accept some elements of compromise, there are also more 'Sharia-lite' structures emerging, what one guest in Dubai had referred to as 'filter' structures where money is being raised in the region and advanced under a Murabaha structure to a conventional fund and then that conventional fund is itself entering into the lending transactions.

Which countries are developing the most efficacious Islamic finance trust laws, solutions and expertise?



This latter category could be perceived as a completely non-compliant structure, but experts report a movement towards that in particular when it comes to areas where there are few or no other sources of funds, for example, trade finance, where people are raising money, to lend to Africa in particular and where there is the social or community rationale that is central to Sharia financing.

In the GCC, and indeed throughout the Middle East, many clients are reportedly more deeply rooted in Islamic values, including in their family businesses, than perhaps their counterparts in Asia, perhaps with the exception of Pakistan.

But some are nevertheless capable of being fairly commercially agnostic, following the opportunities as they arise and accepting 'Sharia-lite' structures where relevant and where compromise is reasonable in order to help fund activities that are positive to the world at large.

For example, another guest at the Dubai debate had highlighted a fund providing finance to SMEs in Africa to invest in food production, effectively a Sharia compliant financing, but under a Murabaha wrapper. Of course, the ideal situation is to see pure Sharia-compliant structures funding ethical projects as the underlying asset, albeit that it is a loan ultimately. Everything is down to interpretation, so it really depends on the eyes of the beholder as to whether that is acceptable or not from a Sharia compliance perspective.

The growing impact of SRI & ESG

The impact nature of the African food production funding leads naturally to another area of opportunity for the world of Islamic finance and will have potentially significant implications for Muslim HNWIs and the ultra-wealthy who are seeking to extend their investment involvement in more sustainable areas of benefit to the planet and society.

There is now far greater global interest surrounding ESG (environment, social, governance) investment principles, and how that ties in with Islamic finance, and experts see a rising interest in aligning Islamic finance with sustainable finance principles, as well as a considerable overlap, due to the 'social' and 'community' principles embedded in Islamic finance.

Many argue that there is actually a lot in common between socially responsible investing and Islamic finance because the principles of Islam basically prevent the individual or the corporate from doing harm, or earning money from money without putting it to practical use. The money has to trickle down to the real economy, promote economic activity, promote business and should be beneficial for the society as a whole, regardless of the religious belief of the recipients.

Today, Islamic finance is far more than simply an investment free of 'riba' [free of interest], because in the past three decades the market has been developing a wider range of products such as treasury products, long-term project finance products, short-term products and so forth. The next phase should be taking the liquidity of the Islamic investment community into more impact focussed funds, and into impact focussed sectors.

"I actually believe this is happening now," commented one expert at the Dubai discussion, "with a greater focus on impact amongst investors who are keen to help pull people out of poverty, help create new businesses, new jobs and so forth. That is exactly the intent and objective of Islamic Finance. And that is where the new solutions are coming from. For example, globally, I read that some 45% of millennial billionaires would like to see their wealth being managed in a sustainable, socially responsible and impactful way. Accordingly, more emphasis from the supply side is definitely welcome."

The adoption of SRI and ESG will also potentially help globalise Islamic finance demand. The world of SRI is an estimated USD22 trillion market, according to a senior banker at the Bahrain discussion, and as Islamic transactions should be inherently more responsible compared to others, there is an opening for a global proposition driven by more products with an impact focus.

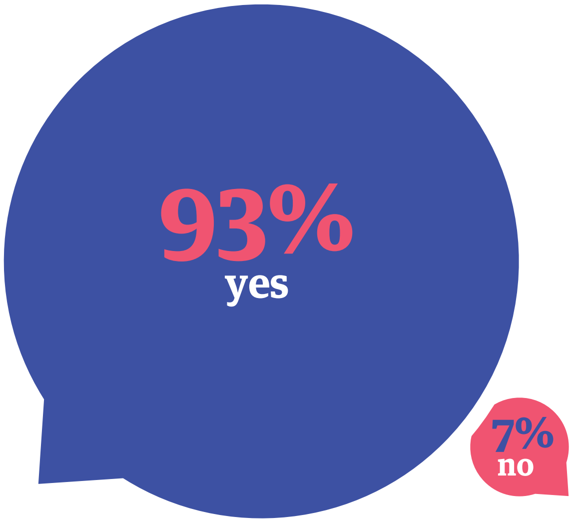
"As we speak," said one expert, "we are at the inflexion point for the global financial services market which is perhaps 500 years old, and we in the Islamic finance world are a 40-year-old industry, with technology disrupting everything. Growth is coming from technology and sustainable investing. My view is that with such a dramatic thrust towards sustainable investing globally, we have a great opportunity to produce better and more impactful products."

The well-documented drive toward more impactful and sustainable investing globally amongst the world's very wealthy people is also now seen increasingly in the world of Islamic wealth management.

