



A record year for the UK's Islamic finance



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The UK's Islamic finance sector continued to grow in 2018 despite the economic uncertainty posed by the lack of a trade deal with the European Union in the aftermath of Brexit vote. The country witnessed its largest ever corporate Sukuk issuance and the launch of several new initiatives such as the Islamic Fintech Panel and the iE5 Islamic economy accelerator which encourage the growth and success of start-ups such as Insure Halal which in 2018 launched the country's first Takaful product for building and contents home insurance. Additionally, the industry is supported by improving local demand for Islamic banking and government supported initiatives such as a Shariah compliant liquidity tool for UK Islamic financial institutions.

Review of 2018

The highlight of the year was the record breaking corporate Sukuk issuance by the country's largest Islamic bank, Al-Rayan Bank which successfully raised GBP250 million (US\$319.45 million) via a residential mortgage-backed securitization Sukuk. The Sukuk would help fund the banks ongoing efforts to expand into commercial real estate, private banking and small business financing. Rating agency Moody's assigned an 'A' rating to the Sukuk which would consist of a portfolio of first lien Home Purchase Plans secured by residential properties.

Islamic fintechs continued to grow with Yielders, the first FCA registered Islamic crowd investing platform completed a pre-Series A investment round as it plans to expand in selective European markets. Fintech IslamicBanker rebranded to IslamicMarkets.com with an expanded offering of Islamic finance and training solutions to broader range Islamic economy. Startup Ummah Finance also rebranded to MoneeMint from Ummah Finance repositioning itself as an 'ethical' digital banking and announced a undisclosed amount of funding from a strategic investor enabling it to launch in early 2019.

In addition to the launch of the Islamic Fintech Panel, an Islamic economy accelerator, iE5 was formed to support the growth of companies operating in the Islamic market either based in the UK

or desiring a presence in the UK. The accelerator is being supported by several prominent organizations and is committed to supporting early stage companies with access to multi-disciplinary professional services provided by partner firms at lower than market cost as well as work space, education and business development support.

Preview of 2019

Outlook for sector remains strong as Brexit appears to be having little impact on dethroning the UK or London in particular as the western centre for Islamic finance. We can expect more activity in the UK Sukuk market which on the heels of the Al-Rayan corporate issuance will be able to attract more capital. This was highlighted by the statement of Dr Bandar M H Hajjar, the president of the IDB at the London Sukuk Summit: "We have a real opportunity to recognize the potential of Islamic finance here in the UK. Both the UK government and the IDB are actively promoting this objective." Considering Jeddah-based IDB has capital of US\$33 billion, it could definitely help support Islamic project funding in the UK.

The Takaful sector in the UK is also expected to get a much needed boost in 2019 as the Islamic Insurance Association of London (IIAL) is seeking Shariah scholars approval for London's standards for transaction of Islamic commercial insurance to be rolled out coinciding with the UK's departure from the EU on the 29th March. IIAL which counts Lloyd's of London as a founding member, is seeking both legal and Shariah advice on the standards framework it has developed with London market associations.

The Bank of England's (BoE) plans for the launch of a Shariah compliant facility to support the UK's Islamic finance sector under a new BoE subsidiary named the 'Alternative Liquidity Facility' will offer non-interest-based source of liquidity. This will be the first such facility offered by a major western central bank and improve access to capital for the UK's Islamic financial institutions.

Conclusion

Resilience of Islamic finance will be tested over the coming year as Brexit is undoubtedly going to be disruptive to the UK economy. However, given the sector growing from strength to strength in 2018 and continued innovation and government support, Islamic finance in the UK is expected to survive Brexit without any significant slowdown. Additional Sukuk offerings, improved liquidity and potential digital bank offering will keep the UK Islamic finance sector an interesting marketplace for industry observers worldwide. ☺