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Banking: Islam waits

As Ottawa mulls licences for Islamic-focused banks, is Canada falling behind?

By [Jeff Sanford](#) 

As the Anglo-Saxon ex-masters of the financial universe struggle to emerge from a perfect storm of bad loans, bad bets and a deep recession, an alternative approach to business transactions is having a moment in the sun: Islamic finance, based on teachings from the Qur'an.

Some governments, including the United Kingdom and Japan, have begun trying to tap into money from the Middle East by floating debt as *sukuk*, or Shariah-compliant bonds. At the retail level, Islamic mortgages and other banking products — based on a no-interest equity-pool form of finance — are becoming more popular. Here in Canada, Standard & Poor's recently set up a Shariah-compliant index that has already led to the proposed creation of the first Islamic ETF in this country.

But as the Islamic finance movement begins to get off the ground, a tug-of-war about how fast this new religious economy should emerge has broken out among those hoping to be players in this market.

The federal government declines to say how many applications it has received from organizations hoping to be the first Canadian institution to set up a licensed Islamic-focused bank in this country. But observers estimate there are about half a dozen applications sitting with the Department of Finance, and some of those asking for consideration are getting impatient with the time it has taken the government to come up with a yes or no.

Steve Watt, a partner with KPMG in Toronto, is involved with one of the applications. (KPMG is also handling another.) He says he's worried Canada is falling behind other countries in its development of this sector. He points to London, which has decided to be proactive in developing that city as a "centre of excellence" in Islamic finance. "This is the next big shift in retail banking for the Muslim community. Looking to the future, this is going to be great for banks," says Watt. "What are we waiting for? If this is being done in the rest of the Commonwealth, why can't it be done here? Why can't the laws of Canada accommodate this?" A conventional application usually takes up to 12 months; the Islamic applications have been sitting with the government for two to three years.

Watt points out that Islamic finance is one of the fastest-growing sectors in financial services. Authorities have done background checks around the applications; the backing of KPMG helps to ensure the commercial accounting on the applications is up to par. And anyway, despite what some critics argue, the products offered under the Islamic finance banner are not all that unconventional; the techniques used in Islamic finance are the same as or similar to some used at credit unions, in private equity and in venture capital.

Watt argues that the bureaucratic delays are leaving the sector under-regulated. “Mainstream Canadians are protected, but regulation is non-existent in this sector,” he says. “This is about taking something that is currently unregulated and bringing it into the mainstream. We want to show Canadians that they are represented under the regulatory system of Canada.”

Interestingly, the proposals were submitted for approval to the Office of the Superintendent of Financial Institutions, as is typical in such filings. But all the applications were subsequently punted to Finance. What might have held up the approval process? ...

And others in the Islamic finance sector suggest there is no rush to hand out a banking licence. Among them is Omar Kalair, the president and CEO of UM Financial Inc., a company that offers Islamic mortgages and is proposing a new Islamic ETF. UM Financial doesn't have a banking licence. It offers its services through an agreement with an existing financial services company, Central 1 Credit Union, which provides capital to UM. That and partnerships with other companies allow it to offer a limited number of mortgages as well as a couple of other services, like insurance, and, more recently, a “prepaid”(interest free) Islamic credit card. But as one of the first movers in this space in Canada, Kalair would like to see more development of the market first, before a stand-alone bank is approved. “The market is not yet ready for this,” he says. “The fact that the big Canadian banks are not yet offering these services suggests that.” Kalair assumes the applications with Finance are mainly offshore Mideast groups hoping to set up shop here.

Nevertheless, the rest of the world is moving quickly. According to a report by Stikeman Elliott LLP, the sector has grown by between 20% and 30% a year since 2001. Watt wants to see Canada catch up to the U.K., which speeded the approval process in Islamic finance on the principle of “no obstacles, but no special favours.” That is, the government won't stand in the way of the sector just because the word “Islamic” is attached. If the products fit into existing regulations, then banks will get a licence.

Watt calls this an enlightened, rational approach that meshes with western traditions of free markets and religious freedom. The idea that technically sound applications would be held up on any other concern would be to undermine western values. “The bureaucrats can't have their heads in the sand on this. The applicants are making a business case here — nothing more,” says Watt. “They don't want any special favours. They just want this considered.”

Those in the world of Islamic finance believe that now is the time to strike. One of the key developments in western finance leading to the current meltdown was the 25-year expansion in consumer credit. Deregulation, the rise of the offshore-shadow banking system, cultural attitudes toward debt — all led to a sharp rise in the

amount of debt held by each individual. But as formerly non-creditworthy people were offered mortgages, demand in the economy was artificially expanded as well. That worked like a charm for a while — home prices skyrocketed, the auto industry continued to sell cars at a rapid pace, corporate earnings advanced — but once the credit bubble began to deflate, crisis quickly followed.

Proponents of Islamic finance argue that had its principles been followed, the big crash would have been avoided. Not only are profits from pornography and alcohol banned, but so too are unstable debt levels. That is an idea that may find favour with many in the West, especially in the wake of the recent meltdown. Watt suggests that even non-Muslim Canadians, recognizing the advantages, might at some point hope to access these services, just as some non-Muslim Canadians choose to eat halal. “You don’t have to be Muslim to enjoy the benefits. How many Canadians might want that — invest ethically in a system that isn’t debt-based?” asks Watt.

That possibility might soon be tested in the real world. The federal Department of Finance has confirmed that it recently finished its assessments and sent the applications back to OSFI for normal processing.

