

Islamic finance's role in the healthcare sector

One of the fastest expanding financial services sectors globally is Islamic finance which has consistently shown growth rates of around 10-12% annually over the last two decades and has assets of around GBP2.5 trillion (US\$3.19 trillion), according to Raconteur. The spread of Islamic finance into western markets, VISHAL PANDEY opines, demonstrates that it is now being viewed by investors, financial institutions and regulators as a viable alternative to conventional products.



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The modern era of Islamic finance began in the 1970s in parallel streams centered on the Gulf states and Malaysia. Growth has mainly been in the development of Islamic banking services, the issuance of Sukuk and provision of Takaful. Majid Dawood, the chief executive of Yasaar Capital, the first Islamic finance advisory company set up in the UK, says: "The majority of Muslims are unaware or unclear what Islamic finance actually means. Islamic finance institutions aren't run on a charitable or non-profit basis, they are commercial organizations in the same way that conventional banks are."

The core essence of Islamic finance is that it supports the welfare of nations and its people and the healthcare sector is well positioned in attaining these objectives.

Secondly, Islamic finance is into investing (through the many Shariah structures)

Table 1: Islamic financial assets by sector (2016)

Sector	Share in Islamic finance assets
Islamic banking assets	72-78.9%
Sukuk	15-17%
Islamic investment funds	3-4%
Takaful	1-2%
Microfinance	1%
Others	4%

Sources: Dubai Islamic Bank, 2017a: 38; IFSB, 2017:8; Thompson Reuters: 2016

in ethical investments and what better ethical thing than healthcare (most of the things are ethical).

Thirdly, social responsibility of healthcare businesses is something that is well rooted within the Islamic culture where people in need get access to medical services through Sadaqah or charity organizations or through endowments or Waqf.

Islamic finance is asset-based finance which means Islamic finance seeks to

invest in real assets and refrain from financial speculation. Healthcare projects are mainly assets such as hospitals, clinics and medical equipment and thus are very welcome and go hand in hand with Islamic banking and finance. So the value proposition of healthcare nicely fits Islamic finance.

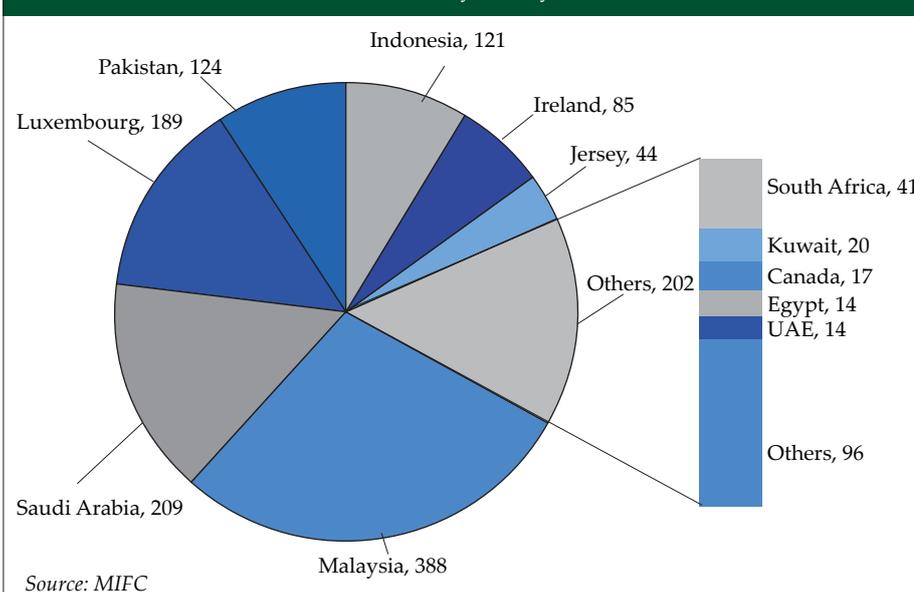
Case study: The UAE

Emirates Islamic, together with Mashreq Bank, Dubai Islamic Bank and Arab African International Bank, provided a AED370 million (US\$100.72 million) syndicated financing facility to Emirates Healthcare Development Company, the owner of Saudi German Hospital, Dubai.

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Jamal Ghalaita, CEO of Emirates Islamic, commented: "We are very pleased to announce our role in this incredibly significant opportunity for one of the UAE's leading healthcare providers. This deal continues our long-term strategic relationship with Saudi German Hospital, after acting as the mandated lead arranger in the initial syndicated facility for the original hospital complex construction in 2007. As a homegrown bank, we firmly believe in supporting projects that will raise the regional and global profile of the

Chart 1: Number of Islamic funds domiciled by country in 2017



Continued

Table 2: Selected mainstream organizations addressing Islamic finance

Regulatory	Central banks	Bank of England (UK) People's Bank of China (China)
	Standard-setting bodies	Bank for International Settlements (Switzerland)
Multilateral	Multilateral organizations	World Bank (US) International Monetary Fund (US)
Banking	Commercial banks	HSBC (UK) Standard Chartered (UK) Barclays (UK)
Banking	Investment banks	BNP Paribas (France) Deutsche Bank (Germany)
Insurance/Takaful	Insurance providers	Swiss Re Takaful (Switzerland) Hannover Re Takaful (Bahrain)
Crowdfunding	Equity crowdfunding platforms	Crowdfunder (US) Crowdcube (UK)
Private equity	Private equity firms	Texas Pacific Group (US) Abraaj Capital (UAE)

Source: Author's elaboration based on Thompson Reuters (State of the Global Islamic Economy report 2016/2017, 2016): 64

country's medical institutions and position the UAE as the healthcare hub of the wider Middle East region. This is also in line with the vision of His Highness Sheikh Mohammed Rashid Al Maktoum, the vice-president and prime minister of the UAE and the ruler of Dubai, to make Dubai a hub for medical, family and shopping tourism and welcome over 500,000 medical tourists with the advent of Expo 2020 Dubai."

A Mashreq Bank spokesperson commented: "The healthcare industry

is an integral part of the UAE's Vision 2021 for a world-class healthcare system, and our participation in this project is in line with Mashreq Bank's commitment to support the same. We have seen a strong momentum in investments within the healthcare portfolio, and are proud to be associated with Saudi German's expansion plan to contribute to this vision of the UAE."

A Dubai Islamic Bank (DIB) spokesperson commented: "As the largest Islamic bank in the UAE, DIB has

been actively involved in supporting the development of the healthcare sector in the country. The Saudi German Hospital financing is an excellent example of facilitating the growth of a world-class facility that is playing a major part in establishing Dubai as a medical hub. DIB's participation as a mandated lead arranger and bookrunner further cements our commitment to the sector and the UAE government's Vision 2021."

Way forward

We believe Islamic finance is well positioned to fill the investment gap in the healthcare sector in the Middle East and globally. Middle Eastern investors (private and institutional) will continue to invest in the healthcare sector and will continue to prefer Islamic finance over conventional finance for their investments.

Key opportunities for the development of Islamic finance with a focus on the healthcare sector include:

- The ever-growing demand for better quality healthcare
- Initiatives such as Saudi Arabia's Vision 2030 and the China-Pakistan Economic Corridor, and
- The super-abundance of capital (increasing per capita income and wealth of Muslims). 



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