

Islamic Banking in Morocco: The Factors of a Promising Future

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Abstract

In recent years, financial activities conducted under the sign of “Islamic Banking” have grown pointedly in volume and scope, attracting noteworthy attention worldwide. Driven by the repercussions of the 2008 financial crisis and the repercussions of the Arab Spring, countries in North Africa have started reinforcing the core pillars that support the growth of a complete Islamic banking industry. Morocco is a fresh entrant to this discipline with a progressive path. This careful approach began with the introduction of Alternative Finance in 2007 and was confirmed by the Participative Banking act chapter in 2014. In this sense, the aim of this paper is to analyze the Kingdom’s inventory of fixtures as a newcomer to the Islamic banking. Precisely, the following work will attempt to identify the main strengths, challenges and limitations underlying the paradigm of Islamic banking in Morocco.

Keywords: Challenges, Islamic banking, Limitations, Morocco, Strengths.

1. Introduction

Islamic banking is a rapidly growing sector within global banking industry that has become systemically essential in a dozen countries in a varied range of regions (Hearn, Piesse, & Strange, 2012). It is projected to continue to increase in response to economic growth in countries with considerable and relatively unbanked Muslim populations. The Islamic banking services are an area that has grown to become a progressively significant segment within the global banking market and has gained huge interest as a feasible alternative financial intermediation model. Growing demand for investing in accordance with Shari’a principles on a global gage have been the substance towards making the Islamic banking services a prosperous industry.

This is also a reflection of the increasing capacity of investors to pursue and invest in new investment products that serve their desires (Commission & others, 2004). Reflected as one of the most favorable evolving markets of all over the world, the Kingdom of Morocco has revised its economic development strategy to embrace Islamic banking in order to strengthen its economy, which was affected by the global financial crisis of 2007 (Thomson Reuters, 2014). Approving the establishments of Participative Banks (Shari’a-Compliant Banks), the law also allows foreign lenders to set up Islamic units in Morocco and paved the way for the foundation of a centralized Shari’a directorate. In July 2015, the Ministry of Finance and Economy disclosed the circular outlining the banking authorizing process including for Shari’a- Compliant units.

In this regard, this work will be divided into four main parts. The first one will set out the background and the definitions of Islamic banking and finance. The second part will address the strengths to foreshadow the success of the experience of Islamic banking in Morocco. The third part will try to highlight the main challenges this new practice would have to face, while the fourth one will highpoint the focal limitations that can hinder the development of Islamic banks in Morocco.

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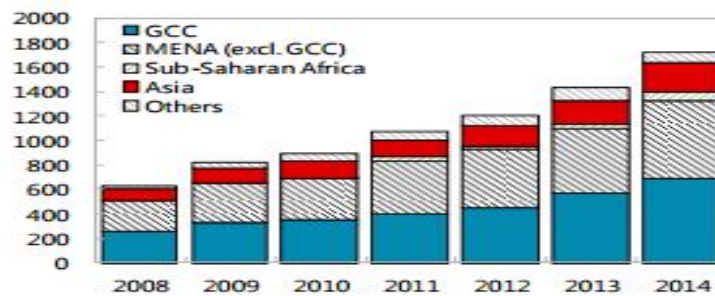
2. Background and Definitions

2.1 Islamic Banking in The Islamic Finance Industry

Islamic finance can be defined as “a system through which finance is provided in the form of money in return for either equity or rights to share in future business profits, or in the form of goods and services delivered in return for a commitment to repay their value at a future date” (Al-Jarhi, 2006). It refers to financial services in accordance with Shari’a (El-Gamal, 2006), which bans Riba (the taking or giving of interest), Gharar (agreements containing material uncertainty on terms or subject matter), Maysir (speculative or gambling transactions), as well as Prohibited investments/sectors (alcohols, pork...). It also requires Asset backing (all financial transactions must be backed by tangible, real assets), and Profit and loss sharing (all profits/losses must be shared between stakeholders) (Visser, 2013).

