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CHALLENGES AND OPPORTUNITIES FOR ISLAMIC BANKING AND FINANCE IN THE WEST: THE UNITED KINGDOM EXPERIENCE

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Islamic finance has become increasingly significant in financial centres in the West, notably London, despite the regulatory hurdles presented by operating in a non-Muslim financial environment. The growth of Islamic finance partly reflects demand from Muslim resident and non-resident clients for Islamic deposit facilities and fund management services which involve shari'ah *compliance. At the same time Islamic financing methods are viewed as a challenge and opportunity by Western bankers, many of whom have sought to get involved in this growing industry. In client driven societies there is a willingness by those in financial services to listen and learn from the experiences of Islamic banks, which in the longer run may bring a major break through for Islamic banking at the retail level in the West.*

London has emerged as the major centre for Islamic banking and finance in the West. The aim of this paper is to examine the characteristics of the British market for Islamic banking and financial services and analyse the activities of the major institutions involved. Regulatory issues are covered, which present a particular challenge in an environment where hitherto little account has been taken of the needs and preferences of Muslim clients, especially with regard to those who wish to respect the *shari'ah* which prohibits interest based transactions.

Islamic financial products offered at the retail level include investment accounts, Islamic portfolio management, commodity and equity based fund management facilities and Islamic mortgages. Muslim corporate clients can obtain short and medium term trade finance as well as leasing terms for equipment, although this is on a very limited scale at present, with Al Baraka as the main provider. Islamic project finance can be arranged for both private and state organisations from Muslim countries, such financing usually being United States dollar denominated, although other currencies can be arranged on request.

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Despite the breadth of services on offer the extent of Islamic banking and finance is limited in London, and the industry must be regarded as being in its infancy. Relatively few institutions are involved in Islamic finance, and although some of these have dedicated Islamic banking units, there is no wholly Islamic bank. Most of the business is directed at international clients rather than the local Muslim community, who have little choice but to use conventional banks. The management funds offered are based offshore in Luxembourg and Dublin to take advantage of the tax regulations in these jurisdictions. In June 1998 it is anticipated that a leading United Kingdom financial services group will launch an Islamic fund which can be included in tax exempt Personal Equity Plans and will be eligible for the new Individual Savings Accounts to be offered from 1999. This should be more suitable for British Muslims who intends to remain United Kingdom residents.

UNITED KINGDOM MARKET CHARACTERICS

The largest volume of Islamic financing business, which is booked in the United Kingdom at present, originates in Muslim countries, largely from the Gulf, although there is a large potential domestic market, which is only just beginning to be tapped. The attraction of London for Gulf clients, which include all the major Islamic banks, is the breadth of specialist financial services offered, the depth to the market and the solidity of the major banks, which include all the leading global players. London is nearer to the Middle East than New York, and in a convenient time zone for communications. Most Gulf businessmen and bankers have English as their second language, and many have long connections with the United Kingdom, where they and their families enjoy spending time. The Arab commuity in central London is one of the most affluent in the world, and there are many Arab restaurants and hotels used to catering for the needs of Muslim visitors. London is also the second most important centre for the Arab media after Cairo, with its own Arabic newspaper and magazines, and an Arabic satellite television channel.

There are over two million Muslim resident in the United Kingdom,[1] most of whom are British citizens, and a majority have now been born in the country.[2] The community consists of 350,000 households, the typical family being twice as large as the average family size in the United Kingdom. A majority of the older

[1] The 1991 census showed 476,555 persons from the Pakistani ethnic group, almost half of which were born in Britain, 162,835 Bangladeshis, 840,255 Indians, possibly 40 percent of whom are Muslims, 200,000 other Asians, a majority of whom were Muslims and 150,000 Arabs. See *Ethnic Group and Country of Birth*, HMSO, 1991, volume 1, pp. 403-407. Since then the Muslim population has grown, and by 1998 probably exceeded 1.5 million citizens and permanent residents and 500,000 temporary residents. Some estimates now put the number of Bengalis at 400,000.

[2] Muhammad Anwar, “Muslims in Britain” in Syed Z. Abdein and Ziauddin Sardar, (eds.), *Muslim Minorities in the West*, Grey Seal, London, 1995, pp. 37-50.

generation speak Urdu or other languages from the Indian sub-continent, but most speak at least some English in addition and can read with varying degrees of proficiency. The younger generation have English as their first language, and more learn other European languages at school such as French rather than Asian languages. The minority of the older generation who came from East Africa speak English as their first language. Young and old mostly have some knowledge of Arabic, and can recite Quranic verses.

The poulation of Middle Eastern origin is heterogeneous. The longest established is a Yemeni community who date from seamen who settled in the late nineteenth and early twentieth century. Many have intermarried, and most have at best a limited knowledge of Arabic and have never been to Yemen, but Islam remains strong in this community. There is also a Turkish Cypriot community, mainly resident in north London, where the size of the community exceeds those remaining in Cyprus. There is also a small Arab community, mainly of Egyptian and Palestinian origin, but most are now also British citizens.

There are also significant numbers of Muslim students who are temporary residents of the United Kingdom for the duration of their studies, the largest group coming from Malaysia. These and summer visitors, mainly from the Gulf region, represent a transient community, but many maintain British bank accounts and use other financial services, especially involving foreign exchange and money transfers. Financial transfers to the Indian sub-continent have declined, as the Asian community has become more settled in Britain and ties with distant relatives have weakened.

Religious devotion is strong in both the younger and older generation, and it is estimated that at least 220,000 – 250,000 Muslim males attend one of Britain's 620 mosques on a regular basis.[3] Despite being strongly influenced by British society and culture, the majority of the young are proud of their Muslim identity, and many have an excellent knowledge of their religion.[4] There is widespread awareness of Islamic concerns about conventional *riba* based banks, even though the majority use the services of such banks themselves. Some Muslim depositors donate any interest received to charitable causes, which is regarded as one way of purifying the receipts.

Not surprisingly there is a concentration of Mosques in the areas where the greatest Muslim population resides, notably London, Bermingham, Manchester,

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[3] Ibid., p. 46.
[4] Danièle Joly, *Britannia's Crescent: Making a Place for Muslims in British Society,* Avebury, Aldershot, 1995. For information on the new generation see pp. 167-184.

