ISLAMIC BANKING:
THE PROS & CONS OF INTRODUCING IT IN MALTA

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Declaration of Authenticity

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I hereby declare that I am the legitimate author of this Long Essay/Dissertation/Thesis and that it is my original work.

No portion of this work has been submitted in support of an application for another degree or qualification of this or any other university or institution of learning.

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Date
09/05/11
Dedication

I would like to dedicate this dissertation to my father Paolo and to my late beloved mother Josephine Anne, who have supported me all the way since the beginnings of my studies.

I also wish to dedicate this dissertation to my brother Amerigo, my fiancé Paul McAlister, and my grandparents Miriam and Joseph Scicluna, who have been a great source of motivation and inspiration in my work.
Abstract

Islamic banking is the world's fastest growing sector in finance and refers to banking activities that are consistent with the principles of the Shariah law, differing from the conventional banking. There are a few number of Islamic banks based in Europe, so Malta with its strategic geographical position may be able to tap a vast market and link North Africa with the rest of Europe. The study carried out has shown whether it would be an advantage or not for Malta to act as a bridge between these countries, or whether it would be feasible to introduce it to cater the local market.

The research was carried out by collecting primary data through qualitative data research by e-mailing a questionnaire to executives that work and represent different sectors of the banking environment, and who are knowledgeable and involved in activities held locally regarding Islamic banking; and by collecting secondary data from various journals, books and websites. Areas that the Maltese authorities should give importance to before being totally confident that the country is more than capable of establishing Islamic banking, and the pros and cons if it would have to introduce such type of banking for both scenarios were also analysed and discussed. It was concluded that the ideal scenario would be for Malta to act as a hub between the two continents. A number of recommendations and concluding thoughts were also brought forward.
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I would like to express my sincere gratitude to my tutor Mr Robert Suban, who has provided me with priceless guidelines and encouragement in the preparation of this dissertation. This work would not have been possible without his professional guidance.

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Chapter 1: Introduction
Chapter 1: Introduction

1.1 Financial services in Malta

Malta is increasingly becoming an attractive location for setting up a business entity, particularly in the financial services industry. This is due to English being one of the official languages, an attractive tax and regulatory framework and lower operational costs. Hence as this growth continues, so does the range of products and services being offered in and from Malta, including commercial banking, private banking, wealth management, syndicated loans, hedge funds and trade finance. The continued expansion and growth of other international services offered from Malta have contributed greatly to the further expansion of the banking sector.

1.2 Introduction to Islamic banking

Islamic banking has the same purpose as conventional banking (the one we are used to, can be interchanged to traditional or western type of banking) except that it operates in accordance with the Islamic rules of transactions which is referred to as *Fiqh al-Muamalat*.

This type of banking can trace its roots back through Egypt from the early 1960’s, although at first Islamic banking was not made public due to the fear of ruining the Islamic image and going against the religion. A few years after banks were opened for this specific purpose following the growth of its practice.
In 1975, the Dubai Islamic Bank was the first modern Islamic commercial bank to be opened and since then the industry has been growing continuously. The concentration of Islamic banking clients are found in the Arab states of the Persian Gulf and in Muslim countries such as Egypt, Algeria, Morocco, Malaysia and Bahrain where the Centre for Islamic Finance studies is situated. However Islamic Banking is also found in different non-Muslim European countries such as the United Kingdom and Luxembourg. Figure 1.1 shows the percentage of world Muslim population, as at 27th January 2011.

![World Muslim Population by country](image)

**Figure 1.1: World Muslim Population by country**


The main outstanding features of Islamic banking which are very prominent for its understanding is that these types of banks, base their way of banking abiding by the Islamic law, called Shariah which literally means ‘the way to the source of life’, which insists that Muslims have to adapt their way of life according to the teachings of the Holy Quran, which is the Holy Book of the Muslims.
1.3 The Islamic religious features

As observed by Lewis and Algaoud (2001) there are five religious features which are well established in Islamic literature to be used to conform to Islamic norms. These are the following, which must cohere in investment behaviour:

i. Riba is prohibited in all transactions. According to Schacht (1964), *riba* can be defined as “a monetary advantage without a counter value which has been stipulated in favour of one of the two contracting parties in an exchange of two monetary values”. (Hassan and Lewis, 2007, pp. 42). Money is not considered as a commodity in this system. *Riba* is seen as an unjustified way of enrichment. The prohibition of *riba* is mentioned in four different verses of the Holy Quran, one of which says that: "God has permitted trade, but forbidden *riba*”. (The Holy Quran, chapter 2, verse: 275). Therefore this suggests that it is only forbidden the fixed or predetermined return on savings or certain transactions and not an uncertain rate of return such as profit making.

ii. Business and investment are undertaken on the basis of *halal* or *haram* (legal or permitted) activities. There are prohibited business sectors such as those related to pork meat products (as Muslims cannot eat pork as encouraged by their religion) or alcohol as well as businesses that produce a certain type of media mainly gossip and pornography, which are all factors that go against the Islamic values. According to Shariah law, Islamic banks should give more importance to the production of vital goods which would end up in satisfying the needs of the majority of the Muslims.

In turn, from a religious point of view it is not acceptable to be involved in the production and advertising of luxury activities, which is referred to as *israf wa traf*. 
iii. *Maysir* which refers to gambling activities is prohibited by the Shariah since it would result in the enrichment of the individual without any effort but by a result of luck. Business activities related to gambling and all forms of gambling are in fact forbidden in Islamic jurisprudence. A reference to the prohibition of hazard gambling is found in the Quran which says: “O you who have believed, indeed, intoxicants, gambling, stone alters (to other than Allah), and divining arrows are but defilement from the work of Satan, so avoid it that you may be successful”. (The Holy Quran, chapter 5, verse: 90).

When making transactions, *gharar* (speculation or unreasonable uncertainty) is not allowed. This concept basically prohibits the business activities that base their transactions on uncertainty, or without any sufficient knowledge which could put the parties involved at risk. Hence, speculative deals or transactions that adopt these characteristics are forbidden by Shariah law. A typical example would be for instance selling a fish not yet caught, which resembles short-selling. An unacceptable speculative transaction on the other hand would imply buying shares at a low price and then selling them at a higher price in the future.

iv. *Zakat* is the most important instrument for redistributing wealth in an Islamic environment and it refers to making voluntary contributions to aid the less fortunate. As a result, this would allow that all social classes in a Muslim society would be given the minimum required needs for survival of an individual such as food, shelter, clothing, medical care as well as education, to be able to live a normal and spiritual life. The *zakat* is usually collected by the state and it is managed by the Shariah Board which oversees its collection and redistributing. It may be the case that in some countries, all Islamic banks or financial institutions would have to create an exclusive fund to collect *zakat* and redistribute them for the benefit of the
society, or directly to the individuals in need or else they redistribute these funds through religions institutions. This condition brought forward by the Islam is applied to the initial bank capital, on its reserves and on its profits.

v. All banking activities should be in line with the Islamic principles, and no immoral issues should take place, with a special Shariah board to supervise and advise the bank on the propriety of transactions. Islamic banks are expected to establish a Religious Supervisory Board to ensure that their banking operations do not go against the Islamic ethics.

