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Author: Ron Csillag

### **A Growing Interest in No Interest: Muslims and Ethical Finance**

It wasn't the cost that prevented Kamran Siddiqui from buying a house. Nor was he terribly fussy about location or size. Rather, it was his religious beliefs that had him resigned to indefinitely renting a home in Mississauga.

"I was in the market for a long time," says the 34-year-old Muslim consultant. "But buying a house through a conventional mortgage involved something that went against the values that are near and dear to my heart. It was out of alignment with my beliefs."

What Siddiqui refers to is interest -- known in Islam as "riba" and sharia, or Islamic law, has sweeping prohibitions against usury. It's okay to make money, but not to pay or charge interest.

Islamic restrictions have put thousands of devout Muslims in a bind when it comes to bank accounts, credit cards and mortgages. One way out, of course, is to pay for everything in cash, but for a house?

Home ownership seemed a distant dream for Siddiqui until he heard about UM Financial Inc., a Mississauga-based concern that recently launched sharia-compliant home financing in partnership with Credit Union Central of Ontario.

UM Financial grew out of United Muslims, a grassroots group that organizes community events and runs Radio Islam. UM teamed up with the credit union to offer the Murabahah (roughly translated as "cost plus deferred payment") Home Financing Product, billed as a solution based not on interest, but on trade and profit, both permissible under sharia.

With home-buying in mind, the client comes to UM Financial, which buys the property. It then resells it to the client at a mark-up and transfers the debt to the credit union. The client then pays for the property through instalments at competitive rates.

"We register a zero per cent mortgage on the home, but monthly payments are the same and the client owns the home from day one," explains UM Financial's CEO, Omar Kalair. "It's a trade transaction, not (one) based on usury. As long as the deal involves an asset, and we take ownership of that asset as well as assume the risk, it is considered permissible."

Kalair, a 29-year-old business graduate who's been accepted into a Ph.D. program in Islamic finance at Trisakti University in Indonesia, says it took two years to get the program off the ground. He was turned down by eight financial institutions before striking pay dirt with the credit unions.

With an estimated 350,000 Muslims in the Greater Toronto Area, Kalair senses a growing market. To date, he has 20 confirmed closings, with 100 more families looking for homes in Toronto and southwestern Ontario.

Though it may seem like a paperwork trick that finesses a fine point in Islamic law, for Siddiqui, the new service has made all the difference. This month, he's slated to close on a new four-bedroom house in Milton, Ont. "I feel very relieved," he says. "I didn't have to sacrifice my beliefs."

Neither do more and more Canadian Muslims, who are being courted by non-Islamic businesses that are discovering the rich potential of the "ethnic" market.

Last June, the Royal Bank of Canada offered the RBC Sharia Compliant Equity-Linked Note, the first of its kind in the country. Supported by a fatwa (religious ruling) from three Islamic scholars, the note selected stocks from the Dow Jones Islamic Market Index, which avoids any investment considered haram (forbidden), including such sectors as arms, alcohol, gambling and pornography.

Rehan Huda, founder and CEO of Ottawa-based Salam Financial Inc. predicts that in five years, all of Canada's chartered banks will have sharia-compliant services and products. In January, Salem Financial launched an Ontario-wide, riba-free home financing product in conjunction with the Ottawa-Carleton Credit Union.

With Canada's Muslim population set to pass the 1 million mark within the next decade, "we're definitely on their radar screens," says Huda. He says at least one-third of Canadian Muslims are devout enough to use these and other services, while another one-third would consider them if rates were competitive.

Among the most successful ventures in the GTA is the Ansar Cooperative Housing Corp., an outgrowth of the Islamic Cooperative Housing Corp., founded in 1981. Part of the Islamic Society of North America (Canada), the co-operatives run on the principle of musharakah, in which partners participate in the management of a business. They circumvent the notion of interest by pooling investment and reaping dividends.

You start by purchasing membership in the co-op, followed by a minimum of six shares at \$100. The shares have to be owned for at least six months and generate dividends. When you're ready to buy, you must own shares equal to at least 20 per cent of the first \$100,000 of the home's cost. Once you take possession, you pay rent to the co-op, which distributes it to shareholders as dividends.

