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Overview of Islamic Banking & Islamic Finance in Morocco



Dr. Ahmed TAHIRI JOUTI

Overview of Islamic Banking & Islamic Finance in Morocco

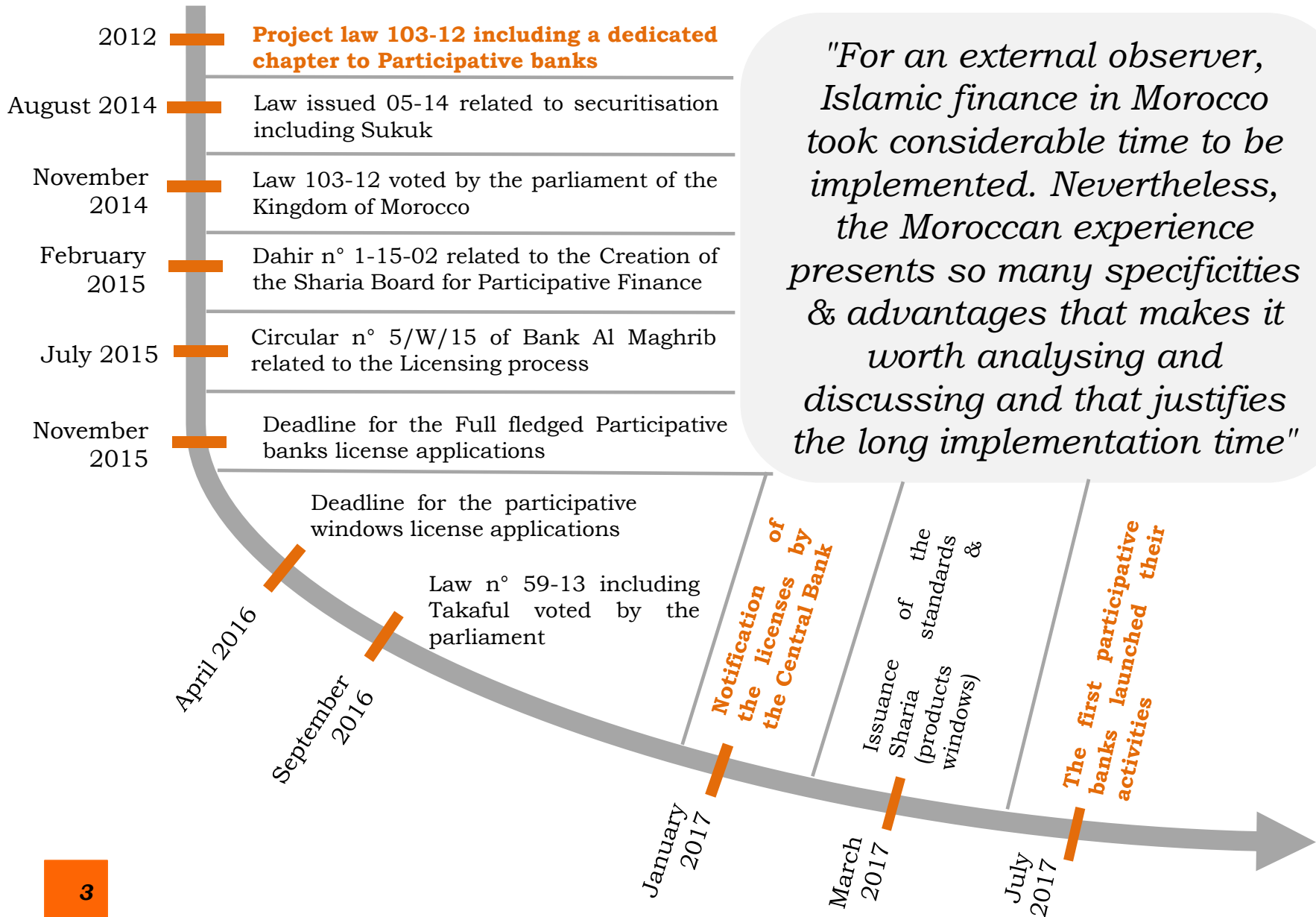
This presentation gives a general overview of the Moroccan experience in Islamic Finance. It presents the different components of the Islamic financial ecosystem in Morocco, the choices made and the whole road map of the industry. Moreover, this presentation includes a forecast and identifies the main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



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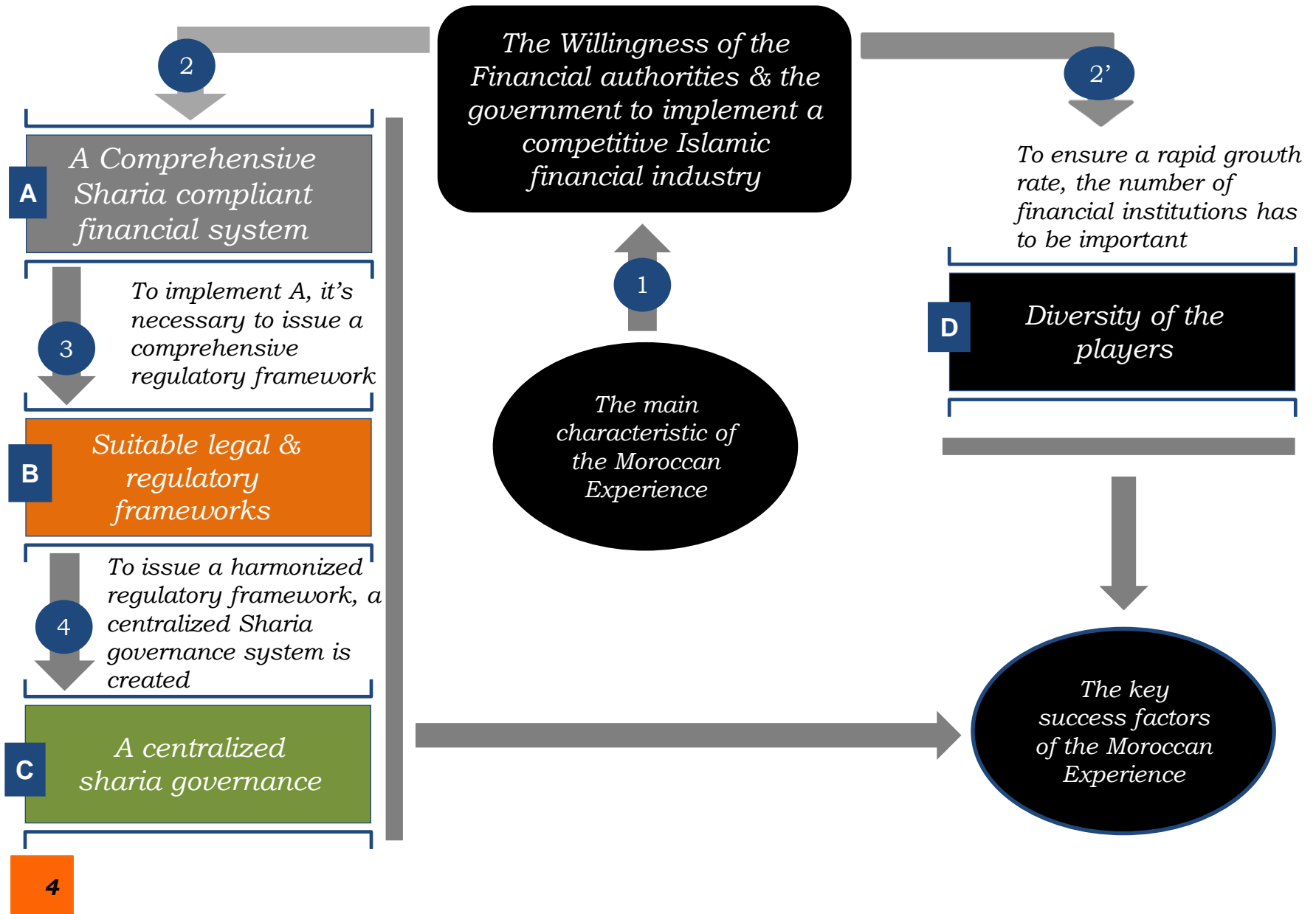
General Introduction

