



المؤسسة العربية المصرفية (ش.م.ب.)
ARAB BANKING CORPORATION (B.S.C.)

THE GROWING POTENTIAL

OF

ISLAMIC BANKING

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Outline

- Scale of Opportunity
- Prospects
- Opportunities
- Challenges
- Conclusions



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Scale of Potential

- Islamic World population around 1.3 billion (20% of world)
- Countries with established and vibrant Islamic banking sectors include the GCC, other Arab World countries, Malaysia, Pakistan, Iran, etc.
- Islamic Bank assets as of 2004 estimated at \$265 billion
- 2000-2004 growth rate estimated at 15% per annum
- Islamic renaissance in terms of sense of identity



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Scale of Potential

- Around 270 Islamic banks (per The McKinsey Quarterly – October 2005 Issue)
- Major world class institutions such as HSBC, Citi, UBS have established dedicated Islamic banking subs or divisions
- Growing Muslim communities in countries such as the UK, USA, and France, with relatively strong purchasing power/discretionary income
- Proliferation of Islamic Products and Services (including Retail, Corporate, Capital Markets, etc..)



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Prospects

- The above, plus the fact that the Islamic world countries that are home to Islamic banks are witnessing significant economic, as well as population growth rates, indicate significant prospects, that outpace those presented by conventional banking
- On the qualitative front, product development is taking off, on both the short and medium/long term fronts, in both cash and non cash markets, e.g. ABC Islamic bank having introduced the first non-cash products such as Muwa'ama, and Mubadala (Islamic swap)
- Finally, with the introduction of institutions such as the Islamic Financial Services Board (IFSB, Malaysia), Accounting Association of Islamic Financial Institutions (AAOIFI, Bahrain), and the Fiqh Academy of the IDB (Jeddah), we are witnessing a degree of standardization being introduced to Islamic Banking that was missing earlier on



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Opportunities

- At this point in time, there still remains a gulf between Shari'a requirements set by Shari'a committees in the more conservative markets (e.g. KSA) as compared to the more liberal markets (e.g. Malaysia)
- A major opportunity exists to bridge this gap, in markets, such as Bahrain, especially in respect to products such as Sukuk (securitization), which can have a major impact on deepening Islamic money and capital markets
- The IFSB, AAOIFI, and the IDB Fiqh Academy all have a catalytic role in this respect



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Opportunities

- As awareness of Islam, and their own Muslim communities, grows in Western markets, opportunities exist in countries such as the UK, USA, and France, in areas such as Mortgages, and Sukuk issuance
- It is estimated that, at a given point in time, anywhere between \$30-40 billion of liquid Islamic investment funds are looking for a home
- Given the above there is clearly an opportunity for Islamic Investment Banking, and inter-mediation that can grow at a significant pace



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Challenges

- Standardization of core product structures across markets
- Agreement on Basel II Islamic Banking framework promulgated by IFSB, in a fashion that is not overbearing on Islamic Banks
- Addressing the shortfall in overnight/short-term liquidity through the creation of liquidity pools through large mutual funds managed by multiple, or multilateral institutions
- Growing the pool of Shari'ah scholars well versed in Financial Engineering
- Development of regulation, and legal codes supporting Islamic banking in major centers (e.g. London, New York, Paris)



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Challenges

- Deepening the compliance culture to overcome, largely erroneous, association with money laundering in some Western quarters
- Development of Islamic banking risk management associations to research and address idiosyncratic risks, such as those associated with illiquidity, late payment issues, Shari'ah non-compliance risks, etc..
- Build databases associated with default and loss statistics, especially when related to asset backed financing
- Research behavioral issues associated with Commercial Displacement risks in respect to PLS accounts



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Conclusions

- The Islamic banking industry is a young industry, but one that is expected to thrive and grow vibrantly in reflection of the tendencies of the Muslim consumer, and the anticipated growth in Muslim World countries
- There are opportunities in both Islamic, and Non-Islamic countries on both the finance and investment side of the business
- Standards, regulations and specific risk management challenges need to be addressed to quickly actualize the large potential this area has, on both the regional and global levels



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Thank you



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