Islamic Economic Studies
Vol. 22, No. 1, May, 2014 (37-78) DOI No. 10.12816/0004130

Islamic Finance in the United Kingdom: Factors Behind its Development and Growth

AHMED BELOUAFI•
ABDELKADER CHACHI♦

Abstract

This paper aims at capturing the latest developments and growth of Islamic finance (IF) in the UK. The study also aims at shedding light on the driving factors that have been attributed to the rise of this phenomenon in this country. To meet these objectives, the paper utilizes historical and thematic analytical methodologies to draw some lessons and recommendations. The results show that the UK is the country number one in the West, in view of the number of institutions and Universities involved in the educational and training aspects relating to IF, the number of licensed intermediaries providing 'Islamic' financial services, and the number of law firms involved in legal and consultancy services in the IF field. Among the prime factors that have been explored to explain the gradual, but steady progress of IF in the country, are: (i) – The UK's government proactive role, and *(ii)* - *The active role played by a number of UK Muslim organizations.*

Keywords: Islamic finance, banking, finance, FSA, UK
JEL Classification: G00, G200, G29
KAU-IEI Classification: I0, F11.

• Associate Professor of Islamic Economics and Finance, Islamic Economics Institute, King Abdul Aziz University, Jeddah, Saudi Arabia. E-mail: ambelouafi@kau.edu.sa

♦ Economist Researcher and Senior Training Specialist, Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia. E-mail: achachi@isdb.org

1. Introduction

Despite the economic and financial downturns that have engulfed many international economic and financial centers, the latest reports reveal the fact that IF still exhibits a two-digit growth over the past few years. For Instance, the Malaysian-based KFH Research Ltd reported, in September of this year that the industry is operating across 75 jurisdictions with 600 institutions, and total assets to be in the threshold of US$ 2 Trillion by the end of the year; representing more than a 20% increase from last year's figure (KFH Research, 2013 and IFSB Stability Report, 2013). As a result of this growth and spread, IF is no longer confined to its traditional Muslim and Arab markets; rather, it has spread, in various degrees, all over the globe. Among the places that have witnessed a "unique" involvement and evolution in this process is the United Kingdom. The active role, that the UK has played, led some experts to describe this phenomenon as a "*standalone*" experiment in the development and promotion of IF outside the Muslim and Arab worlds.

Seizing upon this momentum, the British Prime Minister; David Cameron announced at the 9th World Islamic Economic Forum[1] (9th WIEF) that he and his government plan to make the UK an International Financial Centre for IF. This paper argues that the UK is already a 'hub' in many aspects relating to IF operations and practices; the UK has been involved in accommodating limited services as early as the late 1970s and early the 1980s, the number of institutions providing 'Islamic' financial services, the number of various degrees and certificates offered by British Universities and other professional institutions, and, finally, the number of law firms engaged in consultancy and IF product developments. Therefore, what matters is putting this call into the perspective of the previous initiatives taken by the Labour government, financial regulators and supervisors, promoting agencies; like the *CityUK* and its predecessor IFSL, of the competitiveness of the City of London as an International Financial Centre on one hand, and elaborating on the factors that stand behind this growth and development on the other.

[1] The 9th WIEF was convened in London on October 29th-31st 2013. The Forum started as an OIC Business platform in 2003. In conjunction with the tenth OIC Summit that was held on 15th October 2003 in Putrajaya, Malaysia, the establishment of the Forum was declared. The inaugural OIC Business Forum sought to create a business 'face' of the OIC. The Forum brought together government leaders, captains of industries, academic scholars, regional experts, professionals and corporate managers to discuss opportunities for business partnerships in the Muslim world. The second OIC Business Forum was convened in Kuala Lumpur in 2004 and the subsequent convening of the 1st WIEF in Kuala Lumpur in 2005. This was an important shift that opened up the Forum to include Muslim communities beyond OIC countries and other non-Muslim communities across the globe. Source: www.wief.org.

By making this pledge, the current UK government is, in fact, reinforcing the previous initiatives taken by its Labour predecessor that will make London at the heart, of not only a regional level but an international bid to compete with ‘Islamic’ Cities such as Bahrain, Dubai and Kuala Lumpur. In the words of the UK Chancellor of the Exchequer, George Osborne, is to turn the City of London into the “*unrivalled western Centre for Islamic Finance*” Osborne (2013). This ambitious plan by a conservative government emphasizes the fact when it comes to economic interests of the nation, the divide line between Labour and Conservative parties is slim; British governments aim to consolidate the position of London as an International financial Centre. We think this is an understandable move that may reflect a response, by British governments, to the realities of the fierce ‘head-to-head’ economic and financial battles that are ever increasing within the Capitalist camp since the collapse of the Berlin Wall in 1989, and they have been reinforced by the economic and financial uncertainties that many advanced economies are going through because of inflictions of the recent financial turbulences. George Osborne, the British Finance Minister, summarizes this policy in a crystal clear manner in the article that he wrote on the FT newspaper as follows: “Whether it is attracting money from China, rejecting damaging protectionism and financial transaction taxes, or issuing the first sovereign Islamic bond in the western world – this government is doing what it takes to open Britain up for business, and for new sources of finance and extra jobs” Osborne (2013).

Indeed, there are other dimensions like political and educational ones as noted by a recent note by the Foreign and Commonwealth Office (FCO) and by the UK trade and investment (UKTI) report. The latter document revealed that UK is one of the most attractive places to study in the world with about 100,000 international students studying at UK universities, Quilter-Pinner and Yan (2013) and UKTI (2013: 11)

To put this call and the measures that may follow into perspective, this research aims to capture the latest developments of IF industry in Britain. Particular attention, in this regards, is given to the identification of the major factors that have played an important role in this evolution. The investigation also sets out to draw important lessons and extrapolates practical steps that can be of benefit to regulatory and supervisory authorities in other jurisdictions intending to integrate IF into their conventional financial systems. To address these points properly, the research explores the following questions:

1. What are the earliest and latest developments of IF industry operations in the UK?

2. What are the deriving factors that stand behind the "*uniqueness*" of the role played by the UK in the spread and development of IF outside the Arab and Muslim World?
3. Is there a correlation between the development of IF in the UK and the welcoming attitude adopted by the UK authorities? In other words, does the Financial Services Authority[2] (FSA)'s approach to regulating Islamic finance provide the appropriate environment for its development in the UK? [3]
4. What lessons and practical steps can be drawn from the experiment?

The remainder of the paper is organized as follows: section **2** reviews the relevant literature. Section **3** provides a brief overview of the developments of the operations of IF in general. Section **4,** on the other hand gives particular attention to the earliest and latest developments of IF industry in the UK. Section **5** touches upon the factors that stand behind the development and growth of IF in the UK, while Section **6** looks at the phases of the regulatory process pursued in the UK to provide a 'level playing field' for IF products and services and explores the practical steps derived from the UK experiment and the lessons that can be learnt from the experience. Finally, Section **7** draws some concluding remarks and identifies some issues for future consideration as far as the accommodation of IF in conventional systems is concerned.

Before ending this introduction, we must stress that describing this newly emerging industry in this research as 'Islamic' should never be interpreted as an 'Islamic authentication or stamping' from our part; it is simply that is how IF products and services have been described in many official reports and other studies and researches. Stating this matter clearly and categorically from the beginning is very important. This is because of three main reasons: i) – Limits of the research (i.e. raising this issue is beyond the stated objectives of the study), ii) - We are not Sharīʿah scholars or members of advisory boards whose main job is to give Sharīʿah verdicts or '*fatāwā*' on the conducted operations and products; and finally iii) – We have spelled out some of the reservations that have been raised by us and others regarding the 'Islamicity' of the prevailing Sharīʿah compliant industry in our 2011 publication.

[2] UK's single financial regulatory body. It came into being in 1997, and it operates under a single piece of legislation that applies to all financial operations and products: the Financial Services and Markets Act 2000. Financial Services Authority, 2006, "*Islamic Banking in the UK*", Briefing Note BN016/06, 9 March 2006. Available at: www.fsa.gov.uk/pages/About/Media/notes/bn016.shtml.
[3] Masood O. *et al.,* 2009, "*Role of Islamic Mortgages in UK*", p. 377.

2. Review of the Literature

Numerous studies and researches have been carried out in the last few years, dealing with different aspects related to the presence of IF in the UK. The reviewed literature seems to indicate that the challenges facing IF in the UK and the opportunities that it may benefit from received a great deal of attention.

Wilson (1999) investigated the characteristics of the British financial market and the evolution of Islamic finance since the beginning of the 1980s until the 1990s of the last century. He examined the challenges and opportunities surrounding the development of IF in Europe with particular reference to the UK experiment. However, the data of the study stopped at the borders of the 1990s of the last century.

Wilson (2003), Langah (2008) and Belouafi *et al*. (2011) also investigated the barriers and opportunities facing the presence of Islamic banking and finance in the UK. Aldohni, (2008) on the other hand, focused on the UK prudential banking regulation in paving the way to the Islamic banking operations by investigating the issue of 'how effective has been the UK regulatory body; the FSA in achieving its objectives through the adopted measures?'. Aldohni (2011) has taken the issue further by comparing the approach taken by the UK authorities and that of their Malaysian counterpart in accommodating IF in their respective financial markets.

Other investigations like Dar (2002), Mathews *et al.* (2003) and Masood *et al*. (2009) explored the 'Islamic' mortgage products and market in the UK for buying houses in Britain. They dealt with a partial issue relating to financing homes for members of the Muslim community in the UK; the size of this market and the obstacles that encounter the members of the community in purchasing their own homes.

Wilson (2007) looked at the latest developments about "Islamic finance in Europe", with references to the experiences of some countries such as Germany regarding the issuance of instruments (i.e. Saxony-Anhalt *Ṣukūk*), and the United Kingdom with respect to licensing of Islamic banks and traditional financial services that are "compatible with the provisions of the Islamic Sharīʿah". The study focused on the British government for the issuance of sovereign *Ṣukūk* and the factors that made Britain ahead of their European counterparts in this area.

At the official level, the UK government published two important documents in 2007 and 2008. The 2007 study published by the FSA concentrated on the regulatory perspective. The other official document issued by the UK Treasury in December

2008, spotted a number of barriers that may prevent the development of Islamic finance in the British capital market and the role that the British government has and should play in this regard, in order to create a 'level playing field' for this type of funding and institutions.

Another study by Masood *et al.* (2011) provided an analysis of the growth and rise of smaller Islamic Banks in the past decade. The main focus of the research has been investigating the stability of smaller IBs *vis-à-vis* their larger sisters. The study was general not confined to the UK as such.

Khan (2012) analysed the perception and awareness of non-Muslims towards Islamic finance in the United Kingdom and the selection criteria used by the consumers in choosing a financial institution. He determined the extent to which non-Muslims are aware of Islamic finance in the UK and their perceptions towards it. He explained the behavioural aspects of consumers towards the financial services industry, which helps in forming perceptions or beliefs. He also discussed the intrinsic as well as the extrinsic factors that affect non-Muslims perceptions towards Islamic finance in the UK.