The main implementation steps



General Introduction

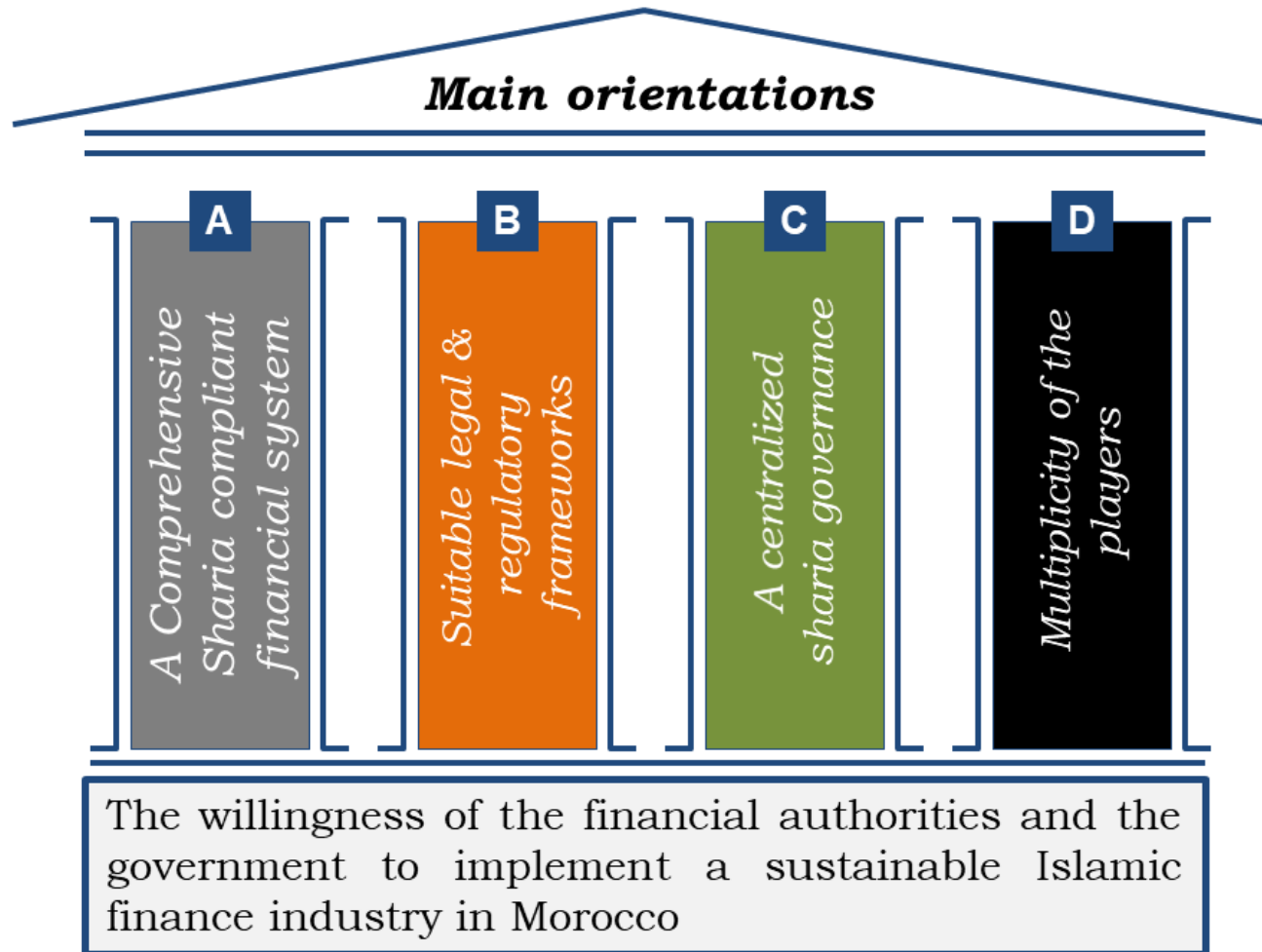
The main characteristic of the Moroccan Experience