"While you live in your house, you are buying back shares rather than paying interest," explains co-op president Pervez Nasim. "You own the house when the rent is zero."

Though gaining traction, Canada is said to be behind in Islamic financial services. A sharia-compliant MasterCard, which restructures interest as an administrative fee, has been issued in the United States. And last August, British regulators approved the United Kingdom's first full-service Islamic bank.

As of 2002, there were an estimated 170 interest-free Islamic banks worldwide, controlling assets of \$150 billion (U.S.). Globally, there are about 130 Islamic mutual funds.

As for the stock market, the Dow Jones Islamic Fund is popular because it employs a multi-step screening process to determine which companies comply with sharia. Because of prohibitions against interest, alcohol, gambling and pork, Muslims may not invest in most of the financial sector, many hotels, restaurants, and casinos.

Even though the Prophet Muhammad was a pretty savvy businessman himself, "he was always aware of the concept of social and economic justice," says Wahida Valiante, national vice-president of the Canadian Islamic Congress.

Devout Muslims consider interest, on either end of a transaction, "insidious and destructive of the social fabric because it creates injustice," Valiante added. "Those who borrow are generally in need, and if they cannot pay back, their lives are made even more difficult."

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Author: Judy Steed

## **The Star's 2007 build a business challenge: The 9 finalists**

UM Financial (which grew out of United Muslim Financial) was set up by Omar Kalair in 2004 to provide financial services for the Islamic community. Their religion prohibits them from taking or giving interest - which made it a hard sell for Kalair in his approach to 70 banks and financial institutions. Finally, he found a partner in Credit Union Central of Ontario, which functions as the central bank for the province's credit unions. Find out why Credit Union Central invested close to \$100 million in mortgages for Muslims, and how Kalair is working to expand his complex new business. The Star's 2007 Build a Business Challenge has chosen nine entrepreneurs from among the hundreds of entreprising individuals who submitted entries for our interactive challenge. For the next four months, starting on Monday, Jan. 8, we will follow our challengers as they're matched with experts from Ontario's leading business schools and other consultants, in pursuit of their entrepreneurial dreams.

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Author: Judy Steed

## **Entrepreneurs who dare to dream**

UM FINANCIAL provides services to Muslims in the GTA. For Follow Mississauga-born founder Omar Kalair, who has a business degree from Wilfrid Laurier University, the challenge was to find a Canadian financial institution that would support his plans. Checking is BlackBerry, Kalair explains that when Islam was established 1,400 years ago, the Prophet Mohammed ordered his followers to obey the laws of the land, wherever they lived, "as long as the laws don't conflict" with Islam. When it came to borrowing money, Muslims were prohibited from charging interest on loans or signing up for conventional mortgages, in which they pay interest on the principal.

The Canadian banking industry "is set in its ways," says. Kalair, in contrast to British banks such as Lloyds and Barclays, which offer "usury-free" Islamic products. At home, Kalair approached 70 financial institutions before finding a sympathetic ear in Jens Lohmueller, manager of commercial lending at Credit Union Central of Ontario. "Credit unions are here to support communities," says Lohmueller, describing his approach to building the Credit Union's customer base while satisfying Muslim needs.

Goal: For UM Financial to explain its market niche, expand its range of services and reach out to new markets.

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Author: Judy Steed

## **Build a Business Challenge weekly update**

UM Financial founder Omar Kalair received lots of feedback, positive and negative, in response to his inclusion in our challenge. The very week that the CBC sitcom Little Mosque on the Prairie debuted, Kalair - who is himself building bridges between the Muslim community and the mainstream, enabling Muslims to get financing to buy their own homes - received "some angry emails" from "some elements in our (Muslim) community who think it's wrong to deal with banks in any way." It hasn't been easy for Kalair, who is trying to address the needs of Muslims struggling to buy houses, yet are prohibited by their religion from getting standard loans or mortgages in which interest is charged. After approaching 70 financial institutions, Kalair finally found a sympathetic audience in Jens Lohmueller at Credit Union Central of

Ontario. Next week, we're meeting with Lohmueller to find out how he was able to design innovative financial products in collaboration with UM Financial. Speaking of Little Mosque, Kalair has seized the opportunity of "securing an ad on the series for the Ontario market." Good for him. Little Mosque attracted more than 2 million viewers and is the top rated CBC sitcom launched in many years.