Elaine Housby wrote two books on Islamic finance in the UK. One in 2011 entitled "Islamic Financial Services in the United Kingdom" and the other in 2013 entitled: "Islamic and Ethical Finance in the United Kingdom". In the first book, the author provided a comprehensive account of the Islamic financial services that are available in the United Kingdom at the time, giving a general account of the British Muslim population, its size, age, origin, location, educational and occupational achievements, followed by an overview on the history of Islamic finance in the UK and an outline on the essential principles of Islamic thought on financial matters. Subsequently she dealt, in turn, with each area of financial services as they exist at the time in the UK, including personal accounts, home purchase finance, the equivalents of personal loans and insurance, investment, *Ṣukūk* and commercial funding. In the second book, Housby answered questions such as what exactly is ethical finance? Is Islamic finance ethical? Is ethical finance Islamic? by examining a wide range of financial institutions in the UK, which fall broadly within the ethical sector, considering the nature of their principles and practices, and how they relate to Islamic models and to Muslim communities. She compared the principles and functioning of Islamic and secular ethical financial services in the UK and provided a comparison of Christian thought and secular ethical financial services with the Islamic tradition.

A more recent brochure published by the UK Trade & Investment (UKTI, 2013), provides an overview of the Islamic finance landscape in the UK, mapping the sector’s history, its phenomenal rise and outlining the unrivalled knowledge expertise and experience the UK offers across all sectors from education to international law and banking Business profiles from key industry players.

To the best of our knowledge, none of the previous studies and researches has examined separately and thoroughly the factors that stand behind the development and growth of IF in the UK; particularly the initiatives taken by the Muslim community living over there. Furthermore, our study covers the trend of this phenomenon in a detailed and comprehensive manner with more focus on the regulatory approach followed by the UK financial regulators to derive some practical steps, lessons and limitations that can be drawn from this experiment.

3. Development of Islamic Finance: An Overview

Islamic financial operations were known and practiced since the 7th century AD when the Prophet Mohammed (peace be upon him) prohibited some transactions involving *Ribā* (interest), *Gharar* (deception), *Qimār* (gambling), *Mujazafah* (speculation), *Ihtikar* (monopoly) and other similar transactions and allowed some other transactions such as *Murābaḥah* (Mark-up sale), *Mushārakah* (partnership), *Muḍārabah* (sleeping partnership), *Muzāraʿah* (Sharecropping) and similar transactions. Some of these operations were known to many earlier civilizations but they were developed further under the Islamic civilization, (Chachi, 2005).

The Global Islamic assets held by commercial banks stood at $1.3bn in 2011, but the industry's forecast growth of some 40% over two years will see this figure rise to $1.8bn in 2013, according to research by Ernst & Young (Handckok, 2013).

The industry is set to grow significantly in the years ahead. At the current rate of growth the market could top $2 trillion in assets by the end of 2014. The largest centres remain concentrated in Malaysia and the Middle East, including Iran, Saudi Arabia, UAE and Kuwait (UKIFS, 2013).

The prevailing IF came into being no more than four decades ago. However, historically speaking, the first recent writings and attempts to establish a modern Islamic bank that cater for the financial needs of Muslims in a Sharīʿah compliant way, were made much earlier.

Most of the writings on the history of contemporary Islamic finance agree that the idea of Islamic banking emerged in the late 1940s of the twentieth century, referring to the book of Anwar Iqbal Qureshi (1946) entitled: *Islam and the Theory of Interest*, and an article by Naeem Siddiqui (1948) entitled "Banking on Islamic Principles". However, an earlier attempt, that has come to be known only recently[4], was made in the late 1920s in Algeria, when an Algerian reformist named Brahim Abu-Yaqddan[5] called for the establishment of a 'modern' bank based on the principles of Islamic Sharīʿah. That call was, then, followed by a detailed study prepared by some Algerian businessmen. In that study all the necessary steps to open the bank was spelled out, but the experiment never came to realization as it was prevented by the French colonizers who were in control of Algeria at that time[6].

The recent institutional development of Islamic banking since the 1940s went through three major phases.

The first phase is between the 1940s and the 1950s when many of the Islamic countries became independent from the Western colonization. This phase saw few attempts to initiate Islamic finance, among which an attempt to establish an Islamic bank in the late 1950s in a rural area in Pakistan, though this had no lasting impact (see Traute, 1983; Wilson, 1983 and Chachi, 2005). It was a small experimental Interest-Free Bank, founded by a small number of pious landowners who were prepared to deposit funds without interest rewards. The credit was advanced to other poorer landowners for agricultural improvements. No interest was charged for the credit, but a small fixed administrative fee was levied to cover the operating costs of the bank. However, as Wilson (1983:75) put it: "although there was no shortage of borrowers, the depositors tended to view their payments in the institution as a once and for all effort and the institution soon ran short of funds. In addition, the depositors took a considerable interest in how their deposits were loaned out and the bank officials enjoyed little autonomy with no new deposits forthcoming, and problems over recruitment of bank staff, who were unwilling to give up lucrative and secure careers in city commercial banking for an uncertain venture in the countryside, the institution soon foundered".

This was followed by a two successful attempts in the second phase during the 1960s. One was the introduction of a local saving bank in the rural area of *Mit-Ghamr*

---

[4] Belabes, (2013). "A New Pages from the History of Islamic Banking: An Early Initiative to Establish an Islamic Bank in Algeria in the Late 1920s".
[5] Abou Al-Yaqdhan, Ibrahim (1928) *Hâjat al-Jazaïr ila Masrif Ahli* (The Need of Algeria for a Native Bank), *Wadi Mizab*.
[6] Belabes, (2013). Op. cit, p. 10-11.

in Egypt, the *Mit-Ghamr* Local Saving Bank (MGLSB) and the other was the establishment of the Pilgrims Fund Corporation or Tabung Haji in Malaysia (THM). Both were based on the principles of Islamic Sharīʿah.

The MGLSB was initiated by Al-Naggar, who later became the Secretary General of International Association of Islamic Banks. The model was in line with the German savings banks adapted to the rural environment of an Islamic developing country. This experiment proved quite successful and the savings mobilisation impressive. Its success in winning the support of a large number of students, farmers and villagers who regarded the bank as their own, is discussed by Ready (1967); El-Naggar (1974), Harvey (1981); Traute (1983) and Wilson (1983). El-Naggar (1974:272) commented: "In spite of the short period during which the bank has been in operation, it has rendered vital services to the economic development of the local community, especially in the development and the establishment of small industries and in providing new opportunities of work for unemployed workers in *Mit-Ghamr* and its 53 affiliated villages".

After three and a half years, the experiment came to an end, not because of its insolvency or other financial difficulties or misconduct, but, rather, because of its success as measured by some indicators pointed out in some studies (Ready,1967; El-Naggar, 1978; Wilson, 1983 and Chachi, 2005). During the period of its operation, the bank was able to reduce problems of rural indebtedness in the areas where this bank and its branches were operating. Borrowers, no longer, had to depend neither on the few local moneylenders, many of whom charged high interest rates, nor on the non-Islamic banks which consider them as a 'non-bankable class' and which, they themselves would not deal with, as these banks base their operations on *Ribā* (interest and usury) which is *Haram* (prohibited) according to their belief in Islam (El-Naggar, 1978; Wilson, 1983; Chachi, 2005).

El-Naggar (1978:230-232) reported that: "Paradoxically, yet not surprisingly, it has been its success, rather than the reverse, which has created problems for the bank. As soon as the social role of the bank began to make itself evident in the successful development of the local area, conflicts started with the local social authorities who saw it as interfering in their own area of authority and regarded it as simply reduplicating their own efforts unnecessarily. In the meantime, because the bank introduced a new concept of banking more expressive of Islamic belief and practice and firmly rooted in a popular Muslim base, the size of savings and the number of savers were increasing rapidly either by the addition of new savers, or by savers who transferred their money from the commercial banks to the Islamic one. Inevitably, this aroused the traditional banks against their new popular based and progressive competitor. Thus, in furthering such changes, the functions and role of the bank could, from a narrow view-point, be regarded as conflicting with existing institutions such as the social authorities, the commercial banks and some of the central holding organizations: industrial or commercial which were mainly under government control, so it was stopped”.

Nevertheless, the venture laid the seeds of modern Islamic banking and pointed the way for subsequent undertakings. Soon afterwards, many Islamic social, developmental and commercial banks started doing business following the example of *Mit-Ghamr* local savings bank with some improvements. The first of such banks is the Nasser Social Bank established in 1971 in Egypt, not as profit oriented institution but as a social bank to serve the previously ‘unbankable’ low income group; followed by the Islamic Development Bank (IDB), an Inter-governmental institution established in 1975 in Jeddah (Saudi Arabia), with the purpose to foster the economic and social development of its member countries, and by the Dubai Islamic Bank (DIB) in Dubai (UAE) in 1975, the first major Islamic commercial bank, the success of which led to the establishment of a series of such banks elsewhere.

The second successful experiment in this regard, happened approximately at the same time as *Mit-Ghamr* Local Savings Bank. It is the birth of the Pilgrims Fund Corporation or Tabung Haji in Malaysia (THM), which started operation in 1963 with a number of objectives that included:

- Enabling Malay Muslims to save gradually, in order to support their expenditure during Hajj (pilgrimage) and for other beneficial purposes.
- Enabling Malay Muslims to have active and effective participations in investment activities that are permissible in Islam through their savings.
- Protecting and safeguarding the interests and ensuring the welfare of pilgrims during pilgrimage by providing various facilities and services.

With such objectives in mind, Tabung Haji, which is still operating until now, has been running successfully since then. Over the last 50 years of operation, it has provided excellent and comprehensive services with premium quality to satisfy the pilgrims need prior, during and after their pilgrimage. Its existence was attributed to a working paper presented by the Royal Professor Ungku Aziz titled, “Plan to Improve the Economy of Prospective Pilgrims” in 1959 (Tabung Haji website).

Tabung Haji started its business in 1963 with only 1281 members and a total deposits of MR46,600 the quasi-government body now has a membership (account holders) of around 8 million and deposits of more than US$41 billion. It is the country's largest Islamic fund manager with a network of 119 branches with more than 6,000 touch-points nationwide. It also makes its presence globally by operating an office in Jeddah, Saudi Arabia. The number of account holders when seen in proportion to the total Malaysian Muslim population of 29 million, is an indicator (27.6%) of how popular and successful this experiment is in Malaysia (Tabung Haji website).

The third phase happened by the mid-1970s, which saw the introduction of commercial private banking, Dubai Islamic Bank (DIB) and an intra-government initiative, the Islamic Development Bank, at a regional level among OIC[7] member countries in 1975. From then on, IF has grown steadily, spreading from one institution in one country, the Dubai Islamic Bank in the UAE, to about 600 institutions in more than seventy Islamic and non-Islamic countries with total assets in the threshold of 2 Trillion US Dollars as mentioned earlier (KFH Research, 2013 and IFSB Stability Report, 2013) and it has been growing at the rate of two digits over the last fifteen years[8]. Thus the operations and products of the industry have also been diversified.

