Overview of Islamic Banking & Islamic Finance in Morocco

Dr. Ahmed TAHIRI JOUTI
Overview of Islamic Banking & Islamic Finance in Morocco

This presentation gives a general overview of the Moroccan experience in Islamic Finance. It presents the different components of the Islamic financial ecosystem in Morocco, the choices made and the whole road map of the industry. Moreover, this presentation includes a forecast and identifies the main streams that still need to be taken in charge by the different stakeholders.

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"For an external observer, Islamic finance in Morocco took considerable time to be implemented. Nevertheless, the Moroccan experience presents so many specificities & advantages that makes it worth analysing and discussing and that justifies the long implementation time"
General Introduction

The main characteristic of the Moroccan Experience

A Comprehensive Sharia compliant financial system

To implement A, it’s necessary to issue a comprehensive regulatory framework

Suitable legal & regulatory frameworks

To issue a harmonized regulatory framework, a centralized Sharia governance system is created

A centralized sharia governance

The Willingness of the Financial authorities & the government to implement a competitive Islamic financial industry

To ensure a rapid growth rate, the number of financial institutions has to be important

Diversity of the players

The key success factors of the Moroccan Experience
The Islamic finance industry implementation process in Morocco is based on 4 main pillars:

**Main orientations**

- **A** Comprehensive Sharia compliant financial system
- **B** Suitable legal & regulatory frameworks
- **C** Centralized sharia governance
- **D** Multiplicity of the players

The willingness of the financial authorities and the government to implement a sustainable Islamic finance industry in Morocco
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A comprehensive Sharia compliant financial ecosystem

Pillars of the Moroccan Experience

A centralized Sharia governance

Suitable legal & regulatory frameworks

Diversity of players

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A comprehensive sharia compliant financial system

The components of the system

1. Banking sphere
   - Sharia compliant Money Market
   - Participative banks & windows

2. Takaful sphere
   - CCG – Guarantee Fund
   - GSIMT – Clearing system

3. Capital Markets
   - Sukuk issuances
   - Stock Market index
   - Mutual funds & REIT

Components:
- Ongoing projects
- Not started yet

Takaful operators
A comprehensive sharia compliant financial system

The approach adopted

Two main principles are guiding this approach:

The Sharia compliant financial system is not limited to Islamic financial institutions but includes all the other components of the system that needs to be Sharia compliant.

Ex:
• Guarantee Fund related to the clearing system
• Guarantee funds for financing SMEs & housing
• Takaful is necessary to cover financing risks
• Sukuk & other instruments are necessary for banks & Takaful for their liquidity management
• Takaful operators & banks are necessary for Islamic capital markets to be active
A comprehensive sharia compliant financial system

The components of the system

Why Islamic Banks started their activities in Morocco while the other components are still not ready?

In Morocco, the financial sector is not supervised by one single entity. Each sector is under the supervision of a defined entity which requires more coordination. There is not any governmental committee in charge of the implementation process coordination.

Priorities are identified:

• **Priority 1**: First sovereign Sukuk issuance and definition of a program of issuances

• **Priority 2**: Takaful operators launching their activities

• **Priority 3**: the Guarantee fund

The multiplicity of stakeholders and supervisory entities makes the processes slower.
A comprehensive sharia compliant financial system

Learnings

A comprehensive Islamic financial system can ensure more economic efficiency & sharia credibility to the Islamic financial products.

The Islamic financial system needs to be extended to all the components dealing with Islamic financial institutions and not limited to Islamic financial institutions.

If there is a single entity in charge of regulation of the whole financial system, it’s very important to draft a roadmap and to share it with the different stakeholders. The roadmap needs to be detailed and defines realistic deadlines. It makes the whole approach trustworthy.

If there are different entities in charge of regulation of the financial system. It’s important to create a committee in charge of the coordination. This committee has to draft a detailed roadmap with realistic deadlines.