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Author: Judy Steed

### **Problem Solved - Putting faith in Islamic mortgages**

Wearing a black tunic that falls below his knees, head covered by a kufi (a small hat, worn for modesty), cheeks concealed by a neatly groomed beard, Omar Kalair, 31, founder of UM Financial Inc., is the very picture of a traditional Muslim man.

But he has been criticized by fundamentalists in his community for working with mainstream financial institutions – even though his purpose is applauded by all.

"There were people who said we shouldn't get involved (with banks)," Kalair says, "but Muslims want to buy houses. They need access to financial support."

At issue is Shariah, the legal and ethical code of Islam as revealed in the Koran and the life of the prophet Muhammad. Shariah lays out three main prohibitions related to finances: no interest, speculation or gambling is allowed.

Kalair is neither gambling nor speculating when he helps Muslims buy houses, and he has figured out how to provide financial support – what we call a mortgage – with no interest charges attached.

Which doesn't mean UM's product is cheaper than a conventional mortgage. In fact, it's slightly more expensive, because of the added complexity of the process.

But let's start at the beginning.

In his submission to the Challenge, Kalair wrote that he'd established Usuryfree Money (UM) Financial Inc. in 2004.

"As a start up financial company serving a mainly immigrant community, we are faced with many challenges. For the conventional financial industry, our concepts and products are foreign and difficult to understand."

Kalair was undeterred.

Born in Mississauga, the son of Pakistani Muslims, his family is observant, but not overly strict. His father worked for Nortel for 25 years, his mother for Air Canada. (She didn't wear hijab or head scarf on the job.) He has two brothers and one sister who regard him as quite traditional, though he lives a modern life in terms of technology, whipping out his BlackBerry during our interview.

He's married with two children. His wife has a psychology degree and helps him with UM Financial. He believes that second-generation Muslims like himself want to integrate into Canadian society and be good Canadians while maintaining their Muslim identity.

In 1996, Kalair graduated from Wilfrid Laurier University with a degree in business economics and a desire to help his community. With post-graduate studies in business administration under his belt, and the support of three other people, he established the non-profit United Muslim charity, with the goal of bringing Muslims together, on a non-religious basis.

"There was a lot of division among different sects and ethnic backgrounds. Muslims come from all over the world, from different cultures. We organized the first Muslim Day at Ontario Place and close to 6,000 people showed up. We co-ordinated an inter-faith session on World Youth Day when the Pope came to Toronto, with 400 youth, including 200 Muslims."

Kalair doesn't believe in withdrawing from society. On the topic of "extremist elements," he says that most societies have small groups of malcontents who are extremist in one direction or another. "You can't say all Irish people belonged to the IRA. In the same way, most Muslims are peaceful."

Kalair lives in Brampton, where there is "a sizable Muslim community," but his client base can largely be found at the Islamic Foundation, for Friday prayers – when close to 3,000 men fill the foundation's Markham Road mosque for the hour-long congregation.

"About half are Indo-Pakistani, including Bangladesh and Afghanistan, speaking Urdu or Hindi," he says. "Another half are Somalis and Arabs, with Bosnians and small groups of Malaysians and Turkish Muslims."

As we talk, young boys kneel on the floor at benches, rocking back and forth in the main prayer hall, chanting, memorizing the Koran, learning Arabic. The class will go on for 75 minutes.

Restless children are made to stand in the corner, or isolated on the carpet. They're part of the Islamic Foundation's school, which has 500 full-time and 600 part-time students from junior kindergarten to grade 12.

The foundation is also a centre for social services, and provides a free lunch every Saturday to 500 people, including non-Muslims.

