

How successful has the Irish government been in promoting Islamic finance in Ireland?

An exploratory analysis of the level of awareness of Islamic finance among employees
in financial services in Ireland

Tarek Elbay
MSc Management

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Abstract

Promoting Ireland as a centre of excellence in Islamic finance has been highlighted as a key part of the governments 'Strategy for the International Financial Services Industry in Ireland 2011-2016' however today very few people within the financial services sector seem to know much about Islamic finance or how it differs from conventional finance. This study will focus on examining what Islamic finance is, the current level of understanding within the Irish financial services industry of Islamic finance, what has been done to attract foreign investment in this sector and raise Irelands profile, and the potential benefits for Ireland in tapping into this market segment. In answering these questions we must look to study existing literature on Islamic finance to explore how it differs from conventional finance and its development in the Middle East, Asia and Europe. In order to measure levels of awareness we must investigate by means of targeted surveys and interviews the extent of knowledge the average financial services employee has of Islamic finance.

From this information we will look at what is needed to not only raise awareness of Islamic finance in Ireland but also what is needed to be done in order to realise the potential benefits in attracting this business to Ireland as envisioned in the governments strategic plan.

Submission of Thesis and Dissertation

National College of Ireland

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(Thesis/Author Declaration Form)

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Student Number: x12109088

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(a) **Date:** 1 September 2014

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Introduction

The near collapse of the Irish financial system in 2008, its impact on the domestic economy, and the retrenchment of foreign direct investment, have all played a major factor in a renewed interest by the Irish government in seeking to attract Islamic finance to Ireland. Reddan (2012) argues that by providing Sharia compliant products, Ireland will be able to attract 'wealthy investors' from the Middle East. PricewaterhouseCoopers which currently audits 75% of Islamic funds in Ireland (PwC, 2012) have highlighted that Islamic finance is a high growth market and they estimate that Ireland already accounts for 20% of Islamic funds domiciled outside of the Middle East. This would be seen as a solid foothold to start from although if funds currently make up just a small portion of the global Islamic finance market, it is seen as a solid stepping stone for tapping the rest of the market. The Irish government has already been engaging in changes to legislation to accommodate Islamic finance in Ireland for over a decade now with the latest legislative action in the form of the Finance Act 2010. Here existing rules on regulation and taxation were amended to include Sharia transactions (Islamic way of doing business) to allow these transaction to take place in Irish jurisdiction and reduce ambiguity over tax treatment. Reddan (2012) stated that the government have published 'extensive tax legislation' in this Finance Act to facilitate Islamic products and transactions such as debt capital markets, securitisation and investment funds showing clear signs they are willing to accommodate the rest of the products available in the global Islamic market.

KPMG (2010) reported that Islamic Finance's 'distinctive ethical stance also chimes with the desire of many politicians, regulators and customers in the mainstream banking sector for a focus on responsible, sensible, principled banking'. This is in line with Islamic value of 'achieving socioeconomic development and social justice among different groups in society' (Sherin, 2009). Authors Duran and Lopez (2012) have indicated that Islamic finance has great potential for growth in the future global economy. Although the Islamic finance segment is still dwarfed by conventional finance, it is estimated that Muslims will account for about 26.4% of the world population by the year 2030 (Time, 2012). The segment is also expected to grow at a rate of 15 to 20 percent per year (Sherin, 2009) based on past performance. Derbel (2011) has added that Islamic finance growth is not only due to the increasing Muslim population but rather due to its efficiency and performance where the author argues that

Islamic finance ‘constitutes an ethical choice’ that has been neglected in some of the conventional finance instruments. With all this apparent potential what has been the effect on the ground in Ireland financial institutions? With the increased media coverage surrounding the banking collapse most members of the public and staff at these institutions have become more aware of conventional finance however Islamic finance is still considered a niche area with a minority of individuals understanding much about the area. The objective of this research will be to investigate why this is the case, what has been done to encourage growth in this area, and how does this fit into or impact the government’s ambition to create a hub and centre of excellence for Islamic finance in Dublin’s IFSC?

Research framework

In order to achieve a successful dissertation, a clear purpose or set of things that you want to find out has to be made with in-depth reading, analysing and framing of the whole objective of this research. This research has been framed in the context of an exploratory analysis of the level of awareness of the average financial services employee of Islamic finance in Ireland following the government’s efforts to attract and grow this area in Ireland. The level of awareness within the financial services sector will be analysed via surveys of individuals working in financial services as a gauge on how successful the Irish government has been in developing this area not only from the international financial services prospective but also as a concerted effort in raising Ireland’s international profile as a potential hub for Islamic finance in Europe.

This research is being conducted in order to investigate the impact of Ireland’s ambition to establish a European Islamic Finance centre within the IFSC. This would create a hub in Ireland from which recognised and branded Islamic banks and financial services providers would be encouraged to establish a business presence, expand and deliver their global activities into a European market and beyond. We are currently three years into the governments ‘Strategy for the International Financial Services Industry in Ireland 2011-2016’, but how much has this really impacted the average financial services employee? This study sets out to investigate this point.

Organisation

This thesis is organised in the following order

Title

Table of Contents

Abstract

Chapter 1 – Introduction

The first chapter provides a basic background for the research and gives a brief introduction to the potential of developing Islamic finance in Ireland. The research framework and organisation of the thesis was also discussed in this chapter.

Chapter 2 - Literature Review

A literature review of Islamic finance was discussed in the second chapter to give more in-depth understanding of the history, principles, models and components of the Islamic finance system.

Works by scholars are researched to achieve a more understanding of the subject matter that could help answer the research question as well as achieving the research objectives.

Chapter 3 – Research Methodology and Methods

The overall research methodology is outlined in the third chapter. This chapter outlines the research question and the objective it tries to achieve while presenting the method, philosophy and approach that was undertaken to perform said research.

Chapter 4 – Data collection

This chapter will present the tools used to investigate this subject and present the data gathered during the course of this research. This will include interview and survey data.

Chapter 5 –Data analysis and conclusion

This chapter will outline the main findings of the data collection process and attempt to frame the results in the context of the research question drawing from the literature review and methodology in order to present the conclusions drawn from this study.

2. Literature Review

2.1. Introduction

From reading the current literature available it is our hope to will build a theoretical understanding of what Islamic banking is and how it differs from conventional finance, the evolution and growth of Islamic banking over the later part of the last century, and the potential for Ireland to engage fully with its rapid growth and expansion. The main purpose of this review is to highlight the differences, and advantages between both systems on a practical basis highlighting the functionality of institutions from each model.

The financial crisis of 2007 has been described as the first true crisis of globalisation. Every financial institution in every corner of the globe was affected by the sudden shock of the sub-prime housing crash in the United States. The fallout of the housing crisis resonated in almost every balance sheet of every financial institution on the planet leading to a tightening of credit supply to the real economy of nations around the world. The result was stagnant growth and investment in the real economy, pushing many states into recessions and threatening the solvency of entire nations. The immediate impact of the massive wave of credit defaults in the US was felt in conventional financial institutions. Looking at Islamic financial institutions, analysts saw a subdued reaction to the crisis and even cases where these institutions delivered higher profitability and were better capitalised than conventional banks (Parashar 2010). Beck (2010) also compares traditional banks and their performance across many countries, during recent crisis and concluded that though both types of banking were affected by the crisis, Islamic banks, with their lower risk profile and exposure to speculative/volatile instruments, were performing quite well pre and post crisis.

