
ISLAMIC FINANCE SURVEY IRELAND 2019 **FINDINGS**

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INTRODUCTION



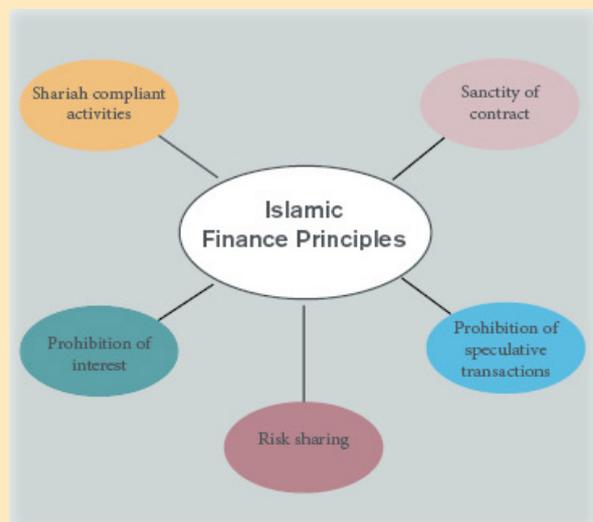
Simon O'Neill
Partner

What is Islamic Finance

Islamic finance is a values based system of finance, similar to green finance, ethical finance or sustainable finance based on a set of principles or values, which in the case of Islamic finance are grounded in the Muslim religious beliefs. The principles of Islamic finance are broadly consistent with the UN Sustainable Development Goals which are shaping the direction of the financial system currently. The core principle of Islamic finance is the avoidance of harmful activities, others include, the avoidance of speculation and uncertainty, the engagement in real trade activities, and the concept of risk sharing between parties.

In 2018 Philip Lee advised Community Finance Ireland (CFI) on the ground-breaking launch of a non-interest bearing property finance product for the Muslim community which was the first of its type in Ireland. This product was designed in response to a demand from organisations and social enterprises within the Muslim Community for a property finance structure compliant with their religious beliefs. The product does not operate as a retail mortgage product due to Community Finance Ireland's mandate as a social/micro finance provider to the community and social enterprise sector. A podcast with further information about this product is available at <https://www.philiplee.ie/irelands-first-islamic-financing-product-the-first-of-many/>

Following feedback from the community after the launch of the CFI product it was clear that there was a significant demand for Islamic finance products, in particular a mortgage alternative. In the course of our conversations with investors and financial services firms in the Islamic finance industry, they have consistently expressed the need for validation or evidence/information on the level of demand within the community for compliant financial products, the size of the market and the type of products that are required. In contrast, the consistent message from speaking with members of the Muslim community here in Ireland is that they eagerly await the availability of Islamic finance alternatives in Ireland.

