# Case study of the role of the Islamic sector in increasing access to financial services: the United Kingdom

**Dr. Elaine Housby**

*The United Kingdom has the most highly developed Islamic financial services industry of any Muslim minority country. Its development has been actively supported by successive governments, from a variety of motives. This paper will summarise the development of the Islamic financial sector in the UK and then consider its present state and some of the issues and problems which have become apparent with it, with particular but not exclusive reference to home purchase finance. The two stated aims of the British authorities in their encouragement of Islamic finance were to attract investment into the country from Muslim majority countries, notably the oil states, and to make it easier for British Muslims to access financial services which are in accordance with their faith. It was hoped that this would increase the financial inclusion of impoverished Muslim communities and thus improve their overall economic position. There are some contradictions between helping the local Muslim population and attracting overseas investment, and providers who normally target their services at the large middle-income market have found it difficult to design products which are attractive to both the very wealthy and the seriously disadvantaged, both groups which are disproportionately represented in the British Muslim market. The paper will outline the economic profile of the British Muslim community, with particular reference to the housing situation. It will then consider whether the greater availability of religiously compliant home purchase finance has actually made it easier for British Muslims to obtain good quality housing. There is little evidence that it has, and some indication that the encouragement of home purchase by government has worsened the position of tenants of social housing. The future development of the industry may lie not in simply continuing to replicate products that are formally Islamic but in practice accessible only by the wealthy, rather, progress may lie in rethinking the basics of Islamic finance to design services that will be a real benefit to the less affluent. This may perhaps involve a fusion with ideas from non-Islamic sources. The paper will describe some British financial practices which are not technically acceptable Islamically, since they involve interest, but which are rooted in a desire to help the disadvantaged. The main examples of these are building societies, friendly societies and credit unions. The British tradition of mutualism has some similarity with Islamic ideals, particularly with the concept of mutual assurance which underlies takaful, and could perhaps be developed in a riba-free form. The United Kingdom is well placed to generate innovative ideas from the interplay of different traditions. Can both Islamic and non-Islamic economic thinking there go back to basics and make real progress in promoting financial inclusion?*

**Keywords** : United Kingdom; housing; ethical; mutualism

## Introduction

The United Kingdom has the most highly developed Islamic financial services sector of any country where the Muslim population is of immigrant origin. This has developed out of the status of London as a major international centre of conventional finance. It has attracted investment from Muslim visitors, particularly Arabs, since at least the 1970s, and so a move into the sharia compliant sector was natural for London based financial institutions. More recently, successive British governments have sought to improve the availability of sharia compliant services to their own Muslim citizens. This means that the development of Islamic products and services has taken place while facing in two different directions, towards attracting wealthy expatriates and towards increasing the social and financial inclusion of British Muslim, a significant proportion of whom are seriously economically disadvantaged. There are some tensions between these two aims, and attempting to appeal to both markets simultaneously may be limiting the growth of the Islamic sector.

## The history of Islamic finance in the United Kingdom

The first true Islamic bank in Britain was Al Baraka, founded in 1982. It offered a full range of banking services, including house purchase finance. It claimed to be profitable and there were never any serious concerns about its conduct. Despite this the Bank of England was unable to accept its ultimate ownership by a single wealthy Saudi. Al Baraka was in effect suffering for the misdeeds of the Bank of Credit and Commerce International, which collapsed in 1991 amid allegations of large scale fraud. This prompted the Bank of England to bring in new requirements for the ownership structure of banks which Al Baraka was unable or unwilling to satisfy. It surrendered its banking licence in 1993 but continued to operate as an investment company. The customers of Al Baraka displayed a great deal of loyalty to and enthusiasm for the bank, which seems to have left an impression on other potential providers of Islamic services.

The United Bank of Kuwait introduced an Islamic investment division to its London branch in 1991, and this still exists as the Islamic Investment Banking Unit. The UBK subsequently merged with the Al Ahli Bank and became the Al Ahli United Bank. In 1997 it introduced the Manzil home purchase plan. This was mostly aimed at Kuwaitis wishing to purchase property in London and the bank had no physical presence in the rest of the UK. Despite this the Manzil plans attracted a great deal of interest from British Muslims. The original product was murabaha, and ijara was added two years later. In 2005 Ahli concluded an agreement with the West Bromwich building society for the latter to act as an agent for its products. The West Bromwich is based in the West Midlands, an area with a very large Muslim (mostly Pakistani) population.

