

# Gold in Islamic finance - investor insights

Market update: March 2019

## Introduction

Gold has a deep historical connection with Islamic finance but its development as an asset class was limited by a lack of Shari'ah guidance. In 2016, this much-needed guidance was provided by the AAOIFI Shari'ah Standard on Gold, developed in collaboration with the World Gold Council.<sup>1</sup> This removed one of the barriers preventing the development of gold-backed products in Islamic finance. In 2018 we undertook research to understand how investors view Islamic finance, their attitudes towards gold, and preferences for gold-backed products. The insights summarised in this update will help banks and other institutions to launch gold-backed financial products that meet the needs of modern Islamic investors.

<sup>1</sup> The Accounting and Auditing Organisations for Islamic Financial Institutions (AAOIFI) and the World Gold Council collaborated to develop an international Shari'ah Standard for gold. For more information, visit [shariahgold.com](http://shariahgold.com)



## Gold in Islamic finance

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Gold has a long association with Islamic finance. For centuries, the gold Dinar was the currency and trading standard of the Islamic world. But as Islamic finance grew and developed, so did the need for clarity around the Shari'ah treatment of gold: as a Ribawi item, it is subject to strict trading rules. Debate about whether gold is a currency or commodity hampered investment.

This uncertainty was removed following the 2016 launch of the Shari'ah Standard on Gold, which provides a comprehensive framework for the development of gold-backed financial products, including gold ETFs, investment accounts, savings plans and spot contracts. Since the Standard was launched, a number of new Shari'ah-compliant products have been developed.

We have been working with Islamic banks and other financial institutions since 2016 to further develop the market for Shari'ah-compliant gold-backed products. As part of our engagement, in 2018 we partnered with global research agency Kantar TNS to conduct a comprehensive survey of 4,000 retail investors in four predominantly Muslim markets – Saudi Arabia (KSA), United Arab Emirates (UAE), Turkey and Malaysia – to gauge their attitude and approach towards Islamic investing and gold.<sup>2</sup>

<sup>2</sup> For detail on the research methodology and sample, see World Gold Council, *Gold in Islamic finance: retail investor insights*, 2018.

# Islamic investment trends

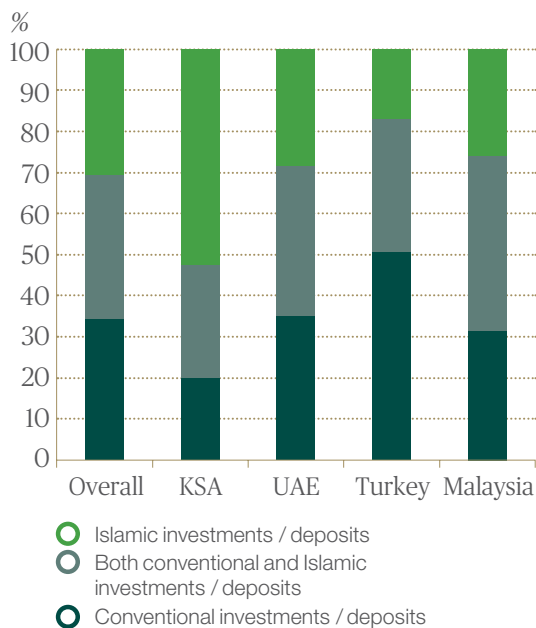
Islamic finance is a large market. In 2017, total assets surpassed US\$2tn for the first time. And it is growing: some estimates suggest a long-term compound average growth rate of over 9%.<sup>3</sup>

This positive outlook is reflected in the findings from our research. Two-thirds of those we surveyed would prefer their investment holdings to include Islamic products. Just under one third, on average, would prefer to hold purely Islamic investments (**Chart 1**).

And a clear majority (76%) of investors open to holding Islamic products stated that they were likely to increase their investment in Islamic products in the next 12 months. In Malaysia – a market that has pioneered product development in Islamic investment – investors showed the greatest inclination to build their exposure to Islamic investments, highlighting the link between Shari’ah-compliant product innovation and retail investor participation. As the market for Islamic finance grows, product diversity will be key to both meeting the financial needs of consumers and increasing the resilience of the Islamic finance system. It is essential that investors have access to Shari’ah-compliant safe haven assets and powerful financial diversifiers; gold plays these roles and more.

