Shariah Property Investment in Asia

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Abstract

Islamic banking and finance is growing at a rapid pace because of its value-oriented ethos. Through interviews with Shariah-compliant property investment players in Singapore, Bahrain, and Dubai, this research is a sequel to Parsa and McIntosh (2005), which looks at the trends and the development of an international strategy for Shariah-compliant property investment. The findings reveal that more than 95% of the respondents felt that "compliance with Shariah law is a fundamental requirement in terms of "halal" type of investment and investment structure." More than 75% of the respondents preferred to use the ijara/ijara-wa-iqtina and sukuk method of financing Shariah-compliant property investment. Seventy-eight percent of the respondents felt that Southeast Asia has the highest potential in Asia in attracting Shariah-compliant property investment. Together with the findings of Parsa and McIntosh (2005), this study extends the insights to the world of Shariah property investment.

Islamic banking and finance is growing at a rapid pace because of its value-orientated ethos. Started three decades ago, the number of Islamic financial institutions worldwide has risen from one in 1975 to over 300 today in more than 75 countries. They are concentrated in the Middle East and Southeast Asia, but are also making inroads into Europe and the United States. Total assets worldwide are estimated to exceed $250 billion, and are growing at an estimated 15% each year (El Qorchi, 2005).

There is an increased realization that real estate investment provides greater diversification benefit to the investment portfolio as international real estate markets are more segmented. In addition, the stock markets are becoming more and more integrated internationally due to the opening of more economies and improvements in market liquidity from technological advances. In this context, a diverse range of funds are scanning the entire international real estate investment universe looking for attractive investment opportunities. At the same time, Islamic banking and finance is growing rapidly and is attracted to the Asian region, which is currently experiencing rapid economic growth.

The need for international property diversification over the years has seen a large flow of Shariah-compliant funds into real estate entities. For example, in the United Kingdom, Shariah-compliant funds and Middle Eastern money accounted for 11% of the foreign investment in U.K. commercial property (RICS et al., 2006). Similarly, in

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Asia many Islamic real estate funds have been raised and structured for property investment purposes. For example, in 2005, CapitaLand Ltd (Singapore) and Arcapita Ltd. (Bahrain) raised US$198.29 million for its Shariah-compliant property joint-venture investment in rental apartments in the major cities of Japan. In the same year, Kuwait Finance House, through its subsidiary in Malaysia, together with Singapore-based Pacific Star Group, set up a US$600 million Islamic real estate fund in Asia. In 2007, the Al-Nibras Islamic Real Estate Fund (US$200 million) was established by Kuwait Finance House (Labuan) Berhad where it purchased two villa apartment blocks in the condominium development Reflections at Keppel Bay in Singapore.

In recent years, the majority of Shariah-compliant property investment has been in Islamic Real Estate Investment Trusts (Islamic REITs) and Sukuk bonds. Malaysia was instrumental in launching the first Sukuk bonds and Islamic REIT. Securities commission, Malaysia, issued guidelines for Islamic REITs in November 2005, facilitating the creation of a new asset class for investors. Al-'Aqar KPJ REIT, launched by the KPJ Healthcare Bhd., Malaysia was the first Islamic REIT in the world. It was approved in May 2006, with an initial size of 205 million units. This was followed by the Al-Hadharah Boustead REIT, launched in Malaysia in February 2007, which is the first Islamic plantation-based REIT.

According to Moody's Investors Service, Malaysia's Islamic bond market is the largest in the world, accounting for US$30 billion out of the US$41 billion in Islamic bonds issued since 1996. In February 2007, Saudi Arabia's Al Rajhi Bank, the world's largest Islamic banking group, unveiled an aggressive plan to expand its operations in Malaysia to open 50 branches by 2010 from the current 12 branches (Osmadi, 2007).

In Singapore, the government has identified the Middle Eastern region as the next investment destination, which includes property investment for investors to explore after China and India. The investment from Middle East in Singapore increased to S$ 550 million in 2003 from a base of S$ 150 million in 1999. As a major international financial center, Singapore is well placed to contribute to capacity-building and understanding of Islamic finance products, leveraging on the expertise and talent base in conventional products. Singapore's open markets, efficient infrastructure, and transparent regulations will remain attractive to both conventional and Islamic financial services players. The Monetary Authority of Singapore (MAS) has become a full member on the Islamic Financial Services Board (IFSB).

Recently, City Developments Ltd, an established real estate development company in Singapore, announced that it will sell the first tranche of its S$1 billion denominated Islamic bond, or Sukuk, by the end 2008. This is aimed at financing its new acquisitions and investment in the Asia region. In July 2008, Cambridge Industrial Trust Management Limited announced its plan to convert its Cambridge Industrial Trust to a Shariah-compliant REIT. This will make it the first publicly listed Shariah-compliant REIT in Singapore, and will likely become the first publicly listed Shariah-compliant industrial REIT in the world.

Besides Malaysia and Singapore, other Asian countries are also interested in funds from the Middle East, as well as the investment opportunities offered under the

Shariah-compliant property investment vehicles. However, these countries have relatively small Islamic financial sectors, which are likely to evolve as a hybrid (El-Gamal, 2006) between the Malaysian and the more conservative Arab and Pakistani models.