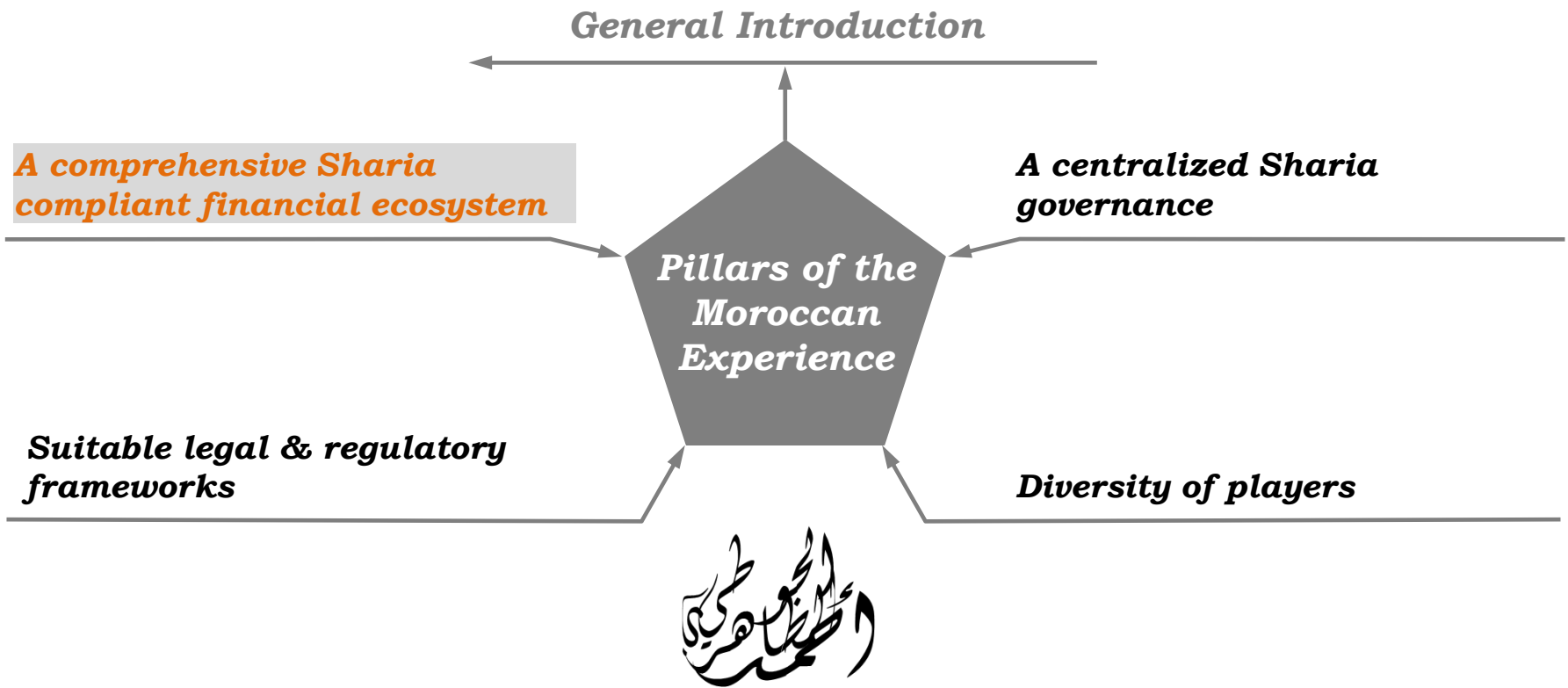
General Introduction

The main orientations & pillars

The Islamic finance industry implementation process in Morocco is based on 4 main pillars:



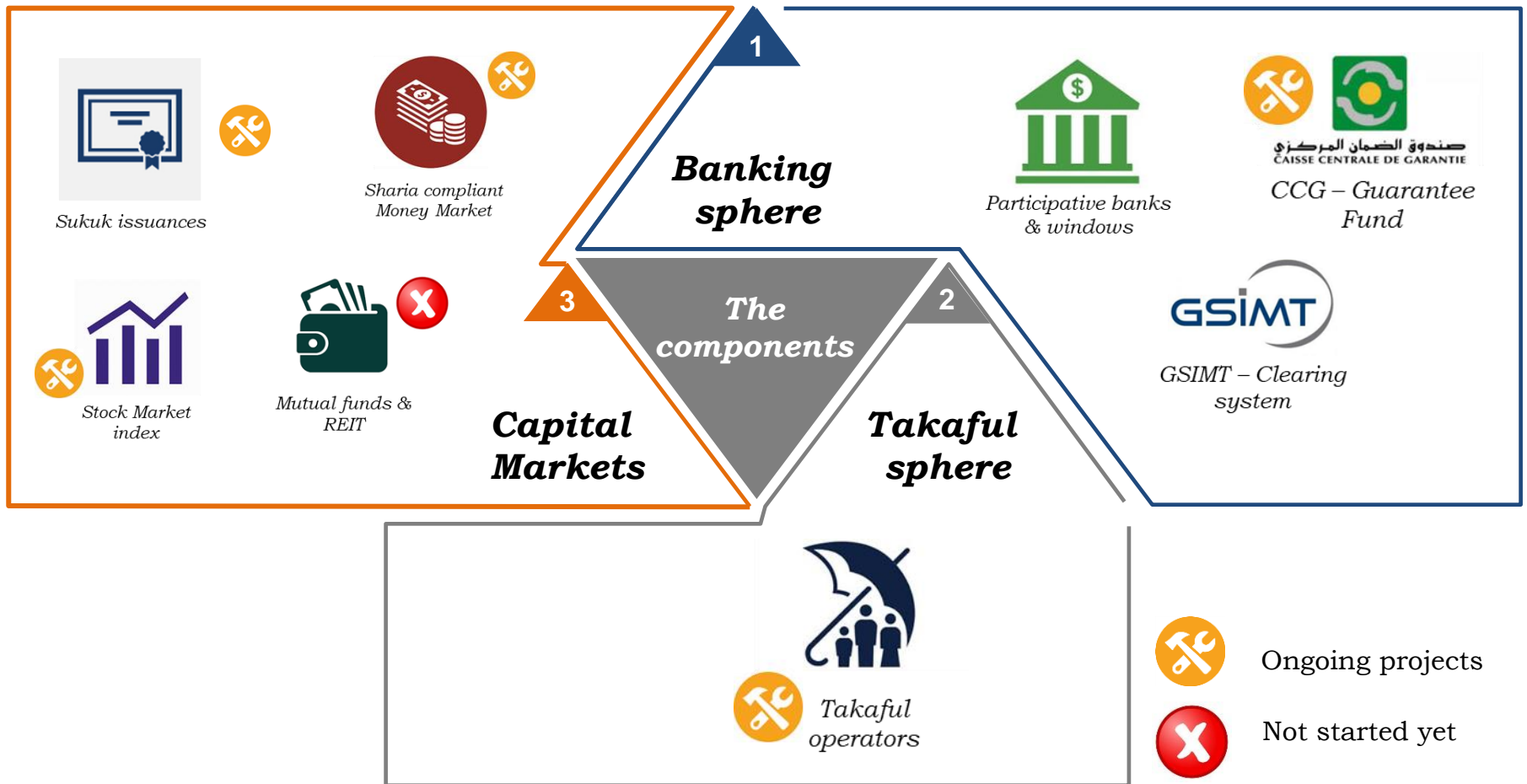
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A comprehensive sharia compliant financial system

The components of the system



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



A comprehensive Sharia financial system is necessary to ensure more economic efficiency and sharia credibility.

