

Modern Islamic banking

By **HARITH HARUN**

MANAGING DIRECTOR AND CEO, MALDIVES ISLAMIC BANK



HARITH HARUN began his banking career in Malaysia and in 1994 joined ICB Banking Group, an international banking group which focuses on the emerging markets in Central Europe, Africa and Asia. He was responsible for the planning, establishment, acquisition and supervision of all the banks in the group located in 14 countries. He was recruited by the private sector arm of the Islamic Development Bank (IDB) in December 2009 to set up the first Islamic bank in the Maldives. He holds a BA from the University of California at Davis and an MBA from the University of Arizona.

The only fully-fledged Islamic bank in the Maldives, the Maldives Islamic Bank (MIB) commenced operations in March 2011 under the auspices of the Islamic Corporation for the Development of the Private Sector (ICD) – the private sector arm of the Islamic Development Bank, which holds an 85 per cent stake, in collaboration with the Government of the Maldives, which holds the remainder.

Recognised as the leader and preferred partner in Shariah banking in the Maldives, it is an active player in promoting the growth of Islamic finance in the Maldives.

MIB currently operates from two branches, one in the capital Malé, and the other in Addu City. The bank is in the process of opening branches in three other islands within this year. As part of its continuous efforts to provide better service to its customers, the bank has expanded its distribution channels with the installation of six ATMs, along with more than 200 POS terminals in Malé and Addu City, and has recently launched its online banking service FisaNet.

Customers can register online for the services, enabling them to perform a full range of tasks. The launching of our internet banking service will enhance the depth and quality of our services to our customers. From a broader perspective, it is our hope that it would also contribute to the development and modernisation of the banking industry in Maldives generally.

MIB also provides a full range of Shariah-compliant banking services catering to all sectors of the economy. The scope and potential of Islamic finance, insurance, and banking in the Maldives is yet to be fully explored.

Islamic finance is now a global industry with a total asset value of US\$2 trillion, and at its current pace, the growth in Islamic finance stands sharply ahead of conventional finance, which has experienced significant de-leveraging and slowdown in the wake of the global financial crisis.

While the industry represents a niche market for Muslims, it has since transformed to a viable alternative for consumers of convention finance, irrespective of their religious beliefs.

One of the reasons for the phenomenal growth of Islamic finance worldwide is the perception that it is more ethical, compared to conventional finance.

The basic tenets of Islamic finance, such as sharing profits and losses, investments only in ethically permissible areas, and the inseparable link of finance with real and productive economic activities, have widespread appeal.

Under Shariah, any risk-free or guaranteed rate of return on a loan or investment is considered *riba* (usury or interest), which is prohibited in Islam. Conventional insurance is also prohibited in Islam because of forbidden elements such as *riba*.

For deposits, the bank offers a choice of three savings and investment products with different maturity structure in local currency and US dollars which yield attractive returns to the depositors.

On the financing side, the bank provides a wide range of financing facilities to businesses and individuals. Businesses large or small, local or foreign, have access to facilities to finance their imports, purchase of machinery and equipment, construction of factories, office building, hotels and guest houses, vessels and many more.

For families, MIB has structured attractive and flexible home financing products to assist them build or purchase houses and apartments. In addition, the bank has tied up with reputable dealers and merchants to provide financing schemes to individuals for purchase of cars, motorcycles, furniture and other household items.

In the short span of four years since MIB was established, the bank has achieved a significant growth in its assets, deposits and profitability. It is now embarking on the second phase of its development plan by continuing to invest in human capital, technology, product development and branch network to meet the ever rising needs and expectations of its customers and the public generally.

Today, in response to the burgeoning demand for Shari'ah compliant financing, numerous conventional institutions in the financial sector have declared their intention of establishing divisions dedicated to offering Islamic financial products and services.

Islamic finance is now seen as a key component of the Maldives financial system, and the country's financial authorities are working on developing a comprehensive legal, regulatory and supervisory framework that would ensure the development of the sector is smooth and proves beneficial to all the stakeholders. **F**