

***Introducing
Islamic Finance to Russia:
Assessing Viability and Impediments***

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Structure of presentation

- ❑ General framework
- ❑ Institutional framework
- ❑ Instrumental framework
- ❑ Regulatory framework
- ❑ Conclusion and outlook

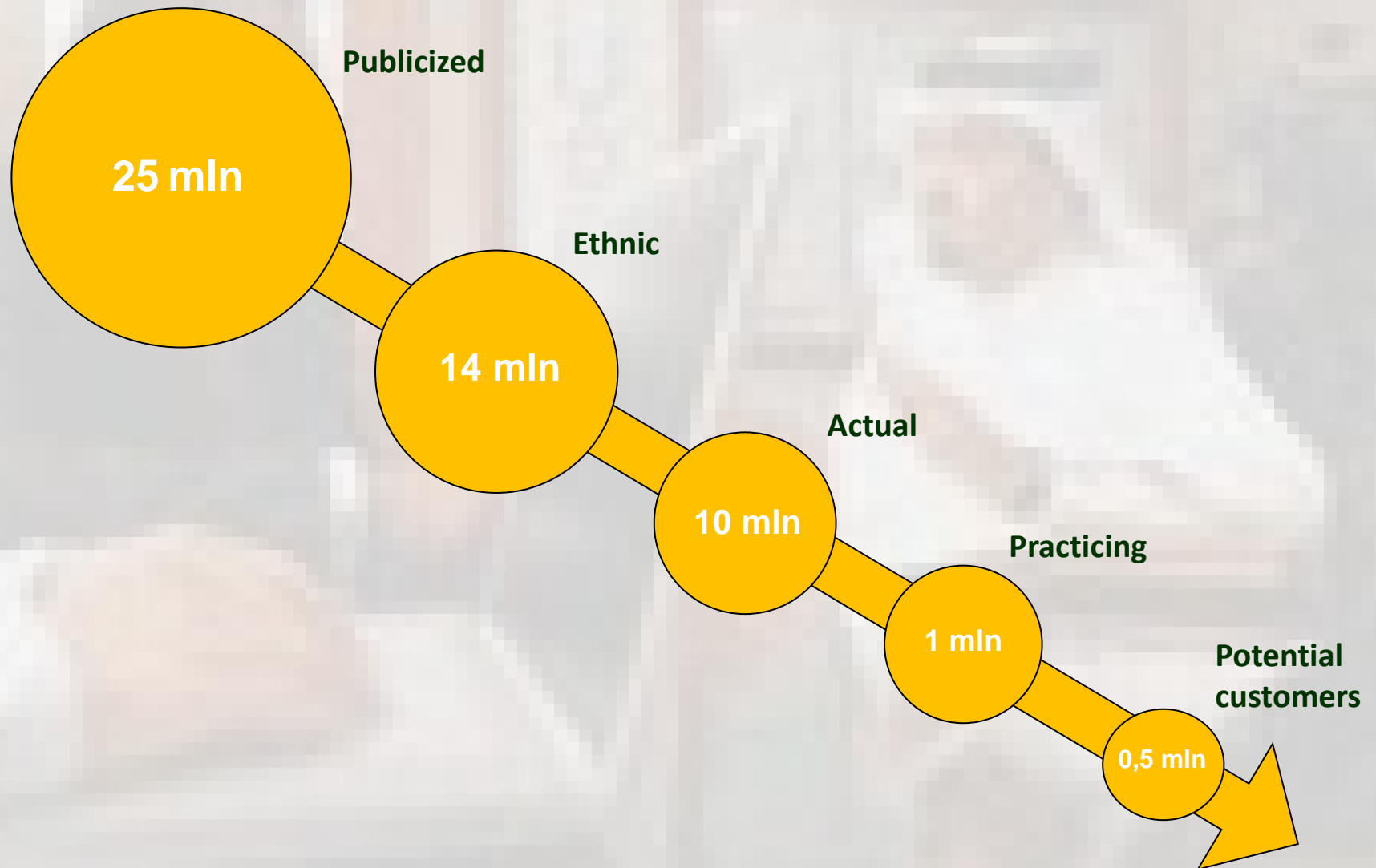
Religious self-awareness of Russia's population, 2009-2012, %