Leicester, Bradford and Glasgow.[5] The Muslim community is predominately urban and highly concentrated, but there is a new Muslim middle class, many of whom reside in predominately non-Muslim suburbs rather than in inner city areas. Newcastle is the only city, however, in which the community is predominately dispersed. Proximity in other cities does not necessarily mean a sense of community as a recent survey showed that many British Muslims were no lnger interacting and forging bonds with each other.[6] Nevertheless given the concentration of the community it would be easier to provide a dedicated Islamic banking network, but it is debatable whether branches in run down inner city neighbourhoods would enhance the reputation of any provider of Islamic financial services.

An increasing proportion of Muslims in the United Kingdom are professionals with university degrees working as doctors in general practice and hospital surgeons. In the private sector many work as lawyers or accountants and there is a rapidly growing number of information technology specialists, notably in systems management. Such groups require a wide range of personal banking services, their largest single outgoing being the mortgage occupational pensions and are entitled to sickness benefits from their employers, but they require house and contents insurance and vehicle cover, and many have some form of endowment insurance.

A large number of British Muslims have small businesses, perhaps in excess of 100,000. These include neighbourhood food stores, which compete with the dominant supermarket chains by being in more convenient locations for those who don't have cars or cannot drive. There are also a significant number of Muslim owned textile and clothing manufacturing businesses, which have a lower labour cost base than their competitors, although they may be adversely affected by the minimum wage legislation to the introduced in 1999. Bangladesh immigrants have been particularly active in the restaurant and catering business, and account for up to twenty percent of the total number of restaurants nationally. All these groups have small business financing needs, mainly to cover mortgages on premises, inventory and stock finance and equipment purchases.

THE BANKING AND FINANCIAL ENVIRONMENT

The United Kingdom has one of the world's most developed and sophisticated banking and financial services sectors with solidly based institutions, many with over a century of experience. London is the largest market in the world for foreign

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[5] Philip Lewis, *Islamic Britain: Religion, Politics and Identity among British Muslim,* I.B. Tauris, London, 1994. Provides a detailed study of Muslims in Bradford, Britain's "Islamabad", p. 49ff.

[6] Gary Bunt, "Decision making concerns in British Islamic environments", *Islam and Christian-Muslim Relations,* Vol.9, No.1, 1998, pp. 103-113.

exchange dealing, and the largest centre for inter-bank transactions and syndicated lending, most of the latter being dollar denominated. At the retail level the banking sector has changed rapidly in recent years, mainly due to the effect of the Banking Act of 1987, the demutualisation of the leading building socieites, the entry of external players such as retailing organisations into financial services and the rapid pace of technological change.

As a consequence the dominance of the big four, Barclays, NatWest, Lloyds and the Midland Bank has ended. Lloyds following its merger with the Trustee Savings Bank (TSB) has taken over the market lead, while the acquisition of the formerly troubled Midland Bank network by the Hong Kong Bank has resulted in a significant rise in its market share in conjunction with First Direct, the Hong Kong Bank owned telephone banking service. Barclays has managed to maintain most of its market share, but NatWest has slipped, and the de-mutualised Halifax Bank has become the third largest bank.

The most significant recent development is the entry into banking of the supermarket group Sainsbury, the retailer Marks and Spencer, and the insurance company Standard Life. All these companies have strong brand names and good reputations, but can offer banking services through their networks at much lower cost than banks with dedicated branches and high levels of staffing. As a result the major banks are cutting costs by closing and consolidating branches, while they attempt to provide a wider range of services through centres that serve much greater populations. All offer telephone banking facilities and most provide on-line services for business clients while many are extending their cash dispensers (automatic teller machines) to shopping centres and major transport hubs such as railways stations and airports. The balance of power has shifted from suppliers to consumers.

Britain’s merchant banks have mostly been taken over by major international banks, Flemings being an exception, although it was much larger than most of the others and developed a major capability for fund management. These developments were especially significant for Islamic finance, as one of the main banks involved, Kleinwort Benson, was taken over the Germany’s Dresdner Bank. Much of the Islamic banking in Britain could be categorised as investment banking and corporate finance rather than retail or personal banking, although private banking services are on offer for Muslim clients.

DEDICATED ISLAMIC BANKING PROVISION: THE AL-BARAKA EXPERIENCE

Al-Baraka International bank was the only bank offering exclusively Islamic Banking Services under the 1987 Banking Act.[7] Bank in 1982 Al-Baraka had taken over Hargrave Securities which was a licensed deposit take under the previous legislation, but its business only took of from 1987 when it opened a branch on the Whitechapel Road in London, followed by a further branch on the Edgeware Road in 1989, and a branch in Bermingham in 1991.[8] Al-Baraka's major business in London was with clients from the Gulf who were resident in London, but by 1990 an increasing number of British Muslim were using its services, hence the decision to open the Bermingham branch,[9] as by then the bank had between 11,000 and 12,000 clients.[10] It offered current accounts to its customers, the minimum deposit being £150, but a balance of £500 had to be maintained to use chequing facilities, a much higher requirement than that of other United Kingdom banks, which usually allow current accounts to be overdrawn, although then clients are liable for interest charges, which Al Baraka, being an Islamic institution, did not levy.

Al-Baraka also offered investment deposits on a *mudarabah* profit sharing basis for sums exceeding £5,000, with 75 percent of the annually declared rates of profit paid to those deposits subject to three months notice and 90 percent paid for time deposits over one year. Deposits rose from £23 million in 1983 to £154 million by 1991. Initially much of Al Baraka's assets consisted of cash and deposits with other banks which were placed on an Islamic basis, as the institution did not have the staff or resources to adequately monitor client funding. Some funds were used to finance commodity trading through an affiliate company as Al Baraka was not a specialist in this area.

Al-Baraka's major initiative was in housing finance, as it started to provide long term Islamic mortgages to its clients from 1988 onwards. 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 pre-determined profit for the period of the mortgage, the

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[7] For a profile of the Al Baraka Group see the *Encyclopedia of Islamic Banking and Insurance,* Institute of Islamic Banking and Insurance, London, 1995, pp. 267-275.

[8] Rodney Wilson, "The experience of Islamic banks in England", in Gian Maria Piccinelli, (ed.), *Banche Islamiche in Contesto Non Islamico, (Islamic banks in a non Islamic Framework),* Instituto Per L'Oriente, Universita Degli Studi Di Roma, 1994, pp. 249-283.

[9] Hussein Sharif Hussein Omer, *The Implications of Islamic Beliefs and Practice on the Islamic Financial Institutions in the UK: A Case Study of Al Baraka International Bank,* Loughborough University PhD thesis, 1993.

