

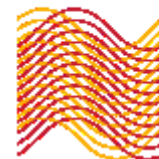
# Latest Developments in Islamic Financial Services in the German Financial Market

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(Presentation at 9<sup>th</sup> International Course  
on Islamic Capital Market in Teheran in April 2017)



Securities & Exchange Organization



BaFin

## Your lecturer: Dr. Johannes Engels

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- 1978 – 1980 Pre-Examination at RWTH Aachen
- 1980 – 1983 Examination at Köln University
- 1983 – 1984 Lance Corporal at German Airforce Support Command in Budel (NL) and Köln
- 1985 – 1986 Doctor-Degree at Köln University
- 1986 – 1988 Trainee at Simonbank AG, Düsseldorf
- 1988 – 1991 Advisor at Deutsche Verkehrs-Kreditbank, Frankfurt/ M.
- 1991 – 2001 Policy Officer in the Federal Banking Supervisory Office, Berlin
- Since 2001 Senior Policy Officer in the Federal Financial Supervisory Authority, Frankfurt/ M.
- 2009, 2012 Co-organization of two Islamic Finance Conferences (BaFin) in Frankfurt/ M.
- Since 2012 Lectureship at the University for Applied Sciences, Mainz
- Since 2014 Member of the steering committee in the European Supervisory Education Initiative

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# Islamic Financial Services in the German Fin. Market

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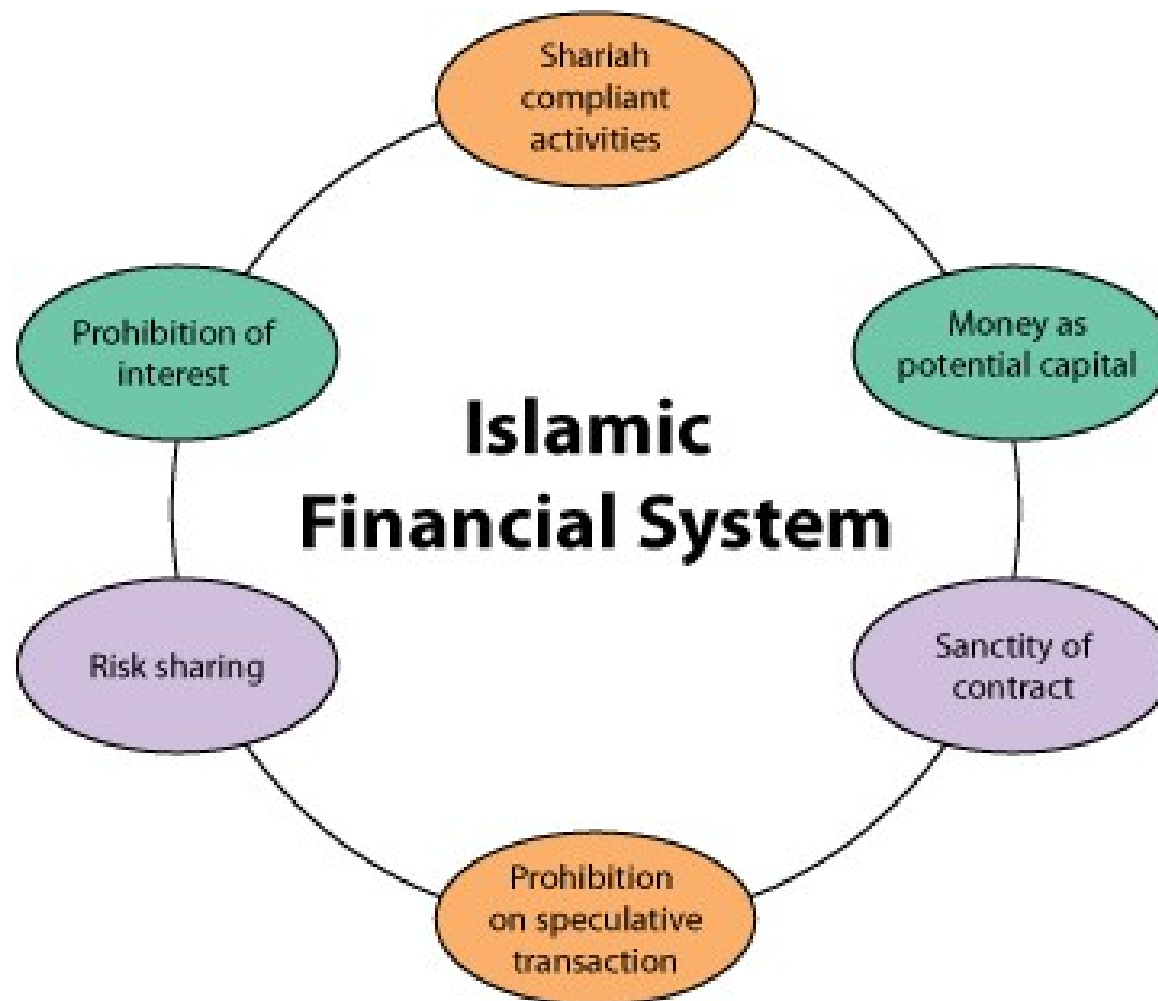
## **Contents:**