In 2003 HSBC introduced an Islamic home purchase plan and a sharia compliant current (cheque) account. The form of home purchase finance was originally ijara but later changed to diminishing musharaka. This marks the beginning of the availability of Islamic finance in the mass market. HSBC is of course a very large international bank, and it has a branch in any town of any size in the United Kingdom. In 2005 Lloyds TSB, another leading mass market bank, also introduced a current account and home purchase plan with the brand name of Al-buraq. The latter was a diminishing musharaka product created by the Arab Banking Corporation of Bahrain. Unfortunately Lloyds has now ceased to offer this product, due to the withdrawal of its partner the Bank of Ireland, who actually supplied the product to Lloyds, from all forms of home purchase finance in the United Kingdom. The current account and the student version of it are still available and are well promoted.

The Islamic Bank of Britain opened in 2004. This is the first and so far only stand-alone Islamic bank in the United Kingdom. Its arrival was greeted with great excitement and the fact that it is completely separate from conventional banking and therefore apparently untainted by funds from haraam sources is very attractive to many Muslims. It introduced home purchase plans in 2008. These appear to be identical with those offered by Lloyds, and the IBB credits the originators of Al-buraq with advising them on its development. The IBB is owned by interests in Qatar, who provided its initial funding and continue to support it as it makes substantial losses. There is a question mark over whether the bank's strategy of opening a relatively large number of physical branches (eight so far) to serve a relatively small target market is sustainable or whether its future may be as an internet based operation.

Islamic investment funds have appeared and disappeared over this period. It is much easier to enter the Islamic market in the area of investments, as the only requirement is that the companies invested in should be approved by sharia scholars. The full list of funds which have come and gone is too long to include here. At the present time there is only one Islamic mutual fund in the United Kingdom, that offered by Scottish Widows Investment Partnership. HSBC offers a sharia compliant investment fund as a pension fund.

There are three banks offering wholesale and corporate Islamic banking, the Bank of London and the Middle East, the European Islamic Investment Bank and Gatehouse Bank. All have opened within the last few years, and all are located in London but deal with a high proportion of overseas clients.

None of the conventional banks with Islamic windows are prepared to state the number of holders of their Islamic accounts separately in their annual reports, so it is difficult to judge how successful their Islamic services have been. The Islamic Bank of Britain stated in its 2010 annual report that deposits and customer numbers had increased slightly and that it now had 50,531 customers. It further stated that it had invested in expanding its home purchase plan and that demand for this had increased despite difficult market conditions. These seem like respectable figures, at least in relation to the open scepticism from the non-Muslim British media which greeted the opening of the IBB, but it is evident that much work will need to be done to reach the rest of the million or so adult British Muslims who should in theory be anxious to make use of the bank's services.

## Government action to promote Islamic finance

A tax known as stamp duty land tax is payable on the completion of all property purchase in Britain. It consists of a percentage of the purchase price, which increases in higher price bands. The price bands are regularly revised in government budgets. Because Islamic contracts involve the purchase and re-sale of the property, they attracted liability to a double payment of SDLT when first introduced. The liability to double taxation on murabaha contracts was removed by government in 2003, soon after the HSBC home purchase plan was introduced, by introducing regulations which stated that such contracts should be treated as a single sale. In 2005 this treatment was extended to ijara and musharaka contracts. This concession was greeted as a campaigning success by the Muslim Council of Britain, so much so that some non-Muslim Britons became alarmist on the subject of the supposed 'introduction of sharia law' into their country. Further legislation in 2005 removed the liability of profit and loss sharing savings accounts to a tax normally charged on company dividend payments, which arose because the profit paid on such accounts is technically the return on a trading investment of the funds.

The removal of a tax liability which had reduced the attractiveness of sharia compliant home purchase and thus delayed the entry of new providers into the market was the first outcome of the work of a committee set up in 2001 to consider the whole subject of Islamic financial services and what could or should be done to promote them in the United Kingdom. Both the Treasury (the finance department of the British government) and the Financial Services Authority (which took over from the Bank of England as the regulatory authority for all UK financial services) subsequently produced reports on this subject[1].