This was noticed quickly in the markets with many institutions and nations looking towards middle east, The Gulf Cooperation Council (GCC) nations of: the United Arab Emirates (U.A.E.), Saudi Arabia, Kuwait, Bahrain, Qatar and Oman in particular, for investment. These states enjoyed a combined 2006 budget surplus of \$120 billion or \$3,000 per person. The GCC's contribution to the global savings rate was and remains larger than China's despite the fact that its population only 3% the size of China (Rehman 2007). It is this resilience to the global economic meltdown which ignited western economies curiosity leading them to look towards Islamic finance as a way of, enticing investment from these nations and also balancing risk in an increasingly globalised economy with ever more complexities and uncertainty. The Malaysian-based KFH Research Ltd has reported that Islamic finance is currently operating across 75 jurisdictions with 600 institutions participating and total assets set to be on the verge of \$2 Trillion by the end of 2014 (KFH Research, 2013 and IFSB Stability Report, 2013). The largest centres remain concentrated in Malaysia and the Middle East, including Iran, Saudi Arabia, UAE and Kuwait (UKIFS, 2013)

2.2 The Development of conventional Banking & Importance of Banks in the Economy

Rumour has it that Albert Einstein is said to have declared ‘compound interest the most powerful force in the universe’ Taking into account the nature of trade and money, it isn’t very hard to find substance in this statement. The issuance of credit has allowed trade and industry to thrive from the very beginnings of society. The conventional concept of interest removes itself entirely from the asset or service the money is being provided to purchase and instead is attached only to the initial capital lent out and becomes debt, this is multiplied by either a fixed or floating rate (depending on the borrower) over the length of time the borrower is given to repay the initial amount advanced. The result of course is that the borrower will pay back a larger amount than he received from the lender which is meant to compensate for the risk the lender perceives of losing his capital by giving him a profit over time (based on the time value of money principal). This profit can be used to repeat the process multiple times increasing the profit of the lender. This isn’t a problem when the capital is used to generate products or services with a selling price that will be in excess of the loan, this becomes a win-win scenario for the borrower and lender and the economy will continue to grow with real wealth creation made possible by the initial provision of credit.

While credit itself was always seen as a key ingredient to getting any enterprise off the ground, it was the limitation in the amount of credit available which would ultimately be the main constraint on economies. Individual money lenders soon made way for partnerships which formed the first banks. Banks provided a source of pooled money in the savings of their depositors which could be lent out at interest thus making the bank a profit which was then shared with the deposit holders minus operating expenses. As banks take short term cash (customer deposits) and lend long term (loans) they frequently have short term liquidity requirements, which are received from other banks Confidence is required in the banking system to ensure both depositors are comfortable and not demanding their deposits and short term lenders are willing to provide liquidity (Barrow 1975).

When demand for credit outpaces supply, the existing debt or loans are then sold onto third parties as investment products. The idea being that this product will produce an income for the duration of the initial loan given by the lender, the lender is then free to advance this capital onto another party and begin the process all over again. This in itself allows the lender to lend more to the real economy giving more opportunities for trade enterprise and wealth creation. When demand grows even further, banks can then borrow from each other at lower interest rates, lend at a margin, and increase their profits and the supply of credit to the market even further. The entire process forms the backbone of every economy on this planet facilitating global trade and growth in new and existing businesses. The only problem is when individuals or corporations are unable to keep up with their debt obligations. As the initial loan is not based on the real

value of the good or service purchased rather the capital advanced, the debt grows and grows, eventually when the lender comes to realise this loss on their books it can become potentially larger than the initial sum advanced. While many contracts are attached to some form of physical security, in the majority of cases the value of the security will never appreciate as quickly as the debt attached to the contract. The resultant write off of a single debt will not affect a bank to much, however due to the interconnected nature of the economy if a series of borrowers begin to default on their loans then the bank is in serious trouble.

Banks have experienced massive losses throughout history as a result of speculative bubbles, the artificial increase in the price of a particular item in the market driven by excessive demand and speculation. The price of the asset keeps increasing, banks inevitably provide the finance for the acquisition of these assets, become over exposed buying into the hype behind market demand themselves, and ultimately experience a multiplier effect when the bubble bursts resulting in a surge in losses on their balance sheets as debt obligations are not fulfilled (Thies & Gerlowski 1989). The resultant shocks see credit dry up in the market as banks retrench in order to try to rebuild capital bases in combination with a delayed debt write off as banks reluctantly accept they are not going to repaid their capital let alone their interest, exacerbating losses on their books, diluting shareholder equity and potentially threatening the solvency of the bank to meet its own obligations (Shambaugh 2012). What are the fundamental differences between Islamic banking and traditional banking?

2.3 The development of Islamic Banking

Islamic banking began to grow as a viable alternative to conventional finance in the 1970's in what some authors describe as the third stage of the development of Islamic finance (Belouafi & Chachi 2014). This was brought about by many factors, religious, political and economic. Islamic finance operates in accordance to Sharia (Islamic law) that is based on the rules principles and values taken from three primary sources; the Quran, Hadith and Sunnah. Hadith refers to the collection of norm, actions or words of the Prophet Muhammad or the early Muslim community, not found in the Quran and was derived from short texts, stories or sayings as told and recorded by *sahabat* (companions to the Prophet). Meanwhile Sunnah is the practices and rulings resulting from those narratives (Warde, 2000). The first Islamic banks worked on the principal of mutually beneficial partnerships where borrower and lender were seen as equals. As the Quran preaches the practice of usury or *riba* is *haram* (sinful and forbidden) Islamic banks needed to work within the constraints of Islam's ethical framework in order to create products which would act as alternatives to conventional finance. Islamic finance stresses the importance of maintaining 'moral purity' of its transactions (Duran and Lopez, 2012) and is based on four principles - the prohibition of *riba* or usury (interest), avoidance of *gharar* (ambiguous or doubtful contracts), prevention of involving in any *haram* (illegal) products and encouragement of giving out *zakat* (donations) (Sherin, 2009). Warde (2000) singles out the most distinct aspects of Islamic finance as being its 'risk sharing philosophy', and its 'achievement of socio-economic development' (Sherin, 2009) and *zakat* (almsgiving/charity). In order to provide some form of finance and also produce a profit or incentive for lending, Islamic products have to be based around the concepts of safekeeping (*Wadiah*/deposits), profit sharing (*Mudharabah*/loans for businesses), joint venture (*Musharakah*/business loans based on the profits of the business), cost plus (*Murabahah*/ mortgages), and leasing (*Ijar*). These products cannot being treated as debt both parties must agree to clear conditions on the initiation of the contract and the contract has to be tied to a real asset which can be sold or disposed of on termination of the agreement. Initially securitisation was expressly prohibited however recently special purpose vehicles have been used to almost mimic similar products in conventional banking. (Zaher & Hassan 2001) have documented comprehensively the working and structure of Islamic finance and banking, and have explained the theory behind the growth of Islamic finance. They have also articulated the difference between profit and loss sharing products that exist in Islamic banks versus interest based products that exist in conventional banks.

