The Flourishing of Islamic Finance in Malta

By Reuben M Buttigieg and Muath Mubarak

Located in the heart of the Mediterranean, Malta is one of Europe’s smallest and most densely populated countries. It is also one of the most Catholic countries in the world, with more than 360 churches located in just over 300 square kilometre of land.

Along with many other non-Muslim countries, Malta is willing to offer Islamic financial products and services based on the Quran and Sunnah. Even the Roman Catholic Church talks about the injustice of interest or usury and how it has become widely accepted. In this context, Islamic banking and finance is flourishing and the Maltese government and other regulatory bodies are taking initiatives to attract Islamic Finance Institutions (IFI) and investments to the country.

Malta has a small open market economy with a well-developed and sound financial system in place that is regulated to European Union (EU) standards. The country has excellent relations with all EU and North African countries and the World Economic Forum considers Malta as the 10th safest country to invest in. The banking sector is regulated by the Malta Financial Services Authority. The sector has undergone continuous development in tandem with the rapid growth of the global financial sector with regards to financial liberalization, integration and harmonization with other jurisdictions and respective laws, cross-border capital flows, and more. The Malta Financial Service Authority is a fully autonomous public institution that reports to Parliament on an annual basis. It is empowered to issue directives and establish other regulatory requirements for the sectors.

On the other hand, the Central Bank of Malta plays a vital role in the formulation and implementation of the government’s monetary policies and ensures the efficiency of the country’s financial system. It acts like any other European central bank such as the issue of currency, maintenance of external reserves and being a banker to the government and commercial banks.

The Banking Act regulates banking business activities with the adoption of EU directives for regulatory concepts and supervisory practices. Non-banking activities are regulated by The Financial Institution Act and The Investment Services Act.

One of the fastest growing sectors in Malta is the financial sector which has been fuelled mainly by the country’s national policy. Malta is one of the first six countries in the world to reach an advanced accord on fiscal matters with the Organization for Economic Co-operation and Development (OECD). The country completed a decade-long program to reform its financial sector legislation to be on par with international best practices, and has expanded its jurisdiction from offshore to onshore. This was done in a manner that maintains Malta as an attractive jurisdiction given its tax system and its 50 Double Taxation treaties - the most significant being the treaty with Libya. Other important developments that have taken place in recent years is the gaining of EU membership in 2004, removal of exchange controls in 2007, the adoption of the Euro and the formation of Single Euro Payments Area in 2008.

Malta offers a concrete tangible opportunity for IFIs though various legislative instruments. The country aims to act as a gateway for Islamic Finance to North Africa and Europe. In May 2008, the Malta Financial Services Authority issued a consultation document entitled “Islamic Finance in Malta – Application to Banking & Securities”, and received positive response from institutions interested in Islamic finance. Recently, the Malta Financial Services Authority issued the first guidance notes on Shariah compliant funds.

The island state is eager to attract other Islamic finance instruments also, such as Sukuk (securitization through Special Purpose Vehicle), Takaful (Islamic insurance), Islamic equity markets, Islamic stock market and money market practices, Shariah compliant funds and trust certificates and more, along with proper corporate governance and risk management structures in place.

Malta offers solutions in all these areas, as is evident from the establishment of Islamic finance advisory firms and the launch of Islamic finance training courses and seminars. In order to increase awareness about Islamic finance among industry professionals, the number of Islamic banking and finance workshops and seminars has risen in recent years, and is in fact producing concrete results.

In fact, Malta has attracted a considerable number of SPVs within Islamic finance structures, given that Malta has offered solutions that no other tax attractive jurisdiction has come up with in the case of certain Islamic finance transactions within the EU, Malta is in fact now offering solutions for Sukuk issuance in the EU member states. Furthermore, Malta is now experiencing the first Shariah compliant funds registration as well as the first re-Takaful application. A bank has also announced that it will be offering Islamic banking products in Malta.

The Trusts in Malta are also another instrument that is flourishing from an IFI point of view. The industry hopes that the Maltese government can attract Islamic finance investors through the issuance of a sovereign Sukuk for infrastructural projects, seeing that the country is strategically located to serve most of the Mediterranean countries. This will further enable inflow of funds into the country.

Finally, industry players believe that Islamic finance will truly render Malta a reputable Mediterranean financial services hub, and send the country well towards its Vision 2015 of becoming an Islamic financial centre of excellence.

The leaders of Malta, president of the republic Dr Goerge Abela and prime minister Dr Lawrence Gonzi, have expressed their commitment to Islamic finance and actively encourage IFIs to utilize Malta as the Bahrain of the Mediterranean. It is believed that if Malta continues in the right direction it can compete with London as an Islamic finance hub in Europe.

Reuben M Buttigieg
Managing director
Erremme Business Advisors
Email: rmb@erremme.org

Muath Mubarak
Coordinator, financial control & strategic planning
Barwa Bank, Qatar
Email: muath.2009@gmail.com