

Creating Financial Solutions for American Muslims

HSBC's Experience in the United States

Tariq Al-Rifai*

ABSTRACT

HSBC is a global financial institution with a strong history of serving multi-ethnic communities. In the U.S., HSBC actively serves the Chinese, Hispanic, and South Asian communities. Thus, serving the Muslim community is an ideal fit for its community banking strategy. Extensive primary and secondary research was conducted to determine the true potential of serving the Muslim market in New York State. The findings strongly suggested the existence of much unmet demand among Muslims for Islamic financial services. The challenge from then on was to develop a range of products and services to satisfy this demand. HSBC was faced with the challenge of developing products that would at once meet *shari'ah* guidelines and satisfy the state's regulatory authorities. The outcome of HSBC's experience lays the foundation for developing future products and services for Muslims in the West.

I. INTRODUCTION

HSBC Amanah has done significant research on the United States market for Islamic financial products. HSBC Amanah itself is a reputable financial institution with offices all over the world. The Islamic banking activities of HSBC Amanah are headquartered out of Dubai. Islamic finance by HSBC is also present in one form or another in the U.K., Switzerland and now the United States. Two things that need to be analyzed when considering HSBC Amanah's involvement in the United States Islamic finance market are the rationale behind it and the means by which they went about determining product offerings.

The American Muslim demographic is one that is currently underserved in the area of acceptable finance. HSBC Amanah has the resources and commitment to serve that demographic to the fullest. Table 1 shows that the Muslim population of the United States is 7 million and the Muslim population of New York is 800,000. The median household income of American Muslims is higher than that of the average American household, while percentage of household incomes above \$75,000 is higher as well, being 32% for American Muslims and 23% for Americans at large. The proportion of college graduates is 39% among American Muslims, which is higher than the U.S. average.

TABLE 1: MUSLIMS IN THE UNITED STATES

	American Muslim	American
Median household income	\$51,830	\$43,000
Incomes above \$75,000	32%	23%
Percent holding college degrees	39%	20%
Muslim Population		
USA	7 million	
New York	800,000	

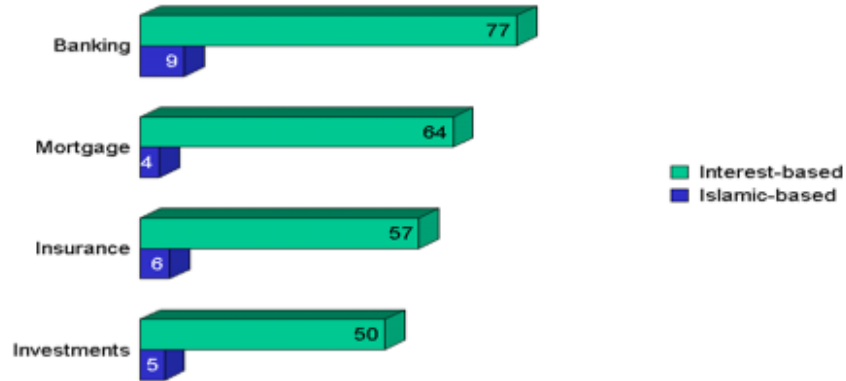
II. MARKET RESEARCH

In determining which services to offer, HSBC Amanah consulted with an independent market research firm to come up with research data. A survey was produced that was taken directly to the Muslim community in order to assess their desires and needs. The survey was comprised of multiple components, including interests, current involvement, preferences, familiarity, etc. The limitation of the survey is that it has only been done in New York State, and the margin of error was roughly 4%. Looking at the services Muslims are engaged in right now (see figure

* Vice President, Islamic Banking, HSBC Bank USA, New York, N.Y.

