

Canada based Ittihad Capital Positions Islamic Finance for its Universal Appeal

By Rafi-uddin Shikoh,
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How would you rate Islamic Banks today?
Or more fundamentally, how would you measure success for an Islamic Bank?

If you go by the purpose of Islamic banks, as stated in 1990 by The International Association of Islamic Banks (IAIB), it would not only include the obvious financial metrics (income, profitability etc.), but also, their performance against social objectives.



According to the IAIB statement on the purpose of Islamic Banking:

"The Islamic bank takes into prime consideration the social implications that may be brought about by any decision or action taken by the bank."

"Profitability--despite its importance and priority--is not therefore the sole criterion or the prime element in evaluating the performance of Islamic banks. They have to match both between the material and the social objectives that would serve the interests of the community as a whole and help achieve their role in the sphere of social mutual guarantee."

"Social goals are understood to form an inseparable element of the Islamic banking system that cannot be dispensed with or neglected."

When you look at the 'Finance' part of the Islamic Finance market today, the success and further growth potential is well acknowledged. The International Islamic Finance Forum estimates that there are 270+ Islamic banks worldwide with assets estimated at more than US\$265 billion and industry growth projected to be around 15-20%. The global bond market has taken notice of the \$30 billion in Islamic Bond (Sukuk) activity and now multi-nationals such as Deutsche Bank and global financial centers such as London, Dubai, and Singapore are all vying for their place in this financial sector.

However, when you look at the 'social objective' premise underpinned by Islamic law (Shari'ah) for financing, there is little or no data as to the social aspect of an Islamic bank's performance. Certainly, it could be asserted that inherent features of Islamic finance contracts fulfill social objectives. However, not all contracts are created equal and we don't hear about the extent of the societal impact achieved, or the Bank's other contributions to society's many in-equalities such as poverty etc.

If many IF innovations today can focus on deriving the most sophisticated Shari'ah compliant versions of conventional financial instruments for the corporate elite, then why haven't we seen that same level of innovation to finance small-businesses, entrepreneurs, the poor, etc. Perhaps, that is the reason why there is a certain level of cynicism by many practitioners, scholars and retail consumers about the virtues of present day Islamic Finance - a reason which may be holding Islamic Finance back from achieving its true potential both socially and financially.

Standard & Poor's Ratings Services in a recent analysis estimated the potential market for Islamic financial services to be closer to \$4 trillion! Even the most liberal estimates suggest that only 10% of that market has been realized today. Add to that the global CSR (Corporate Social Responsibility) sensitivities of many non-muslims, with which IF shares many commonalities, and the potential market is even larger.

Ittihad Capital Corporation: A Unique Case Study

There are certainly many Islamic Banks striving to keep the above balance. One such company is a small Canadian start-up, Ittihad Capital, which tucked away from the centers of Islamic Finance in the Gulf and South East Asia, has embarked on providing 'ethical socially responsible financial solutions,' with a messaging and positioning to serve all socially conscious Canadians. Ittihad's approach resulting from its unique geographic needs certainly provides a fresh approach to the positioning of Islamic Financial institutions that should be of value for others to learn from.

Ittihad Capital - Profile

Ittihad Capital was established with the flare of an innovative high-tech venture. Its Chairman is Dr. Hatim Zaghloul, a very successful Egyptian born Canadian Muslim entrepreneur with multiple patents under his name and was the former CEO of Wi-LAN Inc., a global leader in wireless technology and a publicly traded company on the TSX Exchange (Toronto).



Dr. Hatim Zaghloul

However, it is Mr. Suhail Ahmad, a former financial advisor representing one of the most respected Canadian financial institutions RBC Financial Group, who got the initiative rolling in 2004.

Mr. Suhail I. Ahmad, now the President & Chief Operating Officer of Ittihad Capital, chalked out a vision to serve the growing financial needs of Canadian Muslims as well as the broader socially conscious community in

Canada. He was able to get an initial group of investors to launch Ittihad Capital in June 2004 in Calgary, Canada. With a market capitalization exceeding \$3 Million, developed through funds raised via a private placement, it has now established offices in Calgary and Toronto.

Over \$65 Billion in assets are managed within Socially Responsible Investment (SRI) Vehicles in Canada

Source: Canadian Social Investment Review



Mr. Suhail Ahmad

Speaking to DinarStandard, Mr. Suhail Ahmad describes the vision of Ittihad Capital as the "Ethical investing gateway to Canada." The company is evaluating several opportunities to connect projects in Canada with US and Gulf investors. Mr. Ahmad explains the firm's purpose as, "To be able to provide genuine investment and financial solutions for businesses and individuals--connecting Halal business opportunities with investors who have an ethical mandate and want to participate in projects that add value to society and are economically feasible."

Ittihad Capital will be completing its financing with the closure of its private placement in December 2006 and is looking to become fully operational as a financial and investment services firm by the end of 2007. Its client base today consists of mostly small-businesses from the real estate and construction industry—a reflection of the region's booming economy. In Toronto, the company recently launched a wholly owned subsidiary Ittihad Securities Inc. to provide investment banking services to the burgeoning Canadian financial markets. Ittihad Capital's combined services include financial planning and investment services for individuals, capital leasing, project financing for small businesses, and financial advisory along with project management for institutions.