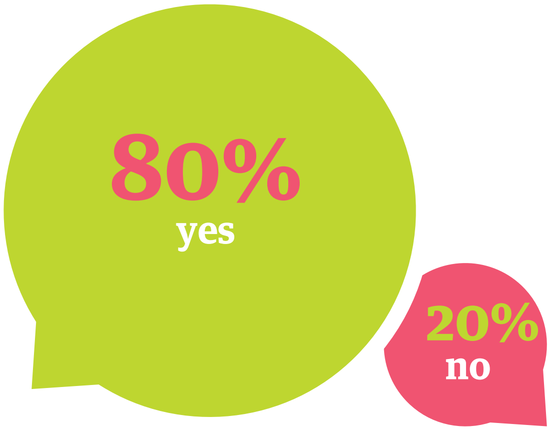
A panel member in the Dubai gathering pointed to the growing use of Sharia-compliant structures for foundations. He highlighted, for example, how Jersey has been working diligently to develop robust trust law and as a jurisdiction broadening its offerings for families and family offices who want to express their philanthropic objectives and ethical investing initiatives, often via their foundations and trusts.

Moreover, for broader succession planning, well-organised, forward-thinking IFCs are increasingly sought out by Muslim HNWIs globally, if they offer the right set of products, expertise and the right level of commitment to working with the various Islamic finance centres around the globe. Another guest in Dubai, for example, had highlighted the frequent use of Jersey for trusts, especially for investors from Saudi Arabia, Kuwait, and Bahrain where inheritance

Will incorporating new investment principles such as sustainable finance, SRI (socially responsible investment) and ESG (environmental, social and governance) help boost the Islamic finance wealth management market?



Do you think that the banks/providers offer too much proprietary Islamic finance product, i.e. not sufficiently open architecture?



is conducted through Sharia rules, and particularly for international assets, for example, to help avoid daughters being bypassed in the inheritance process.

Of course, in any area of Islamic finance endeavour, including trusts, foundations, estate planning or SRI/ESG, there are plenty of cross-border asset issues to be addressed, hence it is vital not only to achieve Sharia compliance or some degree thereof but also to ensure that the products and structures are fully legally compliant and that clients are protected against the vicissitudes of tax and other regulatory liabilities, changes or uncertainty.

Aside from these key concerns over compliance in both the Islamic and secular worlds, and the resultant lack of product diversity, there are also concerns voiced by the experts over the lack of adoption of open architecture by the providers themselves, either the Islamic banking arms of the major universal banks, or the pure Islamic banks themselves.

"The whole world over, Islamic finance does not yet produce the breadth of such products as desired by family offices, or investors in general," said one market expert we canvassed, who highlighted not only a shortfall in the number of products, but also the over-zealous focus on selling proprietary product instead of selling the best of class. "Whichever bank one goes to they are usually selling their Islamic finance products first," he added.

This naturally leads to the perception of even less choice available for the wealth management sector. And it is directly contrary to developments in the world of conventional finance wealth management, where there is a global thrust towards open architecture and towards best-in-class products and solutions. The lack of choice on offer from the Islamic banks also exacerbates their inability or even lack of will to compete more openly, highlighting both their lack of scale and resources.

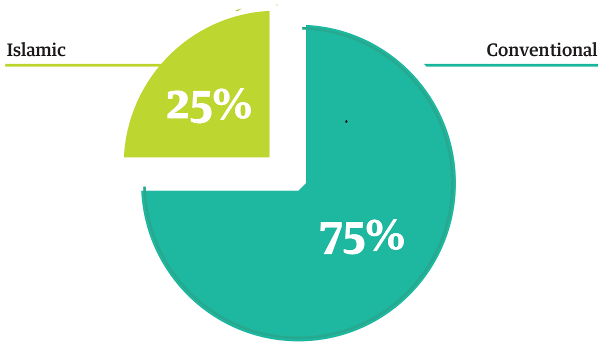
But perhaps this results, also, in a vicious circle - a more open architecture on offer through these institutions would very probably result in more business, and more clients ultimately, but that is not happening yet, according to experts we canvassed in our survey and discussions.

Additionally, it is widely noted in the industry that some of the major global banks have been scaling back their Islamic finance offerings, despite general demand for product increasing, as Islamic finance is deemed by some key decision-makers as too costly and difficult to adopt in the scale they as global institutions require to meet their return criteria.

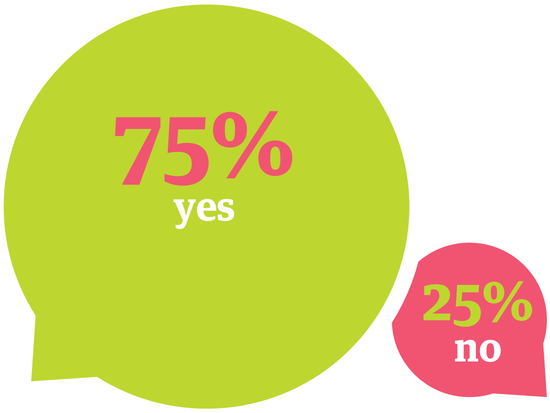
Again, the result, as one expert expressed in the Dubai gathering, that in his markets of the GCC and Saudi Arabia, more and more clients are increasingly frustrated by the lack of choice as well as the costs - less product means higher fees for those limited products available. He explained that his firm had lost out on a lot of business with institutional investors and family offices and he fears that the take-up of Sharia-compliant financing will eventually whittle down further and be relevant or acceptable for only the really very religious clients.