4. The Developments of IF industry in the UK

4.1. The Earliest Developments up to the year 1999

The UK welcomed Islamic banking and finance since its early emergence in the late 1970s and early 1980s. The following activities, undertaking and actions make the point:

❖ In 1976, soon after the First International Conference on Islamic Economics, organized by King Abdul Aziz University, Jeddah at *Makkah Al-Mukarramah*, Saudi Arabia, the Islamic Foundation[9], Leicester, UK established its Islamic Economic Unit as the first ever research Centre on the subject. This Research Centre was followed by the International Centre for

[7] Organization of Islamic Conference. Recently the name of the organisation has change to "the Organization of Islamic Cooperation".

[8] According to Ibrahim Warde, "… *the rate of growth [of IF] accelerated from an average of 14 percent a year in 1994-2002 to 26 percent a year in 2003-2010*". Ibrahim Warde, 2010, "*Islamic Finance and the Global Meltdown*", available at: www.islamica-me.com.

[9] Winner of the 'Islamic Economics' prize of the Islamic Development Bank group in 1432H (2011).

Research in Islamic Economics (CRIE) at the University of King Abdul Aziz University in 1977. The Islamic Foundation UK subsequently published the major works by pioneers of Islamic economics, banking and finance like Nejattullah Siddiqi, Umer Chapra, and others. It also organized conferences, seminars and workshops on these topics in collaboration with the IDB, IRTI and Loughborough University.

- ❖ In 1981, the International Association for Islamic Economics (IAIE) was established in Leicester, UK. It is the Association responsible for the organization of the major international conferences on Islamic Economics. The 4th Conference was organized in Loughborough, UK in the year 2000. The last 2 conferences (8th and 9th) were organized in Qatar in 2011 and in Turkey in 2013 respectively.
- ❖ In 1982, the UK allowed *Dar Al-Mal-Al-Islami* (DMI), based in Geneva, to open an office in London and to mobilize investment funds for Luxembourg Investment Company and Luxembourg *Takāful* Company. DMI was founded in 1981 by indenture under the laws of the Commonwealth of the Bahamas with its headquarters in Geneva (Switzerland) for the purpose of conducting business affairs in conformity with Islamic law, principles and traditions and offering a wide range of Islamic financial services. It has an extensive network stretching over four continents, with well-integrated regional subsidiaries enabling it to respond to local business needs and conditions. Based on this geographic structure, the DMI Group and associates act as a financial bridge between the world's leading financial Centres and Islamic countries (DMI website).
- ❖ In 1983, *Takāful* UK Limited was established in the UK as a subsidiary of DMI, to cater for the need of Muslims residing in the UK, offering them Islamic investment opportunities provided by *Takāful* S.A in Luxembourg, especially for those who are opposed to buying a product they consider is contaminated with *Ribā* or interest. *Takāful* (UK) is still operating from Birmingham, UK, offering Islamic financial services available from a broad spectrum of product providers, in addition to *Takāful* services offered by *Takāful* S.A in Luxembourg (*Takāful*, UK Website).
- ❖ In 1983, The Bank of England (BOE) allowed Al-Baraka Bank to operate in the UK. This bank was founded in 1982 by the Al-Baraka Investment Company, based in Jeddah, Saudi Arabia. It was the only bank offering exclusively Islamic Banking Services in the UK under the 1987 Banking Act. Its business did not take-off until it opened two branches in London in 1988 and 1989, and a branch in Birmingham in 1991. Al-Baraka's major initiative was in housing finance, as it started to provide long-term Islamic mortgages

to its clients from 1988 onward. Al-Baraka and its client would sign a contract to purchase the house or flat jointly, the ownership share being determined by the financial contribution of each of the parties. Al-Baraka would expect a fixed predetermined profit for the period of the mortgage, the client making either monthly or quarterly repayments over a 10 to 20 year period, which covered the advance plus the profit share (Wilson, 1999:426-428). The BOE allowed Al-Baraka some time to seek diversification of ownership, but the problem could not be solved to its satisfaction. The bank therefore decided to surrender its license to offer banking services. It finally closed as a bank at the end of June 1993, though it continued to operate as an investment company (Housby, 2013).

❖ In 1995, the Loughborough University became the first western university to recognize and adopt the teaching of Islamic banking and finance at the Master level in collaboration with the Islamic Foundation UK, which sponsored the research-fellow to do the teaching and supervision of students choosing the optional course in their Master degree.

❖ In the same year, the Islamic Foundation UK, together with Loughborough University organized a major Conference in collaboration with the Islamic Development Bank, where the Governors of some central banks of Muslim countries such as Malaysia and UAE met with the Governor of Bank of England, Sir Eddie George and some scholars to discuss the possibility of allowing Islamic banks to operate in the UK to serve its Muslim population.

❖ In 1997, the United Bank of Kuwait added another major development in the availability of Islamic financial products in the United Kingdom. This was the introduction of home purchase finance by the bank by establishing a specialist Islamic division to its UK operation in 1991. This was eventually named the Islamic Investment Banking Unit, the name under which it still operates. The United Bank of Kuwait later merged with the Al-Ahli Bank and is now known as the Al-Ahli United Bank. The house purchase product was given the brand name of *Manzil*, which means 'dwelling'. The introduction of this service released considerable pent-up demand. Initially, *Manzil* offered only a *Murābaḥah* product, but in 1999, it introduced an *Ijārah* mortgage version. The latter has proved to be far more popular (Housby, 2013).

4.2. The Latest Developments from 2000 onward

It appears, from the available sources that from the year 2000 onward, the UK realized further the benefits of Islamic finance, so it allowed it gradually on the high street. For instance:

- In 2000, one of the famous UK Universities[10] hosted the 4th International Conference of Islamic Economics. Thus, making the only European country to hold such an important event at the international level. In addition, in the year 2002, one of its academics[11], was awarded the Islamic Development Bank Prize in Islamic Banking and Finance. In the same year 2000, the Islamic Foundation UK established the first Islamic institute[12] to teach Islamic economics, banking and finance at master level in collaboration with Portsmouth University, then with Loughborough University and nowadays with Gloucester University (MIHE website and Islamic Foundation Website).
- The year 2001 saw a remarkable political and regulatory boost through the creation a high-level working group with representatives from the City, government, the council of Mortgage Lenders, the Muslim community and the FSA, to examine the barriers to Islamic finance in the UK, (Ainley *et al*., 2007: 8; HM Treasury, 2008: 10; UKIFS, 2013:10). The group was set up by the Bank of England and the UK Treasury, and it was chaired by Andrew Buxton, former Chairman of Barclays Bank, and Sir Eddie George, the then governor of the Bank of England (BOE). Since the formation of this working group, as reported by the UKIFS (2013:10), the UK government and regulators have attempted, through the addition of 'Alternative Finance' clauses to various Taxation Acts, to create an environment where IF players and their clients are not treated any differently to their conventional counterparties. The account below elaborates further on the steps taken in this regards.
- In 2003, the UK, recognizing the vast potential of this market, began shaping the tax and regulatory framework and it allowed the development of Islamic finance products. One of the first initiatives was to remove the double stamp-duty land-tax charge on Islamic mortgages. Hence, the UK is the first EU country to introduce legislative changes to provide a 'level playing field' for IF in its tax bills. The establishment since 2003 of an enabling fiscal and regulatory framework in the UK for IF has been key to facilitating these policy objectives. Initiatives have included:
    - The removal of double-tax on Islamic mortgages and the extension of tax relief on Islamic mortgages to companies, as well as individuals.

---

[10] The University of Loughborough, UK
[11] John Presley, ex-Professor of Banking at Loughborough University, UK.
[12] Markfield Institute of Higher Education, UK.

   - Reform of arrangements for issues of bonds so that returns and income payments can be treated 'as if' interest. This makes London a more attractive location for issuing and trading *Ṣukūk*.
   - Initiatives by the Financial Conduct Authority to ensure that regulatory treatment of Islamic finance is consistent with its statutory objectives and principles.

- In 2003, the Government also launched the UK's first IF Task Force in order to support further developments of the UK's Islamic finance sector, help increase inward investment and strengthen the economy. It included major industry figures to ensure that the UK's offer is promoted at home and abroad by both the public and private sector. One of the key objectives of the Task Force is to engage with the UK Islamic Finance Secretariat (UKIFS) and others to promote and raise the international profile of the industry. Many firms operating in Islamic finance in the UK are members of UK Islamic Finance Secretariat (UKIFS), which is part of The CityUK (UKIFS, 2013).
- In July the same year 2003, HSBC, the giant international bank, introduced an Islamic current account and Islamic home purchase finance in the United Kingdom. The bank's Islamic division is called *Amānah*, meaning 'trust'. HSBC has at least one branch in virtually every town of a reasonable size in the United Kingdom, and is thus an everyday presence to British Muslims. Specialist *Amānah* counters were set up in branches with a significant Muslim population locally and prominent posters displayed in the windows of such branches. HSBC originally offered an *Ijārah* contract, but has now switched to a *Mushārakah Mutanaqissah* (diminishing partnership) scheme. In this latter model, the bank and the client are joint-owners of the property, with the client buying out the bank's share of the equity in installments and paying rent for the use of the proportion of the property still owned by the bank. The main difference from an *Ijārah* model is that the client is described as a joint-owner from the outset rather than as a tenant until all payments have been completed.
- Since the year 2005, London has also emerged as the Centre for secondary market trading in Islamic instruments. The City is home to many of the originating banks, as well as the hedge funds and real money investors that have recently bought into Islamic bonds (*Ṣukūk*). *Ṣukūk* are structured in such a way that investors have a beneficial interest in the cash flows generated by the underlying assets. The size of the *Ṣukūk* market, encompassing domestic and international issues, is estimated at about $60bn. The market is expanding at a rapid pace. The past few years have seen a rapid expansion in the issuance of *Ṣukūk* securities across Asia and the Middle East (The Banker, 11-2007). In this regards, the UK is also ahead of many Western and non-Western

financial Centers. According to the Global IF Forum (GIFF, 2012:9) report at the end 2012, the London Stock Exchange listed 42 *Ṣukūks*, followed by Luxemburg and the Irish Stock Exchanges listing 16 and 9 *Ṣukūks* respectively.

