

بنك نزوى
Bank Nizwa



Real Economy VS Capitalism

PREAMBLE

Overview of Islamic Finance

Section 1

Islamic Banks VS Conventional Banks

Section 2

A Glimpse Into Islamic Finance Products and Services

Section 3

Real Economy VS Capitalism





Not Real Economy?



Overview of Islamic Finance

What it is?

- Islamic finance reflects commercial financial transactions and activities which are in accordance with the principles of Islamic law, known as *Sharia*. Major principles of *Sharia*, among others,
 - ❖ the ban on interest (riba'),
 - ❖ the ban on ambiguity (gharar),
 - ❖ the ban on gambling and speculation (maysir),
 - ❖ the ban on financing economic activities in prohibitive sectors,
 - ❖ adherence to risk-sharing and profit & loss-sharing, &
 - ❖ actual economic activities.

Core Principles Of Islamic Finance

I.



Goods and commodities can be sold at a profit

II.



Money is not a commodity and cannot be sold or loaned for profit

III.



Money needs to be invested in real economic activities like:

- buying and leasing of assets
- buying and selling of goods
- investment in businesses
- investment in infrastructure
- investments in stocks, etc



IV.



Profits generated by the real economic activities will be shared between the Bank and the Customers

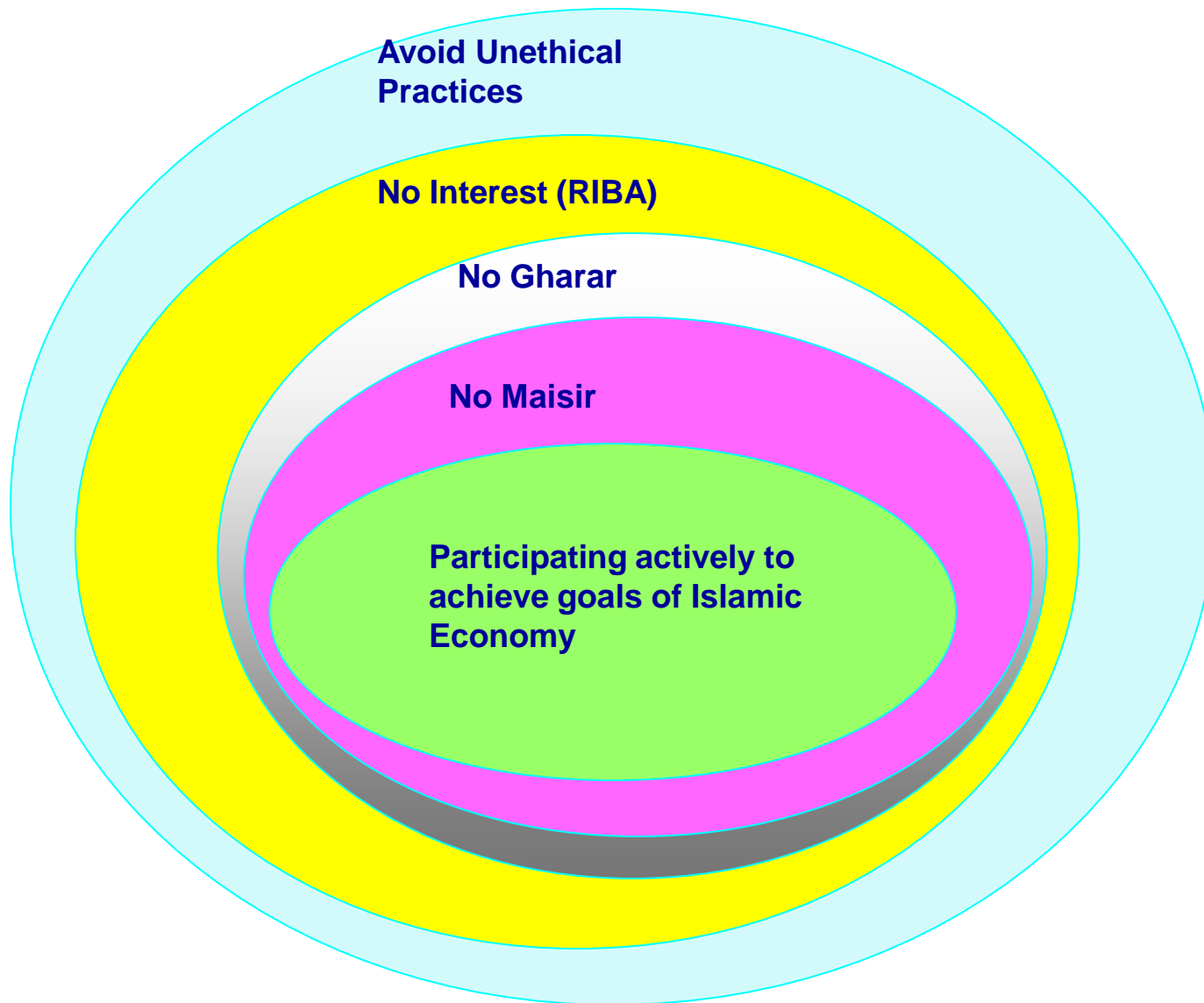
MONEY IS A MEDIUM OF EXCHANGE NOT COMMODITY!!!