"Due to limited product and costs, most clients," he said, "will say they will take conventional financing or conventional Western investments instead of trying to find Sharia compliant solutions."

Will conventional/universal banks with Islamic bank subsidiaries achieve more success in the future, or dedicated Islamic banks?



Will fintech provide a major impetus to Islamic finance wealth management in the next five years?



The role of technology and the rise of Fintech

There are plenty of other areas in which people around the world are working diligently to boost the range of Islamic finance opportunities in all segments. A new project mentioned in our Dubai discussions involved a UK fintech platform, 'Yielders', that was set up to invest in UK property market, via pure equity using finance technology to invest in a Sharia-compliant manner.

An expert in attendance explained that this involves no debt, no interest, full voting rights, full financial rights, and accordingly 'Yielders' promotes itself as a fully Sharia-compliant offering, and the UK's first Sharia certified fintech company. This expert noted that that the UKIFC had conducted the process review, with the Sharia certification provided by Scholar Sheikh Abu Eesa, and the resultant structure was a fascinating combination of Sharia, property and fintech, all three growth areas for this sector.

There is also a nice correlation with some of the principles of Islamic finance and Islamic investment, into growth industries such as technology that create jobs and opportunities in the marketplace.

An eminent Islamic finance proponent in Bahrain noted that the country had launched a new Islamic and sustainable fintech centre. "The key," he said, "is to develop more Islamic investing opportunities, where Islamic banking meets the capital markets. The emphasis of family offices and the ultra-HNWIs on Islamic products has helped a race towards innovation within the Islamic banking sector."

A lawyer at our Malaysia event had also highlighted the vital importance of discussing how market participants can broaden the Islamic finance offering and use and embrace emerging technologies in a way that hasn't been used before, for example looking at new technologies and fintech, in particular, to deliver new solutions or connection to the clients, in order to achieve some disruption and create some real change. "Can the wealth management industry embrace fintech for HNWIs seeking Islamic financing?" he pondered.

Fintech allows scaling, efficiency, accountability and transparency, and it can help reach a large Muslim community segment that is unbanked, for example, so certainly Islamic finance has an opportunity to play catch-up with the fintech offering. "For example," said an attendee, "I come from Kenya, where we are developing a fintech platform for agriculture to help farmers struggling with financing, perhaps through crowdfunding." There have been developments recently in the UK in terms of Islamic fintech, for example, of a new technology platform specifically for property investment in the UK but targeted at the GCC investors.

Another expert explained that he and colleagues are launching a new fintech solution to digitalise the entire Islamic finance process and expects it to have major implications for Islamic finance in terms of the face of Islamic finance and how banks interact with a client. "We then, of course, need the Islamic scholars to opine on the rules," he elaborated, "so that trading can take place in a variety of underlying products or assets, be it actual goods, actual commodities or maybe currencies. Aligning the right standards is very critical. We need to see more products coming in, new structures, new ways and then the standardisation will be on the principles rather than on the product side."

A guest in Kuala Lumpur had also noted how there is a growing use of technology at every stage within the Sharia approval process, from the product innovation side to the product approvals. Another offered his insights into how fintech has, as he stated, 'completely revolutionised' his firm's business. He explained how innovation in technology has improved the efficiency of their Islamic bank and helped reduce costs all round, including how technology is helping with the time records of these Islamic financings, the accurate keeping of which is an important feature in Islamic finance.

Another guest in Malaysia had reported they were in the process of founding a Sharia compliant direct lending fintech business in the UK for SME finance into the real estate sector for refurbishment development, financing bridge facilities and some investment facilities.

"The idea behind the business is partly that such disruptive technologies as fintech are useful to reduce cost," he observed. "Secondly, when it comes to asset management and private wealth management in particular, the model where banks are in control and leverage their balance sheet by you placing deposits with them, or assets with them, and then they generate a return, is not an ideal model for the everyday person because it means that they do not retain the upside on their wealth. So, we are building what we believe is an agile solution in the UK, which is pioneering in this space."

He explained that the firm launched its business at an Islamic finance conference earlier this year. "We believe it will help open up the UK real estate direct financing space and use a platform to sell down to investors who will then benefit from the performance of those assets, rather than the return going to a bank. If you are a HNWI and looking for something that is secure, this offers a good and Sharia-compliant solution, pulling together technology, fintech, and real estate."

