

Interview with Omar Kalair

CEO of UM Financial

UM Financial, an Islamic finance institution based in Toronto, Canada, was founded in 2004, when it secured a US\$120 million Shari'ah-compliant investment facility to finance residential properties. Since then, UM Financial has developed Shari'ah-compliant investment and deposit products with financial institutions in Canada and currently operates an investment fund along with a real estate brokerage, with eight regional offices and a staff of 20.



UM Financial has appeared as the only Canadian entry on the list of *The Banker* magazine's Top 500 Islamic Financial Institutions and is a member of two of the largest Islamic finance associations: the Islamic Financial Services Board (IFSB) and the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI). In 2009, UM Financial was awarded the Islamic Finance Leadership Award North America by *World Finance*.

Omar Kalair, founder, President and CEO of UM Financial, is a community leader and expert in Islamic finance. Before establishing UM Financial, he worked in the finance departments at Hewlett Packard Canada and Airmiles Loyalty Group. Kalair has been admitted to a PhD program in Islamic Economics Finance. His thesis study will be on the implementation of usury-free financial products in the Canadian business environment.

Business Islamica spoke with Kalair about his experience dealing with the challenges and opportunities for Islamic finance in Canada.

Many people see the current crisis as a possible opportunity for Islamic finance. What do you think?

It's a topic that comes up at every Islamic finance conference at the moment. Islamic finance came about to bring about social justice to society at that point in history, which was 1,400 years ago, and those parameters of social justice still apply today. With a lot of the issues, like being asset-backed, avoiding speculation and short-selling, if these things were practices in the conventional market, a lot of the credit crisis that is occurring today would not have happened. Islamic finance is basically conventional finance mixed with social justice. With the current situation, Islamic finance is being highlighted because of its basic traits of being asset-backed and avoiding speculation, which also avoids short-selling, in terms of its financial products.

How has the current economic situation affected your business in Canada?

We launched our Islamic mortgages in 2005 and obtained a Shari'ah-compliant funding line into our institution from a regulated Canadian financial institution; that funding line, a Mudarabah facility, grew to US\$120 million in less than 18 months. However, after this, we were working on various securitization vehicles and with the credit crisis and the downturn in the market, a few of the institutions we were working with to securitize our assets went bankrupt. So a lot of our growth was curtailed because of the market financial situation at this point; for any conventional bank

board to approve a special product, segment or community is difficult at this stage. We have been working with about 10 Canadian banks and the discussion with some of them is still ongoing, but when there's an economy downturn, it's not the most opportune time to launch niche products into niche markets. We have received approval by an institution to start funding us for US\$20 million a month for Islamic mortgages in Canada that will be launching in the next few months.

You recently launched a real estate fund. Tell us more about that and your hopes for it.

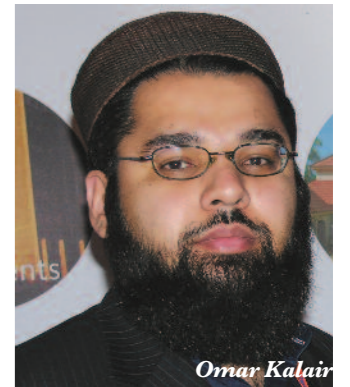
Once we started our Islamic mortgages within the community, in our interaction with the community, we had many investors who wanted to place funds and invest in a Shari'ah-compliant way. If a person's house financing is structured to be Shari'ah compliant, obviously the next request they have is; 'Look, we have this investment, can this also be Shari'ah-compliant?' And so we structured a real estate mortgage fund

where we pool investors' funds together and we finance property, residential and commercial within the community. It's a community fund invested in the community, and it's secure, it's all in mortgage security and it's real estate assets, so it's not really correlated to the real estate market. If the real estate market falls by a third, our security, and our finance to value, is very low.

