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Islamic Wealth Management

1 Introduction

There is an upward trend in Islamic banking demand, and indeed, a large number of Muslims who were previously customers of conventional banks have shifted their assets and portfolio to Islamic banks. As a result, the Islamic Wealth Management industry has grown tremendously in recent years. With the economic landscape in the region, increasing wealth and strengthening demand for Syariah-complaint investments indicates immense potential for further growth of the industry. Lately the global and major regional players are focusing on this fastest growing niche segment. The attempt is to capture the estimated US$ 1 trillion worth of wealth from the Muslims in the GCC, UAE, and Southeast Asia. The figures are dynamic and change with the fluctuation in oil prices. As per the latest statistic published under *Global Islamic Economy Report 2015/2016*, Muslim consumer spending on food and lifestyle is projected to reach $2.6 trillion in 2020. Global assets of Islamic banks exceed $1.3 trillion, and are set to double by 2020 (http://www.dinarstandard.com/state-of-the-global-islamic-economy-report-2015/).

N. Alam et al., *Islamic Finance*,
https://doi.org/10.1007/978-3-319-66559-7_12

Islamic Wealth Management (IWM) is seen as a service that caters to the need of investment of surplus funds of Muslims in a manner which is Syariah-compliant and yet bestows good returns. It is offered as a part of private banking services. It is normally associated with the very exclusive and catered for the high net worth individuals to offer tailored service in the area of wealth management, savings, inheritance, and tax planning. A high-level form of private banking is often regarded as wealth management.

Islamic Wealth Management has a very comprehensive meaning. The scope is much wider than investment management, as it also includes liabilities management and risk management. The wealth management should be according to the principles of Syariah, the person's intention (niah), how the wealth is earned, how it is grown (invested), how it is spent, and the right of the poor and needy must all be determined. It is unique in nature; whereby religious principles are followed in determining the financial needs of their clients. This chapter will focus on the various aspects of Islamic Wealth Management in the following sections.

1.1 Wealth in Islam

Wealth can be simply defined as all things having an economic value, such as money, property, or goods—assets, capital, fortune, and resource. Essentially, these are merely material possessions. It is also defined as surplus income, that is, beyond the daily and basic requirements of a family. Here it is important to note that income and wealth are two different things, which are related but not the same. Wealth is a stock as opposed to income which represents a flow. Hence, wealth is considered as reservoir of all past net savings invested in those enduring objects or skills that make it more productive and fulfilled. Wealth increases with production and decreases with consumption.

Islam has a unique dispensation on the theme of wealth, its ownership, distribution, and social relationship. In Islam wealth belongs to Allah and a person has no right to satisfy his fancies, as extravagance and wastage are scorned. Muslims are taught that money should be earned, invested, and spent in approved (halal) avenues. Only then will he, his family, and the society (ummah) obtain rewards for this life and also for thereafter (Salim 2006). Islam also recognizes that a Muslim should not forego wealth. Neither should he be avaricious in the pursuit of wealth. Syariah does not discourage the acquiring of wealth, but it must be earned and spent in compliance with Islamic principles. The only caution Islam put forward is the danger of obsessive preoccupation in accumulating and conglomerating wealth either in the individual or in the societal and governmental level to the extent sidelining the most essential parts of his self, his spirituality. Without sufficient spiritual defense, man will easily be deluded by the deception of wealth (ZAKARIA 2007).

Wealth can be obtained through effort or through inheritance. It must be reiterated that since all wealth (maal) belongs to God, man is only considered as a trustee of this wealth.

Hence, wealth owned by individuals or groups is a result of their work or inheritance. This kind of wealth is also governed by Syariah guidelines. Although Islam did not take a negative stand regarding personal property, it hindered its accumulation in the hands of few people. It was concerned through its tax (Zakat) system and inheritance to ensure that the wealth is distributed among the biggest number of people.

