

MFPC Conference on Islamic Wealth Management & Financial Planning

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Aligning Shariah Financial Planning with IF

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Shariah Objectives

“This day I have perfected for you your religion and completed My favour upon you and have approved for you Islam as religion”

Maidah 5:3

Shariah Objectives

- Al-Ghazali, a renowned muslim jurist wrote: "The very objective of the Shariah is to promote the welfare of the people which lies on safeguarding their faith, their life, their intellect, their posterity and their property.
- The most indispensable goal of Shariah is realizing the economic wellbeing of the society through full and efficient utilization of resources given.
- Islam views the economic activities of man quite lawful, meritorious and sometimes obligatory but economic progress should not be the be-all and the end-all of human life.

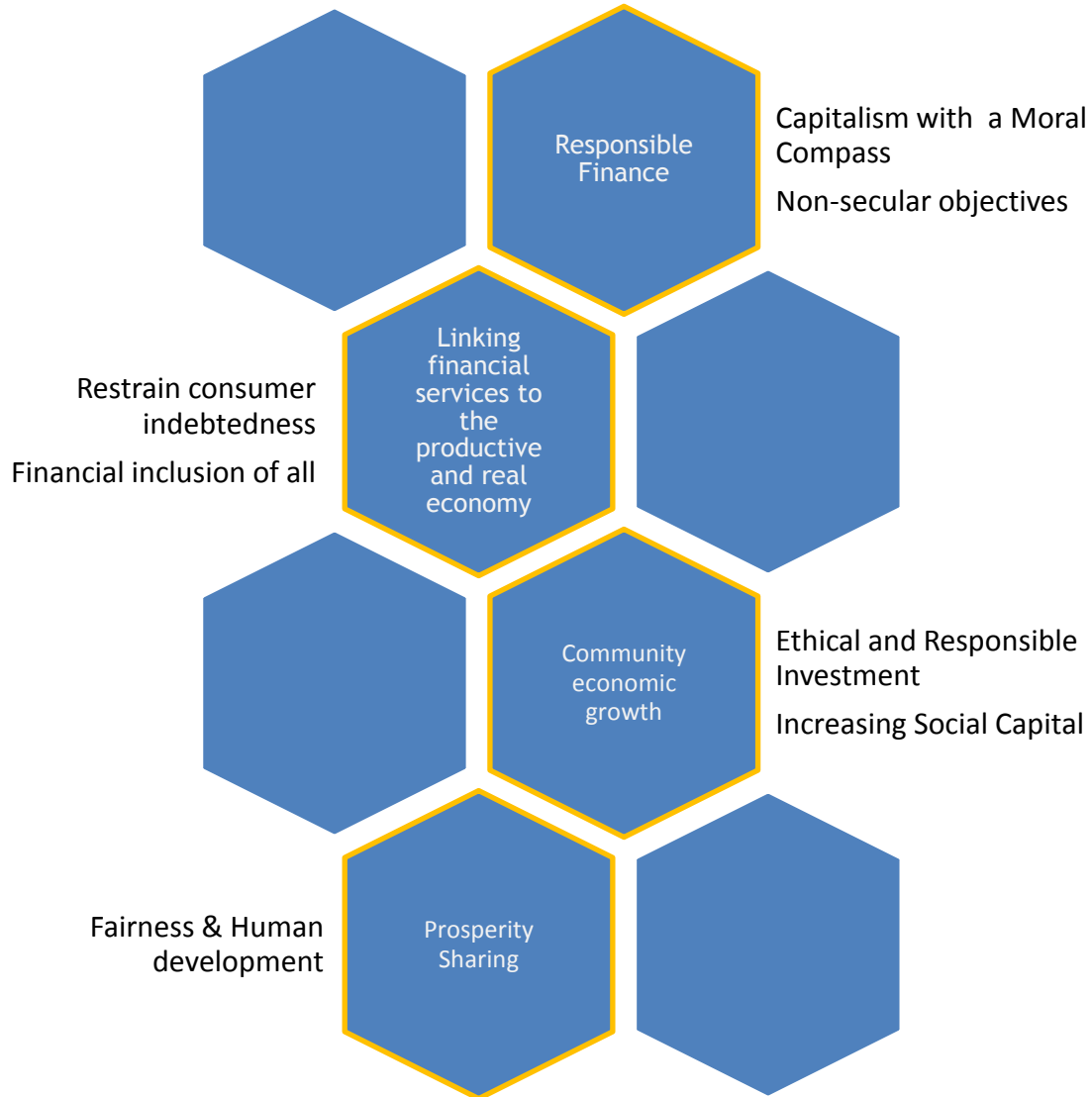
What are the Shariah Philosophy?