The Islamic financial services industry, comprehending Islamic banks, Islamic insurance (Takaful) and the Islamic capital market, is an area that has grown to become a progressively significant segment within the global financial market and has gained huge interest as a feasible and efficient alternative model of financial intermediation. According to Beck et al. (Beck, Demirgüç-Kunt, & Merrouche, 2013), Islamic banks perform better than conventional ones during crises in terms of capitalization and asset quality and are less likely to disinter mediate. Islamic banking is operating in over 75 countries through 300 institutions (Čihák & Hesse, 2010). The banking assets are concentrated in Malaysia and the Middle East and North African (MENA) region, particularly the Gulf Cooperation Council (GCC) (Figure 1).

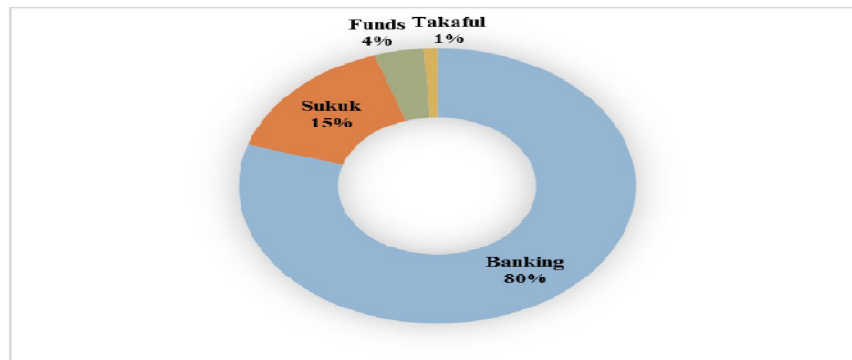
Figure 1 : Islamic Banking Assets Growth Trend (2008-14) (\$US in billions)



Source: (Kammer et al., 2015)

In 2013, the Islamic banking sector still dominates Islamic finance with a volume of assets representing 80% of global Islamic financial assets, followed by Sukuks (15%) and investment funds (4%) and finally the Takaful industry (with 1.1%) (Figure2).

Figure 2 : Composition of Islamic Banking Assets (2013)



Source: (MIFC, 2013)

2.2 Islamic Banking and Finance in Morocco

The first attempt to introduce Islamic Finance in Morocco dates back to 1991 when Wafa Bank started offering Islamic financial products, called alternative products. This initiative was aborted due to legal issues. The year 2007 has been marked by a more concerted national-level introduction of Shari’a-compliant financial products, but

this has not made important impact. Following these first experiments and increasing investment opportunities, the Kingdom is now ready to more fully embrace Islamic finance.

Morocco is now a fresh entrant to this discipline, expressly by the Participative Banking act chapter in 2014. At present, Bank Al-Maghrib, Morocco’s central bank, announced on January 2nd 2017, the approval of five banks to provide Sharia-compliant products and services (Attijariwafa Bank, Banque Centrale Populaire, BMCE Bank³ of Africa, CIH Bank⁴ and Crédit Agricole du Maroc). It has also given approval for the subsidiaries of three leading French banks to sell Islamic products (Société Générale, BNP Paribas and Crédit Agricole’s Islamic Development Bank) (De la Harpe, 2017).

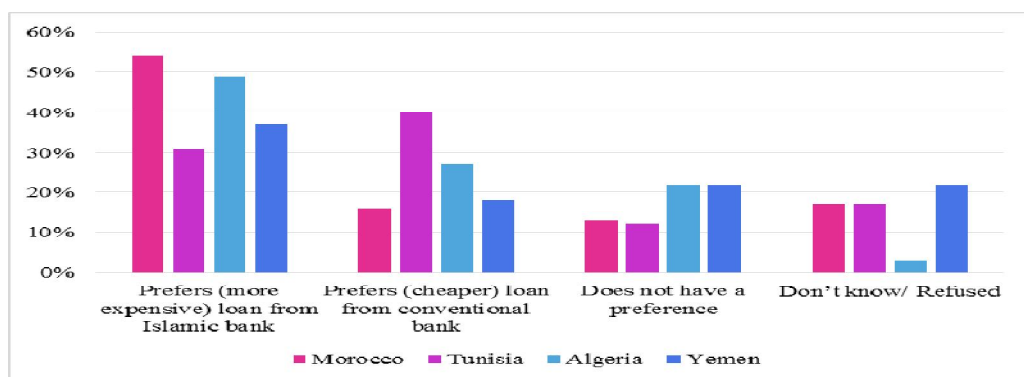
3. Morocco’s Strengths to Accommodate Islamic Banks