The most eagerly awaited action of the UK government would be to issue a sovereign sukuk. The previous Labour government consulted widely on this and produced several reports on the subject[2], but never felt the time was right to proceed. It is possible that as the general state of global financial markets improves the present coalition government may wish to go ahead with sukuk.

The problem of multiple liability to stamp duty land tax also arises in the case of sukuk, because real rights to the property which forms the underlying asset must be transferred to sukuk holders. This problem was considered as part of the consultation process and the Treasury decided that in order to create parity of treatment with conventional bonds, the sukuk would be treated as loan capital rather than transfer of property rights and thus be exempt from SDLT. This parity of treatment for taxation purposes was thus achieved at the cost of undermining the Treasury's painstaking care to make clear in all the reports that sukuk are not bonds and should not be referred to as such.

Some of the problems raised by seeking equality of treatment between Islamic and conventional finance are considered below.

There is an interesting quotation from the then Secretary to the Treasury, Ed Balls, at the opening of the initial consultation document on sukuk, which sets out very explicitly the government's reasons for wishing to promote sukuk, and by implication Islamic finance generally. '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'.

## The British Muslim community

The United Kingdom census of 2001 was the first to include a question on the religious affiliation of respondents. The inclusion of this question was actively campaigned for by the Muslim Council of Britain, which believed that hard data on the British Muslim community was essential to its work, and was also philosophically committed to the concept that people of any ethnic origin who subscribed, at least nominally, to the Muslim faith should be defined as a single community. Historically both academic research and public policy in the UK had prioritised ethnicity in defining groups. The MCB also partly funded a doctoral student to analyse the results of the census as they related to Muslims, which produced a great deal of useful information[3]. The census returned a figure of 1.6 million Muslims, or just under 3% of the population of the United Kingdom. There has been a persistent argument that this figure is a considerable under-estimate, but there are no plausible grounds for believing this. The 2011 census has just taken place and it will be interesting to compare this more recent figure when it becomes available. It is likely that natural population increase means that the Muslim population is now around two million, and this is the figure usually used.

The Muslim population is significantly more youthful than the population as a whole. In 2001, while Muslims of all ages formed 3% of the population, the children of Muslim parents formed 5% of the child population, and 60% of Muslims were under the age of 30. Because it is young adults who are the most rewarding group for providers of financial services to target, this makes the British Muslim community of proportionately more interest to banks than their relatively small overall number would suggest.

It is estimated that around three-quarters of British Muslims belong to families which came originally from the three countries of the Indian sub-continent, Bangladesh, India and Pakistan. Islam in Britain has a predominantly South Asian character. There are also sizeable communities of Turks and of migrants from different Arab countries, and smaller numbers of Muslims from Africa, particularly Somalia. The precise numbers of these groups cannot be calculated exactly from the 2001 census as these ethnicities were not listed separately as options. The 2011 census partly corrected this omission by including ‘Arab’ as a distinct ethnicity. Since it took place in March, however, it will not record the transient population of wealthy Arabs who spend the summer months in London, who have been an important driver of provision of sharia compliant services.

The Muslim population is not, of course distributed evenly throughout the United Kingdom. There are very few Muslims in Scotland, with the exception of a sizeable Pakistani community in Glasgow, or Wales, with the exception of Cardiff. In England, the main Muslim communities are found in the three largest cities, London, Birmingham and Manchester, and in West Yorkshire, in the towns which were formerly centres of the textile industry, now almost vanished. The decline of the industries to which South Asians were originally recruited has left concentrations of severe deprivation.

The data on educational and occupational achievement among British Muslims is complex and sometimes contradictory, too much so to discuss in detail here. For the purposes of this paper the key point is that a picture seems to be emerging of a growing polarisation. On the one hand, young people from the British born generation of Muslims who do attend university and succeed in a career are much more likely than young people from the indigenous population to reach a higher occupational level than that of their parents. On the other, a large proportion of young Muslims are failing at school and therefore in employment. A particular concern is that young people of Bangladeshi origin are on average performing worse than those from any other background.

