

Interview Transcripts

Transcript of the interview 1

Ken Eglinton: UK Islamic financial services director, Ernst & Young

Date: 27. 06. 2018; Length of the interview: 15: 22

Interviewee:

Eglinton.

Interviewer:

Hello, Mr. Eglinton. This is Barbora, we are supposed to have an interview scheduled.

Interviewee:

Yes, indeed.

Interviewer:

Okay, once again, thank you so much for the willingness to conduct this interview. It is really appreciated.

Interviewee:

That is a pleasure.

Interviewer:

Just one remark before we start. Is it okay that the phone call will be recorded for the purpose of further transcription after the phone call?

Interviewee:

Sure.

Interviewer:

Okay, just to explain you very shortly what my research is about. I am researching, as I mentioned, the adaptability of Islamic banking, their loans, across the EU, with a specific focus on the UK and the Slovak Republic. Basically, I am trying to find if the environment, public acceptance, and the positioning of Islamic finance institutions is feasible or suitable for such markets.

Interviewee:

Sure.

Interviewer:

Do you have any questions, before we start with interview questions?

Interviewee:

No, that is very clear

Interviewer: Since you are focusing on Sukuk rather than on the financial loans, feel free to talk anytime about your perspective or if you do not know or you are not knowledgeable enough on this kind of questions, just stop me, and I will continue with other questions. So, what is the perception of Islamic financial institutions and their instrument, such as the Sukuk, within the country, the UK?

Interviewee: It is coming to two markets in the UK. The Muslim population of the UK is something like five per cent of the population. And the Islamic banks, in particular, one of them, very much focuses on offering retail banking services throughout segments. So that is one market, it is only five per cent of the population. All the Islamic banks in the UK emphasise the ethical driver. So, the trust. You can trust us because we are not like the banks that caused the financial crisis. So, they play on that, and they get numbers of customers, retail customers, but not in huge numbers. The other market in the UK is London as a global financial centre. Lots of sharia-compliant money or money that are looking for sharia-compliant purposes comes to London to the interbank markets in London, to the real estate in London, to be invested in the Sharia-compliant way. And that tends to be a much bigger market. Not only for the five Islamic banks, purely sharia-compliant Islamic banks in London, there is also something like 20 global banks that operate Islamic financial services through Islamic windows.

Interviewer: Okay, thank you. My second question is, as you already mentioned the main target group is the Muslim population. What are the experiences with targeting non-Muslim population in the UK? What are the attitudes of them towards these banks?

Interviewee: Purely in the retail sense I suppose more success than they expected but still not huge numbers. Nobody is going to make in my view, no bank is going to make a lot of money offering sharia-compliant retail banking services in the UK. Yes, not an enormous population are interested. Particularly if the propagator is very competitive with conventional interest rates, but beyond it, I just don't see it. There is some crossover

between Islamic finance and ethical banking. So, there is some, little success there, but we are talking about small stuff. The really big stuff is the global flow and London has a tradition in reinvesting those global flows of Middle Eastern money into Sharia-compliant products.

Interviewer: Thank you. As you mentioned, a non-Muslim population is mainly inclining towards conventional banks. Do you think there is some sort of prejudice towards Islamic banks or is it solely because of better offers?

Interviewee: There is some prejudice, and terrorist attacks in the UK and elsewhere feed that prejudice, but I would not say that is huge. I cannot say there is no prejudice, there is definitely some. But the bigger factor is brand recognition and trust. So, if you are a small businessman in North England let's say, whether you are a Christian, Muslim, or atheist, you have got your life saving, do you put it to a small, Sharia-compliant bank, would you, with the name you have never heard of, or do you put it to bank resource centre there? You have to be a little bit brave to put it somewhere else than bank resource centre or the equivalent. So, I think there is some prejudice, but I think the bigger factor is brand recognition.

Interviewer: Do you think that this brand recognition can be gained in the foreseeable future by, for instance, better marketing or other activities? Is it going to get a long time?

Interviewee: I think it can be changed, but I think you answered the question, it is going to take a long time. You build scale and trust over two or three generations, not through a slick advertising campaign.

Interviewer: Okay, probably this is going to be a straightforward question based on your answers, but do you think that the multiculturalism plays a role in the level of public acceptance and the feasibility of adaptation of Islamic finance in a country.

Interviewee: Multiculturalism plays an important role. I have seen setting up these banks in London, really a century. And in the first half of the twentieth century, they even tried to set up in London, and they would have absolutely no customers. So, multiculturalism is important and helped them to get where they are. But then again, if you are talking about retail banking in the UK, I do not see any hope for take-off.

Interviewer: Okay, thank you so much for answering the question. In the European Union, we can see that Islamic financial institutions are slowly spreading to other member states, such as Germany, France, Luxembourg. Do you think, if it continues to grow, there

is feasibility that Islamic finances would also accommodate in countries with low multiculturalism, such as Slovakia?