- In its Budget 2009 report, the UK Treasury announced provision of relief from tax on capital gains and capital allowance rules to encourage Islamic debt issuance in the form of *Ṣukūks*, all as part of its "ongoing drive to promote the UK as a Centre for Islamic finance".
- The UK government in January 2010 took a further step with regards to the issuance of *Ṣukūk* in order 'to provide greater certainty to issuers, arrangers and investors, and to provide AFIBs with a regulatory treatment akin to that for conventional bonds where they are structured to have economic characteristics similar to conventional debt instruments' (Finney and Sapte, 2009).
- In 2013 the 9th Meeting of the World Islamic Economic Forum was hosted in London. This is the first time this major international conference has been held outside Asia and the Middle East. In this meeting, the UK Prime Minister, David Cameron, announced the UK plan not only to maintain the position of London as a hub of Islamic finance and also announced that the British Government will soon issue £200 million worth of *Ṣukūk*. This figure is well below the £2 billion worth of *Ṣukūk* that was planned for, during the height of the international financial crisis in 2007 (Jessop and Bell 2009: 10).
- Nowadays, the UK is, as reported by Filippo *et al.* (2013:29) and UKIFS (2013:5), one of the most advanced and sophisticated Islamic financial markets in the western world and is quickly becoming a key destination for foreign Sharīʿah-compliant institutions. It is the first western country to allow the establishment of the first fully-fledged Islamic bank, the Islamic Bank of Britain (IBB) and currently has six fully-fledged operating Islamic banks, that is more than in any other Western country. The fully-fledged Sharīʿah compliant banks in the UK are given in the following table:

Table-1
Summary about Islamic Banks Operating in the UK

Name of Institution	Inception Date	Nature of Work and Activities
The Islamic Bank of Britain (IBB)	2004	A retail bank and the only Islamic bank with a high street presence having five branches and around 50,000 customers. The bank offers a wide range of Sharia compliant financial products in the UK.
European Islamic Investment Bank (EIIB)	2005	A wholesale investment bank which offers its customers Sharīʿah compliant Treasury and capital markets, asset management, private banking, trade finance, correspondent banking and advisory and corporate finance services. EIIB has its headquarters in London.
The Bank of London and The Middle East (BLME)	2007	An independent wholesale Sharīʿah compliant UK bank based in London. Its offering spans corporate banking, treasury and wealth management that comprises private banking and asset management.
Qatar Islamic Bank UK (QIB UK) (European Finance Hose)	2008	A Wholesale Islamic Investment Bank. It provides Sharīʿah compliant investment banking services including trade finance, private equity and asset management to clients ranging from High Net Worth individuals to sovereign wealth funds and other institutional investors.
Gatehouse Bank	2008	A wholesale investment bank operating in capital markets, real estate, asset finance, Treasury business and Sharīʿah advisory services. The bank manages $1.7bn real estate assets in the US and UK. In December 2012 the bank issued the UK's first ever real estate backed sterling *Ṣukūk Al-ljarah*.
Abu Dhabi Islamic Bank UK (ADIB-UK)	2013	Also a wholesale bank which is already operating a large branch network in Egypt – and is in the process of extending operations to several markets across the Middle East and beyond. ADIB UK limited was established to bring the bank's services to clients in the UK.

Source: Authors Compilation from Institutions Web Sites & UKIFS (2013:12)

This is in addition to the provision of Sharīʿah compliant accounts by an estimated 16 conventional banks, such as HSBC, Lloyds-TSB, Barclays Bank, etc. that have set up windows in the UK to provide Islamic financial services.

The UK is also a major global provider of the specialist legal expertise required for Islamic finance, with around 25 major law firms providing legal services in this area. London, in particular, has become an important financial Centre, where major international firms and the Middle East's biggest traditional banks are offering Islamic financial products and services in this city (Filippo *et al.*, 2013:29). Today, the UK is the leading Western country and Europe's premier Centre for Islamic finance. It is well positioned to capture a growing share of Islamic finance business in the coming years (UKIFS, 2013). According to The Banker magazine's latest Islamic Finance survey, the UK ranks as the ninth largest global location for managing Islamic finance assets, with $19bn in reported assets (The Banker, 2012).

Finally it is important to make a note about how IF is being perceived officially: is it regarded as an 'alternative finance' like 'green' and 'ethical' financing? Or as 'an alternative' in the sense of having the 'potential' to replace existing conventional finance as some protagonists of IF may have portrayed the move by British governments in adopting a 'welcoming' attitude towards the presence of IF in Britain? According to UK official sources, IF simply denotes to "the subsection of the financial services industry that complies with the principles of Sharīʿah (Islamic Law)"[13]. These sources pointed out that the most important principles upon which IF framework rests are[14]:

- ✓ Prohibition of the payment and receipt of interest[15]: money itself is considered to have no intrinsic value – it is merely a store of wealth and a medium of exchange.
- ✓ Prohibition of uncertainty or speculation[16]: everybody participating in a financial transaction must be adequately informed and not cheated or misled.
- ✓ Prohibition of financing certain economic sectors [or activities] (ethical dimension of IF): investment is forbidden in those activities viewed as socially detrimental. These include gambling, pornography, and alcohol.
- ✓ Importance of profit and loss sharing: the investor and the investee must share the risk of all financial transactions[17].

[13] HM Treasury, 2008, "*The Development of Islamic Finance in the UK: the Government's perspective*", p. 5.

[14] *Ibid.,* p. 7.

[15] This is the very apparent and the most important feature of *Ribā* in nowadays financial practices.

[16] This is an imprecise translation of the word *Gharar,* which can be best, translated as *alea,* or *aleatory* contracts. Also information asymmetry and zero-sum game can be of great benefit in exploring the wider context of *Gharar* in Islamic law.

[17] This is not the case under *Muḍārabah,* a form of partnership under which one party provides capital and the other entrepreneurship or work; the parties share in the generated profits but losses are borne entirely by the capital provider if true and honest information and accounts are disclosed by the entrepreneur or work provider. This is also not the case under *Murābaḥah* (mark-up sale), *Ijārah* (leasing), *Ijārah wa Iqtina' (hire purchase), Salam* (future delivery of a commodity against pre-payment) and *Istiṣnāʿ* (future delivery of manufactured commodity according to pre-agreed specifications) where the returns on investments are not *Ribā* (interest) but agreed upon at the time of signing the contracts.

- ✓ Asset-backing principle: financial transactions should be underpinned by an identifiable and tangible underlying asset.

Even though that is how IF has been defined and framed, it has been, on the other hand, perceived as an industry that is widening financial choice by serving not only Muslim customers, but also customers of other faiths and cultures. In this regard, a UK official document states: "It is often suggested that IF products may be particularly attractive to those interested in ethical finance, due to certain characteristics non-Muslim businesses may be attracted to IF to increase their sources of funds or liquidity" [18].

It is within this general context and framework of the nature of IF that the industry has been accommodated and promoted in the UK financial system over the last thirty years or so. Due the well placed position of the UK financial, legal and educational establishments, many of these entities are engaged in providing IF services in one way or another.

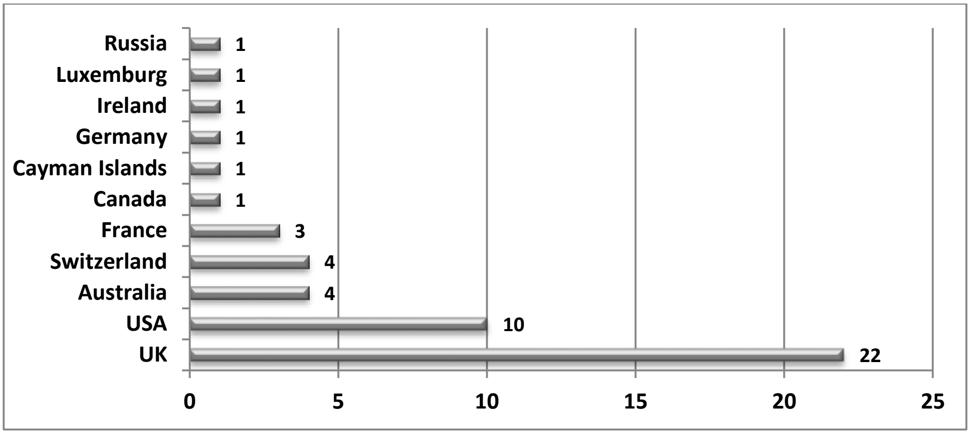
According to an IFSL and the UKIFS reports,[19] there are 55 educational organizations and over 20 law firms involved in this process (Filip *et al.*, 2013:29). A number of companies that engage in principal investing and fund management are also operating in the UK market. Some of these are Gulf Finance House, Dar Capital (UK), Fajr Capital and Al-Salam Europe[20].

From the above account, it can be noticed that the UK has positioned itself as an international gateway for IF finance in the non-Arab and non-Muslim World[21]. The following figures provide further evidence to support the aforementioned progress:

---

[18] HM Treasury, 2008, "*The Development of Islamic Finance in the UK: the Governments' perspective"*, pp. 7-8.
[19] IFSL Research, 2009, "*Islamic Finance 2009*", p. 5 & 6, and UKIFS, 2013, "UK, the Leading Western Centre for Islamic Finance", p. 7.
[20] The Muslim Council of Britain, 2009, "*London and Islamic Finance: Briefing Paper for the Mayor of London*", p.5.
[21] The UK is even well ahead of many Muslim and Arab countries.

Figure-1
Number of Banks Providing Sharīʿah Compliant Services in Western & Offshore Centres

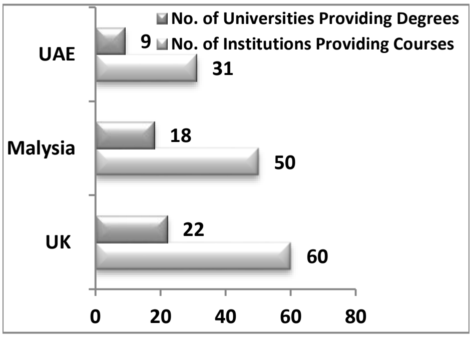


Source: UKIFS (2013), "UK, the Leading Western Centre for Islamic Finance", p.4**.**

Figures (2) and (3) below show that the UK is well positioned in the education and research in IF; the UK has the largest educational institutions; universities and other professional bodies involved in the teaching and training of IF, and in research output the UK came second after Malaysia. According to a recent report produced by IFDI of Thomson Reuters: "Malaysia is leading in terms of research published on Islamic finance in the last three years, with 169 research papers, of which 101 were peer reviewed. The UK and USA followed with 111 research papers (56 peer reviewed) and 73 research papers (39 peer reviewed) respectively. A total of 655 research papers were issued globally on Islamic finance in the last three years, of which 354 were peer reviewed"[22], Trade Arabia Business News Information (2013).

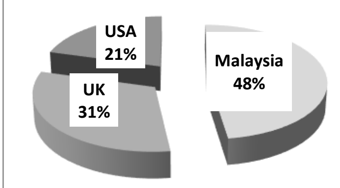
[22] Trade Arabia Business News Information (2013), "UK, Malaysia top in Islamic finance research", ww.tradearabia.com.

Figure – 2- Number of Establishment Involved in IF Education



Source: Business Intelligence Middle East (2013) & After School Higher Education Advisor (2013)

Figure -3- Published Peer & Non Peer Reviewed Papers



Source: Trade and Business News Information (2013).