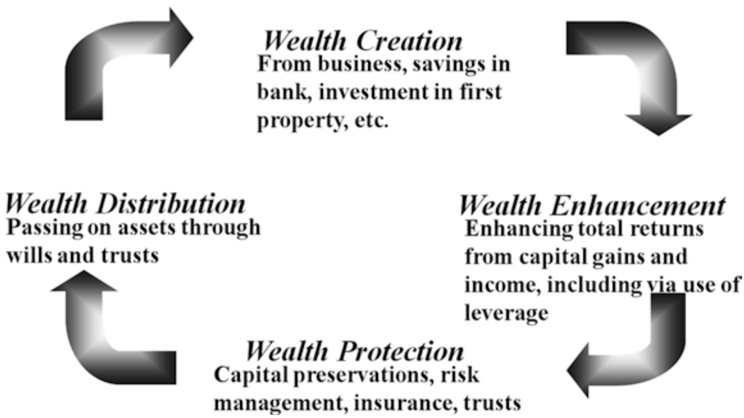
In a capitalistic economy, wealth is almost anything of monetary value that one accumulates in sufficient quantity. Rights to wealth determine the relative power and rank of a person. The concept of wealth from various perspectives is illustrated below:

Concept	Capitalism	Islam	Socialism
Wealth /resources	Scarcity of resources	Bounties of God and no scarcity	Scarcity of resources
Ownership	Individual freedom	A trust	The source for the exploitation of labor
Lifestyle goals	Personal satisfaction (needs and wants)	Al-Falah (prosperity)	Equal welfare among the workers

In other economies, people may have enduring but not endearing wealth. However, Islam requires Muslims to have both enduring and endearing wealth. Islam not only encourages every Muslim to work and earn a legitimate income to sustain him and his family, but also encourages every Muslim to work hard to achieve perfection and excellence in his chosen profession. Hence, Islamic Wealth Management can be translated into wealth creation, enhancement, protection, distribution, and purification of wealth. Islamic Wealth Management is concerned with providing end-to-end solutions using products and services throughout the wealth management cycle in compliance with Syariah.

1.2 Wealth Management from Islamic Perspective

Wealth management according to the Syariah serves many purposes. Not only does it motivate a person to work hard and earn his wealth, but it gives hope to the poor and needy. Managing wealth disciplines a person to save in order to help himself, his family, and his society financially. By saving even a small part of his income or profits earned, instead of wasteful spending on impulse, a Muslim can fight consumerism, thus keep inflation down (Salim 2006). Islamic Wealth Management is explained by a system of interrelationships between the tenets of justice, equitable distribution and fairness, and limits of ownership, all governed by the tenets of the moral law, as illustrated in the following picture:



- *Wealth Creation in Islam*: In Islam, God owns the wealth and that wealth has been bestowed by Him. Since God is the absolute owner, man is just a trustee. Wealth creation is more than possessing a wealth and is a form of increasing wealth. All actions of individual and corporate have certain steps involved in attaining its financial goal. For example, as relating to income, besides ensuring the permissibility of the income, there must also be some planning involved in terms of increasing income via other permissible activities. Earning extra income should not, however, make a person abandon his responsibilities as a husband or a father and other social responsibilities toward society. Wealth must be earned and created in an Islamically permissible way. This means that it is not generated from prohibited business activities. Spending money is also a responsibility of every Muslim. Money should not be spent on unlawful products and services. Nor should money be spent to show off wealth, or spent in vain.
- *Wealth Enhancement in Islam*: Wealth enhancement is done through investment process. Muslims have to do investment in those products that are Syariah compliant. The objective is to achieve a reasonable capital growth with the objective of preserving accumulated wealth. This also involves asset allocation strategies, investment policy, and others. The channels of investment must be Syariah compliant—free from elements of gharar (uncertainty), riba (usury), and maisir (gambling) and free from haram products such as pork, alcohol, and so on. Currently there are various products offered by Islamic banks for wealth enhancements such as Sukuks, private equity funds, family Takaful plans, shares, property, wadiah and Mudharabah saving plans, and so on.
- *Wealth Protection in Islam*: The objective here is that investment should be made in an appropriate financial solution to meet his financial goals. A proper analysis of risk-return should be performed prior to the investment. Risk is directly related to returns; the logic is to diversify the investments into various asset classes. Assets with low returns (under 10%) are generally not likely to make losses, while assets with high returns (above 100%) are likely to fall by a similar quantum, or even bigger (Salim 2006). The protection of wealth has to be against every conceivable financial risks and threats through sound wealth management instruments. For an individual who has accumulated a

reasonable size of wealth, a bad investment can cause some major discomfort but still poor investment performance is not debilitating. Hence, proper liability containment planning, business shareholding and succession planning and debt management is needed. This can be done through Takaful and Sukuk and so on. to balance the risk.
- *Wealth Cleansing and Distribution in Islam*: Cleanliness in Islam covers both physical and spiritual cleanliness. This involves cleanliness of the mind from bad intentions, or committing unlawful acts, and cleanliness of the heart from jealousy, hypocrisy, and evil desires. A person must also indicate hope, truthfulness, forgiveness, compassion, and other such qualities.