Interviewee: That is a very big question, my knowledge becomes sketchy here I am afraid.

Interviewer: Okay, so, let's go back to the UK. With the upcoming Brexit, there will be a lot of changes in the financial sector for sure. How do you think Brexit will affect Islamic banking and London as a financial hub?

Interviewee: Well, there are two questions, whereas Islamic banking and London as a financial hub. The Islamic one is easier because I think it will have a very little impact. The five Islamic banks focus on the UK population. They do very little business in the rest of Europe. The global banks with the Sharia-compliant windows tend to focus on the Middle East. They do not focus on Europe. Yes, there are some assets in Europe that would be attractive to those investors, so, yes, there will be some impact, but I do not really think it will have a big impact on the Islamic finance in London. Turning to your second question about the impact of Brexit on London as a financial hub, well that is a \$64 billion question. I suppose it will have an impact, how serious that impact will be and over what timescale the impact will unfold. It is hard or impossible to say because the terms of the post-Brexit relationship are not existent at the moment. We just do not know what the post-Brexit relationship will be.

Interviewer: Thank you so much. One of the last questions, in your opinion, is the current legal system suitable for the further growth of Sukuk and Islamic finances in the UK?

Interviewee: Certainly, more can be done, and there is some discussion both with the bank of England and with the treasury about tweaking some of the regulations and some of the requirements. But a lot of work has been done in the late 1990s. So, there are still some things, but the big ones in terms of regulations and tax have already been enacted for nearly 20 years now. And the objective of all of that was to make sure that within the UK, Sharia-compliant products are treated in the same way as their conventional equivalents. So, if you go back to 1990, a lot of Sharia-compliant products had double taxation or stringent capital requirement. Most of that has been resolved by the turn of the century. The government and the regulators here are pretty close to achieving their ambition of what they call level playing field so that sharia-compliant products can

compete as far as possible equally with conventional products. So yes, there is a little bit more that can be done, but most of it has been already done.

Interviewer: Okay, thank you. It was my last question. Once again, thank you so much for your participation. Do you have any final remarks?

Interviewee: No, I do not think so. In the end, your point about Brexit and London as a global financial centre is absolutely relevant to Islamic finance as well because one of the reasons a lot of the Islamic finance business is in London is because it is a global centre. A lot of finance, not just Islamic finance, if London ceased to be the financial centre for finance, it will also cease to be a centre for Islamic finance. The thing is, all of the things feed on each other and build a bigger whole. It is fascinating times to be working here and watching what is going on.

Interviewer:

Once again, thank you so much. It was a pleasure to talk to you.

Interviewee:

It was a pleasure. Have a good evening,

Interviewer:

You too. Bye.

Interviewee:

Bye.

Transcript of the interview 2

Martin Sýkora: Director of the Accounting Department, Bank: VÚB, a.s.

Date: 03. 07. 2018; Length of the interview: 7:44

Interviewee:

Sýkora speaking.

Interviewer:

Good morning. This is Barbora Adamcová. I am calling regarding the scheduled interview.

Interviewee:

Oh yes, of course.

Interviewer:

First of all, I would like to thank you for your willingness to help me. The interview will not take long. Before we start, I would like to ask you for the permission to record this interview for the purpose of later transcription.

Interviewee:

Yes, of course, that is absolutely not a problem.

Interviewer:

I would like to start with the introduction of my research topic. I am focusing on the adaptability of the Islamic banking across the EU, with a specific focus on the UK and Slovakia. I would like to observe a little bit the differences and search for similar patterns to see if there would be a chance to adapt something like this in the Slovak Republic. Well, I can directly begin with asking you what is in your opinion the extent of awareness of Islamic banking in the Slovak financial market?

Interviewee:

Well, I think it is minimal. And mainly because there must be someone who comes and implements it and brings enlightenment. Banks themselves do not know at the moment what to think about it, and on top of that they have no reason to implement it.

Interviewer:

Good, thank you. And how would you define the Slovak financial market in terms of openness towards new banks?

Interviewee:

I think that banks as such always seek for new possibilities where they can utilize or take advantage of their services, meaning, not only in our own territory or the territory of the European Union but also outside of the European Union. In principle, more customers, the better. By this means, you are able to provide a variety of services. It's all about, whether you have principally customers in Islamic countries and this country is not excluded due to some reasons from trading activities by banks, then there is no reason why a bank would not agree to provide services to this particular customer segment.

Interviewer:

Okay. And Have your bank experienced an encounter with customers seeking such services?

Interviewee:

My department does not work directly with customers, but I can imagine that these clients already came to our bank with such purpose. I cannot exclude this possibility.

Interviewer:

Good. I would like to furthermore ask, regarding the Slovaks as bank's customers, are they willing to switch banks, or do they prefer to choose one and retain there?

