

The UK's Shariah compliant finance offering – growth upon growth?

Islamic finance globally is dominated by banks offering Shariah compliant financing and this is particularly evident in countries such as the UK which have had relatively little traction with Shariah compliant debt capital markets or equity products.



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The UK's attractive property market, strong business culture and investor-friendly legal framework are a natural draw for investors from around the globe. These investors are inevitably attracted to London, which remains a vital component of the UK's financial services and property offering.

Add to this London's status as the fintech capital of the world (with over US\$420 million invested in the first quarter of 2017 – nearly four times the amount invested in Berlin-based fintech companies during the same period) and the fact that there are just under 3.5 million Muslims in the UK and it is no wonder that the UK is the leading Western nation in terms of Islamic financing.

This said, the political landscape of the UK at the time of writing is undergoing one of the greatest peace time changes in living memory. The 2016 Brexit Referendum was reinforced by the landslide victory for the Conservatives in last year's Christmas election, an election that also laid bare a surge in Scottish nationalism.

These events will inevitably bring with them a change to the sentiments, activity and appetite of investors both at home and abroad. Whether or not these changes will see London's status as a hub for Shariah compliant financial products outside of Southeast Asia and the GCC falter is to be seen.

Paul Maisfield, the head of UK real estate finance at ADIB (UK), remains optimistic for the year ahead: "We expect to witness good growth in our real estate financing business in the UK during 2020. The UK

still offers transparency and security that is not available in many other parts of the world. This, combined with sterling remaining weak against the dollar makes the UK an even more comparatively attractive investment proposition."

Looking at the retail market, Gatehouse Bank has recently published research into, among other things, the awareness and perception of Islamic finance generally in the UK. This research has shown that, interestingly, up to 46% of Muslims in the UK have not used Islamic finance products, and that this number increases to over 50% among Muslim women.

That said, 71% of people surveyed indicated that they thought Islamic finance products were ethical, but most found that these were hard to source and compare. It appears that there is work to be done to ensure that Muslim consumers are made aware of the availability of products out there, especially given that the same demographic contribute GBP31 billion (US\$40.49 billion) to the UK economy.

The natural association of ethics and Islamic finance products bodes well for 2020, especially given the surge in consumer awareness of the importance of ensuring our day-to-day lifestyles are sustainable. People are now more than ever proactively looking for businesses to demonstrate that they operate in an ethical and sustainable manner.

Al Rayan Bank, the oldest Islamic bank in the UK, through Maisam Fazal, its chief commercial officer, has indicated that: "Ethical finance and 'green' mortgages are also growing in awareness and popularity, so we expect this market to expand further into 2020 and beyond. A survey we carried out with YouGov reveals that two thirds of UK adults consider it important for companies providing them financial services to operate ethically and Islamic finance providers such as Al Rayan Bank are already making their mark in this area, as our banking activities are in-keeping with the ethical values of Islam."

Whilst consumers are naturally tending toward more ethical products, it is also key to the future of Islamic finance to innovate and adapt to the shifting market conditions. For instance OFFA has recently become the only Shariah compliant bridging finance provider in the UK, providing short-term commodity Murabahah to its customers.

"Overall, the bridge finance providers are very positive about prospects for the UK in 2020, our own businesses and the bridging sector as a whole. Competition is expected to increase with lower rates and higher loan-to-values in the conventional sector. This creates its own challenges of managing risk. Having launched the UK's first bridge platform OFFA we operate in a niche sector," said Bilal Ahmed, the head of credit at OFFA. "It would seem, the downward slope in positivity has been reversed. It is hoped that the general feeling of positivity will turn out to be realistic and we look forward to a great end to the uncertainty of Brexit. The challenges OFFA face in the coming year is educating the market to use an alternative faith-based finance as opposed to using conventional finance."

There has also been innovation in the fintech sector with companies like Nester starting to offer a Shariah compliant alternative to conventional fintech companies. "Looking forward to this new year, and considering the shift in landscape the last 12 to 18 months fintech has introduced a fresh dynamic to the sector and there have been a number of new, innovative, business sprouting with Islamic principles at their foundation," Youness Abidou, the founder and CEO of Nester.

Whilst it is true that there are a number of challenges facing Islamic finance (and in fact all finance) in the UK in 2020, it is also true that there are opportunities and a growing market out there for those who can successfully promote the intrinsically ethical nature of Islamic finance, and innovate new products to give consumers the breadth of variety currently available in the conventional finance market. (5)