	1991	1994	2001	2004	2007	2009	2010	2011	March'12
Russian Orthodox Church	31	38	50	57	56	67	70	69	70
Islam	1	2	4	4	3	5	4	5	7
Catholicism	-*	<1	<1	<1	<1	<1	<1	<1	<1
Protestantism	-*	<1	<1	<1	<1	<1	<1	<1	<1
Judaism	-*	<1	<1	<1	<1	<1	<1	<1	<1
Other	1	<1	2	1	1	1	<1	1	<1
Not a believer	61	58	37	32	33	24	21	22	21
Difficult to answer	6	1	7	6	6	3	4	4	2
<i>Number of followers (mln)</i>									
<i>Russian Orthodox Church</i>	46,0	56,4	73,2	82,2	79,6	95,1	99,3	98,6	100,3
<i>Islam</i>	1,5	3,0	5,9	5,8	4,3	7,1	5,7	7,1	10,0
<i>Population of Russia</i>	148,3	148,4	146,3	144,2	142,2	141,9	141,9	142,9	143,3

Source: The Levada Centre

The polls, based on a representative all-Russia sample of urban and rural population, conducted among 1601 respondents of 18 years of age and older in 130 residential locations of 45 regions. Statistical error does not exceed 3.4 per cent.

Muslims Count



Source: The Levada Centre; Federal Service of State Statistics; author's estimates

Direct Speech

“Honestly, in the collocation Islamic finance they are more interested in the latter rather than the former”

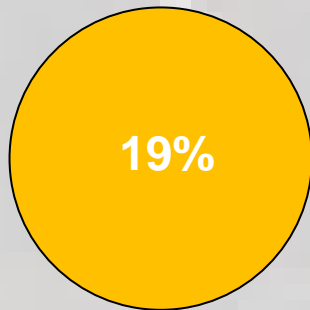
“For almost half a year we conducted a massive educational campaign together with the local Muslims’ Spiritual Authority: from advertising to lectures to sermon. The result is next to zero”

“Just imagine, our local Muslims’ Spiritual Authority comes to us for an advice in what bank they may get higher interest on their funds”

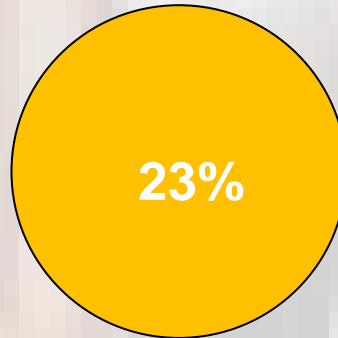
“They think that interest-free means altogether free-of-charge”

