

# Will French Muslims realize the importance of Islamic finance?

With investments that failed to finance the real economy, it is time to continue the work started in 2008 by Christine Lagarde, the former French minister of finance. EZZEDINE GHLAMALLAH explores.

## FRANCE

By Ezzedine Ghlamallah

**With a population of between six and nine million Muslims, France has more Muslims than eight members of the Arab League (Lebanon, Kuwait, Qatar, Bahrain, the UAE, Palestine, Comoros Islands and Djibouti). According to Pew Research Center, Muslims will represent 10% of the French population in 2030. With such demographics, it is obvious that Islamic finance and Takaful have a bright future ahead in this country, even if Islamophobia increases.**

## Weaknesses

*Lack of political will*

Firstly, there is a lack of political will to act on the initiatives of Lagarde during her reign as the minister of economy and finance in 2008. It is important to note that within the limits of the applicable law, French citizens have the opportunity to express religious preferences and act in accordance with them. These preferences can be the main criteria of a transaction in which two private parties contract. The principle of secularism, which guides the state institutions, does not affect the agreements between private parties.

*Lack of instructions and communication*

Another weakness is that Islamic finance was not developed in French Muslims' origin countries (Maghreb countries and former French colonies), it follows that the French Muslim population is not adequately aware of the need to get out of Riba and the local operators do not provide enough communication in order to target the mass retail market.

## Strengths

*Tax instructions and welcoming legal framework*

Firstly, the passing of tax instructions in the legal framework so as to avoid penalizing Islamic finance operations compared to conventional operations is welcome. Secondly, French Muslims are among the Muslims in the world to be

fitted with the most bank accounts and insurance coverage.

*A large target with substantial income*

An example of the French market's vitality is the Halal food market which is estimated at EUR5.5 billion (US\$6.23 billion). The social practice of Islam in France has evolved toward the search for a more respectful use of Islamic ethics and values.

For 35% of the French Muslim population, insurers do not provide complete solutions to their insurance needs due to non-compliance to Islamic ethics. An operator offering Shariah compliant solutions with a similar level of guarantees, price and services can take the leadership in this segment. Indeed, according to SIGMA magazine published by Swiss Re, France is the world's fifth-largest insurance market with a penetration rate of almost 10%. The French insurance market represents EUR200 billion (US\$226.52 billion) of contributions.

This high penetration rate can benefit Takaful's growth because France is a country where there is more compulsory insurance. With 94% of the people willing to subscribe if the industry players are able to offer competitive products, it is estimated that Takaful can pull in values of EUR1.8 trillion (US\$2.04 trillion) in General Takaful and EUR1.7 trillion (US\$1.93 trillion) in Family Takaful. By picking up only 1.75% of the domestic insurance market, France can become the second Takaful world market just behind the Kingdom of Saudi Arabia. The French market can therefore easily take its place in this global industry and enable it to be differentiated from London and Luxembourg, places that have opted to issue sovereign Sukuk in order to attract Middle East investors.

*High technical expertise level*

Furthermore, skills are present. There are two universities offering education in Islamic finance: the University of Strasbourg with Executive MBA and Master's programs and

Dauphine University with a Master Executive program. The profiles of people undergoing such training are multidisciplinary: insurers, actuaries, risk and asset managers, lawyers, private bankers, businessmen, etc. It is important to highlight that there are many Muslims working in conventional finance, who for ethical reasons would be willing to accept a lower remuneration in the Islamic financial sector; an operator that would invest in the market could get those skills at a low cost and become more competitive.

*Numerous small and medium players*

We see a boom in craze private players since 2008. France has three consultancy Shariah boards: ACERFI, CIFIE and COFFIS. There are numerous brokers and consulting firms with the main ones being Takaful Manager DEEFI, Groupe570, IFAAS, Inaya, Isla Finance, Noorassur and SAAFI and a new broker entering into the market every month. Some associations in charge of public awareness are very active such as AIDIMM and IFSO. There are several media organizations with a large audience in the Muslim community such as Ajib, Al Kanz, IFT, Pages Halal, Oumma, Ribh and Saphirnews and many mainstream media publish articles and reports on the development of the French Islamic financial sector.

These are all reasons why the European Central Bank said in a report published in June 2013 that Islamic finance seemed to have a great potential for development.

## Limited supply

Despite restrictions in place for the offering of Shariah compliant products, there is one bank that provides Shariah compliant financing transactions. Chaabi Bank, a French subsidiary of Moroccan Groupe Banque Populaire (Banque Populaire du Maroc), offers a Murabahah home financing solution and a deposit account.

