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Keynote Speech on Islamic Banking

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Highlights

- Retail and personal banking success
- Resilience to financial shocks
- Geographical concentration
- Deposit facilities
- Financing products
- Marketing and cross-selling
- Relationship banking and client loyalty
- Future challenges

Retail and personal banking success

- Replacement of cash transactions
 - Salaries paid into nominated bank accounts
- Financial inclusion
 - Alternative to *riba* based banking
 - Assurance of *Shari'ah* compliance
- Vehicle and equipment finance
 - *Murabahah* trade finance and *ijara* leasing
- Islamic mortgages
 - Diminishing *musharakah* contracts

Resilience to financial shocks

- Global financial crisis of 2007-9
 - Islamic banks raised funds from depositors rather than through inter-bank market
 - Adequate capital and liquidity to limit risk
 - Real estate market slump a challenge in Dubai
- Oil price declines post 2014
 - Little direct exposure to oil sector
 - Negative impact of falling oil and gas revenue on government spending
 - Detrimental effect on some Islamic banks' balance sheets
 - Deposits static for Al Rajhi Bank for last 4 quarters
 - Dubai Islamic Bank deposits increased by 10.8%

Geographical concentration

- Islamic banking hubs
 - Islamic banks account for 15-40% of deposits in GCC
 - Malaysian government has encouraged Islamic banking by providing institutional support
- Global growth
 - Growth in non-GCC Arab countries and Indonesia disappointing
 - London buoyant but Briexit will impact negatively
 - Al Rayan deposits rose by 43% in 2015

Deposit facilities

- Current accounts a minor share of deposits except in Saudi Arabia
- Unrestricted investment deposits paying profit shares account for most funding
 - Usually based on *mudarabah* contracts
 - In Maybank Islamic term deposits based on *murabahah* account for three quarters of total
- Restricted investment deposits
 - Significant only in Jordan Islamic Bank

Financing products

- *Murabahah*
 - Accounts for over 80% of financing for most Islamic banks
- *Ijara*
 - Operating leases bring higher returns with commitment of 3-5 years
- *Istisna*
 - Flexible project finance with Islamic investment bank exit through parallel contract
- *Diminishing musharakah*
 - Mainly used for owner occupy and buy to rent mortgages

Marketing and cross-selling

- Focus on Muslim community
 - Stress on faith based banking
 - Socially responsible and ethically sound
- Websites
 - Resources devoted to development of user friendly portals
 - Limited use of external media
- Cross-selling
 - Demand deposits provide a platform for promoting investment deposits, *takaful* and *Shari'ah* compliant funds

Relationship banking and client loyalty

- Long term perspective
 - Islamic banks encourage life-long commitment by personal and business clients
 - Do not want those shopping around for the best deal or seeking transactional banking
- Retaining clients
 - Will finance at lower rates for established clients
 - Credit history and proven ability to meet commitments reduces default risk
 - Will not foreclose on loyal clients experiencing financial difficulties

Future challenges

- Encouraging take-up of a wider range of financing products
 - Al Rayan UK has increased proportion of diminishing *musharakah* mortgages
 - Dubai Islamic Bank has successfully diversified its financing
- Campaign through the media
 - Demonstrate that Islamic banking provides an alternative to discredited mainstream institutions
 - Stress support for community values with recruitment from the societies they serve

Thank You