1.4 Islamic banking into law

In order for the Shariah laws to be constantly monitored and implemented, making sure that all activities in the banking sector were reflecting the Islamic principles, and to achieve a certain international consistency, the need of this gave birth to the creation of two standard-setters multilateral institutions.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in 1990 in Algiers and now it is based in Bahrain is: “an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the industry.” (AAOIFI website, n.d.). This institution was set up after it was felt the necessity to establish a body of accounting standards made exclusively to reflect the specifics of Islamic products that became extreme in a way as new and more complex banking instruments were being marketed.
The Islamic Financial Services Board (IFSB), which is based in Malaysia and established in 2003, issues standards for the effective supervision and regulation of Islamic financial institutions. It is “an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors”. (Supervisory Review Process Guidance, 2007, pp. 2). Apart from this, the IFSB co-ordinates issues related to this industry, by also organising seminars and conferences for its stakeholders and the regulators.

Islamic banking has been expanding not only in Muslims countries, but also in Europe and other continents. “The pursuit of international consistency not only eases the task of supervising internationally active institutions, but it would also ultimately favour the regulated institutions, as Islamic transactions would become better understood, and thus more attractive for Muslim and non-Muslim investors across the world. In addition, it would foster the integration of Islamic institutions into the international financial community”. (Solé, J., 2007).

Hence one of the main reasons behind why there have been recently created these two multilateral institutions is mainly to provide assistance to governments and supervisory agencies to be able to understand Islamic banking and to issue standards and best-practice guidelines for this industry. These organisations are the best places for governments to turn to initially for advice. Apart from the institutions previously mentioned, there are other multilateral institutions such as the Internationally Monetary Fund (IMF) and the Islamic Development Bank.

Another important aspect in Islamic banking is that derivative instruments and sub-prime mortgages are also forbidden by Shariah law. This brings along the Islamic concept of


**murabaha.** This is a method used by Islamic banks which involves the purchase of a property or any other goods such as furniture or any other type of equipment, by the bank on behalf of the borrower. The bank would then set a pre-determined charge to be paid by the borrower, which would consist of the original amount borrowed and also the profit margin the bank would earn from the transaction. The charge can be paid back by the borrower within an established time period or else by pre-agreed payment instalments.

As per definition in the Islamic Financial Accounting Standards, FAS no.1, *murabaha* refers to: “Sale of goods with an agreed upon profit mark up on the cost. Murabaha sale is of two types. In the first type, the Islamic bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second type, the Islamic bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Islamic bank purchases the goods only after a customer has made a promise to purchase them from the bank”. (AAOIFI website, n.d.).

### 1.5 Growth of Islamic banking

According to industry estimates, Islamic banking and finance is one of the world’s fastest growing economic sectors which during the past decades it has experienced a unique phenomenon of growth, with over 400 institutions with assets under management in excess of US$ 1 trillion, in about 70 countries. (Dubai Islamic Bank website, n.d.). Since the year 2000 this sector has been growing at a rate of over 30% and as can be seen in the following figure 1.2, this is set to continue.
Figure 1.2 shows in fact that between the year 2003 and 2007 that the global total assets and revenues of Islamic retail banking increased throughout that period and that by 2012 these are estimated to grow rapidly by increasing more than double the amount, with Islamic assets reaching almost $1,600 BN and revenues reaching $120 BN.

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Figure 1.2: Growth of assets and revenue in Islamic retail banking industry

Source: Bankscope and Oliver Wyman analysis (2009, pp. 23)
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“The importance of this type of banking has spread its roots almost across all continents”. (Hassan and Lewis, 2007, pp. 1). There are more than 200 Islamic banks operating in over 70 countries comprising most of the Muslim world and as well as European countries. However, only a few of these are based in Europe so Malta would end up being the ideal strategic position for Islamic banking makers to introduce it here, since it would be the hub between North African communities and European countries. This in turn would result in favour to Malta, since it could offer Maltese citizens an alternative type of banking service apart from the conventional banking or it could cater this type of banking to Muslims in Malta. In the following chapters it will also be discussed whether this would be a feasible market or not in Malta.
As reported by the International Freedom Report 2010 issued on the 17th November of the same year in Malta there are estimated to be 6,000 Muslims, of which 5,250 are approximately foreigners, 600 are naturalised citizens and the rest being 150 are native-born citizens. Although it may seem that the segmented market may not be feasible due to the small number of Muslims living in Malta, which would not mean that all of them would bank by force with an Islamic bank, Malta on the other hand could take the opportunity to welcome investment from abroad, by for instance allowing Islamic banks setting their headquarters in Malta. Various reasons will be tackled throughout the dissertation.

European countries such as the United Kingdom have already introduced Islamic banking activities across their country. As reported on The Malta Independent, “the UK Financial Services Authority estimates that globally, the size of Shariah compliant assets amounts to around $500 billion. In June 2006, UK Prime Minister Gordon Brown (then Chancellor of the Exchequer) called for Britain to become the ‘international centre of Islamic finance’”. (The Malta Independent Online, 2007).

This type of banking could potentially be adopted in Malta, as the country is clearly impacted by this phenomenon. The Malta Institute of Management (MIM) has hosted a series of Islamic Finance conferences since 2007, with the most recent being held in October 2010 entitled “Malta Islamic Finance Conference: A New Beginning 2010”. The conferences are held each year and have attracted participants from several EU member states as well as representatives from the Arab speaking world. One of the aims of these conferences is to highlight the opportunities from which Malta already benefits which could in turn lead to Malta becoming one of the major Islamic Finance Centres in the Mediterranean.
As the President of Malta said in October 2010 during the ‘Mediterranean Awards for Global Achievement in Islamic Finance: “The organisation of this special international event in our country is a very happy occasion. It befits Malta’s historical role as a place where cultures meet and reflects Malta’s strong desire to become a Mediterranean hub for Islamic Banking”. (Buttigieg, R., 2010, pp. 43).