[10] Fouad Al-Omar and Mohammed Abdel Haq, Islamic Banking: *Theory, Practices and Challenges,* Zed Book, London, 1996, p.45.

client making either monthly or quarterly repayments over a 10 to 20 year period which covered the advance plus the profit share. There was some debate if the dprofit share could be calculated in relation to the market rental value of the property, but this was rejected, as frequent revaluation of the property would be expensive and administratively complicated, and given the fluctuating prices in the London property market, there would be considerable risk for the bank.

Although Al-Baraka provided banking services in London, its most profitable area was investment management, and in many respects it functioned more like an investment company than a bank. It lacked the critical mass to achieve a competitive cost base in an industry dominated by large institutions, and the possibility of expanding through organic growth was limited. In these circumstances when the Bank of Englad tightened its regulatory requirements after the demise of BCCI the bank decided that it was not worth continuing to hold its banking licence, as it would have meant a costly restructuring of the ownership and a greater injection of shareholder capital.[11] Consequently in June 1993 Al Baraka surrendered its banking licence and closed its branches, but continued operating as an investment company from Upper Brook Street in the West End of London.[12] Depositors received a full refund, and many simply transferred their money to the investment company. This offered greater flexibility, as it was no longer regulated under the 1987 Banking Act but under financial services and company legilation.

Since Al-Baraka's re-incorporation as an investment company on 24th November 1993 its performance has been quite solid. The 40 employees of the London office managed to generate a profit of $12.2 million by 1996, three time the level of the Bahrain branch.[13] The net profit to asset ratio was 3.17 in London and 2.64 in Bahrain for Al-Baraka, compared to 3.64 for Faisal Finance in Geneva.[14] The paid up capital of the London based Al-Baraka Company is $182 million, total assets exceed $385 million and total investment deposits amount to almost $161 million. Al-Baraka's profits in sterling terms have fallen due to the strength of the pound, as 82 percent of its income is non-sterling based.[15] Al Baraka is mainly involved in Islamic trade financing, and it has two specialised subsidiaries for this purpose, the Al-Baraka Investment Company which provides

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[11] Al Baraka did satisfy the ownership and control requirements of the October 1987 Banking Act. See Bank of England, *Quarterly Bulletin*, November 1987, pp. 525-526.
[12] Editorial, "Why London needs an Islamic Bank", *Islamic Banker*, No.13, February 1997, p.2.
[13] International Association of Islamic Banks, *Directory of Islamic Banks and Financial Institutions,* 1996, p.26.
[14] Calculated from figures in the *Directory of Islamic Banks and Financial Institutions by dividing net profits by total assets and expressing in percentage terms.*
[15] *Islamic Banker,* June 1997, p.11.

short term finance through *murabahah*, and the Dallah Al Baraka Investment Company which provides longer term trade finance, typically through leasing.[16]

GLOBAL BANKING PROVIDERS OF ISLAMIC FINANCIAL SERVICES

Since the withdrawal of Al-Baraka from the London market, there has been no wholly Islamic bank. As a consequence those wanting to use chequing services in the United Kingdom have to use conventional banking channels, and there are no locally issued Islamic debit cards, although the Visa cards issued by Islamic banks such as the Kuwait Finance House can be used with retailers and hotels throughout the United Kingdom as they are interchangeable with other Visa cards. Holders of current accounts often earn very low rates of nominal interest in the United Kingdom, typically more than one percent below the rate of inflation. Nevertheless many British Muslim give their income to charitable causes, as the only means they have to assuage their conscience. Even though such an act cannot be considered as purifying their transactions accounts it nevertheless ensures that the interest fulfils some public good.

Despite the absence of a United Kingdom authorised Islamic bank regulated under the Banking Act of 1987, London has emerged as the major centre for Islamic finance in the West, the trade investment finance business alone has grown from $10.4 billion in 1993[17] to an estimated $20 billion by 1996.[18] A number of conventional banks provide a considerable range of Islamic financing services including investment banking, project finance, Islamic trade finance, leasing, private banking, mortgages and health care finance. Islamic banks and businesses from the Muslim World can draw on the expertise which these banks have, and their wide range of experience and contacts.

From the perspective of western bankers, Islamic finance offers a challenge to use their skill in financial engineering to adapt existing services so that they can be accepted by their Muslim clients. The banks are providing a personalised service, tailored to their client's requirements. Over the last decade many of these western institutions have gained a better knowledge of what customers from the Gulf in particular want, and the bank staff have some idea of the basic principles of Islamic finance, although in the end, in a competitive business, their attitude is that the client knows best.

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[16] *Islamic Banker*, January/February 1996, p.9.
[17] "United Kingdom: still a major gap in the Market", *New Horizone*, June 1995, p.2.
[18] *Islamic Banker*, February 1997, op. cit., p.2.

Despite these encouraging developments, and the increasing cooperation between conventional bankers and those seeking specialist financing consistent with the *Shari'ah*, there are several shortcomings as far as what is on offer is concerned. Firstly only a very limited number of institutions are involved out of the hundreds of banks active in the City of London, the nine major participants being listed in Table 1, of which five are western owned banks, ANZ International, Citibank, Dresdner Kleinwort Benson, HSBC and Standard Chartered, although the United Bank of Kuwait is a London based bank deposit its Kuwaiti Ownership. Secondly only a limited range of Islamic financing facilities are provided. Thirdly the main emphasis has been on international trade finance and investment banking rather than retail banking. Fourth the focus is on corporate clients and individuals of high net worth rather than the British Muslim Community. Finally there has been little attempt to actively market Islamic finance. To some extent the banks have merely responded to client demands rather than actively encouraging Muslims to use Islamic financing facilities.

DRESDNER BANK'S ENTRY INTO ISLAMIC FINANCE

Dresdner, Germany's second largest bank, only became involved with Islamic finance when it purchased the old established British merchant bank Kleinwort Benson which was the pioneer of London Institutions in offering Islamic banking services, its activities in this field dating from 1983. Over the years since then its Islamic banking department has structured and participated in trade financing deals worth over $5 billion.[19] Kleinwort Benson has specialised in the finance of exports and imports of commodities, and has a good knowledge of the workings of the London metals exchange. It has a number of analysts who study commodity price trends, undertaking both technical and fundamental analysis.[20]

The market capitalisation of the Dresdner Bank exceeds $12 billion, and it has assets of almost $200 billion. With these resources behind it Kleinwort Benson is well placed to develop a diverse range of specialist businesses, including Islamic financing. It has been able to organise this type of financing for non-Muslim as well as Muslim clients, one recent example being a $50 million lease finance facility to support the acquisition of capital equipment by a South African company.[21]

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[19] *New Horizon*, June 1996, p.20.