Since the most important product now being offered by the Islamic financial sector is home purchase finance, it is relevant to consider the pattern of housing tenure among British Muslims. In 2004 the Housing Corporation (a government body concerned with the provision of social housing) commissioned a detailed analysis of the data from the 2001 census on Muslim housing circumstances, the first time this subject had ever been specifically studied[4]. This report found that 51% of Muslims were home owners, compared with 69% of the general population, and that while 18% owned their home outright, 33% were buying it with the help of some kind of bank loan. It was not possible to tell how many were using sharia compliant bank finance. Of the rest of the Muslim population, 28% lived in social housing (that is, housing provided by the state, in the form of the local government authority, or by private charitable housing associations), compared with 20% generally, and 17% were in privately rented accommodation, compared with 10% generally. Muslim children were four times as likely as non-Muslim children to be living in overcrowded homes and twice as likely to be in a home without central heating (an absence which in the British climate is regarded as an indicator of poverty).

These figures do not though tell the whole story. There are considerable differences between Muslims of different countries of origin. An earlier study[5] found that 45% of Bangladeshis lived in social housing, while 79% of Pakistanis owned their own home, a higher rate of owner occupation than that found among the general population. This reflects the fact that migrants from Bangladesh arrived in the UK on average later than Pakistanis, after requirements to have lived in the local area for a certain length of time in order to qualify for local authority housing were lifted. Early migrants to the UK were not eligible for council housing and were often discriminated against in the private rental sector. They were thus pushed into buying houses if at all possible, and tended to end up in poor quality housing in disadvantaged areas. This pattern is still discernible but becoming less marked as subsequent generations find themselves unable to afford to buy their own home.

The question of how many Britons of Muslim heritage actually care whether their financial arrangements are religiously compliant has received remarkably little serious study. Many providers' initial assessments of the likely size of the market for Islamic products seem to have simply assumed that everyone who 'ticked the box marked Muslim' on the census form would be eager to switch to them. This assumption, for which there were no grounds at all, goes a long way to explaining the disappointment in some quarters that sales of sharia compliant products have not lived up to expectations. One study which is regularly cited[6], in the apparent absence of any others, found that only about a quarter of Muslims interviewed at random cared strongly that the financial products they chose were religiously approved. While the earliest Islamic services were overwhelmed with enquiries, much of this was pent-up demand from that quarter or so of the Muslim population who were already anxious to be sharia compliant. Over time levels of new business have fallen off dramatically, and in order for these Islamic products and services to be viable in the long term, they must either be competitive with conventional ones in price and levels of customer service (which is often not the case at present) or seek actively to persuade British Muslims that they ought to make religious compliance their priority.

## Has the availability of sharia compliant home finance increased financial inclusion?

The main reason for British Muslims remaining in rented housing rather than purchasing property is because they cannot afford to purchase a home, not because of religious scruples. There are cases of people with very strong religious objections to interest based housing loans who, before the introduction of Islamic forms of home finance, continued to occupy rented accommodation rather than buying a house when they would have been able to afford it, and the British media reported on them extensively back in 2003, but such people are very exceptional.

A large part of the activity within the sharia compliant housing finance market has consisted of home owners who already have a conventional mortgage transferring to an Islamic one. In the current situation following the banking crisis, the situation has worsened further as all of the banks have decreased the percentage of the valuation of a property which they are prepared to lend, and Islamic providers have always been more cautious than conventional ones in this respect. For example, in the immediate aftermath of the banking crisis the Islamic Bank of Britain offered a maximum of 70% finance to value ratio on its fixed rate home purchase plan and 80% on the standard plan, which had a higher rental rate; it has recently increased the maximum to 80% on both types of plan. The Manzil home purchase division of Ahli United Bank still offers a maximum of only 65% finance to value on all its plans. The percentage of the value which the purchaser is required to pay as a deposit would be almost impossible to save out of income for anyone on an average salary, and typical first time buyers are therefore effectively excluded from these schemes. Those who can take advantage of them are likely to have substantial equity in their present property. The availability of sharia compliant finance has then increased the integration of British Muslims into the financial services industry, but only in the sense of removing purely religious causes of exclusion, not in the sense of increasing access to financial services among lower income households.

We see here a contradiction between promoting responsible borrowing and stability in the banking industry, which its advocates claim Islamic finance is better placed to do than the conventional kind, and increasing access to home ownership. Nobody wants to see Islamic banks offering home finance at a hundred per cent of valuation to their customers, with all the problems of default and negative equity that this has been shown to lead to in the conventional sector, but in the present British property market a cautious lending policy condemns a large number of Muslims (and of course non-Muslims) to permanent residence in rented accommodation, some of it insecure and of poor quality.