1.6 Main objective

The main objective of this dissertation is to familiarise the reader with the principles of Islamic banking and how it can be compared to the traditional banking, which we are all used to in Malta. There are various differences between these two types of banking, which will be discussed, and can show how a culture, particularly the religion sub-culture may influence the type of banking activities a country operates with. During the last four years there has been a discussion as whether to introduce this type of banking in Malta, mainly not to cater the local market, but as a base for non-residents for its role “…as a gateway to Europe and North Africa for this method of financing.” (Buttigieg, R., 2010, pp. 3).

After the research will be carried by using qualitative techniques and the results will be obtained it will be concluded as to whether it would be an advantage or not for Malta to introduce Islamic banking, as a hub for North Africa and the rest of Europe, by setting branches locally, or whether if feasible to introduce such services to the local residents, if it would result as an advantage or not for the country as a whole.
1.7 Conclusion

The next chapter will discuss into further detail the principles of Islamic banking, the principles of conventional banking and it will help the reader to familiarise with the fundamental differences between these two types of banking systems. The chapters following it will determine the data analysis and will show whether the executives in the financial services industry involved with this type of banking are in favour or not for it to be introduced in Malta, whether any regulatory aspects should be considered before if introducing Islamic banking on the Maltese Islands, what would be the benefits, if any, for Malta if Islamic banking had to be introduced locally and so on. The main advantages or disadvantages for such type of banking will also be discussed for both scenarios, whether it would be introduced for the local market or for Malta to act as a bridge. The last chapter will conclude this study with discussions and recommendations.
Chapter 2: Literature Review
Chapter 2: Literature review

2.1 Introduction

Islamic and conventional banks base their operations on several and unlike principles and concepts, which leads to why these banks offer different products and services. These will be discussed into detail in this chapter. The last section of this chapter will help understand and point out the main differences between the two types of banking.

2.2 Principles of Islamic banking

2.2.1 Practices

Islamic banking operates on the basis of the Quran. Such institutions can be referred to as a deposit-taking whose activities include the usual banking activities but since the concept of receiving and paying interest is prohibited in an Islamic banking world, such firms operate through the concept of PLS, that is substituting profit-and-loss-sharing for interest as a method of resource allocation. Islamic banks can only guarantee deposits for deposit account, which is based on the principle of al-wadiah, thus depositors are guaranteed repayment of their funds.

One may find that the assets side of an Islamic bank’s balance sheet advances funds on a profit-and-loss sharing or a debt-creating basis, in accordance with Shariah principles.
It plays the role of an investment manager for the owners of time deposits which are referred to as investment deposits. On the liabilities side, funds are mobilised according to the *mudarabah* contract. It can also accept demand deposits which are treated as interest-free loans from the clients to the bank, and which are guaranteed.

Furthermore, asset trading and equity holding constitute an integral part of Islamic banking operations. An Islamic bank shares its net earnings with its depositors by using a formula especially used for sharing the net earnings, which will be informed to the depositors prior the sharing, taking into consideration the date to maturity and the amount of each deposit.

Until its existence, the Islamic banking main focus was for the retail market. Lately there have been recent developments such as the materialisation of wholesale banking and the associated product innovation. Figure 2.1 shows the developments in the Islamic finance industry prior to 1970 till the present day.

![Figure 2.1: Developments in the Islamic finance industry](image)

*Source: Oliver Wyman (2009)*
2.2.2 *Products and contracts offered by Islamic banks*

Islamic banking offers a variety of products to its clients and as it will be seen, such products and services differ from the ones offered by the conventional type of banking. These are mainly the following:

i. *Bai bi-thamin ajil* simply refers to a credit sale of a good on a deferred payment basis. The bank may acquire an existing contract to be able to buy a specific good on a deferred payment system and in turn resells the good back to the client at an agreed price. The original supplier would be paid by the bank, upon consignment whereas the bank’s client will be able to repay its bank through instalments payments over a stipulated period.

ii. *Ijara* was originally practiced in Muslim countries as a form of trading and nowadays it became a way of financing. This is similar to a conventional lease, since it deals with selling the right to use a specific good for a certain period of time. In this process the bank buys an asset which its clients requires and then leases it to them with a rental fee. The bank will remain the sole owner of the underlying asset for a predetermined period of time and under this contract, the client will not be given the option to acquire the asset during or at the end of the lease term.

iii. *Istisnaa* mainly resembles a commission manufacture and is similar to the *bai bi-thamin ajil* contract. In this scenario, one of the parties involved purchases a good and the other party manufactures them by following specific rules. Such instrument is used by Islamic banks to finance construction and manufacturing projects.
iv.  *Mudaraba* is a trustee financing contract, where the financier entrusts funds to the entrepreneur for undertaking an activity. In this way of financing a project, it is not necessarily required that a company has to be created since the capital is provided entirely by the financial institution while its customer is responsible for the management of the underlying project. This contract may take place in a situation which involves an Islamic bank as a provider of funds, on behalf of itself or on behalf of its depositors as a trustee of their funds, and its business owner clients.

v.  *Murabaha* is a cost-plus financing contract, in which the bank agrees to buy an asset from a third entity and in turn it sells it back to its client with a mark-up, as a fee for the service the bank provided, for the time it has spent to search for the best asset at the right price and so on. The client will purchase the assets against either an immediate or an overdue payment. It is important to note that the bank owns the goods between one sale and the other meaning that it carries the associated risks.

vi.  *Musharaka* which means partnership is considered one of the best ways of financing in the Islamic world since it relates closely itself to the principle of PLS. In this case, the two parties both contribute to the project by investing capital and share the profits and losses in different proportions. Profits are shared by following a pre-agreed ratio since all partners have the right but not the obligation to participate in the management of the project while losses are suffered with respect to the capital proportion invested by each side. In this way, both parties are encouraged to invest wisely and constantly involve themselves in the investment.
vii. *Salam* refers to an advance purchase of a specific good given it will be traded through a forward payment. This type of contract is used on a regular basis for financing agricultural production.

viii. *Sukuk* is the meaning for a financial certificate, specifically a fixed-income security, and hence this term can be associated to an Islamic bond. This product has been recently issued and it does not offer an interest rate to its *sukuk* holders. It is a way which resembles conventional banking since it gives the possibility of raising capital in a Shariah based environment.

ix. *Takaful* is an Islamic product which deals with insurance, where a pooling system is present and members contribute funds in it, which is a way to safeguard each other against potential losses. In this scenario profits are not the main aim to achieve since the important concepts are insurance and solidarity by protecting one another. One main advantage of this type of Islamic product is that the money which was pooled in is not lost but to the contrary, it can be carried forward.