- Wealth and properties are just intermediary means, to support our worships to Allah. Al-Anfal (8:28)
- Although 'relieving hardship' and 'promoting benefit' are both among the prime objectives the former takes precedence
- A bigger loss cannot be inflicted to relieve a smaller loss or a bigger benefit cannot be sacrificed for a smaller one. Conversely , a smaller harm can be inflicted to avoid a bigger harm or a smaller benefit can be sacrificed for a larger benefit.
- The larger interest of society takes precedence over the interest of the individual

Islamic (Spiritual) Finance

*Risk Sharing as opposed to Risk
Transfer*

Islamic Finance





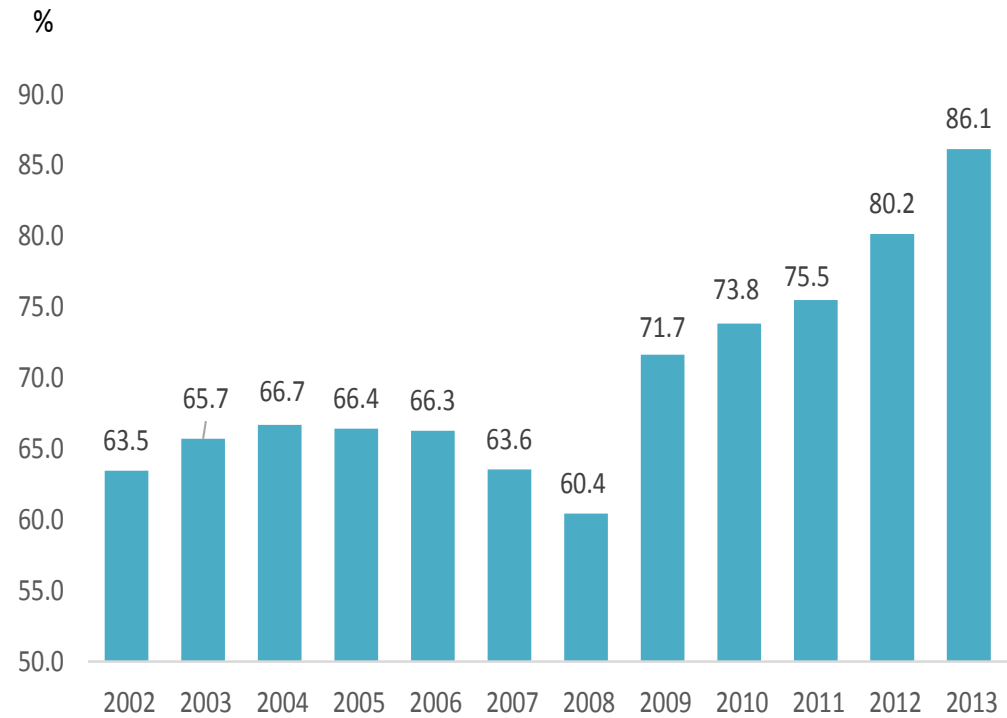
Indebtedness

- According to data from Standard & Poor's, lending from financial institutions to the corporate and household sector as a percentage of GDP in Hong Kong jumped from 143% in 2005 to an estimated 202% in 2012.
- in Singapore, 91% to 117%; and in China from 112% to 130%.

Read more:

<http://business.time.com/2013/02/25/is-asia-heading-for-a-debt-crisis/#ixzz2ibdVT5Rt>

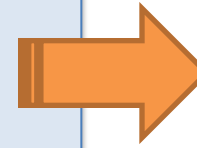
Malaysia's household debt (% of GDP)



What Islamic Finance will Change

Key internal issues that need addressing...

- **Reducing debt-based products**
 - Islam permits commercial debt for productive ends
 - Debt-based consumer products permitted on basis of need
 - More the exception than the desired norm
- **Building risk profit-sharing products**
 - Musharaka (Partnership) is true form of financing
 - Based on real economy rather than financial economy
- **Removing bias towards debt**
 - Current tax, accounting and regulatory systems and risk-weighting promote debt instruments



- Live within means and capability
- Debt without interest
- Turn to investment

“While interest in debt has to be paid in good or bad time – dividends are paid well in good time and reduce in bad time.”

