

# Does Islamic Finance have a room to thrive in Europe ?

**Mohammad Farrukh Raza**  
Managing Director – IFAAS Group

*(IFAAS UK Ltd. & IFAAS France Sarl.)*

Islamic Finance & Real Estate Conference  
Frankfurt – 4<sup>th</sup> & 5<sup>th</sup> November 2008

©2008 IFAAS. All rights reserved.

---

# IFAAS

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

# CONTENTS

---

- ❑ The UK experience
- ❑ Current state of European markets
- ❑ Case study - France
- ❑ The Challenges
- ❑ Critical Success Factors
- ❑ What Next?
- ❑ Q & A

# THE JOURNEY OF ISLAMIC FINANCE IN THE UK

- ❑ The initial products appeared in the early 90's of the 20<sup>th</sup> century (*Home Finance products from Al-Baraka & Ahli United*)
- ❑ Working groups established in the mid 90's
- ❑ The first “Islamic Window” (*HSBC Amanah*) launched in 2003
- ❑ The first fully-fledged Islamic retail bank (*Islamic Bank of Britain*) authorised in 2004
- ❑ 4 fully-fledged Islamic investment banks (*EIIB, BLME, EFH & Gatehouse*) authorised till to date
- ❑ Several further applications in the pipeline
- ❑ The first Takaful/Islamic Insurance company (*Principle Insurance T/A Salaam Halal Insurance*) authorised in 2008

# THE JOURNEY OF ISLAMIC FINANCE IN THE UK

- ❑ The first Sukuk listed on London Stock Exchange in 2006
- ❑ The Aston Martin acquisition deal in 2007
- ❑ The amount of Sukuk listed on the LSE in March 2008: \$11 bn
- ❑ Over 20 financial institutions offering Shariah-compliant products & services (*e.g. Lloyds TSB, Natwest & Arab Banking Corporation etc*)
- ❑ Multiple distribution channels (*branches, online, telephone & intermediaries*)
- ❑ A number of professional firms providing dedicated services in the UK & abroad
- ❑ The issuance of the first Sovereign Sukuk expected in 2009

# THE DRIVING FACTORS

---

- ❑ The global expansion of the Islamic financial industry
- ❑ The excess liquidity in the Gulf
- ❑ The ‘Common Law’ and the professional expertise
- ❑ The vision of the UK government supported by the commitment from all the stakeholders
- ❑ A stable market with robust & sophisticated infrastructure and strict regulatory regime
- ❑ The official policy of providing a Level Playing Field (*no favour, no discrimination*)
- ❑ The legislative & tax reforms to accommodate the nature of Shariah-compliant products

# THE WINNING TEAM

---



# THE GOVERNMENT

---

- ❑ The vision
  - ❖ London – The International Gateway to Islamic Finance
- ❑ International objectives
  - ❖ Attracting inward foreign investments
  - ❖ Capitalising on UK's growing Excellence in Islamic Finance
- ❑ National objectives
  - ❖ Creating communal integration & social cohesion
  - ❖ Providing equal opportunities to all communities
- ❑ Legislative reforms

# THE AUTHORITIES

---

- ❑ Supporting the vision & the strategies of the government
- ❑ Finding true & durable solutions
- ❑ Facilitating the process of evolution
- ❑ Implementing the required measures
- ❑ Impartiality between conventional & Islamic institutions
- ❑ Continuous work with the partners
  - ❖ HM Treasury
  - ❖ Financial Services Authority
  - ❖ Inland Revenue
  - ❖ BBA – British Bankers Association
  - ❖ UKTI

# THE ACADEMIA

---

- ❑ Facilitating the scientific research
  - ❑ Searching for solutions to fit into British environment
  - ❑ Offering degrees & qualifications
    - ❖ University of Loughborough
    - ❖ University of Durham
    - ❖ The Islamic Foundation / Markfield Institute
    - ❖ Securities & Investments Institute - *IFQ*
    - ❖ Chartered Institute of Management Accountants - *CIMA*
- } • *Diplomas*  
• *Masters*  
• *PhD*

# THE INDUSTRY

---

- ❑ Responding to the specific needs of the local and international clientele
- ❑ Diversification strategy
- ❑ The competition in capturing the market share of a growing & potentially strong market
- ❑ The appeal of the ‘ethical’ values of Islamic finance to the non-Muslim consumer becoming increasingly aware & concerned with ethical issues
- ❑ The supporting link between retail & investment sectors

# THE MUSLIM COMMUNITY

---

- ❑ The electoral weight
  - ❖ 2 million Muslims among 60 millions (3-4% of national population – mostly British citizens)
- ❑ The economic force
  - ❖ Annual contribution in GDP: £51bn, Annual savings: £1bn, more than 10,000 millionaires
- ❑ Political activity
  - ❖ 9 members of the House of Lords, 5 members of the House of Commons, 3 members of the European Parliament, several mayors and local councillors
- ❑ A well organised and persistent lobbying
- ❑ The role of community organisations
  - ❖ Muslim Council of Britain

