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OPALESQUE ISLAMIC FINANCE INTELLIGENCE

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By Mehdi Popotte

Welcome to the thirteenth edition of OIFI, we hear from various parts of the world and this reflects how the industry has been growing and evolving over time. So many efforts and initiatives might seem local or market-specific but they are all contributing their grain of sand to the dissemination of Isamic finance globally. The Editorial section discusses Islamophobia and how it affects the Islamic finance industry. Our Featured Resource is a compilation of material relating to Islamic microfinance, this includes various industry reports, empirical studies and some discussions on possible models as well.

The Featured Structure section is a continuation of Nikan's previous discussion on Istijrar, as he focuses on the sale at market price which highlights the need to understand price uncertainty and how it is viewed by Scholars. We also welcome Monem Salam of Saturna Capital in our Fund Manager Interview as he shares some insights into the history of their Amana funds.

Furthermore, the Industry Snapshot contains an in-depth analysis of stock screening, as Mehdi Popotte explores the mechanisms behind it and some of the issues that arise when establishing an equity screening solution. Joy Abdullah shares his views on how Islamic finance can expand its appeal to a wider market in the Opinion Column, with some revealing insights and suggestions.

As always, we are keen to hear your comments & suggestions and remember that you can visit our online archive (see reference link) for access to our ever-growing databank of Opalesque Islamic Finance Briefing as well as all of the back issues of Opalesque Islamic Finance Intelligence.

Best Regards,
Bernardo
Editor, Opalesque Islamic Finance Intelligence

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In This Issue

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Islam Süss

By Bernardo Vizcaino, CAIA

The Six Words You Can Say on Television

Islamophobia and for that matter xenophobia is nothing new in our society and it should not come as a surprise when someone suggests that "Muslims killed us on nine eleven". However, when these six words are uttered on an internationally-broadcast network by an established television personality (Fox News' Bill O'Reilly) then we as a society must recognize that a moral threshold has been crossed. It is even more stunning when such an utterance is received with widespread ambivalence. Even more alarming is that whatever criticism that arose was cleverly deflected by the pundits at Fox News, focusing instead on debating the dismissal by NPR of political analyst Juan Williams (who shared his concern for individuals in "Muslim garb"). The damage has been done, although this is all but forgotten after the noise of US mid-term elections.

Interestingly, Williams defended his comments as an expression of an "irrational fear" of his. He is not alone, I have irrational fears myself. Why have a Muslim community centre near ground zero? Three blocks seems to be too near, so how about six blocks away, five kilometres away, outside of New York state, or why not gather all Muslims together in a nouveau-ghetto since they don't belong anyway? This slippery slope is part of my very own irrational fear.

Chaplin's Time Traveller

A few days ago a film by Charles Chaplin surfaced online, where a pedestrian is seen talking on what appears to be a mobile phone. Interestingly this might not be a lonely time traveller since we as a society seem to have been transported to the 1920's as well. It is during the early part of the twentieth century that ideas of nationalism combined dangerously with the concepts of a heartland, racial purity, and the desire to revert to olden values and a traditional way of life. The present version is, in the words of another Fox News presenter, the search "to restore our trust, truth and treasure".

Even more blatant is the embellishment of such ideas with copious references to the constitution, core/traditional values and a large dosage of flags and banners. Through such association they aim to gradually provide an academic substantiation for their ideas. Take for instance Glenn Beck's show and his copious use of blackboards, chalk, library paraphernalia and rather thick glasses. While many find them comical, it is the sanitization of their radical views that should be of great concern and this is no laughing matter. We might not need to be worried about these individuals either, but about those who will come along later and refer to their ideas for inspiration and justification. It was during the time of Chaplin that Karl Haushofer developed the concepts of geopolitik (a consolidation and codification of older ideas, given a scientific gloss) and in particular lebensraum (the strategic need for a spacious and rather pure nation). These would be borrowed by one of his students (a certain Rudolph Hess) who would take them from theory into practice. Today the ideological steamroller is being fuelled by a multiplicity of experts, authors, and carefully-branded think tanks such as the Center for Security Policy amongst others.

The Ultimate Political MacGuffin

Islam has become one of the favourite punching bags of right wing ideology, whether this is in the US, France, the Netherlands, or other places. In fact they will often resort to less familiar terms to mistify and scare their audience. It is not Islamic finance, it is Shariah financing. It is not zakat as charity, it is zakat a source of terrorist funding. It is not Islamic jurisprudence, it is Shareeah law.

This does not just concern Muslims and believe it or not this is not about Islam. In fact we are witnessing one of the greatest political MacGuffins in history (this being a literary device that holds a story together, used extensively by Alfred Hitchcock in his movies). Indeed

Editor's Note

Islam is the binding theme in this horror film of right wing propaganda, a convenient scapegoat to drive forward their agendas relating to national security, economic woes, limiting civil liberties, etc. These are some of the objectives of their agenda, Islam is just a way to get there.

It was the 1940 film Jews Süss (filmed by Veit Harlan) that artistically depicted Jewish people as the pickpockets, bandits, thiefs and bribers of German society, the ultimate anti-semitic film. We now have a remake in 2010 called Islam Süss, as Muslims are being portrayed as the culprits of every possible malaise. Curiously the right wing rhetoric will focus on Muslim extremists, certainly not Religious extremists, and most definitely not Ideological extremists. It all fits nicely in their fine-tuned choreography.