Morocco has many advantages predisposing it to successfully implement Islamic banks as a new source of financing:

3.1 Muslim Population

Moroccan population represents people who have a deep interest in Islamic banking services thanks to their religious beliefs that drive them toward Shari’a-Compliant products. Shari’a-Compliant Muslims cannot put their money into conventional banks or acquire conventional instruments for their investments. Muslims want and need financial products that provide the same type of rewards everybody pursues (such as rewards for their investments and security for their savings) without jeopardizing their moral code. A. Demirguc-kunt, L. Klapper, D. Randall, J. and Sonnenschein (2013) conducted a survey on the future of Islamic banks in the MENA region, and measured via a statistical study, the rate of preference for this class of banking services in five countries in the region namely: Morocco, Algeria, Tunisia, Egypt and Yemen. The results are as follows (Figure 3):

Figure 3 : The rate of preference for Islamic banking services in four countries within the MENA region (2013)



Source: (Demirgüç-Kunt, Klapper, Randall, & Sonnenschein, 2013)

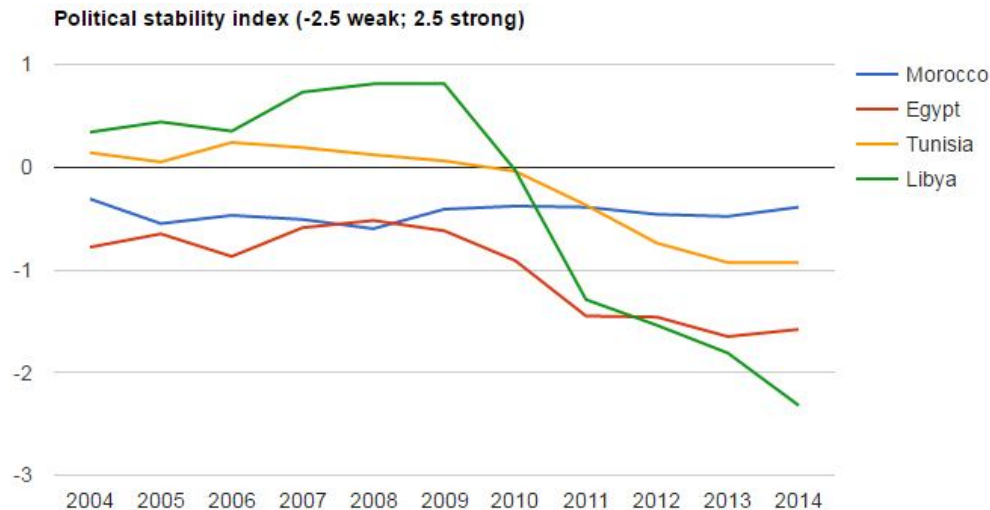
This study showed that 54% of Moroccans have a steady preference for Islamic banking services (which are called “alternative banking” services) while 49% of Algerians and only 31% of Tunisians are in this trend (Daoud & Kammoun, 2014). The results for Egypt were not available.

3.2 Political Stability

While its neighbors have been shaken by the Arab Spring of 2011, political stability has helped Morocco progressing in an industry that is stalling in North Africa (Figure 4).

³Banque Marocaine du Commerce Extérieur

⁴Crédit Immobilier et Hôtelier

Figure 4 : Comparison of Political stability index (2004 - 2014) between Morocco, Egypt, Tunisia and Libya

Source: ("TheGlobalEconomy.com, The World Bank (govindicators.org)," n.d.)

Shari'a-Compliant finance was disrupted in Egypt after Mohammed Morsi's government was dethroned in 2013, while Libya has slipped into political disarray after the removal of Muammar Qaddafi in 2011. Even in Tunisia, which directly designated its president in December 2014, a debut Sukuk sale has been postponed at least three times. Morocco's political stability relative to Tunisia, Egypt and Libya has proven attractive to investors.

