

**Key words:** islamic finance, alternative investments, scripophily investments

## **ISLAMIC ALTERNATIVE INVESTMENTS IN WESTERN EUROPE**

### **Introduction**

The article covers the issue of conventional and Islamic investments. The goal of the article is to present theoretical foundations for both types of investments and highlight the differences between investment interests of conventional and Islamic customers. First part of the article relates to foundations for Islamic investments, than further part covers whole issue of conventional alternative investment available for Islamic customers which are characterized by Islamic, Sharia'a based rules.

### **1. Conventional and Islamic investments**

In the previous times, Islamic products and investments were dedicated to Muslim customers, but currently, more and more customers use them as more ethical or alternative products in comparison to products of conventional banks. The situation is supported by characteristics of the Islamic investments, what differs them from conventional products:

Lack of interest (*riba*) – according to Islamic economic thought money does not mean value only a means of exchange good. Law prohibits banks and financial institutions to create money, prohibits payment or receiving the interest rate.

Speculations are strongly prohibited and products based on speculations are treated as gambling.

Lack of uncertainty (*gharar*) – the structures of the contracts and agreements are certain of subject, time and price. All of those structural elements are agreed mutually.

Lack of contacts causing unjustified enrichment and unfair exploration.

Products must be based on ethical purposes and ought to benefit for the whole, local society.

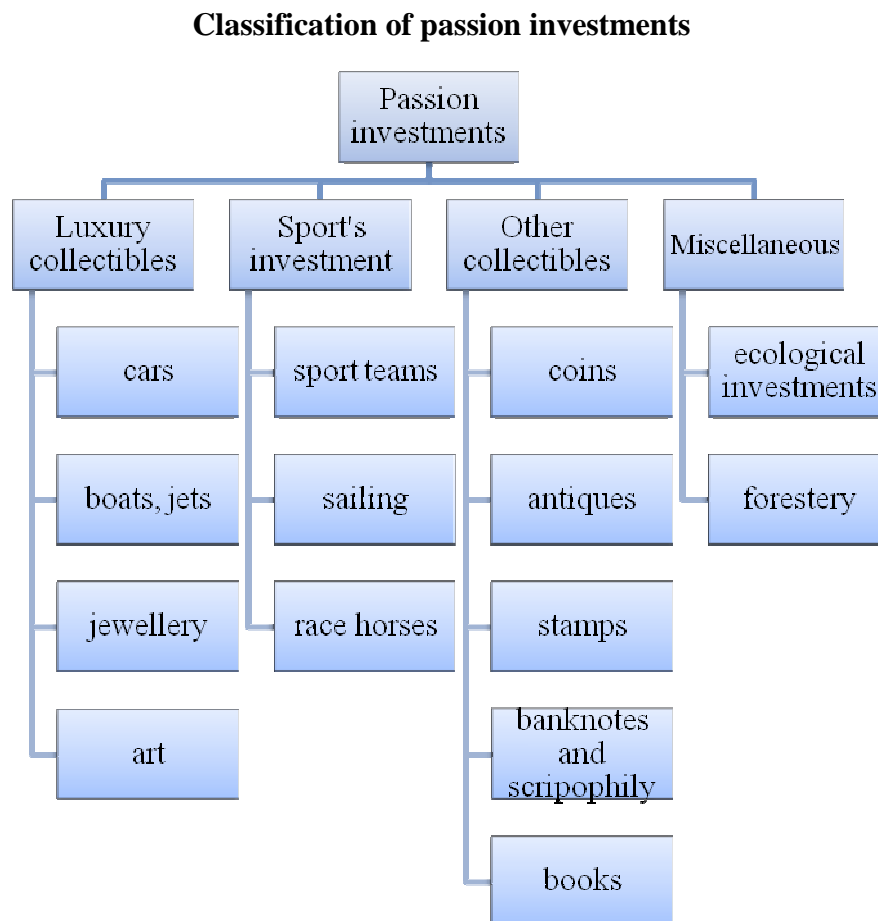
In general, main characteristic of the products or investments for non-Muslim customers is lower risk in comparison to conventional investments.