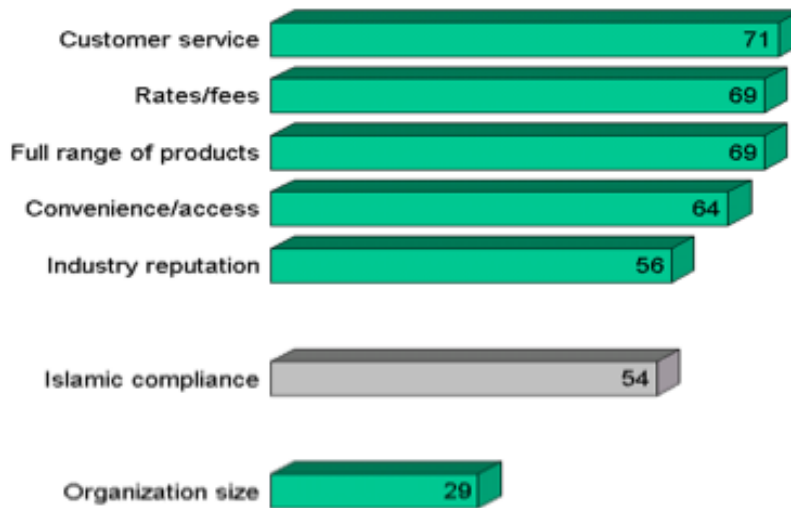
1), we see general banking services comprising 77%, mortgage 64%, and since there is a margin of error of 4%, the Islamic services taking up a negligible proportion. Insurance and investments and the market penetration of investment of all kinds are roughly 50%.

FIGURE 1: BANKING SERVICES



In regard to the most important aspects of a financial institution as far as Muslims were concerned, customer service, rates/fees, full range of products, convenience/access and industry reputation got the highest ratings, while roughly 50% said *shari'a*-compliance (see figure 2). Organization size preferences were an interesting finding as well. To a surprisingly large proportion of individuals surveyed, organization size was insignificant. The size of the institution did not matter, the services themselves were all that mattered.

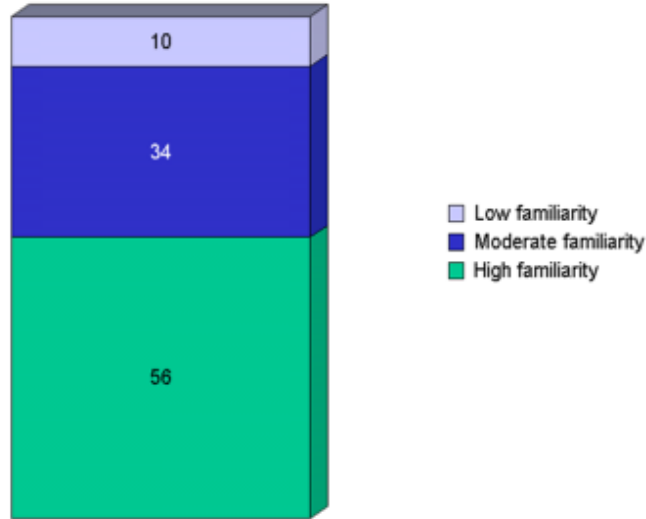
FIGURE 2: FACTORS IN CHOOSING FINANCIAL SERVICE COMPANIES



Question asked: "Listed below are features of a financial service company. We would like to find out how important these features are to you when selecting a financial service company?"

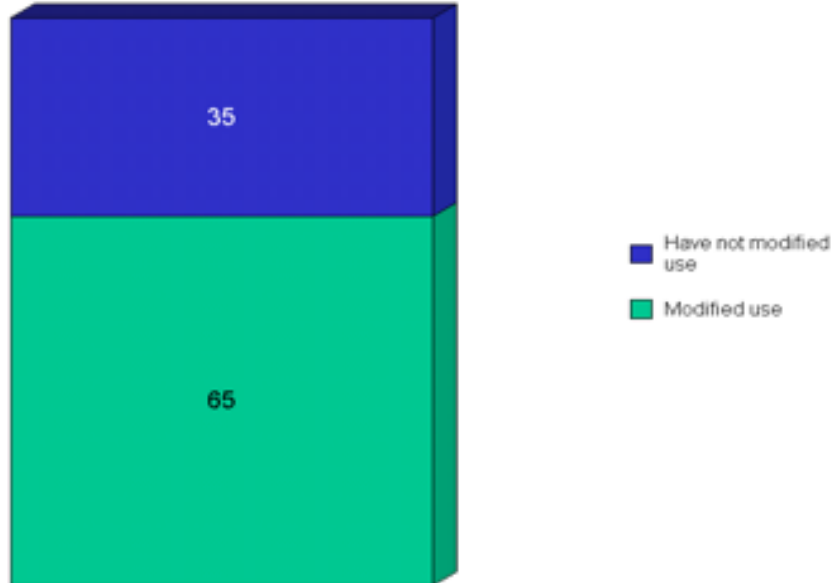
When asked how knowledgeable about the *shari'a* and principles related to financial matters they were, over half of the Muslims surveyed said they were quite familiar. Only a small percentage had low familiarity (see figure 3).