And there is reportedly even an ongoing discussion about the Sharia compliance of distributed ledger or blockchain technology. Replicating the same digital asset, the same algorithm, the same transaction code on multiple ledgers so that no one can commit fraud by changing one of them is exactly what 'Mutawatir' means, commented one of our Malaysian guests.

Balancing the demands of observance and return

There is also the ever-thorny issue of returns. While many of the more observant Muslim HNWIs feel comfortable with sacrificing some return to be Sharia-compliant, the lack of parity of most Islamic instruments compared with conventional finance returns will not entice many of the less religious Muslim investors, and non-Muslim investors will certainly not be tempted into these products.

Yet there is plenty of compromise out there, amongst those Muslim HNWIs who prefer to be more compliant. Bankers in Bahrain report, for example, greater demand amongst the region's HNWIs for Islamic treasury products, even though the rates are lower.

These wealthy investors, they report, can generate double-digit returns in their operating businesses, but appear content for passive returns to cover the 'Zakat' threshold, which is generally considerably lower than well-structured conventional finance treasury products in those markets. This acceptance of lower returns is driven by the rising willingness of the region's HNWIs to align their practices with their religious beliefs, hence the move towards Islamic finance options.

In terms of Sharia or the conventional finance space, a senior banker at the Bahrain discussion noted that the banks offer both options to clients but are definitely witnessing an accelerating transition towards Islamic products, especially amongst the younger generations, who are also asking more questions and demanding greater transparency. Knowledge and transparency are certainly key, as investors are asking more questions on what makes Sharia investment different from conventional investment options, aside from higher the cost element.

A representative of a law firm, as well as a member of the Chartered Institute of Islamic Finance in Bahrain, highlighted that as Islamic wealth management is based on Sharia principles, none of the products should be profit driven.

"Actually," he had stated, "according to the Qur'an and the Sunnah [the body of traditional custom and practice of the Islamic community, both social and legal], it should be driven by the Prophet. Traditional instructions when it comes to wealth are about distribution and redistribution, in other words, how a Muslim can distribute and redistribute the wealth that he has obtained as an agent of God."

And as to estate planning, he had explained that there are clear Islamic sayings that when a Muslim person passes away, the charity he has done continues in the hereafter, so wealth management product creators and service providers must bear that in mind.

He added that the Zakat, the payment made annually under Islamic law on certain kinds of property and used for charitable and religious purposes, had been the subject of incorporation into a smart contract so that as an investor you can have transparency in terms of Zakat and its relationship to wealth management structures and distributions.

Certainly, the Islamic finance wealth management market will need to observe the different interpretations of Sharia finance and be highly sensitive to the expectations and needs of the HNWI clientele they deal with. The return will be an issue, evidently, but so too will adherence to religious principles.

The need for better education and greater communication

There is much debate as to when the industry will start working more effectively to broaden the Islamic finance market to both the incumbent Muslim wealth community and the conventional investors and borrowers as well, thereby propelling it towards more of a global value proposition.

Some believe the industry players should, for example, steer slightly away from the faith angle and highlight Islamic finance as the best option for the socially conscious wealth management client, as well as aiming to elevate returns to compete more genuinely with conventional finance options.

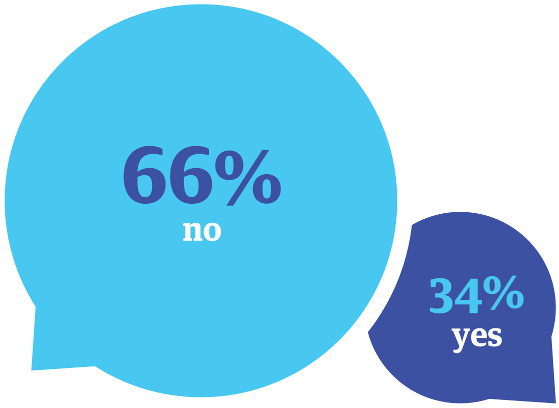
"We must certainly broaden Islamic finance far beyond what people traditionally consider it for, in other worlds real estate," said one expert in the Bahrain gathering. "But we are relatively young as an industry, after all, Land Rover car production as a business is older than Islamic banking, and it took them time to develop the successful Range Rover. We must be patient; Islam is all about patience."

An expert at the Dubai discussion who covers Pakistan for a leading Swiss financial institution had explained that not only is there a growing demand for Sharia compliant solutions from the Muslim community in the Middle East and Pakistan, but also from non-Muslim clients.

But he added that the concern is that few of the newer solutions are well known in the market, so distributors continue to feel limited in their range of offerings.

He stated that he believes Islamic banking is the most sustainable form of all banking because it is actually a commodity-backed product, there is less speculation involved, and the client feels safer. But his conclusion was that as a distributor, he wants to see the industry, make more effort to spread

Does the industry work hard enough to communicate with the regulators and governments to encourage the development of Islamic wealth management?



knowledge, hold more seminars, make the market more available of what is out there. He added that working with certain jurisdictions, for example, Jersey, can add to the range of solutions available.