3.3 Adequate Geographical Location

Morocco is considered as a favorable Islamic banking market due to its strategic location as a gateway between Europe and Africa, an economic dynamism that until now has been affected only slightly by the financial crisis giving the Islamic banks considerable opportunities in collecting the savings (Daoud & Kammoun, 2014). The existence of Moroccan banks overseas, principally in Africa, is one of the prominent features of the Moroccan banking system.

Moroccan banks have:

- 59 representative offices, mainly in Europe;
- 10 branches;
- More than 25 subsidiaries, with more than 1200 agencies mainly in sub-Saharan Africa.

3.4 Business Economic Environment

3.4.1 The Best performance in the MENA region

Islamic banking is growing across the MENA region and beyond in recent years. International Islamic banking assets were expected to surpass US\$778bn in 2014, and are set to triple to more than US\$2tn in the following four years, according to Ernst & Young's analysis.

Morocco is among the best performing countries in the MENA region in terms of Economic growth with a regular growth rate of 47% since 2000.

3.4.2 Casablanca Finance City as a regional financial hub

Morocco launched the CFC (Casablanca Finance City) to be a regional financial hub; it is endowed with a suitable environment capable of attracting international investors. The IFSI (Islamic Financial Services Industry), with total assets were estimated at USD 1.6 trillion in 2012 and projected to reach USD 6.5 trillion in 2020, naturally constitutes one of the engines, which can favor the acceleration of the CFC's development, on condition that the industry is well anchored in the country (Thomson Reuters, 2014). By developing the CFC into a regional hub for conventional banking while at the same time developing Morocco's competencies for Islamic banks, Morocco will be able to leverage banks activities and operations with the newer markets that the Islamic Development Bank views as important in West Africa like Guinea, Benin, Senegal and Niger.

3.4.3 Strong government commitment

In January 2012, the Moroccan government drafted a Shari'a-Compliant banking products regulation that allows foreign Islamic banks to function in the country's banking sector. The regulation made provisions to allow foreign investors to set up Islamic units in Morocco and have regulations. The main breakthrough of this regulation was to ensure that a centralized Shari'a board is made. In July 2015, the Ministry of Finance and Economy approved an earlier circular outlining the banking licensing process including those for Shari'a complaint units/windows.

Amongst those that have reportedly considered expanding into Morocco are Emirates Islamic Bank and Abu Dhabi Islamic Bank (ADIB). Al Baraka Banking Group is working with a domestic Moroccan banking group, BMCE. The attention shown by these banks in the Moroccan banking industry is based on both the national banking demand and the potential for Morocco to act as a financial hub in the West African region. Moroccan Association of Participative Financiers projects that investment in Shari'a-Compliant products will hit USD7 billion by 2018, which is still less than 5% of expected total market share. If the government can work towards providing the support required to develop human capital to implement Islamic banks, there is a great potential for them to enhance the growth of the Moroccan economy and the next five to eight years can be important for the Islamic banking industry.

Strong demand for Islamic banking products has driven the Moroccan government to introduce new banking laws with provisions for establishing Shari'a-Compliant banks. With more than 15 institutions having expressed interest in establishing Shari'a-Compliant subsidiaries, the predominantly Muslim nation has invited key Malaysian institutions to help instruct them on Islamic Finance. Moreover, Morocco's efforts to increase market liquidity and attract foreign investors have led to the establishment of a Shari'a board of Islamic scholars to oversee its young Islamic Finance industry (Finance Accreditation Agency, 2015). Indeed, Malaysia is among the precursor countries in Islamic banking and has big potential to improve in this area, (Akram Laldin, 2008) which makes it an interesting model in developing Islamic banking industry that can be taken as a benchmark in the development of such industry in other countries such as Morocco.

4. Challenges Facing Islamic Banking in Morocco

The introduction of Islamic banks does impose some challenges, not only to the experts and Shari'a council members, but also to society, as they are the ultimate users of Islamic banking new products (Aris et al., 2013).

4.1 Institutional Framework

Morocco must have a proper regulatory and institutional framework for its Islamic banking. It is proved that the secret of prosperous organization is suitable and well-defined legal and institutional framework. Islamic banking is a very young financial institution in huge market. It can only be developed if all linked groups work hard for its solid foundation.

