

The Role of the Dow Jones Islamic Market Index in Islamic Finance

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ABSTRACT

Dow Jones Indexes is a leader in creating innovative indexes for established and emerging markets. The Dow Jones Islamic Market Index (DJIM) was launched in Bahrain on February 9, 1999. The DJIM was launched because a global Islamic index did not exist, and Dow Jones Indexes' objective was for the DJIM to become the industry benchmark. Islamic investors have been seeking transparency and accountability to measure the relative performance of their portfolios. Islamic funds and fund sponsors were seeking an established index provider to create a *sharī'a*-compliant benchmark and a universe to structure *sharī'a*-compliant investment products. Presently, Dow Jones Indexes calculates (real time) and disseminates six Islamic indexes, and Islamic index certificates have been launched by DJIM licensees such as Brown Brothers Harriman, Wafra Investment Advisory Group, Samba Capital Management International, Merrill Lynch, and others.

I. INTRODUCTION

Dow Jones and Company, a Fortune 500 company listed on the New York Stock Exchange, is probably best known as the publisher of the Dow Jones Industrial Average, but is also the publisher of *The Wall Street Journal* and its international and interactive editions. Other publications include Barron's and SmartMoney magazines and other periodicals; Dow Jones Newswires and Dow Jones Indexes; and the Company is also the co-owner of Dow Jones Reuters Business Interactive which is a joint venture with Reuters in the desktop publishing world, and the CNBC television operations in Europe and Asia. The Company also provides news content to CNBC in the United States.

II. HISTORY AND DOW JONES' INDEXES

Dow Jones Indexes published its first index in 1882. It was made up of a number of stocks that were traded in New York—principally railroad stocks—that later became the famous Dow Jones Industrial Average, which is internationally considered the most important indicator of the United States economy, and equity market prices in the United States generally. The index environment is extremely competitive, however, and the Company has been trying to take advantage of certain trends in marketplaces, and provide index solutions and measurement tools for investors globally. The first example of this is a set of indexes for Europe, launched about 18 months ago, called the Dow Jones STOXX family of indexes. The rationale for these indexes is that with monetary union coming to Europe, residents of the countries joining the Euro zone can suddenly consider investing across their borders without currency risk. Since the introduction of the indexes it is probably fair to say that Dow Jones has become the dominant equity benchmark for the emerging Euro zone. It also publishes a whole series of internet indexes; the most recent being an index that seeks to measure certain aspects of Sustainability, an emerging investment concept which considers a combination of factors, including adaptive use of technology, sensitivity to the environment and a clear concern for the social welfare of the company's employees and constituencies.

III. THE DOW JONES ISLAMIC MARKET INDEX

The Company decided to launch the Islamic Market Index because it had been observed that a number of investment managers were seeking to run exclusively *sharī'a*-compliant investment management. This market was expected to grow extremely quickly, and Dow Jones decided that it was possible to create a benchmark for *sharī'a*-compliant investing. The famous academic and Christian apologist C.S. Lewis once wrote that if he were a banker he would tremble thinking that the three great monotheistic religions of the world all in one way or another criticized the lending of money at interest. When Rushdi Siddiqui presented his plan for an Islamic index, and with Lewis's words in mind, the Company decided to actively pursue the creation of an index for a large population intent on

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following its religious principles. The Company feels that it is now well on its way to becoming the benchmark for Islamic investing. It has been participating in many of the increasing number of Islamic banking conferences. Any Islamic undertaking requires a competent *shari'ah* board, and the Company's is one of the most respected and recognized internationally. It includes Muhammad Taqi Usmani of Pakistan, Mohamed A. Elgari of Saudi Arabia, Abdul-Sattar Abu Ghuddah from Syria, Nizam Yaquby of Bahrain, and Yusuf Talal DeLorenzo of the United States, who have helped Dow Jones establish screening parameters for the Islamic Market Index, and have been extremely understanding of the need for stability in an equity market index. It is expected that the *shari'ah* standards will not stay firmly in place for any particular period of time; in fact, the *Shari'ah* Board will guide the Index in new developments. It is, however, very important for people actually using an equity market index to be able to rely on a certain amount of stability in its composition.

The Dow Jones Islamic Market Index consists of nearly 600 companies globally from 30 countries, covers over 100 industry groups and nine economic sectors and today has a market cap of nearly 8 trillion dollars. It was launched in February 1999 in Bahrain to the banking community, and its initial licensees were Brown Brothers Harriman and WAFRA, which is part of Kuwait's Public Institute for Social Security. It has been well received by the world media, having been widely published around the world, as well as in the Wall Street Journal every day, in the United States, Europe, and Asia. Since that time, the Company has had the ability to launch additional sub-indexes: one for United States companies only; one sector index for global technology; indexes one for Islamically appropriate UK companies; one for Canadian companies; and a blue chip extra liquid index. Indeed, on a year to date basis, the Islamic Market Indexes have generally outperformed their conventional counterparts. Dow Jones expects to launch additional indexes; possibly a REIT (real-estate investment trust) index, an Internet index, or a United States Small Cap Islamic index.

The implications of the introduction of the Dow Jones Islamic Market Index series are notable. It is expected that additional Islamic funds will come into the public domain, and one of the aspects of professional money management, that is really rapidly taking over the world, is this benchmarking phenomenon. Many investment managers would prefer to have their returns compared to something like the consumer price index but modern finance indicates that a reasonable benchmark of equity prices that relates to the investment manager's objective is what is really needed. Moreover, fund sponsors generally do not want to be in the index providing business; they simply want to manage assets, which is what they are very good at; so a third party with some reputation for publishing indexes is a good thing for the marketplace and its modernization.

Dow Jones does not, as yet, have many Muslim countries covered by the Dow Jones Islamic Market Indexes, principally because the markets themselves are not terribly well-developed or are not as transparent as they could be, and in many cases suffer from substantial restrictions on foreign ownership. The goal behind Dow Jones Indexes is to create indexes that everyone, foreigners and locals, can use, so until such markets develop further, the existing country group will remain unchanged.

IV. CONCLUSION

A new trend occurring in the United States, at least, which will probably reach other markets soon (to a certain extent Muslim countries have been thousand-year leaders of this trend), is faith-based investing. The United States has upwards of 20 to 30 billion dollars being publicly managed on a socially responsible basis. Islamic Market Indexes are a good example of this kind of index, and are usable by anyone interested in making his or her beliefs real in investing life. The Company certainly expects competition from other index providers, and in fact, welcomes it, as does its *Shari'ah* Board. Competition is healthy for anyone; it will keep the Company trying to improve constantly, make it more accountable to the marketplace, and assist in the development of the emerging world of Islamic finance.

