

# WORLD FINANCE

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## CRUDE AWAKENING

**CEO of United Securities Oman  
on opportunities in the GCC**

**GENERATING MARKETS**  
Energy delivery with GE Energy

**MUGABE MUGABE**  
How to lose cash and alienate people

**FUSING CONCEPTS**  
Knowing your ESG





**COVER STORY**  
**36 Crude Awakening**  
 United Securities relate the story of Middle East oil markets and what to expect over the next few months.

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28 Robert Shiller's take on short and long term market signs



26 Globalisation and the effects of order on nationalised economics

## Comment

## Features



### 20 THINKING ALOUD

Once again, we span the globe in search of the answers from some of the most well informed and respected experts.

### 22 ROUBINI

Analysing the current contraction in the economic slowdown, the good doctor urges economists to utilise restraint.

### 24 DELONG

Who holds the key to the future of steady growth in employment?

### 26 NYE

There are many theories of the different forms of globalisation. Which one might win outright?

### 28 SHILLER

We visit Yale to discover the hidden secret behind a speculative boom.



### SPECIAL REPORT

#### 32 MARITIME INSURANCE

An investigation into the recent foray of sea-based attacks and piracy, with consideration for the financial implications of troubles on the high seas.

### SPECIAL REPORT

#### 40 ESG

As the world of environmental, social and governance gains pace, we profile some of the top firms to take on the new initiatives with great success..

### SPECIAL REPORT

#### 60 UNITY IN DIVERSITY

Profiling Jacob Zuma, the man with his hands on the reins of South Africa, and whether he'll be enough to steady an already struggling economy.

### SPECIAL REPORT

#### 78 M&A

Neil Hodge takes a look at some of the big transactions so far this year, and speculates a rise over the coming months.

### 122 INFLATED ZIMBABWE

How does a nation go from being an economic up and comer and walk into a prolonged spell of hyperinflation?

### 142 EMPLOYEE BENEFITS

Recent changes to an industry in which the back office really is of utmost importance.

### SPECIAL REPORT

#### 148 SMILES & REVOLUTION

A study of the most dramatic rise and fall of world economics, and the political ramifications of recent social disturbances within Thailand.

### 152 SOFTWARE & COMMUNICATIONS

We spoke to an industry leader regarding where investors might find the next economic boom, and when that might take affect.

### 186 THE FINAL BELL

Timothy Geithner, US Secretary of the Treasury is the man in the dock this issue.



Ahmad Mohamed Ali-Madani, president of the Islamic Development Bank, speaks at the opening session of the 6th Islamic Financial Services Board (IFSB) Summit in Singapore

tweakings of similar, tried and tested conventional products, which fill in with the Shariah compliant ideology. This suggests there is more maturity to the market than meets the eye.

#### Better growth

Analysts are convinced now that Islamic investments have performed better than their western counterparts. Research suggests that returns on Islamic assets are in line or better than many conventional investment funds, meaning that their diversification role has a strong future. In 2008 and early 2009, losses on Islamic indices were less than on those that also include other equities (perhaps because they restrict companies with extensive debt). Those constructing Islamic

funds and indices tried to ensure their returns would be comparable (high) to Sharia compliant funds. However, this means that they were also comparable (but on the low side) in 2008. This similarity might prompt a return to basics to look at what investments will bring good long-term returns.

While analysts have uncovered some potential flaws in Islamic finance, economists are also quick to point out a number of points in the industry's favour that outclass its' western rivals: investment in Sharia-complaint products is growing, and their investments are safe and offering an excellent return. Perhaps US and European banks could learn a lesson from taking a more ethical and considered approach to finance. ■

#### WORLD FINANCE ISLAMIC FINANCE AWARDS 2009

With a long standing interest and thorough knowledge in Islamic Finance, and the intriguing model in which investors can truly reap rewards, World Finance editor and chief judge Alexander Redcliffe is always more than keen to conduct research into the area. With that in mind, and following the success of last year's awards, the panel of judges set out to identify those institutions and individuals standing out in the industry thus far this year. Utilising reader knowledge – through the voting system available on the World Finance home page ([www.worldfinance.com/awards](http://www.worldfinance.com/awards)) – and their own research methodology, the panel are happy to announce the following winners:

##### Best Islamic Financial IT Provider

International Turnkey Systems Group – ITS

##### Best Brokerage Services Provider

United Securities LLC

##### Best Islamic Forex Bank

Standard Chartered

##### Best Islamic Services from an International Bank

Standard Chartered

##### Best Islamic Investment Bank

Al Sanabel International (Holding)

