

Introduction

Ladies and gentlemen, *assalamu alaykum*, and a very good morning to you all.

I am delighted to welcome His Excellency Dr Bandar and the Islamic Development Bank to London for this year's Sukuk Summit.

It is a great privilege to be in London to speak with you alongside my colleague and long standing friend, Sajid Javid.

I have recently learnt that the first trade of a Sukuk took place in Damascus, circa 650 AD.

Conversely – and my friends at the Bank of England may be loathe to admit this – the first bond ever issued by this country was in 1694...a mere ten centuries later...

It seems likely that we have more to learn from ancient Syrian finance, but the City of London has clearly persevered as a very late bloomer!

And it is this perseverance, despite facing big changes, which I wish to speak about today.

Despite that long list of responsibilities, my overriding objective as Economic Secretary and City Minister, is to maintain and strengthen this country's position as the leading centre for financial services.

From the high street to the Square Mile that we stand in today, up, down and across this country – the UK Government is a committed partner of enterprise.

Enterprise of all shades, sizes, and structures.

...and one of the big economic stories of the past few years has been the transformation of the UK into a beating heart of Islamic finance.

This story will continue to be told.

...and this Summit is a testament to the enduring pluralism of this country's economy – not to mention the depth and breadth of the sector.

In my remarks this morning, I want to discuss three distinct but inextricably linked things with you:

...the inherent strengths of the City of London as a global financial hub,

...secondly, the challenges of Islamic finance, and what is being done to address these,

...and what this Government is doing to help.

So first, let's address London's Strengths

The City of London has always been a beacon of global capital – firmly entrenched as a leader, not a follower.

It is a historic vanguard, a financial engine of the world, a champion of the free market...it certainly has come a long way from being carved out of a forest by the Romans!

...the ancient citizens of London would meet just outside this very building, at St Paul's, to discuss the future of the City in difficult times,

...and ever since the Magna Carta, London taxed itself, and governed itself for the benefit of global commerce,

...so even as we face geopolitical change in our times, we remain an open City – an economic citizen of the world.

We will continue to be an active member of international commerce, just as we always have been, and are now – a magnet for business, capital, and talent.

We bring to the table the cooperation and commitment of the world's most systemically important financial sector – and that edict is not according to the Government, but the IMF.

As part of this commitment, we want the City of London to be the most competitive and innovative financial hub.

The UK's involvement in the development of Islamic finance over the past 40 years exemplifies this aim.

But only since the late 2000s have government, industry and regulators come together to seriously think about how we can enable Islamic finance to prosper in the UK.

Today, we are rightly recognised as the Western hub for Islamic finance.

...we have a higher concentration of Islamic finance activity than any other OECD country.

...we are home to five fully Sharia-compliant banks, with over 20 banks in total offering a wide suite of Islamic finance products.

...we seek to ensure that Islamic finance can be accommodated within a single and secular legal and regulatory framework, and

...we have supported market-driven innovation in the delivery of Islamic finance through FinTech and other measures.

And the Government is determined to ensure this not only stays the case – but improves:

- for consumers, it is about unlocking access to competitive financial products regardless of faith or background.
- for firms based in the UK, it is about capitalising on the market opportunities provided by the increasing demand from the young and growing Muslim populations.
- for our international partners, it is about demonstrating that the UK is open for business for Sharia-compliant investment or the set up shop for Islamic finance services.

As you will hear over the course of this Summit, Islamic finance is burgeoning – and the City is firmly on the cusp of this acceleration.

Whatever the outcome of the Brexit negotiations,

...we will build our assets,

... strengthen our ties with emerging markets and developing economies,

...and position the UK as a long-term leader in Islamic finance.

Challenges of Islamic finance

Despite the strides made, we still have more to do.

Whilst London leads the way in Europe for the provision of Islamic finance...

...we know we can go further, and address latent challenges.

Whether that is:

... the lack of economies of scale that come with a nascent market,

...a lack of awareness amongst consumers or investors,

...or ensuring that regulation can accommodate Islamic finance.

There are no silver bullets to any one of these challenges.

... but we are encouraged by evolving market practice which overcomes them in a much more sustainable way than a government ever can.

And so, Islamic banking in the UK continues to expand - driven organically by industry, in a business environment supported by the UK Government.

As you will have heard, Al Rayan last week become the first bank in the world to issue a public Sukuk in a non-Muslim country.

Al Rayan's £250 million Sukuk is a truly British transaction – issued by a UK bank, using English law, and backed by UK property.

Named after one of Birmingham's most famous residents and author of our beloved "Hobbit", Al Rayan's "Tolkien Sukuk" showcases the strength of UK law to enable Sharia-compliant transactions.

