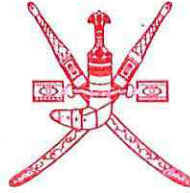




THE DEVELOPMENT OF ISLAMIC FINANCE STRATEGIES IN THE SULTANATE OF OMAN

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Introduction:

Islamic countries are currently endeavoring to raise their economic level in order to face the economic challenges resulting from globalization and economic blocs. To reach this target, they have subjected their economic resources to invest legitimately in a manner governed by rules and regulations that are derived from Islamic Sharia. Some economic projects need financing and Islamic states rely on short-term financing (Islamic Banks) and long-term financing (Islamic Stock Exchange).

Islamic finance is considered an ideal financing method as it goes with the expectations of investors to achieve a higher degree of transparency. The global finance sector is no longer determined by the size of revenues, but the ability to impose the correct form of censorship and full commitment to improve the protection level of investors and financial institutions. Knowingly, Islamic finance can only be granted for real economic activities related to goods and services as it helps to adjust the allocation of resources for non-production activities and inhibits the accumulating debts.



A Paper on the Central Bank of Oman's Experience (CBO)
in Licensing Islamic Banks and its Windows

Islamic banking sector has succeeded in many Islamic countries to attract a great deal of savings since the inception of this type of transaction in Malaysia in 1940. This success has had a role in persuading some countries to embark in the field of Islamic banking and utilize its privileges. The rules issued by specialized international bodies relating to banking transactions in general and Islamic banking in particular have a profound impact on the regulations of Islamic banking in many countries including the Sultanate of Oman, though being recent in this field.

This paper will discuss the experience of the Sultanate of Oman in licensing Islamic Banks and its Windows as follows:

1. Islamic banking sector in the Sultanate of Oman in general .
2. The establishment of Islamic Banks in the Sultanate of Oman.
3. The regulatory and supervisory framework for Islamic banking business.
4. The High Sharia Supervisory Authority (HSSA) of CBO.
5. Financial indicators for Islamic Banks and its Windows.
6. Challenges facing the Islamic banking sector in the Sultanate of Oman.
7. Conclusion.



1. Overview of the Islamic Banking Sector in Oman:

This paper reviews the experience of the Sultanate of Oman in Islamic banking and the efforts carried out by CBO as a supervisory authority to support this sector. Islamic Banks and its Windows have begun functioning in early 2013 and there are currently two Islamic Banks, Nizwa Bank and Al Izz Islamic Bank. In addition, other six conventional banks have opened their independent Islamic Windows, all of which offer a range of banking products and services compatible with the provisions of Islamic Sharia.

Islamic finance aims at contributing in meeting the financial requirements needed by different national economic sectors through the attraction and wise utilization of funds in productive projects that serve the national economy, in accordance with the provisions of Islamic Sharia. The economic policies of the Sultanate of Oman aims to diversify the national economy, encourage large projects and initiatives to support small and medium enterprises, create job opportunities for citizens, encourage the spirit of productivity and attract local or foreign financial surpluses for investments. As a result, it is hoped that the Islamic Banks and Windows play an important role in contributing to the economic development of the Sultanate of Oman and achieve substantial economic benefits by concentrating activities and products to invest in real economies, providing the necessary



funding to promote investment opportunities in various projects, meeting the financial requirements for a larger group of citizens and taking advantage of its various services and products.

2. The Establishment of Islamic Banks in the Sultanate of Oman.

On December 6, 2012, a Royal Decree was issued to amend the former Banking Law of Oman which included 120 articles. The new amendment included six additional articles (121, 122 and 123) under a new section titled (Islamic Banking). These articles regulated the general provisions relating to the legal framework, supervision and advisory of Islamic banking, the jurisdiction of the Board of Governors of CBO to set regulations and guidelines for associated actions, and the authority of CBO to license Islamic Banks and independent Windows in existing commercial banks. Articles 124 and 125 dealt with some banking transaction details stating that these transactions should not violate the provisions of Islamic Sharia. These two articles also provided that the banks which are engaged in Islamic banking are exempted from fees imposed on dealing in real estate and movable assets because of the private nature of Islamic banking. As to article 126, it regulates the basis of the Sharia supervision on Islamic banking, that involves the identification of Islamic Sharia rules stipulated in Article 124.