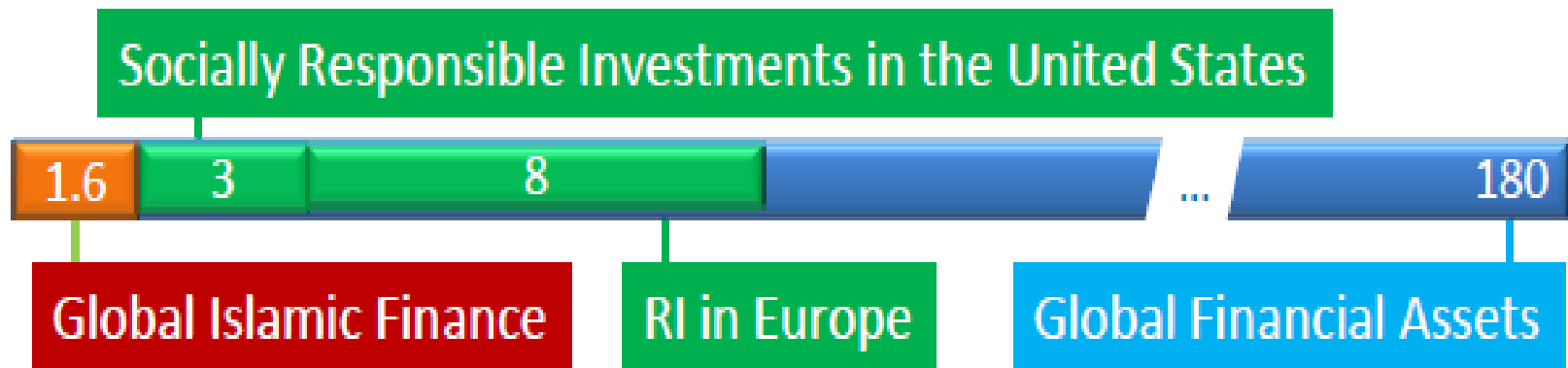
High Leverage
Companies
Pays lower
dividends

Foreign direct investment, in contrast to debt-creating inflows, is often regarded as providing a safer and more stable way to finance development because it refers to ownership and control of plant, equipment and infrastructure and therefore fund the growth-creating capacity of an economy, whereas short-term foreign borrowing is more likely to be used to finance consumption.

(International Monetary Fund, *World Economic Outlook*, May 1998)

Islamic and SRI

estimated total financial assets 2010/11 in trillion US-Dollar



Still a Long Way to Go

Shariah Financial Planning

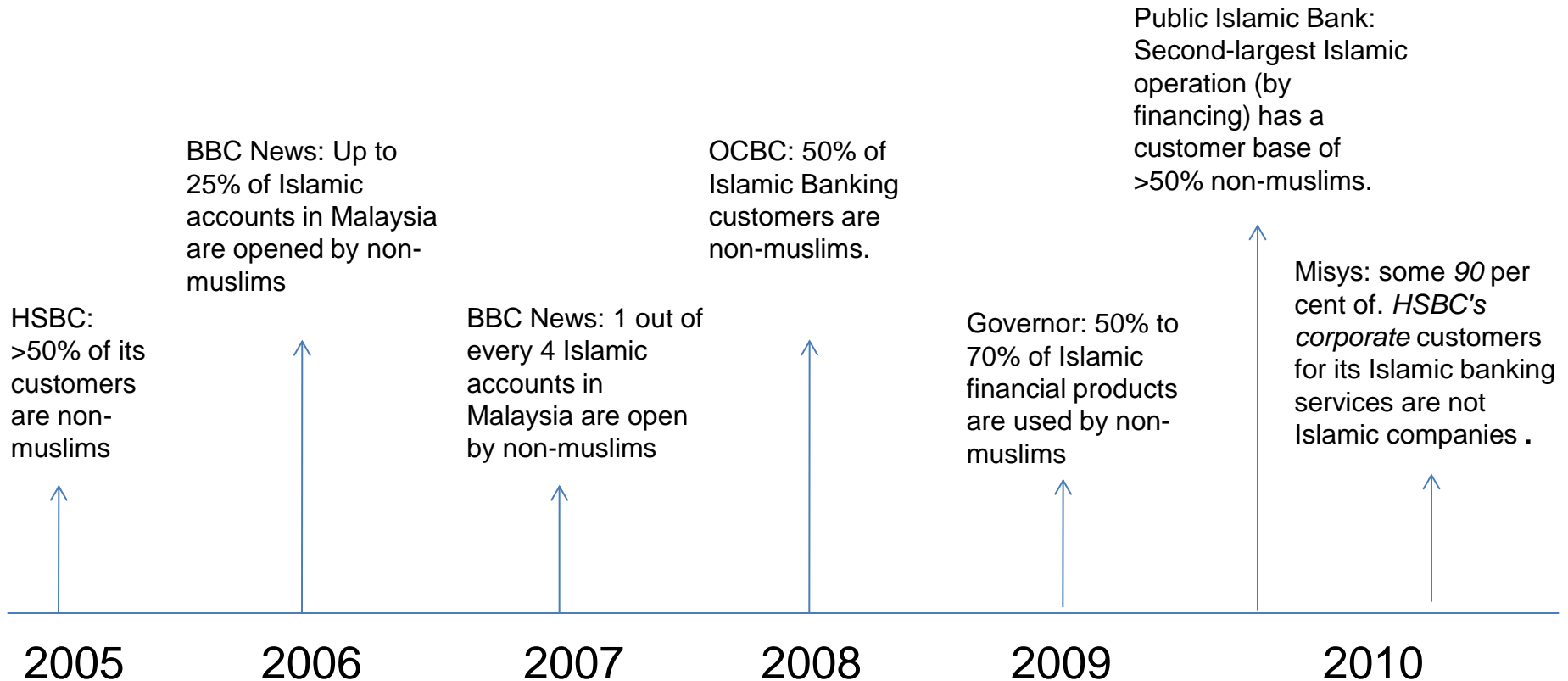
Elevating Financial Prosperity of Muslims