Interviewee:

Do you mean in general?

Interviewer:

Yes.

Interviewee:

Well, it really depends on how the particular customer is. Is he/she demanding or less demanding? How is he satisfied with received service? Thus, the answer is rather difficult. It really depends on the one hand on customer's soundness and on the other hand, what is his experience with the particular bank. Therefore, one customer can have worse experience; therefore, he has a reason to switch, while another one can be satisfied. Then it also depends on other factors, such as soundness, right? This customer can simply

switch a bank because when refinancing, the person would get better interest in another bank and the original bank cannot compete with it and adjust to the interest level of competitor's bank. As a result, the customer leaves due to the key product, for instance, the mentioned mortgage, and take it in principle to another bank. Hence, the new bank becomes the main bank.

Interviewer:

Thank you so much for answering these questions on banking in general. Does multiculturalism play an important role in the level of public acceptance and the feasibility of adaptation of Islamic finances a country or do you think it would have a chance to succeed in countries with low multiculturalism like Slovakia?

Interviewee:

I think it could succeed, but the question is what the bank would focus on. If it decided to focus on the whole spectrum of clients, in principle, it would not matter, right? When it establishes its presence and settle down, and offer services that appeal to all, then I do not see a reason why a client would somehow segment the choice, meaning, he chooses not to go to VÚB bank, and he decides to go to the other bank if it offers better services.

Interviewer:

Do you think there would be prejudice on behalf of Slovak citizens due to its name or related connotations?

Interviewee:

It is possible, but it all depends on the level of enlightenment. If a bank establishes its presence in the market transparently and it is always the case that before an actual establishment every bank disseminates about itself information. Also, even though bankers are conservatives, on the one hand, the Islamic bank represents another competitor in the market. On the other hand, the subject is in principle licenced, and it meets all the requirements like other banks, there is no reason why the other would exclude Islamic bank from the market. In spite of the Islamic name, the business equality in the market still exists in the Slovak Republic also in terms of a legal framework. Thus, I do not see a reason why such a bank would not exist here. Just it is needed to explain on what principles does the bank operate and what differentiates it from the other banks.

Interviewer:

Maybe the last question, do you think that cooperation between Slovak conventional and Islamic bank would be feasible as it is the case in the UK or would Slovak conventional banks would be rather reluctant towards it?

Interviewee:

In my opinion, it is all about that you can do business with any country in the world, and Slovak banks are ready to do business with any country in the world that is allowed. Therefore, I think it is not a problem. You can create a product with any bank, for instance, a Syndicated Loan, and you can cooperate with any bank that... yes, the name of a bank is also important. It would be maybe suitable if a bank has strong foundations in some other country inside or outside EU because I cannot really imagine who would commence cooperation with a completely new bank in our market. History and tradition of a bank is relevant information for another bank to decide whether to begin cooperation with it or not.

Interviewer:

Okay. Thank you so much for participating in this interview. It was really helpful.

Interviewee:

Welcome. I hope other will help you too.

Interviewer:

Thank you and have a good day.

Interviewee:

Good bye.

Transcript of the interview 3

Nik Shahrizal Sulaiman: An Islamic finance professional

Date: 05. 07. 2018; Length of the interview: 15:30

Interviewee:

Hello?

Interviewer:

Hi, Barbora Adamcová speaking. Am I calling to Nick Sulaiman?

Interviewee:

Oh yes, yes. Hi. This is Nick.

Interviewer:

Is it okay that we conduct this interview right now, or are you busy?

Interviewee:

Yes, that is alright. Is that Barbora?

Interviewer:

Yes.

Interviewee:

Okay, great.

Interviewer:

First of all, I would like to thank you very much for your willingness to help me with this, it is really appreciated. Just to explain you a little bit what I am working on, I am trying to research the adaptability possibilities for Islamic banking to accommodate across the European Union with a specific focus on the UK and the Slovak Republic. Before we commence this interview, maybe I can ask you are you familiar or particularly knowledgeable about these two countries and the Islamic banking within them?

Interviewee:

Well, I have some understanding about the Islamic finance activities in the UK. I know that a few years ago, the British government announced they want to incorporate Islamic finance as a part of the financial capital market. There have been a number of Islamic

banks in the UK; although, in terms of size and growth it has not been that significant. So, that is some of the information that I am aware of.

Interviewer:

Before we start, is it okay that I will record this interview for the purpose of later transcribing?

Interviewee:

That is fine, but there are also a few areas which I need to communicate with you. Number one, the way that you reference this conversation, you can say an Islamic finance professional, but you must not make any references to my company. Whatever will be here, it is a personal opinion as an Islamic finance professional, but not the company. So, if you are okay with that, then it should be fine.

Interviewer:

Of course. Since everything is clear, we can start. What is the current role of Islamic banking and the financial products in the conventional banking market?