### 2.2.3 Types of bank accounts

All Islamic banks offer three different types of deposit accounts namely:

i. Current account: such types of accounts are used for liquidity measures and therefore since no form of reward is issued, there would be no profits to be shared. In this case the deposit is guaranteed.
ii. Savings account: a return for holding this type of account is given to the clients, which is referred to as *hiba*, meaning gift. The capital invested is not guaranteed and the money can be withdrawn by the clients whenever they like, so the bank will have to keep a high level of reserves and liquidity, to be able to meet demands of withdrawal.

iii. Investment account: this type of account attracts depositors since it rewards them with a substantial higher amount in profits through the Shariah investment world, and the bank and the client pre-agree on which proportion the profit or losses would be shared. The money can only be deposited for a certain minimum period of time while the capital is not guaranteed.

### 2.3 Principles of conventional banking

Conventional banking is the type of banking developed financial markets are all used to which is essentially based up on financing profitable projects with interest lending. On one side there is the creditor-debtor relation between the depositors and their bank on one hand and on the other side one finds the relationship between the borrowers and their bank. Interest is considered to be the price of credit which reflects the opportunity cost of money, while the investor is assured of receiving a pre-determined interest rate.

Conventional banks usually require a person with a business idea also to have some collateral or capital before finance will be granted. Regardless of whether the project is profitable or not, interest will always be levied. The aim of a conventional bank is to fund the most efficient and profitable projects, which would hopefully be successful and the
client will be able to repay the loan, so such banks give greater emphasis on the creditworthiness of the clients, due to its concerns about potential loan defaults. Hence this banking system’s fundamental function is lending money and getting it back with compounding interest. A conventional bank also has to guarantee all of its deposits.

This type of banking with its operating activities based on fully manmade principles is widely spread in Malta and it is being offered by major banks such as Bank of Valletta and HSBC which offer deposit and investment services, loans, insurance and it is based on collateral. Furthermore when a customer applies for a loan, conventional banks look at what has already been acquired by a person, and interests have to be paid. When a borrower takes a longer time to honour his or her debts these are referred to as defaulters. In such cases, banks try to recover their money by taking over the collateral from the defaulter. Interest charged on a loan can be multiple of the principal, depending on the length of the loan period.

As stated on Finance Malta (2010, pp. 69): “Malta has a deep-rooted conservative (which refers to conventional) approach to banking; bank funding in Malta depends on retail deposits not wholesale borrowing and has over the years stick to the conventional banking approach based on old fashioned intermediation between retail depositors and borrowers”.

Malta follows the Banking Act 1994 that came in force through the Legal Notice 155 of 1994. This act replaced the Banking Act 1970, reason being to improve the banking legislation for Malta by bringing Maltese banking in line with international practice, such as the Basle I Accord. Another reason why this act was established was to be able to be accepted internationally with the intention of making Malta an attractive country to foreign investment.
2.4 Fundamental differences between Islamic and conventional banking

2.4.1 Basic concepts

A bank is “a financial intermediary whose core activity is to provide loans to borrowers and collect deposits from savers”. (Casu, Girardone, Molyneux, 2006, pp. 4). Nowadays the banking industry offers a wide range of products and services to its clients, but it is through this wide range that banks distinguish their type of operations from one another. There are various characteristics that distinguish conventional banking and Islamic banking which will be discussed in the following section.

Islamic banks have nowadays managed to position themselves as an alternative or additional financial institution, especially in Muslim countries, which offers banking facilities which are similar to conventional banks but runs on different ethic perspective. The key difference is that Islamic banking is based on Shariah principles.

Hence all types of transactions, product features, investment and business approaches are derived from the teachings of the Quran, which leads to the significant differences in the majority of the banking activities as compared to that of a conventional bank since the latter does not follow any religious ethics nor does it get influenced by culture. Moreover, as mentioned in the previous chapter, in contrast to what occurs in conventional banking, Islamic banks have ethical principles which prohibit such banks to unethical investment.
2.4.2 Supervisory bodies

Islamic banks are supervised by the Shariah Supervisory Board, whereas for conventional banks there is no such monitoring, although conventional banks in Malta fall under the regulatory power of the Malta Financial Services Authority. As per definition, “The MFSA is the single regulator for financial services activities in Malta. It regulates and supervises credit and financial institutions, investment, trust and insurance business and also houses the country's Companies Registry” (MFSA website, 2011). Major involvement of the MFSA with respect to Islamic banking will be dealt in the following chapters.

2.4.3 Financial system

As stated in the Quran, interest and usury is prohibited in any financial transaction activity and therefore investors must be compensated by the usage of other means. In fact in the Quran it is stated that: “those who disregard the prohibition of interest are at war with God and His Prophet”. (Tariq Talib Al-An jari, 2011). For the conventional banking the opposite holds, since the basis of all financial transactions is interest and high level usury. This interest gives an incentive to customers to deposit more to their banks instead of spending their money, in order to achieve capital growth.

Inter-bank transactions in an Islamic banking world are on a profit and loss sharing, meaning that the profits and losses on an investment are shared according to the participation level between the borrower and the creditor. On the other hand, in the conventional type of banking interest rate is either pre-determined or is a simple linear function of another benchmark rate.
The Islamic banking system follows any fixed criteria by the Shariah law in the case of production and investment, and it implements the latter’s plans on mudaraba and musharaka in order to reduce the wealth and income inequality between poor and rich individuals living in the same community, a fact that does not take place in the conventional banking system. Moreover as part of their social responsibility, Islamic banks have to pay what is called zakat, hence they have to give money for donation purposes which is often listed on their financial statements. No such system is found in a conventional world.

The conventional banking system falls under the capitalistic interest-based financial system, hence it establishes certain type of rules that the interest payments have to be met and set in the stipulated period of time and as long as this is achieved, the banks’ own profitability is not directly affected by whether the project has a particular high or low rate of return. On the other hand, Islamic banks focus their returns on the physical investment, since its own profitability is directly linked to the real rate of return.

2.4.4 Relationships

In an Islamic banking world, depositors bear all the risk and the need for deposit insurance is not felt, whereas in the conventional one, depositors do not bear any risk since the banks are responsible to pay back the principal with a guaranteed interest amount. Islamic banks buy and sell foreign currency only on a spot term while in a conventional banking system spot, forward and future trades are also practised.
The relationship between the depositors and entrepreneurs is friendly and cooperative one, and investment projects which have a social scope are always considered first and foremost to improve the Muslim’s communities, apart from profit-making maximisation subjected to Shariah restrictions. In the other type of banking a strict credit-debtor relationship is present and projects which result to be below the break-even point are not considered, since profit is the main target to achieve of a conventional bank.