# THE OUTLOOK FOR THE UK

---

- ❑ The UK has successfully established itself as a key player in the industry with London as the fastest emerging international hub
- ❑ The key stakeholders participating in building the UK's competitive edge by sharing the vision & driving the strategy at all levels
- ❑ Both, the government and 'The City' are proudly promoting UK's excellence in Islamic Finance
- ❑ British institutions likely to 'Passport' into the EU and growing professional expertise becoming the latest 'export commodity'
- ❑ More reforms are anticipated, facilitating the development of further products and attracting more investments
- ❑ A significant growth in the industry is expected in the coming years
- ❑ The natural robustness and reliability of Islamic finance emerging strongly amidst the current financial crisis

# CURRENT STATE OF EUROPEAN MARKETS

- ❑ Nearly 13 million Muslims living in the EU (outside the UK)
- ❑ Over 10 million between France & Germany only
- ❑ No statistics available on banked population
- ❑ Many heavy-weight EU institutions already involved in Islamic transactions outside the EU (e.g. Deutsche Bank ,BNP Paribas, ABN AMRO etc)
- ❑ No Islamic products available in mainland Europe
- ❑ An overwhelming response to the first investment product launched by Société Générale as a pilot in the faraway French territory of La Reunion
- ❑ Several initiatives running across the EU particularly in Holland, Germany, Italy, Belgium and Sweden

# CURRENT STATE OF EUROPEAN MARKETS

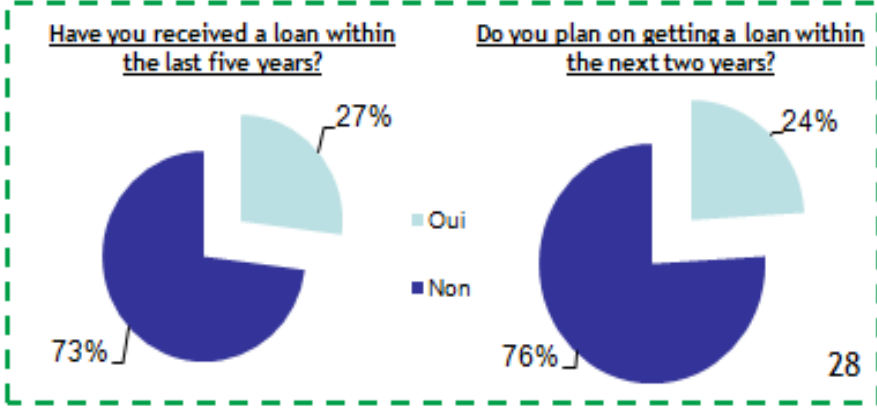
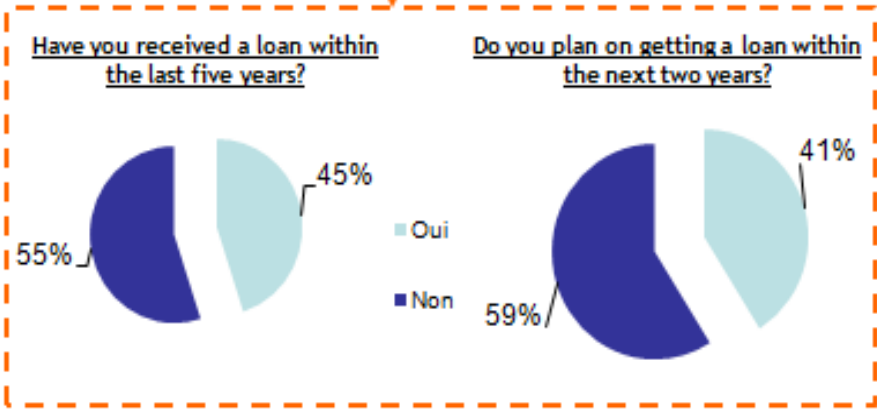
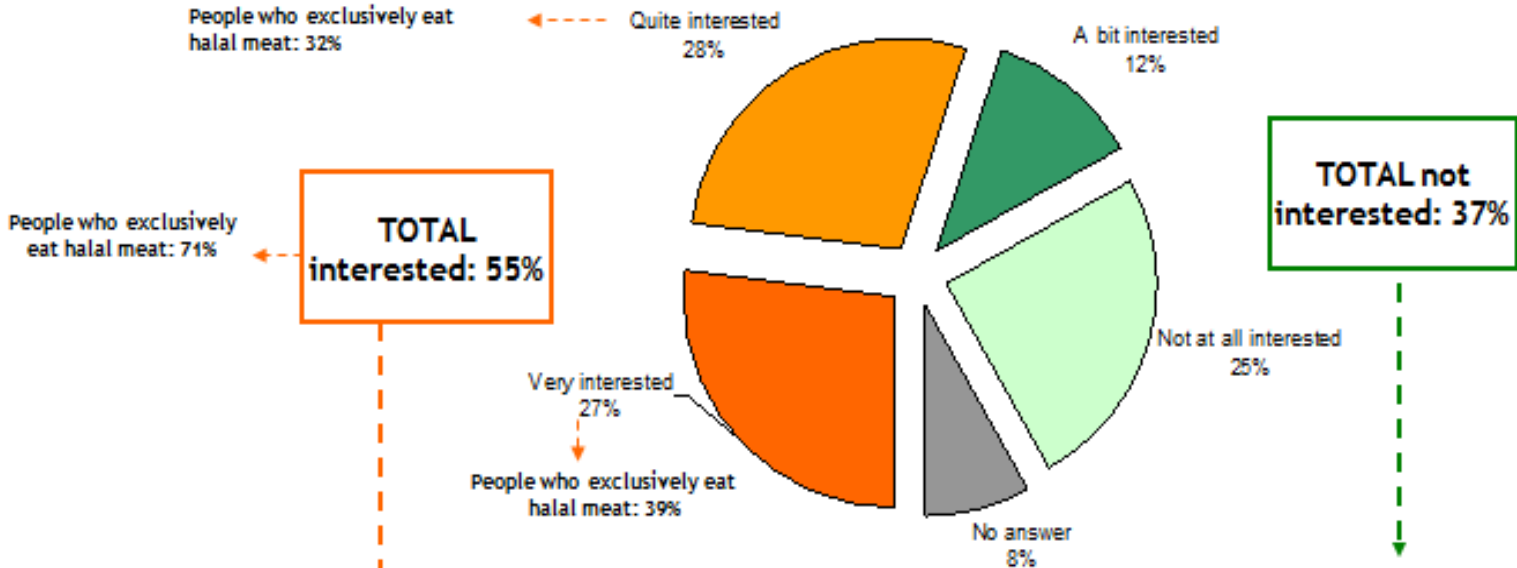
- ❑ EU markets looking seriously into the matter - France leading the way with strong recommendations from the French Senate and official statements made by the minister of economy to *'make Islamic financial activities as welcoming in Paris as they are in London or elsewhere'*
- ❑ Robert Schuman University in Strasbourg launching first Masters in Islamic Finance in mainland Europe
- ❑ German Sukuk issuance
- ❑ The potential for Europe to attract inward investments is great
- ❑ Possibly the best alternative at present when the traditional funding channels have dried up
- ❑ Potential for UK banks to 'passport' into Europe