The above indicators suggest that there is a positive correlation between the welcoming attitude of the UK authorities, especially those involved in regulation, and the growth of IF in Britain. This is not a surprise since the development and promotion of any new business needs an enabling environment that send positive signals to responsible authorities of that business or industry, and IF is not an exception in this regard. This fact has been acknowledged in the UK by official and other sources[23]. This tendency has caught the attention of other jurisdictions to learn from the British experiment. For instance, in 2006 central banking authorities in Canada and Kenya visited the FSA and met representatives of the local banks who had taken the steps of starting Islamic banking operations, like the Islamic Bank of Britain, to look into the feasibility of adopting the UK model to enable investors to start Islamic banking operations in their respective domiciles[24]. Furthermore, the ex-Governor of the State Bank of Pakistan, Shamshad Akhtar[25], in one of her keynote speeches in a conference about IF, indicated that developed jurisdictions can pursue the approach adopted by the UK authorities in welcoming IF in their financial

[23] An example of that is UK Trade and Investments assertion that the "supportive legislation boosts UK's world-leading Islamic finance industry. This success has been facilitated by important legislative changes which have created a dynamic base for Sharīʿah-compliant financial products". UK Trade and Investments, (2010). "*Supportive legislation boosts UK's world-leading Islamic finance industry*".
[24] Abu Umar Farooq Ahmad and M. Kabir Hassan, (2006). "*The Adoption of the UK Finance Bill Proposals on Islamic Finance into Islamic Banking in Australia*", p. 51.
[25] Shamshad Akhtar, (2007). "*Islamic Finance- Growth, Competitiveness and Sustainability*", p.3.

systems. Indeed, the learning process is not going to take place in the 'cut' and 'paste' format as each and every jurisdiction has its 'unique' social, cultural and economic contexts within which it operates.

5. Driving Factors behind Development and Growth of IF in the UK

This section tries to answer the question of 'why has the UK been able to reach this Position?' In consulting various sources; officials and others and observing the developments and growth on the ground the authors of this research came to the conclusion that several factors have attributed to the rise of this phenomenon. This is being the case, it has to be stated that the elaborated factors do not carry the same weight as far as their importance and role is concerned. Among the paramount factors the following can be identified and explored:

1. The nature of the political system (pragmatism, realism, and inclusiveness). In various documents and occasions, the UK government and its officials spelt out the supportive and ambitious attitude relating to the development of IF in the UK. For instance, in the official document published at the end of 2008, the UK government stated that its main objectives of the development of IF in the British Isles are two-fold[26]: First, to enhance the UK's competitiveness in financial services by establishing the UK as a gateway for international Islamic finance; and second, to ensure that everybody, irrespective of their religious beliefs, has access to competitively priced financial products. In this regard, the story of Lord Edward George, the former governor of the Bank of England, and a Muslim family, has been mentioned in various sources to indicate the inclusiveness approach adopted by the British authorities to make sure that everyone in the British society, regardless of faith and ethnicity, has access to a competitive and appropriate level of financial services and products. That incident drove the attention of Mr. George to IF since the beginning of the nineties. In 2003, he wrote about this: "I became interested in it [IF] more than a decade ago when I met a very lovely, deeply, religious, Muslim couple who were living in this country with their family, and who had recently bought a house on the back of a conventional mortgage. They told me of their delight in their home, but then they explained to me –not at all in an aggressive way, in fact in sorrow rather than anger- their regret that they had had to go against their religious principles to finance it. That made a big impression on me… I thought our very inventive financial system could find ways of meeting the needs of the different sectors of

[26] HM Treasury, 2008, "*The Development of Islamic Finance in the UK:* ", p. 13.

our society in ways where this kind of problem need not arise”[27]. This concern has been reiterated and carried out by other officials, like the Chairman of the FSA. In a speech delivered at the Muslim Council of Britain “Islamic Finance and Trade” Conference, the then chairman of the FSA, Mr. Callum McCarthy stated: “It would have been an invidious form of social exclusion for regulation to have prevented the development of financial products which conformed with their religious beliefs [Muslims living in the UK], and therefore to have condemned them to a position where their religious beliefs prevented them from accessing financial services. We at the FSA have been concerned to avoid this” [28]. It is clear that the above quotes and initiatives represent part of the government policies to combat social exclusion[29].

2. The Nature of the Version of the Capitalist Model Adopted. It is a well-recognized and established fact that there are varieties of capitalist models that have been adopted and implemented in various places throughout history, in the localities where capitalism has been the prevailing economic model. This has led some economists to compare this phenomenon with the varieties of products launched by companies to preserve their competitive edge and to meet customers’ preferences. The late American economist Hyman Minsky was once asked about this; his reply was: “At one time the slogan of the Heinz pickle and ketchup company was "57 Varieties". When I make the point about the varieties of capitalism in America, I often say that "There are as many varieties of Capitalism as Heinz has of pickles."[30] The implications of such a fact at the practical level center around the emphasis on the more liberal and less interventionist view of the state in the economic affairs *vis-à-vis* the more socially oriented version. In the 1980s of the last century, liberalism dominated the political and economic scene in the UK. As a result, private ownership, liberal norms in business and deregulation of the financial system have been the main tools relied upon to attract foreign investments to the UK market. Within that context, IF saw its early entrance and development in the UK. As time passed by, other factors, such as the tremendous growth rates and spread of IF influenced the approach adopted by the UK authorities to establish London as an International hub for IF.
3. London as a Leading International Financial Centre. Since the 17th century, London has developed a tradition, of open attitude towards innovation and new

---

[27] Edward George, 2003, “*Towards Islamic House Financing in the UK*”, p. 73.
[28] Callum McCarthy, (2006). “*Regulation and Islamic finance*”, Speech delivered at the Muslim Council of Britain Islamic Finance and Trade Conference, 13 June 2006. Available at: www.fsa.gov.uk.
[29] Michael Ainley, (2008). “*Listing and Regulating Sukuk in the UK*”, p. 6.
[30] Hyman Minsky, (1993). "*Finance and Stability: the Limits of Capitalism*", May 1993, WP #93, p.4.

ideas[31] in the financial sector. Wilson (1999) noted that: "London has turned out to be the largest market in the world for foreign exchange dealing, and the largest Centre for interbank transactions and syndicated lending". This observation is still supported by the recent data and information. According to the latest available data in April 2013, trading in the United Kingdom accounted for 41% of the total, making it by far the most important Centre for foreign exchange trading. Trading in the United States accounted for 19%, Singapore 5.7%, which is surpassing Japan for the first time and, finally Japan is in the fourth place accounting for 5.6%, (Kristine Aquino, 2013). In addition, the London Inter-Bank Offering rate, or LIBOR for short; which represent the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks, is used as a benchmark in the pricing of many financial products including Islamic ones. This is due to the flexibility and welcoming response of its financial system in order to maintain a competitive edge over its rivals. Several analysts, observers, politicians and academics have pointed out this factor[32]. For instance, Rodney Wilson, former professor of economics at Durham University, noted that "The UK has been a gateway for IF to enter Europe, partly reflecting the role of London as the leading international financial centre, but also as a consequence of the exposure of leading British banks to the Arab and wider Islamic World and their knowledge of these markets"[33]. Furthermore, after the introduction of the latest legislation in 2010 related to alternative finance investment bonds (AFIBs) or *Ṣukūk*, Sarah McCarthy-Fry, the Exchequer Secretary to the Treasury, stated that: "Islamic finance is an area that has been helped by the openness to new influences and ideas that we have here in the UK. With our depth of skill, experience and connections all around the world, we have ensured that the UK has long been the leading Western centre for Islamic finance"[34].

4. The Flexibility of the Legal System and the Nature of the Adopted Regulatory Framework. With regard to flexibility, it is noted that the existence of trust laws and equity principles under the British common law has given the UK government enough room to deal with the ownership matters that arise in the structures of most of IF instruments. In terms of regulation, Norton Rose, a key adviser for many Islamic transactions noticed that the steps taken by the UK

[31] Ainley et al., (2007). "*Islamic Finance in the UK: Regulation and Challenges*", FSA, November 2007, p. 11.

[32] See also Howard Davies, (2002). "Islamic Finance and the FSA", pp. 104-105. Mr. Davies was an FSA chairman in the period 1997-2003.

[33] Rodney Wilson, (2007b), "*Islamic Finance in Europe*", p.2.

[34] UK Trade and Investments, (2010). "*Supportive legislation boosts UK's world-leading Islamic finance industry*".

authorities, in this regard, played a decisive role in the advancement of IF in this country: "For the last few years, HMRC have been very receptive to representations made for tax treatment of Islamic finance to be more onerous than conventional finance. These changes should ensure that there are now no UK tax obstacles in issuing *Ṣukūk* backed by UK land. These tax changes will give considerable boost to the UK Islamic finance initiative and ensure that in these difficult times alternative sources of finance will be available in the UK[35]". More importantly, the use of English law in the development of IF products and in the dispute settlements relating to IF transactions outside the UK have also played a role in consolidating London's position as an International hub for IF.[36]

5. The Establishment of a Single Regulator that Oversees the Operations of the Whole Financial Sector. The FSA was established by an Act of legislation[37], the Financial Services and Markets Act (FSMA) 2000. Thus, the FSA has combined the work of 11 different regulators into a single body under a single piece of legislation, and since the end of 2001 the FSA started its operations as the main statutory regulator for the UK financial services industry. This development may have quickened the process of the establishment of IFIs in the UK letting a single body to decide upon the licensing applications, rather than multiple entities as was the case under the old regime. In addition, the FSA has benefited from the initiatives taken by its predecessors as there was no lack of dialogue and discussion between the previous regulators and IF stakeholders, especially the Muslim community living in the UK[38]. Furthermore, the UK's principle-based regulatory structure, which is designed to accommodate a range of financial structures to suit multitude clients may have played a part in this development as well, thus giving the City of London more flexibility than its competitors elsewhere[39].
6. The Remarkable Growth and Expansion of the IF Industry, in almost all Places of the Global Financial Village, over the Past Few Years. This phenomenon has been attributed to several factors; the infancy of the industry, the liquidity accesses in the Gulf, the low levels of financial penetration in many Muslim countries and communities, and the rise of the emphasis on the ethical and moral

[35] Gillian Walmesley, (2011). "*Another year of growth and development for the London Stock Exchange markets for Islamic finance*", pp. 1-2.
[36] Aziz Tayyebi, (2008). "*Islamic Finance: An Ethical Alternative to Conventional Finance*?", p. 5.
[37] Ainley, et al., (2007). "*Islamic Finance in the UK: Regulation and Challenges*", FSA, November 2007, p. 11.
[38] Howard Davies, (2002). "*Islamic Finance and the FSA*", p. 103.
[39] The Muslim Council of Britain, (2009). "*London and Islamic Finance: Briefing Paper for the Mayor of London*", p. 6 & Gillian Walmesley, (2011). "*Another year of growth and development for the London Stock Exchange markets for Islamic finance*", p. 1.

dimensions in financial dealings and practices in the aftermath of the recent financial turbulences. In addition, the traditional base (i.e. The Arab and Muslim Worlds which constitute 1/5 of the World population with 1.8 billion inhabitants that are growing by 1.5 per cent per year) of the industry is so vast and many of its countries and regions are financially and economically underdeveloped, but at the same time they have displayed good economic growth in the last few years and are projected to pursue that path. For example 253.9 million Muslims live in the 10 fastest growing economies in the World between 2011 and 2015, (Quilter-Pinner and Yan 2013). Furthermore, these places are generally unbanked, thus demand for financial services will continue to rise; governor of the central bank of Malaysia (Bank Negara), noted in one of her latest lectures that: "in many IDB countries, studies have shown that economic development is constrained by lack of access to finance, given that only 30 per cent of adult population use formal financial intermediaries", (Aziz 2013). Besides, various surveys conducted recently and in the past few years reveal the face that "a significant portion of the Muslims, if given the choice, would opt out for IF", (Organization of the Islamic Cooperation SESRIC[40] 2012: 12). In addition, demand for Islamic financial services is not confined to Muslims only, but non-Muslims may show interest in this kind of 'alternative' or 'ethical' financing. In Malaysia, for instance a quarter of IF customers are non-Muslims, (Quilter-Pinner and Yan 2013; Ali S. S. 2011: 21). Having observed this general trend about the whole traditional base of IF, it has to be noted that the development of IF varies from one region to the other. Ernst and Young (2012) pointed out that North Africa is the least developed in this regards if compared to others; especially the Gulf and Malaysia. The report categorically analyzed the status of three countries; Morocco, Libya and Oman. In 2010 these countries had no Islamic financial institutions, but they have taken legislative measures to accommodate the industry. The report estimated that by 2015 these countries will have IF markets worth \$10bn, \$5bn and \$8bn respectively. The report also projected that the industry will make an impressive progress in Algeria, Egypt and Saudi Arabia. The industry will grow by 1192% in Algeria, by 395% in Egypt and by 220 in Saudi Arabia[41].