The offering of Takaful products in France are limited; there are no general

Takaful solutions, which is unfortunate in a country where there is a multitude of obligatory insurance. Only Family Takaful solutions exist (which are optional insurance) that materialize through three contracts: FWU Ethra'a Takaful, Swiss Life Salam Savings & Investment and Vitis Amâne Exclusive Life. These contracts are distributed by many brokers and independent financial advisors throughout France. Although these products are very new in the French market, the response and feedback received have been very good so far with an extremely positive trend despite the lack of communications.

### Unmet demand

Almost 95% of the 470,000 Muslim Comorians in France have the willingness to be buried in the Comoros. There is a definite need for Takaful assistance repatriation as well for the 30,000 French pilgrims who perform Hajj every year.

Takaful health solutions are also important. According to the National Interprofessional Agreement of January 2013, all employees employed by a private company should benefit from

a mutual health contract. Many French Muslims are entrepreneurs.

If a Takaful company is able to offer a solution to achieve both compliance with French legal insurance obligations and Shariah, a massive underwriting would certainly be met. But without investors, it will take a long time to meet French Muslims' expectations to be free of Riba and Maysir.

### Key success factors

There are multiple key elements that can enable the creation and development of a real market for Islamic finance and Takaful in France. First, it is important to convince institutions of the growth potential in this segment. Then it is necessary to conduct a mass media campaign to stimulate demand. And finally, the most important point is that a market has to be created with the right products and to do this, money has to be invested in the design and supply of new products tailored to the population's obligatory insurance needs.

### A French sovereign Sukuk to boost the market?

The tax authorities issued an instruction

in 2010, describing the main features of Sukuk and the conditions to benefit from a neutral tax system compared to conventional bonds. According to Agence France Trésor, the funding needs of France in 2015 amounted to EUR192.3 billion (US\$217.8 billion), covered mainly by borrowing EUR187 billion (US\$211.79 billion), supplemented by annexes resources. Is it possible that France might one day do the same as the UK or Luxembourg by issuing a sovereign Sukuk? Surely not as long as the government continues to demonstrate a lack of political will to address the Islamophobia controversy.

France is still looking for investors to finance its deficit. However, when we observe the evolution of the French debt and what it represents in relation to GDP (93.5%), we can legitimately predict that this situation will not last forever. It might be wise to anticipate the day when the funding sources dry up like what happened to the UK and Luxembourg.☺

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## REDMONEY EVENTS CALENDAR

### SEPTEMBER 2016

20 <sup>th</sup>	<b>Restructuring &amp; Workouts for Islamic Finance Facilities</b>	Kuala Lumpur, Malaysia
21 <sup>st</sup>	<b>IFN Investor Forum</b>	Kuala Lumpur, Malaysia
26 <sup>th</sup>	<b>IFN Pakistan Forum</b>	Karachi, Pakistan
28 <sup>th</sup>	<b>IFN Turkey Forum</b>	Istanbul, Turkey
28 <sup>th</sup>	<b>IFN IMPACT SERIES: Real Estate Financing</b>	Dubai, UAE

### OCTOBER 2016

9 <sup>th</sup>	<b>IFN Project &amp; Infrastructure Forum</b>	Dubai, UAE
11 <sup>th</sup>	<b>IFN US Forum</b>	New York, US
17 <sup>th</sup> – 18 <sup>th</sup>	<b>Africa Islamic Finance Forum</b>	Abidjan, Ivory Coast
24 <sup>th</sup>	<b>IFN Kuwait Forum</b>	Kuwait City, Kuwait

### NOVEMBER 2016

7 <sup>th</sup>	<b>IFN Iran Forum</b>	Tehran, Iran
28 <sup>th</sup>	<b>IFN Saudi Arabia Forum</b>	Jeddah, Saudi Arabia

### MARCH 2017

TBA	<b>IFN Oman Forum</b>	Muscat, Oman
TBA	<b>China OIC Forum</b>	TBA

### APRIL 2017

10 <sup>th</sup> – 11 <sup>th</sup>	<b>IFN Asia Forum</b>	Kuala Lumpur, Malaysia
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### MAY 2017

18 <sup>th</sup>	<b>IFN Indonesia Forum</b>	Jakarta, Indonesia
24 <sup>th</sup> – 25 <sup>th</sup>	<b>IFN Europe Forum</b>	Chambre de Commerce, Luxembourg