

The Future of Islamic Banking in the Gulf Cooperation Council (GCC)

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BIBF

البنك الإسلامي في البحرين

Bahrain Islamic Bank

Research Questions

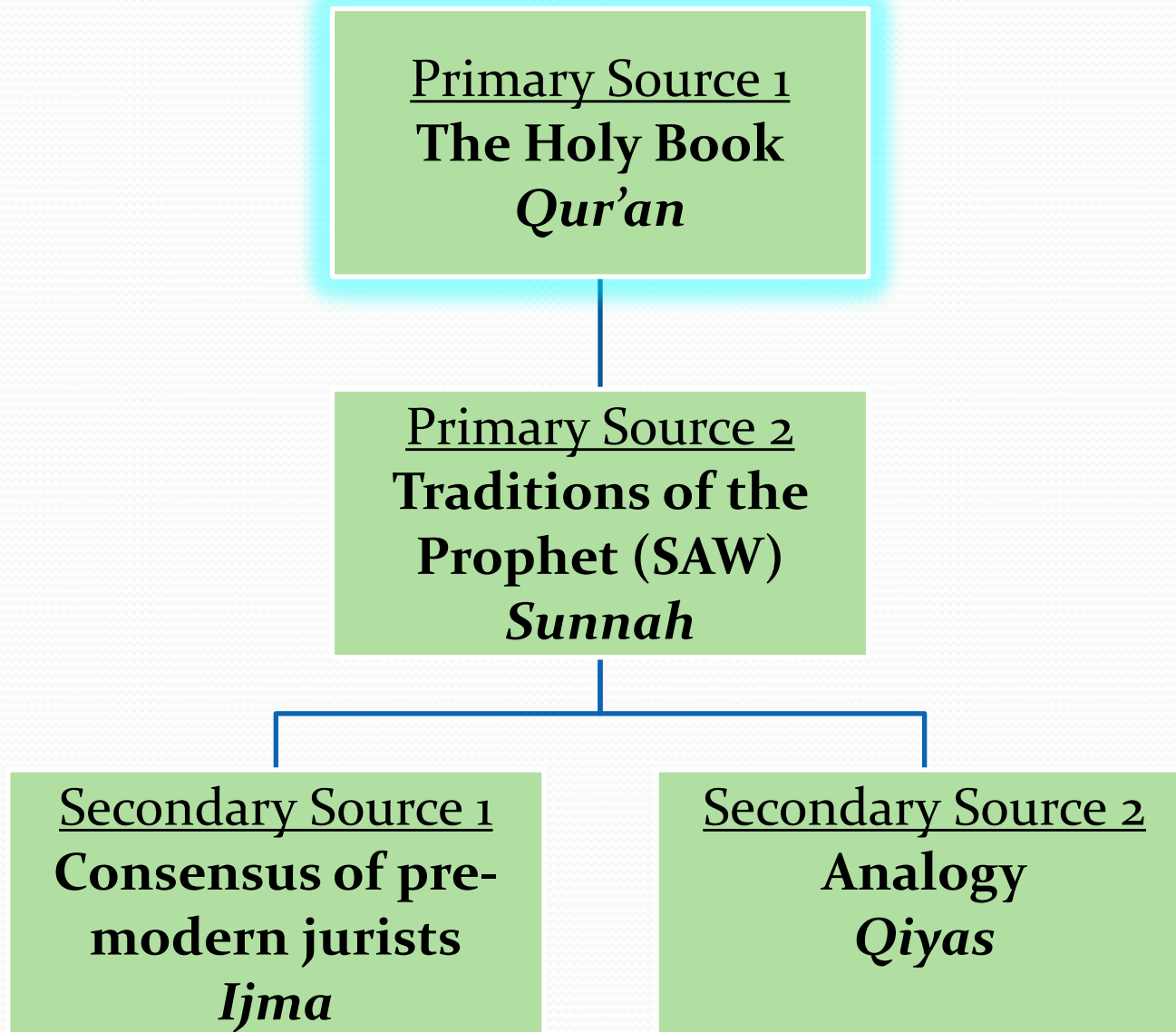
This research addresses the following questions, given the increasing instability in the conventional monetary and financial system which now faces serious crises:

- What are likely changes in the broader financial environment in the GCC's in the next ten years?
- What major trends are going to matter the most during the ten years time?
- What are the pushes, historical & cultural weights that influences Islamic banking futures?