Another guest highlighted how some leading Islamic finance centres should compete more effectively on education with newer centres of educational excellence such as the UK, or Malaysia, which is especially dedicated to promoting education around Islamic finance.

"Education is made up of two components," he had commented, "Education on Islamic finance theory and education on converting ideas to practice. There is too huge a gap between the academic world and the practitioners' world. I think financial institutions need to come up with their own financial research centres."

Professional certificates and academic degrees are increasingly seen as necessary in this space, in order to help the market progress. In the UK, for example, there are now many universities offering Islamic finance degrees. One guest that we surveyed highlighted how it might be beneficial to consider setting up a think-tank to connect the various centres for excellence around the world and help them share knowledge and information on new ideas, towards implementation into practice. This, he argued, would help bridge the huge gap between the academic and finance worlds.

Another perspective came from an attendee in Kuala Lumpur who contended that there is no real platform or champion within the Malaysian industry to push for private wealth management. "There are trust companies doing trusts," he commented, "but nobody is really focusing on Islamic private wealth management as an industry. Maybe it is prioritisation, maybe the banks are happy where they are now. Maybe the regulator should come out with a business plan as so far we do not have milestones and deadline targets."

"The Malaysian Muslim market for planning, estate management and such matters, particularly for the family office, is very elusive." She explained that she had been in the market for the past 20 plus years, but the disciplines of estate planning, wealth accumulation and preservation remain rather private matters, particularly for Malays, for Muslims in general. "That is the culture," she said.

And for the middle-income group, she noted that it remains very difficult to get them to become clients, even though there are numerous wealth and family matters inextricably intertwined that should be better organised through a better discipline of wills and structures, a wider roll-out of family offices to help manage these matters, and so forth. Again, better education and communication of the proposition is required.

Turning to some practical considerations, another guest proposed that a new approach is required. "We have not been able to really approach Islamic wealth management in the right way," he said. "My fellow guest earlier mentioned the distinction between profit and the Prophet, and that certainly is very key to the whole exercise of building a sustainable Islamic wealth management infrastructure, as there must be a 50-50 balance between profit and sustainability, as social responsibility must have a 50-50 weighting with profitability when it comes to doing business in Islam. It is not 60-40, it is not 70-30, it is a balance that is essential."

While he noted that, particularly for the very wealthy Muslims, there are many family offices asking for Islamic finance, there are many families, perhaps not structured via a family office, that do their own thing and refuse to talk to anyone because they just do not trust the way we are approaching the activities.

"They do not trust us," he had explained, "so we need to make sure that when we develop this business, we apply the 50-50 weighting, properly and clearly, and then develop the offerings. This has to be across wealth creation, wealth management, wealth accumulation, wealth preservation and of course succession, meaning the entire suite of activities." And yet again, education and communication from the industry protagonists and from the authorities promoting Islamic finance must improve.

This same expert observed that Malaysia today does not have a good enough policy for Islamic financial planning or Islamic wealth management. "We have great policies for unit trusts, Sukuk issuances, equity, and so forth, but to be very frank, none for Islamic wealth management," he had explained. "Accordingly, any other jurisdiction now has the opportunity to be one up on Malaysia. Jersey, for example, you may want to think about it because we have not got our act right when it comes to Islamic wealth management."

He had recommended that this must be addressed through industry associations and other bodies, who would then lobby the government and regulators to come up with the right policies and the best framework, as well as improving overall education and communication.

Conclusion

The nascent world of Islamic finance wealth management has much going for it, and certainly great and growing demand amongst Muslim HNWIs and the ultra-wealthy for Sharia compliant investment products, estate planning and asset succession solutions, and of course underlying that the rapid expansion of private wealth in the Middle East and in Muslim countries and amongst Muslims the world over.

But it is youthful, and development is frustratingly slow. There are clearly also immense challenges ahead, especially the difficulty of achieving Sharia compliant structures, or even a consensus on what is compliant amongst the key scholars and bodies around the globe. Better communication between industry practitioners, the authorities, the scholars and the end-users is essential, as is better education.

Things will improve, but realistically it will be a slow and frustrating progress. But the opportunities are certainly there, and as the industry and market participants strive to achieve their goals, they will recall that patience is a core Islamic virtue.

Does the Dana Gas Debacle Spell Danger?

Dana Gas was in 2018 forced into a debt restructuring deal with bondholders following a dispute with its creditors that lasted for a year over the repayment of a USD700m Sukuk that Dana Gas said would be unlawful to pay, as the debt was no longer compliant with Sharia law.