Ex:

- 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



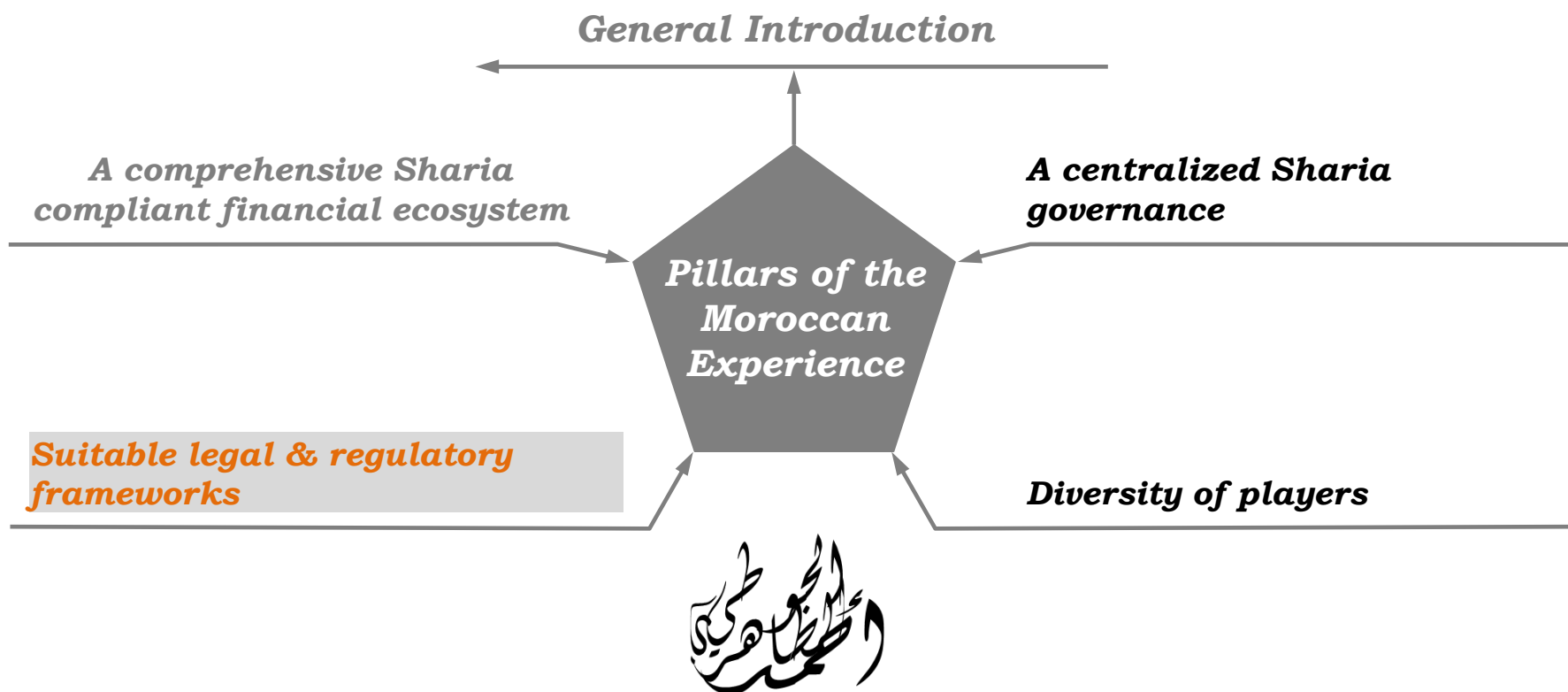
If there are different entities in charge of regulation of the financial system. It's important to create a committee in charge of the coordination.

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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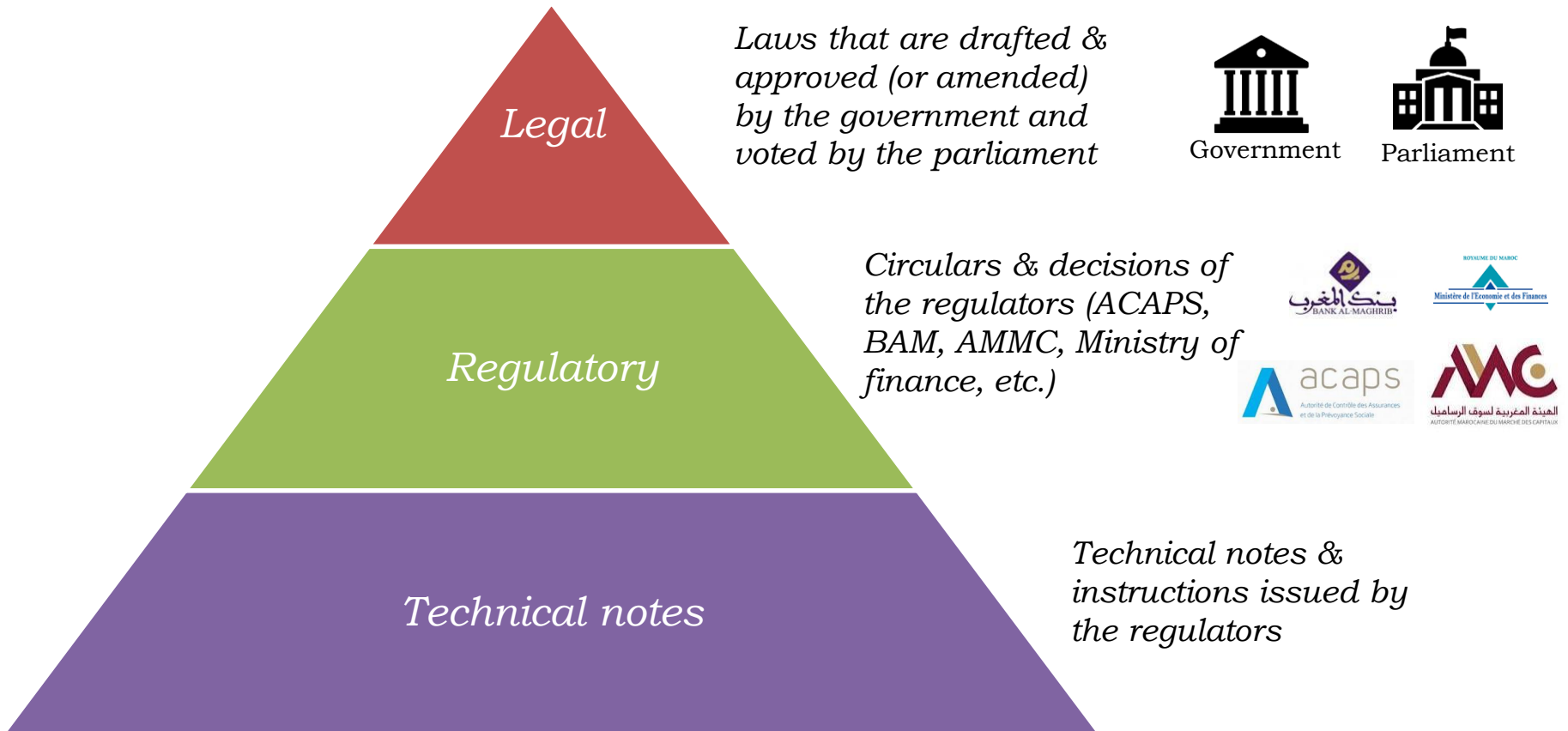


Dr. Ahmed TAHIRI JOUTI

Suitable legal & regulatory framework

The legal & regulatory frameworks

The legal & regulatory frameworks are composed of three layers :



Suitable legal & regulatory framework

The legal framework

Two options in terms of legal framework :

Option 1 : Issuing a dedicated laws 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.