[20] R.T. Fox, (Kleinwort Benson) "Islamic banking: a view from the City", in Muazzam Ali (ed.), *European Perceptions of Islamic Banking,* Institute of Islamic Banking and Insurance, London, 1996, p.21.

[21] *Islamic Banker,* June 1997, p.17.

TABLE 1

BANKS OFFERING ISLAMIC FINANCING IN LONDON

Bank	Operation	Activity
ANZ International	Islamic Banking Department	Trade finance investment, leasing
Al Rajhi Banking	Representative Office of Saudi Arabian registered bank	Trade finance investment, leasing, project finance
Citibank International	Corporate finance	Trade finance investment, leasing, project finance, financial engineering
Dresdner Kleinwort Benson	Islamic Banking Department	Trade finance investment, leasing, investment banking
Hong Kong & Shanghai Banking Corporation	Global Islamic Finance Unit	Trade finance investment, leasing, investment banking
National Commercial Bank	Representative Office of Saudi Arabian registered bank	Trade finance investment, leasing
Riyadh Bank Europe	Representative Office of Saudi Arabian registered bank	Trade finance investment, leasing
Standard Chartered Bank	Islamic Banking Unit	Trade finance investment, leasing
United Bank of Kuwait	Islamic Banking Unit	Trade finance investment, leasing private banking, mortgages, investment in real estate including student accommodation and nursing homes

Source: Islamic Banker plus interviews

ANZ INTERNATIONAL'S ISLAMIC ASSET BASED FINANCE

The Australia and New Zealand Bank (ANZ) knew little about the Islamic World until 1986, when it bought Grindlays banks which had almost a century of experience in dealing with Muslim clients on the Indian sub-continent. Grindlays has 14 branches in Paksitan and had some knowledge of Pakistan attempts to introduce Islamic financing.[22] In 1990, when Pakistan was experiencing short term trade financing difficulties, ANZ Grindlays examined whether they could structure an Islamic financing deal to provide oil traders with 180 days credit.[23] The structuring proved effective, and since then ANZ Grindlays have concentrated on trade finance arrangements, with clients from the Gulf Putting up the funds which are then structured for imported in Pakistan through *murabahah* financing.

This ANZ Grindlays *murabahah* has covered short term trade transactions worth $300 to $400 million annually since 1993, with the *shari'ah* committee of each Islamic banks involved in the transactions monitoring the structuring. Although trade financing accounts for most of ANZ Grindlays Islamic business, it has also become involved in some project finance in Pakistan, including an *istisna* deal to start up the Hub River project.[24] This financing involved the bank covering the costs, with payments made to the contracting companies at each stage of the project's completion.

ANZ Grindlays has also provided investment fund management services to other banks, and in 1997 launched First ANZ International Modaraba Limited, (FAIM) a fund to provide asset based finance.[25] The initial capital of the fund was set at $25 million, but the bank extended the offer period until December 1997 to enable the entire authorised capital of $100 to be subscribed.[26] The fund was established with the cooperation of the Kuwait Finance House, the World Bank's International Finance Corporation subsidiary and the Islamic Development Bank, all of which have subscribed. The Kuwait Finance House, the largest subscriber, has offered its own investors the chance to participate, with the minimum subscription being KD 50,000. ($170,000).[27]

FAIM, as its name implies, represents a *mudarabah* fund from the point of view of its investors, but the actual financing involves mostly leasing, although in some

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[22] Richard Duncan, "Islamic financial products – planning for the market of the future", in Muazzam Ali, (ed.), *European Perceptions of Islamic Banking*, Institute of Islamic Banking and Insurance, London, 1996, p.29.
[23] *New Horizon*, September 1993, p.10.
[24] *Ibid.*, p.11.
[25] *Islamic Banker*, September 1997, pp. 8-9.
[26] *New Horizon*, December 1997/January 1998, p.30.
[27] *New Horizon*, March 1998, p. 13.

cases *murabahah* trade mark up financing is offered as well as *istisna*, advance payments purchases for construction projects. Fudning opportunities are identified through the ANZ branch network in Pakistan, Bangladesh, India and Turkey, but financing in north African countries will also be considered, including Egypt, Tunisia and Morocco if viable proposals are submitted.

STANDARD CHARTERD'S ISLAMIC BANKING UNIT

Britain's other major overseas bank with long historical involvement in South Asia, Africa and Malaysia was Standard Chartered. It conducted similar trade financing business to Grindlays. It was therefore not surprising that it should become involved in Islamic finance through its Pakistan and Malaysian connections. Although much of its Islamic banking business is booked locally in Kuala Lumpur and Karachi, there is an Islamic Banking Unit in London which has been involved with trade investments involving Muslim countries to a modest degree.

CITIBANK'S ISLAMIC TRADE FINANCING

Citibank has become the largest western provider of Islamic trade finance with its involvement dating from the early 1980s. This arose out of its activities in providing conventional trade financing in the Middle East, South Asia and South East Asia. It had branches in Bahrain, the United Arab Emirates and Oman, as well as a forty percent stake in the Saudi American Bank.[28] Its involvement in Saudi Arabia dates from the beginnings of ARAMCO in the 1930s, the Arabian American Oil Company. Citibank, like other Western banks, was not seeking to establish itself as a provider of Islamic financial services initially, but was merely responding to the demands of many of its Muslim clients, which included Islamic banks and major trading companies from the Islamic world.

Citibank did not advertise Islamic services, but rather explained the types of products they could structure to existing clients. There was an element of cross selling and the bank was certainly pro-active in emphasising its financial engineering skills to clients. The opening of Citi Islamic Investment Bank in Bahrain in July 1996 increased the profile of Citibank's Islamic banking activities amongst its Gulf clients, drawing more business to London as well as Bahrain. The London offices can provide specialist back-up to the Citi Islamic Investment Bank in Bahrain, and help identify trade financing opportunities.