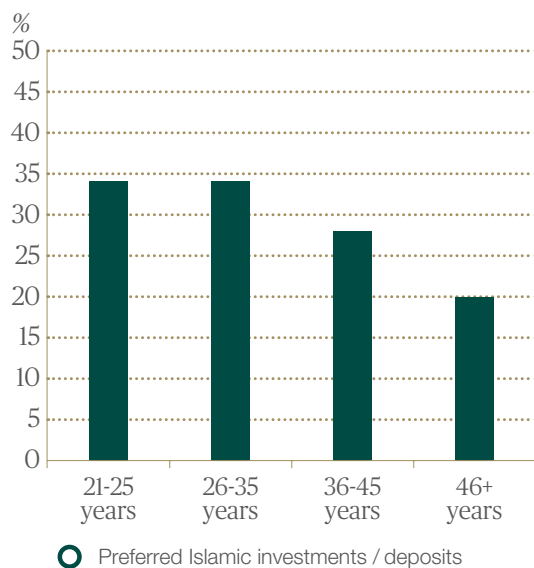
Interestingly, younger investors are more likely to show a preference for Shari’ah-compliant investments (**Chart 2**).

**Chart 1:**  
**Preference for Islamic investments**



Source: Kantar TNS; World Gold Council

**Chart 2:**  
**Younger investors prefer Islamic investments**



Source: Kantar TNS; World Gold Council

<sup>3</sup> IFSB, *Islamic Financial Services Industry Stability Report*, 2018.

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The pace of product development and innovation in this industry in recent years has created a diverse range of Shari'ah-compliant products designed to meet contemporary investment needs, which may have attracted younger generations into the market.<sup>4</sup> Younger investors are more likely to be assertive and undertake due diligence on Islamic products – they are more likely to consult a scholar or insist on seeing the relevant Fatwa before coming to an investment decision. Marketing materials emphasising the Halal credentials of these new products may therefore land well within this generation (see **Focus 2: Millennials**).

And Islamic investors do not choose these products purely on religious grounds; 47% of survey respondents thought Islamic investments were safer than conventional ones, while 49% thought that they were more ethical.

More broadly, Islamic finance can address a pressing policy issue facing many predominantly Muslim countries: financial inclusion. For example, according to the World Bank, only 14% of the Saudi Arabian population had formally saved money at a financial institution in 2017. The further development of Islamic finance will ensure Islamic investors have access to a wider range of products which meet their investment needs, which may boost financial inclusion. Our research shows that gold can play an important role in this. (**Focus 1: Gold and financial inclusion.**)

## Focus 1: Gold and financial inclusion

Financial inclusion is often relatively low in Muslim-majority countries. One way of addressing this would be to increase the diversity of available products to meet the contemporary financial needs of the unbanked. This is even more important in Islamic finance where the range of financial products is relatively limited.

The launch of the Standard means that more sophisticated gold-backed products can be developed, with low entry points, boosting financial inclusion in parts of the world with a high population of “un-banked.”

Gold is also well positioned to take advantage of the rapid development in mobile banking. According to the World Bank's 2017 Global Findex report, two-thirds of unbanked adults have a mobile phone, and financial institutions are taking advantage of this. In 2015 in Turkey, for example, few adults had mobile money accounts. Three years later, that had increased to 16%.<sup>5</sup>

And around the world many fintech starts up have developed mobile apps that allow investors to buy and sell gold: WeGold in China, SafeGold in India, and Shari'ah-compliant HelloGold are all examples of innovative companies making it easy for people to invest in gold through their mobile phones.

Finally, but perhaps most importantly, the AOIFI Shari'ah Standard on Gold provides clarity to banks and financial institutions seeking to create a broad range of gold-backed financial products to meet investors' needs. As our research reveals, Shari'ah compliance is an important requirement among Islamic investors. Addressing this removes a barrier to financial inclusion.

