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Canada woos Islamic finance

Islamic finance covers everything from the issuance of bonds to home loans. Products comply with shariah law, which means there must be no interest paid, and there must be no investment in pornography or alcohol, for example. Investments must also be relatively low-risk because gambling is not permitted.

The dinner at hockey's mecca is an offshoot of one of the biggest conferences on the burgeoning sector in North America. Hundreds of delegates from around the world are expected to descend on Toronto for three days this week to take part in Islamic Finance World.

The event's sponsors are hoping Canada will catch up with the rest of the world, where Islamic-compliant finance has already taken off. The industry size is currently estimated at more than US\$400-billion, with projected growth of 15% a year.

London in particular is seen as a thriving centre for the sector -- not only do domestic U.K. banks offer a range of Islamcompliant products, but London is also the home to a multi-billion-dollar market in shariahcompliant bonds, known as the Sukuk market.

"The market has already matured in the U.K., Europe, Southeast Asia and the Middle East," said Walied Soliman a lawyer at Ogilvy Renault LLP, one of the conference's main sponsors. "In those regions, the conferences are not about Islamic finance. They are about securitization of Islamic bonds, or securitization of car loan portfolios."

On the surface, shariah-compliant financial products differ little to some conventional products, said Omar Kalair, president of UM Financial Inc.

Shariah-compliant investment vehicles are similar to any other socially responsible investment. A shariah-compliant mortgage charges no interest but follows a rent-to-own agreement that has a very similar end result to a conventional mortgage.

"It's the same as kosher or halal meat," said Mr. Kalair. "It looks the same, it smells the same, but one is permissible to one faith group and one isn't."

with conventional banking products and services, UM--it stands for usury-free money -- and Ittihad are among the handful of Canadian examples of successful Islamic compliant finance firms, and both those firms are still very small, niche players compared with Canada's wider financial services sector.

UM is working on a deal with a Big Five bank to offer shariahcompliant products through its branches. But big business has yet to confirm a serious interest in the market in Canada.

Part of the reason for that is a lack of comprehension.

"We're not used to these products and we need to understand them," said Normand Bergevin, managing director of the approvals division at the Office of the Superintendent of Financial Institutions, Canada's banking regulator. "We need to understand what the services do for the risk profile of a bank. How they fit into the regulatory, legal and accounting framework," said Mr. Bergevin in a recent interview. But some in the industry say understanding shouldn't be a problem.

"People need to get out of their minds that these are religious or cultural products and think of them as other-structured products that we design and implement every single day of our careers," said Ogilvy's Mr. Soliman. "Once you get over that hurdle from a legal and accounting perspective, these products are easy."

In fact, Canada is ripe for Islamic finance said Mr. Walied. From a retail banking perspective, there are perhaps a million Muslims in Canada who would be interested in the products, he said.

But the real gold mine could be Canada's natural resources and what that might attract in terms of institutional money from Islamic countries, said Mohammad Fadel an assistant professor at the University of Toronto who specializes in Islamic law.

High-net-worth individuals from the Middle East in particular are already familiar with investing in resources, he said.

Canada also has another advantage. Since 9/11, investors from the Middle East have been wary of putting their money in the United States, given the political climate there. Canada represents for many of those investors an alternative way to tap into North America, said Mr. Fadel. "Canada's a substitute for the United States," he said.