- Deposit interest rate: is the price of buying money.
- Lending interest rate: is the price of selling money.

The objectives of Islamic Financial Institutions

- SHARIA
 - Participate in applying Sharia objective of “constructing” the Earth.
- ECONOMY
 - To offer / innovate real economic value added products.
 - Increase production of goods & services needed for the economy.
 - Generate profits.
- SOCIAL
 - To provide Sharia-compliant products and services.

The Philosophy of Islamic Banks



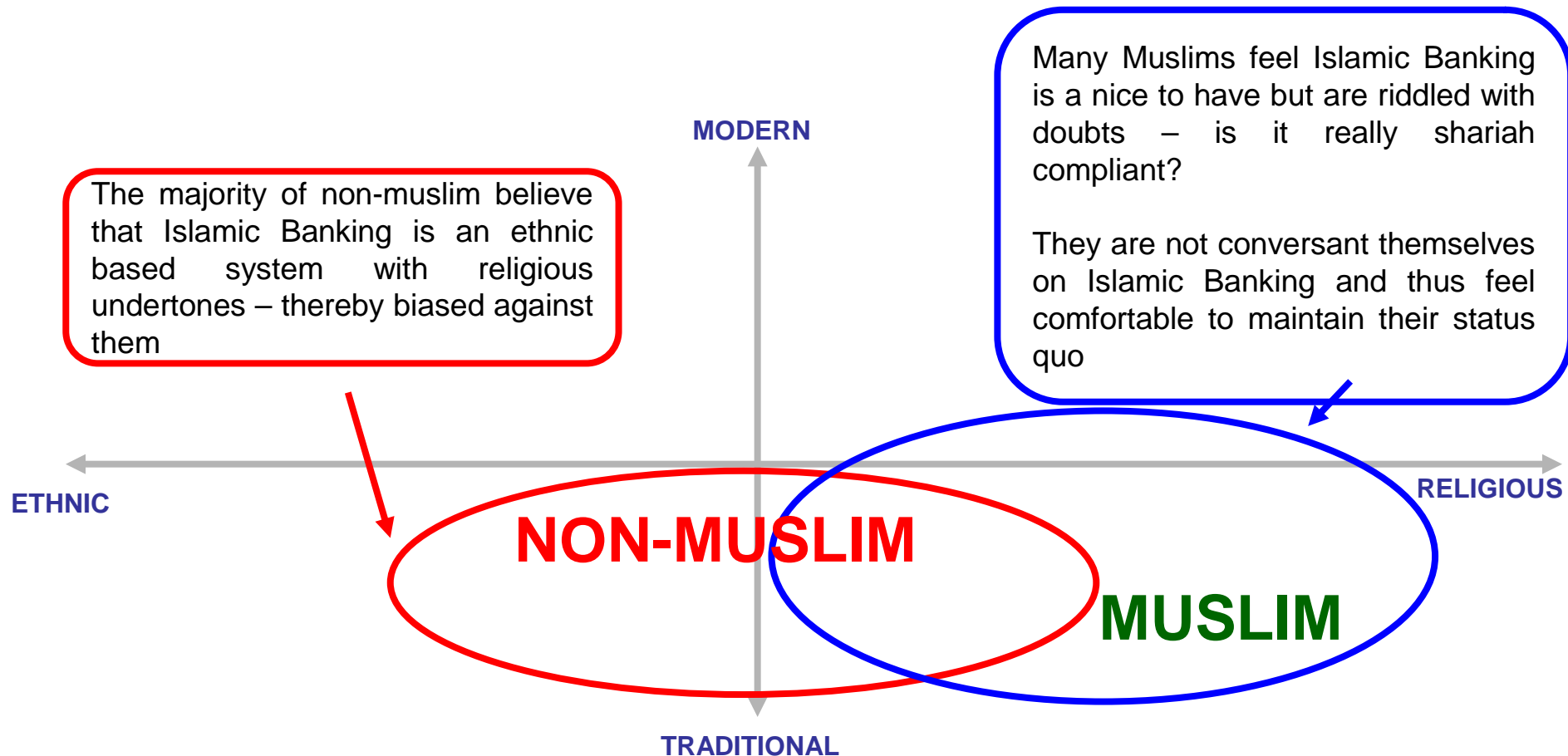
Islamic Finance (Facts & Figure)