According to Ahmad and Hassan (2005, pp. 98) moral hazard tends to occur quite rarely in an Islamic banking system due to the very familiar relationship between the bank and its customers while on the other hand from a conventional perspective, there is a higher rate of moral hazard because the relationship is solely based and limited for monetary transactions purposes.

The table in the following page groups the main differences between conventional and Islamic banking as described above.
Table 2.1: Fundamental differences between Islamic and conventional banking

<table>
<thead>
<tr>
<th>Islamic Banking</th>
<th>Conventional Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on Shariah principles</td>
<td>Does not follow any religious ethics nor does it get influenced by culture</td>
</tr>
<tr>
<td>Supervised by the Shariah Supervisory Board</td>
<td>No such monitoring. In Malta these fall under the regulatory power of MFSA</td>
</tr>
<tr>
<td>Interest and usury is prohibited in any financial transaction activity</td>
<td>Basis of all financial transactions is interest and high level usury</td>
</tr>
<tr>
<td>Inter-bank transactions are on a PLS</td>
<td>Interest rate is either pre-determined or is a simple linear function of another benchmark rate</td>
</tr>
<tr>
<td>System follows any fixed criteria by the Shariah law in the case of production and investment</td>
<td>Does not take place</td>
</tr>
<tr>
<td>Such banks have to pay zakat</td>
<td>No such system is found in a conventional world</td>
</tr>
<tr>
<td>Focus their returns on the physical investment</td>
<td>Falls under the capitalistic interest-based financial system</td>
</tr>
<tr>
<td>Depositors bear all the risk and the need for deposit insurance is not felt</td>
<td>Depositors do not bear any risk since banks are responsible to pay back the principal with a guaranteed interest amount</td>
</tr>
<tr>
<td>Relationship between depositors and entrepreneurs is friendly and cooperative one</td>
<td>A strict credit-debtor relationship is present</td>
</tr>
<tr>
<td>Investment projects which have a social scope are always considered first and foremost to improve the Muslim’s communities</td>
<td>Projects which result to be below the break-even point are not considered</td>
</tr>
</tbody>
</table>
2.5 Conclusion

All these differences may lead to different conclusions as to whether Islamic banking, if introduced in Malta to target the local market or just to start operating locally, would result as an advantage or a disadvantage locally. The next chapter will include the methodology and the results for such question.
Chapter 3: Methodology
Chapter 3: Methodology

3.1 Introduction

The objective of this chapter is to identify according to professionals working in the finance industry as to whether it would be an advantage or not for Malta to introduce Islamic banking, from two perspectives, to the local market or to establish only branch operations. Other issues such as what would be the benefits and what regulatory aspects should be considered before this type of banking would be introduced, will be found.

3.2 Research Strategy

The data collection of this dissertation follows qualitative research method. Such research would involve the collection of data being analysed, and this in turn would create new theories and ideas. It mainly includes one or more of the following tools: case studies, interviews or focus groups.

The main source of data was obtained by collecting secondary data by consulting journals, books, websites and reports. The objective of this study was also carried out through the use of primary data analysis, by the use of a qualitative based questionnaire. Further data was found by collecting primary data through qualitative data research by carrying out an online questionnaire.
### 3.3 Research Method

The collection of primary data was carried out by sending via e-mail the link of the customised online questionnaire through Surveymonkey.com. The questionnaire was also optimised and also included designs such as the University of Malta logo, to make it more attractive to the respondent and look professional. This questionnaire was sent to the few professional executives involved in such environment locally. (See Appendix (2) for a copy of the questionnaire). The interviewees were chosen as a result of their attendance at the “Malta Islamic Finance Conference: A New Beginning 2010”. This method of selection did not constitute any form of bias as the interviewees are involved in different institutions such as the MFSA, the Malta Stock Exchange (MSE), FinanceMalta and the MIM.

This method resulted to be efficient, convenient and an inexpensive way to gather the desired information, rather than conducting face-to-face or telephone interviews since it gave time to the individual to carefully think and answer the questions, at their convenience and not feel pressured. It also reduced interviewer bias since there was no verbal or visual clue possibility that could influence the respondent to answer in a certain way.

The majority of the questions were open-ended to allow the respondent to be more flexible and have freedom to express their views in response to the asked questions. Such type of questionnaire is very useful to gather facts about an individual’s beliefs, certain experience in a particular environment and so on.

The main areas of inquiry which were asked in the questionnaire dealt with the current situation in Malta with regards to Islamic banking, the regulatory aspects involved in such scenario and the respondents’ personal and professional opinion of such issue.
Other issues such as what would be the benefits and what regulatory aspects should be considered before this type of banking would be introduced, will be found.

### 3.4 Limitations

Due to the small number of local professionals which are involved in one way or another to Islamic banking, the number of interviewees was quite limited, but in spite of such matter, since this sample size of respondents was carefully chosen, the answers resulted to be fruitful.

### 3.5 Conclusion

It is extremely important to choose the most suitable research method technique as this will determine the analysis and the results for such study. The following chapter will mainly analyse the answers obtained from the questionnaires and the results to the study will be revealed.
Chapter 4: Analysis and results
Chapter 4: Analysis and results

4.1 Introduction

This chapter will carefully analyse the results obtained from the questionnaires and it will mainly discuss the different areas that the Maltese authorities should give importance to before being confident as to whether the country is capable of establishing this type of banking for the local residents or for Malta to act as a hub, and the advantages and the disadvantage for both scenarios.

4.2. Respondents

The following table summarises the percentage number to how many professional individuals the questionnaire was sent to, how many of them replied to it and how many did not. Unfortunately only a small sample of respondents was possible to achieve due to the lack of knowledgeable people about Islamic banking in Malta, so the results had to be based on this fact. The questionnaire was sent to eight individuals, representing different sectors of the banking environment, and who are knowledgeable and involved in activities regarding to Islamic banking held locally. The majority were very helpful and were able to compile it, however no feedback was received from one of the advocates the questionnaire was sent to, Dr James Muscat Azzopardi, and Mr William Portelli – President of the Malta Union of Bank Employees, who were both involved in the last conference that took place locally on the subject. The other respondent, Dr Mariosa Vella Cardona - Assistant
Secretary General of the Malta Bankers’ Association was not confident enough to reply to the questionnaire as she had limited knowledge about such type of banking.

![Number of questionnaires sent](image)

**Figure 4.1: Number of questionnaires sent**

It is important to note that four respondents have been working in the banking sector or the management sector for over twenty years, which signifies that they would have a strong knowledge on conventional banking, so they would have personally experienced its pros and cons. The other respondent, being a lawyer has studied the banking sector and gives legal advice to banking institutions. Although they would not have personally experienced or used the services of Islamic banks, they are very knowledgeable about its arguments in favour or against it. All respondents resulted to be non-Islamic, which means that the result that they would agree for it to be introduced is not biased by their religious points of view.
The following table briefly summarises the respondents’ profiles, including their current and/or past professions and years of experience.