3. Regulatory and Supervisory Framework for Islamic Banking Business.

In December 2012, CBO issued a regulatory and supervisory framework for Islamic banking in accordance with the authority conferred upon it under Article 122 of the Banking Law. CBO has prepared this regulatory and supervisory framework in collaboration with one of the competent expertise houses in this field and with assistance of a team involved experts and specialists of CBO. The aforementioned framework consists of ten chapters detailing the regulatory and supervisory issues related to Islamic Banks and Islamic Windows in existing commercial banks. These issues include licensing requirements, legitimate regulatory framework, accounting standards and audit reports, supervisory authorities, requirements relating to capital adequacy, credit risks, market risks, operational risks, liquidation management and associated risks, and other additional issues.

Some of the most important licensing requirements include a feasibility study about the Islamic Bank or the Window, the establishment of a committee for legitimate supervisory, applying a technical system compatible with Sharia which supports Islamic banking operations, a documented and approved internal policies and procedures (including legitimate liability, profit distribution, risk management, Charity Fund and others), the independence of branches of Islamic Windows, internal processes, technical



systems, as well as an independent capital for the Window which is set to be no less than OR 100 million for Islamic Banks and OR 10 million for Islamic Windows of commercial banks.

4. The High Sharia Supervisory Authority (HSSA) of CBO.

In December 2013, the CBO issued a Regulation for the establishment and organization of HSSA. This regulation identified the accountabilities of HSSA including providing opinion and advice for CBO with respect to the legitimate aspects of Islamic banking, decide on issues that form a jurisprudential controversy between Sharia supervisory committees in Banks and Windows which are licensed to practice banking business in accordance with the Islamic Sharia. Moreover, HSSA expresses opinions on the transactions conducted between CBO and the licensed banks, including such transactions as accounts opening, grants of financing, purchasing, selling and issuing Islamic financial instruments and others.

The aforementioned Regulation also includes conditions for HSSA membership and the standards of validity and compatibility



of its members, as well as some organizational aspects of its work. According to the Regulation, HSSA, is completely independent in issuing decisions that fall under its competence. These decisions are binding to the Sharia supervisory committees in the banks that practice Islamic banking. HSSA commenced its work at the beginning of 2015.

5. Some Financial Ratios for Islamic Banks and Windows.

(Figures in millions RO)

	December 2013	December 2014	December 2015	June 2016
Total of Assets	819	1,370	2,253	2,650
Total of Deposits	170	688	1,539	1,836
Total of Financing	436	1,048	1,781	2,103
Market Share of Banking Activity	3.64%	5.27%	7.45%	8.42%
Number of Branches	34	51	68	71



6. Challenges Facing the Islamic Banking Sector.

Taking into consideration that the experience of Islamic banking in the Sultanate of Oman is relatively new, the following challenges are the most prominent that face this sector:

- Deepen the awareness and perception of the public.
- The development of legitimate monetary instruments to manage monetary policy and liquidation of the banking sector.
- Raising the banking institutions' awareness of the relevant rules of Islamic Sharia.
- Recruiting and training human cadres with experience in the banking sector.
- Renewing Islamic banking services to attract a suitable number of dealers and be at the level of their ambitions.

7. Conclusion.

Raising the public awareness of the principles and advantages of Islamic banking and its terms and mode of operation is very important. Despite the increase in geographic expansion of Islamic Banks and Windows in the regions of the



Sultanate of Oman, it is still necessary that these Banks and Windows, as well as stakeholders such as the media, make additional efforts to raise awareness of Islamic Banking among all segments of the Omani society. Consequently, these banks will be able to increase its activities and services, and establish and support the banking and financial industry to eventually supply the national economy. Therefore, Islamic Banks and Windows should set up plans and programs to raise awareness of the community on an ongoing basis and thus promote the concept, characteristics and conditions of dealing with Islamic Banks and Windows so to identify its products and services which would be undoubtedly reflected in the prosperity of its activities.

Although the Islamic banking industry in the Sultanate of Oman is still in its early stages of establishment, it witnessed a remarkable growth in the volume of assets and the total financing and deposits. The CBO aims at increasing Islamic banking gains and achievements to stimulate the national economy, attracting savings to diversify and develop new financial instruments, enhancing the quality of banking services and developing programs to raise the public's awareness of Islamic finance. Furthermore, the CBO is looking forward to practice the correct and effective implementation of the provisions of Islamic Sharia in order to ensure the integrity and growth of the banking sector and provide added value to the national economy.