Corporate Citizenry

The impact of such propaganda is not just felt with regards to where Muslims can build a Mosque or what clothes they can wear or what mode of transportation they can choose. It also impacts other aspects of their faith such as pursuing Islamic banking alternatives. In that sense we have to recognize that there is a negative impact on the acceptance and understanding of Islamic finance in the western world. Curiously, most of the anti-Muslim rhetoric seldom touches on Islamic finance, and when it does it chooses fringe elements, they have never tackled it head on.

What is the role of Islamic banks in this regard and their overall role as corporate citizens? Should they confront these accusations head on? We have witnessed multiple efforts by several institutions and individuals that have worked hard to educate the mass market about Islamic finance, and this must be applauded. Others might argue this is not their priority and will rank it low in their list of priorities, while for others it might be the case that it places an uncomfortable spotlight on their business ventures. We should not be surprised.

Something that can be very helpful for Islamic finance (and Islam) is a combined industry effort to showcase its value proposition. For an industry that is savvy with complex structures, loaded with industry bodies and littered with self-defined industry pioneers, it is high time that it develops a global industry association. There are prudential, regulatory, financing, contractual and liquidity bodies in Islamic finance together with a galore of industry certifications, publications, awards and events. However there is currently no entity that takes an objective and neutral approach to promote Islamic finance at the global level.

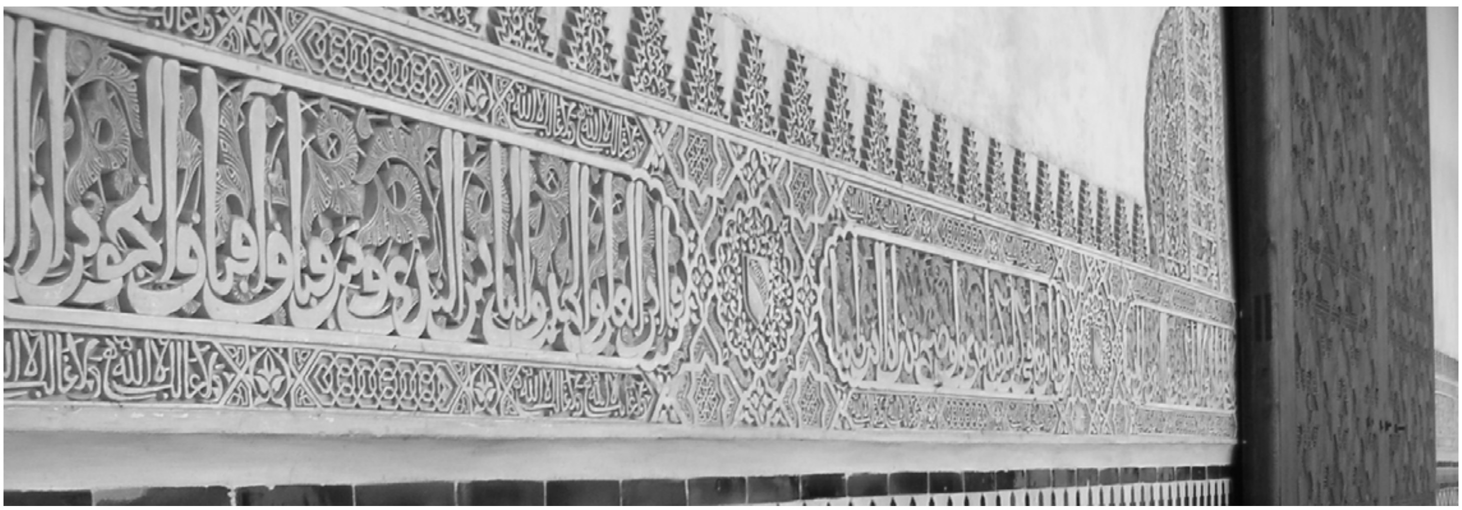
We can lose our sleep over the negative views of some, but we can wake up tomorrow morning and concentrate on disseminating the positive views of many. By going beyond competitor rivalries and commercial priorities, there is an opportunity to present Islamic finance to the world as one of the most visible and dynamic examples of modern Islam. That is the best possible response.

Your feedback and comments are very important to us, please feel free to contact the author via email.

Islamic Microfinance

Blogger™ As Featured in the Islamic Finance Resources Blog

There are various efforts across the globe to develop Islamic microfinance, both in terms of the conceptual models as well as on its practical implementation. Here we include a short list of papers and articles that delve into the subject, although the literature and institutions involved is ever expanding:



An Introduction to Islamic Microfinance

A Potential Model for Islamic Microfinance (3 parts)

Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives

Islamic Microfinance: A New Approach to Help Small Enterprises

Islamic Microfinance: An Emerging Market Niche

Islamic Microfinance Report - IDLO

Islamic Microfinance and Socially Responsible Investments

Islamic Microfinance in AustraliaRole of Microfinance in Poverty Alleviation

The Compatibility of Islamic Financial Services and Microfinance

The Contribution Of Islamic Microfinance Institution In Increasing Social Welfare In Indonesia

Value Through Diversity: Microfinance and Islamic Finance and Global Banking

Istijrar Revisited

By Nikan Firoozye, PhD

Nikan has over 14 years experience in leading Wall Street and City firms on the buy and sell-side including Lehman Brothers, Goldman-Sachs, Deutsche Bank, Sanford Bernstein Alliance, Citadel and Nomura where he is currently Head of European Rates Strategy. He has worked in a variety of primarily technical or quantitative fixed income roles from Rates & Hybrids Structuring to Rates Strategy and Quantitative Modelling to Asset Allocation and Risk Management to Prepayment Analysis and Securitization and Capital Markets. Education: PhD Mathematics (Courant Institute, NYU), Asst Prof University of Illinois.