Unlike conventional banking, Islamic banking has not a strong legal and institutional set up. They follow the conventional banking system with required amendment. Islamic banking needs to develop their Accounting Standards and policies (Ahmad, 2008). Regulatory framework for Islamic banking will give Morocco a competitive edge.

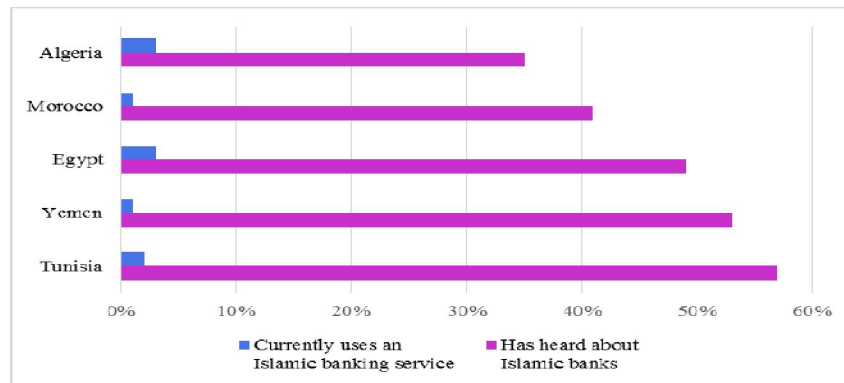
4.2 Human Resources

There is a huge lack of appropriate skilled employees working within the industry. Few persons have the skills required to understand the requirements for Shari'a compliance and the difficulties of Islamic commercial law. Being a Muslim banker does not mean having adequate knowledge in Islamic banking. Creating Islamic banking products requires approval from Muslim scholars at the highest level and the definitive issue of a fatwa to that effect. This dearth of properly qualified people can only be restored by increasing the awareness of the career opportunities within the industry and by the offering of globally recognized qualifications. It is a priority to train the human resources department. It is an enormous challenge. Even in a more developed market like Dubai, human resources pose a real problem.

4.3 Customer Knowledge

Regular promotional and knowledge sharing should be undertaken to facilitate the transfer of knowledge in Islamic banking. It comes to thwart the complexity of operations. The awareness of Sharia-compliant financial services has been measured within the same survey conducted by A. Demirguc-kunt, L. Klapper, D. Randall, J. and Sonnenschein in 2013 (cf. Figure 3). The results are as follows (Figure 5):

Figure 5 :The rate of awareness of Sharia-compliant financial services in five countries within the MENA region (2013)



Source: (Demirgüç-Kunt et al., 2013)

Actually, though the appetite for Islamic banking products is strong among the population, most of the consumers are not knowledgeable or properly informed about Islamic products, which can damage the penetration process (Thomson Reuters, 2014). For example, to satisfy a financing or investing need, the process of Islamic banking will be more complex than a conventional bank, all things being equal. As an illustration, the equivalent of a simple consumer credit operation in conventional banking world of is a Murabaha financing which is a promise to purchase of property by the customer, a purchase of the property by the bank at the supplier, the supply of goods, the sale to the customer, delivery and monitoring regulations. Add to this that compliance with Shari'a imposes a precise traceability of previous transactions in the information system.

4.4 Infrastructure

The Islamic finance industry is developing unequally across a number of countries, but one point is clear in the industry's development, that apt regulatory measures and frameworks are needed to build a dynamic infrastructure to support Islamic financial systems within a country, and contribute to stronger supply streams to entice demand in under-penetrated markets (Thomson Reuters, 2014). Even if Morocco has one of the most advanced infrastructures in the African region, the country is nonetheless considering boosting its infrastructure to create a more appealing business environment to attract foreign investment; and this funding gap generates opportunities for Sukuk. Other potentially lucrative segments to leverage include the Small and Medium-sized Enterprises (SME) sector and microfinance.