Citibank in London is involved in at least two or three major *murabahah* transactions each month, those in September 1997 including a $10 million

[28]"American giant dominates trade finance". *New Horizon,* September 1993, p.7.

murabahah for the Lahore Islamabad highway in cooperation with the Qatar Islamic Bank and the Saudi-Pak Industrial and Agricultural Investment Company, and a second *murabahah* for Dawoo of Korea for $40 million for trade with the Gulf.[29] In November 1997 a two year structured *murabahah* facility worth $27.5 million was provided for the purchase of construction material bythe Dogus Group of Turkey with funding coming from the Islamic Investment Company of the Gulf and the Arab Investment Company.[30] In December 1997 a further $5 million *murabahah* deal was arranged for the Dogus Group, together with a $10 million package for the purchase of leased assets by another Turkish company.[31] Turkish *murabahah* business continued to be important for Citibank in 1998, with reports of several new facilities being arranged during the year.[32]

SAUDI ARABIAN INSTITUTIONS IN LONDON

The London representative office of Saudi Arabia's Al Rajhi Company for Islamic Investments keeps a much lower profile. With over 350 branches and 5,000 employees in Saudi Arabia it is a major financial institution with total assets of $8.6 billion and deposits worth over $6 billion.[33] It serves the needs of its Saudi Arabia clients throughout Europe from its London Office, acting as the "eyes and ears" of its Riyadh head office in the West.[34] Major financing decisions are still referred to Riyadh and there little local autonomy.

Most of its business in the early 1990s involved trade financing, and it was able to drawn on its huge liquid reserves to finance exports to an imports from the Islamic World in general and Saudi Arabia in particular. As the finance related to goods and commodities this proved very secure business, with Al Rajhi able to arrange the European currency and dollar payments for its Saudi Arabian clients. At the same time British and other European companies who had firm orders from Saudi Arabia could obtain Islamic usual bank. From trade finance Al Rajhi moved into leasing, with accounted for an increasing part of its London business, but it has not attempted to get involved in project finance itself on any significant scale, although it has joined other in these ventures. Gradually it has built up a world-wide clientele, and its leasing clients include Malaysian Airlines.

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29 *Islamic Banker,* October 1997, p.11.
30 *Islamic Banker,* December, 1997, p.11.
31 *Islamic Banker,* January 1998, p.13.
32 *Islamic Bankier,* July 1998, p.11.
33 International Association of Islamic Banks, *Directory of Islamic Banks and Financial Institutions,* op. cit., p.26.
34 Naomi Collett, "Information pulse for Al Rajhi", *New Horizon,* Decembe 1993.

Al Rajhi is designated as an Islamic bank, but its rival the National Commercial Bank is a conventional institution, although it has a very active Islamic banking division which has expanded significantly in Saudi Arabia in recent year. As well as providing the usual range of Islamic banking services it has well developed and very successful Islamic mutual funds, some of which have been established for over 10 years. In London the National Commercial Bank provides both conventional and Islamic financial services, but its main activity is on behalf of its clients in Saudi Arabia. Its rival in London, Riyadh Bank Europe, has entered the Islamic financing field more recently, but seems to have become increasingly active for its privade clients and has been involved in leasing. The Saudi International Bank which is part owned by both the Riyadh and National Commercial Banks, and half owned by the Saudi Arabian Monetary Agency also provides some Islamic banking services in London, much of its activity being in cooperation with other banks, including its shareholders.

THE UNITED BANK OF KUWAIT INTERNATIONAL AND LOCAL INVOLVEMENT

Kuwait's financial links with the United Kingdom date back over half a century, and therefore it was a natural development during the 1960s for the major Kuwaiti banks to jointly establish a new bank in London, the United Bank of Kuwait, to serve the trading and financial interest of their clients in the West, including the Kuwaiti government. This bank is a full-fledged United Kingdom registered bank, regulated by the Bank of England, and not merely a representative office. Initially following independence in 1961 most of Kuwait's overseas assets were held in sterling, but with the devaluation of sterling in 1967 and oil related dealings in dollars, an increasing amount of business was dollar dominated. Business flourished in the 1970s and 1980s, but most of it involved conventional rather than Islamic finance, and the Kuwait Finance House, Kuwait's Islamic bank, was not a shareholder.

By the late 1980s there was an increasing demand from the bank's Gulf clients for Islamic trade based investment, and the decision was taken in 1991 to open a specialist Islamic Banking Unit within the bank. Staff with considerable experience of Islamic finance were recruited to manage the unit, which enjoyed considerable decision making autonomy. In addition being a separate unit, accounts were separated from the main bank, with Islamic liabilities on the deposit side matched by Islamic assets, mainly trade financing instruments. The unit has its own *shari'ah* advisors, and functions like an Islamic bank, but is able to draw on the resources and expertise of the United Bank of Kuwait as required. In 1995 the renamed Islamic Investment Banking Unit (IIBU) moved to new premises in Baker Street, and introduced its own logo and brand image to stress its distinct Islamic identity.[35] Its staff of 16 in London include asset and leasing managers and portfolio traders and administrators, and investment business is now generated from throughout the Islamic World, including South East Asia, although the Gulf remains a major focus of interest.[36] Assets under management exceed $750 million as a result of rapid growth in recent years.

Being a British institution, the IIBU has sought to attract business from the local Muslim community, both from United Kingdom residents and citizens. One major initiative has been the Islamic mortgage scheme, *manzil*, which was launched in 1996.[37] As already indicated Al-Baraka provided Islamic housing finance for those seeking to purchase properties in London in the late 1980s, but following the withdrawal of its banking licence this left a gap in the market.[38]

Unlike conventional mortgages, that operate on the basis of a loan or mortgage account on which interest is charged, the *manzil* scheme is based on a purchase and sale with the payment deferred over an agreed term. It is the client who agrees the purchase price with the vendor, but the bank which buys the property on the clients behalf, and then immediately resells it to the client at a mark-up. The client has to pay at least 25 percent of the purchase price in cash, but the remaining 75 percent can be deferred over 5, 7.5, 10, 12.5, or 15 years, with repayments made monthly by direct debit. Those who get in financial difficulties and have payments arrears will be treated sympathetically, in line with the voluntary code of conduct of the United Kingdom Council of Mortgage Lenders.[39] The mortgage scheme was discussed with the Bank of Egnland, which was satisfied with the plans.

Islamic *Manzil* mortgages are being distributed through Independent Financial Advisors (IFAs) and solicitors who have significant dealings with the British Muslim community, and often have employees who speak Urdu or Arabic. It can be extended for the purchase of any suitable property in England or Wales, and following legal advice about the position of the scheme under Scottish law the scheme will be extended there. As most Muslims in the United Kingdom, like the rest of the population, are keen to own their homes, the demand for mortgages is very large, most of which at present is covered by conventional interest based loans.

