Islamic Finance in Europe

The 2\textsuperscript{nd} International forum for Islamic banks and financial institutions

April 3, 2014
European market conditions are favorable to sustain a steady growth of the Islamic finance products

**Encouraging demographics**
- Large untapped customer base with more than 20 million Muslims in the EU
- Significant market growth potential

**Favorable economic momentum**
- European countries are looking for new sources of liquidity and financing
- Saving rates of European Muslims are higher than those of other European populations
- Muslims retail and corporate deposits (that are not Shari'ah-compliant) are forecasted to expand in the next years
- European Islamic related industries are set to growth
- Increasing business relationships between Europe and Islamic countries

**Shari’ah-friendly legal environment**
- Government and regulatory authorities strongly support the Islamic finance model
- Unified regulatory framework within the European Union

**Little competition / Strong Demand**
- Low penetration rates of Islamic banking products in Europe (Lack of supply)
- Strong demand from clients for Shari’ah-compliant services
- There is already a good demand for Socially Responsible Investments in the region partially served by "conventional" institutions
The share of the Muslim population in Europe is expected to increase during the next decades.

Muslim population by country

Number of people (000’s) % of population

UK 2,869 4.6% 638 5.5% 914 6.0% 475 5.7% 4,704 7.5%
France 4,704 5.0% 4,119 5.0% 1,583 2.6% 914 5.5% 1,021 2.3%
Italy 4,119 5.0% 4,704 7.5% 475 5.7% 433 5.7% 2,869 4.6%
Germany 4,119 5.0% 4,704 7.5% 475 5.7% 433 5.7% 2,869 4.6%
Spain 1,583 2.6% 1,021 2.3% 638 5.5% 475 5.7% 1,021 2.3%
Sweden 451 5.7% 475 5.7% 475 5.7% 433 5.7% 475 5.7%
Belgium 638 5.5% 475 5.7% 475 5.7% 433 5.7% 475 5.7%
Netherlands 914 5.5% 638 5.5% 475 5.7% 433 5.7% 914 5.5%
Austria 475 5.7% 475 5.7% 475 5.7% 433 5.7% 475 5.7%

Sources: PEW Research 2010

Muslim population as a share of overall population in Europe

Projected increase in number of Muslims per country (thousands)

<table>
<thead>
<tr>
<th>Country</th>
<th>Muslims 2010</th>
<th>Muslims 2030</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>2,869</td>
<td>5,567</td>
<td>2,698</td>
</tr>
<tr>
<td>France</td>
<td>4,704</td>
<td>6,860</td>
<td>2,156</td>
</tr>
<tr>
<td>Italy</td>
<td>1,583</td>
<td>3,199</td>
<td>1,617</td>
</tr>
<tr>
<td>Germany</td>
<td>4,119</td>
<td>5,454</td>
<td>1,426</td>
</tr>
<tr>
<td>Spain</td>
<td>1,021</td>
<td>1,859</td>
<td>838</td>
</tr>
<tr>
<td>Sweden</td>
<td>451</td>
<td>993</td>
<td>542</td>
</tr>
<tr>
<td>Belgium</td>
<td>638</td>
<td>1,149</td>
<td>511</td>
</tr>
<tr>
<td>Netherlands</td>
<td>914</td>
<td>1,365</td>
<td>451</td>
</tr>
<tr>
<td>Austria</td>
<td>475</td>
<td>799</td>
<td>324</td>
</tr>
</tbody>
</table>

Source: PEW Research 2010
Bilateral trade between the EU and MENA countries is growing overall

**EU exports (USD billion and yoy Δ (%))**

- Lebanon: +16
- Indonesia: +21
- Tunisia: -7
- Egypt: +1
- Algeria: +12
- KSA: +5
- UAE: +3
- Turkey: -5

**EU imports (USD billion and yoy Δ (%))**

- UAE: -15
- Egypt: -19
- Tunisia: -11
- Qatar: -31
- Indonesia: -12
- Algeria: +8
- KSA: +12
- Turkey: -8

Sources: WTO World Trade Organization International Trade Statistics 2012
While the UK hosts several Islamic banks, Luxembourg is recognized as a leading hub for Islamic funds.