Islam instituted the zakat tax system as a way to wealth purification. It is mandatory for every Muslim whose wealth has reached more than a certain amount to pay zakat at a fixed rate, equivalent to 2.5% of his holdings of money or tradable goods. Zakat is also a means of narrowing the gap between the rich and the poor and to make sure that everyone's needs are met in society.

Another form of wealth distribution takes the form of faraid, a law that stipulates estate distribution of a deceased Muslim after his death to his heirs (minus burial costs, debts, rights of the spouse to mutually acquired properties, incomplete lifetime gifts (hibah), and after-death legacies limited to one-third and non-heirs (wasiyat or will).

From above we can see that two of the five pillars of Islam (faith, prayers, fasting, zakat, Hajj) are related to wealth. The fourth pillar states that it is mandatory for every Muslim to pay zakat. The fifth pillar relates the performance of the Hajj or pilgrimage for Muslims with financial ability. This demonstrates that managing wealth is of prime importance in order to uphold the pillars of Islam. Thus, the attainment of wealth forms one of the five basic needs in Islam.

1.3 Key Growth Drivers for Islamic Wealth Management

There is always demand for Islamic Wealth Management as there are high net worth individuals and corporates in GGC and globally for diversification of investment to balance the risk of equity swings. Syariah-compliant investment products offer an avenue for Muslims and non-Muslims to invest in ethical responsible funds with an underlying asset. The increase in awareness of customer has created a demand for products in the area of Takaful, Sukuk, and Islamic funds. There are various growth drivers for the expansion of Islamic Wealth Management industry and are listed below:

- Macro-economic growth in the region has been robust on the back of strong oil prices and diversification. This is expected to continue to drive growth for the development of Islamic Wealth Management products, for example, Middle East region seeks appropriate avenues and tailored products for diversifying economic, business, and financial holdings.
- High oil prices have benefited oil-producing countries, mostly emerging economies of Asia (Malaysia, Indonesia, and Vietnam) and GCC. Robust oil earnings contributed to combined fiscal surpluses, which in turn contributed to massive wealth accumulation in the region. High commodity prices have also led to increased interest in foreign investments (in emerging Asia, South Africa, South America, Eastern Europe), particularly in real estate, plantation, mining, and exploration sectors.
- There has been a recent finding whereby it is estimated that only a fraction of US$11.5 trillion worth of wealth owned by Muslim individuals, institutions, and government is managed by Islamic banks and financial institutions. About US$9.5 trillion remain outside the global Islamic financial services industry that has US$2 trillion asset under management (Zawya 2016).
- The major investments are generally driven by sovereign wealth funds and government investment corporations another key segment looking for investment opportunities are high net worth individuals (HNWI).
- The diversity of Islamic finance products and experienced Islamic capital market players such as Malaysia, are working towards to be at the forefront of capturing the anticipated net capital outflows of oil-producing nations. Malaysia recognizes the market potential in Islamic

Wealth Management and has launched a five-year Islamic Fund and Wealth Management Blueprint to further strengthen the country's position as a global hub for Islamic funds by 2021 (Star Online 2017).

- Supported by a facilitative and comprehensive regulatory framework, and global acceptance of Islamic finance has come to the stage where development in wealth management services will drive future growth.

1.4 Islamic Will Writing

A will is an important tool of estate planning for it can be used to enable meeting one's established goals or objectives of wealth distribution. Although the law of inheritance (faraid) has specific heirs identified, which comprises of spouse, parents, and children, they are automatically included in the faraid. However, grandchildren, adopted children, illegitimate children, foster parents, non-Muslim parents, non-Muslim children, and non-Muslim family members are not included in the law of inheritance. In the event a Muslim wishes to bequest his wealth to the parties mentioned, he could do so via a will because he has the right to give away up to one-third of his wealth according to his desire.

Writing a will is a religious obligation on all Muslims. If they fail to do so, they have all reasons to fear that their estate/treasure may not be distributed in accordance with the Islamic laws (www.islamicwill.com). The Islamic will includes both bequests and legacies, instructions and admonishments, and assignments of rights. No specific wording is necessary for making a will. In Islamic law the will (wasiyya) can be oral or written, and the intention of the testator must be clear that the wasiyya is to be executed after his death. Any expression which signifies the intention of the testator is sufficient for the purpose of constituting a bequest.