## 2. Islamic alternative investments

Islamic banking customers as far as conventional ones are interested in non-financial investment products as a complement to financial products. Main reason for the situation is need for diversification of customer's portfolio and risk hedging. The products are not strictly connected with securities markets and stock exchange, what makes them ideal in the role. Basic classification of non-financial products shows 12 basic groups: art, antiques, classic cars, stamps, coins, banknotes, scripophily, gold, oil, ecological investments and real estate<sup>251</sup>.

According to some sources, group products such as antiques, art, classic cars, books, stamps, gold, coins, banknotes and scripophily are called passion investments. Conventional banks are offering investment in wine as well. There is additionally classification of passion investment, shown in the Graph 1.

Graph 1



Source: author's compilation based on *World Wealth 2010*, Capgemini & Merrill Lynch Wealth Management Report, source: <http://www.capgemini.com/resources/world-wealth-report-2010> [18.08.2012].

<sup>251</sup>P. Temple, *Superhobby investing*, Harriman House Publishing, Hampshire 2004, p. 3.

Passion investments group is the newest and most innovative group of products and services in banking industry, both Islamic and conventional ones. Most of them are treated as a form of portfolio diversification, because the assets are not strictly connected with financial markets. On the other hand, passion investment are characterized by collectible and esthetics values. There are many products' groups, which can be enclosed in the passion investment group. The basic distribution includes eight groups: antiques, art, classic cars, books, stamps, coins, banknotes and scripophily.

## 2.1. Art investment

Art investment, something called art banking is the most known group from passion investments. It has both collectible and investing character. From investment point of view, is treated as long term investment with low-correlation to other markets. Both conventional and Islamic investors treat it as alternative to securities market and real estate market. Art market has four-tier character. It consists of primary market, secondary alpha market, secondary beta market and tertiary market. The basic one is primary market, where the prices of pieces of art are the lowest and it concerns direct selling transaction between artists and investors. Generally, it is dominated by contemporary art. Secondary alpha market representatives are huge and well-known art dealers, like The Arab Art Gallery in case of Islamic art market. Their role is to organize displays and art shows to resell artworks to galleries. Secondary beta market is strictly connected with art fairs like Art Dubai. The goal of the market events is to create cooperation opportunities to galleries, find new galleries' customers, improve the reputation and finally display artworks. Tertiary market is the biggest one and the prices are the highest. It is related to auction houses like the most prestigious ones – Bonhams, Christie's and Sotheby's. The main activity on the market is to organize auctions for investors for sell artworks<sup>252</sup>.

Islamic investors do not have many possibilities to invest in art. Generally, they are interested in local, Islamic art or classical art works. The example of investment in Islamic art was auction of Mahmoud Said artwork called "The Whirling Dervishes", which was sold by 2,5 million American Dollars in Christie's auction house<sup>253</sup>. Islamic financial institutions have just started to offer art-related investment products, which are Sharia'a compliant. There are only two investment products: Daman Investment Art Fund and still not issued fund or

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<sup>252</sup> B. Lucey, W. McQuillan, *The validity of Islamic Art as investment*, University of Dublin – School of Business Studies Working Papers Series, October 2009.

<sup>253</sup> S. Hamad, *Passion investments capture hearts of Mideast*, "The International Herald Tribune" 2011, No. 27, p. 30.

portfolio, which will be based on art market offered by The Fine Art Fund Group in cooperation with Emirates NBD<sup>254</sup>. Unfortunately, neither HSBC Amanah nor Kuwait Finance House are offering art-related products to Islamic customers. HSBC Amanah is offering only art advisory for its' conventional customers.

## 2.2 Antiques investments

Antiques investments are quite popular among Islamic HNWI or UHNWI customers. Antiques market is almost as much diversified as the art market. General classification shows 6 subgroups for antiques: antiques, ceramics, crafts, silver, furniture and clocks.<sup>255</sup>

Islamic investors divide antiques market into totally different groups: Quran, swords, amber jewellery, Bohemian glass and furniture<sup>256</sup>. So, their investments concentrate on the mentioned groups, but conventional antiques are popular in their portfolios as well. For instance, the most expensive antique bought by Islamic investor was prayer rug, which price was 7,8 million British pounds<sup>257</sup>. Both conventional and Islamic antiques markets are divided into similar institutions as art market like dealers, fairs and auction houses<sup>258</sup>. Unfortunately, there are no financial instruments related to antiques market. HSBC Amanah and Kuwait Finance House are offering only advisory in antiques transactions.