2.4. Islamic finance products

In order to further understand Islamic finance, this literature will explain what Islamic finance offers to the financial market.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an organisation established with responsibilities to 'prepare, adopt and interpret accounting and auditing statements, standards and guidelines for Islamic financial institutions'

The organisation has published standardised definitions for Islamic instruments which have been published Financial Accounting Standard (FAS) No. 1,

Murabahah

Is the sale of goods with an agreed upon profit mark up on the cost. *Murabaha* sale is of two types. In the first type, the Islamic bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second type, the Islamic bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Islamic bank purchases the goods only after a customer has made a promise to purchase them from the bank.

Mudarabah

It is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Islamic bank as a *mudarib*. The Islamic bank announces its willingness to accept the funds of investment amount holders, the sharing of profits being as agreed between the two parties, and the losses being borne by the provider of funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Islamic bank. In the latter cases, such losses would be borne by the Islamic bank. A *Mudaraba* contract may also be concluded between the Islamic bank, as a provider of funds, on behalf of itself or on behalf of investment account holders, and business owners and other craftsmen, including farmers, traders etc. *Mudaraba* differs from what is known as speculation which includes an element of gambling in buying and selling transactions. (It is to the former that this standard applies).

Musyarakah

A form of partnership between the Islamic bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital. It is not permissible to stipulate otherwise.

Salam

Purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment

Istisna

This is a contract whereby the purchaser asks the seller to manufacture a specifically defined product using the seller's raw materials at a given price. The contractual agreement of *Istisna* 'has characteristic similar to that of Salam in that it provides for the sale of a product not available at the time of sale. It also has a characteristic similar to the ordinary sale in that the price may be paid on credit; however, unlike Salam, the price in the *Istisna* contract is not paid when the deal is concluded. A third characteristic of the contractual agreement of *Istisna* is similar to *Ijarah* (employment) in that labour is required in both'

The main product we are concerned with for Islamic investments services is the *Sukuk or Islamic Bond*. These differ from conventional bonds in a number of ways (Jamaldeen, 2012) but are essentially used for the same purpose in raising pooled funds. The main restriction however is that the funds must be raised for a particular asset backed project, something real and tangible. For a more comprehensive breakdown of the rules and evolution of Islamic finance Muhammad Ayub (2010) provides a clear and concise insight into Islamic finance its rules and its products.

2.5 Islamic finance in Ireland

While the Irish international financial services sector had relied on a low-burden of regulation (also in the past, relying on low-burden supervision) applied across standardised sets of products (services), the Irish financial regulatory framework was potentially not aligned with the highly regulated and regimented Sharia-compliant structures of Islamic finance, reliant often on specific judgements and decisions, rather than explicit processes. This changed rapidly as the country sought to bring FDI back to Ireland from new potential sources specifically Middle Eastern investors.

In 2012 the Department of Finance in the Republic of Ireland produced a report regarding some of the early initiatives done to bring Islamic finance into Ireland. Prominent amongst these efforts was the Finance Act 2010 brought in by the former Minister of Finance, Brian Lenihan. Section 35 FA2010 was a significant piece of legislation to facilitate the introduction and promote development of Islamic finance in Ireland. The section contained legislation amendments that are required to make it possible for Sharia compliant transactions to take place in Ireland's jurisdiction. Among them is the tax treatment (tax neutrality) in relation to sukuk certificate, stamp duty, *ijarah* transactions and *takaful* arrangement (KPMG, 2010).

The Irish Revenue Commissioners have confirmed that since the 2010 Act Islamic finance products would be taxed on the same basis as traditional investment products in line with similar approaches taken by the FSA in United Kingdom (Revenue 2010). According to Khan (2009) the existing tax legislation for conventional investment funds in Ireland already accommodated the Sharia requirement the 2010 Act was a sweetener to entice fresh interest in locating in Ireland. This was also beneficial to Ireland as its tax system is designed for easy entrants by international institutions to do business in Ireland leading to increase FDI in the IFSC. Serving as one of the

lowest corporate tax rate country with effective rates well below the standard 12.5%, this effort has attracted around 20% or €2.5 billion of Sharia compliant funds from the Middle East. Today, Ireland has double tax agreements with most of the Middle East countries and is growing each year. By teaming up with Malaysia via a Memorandum of Understanding, Ireland now has also access to the Asian market. Even though France and Luxemburg are currently ahead of Ireland in the Islamic finance market, both have failed to make as many openings into Islamic countries via double tax agreements as Ireland has. Ireland's tax agreements have positioned the country as a very attractive location for launching Islamic products and growing the segment going forward.

3.1 Research Methodology & Methods

Saunders (2009) explains that methodology is the 'theory of how research should be undertaken including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted'. The first question we must answer before determining our methodology is why are we conducting this research (Quinlan 2011)? The aim of this research is to study how successful has Ireland been in attracting and promoting awareness of Islamic finance as part of the governments 'Strategy for the International Financial Services Industry in Ireland 2011-2016'.

Bias

In order to avoid bias in the analysis and conduct of this investigation it is important that the researcher's values and biases should not form part of the research itself. This will create a more credible outcome by the author remaining impartial, only observing the research, and therefore avoiding bias (Sekaran, 2003).

3.2 Research Objectives

A clearly defined research objectives statement will express the purpose of this research and define the variables within the study additionally it will establish the parameters within which a focused study can be achieved (Wood 2000). The primary aim of this study is to examine the level of awareness of Islamic finance within the Irish financial services sector today more than half way into the governments 'Strategy for the International Financial Services Industry in Ireland 2011-2016'. This will act as a focus point for the following sub objectives:-

- i. Establish an estimate of how many individuals involved in financial services in Ireland are aware of the existence if Islamic finance.
- ii. Identifying the main reasons why financial services employees may or may not know about Islamic finance.
- iii. Ascertain the level of formal education available in Ireland covering Islamic Finance.
- iv. Examining perceptions among financial services employees of why the Irish government is attempting to attract Islamic finance to Ireland.
- v. Analysing the perceived challenges financial services employees see in attracting this business to Ireland.

