

## Editor's Introduction

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During the past few years there have been significant developments in the world of Islamic retail banking and finance. The industry has evolved from a regional business into one of global scale. Major players have established wealth management divisions and segmented their customer base between ultra high net worth customers, owner/manager entrepreneurs and an affluent customer base. Some of the more enlightened retail banks have developed an integrated financial planning model to gain a better understanding of their customer needs, aiming to match or exceed their service expectations. Interestingly, international banks (such as HSBC, Standard Chartered Bank and ABN AMRO) as well as dedicated retail Islamic banks have focused their attention on the growing customer demand for *Shari'a*-compliant financing, investments and insurance products.

Banks and other service providers are aware of the significant liquidity available in the Middle East and emerging market economies and are keen to better understand their specific customer needs and to tailor suitably structured products. Consumer financing products today include Islamic mortgages, credit cards, auto finance, personal loans and lease finance. The choice of *Shari'a*-compliant investments has also broadened and includes structured products, mutual funds, multi-manager products and funds of funds, direct investments in initial public offerings, *sukuk*, leasing and real estate projects, discretionary portfolios, and alternative investment strategies including hedge funds, private equity, venture capital and commodities. Islamic insurance (or *takaful*) products now provide general, medical, life and travel cover. The pace of product innovation has increased and major cross-border providers of Islamic retail consumer products include Dubai Islamic Bank, The National Commercial Bank, Kuwait Finance House, Deutsche Bank, HSBC and Maybank.

Islamic retail banking and finance is no longer designed to serve the needs of the Muslim community only. The industry has started benchmarking its products to conventional suppliers in terms of consumer convenience, benefits, pricing, transparency of terms and conditions, and service standards. Hence Islamic retail banking and finance products have gained popularity with non-Muslim communities due to their competitiveness and efficiency. Recently Lloyds TSB Bank in the United Kingdom began offering its individual customers *Shari'a*-compliant current accounts and home finance products.

The Islamic retail financial services industry has also grown significantly. Important developments include the creation of independent Islamic banking subsidiaries in Malaysia, new Islamic banks such as the Emirates Islamic Bank and several new Islamic finance companies in the UAE, nascent Islamic banks in Pakistan, many new *takaful* companies in Saudi Arabia and the recent establishment of the Islamic Bank of Britain in the United Kingdom. The latter is a milestone development and is the first Islamic Bank in Europe. Other commercial banks are evaluating the best market entry strategy into this fast-growing Islamic retail banking segment. Several of these new Islamic retail banks are employing call centres, a direct sales force and interactive technology to enhance the quality of service provided to individual customers.

The Islamic insurance or *takaful* industry is relatively young compared with its more mature banking counterpart, but is also in a phase of rapid expansion. The Saudi market within the Gulf Cooperation Council (GCC) has attracted several new market entrants and liberalisation of foreign ownership in the UAE and other markets in the insurance sector will further accelerate growth. Several enterprising banks have included bancassurance in their wealth management offerings, and some of the new *takaful* operators are offering certain general product lines online. The distribution of *takaful* life and savings products through bank channels is relatively new, but the sales process through the branch banking network has been facilitated by the advent of internet-based point of sale and online underwriting systems offered by entrepreneurial groups such as the FWU Group in Germany.

Regulators in the United Kingdom, Bahrain, Malaysia, Pakistan and other countries have actively encouraged and supported the development of Islamic retail banking, *Shari'a*-compliant investments and the fast-growing *takaful* industry. Their pragmatic approach has been welcomed by market practitioners. Other industry associations such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), the International Islamic Financial Market (IIFM) and the Institute of Islamic Banking and Insurance (IIBI), have played an invaluable role in harmonising accounting, reporting and disclosure standards. The expert *Shari'a* scholars have also made an important contribution to product innovation, transparency and enhancing the overall quality of the different consumer offerings.

The current Euromoney publication is designed to share the views, insights and perspectives of a range of knowledgeable and prominent market practitioners, university professors, *Shari'a* scholars, legal counsel, banking regulators, international actuaries and other service providers. Within the book their impressive contributions have been organised into five distinct parts.

1. An introduction to Islamic retail banking and finance.
2. Islamic retail banking: Growth opportunities and market developments.
3. The development of Islamic finance products.
4. Islamic wealth management products.
5. Legal and regulatory issues.

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