Interviewee:

Well, it can be a very long answer or a very short answer. I do not know how much you know how the Islamic banking in Malaysia is. The role is to provide Islamic finance solution, to provide financial solutions to the market players but in the Sharia-compliant way. And that cuts across all the way from retail banking, such as housing loans and personal loans, to wholesale banking, corporate loans, working capital, all the way to financial instruments, such as interest rates swaps and so on. So, the role of Islamic banks is to provide financial solutions to the market in the Sharia-compliant way.

Interviewer:

In general, Islamic financial institutions, especially banks, target mainly Muslim communities within a given country. What is the situation in the UK? Is the customer base mainly of Muslim origin?

Interviewee:

To be completely frank, I do not have much detail about the key activities in the UK

Interviewer:

Okay, so I will focus on more general questions then. What are the experiences of Islamic institutions with targeting a non-Muslim customer base?

Interviewee:

In Malaysia, a lot of customers of Islamic banking are not Muslims. To a certain extent, I would say that the religion of the user, of the customer, is actually almost irrelevant. I can see in Malaysia that when a customer chooses Islamic finance is more because of the feature of the products rather than a personal religious belief. There are some elements of Islamic finance product which are slightly different from conventional banking products. For example, in terms of penalties, maximum ceiling price and so on. So, there are some slight differences, and some customers prefer that. My conclusion is that the religion, the personal belief of the customers is almost irrelevant when it comes to selection and customer behaviour in Malaysia.

Interviewer:

Do you think that the multiculturalism of a country plays a role in the level of public acceptance and the feasibility of adaptation of Islamic finances in any country?

Interviewee:

That is a very interesting question. Maybe. I simply do not have complete information to answer that question. But I would say that is a very interesting hypothesis. In addition to multiculturalism, a more important factor is the level of effort to make the market understand Islamic finance. Because in Malaysia, close to 99% of all the banks in Malaysia have Islamic banking products. Therefore, they invest a lot of resources to ensure that the staff and the banking officers are aware of and able to explain Islamic finance to the customers. So, when you have the whole banking industry working together to educate the market, I suppose that lead to a situation where the market then the market becomes familiar with the Islamic products as opposed to a different country, it can be the UK and so on, where the Islamic banking is a much smaller part of the whole industry. One would argue that market familiarity then is much less than to let's say Malaysia.

Interviewer:

Based on the information that was given, do you think that Islamic banks, more specifically their lending services, have a chance to become equally competitive to

conventional lending products in the future, especially in the markets where the conventional banking is dominant?

Interviewee:

I think that question is very much specific because if you talk about competing at the global level I do not think that Islamic banks will replace conventional banks, let 's put it that way. But in the area where there is a market demand for Islamic finance, then yes, it can become a big market. For example, in Malaysia, Islamic banking comprises close to 20% of the financial asset in the market, close to about 40% of the bond market. So, I am not giving you precise numbers, maybe you can sort of double confirm that, but it is around that. And part of the reason is that in Malaysia there is a huge market demand for Islamic finance propagated by the government direction and so on to make the country hot for the Islamic finance. So, it is very market specific, So, on that logic, I could see that in countries such as Indonesia or Turkey, you know, for those countries which occur Islamic finance demand, an Islamic bank can become a very strong competitor to conventional banks. But it is very country and market specific. For example, in the US, I do not foresee an Islamic bank to replace the conventional bank.

Interviewer:

Thank you so much for this answer. And now regarding the cooperation, do you think that such cooperation between Islamic and conventional banks is welcomed by the general public?

Interviewee:

Can you elaborate that question? What sort of cooperation are we talking about?

Interviewer:

As we can see in already many countries, the cooperation can range from co-financing and financing of projects, knowledge exchange, training, to doing sharia-compliant services to one to another.

Interviewee:

Are you referring to cooperation between different Islamic banks or cooperation between an Islamic bank and a conventional bank?

Interviewer:

Between conventional and Islamic banks,

Interviewee:

Okay, I think it can take a different dimension. For example, in Malaysia, a banking group, I can give you an example, such as Maybank, which is the largest banking group in Malaysia, would have a conventional banking arm and an Islamic banking arm, right? So, within the group, there is a huge amount of cooperation in terms of the technology platform, support, for example, the finance department might serve both Islamic arm and conventional arm. So, within the same group, there is a huge amount of cooperation in terms of training, human resource, IT system, talent and so on. But typically, between competitors' banks, I think logically does not matter whether it is Islamic or not, then the cooperation becomes less. There could be an industry level cooperation in terms of market research or things like that. Banks would plan together and start a committee for common benefits. So, the cooperation exists at a different level, but it is a lot more if it is in the same banking group.

Interviewer:

Okay, thank you so much. Maybe the last question. In your opinion, what are the main issues which bank face when cooperating with one another? In terms of conventional bank and Islamic bank cooperation.