## 2.3. Classic cars investment

Classic cars investments are new in the Islamic market. Markets classification is shows 4 classes of cars: vintage (produced before year 1930), post-vintage (produced during the period 1930-1945), classics (produced between 1945-1973) and modern classics (produced during the period 1973 to 2001)<sup>259</sup>.

There is an additional classification of classic cars, shown on Graph 2. Both Islamic and conventional customers are interested in whole group of classic cars, but investment in classic cars is innovation in the Islamic and Middle East market. From investors point of view, there is a tendency to possess one or more cars dedicated to the certain type of activity such as vintage Bentley for elegance and representative events, Jaguar G-type for historic races and Old Rolls Royce to "be seen in". Middle East and Islamic market is in early stages of development in classic cars investing.

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<sup>254</sup> F. Halime, Z. Hassani, *Emirates NDB's new fund pursues the art of making money*, "The National" 2011, No. 10, pp. 18-19.

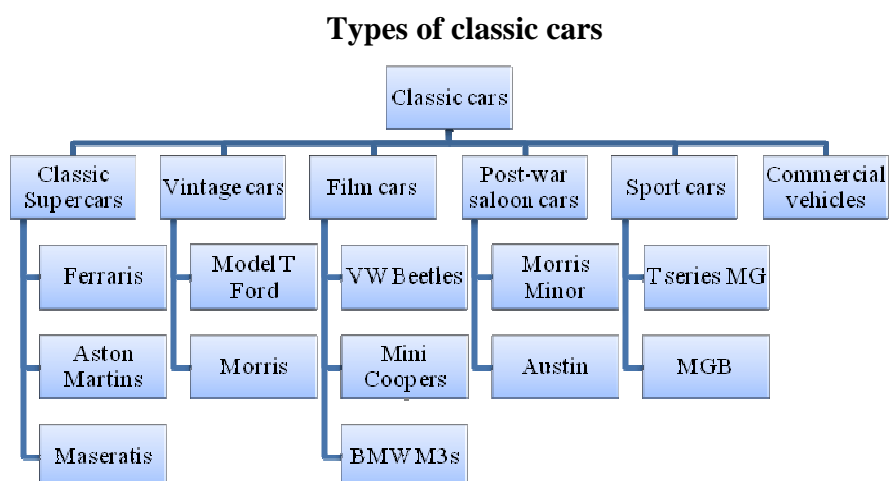
<sup>255</sup> P. Temple, *op.cit.*, Harriman House Publishing, Hampshire 2004, pp. 23-44.

<sup>256</sup> [www.middleeast-antiques.com](http://www.middleeast-antiques.com) [10.08.2012].

<sup>257</sup> [www.themagazineantiques.com/news-opinion/the-market/2009-12-30/2009-top-auction-results](http://www.themagazineantiques.com/news-opinion/the-market/2009-12-30/2009-top-auction-results) [10.08.2012].

<sup>258</sup> P. Temple, *op. cit.*, pp. 23-44.

<sup>259</sup> *Ibidem*, pp. 109-125.



Source: author's compilation based on P. Temple, *op. cit.*, pp. 109-125.

Current trend on the market is to invest in European and old/vintage cars<sup>260</sup> plus the cars from the group of post-II World War times<sup>261</sup>. Last auction results show interest in cars from the period from 1930s to 1970s<sup>262</sup>. Similarly to the situation of antique investments, financial institutions in Islamic world are not offering any types of products related to investment in classic cars. As a part of concierge services, both HSBC Amanah and Kuwait Finance House, are offering advisory and tickets for car-related events.

## 2.4. Books investment

Investing in books is quite popular type of investment in the group of Islamic private banking customers<sup>263</sup>. From the technical point of view, books are worth to invest are classified into eight groups: science fiction, fantasy & horror, sport, crime, military, children's book, travel, modern 1<sup>st</sup> editions and religious.