The school's administrator, Shakil Akhter, is a personal client of UM Financial. Delighted that he was able to purchase a home in accordance with Shariah requirements, he says it's important to him that his monthly mortgage payment, as it would be deemed by a mainstream bank, is a "rental payment."

Few of Kalair's clients understand how difficult it was to devise such a seemingly simple approach. While working at Hewlett-Packard and Airmiles Loyalty Group, he put together a business plan and spent two years knocking on doors at 70 financial institutions before finding an interested potential partner at Credit Union Central of Ontario.

That was in the summer of 2003, when the door opened a crack at CUCO, followed by a full

welcome with the arrival of Jens Lohmueller in December that year. CUCO's manager of product development and commercial lending, Lohmueller had left his native Germany in 1991 to continue a degree in economics at the University of Western Ontario – in pursuit, actually, of the Canadian woman who would become his wife.

He went on to do a masters degree at the University of Guelph in environmental and resource economics and was ready to do emissions (carbon) trading, already widely practised in Europe but lagging in North America. He ended up at Deutsche Bank, working in corporate finance for seven years, and became a vice president.

By the end of 2003, he'd landed at CUCO, and was open to Kalair's approach.

"I came here as an immigrant and I know what it's like to feel that you're stuck," Lohmueller says. "I thought, *we'll try*. Credit unions are here to be more involved in the community." As well, he knew that HSBC was doing Islamic banking in the U.K.

He grappled with Kalair's challenge, to provide financial products without interest. Which meant structuring the process in a different way – that would in the end deliver the same rate of return to the Credit Union.

Says Kalair: "We told CUCO we'd bring them the clients. We knew there was a demand, we had hundreds of people ..."

"But the challenge was the ownership of the house," Lohmueller says. "It took a long time to figure out how to structure the deal and comply with the regulatory requirements."

"So that it was acceptable to our community and scholars," Kalair says.

Eventually, after many months of figuring – "it was like an obstacle course," Lohmueller says – they structured the deal as an equity investment in each house. UM Financial buys the property, with funds from CUCO; the purchaser's name goes on the title to the property. The purchaser contributes a down payment and pays a monthly rental fee equivalent to a mortgage fee. (If the mortgage interest rate is 5.5 per cent, the UM Financial/CUCO rental rate is 6.1 per cent.)

The rental profit is split between CUCO and UM Financial, which has received close to \$100 million from CUCO to finance about 400 home purchases. Each transaction is done with the full documentation typical of any real estate deal. (There are strict new regulations in place preventing money laundering; UM Financial does not accept deposits or investments.)

The credit union network has attracted thousands of new customers, with the McMaster Savings & Credit Union in Hamilton providing an additional \$3.5 million for UM Financial mortgages; they're partially funded by more than 60 Muslim accounts opened specifically to contribute to Shariah-compliant mortgages.

"The goal is to get more deposits from the (Muslim) community and recycle this money into UM mortgages," Kalair says.

Eager to expand UM Financial's range of offerings and source of funds – the firm has eight branches throughout Ontario – he announced a breakthrough last week: "We got the green light (from a major bank). It has agreed to distribute Shariah-compliant products across Canada. Their plan is 90 days to finalize everything and launch in April."

Hopefully, we'll be able to reveal the name of the bank before the Challenge concludes at

the end of April.

Kalair is on a roll. He's embarked on a PhD in Islamic Economics Finance, is becoming known in international circles and recently spoke at an Islamic Finance Forum in Istanbul.

This week, he's in London attending a conference organized by Harvard Law School (Islamic Legal Studies) and London School of Economics, on "Tawarruq: A Methodological Issue in Shariah Compliant Finance." He's promised to send a dispatch from the frontlines; you'll be able to read it on the blog.

The only (minor) disappointment is that he tried to advertise UM Financial on CBC-TV's hit new sitcom, *Little Mosque on the Prairie*, but the show's so popular "the initial slots were all sold out."

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### **UM suffers setback over funding source**

Omar Kalair, founder of UM Financial - which provides Shariah-compliant mortgages to Muslim clients - is working hard to maintain on-going sources of funding. Credit Union Central of Ontario has extended an additional \$50 million and, Kalair says, "that will keep us going until the summer."

