

FINANCE NEW HORIZON



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Vatican backs Islamic finance

L'Osservatore Romano

By Trenz Pruca

Vatican backs Islamic finance
01 April, 2009

L'Osservatore Romano, a daily newspaper in the Vatican regarded as the mouthpiece of the Pope, has endorsed the values of Shari'ah-compliant finance as a solution to the problems in the world of conventional, interest-based finance. The paper suggested that the ethical foundations of Islamic finance should be adopted by conventional banks as a way of restoring the trust of their depositors and shareholders. It also stated the belief of the Vatican that the Islamic financial system could help the global

financial system overcome the crisis.

'The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service,' said L'Osservatore Romano. The article also quoted a fixed income specialist from Abaxbank Spa, the Italian investment bank of Credem Group, as saying: 'Western banks could use tools such as the Islamic bonds, known as sukuk, as collateral'. Sukuk, the Shari'ah-compliant alternative to conventional bonds, could finance the 'car industry or the next Olympic Games in London'.

The Vatican has previously been critical of the destructive excesses of the interest-based conventional financial system during the ongoing crisis. The Pope, Benedict XVI, alluded late last year to the illusory nature of fiat money, and the Vatican has also recently been critical of the free market system.

France and Hong Kong encourage Islamic finance

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The positive signals towards Islamic finance which emanated from the government of France in 2008 (NewHorizon, January–March 2009) have been translated into action in the form of specific changes to the tax code. The purpose of the changes is to ensure that Islamic modes of financing do not attract extra tax penalties in relation to conventional transactions. There would otherwise be a chance that an underlying asset changing hands – a necessary part of an Islamic transaction – would attract levies such as stamp duty. Because there is no requirement for an asset to change hands in a conventional transaction, such a tax would not enter consideration.

The change of the tax code has already encouraged some firms to move into France, including Islamic Finance Advisory and Assurance Services (IFAAS), which decided to relocate in expectation of the change. IFAAS is a UK-based Shari’ah-compliance advisory firm. Invest in France Agency (IFA), a group which encourages foreign direct investment into France, welcomed the move, reflecting the attractiveness of Islamic finance to markets in the West. There are between six and seven million Muslims in France, which is the largest concentration in Western Europe. A survey carried out in 2007 by the French Institute of Public Opinion (IFOP) suggested that half a million

“the Asian Sukuk Summit, recently held in the country, that the government is finalising new tax laws. These would make sure that sukuk are treated in the same way as conventional bonds, relating to stamp duty, profits tax and property tax.”

Professor KC Chan

Muslims in the country would be interested in Islamic finance.

Senior officials in Hong Kong have echoed the moves taken by the French government. The secretary for the financial services and the treasury bureau of the Hong Kong government, Professor KC Chan, confirmed in a speech at the Asian Sukuk Summit, recently held in the country, that the government is finalising new tax laws. These would make sure that sukuk are treated in the same way as conventional bonds, relating to stamp duty, profits tax and property tax. Confirming Hong Kong’s interest in Islamic finance, Sam Kwok, treasurer at the Hong Kong Monetary Authority (HKMA), also suggested that Hong Kong plans to issue a sovereign sukuk when the market conditions are right.

The positive signals towards Islamic finance



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New Takaful Ventures Hit The GCC Market

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insurance sector continues to attract a lot of interest from international firms

Ahmad Abdul Aziz Al Bassam

Two new insurance companies, Legal and General Gulf and Legal and General Gulf Takaful, have been licensed by the Central Bank of Bahrain. The two ventures have a total paid up capital of \$26.5 million and were set up by a UK-based financial services provider, Legal & General Group Plc, and a local bank, Ahli United Bank BSC. The companies are to offer conventional and Islamic insurance products and services in Bahrain as well as other Middle East countries. Ahli United Bank's existing branch network will be used to market the offerings.

'The Middle East insurance sector continues to attract a lot of interest from international firms,' said Ahmad Abdul Aziz Al Bassam, director of licensing and policy at the Central Bank of Bahrain. He noted that such factors as the country's strong supervisory framework, well-developed infrastructure, strategic



'We are seeing an increased demand for customized takaful products in Bahrain,'

Says Gopi Rao, general manager of Solidarity Family.

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location and the availability of qualified human resources, have been attracting business to Bahrain.

Meanwhile, a local Islamic insurance provider, Solidarity Family Takaful, has teamed up with Nexus, financial advisory firm, to market a takaful offering in Bahrain. The product portfolio will include education and retirement protection plans, various saving and investment features, and life insurance. 'We are seeing an increased demand for customised takaful products in Bahrain,' says Gopi Rao, general manager of Solidarity Family.

Nexus will add the Islamic insurance line to its existing personal and corporate financial products. Nigel Watson, general manager of Nexus Bahrain, believes the new offering will become one of its most popular lines in the course of a year, with the help of Solidarity Family's 'strong localised service and marketing support'.



'Islamic finance is growing at a very rapid rate universally

UK Takaful Market Iqbal Gelu, Principle Insurance Holdings

By James Ling

Gelu believes 'the climate is right' for Islamic finance. He is determined to challenge the stereotype that Islamic products are more expensive than conventional ones. 'With our motor products we have to be competitive [in terms of price], and also our products will be competitive in terms of their features and conditions. We feel that we have to give our customers the same product that they enjoy today.' The UK takaful market had previously been seriously under served. Whilst there were products on the market, these only came through specialist Islamic windows at

banks, and Muslims would usually have to compromise their faith in order to get insurance.

The decision to offer takaful in the UK, therefore, seems like an obvious choice. 'Islamic finance is growing at a very rapid rate universally, but [UK Prime Minister] Gordon Brown and the Government, The Bank of England and the FSA have all provided support in terms of Islamic finance and banking,' says Iqbal Gelu, business development director for Principal Insurance Holdings. 'The Government really wants Britain to be the global centre for Islamic financial products. We feel that there's a great opportunity for us as the first independent takaful provider in this country to make a difference.'

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By Trenz Pruca

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