



Outlook for consumer banking in the UK and Europe

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The World Islamic Banking Conference

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ABC International Bank plc

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Introduction

ABC International Bank plc, London

- Subsidiary of the Arab Banking Corporation, Bahrain
- ABC Group includes ABC Islamic Bank, Bahrain
- Islamic Asset Management Team, London
-

Real estate finance and investment
Leasing
Structured finance
alburaq



Introduction

- **alburaq - Specialists in Islamic retail banking products**
 - Home finance, buy-to-let (in partnership with Bank of Ireland)
 - Commercial property finance
- **Property service for Non-UK residents**
 - Acquisition finance
 - Assistance
 - Tax guidance
 - Finding property
 - Managing property
- **Capital protected savings account**
 - 5 year deposit with the return linked to the performance of Shariah permissible shares





Presentation Summary

- Muslims in the UK
- Products and providers
- The Government and the FSA's role
- Lessons of the past 10 years



Muslims in the UK

- Population approaching 2 million
- 45% live in London and the South-East
- Ethnic origins
 - 43% Pakistani
 - 17% Bangladeshi
 - 9% Indian
 - 31% others

» *Census 2001*



Muslims in the UK

- **Comparatively young population**
 - Average age 28
 - 9 in 10 under 65
 - 34% under 16 years of age
- **Most interested**
 - 2nd generation
 - Born in the UK
 - Professional careers
 - Both male and female



Muslims in the UK

- **411,000 households**

- 183,386 in rented accommodation
 - » 73,034 Council
 - » 41,329 other
 - » 69,023 privately rented
- 211,591 home owners
 - » 74,891 outright
 - » 133,912 mortgage
 - » 2,788 shared ownership
- 16,438 living rent free

- **130,000 Muslim owned SMEs**



Islamic Retail Banking in UK Market Preference



Retail products

- Home finance
- Commercial property finance
- Savings plans
- Child Trust Fund
- Current accounts
- Consumer finance
- Takafol



Retail products/providers

- | | | |
|--|-------|--------|
| • Albaraka (mortgages) | early | 1980's |
| • Halal savings / Takafol Co | early | 1990's |
| • United Bank of Kuwait (AUB) (mortgages) | | 1996 |
| • HSBC (mortgages, current a/c) | | 2003 |
| • ABC International Bank (<i>alburaq</i>) (mortgages) | | 2004 |
| • Islamic Bank of Britain (retail banking) | | 2004 |
| • Ansar Finance (community focused NFP) | | 2004 |
| • RBS / Bank of Ireland (commercial property) | | 2004 |
| • LloydsTSB (current a/c) | | 2005 |
| • Children's Mutual (Child Trust Fund) | | 2005 |
| • United National Bank (mortgages, Scotland) | | 2005 |
| • Principle Insurance Holdings (Takafol) | | 2008 |
| • ABC International Bank (<i>alburaq</i>) (savings plan) | | 2008 |



FSA-authorized Islamic institutions

- Islamic Bank of Britain
- European Islamic Investment Bank
- Bank of London and the Middle East
- European Finance House
- Gatehouse plc
- Principle Insurance Holdings – Salaam Insurance
- **Pending**
 - Barwa Capital UK
 - Dar Capital UK



Government support

- 1997 Labour Government in power
- 1999 Sir Eddie George - Working Group
- 2003 Finance Act – Stamp Duty
- 2005 Islamic Bank of Britain authorised
- 2007 FSA regulation of HPP's
- 2007 Review for UK Sukuk
- 2008 Legislation to aid Sukuk issuance



March 2007

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We produce a range of user-friendly factsheets and booklets which are available from our website and helpline.

If after reading this booklet you have any general queries our helpline will try to clarify things for you.

We can tell you if a firm is authorised and help you if you have a complaint and don't know who to contact. But as the regulator, we can't recommend firms or advisers, or tell you whether a particular product or investment is right for you.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone 08457 300 104 (call rates may vary). [translations available]

To help us maintain and improve our service, we may record or monitor calls.

Financial Services Authority



Home purchase plans



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Use the site to:

- check a firm or person is authorised by the FSA, or is the agent of an authorised firm. If they are not authorised you will not have access to complaints procedures and compensation schemes if things go wrong;
- order any of our wide range of consumer publications;
- report any misleading financial advertising;
- see explanations of financial products in plain English;
- read news articles about firms and products.

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This factsheet is for you if you want to buy your home in a way:

- that doesn't involve the payment of interest; and
- that a number of Islamic scholars consider acceptable.

It explains:

- what home purchase plans are;
- how they work; and
- some things to consider, including some of the risks involved.



How do home purchase plans work?

Home purchase plans work in the following way:

Stage 1: You find the property you want to buy and agree the purchase price with the seller in the normal way.

Stage 2: You pay the home purchase plan firm a contribution towards the purchase price.

Stage 3: The firm buys the property in its name.

Stage 4: You enter into an agreement to buy the property from the firm at the end of a fixed period (known as 'the term') at the same price as the purchase price paid by the firm.

