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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 "usary-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.