There should be two witnesses to the declaration of the wasiyya. A written wasiyya where there are no witnesses to an oral declaration is valid if it is written in the known handwriting/signature of the testator according to Maliki and Hanbali fiqh. The wasiyya is executed after payment of debts and funeral expenses. The majority view is that debts to Allah (SWT) such as zakah, obligatory expiation, and so on should be paid whether mentioned in the will or not. However, there is difference of opinion on this matter among the Muslim jurists.

The difference between the Muslim will and non-Muslim will is mentioned below:

Muslim will	Non-Muslim will
The assets to be distributed are permissible as defined by the Islamic law	Every asset can be included in the will
No one can make a bequest (write a will for inheritance) to any of his or her Quranic heirs as distribution of inheritance to Quranic heirs will fall under the law of faraid	The will can be made to anyone whether kin or not to the person who writes the will
The bequest of a will can only be made of up to one-third of the entire property, and the rest will be distributed to the Quranic heirs under the law of faraid. Consent is required from Quranic heirs after the demise of the testator, if the bequest is made to the non-Quranic heirs more than one-third of the entire estate or to the Quranic heirs more than two-third of the entire estate	The will can amount to 100% of the total assets

Source: www.hlib.com.my/wm/ww_faq.htm

Based on the recent statistics of Star Online (2016), estates of the deceased worth RM60 billion of cash and non-cash assets in Malaysia have been left by the deceased and remained unclaimed by the heirs since independence in Malaysia. In the event when someone dies without a will (intestate condition), all the assets will be frozen (including bank accounts). In Malaysia, the beneficiaries must obtain the letter of administration (LA), including Muslims, and then go to court for distribution of the assets. This indicates there is a good potential waiting to be tapped although this requires educating the consumers about will-writing.

1.5 Islamic Investment Funds

Islamic investment equity funds market is one of the fastest growing sectors within the Islamic financial system. This can be termed as a shared pool wherein the investors contribute their excess money for earning Halal profits. The funds collected from the investors will be invested into a variety of assets classes, which has to strictly comply with the precepts of Islamic Syariah. The subscribers of the fund may receive a document certifying their subscription and entitling them to the prorated profits accrued to the fund (Taqi Usmani, undated). Each fund has its own mechanism, capital, subscription, maturity, and expected returns and risks. The investors represent the owners of the capital and the company (bank) represents the speculator who runs the operations. There are many Islamic funds which differ according to type of investment and financing methods (Murabahah, Musharakah, salam, istisnah, Ijarah), field of investment (public, real estate, leasing), period of investment (short, medium, or long term), risk involved (low, medium, or high), and, finally, whether they are open or closed funds (Tayar 2006).

Investment funds achieve many privileges:

- Specialized administration where high caliber fund managers perform studies and undertake research important to taking investment decisions.
- Geographical- and sector-based distribution investment decisions for these funds are very flexible, covering industry and trade to minimize the risk involved.
- Flexibility to withdraw where an investor can enjoy low value shares that suit most investors, with strict dates for withdrawing shares.

- Clear legal terms—each fund has clear terms and conditions which the founder of the fund abides to.
- The investment will in Syariah Syariah-compliant businesses and the returns will be based on agreed profit-sharing ratio and no fixed returns are promised by the fund manager to the investors.

Islamic investment fund sector has witnessed an exciting growth path globally. Islamic funds are also known as sustainable and responsible investments (SRI), as it is governed by Syariah principles, whereby the objective is to have positive social outcomes along with commercial returns in the form of profit. At the end of 1Q2017, the total global Islamic assets under management (AUM) were USD70.8 billion and the number of Islamic funds stood at 15,351. It is estimated that Islamic investment fund sector is projected to register an annual growth of 5.05% per annum for the next five years and estimated to reach USD77 billion by 2019 (MIFC 2017).

The various modes of Islamic investment funds such as listed Islamic equities and fixed-income instruments currently practiced by Islamic banks are explained in the following section.

1.5.1 Equity Funds

An equity fund is simply an investment into the shares of a joint stock companies. The profits are mainly achieved through the capital gains by stock trading and the dividends distributed by companies. This investment vehicle allows investors to diversify risk by investing in multiple stocks based on the risk and returns. It also offers the opportunity to participate in the long-term performance of the stock market.

Islamic funds, however, add two other elements to these well-known stock market funds. They add a screening process to remove stocks of companies deemed to be inappropriate for Muslim investors (Hanware 2006).