3.3 Research Methodology

The purpose of this section is to attempt to explain the research methodology employed in the study. Saunders (2007) explains that methodology is the ‘theory of how research should be undertaken including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted’. As there are many branches of research philosophy; pragmatism, positivism and interpretivism we can look at the positives of each. Interpretivism according to Saunders et al (2007) is derived from two traditions which are derived from ‘the way humans make sense of the world around (them)’ and symbolic interactionism, the notion that ‘we are in a continual process of interpreting the social world around us’. The latter promotes how we interpret the ‘social roles’ in our own ‘meanings and actions’. Saunders (2007) suggests that this method is ‘highly appropriate’ in business and management research, where the nature of it is frequently changing. Kothari (2004) explains this philosophy would help to discover the underlying motives and desires which involves a subjective assessment where an in depth interview is suitable to find meanings to the different ‘attitudes, opinions and behaviour’. The aim of this research is to study how successful has Ireland been in attracting and promoting awareness of Islamic finance as part of the governments ‘Strategy for the International Financial Services Industry in Ireland 2011-2016’. In order to engage meaningfully with this question we have arrived at the conclusion a pragmatic approach is to be favoured. Tashakkori and Teddlie (1998) posited the idea that ‘research is a continuum rather than opposite positions’ of interpretivist or positivist (Saunders et al 2007) Tashakkori and Teddlie also argue that ‘pragmatism is intuitively appealing, largely because it avoids the researcher engaging in what they see as rather pointless debates’ about concepts and philosophies (Saunders et al 2007 109). The decision to choose a pragmatic approach is not driven by the reluctance to align this research to any particular ‘system of philosophy’, we are not ignoring the ‘philosophical debate about reality and the nature of knowledge, the weakness of one paradigm over the strengths of another’ (Collis & Hussey 2009). The pragmatic approach is appealing because it provides us the ability to engage in the academic freedom of exploring both positivist and interpretivist positions, employing a mixture of methods

3.4 Research Approach

The method used to conduct this study is important this method needs to be capable of supporting the research, and capable of enabling and facilitating its completion (Quinlan 2011). Two types of research approach are inductive and deductive approached. Both are forms of exploratory research. After consulting Easterby-Smith et al. (2002) an inductive approach was chosen to conduct this study. The principle ways of conducting exploratory research are through literature searching, interviewing experts and conducting targeted surveys (Saunders, et al, 2009). Qualitative research was carried out by performing interviews and surveys while referring to existing literature to further explore the themes of the research and to achieve the overall thesis objective. This method is also known as the grounded theory where qualitative data and explanations emerge as a result of the research (Saunders et al, 2009). A qualitative monomethod will be employed in analysing this research topic. Qualitative data will be gathered from online questionnaires from a purposive sample of the researcher's colleagues within the financial services sector in Ireland ranging from the funds segment to the professional services sectors in Dublin in order to form the main control group for this study. This data will be supplemented by conducting semi structured interviews with a purposive sample of interviewees. This study will present interviews from two managers from two of the big four professional services companies in Ireland and ask them questions on Islamic finance in Ireland. This method is suitable as the nature of the research would require a selective participant or experts in the area and as Maxwell (2005) explains it to be useful where the subject is complex and there is no specific answer or hypothesis to be tested. In addition, limitations of time and budget also restrict the use of the other methods.

4.1 Data collection

Bryman and Bell (2007) discuss the main tools used to collect qualitative data. The data for this study was collected through targeted online surveys of individuals working in financial services in Ireland. Social networking was used to target current and former colleagues in the financial services industry. In total out of 100 individuals targeted the online survey had complete response result of 38, 7 incomplete responses and 55 non respondents. According to a recent report from Financial Services Ireland, part of IBEC, a total of 35,700 were employed in financial services the end of 2012 and continues to grow particularly in the funds industry (Financial Services Ireland 2014), while it is not possible due to time constraints and logistics to survey every individual, a control group of 100 was selected from the researchers existing contacts. This data was added to and supplemented semi structured interviews with professionals from two of the top four accounting and advisory firms in Ireland. One candidate from a risk and advisory background working with banks based in Ireland on regulatory risks and compliance issues, the other interviewee specialising in asset management. Additional interviewees were sought however time/work constraints/schedules/respondents were limiting factors in arranging one-on-one interviews with potential candidates. Both tools used revealed a valuable amount of qualitative data for this study and feed into each other suitably for the purposes of this study.

Sample email requesting interview

Dear XXXX,

My name is Tarek Elbay, I am a MSc student in NCI and employee of BNY Alternative Investment Services currently conducting research for my dissertation on Islamic finance in Ireland. I would like to take this opportunity to ask if you or a recommended colleague would be available for an interview on this topic?

My research looks at the development of Ireland as location for Islamic finance, the opportunities for growth in this area, and the challenges facing Ireland in attracting this business.

I would be most appreciative for your time and consideration in assisting me with my research and look forward to your response.

Yours faithfully,

Tarek Elbay

Sample email requesting participation in online survey

Dear XXXX,

My name is Tarek Elbay, I am a MSc student in NCI and employee of BNY Alternative Investment Services currently conducting research for my dissertation on Islamic finance in Ireland. I would like to take this opportunity to ask you to participate in an online survey on this topic.

My research looks at the development of Ireland as location for Islamic finance, the opportunities for growth in this area, and the challenges facing Ireland in attracting this business.

I would be most appreciative for your time and as a thank you there is an option to enter your email at the end of the survey to enter a draw for a one4all voucher.

<https://www.surveymonkey.com/s/5D8R67R>

Many thanks,

Tarek Elbay

Interview Questions

1. Firstly, will you please introduce yourself?
2. Have you had experience with Islamic finance in your career and if so, can you describe your experience with Islamic finance?
3. How much do you think professionals and the general public know about Islamic finance?
4. Why do you think people do or do not know about Islamic finance?
5. Are you aware of any formal education available in Ireland on Islamic finance other than the CIMA diploma in Islamic Finance?
6. Why do you think the government is attempting to introduce/entice Islamic finance in Ireland?
 - a. What do you think is needed for Ireland to establish itself as a hub for finance?
 - b. Do you think there is any demand for Islamic finance products in Ireland?
7. What challenges do you think Ireland may face in establishing attracting/growing Islamic finance?
 - a. Are you aware of any initiatives the Irish government or central bank has pursued to encourage Islamic finance?
 - b. In your opinion, what else can be done to encourage growth in this area?

Online Survey pages

1. Firstly, could you please type the name of the company you work for?
* Free format answer section

2. On the 14th of July 2011 Taoiseach Enda Kenny launched the 'Strategy for the International Financial Services Industry in Ireland 2011-2016' outlining Ireland's ambition to become a hub for Islamic banking in Europe
Have you ever heard of Islamic finance/Islamic banking?
*Yes
*No

3. Islamic Finance is a banking system that is based on the principles of Islamic law (also known Shariah) and guided by Islamic economics. Two basic principles behind Islamic banking are the sharing of profit and loss on behalf of the borrower and the lender and, significantly, the prohibition of the collection and payment of interest.
Select two of the below options you believe are the most important factors in why many people do not know about Islamic Finance

*A small Muslim population
*A lack of jobs advertised in the sector
*A lack of formal education covering Islamic Finance
*A lack of media coverage

4. In 2011 the Chartered Institute for Management Accountants launched the CIMA diploma in Islamic Finance as a way of educating professionals in this emerging market segment the first of its kind available in Ireland.
Other than this program are you aware of any other formal education offered in Ireland that cover Islamic finance?
*Yes
*No

5. The Irish government has been working to accommodate Islamic finance in Ireland for some time now. The Central Bank of Ireland established an expert team in Islamic funds to streamline the approval process for Shariah compliant funds in 2005, the same year that the Irish Stock Exchange also listed its first sukuk (Shariah equivalent of a bond). In the Finance Act 2010, the government made a number of adjustments to legislation in order to accommodate Sharia compliant products and their tax treatment in Ireland
- Why do you think the government is trying to attract Islamic finance to Ireland?
- *Free format answer section

6. In 2012, Islamic finance assets stood at \$1.35 trillion (Reuters 2013). Although the Islamic finance segment is still dwarfed by conventional finance, it is estimated that Muslims will account for about 26.4% of the world population by the year 2030 (Time, 2012). The segment is also expected to grow at a rate of 15 to 20 percent per year (Sherin, 2009) based on past performance.
- What do you think are the main challenges Ireland may face in establishing itself as a hub for Islamic finance?

