

ISLAMIC BANKING

An Islamic banking revolution?

Everyone who wants to see Islamic finance prosper should be hoping that a consequence of the Egyptian revolution will be an expansion of Islamic banking

As Egypt moves towards parliamentary and presidential elections, one of the big unanswered questions is the extent to which the Muslim Brotherhood and other Islamic-focused parties will be able to mount open and unrestricted political campaigns.

Those of us who work in the financial services industry are interested in the answer not just for what it will say about Egypt's political future, but also for what it will imply about the authorities' willingness to open up financial markets to Islamic banking.

Egypt accounts for nearly 10 per cent of the Arab world's gross domestic product (GDP) and its banking system is one of the largest in the region, but Egypt has hardly been involved in the recent expansion of Islamic finance – one of the most exciting developments in regional financial markets for decades.

Some estimates suggest that Islamic banking accounts for no more than four per cent of all banking in Egypt.

Egypt's absence has been a loss for the Islamic finance industry as a whole.

Everyone who wants to see Islamic finance prosper and expand should be hoping that one consequence of the Egyptian revolution will be an expansion of Islamic banking in Egypt,

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and a much greater involvement by Egyptian banks, regulators and scholars in the global Islamic finance industry.

Egypt's 80 million people offer a huge market for retail banking, and the existence of large numbers of low-income and unbanked citizens would enable banks to explore new products and delivery methods at the retail level.

The corporate finance needs of Egypt's large and mid-sized companies offer opportunities for selling sophisticated products and earning large fees.

Egyptian government debt issuance is significant. Issuing some of this as sukuk would provide investors with a new source of liquid assets.

More fundamentally, Egypt could become a "third force" in global Islamic finance, offering alternative models to those promoted in Malaysia and in the Gulf. Egypt's Al Azhar University is the pre-eminent Islamic university in the Middle East and it should be playing a prominent and explicit role in the development of the theory and practice of Islamic finance.

Historically, the Egyptian financial authorities have not supported the growth of Islamic banking in Egypt. The Central Bank has taken

an interest in Islamic financial products but no new regulations have been issued. The Egyptian Financial Supervisory Authority – which regulates capital markets and non-bank financial services – announced plans last year to issue regulations for sukuk but had not done so by the time of the revolution earlier this year.

Only three Islamic banks operate in Egypt. Al Baraka Bank Egypt, and Faisal Islamic Bank of Egypt are both owned by Saudi groups, and National Bank for Development which is owned by Abu Dhabi Islamic Bank. In 2007, Islamic International Bank for Investment and Development was merged with two other banks to form United Bank of Egypt.

It is easy to understand the reluctance, in the past, of the Egyptian authorities to foster the growth of Islamic finance. For decades, the Islamic groups appeared to pose the greatest internal threat to the regime founded by Gamal Abd al Nasser in the early 1950s, and continued by his successors, Anwar Sadat and Hosni Mubarak.

In the late 1970s, the Brotherhood started to take control of significant areas of civil society, such as trade unions and local health care. In the 1990s, Islamist groups mounted terrorist attacks which killed many

and challenged the authority and competence of the security services (and of course it was an Islamist group which had assassinated President Sadat in 1981). The Brotherhood's early success in the 2005 parliamentary elections shocked and unnerved the government.

Despite the uncertainties in Egypt today and the assumption, for the time being, of explicit power by the armed forces, it is already clear that the relationship between the government and the Muslim Brotherhood will be different – and more constructive – in future.

Let's hope that part of this more constructive relationship will entail the issuance of Egyptian government sukuk and the granting of licenses to a few, well-selected Islamic banks. Egyptian banking would become more diverse; the global Islamic banking industry would gain an important new force; and Egypt would, in the area of finance at least, enhance its authority within the Muslim world. ■

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