The important features of the Shariah-compliant property investments are: they are excluded from certain sectors of the economy, such as alcoholic beverages, pork, gambling, pornography, arms and munitions, etc. and cannot perform some financial transactions (interest-bearing financial transactions) that are declared un-Islamic under Shariah law. However, Shariah-compliant property investment funds require due diligence with respect to portfolio and stock selection, taking into account the risk and return tradeoff as it is done with other forms of investments including ethical investments. Shariah law prohibits the following three concepts:

1. **Riba**: Interest. The legal notion extends beyond just interest, but in simple terms, riba covers any return of money on money—whether interest is fixed or floating, simple or compounded, and at whatever the rate. Riba is strictly prohibited in the Islamic tradition.
2. **Gharar**: Uncertainty. Gharar is a sophisticated concept that covers certain types of contingency in a contract. The prohibition on gharar is often used as grounds for criticism of conventional financial practices such as short selling, speculation, and derivatives.
3. **Maysir**: Gambling. This prohibition is often used as the grounds for criticism of conventional financial practices, such as speculation, conventional insurance, and derivatives.

Efforts have been made in recent years to harmonize Islamic financial practices, from creating accounting standards for Islamic financial products (through the Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI), to integration of those standards with global corporate and risk management standards (i.e., Basel Accords I and II) through the recently created Islamic Financial Services Board (IFSB). These efforts are motivated by two objectives: (1) to create a worldwide network of financial markets, including the offshore markets in Labuan (off the Malaysian coast), Bahrain, and Dubai, thus enhancing depth and liquidity of markets for industrial securities; and (2) to integrate the industry more effectively with the international financial system. However, country- and region-specific features have not faded away (El-Gamal, 2006).

Shariah-compliant property investments compete with conventional investments to achieve similar risk-adjusted returns. Shariah-compliant property investments are governed by Shariah law and require the approval of the Shariah Board of Advisors, which translates to additional cost and time. Moreover, Shariah-compliant property investments have some limitations and their investment universe is restricted as they are excluded from certain sectors of the economy and thus, the associated real estate sectors, such as casinos, pubs, hotels, etc. Hence, Shariah-compliant property investments have to be much more aggressive and competitive than the conventional funds to achieve superior risk-adjusted returns.

This paper aims to provide insight into Shariah-compliant property investment in Asia. It is a sequel to the research undertaken by Parsa and McIntosh (2005). Parsa and McIntosh provided some important insight into Shariah-compliant property investments in European countries. They highlighted the increasing significance of property as an investment vehicle for Shariah funds. It also indicated the favorability of the United Kingdom as a destination for Shariah fund investment.

This paper examines the role of Shariah property investment in an internationally diversified portfolio, focusing on the Asian region, and looks at the differences between Shariah property investment and other conventional investments. In addition, the paper addresses the following in the context of Shariah-compliant property investments in Asia:

- Key criteria for Shariah-compliant investment funds;
- The types of investment vehicles used and the methods of financing property acquisition/investment;
- Differences and similarities between Shariah-compliant investment funds and other investments;
- The Shariah-compliant investment process;
- The extent of existing knowledge on Shariah investment;
- Choice of finance structure and methods of Islamic financing;
- Pre-requisites for establishing real estate investment funds;
- Potential for Shariah-compliant investment in Asia and the most favored Asian countries for Shariah investment;
- The overall political, legal, and institutional environment for Shariah investments in different countries of Asia; and
- Future investment activity by Shariah real estate investment funds.

Methodology

The research was carried out via desk research and personal in-depth interviews of the senior management of 28 organizations (out of more than 120 financial institutions invited). These interviews were conducted in Singapore, Bahrain, and Dubai between December 2006 and March 2007 in order to ascertain their focus and expectations towards Islamic finance and more specifically on the potential of Shariah-compliant property investment in Asia.

We first carried out the interviews in Singapore, while setting up networks in the Middle East. Following the completion of the interviews in Singapore, the researchers went to Dubai and Bahrain to interview the stakeholders of Shariah-compliant property investment there. All the interviews were tape-recorded, coded, and analyzed.

The respondents included banks and financial institutions, fund management companies, property investment companies, property developers, international property consultants, international investment trust companies, real estate associations, and international audit, tax, and advisory consultants. Exhibit 1 shows a breakdown of the respondents.

Research Findings

The Islamic financial system is grounded on four basic principles (El-Hawary, 2004): (1) risk-sharing: the terms of financial transactions need to reflect a symmetrical risk/return distribution each participant to the transaction may face; (2) materiality: a financial transaction needs to have a ''material finality,'' that is it is directly or indirectly linked to a real economic transaction; (3) no exploitation: a financial transaction should not lead to the exploitation of any party to the transaction; and (4) no financing of sinful activities such as the production and trade of alcoholic beverages, tobacco, pork, etc.

Differences with Conventional Property Investments

As part of the survey, respondents were asked to identify the main criteria for Shariah property investment funds. Of those who responded, more than 95% felt that ''compliance with Shariah law is a fundamental requirement in terms of halal type of investment and investment structure.'' Sixty-five percent of the respondents opined that Shariah property investment is different from conventional property investments in monitoring compliance, regulation, and portfolio selection. Another group of respondents (61%) pointed out that it is not different from conventional investments in terms of portfolio management and payment of dividends.