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[35] *New Horizon*, December 1995/January 1996, p.24.
[36] *New Horizon*, July 1996, p.17.
[37] *New Horizon*, May 1997, pp.3-4.
[38] *Now Horizon*, June 1996, p.2.
[39] Ibid.

Houses are regarded as investments in the United Kingdom, whereas rental payments are viewed as current spending which brings no long term security,[40] or potential inheritance which can be passed on to family members in accordance with Islamic law. A number of firms of solicitors in the United Kingdom offer standardised wills for bequeathing property which comply fully with both *shari'ah* law and English law. It is always adivsable for Muslim property owners in the United Kingdom to make a will to cover inheritance, as the provisions of English common law are unsatisfactory from a *shari'ah* perspective. Although some tax relief is still available on mortgages on residential property in the United Kingdom purchased for owner occupation, acquisition of residential and commercial property for rent is also an attractive area for Islamic investors, especially given the long term appreciation of property values despite some short term fluctuations. Back to back financing may be a tax efficient way of securing the funding for such purchases, and these can be constructed in a manner which is *shari'ah* complaint, although clients should ensure that the tax benefits are not swallowed up through arrangement fees.[41]

The IIBU has sought to broaden the range of its Islamic investment activity in recent years. Its investments include student residences and nursing homes in the United Kingdom. In April IIBU in conjunction with the United Bank of Kuwait's New York branch launched an *ijaria* based housing fund for American Muslim.

HONG KONG AND SHANGHAI BANK'S ISLAMIC BANKING INVOLVEMENT

One of the most significant recent developments has been the establishment of HSBC's Islamic Banking Unit in Upper Thames Street in London.[42] HSBC is one of the world's largest banks, and the number one bank whose stock is traded in London. It has long been involved in Malaysia and Indonesia, and the British Bank of the Middle East is a wholly owned subsidiary. It also owns a forty percent stake in the Saudi British Bank. Its new Islamic Banking Unit, which is run by Iqbal Ahmad Khan, the fomer head of the Citi Islamic Investment Bank in Bahrain, can service all these operations. Although the unit is focused on trade finance investments and investment banking, there is scope for serving the British Muslim community. After its incorporation in London, HSBC acquired Britain's Midland Bank, which has a national network through England and Wales. As its name implies the network is particular strong in the Midlands, the area of the country

[40] Adeel Yousuf Siddiqi, "Islamic mortgages in Europe: a big market not yet fully tapped" *New Horizon*, February 1998, p.2.
[41] Jeremy Martin, "UK property: ideal growth area for Islamic investment", *New Horizon*, February 1998, pp.12-13.
[42] *Islamic Banker*, July 1998, p.8.

where many Muslims reside. Furthermore HSBC also founded First Direct, Britain's leading telephone banking operation. This could also provide a platform for the launch of Islamic financial services for Britain's Muslim coummunity.

THE DISAPPOINTING EARLY EXPERIENCE OF EUROPEAN BASED ISLAMIC MANAGED FUNDS

There has been a four-fold growth of managed funds in Europe during the last decade in recent years, with London by far the most important centre, accounting for the bulk of the business. This growth paralleled the earlier growth of mutual funds in the United States, which are referred to in the United Kingdom as unit or investment trusts. The former are open ended with prices reflecting the value of the underlying equities in which the funds are invested usually calculated on a daily basis, whereas the latter are closed ended, which means the price of the shares may be at a discount or a premium to the underlying equities depending on investor's perceptions of the fund manager's skills. Investment trusts can also raise capital by borrowing, and are therefore less reliant on the buying and selling activity of the investing public. The means the fund managers have greater flexibility over when to buy and sell equities, but the modest gearing also adds to potential risks.

Kleinwort Benson was the first investment bank to introduce an Islamic unit trust in 1986, and efforts were made to market the fund in the Gulf. The fund managers were based in London, but the fund was registered in Guernsey which meant investors who were not United Kingdom residents could receive the income and capital gains free of British tax. The fund was not very successful initially however, partly because information on the share prices was not widely published, and as there was no *shari'ah* advisor or *shari'ah* committee monitoring the fund, it was difficult to establish credibility with Gulf investors, although this deficiency was subsequently rectified.

At its height the fund attracted $20 million,[43] but investors were deterred by the losses suffered after the 1987 equity market fall. The fund was subsequently wound up, but despite the losses of 1987 the investors made a modest gain overall. In practice the performance of the fund was not much different to conventional funds, the difficulties not being the Islamic screening out of unacceptable stock, but rather the unfortunate timing of the fund's launch given the stock market reversals the following year.

The second attempt at establishing an Islamic fund was made in 1988 when the *Ummah* Fund was set up. Although this was managed by a Muslim manager, and

[43] Stella Cox, "Issues of Islamic equity investment", *New Horizon*, November 1997, p.6.

was aimed primarily at United Kingdom based Muslims, it was also unsuccessful largely because it was an independent fund rather than a product offered by a major fund management group of bank, which would have increased investor confidence.

The third attempt was an Islamic Equity Fund launched by Credit Suisse First Boston, also in 1988. This was not researched or marketed adequately, and raised only $8 million. As a consequence the fund was subsequently wound up, as it was felt it would have been difficult to establish a serious presence in the market after such a disappointing start.

Another attempt was made to launch an Islamic equity fund in 1994 when the Albany Life Insurance Company launched its Al Medina Equity Fund. This time a three man *shari'ah* advisory panel was appointed chaired by Dr. Syed Mutwali Ad Darsh, an Egyptian Islamic legal authority. The fund asked Albert E. Sharp, the largest independent private client stockbroker in the United Kingdom, to be its agent. This firm has much experience of dealing with ethical funds, including the Friends Provident Stewardship Fund and the Jupiter Ecology Fund.[44] Faldo Hassard agreed to serve as independent financial advisor.[45]

Despite the quality of these backers, the fund had difficulty meeting its target of raising £2 million for initial viability. The fund was marketed to the Muslim commuity in the United Kingdom rather Gulf nationals, but the *shari'ah* committee were not well connected in Britain, and Albany Life was primarily an insurance company, rather than a well-known fund management group. As a consequence potential investors were reluctant to commit themselves to venture without a track record Albany Life itself was part of the giant Boston based Metropolitan Life Group, but this did not appear to enhance the appeal of the fund to United Kingdom based Muslim investors. Given these difficulties the decision was made to wind up the fund.

