Emerging Markets Queries in Finance and Business Conference

Islamic Finance Development in the Sultanate of Oman: Barriers and Recommendations

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Abstract

This paper considers the key potential barriers that are likely to arise with the adoption of a dual financial system in the Sultanate of Oman. Despite the fact that Oman is a predominantly Muslim country, the assumption that this will equate to a significant uptake in Islamic products and services is challenged as factors such as brand recognition and insufficient product knowledge among the population may hinder market penetration. In addition the study provides some recommendations for the success of the Islamic finance development in Oman where financial institutions wishing to offer Shariah compliant services should also not neglect the importance of competing with conventional banks in terms of the quality of service offered in addition to the uniqueness of their products. The availability of a pool of indigenous labor with industry relevant knowledge shall be a vital factor in the sustainable growth and development of the sector in the Sultanate. Finally the paper concludes by highlighting the essential role of educational institutions in providing such a sustainable workforce for Islamic financial institutions through producing graduates with industry relevant knowledge and, in the more immediate term, the provision of training for conventional banking professionals that may make up the current shortfall of qualified labor.

Keywords: Islamic Finance; Conventional banks; Oman; shariah; Branding and Education

1. Introduction

The new Islamic banking sector that is to be introduced to the Sultanate of Oman will see newly established Islamic financial institutions competing directly with the more established conventional banks that have decided to enter the market by offering Shariah compliant products and services through what is known as

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a windows model. Early indications would suggest that the introduction of an Islamic financial system is indeed driven by demand with the local market expected to experience growth in line with global trends. With said there are a number of key issues that have the potential to inhibit, or at least slow, the potential growth of the industry in terms of market share that must be considered by any potential market participants which this paper seeks to consider in more detail. This paper shall begin by providing a brief background of the global Islamic finance market before examining the current environment in Oman including trends in the conventional financial sector and how the motivations behind the adoption of an Islamic financial system is likely to assist the Sultanate meet its long term strategic objectives of providing employment for the local population and reduce reliance on Oil revenues. Once a national and industry background has been provided, the authors shall highlight the key variables that are likely to impact the uptake of Shariah compliant products and services. The first factor to consider is the extent that religious motivation will influence customer behavior. It would be unwise to suggest that all Muslims will change their banking habits simply because the services are now available in the Sultanate. Despite the clear prohibition of Riba in the Noble Quran, the uptake of services is likely to be the result of a combination of factors rather than being purely down to individual levels of religious devotion. If this is accepted then it important to identify the secondary factors that may influence service uptake and in this case the authors believe that both quality of service and brand awareness will play key roles. While both these areas are applicable to CBs operating out of a windows model and dedicated IFIs alike, the extent of their impact should differ significantly which shall be discussed later in the paper. Finally the essential role of Higher Education institutions in the provision of future graduates and industry relevant training for existing participants shall be examined

2. The Islamic Finance Industry

The Islamic finance industry has come a long way in recent years. The industry potential was already being recognized in 1996 by Citi Group who branched out into the sector in the form of Citi Islamic in Bahrain. Since then the recent global financial crisis has prompted academic and industry participants alike to question the overall sustainability and ultimately the viability of the current conventional financial system (Hasan & Dridi, 2010). This has in part fuelled the recent increased interest in Islamic financial products and as a result has led to the expansion of the Islamic finance industry through the establishment of dedicated Islamic Financial Institutions (IFIs) and Conventional Banks (CBs) offering the service through a windows model. The Islamic financial industry has not been immune to the global economic downturn although the impact has been limited (Smolo & Mirakhor, 2010 and Alzalabani & Nair, 2013). It is true that the industry did manage to avoid the brunt of the financial crisis however there were periods when Islamic banks lost heavily due in part to defaults in real estate loans and to a number of sukuk defaults with many investment companies being left shaken (Wigglesworth, 2011). It has been suggested that such defaults have damaged the reputation of the sukuk market in regions such as the Middle East where a number of high profile defaults have occurred (Majid et al, 2011). Despite this the industry has rallied and continued to grow to a significant size as illustrated below by the Financial Times writer Wigglesworth, 2011, where it was concluded that:

- Many experts are in agreement that the industry has over $1,000 billion of assets
- The global value of Islamic bond sales reached $15.3 billion through 60 deals by the end of August 2011
- This was up 52% on the $10 billion raised over the same period last year

The conclusion reached by Wigglesworth, 2001 provides encouraging reading with regards to the current health and future growth opportunities in the industry and they are supported by a number of additional sources. The Organization of Islamic Cooperation (OIC) Countries in the Middle East represented 79% of the global Islamic finance assets in 2011. The GCC countries account for 40% of the $1.1 trillion global Islamic finance industry with Islamic finance expanding at a compounded average growth rate (CAGR) of 26.4% since 2006 (see Figure 1) (OIC Outlook Series, 2012). Islamic finance remains concentrated in the Middle East, including Iran, with a share of 35.7% in total Islamic finance assets, Saudi Arabia with 13.9%, United Arab
Emirates (UAE) with 8.7%, Kuwait with 7.3%, Bahrain 5.3%, and Qatar with 4.8% as highlighted in Figure 2 (OIC Outlook Series, 2012)

