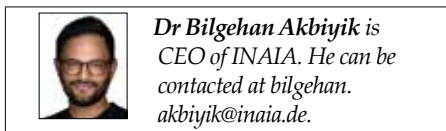


Status quo of Germany and insights on preference for Islamic finance

While countries such as Iran, Saudi Arabia and Malaysia share 66% of global Islamic finance assets, Europe contributes only 3.3% (ICD–Refinitiv, 2020). The Islamic finance market in Germany is a hidden market for most Islamic finance participants, and its ecosystem has yet to be adequately researched. However, the potential number of customers is high. The Muslim population in Germany was 5.6 million in 2020 and is the second-largest in Europe (after France). DR BILGEHAN AKBIYIK delves further.



Dr Bilgehan Akbiyik is CEO of INAIA. He can be contacted at bilgehan.akbiyik@inaia.de.

With a GDP of US\$4.2 trillion (in 2021), Germany is one of the strongest economies in the world (Worldbank, 2021). Large German banks and insurance companies have been very successful at the international level in offering Shariah compliant financial services. But the supply at the local level is still minimal.

Consumer needs and expectations: The survey

A survey conducted by INAIA in 2022 was used to analyze customer needs and expectations; this included conducting research with selected Islamic finance customers in Germany. Understanding the key drivers (accessibility, transparency, cost efficiency, data, value propositions, new value to customers, etc) of the optimized (digital) Islamic finance ecosystem from the product/service perspective to a solution-oriented mainstream approach was the overall objective of the survey.

In total, 386 participants answered the survey questions, out of which 269 are Islamic finance customers.

The net promoter score (NPS) is used to define the satisfaction grade of Islamic finance consumers. The score describes the ratio between satisfied (positive) consumers and unsatisfied (negative) consumers. A value of +100 indicates total satisfaction, while a value of -100 indicates extreme dissatisfaction. The NPS of Islamic finance consumers in Germany was determined to be -63, indicating their overall discontent.

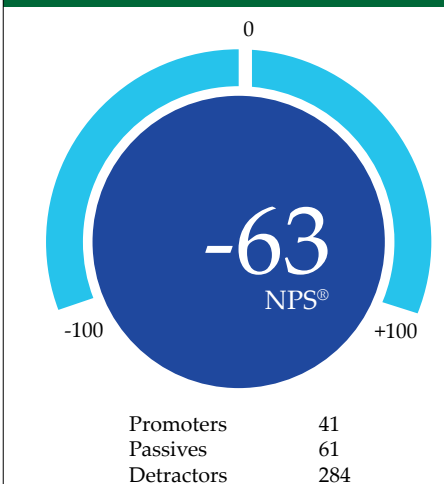
Of the presented options, the most preferred investment instrument was

precious metals (96%), followed by investment funds (75%). The average of consumers answering “I don’t know” to the investment options was calculated to be 16%. Investing in ESG assets was not at the highest priority like other preferences such as clarity, cost or diversity of investment.

The majority of Islamic finance consumers selected real estate financing as the most interesting financing instrument. The Ijarah method, which is based on rent as a financing cost, was preferred the most.

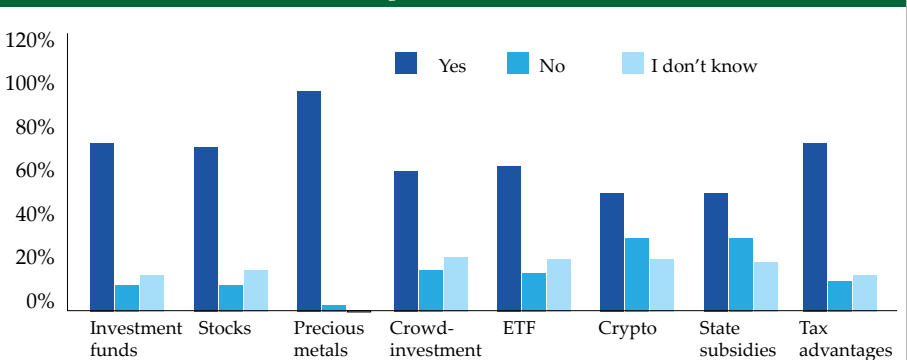
The NPS of the importance of Shariah authorization and audit was calculated to be +56, showing that verified Shariah conformity is quite important to Islamic finance consumers in Germany.