*Free format answer section

Interview results

1. Firstly, will you please introduce yourself?

The first interviewee is a manager in a big four firm in Dublin. They currently work in the firm's financial services risk advisory department

The second interviewee is a senior manager in another big four firm in Dublin. They currently work in the firm's asset management department focusing on Irish funds.

2. Have you had experience with Islamic finance in your career and if so, can you describe your experience with Islamic finance?

The first interviewee has never had any direct experience working with Islamic finance products during their career working in advisory services in Ireland. Their knowledge of the area coming from passive conversations over the past few years with colleagues in the area and reading about the topic in financial publications.

The second interviewee had gained experience with Islamic finance working abroad during their training as an auditor and continues to have exposure to Islamic finance working with funds domiciled in Ireland.

3. How much do you think professionals and the general public know about Islamic finance?

4. Why do you think people do or do not know about Islamic finance?

The first interviewee advised that unless working directly with Islamic finance products, or clients offering same, most professionals working in Ireland would only have a vague idea of Islamic finance and its principles. As for the general public, the interviewee advised that most individuals gain knowledge or awareness of financial products from their day to day interaction with them, as Ireland does not offer any retail Islamic financial products general knowledge of Islamic finance would be minimal if any.

The second interviewee advised that there is a small level of growth in professionals within Ireland gaining skills/knowledge of Islamic finance however the numbers are still quite low as unless involved in the funds industry there is little scope for exposure to Islamic financial products in Ireland. As with the first interviewee the second also advised that general public knowledge or awareness of Islamic finance is quite low in Ireland due to a lack of exposure to Islamic products.

5. Are you aware of any formal education available in Ireland on Islamic finance other than the CIMA diploma in Islamic Finance?

Both interviewees advised that they are not aware of any other courses available in Ireland offering education in Islamic finance however more courses would very likely become available once demand is there for jobs in this area. It would be most likely that

the Central Bank would incorporate this into their Minimum Competency Code
Both interviewees advised that they are not aware of any other courses available in Ireland offering education in Islamic finance however more courses would very likely become available once demand is there for jobs in this area. It would be most likely that the Central Bank would incorporate this into their Minimum Competency Code

6. Why do you think the government is attempting to introduce/entice Islamic finance in Ireland?
--

The financial services sector plays an important part of Ireland's economy with many global institutions having operations here. Attracting more business to the IFSC and possibly bringing in outside banks or expanding the range of products and services available from existing banks could help diversify funding available to the real economy.
--

Islamic finance represents an alternative from conventional funding from Irish banks and as we do not have a conventional bond market in Ireland it would be a logical addition to financial services in Ireland. During the credit crisis the domestic economy particularly the SME sector was starved of credit, introducing Islamic finance would diversify the market and in theory lead to greater resilience to the effects of another credit crisis.

a. What do you think is needed for Ireland to establish itself as a hub for Islamic finance?
--

A number of key players in Islamic finance would be needed to set up operations in Ireland. Consultancy firms and advisors would also need to bring in additional skills to meet demand to match the products and services to Irish regulatory standards.

There would need to be a clear drive by government to develop this area in Ireland by attracting a critical mass of Islamic institutions to Ireland or by existing institutions to set up their own

b. Do you think there is any demand for Islamic finance products in Ireland?
--

Not at the moment although domestic demand not a key success factor in international financial services as the majority of activities carried out in the IFSC cater to foreign markets.

Domestic demand is not a key success factor for the funds industry however in the domestic economy there is a shortage of finance available in the construction sector along with agriculture and tourism which could be met by encouraging Islamic finance. There is also a shortage in funding for infrastructural projects which would all benefit the local economy.
--

7. What challenges do you think Ireland may face in establishing attracting/growing Islamic finance?
--

Our banks compete with London and our funds industry competes with Luxemburg two
--

major established hubs in Europe for an area Ireland is attempting to break into. The ethical dimension of Islamic finance requires greater transparency than what may currently exist in Ireland.

Political will/motivation to take action in drawing more of this industry to Ireland. Borrowing rates are currently at record low levels for Ireland, consequently there does not appear to be as great a push to entice Islamic investment as there was during the crisis as the government can now borrow at cheap rates. Although there has been progress made in reducing red tape there is still a large amount of bureaucracy in the current system particularly regarding the Central Bank's authorisation and approval procedures for foreign investment in the financial services sector.

a. Are you aware of any initiatives the Irish government or central bank has pursued to encourage Islamic finance?

Vaguely aware of initiatives to encourage Islamic finance. The Central Bank Act 2013 and the Finance Act 2010.

The Central Bank Act 2013 and the Finance Act 2010 have been measures to accommodate Islamic finance however there has not been a concerted effort to attract/establish this business in Ireland yet.

b. In your opinion, what else can be done to encourage growth/raise awareness in this area?

Maintaining the low corporation tax rate to keep Ireland's competitive edge over rivals like the UK. Streamline the Central banks authorisation process and implement a more changes to the Central Bank to improve transparency