Most of the copies from every book group are described as written by classical authors. In case of the group "Science fiction, fantasy & horror", the most worthy books are those from 19<sup>th</sup> or 20<sup>th</sup> century, written by Dean Koontz and Stephen King. Sport books related to the classic sports like hunting, shooting, motor sport, golf and fishing are the most valuable. In group "Crime" authors like Ian Fleming and Agatha Christie are the best to invest in. From the "Military" group, books about World War II and American Civil War are the most wanted. The most popular authors in the group of "Children books" are JM Barrie, Roald Dahl and JK Rowling. Investors, who decide to concentrate on the "Travel" group,

<sup>260</sup> [www.carmiddleeast.com/article-2-325-classics\\_\\_a\\_worthy\\_investment](http://www.carmiddleeast.com/article-2-325-classics__a_worthy_investment) [13.09.2012].

<sup>261</sup> [www.thenational.ae/lifestyle/motoring/hammer-time-bonhams-classic-car-auction-in-dubai](http://www.thenational.ae/lifestyle/motoring/hammer-time-bonhams-classic-car-auction-in-dubai) [13.09.2012].

<sup>262</sup> [www.ameinfo.com/175691.html](http://www.ameinfo.com/175691.html) [13.09.2012].

<sup>263</sup> [www.muslimheritage.com/topics/default.cfm?articleID=292](http://www.muslimheritage.com/topics/default.cfm?articleID=292) [20.09.2012].

prefer classic book full of maps, photos and graphics. In the group “Modern 1<sup>st</sup> editions”, the precious ones are books published in the early part of 20<sup>th</sup> century. “Religious” group is mainly important among the Islamic investors, so books such as Koran, Koranic prayers and Musbah Kahfami are the most popular and precious ones<sup>264</sup>.

According to the information from auction houses, the most expensive Islamic book, which was sold on the last Islamic auctions was group of Ottoman calligraphy from 19<sup>th</sup> century in the price of 38 450 British Pounds<sup>265</sup> and Ottoman prayerbook signed by Husseit Sakin from 17<sup>th</sup> century sold by 15 000 British Pounds<sup>266</sup>. Both were sold by Christie’s auction house. Similarly to other passion investments, investing in books is treated as a long term investment. Because of the fact, that books are not strictly connected with financial market, the investment can play the role of hedge against the economic downturns or inflation<sup>267</sup>. Unfortunately, neither conventional banks nor Islamic one offer any related financial products, except from advisory services and regular takaful products.

## 2.5. Investing in stamps

Investing in stamps is not as popular among Islamic investors as books’ investing. Its’ characteristics are almost the same as in case of other passion investments. In sum, stamps’ investing is treated as medium- or long term one, market is quite liquid and it has no strict connection with financial market, so it is a kind of security for investors in time of economic downturn. Technically, there are four basic differentiations of worthy stamps’ investment approaches: geographical, used, unused and other<sup>268</sup>.

Investors with geographical approach focus on the stamps related to historical events, history of Great Britain, Commonwealth, North America, France and China. Other approach is described as focusing on stamps relate to space travelling, development of air transportation, postal history and animals, especially ornithology stamps. Additionally, there are two opposite approaches – investment in used stamps and unused ones. Practically, the most expensive stamp related to Islamic calligraphy was sold by Sotheby’s auction house by around 60 000 British Pounds<sup>269</sup>. Banks and financial institutions, both conventional and

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<sup>264</sup> [www.biddingtons.com/content/expertislamicbook.html](http://www.biddingtons.com/content/expertislamicbook.html) [20.09.2012].

<sup>265</sup> [www.christies.com/lotfinder/lot\\_details.aspx?from=salesummary&intObjectID=5360269&sid=e762bbed-75ed-42e8-845f-2caebe4d264f](http://www.christies.com/lotfinder/lot_details.aspx?from=salesummary&intObjectID=5360269&sid=e762bbed-75ed-42e8-845f-2caebe4d264f) [20.09.2012].