Bay' bi Sir' al Suq (payment at a market-determined price) is often discussed in Islamic finance due to the fact that the price is not actually specified (i.e. at the contract's inception) and this is deemed to generate gharar (uncertainty). The question is whether this price uncertainty is excessive/unacceptable or whether the circumstances of the contract deem otherwise. There are various degrees of gharar such as the one known as al-gharar al-kathir (excessive) which renders the contract invalid. On the other end you have al-gharar al-yasir (minimal or trivial) which is tolerated and permissible. It is the middle ground of al-gharar al-mutawassit (or average gharar) that requires case by case evaluation.

What the Scholars Say

While scholars have stated that price (thaman) must be fully determined at the time of contract, the means of this determination are subject to some disagreement. For many jurists, it is not valid to sell at "the market determined price" or "at the price at which people sell" or a the price "that so and so chooses" since the price is unknown. But this sort of sale, "market order" can have the price specified in such a way that there can be little chance of disagreement.

Imam Ahmad ruled for the validity of sale at the price to be determined by the market at a specified future time, without specifying that price at the time of the contract due 'Urf.

Ibn Taymiyyah states that a price may be determined in exact figures or it may be thaman al-mithl, the price that other people pay, or the market price, provided that only one price prevails, or it may be determined in an manner that the parties find agreeable and is clear enough to eliminate doubts. To avoid confusion, what is referenced in this case is a "market determined price at the item at the conclusion of the sale", not any future price.

He gives as example the Ijma' of scholars on the validity of assigning a proper dower (mahr al mithl) in a contract for marriage. The idea of proper price (thaman al mithl) is analogous to that of proper dower. He states that there is nothing in Quran or Sunnah against the concept and general custom has validated it.

Ibn al Qayyim has also favored permitting this type of sale. Other scholars of note who permitted bay' bi sir' al suq include: Al Khatib al Shirbini (Shafii) Abu Ishaq a Shirazi (Shafii), Ibn Juzayy (Maliki), Al Dardir (Maliki), Mari Ibn Yusuf (Hanbali), Ibn Qayyim al Jawziyya (Hnbali), Ibn Hazm all have approved. Ahmad Ibn Hanbal issued an afirmative fatwa on it.

Md Yusuf Musa supported the Hanbali position by observing that specification of an exact figure is not a Shariah requirement. Specifying market prevailing price on a specific date is clear and does not leave room for disagreement and dispute. This view has found support from Ahmad Yusuf Sulayman and Ahmad Hasan. In this there is little chance of excessive gharar.

What it means

For most, the sale need not refer to a set or specific price in order to be valid. It is still valid and there is no excessive gharar as long as the price is set in a way that is acceptable to both parties and cannot lead to disputes. According to Kamali, this lends credence to his argument that Futures should be acceptable. The sheer fact that futures are extremely liquid and price determination is rarely (never?) an issue in any futures market does give them more justification, certainly but there are many more steps to the argument and many are more are debatable.

The acceptability of Bay' bi Sir' a Suq has a direct impact on the earlier article on Istijrar (see reference link), of course, since in Istijrar individual or Sub-Murabahas refer to prices only fixed at the time of execution of that Sub-Murabaha. No offer and acceptance is needed, and price is set only by reference to an underlying market. It probably does not help with anything illiquid (say Tier 3 assets) which would be priced by model, etc. It appears that this price-referencing mechanism applies only to those fungibles for which there is a price.

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Md Hashim Kamali, Islamic Commercial Law: An Analysis of Futures and Options, Islamic Texts Society, 2000, pp95-96.
See also Islamic Law on Commercial Transactions, Prof Dr Razal Hj Nawawi, CT Publications, Malaysia, 1999, p 97. (Mustapha al Zarqa',Aqd al Bay', is quoted)

Your feedback and comments are very important to us, please feel free to contact the fund manage via email.

Monem A. Salam, Director of Islamic Investing, Saturna Capital

By Mobasher Zein Kazmi

Monem A. Salam is Director and Vice President of Islamic Investing and Amana's deputy portfolio manager. He was born in Pakistan in 1972 and raised in Texas, USA. Mr. Salam received his degrees from the University of Texas: BA (Austin) and MBA (Dallas). He worked as Chief Investment Officer for ITG & Associates (Dallas) until 1999, then as a representative with Morgan Stanley (suburban Dallas) until joining Saturna Capital in June 2003. Mr. Salam also manages many of SATURNA's Islamic private accounts

Q1: What motivated you/Saturna Capital to pursue Islamic fund management?

As you may know, the Amana Mutual Funds started in 1984, with the first fund (Amana Income Fund) launching in 1986. This came about when a group of Muslims living in Indiana started an investment club that quickly grew to a point where they needed something larger. They approached a local investment firm headed by Nicholas Kaiser. The Muslims knew nothing of the mutual fund industry, and Nick knew nothing about Islamic Investing, but together developed what is now a well-established product range.

Saturna Capital, based in Bellingham, Washington, now administers a series of three different funds namely: Sextant, Idaho and Amana funds. It is currently the premier US based financial institution offering Sharia-compliant investment funds to investors through:
1. Amana Income Fund (NASDAQ: AMANX)
2. Amana Growth Fund (NASDAQ: AMAGX)
3. Amana Developing World Fund (NASDAQ: AMDWX)

Q2: What do you think sets Amana funds apart from other Islamic funds?