Attitude to Muslims/Islam, 2002-2012

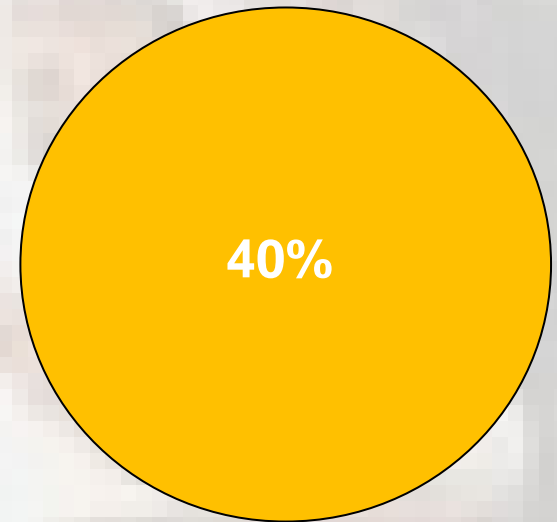
Muslims: positive



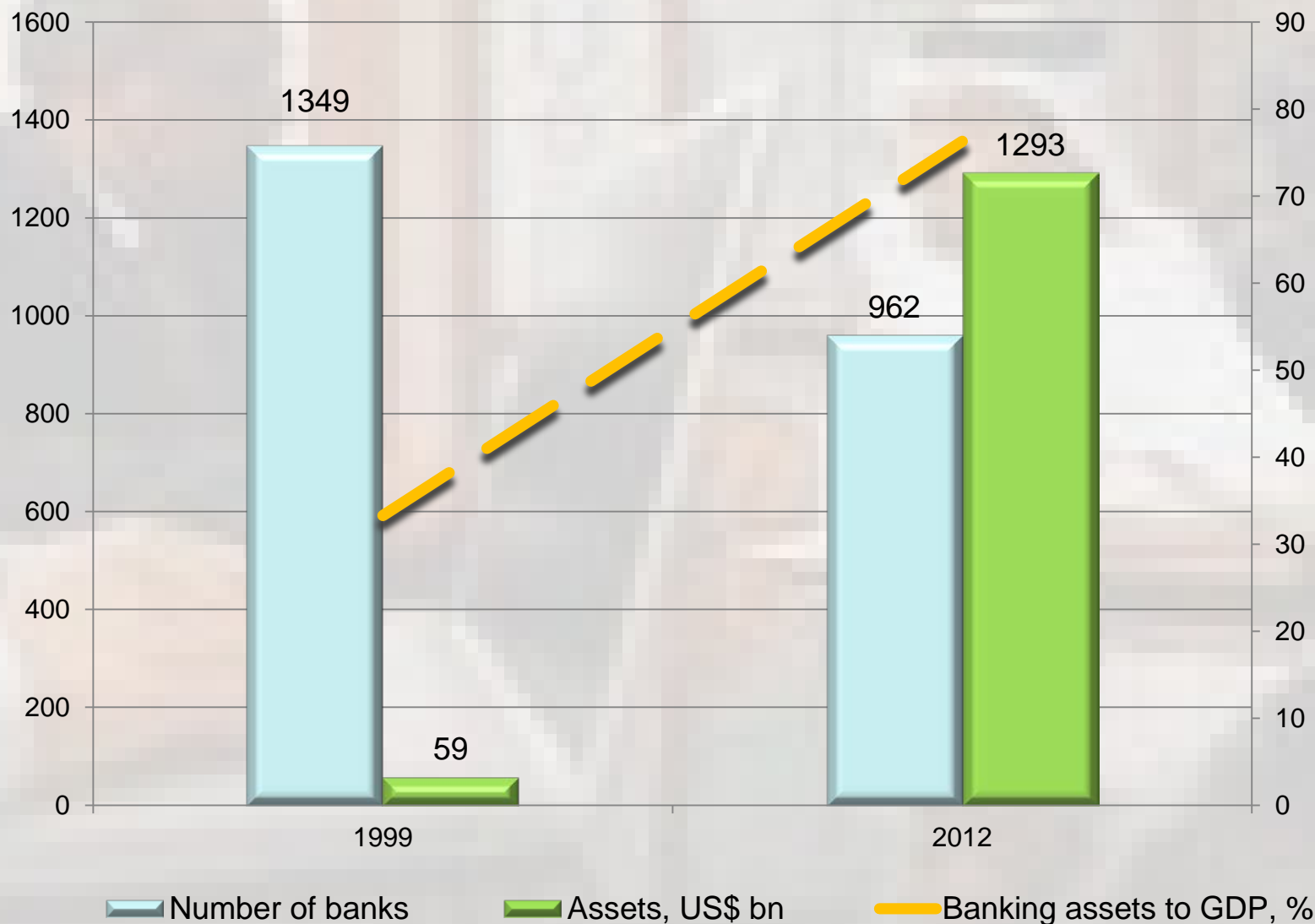
Muslims: negative



Role of Islam in Russia: negative



Development of Russian banking sector



Major high-level factors

- ❑ Liberation of religious fervour and practice
- ❑ Emergence of a market economy and banking
- ❑ Adverse reaction to Islam across broad sections of society and the state
- ❑ Much ignorance of the purpose of Islamic finance, lack of expertise
- ❑ Unfavourable factors have so far prevailed