Interviewee:

Okay. Again, I would put a dimension between the similar banking group owned by the same shareholders and different banking group in terms of absolute competitors. If it is in the same banking group, the challenge would be the term we call cannibalisation of customers where you would come to a point when a customer would choose between an Islamic product and a conventional product. You know, when buying a house, because a customer cannot take both loans when buying one house. I think that the issue is that even though the banks may belong to the same banking group but because of the KPI and so on, banks might compete with each other. Bear in mind that when I say this, I am not referring to any particular bank, such as Maybank and so on. I think that the example I mentioned earlier was a general example where banking groups would have both conventional and Islamic arms. You know there is a level of competition because of different management teams, different KPI and so on. Now, when you talk about cooperation between different banks in different banking groups, I think that the

challenge is competition because when they compete, the banks need to decide to protect their trade secrets, such as financial products, their talent from each other. But then again, I think these challenges are common across any businesses. So, that is my personal view.

Interviewer:

Okay, thank you so much for answering these questions. It was very helpful.

Interviewee:

Good, good.

Interviewer:

Once again, thank you.

Interviewee:

Bye-bye.

Interviewer:

Have a great day

Interviewee:

Thank you. Okay, you too. Bye.

Transcript of the interview 4

Sanderson: Legal director at Shakespeare Martineau

Date: 05. 07. 2018; Length of the interview: 20:33

Interviewee:

Mr. Sanderson.

Interviewer:

Hello, here is Barbora speaking. We agreed to have a call regarding the interview. Is this a good time for you, or should I call later?

Interviewee:

Yes. No, no, let's do it now.

Interviewer:

Okay. So, first of all, I would like to thank you very much for the willingness to participate. It is really helpful. Just to quickly introduce my topic, I am trying to research the level of adaptability of Islamic banking institutions across the EU and more specifically in the UK and the Slovak Republic. Also, I am trying to research to what extent does multiculturalism play a role there.

Interviewee:

Okay.

Interviewer:

First of all, is it okay, if this interview will be recorded for the purpose of later transcription?

Interviewee:

Yes, if I see the transcription, preferably in English.

Interviewer:

Of course, it is going to be in English. I can send it to you as soon as I finish it, today or tomorrow. Would you like to be referred there as an employee of the firm or as a professional knowledgeable in the area of business?

Interviewee:

I am a lawyer, and I can answer legal questions, and I also act for a number of Islamic banks in the UK. But a lot of your questions would be probably better answered by people who are in the commercial. There is a lot of discussion about Islamic Banking going on, and it would be better answered by people who are actually involved in Islamic banking in commercial terms. What you should bear in mind in our conversation is that I cannot answer all the questions, I can only express a view. Therefore, you might get a slightly limited answer. I am happy to answer, I just mean, they might not be as full answers as you want in terms of providing you with answers.

Interviewer:

Okay, so we can start with the legal system in the UK. Do you think that the current legal system is suitable for further growth of the Islamic banking?

Interviewee:

Well, do you know how current Islamic banking works?

Interviewer:

Yes, sir.

Interviewee:

What you have got are various ways in which Islamic banking has mimicked, if I can call it that way, conventional banking. So, you could come and get a mortgage to buy a house, and you would get what would be described as home purpose plan. Home purpose plan is, what is called diminishing Musharakah. So, the bank is entitled to a property and over the time of the loan, we can call it a loan in mutual terms, you buy the bank's share in slices over time, and you pay them a rent, which is equivalent to interest. I have to say that my impression of the objective of it is to do exactly what they did before the Reformation to get around the usury laws under Christianity, Catholicism, and that is to the great extent what it is all about. Which is not particularly a good thing. So, you got the Diminishing Musharakah, you have got Murabaha, which is: I am the bank, and I sell you some commodities. I buy a quantity for 100, and I sell it to you for 105, and you don't have to pay me for six months. You have the commodity, you can sell it for 100. So that gives you 100 of cash, and you pay me 105 in six months' time. And that is regarding the loans of Islamic finances.

Interviewer:

Thank you for the answer. I wanted to ask if there are any regulations in preparation in the nearest future which would somehow shape the legal environment in the UK, which might change that?

Interviewee:

At the moment, the short answer is no. There are concessions given by the tax authorities to make sure that people can operate Islamic finance transactions which have the same economic effect, the same tax effect as the conventional one. Some of the changes went too far, enabled people in the UK to avoid tax, and that avoid has been restricted to Islamic transactions. There are still some that have not been changed yet, which is buying and selling real assets as opposed to money that is not conventional. But those may be changed I think over time, or they just shut their eyes and say do not worry about it. At the moment, it is not so much changing the law, it is more changing administrative areas in tax and things like these, so you can operate in Islamic finance structures without incurring additional costs.