<sup>266</sup> [www.christies.com/lotfinder/lot\\_details.aspx?from=salesummary&pos=2&intObjectID=5360231&sid=30554f61-6725-401d-bacf-2254ec7229bf](http://www.christies.com/lotfinder/lot_details.aspx?from=salesummary&pos=2&intObjectID=5360231&sid=30554f61-6725-401d-bacf-2254ec7229bf) [20.09.2012].

<sup>267</sup> P. Temple, *op. cit.*, pp. 85-109.

<sup>268</sup> *Ibidem*, pp. 207-231.

<sup>269</sup> [www.sothebys.com/app/live/lot/LotDetail.jsp?lot\\_id=159663331](http://www.sothebys.com/app/live/lot/LotDetail.jsp?lot_id=159663331) [20.09.2012].

Islamic ones are not offering any forms of stamps' market related products, except for advisory in the group of concierge services.

## 2.6. Investment in coins and banknotes

Investment and coins' collecting are popular among the Islamic investors, mainly because of the ancient history of Arabic regions. Investing in coins has long term character. It is hedging against the economic downturn and inflation alike other passion investments. There are two basic approaches of coins' investment:

- investing in ancient, hammered coins,
- investing in modern, milled coins.

In addition, it is essential for investor to focus on one issue like investment in coins' from country or region. The most recommended is investing in coins' from investors' life country. Plus focus on one historical era<sup>270</sup>. In accordance to the data from auction houses, latest most expensive Islamic coin was bronze one sold by 352 American Dollars by Christie's auction house<sup>271</sup> and collection of Ancient and Islamic coins priced to 2420 British Pounds by Sotheby's auction house<sup>272</sup>. Banks and financial institutions are not offering special financial products related to coins. Only advisory for the wealthiest clients is available in the group of concierge services.

Banknotes are not as popular among Islamic investors as coins, but because of the similar characteristics like protection from economic downturn, and strong diversification role, are worth to mention. From technical point of view, there are three types of investment approaches: geographical, historical and based on errors.<sup>273</sup> The most common approach is historical one, where investors focus on the banknotes with lower than 1 American Dollar or 1 British Pound face value, mainly from Colonial areas and Confederate states. As far as banknotes printed in early 1800s. Geographical approach is quite popular and shows focus on the banknotes only from investors' life country. Errors approach brings together investment in banknotes with errors made during printing process like missing signature, cutting or paper mistakes and non-matching serial number<sup>274</sup>. Practically, banknotes are much more expensive than coins. For instance, latest auctions in Sotheby's and Christie's auction houses show sale

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<sup>270</sup> P. Temple, *op. cit.*, pp. 125-143.

<sup>271</sup> [www.christies.com/LotFinder/lot\\_details.aspx?from=searchresults&intObjectID=2301849&sid=68a9e347-ee2b-4d47-9728-7bdc705cff66](http://www.christies.com/LotFinder/lot_details.aspx?from=searchresults&intObjectID=2301849&sid=68a9e347-ee2b-4d47-9728-7bdc705cff66) [20.09.2012].

<sup>272</sup> [www.sothebys.com/app/live/lot/LotDetail.jsp?lot\\_id=39YHN](http://www.sothebys.com/app/live/lot/LotDetail.jsp?lot_id=39YHN) [20.09.2012].

<sup>273</sup> P. Temple, *op. cit.*, pp. 67-85.