Institutional Framework: business type

- ☐ Banks
- ☐ Non-banking finance providers
- ☐ Insurance (takaful)
- ☐ Investment fund
- ☐ Consultancy

Institutional Framework: firms

☐ Mythology

- ✓ United Islamic Share-holding Commercial Bank, Kemerovo, 1992
- ✓ Islamic bank in Tatarstan with IDB participation, 2006
- ✓ Russo-Bahraini Islamic bank, 2008

☐ History

- ✓ Badr-Forte Bank, Moscow, 2000-2006
- ✓ Yumart Finans, Kazan, 2010-2011

☐ Express Bank, Makhachkala, 2008

☐ Ellips Bank, Nizhniy Novgorod, 2011

☐ Amal Finance House, Kazan, 2011

☐ LaRiba Finance, Makhachkala, 2011

☐ Euro-Polis Insurance Company, Moscow, 2012

☐ BrokerCreditService Ltd (BCS), Moscow, 2008

☐ Futurology: the waiting in the wings

- ✓ Avtograd Bank, Naberezhnyie Chely
- ✓ Investtorgbank, Moscow

Ellips Bank

Ellips Bank, Ufa Branch, Selected Data

	01.10.2012	01.05.2012
Number of business customers	48	37
Balances on business customers' accounts, US\$ th. *	881	22
Number of individual customers' accounts	114	74
Balances on individual customers' accounts, US\$ th.*	130	80
Number of ijara transactions	6	0
Amount of ijara transactions, US\$ th.*	67	0
Number of applications for ijara	21	4

* Exchange rate is roughly US\$1.0 : RUR30.0

Source: Ellips Bank

Amal Finance House

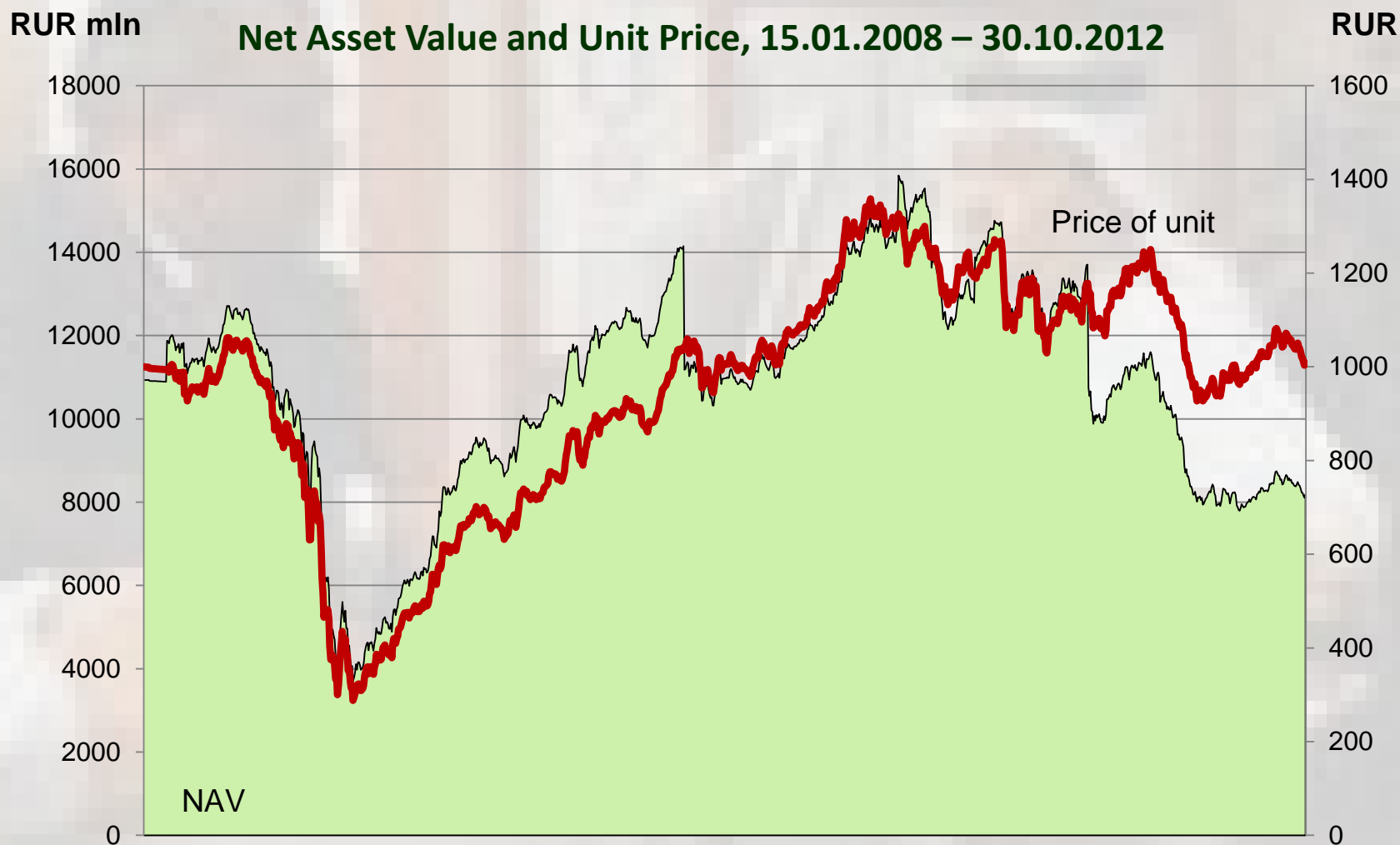
Amal Finance House, Selected Data, US\$ million