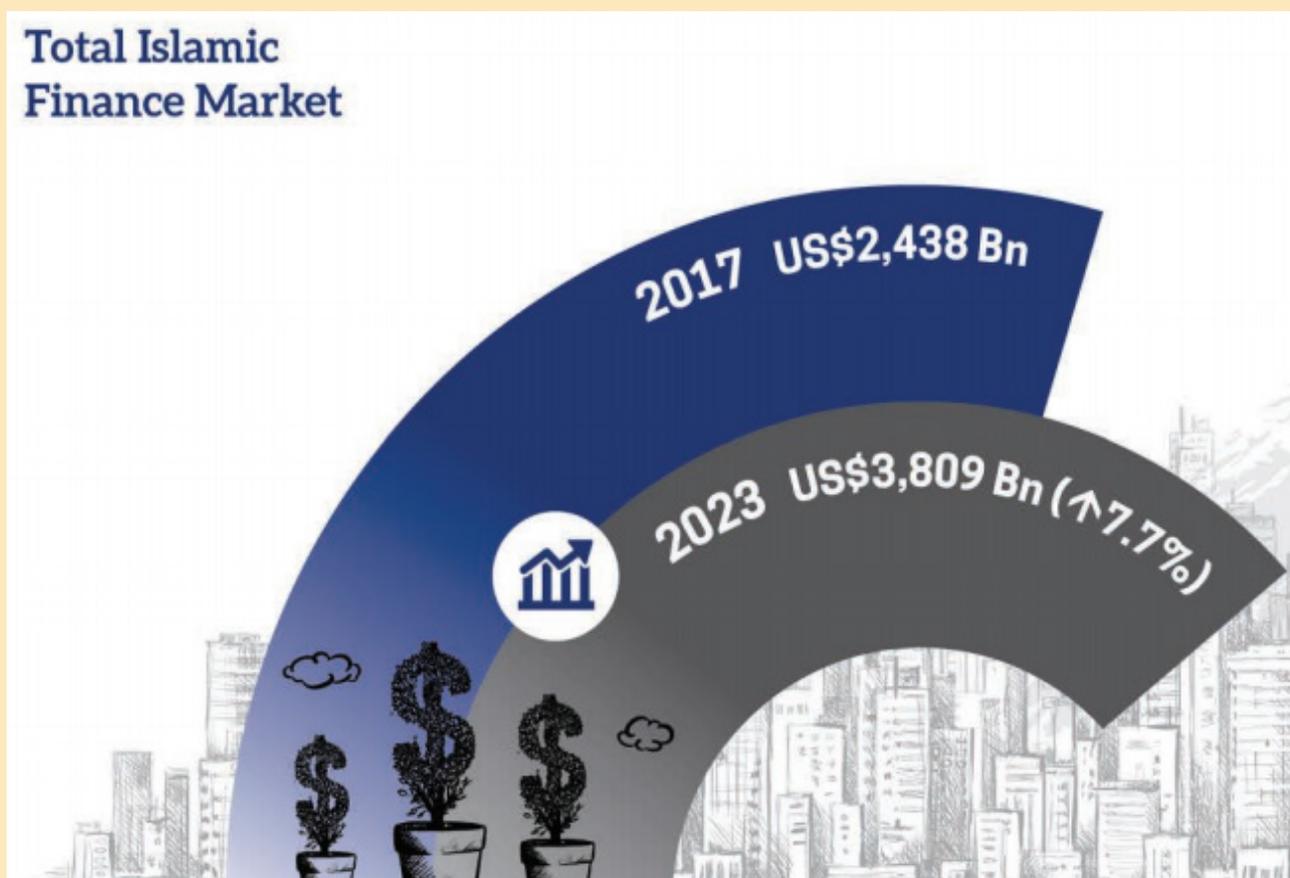


THE MARKET

At present there are no Islamic financial institutions operating or established in Ireland. As a consequence there are no Islamic finance compliant financial products available to the Muslim community either in the form of deposit, mortgage, or SME or other products. The consequence of which is that the community in Ireland has no option but to either accept conventional loan products (interest bearing amongst other criteria), or be excluded from availing of financial accomodation.

In the UK there are five fully fledged Islamic banks operating, including 2 retail banks, with total reported assets of £4.1 billion at 30 June 2018 [IFSB data] and more than 15 other banks offering Islamic financial services. Against this background we decided to undertake an online survey which was circulated widely within the community. Our objective is to present an accurate picture of the need and demand within the community in Ireland for Islamic finance compliant financial services/products.

Total Islamic Finance Market



Source: State of the Global Islamic Economy Report 2018/19

THE FINDINGS

Over 400 Respondents

We are delighted to present the findings of The Philip Lee Islamic Finance Survey. Carried out between mid-December 2018 and the start of February 2019, the survey was circulated to the Muslim community in Ireland. It was completed by over 400 individuals.

The findings of the report highlight an overwhelming desire from the Muslim community for Islamic mortgages and other lending products. Based on the responses, we can estimate there is an investment opportunity/gap in the market worth over €30m initially.

