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ISLAMIC FINANCE



TRANSFORMING THE GLOBAL MARKET

James Caan on why he thinks Islamic Finance could have prevented the global financial crisis



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Left: Entrepreneur James Caan at the UCI Qatar Investor Conference. He believes Western financial institutions could learn a lot from Sharia-compliant methods
PHOTO: PRIVATE

Islamic finance could have averted the global meltdown

Question: Is Islamic finance a more cautious approach to investing than traditional Western methods?

Answer: Yes, if the principles had been more widely adopted, it could have stopped the recent financial catastrophe.

CHANGE

As the dust continues to settle in the wake of the global financial crisis, there is a growing perception that had the tenets of Islamic finance been more widespread, the damage to the global economy would have been nothing like as bad.

Entrepreneur and former dragon on BBC's *The Dragon's Den* James Caan, who founded the Hamilton Bradshaw private equity firm thinks so: "If you look at the basic principles of Sharia-compliant investment, you see that it doesn't pay interest, but takes a share of the profits," he says. "That means there must be some underlying profitability in the investment, whereas the crisis was caused by highly complex derivative products often far removed from the



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James Caan, Entrepreneur and Founder of Hamilton Bradshaw

underlying assets. Had Sharia principles been more widespread, the crisis would not have been as catastrophic and would have been easier to manage."

Crisis worse in the West

Indeed, following Sharia-compliant principles, some of those toxic assets would never have existed in the first place. "If you look at countries that use Islamic finance, the crisis is not as severe as it is in the West," he says. "The investment is in an underlying security, such as property or commodities, which is easy to understand, whereas with highly leveraged complex financial instruments, the underlying quality is questionable. There is

also the question of transparency. The credit agencies were giving all these junk bonds AAA ratings, whereas under Sharia, there is a far greater system of checks and balances."

Financial discipline

While he doesn't believe that all Western financial institutions will adopt Islamic finance as such, Caan does believe that they could learn a lot from Sharia-compliant methods. "There is a question of financial discipline, of recognising the importance of the quality of the underlying assets and their robustness to generate sufficient returns to make finance repayments sustainable," he says.

"This is a conservative view of building wealth."

Strengthening Trust

Any budding entrepreneurs wishing to raise funds from the Middle East should take that different approach on board, according to Nick Judd, Founder Partner of 90 North, the investment firm specialising in Sharia compliant real estate, of which James Caan is Chairman. "The Middle East is risk-averse," he says. "Business relations are based on trust and can take a long time to build. You can't raise money quickly - it takes months, if at all. People also want to see businesses with an established management whom they can trust."

"In the Middle East, you have to be introduced - the prospect of cold calling is no good," adds James Caan. "If you want access, it is less about transactions, and far more about relationships. In the West, you produce a business plan, have a meeting and expect a response, but that will not work in the Gulf. Your approach must be very different from the West."

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SHOWCASE

90 North Real Estate Partners, based in Mayfair, is a specialist in Sharia-compliant real estate investment. In partnership with James Caan, fellow Founder Partners Philip Churchill and Nicholas Judd have concluded approximately £1.1 billion of Sharia compliant transactions over the last decade.

The organisation establishes an investment strategy, then leads the purchase process, covering all aspects of achieving a successful real estate acquisition, including due diligence, financing, legal and tax, all as part of an efficient and Sharia compliant structure.

"Islamic assets under management are rapidly approaching a \$1 trillion worldwide and I expect this to continue growing strongly - not just due to the rapid growth of the global Muslim population but the increasing sophistication of Islamic finance, relative security of assets and parity of returns available compared to conventional investment products," says Caan.

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