

An uncertain future but Islamic finance can lead the way in the UK

Any discussion on the UK financial services industry inevitably necessitates some commentary on the topic of Brexit. Now that the withdrawal date of the UK from the EU has been extended to October 2019, the post-Brexit landscape for the UK financial services sector is currently unknown. Nevertheless, Islamic finance is set to play a key role in ensuring that London, as well as the UK, maintains its position as a global center of international finance in a post-Brexit world. The rapid growth of Islamic finance in recent years in the UK has been led by supportive government policies, an extensive pool of professionals skilled in Islamic finance and an open economy that welcomes international investment. LINGXI WANG writes.



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With over 20 banks offering Islamic financial services — six of these are fully Shariah compliant — and more than US\$5 billion of assets held by UK-based institutions that offer Islamic finance services, the UK, particularly the City of London, is one of the leading centers of Islamic finance outside of the Gulf and Asia.

In recent years, the UK government has taken steps to reinforce this position by taking fiscal and regulatory steps to ensure a level-playing field for Shariah compliant financial products. These have included the removal of double taxation on Shariah compliant mortgages and ensuring that returns and income payments from Sukuk are treated the same as conventional bonds.

To support the growth of Islamic banks in the UK and to assist them with compliance of the Basel III liquidity rules, the Bank of England (BoE) in 2017 established the Shariah Compliant Facility (SCF). This is the first non-interest-based liquidity facility to be developed by a major western central bank and permits UK Islamic banks to hold sterling deposits with the BoE. In September 2018, the BoE announced that it will set up an Alternative Liquidity Facility, a legal entity to house the SCF.

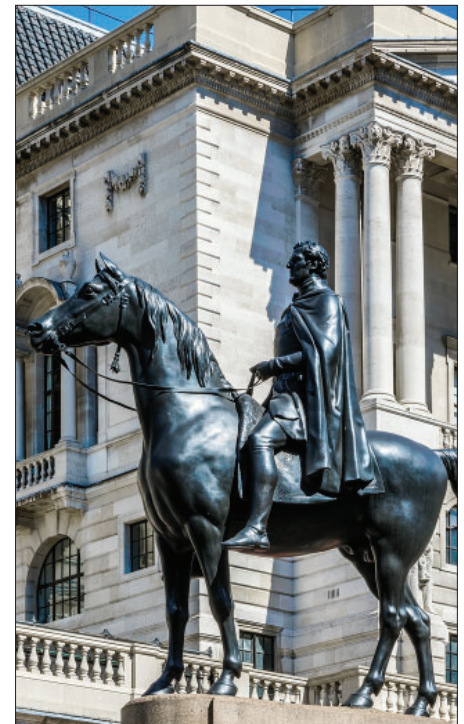
The UK sovereign Sukuk facility that was issued in 2014 is due for redemption in July 2019. The issuance of the Sukuk in 2014 was an important step for the UK in increasing the profile of Islamic finance alongside conventional financial services. HM

Treasury is currently assessing the possibility of a second issuance. According to TheCityUK, which led a consultation with Islamic banks, non-Islamic financial institutions and professional services companies on the 2014 UK sovereign Sukuk issuance, if a UK sovereign Sukuk facility is not available for Islamic banks in the UK, it would be difficult, if not impossible, for them to meet their regulatory requirements to hold liquidity buffers, notwithstanding the BoE's establishment of the SCF.

The UK has the second-largest number of Islamic fintech companies after Malaysia

In 2018, Al Rayan Bank issued a public sterling Sukuk facility backed by UK mortgages, helping to highlight the growing importance of the UK Sukuk market. The GBP250 million (US\$313.44 million) Sukuk facility was significantly oversubscribed which reflects the demand for Islamic financing instruments and the London Stock Exchange as a key venue for the issuance of Sukuk.

Islamic finance fintech is still at the embryonic stage of development, but the UK is well positioned to become a hub for Islamic fintech. The first Islamic fintech summit was held in London in the first quarter of 2019, bringing together banks, tech entrepreneurs, professional services companies and



investors. Yielders, a crowdfunding platform that assists individuals with real estate investment, received its certificate of Shariah compliance in 2017 making it the first Shariah compliant regulated fintech company in the UK. According to data from IFN Fintech, the UK has the second-largest number of Islamic fintech companies after Malaysia.

One sector of Islamic finance with particular scope for growth in the UK is Takaful. The London insurance market is a global commercial insurance and reinsurance hub meaning that the UK has the expertise to assist with the growth of the global Takaful market. In 2015, the Islamic Insurance Association of London was launched to support those working in the UK insurance and reinsurance market who deal with Islamic finance transactions. (P)