

# CHAPTER 26

## Islamic Banking in Europe

Now more than ever before, the market potential for Islamic banking services in Europe is growing at a fast pace. The reason for this phenomenon is threefold. Firstly, European Muslims have now grown to a significant portion of Europe's population. There are more than 14.74 million Muslims in Europe, of which 1.8 million are resident in the UK plus an additional 72 million in Turkey.<sup>259</sup> Secondly, the savings of European Muslims are higher than the average saving rates within the EU member states.<sup>260</sup> Lastly, there is a low penetration rate of Islamic banking products among Muslims.

With the creation of the European Union, the regulatory framework for banking and insurance has unified and it has become easier for Islamic finance institutions to operate within the EU member states than across the MENA region. In this region, the cross border operations

are difficult to manage and their efficiency is doubtful because of the different regulatory requirements in each country.<sup>261</sup>

At this point in time, the supply of Islamic financial services in Europe is slow. The UK has shown a clear demarcation compared to other European countries - it has been at the forefront of development in Islamic finance with the establishment of some financial institutions such as Islamic Bank of Britain or Halal Financial Services offering Shari'a-compliant financial products. Some marketing strategies have concentrated in providing advice to the Muslim population but the focus was on advising these clients in their native languages on conventional banking or insurance products instead of promotion of Islamic financial products and services. The following section provides a brief description and analysis of

NAME OF COUNTRY	MUSLIM POPULATION	TOTAL POPULATION	PERCENTAGE
Turkey	72 milion	72,10 milion	99%
Albania	3,1 milion	2,2 milion	70%
Boznia-Herzegovina	3,8 milion	1,5 milion	40%
Macedonia	2,1 milion	630,000	30%
France	5-6 milion	62,3 milion	8-9,6%
Netherlands	945,000	16,3 milion	5,8%
Denmark	270,000	5,4 milion	5%
Serbia & Montenegro	405,000	8,1 milion	5%
Switzerland	310,800	7,4 milion	4,2%
Austria	339,000	8,2 milion	4,1%
Belgium	0,4 milion	10,3 milion	4%
Germany	3 milion	82,5 milion	3,6%
Sweden	300,000	9 milion	3%
United Kingdom	1,6 milion	58,8 milion	2,8%
Spain	1 milion	43,1 milion	2,3%
Italy	825,000	58,4 milion	1,4%

**Figure 123: Muslim population in Europe**  
Source of statistics: CIA World Factbook - 2009

<sup>259</sup> Nurul Islam, 'Islamic Banking - a golden opportunity for European Banks', Nov 2008

<sup>260</sup> www.cpifinancial.net - Philipp Wackerbeck, 'The Market Potential for Islamic Banks in Europe', March 2006

<sup>261</sup> IBF, 310 Issue 5, The Market Potential for Islamic banks in Europe

NAME	SHARI'A COMPLIANCE
Ahli United Bank	Window
Alburaq	Window
Bank of Ireland	Window
Bank of London and Middle East	Fully Shari'a-compliant
Barclays	Window
BNP Paribas	Window
Brsitol & West	Window
Citigroup	Window
Deutsche Bank	Window
Europe Arab Bank	Window
European Finance House	Fully Shari'a-compliant
European Islamic Investment Bank	Fully Shari'a-compliant
Gatehouse Bank	Fully Shari'a-compliant
HSBC Amanah	Window
IBJ International London	Window
Islamic Bank of Britain	Fully Shari'a-compliant
J Aron & Co	Window
Lloyds Banking Group	Window
Royal Bank of Scotland	Window
Standard Chartered	Window
UBS	Window
United National Bank	Window

**Figure 124: Islamic finance Institutions in the UK**  
Sources - IFSL - Islamic Finance 2010<sup>265</sup>

the scope of Islamic finance in countries where Islamic finance has huge potential due to the economic capacity of these countries.

### 26.1. United Kingdom

The United Kingdom has always been viewed as the largest economically mobile Muslim population in Europe and this image has been enhanced further with the opening of the first Islamic Bank in 2004 - called the Islamic Bank of Britain (IBB).<sup>262</sup> IBB provides financial services to both individuals and businesses. In January 2005<sup>263</sup>, European Islamic Investment Bank (EIIB) was incorporated as Britain's first Islamic investment bank, which is being regulated by the UK Financial Services Authority.