The only solution to this dilemma would be a substantial fall in the price of housing. There is no question that a fall in the typical price of houses to a level where people on average salaries could comfortably afford to buy one would be of very great social benefit. It would not however be welcomed by the many people who rely on steadily increasing property prices as their main investment. A high proportion of Muslim purchasers who have invested in property in the UK, particularly in London, using sharia compliant finance, view these purchases simply as an investment. This is of course particularly true of expatriate buyers, even if they may live in the property themselves for part of the year. Should we perhaps ask whether the two aims of providing decent housing for all and promoting investment in property can really be reconciled?

The large number of Muslims living in social housing are not much affected by the availability of Islamic home loans. The government was explicit that it hoped to be able to free up some local authority (state) housing for those in critical housing need by getting long term occupants to move on into owner occupation, and in areas where large numbers of Muslims were living in social housing the hope was that the introduction of sharia compliant finance would be all that was necessary for them to make the move. There is no evidence that this has happened. The overwhelming majority of people who have remained in social housing have done so because their income is too low or too uncertain for them to be accepted by a bank for any sort of home loan, Islamic or otherwise.

There are problems surrounding the issue of the purchase of local authority housing by the tenants. Successive British governments have promoted the ‘right to buy’ policy, whereby tenants who have lived in a local authority house for a certain number of years are given the right to purchase the house at a price below its market value. At the same time building programmes for new social housing are at a level much below what would be necessary to replace the houses which are sold into private ownership. The result of this is that the stock of housing within the local authority sector has fallen substantially over the last thirty years, with consequent increased difficulties in obtaining such a house even for those in serious housing need. In most parts of the UK the waiting lists for local authority houses are very long, usually several years. This is not of course a religious issue, but for many British Muslims whose income is far below what would be necessary to purchase a house, the shortage of social housing is a more pressing issue than the availability of religiously acceptable home purchase finance.

This situation is further aggravated by racial and religious tensions in some areas of serious deprivation, where access to local authority housing has become one of the most important issues for many voters. Some examples of such areas are parts of East London and some of the former mill towns of West Yorkshire and Lancashire. Desperation over the shortage of housing among communities of indigenous origin has been manipulated by political groups who are explicitly hostile to immigrant communities and in some cases specifically to Muslims. An increased building programme of local authority housing would be more help in improving the quality of life and reducing social and political tensions for Muslims (and everyone else) in these towns than the introduction of new sharia compliant home purchase plans for which they will never be accepted.

For those Muslims who are able to afford to purchase their local authority house at the discounted price offered under the ‘right to buy’ scheme, there are serious obstacles to using sharia compliant finance to do so, because of the involvement of a third party in the forms of contract usually employed. Most of the banks offering Islamic home purchase finance explicitly state in their information material that this form of finance cannot be used for purchases of local authority housing under the ‘right to buy’ scheme. Murabaha, ijara and musharaka contracts all involve the purchase of the property by the bank and its resale to the customer. The regulations which cover purchase under ‘right to buy’ forbid the resale of the property within a certain length of time (generally five years), unless the discount given on the purchase price is repaid. This is in order to prevent the abuse of the scheme to make a quick profit by reselling the property at its full market price. There is no intention to discriminate against Muslim tenants, but to date the government has not been able to come up with a form of wording which would permit the use of Islamic contracts for the purchase without opening the door to non-Muslim speculators. The government department concerned with ‘affordable housing’ explained in response to an enquiry that it is open to a local authority or housing association voluntarily to allow a tenant to purchase their home using Islamic finance on the same favourable terms as under the ‘right to buy’ scheme, subject to the approval of the department.

## Regulation and taxation issues

The challenge for regulatory authorities and lawmakers is to give equal but not preferential treatment to Islamic finance in relation to conventional finance. The reports produced by the Treasury and Financial Services Authority repeatedly use the phrase ‘a level playing field’ to describe their desired state of affairs, a tiresome sporting metaphor which obscures many of the real difficulties involved. Advocates of Islamic finance sometimes regard the achievement of equality of treatment as a simple matter and become impatient with a perceived reluctance to act, but this is not always justified. Enthusiasts for Islamic finance should not assume that reluctance to make changes in, for example, taxation, is always motivated by simple hostility.