**Table 4.1: Respondents' Profiles**

<table>
<thead>
<tr>
<th>Respondents’ Name</th>
<th>Current and Past Profession</th>
<th>Years of experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Reuben Buttigieg</td>
<td>Currently Chairman of the MIM</td>
<td>Was not mentioned</td>
</tr>
<tr>
<td>Dr Michael Xuereb</td>
<td>Currently Director of the Regulatory Development Unit of the MFSA</td>
<td>Was not mentioned</td>
</tr>
<tr>
<td>Ms Eileen V Muscat</td>
<td>Currently CEO of the MSE</td>
<td>12 years at Central Bank and 20 years at the MSE</td>
</tr>
<tr>
<td>Mr Kenneth Farrugia</td>
<td>Currently Chairman of the Board of Governors of FinanceMalta and General Manager at Valletta Fund Services Ltd.</td>
<td>25 years in the banking sector</td>
</tr>
<tr>
<td>Dr David Zahra</td>
<td>Lawyer</td>
<td>Graduated in 2006 and studied the banking sector.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gives legal advice to banking institutions</td>
</tr>
</tbody>
</table>
4.3 Islamic vs. Conventional banking preferences

One of the questions the respondents had to answer was to give their professional opinion on which out of the two types of banking is the best, for instance in terms of generating more profits, generating less risks and so on. According to the respondents, conventional and Islamic banks adopt different approaches in conducting their business and use different systems that take into account different considerations. Through the applicability of the Shariah Law, Islamic banks are very careful when lending money so the element of risk is considerably less than in a conventional situation. This however does not necessarily mean that larger profits are achieved. A result, to which type of banking is best between the two, resulted to be inconclusive due to the different structures these banks are involved with.

4.4 Current situation

In recent years, there has been controversy as to whether Islamic banking should be introduced in Malta. As previously mentioned in the dissertation, Islamic banking bases its principles and operations on Shariah law. It is important to note that such concept has already touched the Maltese Islands, since Malta has already sought to establish a legal and regulatory framework that makes it possible for Shariah funds to be established locally as such under the Investment Services Act.

In 2009, the MFSA set up an Expert Group to identify the necessary regulatory changes at three different levels: the legislative revisions, the revisions to regulations and to draft new or to revise Shariah institutions’ rules where necessary, and also to cater for implementation of the revisions projected.
“The ultimate goal of this Expert Group is to ensure that Malta has a regulatory and legislative system that appreciates and recognises the specific needs of Shariah Institutions such that Malta becomes a domicile of choice for the setting up of Shariah compliant funds in Malta.” (Malta Funds Industry Association newsletter, no.1. – Quarter 2, 2009, pp. 1).

A year after, the MFSA published a Guidance Note for Shariah compliant funds, and in order for the latter to be licensed so, it needs to be conformed with the regulatory and legal framework which would be associated to a normal fund, as well as with the MFSA Guidance Note for Shariah compliant funds.

The main two purposes of this guidance note are:

i. “To provide guidance to fund promoters considering setting up a Shariah fund under the Investment Services Act (1994).

ii. To set out the issues which the MFSA expects Shariah funds established in Malta to address as part of their licence conditions. The Shariah fund’s licence will include a reference to the fact that apart from the Standard Licence Conditions set out in the MFSA’s Investment Services Rules for Retail Collective Investment Schemes or for Professional Investor Funds – as applicable – the fund is expected to comply with this Guidance Note and will need to seek MFSA’s prior approval for any deviations there from.” (MFSA Guidance Note for Shariah Compliant Funds, 2010, pp. 2).

Since the concept of Shariah law is not new for Malta, and for the local regulator, it is important to consider also the introduction of Islamic banking. The responses from the questionnaires, with respect to the current situation as to whether introduce such type of banking in Malta from both scenarios, show that there is a strong political commitment at
the moment, and various conferences took place on the subject, and it appears that the MFSA, and the Government policy has stalled in this respect.

Following the issue of the Guidance Notes on Shariah Compliant Fund, a review of the legislative changes has currently being undertaken to identify the changes that need to be undertaken and the implications thereof. The difficulty so far remains the applicability of the Shariah Law to Islamic banking, in particular non-payment of interests or dividends on investments.

### 4.5 Prior issues to be considered and amendments

As cited by Hassan and Lewis, “Some regulations need to be amended before an Islamic bank can operate within a particular economy…” (Hassan and Lewis, 2007, pp. 108).

The ability of integrating the regulatory framework applicable to Islamic banking with that prevalent in Malta needs to be carefully considered and the wider implications reviewed in a granular manner. It is important to consider the fact that any changes to the legislative and regulatory framework should and will not drastically amend the legal concepts of banking and financial services that highlight the local framework and financial practices developed throughout the years, yet they should attempt to have room for concepts and techniques which are exclusively used in an Islamic financial world.

According to the respondents, there are a number of regulatory aspects that should be considered before Islamic banking had to be officially introduced in Malta for both scenarios, such as certain changes that would have to be undertaken to the Banking Act to
accommodate Islamic credit institutions, although review in this respect has not as yet been made public. One possible amendment of the Banking Act would be to allow credit institutions to hold property on their balance sheets on the basis of which credit may be extended to customers.

### 4.6 Introducing Islamic Banking for the local market

#### 4.6.1 Advantages

If Islamic banking had to be introduced locally to provide a service to the local market, investors and local customers would have an alternative to conventional banking. Obviously there is no guarantee that these would opt to bank with such type of institution, not even if these follow a Muslim religion.

At the moment, the number of Muslims in Malta is still relatively small compared to the rest of the population, but statistics show that the number is constantly rising, since in 2003 the number of Muslims was estimated to be around 3,000 while in 2010 the estimated number doubled to 6,000 (Source: U.S. Department of State Website - International Religious Freedom Reports 2003 and 2010).

“The Muslim religion is also the fastest growing religion in the world so opportunities will increase and not decrease. Countries such as Italy also face cultural problems to introduce Islamic Finance so we can start using Maltese financial institutions to tap into this sector”. (Buttigieg, R., 2009). Hence considering introducing such type of banking to cater the local market, although it is not currently feasible, in the coming future things could change, so
Malta should take an advantage think ahead. If such banking would locally succeed in the coming future would in turn increase the local economic activity, increase the local employment, circulation of money, and facilitate operations for local companies with business interests in the Islamic region, and so on.