FIGURE 3: FAMILIARITY WITH *SHARI'AH*



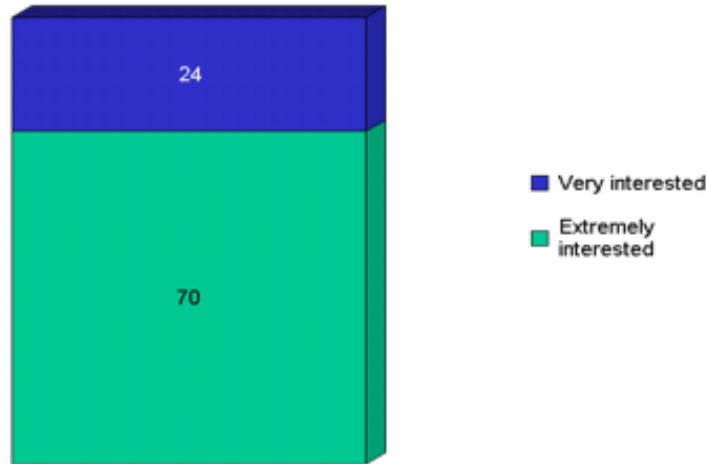
Almost two-thirds of the respondents said they have changed their use of financial services as they feared they were doing something that might not have been compliant with the *shari'ah*. Roughly 35% haven't modified their use of services and haven't done anything different in financial matters. Such respondents tend to live a normal conventional transaction-based life (see figure 4).

FIGURE 4: CHANGED FINANCIAL PRACTICE TO COMPLY WITH THE *SHARI'AH*



The next question related to respondents' needs with regard to *shari'ah*-compliance (see figure 5). 70% said they were extremely interested in having Islamic products and 24% were very interested. Only about 6% said they were not interested at all.

FIGURE 5: INTEREST IN *SHARI*^cA-COMPLIANCE



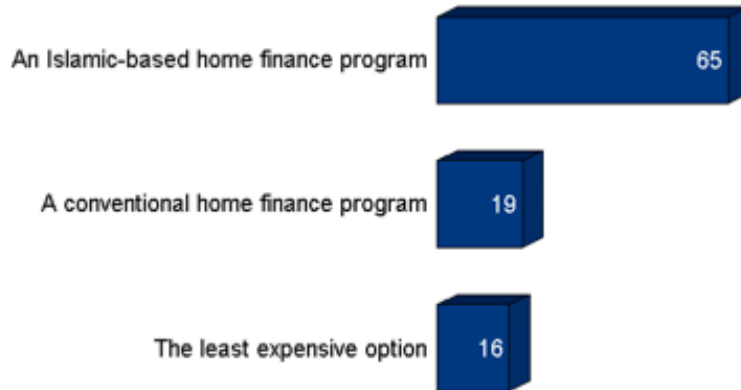
The service customers were most interested in was a regular checking account that was also *shari*^ca-compliant. This was followed by home finance, investment account, ATM/debit cards, and credit cards (see figure 6).

FIGURE 6: DESIRED *SHARI*^cA-COMPLIANT SERVICES



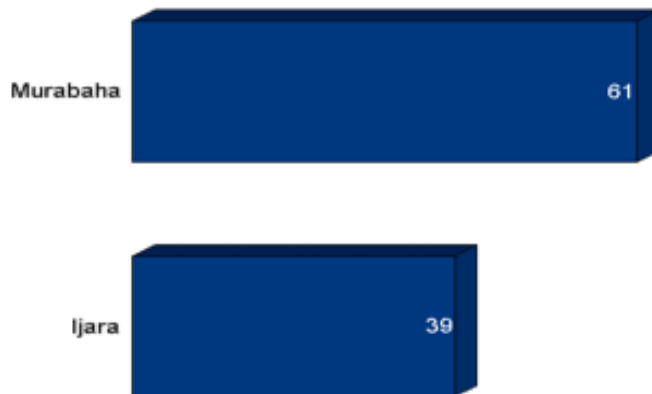
Two-thirds of the Muslims surveyed said that they would prefer a *shari*^ca-based home finance program (see figure 7). About a fifth preferred a conventional finance program. A significant percentage, 15%, of the respondents said that they would, if given the choice, select the least expensive option. From this we can infer that a considerable number of Muslims, in this area at least, are price-sensitive.