# CASE STUDY - FRANCE

---

- ❑ 6-7 million Muslims
- ❑ 2<sup>nd</sup> & 3<sup>rd</sup> generations
- ❑ A considerably large elite class emerging rapidly
- ❑ Ongoing debate - if there is really a demand
- ❑ UK banks have developed large databases of potential customers in France
- ❑ IFAAS & Aidimm had a market research survey conducted independently by IFOP
- ❑ A representative sample of 530 people of Muslim origin interviewed face-to-face

# WOULD YOU BE INTERESTED IN SHARIAH COMPLIANT BANKING IF AVAILABLE?



# THE CHALLENGES

---

- ❑ The understanding of Shariah principles among the regulators, the professionals and the consumers
- ❑ Arbitration of Shariah (*lack of standardisation*)
- ❑ Human resources (*no expertise readily available*)
- ❑ The assurance of Shariah-compliance throughout the product lifecycle
- ❑ The innovation & development of competitive products
- ❑ Governance frameworks (*the implications of Basel II*)
- ❑ The taxation issues related to the nature of the products
- ❑ Re-takaful issues for Takaful providers
- ❑ The complexity of marketing Islamic financial products
- ❑ The reluctance from the consumers (*reservations over Shariah-compliance and the credibility of institutions*)

# CRITICAL SUCCESS FACTORS

---

- ❑ Treating Islamic Finance as an opportunity, not a threat
- ❑ Creating awareness across the board
- ❑ Developing the human capital
- ❑ Developing innovative products that are Shariah compliant, market competitive and commercially viable
- ❑ No blind following of conventional industry
- ❑ Marketing the products with a clear differentiation
- ❑ Targeting the wider market instead of limiting to Muslims
- ❑ Positioning the products as an ethical alternative with clear definition of ethical
- ❑ Investing in Research, Development, Training & ongoing Assurance

# WHAT NEXT ?

---

- ❑ Islamic finance is not a threat but an opportunity knocking on the doors of European markets
- ❑ The potential for European markets to attract inward investments is much greater than usually perceived
- ❑ The barriers to entry are sometimes lower than expected
- ❑ The UK model is a success and can be easily replicated across the EU
- ❑ A true commitment and working partnership between the market authorities and the industry professionals will be required for quick achievement of the objective
- ❑ Help and support for the new entrants could be available from the experienced & the established

THANK YOU

---

IFAAS

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

[www.ifaas.com](http://www.ifaas.com)