The Gulf Cooperation Council



The Sources of *Shari'a*



AVOIDANCE OF RIBA

Risk-free or guaranteed rate of return on loaned money or investment

AVOIDANCE OF GHARAR

Excessive uncertainty in contracts – e.g. entering into a transaction whose consequence is out of usual trade norms – E.G.:

- a) Financial derivatives
- b) Insurance contracts
- c) Sale of debts

AVOIDANCE OF HARAM TRANSACTIONS

Avoiding all forms of unethical activities such as financing casinos, drugs, illicit, immoral or dubious transactions

THE BASIC BLOCKS OF ISLAMIC FINANCE

AVOIDANCE OF QIMAR

Gambling and Chance based (zero-sum) games

AVOIDANCE OF EXPLOITATION

relationship to reflect justice and fairness.

AVOIDANCE OF JAHALA

Clarity of intentions and transparency is imperative in all dealings

MUSHARAKA

Profit Sharing Partnership

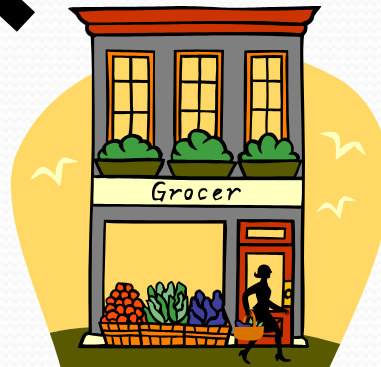


Investment
(cash or kind)

Share of Profits

Share of Profits

Investment
(cash or kind)



Commercial Venture

CIS, West Africa

UK, Turkey, Indonesia

GCC, Malaysia, Pakistan, Iran



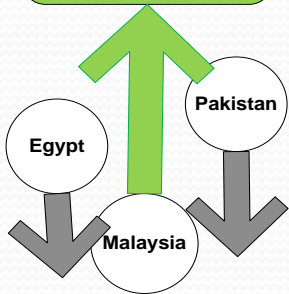
- World Status**
- Entry of Conventional Players
 - Global Appeal and Usage
 - Attract new specialized business models
 - Developed capital markets
 - Expansion of Sukuk Market

- Expansion and norm setting Entities**
- Extended banking penetration (mass banking services emerge)
 - Multi-specialized models emerge
 - Full product range

- Market Pioneers (IDB & DIB)**
- Actual Inception
 - Growing banking penetration

- Experimental Pilot Schemes**
- Earliest Islamic Banks
 - Basic Banking services

