

UK Excellence in Islamic Finance



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History of Islamic Finance in the UK

Islamic finance has a long history. However, it has only developed on a global scale over the last 30 years.

By Sharjil Ahmed

In that relatively short space of time the industry has grown rapidly and the global market now exceeds US\$1.1 trillion in assets with 716 Islamic financial institutions spread over 61 countries making over US\$13.1 billion in profit¹. Islamic banking assets are forecast reach US\$1.8 trillion this year².

Islamic finance aims to create business activities that generate a fair and equitable profit from transactions that are backed by real assets. This method of financing avoids usury, uncertainty, short selling and excessive credit creation whilst encouraging sound risk management procedures.

Islamic finance reached the UK in the 1980s with the first commodity Murabaha transactions and the launch of the first UK Islamic bank, Al Barakara International in 1982. During the 1980s a number of investment banks offered bespoke Sharia compliant products to their Middle Eastern clients, mostly in the areas of trade finance, leasing and project finance.

It was not until the industry received political and regulatory support that momentum started to build. In 2000 an Islamic finance working group was set up under the leadership of Andrew Buxton, former Chairman of Barclays Bank and Eddie George of the Bank of England. The working group included representatives from the Treasury, FSA, the Council of Mortgage Lenders, financial institutions and members of the Muslim community.

Since the formation of this working group the UK Government and regulators have attempted, through the addition of Alternative Finance clauses to various Taxation Acts, to create a market environment where Islamic banks and their clients are not treated any differently to their conventional counterparties. For example Stamp Duty Land Tax was amended in order to remove double stamp duty on Sharia compliant mortgages.

As the industry has developed the breadth of products and services has improved and now compete with the offerings of conventional financial institutions. In 2012 the UK was ranked the 9th largest country by Sharia compliant assets with more than 20 institutions offering Islamic finance and six wholly Sharia compliant banks.

The Sukuk (Islamic bonds) market is the engine room of the Islamic finance market and London, as a major centre for the issuance and trading of International bonds is a natural home to list and trade Sukuk. A total of US\$34 billion has been raised through 49 issues of Sukuk on the London Stock Exchange (LSE). The first Sukuk listed on LSE was for the UAE-based National Central Cooling Company (Tabreed) for the amount of US\$200 million in 2007. There are also Sharia compliant institutions listed on AIM and seven Sharia compliant Exchange Traded Funds (ETFs) based on Islamic indices listed on the LSE.



The London Metal Exchange (LME) is becoming an important avenue for the growth of Islamic finance globally. The LME is a leading metal exchange, and a significant volume of liquidity management transactions concluded by Islamic finance institutions and other Sharia compliant firms are supported by metals on LME warrant.

The UK's preeminent fund management position has been one of the key reasons why Islamic financial institutions have chosen the UK as their base of operations or for a representative office. According to TheCityUK research there are £5.1 trillion of assets under management in the UK. UK financial institutions have been offering Sharia compliant funds since 1986 to cater to the investment requirements of their Middle Eastern clients. The first sterling denominated based Halal mutual fund was launched in 1997. There are currently around nine fund managers offering Islamic asset management services to their clients.

