

Financial Planning and Asset Management: Islamic Perspectives

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Presentation Plan

- Financial Planning and Asset Management—
Introduction
- Islamic Asset Management: Principle &
Issues

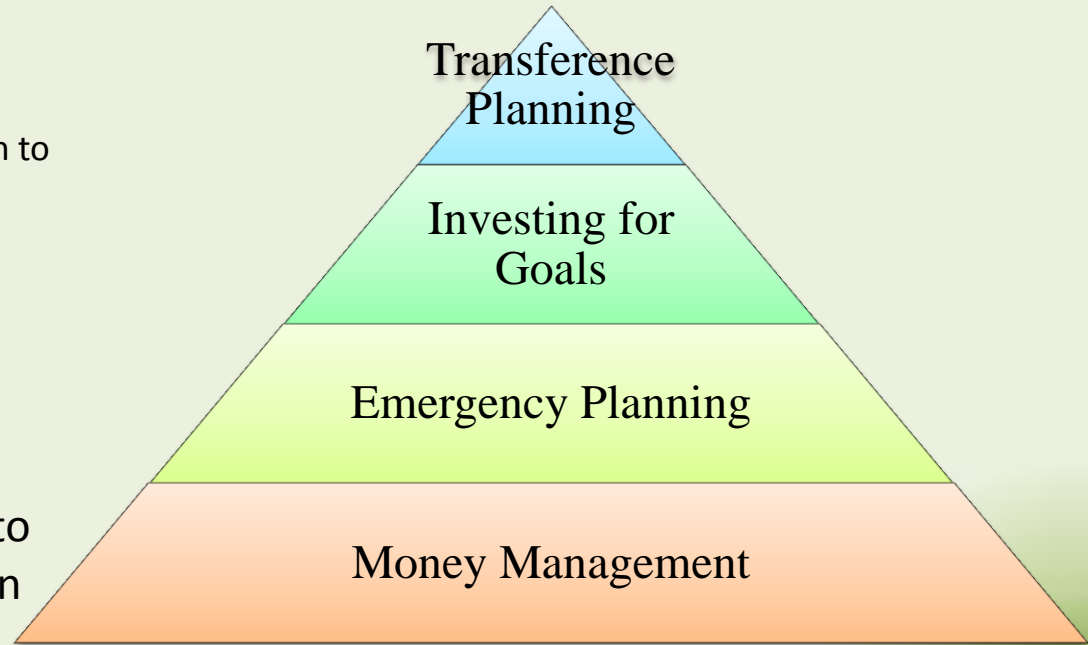
Financial Planning—Definition and Concept

- A financial **plan** identifies client's goals that are aligned with his/her **values** and **objectives** and provides a roadmap to achieve these goals
- Examined from two dimensions:
 - Time—present and future
 - Predictability of events—planned and unplanned
- **Asset management** related to activities in the future

Time	Present	Future
Predictability of Events		
Planned financial events	Money management <ul style="list-style-type: none">• Budgeting• Income tax planning	Investing for goals <ul style="list-style-type: none">• Investment planning• Retirement planning
Unplanned financial events	Emergency planning <ul style="list-style-type: none">• Risk management	Transference Planning <ul style="list-style-type: none">• Estate planning

Financial Planning and Hierarchy of Needs

- Lowest levels of needs should be met first before higher level needs
- Two broad categories of individuals/households
 - Net-surplus—households earning enough to save part of their incomes
 - Net-deficit—household earnings are adequate or less than what is needed for consumption
- Traditionally, financial planning focusses on Net-surplus households
- Net-deficit households—key goal is to meet current periods needs and then think about future financial needs

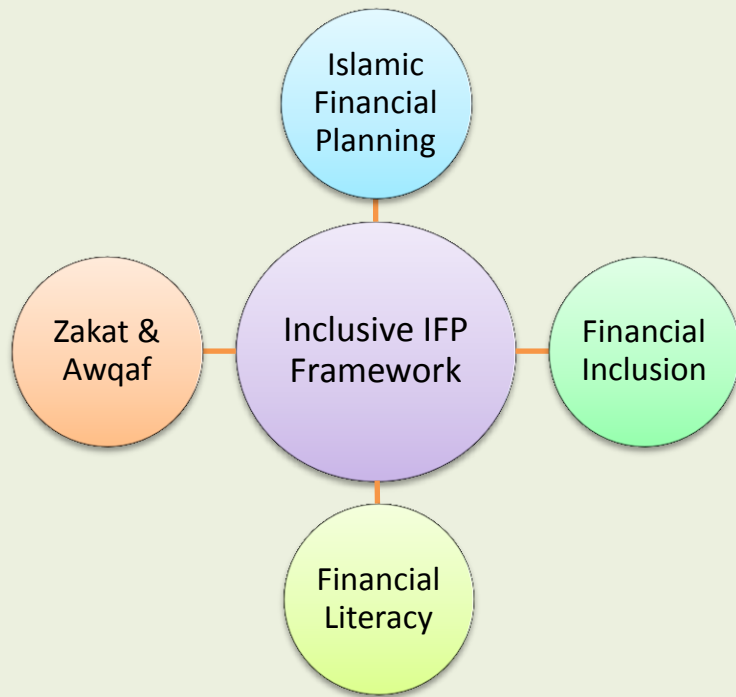


Asset Management & Financial Planning

Islamic Perspectives

- Objectives of a Muslim
 - Live a good life (*hayatan tayyibah*)
 - Attain *falah* (attaining success in the worldly life and the hereafter)
- Wealth and resources owned by Allah SWT—humans are vicegerents holding these as trust
 - Dealings and use resources/wealth governed by Shariah principles—Shariah compliant transactions
- *Maqasid al Shariah*—protection/enhancement of faith, life(self), intellect, posterity, and wealth (**for all**)
- Islamic financial planning
 - Directly related to wealth and posterity
 - Indirectly to faith and life (The Prophet PBUH used to seek refuge from *kufur* and poverty)
 - Islamic financial planning should be inclusive

