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Islamic Banking offers choice to Muslims in Canada

It's often said that Islam is not just a religion, but a way of life and commerce is a big part of that life. The way many Muslims manage their money is, for them, part of being a practicing Muslim.

There are over half a million Muslims in Canada, a population which has increased 128 per cent from 1991-2001 according to Statistics Canada.

As a growing Muslim population is looking for financial solutions that work with their religious beliefs, Islamic banking is becoming more popular in Western countries.

Basic principles

According to the Institute of Islamic Banking and Insurance (IIBI), the principles of Islamic finance date back to as early as the Middle Ages.

However, the modern concept is traced to the celebration of the advent of the 15th Century of Islamic calendar in 1976. A desire grew among Muslims for ethical change in their management of finances modeled more in accordance with the principles of Islam.

One of the basic tenets of Islamic finance is the prohibition against *riba* (interest).

There are several different strategies for financing that can help avoid any interest based charges such as profit sharing and leasing.

Islamic banking also holds the view that the borrower shouldn't bear all the risk and responsibility of failure. So both the bank and the investor share both profit and loss between the bank and the user which encourages strong financial management from both parties.

Individuals using Islamic banking also cannot make investments based on behaviours that are *haram* (forbidden) by *Shariah* (Islamic) law. These behaviours include alcohol or gambling, which can also include any investment perceived as a financially risky.

Investors are free to build their own personal wealth. However, they're also obligated to spend that wealth in a socially responsible manner and avoid hoarding funds.

These investors also give back to their community as Islamic banks reduce the amount of wealth an individual can earn in favour of helping those less fortunate.

Investors pay a small percentage of their finances when their annual assets exceed a minimum level in the process of *Shariah* known as *Zakat*. These contributions go to numerous groups in society to ensure social welfare and fair distribution of wealth.

Islamic Banking

Mohammad Fadel, a law professor at the University of Toronto, says there are guidelines to ensure that an individual is being compliant with *Shariah* law.

“The idea is to restructure banking transactions into sales or other types of financial transactions that Islamic law deems permissible,” he said.

“An Islamic bank won’t use the money that [the people] have to invest in certain kinds of projects like pornography, weapons, etcetera, so some people who are concerned about how the bank would use their money, they feel more comfortable giving to Islamic banks.”

Islamic banks will not invest in companies that deal in alcohol, gambling, pork, weapons, or practices that are harmful to the environment, in accordance with the teachings of the Islamic holy book, the *Quran*. Even some non-Muslims use the banks because of these strict ethical guidelines.

Fadel says that although they follow different rules, Islamic banks are just as good as traditional financiers.

“In theory, Islamic banks can’t guarantee a return to their depositor and that should make it more risky...in practice, however, Islamic banks choose very safe investments so they mimic the returns of conventional banks.”

There are over 300 Islamic financial institutions in more than 75 countries, including Canada, and the trend is growing. In fact, two conferences are being hosted in Canada about Islamic banking.

[The International Islamic Banking, Finance and Insurance Conference](#) will be held from May 17 to May 19 in Ottawa, while the [Islamic Finance World 2007 Conference](#) will be held from May 22 to May 24 in Toronto.

Islamic Financing

Conventional mortgage is not a choice, as Islamic law forbids transactions involving interest.

Siddeek Mohammed is a home owner with a mortgage. But, he doesn’t make monthly interest payments because he didn’t borrow money from a bank.

“It was something that eased a bit of guilt, that you have interest-free financing and there’s no excuse,” Mohammed said.

Instead of a bank, Mohammed borrowed the money from UM Financial, a relatively new Canadian company that specializes in Islamic mortgage.

“The main issue is that trade is permissible in Islam but usury or interest isn’t, so how we structure our mortgage is on a trade concept,” says UM Financial founder Omar Kalair.

“We do equity investments on a house and since we own the house proportionally we take a proportional rent so in the end the client gets to live in a house.”

Still, critics comment that the monthly rent one pays under Islamic mortgage is just another

name for interest.

But ISNA and UM say it's about the process and how profit is made and shared that complies with Muslim ethics. UM even has an independent *Shariah* advisory board made up of Islamic scholars which signs off on its processes.

"In the end, you can say the chicken and the meat is the same, but one is *halal* or kosher and the other one isn't so the same way the process [not the product] that determines if it's compliant or not," said Kalair.

And Mohammed, for one, didn't need much convincing; he now works as a real estate agent for UM clients.

"We can now own a property in Canada and feel a little bit more like a Canadian, but [we're] also allowed to follow the Islamic way so it's the best of both worlds," he said.

It's been three years since UM started providing Islamic mortgages and word has spread quickly. The company has received inquiries from across Canada, but due to regulatory restrictions and limited funding, services will only be provided in Ontario.

However, UM is in the final stages of talks with a Canadian bank and could seal a deal with an announcement as early as summer 2007.

Islamic Insurance

As a result of the initial services provided by organizations such as ISNA and UM, Muslim clients are asking for a broader suite of *Shariah* compliant products. One of these is *Takaful*, an Islamic insurance concept not yet available in Canada.

Binni Rana, International Marketing Director for Insurance at Eckler Ltd., says that insurance is an important financial product that allows families to mitigate the impact of financially ruinous events.

"Many Muslim people do not have insurance protection as a result of the *haram* aspects of conventional insurance," he said.

Rana says Eckler is working on disseminating information on *Takaful* in the Canadian insurance business community, to provide *Shariah*-compliant insurance product to the community.

And, as financial institutions continue to offer a wider variety of products and services, Islamic banking will offer more choice to Muslims in Canada.