This approach involves many stakeholders and players. Thus, trustworthiness and respect of deadlines is a real key success factor for the experience.
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General Introduction

- A comprehensive Sharia compliant financial ecosystem
- A centralized Sharia governance
- Suitable legal & regulatory frameworks
- Diversity of players

Pillars of the Moroccan Experience

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Suitable legal & regulatory framework

The legal & regulatory frameworks are composed of three layers:

- **Legal**: Laws that are drafted & approved (or amended) by the government and voted by the parliament.
  - Government
  - Parliament

- **Regulatory**: Circulars & decisions of the regulators (ACAPS, BAM, AMMC, Ministry of finance, etc.)
  - acaps
  - BAM
  - AMMC
  - Ministry of Finance

- **Technical notes**: Technical notes & instructions issued by the regulators.
Suitable legal & regulatory framework

The legal framework

Two options in terms of legal framework:

Option 1: Issuing a dedicated law for Islamic financial institutions & instruments.

Option 2: Include articles and chapters dedicated to Islamic financial institutions.

In Morocco, the Option 2 was adopted for the following reasons:

- Integrating Islamic finance is part of the sectorial strategy of each component of the financial system in Morocco (Takaful in the insurance sector, Islamic banking in the banking sector).
- The aim is to ensure a neutrality between Islamic & conventional financial institutions in terms of requirements.
- To adapt the legal framework to the requirements of the Islamic Financial institutions business model.
Suitable legal & regulatory framework

There are two types of regulatory texts:

**Type 1:**
Regulatory texts dedicated to Islamic financial institutions

**Type 2:**
Regulatory texts governing both conventional & Islamic financial institutions

The General Approach of Issuing regulatory texts:

1. First version drafted by the regulators
2. Updated version of the regulatory texts after discussions with Islamic financial institutions
3. Updated version of the regulatory texts after approval of the Higher Council of Ulamas
4. Updated version of the regulatory texts after approval of the Higher Council of Ulamas & review of the General secretary of the government

Publication in the Official Journal of the Kingdom of Morocco
Suitable legal & regulatory framework
The Regulatory framework

The main challenges of the regulators

The gap between the existing laws and the regulations must be reduced

The regulation has to be mainly inspired from the Maliki school with an openness on the other schools

The regulation has to be inspired from the banking practices
Participative banks & windows

**Regulatory framework**:
- Products
- Windows

**Ongoing**:
- Capital adequacy
- Provision policy
- Sharia compliance function

Takaful operators

**Regulatory framework**:
- Technical aspects
- Takaful models

To be submitted soon to the Higher Council of Ulama

Sukuk issuances

**Regulatory framework**:
- Decree for the first sovereign issuance

Suitable legal & regulatory framework
The Regulatory framework
Suitable legal & regulatory framework

Learnings

This approach has a main advantage:

The financial authorities involvement will help to prepare a suitable environment for Islamic financial institutions and will enhance their economic efficiency & sharia credibility.

Would be there a problem of over regulation?

Every little aspect shall be governed by regulations or can Islamic banks take their own initiatives?

What is recommended:

- To ensure rapid feedback to banks when it comes to Sharia aspects
- When it comes to issues concerning the whole sector, the fatwa can be shared with all banks. When it comes to new product development, the fatwa is not automatically shared with banks.
A centralized Sharia governance System

Scope of the Higher Council of Ulamas

The Higher Council of Ulamas had created a specialized Committee in Islamic finance composed of 9 members and 1 coordinator. The committee can add 5 experts who will assist the committee in its decisions and orientations.

The Members of this committee can’t deal or work with Islamic financial institutions to guarantee their neutrality and credibility in terms of Fatwas & Sharia opinions.

The Constitution of the Kingdom of Morocco considers the Higher Council of Ulamas as the only entity in the country authorized to issue fatwas in different matters.

Moreover, a centralized Sharia governance issues sharia standards for the whole industry.