- **1. How to understand Islamic fin. services in Germany?**
- **2. Fin. market potential and its supervision in Germany**
- **3. Outlook: Islamic financing in Germany**

# General basics of Islamic Financial Services

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To put it into a nutshell:





# Important aspects to Islamic securities trading

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As well known, securities trading is in the Muslim world a widely used instrument for financing. In this context, the interest rate is replaced - in the world of dealing of securities - by dividends, shares of profits and/ or rises in prices. Most important basis is, that the issuing enterprise does not produce or deal with weapons, pork and alcohol. Forbidden is also gambling and porno.

# Important aspects of Islamic securities trading

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In addition to that, there are as well some other criteria:

- How much capital in the mentioned company comes from outside? Much of that means a high risk for the investor, because that enterprise operates with a high leverage. Besides this: a high dept.
- Is this enterprise deeply linked in engegaments, which are in disharmony to that criteria?
- No short selling is allowed. The reason is, that the investor sells on the one hand something, which is not owned by him, and that investor can damage the enterprise.



# Islamic Financial Services in the German Fin. Market

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# Potential: Islamic financing in Germany

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- Meanwhile, there live more than 5 ½ Mio. Muslims in Germany, with a rapid growing tendency. There is to confirm, that a lot of them are really needed. In this group are around 100.000 persons, which could establish own enterprises successfully. The quote of own real estate runs to 10 % (in the whole country: 40 %).
- This frame could make Shariah-compatible products of finance in Germany very interesting.



# Potential: Islamic banking in Germany

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- Interesting: the German "Mittelstand" – this is:
  - little; up to 9 employees/ less than 1 Mio. € annual turnover
  - middle: 10 - 49,9 employees/ 1 to 50 Mio. € annual turnover
- All German SME's together produce around 40 % of national GNP and nearly 70 % of all employees earn their the daily life (= 28 Mio. persons).

# (Islamic) banking in Germany, supervision

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- Approx. 2,600 employees
- Regulation of approx.
  - 1,800 credit institutions
  - 650 financial services institutions
  - 600 insurance undertakings
  - 25 pension funds
  - 85 investment companies
  - 400 leasing companies
  - 180 factoring institutions