Prophet Mohammad (PBUH) said ;
“Those who plan (his economy) will never fall (into the pitfall of poverty)”

Shariah Philosophy in Financial Planning

- Wealth Managers offers a wide range of customer requirements including wealth generation, accumulation, preservation and distribution (and cleansing) of that wealth.
- Wealth could perhaps be categorized into three types (Muhammad Syukri Salleh):-
 - celestial wealth (e.g. zakat, waqf)
 - man-made wealth (e.g. investments); and
 - social wealth. (e.g. faraid,takaful)
- From the verses, Al Haj 22:62 & Al Anam 6:133, basically to be wealthy in Islam you need the two elements of life; physical and spiritual.
- Islamic wealth management indeed does not have any other choice except basing itself onto its own Islamic philosophical and operational underpinnings – tangible and spiritual

Developments in Islamic Banking

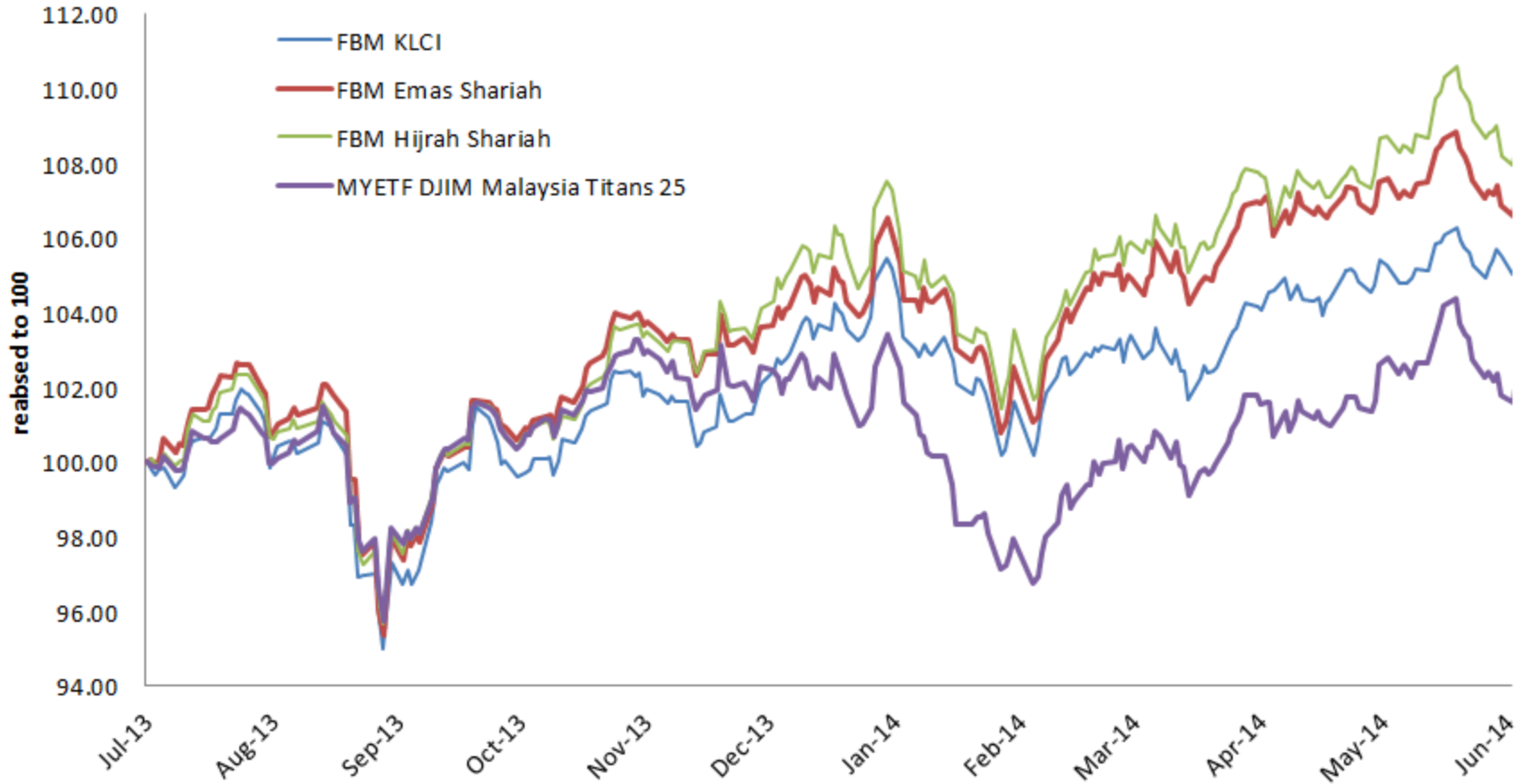


Islamic Finance penetration in Malaysia- Islamic Finance products have gained acceptance amongst the non-Muslim.