7. The Active Role and Involvement Carried out by some Muslim Community Organizations. It has already been mentioned that the Islamic Foundation, UK played an instrumental role in the advancement of Islamic Economics and Islamic Finance, not only in the UK, but elsewhere through publications and other means of the dissemination of Islamic economics knowledge. There are other

[40] Statistical, Economic and Social Research and Training Centre for Islamic Countries.

[41] One has to treat these estimates and figures with caution as the political climate has changed dramatically in some places like Egypt and is still unstable in some other places like Libya. If the unrest at the social front, in Many Arab and Muslim countries, is added, the situation will be more blurred.

organizations as well. For instance, the Muslim Council of Britain (MCB)[42]; a non-profit national Muslim organization has set up in 2005 a Business and Economics Committee (BEC). Reviewing the tasks that this committee has carried out, since its inception till now, show that IF has been present all along. The committee has good connections with the government's bodies like the FSA, the Treasury, trade and industry, and the CityUK. Through these links the ECB got engaged with various activities: consultation on tax amendments for IF products, increasing IF awareness through publication of special reports[43], participation in international events (e.g. heading the British delegate that participated in the 5th WIEF (2009) and attending the 9th WIEF), organizing public lectures, symposia, giving introductory courses about tenets and operations of IF, and holding meetings with business and political personalities (e.g. Sheikh Saleh Kamel, the Saudi Businessman and Gordon Brown the ex-Chancellor of the Exchequer). The other noticeable entity is the Islamic Finance Council UK ("IFC")[44]; a Scotland based organization that has been established by some active Muslims for the sole role of promotion and enhancement of IF in the British Isles. Since its inception, IFC has initiated many programs that aim at promoting the IF industry in the UK. Among these are: engagement with government bodies at the local and national levels, and awareness campaigns to increase IF outreach amongst key stakeholders within the society and particularly among Muslim community. Since 2005 the IFC has been holding a series of round table forums and conferences attracting leading industry players. Indeed, there are other individual and collective initiatives like 1st Ethical, but they are not engaged in the sort of activities that fits the research framework.

There are, of course, other factors such as the English language, as an international financial and business language, and close trade ties between Middle-Eastern countries, especially from the Gulf, and the UK.

---

[42] The MCB is a national charitable organization that has been set up in 1997 by Muslim community leaders to act as an Umbrella for different Muslim organizations. Currently the MCB represents over 500 affiliated national, regional and local organizations, mosques, charities and schools. Source: www.mcb.org.uk.

[43] The latest is "The Muslim Pound: Celebrating the Muslim Contribution to the British Economy". The report has been launched at the 9th WIEF that was held in late October in London.

[44] The IFC is a not for profit body established to promote and develop the Islamic finance industry. Its work focuses on two broad areas: advisory and promotion of IF. In IFC provides advisory in three main areas: Training & Education, Research and Tailored Solutions. For more information visit the IFC web site.

6. The Regulatory Process of Accommodating IF in the UK: Phases, Steps and Lessons

From the available data and information, Sharīʿah compliant products were first introduced in the UK markets since the early 1980s and they have been steadily developing and growing till this moment. The regulatory approach and attitude adopted by the UK authorities can be summarized in three main phases as illustrated by the following figure (4):

Figure-4
Summary of the Regulatory Phases pursued in the UK

Phase 1: Before 1995 (No action):

- International commodity *Murabaha* operations.
- Al-Baraka International (1983-1993)
- No discussion at the regulatory level about the issue.
- Same regulation; neither special provision nor minimal changes for Islamic products have been introduced.
- Islamic modes bear higher costs (e.g. Charge of double SDLT on property transfer).

Phase 2: 1995 –2003 (Action):

- Sir Edward George Speech at the Islamic Foundation (September 1995).
- The FSA establishment (1997).
- Government consults Muslim community about the introduction & development of Islamic Finance (1999).
- Bank of England (BoE) recognition of the potential of IF growth in the UK, 1999.
- High-level working group to identify barriers facing IF development (2000).
- Sir Howard Davies, FSA chairman speeches 2002 (Markfield-UK) & 2003 (Bahrain).
- 1st changes in the Finance Act 2003.
- Attendance of various activities about IF by UK officials.

Phase 3: After 2003 (Pro-Action):

- Other changes in Finance Acts of subsequent years. Table 2 provides some encounter.
- Budget speech of Gordon Brown in 2006 to promote London as the leading international financial centre.
- Mr. Brown pledge to support the growth of IF at "the Islamic Finance and Trade Conference", June 2006.
- IF summit at 11 Downing street (Islamic Finance Experts Group (IFEG) established), April 2007.
- FSA document about "IF Regulation and Challenges in the UK", Nov. 2007.
- Government document about its "Perspective of the development of IF in the UK", Dec. 2008.

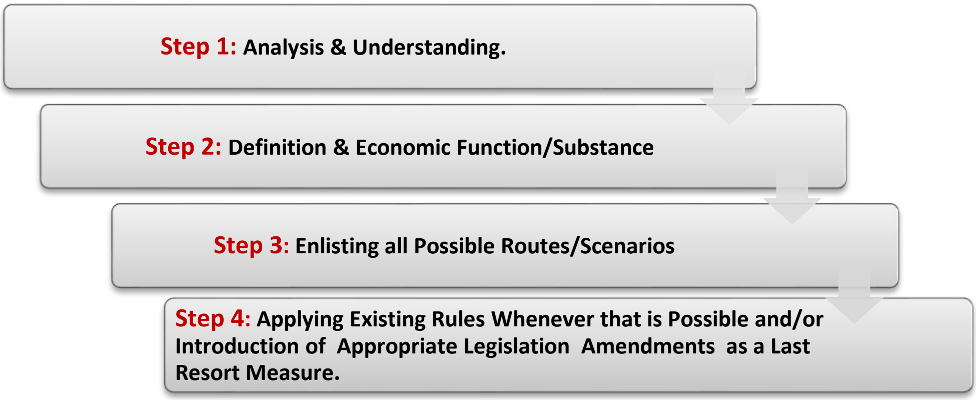
It is clear from the above account that the UK authorities have been accustomed to IF services and products for a very long period. During this period, IF industry witnessed significant developments. Those developments were captured and translated by British officials into policies that allowed IF to flourish on a gradual process in the UK. So, despite the ambitious intention of the government, as mentioned in the previous section, with regard to the development of IF in the UK, the government did not rush into hasty decisions and policies. As a result the changes came into being only over the last few years, as illustrated by the table given below:

Table-2
Examples of Introduced Changes to Finance Acts

Date	Changes
2003	Removal of the double charge of Stamp duty Land Tax (SDLT) for *Murābaḥah* & *Ijārah* contracts. Thus allowing individuals to purchase homes. Other measures were introduced as well to offer Islamic products for Child trust fund, asset finance and ISAs.
2005	Extension of the removal to *diminishing Mushārakah* (another mode of alternative finance).
2006	Extension of removal to beneficiaries (i.e. companies).
2007	Discussion of applying the same tax rules of conventional debt instruments like bonds to *Ṣukūk* (Islamic Bonds).
2008	Dealing with more issues relating to the issuance of *Ṣukūk*.
2009	Legislative measures for SDLT, Capital Gains Tax (CGT), and capital allowance rules for land transactions involved in the structuring of *Ṣukūk* instruments
2010	The Financial Services and Markets Act 2000 Order 2010 exempts alternative finance investment bonds (AFIBs), a class of debt-like security which includes *Ṣukūk*, from collective investment scheme (CIS) regulations

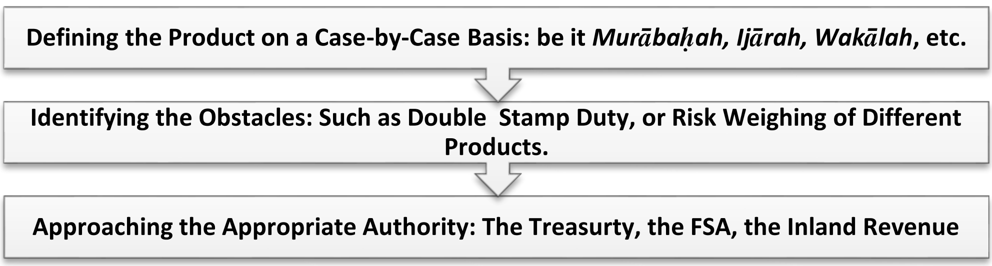
The practical steps derived from the UK approach in accommodating IF can be summarized in the following diagram:

Figure-5
Practical Steps of the UK Approach in Accommodating IF



The analysis has been carried out by working groups, such as the Islamic Finance Expert Group (IFEG) and the Tax Technical Working Group (TTWG) and through the various consultation papers to make sure that an in-depth analysis has been carried out, looking into the various aspects and implications of IF services and products. Furthermore, the process has been conducted through the following general guidelines[45]:

Figure-6
General Guidelines Governing the Steps Taken by the UK Authorities



[45] Edward George, (2003). "*Towards Islamic House Financing in the UK*", p.77.

For example**,** in the second step (Figure 5) the first group that was chaired by Edward George identified four main obstacles in the area of the provision of 'Islamic' home financing. These were[46]:

1. Treatment under Stamp Duty whereby duty may need to be paid twice, or at a higher rate than on a conventional mortgage because of the nature of the transaction involving the initial ownership by the financier.
2. Higher regulatory capital charges where conventional mortgages –and indeed *Murābahah* mortgages- attract a capital risk of 50%; but some Islamic mortgages –*Ijārah* mortgages- attract a higher rate of 100%.
3. Disadvantages under the various public sector home ownership schemes – such as Right to buy or Rent to mortgage, whereby the purchaser may be unable to take advantage of the benefits offered under the schemes due to the involvement of the financier as the owner of the property.
4. Disadvantages in terms of the housing cost element of Income support or income-based Jobseeker's Allowances as compared with that of a conventional mortgage.

Subsequent groups have come across other obstacles as the process of accommodating IF products and services widened to include more products and more interested economic agents as shown in the above table (2). As a result, the process has been lengthy as the introduction of IF products and services have wider implications that need to be taken into consideration to avoid any unintended outcome. The treatment of *Ṣukūk* given below provides a typical example of how the process has been carried out to reach the appropriate policy.

