

Islamic fintech to play key role in German market



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While Islamic financial products available in Germany are still relatively limited, Islamic finance has the potential for growth in the German market. Shariah compliant products are not only appealing to the Muslim community in Germany (4–4.5 million people as of October 2020) and foreign investors from Muslim countries, but also to non-Muslim investors who believe that investments should adhere to certain moral standards (in addition to legal compliance).

Germany offers an open market as well as the proper legal framework for the development of Islamic finance. German law sets its own requirements that need to be complied with when offering Islamic financial products in the German market. Even though Islamic finance products are in principle compliant with German law, a review of common Islamic finance products is a strict requirement in order to align compliance with the principles of both frameworks.

Consequently, when Shariah boards assess the compliance of financial products with Shariah principles, they are required to align their assessments with the relevant provisions of the German Civil Code (Bürgerliches Gesetzbuch), Commercial Code (Handelsgesetzbuch), Banking Act (Kreditwesengesetz), Act on Limited Liability Companies (Gesetz betreffend die Gesellschaften mit beschränkter Haftung) and Act on Stock Corporations (Aktiengesetz), in addition to certain European directives that are relevant and applicable. For instance, Murabahah is a financial structure enabling asset purchase with delayed payment, which would entail two purchase agreements; consequently, these agreements should comply with the relevant provisions of the German Civil Code covering sale and purchase, as well as transfer of ownership.

Review of 2020

The current development of Islamic finance in Germany is evident in several sectors. In the banking sector, there are currently two Islamic banks operating in Germany:

- (i) **KT Bank** — operating with a banking license since 2015, it is the first Islamic bank in Germany, and a subsidiary of Kuveyt Turk Bank, which belongs to the Kuwait Finance Bank Group. In 2012, KT Bank applied to the financial authority for a banking license, and received approval from the Federal Financial Supervisory Authority three years later. KT Bank holds an Islamic banking license, offers online banking services as well as a mobile app, and is represented today in Frankfurt, Berlin, Mannheim, Cologne and Munich. KT Bank offers participatory accounts that involve investing in Shariah compliant products; these accounts are based on the principles of Murabahah. KT Bank also offers inter alia Islamic deposits, credit business products and services, payment transactions for retail and corporate clients, investment opportunities based on profit-sharing and participation schemes, real estate financing and investor loans.
- (ii) **Insha** — launched in 2017, it is the second Islamic bank after KT Bank and the first digital Islamic (fintech) bank in Germany. Launched by Al Baraka Turk, a subsidiary of the Bahrain-based Al Baraka Group, Insha offers Shariah compliant banking services. In addition to Al Baraka Turk, German fintech start-up solarisBank cooperates with Insha and supports its technology. In April 2020, the number of users for Insha's digital Islamic



banking services grew to 31,500, delivering a transaction volume of EUR29 million (US\$34.43 million). Moreover, aiming to offer all classical banking products via smartphones, Insha has reportedly been developing a new app which allows customers to transfer funds to over 80 countries.

Furthermore, in the banking sector, there are other institutions that, inter alia, offer Islamic banking services. One of them is Zinsfrei, which provides Shariah compliant Islamic banking products. Islamic fintech

Financial institutions worldwide have developed to not only provide Shariah compliant services, but also to technologize the Islamic finance industry. In Germany, Islamic fintech is not yet fully developed, as very few Islamic fintech companies have emerged in the German market so far. Nonetheless, with its strong economy and technological industry, Germany is likely to be a potential center for the development of Islamic fintech in Europe.

Preview of 2021

The potential for development and growth in Germany in my view lies in Islamic fintech. Islamic fintech is a fast-developing area globally, and Islamic fintech start-ups have emerged in Germany. The global reach of Islamic fintech and its flexibility in terms of structure and range will play an important role in such development in Europe and Germany. Islamic fintech will therefore help broaden the offering of Islamic finance products to a wider range of customers in Germany and Europe. Such will not necessarily be German Islamic fintech companies, but European ones as well. A good example is Yielders, a UK Islamic crowdfunding platform, which is expanding its operations in Europe and reportedly has been looking at Germany.

Conclusion

Financial and fintech products that are both Shariah and German law compliant will likely improve and innovate the investment sector in Germany. Germany is still a small market for Islamic finance, but is slowly improving and developing. Islamic fintech will play an important role in the future development of the German market and might provide a broad range of interesting products in Germany in the near future. ☺