Asset Management

- Higher Shariah compliance of assets classes (substance over form):-
 - Zero debt
 - Socially responsible biz
 - Ethical (spiritual) management practices and
 - Good governance
- Allocations to Real Assets will reach to 20% to 30% of portfolios by 2030, with some institutional investors allocating upwards of 50% to the asset class (BAM).
- The rise of new instruments e.g. Private equity funds, Mudarabah, crowd-funding

KLCI & Shariah Index (1 Year Performance)



The list of Shariah-compliant securities which are listed on Bursa Malaysia will take effect from 28 November 2014.

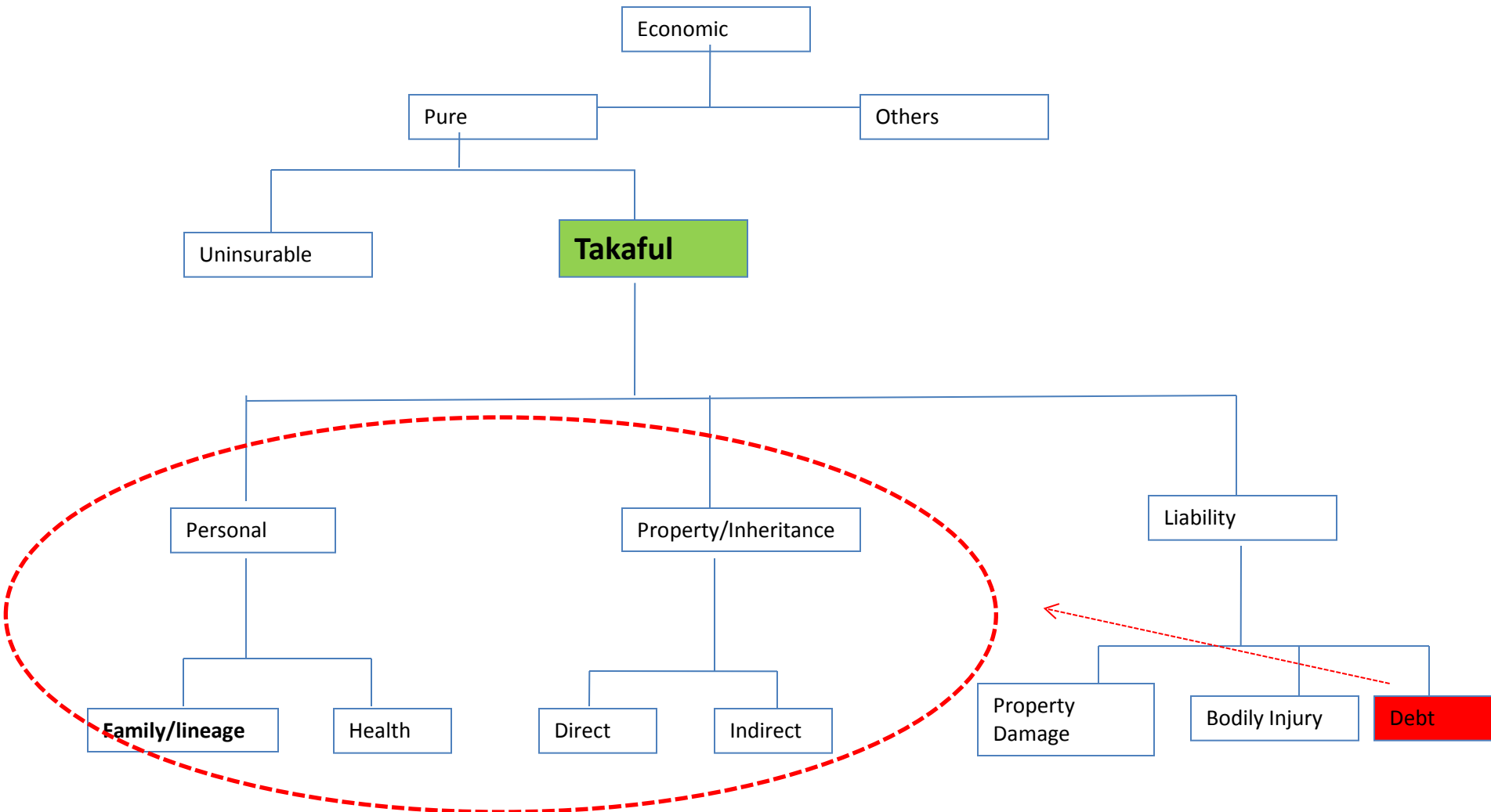
Why Real Assets

Factors	Distinctive Characteristics
Stability	Steady cash flow streams supported by regulated or contractual revenues and attractive operating margins
Income	Reliable current income with long-term capital appreciation potential
Upside Potential	Meaningful leverage to economic growth
Visible Growth Drivers	Positive growth momentum led by significant fundamental trends
Attractive Performance	Compelling absolute and relative returns
Low Volatility	Attractive risk-adjusted returns
Inflation Protection	Cash flows tend to increase in an inflationary environment
Investment Diversification	Diversity of geography, currency and asset type
Portfolio Diversification	Low correlation to traditional equity and fixed income investments