- *Screening of Sector*: By way of guidance, stocks whose core activities are or are related to the following are excluded:
  - Banking, insurance, or any other interest-related activity
  - Trading in alcohol, tobacco, and gambling

  - Any activity related to pork
  - Activities deemed impermissible (haram) in Islam
  - Sectors/companies significantly affected by the above—based on a threshold of 5% of operating income

- *Debt Ratio Screening*: In the event a company's interest-bearing debt divided by assets is equal to or greater than 33.33%, it is excluded (<33.33% is acceptable).
- *Dividend Cleansing or Purification*: 'Tainted dividend' receipts relate to the portion, if any, of a dividend paid by a company that has been determined to be attributable to activities that are not in accordance with Islamic Syariah principles and therefore should be donated to a proper charity or charities (Rifai 2003). Normally the percent share of the offending item(s) is deducted from the funds' gross annual revenues and donated in zakat, sadaqah, that is, to charities.

Based on the recent statistics, funds invested in the GCC market represent more than half of the entire Islamic equity fund industry. Saudi Arabian funds and fund managers dominate the industry, accounting for nearly 75 funds out of around 300 Islamic equity funds worldwide. Bahrain has now become the favored center for fund registrations in the Gulf, with institutions such as Kuwait's Global Investment House and Saudi Arabia's National Commercial Bank having established fund management operations there recently.

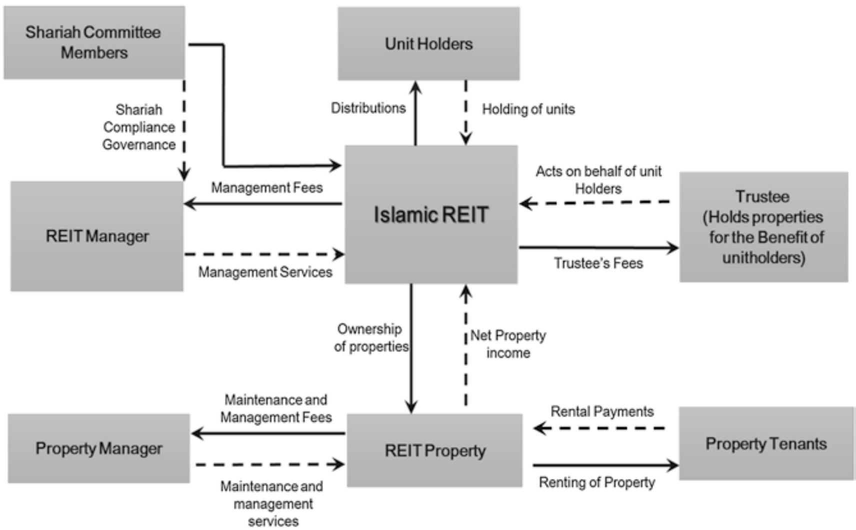
1.5.2 Ijarah Funds or REITs

The Securities Commission of Malaysia defines REIT as 'an investment vehicle that proposes to invest at least 50% of its total assets in real estate, whether through direct ownership or through a single purpose company whose principal asset comprise real asset' (Securities Commission 2005). Thus, REIT is an entity that accumulates a pool of fund from investors, which is then used to buy, manage, and sell assets in real estate industry. The objective of REITs is to obtain reasonable returns on investment. Returns are generated from rental income plus any capital appreciation that comes from holding the real estate assets over an investment period.

Unit holders will receive their returns in the form of dividends or distribution and capital gains for the holding period.

Islamic REITs are managed by professional managers who have specialized knowledge of real estate and real estate-related assets. Islamic REITs are liquid assets, which can be listed and traded on Bursa Securities (Malaysia Stock Exchange). This makes REITS attractive to investors, who are able to invest and diversify their real estate investments without large capital, while meeting their needs for Syariah-compliant investment (Islamic Finance News 2006).

The structure of Islamic REITs is illustrated in the following diagram:



Properties under an Islamic REIT must generate rental income from permissible activities. A benchmark of up to 20% of rentals can be derived from non-permissible activities, under the 'Islamic REITs Guidelines' issued by Security Commission Malaysia. In addition, the manager of an Islamic REIT has to ensure that all forms of investment, deposit, and financing instruments comply with the Syariah principles. Also, it has to use the Takaful scheme to insure its real estate. Islamic REITs investment must be reviewed, monitored, and approved by the appointed Syariah committee/adviser.