Stage 5: At the same time that you enter into the agreement with the firm to buy the property, you also take out a lease with the firm allowing you to occupy the property during that fixed period.

Stage 6: You make monthly payments to the firm. It is made up of a rental payment and a payment towards the purchase price of the property.

Stage 7: Once all purchase payments have been made to the firm, the property is transferred into your name and becomes legally yours.

There are two types of home purchase plan currently available – the Ijara and the Diminishing Musharaka.

1. The Ijara

Under the Ijara, the monthly payments you make towards buying the property are not used to buy the property until the end of the agreement. They are held on account towards the purchase price.

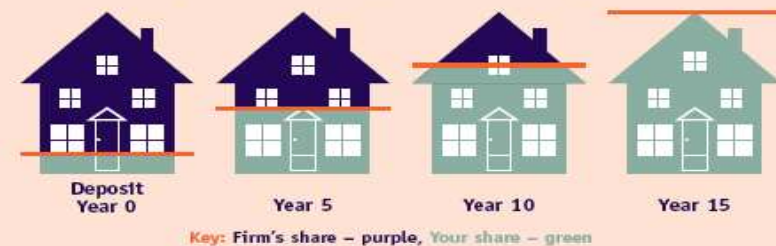
2. The Diminishing Musharaka

Under the Diminishing Musharaka, each payment you make towards buying the property buys a slice of the firm's share. So the firm's share in the property gets smaller while your share increases. As your share in the property increases, so the rent you pay for the use of the firm's share will get smaller.

1. Ijara home purchase plan – 15 year term



2. Diminishing Musharaka home purchase plan – 15 year term



Ask the firm for full details of their home purchase plans to make sure you understand how they work. You can then choose which is best for you.



key facts

about our Islamic home purchase plan services



1. The Financial Services Authority

The FSA is the independent watchdog that regulates financial services. It requires us to give you this document. Use this information to decide if our services are right for you.

2. Compliance with Islamic law

Our services are regularly checked by alburaq's Shariah Advisory Board, which consists of Sheikh Nizam Yaquby, Mufti Baratullah and Mufti Muhammad Nurullah Shikder to ensure compliance with Islamic law. Ask us if you want further information about the role of our scholars.

3. Whose Islamic home purchase plans do we offer?

- We offer Islamic home purchase plans from the whole market.
- We only offer Islamic home purchase plans from a limited number of providers.
- We only offer our own Islamic home purchase plans.

4. Which service will we provide you with?

- We will advise and make a recommendation for you after we have assessed your needs.
- You will not receive advice or a recommendation from us. We may ask some questions to narrow down the selection of products that we will provide details on. You will then need to make your own choice about how to proceed.

5. What will you pay us for this service?

- No fee.
- A fee.

6. Who regulates us?

Bristol & West plc, 1 Temple Back East, Temple Quay, Bristol BS1 6DX is authorised and regulated by the Financial Services Authority. Our FSA Register number is 106120.

Our permitted business is entering into and arranging home purchase plans.

You can check this on the FSA's Register by visiting the FSA's website www.fsa.gov.uk/register/ or by contacting the FSA on 0845 606 1234.

7. What to do if you have a complaint

If you wish to register a complaint, please contact us:

...in writing The Manager, alburaq, Innovation House, Unit 12a Mead Way, Padiham, Burnley, BB12 7NG
...by phone 0870 601 3291

If you cannot settle your complaint with us, you may be entitled to refer it to the Financial Ombudsman Service.

8. Are we covered by the Financial Services Compensation Scheme (FSCS)?

We are covered by the FSCS. You may be entitled to compensation from the scheme if we cannot meet our obligations. This depends on the type of business and the circumstances of the claim.

Home purchase plan advising and arranging is covered for 100% of the first £30,000 and 90% of the next £20,000 so the maximum compensation is £48,000.

Further information about the compensation scheme arrangements is available from the FSCS.

**THINK CAREFULLY ABOUT THE PRODUCT AND SERVICES YOU NEED.
WE CAN ONLY OFFER SERVICES IN RELATION TO ISLAMIC HOME FINANCE AND CANNOT PROVIDE ADVICE
ON STANDARD MORTGAGES.**

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Government support

- Strongly supported by the Government

To help address financial exclusion due to religious beliefs or for other cultural reasons

and more recently

To promote 'UK plc' as a centre for Islamic finance



Government support

- Islamic finance experts group, chaired by Economics Minister
- UK Trade and Investment, Government-supported body that promotes 'UK plc' and helps foster trade relations internationally



10 years on

- Take-up slower than expected
- Lack of understanding on why products are Shariah compliant
- Scepticism on whether products are truly Shariah compliant
- Products generally felt to be more expensive (COBM!)



Lessons learned

- Institutions trying to broaden their appeal
- Products must be flexible and price competitive
- More education.....
- Government and regulator's ongoing support vital
- Community 'buy-in' and support vital





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