4.6.2 Disadvantages

On the other hand, at present, the current number of Muslims in Malta does not allow a large market share for this type of banking, and there is no guarantee that although the Muslim population is locally on the rise these would opt to bank with such credit institution so if it had to be established it would result to fail and would cause unemployment. Furthermore, it does not pertain to the Maltese culture so it is very difficult for Roman Catholic individuals to follow such system, especially since Roman-Catholic Maltese citizens are all used to receive an interest on their fixed or savings deposits by traditional banks.

4.7 Introducing Islamic banking in Malta to act as a hub

4.7.1 Malta as a perfect bridge for Islamic banking

“I really believe Malta can be a fantastic bridge for Islamic Finance, a bridge between cultures, a bridge between countries, a bridge between financial disciplines.” (Agha, O., 2010).
The findings show that Malta is providing to be a highly attractive jurisdiction for international financial services as this is evidenced by the growth traction in the insurance and investment funds sector. The presence of a sound legal and regulatory framework, a single regulator for financial services, the cost competitiveness structure and a highly skilled workforce with highly trained multi-lingual professionals in financial services, today are underpinning Malta's selling proposition.

Another added advantage that Malta has compared to the rest of the EU countries is that of the double taxation agreements. This fact makes it a popular business vehicle for companies spread worldwide. “Malta grants relief from double taxation under the credit method on source-by-source and country-by-country bases. The Maltese tax regime governing double taxation relief includes not only treaty relief but also unilateral relief, and thereby ensures that income arising from overseas is not subject to double taxation, even if there is no double taxation agreement in existence.” (Finance Malta Website, 2011).

Alone, Malta is the only member state to have this agreement with Saudi Arabia which was agreed upon during the 1980s. This added advantage would be attracting investors from one of the biggest oil-rich countries in Africa. As Mr. Buttigieg pointed out, many investors are uncertain about what to do with their excess cash, and therefore bringing this money to our shores is likely to boost our economy, if not in the short-run, this would take place in the long-run.

Malta, given its reputation in the Middle East, may be in a position to target small Islamic Funds from the Gulf Cooperation Council region. With extra attention and consideration to clients’ needs, such as through hand-holding and partnerships, Malta can become a favourable domicile for small Islamic funds.
All respondents believe that in view of Malta’s geographic location at the centre of the Mediterranean, there may be a rationale to introduce Islamic banking which would be aimed at the international market place. The jurisdiction could serve as a niche jurisdiction for Islamic banking because of its proximity to Europe and North Africa.

The local legal system could accommodate the introduction of Islamic banking because even from a historical legal perspective, the legal system is a fusion of different systems of law. Despite the increasing internationalisation for the local economy, Malta is far from being a multicultural society as one may notice it in the case of Italy, France and the UK. As a result, Malta is found to be an attractive centre for international financial services, including Islamic banking activities.

This development alongside the possible development of Shariah compliant insurance and investment funds would strengthen the visibility of Malta as an international financial services jurisdiction. This approach would be in line with the Government of Malta’s ‘Vision 2015’ of growth in the financial services sector and for the Maltese islands to become a centre of excellence in education. Hence Malta’s financial services sector would be enhanced, and it would make it a perfect Mediterranean Islamic financial services centre.

4.7.2 Advantages

Introducing Islamic banking locally to act as a link between North Africa and European countries would result to be a great advantage for Malta and for the Maltese population itself. It would increase the economic activity and create jobs. One of the respondents believes that it can be clearly seen that Malta is currently positioning itself as a gateway to
Europe for the Arab World and this has already been seen through the involvement of the latter positioning itself in Malta, for instance in projects such as Smart City, FimBank, Kuwait Investments and the Corinthia Group. These bring about investment, employment, tax contributions apart from the multiplier effect of attracting such business, hotels, restaurants as well as acting as a conduit for other non financial services business to be established in Malta.

Culturally and geographically the Maltese islands are close to Islamic societies and there happens to be a lot of business interests in this area, so this would be a good niche market for Malta which may then have a knock on effect and bring more related business to it. This could include the listing of Islamic securities which would be facilitated if there is an Islamic banking in the background. Hence, Malta could serve as a base jurisdiction for Islamic financial institutions wishing to offer their services in Europe and North Africa.

4.7.3 Disadvantages

Throughout the study and research no disadvantages as to whether Islamic banking should be introduced locally as a branch, to provide a service to customers in other jurisdictions were found.
4.8 Further results

The financial services industry in Malta has been liberalised for over a decade and at present there are twenty-five credit institutions in Malta, the majority of which being foreign, such as Turkish and Austrian. Consequently, the introduction of Islamic banks in Malta does not pose a material threat and as with every competitive environment, competition brings about innovation and positioning reviews of those operators already present in the market. It seems that all respondents believe that if Islamic banks had to be introduced locally to cater the local market, it would induce a certain degree of competitiveness from such banks, to try to win a portion of the market share, but surely conventional banks would not be put at since the main markets are different.

4.9 Conclusion

The analysis shows both types of banking are different from one another. The main advantage that was pointed out for Islamic banking was that it is has attached to is fewer risks, but it does not give out interest on the customers’ deposits, as conventional banks do. So the results show that there is no best way of banking. It was also found out that it would be more advantageous for Malta if it had to introduce Islamic banking not for the local market, since it may be assumed that those banking with such institutions would be Muslims and the current Muslim community in Malta is relatively small compared to the rest of the citizens, hence it would not be a feasible market to target at the moment, not even if the number had to rise in the future.
“The continued expansion and growth of other international services offered from Malta have contributed greatly to the further expansion of the banking sector.” (FinanceMalta, 2010, pp.73). Hence, Malta has all the qualities available to be considered indeed the perfect location since it is the important hub between the North African countries and the rest of Europe.

The last chapter will present a brief summary of all the chapters of the dissertation, together with some limitations, recommendations and concluding thoughts.
Chapter 5: Discussion, conclusions and recommendations
Chapter 5: Discussion, conclusions and recommendations

5.1 Introduction

The following chapter summarises the analysis and the results found through the literature review and the research carried out, which mainly point out that Islamic and traditional banks differ from each other, if it has been concluded which type of banking is best, and that certain issues that have to be considered prior the potential introduction of Islamic banking and the advantages and disadvantaged for the two scenarios mentioned throughout the dissertation. Limitations encountered throughout the compilation of the dissertation are discussed, together with some recommendations put forward with regards to Islamic banking in Malta. The last part of this chapter is based on the concluding thoughts.