Last summer, UM Financial wasn't able to meet all its obligations. "The Credit Union didn't have all the funding in place," Kalair says. "We had a huge volume of customers, and we told them there was a chance we wouldn't be able to fulfil the demand." Star reader Adrian Qureshi is disillusioned by UM's services. "In the name of Shariah-compliant mortgages," he wrote, "they charge extra fees ... After accepting and approving our application, they refused us financing just a week before the closing of our home, thus putting us into great trouble ...

"This last-minute refusal made us get a mortgage from an alternate source at a higher interest rate and spend an extra \$2,500 for moving costs and living in a hotel with the entire family for one week." Kalair acknowledges the problem. "Going forward, we're telling clients up front there are limits on how many mortgages we can do.' But it's not all glum news for Kalair. Next week we'll tell you about an unlikely supporter an investor in Derek Scheinman, young Jewish entrepreneur who is president of New Horizon Mortgage Investment Corp.

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Author: Judy Steed

### **Bridging cultural gaps**

It's a great Toronto story: Muslim entrepreneur receives financial support from Jewish

business executive to purchase Korean Presbyterian school – to be transformed into Islamic school, with "kosher" deal structured in accordance with Islamic law.

In the final weeks of *the Star's* four-month Build a Business Challenge, major developments are propelling our nine chosen entrepreneurs forward.

In the case of Omar Kalair, founder of UM Financial – which will soon reach the \$150 million mark in Shariah-compliant home mortgages – the major problem is finding more financing to meet pent-up demand in the Muslim community. It's a market that's exploding globally – and that's what attracted Derek Scheinman, president of New Horizon Mortgage Investment Corp., to Kalair's story in *the Star*.

"I'm a secular Jew," says Scheinman, 30. "I'm not a religious person. Business is business, and this looks like a good business opportunity. I think the UM concept is brilliant."

Scheinman understood that Muslims are not allowed to pay or earn interest, in accordance with a strict interpretation of Shariah law. And that UM Financial had figured out a way to structure mortgages as equity investments, with a "rental fee" replacing the mortgage payment. It's not the cheapest way to buy property. As Kalair found out, Muslims are willing to pay a premium – 6.1 per cent for a UM deal, compared to 5.5 per cent interest rate on a standard mortgage – to do the deal.

Scheinman and Kalair first met in February, after the story about UM Financial appeared in *the Star*. Kalair was delighted at the prospect of finding a new source of funds, since he'd had little luck with the major banks, apart from Credit Union Central of Ontario, which has financed UM's \$150 million mortgage pipeline.

"Derek said if UM got any commercial deals coming our way, he'd take a look at them," says Kalair, who was impressed by Scheinman's open-minded attitude.

Born in Toronto to "non-religious" Jewish parents – his father is a funeral director for a Jewish funeral home, his mother a dental assistant – Scheinman was educated at the Associated Hebrew School, a day school, from grades one to eight, where he learned to speak Hebrew. He was three years old when his parents divorced.

As a teenager, he had two bar mitzvahs. "Both sides threw me one."

Scheinman's high school years were spent at Vaughan Secondary in Thornhill.

"It was a bit of culture shock, after being in Jewish private school for eight years," he says. But he adapted comfortably. Growing up, he'd played competitive baseball, which enabled him to mix with others.

After graduating with a degree in business administration from York University, he worked for TD Bank for four years, becoming one of TD's youngest managers – at a mini-branch in a Wal-Mart store. He went to work for a mortgage broker before starting up New Horizon Mortgage Investment Corp. in 2004. The company is not traded on the stock market but has a pool of investors who are public shareholders.

"We lend out money for private mortgage deals," he says. Or, New Horizon can, through its brokerage arm, Genesis Mortgage Capital Inc., search out financing on behalf of individuals. It is currently managing \$15 million in mortgages.

"Banks are strict in their guidelines," Scheinman says. "They don't treat people as individuals. There are a lot of self-employed people of merit and substance who might have



had a difficult time in the past – and the banks won't talk to them. We're able to give people opportunities they can't get from traditional financing sources."