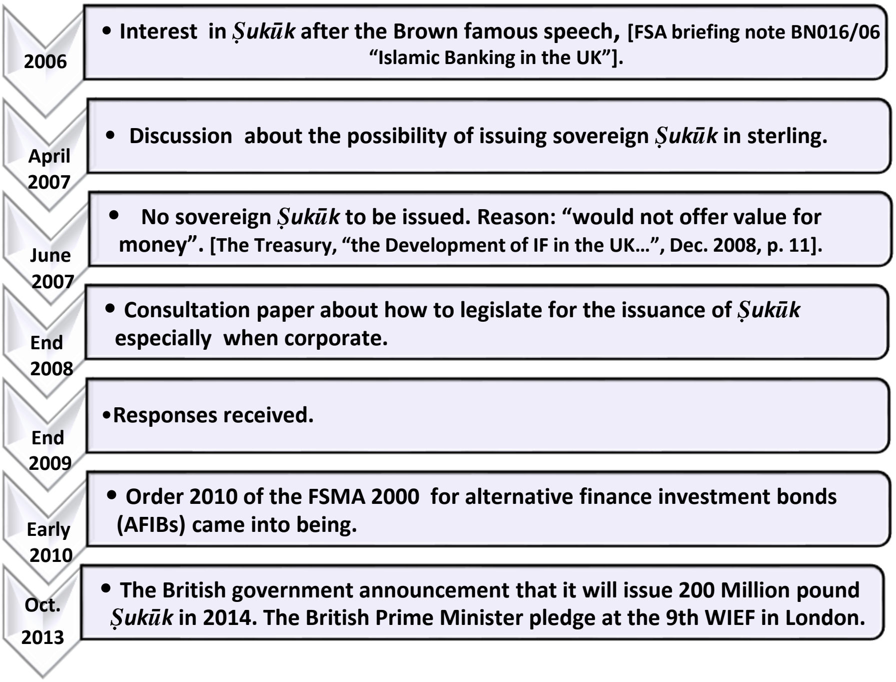
The Example of Ṣukūk

The UK government has shown interest in *Ṣukūk* since 2006, after the Brown speech, the then Chancellor of the Exchequer, promising to promote the City as the international financial centre. Part of that strategy was to look into the economic potential of *Ṣukūk* as an alternative, but complementary instrument to conventional bonds that can be used to widen government options in diversifying the sources of its financing. Figure (7) below gives a summary of the initiatives taken between 2006 and 2013:

---

[46] *Ibid*, pp. 74-75.

Figure-7
UK Initiatives with Regard to *Ṣukūk*, between 2006 and 2013



After the analysis and the consultation process, the outcome has been to enlist all possible routes/options and then select the most appropriate.

1. The Enlisted Routes/Options[47]:
   - Option 1: Introduction of a unique regulatory definition for AFIBs (*Ṣukūk*) to exempt explicitly these instruments from CIS regulations and to create a new specified investment under the Regulated Activities Order (RAO).
   - Option 2: Same as (1), but AFIBs will be come under the existing tax definition.
   - Option 3: Same as (1), but includes AFIBs under existing specified investment of creating or acknowledging indebtedness.

---

[47] HM Treasury & FSA, (2008). "*Consultation on the legislative framework for the regulation of alternative finance investment bonds (Sukuk)*", p.3 & HM Treasury & FSA, (2009). "*Legislative framework for the regulation of alternative finance investment bonds (Sukuk): summary of responses*", p. 4.

- Option 4: Do nothing.

2. Selecting the Appropriate Option. The government opted for the first option as laid down in the order 2010 of the FSMA 2000 for alternative finance investment bonds as indicated above.

That approach led the government to conclude that, while its "objectives for IF are ambitious … it is,[nonetheless], committed to ensuring that behind these ambitious objectives, the necessary analysis, consideration and consultation is carried out to deliver real benefits to industry and consumers in the UK"[48].

From the previous examination of aspects relating to the accommodation of IF in the UK, the following lessons can be drawn:

- Need for clear-cut objectives (i.e. city competitiveness & citizens' access to financial products) and guiding principles (commitment, fairness & collaboration). Thus, subsidence of ideological and cultural sensitivity is of prime importance for an accommodative environment that is open to new ideas and innovations, irrespective of their origin, provided that they are of benefit to the society in general, or to an important part of its citizens.
- Thorough analysis through high-profile groups and consultation with various parties and departments concerned.
- Gradual and progressive process.
- Resolute and steady development.
- Stakeholder approach: On opening the door for IF, the UK authorities have involved several bodies and entities on their side as well as those on the IF industry's side. In particular, the Muslim community residing in the UK was involved in the process from the outset.
- Taxation as the main tool for legislating IF products and services. The main guiding principle of this process is to look into the economic substance of the transaction rather than its legal structure or form, based upon the "*no obstacles, no special favors*" policy. Hence IF products and operations have be treated as if they "were interest-bearing" instruments. Based on these

[48] HM Treasury, *2008). "*The Development of Islamic Finance in the UK: The Government's Perspective"*, p. 14.

considerations, the following principles have been applied to accommodate IF products into the tax bills[49]:

1. Treatment should follow the economic substance of the transaction.
2. Treatment should be on the same basis as equivalent financial products that bear interest.
3. Ordinary tax rules should be applied where possible.
4. Rules that give undesirable or unpredictable results should be amended.

7. Concluding Remarks and Issues for Future Consideration

In the preceding sections we examined and analyzed various aspects related to the growth and development of IF in the UK. On the basis of that analysis and discussions, the following concluding remarks and/or issues for future exploration can be made:

- IF has grown remarkably in the UK over the years. Many factors have been attributed to this growth. Political and regulatory factors have been identified as overriding elements in this process. An important feature of this development is the supportive government policies intended to broaden the market for Islamic products for both Sharīʿah compliant institutions and firms with 'Islamic windows'. The development of Islamic finance has also enjoyed cross party support over the past decade with two key policy objectives: firstly, to establish and maintain London as Europe's gateway to international Islamic finance; and secondly, to ensure that nobody in the UK is denied access to competitively priced financial products on account of their faith (UKIFS, 2013).
- Important lessons can be learnt from the British experiment. This, by no means, should be interpreted as a call for the adoption of a "*cut and paste*" solution but rather, it is a call to get inspiration from this experience by taking things even further than the UK. This is because every country has its unique characteristics and circumstances that should be taken advantage of in today's very competitive and complex environment, through the "comparative advantage" notion that served the growth of trade and mutual exchanges between nations over the centuries.

[49] *Ibid,* p.19.

- There are regional and international contenders who are trying to rival the UK's positioning of London as a hub for IF outside the Muslim world. Will this reality push the UK authorities to take further measures for accommodating more products and institutions of IF? Or do they consider their position well ahead of their rivals? Hence, time will play in their side in observing and responding comfortably to the steps that their rivals might take.
- As for the issues for future consideration the following points can be made:
    - Does it make a great difference and impact, at the practical level, to adopt the minimal changing approach as is the case with the UK, or the dual approach as is the case with Malaysia and Bahrain, for the following stakeholders?
    - Industry players
    - Sharīʿah boards
    - Lawyers.

In other words, are there big differences between the two approaches? Or are they almost identical in their final impact on the welcoming process of accommodating IF in conventional systems?

- If Islamic Finance is regarded as a "true" equity and asset backed industry and has been "easily" accommodated into conventional system, can a serious debate be initiated about providing "level playing field" for equity modes of finance in relation to the "favours" given to debt modes of finance to put an end to the biased legislative regimes that have affected the emergence of "abnormalities" in the practices of economic agents in the prevailing financial system? In other words, can a legal shift be attained to allow more equity and participatory modes of finance to play a greater role in the financial intermediation process?

References

Abou Al-Yaqdhan, I. (1928) Hâjat al-Jazaïr ila Masrif Ahli (The Need of Algeria a Native Bank), *Wadi Mizab*, 29 June.

After School Higher Education Advisor, (2013). "UK, Malaysia and UAE lead in Islamic Finance Research", October 28, 2013. Available at: http://afterschool.my.

Ahmad A. and Hassan, K. (2006) "The Adoption of the UK Finance Bill Proposals on Islamic Finance into Islamic Banking in Australia", *Review of Islamic Economics*, Vol.10, No.1, pp.41-57.

Ahmad, A. U. F. and M. Kabir Hassan, K. (2006). "The Adoption of the UK Finance Bill Proposals on Islamic Finance into Islamic Banking in Australia", *Review of Islamic Economics*, Vol. 10, No. 1, pp. 41-57, International association for Islamic economics (IAIE). Available at: www.perpustakaan.depkeu.go.id.

Ainley M.L; Mashayekhi A.; Hicks R.; Rahman A. and Ravalia A. (2007). "Islamic Finance in the UK: Regulation and Challenges", Financial Services Authority, London, UK.

Ainley, M. (2008) *"Listing and Regulating Sukuk in the UK", Sukuk Summit, June 25th, London*

Aioanei, S. (2007) "European Challenges for Islamic Banks", The Romanian Economic Journal, Year X, No. 25, bis, 7-20.

Akhtar, S. (2007) "Islamic Finance-Growth, Competitiveness and Sustainability", Keynote speech, 14th World Islamic Banking Conference, Bahrain, 9-10 December 2007.

Akhtar, S. (2007). "Islamic Finance- Growth, Competitiveness and Sustainability", BIS Review 146/2007, Bank for International Settlements (BIS), Available at: www.bis.org.

Aldohni, A. K. (2008). "The UK prudential banking regulation and Islamic banks: has the Financial Services Authority achieved its regulatory objectives?", Journal of International Banking Law and Regulation, v.23, no.7, July, p.382-386.

Aldohni, A. K. (2011). "The legal and regulatory aspects of Islamic banking: a comparative look at the United Kingdom and Malaysia", London : Routledge, 2011.

Ali, S. S. (2011). "Islamic Banking in the MENA Region", Financial Flagship, the Word Bank and IDB-IRTI, February, 2011.

Aquino, K. (2013). "Singapore Overtakes Japan as Asia's Top Foreign-Exchange Hub", Sep 6, 2013, Bloomberg.com.

Aziz, Z. A. (2013). "Islamic Finance: Financial Stability, Economic Growth and Development", Islamic Development Bank (IDB) Prize Lecture, November, 27th, IRTI, IDB Group, Jeddah, Saudi Arabia.

Belabes, A. (2013). "A New Pages from the History of Islamic Banking: An Early Initiative to Establish an Islamic Bank in Algeria in the Late 1920s", *Islamic Economic Studies*, Vo. 19, No.1.

Belouafi, A. and Belabes A. (2011) “Islamic Finance in Europe: The Regulatory Challenge”, *Islamic Economic Studies*, Vol.17 No.2, January, 2010.

Belouafi, A. and Chachi, A. (2011) “Islamic Finance in the UK: Opportunities and Challenges”, *Journal of King Abdul Aziz University: Islamic Economics*, Vol.24, No.2., pp.3-63.