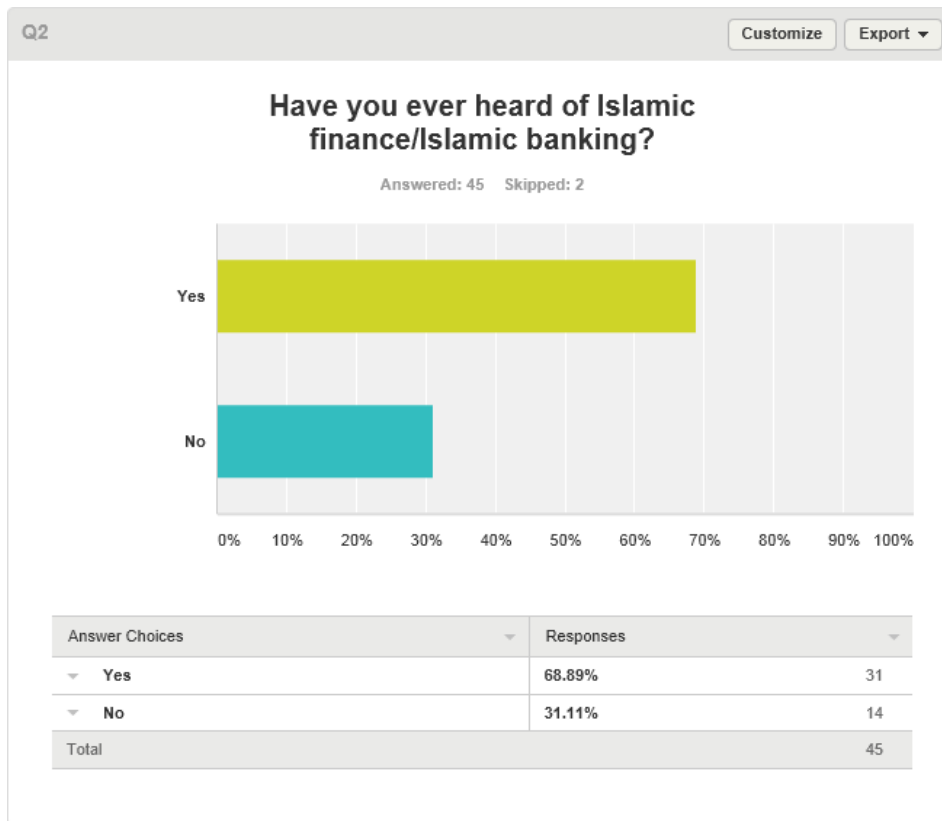
There are a number of initiatives the government could take the lead in order to encourage the growth of Islamic finance in Ireland: While there is some presence in terms of the funds industry this represents only a small portion of the Islamic finance market. Looking towards the UK the government could start with issuing a sovereign sukuk. The deleveraging of state assets/Nama could be expedited through public private partnerships to invest in the domestic economy and work on infrastructure and construction projects in conjunction with potential investors. Islamic investors, like any investors are looking at a bottom line, the government should be actively marketing Irish projects for public private partnership arrangements. Look towards gaining membership of internationally recognised Islamic finance organisations such as the Accounting and Auditing Organization of Islamic Financial Institutions and the Islamic Financial Services Board. Establishing a Islamic finance road map to actively target sections of the economy that would benefit from Islamic finance and bringing in state bodies such as the IDA, IBEC, IFIA, ISIF, IDB as well as professional firms to implement a clear strategy to grow this potentially lucrative area of the economy.

Survey results

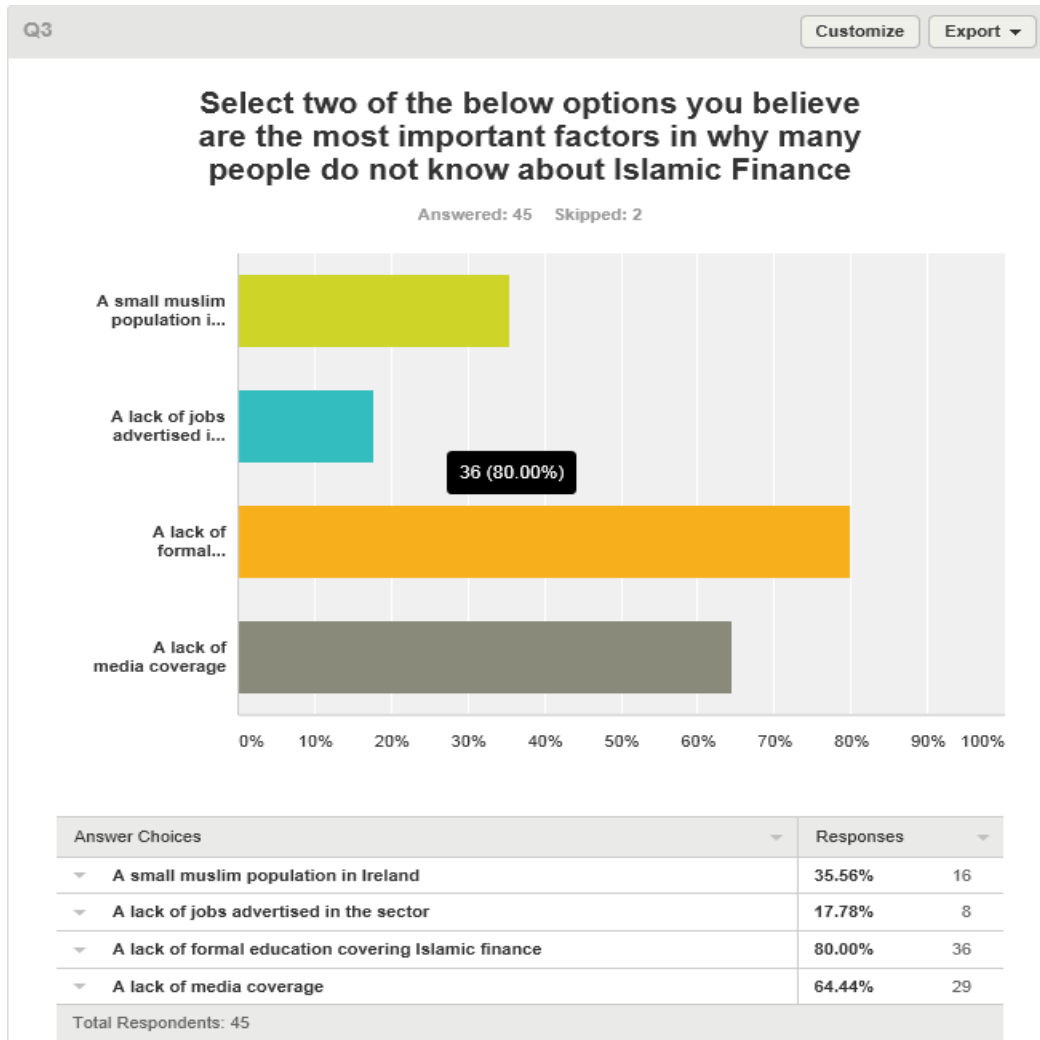
Q1

Bank of Ireland	Gam Fund Management Ltd.	KBC Bank	BNY Mellon	BNY Mellon
Bank of Ireland	Gam Fund Management Ltd.	Ulster Bank	BNY Mellon	BNY Mellon
Bank of Ireland	New Ireland Assurance	AIB	BNY Mellon	BNY Mellon
Bank of Ireland	Towers Watson	AIB	BNY Mellon	BNY Mellon
Bank of Ireland	Deutsche Bank	EY	BNY Mellon	BNY Mellon
Bank of Ireland	Deutsche Bank	PwC	BNY Mellon	BNY Mellon
Bank of Ireland	Deutsche Bank	PwC	BNY Mellon	Irish Life
Bank of Ireland	Deutsche Bank	PwC	BNY Mellon	Citibank
Permanent TSB	Deutsche Bank	KPMG	BNY Mellon	State Street