- More than 500 Islamic Financial Institutions (IFIs) in approximately 70 countries and more than 80 *Takaful* operators around the globe
- Assets of the top 500 Islamic banks: > USD1.5 trillion with a CAGR of 10% to 17% over the last 5 years
- Global market capitalization of Dow Jones Islamic Index : > USD 10 trillion
- 350 Shariah-compliant funds have been established globally with AUM : >USD 100 bill
- CAGR: 10% to 18% growth over the past 10 years VS CVB 8% to 10% growth
- Market mainly concentrated in Asia and Middle East
- Increase interest in Muslim-minority countries e.g. China-Hong Kong, UK, Australia, European countries (post-Euro Zone), North America, African Countries + Almost all MENA Countries including Oman and recently Morocco.

Source: Islamic Finance News, S&P - IF Outlook 2017, GIFR 2016

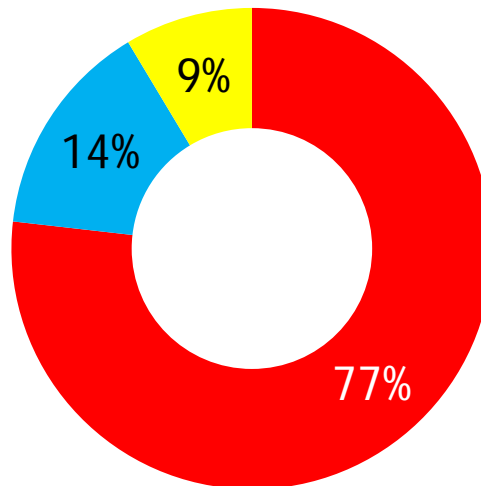


A Game of Perception



How will religious concerns impact
customer / public / investor
confidence?

■ Seriously ■ Minimally ■ No Impact





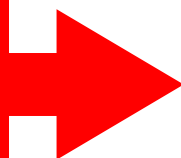
الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ
الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ
اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا
سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا
خَالِدُونَ



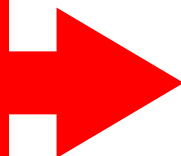
“Those who consume riba (usury or interest) cannot stand except as one stands who is being beaten by Satan into insanity. That is because they say, ‘Trade is [just] like interest’. But Almighty God has permitted trade and has forbidden interest. So whoever received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to (dealing in interest or usury) those are the companions of Fire, they will abide eternally therein” (Quran 2:275)

Misconception

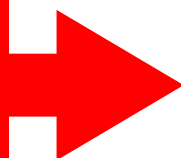
Products only relevant to Muslims



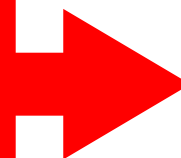
Products are too complicated



Restricted Universe



Performance Drag



The TRUTH IS...