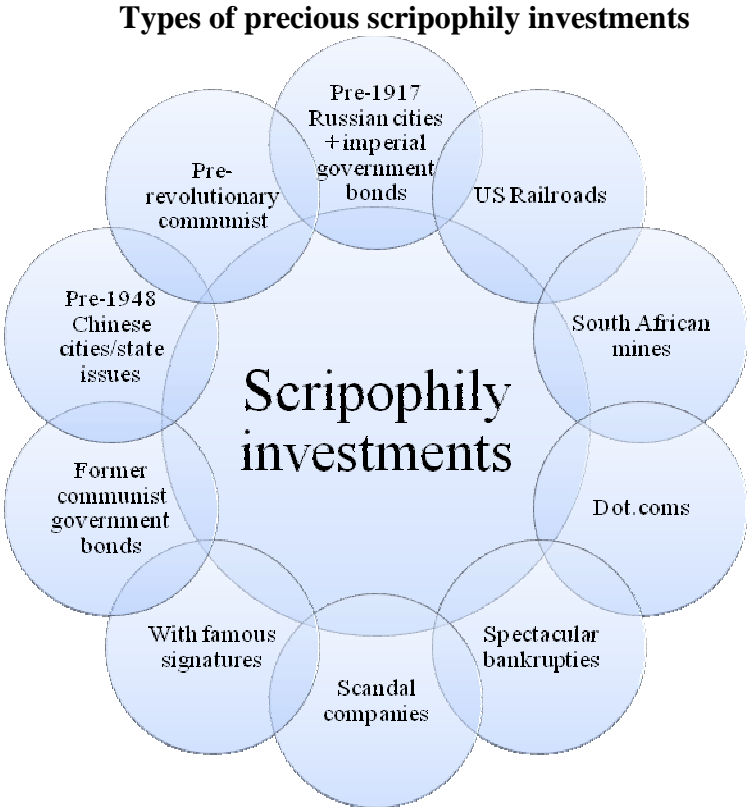
<sup>274</sup> *Ibidem*, pp. 67-85.

of Dinar for 3 520 British Pounds<sup>275</sup> and Silver Dirhem for 2 310 American Dollars<sup>276</sup>. The wealthiest Islamic customers, as well as conventional ones, can benefit only from concierge services in relation to banknotes investment.

**2.7. Scripophily investment**

Scripophily investment in the other words means investment in historically issued securities like bonds or shares. Characteristics of scripophily are the same as banknotes’ ones. Generally, there are ten valuable types of historical securities. Classification is shown in the Graph 3.

Graph 3



Source: author’s compilation based on P. Temple, *op. cit.*, pp. 67-85.

In addition to the types of valuable scripophily investments mentioned on the Figure 3, Islamic investors are interested in their local historical bonds. The most popular group are Ottoman shares<sup>277</sup>. As far as, investment in banknotes or coins, scripophily investment is not offered by banks in any form, except from regular concierge advisory for private banking customers.

<sup>275</sup> [www.sothebys.com/app/live/lot/LotDetail.jsp?lot\\_id=32D5S](http://www.sothebys.com/app/live/lot/LotDetail.jsp?lot_id=32D5S) [20.09.2012].

<sup>276</sup> [www.christies.com/LotFinder/lot\\_details.aspx?from=searchresults&intObjectID=317819&sid=0d31cc9f-65d8-4eab-b726-ba7da2c7cbf4](http://www.christies.com/LotFinder/lot_details.aspx?from=searchresults&intObjectID=317819&sid=0d31cc9f-65d8-4eab-b726-ba7da2c7cbf4) [20.09.2012].

<sup>277</sup> [www.scripophily.com](http://www.scripophily.com) [20.03.2011].



## 2.8. Investment in gold

Investment in gold is another type of long term investment, which is popular both among Islamic and conventional customers. Gold investment is described as safe, especially in times of economic downturn, when it still keeps value. In addition, it is negatively correlated to other financial assets, so it is treated as a hedging instrument. Technically, there are three possible form of investment in gold: physical, ETFs and investment funds

Those mentioned methods are available for both types of investors and some of them are recognized as Sharia'a complaint. Physical investment method is simply purchasing bars of gold and keeping them in secured place, what is connected with additional financial instrument – takaful or insurance<sup>278</sup>. Exchange Traded Fund (ETF) is another type of Sharia'a complaint investment connected with gold. In the case, investor purchase shares of the company, which is responsible for purchasing and storing gold on behalf of investor. Islamic example of it, is Gold ETF established by Al Bogari Islamic Gold in cooperation with Dubai Gold Securities<sup>279</sup>. Investors, who are interested in investment funds and want to be engaged in gold related industries can invest in the companies related to gold exploration<sup>280</sup>. Sometimes is possible to invest in the equity funds, which cover sectors related to gold like HSBC Amanah Global Emerging Markets Equity Fund, where portfolio is covered in 8% by gold-related companies<sup>281</sup>.