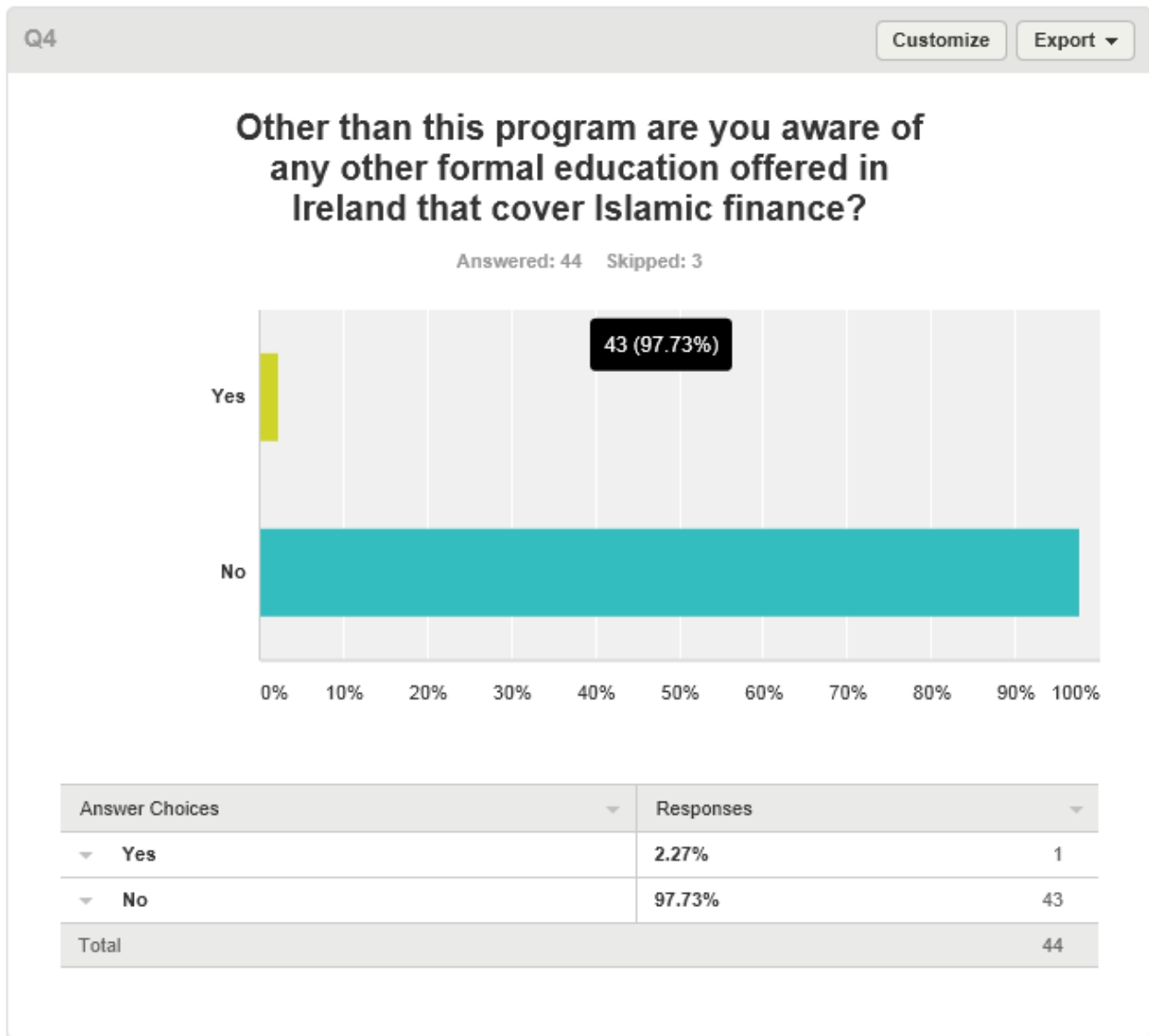
Q2



Q3



Q4



Q5

38 Responses

Muslim community in Ireland is increasing, Ireland is the hub for funds and therefore makes sense to attract this type of finance
To make money for the country and create jobs.
It's profitable. Accommodate Irish Muslims who might be pushing for it. Don't want to seem racist by not having it.
To generate employment
Increase trade with middle eastern countries and encourage FDI
There is a large potential growth in the Islamic finance market - with potential work being focused probably in the back and middle office area of expertise. Obviously there would need training of required skills and knowledge in this area. An interesting practice considering that the Irish banks had to be bailed out by the IMF not too long ago
Tax revenue
An attempt to diversify exposure to foreign markets and reliance on other more volatile segments. To increase jobs in IFS
Do not know
For the potential jobs that could be generated by funds setting up here
To broaden the ability if the Irish economy to attract business
(1) Market expectations - if London does it, we should too. (2) Huge money & a willingness to move away from a reliance on US hedge funds. (3) Certain investors will only use these products. (4) Opening doors to Islamic funds can foster a sense of Ireland being pro-Islamic business. This can open doors on trade missions where Irish companies (e.g. Oil) are trying to make significant moves in the MID EAST.
Wasn't aware it was
Islamic finance is another market which is largely untouched in Ireland, with obvious benefits to the economy
Creation of jobs and growth of business & profit
Not sure
To attract companies and jobs to Ireland.
Presumably they predict it is a potentially profitable move. I'd assume this rather thinking it is for religious/cultural equality etc.
Boost the Irish economy and make Ireland an attractive place for foreign investment and to integrate the Islamic community further
Due to the expanding Islamic population in the country.
Emerging markets in the UAE and Qatar. Finance is being exported outside of Europe and the US, so the Middle East and Asia are growing markets for these products.
To increase the attraction of Ireland as a worldwide financial centre
To get more money into the country
To create jobs and bring more money into the economy
They are looking to promote Ireland across the globe
A fresh diverse approach leads to a better end result
With the diverse society within Ireland then Ireland to remain complete needs to explore new banking opportunities but above all to ensure all groups within our society are serviced.

To increase capital investment.
The Irish government is trying to take advantage of the massive pool of wealth that has been accumulated by oil rich Middle Eastern and North African countries.
This is a relatively untapped market in Ireland, and a very good opportunity for growth in the financial services sector in Ireland.
Greed. Like most western governments, they likely see the oil rich states as nothing more than a potential for profits
Encourage jobs growth FDI and stronger economic ties with oil rich countries
Because it is productive
I think our government would try to attract any type of finance to Ireland, however in this case I would assume it is because they see it as beneficial to Ireland and a way of continuing to come out of the economic crisis more quickly!
At the moment there is a large amount of wealth in concentrated in Muslim countries and Ireland wants a piece of it. With London and other financial centres competing for Islamic finance, the Irish government obviously feel like they need to try to make Ireland more attractive.
Jobs
The same reason that it is trying to attract all FDI. Jobs.
Increase jobs in international financial services to counter losses in domestic financial services