Covers Larger Investor / Depositor Base, Both Muslims and Non-Muslims

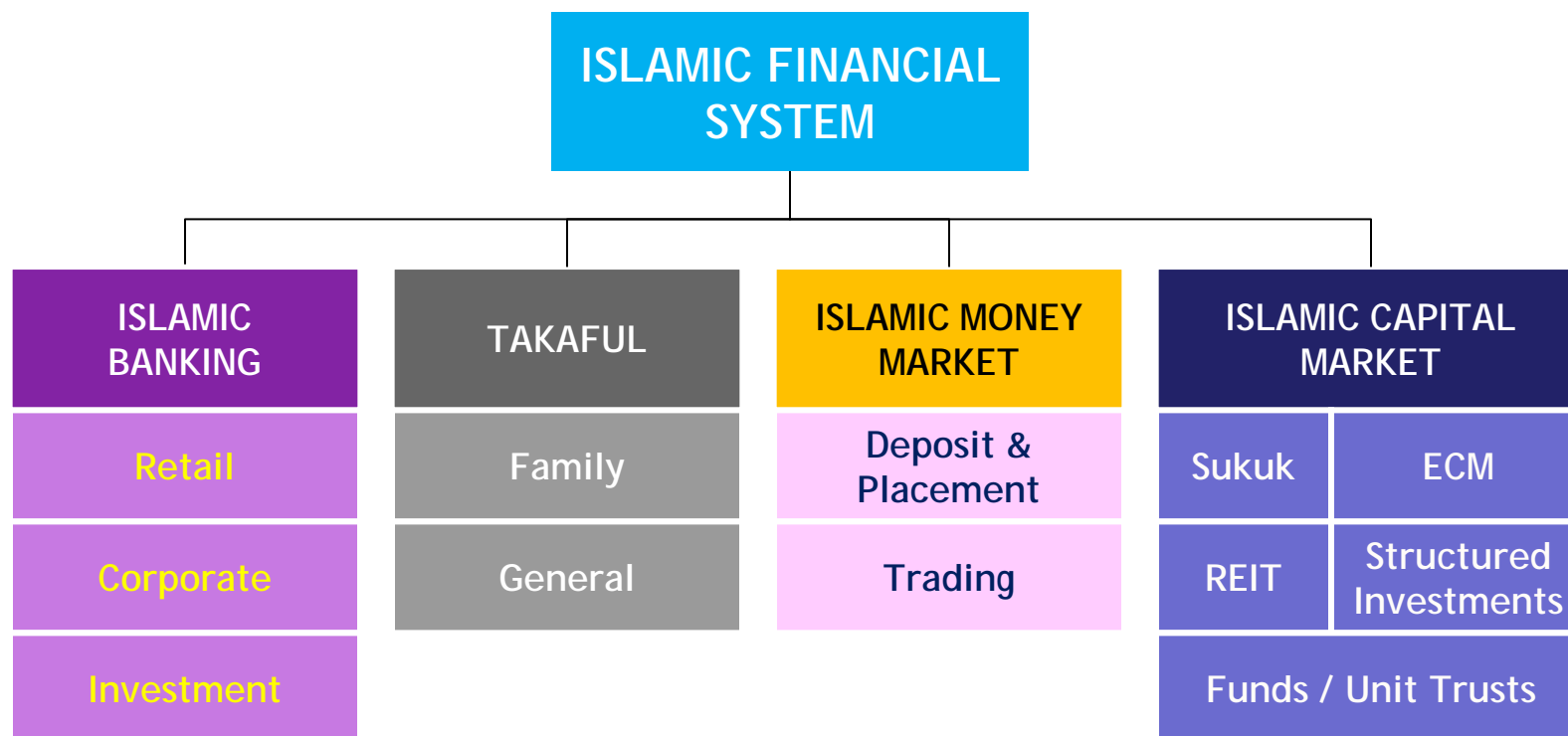
Sequential execution process

**2,545 stocks > USD 10 trillion market cap-
Dow Jones Islamic Market World Index*
> 50% of SP500 is Shariah (by mkt cap)****