Participative banks
& windows

Law n° 103-12



Takaful
operators

Law n° 59-13



Sukuk issuances

Law n° 5-14



Sharia Governance

Dahir 1-15-02



Tax law

CGI

Suitable legal & regulatory framework

The Regulatory framework

There are two types of regulatory texts:

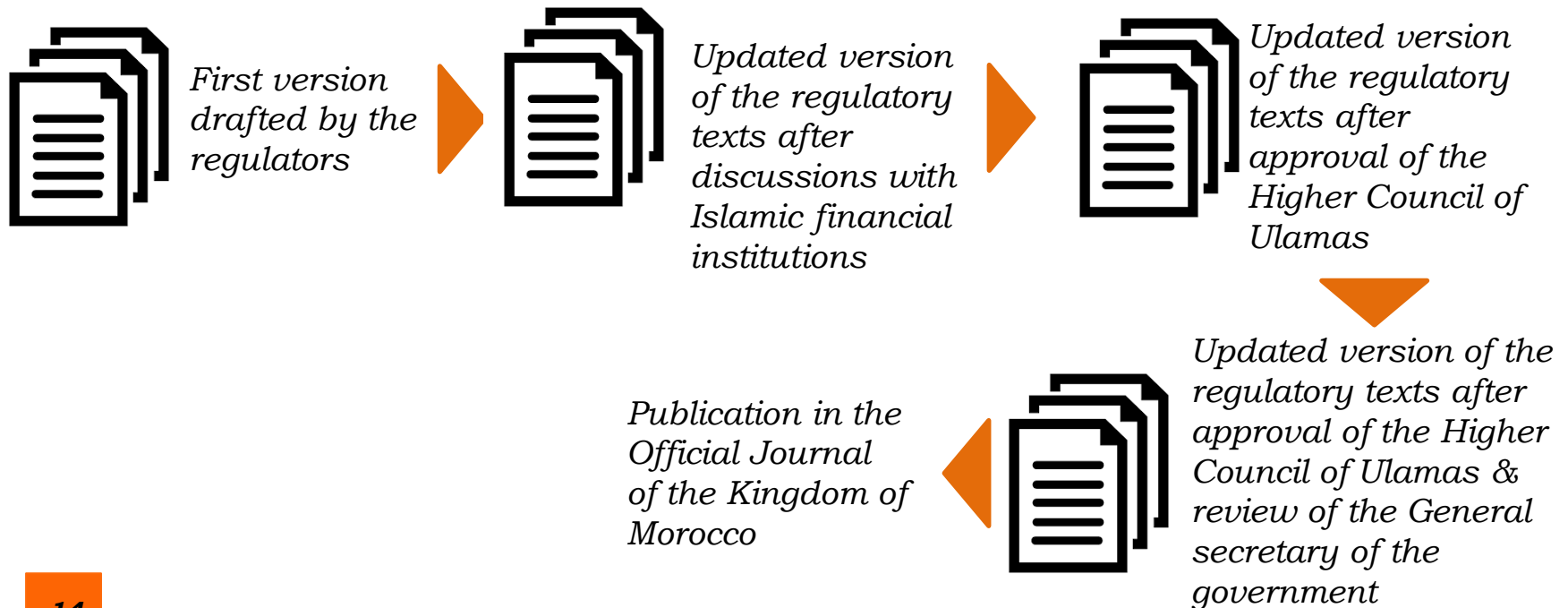
Type 1:

Regulatory texts dedicated to Islamic financial institutions

Type 2:

Regulatory texts governing both conventional & Islamic financial institutions

The General Approach of Issuing regulatory texts :



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

Suitable legal & regulatory framework

The Regulatory framework



*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*

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



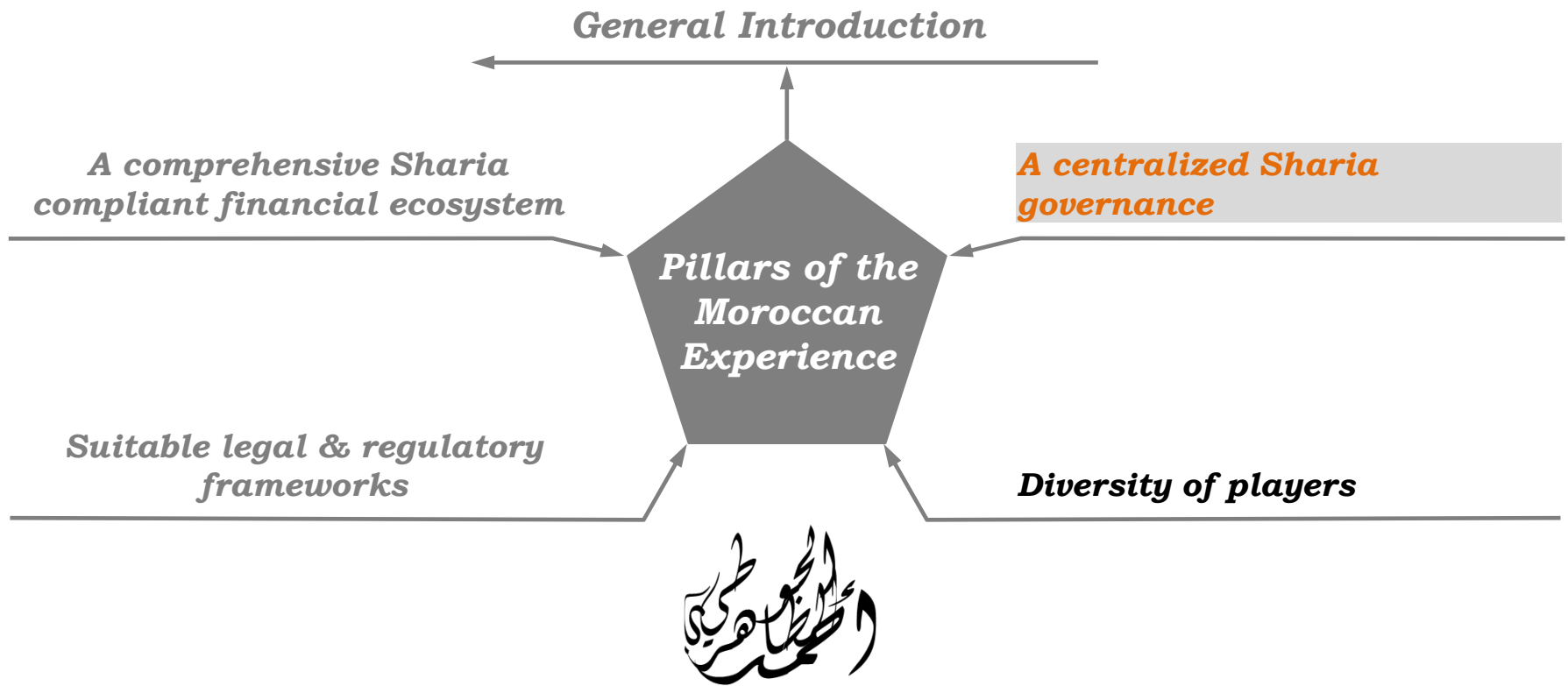
Would be there a problem of over regulation ?