There are legitimate concerns that the standards of auditing used by Islamic institutions should match those required by conventional banks in the United Kingdom. This has not always been the case with Islamic banks in other countries. Equal treatment in taxation should be reciprocated by ensuring adherence to the same standards of transparency as are demanded in conventional finance. It is not in the interests of the long-term growth of the Islamic sector that it should be permitted to adopt lower standards, as the reputation of the UK as a country with high standards of accountancy and legal enforcement has been central to its emergence as an international centre for the financial services industry, in particular its role as the preferred jurisdiction for settlement of disputes relating to Islamic contracts entered into in other countries.

There have recently been some concerns that sharia compliant forms of finance may be being misused by some non-Muslims as a way of avoiding stamp duty land tax[7]. This has necessitated attempts to ensure that the removal of the liability to double taxation on Islamic purchase and re-sale forms of home finance is strictly limited to its original aim of preventing Muslims from being penalised for using religiously compliant home finance and is not exploited by ingenious accountants to avoid tax that would otherwise be legitimately due. This is just one example of the need for constant vigilance to ensure that the removal of unfavourable treatment from Islamic finance does not in turn create some form of unfair advantage. The maintenance of ‘equal but not preferential’ treatment is an ongoing process.

There may also be an issue from a religious point of view regarding how far the removal of liability to taxation from an asset transfer renders that asset transfer synthetic. This point arises particularly in relation to sukuk, where there are already concerns that the asset transfers involved are not genuine. This was one of the concerns expressed by Sheikh Usmani in his famous statement of 2007 criticising some popular forms of sukuk. It could be argued that if the UK taxation authority removes the liability to stamp duty land tax which would normally arise in the sale of a property in the case of the sale of the underlying property asset of a sukuk, because it recognises that the sale and re-purchase of the asset is a structural requirement of the sukuk, then that constitutes a tacit acknowledgement that the re-purchase is guaranteed and involves no real transfer of ownership risk.

## The possibility of convergence with non-Islamic products

The emergence of a British born and educated generation of Muslim finance professionals opens up the possibility of the creative convergence of Islamic tradition with some indigenous forms of financial service which are based on helping the disadvantaged rather than making a profit.

The English tradition of mutualism has some similarities with Islamic principles, in particular with the concept of mutual assurance which underlies takaful. In the nineteenth century it was common for groups of working men to come together to form a friendly society in order to create some financial security for themselves at a time when no other form of provision for unemployment or sickness existed. The members would pay in small sums regularly and the society would then pay out to a member who became seriously ill or suffered some other misfortune. It was also common for these societies to make payments to the widows of members. Some prominent UK insurance companies have their historical origins in friendly societies. They have all now left these origins far behind and operate on a purely commercial basis, but the principle and the tradition are still available to inspire new forms of emulation.

Building societies were also historically founded on mutual principles. Some of them have demutualised, in some cases with disastrous results (Northern Rock, Halifax) but some of them are still thriving as mutuals. This means that they do not have shareholders but are owned by their members, that is, those who hold accounts with them, and are able to offer the best possible rates to both savers and borrowers, rather than rewarding external owners. The essential difference between a building society and a bank is that the former uses the funds deposited by savers to lend to borrowers who wish to purchase a house (or sometimes to build a house, hence the name) rather than borrowing in the money markets and re-lending at a profit. The employment of interest by these societies naturally makes them unacceptable in Islam, but the essential principle of prioritising increased access to housing could perhaps be developed in a riba-free form.

The developer of one exciting example of convergence between Islamic financial models and social housing provision in the UK was a finalist in the Financial Times award for 'legal innovator of the year' of 2011. This new scheme is based on part ownership and part rental of a residential property, which is a practice already widespread in the UK, but departs radically from all previous models by permitting the purchase element of the scheme to be undertaken without borrowing the full purchase price in advance. It therefore opens up the possibility of low income families who have little hope of being approved for a mortgage being able to build up equity in a property. The scheme was invented by Natalie Elphicke of Stephenson Harwood, a law firm with experience in Islamic finance, who adapted the ijara model to a situation of social need and also applied the essential Islamic principle of sharing risk in an arguably more authentic way than previously seen in the housing market. A pilot scheme launched in Sunderland, a city in north-east England, under the brand name of 'Gentoo Genie' (Gentoo being the name of the law firm's client, a housing developer) was heavily over-subscribed and it is now being extended to further newly built properties.