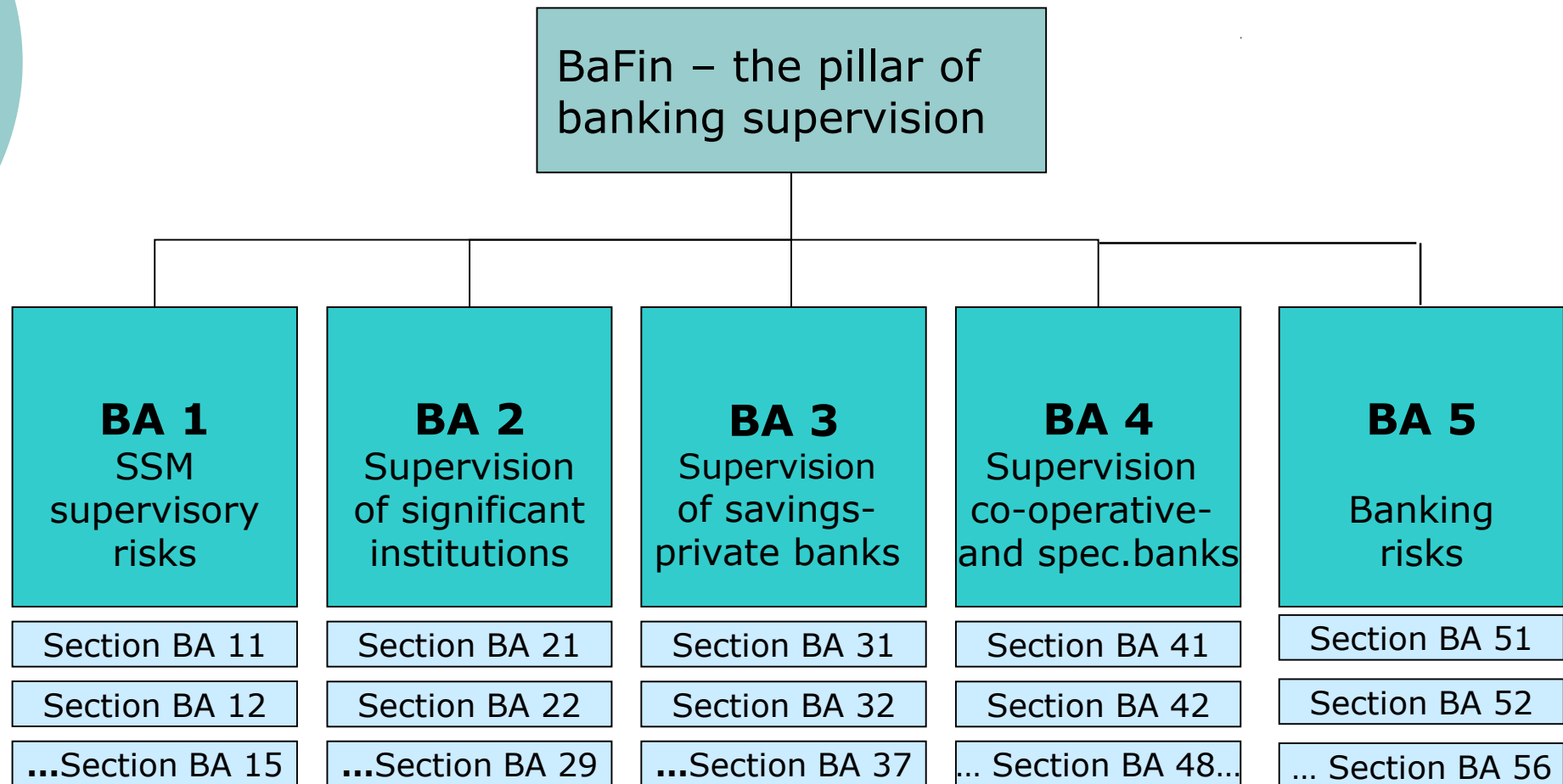
Bonn

Frankfurt/ M.



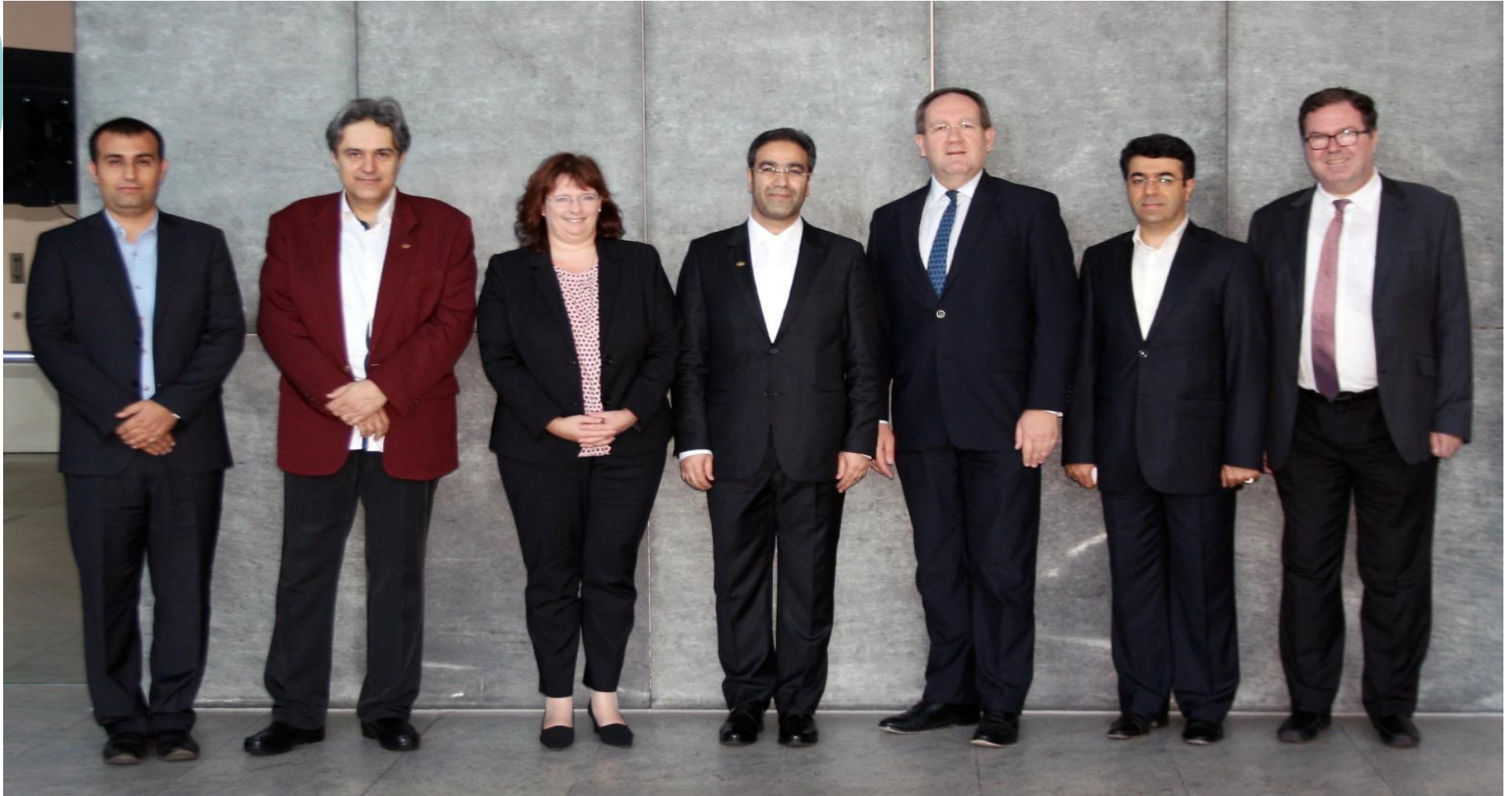
The BaFin is fully financed by the supervised institutions and enterprises (cost allocation and fees); the household is about € 250 Mio. p.a..