For the last three years with our investors, we've been giving them an 8% to 9% return and with the recent equity market downturn where a lot of the mutual funds that are equity based are losing 20% to 30%, our investment fund has drawn a lot more attention because of the security and the stable rental income. So it's been very positive. We really haven't marketed an equity fund, but there are a few in Canada that we are looking to market now to our investors to diversify. But our real estate fund has drawn a lot of local attention and we are also getting some uptake overseas in terms of some institutions looking to bring in money to Canada and put it into our structured fund.

What do you think the perception of Islamic finance is in Canada among the general population and do you think it is evolving?

The perception of Islamic finance is still unknown by the majority, not only in the conventional community but also in the Muslim community. With the recent media attention that Islam has gotten, which has largely been negative, there are elements that will connect Islamic finance to be some



Omar Kalair

kind of terrorism finance, etc., but once anyone puts any in-depth study into it, they realize that it is just investment banking to get around the issues of usury.

On the educational front, there have been a few major conferences in Canada which received a lot of press attention highlighting our firm, as we are the main Islamic financial institution here in Canada. We have been profiled on the front page of the business section of the three largest papers, obtaining a lot of exposure to make the market understand. We have been invited to speak on radio shows and television, etc., and there have been media articles put together in local magazines, mortgage journals and banking trade associations.

The educational process is ongoing, but it's still in its infancy. I would compare it to how Islamic finance was in the U.K. market five years ago. But it's slowly being accepted. The main concern that comes out is that if the pricing is at a premium, there is some concern that we are taking advantage. But our goal has always been to bring pricing at par to the marketplace.

What are the issues surrounding the fact that Shari'ah-compliant products often carry a premium price over conventional finance products?

In trying to explain it to a layman, we always use the example of halal meat. Everyone here in North America accepts that the price of halal meat, or even kosher meat, is a little bit more expensive than conventional. They accept that there are Shari'ah scholars involved who monitor it to ensure that it is halal, and there is no concern on that side. So they are willing to pay the premium. Meat can be 10 cents more, but when you calculate a mortgage and it's hundreds of dollars, the pricing point comes into play. When our product initially came out, largely due to economies of scale, we couldn't compete with a US\$300 billion bank in terms of their pricing a mortgage, so our pricing was about 1% higher to market. If someone was getting a quote from a bank for US\$1,200 a month, our quote was US\$1,275 a month. So it wasn't gouging the clients, but it was basically on the economy of scale.

With our new products that will now be coming out in the next few months, the pricing is going to be at par. What we found is that 85% of the complaints from the community on Islamic finance are on the pricing point. In all the marketing surveys that have been done here and even in international markets, the average consumer, if offered Shari'ah-compliant products vs. conventional products, where the pricing features are the same, they will go to the Islamic finance products.

What are the biggest challenges that Islamic finance faces in Canada?

The biggest challenge that we're facing now is that in talking with the conventional banks, there have been some failures in the past that have become a detriment to the growth of Islamic finance. We have had conventional institutions launch products in the Canadian market targeted to the Muslim community, but they failed. This is mainly a lack of experience and knowledge of the community.

For example, Royal Bank of Canada, which is the largest bank right now in Canada, launched an Islamic term deposit investment account back in 2004. They were doing a lot of private investments from the overseas market and they wanted at the same time to retail something here in the Canadian market. They had a Shari'ah finance department for Islamic finance and they had a top-tier Shari'ah board, and they were marketing it directly to the clients and advertising in major newspapers and the 1,000 branches across Canada. In the end, that investment failed. Nobody bought into it. They didn't really tap into any focus groups or community scholars. I believe it was ahead of its time. That exact same product has come out in the U.K. through Alburaq. But when you have one of the largest banks come out with an Islamic product for a segment market, and it fails, and it fails so badly, this creates concerns for any Islamic institution that comes after the fact. Dynamic Mutual Fund had an Islamic fund for about six years with US\$6 million, and it also failed. HSBC and Amanah in New York opened up a product back in 2005. They didn't reach their goals and objectives and they also shut down.

