

Asset management – the next big thing in Islamic finance

BY ADELINE PAUL RAJ

Asset management is going to be next big thing in Islamic finance (IF) as countries, including Malaysia, develop more enabling regulations, predicts Iqbal Khan, a prominent advocate of the US\$2 trillion IF industry.

Iqbal, Malaysia's 2012 recipient of The Royal Award for Islamic Finance and currently the CEO of Dubai-based investment firm Fajr Capital, notes how the overall growth in IF has so far been driven by retail, consumer and corporate banking as well as cross-border financing and sukuk.

"But the big growth area, which is currently untapped and where the biggest opportunities lie, is in the asset management space – particularly in the real economy. This is the space where, I believe, the future impact of the IF industry would be most felt," he tells *The Edge* in an interview in Kuala Lumpur.

The Securities Commission Malaysia (SC) is expected to come out with an Islamic fund and wealth management (WM) blueprint by the end of this year, a move seen spurring growth in the asset management industry.

"Once we have a strong asset management ecosystem, it will be a tremendous boost for the wider Islamic financial services industry, for example, waqf, zakat funds and takaful. And once you establish a track record, then the industry can also start attracting more endowment funds, pension funds and sovereign wealth funds.

"Today, we do not have many high-quality asset management platforms that are creating high-return alpha and recurring income-producing beta revenues. Both these forms of revenue are required to build strong, fortified portfolios. I believe this is the biggest opportunity in the IF industry space," Iqbal says.

Countries like Malaysia, Saudi Arabia and the United Arab Emirates already have Islamic asset management platforms, but these are still "few and far between". "What we need is hundreds of these platforms," he says.

According to the SC's 2015 annual report, Islamic assets under management (AUM) stood at

RM132.38 billion last year, and this accounted for just 20% of Malaysia's asset management industry's total AUM. This compares with RM48 billion in 2010 (or 13% of the total industry).

Why hasn't the Islamic asset management industry taken off by now? According to Iqbal, the industry needed time to develop. "Sukuk took a long time to take off. Malaysia had a pioneering role in issuing the first sovereign sukuk, and once we had a benchmark and Malaysia had the depth in the capital markets, sukuk really took off. So, I think it takes time, and I believe that more and more asset management platforms, as they start developing and growing in different countries, will capitalise on the increasing demand," he remarks.

The biggest limitation to the growth of the Islamic asset management industry today – much like the entire IF industry – is the quality and size of the talent pool. "We need more trained people, we need more platforms like INCEIF (International Centre for Education in IF), we need more financial institutions doing graduate training programmes, doing mid-level programmes, whereby people who have had conventional banking, accounting or legal experience can come and become direct joiners in the IF industry," he says.

There is another big reason why countries should develop the asset management industry, he says. "When you have got good asset management, then you can create WM platforms through which you can distribute pension products and WM products and, therefore, democratise wealth across societies. And when you do that, you build a middle class. And when you build a middle class, then you have the hope of increased stability," he points out.

But it will take time to develop the industry, he says. The conventional banking system, after all, did not evolve over just a 20- to 30-year time scale. "In IF, we have the opportunity to leapfrog and create these platforms. But that is where I believe visionary leadership is required. There has to be a big focus to drive the agenda to create strong asset management platforms

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Government cannot be a player

focused on the financial economy and the real economy — generating beta revenue, which is consistent income earnings, and the high-return alpha revenue. Both coming together will create excellent portfolios for large investors, and this will be the next value inflow into the IF industry.”

The SC’s move to come up with a blueprint for Islamic funds and WM this year is timely and augurs well for the future growth of the industry, he says. “That is the kind of leadership we need,” Iqbal says.

On what governments can do to further promote the Islamic asset management industry, Iqbal has two pieces of advice. One, it must ensure that the regulatory supervisory framework is the best-in-class; and two, it cannot itself become a player in the industry.

“Governments have to realise that they cannot be players — they have to be referees and umpires. And, if they play, they should play with the private sector and not against the private sector. Taking football as an analogy — if the government plays on its own, and is also the

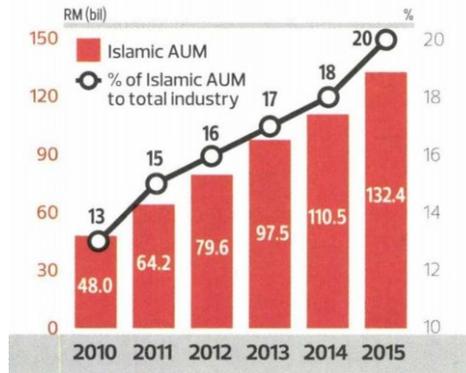
referee, then the quality of the game diminishes. So, I think this is a very fundamental area.

“Then, I think the government’s second job is to allocate capital across asset classes such as infrastructure, venture capital, SMEs, private equity and so on. This process should be run on an open architecture basis and should be driven by the private sector. If governments can do this, then I think, combined with the strong and enabling regulation as provided by the SC, we will witness very vibrant and strong growth in the IF industry,” Iqbal says.

He was instrumental in setting up or scaling up a number of IF industry institutions and initiatives globally, including Citi Islamic Investment Bank, HSBC Amanah, the International Institute for Islamic Banking and Insurance in London, and the IDB Infrastructure Fund. He started HSBC Amanah in 1998 and was its CEO until 2006.

The next recipient of The Royal Award will be announced at the biennial event organised by Bank Negara Malaysia and the SC on Nov 14. **E**

Islamic AUM growth in Malaysia



HARIS HASSAN/THE EDGE



Iqbal: Once we have a strong asset management ecosystem, it will be a tremendous boost for the wider Islamic financial services industry

VALUATOR

Company(Brand)	Mention	Tone	ROI
Bank Negara Malaysia (Bank Negara Malaysia)	10	0	RM 0
Citi Islamic (Citi Islamic)	1	0	RM 0
Citibank Group (Citibank Group)	8	0	RM 0
Economy News (Economy News)	9	0	RM 0
HSBC Amanah Dubai Office (HSBC Amanah Dubai Office)	1	0	RM 0
HSBC Amanah Malaysia Berhad (HSBC Amanah Malaysia Berhad)	2	0	RM 0
International Centre of Education in Islamic Finance (INCEIF)	1	0	RM 0
Islamic Development Bank (Islamic Development Bank)	23	0	RM 0
Pendidikan Kewangan Islam (Inceif) (Pendidikan Kewangan Islam)	2	0	RM 0
Securities Commission (SC) (Securities Commission (SC))	1	0	RM 0
The Edge Communications Sdn Bhd (The Edge)	1	0	RM 0

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