##### Best Islamic Retail Bank

Jordan Islamic Bank for Finance & Investment

##### Best Islamic Online Bank

Dubai Islamic Bank

##### Best Islamic Private Equity Bank

Sarajah Islamic Bank

##### Best Islamic Asset Management

Unicom Investment Bank

##### Best Sukuk Issuer

HSBC Amanah

##### Best ReTakaful Issuer

Hannover ReTakaful BSC

##### Best Islamic Finance House

Gulf Finance House

##### Best Takaful Issuer

Takaful International

##### Best Business Leader, North America

Omar Farooq Kalair, UM Financial

##### Best Business Leader, Europe

Sohail Jaffer, FWU Group

##### Best Business Leader, Middle East

Mohammad Abdullah, Sharjah Islamic Bank

##### Best Business Leader, Asia

Yvonne Chia, Hong Leong Bank Berhad

# Islamic Finance in Canada

UM Financial Group, Canada's premier Islamic Financial institution



**Toronto is well positioned to become a hub for Islamic Finance in North America**

FOUNDED BY OMAR KALAIR  
IN 2004, Toronto-based UM Financial Group is the only Canadian entry in The Banker magazine's Top 500 Islamic Financial Institutions. In 2004, UM Financial Group secured a \$120m Shari'ah-compliant investment facility from a Canadian financial institution to Islamically finance residential properties, and has developed a number of investment and deposit products in collaboration with institutions in Canada.

Shari'ah has certain restraints regarding commercial activities permitted for Muslims, including in finance and investment. Although still in the early stages of public perception, "Islamic Finance," according to the CEO of UM Financial Group Omar Kalair, "is not an exotic new discipline." He continues: "It does not require a complete re-orientation of the conventional financial wisdom. It only imposes certain prohibitions on the financial system."

Islamic Finance fits within the working structures of conventional finance, and contrary to common perception, is driven by profit. The distinguishing features are the ethical, social and religious responsibility dimensions intrinsically linked with Shari'ah law which require compliance with the Qur'anic prohibition of:

- Named financial practices:
  - Riba (usury/interest)
  - Gharar (uncertainty)
  - Maysir (gambling)
- Segments of named products:
  - Alcohol

- Pork
- Non-Islamically Slaughtered Other Meat
- Derived products:
  - Tobacco
- Segments of other products/services:
  - Weapons and Defence
  - Hotels
  - Casinos
  - Gambling
  - Cinema
  - Music
  - Pornography

The most crucial piece of this is the prohibition of riba (usury or interest). It provides that all products should be traded interest-free.

Kalair says: "The hallmark of Islamic banking is the prohibition of interest-taking. Yet, to brand interest-free banking as Islamic banking exclusively is a misnomer. The prohibition on interest is not only Islamic, it is monotheistic. Before Islam, this prohibition has existed in all monotheist religions including Judaism and Christianity. Any initiative which implements interest-free banking should appeal equally to Judaism and Christianity."

Kalair sees the appeal of Islamic Finance as having a broader demographic than Joe Average may imagine, due to it being ethically, socially and religiously responsible. Yet this is to look at the investing world in terms of religion rather than nationality. Take the geographical spread, for example. Islamic Finance is spreading fast and garnering local attention in Canada as well as cross-continental attention, particularly in Europe and the Far East.

The UK, France, Germany and Italy have been pro-active and accommodating in their approach, while South Korea and Singapore are just starting to follow Indonesia and Malaysia. In the UK, in the Islamic Bank of Britain, non-Muslims have opened accounts, knowing that they are Shari'ah compliant and avoid interest-based "debt" with "avoid non asset based investments."

"The greatest appetite for Islamic banking is of course in the Middle East. This region is blessed with petrodollar liquidity. Interest was banned in Islam, in part to protect traders who relied on lenders. These traders could be taken as slaves if they defaulted on loans. To protect individuals contracts were structured such as Musharaka (partnership), Mudaraba (capital/labour joint venture), Ijara (leasing), Murabaha (disclosed cost-plus sale), Sukuk (specified securitised assets, services, Usufructs), Takaful (cooperative insurance), etc." These Muslim traders ran the silk route and were quick to adopt the numerical system and paper currency which was adopted in Europe. Today in Canada it is a criminal act to charge over 60 percent interest, in Islam 1,400 years ago, a transaction with any interest was forbidden.

## The solutions in practice

UM Financial secured a Mudaraba funding facility from Central 1 Credit Union of around \$120m. This was used to finance residential home purchases on a Musharaka relationship. Recently as award was presented to Central 1 Credit Union for its financing arrangement which has over its four years provided a \$10m profit for the institution. A \$100m subscription investment fund was established to finance residential and commercial real estate. These include deposit accounts and term deposits. A community investment fund was established through residential and commercial real estate. This allows the community to use its equity in property for such things as business ventures, debt consolidation, etc.

In collaboration with UM Financial Group, Mint will provide branded

interest-free cards targeted at the entire population of Canada. Kalair proposes, "Credit card debt can be lethal. Canadians will now be able to adopt the responsible, interest-free lifestyle. We promote living within means and not having to worry about high credit card rates while enjoying the convenience and security offered by MasterCard.

"With markets tightening, the majority of new applications are denied. By working with Mint and its 99 percent approval rating, our card is well-positioned to serve the day to day needs of Canadians, specifically Muslim and other immigrant communities."