The key benefits of REITs to investor are listed below:

- Higher dividend yield as REITs are required to distribute at least 90% of its net cash flow (income). This is significantly on average higher than other equities and provides a stable income returns to the investors.
- Transparent investment policy for investors as it is governed by Syariah Board and regulated by governing body such as Securities Commission.
- Lower transaction costs and greater liquidity as listed REITs are traded like stock at stock exchange. This makes buying and selling easier in comparison with buying and selling of actual property.
- Scalable investment vehicle in comparison to property investment companies.
- Diversification of risk as portfolio comprises of different types of properties with different lease lengths, tenants, and geographical locations compared to single properties.

1.5.3 Islamic Commodity Funds

In commodity funds, the subscription amounts from investors are used in purchasing different commodities for the purpose of the resale. The profits generated from the sale are distributed prorated among the subscribers. In order to make this fund acceptable to Syariah, it is necessary that all the rules governing the transactions are fully complied with as listed below ((Taqi Usmani undated).

- The commodity must be owned by the seller at the time of sale; therefore, short sales where a person sells a commodity before he owns it are not allowed in Syariah. Forward sales are not allowed except in the case of salam and istisna.
- The commodities must be halal; therefore, it is not allowed to deal in wines, pork, or other prohibited materials.
- The seller must have physical or constructive possession or the commodity he wants to sell.
- The price of the commodity must be fixed and known to the parties.
- Any price which is uncertain or is tied up with an uncertain event renders the sale invalid.

The performance of commodity prices in recent years has attributed to favorable demand conditions for raw materials and, in most cases, inelastic supply responses due to years of under-investment in production capacity. The advantage of commodity fund is that it is not highly correlated to equity and fixed-income asset classes. Hence, it acts as a diversification factor particularly in volatile markets for balanced investment portfolios. The fund aims to provide investors with regular income over the tenure of the fund linked to the performance of commodities through investments that conform with Syariah principles.

CIMB-Principal Asset Management Berhad has launched the CIMB Islamic Commodities Structured Fund 1 and 2, Syariah-compliant funds, which offer investment access to commodities such as energy, agriculture products, and metals. The funds invest in structured products. The structured products are principal protected when held to maturity, making them ideal for investors seeking refuge from market volatility. These funds also offer investors an exposure to potential appreciation in commodity prices. The CIMB Islamic Commodities Structured Fund 1 is a close-ended fund which will invest at least 95% of its net asset value (NAV) in a three-year Islamic Dynamic Best of Commodity Structured Product to be issued by CIMB Investment Bank and up to 5% of its NAV in liquid assets. The CIMB Islamic Commodities Structured Fund 2 is similar in structure, but invests in a five-year Islamic Dynamic Best of Commodity Structured Product making it ideal for investors who desire stable investment returns via potential annual distributions over the fund's tenure (www.cimbislamic.com).

1.6 Islamic Investment Funds Statistics

The requirement for Syariah-compliant investment products among Muslims and non-Muslims has led to the expansion of Global Islamic Funds Industry. According to data from Bank Negara Malaysia (BNM), as of Mar 2017, Islamic unit trust and investment funds in the world reached 1535, while total Islamic assets under management (AUM) were estimated at US$70.8 billion. This shows tremendous growth in two digits, year on year basis as in 2008; there were only 802 funds with AUM of USD47 billion. Malaysia and Saudi Arabia were the top two markets for Islamic funds in the world with the most number of funds and biggest fund sizes in terms of AUM. Both countries hold more than 67% of the total Syariah-compliant AUM and are leading the global Islamic funds industry. The statistics are illustrated in Figs. 12.1 and 12.2.