The IBB began its operation as a company called the Islamic House of Britain before it was converted into a bank in 2004. The bank obtained funding from private investors in the Gulf through its previous chairman, Abdul Rahman Abdul Malik and Abu Dhabi Islamic Bank. Currently, its shareholders include leading Islamic banks and other financial institutions from Abu Dhabi, Bahrain, Qatar and Saudi Arabia.

Between the years ending 31 December 2005 to 31 December 2006, there was a 120% rise in customer number at IBB and the bank's customer deposits grew by 76% to GBP 83.9 million from GBP 47.7 million. In addition, the bank opened two new branches in 2006, reaching a total of eight across the UK.<sup>264</sup> According an HSBC case study, the Muslim families in the UK have taken out 134,000 conventional mortgages worth 9 billion and there are a further 76,000 households with no mortgages at all.

However not all sectors in Islamic finance have enjoyed

similar success. An example is in the field of Islamic Insurance. Salam Insurance is a new insurance company incorporated in the UK in 2009, but had to cease operation after a few months due to low demand of services. Salam Insurance is currently restructuring itself and may re-surface with new operations in the near future.

### 26.2. France

France has been very keen to develop Paris as the International Finance Centre of Islamic finance in Europe and in that sense, Paris considers London as its rival. France's finance minister, Christine Lagarde has already introduced several measures to attract global funds since taking office in June 2007.<sup>266</sup> Although the Muslim population of France is almost three times greater than that of the UK, France's financial sector has not developed its Islamic finance capacity as much as the UK has. Only a few French banks, such as BNP Paribas and Societe General are currently offering wholesale Islamic services, and there is no retail product yet on the market.

### 26.3. The Netherlands

In mid 2007, the finance minister Wouter Bos declared that the country would review its role in the Islamic finance industry.<sup>267</sup> With this in mind, De Nederlandsche Bank (DNB, the Central Bank) prepared a report on the potential regulatory issues that need to be looked at when introducing Islamic finance in the Netherlands. Consumer protection and deposit guarantees, inclusion of different products in the current regulatory framework, and whether Shari'a compliance should be included in the supervision are among some of the issues raised in the report. The Holland Financial Centre has instituted a working group to further promote the opportunities the Netherlands can offer to the Islamic

<sup>262</sup> Arab Banker, 'IF Opportunities and prospects in Europe' Autumn 2007

<sup>263</sup> <http://www.eiib.co.uk/html/aboutus.asp>

<sup>264</sup> Arab Banker, 'IF Opportunities and prospects in Europe' Autumn 2007

<sup>265</sup> www.IFSL.org.uk

<sup>266</sup> <http://islamineurope.blogspot.com/2008/05/france-paris-as-center-of-islamic.html>

<sup>267</sup> Dr Natalie Schoon, Islamic finance in Continental Europe, Country report, 6<sup>th</sup> March 2009 - www.islamicfinancenews.com

finance industry. The majority of transactions are associated with real estate and private equity investments.

support of the government there.<sup>271</sup>

## 26.4. Germany

The State of Saxony-Anhalt was the first Western European government to issue sukuk.<sup>268</sup> Although Germany has a Muslim population of 5 million, its financial centre has not yet developed the Islamic finance products and service infrastructure necessary to cater for such numbers. Instead, it relies on its bank branches from London and Middle East to execute Islamic finance transactions.

## 26.5. Turkey

The first Islamic bank was established in Turkey in 1985 under the former prime minister's ministership, Halil Turgut Ozal.<sup>269</sup> It was given the name 'Special Finance House' to distinguish it from conventional banking operations. Over the last 25 years, the growth and development of Islamic finance in Turkey has been slow due to the political attitudes adopted by the Turkish bureaucracy since Ozal's administration.

Although there is a population of over 70 million Muslims, and Turkey having the largest economy in the Muslim world in terms of GNP, the fact that there are only four participation banks shows that its growth is rather slow.

The potential of Islamic finance is clearly huge. However it is important to identify the right approach to unlock the potential of Islamic finance so that not only more individuals move towards Islamic finance, but also more investors will utilize the services provided by such banks. In order to achieve this, these banks should open up and create bondages with the global financial market, provided that they obtain a good working environment.