**Not Inferior to Conventional Performance:
Return, Volatility, Risk-Return Profile**

Source: *Dow Jones, 25/12/16, **S&P 17/09/16

Islamic Banks VS Conventional Banks



Note:

- 1st 3 Years: Islamic Banks attempts to provide alternatives to all instruments under conventional finance, similar objective and outcome but different transactions and features.
- Year 4 onwards: Islamic finance attempts to distinguish its instruments from conventional with value-added objective and outcome, different economic impact and certainly different transactions and features; based on profit and risk sharing methods.

Islamic Banking (IB) vs Conventional Banking (CVB)

| No | IB | | CVB |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Its functions and operations follow Sharia on top of the regulatory requirements. | FUNCTIONS & OPERATIONS | Its functions and operations are based fully on man-made law. |
| 2 | In its investment product, an Islamic bank promotes the sharing of risk and profit with investor. There is no fixed profit promised. Distribution of profit is based on real profit. | INVESTMENT PRODUCTS | In its fixed deposit or placement product, the investor is assigned a fixed rate. In reality, it is an interest-based loan activity. |
| 3 | Profit-driven Institutions based on Sharia guidelines. | AIM | Aiming for revenue without ethical or moral boundaries. |
| 4 | Pays zakat as obliged by Sharia requirements over and above the CSR fulfilled by Islamic banks. | ZAKAT | Only focusing on normal CSR. |

| No | IB | | CVB |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| 5 | Its retail product utilizes the trading or renting of an asset, and not the loan contract. | RETAIL FINANCING / LOAN | The retail loan product applies the system of giving out loans with multiplied interest. |
| 6 | Charges compensation for any late payment, but it does not go towards the bank's earnings. Instead, it is channeled directly to charity. | PENALTY | Charging a compounding penalty on a loan if there is late payment and it is part of the bank's earnings. |
| 7 | Emphasize projects that benefit society. The main aim is to ensure real and sustainable development apart from ensuring the shareholders interest is preserve. | PRIORITY | The main priority is to protect the bank's shareholders interest. |
| 8 | Profit is generated from income-generating asset. | REQUIREMENT OF ASSET | Loans are given straightforward by conventional banks where asset is not required. The concept is "money breeds money." |

