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The following roundtable, sponsored by Hawksford, discusses the topic of Islamic financing and the rapidly growing market for Sharia compliant financial products. Helping us to tackle some of the most pertinent issues surrounding the industry are three leading financial experts who will give us the inside track on how and why Islamic finance is changing the investment landscape.

## Meet the Panellists



**Moira Ashby,**  
*Associate  
Director at  
Hawksford*



**Nicholas  
Davies,**  
*Group Partner  
at Collas Crill's  
Jersey office*



**Imam Qazi,**  
*Partner at  
Foot Anstey*

**Islamic finance has certainly come to the fore in recent years. We asked our experts to explain exactly how the sector has grown, how it continues to evolve and what these developments mean, not only for their businesses, but for their wider industries.**

### Moira Ashby

Overall we are seeing a steady increase in interest in Islamic financing, but it is not the significant growth that was predicted a few years ago. Hawksford has a significant customer base in the Middle East and Asia, and although some of our Muslim clients continue to use traditional financing, we have been fortunate to be able to work with a number of financial institutions, Islamic scholars and Islamic finance professionals on the structuring of Islamic finance and Sharia-compliant activities. Interestingly, those GCC banks that we have worked with historically on Sukuk structuring now have well established London branches. We have worked closely with them during the roll out of their UK-based Islamic finance and mortgage products.

### Nicholas Davies

From the offshore legal perspective, there has definitely been an increase in the uptake of Islamic financing products, particularly Murabaha financing of high-end real estate in the UK. Throughout 2015, we saw these products being increasingly structured through Islamic finance methods, and I believe that this is a trend that is likely to continue well in to 2016.

Overall we are seeing a definite increase in Islamic finance products and I believe that moving forward it will only get more prevalent.

### Imam Qazi

Islamic finance has grown rapidly over the past decade and has become systemically important in the UK, more so than in continental Europe. There are currently six Islamic banks in Britain, while a further 20 lenders currently offer Islamic financial products and services. This is more than any other Western country and highlights the increasing demand for Islamic financial products.

We have seen an increasing number of projects in the UK that are backed by Middle Eastern and Islamic investors. There is also a clear increase in the number of conventional and non-Muslim clients utilising Islamic finance. Conventional borrowers, driven by the need to widen their financing sources as well as the need of investors are more readily considering Shariah-compliant financing structures.

**So, where do the most promising growth opportunities lie for Islamic finance within the UK financial market?**

### Moira Ashby

There continues to be a great opportunity in the UK and Channel Islands for banks, professional advisers and corporate service providers to continue to upskill employees and offer clients, whether Muslim or non-Muslim, access to Islamic products and services. Whilst the UK Islamic mortgage market is relatively established with several key players, conveyancing in the UK using some forms of Sharia-compliant financing takes longer, costs more and is subject to certain ambiguities from a tax perspective. Despite these challenges, I personally have an optimistic outlook for the future of Islamic financing in the UK market.

We expect the global Islamic finance industry will continue to grow steadily over the next few years, and as such, we will continue to maintain close working relationships with key banks, lawyers and clients who have an interest in Islamic finance. This ensures we keep our finger on the pulse and maintain a full understanding of what is happening in the market. In terms of our offering, while we provide Sukuk issuances out of Jersey, the Cayman Islands are still a favoured jurisdiction - one of the many drivers for us opening an office there in 2015.

### Nicholas Davies

Within our industry we are seeing that many firms, from boutique companies to corporations, are now offering Islamic financing products, highlighting the vast growth that has occurred in this sector. From a jurisdictional perspective, the Cayman Islands has seen more Islamic structured finance than any other region, with Jersey a close second.





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We are certainly seeing a greater interest in Islamic finance in Jersey, as the island has a strong reputation for offering a good financial base.

On the banking side of our work, there is a great deal of activity coming through the London branches of Middle Eastern banks. I have noticed that there seems to be more competition in this area of the market as banks that traditionally did not offer this service, such as QIB, are now offering more products in this area.

Another key change I have noticed is that non-Middle Eastern banks, such as HSBC, are also now offering some Islamic finance products, which shows that these products are becoming increasingly mainstream.