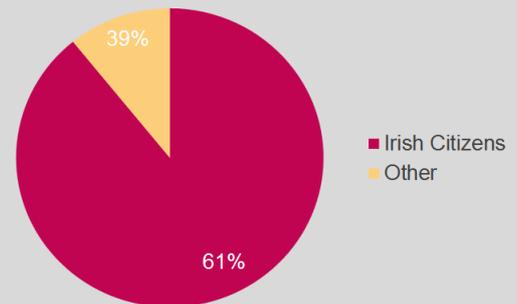
We see that the lack of availability in the market in Ireland is creating financial exclusion in the community. The survey shows that 98% of respondents would take up a compliant finance option if it was available in the market.

In the context of Brexit, established institutions in the UK will potentially lose the ability to carry on business in the EU. Ireland offers a similar stable market and legal system, with an untapped demand for Islamic finance, allowing these institutions to continue to have access to the markets of the other EU27.

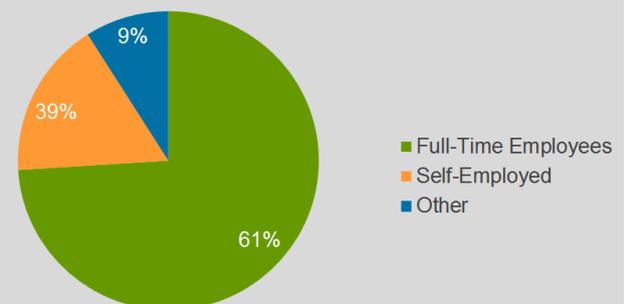
It is also worth emphasising that Islamic finance is not restricted to the Muslim community. In the UK many Islamic financial products have been taken up by non-Muslims seeking ethical alternative products. Most notably, deposit accounts offered by Islamic banks have been particularly popular due to the competitive profit rates offered on deposits.

- ◇ Amongst the respondents, only 15% had used financial products compliant with Islamic finance principles before.
- ◇ 33% had used conventional financial products.
- ◇ 98% would use an alternative financial product compliant with Islamic finance principles in preference to a conventional loan if available.
- ◇ 81% of respondents were living in rented accommodation notwithstanding that 50% of respondents had individual incomes in excess of €50,000 p.a.
- ◇ 86% of respondents expressed a desire to purchase a home or investment property.
- ◇ 98% cited the lack of a compliant alternative product as the reason for not purchasing a home or investment property.
- ◇ 95% of respondents had an indicative budget of between €250,000 to €500,000 for a home with the average mortgage finance required being approximately €274,500.

Profile of Participants Fig. 1



Profile of Participants Fig. 2



THE FUTURE FOR ISLAMIC FINANCE IN IRELAND

The Muslim population in Ireland according to Census 2016 was approximately 63,500. The survey results demonstrate the financial exclusion that exists within the Muslim community here in Ireland due to their faith. The absence of savings accounts, mortgages and pension products means increased reliance on the rental market within the Muslim community leading to a lack of integration, inability to set down roots in the wider community and difficulties for members of the community to plan financially for the future. Against the wider housing crisis and lack of capacity in the rental market, the offering of mortgages and other financial products that comply with the principles of Islamic finance show a significant opportunity for the Irish market on many levels.

In the short term, the survey results demonstrate the significant opportunity for investors or institutions in this sector, with the demand for mortgages estimated (from respondents to the survey alone) at circa €30 million with potential far beyond this snapshot of the community, with a further opportunity for deposits/savings products to be offered within the community from either a bank or credit union.



ABOUT THE AUTHOR



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Simon is a banking and finance partner at Philip Lee.

Simon advises banks and borrowers in respect of secured loan transactions, financial regulatory matters under the Central Bank Acts 1942 to 2014 and authorisation applications by credit institutions, payment services, e-money institutions, Brexit related regulatory issues, credit servicing firms, retail credit firms, and consumer credit.

Simon is a qualified solicitor and holds a Diploma in Applied Finance Law and a Diploma in Islamic Finance. In 2018 Simon advised Community Finance Ireland on the launch of a maiden non-interest bearing property finance structure designed for Muslim community organisations.

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