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Shari'ah Finance: Reliable Halal Alternative, \$800 Billion & Growing

Recent reports about Islamic Finance have caught some people by surprise. The reaction one often hears is – “I had no idea this was such a big industry”. The reality is that Islamic Finance is now a \$500 billion global industry. Local and global institutions from the US to Malaysia have turned their focus to Islamic Finance. European financial institutions are actively adding Islamic windows for local customers and banks are setting up shop in the Middle East to serve the growing demand. According to the Financial Times, “The industry has sucked in a swathe of new participants, including both Muslim and non-Muslim issuers, investors around the world, and a host of major western financial institutions.”

Here at home Islamic Finance is also growing rapidly. The American Muslim market is one of the most affluent niche communities in the United States. According to research the market controls over \$104 billion in assets and has an annual financial services spend of over \$16 billion. According to a study by marketing firm JWT, cited in the New York Times, “Muslim Americans spend about \$170 billion on consumer products annually”.

Demand for Islamic financial services among American Muslims is causing the industry to grow so fast that financial professionals are now building careers in the field. According to Sajjad Chowdhry, Area Manager for Zayan Finance, “After experience with major Wall Street firms I decided to join the Islamic Finance industry in the US because it is one of the strongest consumer markets for Islamic Finance in the world. Wall Street and corporate markets have also realized this is not a fad – it’s a global reality. American Muslims demand that their financial needs be met. And I want to help this happen in a Shari’ah compliant manner.”

Mr. Chowdhry also points to the wide appeal of Islamic Finance. He says, “What we’re realizing very quickly is that whether one is observant, not so observant, or not even Muslim, Islamic Finance in the US is offering solutions that are flexible, priced competitively, and appeal to a broad range of customers. The Shari’ah compliance adds an element of integrity and ethics to our business (through Shari’ah Supervision) that all people – no matter their persuasion are looking for in today’s business markets.”

Islamic Finance around the world

From its beginnings in the 1960s, Islamic Finance is now a \$500 billion global industry – growing at 15 – 20% annually. It’s not hard to find regular coverage of the industry in major



international publications such as the Financial Times, Business Week, the Economist, and the

Wall Street Journal. Dozens of web sites like dinarstandard.com and blogs such as those of Dr. Rafik Beekun of the University of Nevada cover the industry regularly. This level of attention means that Islamic Finance is taken very seriously across the board. Islamic Finance firms are servicing Muslims and non-Muslims around the world and are being appreciated for their innovative products and integrity. To illustrate this point Al-Rajhi bank recently reported in the Wall Street Journal that over 50% of its Islamic Finance customers in Malaysia are not Muslim.

Global financial institutions like Citigroup, Barclays, UBS, Goldman Sachs, and HSBC recognize that the industry has created a new platform to channel wealth into investments and commerce. They recognize and uphold the standards of Islamic Finance by retaining their own Shari'ah Boards and by producing relevant products for institutions and consumers around the world. In the United States strong players like Zayan Finance and Guidance Residential are able to partner with Wall Street and international financial institutions to bring true Shari'ah expertise and strong financing products experience to the US consumer market which is recognized as one of the most robust consumer markets for Islamic Finance in the world.

London, New York, Singapore, Doha, Dubai, and Kuala Lumpur are just a few of the places fiercely competing for a larger share of the Islamic Finance market. All the players in the market are trying to emphasize their creativity, ability to innovate, and to draw and channel investment capital through Islamic finance.

What makes Islamic Finance Islamic?

If you're asking what makes Islamic, or Shari'ah compliant, finance different the answer is fairly simple. There are a few main points to think about.

First, Islamic Finance eliminates interest on money. If you want to buy a house or investment property, Shari'ah compliant contracts don't create interest based debts. This is a fundamental distinction between Islamic and conventional transactions. Why? This is because Islam doesn't recognize money as a commodity with its own price. Money is a means of exchange and can be used to measure value in the buying and selling of real assets like a car, building, etc. but money itself can't be sold or loaned to someone for a return because money itself has no intrinsic value. Interest is a return on the use of money without consideration of the exchange of assets. Islam does not allow a return on money without a real asset as part of the exchange. Therefore there has to be an underlying asset in any transaction in order for money to be exchanged.