Clients pay a premium for New Horizon's services, "for the risk we are taking," Scheinman says. "We do first and second mortgages. You're looking at 2 to 3 per cent higher (interest rate) than a mainstream bank on a first mortgage."

Both Kalair and Scheinman, then, were doing business with clientele who, for various reasons, were willing to pay higher than standard fees.

When the two men met, Scheinman wasn't put off by Kalair's obvious adherence to Muslim traditions. (Kalair has a beard and wears the long tunic and kufi – cap – of traditional Muslim men.)

Says Scheinman: "I'm a firm believer in allowing people to practice their customs, as long as it's not harmful or affecting anybody else's life." He has friends "of all different cultures," including a Persian Muslim with whom he constantly discusses religious issues.

When his great-great grandparents came to Canada, "they came for the same reasons people are coming today: for the opportunities. They want to do things differently; they've left the problems behind. They enjoy being free. They want to live in peace and harmony."

Everybody is entitled to their own personal beliefs about what is ideal, in his view.

"I am a Jew, I support Israel as the Jewish homeland but I don't translate that view into negatives against Muslims or anybody else.

"I'm Canadian, not Israeli. I operate my business in Canada. I have no interest in importing conflicts from other parts of the world."

In his area in Richmond Hill, he often hears people complain about "all the Chinese signs." His response is: "How does that impact your life? Why should it bother you? I don't understand it. I believe that's a degree of racism."

Told that he sounds like a natural politician, Scheinman admits he's "thinking about running, eventually, as a Liberal, should my business continue to grow."

Which is happening, thanks in part to his relationship with Kalair, who ran into a group of Islamic investors associated with an Islamic school. The Mur-ul-Huda Academy had outgrown a rented Toronto District School Board building and wanted to buy a larger school for its expanding student population.

The Islamic group spotted a Korean Presbyterian facility in Etobicoke that was being vacated as the Korean group prepared to build a larger centre nearby.

"Omar's group of Islamic investors needed the financing to buy the building," Scheinman says.

It was a \$2 million deal, the biggest UM Financial had handled, and a big step forward for Kalair into commercial real estate.

Scheinman talked to his shareholders. "We've made the commitment and we're ready to go ahead," he says. "The deal fits our investors' needs and it's structured so that it's 'kosher' for Muslims."

The deal closed last week, and Kalair is already on the move. Top of his agenda is training with Scheinman.

"Derek is going to teach us how to set up an investment company to structure commercial deals within the Muslim community."

UM Real Estate Investment Inc., as the new firm will be called, will be a mortgage investment corporation with rates of return of about 10 per cent. "People can put RRSP money in," Kalair says. "We are restricted to real estate mortgages. We can't buy stock or bonds."

Says Scheinman: "To me, business is business. If a business makes sense, I'm interested, regardless of who's behind it."

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Author: Judy Steed

## **Innovations of Islam**

"Prophet Mohammed did business with Jews," says Omar Kalair. "There's nothing wrong with doing business with other entities. In Islam, people have the freedom to practise their own religion. You're not supposed to force people to conform to your own mindset."

Historically, Muslims were known as traders, he says, travelling the world, dealing with people of all races and faiths, open to progressive ideas. From India and China, they brought back the number system and writing on paper – concepts they developed and passed on to Europe.

The trading of money from one city to another originated through the Arabic "saqq," or cheque.

"In the 9th century, a Muslim businessman could cash a cheque in China drawn on his bank in Baghdad," states an article, "How Islamic Inventors Changed the World," in *The Independent*, a British newspaper.

Also included in a long list of Muslim advances are:

- Arabic "qamara," invented by a 10th century Muslim mathematician, astronomer and physicist, became the "camera."
- Distillation, invented in 800 by Muslim scientist Jabir ibn Hayyan, the founder of modern chemistry.
- Crankshaft, which *The Independent* cites as "one of the most important mechanical inventions in the history of humankind," invented by engineer al-Jazari, author of the *Book of Knowledge of Ingenious Mechanical Devices* (1206).
- Parachute and "flying machine," created in 852-875 by Muslim astronomer and engineer Abbas Ibn Firnas, who at the age of 70 jumped from a mountain and flew aloft for 10

minutes before crashing.