*Standardization in Finance is a real issue.*
A centralized Sharia governance System

Scope of the Higher Council of Ulamas

One centralized entity for Sharia standards

- CCG – Guarantee Fund
- Sharia compliant Money Market
- GSIMT – Clearing system
- Participative banks & windows
- Takaful operators
- Sukuk issuances
- Mutual funds & REIT
- Money Market
- Participative banks
- GSIMT
- Takaful operators
- Sukuk issuances
- Mutual funds & REIT
A centralized Sharia governance System
Functions of the Sharia Governance system

The Sharia committee for Islamic Finance plays the role of the Fatwa function in Morocco.

One centralized entity for Sharia standards

In each Islamic financial institution, a Sharia compliance officer takes in charge the Compliance function & the Audit Function.
A centralized Sharia governance System
Pending Sharia governance issues

• How the Higher Council of Ulamas will deal with Every day questions of Banks? And with new innovations?
• Is it possible that the Higher Council issue a fatwa especially for a bank and that will not be shared with the other players? What about confidentiality issues?
• Is the current sharia governance system sufficient in terms of Auditing and supervision? Will be there any External Audit? How will it be executed (Through the Central bank auditors or External offices specialized in Sharia audit or Auditing firms?)

If all these issues are tackled, the Sharia governance system in Morocco will be very efficient.
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General Introduction

Diversity of players

A centralized Sharia governance

Pillars of the Moroccan Experience

Suitable legal & regulatory frameworks

A comprehensive Sharia compliant financial ecosystem

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The Islamic Finance Industry in Morocco

Diversity of the players

In terms of Investors (local banks with foreign Islamic banks)

The Financial authorities encouraged local players to launch their activities in Islamic finance and to create JV with international players:

The local players ensure a deep understanding of the local practices and culture while The foreign players bring their expertise in Islamic finance issues to enrich the Moroccan experience.

Number of players in the Islamic banking sector

The financial authorities granted 8 licenses to ensure a rapid growth of the industry in Morocco.

Windows & Full fledged

The Financial authorities granted 3 licenses to Islamic windows. Nevertheless, the Moroccan regulation governing Islamic windows is one of the toughest in the world (Separate IT system, Dedicated Capital Allocation, Dedicated Human Resources, Dedicated Governance, Limits on the number of branches)
The Islamic Finance Industry in Morocco

Multiplicity of the players

- Participative banks & windows

3 Islamic Windows
Belonging to subsidiaries of French conventional Banks (BNP PARIBAS, SG, CA)

1 Islamic bank
Subsidiary of Attijariwafa bank (the leader of banking in north & West Africa)

4 Islamic banks
(JV between local banks & foreign Islamic banking operators)

In the Takaful Sector, there are at least 5 conventional insurance companies that are willing to create their own subsidiary for the Takaful activity.
Is the Islamic finance Market in Morocco big enough for 8 players?

Market surveys conducted by different banks in Morocco showed that an important segment of customers are interested in Islamic products if they are not too much expensive and if there is a real sharia credibility.

The 8 players will invest in their distribution channels in order to reach all the people interested in Islamic finance. Moreover, they started to work on popularization initiatives of Islamic finance with all the stakeholders.

**The 8 players created a committee in the Association of Banks to defend the interests of the sector and to coordinate their efforts.**

**All these initiatives will create an important Market for Islamic finance in Morocco.**
Conclusions for the Islamic finance implementation Process in Morocco

Challenges of the industry

- More coordination between the different regulators + Road map for the Islamic finance sector in Morocco
- Tackle all the Sharia governance issues in Morocco
- Accelerate the implementation process of Takaful & Sukuk

Banks need to invest more on the popularization efforts & initiatives

The Moroccan experience can be a model for all the north & western African countries and play the role of a regional Hub of the industry. The Government can encourage the initiative that promotes Morocco as a Hub for this industry.
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to build strong partnerships