RECENT ISLAMIC INVESTMENT FUND INITIATIVES

The latest initiatives to provide Islamic funds have come from the Gulf rather than London, but in cooperation with major western groups. These included the launch by the International Investor of Kuwait of the Ibn Majeed Emerging Market Fund in 1995, which was managed by the Swiss Bank Corporation and registered in Dublin. In Saudi Arabia the National Commercial Bank launched its own Global

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[44] For a discussion of some of the parallels between Islamic funds and western ethical funds see Prince Muhammad Al Faisal Al Saud and Muazzam Ali, "The growth of ethical investments in the West" in Shahzad Sheikh, (ed.) *Journey Towards Islamic Banking"*, Institute of Islamic Banking and Insurance, London, 1996, pp.107-112.

[45] *New Horizon*, October 1994, p.3.

Equity Fund in 1995, managed by the New York based Wellington Management Company. In both these cases the institutions had put their own brand names on the product, rather than that of a western institution. These initiatives resulted in other groups getting actively involved again, notably Dresdner Kleinwort Benson and Fleming, as table 2 shows.

TABLE 2

QUOTED ISLAMIC MANAGED FUNDS IN EUROPE

Management group	Fund	Regulation	Founded	Price
The International Investor/SBC	Ibn Majeed Emerging Markets	Dublin	1995	$10.57
Dresdner Kleinwort Benson	Al Meezan Commodity	Dublin	1996	$97.84
Flemings	Oasis	Luxembourg	1996	$12.12
Al Tadamon	*Halal* Mutual	Dublin	1997	£250

Note: Prices were those quoted in the *Financial Times* on 10th August 1998.

Undeterred by their earlier experience Dresdner Kleinwort Benson launched a new fund in 1996, the Al Meezan Commodity Fund. This time marketing was less of an issue, as the fund's co-sponsor was the Bahrain based Islamic Investment Company of the Gulf. (IICG)[46] As the Bahrain company already had identifiable clients who had an interest in such a venture, it was less a matter of cross selling than catering for a demand which already existed. As Dresdner Kleinwort Benson has much experience of financing trade based on commodities bought and sold on the London metals exchange, it has the technical skills and the client base to use the funds effectively. The aim is to produce a return for investors of 10-12 percent per annum, with much less capital risk than with an equity fund, but on the other hand more emphasis on income than capital gains. In some respects it has the characteristics of a corporate bond, as the actual value of the units seldom deviates far from the initial price of $100, but there is of course no interest, the return coming from the profits from commodity trading.[47] Unfortunately the depressed state of the metals market meant that it was difficult to attain the exptected return for investors, the return in 1997 being a mere o.30 percent. Hence the fund was suspended in February 1998, with the funds being returned to the investors.[48]

[46] *New Horizon,* June 1996, p.20.
[47] Ibid.
[48] *Islamic Banker,* March 1998, p.8.

Much preparation and research was undertaken by Flemings before the launch of their Islamic Oasis Fund in May 1996. It has a *shari'ah* board of three respected Islamic legal scholars, Dr. Abdul Sattar Abu Ghuddah, who also serves as a *shari'ah* advisor to the Dallah Al-Baraka Group, Justice Taqi Uthmani, who is also an advisor with the Bahrain Islamic Bank and the IIBU of the United Bank of Kuwait, and Dr. Nazih Hammad.[49] The fund got off to a satisfactory start with $16.6 million initially subscribed and a target of $30-$60 million by the end of 1996.[50] Around 40 percent of the funds were invested in the United States and a quarter in Japanese equities, with 8.5 percent used to purchase equities quoted on the London stock exchange. The aim was to have a global, largely developed market, portfolio whose performance could be compared to the Morgan Stanley Capital International (MSCI) World Index.

The screening means that companies involved in the production of alcohlic drinks, gambling or pork products are excluded from the portfolio, as are stocks of conventional banks, which are much more important in financial terms. As all quoted companies in international markets receive some interest income, this is deducted from the fund and donated to charity, a process referred to as purification.[51] As the ethical monitoring of the fund for *shari'ah* compliance has to be conducted on an ongoing basis, with the purification income deducted weekly, this adds to costs which are reflected in the funds charges. There is a one-off 5 percent subscription on the minimum $50,000 investment, and the annual management fee ranges from 1.75 to 2 percent depending on the size of the investment. The investments include telecoms companies, car manufacturers, oil companies and some technology stock. Companies invested in all have bank debt, as this cannot be avoided, but the average leverage ratio is 35 percent compared to 56 percent for all the companies included in the MSCI World Index.

The most recent Islamic fund, the *halal* mutual, is targeted to attract British Muslim investors as well as those from the Gulf, but being sterling denominated, the focus is more on those who spend at least part of their time in the United Kingdom. Designed for investors of much more modest means the minimum share subscription was only £250, the cost of one share.[52] It is registered in Dublin to take advantage of Ireland's offshore tax laws, which its instigator believed were especially favourable,[53] as those who receive income when they are living outside the United Kingdom do not have to pay tax.

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[49] *Islamic Banker,* February 1996, p.3.
[50] *New Horizon,* July, 1996, p.12
[51] Ibid., p.13.
[52] *Islamic Banker,* April 1997, pp.8-9.
[53] *Islamic Banker,* November/December 1995, pp.12-13.

Unlike most unit and investment trusts the aim of the *halal* fund is not to make capital gains, and therefore it is envisaged that the price will remain at the initial subscription level practically ruling out the possibility of losses, although subscription protection cannot be guaranteed under the *shari'ah* law. Net profits earned by the fund are being distributed as income every six months rather than ploughed back into the capital of the fund. There is no bid offer spread, the fund having some of the characteristics of an Open Ended Investment Company (OEIC). The Royal Bank of Scotland is custodian, and payments can be made through the bank clearing system, and income directly paid into the client's bank account.

As with the Dresdner Kleinwort Benson fund, investments are in trade financing instruments, no equities. The fund managers act as *mudarib*, but the services of Dresdner Kleinwort Benson have been secured to help identify trade financing opportunities.[54] A bill of exchange (*suftaja*) is issued by the buyer as security for each trade transaction financed with the *mudarib* as the drawer. The fund has its own *shari'ah* advisors, but the opinions of *shari'ah* scholars have been sought from the Gulf and Pakistan. The fund is recognised by the United Kingdom's Securities and Investment Board as complying with the Financial Services Act of 1986. It has been established under the European Union UCITS regulations and as such can be sold to the public throughout the single market excluding Ireland as the host country.