Other important observations made by the respondents include a wide gap between size of conventional investments and Shariah-compliant investments. On the question of whether the Shariah-compliant investments can bridge the gap or not, one group of respondents opined that it will depend on the innovation in the Islamic finance industry, provision of a wide range of Islamic products, establishing conducive tax

Exhibit 1
Types of Organizations

Type of Organization	Number
Banks and Financial Institutions	9
Fund Management Companies	6
Property Investment Companies	4
Property Developers	2
International Property Consultants	4
International Investment Trust	1
Real Estate Association	1
International Audit, Tax, and Advisory Consultant	1

system, institutional and regulatory framework, Shariah-compliant leverage, and the availability of risk management techniques.

Types of Investment Vehicles Used for Shariah-Compliant Property Investment

On the issue of most widely-used investment vehicle for Shariah-compliant property investment, 76% responded that they are considering direct investment at present and another group of 71% respondents felt that an indirect form of investment vehicle will be more preferred in the future. One group of respondents felt that, in view of fewer restrictions and easy compliance, private funds are preferred over publically listed funds. In terms of performance, the investors will still use conventional tools such as hurdle rates, yields, and risk-adjusted total returns etc. One group of respondents mentioned that in the past, Shariah-compliant funds looked for greenfield or income-generating assets. This has caused the majority of funds to go for direct investment. However, the trend now is for indirect investment vehicle, i.e., Islamic REITs and property funds, where investors are more concerned with the exit strategy and liquidity.

Method of Financing for Property Acquisition/Investment

With regard to the method of financing used in property acquisition/investment, the survey results show that 88% of the respondents are using both debt and equity financing at present. The percentage of the debt-to-equity used in the Islamic investment could vary from 30% to 70%. For example, a developer from the Middle East used 70% equity and 30% debt to finance a project, while another developer used 70% debt and 30% equity financing in the project. Some of the respondents also mentioned the use of Mezzanine debt in financing their Shariah-compliant property investments and also emphasized the importance of Shariah-compliant leverage to finance the projects.

Choice of Financial Structure in Shariah Property Investment

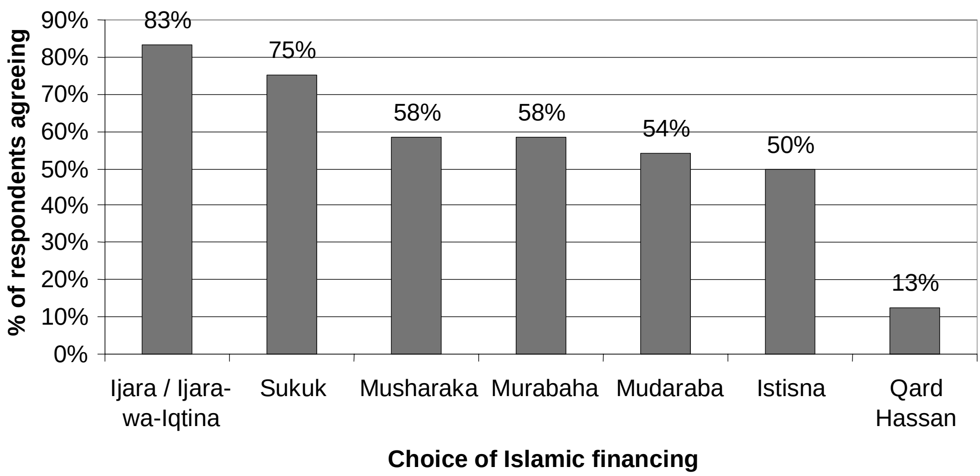
The basic principle of Islamic banking is the prohibition of riba (usury—or interest). While a basic tenant of Islamic banking, the outlawing of riba, a term that encompasses not only the concept of usury, but also that of interest, has seldom been recognized as applicable beyond the Islamic world. The majority of these principles are based on simple morality and common sense, which form the basis of many religions, including Islam. The Islamic financial system employs the concept of participation in the enterprise, utilizing the funds at risk on a profit-and-loss-sharing basis. This by no means implies that investments with financial institutions are necessarily speculative. This can be excluded by careful investment policy, diversification of risk, and prudent management by Islamic financial institutions.

Shariah laws forbid giving or receiving interest (because earning profit from an exchange of money for money is considered immoral); mandate that all financial transactions be based on real economic activity; and prohibit investment in sectors such as tobacco, alcohol, gambling, or armaments. Islamic financial institutions are providing an increasingly broad range of financial services, such as fund mobilization, asset allocation, payment and exchange settlement services, and risk transformation and mitigation. But these specialized financial intermediaries perform transactions using financial instruments compliant with Shariah principles.

Based on the principles of Shariah law, there are a number of methods of financing Islamic investments that are permitted and are fully compatible. The survey results indicate that more than 75% of the respondents prefer to use the ijara/ijara-wa-iqtina and sukuk methods of financing for real estate investment and development (Exhibit 2). In addition, more than half of the respondents opined that they would prefer to invest via musharaka, mudaraba, murabaha, or istinsa. The following presents brief definitions of the different methods of financing Shariah-compliant investment.