[Jeff Sanford](#) has worked as a business journalist since graduating from Ryerson University in 1999. He has held staff positions at *National Post Business* magazine and *Investment Executive*, a bi-weekly newspaper for financial advisors. [More stories by this author >>](#)

OMNI TV Interview. View online at:



<http://ontario.omnionews.ca/videoplayer.php?language=1>

(Go to the 18th minute. Available for 24 hours after it can be viewed at www.UMFinancial.com)

<http://www.theglobeandmail.com/report-on-business/firms-plan-to-launch-sharia-etf/article1159088/>

From Friday's **Globe and Mail**, Friday, May. 29, 2009 07:15AM EDT

Sharia ETF poised for launch

Proposed ETF from Islamic firm UM Financial and Jovian Capital could be a Canadian first

Shirley Won FUNDS REPORTER

Islamic financial services company UM Financial Inc. has teamed up with Jovian Capital Corp. ([JOV-T](#)) in a bid to list Canada's first *sharia*-compliant exchange-traded fund (ETF).

On Wednesday, Standard & Poor's launched the S&P/TSX 60 Shariah Index. In compliance with Islamic law, the index avoids firms involved in financial services, alcohol, gambling and pork products.

The proposed product from UM and Jovian would be based on the S&P/TSX 60 Shariah Index so the two firms are in discussions with Standard & Poor's to get a licence for the new index to start the Islamic ETF later this year. Eventually, "the goal is to launch a family of ETFs," UM chief executive officer Omar Kalair said yesterday.

The *sharia* ETF would target Canada's Muslim population (which numbers about one million), as well as foreign investors, Mr. Kalair said in an interview.

Jovian's BetaPro Management unit is a provider of leveraged and other ETFs, while its AphaPro Management unit has actively managed ETFs. "Any product launched would come from BetaPro," Mr. Kalair said.

In recent years, *sharia*-compliant ETFs have popped up in various countries including Britain, India, Singapore, Dubai, Malaysia and South Africa. In March, a *sharia* gold ETF was launched in Dubai.

Barclays Canada, which administers the iShares ETFs and is the largest ETF provider in the country, "has no plans to go down this route," said Oliver McMahon, its director of product development. "It's not in our existing product pipeline."

Jasmit Bhandal, a spokeswoman for Standard & Poor's in Canada, said there have been talks with ETF, mutual fund and structured products providers for use of the S&P/TSX 60 Shariah Index, but nothing is final. But a licence with an ETF provider is typically an exclusive one, she said.

A couple of *sharia*-compliant mutual funds are sold in Canada, but both have less than \$2-million in assets.

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Mint Technology Corp.

TSX VENTURE: [MIT](#)



May 14, 2009 13:55 ET

Mint Technology Signs Contract With UM Financial Group to Launch Prepaid Card to the Muslim Community in Canada

TORONTO, ONTARIO--(Marketwire - May 14, 2009) -

NOT FOR DISTRIBUTION TO U.S. NEWS WIRE SERVICES OR FOR DISSEMINATION IN THE U.S.

Mint Technology Corp. ("Mint" or the "Company") (TSX VENTURE:MIT) today announced the Company has signed a contract with UM Financial Group, Canada's premier Islamic Financial institution and the only Canadian entry on The Banker magazine's Top 500 Islamic Financial Institutions.

UM Financial Group is a Toronto-based, Islamic finance institution, founded by Omar Kalair in 2004, when it secured a \$120 USD million Shari'ah compliant investment facility from a regulated Canadian financial institution 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 with a real estate brokerage.

Mint will provide UM Financial Group branded prepaid cards targeted at Canada's Muslim population. Potential customers will apply for the cards on line and at community events.

Chris Hogg, President and CEO of Mint, commented, "This latest contract with UM Financial Group, a leading Canadian financial institution, shows that Mint's product is relevant to a number of different communities with specific financial services needs."

"Partnering with UM Financial Group offers us an enormous opportunity to tap into a niche market because the Muslim population in Canada is currently approximately one million and in the last 3 decades has been doubling every 10 years. The majority of immigrants coming to Canada classified by religion are Muslims, and Islamic finance is a growing segment that can be tapped into."

"We now have our two prepaid payroll contracts in Dubai, in addition to several retail contracts in Canada, and a contract in the UK, which clearly demonstrates the increasing global need for a prepaid card in addition to Mint's ability to secure new business during a difficult economic time in financial services," added Mr. Hogg.

Omar Kalair, CEO of UM Financial Group, concluded, "Credit card debt can be lethal for the financial stability of ordinary individuals and families. Canadians will now be able to adopt the responsible, interest-free lifestyle UM Financial promotes, by living within their means and not ever having to worry about high credit card interest rates while enjoying the convenience and security offered by MasterCard®. With credit markets tightening, the majority of new credit card applications are denied. By working with Mint and its 99% approval rate, we feel our card is well-positioned to serve the day to day needs of Canadians specifically Muslim and immigrant communities."

ABOUT MINT TECHNOLOGY CORP.

Mint Technology Corp. ("Mint") is a pioneer in prepaid financial products and services and is Canada's first provider of prepaid credit card programs. As a MasterCard® Member Service Provider, Mint works with

business partners to customize prepaid credit card programs that are tailored to meet a company and its card holder's needs. Mint has developed a secure, robust payments platform that provides an improved means to handle and manage financial transactions. Mint also provides services for those clients looking to move towards 'next generation' payment methods that include chip, internet, data mining and mobile phone load and remittance technologies. Mint's prepaid card products include general spend for the underserved, youth and employee payroll. Stock Symbol: MIT, TSX-V.

To receive Company news via email, contact lindsay@chfir.com and mention "Mint news" on the subject line.

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