

Islamic Finance in Continental Europe

By Dr Natalie Schoon

A report published in February by International Financial Services London (IFSL) shows that the UK is the eighth-largest global center for Islamic finance, behind countries such as Saudi Arabia and the majority of the Gulf Cooperation Council (GCC) countries, but surprisingly ahead of Pakistan and Egypt.

In this article, we look at the development of Islamic financial services in the UK as well as other countries in western Europe.

UK

Reviewing the developments in Islamic finance in western Europe, we see that the UK is by far the most advanced.

Islamic finance by country

Banking, Takaful and fund assets (US\$ bil)						
	US\$ bil (2007)			Total		Number of firms
	Banks	Takaful	Firms	2007	2006	
Iran	233.0	2.3	—	235.3	154.6	25
Saudi Arabia	91.2	0.8	—	92.0	69.4	17
Malaysia	65.7	1.3	0.1	67.1	65.1	38
Kuwait	54.0	0.2	8.9	63.1	37.7	29
UAE	48.2	0.9	0.0	49.1	35.4	12
Bahrain	37.1	0.3	—	37.4	26.3	27
Qatar	19.3	0.4	1.3	21.0	9.5	14
UK	18.1	—	—	18.1	10.4	6
Turkey	15.8	—	—	15.8	10.1	4
Pakistan	6.3	—	—	6.3	15.9	20
Bangladesh	5.7	—	—	5.7	14.3	14
Egypt	5.7	—	—	5.7	3.9	3
Sudan	5.2	0.1	—	5.3	4.5	23
Others	16.6	0.4	0.2	17.2	14.4	48
Total	622.0	6.6	10.5	639.1	471.5	280

Source: The Banker

The UK's enviable eighth position in the global ranking is, for a large part, due to the size of HSBC Amanah's Islamic finance offering, but is also attributable to the fact that the UK, as an international financial center, had in the early stages recognized the importance of Islamic finance as part of the overall financial industry.

It thus took positive steps to allow the authorization of banks and to ensure that Islamic financial instruments can be offered in the UK in a similar fashion as conventional structures, hence creating a level playing field.

Although there are still amendments expected to the 2009 Finance Act to resolve issues surrounding double stamp duty land tax (SDLT) and value-added tax (VAT), the UK is well ahead of other countries in Europe when it comes to the incorporation of Islamic financial services within the overall financial services infrastructure.

At the time of writing, five fully Shariah compliant banks (see table) as well as one insurance company and one investment manager have been authorized by the Financial Services Authority (FSA). In addition, there are 17 conventional institutions offering Islamic financial services in the UK such as HSBC Amanah, Lloyds Banking Group and Deutsche Bank.

Islamic banks and windows in the UK

Name	Shariah compliance
Ahli United Bank	Window
alburaq	Window
Bank of Ireland	Window
Bank of London and Middle East	Fully Shariah compliant
Barclays	Window
BNP Paribas	Window
Bristol & West	Window
Citi Group	Window
Deutsche Bank	Window
Europe Arab Bank	Window
European Finance House	Fully Shariah compliant
European Islamic Investment Bank	Fully Shariah compliant
Gatehouse Bank	Fully Shariah compliant
HSBC Amanah	Window
IBJ International London	Window
Islamic Bank of Britain	Fully Shariah compliant
J Aron & Co	Window
Lloyds Banking Group	Window
Royal Bank of Scotland	Window
Standard Chartered	Window
UBS	Window
United National Bank	Window

Sources: IFSL – Islamic Finance 2009 and The Banker

France

During the third quarter of 2008, French finance minister Christine Lagarde announced plans for the country to become a large Islamic finance player in Europe. During the first quarter of this year, initial law changes have been passed and France is ready to take Islamic finance a step further.

Due to historic ties with northwest Africa and the size of the Muslim population in France, it can tap the French speaking market. Most of the major French banks such as Société Générale and BNP Paribas are already offering Islamic financial services, although this is primarily undertaken from their branches in the Middle East.

The Netherlands

During the second half of 2007, finance minister Wouter Bos announced that the country would review its role in the Islamic finance

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Islamic Finance in Continental Europe (continued)

industry. Since then, De Nederlandsche Bank (DNB, the central bank) has published a study on the potential regulatory issues that would have to be addressed when introducing Islamic finance in the Netherlands.

The main issues raised in this report can be summarized as follows:

- Consumer protection and deposit guarantees
- Inclusion of different products in the regulatory framework
- Whether Shariah compliance should be included in supervision
- VAT treatment
- Potential impact on SDLT
- Potential differences in credit, market and operational risk.

More recently, a working group was established within Holland Financial Centre, a government initiative, to further promote the opportunities the Netherlands can offer Islamic finance. To date, a limited number of Islamic finance transactions have been undertaken in the Netherlands. In addition to a limited number of retail asset management products, the majority of transactions are associated with real estate and private equity investments.

Germany

In 2004, the state of Saxony-Anhalt became the first western European government to issue Sukuk. Although there does not appear to be any interest from German politicians, many German banks such as Deutsche Bank, Dresdner and WestLB offer Islamic financial services as part of their product offering.

Islamic financial services from German banks are typically offered from their branches in London or the Middle East. At an estimated five million, Germany's Muslim population is more than double that of the UK.

Other European Countries

Luxembourg, in their capacity of a centre for fund management, already manages in excess of 30 Sharia'a compliant funds (according to the Commission de Surveillance du Secteur Financier (CSSF), the Luxembourg financial supervisory authority, as of September 2008,

31 Sharia'a compliant investment funds are held in 17 Luxembourg domiciled investment vehicles). Throughout Europe large internationally operating banks generally offer Islamic financial services, although no other governments have so far announced any plans to review and where required amend their regulatory, legal or tax framework.

Conclusion

Although large, international banks generally offer Islamic financial services, no other governments have so far announced any plans to review and, where required, amend their regulatory, legal or tax framework.

With its eighth placing in the global list of countries providing Islamic finance, the UK is by far the most advanced non-Muslim country when it comes to offering Islamic financial services. This is due to a combination of political interest and the recognition that Islamic finance is an integral part of the overall financial industry and, hence, something that should be catered for by a major financial center.

On the other hand, other European countries such as France and the Netherlands are seriously considering their role in the overall market, which will eventually result in a truly global Islamic marketplace. ☺



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