

# Jersey: ideally placed for Islamic investors

BY MIKE WILLIAMS & ALEXANDER PRICE

*Jersey continues to be a leading Islamic finance centre and popular jurisdiction in which to establish Shariah-compliant structures, thanks to its flexible legislation and excellent reputation for being a transparent and well-regulated jurisdiction.*

**J**ersey offers investors from the Middle East and North Africa (MENA) region a number of legal vehicles from which to choose when setting up their Shariah-compliant structure including limited companies, limited partnerships and trusts. All of these vehicles can be set up quickly to meet an investor's needs and will be regulated and administered on the same basis as conventional structures, providing for parity under the law.

## REAL ESTATE INVESTMENT STRUCTURES

Jersey has long been an entry-point for inward investment into the United Kingdom and Shariah-compliant Jersey structures are commonly used to hold UK real estate. MENA investors tend to structure their investments in UK real estate using a company, yet recently we have seen increased interest among MENA investors in also using Jersey cell companies as investment vehicles because they give investors the option to choose from a range of property portfolios under the one management umbrella.



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Shariah-compliant funding is readily available in the UK to support MENA investors wishing to invest in UK real estate and there are now five fully Shariah-compliant banks licensed in the UK – Al Rayan Bank, Bank of London & The Middle East, Gatehouse Bank, QIB (UK) and Abu Dhabi Islamic Bank.

Islamic financing transactions typically involve a commodity Murabaha product but other products are available to MENA investors including Ijara (a type of lease) and Musharaka (an investment partnership or joint venture arrangement).

In terms of asset classes, commercial property remains popular as do buy-to-let properties and build-to-rent developments. In recent years, we have seen a shift away from retail property (other than supermarkets) toward logistics (mainly warehouses) and industrial property and this has only been exacerbated by the COVID pandemic. Growing confidence among investors to seek value opportunities outside of London has seen regional centres including Birmingham, Manchester and Liverpool increase in popularity in recent years, with assets in these areas tending to be available at more attractive prices and able to generate higher yields.

#### SUKUK

Sukuk will typically be structured as an orphan arrangement in a suitable international finance centre such as Jersey, which has a strong track record in international markets. Significantly, important market players such as the Islamic Development Bank utilise Jersey within their Sukuk trust certificate programme.

The London Stock Exchange remains a key venue for Sukuk listings and there are more Jersey companies registered on the FTSE 100 and AIM than any other jurisdiction outside the UK. Sukuk utilising Jersey SPVs (and issuances of Jersey trust certificates) are listed on a range of international exchanges including the Bursa Malaysia, Nasdaq Dubai and Kuwait Stock Exchange. There are also Sukuk listed on The International Stock Exchange (TISE), a stock exchange headquartered in the Channel Islands.

#### FUNDS

Jersey's funds sector is a leader in Shariah-compliant asset management and the jurisdiction is a preferred domicile for developed asset classes, including equity for Shariah-compliant fund mandates.

Establishing a Shariah-compliant fund in Jersey is a very flexible process and can be done using a range of legal structures including a limited company, limited partnership, unit trust or cell companies. All funds in Jersey, including Shariah-compliant funds, are taxed at zero percent, including the popular Jersey Private Fund (JPF) structure which has been tailored for use by sophisticated investors and offers high levels of flexibility, fast-track authorisation and lighter-touch ongoing regulatory requirements. A JPF can be used by MENA investors for Shariah-compliant investments in all types of assets globally.

In July 2021, Jersey was selected as the most appropriate jurisdiction in which to establish a new UK-based Shariah-compliant tech-focused private equity fund with a target fundraise of £1 billion for investments in Shariah-compliant SMEs.

#### GENERATIONAL PLANNING AND WEALTH PRESERVATION

Jersey trusts (similar to an Islamic Waqf, or endowment) and foundations provide flexible structures that are often used by MENA families or family groups for generational planning and wealth preservation. They can be established in a way that strictly adheres to the Shariah, departs from the Shariah or sits somewhere in between. They can also allow particular powers to be retained by the settlor or founder.

Jersey trusts and foundations are often used to modify the strict succession or heirship rules that would otherwise apply and to ringfence the ownership of assets that are to be held outside of the Shariah. They can also be used as helpful tools to protect assets from creditors or seizure by politically unstable regimes.





## FUTURE TRENDS AND DIRECTIONS

So what is next for Islamic finance and Shariah-compliant structures and products? Here are a couple of trends and directions we have noticed.

### ■ Fintech – a new dawn for Islamic digital banking

- Islamic banks in the UK – and across the MENA region – are investing significantly in their technological capabilities and establishing digital platforms in recognition of the increasing importance of digital banking among MENA investors, in particular the younger (often more tech-savvy) generation.
- In July 2021, Abu Dhabi Islamic Bank (ADIB) formed new partnerships to boost its technological capabilities including scaling up its artificial intelligence and data analytics power. One such partnership is with the Ministry of Interior in the United Arab Emirates (UAE), a collaboration which allows the bank to access the Ministry's facial recognition system which makes it the first bank in the UAE to be able to perform instant and secure verification for digital onboarding. This allows UAE citizens and residents to open an ADIB bank account remotely and instantly.
- Also, in July 2021, Boubyan Bank (a majority shareholder of the Bank of London and the Middle East) announced the launch of Nomo, a fully licensed and regulated UK Islamic digital bank which offers Shariah-compliant UK bank accounts and financial management services for clients in the MENA region. It has been developed to accommodate a growing segment of individuals across the MENA region with international banking needs and provides a digital solution for accessing, moving and investing money in the UK and internationally with ease and assurance. Nomo demonstrates the continued attractiveness of the UK as an investment destination among the next generation of tech-savvy MENA investors.

### ■ Sustainable finance – using Shariah-compliant products to develop meaningful initiatives

- With underlying principles founded on fairness, risk-sharing and transparency, Islamic finance seeks to promote ethical and responsible decision-making and investments and therefore has the potential to align investors with sustainable development goals and other environmental, social and governance values.
- For example, green Islamic finance products, which are becoming more widely available, could be used to support climate change initiatives and drive social development programmes across the world.

Jersey has long been a favoured offshore financial centre for many MENA market players and investors, due to it offering a

range of flexible Shariah-compliant structures and products. It remains well placed to continue to participate in the growth of these existing structures and products and to facilitate the development of new products and future directions for the sector.

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