

Jersey builds on its Islamic finance expertise

By Daniel Hainsworth

For many years – and certainly the last 20 years of my career – Jersey has stood out in a crowded and competitive landscape as an international finance centre (IFC) of choice. It stands out for its robust regulatory regime, fair legal system, attractive and internationally relevant product offering and associated professional services industry. All of these factors are highly valued when it comes to Islamic finance.

Shariah compliant Islamic capital market structures, Islamic asset management structuring and Shariah compliant private wealth management through Jersey is not new. It has been prevalent in the industry for over 20 years. In a world where over 20% of the population is a practicing Muslim and where the Islamic finance industry attends to \$2.5 trillion of assets, it is no surprise that Jersey – with the expertise and experience to pragmatically manage and understand the nuances of Islamic finance and its associated structuring – remains a jurisdiction of choice.

ISLAMIC FINANCE TODAY

Today, many Muslim families throughout South East Asia, the GCC and Africa benefit from the strength of Jersey law structures and their application in generational wealth planning and asset protection in compliance with Shariah law principles.

The evolution of Jersey law to include reserved powers, private trust companies and Jersey foundations, provides asset protection, governance and operational structures which are underpinned by key Shariah principles such as control, privacy and philanthropy. While the regulatory and supervisory frameworks of many other jurisdictions have not evolved to accommodate these requirements, Jersey has been forward thinking and client focused, designing and adapting its solutions to meet client needs.

Islamic finance is now one of the fastest growing sectors of the financial marketplace in the UK with London considered an emerging international hub, with many banks now offering Islamic finance products into the UK financial market.

Jersey's geographical proximity and time zone to the UK make it a favourable option for bringing skilled and specialist expertise to Shariah compliant financing transactions. Whether that is by way of hybrid conventional debt with commodity Murabaha, Musharakah or Musharakah with Ijarah, Jersey's trust, corporate and funds services are well placed to meet client requirements. It is rare to find a workforce in a predominantly non-Muslim IFC where such financing arrangements are commonplace, along with the depth of understanding as to how to account financially for harem sources of income. >>



Dubai's financial district. Image by Tom B Payne / Shutterstock

Recently Jersey has seen a steady flow of work connected to Islamic finance. While interest by Islamic compliant investors into UK commercial real estate has declined somewhat since the introduction of chargeable gains tax (CGT), investors are using Jersey holding entities for their European commercial real estate, infrastructure, debt and PE deals, not only due to our expertise and our tax neutral position but also for our ability to offer shareholders/investors a rule of law that provides certainty.

Islamic asset administration and fund domiciliation as well as securitisation and Sukuk structures come into play daily in Jersey. These may often be worked on by specialist teams within service providers – that have the necessary skills and experience to satisfy Shariah compliant objectives – all under the aegis of the Jersey Financial Services Commission (JFSC) whose regulation and processes allow the same treatment of securities whether conventional or Islamic.

THE FUTURE

Jersey will continue to broaden its relationship with the Muslim world. Muslim investors, asset managers and sovereign entities will continue to demand access to real estate. Whether it is assisting with a financing structure, issuing Sukuk or other Shariah compliant certificates, or units secured against real estate and real assets, the UK, Europe and the global market continue to see Jersey as a dominant jurisdiction for Islamic finance structuring.

Jersey’s Islamic finance expertise may well play an important part in increasing Jersey’s appeal to ethical investors. While investors may not themselves be Muslim, the principles and values surrounding Islam are attractive to the new wave of clients drawn to the social and ethical financing principles. With the UK real estate market being somewhat in decline and traditional UK banks taking their time in completing on financing packages, we see more and more non-Muslim borrowers looking at Shariah compliant finance as an alternative.

Non-traditional currencies will continue to be a growing area from 2020 in Jersey’s established finance industry. Whilst there has been much uncertainty from scholars as to whether crypto is haram or halal, there is no doubt that Muslims are finding a balance in there. What started out as asset backed (typically gold) issuances, looks like morphing further as the rise of digital currency issuances seems to be growing. Whilst most scholars remain on the fence, it is probably only a matter of time before more conclude that certain crypto is within the boundaries. This leads on to Sukuks. The growing need for socially responsible investing has led the Middle East, Malaysia and Indonesia to issue Green Sukuk as either sovereign debt raising securities or, in the case of Futtaim, a corporate raising Green Sukuk. I am not aware that Jersey has had a part to play in Green Sukuk but given our expertise in Islamic finance and the prevalence of ethical, sustainable and socially responsible investment businesses, I think it is only a matter of time.

Finally, opportunity lies in Africa and specifically African sovereign debt raising by Sukuk. The continent, which is 50% Muslim, is undergoing a generation of growth in infrastructure, energy and financial services as they move from the developing to the developed world. To do this, finance needs to be raised and given the Muslim population, it is highly likely to be through Islamic capital market products. Jersey has for a long time acted as a bridge between capital raising in Europe and investment in Africa and the continent might well give rise to Jersey’s first Green Sukuk.

RELATIONSHIP BUILDING

As an IFC, Jersey has led the way in evolving its offering and passing legislation for innovative products that address the challenges and opportunities of working in Shariah compliant jurisdictions.

I have no doubt that Jersey will capitalise on its relationship with Shariah compliant structuring in the Muslim world and will continue to be a leading jurisdiction in the international Islamic finance industry. There is a clear opportunity and will to build on the Islamic experience and services that the Island has offered for so many years.



Daniel Hainsworth

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Daniel has over 20 years’ experience in the financial services industry, the last 10 of which have seen him in either a management or leadership role. He has worked in the private wealth, funds and corporate service segments.

Based in Hawksford’s head office in Jersey, Daniel has responsibility for the strategic direction and growth of Hawksford’s Corporate Services business in new and existing markets, with a remit which sees him work with teams across the firm’s offices towards delivering corporate administration, accounting, tax compliance and transactional services, as well as helping develop new business and new product offerings.

Daniel sits on the board of several substantial public and private real estate investment, structured finance and Islamic finance structures as well as small and large multijurisdictional corporate businesses. He also sits on the main Hawksford Group Holdings board.