



Islamic Finance is Building up in UK amid Downturn

Islamic Finance news

While some Islamic financial institutions in the Middle East are under pressure due to the credit crunch, those in the UK are growing, recording an increasing number of customers as non-Muslims begin to view Islamic finance as a viable alternative.

"Business is very much unity and is building up. The corporate, wholesale and retail markets are optimistic about the future of Islamic finance in the UK. European Islamic Investment Bank is moving into private equity while European Finance House has been receiving strong support and been active in the real estate market. BLME (Bank of London and Middle East) has been successful in building assets and developing corporates and asset-based businesses," said Gatehouse Bank chairman Richard Thomas.

The four Islamic financial institutions in the UK focus on different areas of Islamic finance and have different business models. They are working very hard to grow and also to capture the non-Muslim market as well.

The UK has a Muslim population of almost two million. "People from every level, from the government to the man on the street, are now taking the trouble to understand Islamic finance," he told *Islamic Finance news*.

Islamic Bank of Britain (IBB), the oldest Islamic bank in the UK and the country's only standalone retail bank, is striving to build the franchise and retail market and has been achieving success. IBB commercial director Sultan Choudhury said: "IBB's core business will always be Muslims but the number of non-Muslims is really picking up."

IBB, which commenced its banking operations and was listed on the Alternative Investment Market of the London Stock Exchange (LSE) on 12 October 2004, saw a 5.5% growth in customers for its first half ended 30 June 2008 as compared to the previous corresponding period. It also recorded an increase of 7.2% in deposits and a 13.3% growth in customer financing for the same period.

Thomas said Gatehouse Bank, which is wholesale-focused, is progressing well with increasing interest from the corporates. "We are very cooperative as we have a slightly different business model. This makes it easy for us to work together on standardisation or approach the government on policy, all in a different way. Each bank is making a lot of progress," he added.

Gatehouse Bank, which started operations in April 2008, has launched products in institutional wealth management, capital market and commercial financing for Muslim or conventional corporates, syndicated financing and Sukuk.

"We have four unique products and the usual product structures such as Murabahah and Mudarabah. We also have some unique products in the treasury and capital market which are in the launching process," he added.

Principal Insurance, the UK's and Western Europe's first Takaful firm launched in May 2008, has been progressing well. It has introduced Salaam Halal, the first Shariah-compliant insurance in Europe, providing Britain's Muslims with the opportunity of insuring their cars or houses in a Shariah-compliant manner.

Salaam Halal CEO Bradley Brandon-Cross said: "Enquiries are very, very strong. Sales are also growing well now. We are very pleased with the level of enquiries and consumers and the way sales are going up. We are getting a good level of penetration both at the call centre and over our website." Salaam Halal launched its first product, Takaful for motor, in July 2008 and will introduce home Takaful to the market in the second quarter of 2009. He said the company is also working on a commercial Takaful policy for small businesses and hopes to launch it this year. There are about 140,000 small businesses in the UK.

"We are not affected by the current financial crisis at the moment. We are doing well and we are on target. In our plan for 2009, we plan to ride on between £20 (US\$30) and £25 (US\$37) premiums next year," he said.



In a roundtable discussion organised and hosted by UK Trade & Investment at the 15th World Islamic Banking Conference in Bahrain recently, BLME CEO Humphrey Percy said: "Despite the rough times, BLME is experiencing growth and is winning businesses, particularly from those who traditionally used conventional finance, who are now looking into Islamic finance as an alternative source of funding."

According to Khalifa Al Harmasi Al Hajeri, head of HSBC Amanah in Bahrain, "There is a two-way relationship with the UK. There are more than half a million high net worth individuals from the GCC that trade with the UK, and we are dealing with more cash flows that come in and go back, so basically it's a long-outstanding relationship".

KPMG director of Islamic finance Darshan Bijur noted: "Three years ago, it was very difficult to convince conventional borrowers in the UK to consider using Shariah-compliant financing. Now I have had conversations with ten UK companies which are keen to explore it. This gathering trend, I believe, will lead to the move of Islamic finance from niche to mainstream."

The UK government has been supporting Islamic finance for years and wants to make London an Islamic financial hub. "The government has been doing a few things for many, many years rather than making one sudden announcement. It has been taking small things step by step, year after year; building confidence in organisations to come to London, where the government is behind them for the long term, and not just to make a short-term fashionable statement," Thomas said.

However, bankers in London were disappointed by the recent announcement made by Chancellor of the Exchequer Alistair Darling in November 2008's pre-budget report – that the UK Treasury will not be issuing a debut sovereign Sukuk in the wholesale sterling market at present.

"The Islamic finance industry in the UK as a whole is disappointed and we hope that the matter will be reconsidered when market conditions improve. We feel optimistic because so far the UK government and the FSA have been acting encouragingly and cooperatively with Islamic finance institutions," Choudhury added.

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