

The Experience of Islamic Banking in a Conventional System

A Country Case study: Morocco

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Purpose of presentation

The Experience of Islamic Banking in a Conventional System

- Overview of the history of the Islamic finance in Morocco.
- Assess the current state of the Islamic Banking of Morocco.
- Identify its future potential and opportunities

Introduction & Overview of Morocco

Geographical

- Morocco has a strategic location in North West Africa, at the confluence of the Atlantic Ocean and the Mediterranean.
- Crossroad between Europe and Africa.

Political

- Stable political environment.
- Sustainable political system.

Economical

- Among the best performing countries in the MENA region in terms of Economic growth with an average growth rate of 4,7% since 2000.
- Stable and business friendly environment.
- Engaged in an ambitious multidimensional economical program: a) Competitiveness of the economy, b) Inclusive and sustainable economic development.
- Morocco launched the Casablanca Finance City (CFC) to be a regional financial hub.
- Strong and sustainable cooperation with the EU.

The Emergence of Islamic Finance in Morocco

Financial Crisis of 2008

- The repercussions of 2008 crisis, countries in North Africa have started to strengthen the core pillars that support the growth of Islamic Finance industry.
- Morocco has not taken to modern Islamic Finance system quite as rapidly as the Arab countries in the Gulf area.

Moroccan approach towards the IF

- Morocco has introduced Islamic or “Alternative” financial projects on small scale in 2007.
- Following this first experiment and increasing investment opportunities, particularly from Gulf countries and from the Casablanca Finance City, the Kingdom is now ready to fully embrace Islamic Finance.
- Morocco has adopted progressive and prudent approach since 2007. This approach was confirmed by the Participative Banking Act Chapter that is incorporated into the general Banking Act.
- This gradual strategy aims at maintaining stability of the financial sector of the country.

The Emergence of the Islamic Financial Service Industry - IFSI

Functions of IFSI

- The total assets of IFSI was estimated at USD1.6 trillion and expected to reach USD 6.5 trillion in 2020.

Key elements of IFSI growth

- The Kingdom has strong government support for the development of Islamic Finance as signalled by recent advance in the legal framework of the IFS.
- The high interest from the local population for alternative financial products offered by the IFSI.
- Interest from the country's conventional banks in opening specialized windows for alternative products.
- The Kingdom has first introduced Islamic Financial products and services or alternative financial solutions as they are called in the country, through conventional financial institutions at the national level in 2007.

The History of Islamic Banking in Morocco

2007

- Morocco is not new to Islamic Banking.
- Bank al Maghrib authorized only conventional banks to offer 3 Islamic Financial products. (Ijara leasing products, Murabaha contract to buy and re-sell underlying goods and Musharaka co-ownership financing structures.)
- Aim was attract inflows from Gulf Arab states and develop Morocco's financial industry.

2010

- Approval of the implementation of the first Islamic financial institution in Morocco (Dar al Safa).
- It is an Islamic Finance company specialized in the marketing of Islamic finance. (personal finance).

2011

- Since Islamic justice and development party took office, Morocco intensified Islamic Financial drive.
- The PM has been seeking to develop the Islamic Banking Industry, partly as a way to attract Gulf Money and to fund the huge deficit balance.

The History of Islamic Banking in Morocco

2013

- The parliament approved legislation to issue sovereign **sukuks**.
- This legislation was part of reform of the Morocco's securitization law which was adopted in 2002 and amended in 2010 to broaden the range of eligible assets and allow institutions other than banks to use securitization.

2014

- Morocco's government adopted a draft bill to regulate Islamic banks and allows for **sukuks** sales.
- Recently this draft was adopted by the Moroccan parliament.

Morocco's lower House of Parliament approves Islamic Banking law

Vote by the First House of Parliament

- Approval of new banking law.
- Contains articles relating to Islamic Banks

Second Chamber of Parliament approval

- The new law awaits official ratification in the Kingdom's upper house of parliament. (next few weeks).

Overview of the law

- Allowance of local and foreign banking institutions set up Islamic banking branches in Morocco.

Islamic Banking moves forward to Morocco

The components of the legislative frameworks

- Definitions of concepts.
- Details of the wording and scope of contracts and transactions.
- Consumer protection measures.
- The supervision of financial institutions.

The key industry stakeholders

Ministry of Finance

- Has prepared the draft law on participatory banking.

Bank al Maghrib

- It is Morocco's central bank which was funded in 1959 and is based in Rabat.
- Alternative banking product where introduced in 2007.

Ministry of Endowments and Islamic Affairs

- Morocco has a deep heritage of endowments (awqaf) that spans 12 centuries.
- Management of (awqaf) institutions.
- Awqaf will benefit from financing from participatory banks in the country.
- The interest of the awqaf lands are numerous: a) religious, b) social, c) educational, d) medical.

The key industry stakeholders

Banque Populaire

- BP is a publicly listed company that was established in Morocco in 1926.
- It is Morocco's second largest bank in terms of size and market share.
- In 2007 BP, was the one of three banks that introduced a limited range of alternative banking products (centering around Murabaha and Ijara), within its conventional banking network.
- Is seeking to open its participatory bank subsidiary with a partner with technical expertise in Islamic banking.

Banque Marocaine du Commerce exterieur (BMCE)

- Is listed on the Casablanca stock exchange. Was established in 1959.
- Morocco's 3rd largest bank in terms of size and market share.
- The bank is planning to establish private participatory banking and is equally interested in sharia-compliant investment banking and providing takaful products for Morocco.

Conclusion

Conclusion

- **The approval of the Islamic banking law by the lawmakers will allow Morocco to set up the Sharia-compliant banks .**
- **Islamic finance could help tackle two economic challenges : attracting more foreign investment and creating employment.**
- **Last but not least, the growing demand among Moroccans in Europe, for Islamic financial products may affect the establishment of full-fledged Islamic banking in Morocco.**
- **There s strong appetite from the corporate sector for sukuk according to a survey by the Moroccan financial market authority , le Conseil Deontologique des Valeurs Mobilieres , in 2012, 9 out of 10 institutions would be interested to issue sukuk**

-The dawn of a new horizon for Islamic finance in Morocco.

-Morocco has the potential to become the Islamic finance hub in northern and western Africa.

-Consequently, Morocco could become an important player channeling Islamic finance Investments from Golf countries to the region, which is in line with the Casablanca Finance City .