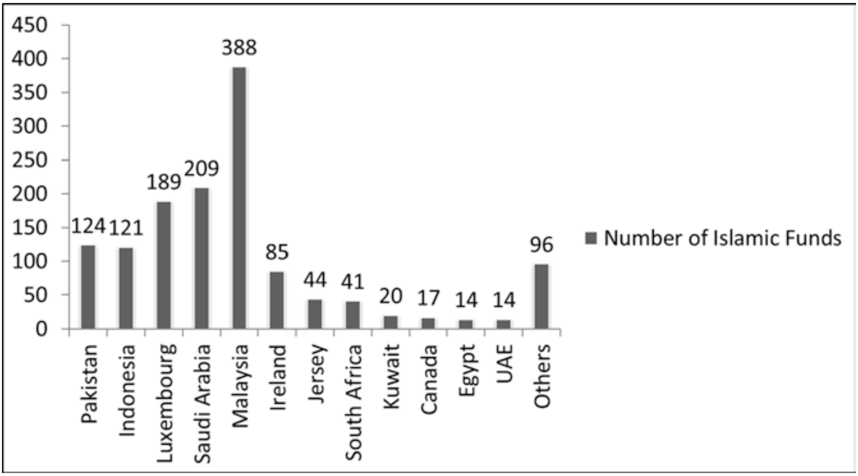


Fig. 12.1 Number of Islamic funds domiciled by country as on March 2017

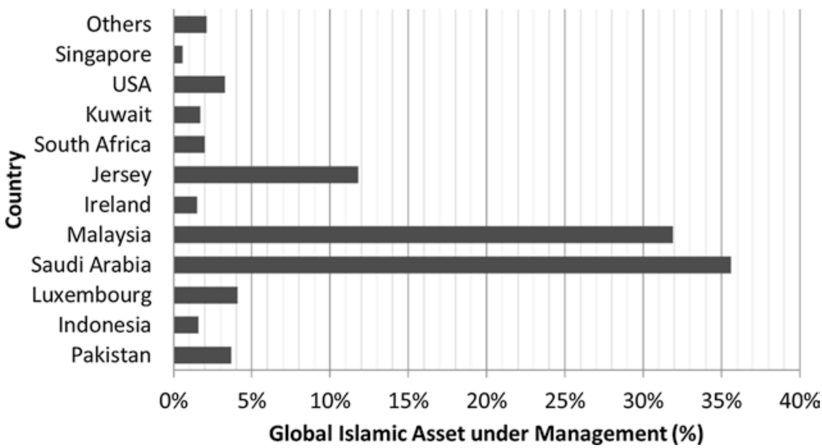
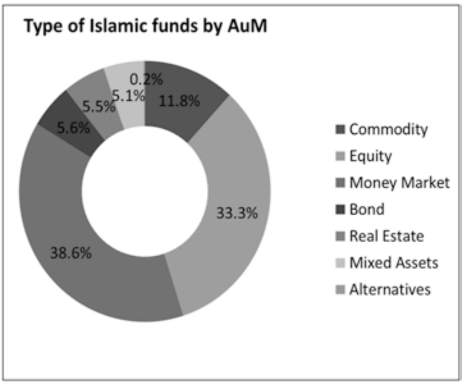


Fig. 12.2 Global Islamic assets under management (AUM) by domicile as of Mar 2017. Source: www.mifc.com

Country	Number of Islamic Funds	Global Islamic AUM
Pakistan	124	4%
Indonesia	121	2%
Luxembourg	189	4%
Saudi Arabia	209	36%
Malaysia	388	32%
Ireland	85	2%
Jersey	44	12%
South Africa	41	2%
Kuwait	20	2%

From the fig 12.2, it is clear that the Islamic fund industry is dominated by Saudi Arabia (36%), followed by Malaysia (32%). In terms of fund size, the two countries held close to three-quarters of market share. They were the earliest to develop Islamic funds—Malaysia offered the first one in 1968, while Saudi Arabia started offering funds in the 1980s.

Funds	Type of Islamic funds by AuM
Commodity	11.8%
Equity	33.3%
Money Market	38.6%
Bond	5.6%
Real Estate	5.5%
Mixed Assets	5.1%
Alternatives	0.2%



From the fig 12.1, it can be seen that as of March 2017, Malaysia has the largest number of Islamic funds with 388 for a total AUM of USD22.6 billion. Compared to Saudi, they are largely in money market fund with a share of 76% of the total AUM. For Malaysia, there are several of funds which are equity funds (45% of total AUM), money market funds (32% of total AUM) and others (23%). For Malaysia and Saudi, the portfolio of Islamic funds dominates by money market and equity funds. The number of Islamic funds for Luxembourg is high compared to Jersey which is 189 and 44 of funds respectively. But, the global AUM for Jersey ranked as third (11.8%) compared to Luxembourg ranked fourth (4.1%).

The above statistics shows that the Islamic funds are growing at a fast pace, not only in numbers but also in variety to meet the appetite of high net worth individuals. The supply and demand for such funds will increase significantly as the target is not only limited to Islamic investors but it also to non-Islamic investors. The government is also offering tax incentives to attract more investors. Fund management based on Islamic precepts is gaining ground as financial authorities and banks consider its impact on the economy and customers. Management of Islamic funds seems to be the priority goal.