5.2. Findings

Having considered the main points which have been brought forward through the literature review, it may be concluded that there are various differences between western and Islamic banking, and it can be shown how a culture, particularly the religion sub-culture may influence the type of banking activities a country operates with. It was not possible to conclude as to which type of banking is best between the two, due to the different structures these banks are involved with.
The analysis has shown that that currently there is a strong political commitment and that various conferences took recently place on the subject, but it still appears that the MFSA and the Government policy has stalled in this respect.

According to the respondents, there are a number of regulatory aspects that should be considered before Islamic banking had to be officially introduced in Malta for both scenarios. The current regulatory framework should be amended to accommodate Islamic credit institutions, such as certain changes that would have to be undertaken to the Banking Act 1994, although review in this respect has not as yet been made public.

The analysis has also shown that there are a greater number of advantages for Malta if it has to act as a hub in the Mediterranean, and no disadvantages were found. On the other hand the current number of Muslims in Malta does not allow a large market share for this type of banking, so the advantages for such scenario were scarce.

5.3 Limitations

Unfortunately there were a number of limitations that were encountered throughout the dissertation research, the major one being that the number of people knowledgeable on Islamic banking is very restrained in Malta. Hence, the sample size resulted to be small in nature.
5.4 Recommendations

If Islamic banks had to be introduced in Malta for both scenarios, the first important thing to remember is that so far there are just a few financial professionals who are knowledgeable about such type of banking. Furthermore, if Islamic banking will be introduced locally in a near future for Malta to act as a bridge between North Africa and the rest of Europe, these branches will need to employ individuals holding already a background in such type of banking. It would be wise for Malta to think ahead, and create and promote educational programmes and courses about what Islamic banking is all about. Perhaps part-time courses at the University of Malta or at the Malta College of Arts, Science and Technology (MCAST) could be introduced so the number of local experts would increase, and the chances for these branches to employ local individuals involved in the financial services industry would rise. If this does not occur, experts from abroad would be employed from these branches.

Since the number of Muslims is very limited, and it has been discussed that introducing Islamic banks to offer a service for locals, traditional banks in Malta may opt to introduce Islamic windows for such market. Islamic windows are usually offered by international conventional banks and provide an additional special service to Muslim clients who wish to engage in such type of banking. This has been already seen in European countries such as in the UK through HSBC Amanah and Lloyds TSB Islamic Financial Services, in Switzerland through UBS Islamic Finance, and in France through BNP Paribas.
5.5 Conclusion

From the study carried out, it may be concluded that there is no best type of banking between the two mentioned throughout the dissertation, and that Malta may be seen in the near future as a leader in Islamic banking in the Mediterranean, since it holds a unique geographical strategic position, a strong regulatory framework, a cost effective structure with highly trained multi-lingual professionals in the financial services industry, it has an advantageous tax regime. Islamic banks would not be established in Malta for the Maltese retail market but would take advantage of being licensed in a reputable jurisdiction and offer their products and services to Islamic populations in Europe and in North Africa, by resulting as a great advantage for the Maltese population, through the growth of the local economy.
Appendices
Appendix 1: Glossary of Islamic Terms

Bai bi-thamin ajil  A deferred payment sale by installments

Bai’salam  It is a pre-paid purchase

Fiqh  Islamic jurisprudence, the science of religious law, which is the interpretation of the Sacred Law, Shariah

Gharar  Uncertainty and speculation

Halal  Permitted according to Shariah

Haram  Forbidden according to Shariah

Ijara  It is a leasing contract

Islam  Submission or surrender to the will of God

Istisnaa  A contract to manufacture

Maysir  Gambling, from a pre-Islamic game of hazard

Mudaraba  A trustee financing contract, where one party, the financier, entrusts funds to the other party, the entrepreneur, for undertaking an activity

Murabaha  Resale with a stated profit; for example the bank purchases a certain asset and sells it to the client on the basis of a cost plus mark-up profit principle

Musharaka  An equity participation contract, whereby two or more partners contribute with funds to carry out an investment
| **Muslim**  | One who professes the faith of Islam or is born to a Muslim family |
| **Qur’an**  | The Holy Book, the revealed word of God, followed by all Muslims |
| **Riba**    | Excess or increase and covers both interest and usury |
| **Shariah** | Islamic religious law derived from the Holy Qur’an |
| **Shariah Finance** | A system that is consistent with principles of Islamic law. Prohibits payment or acceptance of interest fees for lending and accepting of money respectively, as well as investing in businesses that provide commodities considered contrary to its principles |
| **Sukuk**   | A freely tradable Islamic participation certificate based on the ownership and exchange of an approved asset |
| **Takaful** | Mutual support which is the basis of the concept of insurance or solidarity among Muslims |
| **Zakat**   | A religious levy or almsgiving as required in the Holy Qur’an and is one of the five pillars of Islam |
Appendix 2: Questionnaire

Islamic Banking - Questionnaire
Roxanne Palla Thesis 2011

Dear [Title and Surname of respondent],

I am a B.Com (Hons.) Banking & Finance student at the University of Malta, currently working on my thesis entitled: "The Philosophy of Islamic Banking: Pros & Cons as compared to European Banking".

The objective of the dissertation is to compare and contrast the two different types of banking and as to whether it would be an advantage or not for Malta to introduce Islamic banking.

I would kindly ask you to spare a few minutes by answering the following questionnaire which would be of great help to myself to complete my dissertation.

Please click on the "Start Questionnaire" button to proceed.

Start Questionnaire

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1. Please indicate your cultural background:

2. How long have you been working in the banking sector?

3. What is the current situation in Malta, with respect to introducing Islamic banking locally?
4. In your professional opinion, which out of the two types of banking (Islamic and traditional banking) is the best (for instance in terms of generating more profits, generating less risks etc.) while also stating a short reason why:

5. Are there reasons why we should introduce Islamic banking in Malta? Please give reasons for your answer:

6. In your opinion, is Malta a perfect location for Islamic banking? Give reasons for your answer:

7. What would be the benefits, if any, for Malta if Islamic banking had to be introduced locally?

8. What regulatory aspects should be considered before introducing Islamic banking in Malta?

9. Would any regulations/articles have to be amended such as in the Banking Act (1994) if Islamic Banking had to be introduced in Malta? Please specify.

10. Would conventional banks in Malta be put at risk (from a competition point of view) if Islamic banking is introduced in Malta, if it had to cater the local market? Please specify.
Thank you for taking the survey!

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References

Books


The Holy Quran, Chapter 2: Surat Al-Baqarah (The Cow), (verse: 275).

The Holy Quran, Chapter 5 Surat Al-Māʿidah (The Table Spread), (verse: 90).

Documents


Articles and Journals


Websites