Interviewer:

Okay, thank you so much for the explanation. Now, I can maybe continue with the concept of Brexit. Do you think that Brexit will affect the functioning of Islamic financial institutions, especially in terms of provision of loan instruments in the UK? If yes, to what extent?

Interviewee:

I think what you should be aware of is that it won't affect more than upper banks. Bizarrely, we have done two deals for an English bank in France. That is a bit of a stretch, but that is because of the ultimate ownership of the banks in question. They wanted to give finance to people who have properties in France. So, in effect, it was English law documentation but with security over French property. That may be affected by Brexit, who knows, but at the moment the institutions are owned not in Europe. Because they are relatively small institutions, it has to be said. Banks are quite small. They are probably English Incorporated, and they tend to be owned from the Gulf. Now, what will be a difference is that some of the funding is for high-value UK property. These properties tend to be owned by companies which tend to be non-EU companies. They tend to be from the British Virgin Islands, Cayman, Jersey, whatever. So, I think the answer is that Brexit will not affect other than in the way that it will affect other financial institutions.

And it will not affect loan instruments in any way. The point is, the loan instruments are a hard thing to describe because they are not loan instruments technically. It is a provision of finance.

Interviewer:

Thank you for this, now, maybe more general question. In the current financial market in the UK, what is the current role of Islamic banking? Is it more of a supplementary role, niche market, or is it an equal competitor to conventional banks?

Interviewee:

I think you need to look at it in terms of what they are doing. There are two things. One is servicing expatriates coming from the Gulf and companies from the Gulf. That is one aspect of it. And the other aspect is providing, what I recall, finance for ordinary people buying ordinary houses. That is very much where Al Rayan Bank came from that financed houses for people. That was the basis what they did. And now, expanding and providing some finance to small businesses. They are also taking money and funding largely expatriates coming in, buying prestigious houses, particularly in London and elsewhere.

Interviewer:

What are the experiences with attitudes of non-Muslim inhabitants in the UK towards Islamic banks? Is there some sort of prejudice existent?

Interviewee:

I would not say so. I mean they were against Muslims, immigrants generally, but not particularly against Islamic banking. I think the fact that Al Rayan Bank started its operations very like a building society. I took a cab to their office in Birmingham to see if they would lend me money and their answer is, yes, they would. They do not say you have to be a Muslim to have funding from us. But the fact is they are slightly more expensive, which actually is the issue. So, what is the point for us doing Islamic finance, if you are simply funding your house, probably about half a cent? They are not the most competitive, but they are very friendly people to deal with. Also, they are good with dealing with customers, they have very low or no default rates.

Interviewer:

Do you think that the multiculturalism plays a role in the level of public acceptance of Islamic finances in the country?

Interviewee:

Okay, I suppose I should declare a role. I also preach Christian church and one of the things that I was preaching on last week, was the letter of Peter, and that was clearly written to a minority, which Christians were at that time. And one of the things I pointed out was that I think both in the Christian church community, the Jewish community, and Muslim community, there will be a steady rundown of religious attachment, not only amongst people that are currently in there but particularly amongst their children. Because the competition in the surrounding world is secular and will become to some increasing indifferent to religious commitment and that would apply to Islamic banking as well. Why would I take a loan from Islamic banking, Islamic mortgage, if it is going to cost me an extra so much amount? What is the point? You might do it because they are a friendly, local firm providing it, but why would you do it? And I do not think they have recognized that completely yet. But I think that is a stronger force than them possibly expanding. But I think Islamic banking will probably break down anyway, one way or another.

Interviewer:

Thank you for these answers. It was definitely helpful. Would you like to say some final remarks before we end this interview?

Interviewee:

No, I think I covered the two things. It works, it is very like getting around the usury laws before the Reformation, and only it has grown in the last century really. Personally, I am happy to do it, but I do it professionally. I think the other thing is that the way Islamic finance is supposed to work is by genuine sharing of risk and everything else, whereas the way, how it is actually structured, there is no sharing of risk. It is really a legal playground. So, for example, when you buy your property under the home purchased plan, you agree to buy the property, to buy the bank's share at a fixed price. There is nothing possible at the moment. You buy to fixed price, the bank is, therefore, concerned in shared ownership but the fact is that they have no shared financial risk and benefit in the property. And that is what they should be doing under Sharia. So, there is a considerable element of having to not quite bend Sharia rules in order to comply with the banking rules. That is the major issue. But in terms of the relative benefits and risks and so on between the bank/financial institution and the counterparty, there is no real acceptance of shared risk. So shared risk, in particular, real estate, there is an obvious risk

because down the bank may not get its money back, but they are not really in a business of sharing the risk. So, was it all right?

Interviewer:

Yes, thank you so much. It was really helpful.

Interviewee:

Okay.

Interviewer:

Have a good day.

Interviewee:

Bye.