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.

Overview of Islamic Banking & Islamic Finance in Morocco



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A centralized Sharia governance System

Scope of the Higher Council of Ulama



One centralized entity for Sharia standards



Why Morocco adopted a Centralized Sharia governance system ?



The Higher Council of Ulama 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.

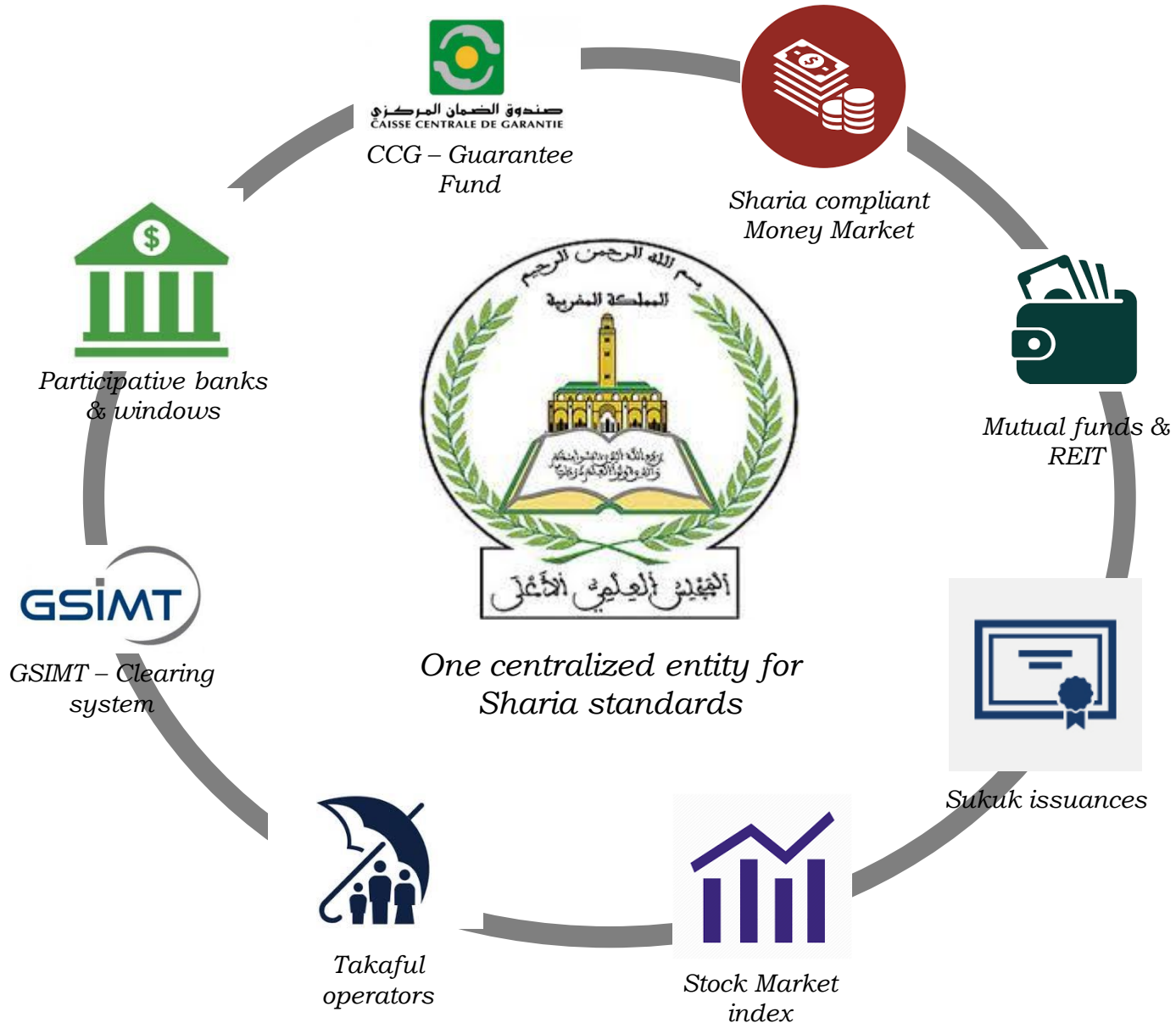
The Constitution of the Kingdom of Morocco considers the Higher Council of Ulama as the only entity in the country authorized to issue fatwas in different matters.