Islamic funds domiciles

![Chart showing Islamic funds domiciles]

<table>
<thead>
<tr>
<th>Domiciles</th>
<th>Number of Islamic funds</th>
<th>AuM (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>263</td>
<td>10,164</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>163</td>
<td>6,056</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>111</td>
<td>3,401</td>
</tr>
<tr>
<td>Pakistan</td>
<td>62</td>
<td>2,364</td>
</tr>
<tr>
<td>Indonesia</td>
<td>53</td>
<td>2,157</td>
</tr>
<tr>
<td>Ireland</td>
<td>53</td>
<td>1,742</td>
</tr>
<tr>
<td>Jersey</td>
<td>33</td>
<td>1,286</td>
</tr>
<tr>
<td>Others</td>
<td>171</td>
<td>2,443</td>
</tr>
</tbody>
</table>

Sources: Lipper – Thomson Reuters «Global Islamic Asset Management report 2014»
Several European countries have a strong culture of ethical investing

1. Socially Responsible Investment, June 2013
Sources: Vigeo Rating
Countries focus

Sources:
- European Central Bank "Islamic finance in Europe", June 2013
- "Islamic Banking and Finance in the EU – a challenge", M. Fahim Khan and Mario Porzio
- Deloitte experience
Islamic finance in Europe

Focus on France

Strong support from authorities have led to a friendly environment

- Investments *funds* and *sukuk* allowed in 2007

Parity of tax treatment is guaranteed

- Compensation paid by *sukuk* is deductible from taxable income
- Non-resident *sukuk* investors are exempt from withholding tax in France
- No double stamp duties on *sukuk* issuances

Plan to pursue Islamic friendly approach

- Launch of Shari’ah compliant *deposit* schemes
- Tax regulation for *musharakah* and *mudarabah*

Good potential

- Asset under management of USD 147.2 million
- High trade flow with Islamic countries
- Population originating from Islamic countries
Islamic finance in Europe

Focus on Germany

First Western country to tap into the Islamic capital market in 2004 (Saxony-Anhalt sukuk)

In 2009 the regulator accepted a Shari’ah compliant banking operation request
  • Limited scope of offering

Development of Islamic finance has solid prospects
  • Largest Economy in Europe
  • Strong demand for alternative sources of funding
  • Trading partnership with Islamic countries (Turkey)
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Focus on Italy

Islamic retail banking deposits are planned to rapidly increase

- USD 5.8 billion by 2015; 33.4 billion by 2050

And generate significant revenues

- USD 218 million by 2015; 1.2 billion by 2050

Plan to launch a “Mediterranean Partnership Fund”

- Part of which would be Shari’ah compliant
- In collaboration with Arab governments and Islamic development bank

Good future prospects

- Some institutions are active on Islamic capital market (trade finance)
- Italian banks are active in the GCC region
- Bilateral trade ties covered by Islamic insurances are in place
Islamic finance in Europe

Focus on Ireland

Strong foundation for the Islamic finance industry

• Comprehensive tax treaty network
• Specific tax code for Islamic instruments

Highly supportive to Islamic finance development

• Dedicated FSA team to deal with the establishment of Shari’ah compliant investments funds

Optimal market and economical conditions

• Home to more than 50 world-class fund service providers
• Home to 20% of Islamic funds outside Middle East
• Easy access to European market
Islamic finance in Europe

Focus on United Kingdom

Advanced Islamic financial market in Europe

- Islamic financial activities started in 1980s
- First fully fledged Shari’ah compliant retail bank in Europe (currently 5)
- Major global provider of the specialist legal expertise required for Islamic finance

Strong government support

- Government Islamic Finance Task Force
- Abolition of double taxations in 2004
- The whole Islamic financial sector operates under a single piece of legislation (Financial Services and Market Act 2000)
- Initiatives to ensure consistent regulatory treatment of Islamic finance with its statutory objectives and principles
Luxembourg
Luxembourg has become a domicile of choice for Islamic finance in Europe and has a history of innovation in this field.

