

## A new ESG Shariah compliant unit-linked contract for the European market



TAKAFUL & RE-  
TAKAFUL (EUROPE)

By Ezzedine Ghlamallah

Despite the health crisis linked to COVID-19, 2020 has been prolific for the development of Islamic finance in Europe. Indeed, during the annual Patrimonia Fair held in Lyon, France and dedicated to wealth management, Conexcap, a French fintech specializing in Islamic finance, and Afi Esca Lux, a Luxembourg insurance company, officially launched Future Generation Life, a new Luxembourg life insurance contract that respects the principles of environmental, social and governance (ESG) and Islamic finance.

The Shariah certification of this new solution has been entrusted to ACERFI members in charge of certification and auditing.

Future Generation Life was designed through a master brokerage agreement

allowing Conexcap to take care of distribution through its affinity network and Afi Esca Lux to devote itself to management. The solution with its ESG approach must also be offered outside affinity circuits in order to be offered to as many people as possible outside the niche of Muslims in Europe.

Future Generation Life will be available in France, Belgium and Luxembourg. The Conexcap and Afi Esca Lux teams worked for one year to bring the product to the market. The time to market was reduced by one year, which is very short in the world of insurance, and is testament to the responsiveness of the teams of these players and shows their stated desire to occupy the place left vacant by Swiss Life and Vitis Life which have withdrawn, due to lack of commercial success, their respective offerings from the European Islamic life insurance market.

Future Generation Life allows individuals to have a Luxembourg contract from an initial payment of EUR5,000 (US\$5,916.09)

and the innovative services of a robo-advisor to manage the three types of risk profiles identified by clients: prudent, balanced and dynamic.

A secure alternative fund to the euro fund has been designed and allows, through a collective internal fund, investment in real assets. It is also possible for contract holders to invest in different funds eligible for the contract.

Allocation is made via the robo-advisor on around 10 funds according to the levels of the Synthetic Risk and Reward Indicator. Therefore, there is no individual allocation made by the investor. Only qualified investors can claim a specific fund-by-fund allocation. In the long term, Conexcap and Afi Esca Lux expect to raise EUR100 million (US\$118.32 million). ☺

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## Rating shopping — myth or reality?



RATINGS

By Muhammad Owais Atta Siddiqui

Rating shopping is an old concept which occurs when an issuer chooses the rating agency that assigns highest ratings or that has the most relaxed criteria for achieving the desired ratings. While rating shopping has rarely been seen in sovereign or corporate bonds, it has largely been witnessed in securitization issues and remained one of the key problems in the 2008 financial crisis.

During the 2008 financial crisis, financial institutions used mortgage-backed securities which were further securitized under several different tranches through the creation of SPVs. The financial institutions did securitization in a way that it was almost impossible for rating agencies to assess the actual risk and that resulted in higher assigned ratings.

Since then, regulators had been working on strengthening the reporting

requirements to avoid any such issues of rating shopping. But despite the consistent steps by the regulators, new fines were imposed for rating shopping on Kroll Bond Rating Agency on ratings in the securitized debt market during October 2020.

While the phenomenon of rating shopping has been widely discussed in conventional banking, we have hardly observed any significant stances of rating shopping instances in Islamic finance. The strength of Islamic finance products come from the strong product structure. As a matter of principle, Islamic finance does not involve any product which does not have an actual value and hence, all forms of derivatives are not allowed under Islamic finance.

The strength of the Islamic finance rating structure also comes from strong regulatory standards by AAOIFI and the IFSB. While there are certain defined standards on risk management and credit ratings, AAOIFI issued a separate standard on Shariah quality ratings to

further strengthen the rating regime with a set standard globally.

National regulators have also been playing a significant role in minimizing rating shopping practices. For example, in Pakistan, the Securities and Exchange Commission of Pakistan has defined strict regulatory requirements and actually penalized one of the two rating agencies in Pakistan back in 2016 for rating shopping practices. While 'rating shopping' is a reality rather than a myth, the practice has been less observed in the Islamic finance domain which further proves the authenticity and strength of Islamic finance products. ☺

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