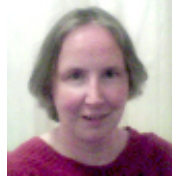


Investing in Islam: The practicalities and difficulties of making the UK a centre of Islamic finance

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Last month, the World Islamic Economic Forum took place in London. It was the first time it has been held outside the Muslim majority world and the coalition government chose the occasion to renew emphasis on making the UK a centre of Islamic finance. **Elaine Housby** explores recent political developments and the practicalities of creating conditions favourable to Islamic financial structures.



On 28th October the *Financial Times* published an [article](#) written, or at least signed, by Chancellor George Osborne setting out his desire for this country to become ‘the unrivalled western centre’ for Islamic finance. He announced the UK government planned to launch a £200 million issuance of *sukuk*, the Islamic bond-like instrument.

This statement was timed to coincide with the 9th World Islamic Economic Forum being held in London, the first time it has ever taken place outside the Muslim majority world. Osborne naturally endeavoured to give the impression that making the UK a centre of Islamic finance was entirely an initiative of the present government. In fact he is merely continuing the policy of his Labour predecessors. In June 2006 Gordon Brown, then Chancellor, made a speech to the Islamic Finance and Trade Conference vowing to make London a ‘[gateway](#)’ for Islamic finance and a leading centre of investment from Muslim majority countries. The following year Ed Balls, then Economic Secretary to the Treasury, was quoted at the beginning of a consultation report on the topic to the effect that ‘we are determined to do everything we can to deliver greater opportunities for British Muslims – and also to entrench London as a leading centre for Islamic finance in the world’.

London is indeed already the premier centre of Islamic finance outside the Muslim world, in part because it is one of the world’s most important financial centres and in part because successive governments have introduced legislative changes to remove obstacles to the use of Islamic products, particularly where their structure would previously have incurred heavier taxation than conventional products.

Islamic teaching on financial matters prohibits the payment or receipt of bank interest. The original Arabic term for interest is *riba*, which can be most accurately translated into English as ‘usury’, a word which also conveys a sense of religious disapproval. Islamic practice usually prefers a sale contract to merely moving around money that is not attached to anything. This is because trade is legitimate in Islamic thinking, while money lending is not. The majority of Islamic financial structures therefore generate profit by buying and selling assets rather than paying interest. In the present day fiscal regime of the UK this can create multiple liabilities to the payment of stamp duty, a tax on property transactions. Successive governments have sought to remove this multiple liability from a range of Islamic financial products by legislative means, in order to create that much desired cliché, ‘a level playing field’. In practice the line between equal and preferential treatment can be very fine.

The word *sukuk* is the plural of the Arabic *sakk* (incidentally cognate with the English word ‘cheque’, which has a similar meaning of a written conveyance of money) but is now usually used in English as though it were a singular noun. The details of the various permissible structures for *sukuk* are too complex to describe in full here. The essential point is that rather than being a bond paying a fixed rate of interest, a ‘bond-like’ *sukuk* certificate pays a return in the form of rent for the use of an asset. The investors buy a share in the ownership of a property which has been transferred into a special purpose vehicle and are then entitled to this rent for its use. When the *sukuk* is terminated the ownership is sold back. Islamic scholars insist that the transfer of the asset must be genuine and that the re-purchase must not be guaranteed, as a theoretical risk of loss is necessary to avoid the profit being fixed and guaranteed, or in other words indistinguishable from interest.

The Labour government began consultation into *sukuk* issuance in 2007 but then in 2008 announced that it had decided not to proceed. This was due partly to the general banking crisis which began in that year and partly to widely publicised doubts about the legitimacy of the most popular *sukuk* structures expressed by some prominent scholars around that time. The practicalities also seem to have presented some difficulties. If the UK government were to go ahead with a *sukuk* issuance it would be necessary to identify a large piece of government owned property suitable for use as the rentable asset. There is a clear conflict between the public interest in having certainty of the property's return and the scholars' insistence that such a guarantee would render the issuance non-compliant with *shari'a*.

It goes almost without saying that the main attraction of promoting Islamic finance in the UK is the possibility that it may bring in large scale investment from the oil states. Serving the British Muslim community is an added benefit, but the British Muslim community on its own cannot sustain the industry. Surveys suggest that only a small proportion of Muslim heritage residents of the UK care deeply that their banking arrangements are compliant with *shari'a*. HSBC, the first major entrant to the UK market, closed down all its Islamic operations in the UK in 2012. The Islamic Bank of Britain is still operating and recently claimed a significant increase in its deposits, though that may be as a result of the transfer of accounts from HSBC. It still does not make a profit; it is owned and funded by Gulf investors, mostly Qatari.

There is an obvious contradiction between the Chancellor's stated desire to be 'open to the world' for investment purposes and his government's commitment to being a country increasingly closed to immigration. A cynical interpretation would be that the government, and possibly the British people as a whole, would like to have the money of wealthy overseas investors without being troubled by their presence in person. Let the money immigrate on its own. The technology of the modern financial services industry has made this entirely possible.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

About the Author

Elaine Housby has a Masters degree in Politics and Sociology from Birkbeck College, London, a Masters degree in Modern Middle East Studies from St Anthony's College, Oxford and a PhD from the Open University for a thesis in the field of Religious Studies. She is the author of *Islamic Financial Services in the UK* and *Islamic and Ethical Finance in the UK*, both published by Edinburgh University Press.