- Intellectual Movement**
- Realization & Discourse Began



1950-1960

1960-1970

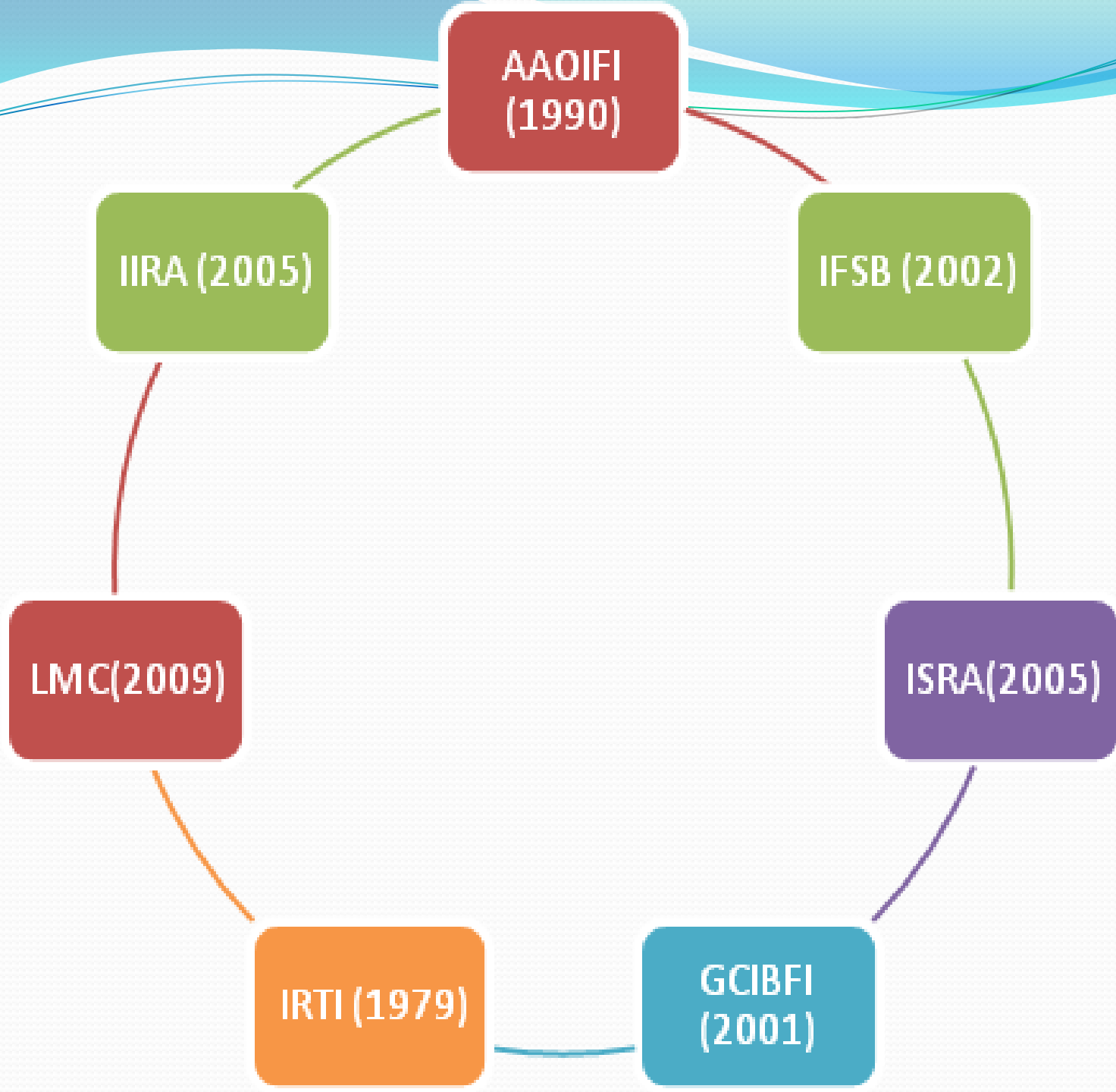
1970-1980

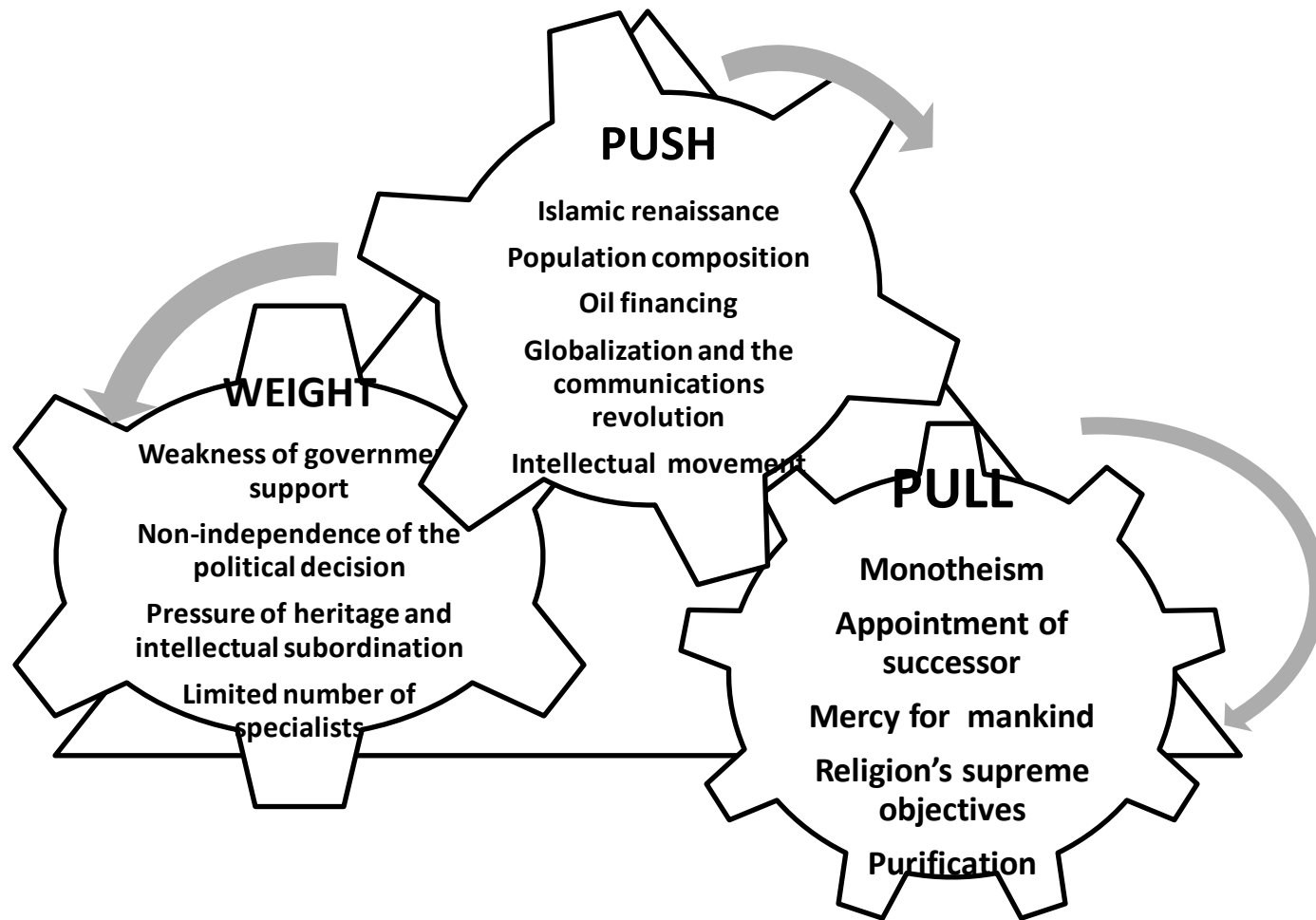
1990-2000

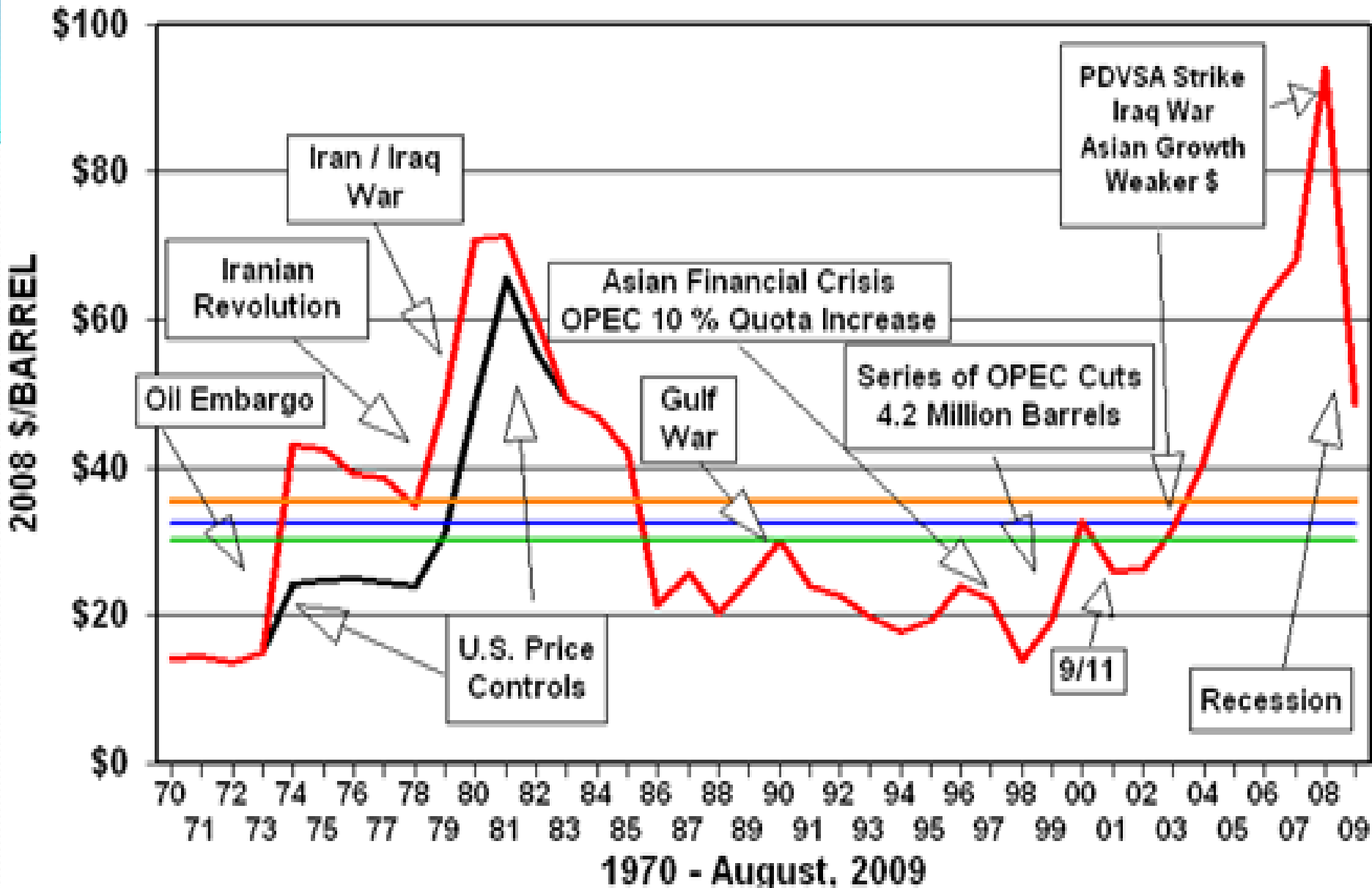
2010>>>

Time

Development phase of the Islamic banking system







WTRG Economics ©1998-2009

— U.S. 1st Purchase Price (Wellhead) — "World Price" *

www.wtrg.com

(479) 293-4081

— Avg U.S. \$32.36 — Avg World \$35.59 — Median World \$30.04

Scenario Paths

IB rises

Scenario 2: GCC slumbering, stable but sluggish

Scenario 4: GCC is a success and becomes the world Leading market

IB old

Scenario 1: GCC in decline: stagnant and volatile

IB's new culture

Scenario3: GCC stabilizing and slightly growing

IB decline

Conclusion

- GCC countries face an array of important investment decisions in order to move their economics towards a more diversified, sustainable and innovation-based model
- A reluctance to engage with pressing issues or a tendency to delay important reforms could coincide with external pressures to create a future whereby the GCC countries are trapped in past, dealing with widespread internal dissatisfaction while unable to move forward on the global stage
- Driven by the demand of pious investors, socio-political reformation and Shari'a requirements convergence will probably continue to grow faster in most GCC countries.