What sets Amana apart from other Islamic funds is our deep commitment to shareholders and our rigorous investment guidelines. Deep commitment to shareholders comes in two forms: 1) Our commitment to keep costs low: Since the creation of the funds, we have done everything in our power to reduce the expense ratio of the funds, and we are proud to say that as assets grow, this trend should continue; 2) Our commitment to being Sharia compliant: Having experience and history on our side, we feel we have come up with a unique formula for "grading" securities and knowing what qualifies for a buy, sell, or hold; this can only come from a balance between Sharia compliance, portfolio management and experience in the industry.

Q3: In your view does Sharia compliance engender superior risk-adjusted returns? How have Amana Funds fared in comparison to its respective benchmark and what role has alpha played in investment fund strategy?

In our opinion, the descriptive screens of avoiding companies involved in haram activities do not result in a superior risk-adjusted return. However, when this is coupled with the financial ratio screens, there is a significant value-add. For example, in the last crisis, our ability to avoid conventional banks did prove to add value to our portfolio relative to other funds. However, over the long term, as banks rebound from current lows, we will not be able to take advantage of this. What is more important over the long term is the debt-to-market capitalization ratio, as we have to screen out companies over 33%. This usually eliminates the riskiest ones and those most prone to getting in trouble due to economic instability

Q4: How much time/effort/cost was involved in setting up SATURNA's Amana Funds? Do you think this represents a potential barrier to entry for other fund managers?

Cost is not a factor when it comes to creation of funds; however, two important barriers to entry are time (to develop a track record) and marketing (where one must educate investors as to the benefits of Sharia compliant investing).

Q5: What is the current investor breakdown for your funds in terms of onshore/offshore capital? How has this mix evolved over time?

From the very beginning, the Amana Mutual Funds have been onshore for U.S. residents. We have no direct clients that are overseas.

Q6: Does SATURNA market funds individually or as a range of products? If so, what would be the optimal mix between them?

Saturna markets the Amana Mutual Funds, which is made up of three funds: Amana Growth, Amana Income, and Amana Developing World. We leave it to individual shareholders to decide what their optimum mix is. The investment objectives of the Amana Income Fund are to provide current income while preserving capital; dividend-paying stocks remain the top picks. The Amana Growth Fund, however, seeks to generate long-term capital appreciation; investments in small caps are considered. The Amana Developing World Fund is equally occupied with long-term capital growth albeit with diversification in emerging markets. Some select financials are included below:

Fund	AMANX	AMAGX	AMDWX
Inception Date	23/06/1986	03/02/1994	28/09/2009
Geographic Focus	North America	North America	Emerging Markets
Investment Style	Large Blend	Large Growth	Large Growth
AUM	$ 1.1 billion	$1.7 billion	$11.8 million
NAV	$ 29.95	$23.07	$10.79

Source: Morningstar (Financial Data as of 08/10/2010)

Q7: In your opinion are there any specific products missing from the marketplace? Does SATURNA have any new products in the pipeline?

What is clearly missing in the market place for Muslims is a stable income product, whether it is short-term (money market) or long-term (sukuk). There are a few hurdles to overcome before these might be offered, the most important being liquidity.

Q8: How have you addressed the challenges posed by the current financial crisis to Amana Funds?

The only effect that the financial crisis has had on the funds is that we have benefited from it, due to an increase in Assets under Management. As our performance dramatically outperformed conventional peers, many conventional investors have been buying our funds. Sharia restrictions towards investment in conventional financial institutions have also benefited Amana shareholders keeping returns relatively insulated from the effects of the current economic downturn. The Amana Growth Fund and its Developing World Fund have shown particular resilience outperforming the broader market in the in the first three quarters of 2010, as the following table illustrates.

Fund Returns vs. S & P 500 Index

Your feedback and comments are very important to us, please feel free to contact the author via email.