Broad Appeal and Mandate

Even though it uses Shari'ah based financial instruments, none of its marketing messages mention 'Islamic Finance.' With 'Trust', 'Integrity', and 'Value' as its motto, Ittihad Capital describes itself as a, "Canadian leader in ethical socially responsible financial solutions. We value our clients with fair, equitable, and cost-effective solutions to help them achieve their objectives without compromising their beliefs and values."

"Genuine Ethical Investment & Financial Solutions"



Speaking to DinarStandard, Mr. Ahmad elaborated on this positioning saying, "We took a very serious point to make sure that we do not position the company strictly for Muslims, and that we as an ethical investment company meet the socially responsible investing mandate of a broader ethical fund that also includes the prohibitions as per Islamic and Christian faith. That is how we have structured the company."

Interestingly, on its website, the section that explains 'Why Interest-Free?' doesn't just provide an economic and Islamic religious injunction perspective; it also includes Christian and Jewish perspectives as well.

The broad appeal certainly has a market in Canada. Canadians are more inclined to do business with a company that demonstrates corporate social responsibility, according to a recent survey. The survey, conducted by GlobeScan for Hewlett-Packard (Canada) Co., suggests 92 per cent of Canadians believe the more socially and environmentally responsible a company is, the more likely they are to purchase their products or services.

Even as Ittihad Capital positions itself for the broader Canadian marketplace, its primary target market remains the Canadian Muslim population. That market is about 600,000 strong and according to Statistics Canada (2001) Muslims are the largest growing religious denomination in Canada with total population expected to reach 1.7-2 million by 2015.



Ittihad Securities Inc. office in Toronto, Canada (A wholly owned subsidiary of Ittihad Capital Corporation)

Positioning Challenges

In its effort to differentiate while being accessible to all, Ittihad Capital has had to make some choices given local and geo-political challenges.

Mr. Ahmad explains, "In Canada we had an issue last year where efforts to pass Sharia law arbitration for Civil matters or for family issues was struck down. That had led to a lot of negativity with the word Sharia in the public and media. As a result, Ittihad has been reluctant to use the word Sharia,

even though we follow it. We don't want to confuse the public, and be clear that we our doors are open to everybody."

"Alhamdulillah, this has worked very well and has resulted in our ability to attract non-Muslim investors as well as clients--showing them a viable and credible alternative to conventional banking."

Is Global Islamic Finance Missing the Mark?

So how does Mr. Ahmad feel about the global Islamic Finance activity today?

He answers, "If you'll notice, there is a lot of creative Islamic financing taking place which goes back to the issue of--is it something that brings value to society. Many institutions have based their products as pure marketing opportunities while losing the essence of IF, which is to help improve the overall society, and establish an economic system that can appeal to everybody."

"In Islamic Finance product and strategies, one of the most important thing is the flexible nature of the transaction where it is fair to the both parties. The transactions build or add value to society and do not cause burden or hardship to either the individuals or the businesses you are dealing with."

"I think that going forward this is what will help Islamic Finance differentiate itself from conventional finance. Unfortunately many companies have missed the mark of providing a value proposition that makes it a fair playing ground."

Emerging IF Standards and Sharia Board?

Even with the above concerns, Mr. Ahmad feels many of the steps in the maturing IF industry are in the right direction. Ittihad Capital has started a dialogue with the emerging IF code of standards bodies and institutions. The challenges specific to Ittihad are its unique geographic needs.

As to its Sharia Advisory Board, it doesn't have an official one at this time. It does have a professional Ethics Advisory Board, comprised of prominent community business leaders, key investors, and also includes the Imaam of Calgary, Shaikh Jamal Hammoud.

Mr. Ahmad questions the need for a formal Sharia Board for their business model, although all their services are structured based on the teachings of Mufti Taqi Usmani.

He says, "We believe the models we have are very simple. For example our Murabaha model is based on 2-3 years short-term capital equipment financing, the rest is Musharakah or fee based. So there was no real need for us to establish a formal Shari'ah Advisory Board. We are not developing

any fancy products where we needed to convince individuals that this is Islamic or permissible. When we sit down and we give our Murabaha model, even a 10 year old kid should be able to understand.”

Ittihad Capital, and its positioning of Islamic Finance provides fresh perspectives on how various firms are serving this market. However, the firm is still in its infancy and even with its balanced and broad positioning, the real fruits of its operations both financial and societal are yet to be established

YOUR FEEDBACK

Assalam Aliakum, I am really happy that Islamic Financial firms (that are truly Islamic) are emerging, that too in a Western country like Canada. I wish the founders of Ittihad Capital, all the best, in this world and here-after. Infact about 2 months back, I tried to promote a company to provide Islamic Financial Solutions to SMEs in Dubai. Unfortunately, though 'conventional' Islamic finance and banking is very popular here, it is still not willing to extend its hands towards, the SMEs, nor provide them with Mudarabah or Musharaka products (many Islamic banks do not provide them at all, as they are risky). Since I was unable to get investors to start up this venture, I had to back off temporarily. May Allah succeed the good intentions and efforts of all those who work for it. Regards.

Ameen Ahsan, Dubai, UAE