This increased popularity could be attributed to the increased robustness of Islamic financing products, which is the result of their nature: in order to be certified as Shariah-compliant a product has to be kept separate from many asset classes, such as alcohol, meaning it is not exposed to the turmoil seen in many markets.

The robust nature of Islamic finance has helped to improve the popularity of these products. Whilst the products were originally aimed exclusively at practising Muslims in certain regions, these products are now coming to the attention of the wider investment community because they are seen as a more reliable investment than many other products.

## Imam Qazi

The legal and taxation landscape globally, and in particular in the UK, has developed around conventional financial transactions rather than the transactional structures of Islamic finance. It is therefore vital that the legal and tax framework can adapt to accommodate these differences. Specific standards have been developed by specialised standard-setting bodies, but regulatory and supervisory frameworks in many jurisdictions do not yet cater to the unique risks of the industry.

Since 2003, a series of finance acts by the UK government has removed tax barriers that made Islamic products less tax efficient than their conventional counterparts. The development of the reforms in the UK introduced change aimed at providing a level playing field for tax and regulations. The policies broadened the market for Islamic finance products for Islamic institutions and for conventional firms that offer them. Various governmental Islamic finance

secretariats and bodies have also been established to promote the development of Islamic finance in the UK.

For the Islamic finance industry to thrive, there is a real need for a readily available and skilled workforce that is knowledgeable of how the sector operates. The education sector is adapting to meet this need and now 60 UK institutions offer Islamic finance courses, and 22 universities offer similar degrees.

## What are the major trends within the Islamic finance market and who are the main clients requiring this service?

### Moira Ashby

Hawksford offers a wide range of wealth structuring services to clients in the Middle East and Asia, and we also maintain offices in the United Arab Emirates, Cayman Islands, Hong Kong and Singapore.

It is largely our Middle Eastern clients that are requesting Shariah-compliant financing and investment opportunities, and the majority of the Sharia-compliant structures we see are in the real estate sector. For residential properties, the main focus for clients is ensuring their lending is appropriate under Islamic law. The three main contract types available are Murabaha, Musharakah/Mudarabah and Ijara. For commercial properties, there may be additional considerations to ensure an investment maintains its Sharia-compliant objectives. For example, a warehouse may be partially used to store alcohol and profits arising from this activity would be considered haram. This may be resolved by cleansing the haram monies by donating to charity or using other forms of discounting.

### Nicholas Davies

With regard to clients, we tend to work primarily with onshore law firms, who in turn work with London banks or branches of Middle Eastern banks whose clients will vary greatly depending upon the types of products being explored and the deals being made.

Typically we will see a Middle Eastern individual looking at private wealth solutions such as property or, more specifically to my area of activity, the corporate space where the client tends to have Middle Eastern or South East Asian companies and is looking to raise finance in a Shariah-compliant manner.

Occasionally we do receive enquiries from a non-Islamic client, company or individual searching for an Islamic structure, as they explore liquidity in the

Middle East or South East Asia. Usually they work alongside investors who can only invest in an Islamic compliant capacity.

## Imam Qazi

Shariah compliant investment in the UK property sector is an increasingly popular area within the private wealth sector. We have advised Islamic banks in the UK on various property financing transactions within the private wealth sector and foresee that this sector will continue to develop.

Shariah-compliant investments have also been used to fund some of the capital's largest developments, including The Shard, the Olympic Village and Harrods. London's Battersea Power Station redevelopment project has secured a Shariah-compliant syndicated loan of £467m, a step towards developing Britain as an Islamic finance centre. These deals are likely to encourage other corporations and high net worth individuals to seek Shariah-compliant financing in the UK. Shariah-compliant private banking and wealth management also seems to be an area that is set to expand in Europe and the UK.

Overall our main client base for Islamic investments includes a wide variety of investors, from Islamic financial institutions through to high net worth individuals, ultra-high net worth individuals and family offices, as well as investment funds and corporates. The broad nature of our client base highlights the increasing popularity of Islamic financing.

