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## **No-interest MasterCard aims at devout Muslims**

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Omar Kalair is the president of UM Financial, which is test driving a new interest-free credit card that is designed to adhere to Sharia law. (April 12, 2010)

RENE JOHNSTON/TORONTO STAR

Zero interest and faith are not words one commonly associates with credit cards.

They do have a place in discussions about the iFreedom Plus MasterCard, tailored to meet the religious requirements of Canada's Islamic community and recently launched by Toronto company UM Financial.

"There are clients in the market looking for structured products that are compliant," from credit cards to mortgages, said Omar Kalair, president and chief executive officer. UM Financial plans to market the card to all Canadians.

The card meets the requirements of Sharia law, which prohibits usury, by being prepaid and therefore interest free, said Kalair.

"Trade is permitted, but usury is forbidden," he explained.

Kalair, whose company has tried to offer Sharia compliant mortgages in the past, sees the card as a way to highlight an untapped segment of the Canadian population seeking financial offerings tailored to meet the requirements of their faith.

He estimates there are roughly one million people who identify as Muslim in Canada. According to census data 579,000 people in Canada identified as Muslim in 2001. The next count won't be published until 2012.

About 100 people are testing the card, which can hold up to \$6,000 and 10,000 will be made available to the general public this month. Activating the card for two years costs \$50. Benefits include no monthly fee, no transaction fees, one per cent cash back on purchases of more than \$100, and discounts on flights with Etihad Airways.

Kalair said it is common for new immigrants from Middle Eastern or African countries to ask him if Canadian banks offer Sharia-compliant products. They do not, he said.

UM Financial launched a Sharia compliant mortgage in 2005 through a funding partnership with the Credit Union Central of Ontario. The project started in 2005 and ran until 2007, with a funding line of \$120 million. After the credit crisis hit they were not allowed to take on new clients, Kalair said.

Kalair said 6,000 of his company's clients are seeking a compliant mortgage and UM Financial is in active talks with Canadian financial institutions and hope to have a product available by 2010.

"They do see it as a potential market...it is just a matter of timing," said Kalair, adding four out of the big five banks sent representatives to a recent conference focusing on Islamic finance in Canada. Kalair was among the key organizers.

At least one major Canadian bank has attempted to offer Sharia complaint products.

RBC tried unsuccessfully to launch a Sharia-compliant equity-linked note investment product a few years ago, said Kalair.

"When you have one of the leading banks try to go after a niche market and they fail it becomes a detriment for others institutions looking at it."

Kalair said the market for investment products is small, compared to the need for financing products, but a holistic approach is the best way to generate appeal.

"If you go to 10,000 clients who have an Islamic mortgage they will be more receptive to do Islamic investments," he said.

Walid Hejazi, an associate professor of international business with the Joseph L. Rotman School of Management at the University of Toronto, said there is confusion about Islamic finance.

The products are “just a financial instrument with a different set of characteristics,” said Hejazi. There is a huge demand for compliant mortgage products, he said.

Canadian banks have lagged in tapping into this potential client pool “because we are a small protective market,” he said.

“As long as it is compliant with the bank act there should be no problem at all offering those financial services.”

Hejazi said that because Canada is slipping when it comes to foreign investment and the banks should be more open to Islamic finance to fill the deficit.

Building demand takes several years and US institutions have taken up to ten years to break even on similar instruments, said Hejazi.

“It requires that the financial institutions not just try it once and walk away,” he said.

The demand dimensions for Islamic finance products in the Canadian market are becoming a bit clearer, said Dany H. Assaf, a partner at Bennett Jones LLP.

“The reality is like any development of a new market segment; it is evolutionary and it is driven by the need to meet demand and to respond to competition.”

Assaf described the market as ripened, and said he believes the market is waiting for one major player to move and will follow suit.

Some Islamic financial projects were shelved when the economic downturn hit and people chose to focus on securing their core offerings, he said.

“The storm has largely past it appears and I think people are going to get back to their original plans,” said Assaf. “You are going to see more movement on these offerings.”

## **How the iFreedom MasterCard works**

- Customer applies for a card and pays a \$50 activation fee, repayable every 2 years.
- Before using, the card owner must transfer money to the card - up to \$6,000. The cardholder has three options: pre-authorized debit from an existing Canadian bank account, where the cardholder defines the amount to be added to the card; electronic bill payment similar to paying a bill with online banking; or the user can load the card with an existing Visa or MasterCard.
- When card owner makes a purchase, transaction is paid from the balance on the card. Card can't carry a negative balance.

- The card can be reloaded by transferring additional funds, like a Starbucks or Tim Horton's card.
  - As a MasterCard, it can be used wherever credit cards are accepted, including foreign countries or for online purchases. Bank debit cards don't always work in these circumstances.
  - Other benefits include no monthly fees, no interest, 1% cash back on purchases over \$100 and discounts on Etihad Airways flights.
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