Opening the Black Box of Shariah Stock Screening

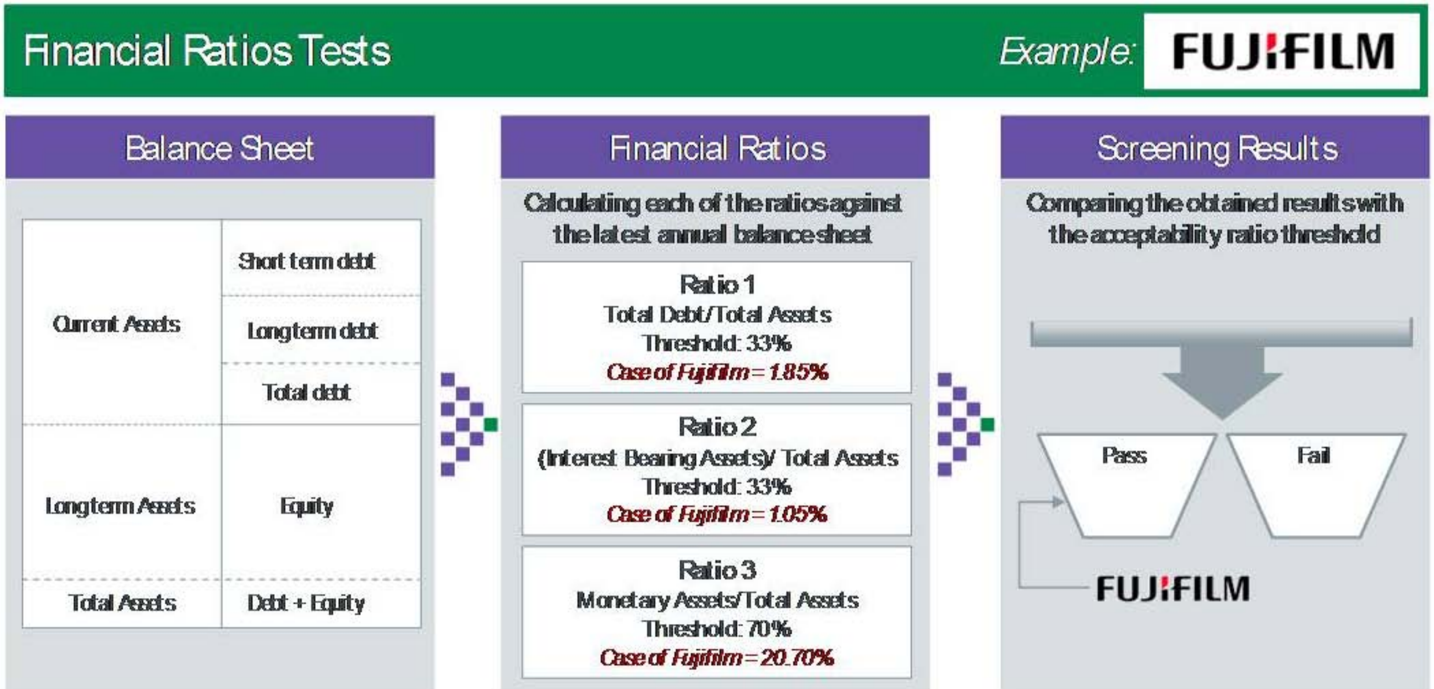
By Mehdi Popotte

After completing an MSc in Financial Management from Reims Management School and the first Islamic Finance degree of the Durham University, Mehdi belongs to the new generation of graduates that pursues an equilibrium vision of the financial services industry. His combined background of conventional and Islamic finance is illustrated by its preceding experience at Societe Generale CIB in the Structured Products Department and his involvment in CFA level 3 Programme in parallel with the Islamic Finance Degree and a close collaboration with BMB Islamic UK.

The first time I read about Shariah stock screening in the Islamic Finance Qualification textbook, I remembered thinking that it was logical, understandable and actually quite simple. As the economic model of Shariah seeks the welfare of society and Justice among human beings, any financial involvement in unjust practices such as riba or in harmful industries (alcohol, gambling, adult entertainment…) should be prohibited. Therefore companies whose principal activities are the prohibited ones, or which utilize excessive interest-based debt, should be screened out. How simple! I closed the textbook, felt confident and went to the family dining room with a relaxed mind. Then, after dinner my younger brother, trying to test my knowledge asked me: Shall we invest in a separate capitalized subsidiary, which main activity is the conception and designing of gaming and gambling softwares, and which parent company is heavily financed through interest-based debt?… –Where is my textbook?? Actually it not as simple as it appears. One question leads to another and I realized afterwards that Shariah stock screening is probably one of the most challenging areas in the Islamic financial services industry.

Screening a company according to the principles of Islamic Law (Shariah) is conducted through two axes: financial criteria and business activity criteria. I suggest we run through the financial criteria part first, as it is requires less (but not few) qualitative considerations than the business activity screening. The rationale behind the Islamic financial analysis is to verify that interest-bearing securities are not predominantly used in the cash investment, that the interest-based debt does not contribute significantly to the financing of the operations and that the company is not in majority composed of liquid assets. In Islam liquid assets can only be traded at par, therefore the value of the company can only be negotiable if it has illiquid assets.

Let us have a look on the financial screening process by taking the example of the company Fujifilm:



Source: Amiri Capital

Nevertheless, as the global Islamic financial services industry is hampered, so far, from the lack of a centralized regulatory body, there are many different ways to financially and mathematically express these ratios. The first main debate is around the denominator of these ratios, which is supposed to represent the total value of the company. Some Islamic finance players claim that as we want to measure the proportion of debt in the value of the company, and debt is based on the market, so should be the value of the company, thus taking the market capitalisation; other players consider the total value of the assets of the company as a more reliable and representative variable, and less subject to market fluctuations. As a point for the latter, it has to be noted that, and especially following the last three years of financial turmoil, the market capitalisation is nowadays a very sensitive variable which does not necessarily correspond to the economic and financial fundamentals of the company. I will always have in mind when, in the late 2008, the stock of Volkswagen increased by more than 400% in one day, and that I regretted at that time, not to be a stock visionary!!! The market capitalisation literally burst out, turning in one day a non Shariah compliant stock into a compliant one only due to the incredible “increase in value”! To temperate this argument, some scholars agreed on a relative flexibility about the calculation of market capitalisation, increasing the considered time lane, but it only affect the consequences and not the causes. Besides the denominator consideration, the complexity regarding the treatment and the inclusion or not of certain items (derivatives, preferred shares…) raised significant issues and debates.

The other main challenge in the Islamic financial analysis is actually not related to the Islamic perspective. Having pointed out the lack of harmonization in Islamic financial industry in the ratio calculation, in order to be fair, I must highlight the fact that the conventional financial reporting is also concerned with different accounting rules and treatments making the comparison and thus the calculations challenging. The same financial item would be accounted differently, if we take the IFRS rules or US GAAP rules, raising issues of consistency, transparency and comparability.

The second set of criteria on which a company is screened is the business activity. Any company making more than 5% of its revenue from any of these activities: conventional finance and insurance, alcohol, pork, gambling, adult entertainment (pornography, night club….), tobacco, weapons, non Halal meat, should simply be screened out. These industries, which do not contribute to the welfare of the society, could not be accepted in the Shariah framework explaining why no more than 5% of the total income should be derived from them. The question is: how do we classify with precision each company, according to its operations, and establish the compliance or not to the Shariah principles? While not knowing all about business screening, I will base the following discussion on Amiri Capital’s business screening process (Amiri S3).