	01.10.2012	01.01.2012
Financing, including	4,258	3,230
consumer financing	1,802	n/a
SME financing	1,129	n/a
real estate financing	1,311	n/a
other	17	n/a
Number of products sold (units)	715	371

* Exchange rate is roughly US\$1.0 : RUR30.0

Source: Amal Finance House

BKS Halal Fund



□ Historical return as of 30.10.2012: 0.87%

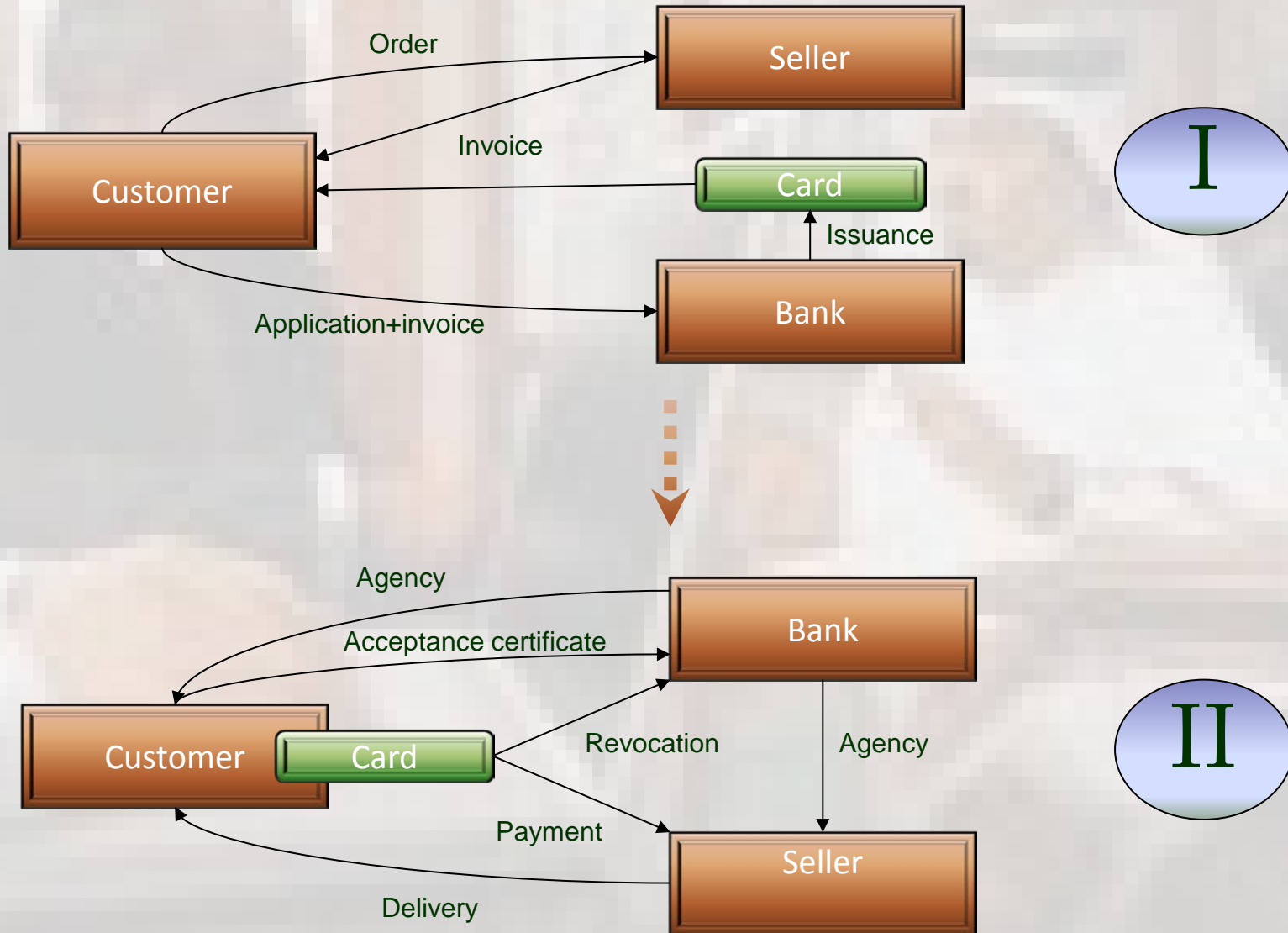
□ Average number of units: 11507

Instrumental Framework: contracts/products

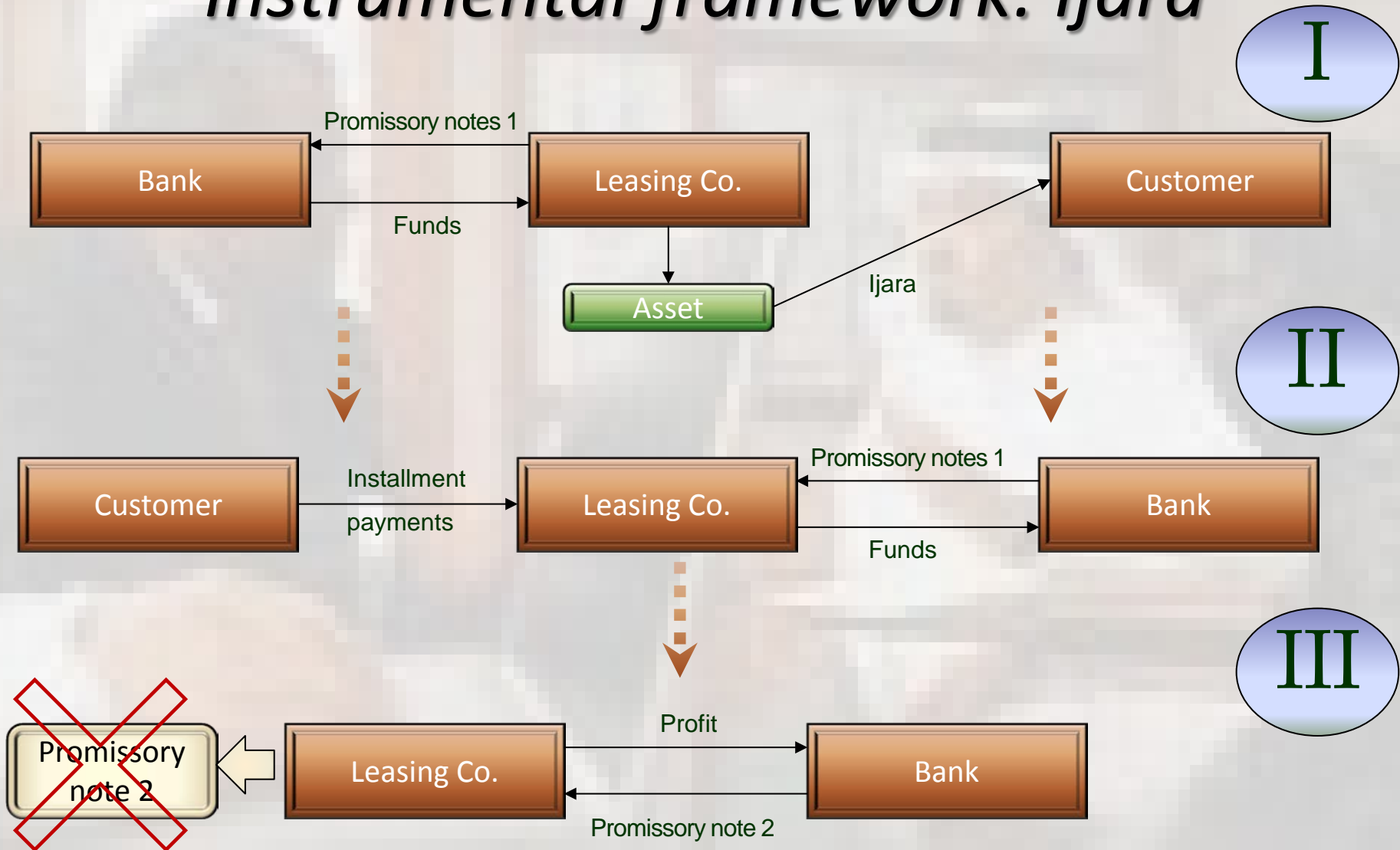
- ❑ Murabaha
- ❑ Ijara
- ❑ Musharaka
- ❑ Mudaraba
- ❑ Wadia
- ❑ Wakala
- ❑ Waqf
- ❑ Tabarru'
- ❑ Qard Hasan
- ❑ Commodity murabaha

