

# Can the Bank of England level the playing field for Islamic finance in the UK?



THE UK

By Dr Scott Levy

December is usually a quiet month for activity, dominated in the city by end-of-year parties and socializing. This year, not surprisingly, we have been distracted by the prospect of actually having to do proper business.

The most significant development was the announcement of the much-heralded and awaited Bank of England (BoE) Alternative Liquidity Facility (BEALF). The difficulties of UK Islamic financial institutions in managing their balance sheets should be eased if the announced BEALF goes live on schedule in the first quarter of 2021.

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Measuring the success of the BEALF, and the 2018 published objective of “leveling the playing field”, will take some time. As a Wakalah structure, the obvious question will be what assets the BoE will include in the portfolio and also



how much leeway UK Islamic financial institutions will have with regards to the definitions of high-quality liquid assets. Conventional banks struggle in this regard; the question will remain what UK Islamic banks will do in terms of accessing qualifying assets.

Given the shortage of pound sterling Sukuk, this will also create additional currency risk which, given the current problems about the specific UK variant of the virus, BREXIT and the outlook for the UK economy, could limit the effectiveness of the BEALF in practical terms. The details, of course, will be very important and will determine whether or not the playing field is indeed leveling.

The best measure of a positive outcome is when, or if, the UK’s Islamic banks are able to bring about some much-needed new product initiatives. If UK banks do not rise to this challenge, then I would expect to see more non-traditional players entering the UK market to provide a wider range of products for not only the individuals in the Muslim community but also to provide investment options for Waqf or Zakat, for example, which continue to be underserved.

This is not exclusively a UK problem. I am sitting in Dubai as I write this

where the problems of Islamic liquidity management are high on the agenda.

The recent announcement from the International Islamic Liquidity Management Corporation is interesting but this does not help either pound sterling or euro investors; more needs to be done to serve the UK market. 2021 should see a number of initiatives to expand the uptake of short-dated liquidity products to deal with the cost of holding cash, a problem conventional financial institutions are also struggling with.

Interestingly, I have been privy to recent discussions about more acute problems in Ireland. UK Islamic banks did look at the idea of serving the Irish community but this failed to materialize. Is there a market opportunity here to export UK expertise to Ireland post-Brexit? Probably a bit too late as it would require more regulatory approvals. Yes, the CityUK is doing much to encourage London as the western hub for Islamic banking but this feels like a lost opportunity for UK Islamic banks to have established themselves as European businesses. The outlook for 2021 is positive but fundamental work needs to be done. ☹️

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