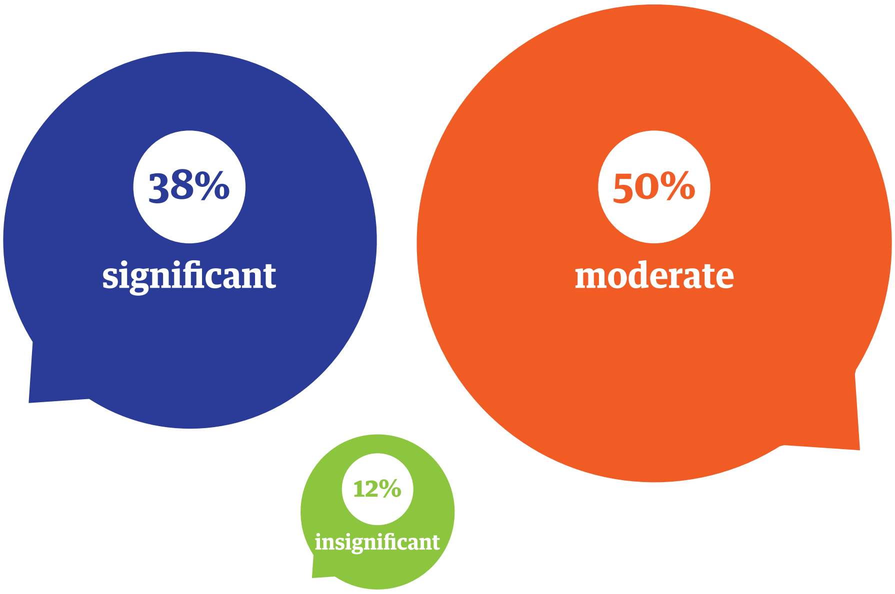
A group of bondholders led by BlackRock challenged and won the action in the English courts, but a separate case in a UAE court resulted in conflicting legal verdicts.

The dispute cast a huge shadow over the global Sukuk debt market, estimated to be then worth around USD300 billion. The core of the problem is that the Sukuk were designed to generate regular returns - not interest, of course - for investors without breaking Sharia principles, but changes in Islamic scholar interpretations of these Sukuk then opened the door on what was the first high profile use of this as a reason not to honour existing debts.

The dispute was decided in the English courts because the deal was written under English law. That is similar to the majority of Sukuk issued to global investors.

The question today is whether there will be a repeat of this type of crisis or have things improved structurally within the legal framework to prevent that, and also what the implications might be for the nascent Islamic finance wealth management business. The obvious danger is that when Sukuk issuers have problems, they might seek opinions on an aspect of Sharia non-compliance to get out of their obligations or to argue a better position with investors.

What impact has the Dana Gas crisis had on the development of the Islamic finance wealth management market?



If then there are disagreements between the courts where the Sukuk was issued and the courts in the country of the issuer, in Dana Gas’ case in the UAE, there is the potential for significant disruption.

And expert at our Bahrain discussion had noted that the whole shape of the Sukuk market has evolved, and if the documentation is written in the right way then there should be what we call an ’estoppel’ to prevent the issuer from actually raising these types of arguments, because best practice has been to include that type of language in the representations and warranties to avoid the situation.

However, he also conceded that, despite these statements and improved documentation, in his view, there was no way to entirely stop a potentially defaulting obligor from trying to find ingenious ways in which they can undermine the transaction. "Whether Islamic finance or conventional finance, obligors always find ways to muddy the waters," he observed, "they try to fire a hail of arrows to get out of contracts or improve their negotiating positions."

Another expert had agreed, noting that top-flight legal advice and structuring is required at the outset. However, the advice her firm gives is not necessarily the advice that is always taken on board, she noted. "There are ways to mitigate or eliminate these risks, but it doesn’t mean every transaction and client will follow those," she said.

The reality is there is no clear solution to these issues today, nor will there by unless there is eventually a standard Sharia compliance interpretation for all deals and standard documentation. Sharia is subjective by its very nature, and as there is no codified system, perhaps only the central banks involved can clarify these matters, but again communication and consistency of interpretation will be major hindrances to achieving that outcome.

The result is that the Islamic finance wealth management community must be acutely aware of these potential problems when working with their existing and new clients and in their general efforts to build scale in the industry.

Jersey Finance – Expanding its Connections in the World of Islamic Finance

A Crown in the Channel

Jersey is the largest of the three British Crown Dependencies. Located in the English Channel to the south of the UK and 14 miles from the north coast of France, these dependencies are considered "territories for which the United Kingdom is responsible", rather than sovereign states. As a result, they are not member states of the Commonwealth of Nations.

However, they do have relationships with the Commonwealth, the European Union, and other international organisations, and are members of the British-Irish Council. Jersey is not part of the European Union (EU), although it is within the EU's customs area.

Jersey has its own legislative assembly, own courts, and develops its own legislation. Jersey Finance Limited (Jersey Finance) is a non-profit organisation established in 2001 by the government of Jersey. Jersey Finance's main aim is to promote and represent Jersey, the international financial centre, with offices in the DIFC (Dubai), London, Hong Kong and New York, and with representation in Mumbai and Shanghai.

"Jersey Finance is proud to work with key partners to represent and promote Jersey as the clear leader in international Islamic finance," reports Joe Moynihan Chief Executive Officer at Jersey Finance. "We champion the competitive position of Jersey's finance industry, both locally and internationally, supporting the highest regulatory standards and the most attractive products and services to suit the needs of global investors."

