

Brexit Could Spell Opportunity For Islamic Fintech

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Brexit represents an opportunity for the UK to bolster its status as the leading hub for Islamic fintech services in the West, according to lobbyists.

A new report published by trade group TheCityUK ranked the UK first in Europe for its provision of Islamic finance, but signalled that the sector still consists of largely untapped potential.

“The number of institutions based in the UK that offer Islamic finance services is more than double the number located in the US and far ahead of other western countries,” the report said.

“An important feature of the development of the UK as a centre of Islamic finance has been a range of supportive UK government policies which have created a fiscal and regulatory framework intended to broaden the market for Islamic finance products.”

Jonathan Lawrence, finance partner at K&L Gates and leader in the firm’s Islamic Finance practice, said the UK’s historical willingness to [allow](#) experimentation in its financial sector stands it in good stead to accommodate the rise of this sub-sector.

“The Financial Conduct Authority (FCA) has been one of the world leaders in setting up its regulatory sandbox to test innovative fintech products, services, business models and delivery mechanisms in the real market, with real consumers,” he said to PaymentsCompliance.

“Although limited in the numbers of firms that can participate, this sets the atmosphere for regulatory innovation.

“Given the openness to Islamic finance solutions, then the UK offers one of the best homes for growth outside Muslim majority countries.”

This link between the rise of fintech and the increasing presence of Islamic finance is one also made in the report itself, as regulators in the Middle East [look](#) to make their countries more hospitable to financial innovation.

“The growth of both supply of and demand for Islamic fintech is raising awareness of the growing importance of Sharia compliant fintech,” the report said.

“Although the development of Islamic fintech has been most prominent in Muslim countries, the UK is also well-positioned in the market, due to its competitive advantages in both financial services and technology.

The FCA gave its first regulatory approval to an Islamic fintech firm, Yielders, in April of this year.

“There’s certainly movement in the UK to try to promote Islamic fintech, and for fintech firms in the UK to show the route forward for a lot of the Middle Eastern market,” Irfan Khan, founding director of Yielders, said at the time.

Middle Eastern countries have previously made efforts to link fintech developments in Europe with their own innovations.

As other European countries have also been taking steps to accommodate the growth of Islamic financial services, Lawrence saw Brexit as a potential driver of Islamic finance in the UK, by necessity if nothing else.

“The UK Sharia-compliant finance industry has never had much interaction with mainland Europe,” he observed.

“Indeed the UK has tried to develop a distinctive offering against rival Islamic finance centres such as Luxembourg.”

Lawrence predicted that the heightened competition with Europe brought about by Brexit would make an already-receptive UK government ever more open to development opportunities from other sources.

“Successive UK governments have been sensitive to lobbying from the Islamic finance world in order to attract deals and structuring opportunities to the UK, for example by amending tax legislation to remove disincentives,” he noted.

“Brexit will give further impetus to attract foreign investment and innovation into the UK.”

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