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Exporting Islamic Banking from the Middle East

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The Islamic Banking market is one of the most powerful sectors of the banking market in the world today, with a majority of the estimated \$700 billion in assets of Islamic banks concentrated in the Middle Eastern region.¹ However, the industry has also started to gain momentum outside of the Middle East, as more and more financial institutions are beginning to introduce Sharia-compliant banking products and services to serve the more than 1 billion Muslims living worldwide.

The growth of this segment of the financial industry presents a new opportunity for financial institutions located in the Middle East to export their business outside of the region to serve the large global Muslim demographic in other countries. The growing success of Islamic Banking outside of the Middle East can be attributed to the following factors.

Global Presence

In 1975 there was one Islamic bank; today there are over 300 in over 75 countries, such as Indonesia, Pakistan, the United Kingdom, Bangladesh, Nigeria, Egypt, Turkey, Iran, Sudan, Algeria, Morocco, Iraq, Uzbekistan, Afghanistan, Malaysia, Saudi Arabia, Yemen, Syria and Kazakhstan. Most notably, the number of Islamic Banks has more than doubled over the past 12 months in the UK, with Islamic banks from the Gulf Corporate Counsel (GCC) as the major shareholders of most of these new financial institutions. Currently it is estimated that funds from Islamic Banking make up for \$200 billion in the UK, and this is predicted to increase by up to 15% a year, to be worth a trillion dollars by 2010.²

Growing Acceptance

Consumers around the world have started to show an interest in, and greater acceptance of Islamic Banking, greatly increasing the opportunity for this segment of the industry to be exported outside of the Middle East. Today, Islamic financial institutions are recognized as fully-functional counterparts of conventional institutions.³ Additionally, an increasing number of Islamic investments have outperformed conventional investments, making banks more eager to offer Sharia-compliant banking products and services worldwide.

¹ Islam, Nurul, "Islamic Banking – a golden opportunity for European banks," [http://www.dinarstandard.com/finance/IslamicBanking100108.htm], November 3, 2008.

² "Islamic finance poised for massive growth as London becomes key hub outside the Middle East," [http://www.propertywire.com/news/features/islamic-finance-london-hub-middle-east-200809031504.html], September 3, 2008.

³ "Country Focus: Bahrain - Middle Eastern promise," [http://www.newhorizon-islamicbanking.com/index.cfm?section=features&action=view&id=10400], April 1, 2007.

Ease of Exportation

Many countries outside of the Middle East have shown an increased willingness to embrace Sharia-compliant banking products and services. By introducing new laws and regulations to permit the practice of Islamic Banking, countries have simplified the process that Middle Eastern banks must follow to open new branches and introduce Sharia-compliant banking products and services to customers. The UK, for example, has put in place new laws to facilitate further market entry and practice of Islamic finance in the country. Also, the UK has actively encouraged the growth of Islamic finance by introducing a number of changes to support the growth of Islamic finance, such as ensuring that Islamic mortgages would not be subject to double taxation.⁴

Malaysia has also taken action to help make Islamic finance more widely available throughout the country. Through international road shows, training programs aimed at regulatory bodies, such as the Islamic Markets Program organized by the Securities Industry Development Corporation (SIDC), and public engagements, including articles, interviews and conferences, Malaysia has shown an increased interest in Islamic finance. And in Indonesia, through the establishment of a Muslim clerical body, known as the Ulema Council, and market regulators, it has become much easier and more practical for Islamic Banking services to be conducted in the country.

Steady Market

Even amidst the global financial crisis, Islamic Banking has remained steady, while many Western financial institutions have taken serious blows. The Islamic Banking market has been largely unshaken by the economy primarily due to its more cautious attitude towards money. Instead of using financial instruments as derivatives, Sharia law bans insurance and investment gains, as well as excessive risk-taking and trading in debt. According to Sharia law, the collection of interest is a form of usury, which is forbidden. Islamic Banks also do not collect late payment fees, which are considered a type of *riba*, or interest. Therefore, when the economy suffers, individuals are protected from losing out as well. The resilience of the Islamic Banking market in spite of the global crisis has encouraged more countries to use Islamic principles to help run their economies.

Ethical Banking

Islamic Banking has also attracted a large audience because of the ethical form of banking that it provides. Sharia law forbids engagement in investments that include financial unknowns such as buying and selling futures, as well as businesses that are *haraam* – dealing in products that are contrary to Islamic law and values such as alcohol, pork, gossip or pornography. These principles apply to all individuals, companies and governments. Each Islamic bank has its own Sharia Board in place to manage and maintain ethical Islamic Banking principles.

Training

Exporting Islamic Banking products and services will yield many benefits for Middle Eastern financial institution. However, to ensure that financial institutions in the Middle East will be successful in taking their products and services abroad, it is important that they implement comprehensive training for their employees.

⁴ "Islamic finance poised for massive growth as London becomes key hub outside the Middle East," [http://www.propertywire.com/news/features/islamic-finance-london-hub-middle-east-200809031504.html], September 3, 2008.

Through training, banks will be able to build a well-educated staff that is familiar with Sharia-compliant banking products and services and educated on how to communicate them to their customers. With the number of Islamic banks growing throughout the world, it is important for Islamic financial institutions to offer banking products that are competitive with conventional products offered by other retail banks. Therefore, it is vital to provide training for employees to help to retain existing customers, as well as attract new customers to the bank.

It is also important for employees to become familiar with the appropriate laws and regulations that are specific to each country. When exporting their products and services outside the Middle East, financial institutions must be aware of the different laws put in place in each country which facilitates further market entry and practice of Islamic finance. For example:

- In the UK, the Finance Act 2003 introduced relief to prevent multiple payment of Stamp Duty Land Tax on Islamic mortgages.
- In Malaysia, the Government Investment Act 1983 was enacted empower the Government of Malaysia to issue Government Investment Issue (GII), which are government securities issued based on Sharia principles.⁵

By training employees to become familiar with the laws specific to each country, Middle Eastern financial institutions will ensure success when taking their products and services abroad.

Final Word

Financial institutions located in the Middle East will benefit from the growing Islamic Banking industry by exporting Sharia compliant products outside of the region. Due to Islamic Banking's global presence, growing acceptance, ease of exportation, steady market and strong ethical foundation, exporting Islamic Banking outside of the Middle East will continue to be a prosperous venture for financial institutions throughout the world. Through comprehensive training for all bank staff, Middle Eastern banks will remain competitive in the flourishing Islamic Banking market, both inside and outside of the country.



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⁵ "Overview of Islamic Banking in Malaysia," [http://pkukmweb.ukm.my/~hairun/EX3613/Overview%20of%20Islamic%20Banking%20in%20Malaysia.pdf], September 2004.