Jersey's long connection to Islamic finance

Jersey offers Islamic investors a flexible legal system, a forward-thinking regulatory regime and a tax neutral environment. This positions the jurisdiction as a clear leader for Islamic financial services. Unlike other jurisdictions, Jersey doesn't need to amend laws to make things work so all Sharia-compliant structures and contracts can be accommodated, and it has extensive expertise in this area. In a nutshell, Jersey stands out in the Islamic finance space through the following key advantages.

Wealth planning

Jersey trusts and foundations are in great demand amongst Muslim clients. Jersey trusts provide strong support for generational wealth planning, whether for family groups or for charitable and philanthropic institutions in the Gulf region. This is due to the similarity between Waqfs and trusts, together with the jurisdiction's international reputation for trust management.

This offering works well with the Jersey Foundation. Introduced in 2009, the Jersey Foundation provides HNWIs in the Gulf with a positive alternative to trusts. It holds wealth in a forward-thinking structure designed to allow greater control, ensuring that everyone benefits.

Regulation

The Jersey Financial Services Commission (JFSC) supports the regulation of Sukuk issues and other Islamic products. The JFSC processes Islamic products in the same manner as other securities, as Jersey's laws are broad enough to support all types of Islamic instruments.

Special Purpose Vehicles

Jersey SPVs have worked with a range of Sharia-compliant Islamic capital market transactions. The jurisdiction's positive reputation for corporate structuring and SPVs sets it apart from other IFCs. While GCC Obligors used to use subsidiary companies as SPVs, Sharia scholars now agree that SPVs should be independent. This means the IFC's products can be used together with Sukuk structures.

Jersey-based SPVs have worked with a wide range of Sharia-compliant Islamic capital market transactions. "As such," Moynihan explains, "the jurisdiction is ready to provide a number of legal vehicles, including a Jersey incorporated company which issues Sukuk, a limited partnership issuing partnership interests, and a trust issuing units or trust interests or certificate."

In addition, Faizal Bhana, Jersey Finance's Director for the Middle East and Africa notes that Jersey is a preferred domicile for developed asset classes, such as real estate, private equity, commodity and equity for Islamic fund mandates.

"Fund regulation depends on the type of investor the funds have," he notes. "This means a lighter regulatory framework can be used for sophisticated and institutional investors."

Jersey Finance's mandate therefore, Moynihan and Bhana report, also extends to raising awareness about Jersey as an Islamic finance investment destination, and as an IFC which is tax neutral, well-regulated, well-regarded worldwide, and that has been attracting a multitude of wealth structures, be it from private wealth or corporate sources from around the world, including for those investors seeking Sharia compliant products and investment options.

"Our Jersey Finance member firms, which represent a whole range of national and international financial services firms based in Jersey, offer supporting roles for many Islamic finance transactions and advisory work, as supporting entities," Bhana adds. "This means that Jersey firms do not necessarily need to have the direct expertise in house, to provide Islamic finance advisory work on their own, but instead work with other international law firms and advisory firms to provide local support on an Islamic finance transaction that for example is structured through Jersey or uses a Jersey entity."

That said, Jersey firms benefit from the listed advantages that Jersey has to offer in the Islamic finance domain and have a long-standing established reputation of structuring for clients who desire for Sharia compliant products and structures. Jersey Finance reports that there is hardly a single service provider, fiduciary firm or law firm in Jersey that has not worked on or does not look after a structure which is Sharia compliant.

Jersey's core pillars in fund administration, in corporate finance, and in private wealth, all feature industry expertise and grounded practise in Islamic finance. And in terms of assets, real estate, commodities, Islamic funds, and private equity, the Jersey-based providers all have strong and ever-growing connections to the key Islamic finance centres of excellence around the globe.

"With our more than 50-year history as one of the oldest IFCs and with the scale and experience we offer," Bhana explains, "we believe Jersey will continue to stand out in the future and indeed lead the way forward. From this position Jersey wishes to use its offering and experience to work with other leading Islamic finance centres around the globe, for example, Malaysia, Bahrain and Dubai, where we held our thought leadership discussions this year, creating a dialogue for continuous development of best international standards."

Moynihan also notes that there is growing innovation happening in the Islamic finance space in tandem with the innovation that goes on in the conventional financial sector. Therefore, in collaboration with Hubbis, Jersey Finance initiated the series of three expert-led round-table seminars to learn about challenges, trends and opportunities, from the leading global experts.

"And this White Paper and the associated survey we completed is the culmination of these thought leadership events, as we crystallise the findings and insights into this one document, as a record of the commitment Jersey Finance offers as a forward-thinking jurisdiction and preferred centre for both conventional and Sharia compliant structuring."

Jersey Finance's Global Team

Joe Moynihan - Chief Executive Office

Joe commenced his professional life in the banking sector, rising to the position of CEO of Jersey and the Isle of Man for a major bank, which included responsibilities for trusts and investments.

