

ISLAMIC FINANCE IN PRACTICE

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The European Opportunity

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Islamic Finance made its entry into the European financial arena through the advent of *Shari'a*-compliant home finance propositions launched in the UK between the early to mid 90's of the 20th century. Since then, the industry has become stronger and stronger every day in the UK which now has six authorised fully-fledged Islamic banks and a Takaful company operating in the country with more than a handful of conventional financial institutions offering an ever-increasing range of Islamic products to their clientele. But how does this enviable momentum compare with the rest of the European markets? Answer: presently not very well. Although many of the European heavy-weight institutions (e.g. BNP Paribas & Deutsche Bank) are heavily involved in Islamic financial transactions in the Middle East and other Muslim countries, not a single bank is offering a *Shari'a*-compliant product in their home markets.

The estimated figure of the Muslim population living in Western Europe is said to be around 15 million. Nearly two-thirds of this population is living in France and Germany followed by the UK having the third largest Muslim community within the European Union. Despite the diversity in the socio-economic dynamics of these communities, they generally share the passion for *Shari'a*-compliant financial solutions. "The Muslim community having established itself in this country is now looking to fulfil their financial needs in accordance to their faith. An increasing number of people, particularly the up and coming younger generation of Muslim professionals are trying to avoid the compromise they have to make between their faith and finance" says Anass Patel, the president of AIDIMM, a French not-for-profit organisation working to promote alternative finance

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based on ethical principles.

Patel's views were strongly echoed in the results of an independent survey recently undertaken by IFOP, a renowned agency for market research in French and international financial arena. Commissioned by AIDIMM and IFAAS (Islamic Finance Advisory & Assurance Services), a UK based professional consultancy, IFOP conducted the study by interviewing 530 people of Muslim origin from various backgrounds as a representative sample of the French Muslim community.

More than half (55%) of the respondents in this survey expressed their interest in Islamic financial products. This means that about 4 million people could be potentially attracted by *Shari'a*-compliant products and services if made available to them. 47% of those interested expressed their interest in *halal* savings and 55% in *halal* financing of their homes, cars and businesses. This could be a very lucrative business for French banks, especially as many of them are already offering *Shari'a*-compliant products to their Muslim clientele in the Gulf and other Muslim countries.

Jean-Philippe Cieslak, a young entrepreneur building eco-friendly homes said:

"I genuinely believe my company to have such a great potential to contribute towards the economy of my country if I was given the opportunity to grow my business without being in conflict with my faith. I hope one day the French banks will understand how much business can be generated by bringing Islamic financial products to the local market. And if they don't do it then I am sure that banks from places like the Gulf or the UK will definitely spot this opportunity".

Whether the French banks agree with Cieslak's opinion or not, the French government seems to have understood the role that Islamic finance can

potentially play in the regeneration of the country's economy. A report released by the French Senate in June 2007 mentioned five times the need to encourage the development of Islamic Finance in France. A further open debate was held at the Senate in May 2008 over how to introduce Islamic Finance in a dynamic way to compete with other European countries particularly UK.

The first initiative seen in the market was a *Shari'a*-compliant investment product launched as a pilot project by BFC, a subsidiary of Société Générale in the remote French territory of La Reunion. It can

government to facilitate and accelerate the arrival of Islamic finance in the country in the very near future. However, many experts argue that convincing the French general public that Islamic finance is a real alternative and ethical mode of finance will be a tough job. This challenge may become much easier if the fruits of Islamic finance could be demonstrated to bring a sizeable inward flow of investments and regeneration of the economy supported by an indirect upsurge in the construction industry.

"A very considerable number of Muslims are looking for *halal* financing options for the purchase of their homes. It is just a matter of time before it actually starts happening. The first bank to offer a *halal* home finance product will reap a lot of financial benefit" claims Anass Patel. The AIDIMM/IFAAS report provides very detailed information on the demand for home finance, personal finance, business finance and savings. Patel says "We hope that the current drive from the French government supported by the stakeholders will speed up things in France as they did in the UK a few years ago".

The situation in neighbouring countries is not very different. None of the other European countries has any proposition of Islamic financial products and services. However, similar organisations like AIDIMM are campaigning across many European countries. Imane Kariche of CERFI, a Belgian not-for-profit organisation believes that the Belgian Muslim community will be able to benefit very soon from the developments in the UK. She hopes that either some Belgian bank will see this coming opportunity otherwise the UK banks will "passport" into Belgium at some point. It will be interesting to see how quickly her hopes become true.

Italy was home in 2007 to around 1.4 million Muslims evenly distributed with 55% living in the North, 25% in the Centre and 20% in the South of the country. Though economic statistics focusing specifically on Muslims are not available it is officially known that around six percent (or € 87 billion) of the Italian GNP is produced by immigrants, and that one out of two has a bank account and one out of six owns a house.

Alberto Brugnoli, the president of ASSAIF, an Italian association comments – "Italy with its century old network of cooperative banks, small territorial financial institutions and the strongest movement of ethical finance in the whole EU is a natural candidate for Islamic finance in Europe. ASSAIF is actively involved in the resolution of a number of fiscal and regulatory issues with regards to Islamic finance. This should help Italy in playing a pivotal role with Arab countries and in the Euro-Mediterranean dialogue". Alberto is actively promoting Islamic

Finance as a bridge between the West and the East and hopes that the ethical approach of Islamic finance will soon appeal to the Italian general public as well as the immigrant Muslim community. Similar lobbying initiatives are also known to be running in other European countries including Holland, Sweden and Spain.

The increased liquidity in the Gulf countries, the quest of GCC investors to diversify their portfolios and the drying-up of the traditional channels of funding in the European countries points towards this shift happening in a fairly quick way. If the measures taken by the French government prove to be effective, other European countries are likely to pursue the same route.

The current crisis in the financial markets has actually led many experts to seriously question if *Shari'a*-compliant finance may be the answer to such problems. The campaigners for Islamic finance argue that the

very nature of Islamic finance is an effective shield against excessive exposures providing a much higher degree of security to the consumer. Many industry gurus expect Islamic finance to become the preferred mode of finance in future, not only in the Muslim world but also in the western markets where mainstream customers have started seeking more ethical and secure alternatives to conventional finance. If this theory becomes true, we can expect Islamic finance establishing itself in a more rapid and durable way than had ever been expected before.

Other events unfolding across the European countries include an increasing level of interest in the research on Islamic finance by many leading academic institutions. Following Durham University in the UK offering Masters and PhD degrees in Islamic finance, Robert Schuman University in the French city of Strasbourg has become the first European university outside the UK to offer a Masters degree in Islamic finance. This is seen as a very strong and positive indicator as more institutions are joining the race. It is expected that the research in this field will facilitate the European financial landscape embracing Islamic finance which seems to have a very bright future in Europe. ■

The first bank to offer a halal home finance product will reap a lot of financial benefit

be expected that an eventual success of this pilot product may pave the way for Islamic finance to enter into mainland France in near future.

Christine Lagarde, the French Minister of economy made an official statement prior to this year's summer holidays that France will make Islamic banking activities as welcome in Paris as they are in London or elsewhere. She also promised to make changes required to accommodate the specific needs of Islamic financial products from legal and taxation points of view. This strong statement is seen as a firm commitment from the French

IFAAS (Islamic Finance Advisory and Assurance Services) with offices in Birmingham and Paris advises financial institutions on Shari'a-compliant finance. The business was incorporated in 2007 with the vision of supporting the development and growth of the Islamic financial industry in the UK and Europe. farrukh.raza@ifaas.com