Transcript of the interview 5

Ladislav Záhumenský: Consultant at STEINIGER law firm

Date: 06. 07. 2018; Length of the interview: 20:33

Interviewee:

Hello?

Interviewer:

Good morning, this is Barbora, can you hear me?

Interviewee:

Hello, Barbora. Yes, I can.

Interviewer:

Perfect. First of all, I would like to thank you very much for the willingness to participate and discuss this topic with me. I really appreciate it.

Interviewee:

Of course, that is alright.

Interviewer:

Before we start, I would like to ask you, whether it is okay with you that this phone call will be recorded for the purpose of later transcription?

Interviewee:

I agree.

Interviewer:

In my thesis, I am researching the level of protentional adaptability of Islamic banking across the EU, and I am focusing on a highly multicultural country, such as the UK and a country with low multiculturality, Slovakia. I am checking the opportunities in terms of legal aspects, public acceptance, and the current situation in the banking sector. Therefore, I will begin with the questions regarding the legal system. Do you think that the current legal system in Slovakia or the EU is suitable for protentional emergence and growth of Islamic banking?

Interviewee:

Well, if it is suitable, so far, I would say it is not *not suitable* [emphasis added]. There are no significant barriers. Usually, there is a problem in the legal system in terms of its ability to process transactions in a way how it is structured in compliance with Sharia. There is usually a huge problem with a tax aspect. Therefore, it, of course, depends from a country to country. In some countries, for instance in Slovakia, we do not have property acquisition tax, which would be calculated based on its value. Thus, it is possible to execute numerous structures when financing properties. In countries which are not this case and they have so-called transfer tax, a problem emerges because it overcharges transactions. For instance, a bank would acquire and rent a property to its client, and the client would in the end acquire it and pay the tax again. So, these things exist somewhere and somewhere not, but the majority of these Islamic structures can be somehow fit in the existing concepts that the law knows and then they have to be through these laws implemented. Then, these above-mentioned problems can arise. For example, this problem does not exist in Slovakia; however, there is not a big demand for it. In some other countries, where they focused on it, for instance, the US where exists real estate transfer tax, and there is a regulation which would exempt Islamic banking, so, the transfer tax would be paid only once. The system does not look at the formal aspect of the transaction but at its substantive aspect or content and that is when a bank purchases property for the purpose of a subsequent transfer of ownership on its client, it is solely recognized as a loan; thus, the tax is paid only once. So, this is the idea. I do not have an overview of every situation in the EU or if there was some incentive at the EU level to solve this. I assume that not. These are the major problem. As I said, it is possible to implement most of the structures.

Interviewer:

Thank you so much for this answer. As you mentioned that there is no demand for Islamic banking at the moment or a minimal one. Do you think that the multiculturalism plays an important role in terms of public acceptance and feasibility to adopt Islamic banking in a country? Or are there other factors?

Interviewee:

I think it is important that in a country, at the moment in Europe, I would say to have the community of Muslims. Because they will primarily use these services. At the moment, this is only my opinion, maybe based on your research you will find something else, the

non-Muslim community does not utilize Islamic banking, at least not at the retail level at all. At the corporate level in case, someone is not able to get financing from a conventional bank anymore may agree to use Islamic banking or financiers who demand to have structures in compliance with Sharia. However, the number of cases will be minimal. The UK is right now a global centre for Islamic finance, but it is also because there is a stable legal system and law enforcement is good. Thus, entities that require international financing and are located in the Middle East or Malaysia, Indonesia and states similar to those that are mostly Islamic, or they demand sharia-compliant financing, they look for resources there. It has developed there. However, at the retail level for the public, some sort of multiculturalism is probably needed because I cannot really imagine that someone who usually uses conventional banking products, a loan and so on, would research whether in Islamic banking structures and financing he would get it better. Really, if he is not a Muslim... and if Muslims wish to manage their transactions with Sharia, they will seek out these products.

Interviewer:

Do you think that this reluctance of non-Muslim citizens to try Islamic banking is rooted in their convenience, low awareness, or prejudice and connotations linked to Islamic banking?

Interviewee:

I do not really dare to answer this. To some extent, it will be probably a combination. I assume that the prejudice will be the first factor. Unless someone overcome them, he will not be even interested in educating himself about what these products mean in reality. I know a lot of people who are perceiving it very cynically. Like, okay, let's depersonalize from the fact that it is Islamic and let's take a look at the structure. Their opinion is that it is only avoidance of what exists, like the prohibition of interest and other structures that do not really make sense to them. Therefore, it is simpler to do it in a conventional way than try to avoid several principles and in the end just to complicate the situation. This is what I heard from a lot of people. Of course, not everyone goes to the detail what Islamic banking actually encompasses, where the actual difference is. At the surface, and the most people look at the surface only, they cannot see the difference. Therefore, it is only some sort of scratching one's head over and over again. Therefore, they say it has no meaning.