<sup>4</sup> Malaysia International Islamic Finance Centre, *Technology and Innovation in Islamic Banking*, 2016.

<sup>5</sup> World Bank Group, *The Global Findex Database*, 2017.

# Attitudes towards gold

The importance of ‘safety’ in driving investment decisions in Islamic finance makes gold an attractive asset class. It is a physical asset, outperforms many other Islamic asset classes, and has little correlation to other financial instruments.<sup>6</sup> Our research looked at attitudes to gold and some of the different gold products now available in Islamic markets.

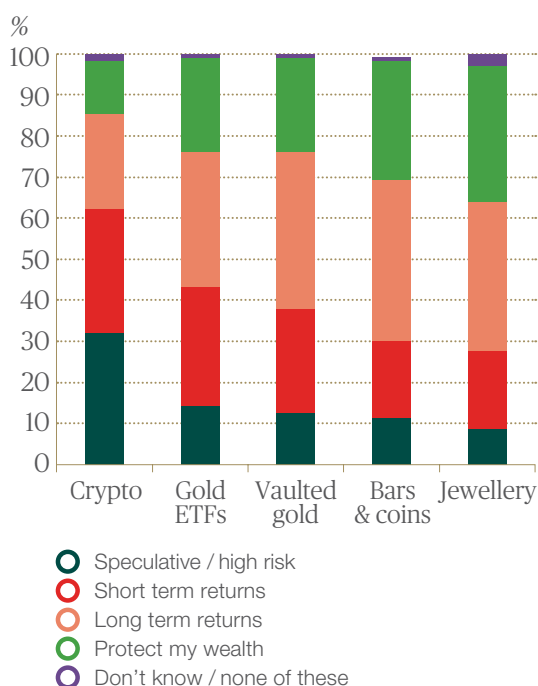
Different gold investment products can meet different investor needs. Gold bars, coins and high-carat jewellery are chiefly viewed as protecting wealth or generating long-term returns. Gold-backed financial products, including ETFs and investment accounts, are also seen as fulfilling these roles, but these products are also more likely to be thought of as speculative or a means of generating short term returns. **(Chart 3)**

These subtle variations in the way investors view different gold investment products are understandable: physical gold stored at home or in a vault is a tangible investment held outside the financial system. It may have strong cultural and traditional links, underpinning its role as a long-term investment. On the other hand, gold-backed financial products such as ETFs are designed to be easily traded, either online or over the phone. Their transparent fee-structure may chime more strongly with investors seeking short term returns.

Despite the slightly higher risk-profile that these investors attach to gold-backed ETFs compared with more ‘traditional’ gold products, they are nonetheless considered to be a ‘safer’, longer-term wealth protection vehicle than some other types of investment, including equities and even corporate and government bonds. And they are viewed as being far less ‘risky’ than cryptocurrencies. Only 20% of those we surveyed were invested in cryptocurrencies – and they primarily did so to meet short-term or speculative objectives.

Interestingly, though, the proportion of investors holding cryptocurrencies was higher among those already investing in gold: 25% of gold investors also had an allocation to cryptocurrencies. The fact that investors view these products as performing different functions helps explain the overlap: they may be viewed as balancing one another out.

**Chart 3:**  
**Differing role of investments in gold and cryptocurrencies**



Totals may not add to 100 due to rounding.

Source: Kantar TNS; World Gold Council

<sup>6</sup> For more information, see [shariahgold.com/the-case-for-gold](http://shariahgold.com/the-case-for-gold)



# Key product features

## Focus 2: Young Millennials

Those aged between 21 and 25 are a relatively engaged group of investors. According to our survey they are generally likely to invest a higher proportion of their income than investors in any other age group.

On the whole, this younger investor group has an encouragingly positive mindset towards gold. And their perceptions of the roles played by different investment products are revealing. Young millennial investors are among the most likely to see gold-backed ETFs and gold investment accounts as long-term investments.