This brings us to the second difference. Any contract used to help a consumer buy a property in Islamic finance is asset based. Whether your financier uses a Musharakah (diminishing



partnership) model, an Ijara (lease buy back) model, or a Murabaha (markup and sell back) model the financier will actually buy the asset for you or in partnership with you and will ultimately sell the asset back to the customer. In a traditional loan the bank does not take an ownership in the property and simply loans you money so there is no sale of an asset involved in the financing transaction. In Islamic Finance the financier actually buys a part of the property which is then sold back to you over time. According to Dr. Muhammad Imran Usmani, a member of Zayan Finance's Shari'ah Supervisory Board, "Islam has categorically made a clear distinction between the excess in capital resulting from a sale and excess resulting from interest. The first type of excess is permissible but the second type is forbidden and rendered Haram."¹

The third, and most important difference, between Islamic and conventional finance institutions is the Shari'ah Supervisory Board. Financial institutions across the board have recognized the importance of Shari'ah Supervisory Boards. The supervision and guidance of scholars who are well versed in Islamic law, international and local regulations, and modern finance gives Islamic finance the ability to remain true to Islamic standards and be innovative at the same time. These Shari'ah Boards include a handful of internationally known scholars such as Dr. Abdus Sattar Abu Ghuddah, Mufti Taqi Usmani, Dr. Imran Usmani, Sh. Esam Ishaq, Sh. Hussein Hamid, Sh. Nizam Yaquby, Dr. Muhammad Elgari, and Dr. M. Daud Bakar. These scholars impartially advise financial institutions on how to structure their contracts for Shari'ah compliance and have become a critical reason for the industry's growth and appreciation. After a product or contract is developed these scholars independently certify them to ensure their strict adherence to Islamic law. Well known Shari'ah scholars currently advise a number of financial institutions such as Credit Suisse, Dow Jones Indexes, HSBC, JP Morgan Chase, Lloyds, UBS, Guidance Financial Group, and Zayan Finance.

Islamic Finance in the US

Just like its growth around the world the Islamic Finance industry here in the US has grown significantly over the last 15-20 years. The first, and most significant, attempts to systematically bring Islamic finance to the retail consumer in the US were made in the mid 1990s when the OCC (Office of the Comptroller of the Currency) formally recognized the Ijara (lease) and the Murabaha (markup) models as valid transactions for purchases of residential properties. This green light from the government paved the way for Islamic Finance to get high levels of recognition on Wall Street with a focus on the US market. Today there are a few national players on the field such as Guidance Residential, Zayan Finance, and the Amana Funds that are able to adequately serve a national market with proper supervision of Shariah advisors and close partnerships with regulators and key financial institutions. These firms are bringing shariah compliant products to the American Muslim market which is quickly being recognized as a strong, underserved, niche US consumer market.



US based Islamic Finance companies

Until now, the most successful Islamic finance company in the United States has been Guidance Residential. Based in Virginia, the company began offering Shari'ah compliant home financing in 2002 and has successfully closed over \$1 billion in home financing. Community banks such as LaRiba in CA, Devon Bank in Chicago, and University Islamic in Michigan are focusing on their local communities by offering financing for local home and commercial property purchases as well as some deposit products. The leading provider of Shari'ah compliant mutual fund investments is Amana Mutual Funds of Washington whose funds have grown to over \$850 million in September 2007.

Filling the void for Commercial Real Estate Finance

Until now consumers have been able to buy homes and make some investments according to Shari'ah principles. But no company has offered Shari'ah compliant commercial real estate finance on a national scale. That is changing.

Zayan Finance, LLC is launching nationally with offices in New York, Chicago, and Southern California with an exclusive focus on Shari'ah compliant commercial real estate finance. According to the President and CEO, Mr. Naveed Siddiqui, Zayan Finance recognizes that the American Muslim community is one of the most affluent minorities in the United States. The community has been looking for a Shari'ah compliant product to finance their commercial real estate investments and Zayan Finance has decided to fill the void in the market. Zayan Finance brings a number of strengths to the market.

For starters, members of the executive management team are among the pioneers of Islamic Finance in the United States. They previously helped launch Guidance Residential which is now the leading provider of Shari'ah compliant home finance in America. The Zayan Finance team brings together expertise in consumer finance, commercial real estate, legal contracts, operations, marketing, and structured finance from leading financial services and commercial real estate firms including Citigroup, CBRE, Soros Private Equity, JP Morgan Chase, Gramercy Capital, and others.

The company has always put a great deal of emphasis on end to end Shariah compliance. Zayan Finance consults some of the world's most renowned Shari'ah scholars who have guided the development of their product. Zayan's Shari'ah Supervisory Board includes Dr. Abdus Sattar Abu Ghuddah, Shaikh Esam Ishaq, and Dr. Muhammad Imran Usmani who all serve on the Shariah Supervisory Boards of leading international financial firms. The Board ensures that Zayan's products are Shari'ah compliant and monitors them on a continuing basis.



According to Naveed Siddiqui, Zayan's CEO, the company's goal is to help American Muslim professionals, entrepreneurs, and investors realize the opportunity and attractiveness of owning their own commercial real estate. Through partnerships with key institutions, Zayan Finance has access to Wall Street capital which will aid in the growth of the American Muslim market. He sums up by saying, "Zayan Finance's vision is to support American Muslims as employers and business owners in a vibrant US market."

¹ Usmani, Muhammad Imran Ashraf. Meezan Bank's Guide to Islamic Banking. Karachi: Darul Ishaat 2002, pg. 46.