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Stability during financial crisis lends momentum to Islamic banks

Despite past failures said Islamic finance has strong potential to become more prominent in the Canadian market

By: Megan Harman | June 29, 2010 | 14:44

Megan Harman
Islamic banking institutions have weathered the global financial crisis better than their conventional counterparts and are rapidly gaining momentum worldwide, but the sector in Canada continues to face considerable headwinds, a panel of experts said on Monday.

At an Islamic finance conference in Toronto on Monday, speakers commended the impressive performance of Islamic financial institutions and investment products during the financial crisis.

“Islamic banks have been more resilient,” said Shahzad Siddiqui, a Toronto-based author and lawyer with expertise in Islamic finance.

The speakers partly attributed the resilience of the sector to the fact that Islamic banking institutions – as part of their compliance with Shariah law — avoid high levels of leverage and risk, and avoid engaging in speculation. As a result, these institutions have a higher level of stability than many conventional financial firms.

Shariah-compliant investment products also avoid these riskier practices, and as a result, are often less volatile than conventional products. These stable features have helped these types of products gain popularity – among Muslim investors and non-Muslims alike – during the volatile market environment of recent years.

As an example, two Shariah-compliant mutual funds operated by Washington-based Amana Mutual Funds Trust have seen their assets under management surge in recent years to US$2.8 billion. Even though the funds are designed to be compliant with the principles of Islamic faith, only a small proportion of their investors are Muslim, according to Stephen Ranzini, president and CEO of

Michigan-based University Bank, which has an Islamic banking subsidiary.

"The results were so compelling that the business found them, and so today, 90% of the customers are non-Muslim," he said.

The panelists noted that Shariah-compliant mutual funds in Canada have not generated this level of interest, and as a result, many efforts to launch these types of products have failed. Ranzini said that in order to be successful, it's critical for Shariah-compliant products to have appeal among the broader population – not just the Muslim population.

Courting Islamic finance

"You have to have a product that's fundamentally profitable, and good," he said.

In addition, he noted that these types of products tend to take time to become profitable, and as a result, require very patient capital.

"You have to have the patient capital behind the product, because this is not going to turn [a profit] in a year or two, or five," Ranzini said.

He suggested that past failures of Shariah-compliant products in the Canadian market may have resulted from firms failing to provide a sufficient period of time for the products to generate assets.

Other challenges for the Islamic finance sector in Canada include a lack of standards and regulatory oversight; and a lack of education among investors and industry members, the panelists said.

They called for the financial services industry to make Islamic finance education and training more accessible to employees.

"Education is extremely important," said Ayse Yuce, a professor of finance at Ryerson University.

Despite these hurdles, the panelists said Islamic finance has strong potential to become more prominent in the Canadian market.

"On the retail side, with the Muslim community doubling every 10 years, we see a sizeable market," said Omar Kalair, president and CEO of UM Financial, a Toronto-based firm specializing in Islamic finance. He expects to see a growing number of Shariah-compliant financial product offerings in the years ahead.