The first step is to determine in what industry sector, the company should be included in. Financial institutions and bodies have developed a range of “business activity codes that breakdown the exact nature of the activity. For this purpose, we used the SIC codes. Standard

Industry Snapshot

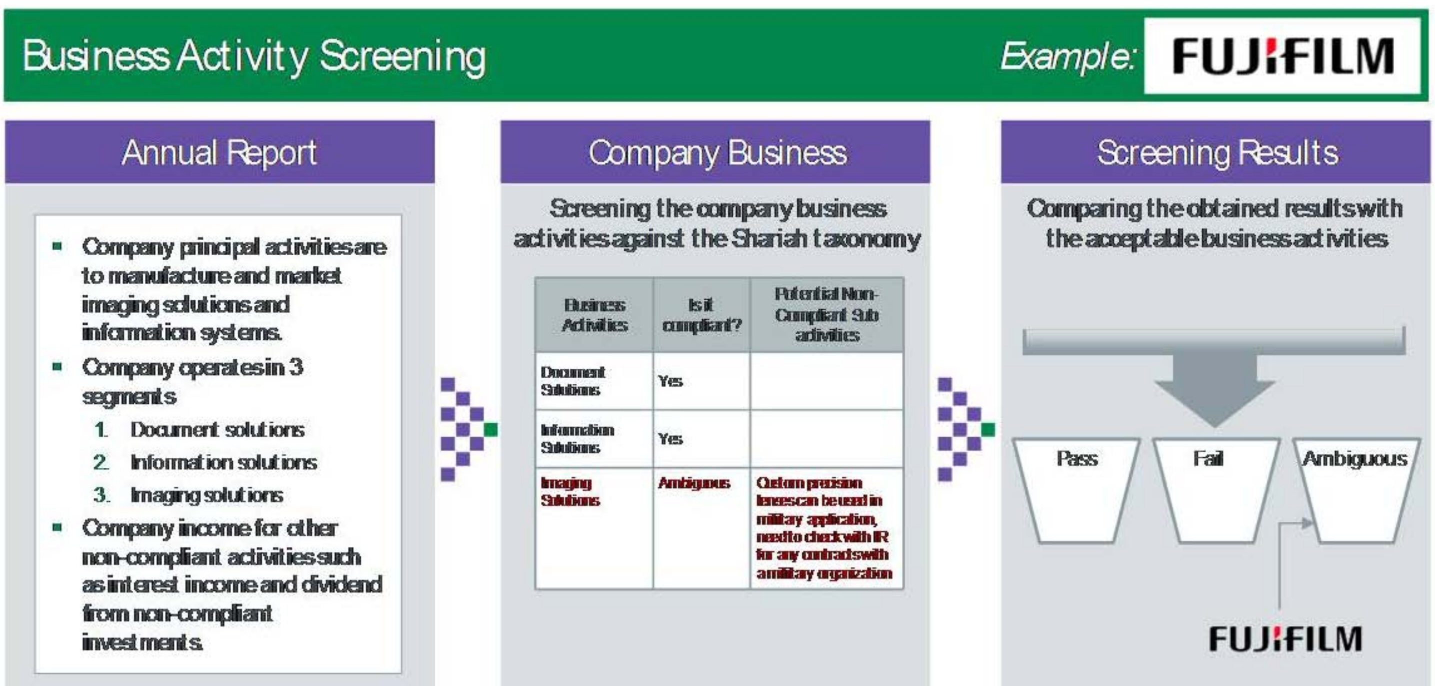
Industrial Classification (SIC) codes are four digit numerical codes assigned by the U.S. government to business establishments to identify the primary business of the establishment. The classification, circa 1,100 pre-defined industry categories, was developed to facilitate the collection, presentation and analysis of data; and to promote uniformity and comparability in the presentation of statistical data collected by various agencies of the federal government, state agencies and private organizations.

Having done that, the second step consists in determining, with the help of a Shariah scholar, the Shariah-compliant and non Shariah-compliant SIC codes, screening in the case of Amiri S3 10,000 sub-activities. The close collaboration with a Shariah scholar is vital to correctly assess the Shariah-compliancy of any activity. Let us take an example.

The weapons industry is generally classified as a non Shariah-compliant activity. However, if we go back to history of Islam and principles guiding the well-functioning of the State, proper means of defense are necessary to guarantee the sake and safety of the citizens. Thus, how can we strictly and entirely prohibit the military industry involvement? Only the views and the clarification of a Shariah scholar can help sorting this important issue out:

- Legal Military Use: All products, including weapons and weapons systems, used by legal military institutions are compliant, whilst weapons and weapons-related products sold to non-military establishments, such as weapons sold on the retail market or to institutions not affiliated with a legal state/defence body are noncompliant
- Intelligent Weapons: All weapons or weapons systems that can only be used along with sophisticated targeting mechanisms, thereby ensuring that non-intended casualties are, on average, zero (defined as "Intelligent Weapons"), are compliant; whilst weapons that cannot be used without such targeting functionality are noncompliant
- Weapons of Mass Destruction: All weapons of mass destruction, including biological, chemical and nuclear weapons, regardless of whether they are classified as Legal Military Use and/or Intelligent Weapons, are non-compliant

Now, let us have a look on the business activity screening process:



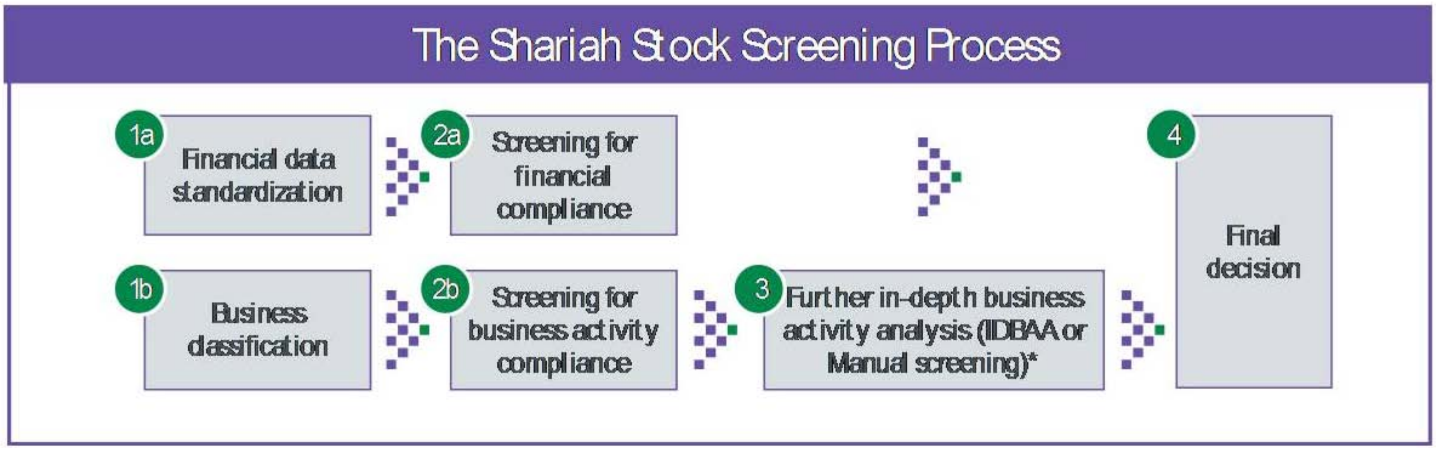
Source: Amiri Capital

The problem is that most of the publicly-traded companies are engaged, due to diversification purposes, in many activities not necessarily clearly disclosed by the SIC classifications, as shown above by the Fujifilm example, This raises two questions leading to the last (but not least) step of the business screening criteria: Is the "non-core activity" Shariah-compliant? And if not, "What proportion does it represent in the overall income generated?

Manual screening, or In Depth Business Activity Analysis (IDBAA) as we name it in-house, is the last and probably the most challenging part of the business activity review. It mainly occurs when screening analysts are not able to determine with exact precision each segment of the company's business activity and the corresponding generated income.

The objective is to use any available means to come up with a clear decision about any "ambiguous" company. The process involves further investigation into: the most recent annual report ("Financial information", "Publication", "SEC fillings" for US companies...), company website, and in last resort contacting investor relations, for missing information. As we can easily imagine, although not being a difficult task IDBAA is extremely time consuming but in many cases decisive in the final investing decision.

The Shariah stock screening process:



Source: Amiri Capital

Now, we can easily state that the Shariah stock screening process is not that easy as it initially appeared. It requires analytical judgment, thorough research, a well elaborated process, and obviously, time to dedicate. To save this time-variable, precious for fund and investment managers there are different alternatives to the manual in-house screening. Let us have a look to each of them.

The easiest to way to pick up Shariah compliant stocks is to choose those utilized by the Indices providers such as Dow Jones, FTSE, S&P or MSCI. The guarantee provided to the stock-picker that any stock integrated in their Islamic indices has been subjected to a thorough Shariah-compliant analysis, is satisfying. However the main drawback in using these Indices is the limited available universe of stocks. For diversification and low-volatility purposes, fund managers cannot be restricted to a short list of Shariah-compliant stocks, making the use of Indices providers a less than ideal option to consider.

The second option is to outsource the Shariah stock screening to external consultants like Shariah advisory companies. Although the universe of stocks considered can be much wider, the cost inefficiency of this option and the time to managers before investing can be detrimental.

Finally the Shariah stock screening semi-automated system is the last alternative to the manual in-house stock screening. It combines an in-depth research by analyst teams with efficient computerised processing of standardised data, to create the largest universe of pre-screened stocks. However, by using this alternative, fund and asset managers face a significant Shariah risk, if the construction process has not been thoroughly followed by a Shariah scholar and has not been issued a fatwa on its own. The Shariah risk mixed with the reputation risk could prove costly to the financial institution (Islamic or conventional).

To conclude, I would like to draw your attention on the importance of the Shariah stock screening as a key element in the development the Islamic financial services industry. The Islamic capital markets need to increase the diversity of the available investment solutions, by the set-up of more Shariah-compliant equity funds. Therefore we need to pursue our efforts on this path, which would enhance the depth, the liquidity and the efficiency of the global Shariah-compliant equity market.

Your feedback and comments are very important to us, please feel free to contact the author via email.

Islamic Finance - Niche or Ubiquitous

By Joy Abdullah

With dual expertise in strategic business planning and brand marketing, Joy Abdullah is a Strategic Brand Enabler. Such synthesis of strategic planning enables Joy to aid brands in having a strong reputation, clear image and efficient delivery. Joy's areas of focus are on creating synergies in the business plan objectives and assisting the brand to deliver growth and profitability for an organisation by encompassing governance requirements, corporate values, identifying critical brand risk areas amongst key stakeholders, and market forecasting into the brands' activities.
He has written various articles on the importance of ethical brand marketing encompassing brand reputation management, employee-brand relationship and CSR.