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 Ulama's



A centralized Sharia governance System

Functions of the Sharia Governance system



One centralized entity for Sharia standards

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



Takaful operators



Participative banks & windows

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

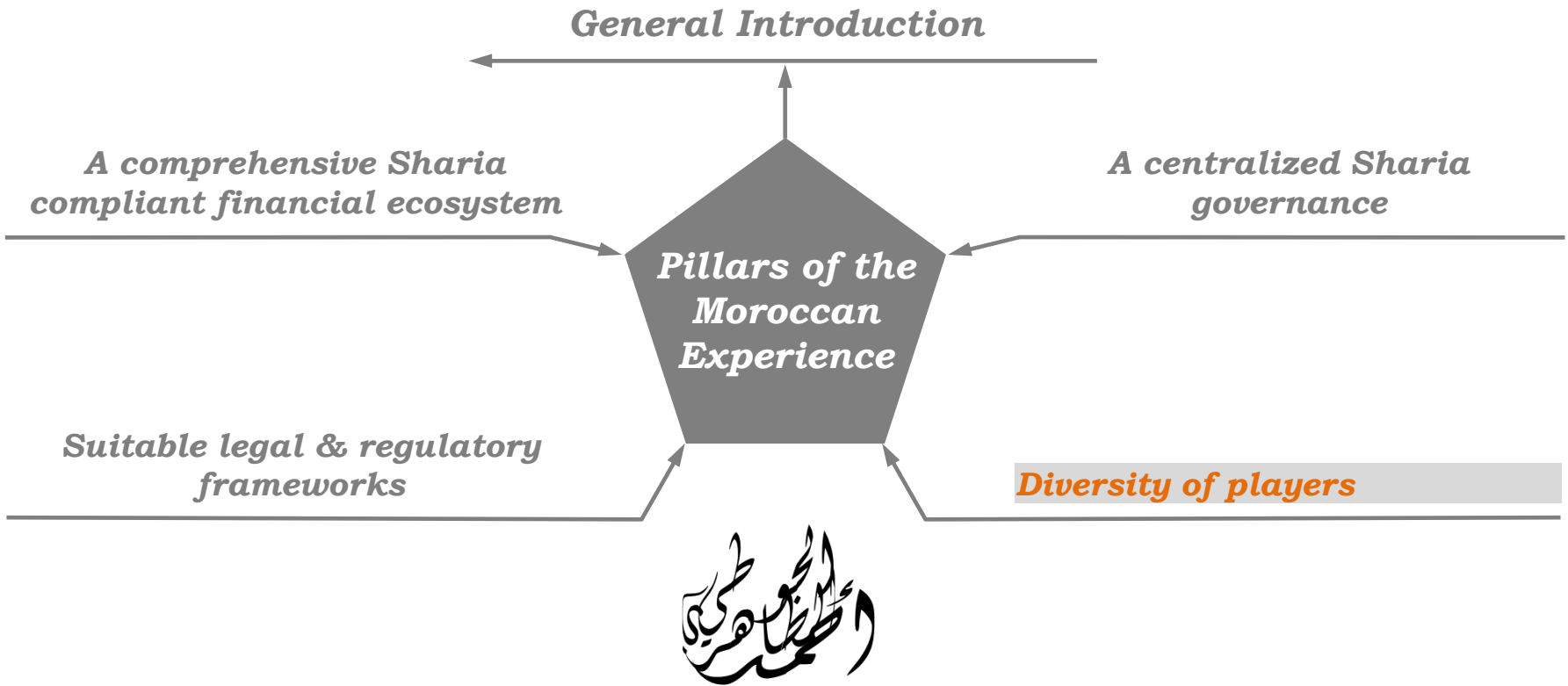


- How the Higher Council of Ulama will deal with Every day questions of Banks ? And with new innovations ?
- Is it possible that the Higher Council issue a fatwa especially for a bank and that will not be shared with the other players ? What about confidentiality issues ?
- Is the current sharia governance 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.

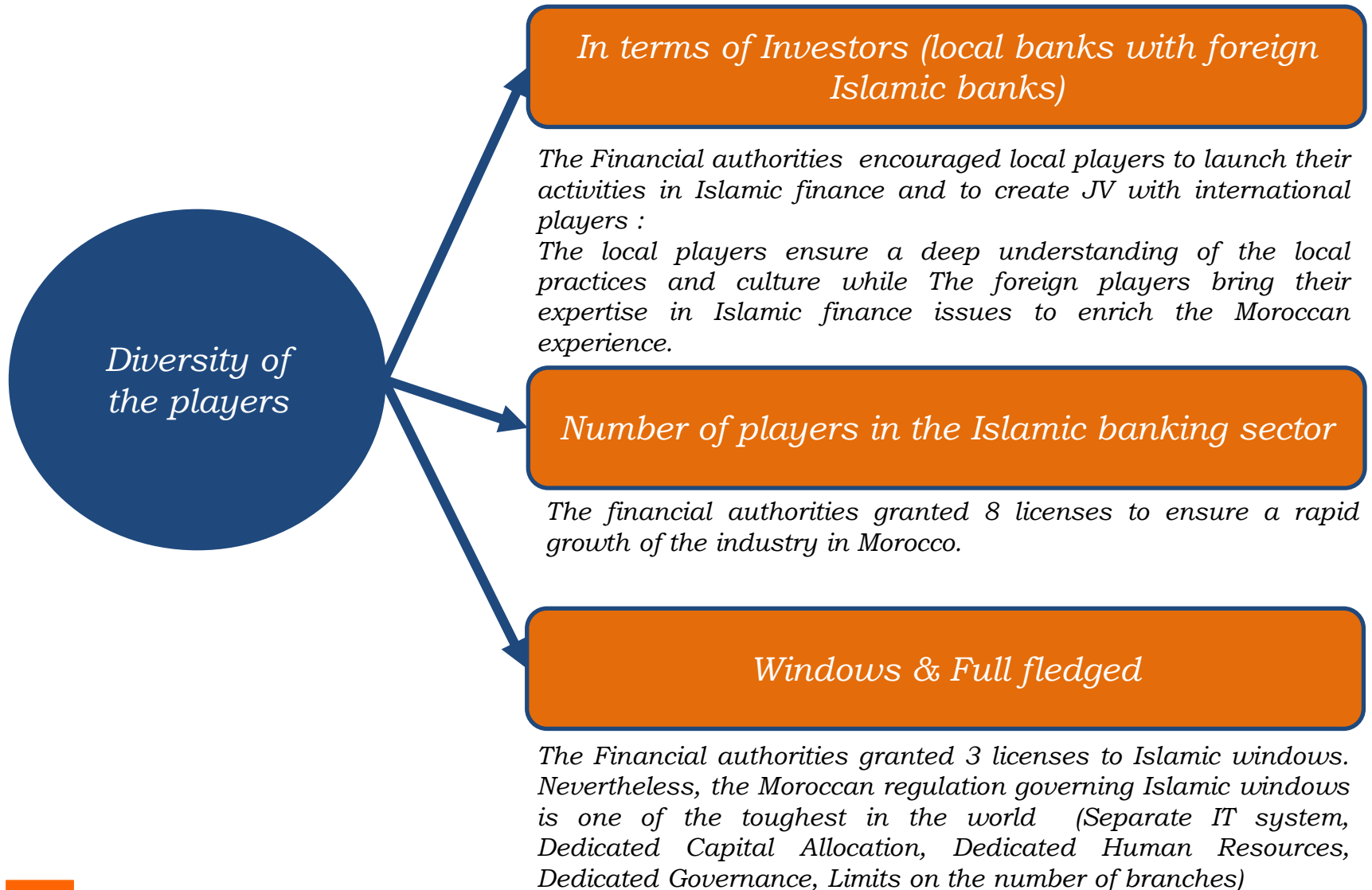
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The Islamic Finance Industry in Morocco

Diversity of the players



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)



بنك الصفاء
Bank Assafa

4 Islamic banks

(JV between local banks & foreign Islamic banking operators)



Bti



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 ?