Certainly, they tend to focus on less traditional sources of information when making investment decisions. Broadly, young millennials are less likely than older investors to consult financial advisors or investment specialists, bank representatives or financial newspapers before investing. They are, though, among the most likely to use social media as a source of investment information.

When it comes to assessing the Shari’ah-compliance of an investment product, this younger investor group have stricter criteria than older investors. While 43% of young millennials will trust a bank’s description of its product as being Shari’ah-compliant, this is notably lower than other age groups, where at least half of all investors are happy to accept the bank’s description. More than one quarter (26%) of young Millennials will insist on seeing the relevant Fatwa confirming a product is Shari’ah-compliant, compared with 22% of investors overall.

To support further development of the market for Shari’ah-compliant gold investments, our survey explored three gold investment products – gold bars and coins, vaulted gold products (e.g. gold investment accounts) and gold-backed ETFs – to identify which features best appealed to Islamic retail investors.<sup>7</sup>

Most respondents expressed a strong preference for gold bars and coins and, to a lesser extent, vaulted gold. Far fewer said they would prefer the gold-backed ETF investment option. This reflects the current availability of products in Islamic finance, and as more sophisticated products are launched, and understanding of the role of different products increases among investors, these preferences are likely to change.

Table 1: Investor product preference

Product	Percentage
Gold bars and coins	45
Vaulted gold / Gold investment accounts	36
Gold-backed ETFs	13
Don't know	7

Totals may not add to 100 due to rounding.  
Source: Kantar TNS; World Gold Council

*Question: Out of the three gold or gold-backed product concepts which one do you like the most?*

But, despite the clear preference for bars and coins, there were elements of each of the three products that investors found appealing.

- Simplicity and clarity.** Respondents tended to prefer gold bars and coins chiefly because they find the product easy to understand. The simplicity of buying a tangible investment, which is also easy to sell, helps explain its popularity.

<sup>7</sup> Vaulted gold covers gold investment products which are stored at a professional vault on the investor’s behalf.

## Summary

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But there is room for improvement. Some investors would benefit from greater clarity around how and where to sell their gold and the fees they will pay to do so.

- **Convenience and security.** Vaulted gold products, such as gold investment accounts, are recognised for their convenience – notably, their minimal investment requirements and online accessibility. Security is also seen as a benefit: in particular, the ability to store gold safely with a bank or bullion dealer – rather than at home – is a key attraction. The respondents would, however, prefer the additional convenience and security of being able to store the gold within their own country. And they would like to be able to redeem their gold holdings quickly.
- **Seamless trading.** Although gold-backed ETFs were a less popular choice, the speed and ease of online trading that they offer is seen as a major benefit among those who said they prefer these products. Investors also prized the security offered by the gold being held in an allocated account.

But there was a perception among investors that gold-backed ETFs were associated with a higher level of risk than the other products: the fact they can be traded on an exchange meant many of these retail investors felt it is a more sophisticated investment product than they are comfortable with.

And one over-riding theme to come through was the importance of physical gold. If they are to invest in a gold-backed ETFs, retail investors want the ability to redeem their investment in physical gold should they choose to sell. Almost two-thirds of investors (65%) would prefer to receive physical gold rather than cash if they were to sell an investment in a gold-backed ETF. The same was true for vaulted gold, highlighting the strength of the connection with the physical underlying gold.

Our research gives unprecedented insight into the preferences, perceptions and behaviours of Islamic investors. It showcases the clear opportunity for gold in Islamic finance, with 76% of Islamic investors we surveyed open to increasing their exposure to Islamic investments in the near future.

Gold's Shari'ah-compliance is a recognised benefit among this audience. On the whole, they view gold as long-term investment, which chimes with their perception of Islamic investments as being 'safer' than conventional investment products. And there are key features associated with different gold products that resonate among these investors. If these product attributes are clearly and effectively communicated, gold has a clear opportunity to cement and strengthen its position in Islamic finance.

# About the World Gold Council

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The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight, and we work with a range of partners to put our ideas into action. We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East and the US, the World Gold Council is an association whose members comprise the world's leading gold mining companies.

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