THE FUTURE OF ISLAMIC FINANCE IN EUROPE

What developments are likely to occur over the period to the millennium and beyond in Europe? First, it is likely that London will maintain its place as the major centre for Islamic financing in Europe, with the largest value of financing continuing to involve investors from the Gulf. London remains a prime cnetre for servicing Gulf clients, as although Citibank moved its Islamic private banking unit to Bahrain in early 1998 to consolidate the position of Citi Islamic Investment Bank on the island,[55] several months latter much of the business was booked again through the Berkeley Square office, as Gulf clients actually found this more convenient.

Second, there will be an increasing volume of business from the British Muslim community, but the value of this business will remain limited. However Britain's upwardly mobile Muslim population are a much more attractive market than France's immigrant community, many of whom are unemployed, or the Turkish community in Germany who have had more difficulty putting there has been a

[54] *New Horizon*, August 1997, pp.19-20.
[55] *Islamic Banker*, July 1998, p.8.

reluctance by major British retail banks to offer a dedicated Islamic banking service through designated branches. The banks have the business of the British Muslim community in any case, who have little choice but to use banking services, as only very minor transactions are conducted on a cash basis. The commercial banks see the provision of Islamic banking services as an added cost, with little certainly of a significant revenue stream. Branches are closing throughout the country as indicated earlier, so it is hardly an auspicious time to add to branch network costs. Nevertheless banks such as the Midland could provide Islamic banking"windows" at modest cost in some of their branches in areas with significant Muslim populations. HSBC's Global Islamic Finance Unit could advise on this. Some existing staff would have to be trained in Islamic finance, but their job remit would not have to be confined to this area.

Third, an Islamic telephone banking service would be a low cost possibility, and in the long run if regulatory issues can be overcome this offers the greatest hope. HSBC's First Direct subsidiary would be well placed to offer such a service, especially given its parent company's recent interest in Islamic banking.

Fourth, the issue of branding is important. New bank entrants without established brand names are unlikely to appeal to the British Muslim community. Many lost significant sums when BCCI collapsed, and the main long term consequence was a flight to quality. Nevertheless an Islamic banking operation needs a distinctive brand from its parent for marketing purposes. The IIBU of the United Bank of Kuwait has its own logo and stresses the distinctive nature of its Islamic financing services. Muslim clients will want assurance that their investments are segregated from *riba* based deposits, and that they are deployed in accordance with the *shari'ah* law.

Fifth, alothough rapid development of Islamic banking seems unlikely there would seem to be scope for a step by step approach This is illustrated by the success of the IIBU of the United Bank of Kuwait in launching its mortgage scheme primarily aimed at British Muslims. The IIBU have 4 staff who are develoed personal pension and savings products and once these are launched it will have a considerable range of financial services to offer.

Sixth, although the Bank of England sees no fundamental regulatory issues preventing Islamic banking, in practice the Banking Act of 1987 stresses depositor protection,[56] which has already indicated potentially violates the *shari'ah* principle of profit and lost sharing. Even though the sums deposited are unlikely to be written down in Islamic banks, the problem is that many *shari'ah* advisors will not

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[56] Michael Ainley, "A central bankers view of Islamic banking", in Muazzam Ali, (ed.), *European Perceptions of Islamic Banking,* Institute of Islamic Banking and Insurance, London, 1996, p.18.

accept guarantees of deposit value. Nevertheless the Bank of England's deposit protection scheme is not a complete deposit guarantee, as it covers only 75 percent of the first £20,000 deposited.[57] The Bank of England stresses that the key criteria for any institution accepting deposits are that there is adequate capital and liquidity, a realistic business plan, adequate systems and controls, that the directors and managers be "fit and proper" for the position they hold,[58] and that the institution is subject to one regulatory authority that takes prime responsibility for the bank or group as a whole.[59] For a primarily British regulated Islamic bank the liquidity provisions might force the bank to hold excess cash, as re-depositing with other banks on an Islamic basis is unlikely to be a wholly adequate substitute for short term interest bearing paper. In practice there is more flexibility for an Islamic institution to operate under company law or the Financial Services Act, which governs investment companies, as Al-Baraka found.

Seventh, it seems likely that much of the growth in Islamic finance will involve existing institutions, mainly ivnestment banks and fund management groups, offering specialised products. There is only one general international equity based fund at present, Flemings Oasis Fund, the products offered by the *halal* fund and Dresdner Kleinwort Benson being trade based. The Ibn Majeed fund is a riskier proposition, being oriented towards emerging markets. There would seem to be scope for further equity based international funds concentrating on developed markets. Gulf investors often have too little currency diversification in their investment portfolio, which are largely concentrated in dollars. As already indicated the Oasis Fund, Dresdner Kleinwort Benson's Al Meezan Commodity Fund and the Ibn Majeed Fund are dollar based, while only the *halal* fund is sterling denominated. With the advent of the Euro in January 1999, and the increasingly likely possibility of a consolidation of Continental European equity markets, there are likely to siginificant opportunities for Islamic investment, especially as more utilities are privatised which yield attractive income streams and pose no problem in terms of *shari'ah* acceptability. The lower stock prices of late 1998 represent a purchasing opportunity, as markets are almost certain to register significant gains in 1999 and 2000.

Eighth, although no major provider yet offers Islamic insurance there is a small *Takafol* Islamic insurance offshoot associated with Faisal Finance of Luxembourg and the Geneva based *Dar al Mal al Islami.* This insurance company has an office in James Street in London's West End. Despite demutualisation there remain a

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[57] Bank of England, *Report and Accounrt,* 1987, p.49.
[58] Bank of England, *Quarterly Bulletin,* November 1987, op. cit., pp.525-526.
[59] Interview with Eddie George, Governor of the Bank of England, *Islamic Banker,* January/February 1996, pp.8-9.

number of very large mutual insurance groups which are viewed potentially very foavourably by *shari'ah* advisors.

Finally, although major institutions such as HSBC and Goldman Sachs have become interested in Islamic finance, there seem to be significant barriers to new entrants. The most significant is the steep learning curve, as it is not merely understanding the technicalities and legal concepts underlying the Islamic financing instruments, but having a real appreciation of the diverse Muslim cultures and a respect for Islam. This perhaps explains why so few western institutions are involved so far. In the end the barriers are human capacities for understanding, which all too often many working in a non-Muslim environment fail to appreciate.

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