Chart 1: Overall satisfaction with Islamic finance offerings in Germany



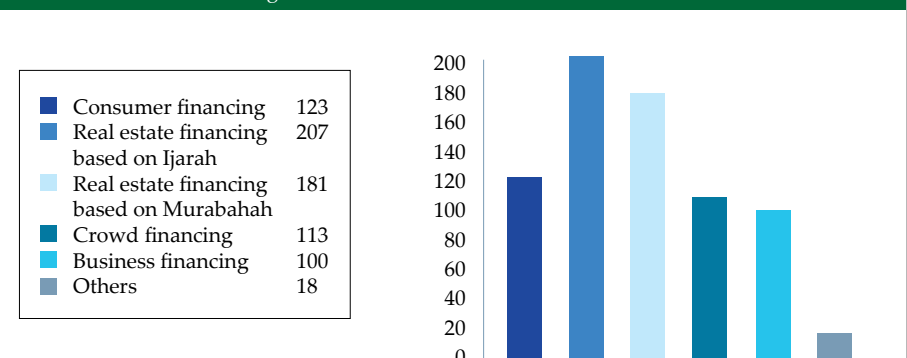
Source: Akbiyik, 2022

Chart 2: Preferred investment and savings instruments



Source: Akbiyik, 2022

Chart 3: Interested financing instruments



Source: Akbiyik, 2022

The survey analyzed the Islamic finance customer needs and expectations in Germany as reflected in the responses. It also detected specific customer expectations, such as diversification of finance products, accessibility, transparency, usability, cost efficiency, trust, individual offers (robo-advisors), service on demand, quality and competency.

Based on the set of defined parameters, it was possible to determine whether the customers expected these services from known brands or new companies entering the market (either start-ups or foreign firms). The analysis of the survey responses yielded the following findings.

Based on the key findings for savings and investment, most of the respondents were looking for long-term investments and preferred precious metals as an investment asset. Furthermore, precious metals were the most favored investment for 81% of the participants who declared themselves non-Islamic finance customers as well.

Notably, the demand for other assets, such as investment funds, stocks and investments with tax advantages, was significantly high. The lower importance of ESG-certified investment products may be explained by the overall unsaturated Islamic finance investment

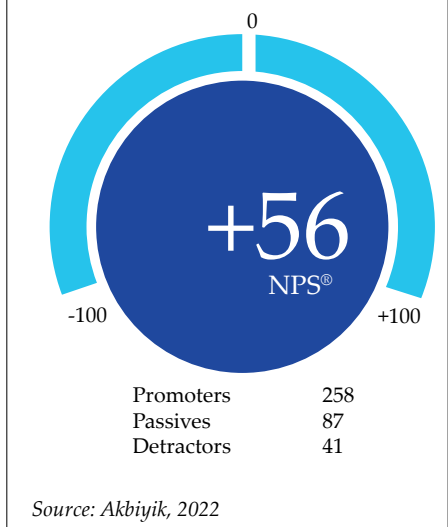
varieties in Germany. The option of having at least one Islamic finance product independent from additional features may be a higher priority.

The survey showed that the primary financing need of Islamic finance customers is still real estate financing. However, as a more detailed insight, customers defined their preference for a financing method based on Ijarah – financing costs calculated as a rent amount of the financed object.

As an overall review of product needs and expectations, it can be stated that Islamic finance consumers have shown that there is not a specific product need but a general need. Out of all the categories, finance (44%) and real estate financing (57%) are Germany's most in-demand and needed Islamic finance product.

When expanding into Germany, foreign suppliers should consider the consumers' marked preference for suppliers that are authorized and certified by an independent Shariah board. In addition, nearly half of the Islamic finance consumers (42%) expressed a preference for local Islamic finance providers. This can be a strategic indicator for a foreign supplier and a reason to cooperate with a local Islamic finance supplier in Germany instead of

Chart 4: Importance of Shariah authorization and audit



offering products and services directly under its own (foreign) brand.

The survey and its insights can also help B2B suppliers recognize cooperation opportunities to cover the financial needs of Islamic finance customers in Germany. In particular, the demand for financing and insurance can attract finance institutions and insurance and reinsurance companies to back German B2C suppliers to cover the needed products and services of their existing customer base. ☺

IFN Islamic Finance news
The World's Leading Islamic Finance News Provider

ONLINE DIRECTORY

Search over **12,000** companies directly involved in the Islamic finance industry

Find your true potential