5. Potential Limitations of Islamic Banking in Morocco

Despite the promising future that seems to await Islamic banking in Morocco, there are some concerns about the ability of this new discipline to support its growing power while keeping its authenticity and remaining faithful to its principles. We can categorize the limitations commonly expressed in three various aspects:

5.1 Sociocultural Barriers

The first obstacle that may hinder expansion of Islamic banking in Morocco comes from its own appellation. Indeed, while for some Muslims the word "Islamic" could be a factor that draws in choosing the orientation of financial decisions, another part of Muslims refuses to link religion to commercial transactions and do not accept the use of Islam as a "selling point" to promote a product (Ben Lahmer, 2010). Moreover, in some Muslim countries such as North Africa, where the religious interpretation is less conservative than Middle East, and where conventional banking model has established itself historically, Islamic banks have still not managed to win. There would be a possibility of reluctance on the part of customers or investors who would not be willing to follow a model based on moral rules instead of legal ones.

5.2 Lack of Credibility

It goes without saying that Islamic banking will not gain international recognition unless it overcomes the shortcomings of Islamic financial institutions in terms of transparency and governance. These aspects are weaknesses that may undermine the credibility of the sector, especially in times of crisis (Ben Lahmer, 2010).

5.2.1 Transparency

It is claimed that the informational content of financial statements is often considered poor in terms of key elements. In addition, due to lack of sufficient data, it is almost impossible to compare the operations and performance of Islamic banks from one region to another (Ben Lahmer, 2010). It is recently that some central banks, such as Malaysia and Bahrain, have begun to include in their annual reporting of aggregated data on the performance of Islamic financial institutions in these countries. Such information would give a clearer picture of the financial status of the Islamic finance sector in these countries and encourage customers and investors to venture into the Islamic finance sector.

5.2.2 Governance

Lack of governance is mainly because Islamic banks are often active in emerging economies that value not very good governance practices. Governance flaws can sometimes reach several vital processes of the operation of financial institutions. Moreover, a recent event highlighted serious internal malfunction in Islamic financial institutions, as was the case for the Kuwaiti management company "Dar Investment". Indeed, the High Court of England ruled in April 2010, the annulment of a decision of the Shari'a Board at the very request of lawyers in society (A first that would jeopardize the credibility of Islamic banks, financialislam.com, 05/18/2010). Such a judgment calls into question the credibility and independence of Shari'a Boards that are supposed to reassure investors about the legality of their investments. This is why it is urgent to reform the governance models in these institutions to protect them from possible failures and provide better protection to private investors.

5.2.3 Uncertainties and regulatory constraints

Islam is by nature a religion in which the courts play a fundamental role. Due to the diversity of thought within it, the interpretations proposed in the implementation of individual transactions may be more or less flexible. For example, countries like Saudi Arabia are more rigid in implicating ethical standards of Islam, while countries like Malaysia have a much more "liberal" application in Islamic banking. A contract can be legal in one jurisdiction (such as lease and sale back) and entirely illegal in the others.

The attempts of homogenization compliance with Shari'a law are particularly important that currently the regulatory framework for Islamic banks is different from one country to another. Thus, banks in Qatar and the United Arab Emirates can open Islamic branches or subsidiaries, while conventional banks in Kuwait have no right to offer Islamic products.

6. Conclusion

The Islamic banking industry has already demonstrated that it has the tools required to compete with conventional banks. Annual growth rates are significant; in many markets, they are far outstripping the growth of conventional banking (Nienhaus, 2007). Morocco may have the necessary potential to become the Islamic finance hub in northern and western Africa, in the footsteps of other countries like UK, Malaysia and Bahrain.

However, the kingdom should develop a proper model that will fit its economic and social environment. The Moroccan model should be created with diversification and key innovations in terms of products that need to meet the market demand. For example, a financial inclusion program principally for rural and poor populations, instruments like Salam and Mugharasa for the large agricultural sector, profit-sharing tools such as Mudaraba and Musharaka for SMEs, etc(Thomson Reuters, 2014).

It is important to note that the Moroccan financial system is developing vigorously, and it is characterized by variation, which will make the market a welcoming environment for product innovation, including Islamic banking. However, and in order to see if Islamic banking will lead to a significant change in the financial industry landscape in Morocco, there will be a "wait and see" phase which may take time.

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