FIGURE 7



In terms of specific home finance mechanisms, 2/3 of those surveyed preferred *murabaha* transactions over *ijara* leases (figure 8).

FIGURE 8



III. LESSONS LEARNED

Having done the research, HSBC Amanah needed to decide first which products to offer and then which products to add as interest increased. In the first stage, HSBC Amanah offered a *murabaha* home finance program, for New York State, an interest-free checking with a debit card, and an interest-free charge card. These three products were launched based on the survey results showing what the customers wanted and HSBC Amanah plans on introducing more products as time goes on.

An ambitious project, such as the launching of a line of *shari'ah*-compliant financial products in the United States, will undoubtedly encounter a number of challenges and hurdles. When dealing with home finance products in the U.S., one has to deal with an extensive regulatory environment. In regards to HSBC's legal team, it was important for them to understand the risks involved since obviously HSBC was going to be involved in the purchase and sales transactions of homes. Also, risk for HSBC came from customer protection laws—they definitely had an effect on the product that they were trying to structure and form. Familiarity with property title issues (title transfer limitations and rules, etc.) was especially important as well. The entire legal team had to also be educated in the

shari'a. At the outset, the *shari'a* was completely foreign to the HSBC legal team; familiarizing them with it was a daunting but fruitful task. Questions answered included: What is the *shari'a*? What are the things that we need to do differently? What are the obstacles that we are going to face up front? How are we going to deal with these challenges? The *shari'a* committee itself needed to be educated on the limitations of the U.S. law and legal system. The U.S. legal system is very extensive and it was essential that the limitation and requirements of certain regulations were understood and discussed up front. HSBC also had limitations in their IT system, much of which had to be modified in order to handle the various aspects of Islamic financial products. Another challenge HSBC faced was finding qualified salespeople and customer service representatives—training of whom was conducted internally.

IV. CHALLENGES AND CRITICISMS

Challenges external to HSBC had to be faced as well, regulatory first of all, and it was needed to find where the *shari'a* and consumer lending laws met. Given the multiple legal frameworks that Islamic financial institutions in America operate under, considering conflicts between *shari'a* laws and consumer lending laws was important. Educating the regulators about the *shari'a* and why we are doing this was also essential. The main message sent to them was that a significant group of Americans existed who, because of their religious beliefs, were barred from participating in certain financial practices and that HSBC wanted to be able to serve the customers that had unmet needs. Seeing how the regulators were concerned with the issue of helping people meet their needs, they were very responsive and were willing to help HSBC Amanah.

A number of common criticisms came from within the community itself. One of those criticisms that kept recurring was the question of the source of the funds in HSBC's Islamic finance program. When people became familiar with what HSBC was doing, community members called in offering suggestions for a multitude of different products. It seemed as if HSBC's coming to market brought the needs of the community to the surface. The community became somewhat proactive in that they came to us and tried to address the issues that were concerning them. At the same time, HSBC Amanah wanted to address their perceptions of the bank and make sure that they were comfortable with and understand all of their policies. Seeing as how both sides wanted to address certain issues and perceptions, community involvement was extremely important. As such, HSBC has encouraged community members to get involved, participate, discuss issues with us and in return, has kept the community members up to date with the progress of the project and the status of HSBC's Islamic finance division in the United States. Another important thing was that communication channels were opened with some of the leaders in the Muslim centers around New York State to make sure that they were kept abreast of our progress—in return, those leaders provided feedback and ideas on what was needed.

V. CONCLUSION

People might have expected HSBC to close its Islamic finance division after the events of 9/11. That was not the case, in fact, HSBC remaining in the market spurred even greater interest in the concepts and ideas of Islamic finance. Indeed, HSBC Amanah's research and progress shows us that the potential for the Islamic banking services in America has been confirmed, even in the wake of catastrophic events.