Credit unions are well established and popular with politicians of both left and right. These are schemes where people on very low incomes pay in small amounts of money regularly and are in turn allowed to borrow small sums to fund pressing needs. They normally cater for people who would never be accepted for a bank loan, or in some cases even for a cheque account. They are in fact a form of micro-finance, which is currently very fashionable, but are not usually conceived as such. If they employ interest they are, again, unacceptable in Islam, but there is no reason why they cannot be run in an interest-free form, and some of them are. They could be really useful in impoverished Muslim communities, and there is important work to be done in ensuring that Muslims are not excluded from access to micro-credit because they do not know of the existence of such schemes, or because they assume they are haraam when they may not be, or because they feel uncomfortable approaching non-Muslim organisers.

## Thoughts on the future

Conventional financial providers are accustomed to tailoring their products to appeal primarily to the middle income market. There are difficulties in designing products to appeal to the two extremes of the income scale, both of which are disproportionately represented among British Muslims. This middle income group with which conventional providers are accustomed to deal is much smaller in the British Muslim community than in the host community. Islamic products which are unthinkingly targeted at this group may be unaffordable to the large numbers of Muslims who are seriously disadvantaged economically and at the same time be too modest in their scope to appeal to high net worth individuals looking for large scale investments rather than, for example, a house to buy as their primary residence.

It may be necessary in future to stop seeing the British Muslim market as an undifferentiated mass and create products more finely tailored to fulfil the very different needs which exist. This would require providers to invest more thought and research into this market than they have so far done, and to accept that products developed in overseas markets cannot just be applied to the British market without adaptation. It may well be that the financial services which are most successful in the long term are generated from within the British Muslim community itself, by the rising generation of tertiary educated young Muslims working in financial services.

At present the Islamic and the non-religious 'ethical' sectors of the market have very little contact with each other. Although Islamic finance is routinely described as 'ethical', there has been no real attempt to relate it to other activity in the financial services industry which also describes itself as ethical. In part this is due to an understandable assumption that services based on Islamic precepts must necessarily be superior to those based on the teachings of other religions (there are a considerable number of Christians active in ethical finance) or on secular ideologies. Practitioners in these diverse areas would probably be surprised to find out how much they have in common and how much they could help each other. Islamic providers would benefit from the increased marketing opportunities generated by an approach to non-Muslims who are in sympathy with their core aims, and in turn Islamic precepts could provide some much needed rigour to non-Muslim providers whose ethical principles are sometimes ill-defined. The United Kingdom is very well placed to generate creative interaction between different traditions. Perhaps it may even be the case that British-born Muslims are able to use the diversity of their experience and education to produce new forms of Islamic finance which could be exported to the Muslim-majority world.

## References

1. HM Treasury, *The development of Islamic finance in the UK: the government's perspective*, 2008. Available to download from www.hm-treasury.gov.uk.

   Financial Services Authority, *Islamic finance in the UK: regulation and challenges*, November 2007. Available to download from www.fsa.gov.uk.

2. HM Treasury, *Government sterling sukuk issuance: a consultation*, November 2007.

   HM Treasury, *Government sterling sukuk issuance: a response to the consultation*, June 2008.

   HM Treasury and the Financial Services Authority, *Legislative framework for the regulation of alternative finance investment bonds (sukuk): summary of responses*, October 2009.

   All of these reports are available to download from www.hm-treasury.gov.uk.

3. Now published as: Hussain, Serena, *Muslims on the map: a national survey of social trends in Britain*, London: Tauris Academic Studies, 2008.

4. Sellick, Patricia, *Muslim Housing Experiences*, Housing Corporation 2004 (available to download from www.housingcorp.gov.uk).

5. Modood, Tariq and Berthoud, Richard, *Ethnic minorities in Britain: diversity and disadvantage*, London:Policy Studies Institute, 1997.

6. Dar, Humayon A., *Demand for Islamic financial services in the UK: chasing a mirage?* Loughborough: Loughborough University Institutional Repository, 2004 (available at www.lboro.ac.uk/library).

7. Financial Times, 23.3.11.