#### **Ethics and governing principles**

"Ethics is an integral part of Islamic Finance, and indeed of Islamic Law, whereas it is not a defining requirement of traditional finance. Islamic investment prohibits certain products and has active review of financial ratios when investing in stocks, such as leveraging ratio. These ratios protected investors who use Islamic indexes of Dow Jones and Standard & Poors where companies such as WorldCom and Enron were delisted months before they went bankrupt.

"Traditional banking would have no hesitation in financing any project so long as it is lawful. An Islamic bank would subject all proposals to ethical and religious screens. You have international organisations leading development in this area. UM is a member of the Islamic Financial Services Board (IFSB) in Malaysia and the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) in Bahrain."

Chris Hogg, President and CEO of Mint, comments, "This latest contract with UM Financial Group, a leading Canadian financial institution, shows that Mint's product is relevant to a number of different communities with specific financial services needs." Scope is ambitious, but there is another related area – over what range of products and services the principles of Islamic Finance apply. "Theoretically, all conventional financial instruments/products are available in Islamic Finance so long as they do not contravene any of the outlined prohibitions. Financial engineering is yielding an ever growing array of Shari'ah-compliant financial products and services."

"Islamic Finance works with financial structures of participation,

**Today in Canada it is a criminal act to charge over 60 percent interest, in Islam 1,400 years ago any transaction with interest was forbidden**

leasing and trading, but all devoid of the prohibited practices and products."

Hogg comments, "Partnering with UM Financial Group offers us an enormous opportunity to tap into a niche market because the Muslim population in Canada is currently approximately one million and in the last three decades has been doubling every 10 years. The majority of immigrants coming to Canada classified by religion are Muslims, and Islamic Finance is a growing segment that can be tapped into."

Kalair states that UM Financial is working closely with Brian Koscak, a partner at Cassels Brock & Blackwell LLP, a large Canadian law firm, on various Islamic financing initiatives such as takaful insurance, sukuk and Islamic Banking and is appreciative and encouraged of the support the law firm is providing him and UM Financial.

#### **The credit crunch**

Doubters may ask: can Islamic Finance grow in the current crisis and maintain its distinguishing features? Kalair comments, "It is insulated from the causes of the crunch, as its liquidity comes mainly from petrodollars, at least in the Middle East."

"The sub-prime mortgages and their international re-packaging, is a financial practice alien to Islamic Finance. Therefore, Islamic banks have neither suffered a collapse, nor experienced any liquidity constraints. Being asset-backed avoids derivative products and has prohibition on speculation such as short-selling. The crisis is largely due to these derivative products. Applying ethical principles to finance is a solution with a lesson. In the words of the Pope, 'ethical principles of Islamic Finance are the answer to the current crisis.' The most important lesson for conventional banking would be to replace interest-based debt structures and risk-based derivative structures with profit/loss based equity structures. Growth potential is a function of faith and not directly hit by secular considerations. Current performance of Islamic Banks is evidence that the system is insulated against the crisis and its potential is independent of such realities."

#### **Islamic Finance as a global vehicle**

UM has teamed with Jovian Capital Corporation, which is listed on the Toronto Stock Exchange, to launch a co-branded Shari'ah compliant

investment product. Tapping into Canada's one million strong Muslim population, as well as investors from abroad looking for a Shari'ah-compliant option, UM is making a bold step into the market. Kalair continues, "We are very excited to partner with Jovian on a product that would provide Muslims in Canada with a much needed product which avoids industries such as gambling, alcohol and tobacco, and enables an active review of financial ratios and leveraging. Canada is well regarded internationally, and the introduction of a Canadian-based, Shari'ah-compliant product would provide a vehicle through which overseas investors can gain Shari'ah-exposure to Canada's markets."

"We are very pleased to partner with UM Financial on this new venture," says Philip Armstrong, CEO of Jovian. "We feel that a product designed for Muslim investors will have broad appeal in Canada and elsewhere." Jovian Capital Corporation, through its subsidiaries, manages approximately \$12bn of client assets, and offers a total of 33 leveraged, single, inverse and actively managed ETFs, as well as mutual funds and principal notes.

The TSX, which has S&P/TSX 60 Shari'ah indexes, gives investors access to Canadian equity with filters. Of the TSX 60 a total of 25 stocks have qualified under the filter which will be weighted in energy and mineral, as no financial sector is included. Firms such as Encana Corporation, Cameco, Imperial Oil and Barrick Gold are represented. Other sectors will be represented by Canadian icons like RIM, Shoppers Drugmart, Thomson Reuters, SNC-Lavalin, Biovail and MDS Inc.

Toronto has taken the lead in Islamic Finance in North America. Recently there has been a push to create it as a hub for Islamic Finance, as London is for Europe. A dramatic increase in product offering from the Canadian city is expected shortly. In 2009 Omar Kalair was named entrepreneur of the year by the Canadian Islamic Chamber of Commerce and was presented with an award by World Finance for Islamic Finance Business Leadership Award, North America 2009. ■

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