- ❑ Consumer financing
- ❑ Working capital financing
- ❑ Motor car leasing
- ❑ Joint venture
- ❑ Deposits
- ❑ Current accounts
- ❑ Debit and charge cards
- ❑ Cash and payments
- ❑ Safe deposit boxes
- ❑ Money transfer
- ❑ Sukuk
- ❑ Interbank "borrowing"
- ❑ Insurance

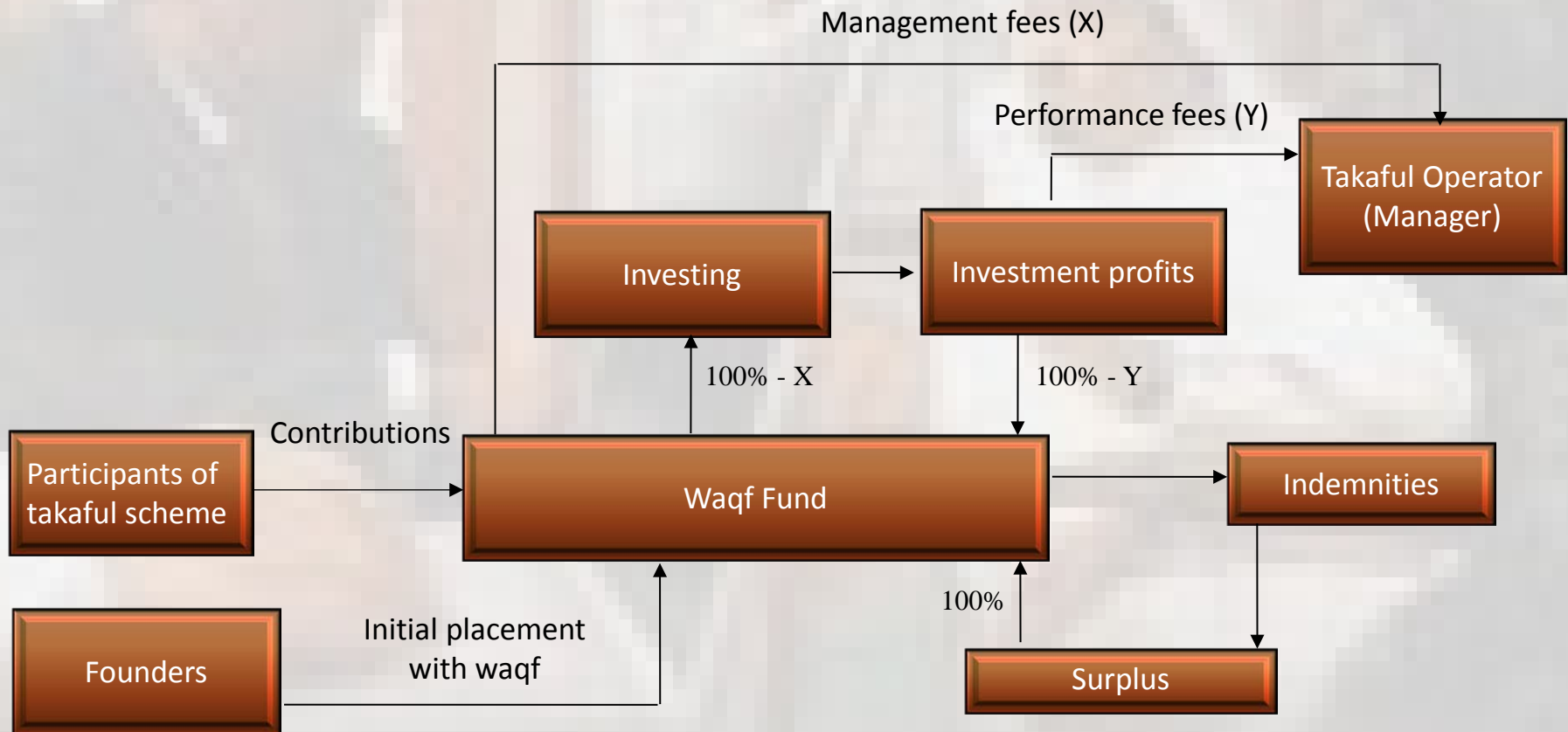
Instrumental framework: Murabaha



Instrumental framework: Ijara



Instrumental framework: Takaful



Instrumental framework: capital markets

- ❑ Three sukuk issues

- ✓ business centre

- ✓ cash flow from sale of telecommunication services

- ✓ cash flow from sale of electricity by local generating companies

- ❑ Globex Bank murabaha, 2006: US\$20 mln

- ❑ Ak Bars Bank commodity murabaha, 2011: US\$60 mln

Regulatory framework: impediments

- ☐ Banks are banned from manufacturing, commerce, and insurance
- ✓ significant non-core assets are disallowed by regulator
- ☐ Interest-free (profit/loss) financing or deposits are not possible for banks
- ☐ Central Bank does not intend to review its regulations to accommodate Islamic peculiarities
- ☐ Non-banking Islamic financial companies face little restriction, but AML enforcement is economically burdensome
- ✓ Islamic business is subject to especially close monitoring
- ☐ Tax system is not a great obstacle yet non-bank's transactions would entail more taxes

Conclusion

- ❑ Islamic financial services industry is in the making
- ❑ Russian environment is very discouraging for Sharia-compliant business
- ❑ Islamic **banking** is barely possible, Islamic financial companies are the driver
- ❑ Islamic finance movement consists of two factions
 - ✓ services in the domestic market for domestic customers
 - faith-driven grass-root eager beavers
 - ✓ chases money of foreign Muslim investors
 - opportunistic, politically motivated
- ❑ Domestic sector will continue as a niche business
- ❑ Out-bound breakthrough is not impossible
 - ✓ not a genuine development of Islamic finance
 - ✓ removing certain impediments is a possible by-product

Thank you

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Geography of Russian Islam



Source: Peoples of Russia. Atlas of Cultures and Religions. Ministry of Regional Development of the Russian Federation, Russian Academy of Science. Moscow, 2008

Geography of Russian Islam