- **Ijara**: An Islamic leasing agreement whereby the bank buys an item for a customer and then leases it back over a specific period. Ijara allows the bank to earn profits by charging rentals on the asset leased to the customer. Ijara-wa-Iqtina is a similar arrangement, except that the customer is able to buy the item at the end of the contract.
- **Sukuk**: It has similar characteristics to that of a conventional bond with the difference being that they are asset-backed. The asset will be leased to the client to yield the return on investments.
- **Mudaraba**: An investment partnership where a specialist investment is offered by a financial expert (the mudarib) in which the bank and the customers/investors (the rab ul mal) share any profits. Customers/investors risk losing their money if the investment is unsuccessful, although the bank will not charge a handling fee unless it turns a profit; when profits are made, they will be shared on a pre-agreed ratio.

Exhibit 2
Choice of Shariah-compliant Financial Structure



- **Musharaka**: An investment partnership in which profit-sharing terms are agreed in advance and losses are pegged to the amount invested. In a musharaka, all partners to a business undertaking contribute to the funds and have the right but not obligation to exercise executive powers in that project.
- **Murabaha**: A form of credit that enables customers to make a purchase without having to take out an interest-bearing loan. The bank buys an item and then sells it to the customer on a deferred basis. In short, murabaha is a purchase and resale.
- **Istisna**: A contract of sale for specified goods to be manufactured, with an obligation on the manufacturer to deliver them upon completion.
- **Qard Hassan** (benevolent loan): An interest-free loan. The borrower is only required to repay the principal amount borrowed, but he may pay an additional amount at his absolute discretion, as a token of appreciation.

Pre-Requisites for Establishing Shariah-Compliant Property Investments

Like conventional investments, Shariah-compliant funds need to make investment decisions based on some very important factors. Eighty-nine percent of the respondents were unanimous in their opinion that compliance to Shariah principles is fundamentally important and evaluation of the investment opportunity progresses to the next stage only when the compliance is ensured. In addition, tax status and availability of specialist expertise are considered to be very important by 63% of the respondents, and more than half felt that transaction transparency and regulation of investments are more important than the conventional investment (Exhibit 3).

Favored Regions for Shariah-Compliant Property Investments in Asia

Seventy-eight percent of the respondents felt that Southeast Asia has the highest potential in Asia in attracting Shariah-compliant property investment (Exhibit 4). In addition, more than half of the respondents preferred North Asia followed by South Asia.

Locations Favored in Asia for Shariah-Compliant Property Investment

The majority of the respondents opined that Malaysia (85%) and Singapore (78%) are the preferred investment destinations for the Shariah-compliant funds in Southeast Asia (Exhibit 5). This is followed by Japan and mainland China.

Exhibit 6 shows Japan and South Korea as the favored investment destinations in North Asia. Turning to the Southeast Asia region, Exhibit 7 shows that Malaysia and Singapore are relatively highly favored destinations for Shariah-compliant investment destinations, followed by Thailand, Indonesia, and Vietnam. As shown in Exhibits 8 and 9, mainland China and India are the preferred investment destinations in the Greater China and South Asia regions, respectively.

Exhibit 3
Pre-requisites for Shariah-compliant Property Funds

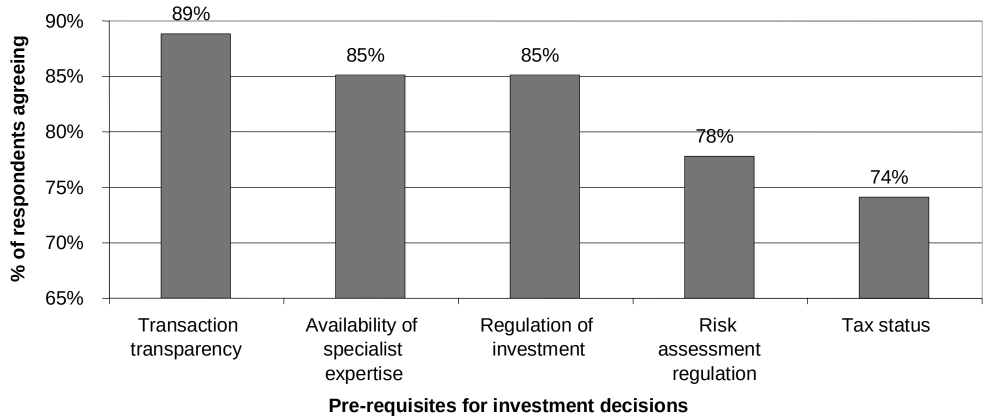
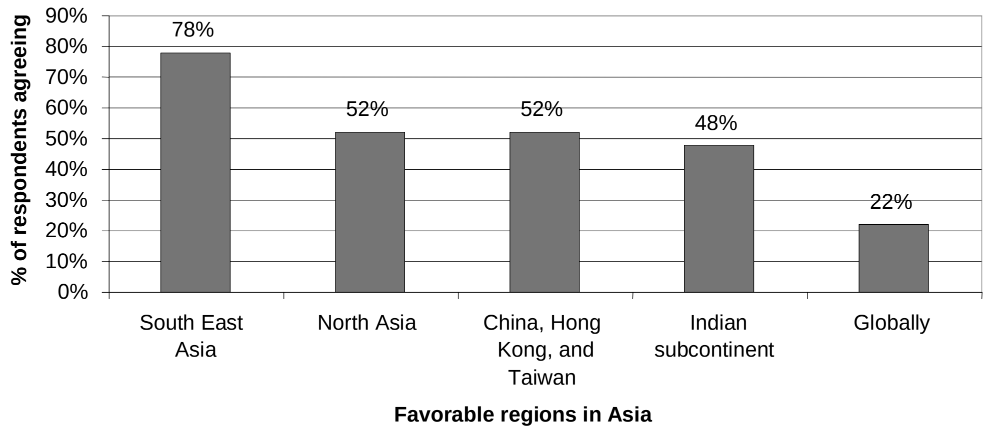


