

Untapped Potential of Islamic Wealth Management

Managing wealth used to be a service that was provided exclusively to high net worth individuals in the West. Those were the days when most of the world's wealth was located in the region. Today, the number of such individuals has spread to the Middle East and Asia. **AYU AZIZ** reports.

Thanks to the unprecedented rise in the price of oil (which has since dropped as at the time of writing), the affluent populace of oil-rich nations, especially in the Middle East, is rising. As the number of wealthy individuals mounts, demand for wealth management services is becoming more apparent.

A forecast from the Capgemini/Merrill Lynch World Wealth Report revealed that the assets of Middle East-based high net worth individuals (HNWIs) will outgrow those in other parts of the world over the coming few years.

The 2007 report predicted an annual growth rate of HNWIs in the Middle East at 9.5% between 2006 and 2011, which would see the value of their assets expand from US\$1.4 trillion to US\$2.2 trillion.

“There are literally tens of thousands of households that have delivered or could deliver US\$1 million to US\$5 million in investible wealth in Saudi Arabia alone,” affirmed John A Sandwick, managing director of Encore Management, a private wealth management company.



John A Sandwick

But they are not just seeking another wealth management outfit to manage their money. Since most of the dwellers in the region are devout Muslims, a Shariah version of wealth management is required.

Wealth management, also known as asset management, can loosely be defined as a type of financial planning that provides those who are categorized as HNWI and their families with private banking, estate planning, legal resources and investment management services. The aim is generally to sustain and grow wealth in the long term using various investment tools.

“Islamic wealth management is a sector that is at the introductory stage despite its tremendous potential”

Limited options

Unfortunately, the options available today are rather limited. Conduct an Internet search on “Islamic wealth management services” and you would likely get a very short list of results. Search for “wealth management

services”, however, and the list of results is endless.

It may be an unscientific way to draw a conclusion, but it goes to show how Islamic wealth management is a sector that is at the introductory stage despite its tremendous potential.

It is only lately that banks and other financial institutions have begun showing interest in developing the sector and profiteering from it. Geneva, Switzerland-based Encore claims that it is the only true Islamic wealth manager today, with the exception of Malaysia.

“The single and only exception I have witnessed is in Malaysia, where Islamic banking has taken root with a high degree of professionalism. Everywhere else, including and specifically Saudi Arabia, there is no truly professional Islamic asset management today,” said Sandwick.

Banks and various financial investment companies are starting to tap the distinctive market. Malaysian banks, for example, have begun to offer Shariah-based wealth management to get an early advantage in the segment of the market.

Recently, Malaysian-based RHB Islamic Bank signed an agreement with three fund management companies and two Takaful companies in its effort to promote Islamic



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wealth management services in the country and in the region. The companies involved were AmInvestment Services, HwangDBS Investment Management, RHB Investment Management, Takaful Ikhlas and MAA Takaful.

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“The demand and potential market for Islamic wealth management products within the fund management and Takaful sector have experienced an upward trend globally, and this positive business climate keeps growing,” said Faisal Siraj, chairman of RHB Islamic in a press release. Interestingly, the bank is not relying on the Middle East’s affluent population to subscribe to its services. It is trying to attract non-Muslims as well. And by the looks of it, it is enjoying some success from this segment.

“We are pleased to note that the strong demand is not only generated from the Muslim customers, but also from our non-Muslim investors,” Faisal reported.

‘Shariah not mysterious’
The demand from non-Muslims in Malaysia is no surprise as Islamic finance has been promoted by all parties

Malaysian banks have begun to offer Shariah-based wealth management to get an early advantage in the segment of the market.

in the financial services industry as an alternative tool for conducting business and not a missionary attempt to propagate the religion to the global masses.

“I have not met anyone from any religion who does not want ethical investing. That is a universal human condition. No moral person wants his money to be used for anti-social unethical investing,” said Sandwick, who heads one of the few private companies offering Islamic wealth management services in the world today.

“Shariah is not a mysterious set of rules and regulations. It is based on common-sense principles of ethical community and individual living. Unfortunately, many Westerners do not understand this basic element of Islamic investing. If they did, I’m sure the body of potential investors would be much broader than just the community of Muslim investors,” he added.

There is a lot of skepticism about Islamic finance not only



among Westerners but also among the more sophisticated Muslims. Many Muslims have been subscribing to the conventional financial services and are well versed in the system.

They know what to expect from these products. Islamic wealth managers should offer something more attractive in terms of returns to compete with their conventional counterparts. There are few discrepancies between Islamic and non-Islamic wealth management offerings, and the former has huge growth potential globally rather

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than if it were to stay focused on the Middle East region and Muslims per se. The single difference between the two is that the securities selected for investment must meet the standard guidelines as set forth in the Shariah. In addition, it should be ethical throughout the entire experience.

“There are many unscrupulous bankers out there who are skilled at tricking clients into buying things they shouldn’t, like hedge funds, structured products or private equity. Their single and sole goal is to obtain volume sales,” Sandwick explained.

In the Islamic wealth management universe, transparency should be one of the significant factors that set it apart from the others. Clients should keep abreast of the movements of their money.

They must have at least a minimum knowledge of the process, techniques and goals of professional wealth management to avoid being cheated by those who are eager to cash in on the wealth management market, especially in the Middle East.

Encore plans to concentrate on its business in Saudi, and hopes to increase it from 70% to 90% in the near future. The company’s target customers would be the masses, who are moderately wealthy.

Sandwick claims that banks are excluding this group from their radar and are instead focusing on the same HNWI’s. “We see gigantic potential for our services among clients who can settle between US\$500,000 and US\$3 million, an area where many banks refuse to do business,” said Sandwick. ☺

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Global interest in Islamic finance and banking is at an unprecedented level. Products, markets and players are constantly evolving meaning the industry is in a state of constant renewal and change. With this change come opportunities and challenges. As it becomes clearer how the industry will develop and what market participants will require in the medium to long term, the need for crystallization of clear strategies becomes imperative.

Through our international network of Islamic finance professionals we are able to offer expert advice and consultation to organizations in and associated with the Islamic finance industry. Included in this are market positioning and research, Shariah advisory and the product development process.

Please contact **Andrew Tebbutt** on **+603 2162 7802** or email **andrew.tebbutt@redmoneygroup.com** for more information

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