

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

## 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

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

<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.

## 27.4. Evolution of the industry in Toronto

As other Western countries with Muslim minority populations have allowed dedicated Islamic banks, the same will happen in Canada in due course. Most Western countries, including the UK, saw Islamic banks established after a decade of Islamic products had appeared in the marketplace. At present in Canada, there are few products besides the UM Financial product line. It is foreseen that more Islamic opportunities will open in the next few years, which would then create a tangible market for a dedicated Islamic bank.

Conservative estimates suggest that more than US\$ 10 million of seed investment has been spent on Islamic bank applications and shell companies trying to enter the Islamic finance market. These applications have helped to educate federal and provincial regulators and law firms and consulting firms that were involved and have created awareness of the international growth in the industry. Unfortunately, some regulators and investors who invested in some of these shell companies have a very negative image of the industry due to some companies soliciting investors and clients without the proper approvals, or investors not being able to receive information on their investments. Within the community, initiatives that are purely profit-driven have failed, such as the RBC linked Islamic investment notes and Dynamic Mutual Fund Islamic mutual fund. Community based institutional initiatives, such as co-ops and UM Financial (which has close to 10 years of direct community activism) have had a more successful history.

In Toronto, the First Fiqh Conference of North America was held in May, where a resolution was passed that states, "The participant panel of Scholars agreed that interest based loans and all forms of insurance are prohibited in Islam. In some isolated cases, insurance and interest based loans may be permissible in a situation of dire need or necessity and or a life and death situation. For the clarification of whether one's situation meets dire necessity, one is to seek clarification from reliable qualified Muslim scholars of Shari'a (Islamic jurisprudence). The panel also encourages Muslims to establish and utilize alternative Islamic models of finance and takaful (Islamic insurance)." In June, to further educate the Toronto community in this fast-growing discipline, the Islamic Foundation of Toronto hosted a youth conference at Toronto's largest mosque that featured a three-day retreat on Islamic finance.



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#### Contact us at The BMB Group Representative Offices:

**The Americas**  
New York  
c/o BMB Advisors Ltd.  
399 Park Avenue, 39th Floor  
New York, NY 10022 USA  
T: +1 212 317 8800 F: +1 212 317 9081

**Europe & The Middle East**  
London  
c/o BMB Advisors UK Ltd.  
2 St James's Place  
London, SW1A 1NR United Kingdom  
T: +44 207 491 1664 F: +44 207 491 1688

**Asia**  
Brunei Darussalam  
c/o The Withanage Group  
The Empire, Jerudong,  
BSB Brunei Darussalam  
T: +673 2 611 481 T: +673 2 611 595

[www.bmbgrouppltd.com](http://www.bmbgrouppltd.com) [www.bmbcapital.com](http://www.bmbcapital.com) [www.bmbre.com](http://www.bmbre.com) [www.bmbresources.com](http://www.bmbresources.com) [www.bmbislamic.com](http://www.bmbislamic.com) [www.bmbstewardship.com](http://www.bmbstewardship.com)