Exhibit 4
Favored Regions of Shariah-compliant Property Investments in Asia



Understanding Shariah Property Investment in the Property Markets

The respondents were asked to comment about their understanding of Shariah-compliant property investments. It seems that the opinion is divided: 32% felt that there is sufficient understanding about the Shariah-compliant property investments, 29% felt that there is a real lack of understanding of the investments, and 39% felt that they are not sure of the market perception. This indicates that there is a real need for education and awareness concerning Islamic finance in Asia.

But the common perception among respondents is that there is an increasing awareness about Shariah-compliant investment in the investment community in Singapore and Malaysia. This is evidenced by the number of conferences and

Exhibit 5
Countries Favored for Shariah-compliant Property Investment in Asia

Countries	Percentage
Malaysia	85%
Singapore	78%
Japan	52%
Mainland China	52%
South Korea	44%
Thailand	41%
Indonesia	37%
India	37%
Vietnam	30%
Hong Kong	26%
Taiwan	11%
Pakistan	4%
Bangladesh	4%
Myanmar	4%
Philippines	4%
Brunei	7%
Cambodia	4%
Maldives	7%

Exhibit 6
Shariah-compliant Property Investment Locations in North Asia

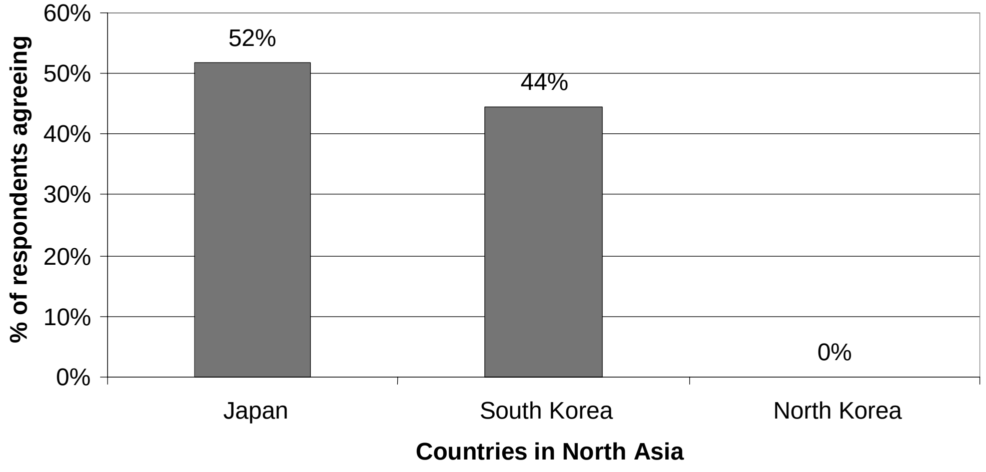


Exhibit 7
Shariah-compliant Property Investment Locations in Southeast Asia

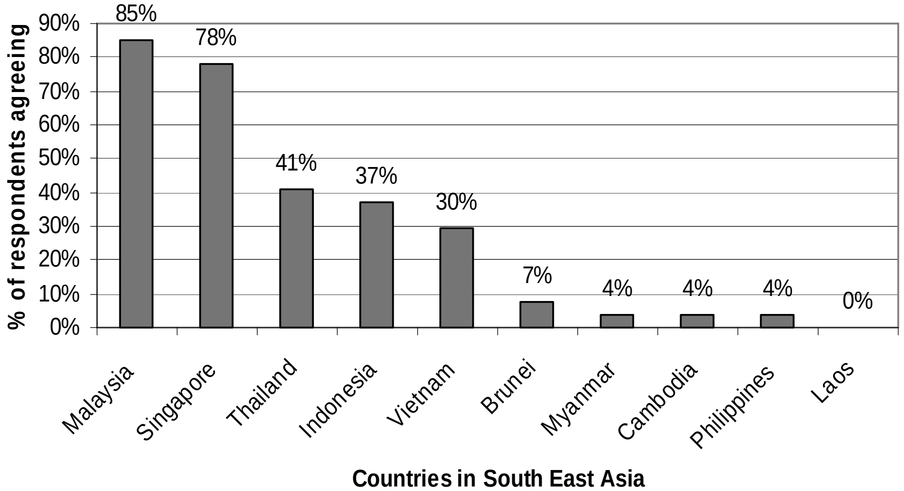
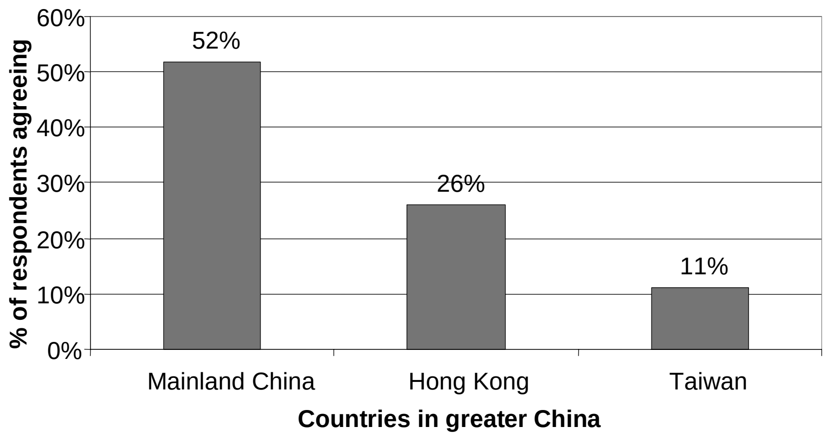


Exhibit 8
Shariah-compliant Property Investment Locations in Greater China



workshops that are being held to explain and explore the Islamic investment opportunities. Moreover, Middle Eastern investors are looking towards Asia to complement existing investments in the United States and Europe, looking for products with good returns.

Shariah-Friendly Environment

Exhibits 10–13 show that more than 60% of respondents felt that Malaysia has the political environment, institutional framework, legal framework, and human capital