**1970s**
- Luxembourg has become a domicile of choice for Islamic finance in Europe and has a history of innovation in this field.

**Luxembourg**
- Has become a choice for Islamic finance.
- Has a history of innovation.

**1978**
- First Islamic financial institution in Europe was licensed in Luxembourg in 1978 (discontinued its services in the 1990s).

**1983**
- Luxembourg was the first European country to host a Shari’ah compliant insurance company (Takaful).

**1983**
- 16 Sukuk have been listed on the Luxembourg Stock Exchange.

**Since 2002**
- The Luxembourg Stock Exchange was the first European stock exchange to list a Sukuk.
- Around 45 regulated Shari’ah compliant investment funds and sub-funds have been established in Luxembourg.

**2002**
- The Luxembourg Stock Exchange was the first European stock exchange to list a Sukuk.

**2009**
- Luxembourg was the first European country (central bank) which became a member of the Islamic Financial Services Board (IFSB) – based in Malaysia, and the prudential/supervisory standard setting body for Islamic Finance.

**2010**
- Around 45 regulated Shari’ah compliant investment funds and sub-funds have been established in Luxembourg.

**2010**
- Islamic finance has come of age in Luxembourg.
Islamic finance in Europe

**Focus on Luxembourg**

- **Advanced Islamic financial market**
  - First European country to list a *Sukuk* (2002)
  - 16 *Sukuk* have been listed
  - Strong government promotion to attract Islamic funds
  - First EU country to adopt UCITS IV (first mover advantage)

- **Best market conditions**
  - Flexible and efficient regime for securitization vehicles
  - Second largest investment fund center in the world
  - *Regulated* Islamic funds reaching USD 5 billion AuM
  - Competitive pricing, incentives and access to European market
Luxembourg offers robust macro-economic environment, ...

- Central position in the heart of Europe
- Stable and sound economic, political, social and fiscal environment (AAA rating)
- Government is accessible and willing to accommodate investor needs
- One of the favourite platforms in Europe for the listing of Sukuk
- Domicile to several Shari’ah compliant Investment vehicles
- Favourable tax environment
- Stable inflation rate
- Member of the Eurozone
- Skilled and multilingual labour force
- Robust, flexible, legal & regulatory regime
- One of the lowest debt of EU countries
- Home to many EU institutions
- Low unemployment rate

Sources: Luxembourg for Finance, Luxembourg Stock Exchange (2012)
...a supportive regulatory framework for (Islamic) financial services...

- **Financial sector** accounts for 45% of GDP and is supervised by the CSSF (Commission de Surveillance du Secteur Financier) and the BCL (Banque Centrale du Luxembourg), ensuring a high level of security to investors.

- **Banking licenses** issued by the CSSF are universal (i.e. valid for all banking activities), unlike those issued in other countries (e.g. UK).

- Islamic finance is well known, understood and highly desired in Luxembourg.

- The **Central Bank of Luxembourg** is the only EU country that is an active member of the Islamic Financial Services Board.

- 1st Wealth Management center in the Eurozone, focuses on private banking and asset management.

- 2nd largest investment fund center in the world.

- The **stock exchange** specializes in the listing of bonds and Sukuk.

- Total balance sheet of banks: €748 billion.

- Business-driven regulatory bodies, ensuring efficient application process.

Sources: Luxembourg for Finance, Luxembourg Stock Exchange (2012)
…as well as a growing Double Tax Treaties Network
(as at March 10, 2014)

- 69 DTTs in force
- 25 DTTs pending with new countries
Therefore, Luxembourg could serve as a hub for Islamic finance products to Europe and beyond.

Europe – benefitting from the “EU passport”

Sources: Deloitte project experience
Questions
Your contact

Martin Flaunet  
Partner  
Banking Leader  
Tel: +352 451 452 334  
Mail: mflaunet@deloitte.lu