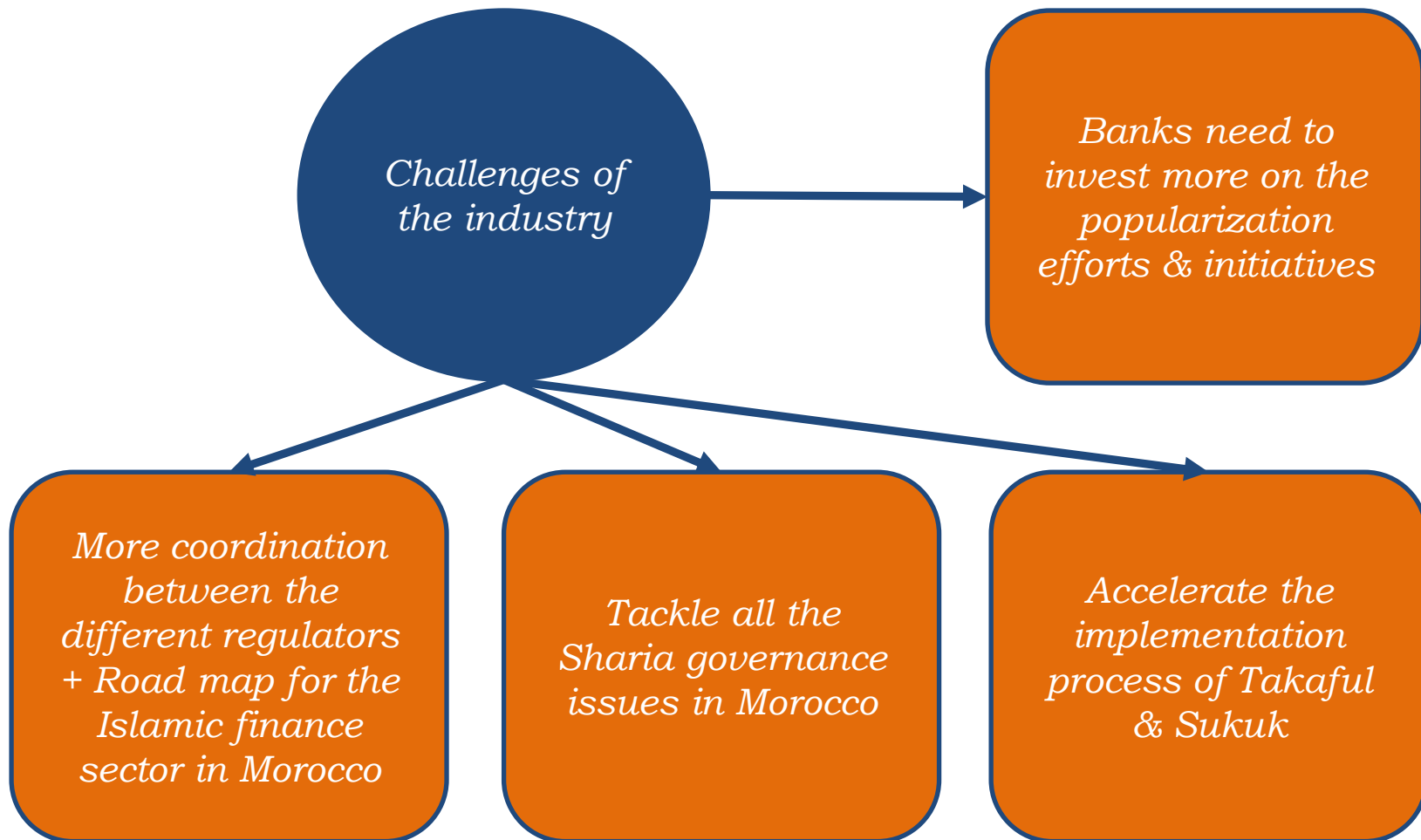
Market surveys conducted by different banks in Morocco showed that an important segment of customers are interested in Islamic products if they are not too much expensive and if there is a real sharia credibility.

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



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.

Conclusions for the Islamic finance implementation Process in Morocco



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.

*An Inspiring Model
for Islamic Finance*



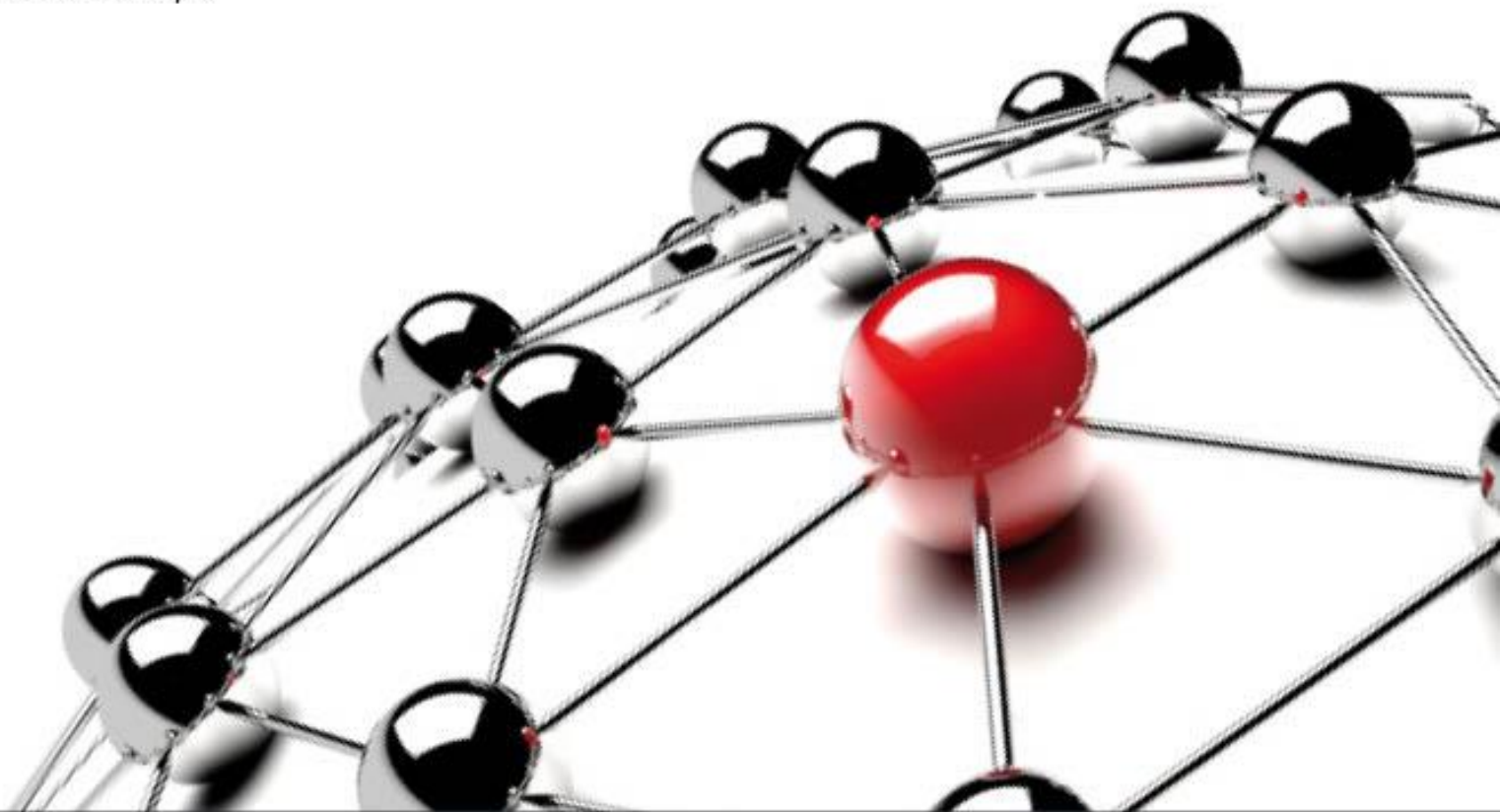
+



*Moroccan Banks implemented in
Africa (Started Islamic finance
operations in Morocco)*



EXPERTISE & INNOVATION...
to build strong partnerships



ALMAALI
INSTITUTE
معهد المعالي

Training | Connectivity | Insights