## Conclusions

Article turns to the questions of significant differences between Islamic and conventional investments. The whole article discusses and proves that the strongest differences are not noticeable in the group of alternative investment as opposed to banking products. All data shows that Islamic investment sector is constantly evaluating to offer even more sophisticated products, than conventional ones. As the Islamic private banking history started 50 years ago by Dubai Islamic Bank, financial institutions continually widen its offer. What emerges from discussion led in article – from conventional customer point view, it is possible to differentiate between Islamic and conventional investment products. Additionally, Islamic investments be treated as ethical and less risky alternative for conventional customers. As a conclusion, as the result of the financial crisis investors and wealthy customers for more secure instruments with comparable rates of return. This is exactly

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<sup>278</sup> Takaful is described as cooperative, mutual insurance

<sup>279</sup> [www.shariah-fortune.com/component/content/article/5-comments/24-islamic-gold-investment-preserve-your-money](http://www.shariah-fortune.com/component/content/article/5-comments/24-islamic-gold-investment-preserve-your-money) [24.09.2012].

<sup>280</sup> P. Temple, *op. cit.*, pp. 189-207.

<sup>281</sup> Internal HSBC Amanah documents.

what is done by Islamic financial institutions and what can be a factor for further success of Islamic products and services in the group of conventional customers.

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## **Summary**

Islamic finance in the world of conventional finance is shown as specified type of finance dedicated to certain group of customers – Muslims. That is one of the reasons why the level of information covered the field is so limited. Overall goal of the article is to present the specified part of the Islamic finance – alternative investment, which are both in conventional and Islamic form, the newest parts of the whole area of investment. Going through eight groups of alternative investments with the introduction about the characteristics of the Islamic (Sharia'ah based) products, foundations with empirical combination of examples of Islamic investments are presented. Data for the research was collected in the HSBC Amanah and Kuwait Finance House. Its' character is not quantitative, the method of data collection is

interview with representatives of the institutions and analysis of internal financial documents. Research resulted in presentation of various types of the investments, which are similar to the alternative investments dedicated to conventional customers. In addition, study arose to fact that Muslim investors had almost the same number of investment products available as conventional once. The situation developed the conclusion that Islamic investments are the same attractive to both conventional and Muslim investors. What is more, the products are available in more and more financial institutions. Examples used for the research are both applicable for conventional customers, but for Muslim once only Kuwait Finance House is fully Sharia'ah complaint institution.

## **ISLAMSKIE INWESTYCJE ALTERNATYWNE W EUROPIE ZACHODNIEJ**

### **Streszczenie**

Finanse islamskie przedstawiane są jako mała, dedykowana tylko inwestorom muzułmańskim grupa produktów. Jest to jedna z przyczyn, które powodują, że wiedza na ten temat jest bardzo ograniczona. Głównym celem artykułu jest przedstawienie najbardziej wyszukanej grupy produktów, tj. inwestycji alternatywnych, które zarówno w formie islamskiej, jak i konwencjonalnej traktowane są jako nisza. Artykuł rozpoczyna się od przedstawienia podstaw finansów islamskich, która pozwalają na zrozumienie różnic pomiędzy produktami konwencjonalnymi a Islamskimi. Następnie przedstawione jest osiem podstawowych grup produktów w formie teoretycznej, wsparte empirycznymi przykładami. Informacja do przygotowana artykułu opierają się o wywiady z przedstawicielami instytucji finansowych, gałęzią bankowości muzułmańskiej w konwencjonalnym banku HSBC Amanah i drugiej instytucji finansowej – Kuwait Finance House. Uzyskane informacje mają charakter opisowy, nie liczbowy. Uzupełnieniem do wywiadów była analiza wewnętrznych dokumentów instytucji.

Badania umożliwiły wyodrębnienie grup produktów inwestycyjnych, podobnych w swoim charakterze do produktów konwencjonalnych. Dodatkowym wnioskiem wpływającym z badań jest fakt, iż stosunkowo taka sama liczba produktów jest dostępna dla klientów muzułmańskich i zwykłych, konwencjonalnych klientów instytucji finansowych. Dodatkowo, atrakcyjność alternatywnych islamskich produktów inwestycyjnych wydaje się być porównywalna dla klientów konwencjonalnych.