

Expert's insight - Mr. Ashraf Esmael, CEO from The Mauritius Leasing Company Limited on Islamic Retail Banking

“Following the aftermaths of the global financial crisis of the recent past, the global Islamic banking industry is set to grow to newer heights with further inroads being made by the operators. More support and interest are being demonstrated by governments and regulators in adopting the necessary legislative, regulatory and fiscal frameworks to enable market entry. The scene is set for global Islamic banking players to emerge on a new banking model founded on trust, fairness and equity with proven resilience primarily due to its trade and asset backed nature, focusing on real assets driving the economy instead of speculative ones. Mauritius in this regard can play a pivotal role in driving and facilitating investments between Africa, Asia and other parts of the world on this new exciting platform given its location, double taxation treaty networks and its readiness in terms of Islamic banking and global business framework.” Mr. Ashraf Esmael, CEO in Mauritius leasing shares his valuable insights on Islamic Retail Banking industry challenges.

What needs to be done to attract more Muslims to Islamic retail banking products?

- The Mauritian market is already receptive to Islamic banking products and there is scope for further growth which can be catalyzed through making such products more accessible in terms of distribution and proximity to the market.
- Additionally, there needs to be a coherent and consistent adoption and recognition of Islamic banking methods and instruments across both the private and public sector operators to make these instruments become common place in the socio-economic fabric of Mauritius.
- As such, Islamic financial institutions will need to engage in partnership with government and the private sector operators to raise awareness of these products and develop mutually rewarding partnerships to reach out to even more customers.

What do you think that needs to be done to attract non-Muslims?

- Historically, the growth in Islamic banking globally and in Mauritius has been driven by the needs of retail banking customers seeking to borrow and invest in accordance with their personal beliefs. And in some situations Islamic banking products were initially not as competitive as their conventional equivalents, in terms of both pricing and service offerings.
- To grow the market beyond the traditional confines of customers with Islamic faith, the Islamic Financial institutions will need to further raise the level of awareness, the competitive intensity in the industry (in terms of differentiation and product innovation) and also significantly improve the level of operational excellence to be more competitive and enhance their service offerings.
- Furthermore, Islamic banking products will need to be demystified since there are a large number of potential customers out there who are not using Islamic banking primarily because of a lack of awareness and understanding. Increased communication together with investment in more capable front line staff and training will help alleviate this to a certain extent.
- In addition, there is a need to further clarify some grey areas with respect to the current legislative and regulatory framework to allow for existing Islamic finance operators to further expand their product and service offerings to the market.

What is the competitive edge of the industry compared to conventional - What alternative is the Islamic retail banking offering?

- Historically in some markets, Islamic banks have relied on their protected and preferred status sometimes as sole Islamic banking provider to generate returns in excess of those noted in the conventional banking sector.
- However, with more players, coming in the market and increased competition from conventional banks offering window operations, the reliance on compliance with the Shariah as the unique value proposition is fast eroding.
- For example in some markets such as mainland Africa, a trade based and asset backed model such as the Islamic Banking can be more relevant and competitive as opposed to traditional and conventional banking instruments in reaching out to the 70-80% unbanked population. However hurdles in terms of awareness, education and distribution will need to be overcome before these key competitive success factors can be capitalized upon.
- With regards to the overall banking market, to be truly competitive against their conventional counterparts, Islamic banks will need to be able to clearly demonstrate tangible customer benefits over and above the Shariah compliance based differentiation. In effect, they will need to improve on product development cycles, marketing communication, operational excellence and a very efficient distribution system.

How do you value the effects of Basel III to integrated risk management?

- Basel III offers a comprehensive model for better risk management following the unprecedented global financial crisis witnessed over the past few years. Banks need to look holistically at their entire spectrum of operations and develop resilient risk management models that provide a safe protection for depositors.
- Basel III with its focus on the quality of capital, capital buffers, liquidity and funding ratios, leverage ratios and the inclusion of a systemic element means that a more holistic and integrated approach is now being adopted that will require even more resources (IT and people) from an operational and compliance perspective. This may well lead eventually to a cost impact on the consumers as a result of higher demands placed on the institution in terms of return on capital.
- As regards Islamic Banks, Basel III will not materially change the existing challenges faced by them, but will however be of real concern for conventional institutions, particularly the more speculative, leveraged banks which have been the most particularly affected by the crisis.
- Most Islamic Banks tend to have capital adequacy ratios noticeably higher than those seen in the conventional banking sector. Basel III might in fact create more opportunities for Islamic banks to strengthen their competitive positions.

What are the Current Challenges facing the Islamic Retail Banking Industry?

- Islamic banks will need to move away from traditional products to become more customer-focused, which are reflected in their efforts to boost marketing, service quality and adapt a segmented approach to customer service. This is bound to happen as these banks will start to face more stringent competition with new players, more demanding customers and as they move out of their initial markets into new markets.
- However, the lack of awareness, education and the accompanying role of regulators and other operators in certain economies still represent a challenge for

- market entry by Islamic Retail Banks in their attempt to penetrate new territories with a lack of the appropriate legal and regulatory framework.
- There are also internal hurdles to be overcome in an attempt to increase the pace of innovation in Islamic banks and this is dependent to a certain extent on the unique challenges posed by their Shariah Board in terms of new product development and approvals. The lack of global harmonization in matters of product standards and definitions mean that standardization is desirable and necessary. This is also bound to happen so as to prevent Islamic banking from becoming a clash of dogmas.

Mr. Mohammad Ashraf Esmael will evaluate **Regional Expansion; Future of Islamic Banking and Islamic Retail Banking in Non-Muslim countries** at **3rd Annual World Islamic Retail Banking Conference** (18th – 20th October 2011, Shangri-La, Dubai). [Request here full event program](#) or visit event webpage: <http://wirb2011.com/>

**Mohammad Ashraf Esmael, The Mauritius Leasing Company Limited, Mauritius
Chief Executive Officer**



Mohammad Esmael, 43 is the Chief Executive Officer of The Mauritius Leasing Company Limited, the pioneer leasing company in Mauritius since 1987. Esmael is an experienced and strategically minded business person who has the privilege of leading the largest, most innovative and the only Asset Finance Company listed on the Stock Exchange of Mauritius. Mauritius Leasing is part of the British American Investment Group, 2nd largest Conglomerate in Mauritius. Prior to joining British American Investment in 2001, of which Mauritius Leasing is a subsidiary, he held a number of senior positions with large companies and multinationals in diverse business sectors such as financial services, information technology, consulting, fmcg and corporate investments. Within the British American investment Group, Mohammad Esmael served in successive roles as Head of Information Services, Vice President – Central Services and Vice President -Projects where he handled and monitored a number of corporate investment projects of the Group as well as the setting up of new companies. In 2004, he initiated the structuring and setting up of the first and only specialized fleet management operation in Mauritius to provide full maintenance lease solutions to corporate fleet owners. More recently, he successfully led industry breaking new developments in Islamic financial services (Ijaarah, Murabaha and Mudharaba based solutions) including real estate leasing and floor plan financing solutions in Mauritius. Mohammad Esmael participates in various professional and business associations such as the Mauritian Institute of Management and the Mauritian Chamber of Commerce & Industry and he is presently the Chairman of the Association of Leasing Companies in Mauritius. He has also acted as panel member and speaker in financial services workshops organized by the financial Services Commission and the Central Bank in Mauritius on topics such as Broadening Access to Financial Services and Islamic Finance & Capital Markets. He holds a Master in Business Administration from the Surrey European Management School with specialization in Marketing and Project Management. He also holds other qualifications in Management Accountancy and Information Technology. He is married with 2 children.