Takaful

- Islam is concern of the depreciation or loss in economic value of an asset; in fact, good risk management practices are encourage by Shariah. (*Al Baqarah 2:155*)
- The takaful system are practiced presently to handle risk in place of insurance; Hadith:
 - “Commence your journey with giving charity and leave when times seems right, for verily you secure the safety of your journey”*
 - “ Verily if you die and leave your heirs rich is better than leaving them poor and begging. Verily the money that you spend for the pleasure of Allah will be rewarded, even a morsel that you lifted up to your wife’s mouth.”*
Narrated by Sa’ad Abi Waqas
- The concept of Tabarru’
 - A form of sadaqah
 - Ranked as Mandub just as qurban

Takaful in Risk Mitigation

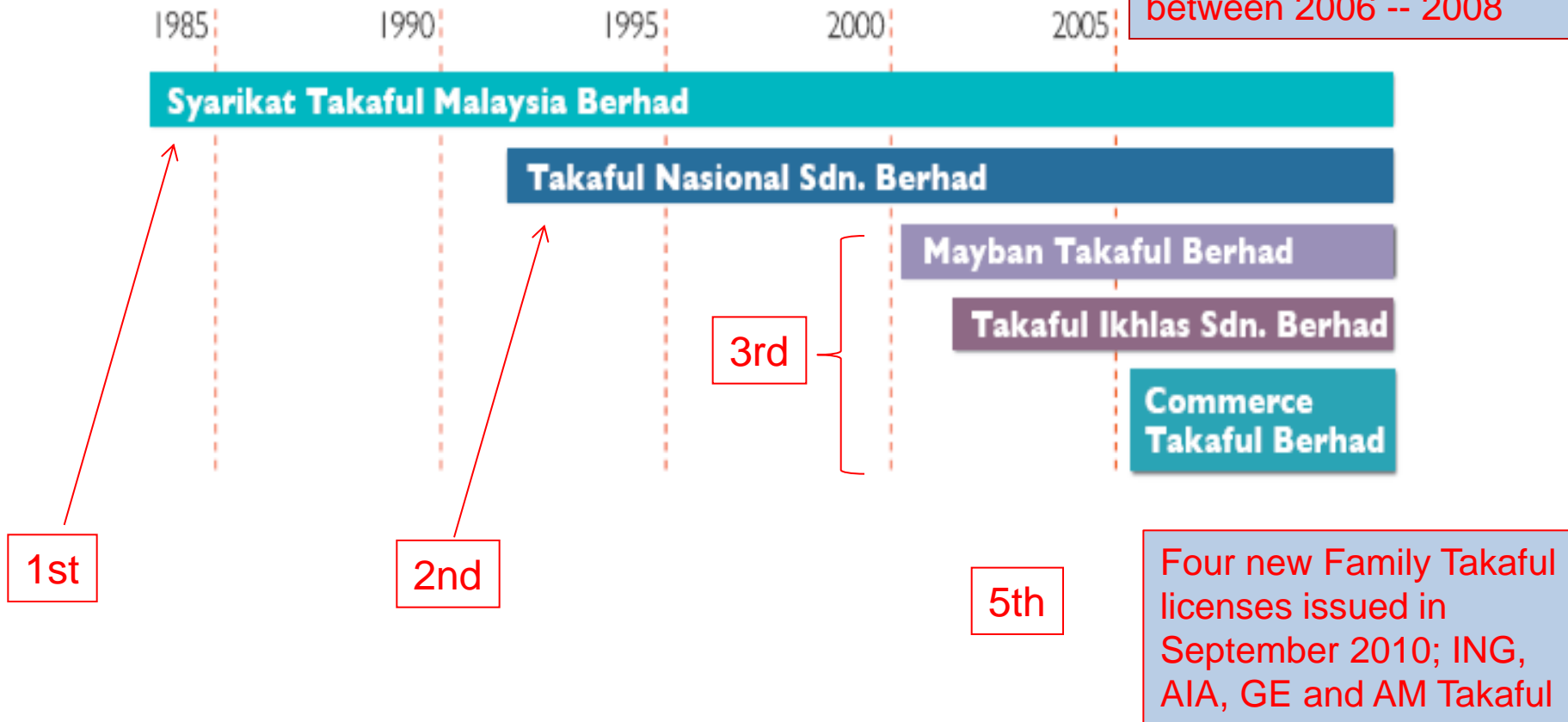


Malaysia's Takaful Landscape

Takaful growth exceeded expectations in Malaysia -

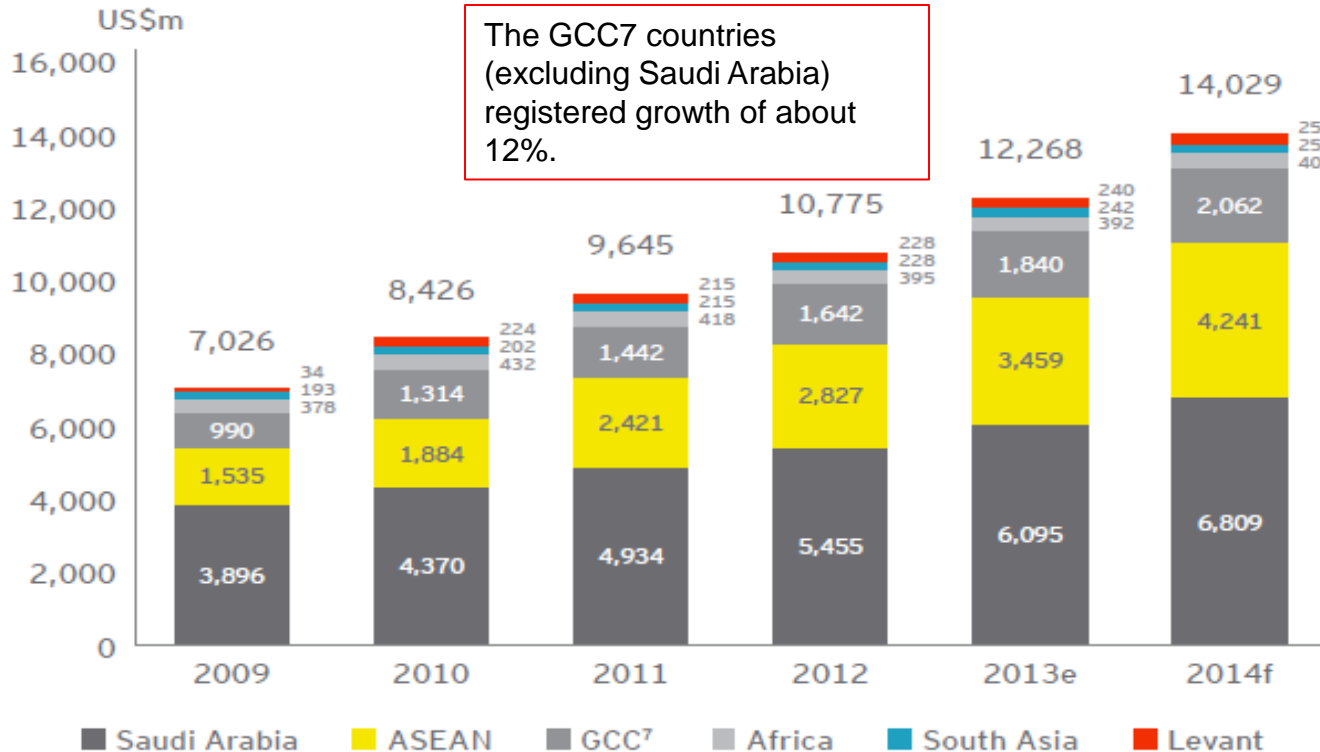
Takaful products have gained acceptance even amongst the non-Muslim

Stages of Institutional Set-up



Development of Takaful – Gross Contributions

Chart 4: Global gross takaful contributions by region, 2009-14f⁶



The GCC7 countries (excluding Saudi Arabia) registered growth of about 12%.

