

# International Islamic Finance Forum

ISLAMIC FINANCE NEW MARKETS:  
POISED TO EXTEND FRONTIERS  
*The Canadian Success Story*

London, UK January 20, 2010



UM  
FINANCIAL.com

# UM Financial Overview

- Received close to \$120 million in commercial funding from a Canadian Financial Institution to fund Canadian Muslim residential households
- Designed, marketed and distributed Shariah compliant mortgages and deposit accounts in Canada
- Had a branch network of 8 retail locations
- Launch of a \$100 million Canadian real estate investment fund that invests in commercial and residential properties
- UM is listed in The Banker magazine's Top 500 Islamic Financial Institutions listing and has been profiled extensively
- UM is a member of IFSB (Malaysia) and AAOIFI (Bahrain)
- 2009 World Finance N. American Business Leadership Award in Islamic Finance

# Presentation Agenda

1. Canada and Canada's Muslim Demographics
2. Islamic Finance Retail in North America
3. UM Financial – Company Timeline
4. 1. UM Islamic Mortgages (Musharakah - Murabahah)
5. 2. UM Deposit and Investment Product (Mudarabah)
6. 3. UM Interest-Free Mastercard
7. 4. UM ETF - S&P TSX 60 Shariah Index
8. 5. Takaful Insurance
9. 6. UM Advisory (Sukuk) and International Operations

# Canada's Demographics

- Population of over 33 Million
- Second Largest country in size
- Second Largest country in oil reserves after Saudi Arabia
- Seventh most traded currency - Canadian Dollar
- Ninth largest economy globally
- **Toronto**
  - Fifth largest city in North America (Population 5.4 Million)
  - TSX 3<sup>rd</sup> largest stock exchange in North America and 7<sup>th</sup> largest internationally
  - Best educated work force in the G7
  - Diverse Multicultural Population with over 50% of the population visible minorities
  - 160 million customers are within one-day's drive

# Canada's Muslim Demographics

- Statistics Canada Census Muslim Population

1991 – 256,000	0.9% Canada Population
2001 – 597,000	2.0% Canada Population
2011 – 1,299,300 (Projection)	3.8% Canada Population
2017 – 1,784,300 (Projection)	4.9% Canada Population

Muslim population is doubling every 10 years (86% live in 6 cities)

- 2001 Census Mississauga 6.9% (1 in 14) Toronto 5.5% (1 in 18)

- Islamic Finance in Canada 30 years ago (1979) within Co-operatives with pooled funds funding homes. Limited resources and growth
- Islamic Financial products being Usury free have attracted interest from sects within the Christian and Jewish groups. Other non-religious group on social benefit also open to accepting Islamic finance products

## Islamic Finance Retail in N. America

- **In Canada, Royal Bank of Canada** launched a Link note investment Islamic retail product in 2003. **Dynamic Mutual Fund** launched an Islamic Mutual Fund. In 6 years it had only \$6 Million in assets. Both were discontinued due to failure to penetrate in Muslim community largely due to misconceptions.
- **In the US, Guidance Financial** recently surpassed \$1 billion in residential mortgages in the US market. Two regional conventional banks have Islamic windows (**Devon Bank** in Chicago and **University bank** in Detroit). They are primarily funded by a facility setup by Freddie Mac that is approaching \$2 Billion. **HSBC NY** and **United Bank of Kuwait** offered Shariah compliant products but discontinued.

## UM Financial Timeline

- **2004** Incorporation and Product Development Stage
- **2005** First home financing arranged
- **2006** Reached \$100 Million plateau in 18 months. Launch Investment fund using community funds for high ratio mortgages.
- **2007** Launch Shariah Compliant Deposit products and UM Real Estate Investment Fund
- **2009** Canadian Bank Application, launch of Mastercard targeting Muslims, Takaful Insurance for Home and Auto, Islamic ETF, Sukuk Advisory, Mutual Fund

# 1. UM Islamic Mortgages vs Conventional

- Interest based loans are forbidden in the Islamic faith but commercial trade is encouraged
- Shariah compliant mortgages are based on partnership (trade) with proportional profit/rent payments vs. loan with interest payments
- Kosher /Halal meat options vs. conventional meat. Require Shariah board approval, end product very little different, distributed through conventional and Muslim stores
- As an Islamic organizations we practice social justice where we have financed clients whom we provided short term interest free loans and in some cases with clients waived our fees completely.