In the Islamic Finance industry there is tremendous debate regarding specific changes, adherence and acceptance to standards, interpretation of sharia compliant and sharia based etc.-- all aimed at bringing about better understanding, usage and practices of Islamic Finance as an industry. The Islamic Finance practitioners know the industry inside out. But the world outside of the industry, comprised of would-be consumers and conventional finance practitioners are feeling detached or disenfranchised.

Whilst regulatory bodies and the financial institutions debate over the specific interpretations, product structures, legislation etc., what image and understanding of this industry percolates amongst global citizens? The global Muslim community at 23% of the world's population looks to be the primordial target market for the industry. Then again, are the various Islamic Financial instruments and products easily comprehended and accepted by people? Research undertaken by OIFI (see reference link) clearly show the lack of comprehension and understanding amongst, both, practitioners and end consumers.

So whilst the industry betters itself from within, what of its perception from the outside? After all, in marketing, perception is akin to believing. Perhaps this opens up an opportunity area for the Islamic Finance industry, as a whole. An opportunity area of looking at best practices from the consumer products marketing category and using the learning to change perception and develop interest in the industry.

How to do it?

In today's world of global netizens, communicating with one another at different parts of the world, in different time zones is available at the press of a button. The computer keyboard button that is. But at the same time, each consumer is an individual person with distinct opinions likes and dislikes.

In consumer product marketing the world has moved onto using social media very extensively and in many innovative and creative ways. Social media, today, acts as the glue holding all of us, individuals, together across the globe. This glue is actually our individual interests that brings us together. And the one thing in common amongst us is that we all continuously use a minumum of one social media channel every single day. It's this individual interest area that can be used to spread effective understanding of what is Islamic Finance.

Let us start with the power of social media. This has been written about at length in terms of the power of social networking (see reference link) and its future potential (see reference link). Social media can be a mixed bag of tricks. Utilising it, effectively, requires having strong consumer insights, based on the multi-cultural aspects of the online communities, that are the foundation for an efficient social media strategy.

Given the current debates of standards, retail product acceptance cross-borders, the need to focus on liquidity management, etc the issue is *can social media be an effective way to spread the ideas/logic of Islamic Finance to widen the industry's appeal and generate mass acceptance?*

Where there is a will, there is a way... Taking specific brand marketing learning from the consumer product sector, since the objective is to increase awareness and appeal (of the industry) it's important to speak to the consumers in terms of their interests and their level of understanding and build that up over time. Some of the steps required:

1. Start with identifying what are the key interests of the primary target group—the youth as they provide the opportunity to develop long term customers (for additional reading on why target the youth market, see reference link).
2. Identify certain common, interests, such as online games. Take for instance Sudoku which is not exactly a social game but it is logic-based puzzle that can be extremely complex and ellaborate. Sudoku has an enormous online following and has spread like wildfire in countries such as Japan and the UK. This is driven by interest groups and they start out with simple levels and gradually move on to more challenging puzzles.
3. Identify industry trends that youth could follow or latch on to (see reference link) such as the Apple products, some of which have become fashion statements in terms of trendiness and that spawns immense amount of word of mouth for the brand online through discussion forums and blogs.

What can Islamic Finance do on social media?

1. Stock-trading games: A Sharia compliant stock-picking competition that can ignite interest at the college/university level, once again a key target market. In a more simplistic area of electronic payments a similar application but containing the Islamic finance component (i.e. cash is held/routed through no-interest accounts, no comingling of funds, etc.).
2. Trends: Highlight how Islamic banking is growing and occurring in different parts of the world. Put out information on specific (and probably common) products such as housing loans, educational loans—how they contracts are structured, why is there Takaful in-built into the product, highlight the benefit of the product vis-à-vis conventional products.

Such applications would fulfil two critical requirements: Initially they will build greater interest in the Islamic Finance industry from amongst the College/University students would shoot up. Thus bringing in a talent pool considering a career and enable the industry to have a good, forward thinking, solution oriented talent pool to deliver products based on consumer needs. Thereafter, the games and simulations will allow for non-industry based consumer to also look at the industry and its overall message. Thus the Islamic Finance products and instruments would start being evaluated on its economic benefits and thereby appealing to the non-Muslim community and be a part of mainstream finance.

Introducing such options would enable the industry to communicate with the youth in their own language and interest areas thus drawing them to view (the information), participate (by playing the games or commenting on the trends for e.g.) and start to have a better understanding of what the Islamic Finance industry is all about. Such consumer fulfillment would lead to engagement between the industry and their end users. This engagement would lead to comprehension (most importantly) of Islamic Finance leading to demand generation which in turn would lead to development of products that the market needs and thus provide a sustainable and profitable business operation for the IFI.

So where do we start?

A concerted effort from all corners of the industry would need to come into play. First of all, utilise the individual social networks of key industry leaders across geographical markets with online blogs/forums to enable the netizens to share their thoughts and comments. Furthermore, institutional bodies within the industry entrusted with development of standards and education (of Islamic Finance) to start implementing interest based social media activity to develop a fan following.

The question is are we ready to accept cross industry best practices in order to de-mystify Islamic Finance and merge it into the global financial sector as a sustainable and beneficial industry that benefits organisations, individuals and as result society? For only when we open ourselves up to accepting change, can Islamic Finance effectively go viral.

Your feedback and comments are very important to us, please feel free to contact the author via email.

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