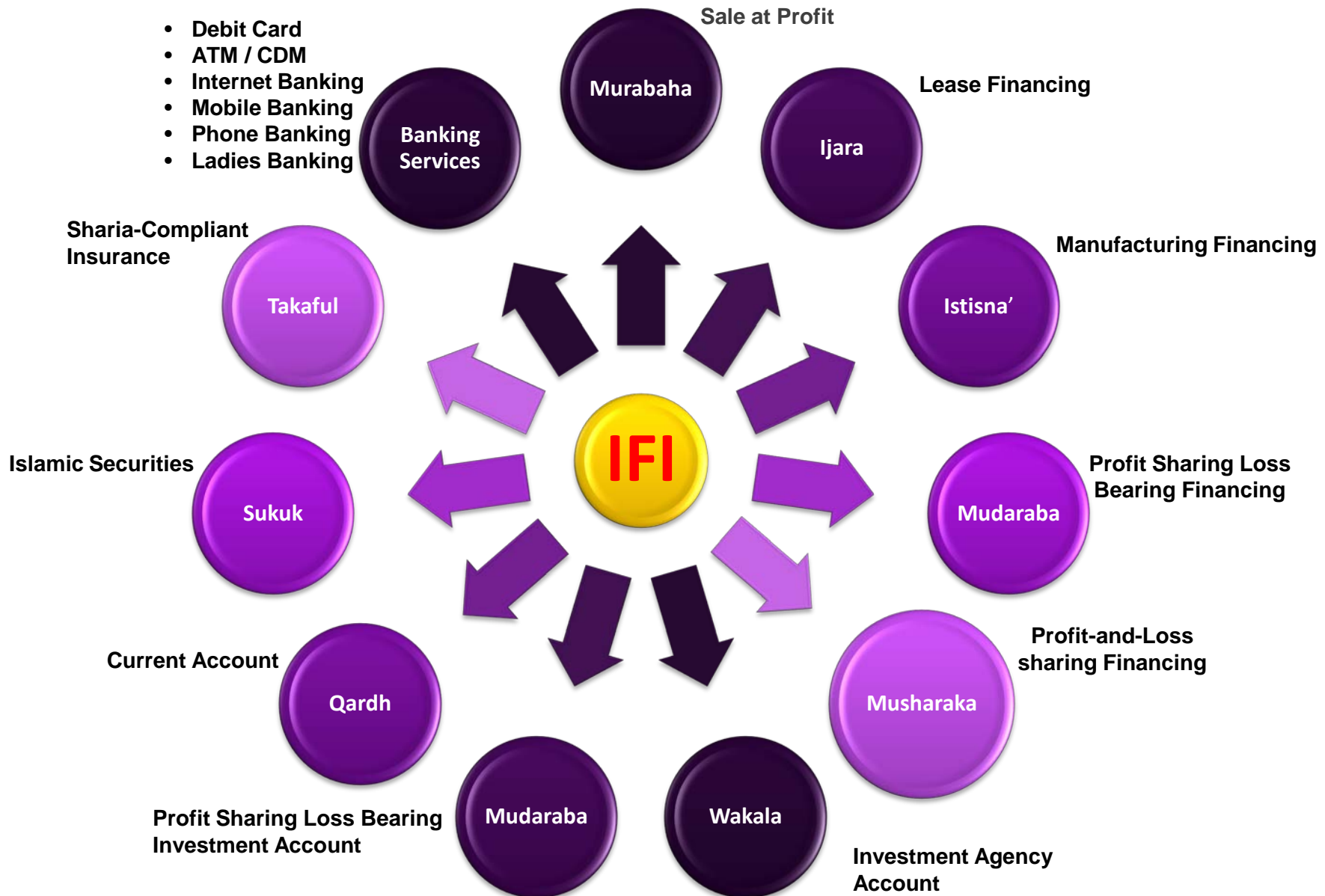
| No | IB | | CVB |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| 9 | Evaluation stresses on the potential or viability, performance and prospect of the project that is being financed on top of customer's payment ability. | EVALUATION | Evaluation stresses on the ability of the borrower to pay off the loan. Not much attention is given to the progress of the customer's project. |
| 10 | Profit according to the concept of profit-loss sharing; the bank gives more attention on investing in development of the project. | REVENUE EARNED | Earn revenue from fixed interest charged from loan amount to the customer. |
| 11 | The bank-customer relationship: 1) Seller / buyer. 2) Lessor / Lessee. 3) Co-owner / Partner. 4) Investor / Fund Manager. 5) Agency | RELATIONSHIP | The bank-customer relationship: loan lender and borrower. |

The Dos and the Don'ts of Terminologies

| No | IB | CVB |
|----|----------------------------------------------------|------------------------------|
| 1 | PROFIT RATE / RENTAL RATE / INDICATIVE PROFIT RATE | INTEREST RATE / PRICING |
| 2 | FINANCE / FINANCING | LOAN / BORROW / BORROWING |
| 3 | LATE PAYMENT CHARGES | LATE PAYMENT INTEREST |
| 4 | TENURE / RENTAL PERIOD / INVESTMENT PERIOD | TENURE |
| 5 | TAKAFUL | INSURANCE |
| 6 | HOME FINANCING / CAR FINANCING | HOME-LOAN / CAR LOAN |
| 7 | BANK'S FINANCING | BANK'S CREDIT / BANK'S LOAN |
| 8 | INVESTMENT ACCOUNT | TIME DEPOSIT / FIXED DEPOSIT |
| 9 | SUKUK | BOND |

A Glimpse Into Islamic Finance Products & Services

Islamic Finance Products & Services



Thanks
- Q&A session

Prepared By:
Mohamad Noranuar bin Sajari
Head, Sharia Structuring
mohamad.sajari@banknizwa.om
+96894106258