Interviewer:

Thank you. Thank you very much for this answer. Let's go now to more general aspects. How would you define the role of Islamic banking and its financial products, especially the lending alternatives, on the EU financial market?

Interviewee:

What I have knowledge of, it does not need to be the most precise one, I would divide it into two streams. One stream is the UK, London more precisely, as a global Islamic financial centre. In other countries, it is more a marginal service for Muslim communities that due to Sharia law did not use conventional banks. In Germany there were such initiatives, I think such a bank offering financial products has been already established there. I assume, in the UK, they have such a bank too. Hence, it is a supplement or a mean how to address this gap in the market when banks try to get these Muslim minorities. It is especially in countries where the Muslims represent large communities. Besides the countries where it is relevant, I assume there is absolutely nothing.

Interviewer:

Okay, thank you so much for this opinion. Maybe let's continue to the last topic area. It is known that cooperation between conventional and Islamic banks is possible at least to some extent. For instance, in financing and co-financing of various projects, provision of some correspondent banking services, training, and exchange of business information and so on. Is such cooperation welcomed among banks?

Interviewee:

Within the business, it is not a problem. Many times, the source of the financing that goes to the client through the Islamic-compliant structure is in fact, acquired through the means of conventional financing. Given the number of the clients and entities in the market able to do business with each other under the conditions of Islamic banking principles and compliance with Sharia, often, mainly in case of large commercial finances there is syndication of conventional banks. They give the resources, and only the final product is given to the client as Sharia-compliant financing. Therefore, the cooperation is possible. If it is welcomed, it is hard to say. Probably, the way everyone is looking at it is based on how much profit they can make out of it. If it is a profitable activity, why not. I think that at this level, no one really cares. I would guess that an ordinary shareholder of the bank or members of the Board of Directors do not care what way they achieve their profits as long as it is legal. Meaning, many times conventional banks create an Islamic window to

increase revenues and attract these potential clients. On the other hand, what would not be possible is that the Sharia bank would also do convenient banking. That is not the way. However, the other way around, it is already happening,

Interviewer:

Okay, good. The last question answered it you more-less through previous questions, but do you think that Islamic banks and their lending services will have in the future chance to become equally competitive as conventional banks in the EU?

Interviewee:

Good question. It depends where there are countries where it works and where there is no alternative; thus, you are forced to use sharia-compliant banks.

Interviewer:

Let's narrow it down and focus on the UK and the Slovak Republic.

Interviewee:

Under such conditions, it is easier and more convenient for an ordinary client to use the products the way he knows them and not go outside of the comfort zone. Unless it would be more beneficial for him, in term of lower costs when borrowing or higher income when investing, there would not be probably any reason, meaning, the development of the products depends on the ability to persuade the client with the offer as a whole, including all that it takes. Because a client will not go for it just to try a new structure. Probably no one would want that.

Interviewer:

Thank you so much. Your answers were indeed really helpful. I really appreciate your help.

Interviewee:

That is alright, I hope I helped. Have a good day.

Interviewer:

Have a good day too.

Transcript of the interview 6

Radovan Džugas: Head of investment products at Slovenská sporiteľňa

Date: 03. 07. 2018

Summary of the interview:

Our company has not yet had any experiences with Islamic banking. Knowledge of employees about this topic is rather limited, and the amount of the knowledge is only to the extent what they voluntarily self-studied. In my opinion, Islamic banking has no chance to settle here in the foreseeable future because, in the Slovak financial market, there is no demand at the moment.

Proof of summary approval:

 komu: **DŽUGAS** ▾

Vážený pán Džugas,

ešte raz by som Vám chcela poďakovať za Vašu pomoc a vysvetlenie Vášho názoru na súčasnú situáciu islamského bankovníctva na Slovensku. V nasledujúcom odseku môžete nájsť zhrnutie informácií, ktoré ste mi poskytli:

Vaša spoločnosť zatiaľ nemá žiadnu skúsenosť s islamským bankovníctvom. Vedomostí zamestnancov sú limitované, poznatky siahajú iba do rozsahu, čo si sami dobrovoľne našťudovali. Podľa Vášho názoru, islamské bankovníctvo nemá v blízkej budúcnosti šancu usadiť sa, keďže momentálne na Slovenskom trhu tu nie je o to žiaden záujem.

Bolo by možné aby ste mi písomne potvrdili, že toto vyhlásenie ste naozaj poskytli prosím? Naša univerzita si to vyžaduje ako dôkaz vierohodnosti.

Vopred ďakujem.

S pozdravom,

Barbora Adamcová

Dňa 3. júla 2018, 15:25, DŽUGAS Radovan SLSP <dzugas.radovan@slsp.sk> napísal(-a):

...



DŽUGAS Radovan SLSP

komu: mne ▾

Oprava v texte ináčOK.

Radovan Džugas

4. 7. (pred 4 dňami) ☆