# (Islamic) banking in Germany, supervision



# Important step: MoU between SEO and BaFin

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# Islamic Financial Services in the German Fin. Market

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# Outlook: Islamic financing in Germany

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In Germany, there are indeed some financial instruments in use, which are accepted according to Shariah. Basis of this are the German prospectus regulations.

Some large French banks offer in Germany certificates.

Some German major banks and insurance companies use “Islamic windows” in U.A.E., Indonesia and Malaysia.

# View: Islamic financing in Germany

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In Germany, there works a first Muslim operating bank since March 2015:





# View: Islamic financing in Germany

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As people can read on the homepage: “The KT Bank AG is the first bank in Germany and the Eurozone, which introduced comprehensive financial products and services according to the ethical, sustainable and transparent Islamic banking principles.

We are pioneers of an unique business model and we welcome retail and corporate customers of all world views. Our mission is to become the leading socially responsible and first choice house bank for the Muslim community as well as for all customers who are interested in ethical investments.”





# View: Islamic financing in Germany

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The headquarter of KT Bank is in Frankfurt/ M., Germany. This bank is a wholly owned subsidiary of the Turkish Kuveyt Türk Participation Bank, headquartered in Istanbul.

Kuveyt Türk Bank has been laying groundwork in Germany since 2004, with a German branch explaining what Islamic banking is and acting as pioneers. In 2010, KT Bank entered the market and was granted by the Federal Financial Supervisory Authority (BaFin), a license for non-EEA deposit broking.

Then in March 2015, after having applied in 2012, BaFin granted KT Bank AG a full banking license under German law for the provision of deposit and credit business in Germany.



# View: Islamic financing in Germany

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KT Bank is also a member of the “Entschädigungseinrichtung deutscher Banken GmbH” (EdB), which secures clients’ deposits up to € 100,000.

On 1<sup>st</sup> July 2015, this bank started business in branches in Berlin, Frankfurt/ M. and Mannheim. It is planned to set to expand with new branches in Cologne and Munich. Pursuant to the establishment phase in Germany, KT Bank plans to offer Islamic banking products in other countries of Continental Europe.



# View: Islamic financing in Germany

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A diverse and innovative financial product and services portfolio for retail and corporate clients has been implemented successfully, adhering to cutting-edge technological standards.

All products are endorsed with Islamic Compliance Certificates.

KT Bank AG's total asset size has doubled from end of 2015 until end of 2016. KT Bank AG's portfolio also includes Islamic banking products and services for institutional clients, like Euro account and clearing services.



# View: Islamic financing in Germany

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As Germany's first Islamic bank, Kuwait Türk Bank offers today a comprehensive portfolio of Islamic financing and investment products and services according to the value-conscious, socially responsible and transparent principles of the Islamic banking sector.



# Outlook: Islamic financing in Germany

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- In the field of licensing and the later on running supervision there is not to forget the aspect of the financial product's check.
- Islamic finance is a young field of research as well for German universities.
- There are several very good motivating and hopeful examples, like Iran, U.A.E., Oman, Malaysia, Singapore and Indonesia for taking a target-leading and indeed a fruitful perspective.

# Islamic fin. services: a good idea!





# Latest developments in Islamic financial services

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Thank you for your attention!

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