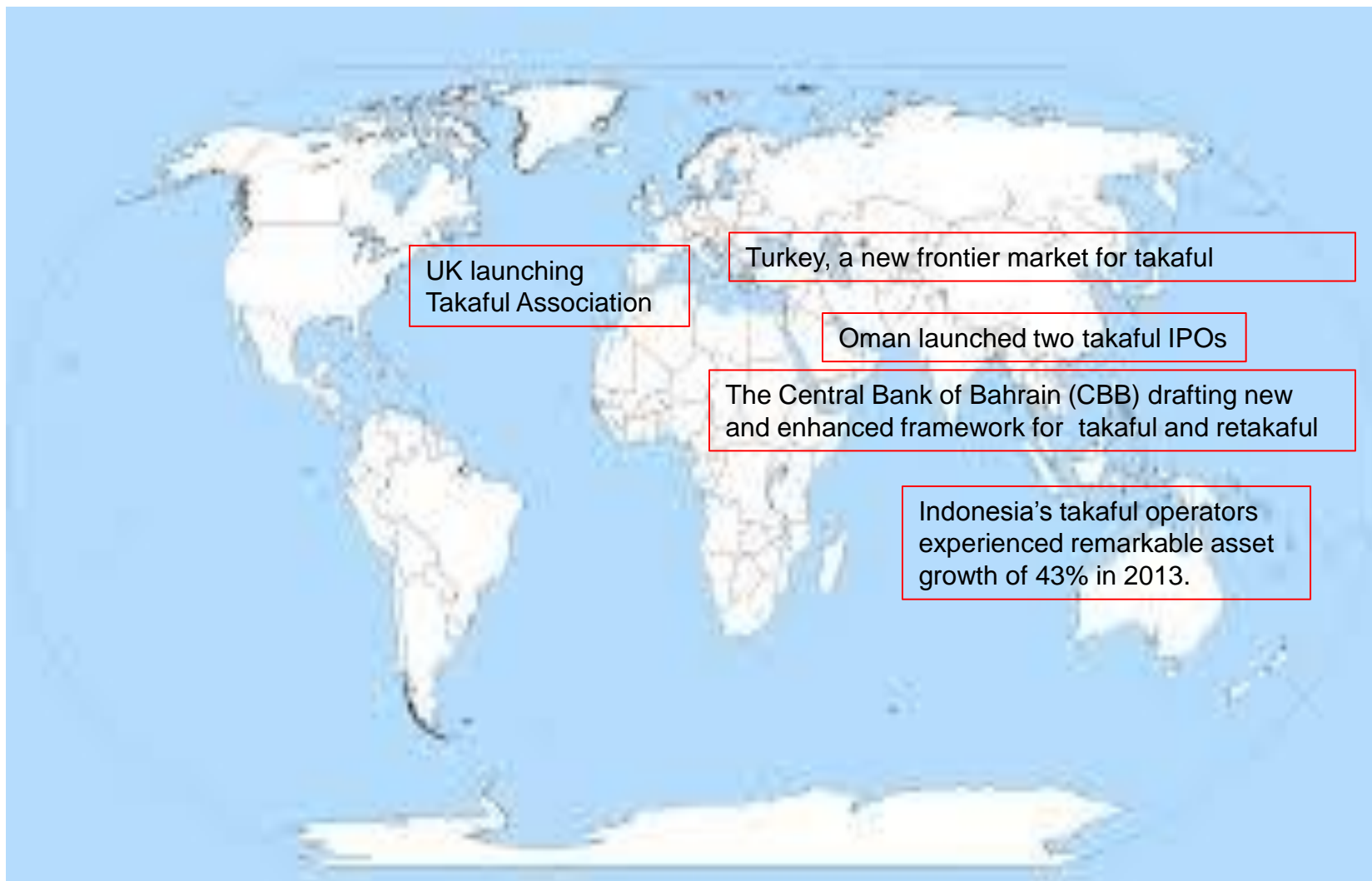
Malaysia and Indonesia account for nearly one-third (30%)

ASEAN - driven by strong economic dynamics and young demographics, continue to achieve buoyant growth at 22% CAGR.

Saudi Arabia cooperatives account for nearly half (48%) but mainly General Takaful

From CAGR of 22% (2007-11) to growth rate of 14% over 2012-14.

Development of Takaful – New



Conclusion

*It is not just about substituting to Shariah
compliant products*

Conventional Financial Planning v Shariah Financial Planning

Conventional FP

- Personal & worldly (secular) purposes
- Accumulation of wealth through legal means
- All legal assets
- Unlimited investment media
- Reduce taxes
- Distribution according to legal statutes e.g. a will
- Credit protected

Shariah FP

- For the sake of ALLAH & Umah
- Accumulation of wealth through Shariah compliant means
- Only Shariah compliant assets
- Shariah compliant investments
- Increase zakat (wealth cleansing)
- Distribution following Shariah rules e.g. faraid
- Good SFP is ibadah e.g. debt management

It is not just about substituting to Shariah compliant products

Qualities of a Shariah Financial Planner

- Amanah (trustworthy)

Those who be successful would include “Those who are faithfully true to their Amanat (all the duties and moral responsibilities and trust which Allah has ordained) and to their covenants”

Al Mu'minun 23:8

- Siddiq (honest)

“ O ye who believe! Fear Allah and be with those who are true (in word and deed)”

Al Taubah 9:119

- Fatanah (wise)

“No soul can believe, except by the will of Allah, and He will place doubt (or obscurity) on those who will not understand”

Yunus 10:100

Qualities of a Shariah Financial Planner

- Tabliq (advocating)

“And let those (executors and guardians) have the same fear in their minds as they would have for their own, if they had left weak offspring behind. So let them fear Allah, and speak words of appropriate (comfort)”

An Nisa' 4:9

“Invite (all) to the way of the Lord with wisdom and fair preaching; and argue with them in ways that are best and most gracious. Truly, your Lord knoweth best, who have strayed from His path, and who have receive guidance_”

Al Nahl 16:125

The Journey's End

“ A perfection of Means, and
confusion of Aims, seems to be our
main Problem”

Albert Einstein

Thank You

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