## What are the implications of this increased uptake of Islamic finance on the wider financial industry?

### Moira Ashby

There is clearly a growing demand for Sharia-compliant products and services. Many clients are seeking to expand their interests outside their home nations, so it is important that we are able to satisfy and assist with the demand.

As a result, businesses will have to structure themselves in response to evolving changes in the market and client requirements. It will become even more important for businesses to have an established presence in multiple jurisdictions with excellent reputations for robust regulatory frameworks. This is what will set advisory businesses apart from the competition.

The main benefit of Islamic finance is maintaining Sharia compliance, which is driven by religious and cultural requirements and meets the needs of a spe-





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cific group of investors. Sharia-compliant products and financing can provide a socially responsible investment for Muslims and non-Muslims, due to the fact that certain activities, such as gambling, alcohol and tobacco are excluded.

## Nicholas Davies

The main issue that needs to be taken into account as Islamic finance gains wider recognition is that new regulation is brought in to ensure that portfolios of Islamic products meet both the restrictions of Islam and those of financial law. Our regulatory scheme needs to have sufficient transparency so that everyone involved in this industry understands them and feels able to abide by them.

Ultimately the wider industry will benefit from the increased exposure to other cultures which Islamic finance necessitates, encouraging firms such as ours to work collaboratively in order to keep up with the changing market.

## Imam Qazi

Islamic finance works on the premise of partnership and equity rather than purely making profit. It has been suggested that equitable partnerships between Islamic financial institutions and their customers tend to be more resilient than conventional relationships.

In addition, Sukuk offers a wide-range of benefits to the economy in terms of liquidity management, fundraising, balance sheet management and securitisation.

In particular, London is hoping to secure its place as a global hub of Islamic finance, and the issuance of a Sukuk is part of a long-term economic plan to make Britain the centre of the global financial system.

The UK Government and UK Export Finance has underwritten its first Islamic bond, a further sign of London's growing role in the global market for Shariah-compliant debt. The government-backed export credit guarantee agency provides cover for a £617m (\$913m) Islamic bond issued by Dubai's Emirates airline, to purchase aircraft including the Airbus A380. This marks the first example of a Sukuk sold in the debt capital markets to be backed by an export credit agency. It is also the first time a Sukuk has been used to pre-fund the sale of aircraft, and the largest capital markets offering of any kind for aviation to carry an ECA guarantee. This has widened options for buyers of UK exports and boosted the UK's aspiration to become the leading western hub for Islamic finance. This activity followed on from the

UK Government sovereign Sukuk in 2014, the first of its kind for a non-Muslim country.

There are, however, suggestions that Islamic financial institutions have overlooked the SME sector. A study showed that around 35% of SMEs in MENA are excluded from the formal banking sector because they seek Sharia-compliant products that are not readily available in the market. Islamic banks need to build capacity and develop Shariah-compliant products to cater to this emerging sector.

**Overall, there is much optimism for the future of Islamic finance and our experts are confident in each of their company's ability to grow their Islamic finance offerings and capabilities.**

## Moira Ashby

We are particularly keen to grow our business activities in Qatar and the fact that we have an open relationship with the regulator there helps to increase our profile and reiterates our message that Hawksford is open for business in the region. Although maintaining our regulated status comes with increased compliance and additional costs, these are not overly burdensome.

## Nicholas Davies

Currently we work primarily with the Islamic finance departments of Middle Eastern banks, but we are seeing increasing numbers of private, high-net worth individuals interested in Shariah-compliant products. Within the corporate space we are also seeing a rise in the numbers of non-Islamic firms looking to structure their investments in a way that is Shariah-compliant, as they work increasingly with investors in the Middle East and Asia.

## Imam Qazi

The Islamic finance market in the UK has benefitted from increased liquidity and a growing appetite for Shariah-compliance. Foot Anstey has a dedicated and experienced Islamic finance and private wealth team. Our team advise high net worth individuals, conventional and Shariah-compliant financial institutions, investment advisory firms and Middle Eastern and Malaysian investors on high value, complex transactions.

*The views and opinions expressed are those of the contributors and do not necessarily represent those of Hawksford*