1.7 Islamic Wealth Management—The Way Ahead

There is a growing demand for Islamic Wealth Management products and services, and studies show that a number of Muslim high net worth individuals (HNWIs), who were using conventional banks before and now begin to take advantage of using Islamic banks' offerings.

Almost 70% of Middle Eastern wealth is transferred overseas. To attract this wealth into Islamic funds, Islamic wealth managers need to manage different assets from real estate to short-term money market instruments. Islamic investment opportunities are now accessible to institutional investors as well as non-Muslim investors to diversify their investments through Syariah-compliant funds. Eyeing on the broader prospects, globally, high net worth individuals (HNWI) wealth is projected to nearly triple in size from 2006–2025 to surpass USD100 trillion by 2025, propelled by strong Asia-Pacific growth. It is reported HNWIs hold less than one third of their global wealth with wealth managers, underscoring the potentials to amass HNWIs total investable wealth.

Islamic asset management industry can offer a wide range of Syariah-compliant products, and services under Islamic Wealth Management, crowdfunding, socially responsible investments, private equity, and environmental, social, and governance funds, and so on are gaining traction globally. Sukuk, REITs, and equities are the most popular type of investments under Islamic Wealth Management suite. The catch here is for Islamic financial institutions to provide better yields and customized product with better service quality. Technology-enabled digital investment services over the Internet could be a channel to attract the investors by providing data and analytics services. It is also known as 'Robo-advisors' and is becoming prominent in digital investment management. This will enable to attract the tech-savvy investors including new young-generation customer base, who prefer to transact online.

Muslim and non-Muslim investors are increasingly interested to invest surplus funds in a Syariah-compliant manner due to the ethical guidelines underpinning Islamic Wealth Management products. The increased transparency of customer terms and conditions, pricing structure, regular monitoring for compliance by the relevant Syariah boards, and adequate disclosure of material aspects; such offerings have tended to attract both the Muslim and non-Muslim customers. The acceptance of Islamic investment, Sukuk, private equity, and structured products is gradually growing among the affluent customer base regardless of the religion and race. Hence, looking into the tremendous potential, both the global and major regional players have focused on this fast-growing market segment and invested in professional resources and technology to meet and, in some cases, exceed their customer expectations in the area of Islamic Wealth Management.

1.8 Challenges

Islamic Wealth Management is still at its early stages. Today, players in the industry face a lack of information and academic research, as available market data is often incomplete and inconsistent. Additionally, there are only a limited number of professionals who are well-trained in the principles of Syariah law and their application, especially when it comes to the development of new products and structures.

What is needed to accelerate the Islamic Wealth Management industry's development in particular is skilled and educated human capital, as well as a higher level of standardization across countries, disciplines, and products of the entire Islamic finance space. Critical success factors on the micro-level include product development expertise, client relationship management, and competitiveness, both in terms of quality and pricing, among others. In this context, innovation is the key, as it enables individual players and the industry as a whole to draw the link between conventional and Islamic financial products by structuring the former in adherence to Syariah principles.

Another challenge is some disagreement as to the level of compliance of some of the structures with Islamic principles, but the reality is that most stakeholders in the industry realize that in order for the industry to develop, structures will need to be devised and improved upon as the scope of Islamic jurisprudence (fiqh al-muamalat) is applied to a wider range of investment products.

Islamic private equity promises to be one of the fastest-growing areas both within the private equity and the Islamic finance space over the coming years. To date, there are only a few Islamic private equity funds in the market. However, the popularity of these funds is growing tremendously and demonstrating a strong and yet unmet investor demand.

1.9 Summary

The potential of the Islamic Wealth Management industry is clearly present. This is the time for financial institutions to rise up and challenge themselves. High net worth individuals are on the rise in the region and this is time to capitalize on the change. More and more people are prospering in the Middle East following a successful past few years.

Soaring oil markets and booming economies in the Middle and Far East are multiplying the numbers of Muslim HNW individuals worldwide and boosting private client demand for Sharia-compliant investments. The growing investment demand by HNW Muslims is tapping into a raft of innovations well beyond the plain-vanilla bond market where Sharia-compliant investment originated. There are now compliant-structured products, real estate funds, secured equity funds, and even hedge funds (Wilson 2008). Islamic Wealth Management is the way forward. For it to move forward, Islamic investment banks need to challenge the culture of ignorance and educate its clientele. The coming years will be testing times for wealth managers as clients learn to accept these new practices and embrace them. The benefits are not just limited to short-term gains, but make for a long-lasting value-added relationship.

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