Q6

38 Responses

Small Muslim community in Ireland
Lack of knowledge throughout finance sector.
Geography, proximity to the middle East. Cultural differences might also be an obstacle. As Irish Europeans it wouldn't be something we'd be too familiar with and there are all kinds of cultural considerations to take into account. Maybe the Muslims might want to keep it among themselves and not deal with non Muslims as well.
Competition with other jurisdictions
Lack of training available for a workforce to cater to Islamic Finance and competition from London which has established itself as a hub already
Ireland has a traditionally high Roman Catholic population vs. a small Muslim population. There is also the view that London holds such a strong position in finance, competing against an established base will be tough.
Little domestic need for Islamic finance
Lack of experience in Islamic finance, lack of support structures, and a lack of real initiatives to encourage growth in this area
Credibility, expertise in the sector
Lack of expertise and trust with Islamic partners
(1) Legislative support & a lack of understanding of the requirements by Irish lawmakers. Furthermore, do current large legal practices have the expertise to advise on the matter? (2) Sector support. Banks may find it more remunerative to offer their existing suite of products rather than create a new tranche for Islamic funds which would be less profitable. (3) Internationally, London is the de facto hub for Islamic finance. Dublin may not be able to

differentiate itself.
Lack of knowledge or structures to support
Not a large enough Islamic tradition here, educating workforce and investors of benefits, more media coverage
Lack of qualified professionals Lack of informative training
In general, there is a lot of unjustified negative publicity, especially in the media, regarding anything Islamic.
Small Muslim population, lack of Arabic speakers & no track record in this industry.
Religion, western culture.
Not having a particularly large Islamic community
They may be less inclined to locate here due to tax purposes being less of an incentive to them, as much as being in countries with larger Muslim populations, which can offer a Muslim workforce.
Cultural barriers, EU trade links and/or embargoes such as Syria and Iran, language difficulties and lack of detailed media coverage.
Being perceived as a Christian country. Larger competing countries (e.g. U.K.) Lack of political drive rather than just sound-bites.
Awareness and understanding of the Islamic finance segment
Language barriers
Public image
Lack of education in the sector / time zone
A lack of media attention towards Islamic culture and practices. A lack of education
* Regulation * Understanding the actual requirement needs. * Respect * What will Ireland gain?
Language Barriers, Education (In Islamic finance)
The language barrier would be one of the greatest challenges as well as a fundamental understanding of the teachings of the Koran that underpin the ideals of Shariah finance. Also, as a predominantly Christian country Islamic investors may be apprehensive about using a non Muslim country as a hub for their wealth.
Culture
The lack of education on Islamic finance
Probably an aversion to the Muslim faith and a lack of integration and knowledge Islam
Small percent of the population are Muslim and there is a general lack of knowledge of Islamic finance
First and foremost the compliance side of things and the legal aspects which it will carry in establishing itself as a hub for Islamic finance, second could be a currency issue, thirdly maybe the culture barrier could also be a significant challenge to Ireland give our dealing are mainly within the EU and with the US.
Competition from other larger and more established financial hubs.
Language
There is a lack of demand for Islamic products domestically and a lack of suitably trained labour to service international demand
Alcohol culture, London being a neighbour that does a large amount of it better.

Chapter 5 –Data analysis and conclusion

In this section we will look at the findings from the qualitative research undertaken by using a monomethod approach to study awareness levels of Islamic finance in Ireland. The findings of this research will be analysed in an inductive approach using a similar method to the Strauss and Corbin approach (1990).

Awareness and perceptions of Islamic finance is a relatively undocumented area in Ireland the closest comparison we have to compare the results of this research to is a piece of work by Sheryar Khan (2012) researching the subject in the UK. Here the author analyses the perception and awareness of non-Muslims towards Islamic finance in the United Kingdom. As the Irish and UK markets share many similarities particularly within financial services, this has acted as a template for this analysis.

The survey results have shed some interesting light on current perceptions and awareness levels within the financial services community. The participants ranged from local banks, life assurance and pension companies, international fund and banking services providers, and professional services firms. Only the insurance industry was absent from representation.

Question two showed that 68.89 percent of participants had heard of Islamic finance, an encouraging figure given the government and banking industry's focus on the subject over the past number of years.

Question three was designed to show perceived importance of four factors influencing why participants would not know about Islamic finance. A lack of formal education covering Islamic finance was ranked highest followed by; a lack of media coverage, a small Muslim population, and lastly by a lack of jobs advertised in the sector.

Question four was designed to explore if any of the participants had had formal education on Islamic finance or were aware of any courses bar the only one this researcher could find. Only one participant responded positively. This course has still eluded this writer after researching all available courses online offered in the Republic of Ireland.

Question five allowed for a free format answer on why the participant perceives the government is trying to attract Islamic finance to Ireland. The word 'job' or 'employment' features in 11 responses however the majority of responses allude to an increase in economic activity, three were unaware the government was trying to encourage growth in this area.

Question six allowed respondents to respond in free format to a question asking them what challenges they perceived Ireland would face in attracting this business. Here we see a wide range of responses however the general theme is a lack of knowledge or understanding of Islamic finance in Ireland being the main challenge perceived by participants.

These results were analysed and also presented to the interviewees during their interview in order to gain further understanding of the results along with their answers to their structured questions mentioned in the previous chapter.

Both interviewees were aware of the existence of Islamic finance one more so than the other having had experience dealing with the products offered by Islamic institutions, the current level of Islamic finance in Ireland, and having written a number of articles on the subject. Both agreed that understanding the rewards of building a strong Islamic banking presence in Ireland may be important in insulating Ireland's open economy from any future shocks in the conventional financial markets and also in dealing with legacy issues created during the property boom.

Conclusion

The results of the survey show a clear gap in knowledge and awareness of Islamic finance due to its near non-existent presence in the Irish economy outside the fund sector. This would correspond with the survey results of 69% of respondents being aware of the existence of Islamic finance. Both interviewees agreed that the majority of individuals gain knowledge of financial products and hope they operate by their day to day interaction with them on a consumer level. The difficulty for Ireland in raising awareness is that this simply does not exist at the moment. The survey results appear to back up this assessment as the main reasons for lack of awareness highlighted were lack of media coverage and lack of formal education in Islamic finance.

Due to the standardisation of accounting standards and regulation regarding the operation of the funds industry this is not seen as an obstacle for growth in this area however both interviewees agreed that in order to foster greater awareness of Islamic finance more products and services would need to become available in Ireland in order to create demand for education in this area currently limited to one organisation CIMA offering a basic and intermediate level course in the subject.

The general feedback from both the online surveys and interviews on why the government is attempting to attract Islamic finance to Ireland is simple to deduce. The vast majority of participants can see the clear economic advantages of attracting foreign investors to Ireland in creating jobs and boosting credit in the economy to drive growth. The advantages and reduced risks of this form of finance over conventional finance however is only picked up on by a small minority of participants and therein lies a problem.

Only by increasing the range and volume of Islamic products available and serviced in Ireland will awareness of/education in this area ever rise to meet demand. If Ireland has any hope to achieve its ambition of creating a centre of excellence for Islamic finance in Ireland with a highly skilled and informed workforce a clear initiative by the government is needed to bring more of this business to Ireland. Suggestions from Faisal Ismal (2014) provide some hints on how they can do this but what is needed is the political will to move Ireland in this direction rather than passively courting this industry. Unless this is pursued with some vigour, Ireland's ambition of becoming a hub for Islamic finance will go unrealised; awareness levels of Irish financial services employees will remain unchanged.

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