At this point in North America, when you have conventional institutions trying to tap into the Islamic market, there have been more failures than success. The successes have been community-based organizations, like Guidance Financial, which was set up by a Syrian family, doing over US\$1 billion in the U.S. in Islamic mortgages; you have Amanah Mutual Funds, which have done close to US\$1 billion in Islamic investments – again, a community-based organization. You have our success here in Canada.

The conventional institutions have come to understand that if they want to tap into the community, they have to use a third party. This is where I educate people. At one point, we had eight regional offices. I would train a branch manager to explain to a Muslim client in 20 minutes how a mortgage was Islamic. However, if that client went to a conventional bank, that level of expertise wasn't there. Having that community connection is integral to launching Islamic

finance in many Western countries. The past failures do create concerns for some of the institutions we've been talking to.

What are the biggest opportunities facing Islamic finance in Canada?

The opportunities are huge because the Muslim population in Canada is about 1 million at the moment and in the last three decades, it's been doubling every 10 years. The majority of the immigrants coming to Canada are Muslims. It's a growing market, a growing segment that can be tapped into. The Islamic mortgage market in the U.K. is hitting at about US\$10 billion, in the U.S., it's hitting at about US\$2 billion, largely funded by Freddie Mac and Fannie Mae. Here in Canada, besides our firm at US\$120 million in mortgages, there is really no one else in the market.

At the moment, we have a registered client base of 6,000 clients who have signed up with us and want to switch from a conventional mortgage to an Islamic mortgage. The average mortgage here in Canada is about US\$200,000, so 6,000 times US\$200,000 is a \$1.2 billion market that we can bring in. These are the ideas we share with the conventional institutions that we are speaking with. The opportunity is tremendous: By 2017, 4.9% of Canada will be of the Muslim faith and there will be a population of 1.7 million. You can quantify them as largely high net worth individuals, professionals who need a house mortgage, who do significant investment, so the opportunities are aligned.

At the moment, there haven't been any retail financial products in Canada. In talking with the regulators, they stated that in the U.K., they went through 10 years of HSBC and conventional institutions offering Islamic products through Islamic windows, and then you got an Islamic bank. We haven't gone through that cycle here in Canada, where we have had conventional institutions offering Islamic services, and the next growth of Islamic finance will be on that platform. We have worked with some institutions in designing products and white labeling our UM investment and mortgage products for them. So we're encouraging that process.

What are your future plans for UM Financial?

At the moment, we have US\$120 million in Islamic mortgages given to us by a Canadian regulated financial institution, Central 1 Credit Union. We are working with them to increase that to tap into the amount of clients who have registered with us. We have a real estate mortgage fund that's sitting close to US\$10 million investing in



residential and commercial, and we've designed Islamic financial products for conventional institutions. Through our five years of existence, we have structured an Islamic mortgage fund that works within the Canadian environment and an Islamic deposit product that works in the Canadian environment. We've shared these two products with the institutions that we're talking to. This summer, we have three things on our table. We are launching an Islamic credit card similar to a card introduced in the U.K., following that model. We're working with a few insurance companies to launch an Islamic Takaful insurance product for home and auto, and we're working with the regulators to do a submission for a Canadian bank application license. Over the last few years, I have been invited to various conferences as a speaker in Malaysia, Hong Kong, the U.A.E., Russia, Turkey, the U.K. and the U.S., which has allowed us to review the growth in these markets and learn to best develop the growth of our own industry.

What do you think Islamic finance worldwide can learn from the economic situation? What can it teach?

The credit crisis, in my view, was largely due to greed, speculation and lack of controls that were in place, and the traits of Islamic finance being asset-backed, avoiding speculation, avoiding short selling these traits allow a financial society to be protected against some of the recent occurrences. Even in terms of equity stock monitoring, there are debt ratios that have been set up to filter out investments. For example, with the Dow Jones Islamic indexes, companies like Enron and WorldCom were delisted from the Islamic index months before they went bankrupt, because their debt ratios rose far beyond the criteria that were set by Shari'ah scholars. Islamic finance will always have that social justice platform automatically within any Islamic financial institution, and with a Shari'ah advisory board, issues such as greed and pure profit motives are brought down.