

## ADGM opens doors to its first Islamic bank

**Abu Dhabi Financial Group (ADFG) and Bahrain-based GFH Financial Group (GFH) have jointly established a new Islamic financial institution in Abu Dhabi Global Market (ADGM) — the first Shariah compliant financial institution to be based in the international financial center. DANIAL IDRAKI reports.**

While a number of financial institutions in the GCC region have been scaling back on its activities in light of the depressed oil prices and prolonged margin squeeze, the collaboration between ADFG and GFH seems to have lit a spark in the Islamic finance industry, showcasing the demand for Shariah compliant finance. Established with an authorized capital of US\$100 million, ADCorp will be regulated by ADGM's Financial Services Regulatory Authority under a Category Five 'Islamic financial institution' license.

Leading this new entity is industry veteran Talal Al Zain. "I am delighted to be leading this new and exciting venture with the support and backing of ADFG and GFH, two renowned regional financial institutions," said Talal, who explained that ADCorp's activities will focus on corporate finance, wealth and asset management with a mandate to identify and deliver outstanding and tailor-made products and services to institutions and ultra-high-net-worth clients.

Talal added that the geographical location of the firm will allow it to become the long-term business partner for clients in the region through providing special expertise in innovative banking products. Talal was most recently CEO of PineBridge Investments Middle East and prior to that, he was CEO of Bahrain Mumtalakat Holding Company — the

sovereign wealth fund and investment arm for the Kingdom of Bahrain. His experience includes spending 18 years with Investcorp as the managing director and co-head of placement and relationship management and had also held senior roles at the Chase Manhattan Bank in Geneva and Citibank in Bahrain.

Moody's Investors Service in a recent report explained that in the UAE, Islamic financing assets are now estimated to represent almost 30% of the system, up from around 20% in 2010, with the strong expansion mainly achieved by the rapid growth of Islamic windows through which conventional banks have captured new market shares and clientele in recent years. In the rest of the GCC, Islamic banking is at a more developed stage with Islamic financing penetration of between 25-50%, and continues to outpace conventional assets.☺

## Mixed feelings over OJK's move to necessitate separate Shariah units in investment management firms

**As part of its aggressive drive to grow the Islamic mutual fund industry, Indonesia's Financial Services Authority (OJK) is making it mandatory for investment managers to carve out a dedicated Shariah unit, a rule which could be implemented as early as 2017. VINEETA TAN however finds out that market observers may not be as enthusiastic about OJK's latest move.**

The OJK is currently adding the final touches to the related regulation and expects to issue it before the end of 2016, confirmed Kartikasari Fadilah, OJK's director of Islamic capital markets, according to the regulator's official Islamic finance education channel, Aku Cinta Keuangan Syariah. Once the rule is released, investment managers will have one year to comply and if all goes according to plan, by 2018, all Indonesian investment managers with a Shariah mandate would have had established a division focusing exclusively on Islamic products.

While the move is intended to bolster the fledgling Indonesian Shariah mutual fund industry through an intensified and specialized focus on developing and marketing Islamic products and take-up; there are, however, concerns

that the measure would instead add cost and resource pressure on investment managers, and may be counterproductive.

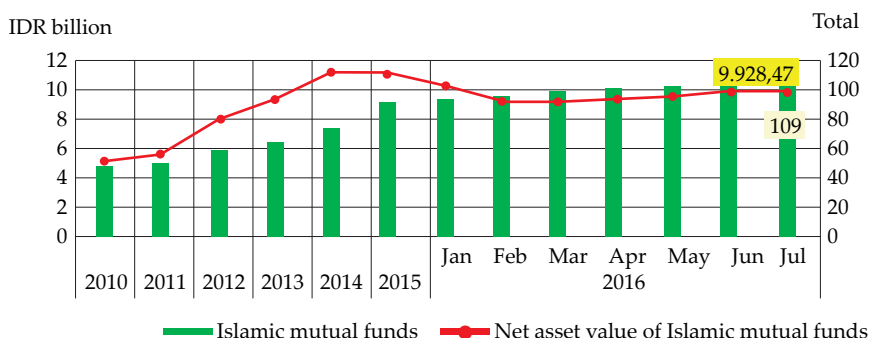
"This would be a difficult task because unlike their banking counterparts, investment management firms do not have the economies of scale to commit resources for a separate unit," Farouk Alwyni, the president director and CEO of consulting firm Alwyni International Capital, tells IFN. "As it is, even the conventional fund management industry is neither as big nor growing as fast as the banking industry, what more the Shariah fund sector; awareness for capital market

products is still low — Indonesians in general are still very bank-oriented."

Islamic mutual funds are only a fraction of the total fund industry, accounting for 8.72% of the total number of funds (109 out of 1,250), and a mere 3.15% in terms of the net asset value as at the end of July 2016 or IDR992.85 trillion (US\$74.27 billion), according to OJK statistics.

Kartikasari, however, said that the new regulation would not be a burden on investment managers, reassuring that the rules are flexible enough to accommodate the dynamics of different firms of different sizes based on paid-up capital.☺

**Chart 1: Performance of Islamic funds in Indonesia**



Source: OJK