

# Dubai a solid contender in Islamic finance race

By Tariq Qaqish of Al Mal Capital

Islamic finance has been gaining popularity and benefits from the markets' insatiable appetite for sukuk or Islamic bonds. Not only are sukuk a source of high yields that attract regional and foreign players, but issuers also boast a good credit quality that, in our opinion, serves as a differentiating factor.

While Islamic finance may be growing at approximately twice as the conventional, there is still no visible race since Shariah-compliant funding represents a measly 1% of global banking assets. At the same time, the growing economies of several Islamic countries, especially those in the GCC, are building up momentum in Islamic finance, which is expected to reach USD 2 trillion globally by 2015 according to Standard & Poor's. Dubai sees this as an opportunity to further diversify its economy.

It's not only Islamic finance, Dubai aims to "become the Islamic economy hub" to a greater level. It also seeks to capture a bigger slice of the halal food industry, encourage family friendly tourism, develop sectors such as digital economy, fashion, arts and design, and economic education, as well as promote standards and certification.

The UAE, with an estimated USD 75 billion of total Islamic assets, is the third largest global market for the Shariah-based banking industry according to Ernst & Young's World Islamic Banking Competitiveness Report 2013. From Nasdaq Dubai's sukuk listing offering to the availability of Shariah-compliant hotels for conservative tourists, Dubai continuously hone its reputation in the Islamic finance space.

Establishing a successful Islamic finance hub requires dedication and collaboration among related parties, encompassing private and government entities. It also requires the adoption of internationally accepted standards including financial transparency and corporate governance. To be able to achieve this, the sector requires solid regulatory framework, supervision infrastructure, and up-to-date accounting and auditing standards.

## WHY DUBAI?

What makes Dubai a strong candidate? Aside from offering world class infrastructure, it is home to the world's oldest Islamic bank (Dubai Islamic Bank), has a proven track record, political stability, existing expertise and ability to attract larger pool of experts – one of the top primary sukuk issuance source. It also has a wide network of companies such as rating agencies, internationally recognized scholars and auditing companies that offers Islamic services.

Although the UAE has come a long way, much work remains to be done, especially with regard to the regulatory infrastructure. The establishment of federal government institutions dedicated to the promotion of this sector is also necessary to take this initiative forward. In addition, the private sector needs to accommodate Islamic finance and offer up-to-date best practice standards as observed by rating agencies, accounting firms and stock exchanges. It is undoubtedly a gradual process.

There are also several speed bumps that could hamper the Islamic finance sector from achieving its full potential. These challenges are still unresolved and comprise of issues such as broad disparity in scholars' opinions in each Islamic institute and country. Without globally accepted standards, we don't see the sector progressing in a scalable measure. Different judgments among scholars hinder cooperation internationally. We often see products that are offered by one Islamic financial institution to be unacceptable to others.

Will Dubai succeed? I believe it all comes down to the leaders' political will, commitments and resolve in pushing the envelope. We do hope Dubai will eventually become the catalyst that promotes a global Islamic finance sector.

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