Exhibit 9
Shariah-compliant Property Investment Locations in South Asia

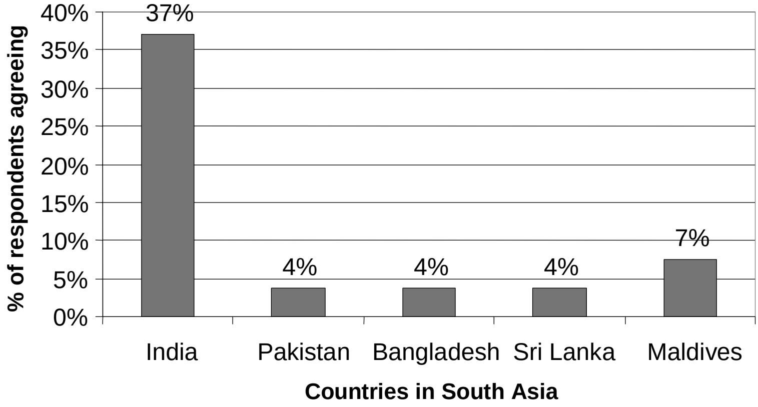


Exhibit 10
Shariah-compliant Property Investment Friendly Political Environment

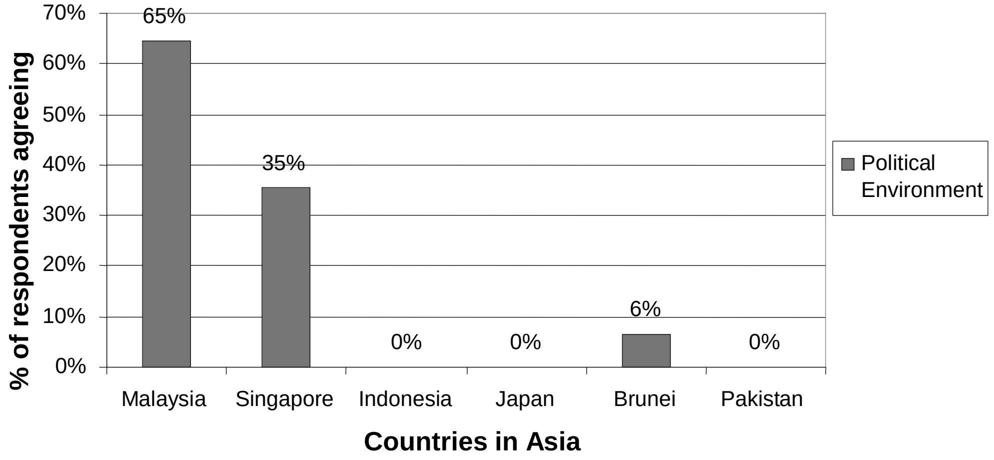


Exhibit 11
Shariah-compliant Property Investment Friendly Legal Framework

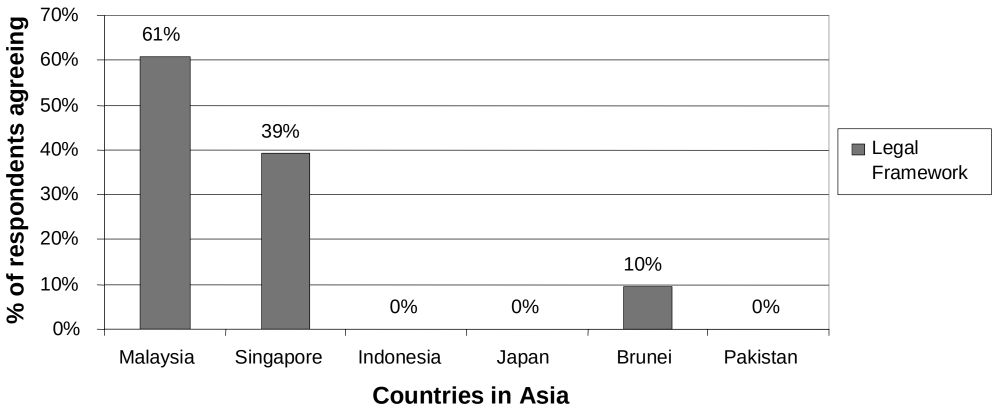


Exhibit 12
Shariah-compliant Property Investment Friendly Institutional Framework

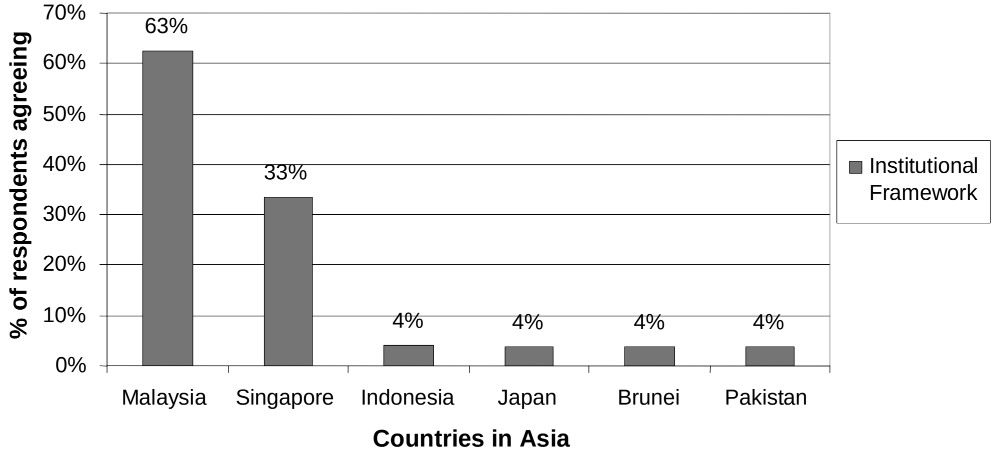
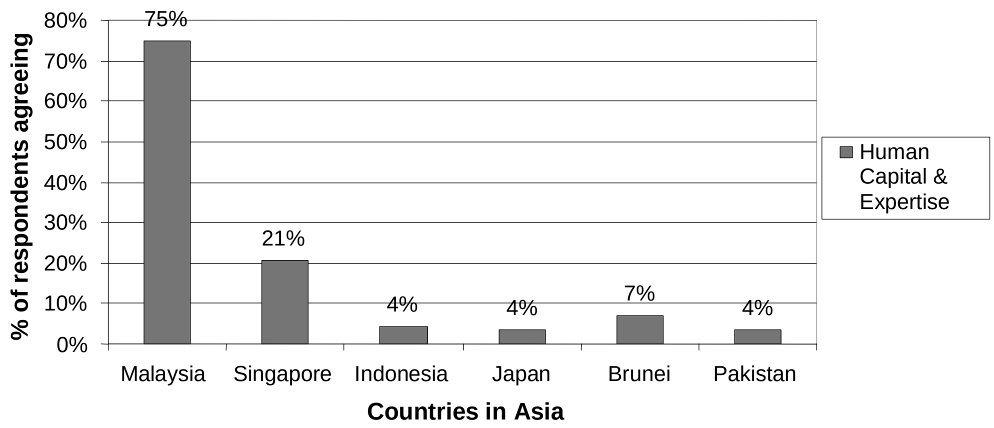


Exhibit 13
Human Capital Expertise for Shariah-compliant Property Investment



and expertise conducive to the Shariah investment. One-third of the respondents felt that Singapore is a favorable investment destination for Shariah investment in terms of legal framework, political environment, and institutional framework. Less than 5% of the respondents felt that Indonesia offers a Shariah investment friendly environment.

Conclusion

Islamic banking and finance is growing at a rapid pace—an estimated 15% percent a year. Islamic bankers, keeping pace with sophisticated techniques and the latest developments have developed investment instruments that are not only profitable but are also ethically motivated. In Asia, Islamic investments are competing with conventional investments to achieve similar risk-adjusted returns and estimates suggest that Islamic investments will be around 15% to 20% of total investments.

This research is a sequel to the research by Parsa and McIntosh (2005). These authors reported that the United Kingdom is a favorable investment destination for Shariah-compliant property investment.