## 26.6. Future prospects for Islamic finance in Europe

The development of the Islamic finance industry in Europe has been slow although its services and products have been there for nearly 30 years. The focus of the business activity has been mainly on Shari'a-compliant institutions from the Gulf and high net worth Muslim investors deriving their income from oil market development.<sup>270</sup> The central point for the Islamic finance market has been the UK, although France and Germany have a much larger Muslim population. In order to achieve the full potential of Islamic finance in Europe, one needs to assess the desirability of Islamic finance among the European Muslim community. It is true to say that Islamic finance could work alongside conventional finance if the products and services from Islamic finance were competitive. Undoubtedly, Turkey has the greatest potential for Islamic finance in Europe because it has a substantial Muslim population. The potential lies in the fact that the deposit figures are only 5% of the total financial system. Islamic finance is growing at around 5% per annum in Turkey, and Turkey itself can act as a bridge between the European Union and the wider Muslim world, and in the long run Istanbul is likely to replace London as the Europe leading Islamic finance centre if it receives full

<sup>268</sup> Dr Natalie Schoon, 'Islamic finance in Continental Europe, Country report – 6th March 2009'

<sup>269</sup> Islamic Business and Finance, 'Two track development' Mehmet Asutay

<sup>270</sup> Farnida Bi, 'The global development of Islamic finance', Business Islamica, Dubai, September 2007, pp. 64-67

<sup>271</sup> RSCAS policy Papers, Rodney Wilson, Islamic finance in Europe, 2007

# CHAPTER 27

# Toronto as a Hub for Islamic Finance in North America

## 27.1 Towards Toronto

The city of Toronto is ideally placed to become an Islamic financial hub in North America: The 2008 Forbes Magazine Edition listed Toronto among the top 10 most economically powerful cities and confirmed that the city continues to be the economic heart of one of the world's wealthiest countries and is, along with London, the fastest growing G7 financial centre. The Toronto Stock Exchange is ranked number two in the world in terms of the number of companies listed, and seventh in the world for equity capital raised. Canada's banks have remained the strongest in the G7, and according to an October report by the World Economic Forum, the soundest in the world.

A new ranking by Bloomberg News puts four Canadian banks among North America's top 10 as measured by assets, with Royal Bank of Canada in seventh place. Toronto-Dominion Bank, Bank of Nova Scotia and Bank of Montreal are eighth, ninth and 10th, respectively. A year ago, only Royal Bank of Canada made the list. Toronto-Dominion and Royal Bank of Canada are among only seven banks worldwide that still carry a Moody's triple-A credit rating. Canada's six largest banks made money in the latest quarter while big US banks such as Citigroup, Wells Fargo and Bank of America lost billions.

## 27.2. Islamic finance in Canada

The roots of Islamic finance in North America can be traced back to Toronto, where in 1979, the Islamic Co-operative Housing Corporation Ltd. was registered. This was the only available solution for financing hundreds of homes for over 25 years, relying on limited community investment funds. These funds were reinvested in homes to structure a home financing partnership based

on a rent-to-own model. Over the years, a few more co-operatives have come to the market. UM Financial an Islamic financial institution was incorporated in 2004 and to date has partnered with five Canadian financial institutions in structuring and distributing pioneering Islamic retail financial products such as bank accounts, term deposits, investments, credit cards and mortgages to Canada's 1 million-strong Muslim community. Recently, UM presented Central 1 Credit Union a milestone award for its close to US\$ 100 million funding to UM, which has yielded a US\$ 10 million profit for Central 1 over the last four years. Islamic financial products are similar to halal food products, kosher food products or organic products in that all have a certification board and higher costs due to the absence of economies of scale. The goal of the Canadian Islamic financial industry is to bring products on par in pricing to the retail market, as is being done in the US and the UK.

## 27.3. Sovereign sukuk from Toronto

With Canada being a destination of investment from many countries, there have been governmental discussions to look at the feasibility of offering a sovereign sukuk in the near future. Having a sovereign sukuk in Canada would open the doors for many more structured sukuk, such as corporate sukuk, which could further enhance Toronto's role as a hub for Islamic finance in North America. Toronto is well-placed to duplicate London in taking on such a role in North America. With the recent launch of the S&P TSX 60 Shari'a Index and discussions at many government levels, we see the market maturing rapidly. At this stage, the private sector, which is represented by the TFSA, is in the best position to lead this direction and introduce the benefits of Islamic finance.