And it is reassuring to hear that Al Rayan plans to use the proceeds raised to fund further growth as the bank expands its footprint across England, Scotland and soon Wales.

Let's take Gatehouse Bank – who launched their new operations centre in Milton Keynes to extend their offering to UK Islamic finance customers.

And in the Islamic Finance FinTech space, new and innovative firms are emerging.

Last year saw "Yielders" become the first Sharia-complaint FinTech to be authorised by our regulators.

We have seen interest by the likes of Wahed Investment to launch their US robo-advisory halal investments platform into the UK market.

Industry is also taking the lead with the establishment of the UK's Islamic FinTech panel in January this year.

This independent group of Islamic finance and FinTech practitioners seeks to create momentum in the Islamic FinTech sector by building on London's leading position as a global FinTech hub.

I am a fervent believer in the efficiency of markets, including the Islamic markets.

...and I am confident that market forces - in conjunction with Government, responsible regulation, and industry – will work to create efficiencies, correct failures, and spur growth.

What the Government is doing...

The Islamic World is the hub of Islamic Finance - it goes without saying. But the UK stands proudly as the significant spoke – its undisputed Western nucleus.

The UK's successful £200m sovereign Sukuk issuance in 2014 unlocked a vital source of sterling denominated liquid assets for Islamic banks.

The 2014 issuance used the Al-ijara model, which was the most common structure at that time.

But as we have heard, the market is continuing to innovate. We know that other structures, such as Wakalah and Murabahah are becoming more popular.

Alternative models have got our attention – including the implications these may have for a larger offering size.

This thinking will form part of a "value for money assessment" that will be led by the Treasury, subject to which we will seek to turn this thinking into something tangible.

Whatever the conclusion in relation to our own issuance – we are committed to remaining a leader in this field.

As a partner of the industry, and as steadfast believer in the free market, we in Government are making the most of the opportunities that the sector presents us.

At a global level, we are using our voice at the IMF and IFSB to drive the discussion on Islamic finance.

This is in recognition of the industry's specific regulatory and prudential challenges.

UK aid is supporting the use of Islamic finance within a development context via DFID supported projects.

And we continue to support an open, global policy dialogue between governments and industry, including with the Islamic Development Bank.

Closer to home, we are levelling the playing field in the tax and regulatory treatment of Islamic finance.

On the capital markets side, HMT and HMRC officials are investigating how the UK tax framework accommodates different Sukuk structures...

...and if necessary will take action to address this or issue guidance to provide greater clarity for market practitioners.

On the retail side, we are assessing ways to allow UK residents to remortgage in a way that is Sharia-compliant.

Another area of activity is ensuring that market participants are able to take advantage of Sharia-compliant products supported by the public purse.

Sharia-compliant start-up loans delivered via the government backed Start-Up Loans Company have been available since 2015.

And in the same year UK Export Finance - the UK's export credit agency - became the first export credit agency to guarantee a Sukuk, when it supported the delivery of four A380 aircraft for Emirates Airlines.

Treasury officials are also working towards enabling Islamic banks to participate in the Government's Help to Buy ISA scheme.

We remain acutely aware of the need to help UK Islamic banks to manage their liquidity constraints whilst they are unable to participate in the Bank of England's liquidity facilities.

We are therefore strongly supportive of the Bank of England's continued work towards the establishment of Sharia-compliant deposit facility in what would be another landmark UK project in support of Islamic finance.

The evidence speaks - loud and clear: we want the UK at the forefront of the frontiers of Islamic finance.

And we are taking leaps and bounds to ensure this will happen.

Conclusion

There is a lot to discuss – I trust all of you here today will propel this dialogue.

I want to reassure the industry that Government will continue to work with you to ensure a level-playing field – and a fruitful field at that... with plentiful flows of capital, ideas, and innovation.

We will support the sector, bolster growth, and address the challenges.

The world has witnessed Islamic finance evolve from a faith-based alternative to a viable force of financing.

And the UK stood up, took notice, and opened up to its potential.

As a Christian myself, I regularly turn to scripture for guidance. So, I appreciate the religious origins of Islamic finance.

As ever, the holy texts prove to be at times the simplest, yet wisest sources of guidance.

I came across a hadith from the Qur'an which I thought was particularly relevant:

“May Allah show mercy on easy purchase, easy sale, easy payment of price, and easy payment of debt”.

...and I think all of us in this room can agree with these sentiments!

As Economic Secretary – I endeavour to make London, and the UK an easy place to do business.

...an easy place to draw in, and deploy capital. An easy place to thrive.

Let me take the opportunity to thank all of you for what you are doing to make this vision a reality.

I look forward to working together.