The present research was conducted via desk research and survey of Shariah-compliant property investment stakeholders in Singapore, Bahrain, and Dubai. As expected, the respondents interviewed in Bahrain and Dubai showed more knowledge about Shariah-compliant principles than those in Singapore. This was balanced by the relatively higher knowledge and skills in property investment related issues among the respondents in Singapore. However, there is no significant difference in response among the respondents in the different countries with regard to the issues being investigated in this study. Among other findings, the salient findings of the research are as follows:

- More than 95% responded that ''compliance with Shariah law is a fundamental requirement in terms of ''halal'' type of investment and investment structure.
- Sixty-five percent responded that Shariah property investment is different from conventional property investments in monitoring of compliance, regulation, and portfolio selection.
- Sixty-one percent responded that Shariah property investment is not different from conventional investments in terms of portfolio management and payment of dividends.
- With regard to the method of financing used in property acquisition/investment, 88% of respondents are using both debt and equity financing at present. The percentage of the debt-to-equity used in the Islamic investment could vary from 30% to 70%.
- The results indicate that more than 75% of the respondents preferred to use the ijara/ijara-wa-iqtina and sukuk method of financing. In addition, more than half of the respondents would prefer to invest in musharaka, mudaraba, murabaha, or istinsa.
- Eighty-nine percent responded that compliance to Shariah principles is fundamentally important and evaluation of the investment opportunity progresses to the next stage only when the compliance is ensured.
- Seventy-eight percent responded that Southeast Asia has the highest potential in Asia in attracting Shariah-compliant investment. In addition, more than half preferred North Asia followed by South Asia. The majority responded that Malaysia (85%) and Singapore (78%) are the preferred investment destinations for the Shariah-compliant funds in Southeast Asia.

With the exception of the issue of ‘‘regulation’’ due to the difference in the study area, the rest of findings of this study are consistent to those of Parsa and McIntosh (2005). This may be due to the consistency in the understanding and application of Shariah-compliant principles in property investment.

The majority of those interviewed are of the view that there will be substantial growth in Shariah-compliant property investment and it will be driven by general consumer demand by both retail and institutional investors for Shariah-compliant financial services and products. Furthermore, sustained high oil prices have increased the impact of oil wealth in the Gulf region and increased demand for suitable investment vehicles.

The sustainable growth of Shariah-compliant investment is dependent on the effectiveness in which this industry is consistently and substantively nurtured, groomed, and developed and how successful the industry is in maintaining its robustness, soundness, and governance as it grapples with some of the fundamental issues and challenges faced by the industry. The growth and sustainability will fundamentally depend on compliance with Shariah principles and the associated comfort it gives to the clients. As the Islamic finance industry grows, it would allow for a shift from a debt-based financial system to an equity and partnership-based system.

While there has been much development in the last few years on the Shariah-compliant property investment front, we have identified a few issues that need to be addressed. First, there are a number of approaches being used in various countries with regard to the regulation and compliance of Islamic financial institutions. For instance, some regulators issue a standard form for banking license (e.g., Saudi Arabia) for both Islamic and conventional institutions, while others issue separate Islamic banking licenses (e.g., Malaysia). Further, there is a new wave across developed financial systems, such as in the U.K. and Singapore, to introduce specific legislation and regulations to facilitate Islamic financial transactions (Akhtar, 2007). It is difficult to pre-judge which system is more effective, but separate licensing policies should not result in a lower industry standards and/or a non-competitive class of Islamic institutions.

Profit sharing is the cornerstone of the Islamic financial intermediation process, but the reluctance on the part of financial institutions to diversify and explore different types of transactions and risks has delayed the appropriate application of Islamic financing and curtailed or prevented the desired level of portfolio diversification. A high dependence on murabahah and on short-term transactions has limited asset diversification and the Islamic fund portfolio ends up resembling conventional fixed income securities in terms of their risk-return profile (Akhtar, 2007).

In addition, there are several obstacles in terms of a lack of human capital, weaknesses in financial reporting and transparency; and the lack of Shariah convergence. On the human capital front, Malaysia and Bahrain are taking steps in the right direction (KPMG, 2007). In 2006, for example, Bank Negara Malaysia set up an RM500m endowment fund to support the International Centre for Education in Islamic Finance (INCEIF), with the main objectives of making Malaysia the leading center for Islamic finance education. Similarly in 2006, the Central Bank of Bahrain set up a US$4.6 million Islamic finance education scheme in cooperation with eight Islamic financial institutions based in Bahrain.

Moreover, the quality and transparency of financial reporting and disclosure in the Islamic finance industry differs significantly from one regulatory jurisdiction to another and there is a growing concern, with the notable exceptions of those operating in the U.K., Malaysia, and Bahrain, to have more transparency in their disclosure and financial reporting. The international rating agency Standard & Poor's, in a 2007 report entitled ''Enhancing Financial Reporting and Transparency: Key to the Future of Islamic Finance,'' mentioned that ''Standardization of financial reporting is a key challenge for the rapidly growing Islamic finance industry,'' (KPMG, 2007).

Finally, there are significant differences in the Shariah interpretation of Fiqh Al-Muamalat (Islamic law relating to financial transactions), which can cause problems. The lack of Shariah convergence is not only a phenomenon between Malaysia and the Gulf Cooperation Council (GCC) countries but also applies within the GCC markets as well. In such a scenario, pragmatism is the key for growth and sustainability of Shariah-compliant investment.

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