Dubai Islamic Bank

MESSAGE FROM THE GROUP CEO OF DUBAI ISLAMIC BANK

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When the comprehensive model of Islamic banking and finance was first introduced over four decades ago in 1975 with the introduction of Dubai Islamic Bank, no one could have imagined that it would grow into what is today, clearly considered a global phenomenon. A thriving industry which now boasts over USD 2 trillion assets worldwide sees no signs of plateauing as it continues to outpace the growth of its so called conventional counterpart, particularly in key markets. The last decade has witnessed an array of challenges across the globe starting with the financial and economic crisis which nearly crippled the biggest global economies, the real estate crash to oil prices sliding to their lowest point in years and the ensuing liquidity and other challenges that stunted GDP growth. Throughout these nerve-wrecking times for the financial sector, Islamic banking has continued to fare significantly better than its older and more established cousin.

The key reason for this is that the focus has always been on the "real economy" within the markets that Islamic banks operate in. Islamic financing typically is structured around an identified purpose, asset or business of the customers and the terms and contracts spell out clearly what the funds are being used for. The stricter adherence in a way, automatically dictates stronger underwriting as it requires greater understanding of the customer's business and usage of funds. The reason for a more thorough understanding of the purpose of funding and the nature of business is to ensure that sectors which do not comply with Shari'a codes and regulations such as alcohol, tobacco amongst others are avoided. Today, you see a growing trend in the world with movements that are enforcing tightening of funding to such sectors, so effectively the Islamic finance model was a step ahead all along.

With massive liquidity generated in many Muslim markets when the oil prices were at their peak, Islamic finance took off as the investors from these countries forced a need for new structures to evolve which could be used to park the funds. Instruments like Islamic bonds or sukuk saw a surge in capital markets across the globe and the name soon became synonymous with a conventional bond. Today, the sukuk structure is favored more than even the conventional bond, both, due to the relatively higher security it offers to investors and the tighter price for the issuer because of a wider investor base. Across both wholesale and retail, asset management and insurance, there are Shari'a-compliant products available, which incidentally, are now also being taken up by a growing population of non-Muslim customers. International financial centers like Hong Kong and United Kingdom are now aggressively setting up infrastructure to support Islamic finance as are some other countries both in Asia and in Europe. Clearly Islamic banking and finance isn't just the domain of Muslim countries and has broken that barrier as it makes inroads into what are considered non-traditional markets.

Given the staggering pace of growth in Islamic finance over the years, the expectations are high that the industry will continue to outpace the conventional side in the foreseeable future. There are many reasons for the confidence that both practitioners and the market place in this. For example, the gap between products and offerings is virtually eliminated and Islamic finance players can now compete on an equal footing with those on the other side of the fence. Also, there is a major focus in key economies, like Dubai, Malaysia and even the UK to establish themselves as the hubs for global Islamic finance and with the growth rate of the Muslim population worldwide, there is a growing need to not just push for Shari'a-compliant financing but for other sectors to join the Islamic economy such as healthcare, fashion, food, and entertainment to name a few. The development of these other segments will automatically spur the growth of Islamic banking and finance as funding requirements under the acceptable Shari'a sectors grow.

Finally, despite the tremendous surge seen over the years, globally the industry still remains largely underpenetrated even in massive markets like Indonesia or India. This clearly dictates that a much bigger potential still exists within global markets for further progression of Islamic finance. Pundits today are seeing it grow to around USD4 trillion globally in the medium term but, from our perspective, the possibilities seem endless. Given this scenario, we see no reason why the sector cannot become a norm rather than an alternative form of banking and finance in the foreseeable future.