

# SHARED RISK & REWARD

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## My Reading List

- Saudi mortgage law is a boon for takaful operators ([link](#))
- Tamweel postpones \$235m RMBS ([link](#))
- Islamic mortgage market in Malaysia ([link](#))
- The potential for Islamic MBS ([Sharing Risk blog](#))
- The economics of Islamic securitization ([PDF](#))

## Blog Posts This Week

- [Kazakhstan's first sukuk and the potential public benefit from government sukuk issuance](#)
- [Money as a store of value in Islamic economics](#)

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## Islamic RMBS sukuk

The sukuk market is one of the most important areas of development in the Islamic finance industry, both for financial institutions, and pension and takaful funds because it provides a source of Shari'ah-compliant fixed income investment, which is important for portfolio diversification.

The sukuk market is growing rapidly, with 2012 seeing issuance in excess of the previous peak level in 2007. One area has yet to develop in sukuk markets is mortgage-backed securities (MBS). MBS can provide an important source of new issuance, but with few exceptions, there is limited issuance outside of Malaysia. Tamweel planned a \$235 million RMBS in June, but in early July pulled it when investors balked due to its complicated structure and questions about the Dubai real estate market.

The recent Saudi mortgage law is expected to be a [boon for takaful operators](#) in the Kingdom, because the properties financed will need to be insured, which should increase demand for takaful. With this increased demand, takaful operators will need to find investments that can provide fixed income returns to balance the equity investments in the portfolio.

Since the Saudi takaful market uses, Ta'awuni model, where the takaful

operator shares in the investment income in the portfolio, takaful operators will want to ensure that the portfolio generates a steady stream of income. Even with an increasing number of sukuk issued in Saudi Arabia, the mortgage law could increase this supply if MBS are issued, backed by the increasing numbers of mortgages that could be forthcoming.

This would provide a benefit to takaful operators that rivals the benefit from the increased demand by providing a larger supply of fixed income investments for the premiums contributed by policyholders, a portion of the profits of which are paid to the takaful operator. As the investor caution towards the Tamweel RMBS demonstrated, there is significant work that needs to be done in order to establish investor confidence in RMBS sukuk, the potential issuance is large.

In the US, the market for RMBS is huge, currently \$13.7 trillion, which is roughly the size of government bonds outstanding. If successful, RMBS sukuk backed by Saudi mortgages could create a large supply of new investments for takaful firms, as well as financial institutions and pension funds.

Until next week,  
Blake Goud