

Growth outside benefits Gulf

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At this point in time, there are 24 financial institutions offering Islamic financial products in the UK, three of which are wholly Sharia-compliant.

Contrary to retail offerings which are mainly focussed on the local Muslim population, Islamic investment banks strongly focus on global markets.

One of the main critiques on western based banks offering Islamic products is that they recycle petrodollars back into the Middle East and Asia.

In itself it might seem logical for a Western based, wholly Sharia-compliant bank to invest mainly in Muslim countries such as the GCC and Malaysia.

It is in those countries after all where the bigger Islamic market is based. Even though good investment opportunities in the GCC and Asia should not be rejected, Western-based banks are in a prime position to build a strong asset base in the UK, Europe, North Africa and Turkey, which will be more beneficial to investors from a diversification perspective.

An example of a Europe-based asset is the receivables financing arrangement for Thamesteel, a steel mill in Sheerness, England that was reported in the Financial Times on July 9.

In addition to the fact that this is a very good income producing asset from a corporate finance perspective, it also shows there is an appetite for Islamic Finance in the UK from borrowers that have not historically considered Islamic Finance.

Besides the fact that these type of transactions offer borrowers outside the GCC and Asia the opportunity of Islamic Finance, they also enhance diversification for investors.

## **Ambition**

London has the ambition to become the largest centre for Islamic Finance outside the Middle East. Only three of those are operating in a wholly Sharia-compliant manner (also referred to as Sharia-based) while the other 21 are using different distribution channels such as the Islamic windows of conventional banks.

The main advantage for Islamic windows is that they are backed by the big balance sheet of the parent bank. On the other hand, this raises the question how compliant the Islamic window really is, given that they use a conventional bank's balance sheet to support their Islamic finance transactions.

The individual transaction will no doubt be Sharia-compliant, but what about the underlying business? And how will Islamic Finance clients deal with the issue of co-mingling their funds with those of non Islamic Finance clients?

The backing of a big balance sheet and the large structuring capabilities that Islamic windows have access to means they are operating in a different market segment from Sharia-based banks. Interestingly enough, this makes the two types of distribution channel very complimentary.

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