BMB Islamic, (2011) “Global Islamic Financial Report (GIFR2011)”, BMB Islamic Publication, London, UK.

Business Intelligence Middle East, (2013). “ICD-Thomson Reuters analysis shows UK and Malaysia as global leaders in Islamic finance education and research”, October 28, 2013. Available at: www.bi-me.com

Chachi, A. (1989) “Islamic Banking”, PhD Thesis, University College of North Wales, Bangor, UK.

Chachi, A. (2005) “Historical Development of Banking Operations”, *Journal of King Abdul Aziz University: Islamic Economics*, Vol.18, No.2.

Chapra, M. U., and Khan T. (2000) *Regulation and Supervision of Islamic Banks*, Occasional paper 3, Islamic Development Bank and Islamic Research and Training Institute, Jeddah, Saudi Arabia.

Dar, H. A., and Presley J. R. (1999) “Islamic Finance: A Western Perspective”, *International Journal of Islamic Financial Services*, Vol.1, No.1, pp.1-9.

Dar, H.A. (2002) "Islamic Housing Financing in the United Kingdom: Problems, Challenges and Prospects", Review of Islamic Economics, No. 12, 47-71.

Davies, H., (2002) “Islamic Finance and the FSA”, *Review of Islamic Economics*, No. 12, pp. 101-108.

Di Mauro, F., Caristi, P., Couderc, S., Di Maria, A., Ho, L., Grewal, B. K., Masciantonio, S., Ongena, S., and Zaher, S. (2013). “Islamic Finance in Europe, Occasional Paper Series No 146 / June 2013, European Central Bank, Eurosystem, Germany.

El-Hawary, D., Garis, W., and Iqbal, Z. (2004) “Regulating Islamic Financial Institutions: the Nature of the Regulated”, *World Bank Policy Research Working Paper*, 3227, March.

El-Naggar, A. (1974) *Al-Madkhal li al-Nadhariah al-Iqtisadia fil-Manhaj al-Islami*, (Introduction to the Economic Theory within the Islamic Methodology”, Dar al-Fikr, Cairo.

El-Naggar, A. (1978) “Islamic Banks: A Model and a Challenge” in Gauhar (ed.) *The Challenge of Islam*, Economic Council of Europe, London.

Ernst and Young, (2012). “World Islamic Banking Competitiveness Report 2012-2013: Growing Beyond: DNA of Successful Transformation”, Ernst & Young, December 2012. Available at: www.ey.com.

Filippo di Mauro, Caristi, P. Couderc, S., Di Maria, A., Grewal, L., Masciantonio, S., Ongena, S., and Zaher, S. (2013) *Islamic Finance in Europe, Occasional Paper Series*, No. 146, European Central Bank,

Financial Services Authority, (2006) “Islamic Banking in the UK”, Briefing Note BN016/06, 9 March. Available at: www.fsa.gov.uk.

Finney, R. and Matthew Sapte, M. (2009). “Treasury reclassifies *Sukuk* under new regime”. Available at: www.lexology.com

Funds@Work, (2010), “The Small World of Islamic Finance”, Funds@Work & Zawya Shariah Scholers, Version 5.0, October 5th.

George, E. (2003) “Towards Islamic House Financing in the UK”, *Review of Islamic Economics*, No.13, pp.73-78.

Global Islamic Finance Forum (GIFF). 2012. “Global Islamic Finance Industry”. Available at: www.giff.com.my.

Hancock, M. (2013) “Islamic Finance in 2013: Beyond the Growth”, *The Banker*, March, 2013.

HM Treasury & FSA, (2008) “Consultation on the legislative framework for the regulation of alternative finance investment bonds (*Sukuk)*”, The Treasury, London, UK.

HM Treasury & FSA, (2009) “Legislative framework for the regulation of alternative finance investment bonds (*Sukuk*): summary of responses”, the Treasury and the FSA, October 2009.

HM Treasury (2008) “The Development of Islamic Finance in the UK: the Government's Perspective”, HM Treasury, December 2008.

HM Treasury (2009) “Banking Act 2009”, February 2009, HM Treasury, London, UK.

HM Treasury and the UK Debt Management Office, (2008) “Government Sterling *Sukuk* Issuance: a response to the consultation”, HM Treasury, London, UK.

HM Treasury, (2008), “The development of Islamic finance in the UK: the Government's perspective”, HM Treasury, London, UK.

IFSL Research (2009) “Islamic Finance 2009”, IFSL in collaboration of UK Trade & Investment and City of London, January.

IFSL Research (2010) “Islamic Finance 2010”, IFSL in collaboration of UK Trade & Investment and City of London, January.

Islamic Financial Services Board (IFSB). (2013). “Islamic Financial Services Industry: Stability Report”, IFSB, May 2013, Kuala Lumpur, Malaysia.

Januja, N. (2010) "Is the Islamic Mortgage market dying a slow death?” www.islamicmortgages.co.uk, accessed May 9, 2010.

Jessop, N. and Bell, S. (2009). “Islamic Finance a Key to London’s Future Prosperity”, Tax Planning International Review: Special Supplement, 01/09, BNA, ISSN: 0309-7900.

KFH Research (2013). “Global Islamic Finance Jurisdictions”, 13 September, KFH Research Ltd, Malaysia. Available at: www.kfhresearch.com.

Langah, W.A. (2008) "Islamic Banking in the United Kingdom: Opportunities and Challenges", Msc Dissertation, Kingston Business school, Kingston University, October 2008.

Leach, K. (2009) "Islamic Banking Developments in the Domestic UK Market", presentation made at: "Islamic Business: The Way Forward", a conference organized by Elshaarani Centre for Islamic Business and Finance (EIBF), Aston University, Birmingham, UK, June 2nd, 2009.

Masood, O., Chichti J. E., Mansour W., and Amin Q. A. (2009) “Role of Islamic Mortgages in UK”, International Journal of Monetary Economics and Finance, Vol. 2, Nos. 3-4, pp. 366-383.

Masood, Omar, Chichti Jamel E., Mansour Walid, Amin and Qazi Awais (2009) "Role of Islamic mortgage in UK", International Journal of Monetary Economics and Finance, 2(3-4): 366-383.

Mathews, R., Tlemsani, I. and Siddiqui, A. (2003) "Recent Developments in the Market for Islamic Mortgages: Theory and Practice", Review of Islamic Economics, No. 14: 49-68.

McCarthy C. (2006) “Regulation and Islamic finance”, Speech delivered at the Muslim Council of Britain Islamic Finance and Trade Conference, 13 June 2006.

MIHE website: www.mihe.org.uk

Minsky, H. P. (1993) "Finance and Stability: the Limits of Capitalism", The Levy Economics Institute of Bard College, May 1993, Working Paper No. 93, available at: www.levyinstitute.org.

Muslim Council of Britain (2009) “London and Islamic Finance: Briefing Paper for the Mayor of London”, February 2009, the MCB.

Muslim Council of Britain, (2013), “Launch of Sharia Self-Regulation at 9th World Islamic Economic Forum, London”, 11 November 2013. Available at: www.mcb.org.uk.

Organization of Islamic Cooperation SESRIC, (2012). “Islamic Finance in OIC Member Countries”, OIC Outlook Series May 2012, Ankara, Turkey

Osborne, G. (2013). “London can lead the world as an Islamic finance hub”, the Financial Times, October 28, 2013, ft.com.

Parker, G. and Wigglesworth, R. (2013). “Osborne to launch Islamic bond plan”, the Financial Times, October 28, 2013, Ft.com.

Quilter-Pinner and Yan (2013). “Islamic Finance: foreign policy opportunities”, Foreign and Commonwealth Office. Available at:

Qureshi, A.I. (1946), *Islam and the theory of interest*, Lahore: Shaikh M. Ashraf.

Ready, R. (1967) “The Egyptian Municipal Saving Banks Projects”, *International Development Review*, Vol. 9, June 1967, pp.2-5.

Siddiqi, N. (1948) “Islami usual par banking” (Banking according to Islamic principles), in Urdu, *Chiragh-e-Rah*, 1 (11&12), Nov. &

Tayyebi, A. (2008) “Islamic Finance: An Ethical Alternative to Conventional Finance?” discussion paper, the Association of Chartered Certified Accountants, August 2008.

The Banker, (2013). “Islamic Finance in 2013”,

The Islamic Foundation Website: Islamic-foundation.org.uk

Trade Arabia Business News Information (2013). “UK, Malaysia top in Islamic finance research, 28 October, 2013, Dubai, UAE. Available at: ww.tradearabia.com.

Traute, W.S. (1983) *Arab and Islamic Banks*, OECD, Paris.

UK Islamic Finance Secretariat (UKIFS), (2013). “UK, the Leading Centre for Islamic Finance”, The CityUK, October 2013, London.

UK Trade & Investment (UKTI) (2010) “Supportive legislation boosts UK’s world-leading Islamic finance industry”, 03/05/2010. Available at: ukti.gov.uk.

UK Trade & Investment, (2013). “UK Excellence in Islamic Finance”. Available at: ukti.gov.uk/invest.

Vizcaino, B. (2013), “Islamic scholars launch global professional association”, Reuters, Oct 30, 2013. Available at: www.reuters.com.

Walmesley, G. (2011) “Another year of growth and development for the London Stock Exchange markets for Islamic finance”, *London Stock Exchange Islamic Finance Review* 2010/11, p. 2. Available at: www.londonstockexchange.com.

Warde, I., (2010), “*Islamic Finance and the Global Meltdown*”, available at: http://www.islamica-me.com/article.asp?cntnt=633.

Wilson R.J.A. (1999) "Challenges and Opportunities for Islamic Banking and Finance in the West: The United Kingdom experience", Thunderbird International Business Review, 41, Issue 4-5, 421-444.

Wilson, R. (2007a), “Islamic banking – opportunity or threat?” *Common Ground News Service* (CGNews), 23 January 2007,

Wilson, R. (1983) *Banking and Finance in the Arab Middle East*, Macmillan, Surrey.

Wilson, R. (1999), “Challenges and Opportunities for Islamic Banking and Finance in the West: The United Kingdom Experience”, *Thunderbird International Business Review*, Vol. 41(4/5), 421-444, (July – October 1999).

Wilson, R. (2003) “Regulatory challenges posed Islamic capital market products and services”, International Organization of Securities Commissions Organizations (IOSCO), Task force on Islamic capital market, Melbourne, February.

Wilson, R. (2007) "Regulatory Challenges Facing the Islamic Finance Industry", Journal of financial transformation, The Capco Institute, 140-143.

Wilson, R. (2007b), “Islamic Finance in Europe”, Robert Schuman Centre for Advanced Studies, European University Institute, *RSCAS PP* 2007/02, December 2007, Florence, Italy.

Wilson, R. (2009a) "Islamic Finance in Europe", Banca d'Italia, Seminar on Islamic Finance, November 2009, Rome.

Wilson, R. (2009b) "Why Islamic Banking Is successful?", www.islamonline.net, February 15, 2009.

Wilson, R. (2007) "Islamic banking – opportunity or threat?" Common Ground News Service (CGNews), 23 January 2007, www.commongroundnews.org, accessed May 11, 2010.