In recent years, he expanded his focus as Director of Financial Services within the government of Jersey, where he worked closely with industry and regulator to ensure the island's position as a leading international finance centre.

Before joining Jersey Finance in February 2019, Joe was working to establish high-reputation regulatory frameworks and business models for IFCs in the Middle East and Africa.

Faizal Bhana – Director, the Middle East and Africa – Islamic Finance Sector Lead

Faizal is well known to many Jersey Finance member firms who operate in the world of Islamic finance as he has been utilising member firms and Jersey structures for several years.

Faizal joined Jersey Finance from the international law firm Trowers & Hamlins, where he was the Managing Legal Counsel for Saudi Arabia. Over the last ten years, Faizal has worked and advised institutions, corporates and families across many Middle Eastern and African countries.

Faizal graduated with a first-class in his undergraduate Law (LLB) Honours degree and a distinction in his postgraduate (MSc) degree in Islamic Banking and Finance, both from leading UK universities.

Mihaela Moldoveanu, Director, GCC

Mihaela is responsible for the Gulf region markets, which present a growing opportunity for Jersey at present. With fluency in six European languages, Mihaela has been based in Dubai, UAE for five years and in Kabul, Afghanistan for the four years prior to this. She was appointed in 2014 at the DIFC Courts in Dubai to oversee a novel development, namely the design and launch of the DIFC Wills and Probate Registry, including the drafting of its legal basis.

After managing the Registry for a year, she took over the role of Associate Director at the DIFC Dispute Resolution Authority (the umbrella body overseeing the DIFC Courts, Academy of Law, the Wills Registry and the Arbitration Institute). She was in charge of the DRA advisory, leading the effort to set up a common-law English-language commercial court and an arbitration centre in Kazakhstan's international financial centre (AIFC), similar to the dispute resolution system of the DIFC.

In addition to our DIFC office, we have a global network of offices in Jersey, Hong Kong and New York; representation in London; and virtual offices in Shanghai and Mumbai. Below are the key contacts in these jurisdictions:

Allan Wood – Regional Head – West

Born in Liverpool. Allan has over 25 years' financial service experience in Jersey and the UK. Prior to Jersey Finance, Allan was Vice President and leader of the Jersey International business within Barclays Wealth & Investment Management division based in Jersey.

Previous to this he spent 20 years with Royal Bank of Scotland and has extensive experience managing business units, teams and clients within the international arena. Professionally, he is a member of the Chartered Institute for Securities & Investment (CISI).

An Kelles – Director, Greater China

An studied law in Belgium at the University of Leuven including one Erasmus exchange year at Queen Mary and Westfield College in London. She subsequently did an LLM in international business law at Trinity College Dublin.

An qualified as a lawyer in Belgium before moving to Dublin to work in the international business team of the law firm Matheson. In 2009, she went to work for ATC Corporate Services in Luxembourg as a corporate lawyer and later as a business unit manager. After a shareholding change in 2013, ATC Corporate Services merged with the Intertrust Group. An joined the Intertrust Hong Kong office in 2014 as a business unit director for the European and the Private Equity team.

Robert Moore – Director, UK

Prior to Jersey Finance, Robert was employed as a Client Director in the Alternative Investment Division of Ocorian Limited. Previous to this he spent eight years with Garfield-Bennett Trust Company and two years with the TMF Group. Robert has extensive experience within the private wealth, real estate and private equity sectors and has held executive director roles on a number of complex portfolios with varied administrative and regulatory requirements.

Professionally, he is a member of the Society of Trust and Estate Practitioners (STEP) obtaining the Diploma of International Trust Management, entitling the TEP designation.

Philip A. Pirecki – Business Development – The Americas

Philip is a financial industry and asset management executive, strategist and innovator, with more than 20 years of professional experience that includes investment banking, investment management, consulting, auditing and accounting. Prior to joining Jersey Finance, Philip was a Partner and Director of Silver Sail Advisors LLP, a London based independent investment advisory firm focused on the global automotive and industrial sectors, with a particular emphasis on China.

Before that, he was a Partner and COO at Silverstone Capital LLP, a hedge fund group based in London; an equity research analyst at UBS Investment Bank in New York; and a manager in forensic accounting and auditing at PricewaterhouseCoopers in New York and Seattle. Philip is a graduate of the University of Southern California and spent six years in the United States Marine Corps.

Elliot Refson – Director of Funds

Elliot is focussed on defining strategy and execution of marketing Jersey as both a domicile and destination for Hedge and Private Equity Management Companies and Funds based in the UK, US, Switzerland and Europe.

Elliot moved to Jersey in 2006 to establish a Macro strategy Hedge Fund under the Ermitage umbrella for whom he also seeded other Macro / CTA strategy Hedge Funds. Elliot founded the Jersey Hedge Fund Managers Group aimed at linking the growing community of local Managers and is a committee member of the Jersey Funds Association.