Inclusive Islamic Financial Planning Framework



Components of IIFP Framework

- Islamic financial planning—Shariah compliant goals and instruments
- Financial inclusion—should include both net-surplus and net-deficit households
- *Zakat & awqaf*—*transfer* instruments through which the needs of the poor are met
- Financial literacy—contemporary financial transactions are complex and there is a need to understand basic Islamic & financial concepts

Asset/Wealth Management—Islamic Perspectives

- **Wealth Creation**—Islam encourages earning a livelihood (is an obligation)
 - Quran (28: 77): But seek, through that which Allah has given you, the home of the Hereafter; and [yet], do not forget your share of the world....
 - Hadith: “You'd better leave your inheritors wealthy rather than leaving them poor, begging others. You will get a reward for whatever you spend for Allah's sake, even for what you put in your wife's mouth” Part of Hadith of Sad bin AbiWaqgas (Sahih al-Bukhari 2742).
- **Wealth Protection**—protection of wealth one of *maqasid*
 - Anas bin Malik narrated that a man said: "O Messenger of Allah! Shall I tie it and rely (upon Allah), or leave it loose and rely (upon Allah)?" He said: "Tie it and rely (upon Allah).“ (Jami at-Tirmidhi Vol. 4, Book 11, Hadith 2517).
- **Wealth Distribution**—wealth should not circulate among the rich (Quran 59: 7)
 - *Zakah* is obligatory (a right of the poor)—cleansing of wealth
 - Distribution during lifetime: Charitable acts (including establishing *waqf*) are encouraged
 - Distribution after death: inheritance and wills (*wasiyyah*)

Islamic Asset/Wealth Management: Approaches & Tools

As in the case of Conventional, the focus of Islamic Asset Management is on future time-frame

- Wealth Creation: Investing for goals
 - Intention is important: The Prophet (ﷺ) said, "If a man spends on his family (with the intention of having a reward from Allah) sincerely for Allah's sake then it is a (kind of) alms-giving in reward for him (Sahih al-Bukhari 55)
 - Intention would include savings for hajj, posterity, etc.
 - Investing in various Shariah compliant real and financial assets, retirement planning

Securities and Asset Types

- Equity, Sukuk, , Islamic Property/Real Estate Investment Trust (REITs), Commodities, Alternative assets (hajj fund), etc.

Investment Style/Type

- Fixed income, Growth, Balanced or mixed, Index/ETFs
- ESG/Sustainable/Green/Impact

Islamic Asset/Wealth Management Tools

- Wealth Protection: Wealth and lifestyle protection
- A key factor: *Zakat* (2.5%) has to be paid on wealth (cleansing of wealth)

Average Return 20 Years (1999-2018) ^a	
Cash	1.8%
Bonds	5.5%
Stocks	7.2%

Wealth Protection Tools

- Family *takaful* (alternative to life insurance)
- Implication of *zakat*—investments should be made in relative high-return assets (to compensate for *zakat* and inflation)

Wealth Distribution: Islamic Estate Planning

- Wealth Distribution: Transference/estate planning
 - Developing a tax-efficient plan to administer and distribute assets after death
 - Writing wills is encouraged

- Islamic laws of inheritance (*faraid*) governs the distribution of wealth among the heirs.
- One-third of wealth can be distributed for charitable purposes by writing a will
 - Hadith of Sad bin Abi Waqqas: The Prophet (ﷺ) came visiting me while I was (sick) in Mecca, ('Amir the sub-narrator said, and he disliked to die in the land, whence he had already migrated). He (i.e. the Prophet) said, "May Allah bestow His Mercy on Ibn Afra (Sa`d bin Khaula)." I said, "O Allah's Messenger May I will all my property (in charity)?" He said, "No." I said, "Then may I will half of it?" He said, "No". I said, "One third?" He said: "Yes, one third, yet even one third is too much. (Sahih al-Bukhari 2742)
 - Narrated `Abdullah bin `Umar: Allah's Messenger (ﷺ) said, "It is not permissible for any Muslim who has something to will to stay for two nights without having his last will and testament written and kept ready with him." (Sahih al-Bukhari 2738)

Future of Asset Management

1. Moving from active to passive management of investments
 - Share of ETFs that follow indices increasing
2. Moving towards purpose driven (responsible and sustainable) investments
 - Share of ESG related investments increasing
 - Role of waqf can be integrated with purpose driven investments
3. Technology will increasingly become as important part of doing asset management and providing services
 - Automation and Artificial Intelligence
 - Robo-advisory services (Wahed Invest)

Questions??

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