## Structure of Home Financing

- Commercial Financing Facility setup from a Canadian Institutions structured as a **Mudarabah**.
- **Conventional Mortgage** 5 Year Term \$200,000 funds released. Mortgage security \$200,000 registered at 6.1%
- **UM Musharakah Mortgage** 5 Year Rent Term \$200,000 funds released. Mortgage security \$200,000 + 30,500 Rent/Profit registered at 0%. Principal + Rent/Profit
- Monthly collections are shared back with the Canadian institution at a 97% and 3% ratio
- Client obtains a home with documents having no interest and UM Financial having legal equity ownership

## Structured Funding and Financing

- \$120 Million Mudarabah Facility from Central 1 Credit Union to UM Financial. Shared profit returns ratio of 97:3
- UM Financial would act as the Mudarib (management) and arrange financing with clients as Murabahah or Musharakah
- Murabahah was discontinued due to double Land Transfer Taxes, prepayment privilege and not able to refinance
- Diminishing Musharakah Home Financing product offers similar rates and features to convention yet Shariah compliant ie Capital gains to occupant partner, house ownership in occupant partner name, Profit/rental payment related to market condition

# Shariah Mortgages Portfolio

- Clientele have low debt burden with average TDS and GDS being 30%
- Clientele is mostly A grade with credit scores average of 750
- Clientele has a down payment average of 31%
- Network of 8 branches to educate community on structured Islamic Finance Products
- Product approval have gone through all the regulators OSFI, FSCO, OSC, CMHC, Ministry of Finance
- Vs Conventional. 1 – Trade relationship vs loan/interest 2 – All contracts signed have no interest reference 3 - No registered interest mortgage on your house

# UM Shariah Mortgages Today

- Registered database of 6,000 Muslim households; who either registered online, met at offices or registered at one of sponsored community events
- Majority of potential clients have conventional mortgages with major banks and are willing to transfer due to a Shariah compliant mortgage structure
- We estimate a total of 200,000 Muslim households today.
- UMF is planning to finance at a minimum (conservatively) 2.5% of the Muslim households
  - i.e. 5,000 mortgages @ avg. mortgage \$200,000 per within the next two years, which should result in a potential mortgage portfolio of \$1 billion.
  - Studies: LloydsTSB 75%, E&Y Bahrain 90% Market, Canada 50%

## 2. UM Deposit and Investment Products

- \$120 Million Funding facility was from a Canadian Institutions client deposit base who were non-Muslims
- Working with the Credit Union structuring five Shariah compliant bank accounts for clients
- Funds on deposit are re-invested in Shariah mortgages where profits are channeled back to the Credit Union which in turn shares the profits with depositor
- Returns to clients are acceptable under Islamic practices as the underlying investment is Shariah approved
- **Launched a \$100 million Canadian real estate investment fund that invests in commercial and residential properties**



## 3. UM Interest-Free Mastercard

- Launched in 2009 a Interest-Free Mastercard
- Funds will be uploaded and follow Islamic finance principal of asset back where only funds available on account can be used
- No interest charged including at times of cash withdrawal. No monthly fee or transaction fee
- Ideal product for clients who have no or poor credit
- Added value reward program with a major airline (free tickets)
- 1% cash back on purchases over \$100
- High penetration into community with 99% approval for application since no credit is involved
- Social Justice: In Canada 500,000 Canadians are 3 months in arrears on Credit card payments

## 4. UM ETF - S&P TSX 60 Shariah Index

- Co-branding with Canada's ETF provider Horizon AlphaPro and Horizon BetaPro owned by Jovian Capital (TSX: JOV)
- Will follow Shariah filters that avoids industries such as gambling, alcohol, tobacco. Shall have active review of financial ratios such as leveraging. Ie Worldcom and Enron
- Of the TSX 60 currently; 28 qualify as Shariah compliant
- Shariah filters over the last 10 years have significantly outperformed conventional indexes (48% vs 774%)
- EFT's low cost will allow access to Canadian equity market

# Equity Shariah Sector-Based Screens

Business activities related to the following are excluded:

1. Advertising and Media (newspapers are allowed, sub-industries are analyzed individually)
2. Alcohol. 3. Financials. 4. Gambling. 5. Pork
6. Pornography. 7. Tobacco
8. Trading of gold and silver as cash on a deferred basis

# Takaful Insurance

- Takaful means mutual guarantee
- Conventional insurance is not permissible due to elements of: Gharar (uncertainty) and riba (usury)

## **Solution:**

- is to design contracts that are mutual in nature and premiums collected are structured to be as a mutual or voluntary benefit
- Premiums collected must also be invested shariah compliant
- Muslims living in the west after mortgage payments the next largest expenditure is car and home insurance

# UM Advisory (Sukuk) and International Operations

- Summer of 2009 seen the proposed Bear Mountain Sukuk \$380 Million Corporate Sukul Al-Mudaraba with lead arranger Siraj Capital Dubai a DFSA regulated company
- UM Advisory a division of UM Financial has made presentation to a few governmental agencies who have been exploring the opportunity to launch a sovereign Canadian sukuk
- government lawyers are looking at amending a number of provisions in various Acts and identifying unencumbered assets for the purpose of issuing a sovereign sukuk. There are also certain tax issues that they need to work out.
- Sukuk demand in the GCC
- GCC banks allocating assets for Canada – KFH announcement
- Mint Technology (Canada) payroll cards expanding in the GCC

# Conclusion

Thank you.



Omar Kalair, President and CEO

Email: [okalair@umfinancial.com](mailto:okalair@umfinancial.com)