

Newspaper: The Globe and Mail

Date: 2007-05-25

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## **Banks give sharia a second look**

Bank of Nova Scotia and Toronto-Dominion Bank are quietly considering whether to start offering sharia compliant products, as part of the big banks' strategy to reach out to a growing immigrant population.

Representatives at Canada's second- and third-largest banks by market capitalization were among the 200 delegates at the Islamic Finance World conference in Toronto this week.

"I can confirm it's something we're tentatively looking at," said Frank Switzer, Scotiabank's spokesman, without providing further detail. TD spokeswoman Kelly Hechler said "it's something we're looking at and we're interested in."

That interest comes as Islamic financial services are growing in Canada and abroad. KPMG has estimated worldwide assets at more than \$300-billion (U.S.), with global Islamic institutions growing at 15 per cent a year.

What was considered fringe three decades ago has now become mainstream. Global banks, from HSBC to Deutsche Bank, are offering sharia-compliant financial services as petrodollars fuel demand from the Middle East. The Gulf region alone has as much as \$2-trillion (U.S.) in investments, much of which is flowing abroad.

"Every day we are told about the start of a new Islamic bank," Sheik Nizam Yaquby of Bahrain told the Toronto conference. Sharia-compliant products vary and there's little standardization in the sector, which is thought to be the fastest growing in financial services today. Generally, products can't have any explicit interest; transactions can't be in such areas such as gambling, alcohol, pork or pornography; and they can't be deemed as too high risk.

Practitioners liken it to any other form of socially responsible investing and stress that it's open to all religions.

Canada's been a bit late to the game, but momentum's building. Yesterday, iTrust Partners Inc. launched a \$400-million (Canadian) sharia-compliant income fund for Middle Eastern and European investors that are interested in Canadian assets. BMO is the prime brokerage and CIBC is providing administrative services.

Retail demand in Canada is still unclear and that may be why the Big Five banks are slow to jump on board. At present, though, services such as mortgages are more expensive. UM Financial Inc. has provided sharia-compliant mortgages to almost 500 homeowners in Ontario - even though it charges a deposit and costs about 0.60 percentage points more than a regular mortgage. Its homeowner mortgages tend to be structured like a rent-to-own

system to avoid interest.

Demand has been so great that UM Financial has stopped all marketing and has a 5,000-person waiting list of people who want to switch over from conventional mortgages to ones that are sharia-compliant, said Omar Kalair, the chief executive officer of UM Financial.

UM wants to offer its mortgages at prices similar to what the banks offer - and to do so it says it's talking with one of the Big Five banks about financial backing. He estimates there are about 200,000 Muslim households in Canada and wants to capture 2.5 per cent of that market within a year or two.

In Canada, lawyers from many of the big law firms were in attendance at this week's conference, scrambling to learn about the new, and potentially lucrative, field.

"Every indicator we've seen, both statistical and anecdotal, has made it clear that the retail market in Canada is a multibillion-dollar market," said Walied Soliman, a lawyer at Ogilvy Renault LLP.

The sector still faces multiple hurdles. Chief among them are a lack of regulation and transparency among many of the fledgling companies offering products.

Standardization is another issue, with plenty of debate over what's allowed among the few sharia scholars qualified to approve new investment products.

A global dearth of scholars also means long wait times in getting new products approved.