- Soap. "It was the Arabs who combined vegetable oils with sodium hydroxide and aromatics such as thyme oil. One of the Crusaders' most striking characteristics, to Arab nostrils, was that they did not wash."

As well as: Modern surgical instruments (in the 10th century), the windmill (in 634), technique of inoculation, the fountain pen, algebra, carpets, and the concept of the three-course meal.

Kalair says the root cause of the eventual decline of Muslim societies was "disunity, factions within, regions set against each other, instead of collaborating with each other, as in the United States of America."

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Author: James Daw

### **Muslim law dictates new investment practices**

Members of Canada's growing Muslim community are working with secular financial institutions to develop new insurance products.

They intend to rally community support and the endorsement of local religious leaders to ensure success after a major bank stumbled with an Islamic or Shariah-compliant investment product in 2004.

Strict adherents of Islam oppose interest charges, centuries after most Jews and Christians began to interpret similar strictures in their scriptures to refer only to excessive interest charges.

Muslims are also taught to avoid investments in companies that issue loans and debt securities, or make armaments, tobacco products, alcohol, gambling or pornography.

For insurance, modern-day Islamic scholars have come to endorse a mutual or co-operative structure for sharing risk and dividing profits called *takaful*, the Arabic word for joint guarantee.

*Takaful* developed as a commercial product in Muslim countries in the 1980s, and is now making inroads in Europe and the Americas.

Not all Muslims are enthusiastic purchasers of *takaful* or the expanding array of other Sharia-complaint financial products. Even where they represent the majority of the population, only a minority buys them.

These specially engineered products, such as home purchase plans that substitute rent-to-own payments for interest charges, have tended to be costly.

But international accounting firm KPMG said in a 2006 report that acceptance of higher charges is fading: "No longer is there a perception that you should be prepared to pay extra."

Muslims make up a quarter of the world's population. But even a minority can make for a viable business proposition. It's estimated there are now about 300 Islamic financial institutions in 75 countries, holding assets of more than \$300 billion (U.S.) and another \$400 million in financial investments.

In Canada, the Muslim population has surpassed 780,000 and could reach 1.2 million within a decade, according to Statistics Canada.

A spokesperson for the Royal Bank of Canada found there was insufficient market interest for an investment note linked to an index of shares in Shariah-compliant companies.

A 31-year-old Toronto entrepreneur, Omar Kalair of UM Financial Services, says the bank's mistake was to rely on the endorsement of international Islamic scholars who were unfamiliar to Canadian residents.

Kalair says he has found rising demand for his company's "usury-free" home-purchase plan. With the backing of credit unions and an investor of Jewish origin, his eight Ontario offices have placed close to \$200 million (Canadian) to help Muslims purchase homes.

Now he says he is meeting weekly with a major bank, and with two other entities, to discuss new products, including bank accounts, payment cards, mutual funds and insurance.

He notes it has been possible since 1999 to invest in Islamic market indices developed by Dow Jones of New York to exclude company shares that could offend Islamic ethics.

Kalair was unable to interest any of the country's mutual property insurers in discussing a *takaful* product, but he is optimistic a major bank will take up the opportunity, and anticipates distribution of a Shariah-compliant, *takaful* insurance product in a year.

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Author: Judy Steed

## **A Grand Finale! A Grand Finale!**

After four solid months of following the progress of our nine chosen entrepreneurs.

Over at UM Financial ([umfinancial.com](http://umfinancial.com)), Omar Kalair is experiencing steady growth in demand for Shariah-compliant mortgages and other financial products, and is getting guidance in developing the investment side of the business from Derek Scheinman, the CEO of New Horizon Mortgage Investment Corp. This connection between a young Muslim entrepreneur and a young Jewish businessman drew the largest reader response for the most part positive of the Challenge.

Kalair is meeting with a major bank and expects a June launch for a full product line of usury-free products, home financing, commercial financing, insurance and investments.