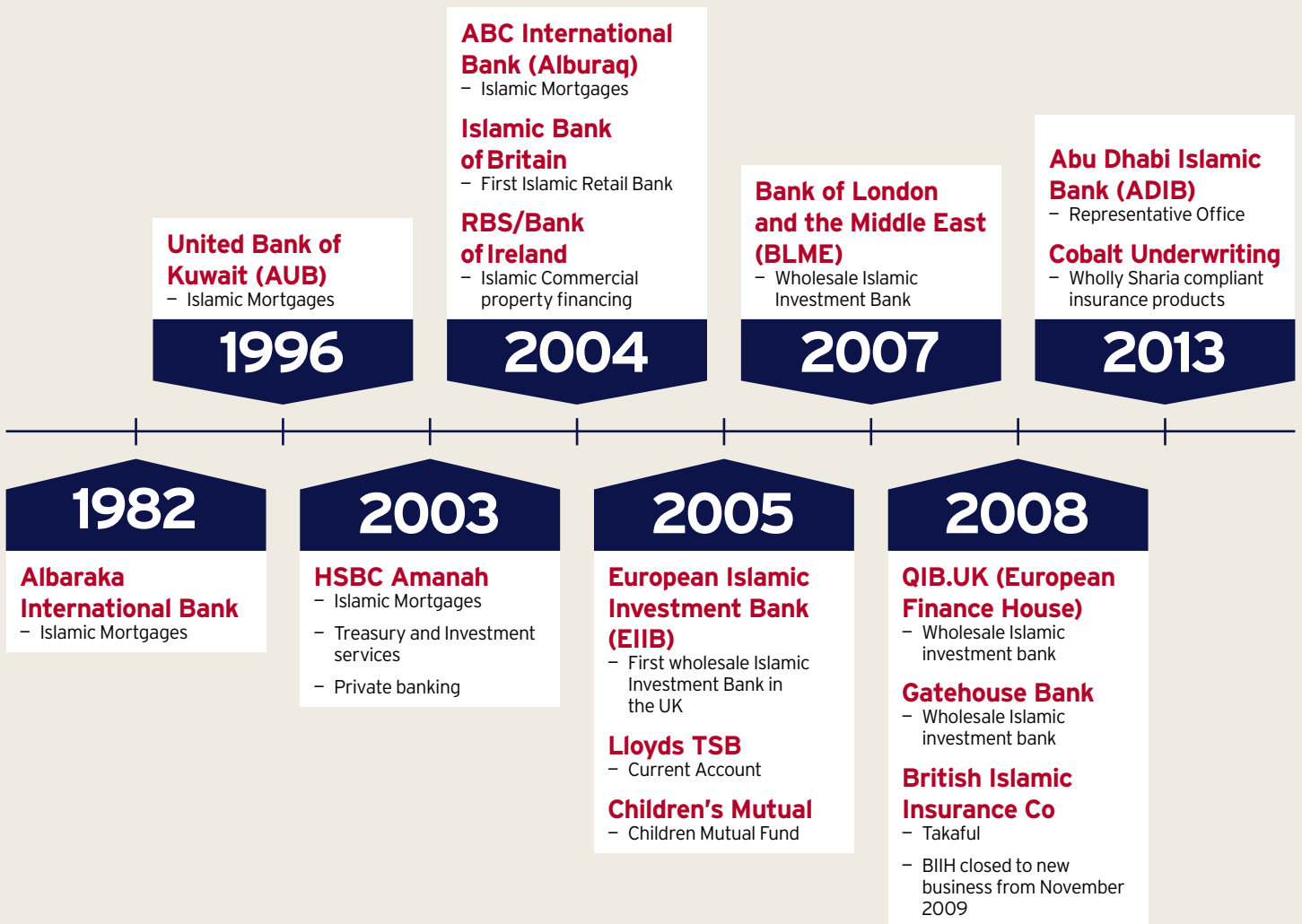
The robust regulatory framework, supportive Government and strong history of financial innovation attracts Islamic banks.

The UK is one of the most desirable places to study in the world with around 100,000 international students studying at UK universities. Islamic finance is taught at a number of these universities and by other educational institutions such as the Institute of Islamic Banking and Insurance that started providing courses in 1990. The Chartered Institute for Securities and Investments developed the landmark Islamic finance qualification (IFQ) in association with L'École Supérieure des Affaires (L'ESA) in 2006. The IFQ has become one of the most comprehensive and popular entry level qualifications in Islamic finance.

In addition to these educational, regulatory and market developments the UK is a vibrant, multicultural and tolerant society that has welcomed Islamic finance. The UK has established itself as a hub for Islamic financial activities and is the global gateway for Islamic trade and investments. Islamic finance is without doubt a growth industry and the UK is well positioned to become the global leader outside the Muslim world. It is therefore essential that the industry continues to work with the government, tax and regulatory authorities to develop and shape the financial environment and UK legislation in order to ensure a level playing field for Sharia compliant products and services.

1 The Banker. Top 500 Islamic Banks. 2012.
2 Ernst and Young. World Islamic Banking Competitiveness Report 2013.

Development of Islamic Financial Institutions in the UK



World Islamic Economic Forum

The World Islamic Economic Forum (WIEF) is a Kuala Lumpur based organisation that brings together government leaders, captains of industries, academic scholars and regional experts to discuss opportunities for business partnerships in the Muslim world.

WIEF has been hosted annually since 2005 in destinations including Jakarta, Islamabad and Kuwait, with London playing host to the

first meeting of the WIEF outside of the Muslim world in 2013.

The key objectives of the WIEF are: to enhance the economic well-being of the people of Muslim nations and Muslim communities through increasing trade and business opportunities; to package the Muslim world as a lucrative trade and investment destination; to strengthen networking and foster strategic alliances through the exchange of ideas, information and knowledge;

and to promote dialogue and foster co-operation among international businessmen in the belief that business partnerships can become genuine bridges towards peace and prosperity between the Muslim and non-Muslim world.

www.wief.org

Regulatory Development of Islamic Finance in the UK