In 2010 the International Monetary Fund (IMF) estimated that there are more than 390 Islamic banks and institutions spread across 75 countries. Based on the Islamic Development Bank records, the average annual growth rate of Islamic financial institutions assets during the period 1995-2010 was estimated to be within the range 10-15%. Therefore the Islamic finance industry was observed to be in a state of remarkable growth in the last decade and in certain parts of the world its growth is extraordinary. In support of this further, Ernst & Young’s inaugural World Islamic Banking Competitiveness Report 2011, Islamic banking assets with
commercial banks globally will reach US$1.1 trillion in 2012, a significant jump of 33% from their 2010 level of US$826 billion. The Islamic banking assets in the Middle East and North Africa (MENA) region increased to US$416 billion in 2010, representing a five year Compound Annual Growth Rate (CAGR) of 20% compared to less than 9% for conventional banks and these Islamic banking assets are expected to reach to US$2.8 trillion by the year 2015. As new geographies open up to Islamic banking, the MENA Islamic banking industry is expected to more than double to US$990 billion by 2015, where more than half of financial services provided are expected to become Shari’ah complaint in the GCC countries. The witnessed growth can be contributed to several reasons such as:

- Muslims worldwide are starting to use Shari’ah compliant products that were not previously available to them;
- Due to the increase in oil wealth of the Muslim nations in the Middle East and their decision to use Shari’ah compliant products, western governments and conventional financial institutions are considering using Islamic Finance;
- Due to their escalating competitiveness and focus on ethics, Islamic products are attracting not only Muslims but non-Muslims as well.
- Islamic Finance has no way to leave in any time soon as Islam is the fastest growing religion in the world and is the second largest religious group in the UK, USA and France.

3. The Financial Sector in Oman

Although no Islamic finance industry exists in the Sultanate of Oman at present it is important to examine the environment into which the system shall be introduced. The Sultanate of Oman prides itself on successfully implementing progressive initiatives aimed at modernizing the country’s infrastructure, reducing reliance on petroleum revenues and providing meaningful employment for citizens. These plans have been laid out in a framework entitled ‘Oman Vision 2020’ detailing the objectives of the government and the programs to be implemented in order to accomplish them. One of the key principles of Vision 2020 is to reduce the Sultanates dependency on oil revenues through the diversification of the Omani economy. To this point the Central Bank of Oman states in its annual report of 2011 that “the performance of the non-petroleum industrial activities holds the key to strengthen the diversification process so as to ensure long-run sustainability of growth” (Central Bank of Oman, 2012). Among the key sectors to be targeted in order provide the stimuli for the diversification process are the industrial and services industries, a subset of which is Financial Intermediation. As table 1 illustrates that the performance of the Services industry has demonstrated continuous improvement since 2007 with the exception of 2008/2009 which arguably coincided with the beginning of the financial crisis experienced across the globe. This downturn was not however experienced by the Financial Intermediation sector which has grown year on year.

Table 1: GDP at Current Market Prices - Riyal Omani Million (Central Bank of Oman, 2012)

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<tbody>
<tr>
<td>Services</td>
<td>6247.8</td>
<td>7645.7</td>
<td>7574.0</td>
<td>8457.4</td>
<td>9376.1</td>
<td>11.7</td>
<td>10.9</td>
</tr>
<tr>
<td>Financial</td>
<td>698.0</td>
<td>846.3</td>
<td>910.7</td>
<td>956.3</td>
<td>1033.6</td>
<td>5.0</td>
<td>8.1</td>
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<td>Intermediation</td>
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The Increased contribution of the sector to the GDP of Oman has not surprisingly coincided with a positive correlation of individuals employed in the industry. Table 2 shows a steady increase of expatriates working in Financial Intermediation since 2009 with this trend likely to continue into the future. This is partially due to the fact that, during the infancy of the Islamic financial sector, financial institutions are likely to find a shortage of individuals in the national labor pool with the necessary industry relevant qualifications. The increase of foreign workers is by no means unique to the financial sector as highlighted by the Global
Investment House findings where “Employment in the private sector have seen the share of expatriates increase tremendously from 81.2% in 2005 to 84.7% in 2009. Expatriates employment in the private sector grew 10% in 2009 as compared to a 7.6% for Omani’s employment in the private sector” (Hasan & Al Yaqout, 2011). This unwelcome pattern is clearly contrary to the principle of the Omanisation of the workforce and the provision of meaningful career opportunities for the local population.

Table 2 Employment of Expats in the Private Sector

<table>
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<tr>
<th>Shares of sectors</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Change 2010-09</th>
<th>Change 2011-10</th>
<th>Shares 2011-10</th>
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</thead>
<tbody>
<tr>
<td>Financial Intermediation</td>
<td>3112</td>
<td>3204</td>
<td>3274</td>
<td>3.0</td>
<td>2.2</td>
<td>0.3</td>
</tr>
</tbody>
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In addition to the steadily increasing contribution to the national GDP and the provision of employment to a rising number of individuals, the financial sector in Oman has also demonstrated increasing profitability as highlighted by Al Maha Financial Services LLC who pointed out that the, “Total profits of the listed banks reached RO179.6 million during the nine months ended 30 September 2011 from RO 150.8 million reported during the same period last year” (Al Maha Financial Services, 2011). Al Maha Research goes on to predict continued robust growth in the industry due to a wide variety of factors that are particularly unique to Oman including the following:

- Spending on mega projects such as the Sohar Refinery and the Duqm Airport to name but a few is expected to support the credit expansion.
- Favorable demographics would continue to act as a key driver for growth in consumer lending segment and expect the banks to benefit from the higher disposable income levels of the youth population.
- Although the introduction of new institutions dedicated solely to offering Islamic banking services is likely to provide increased competition in the market, many existing industry participants are preparing to take advantage of the opportunity by offering the services through a windows model.

The above findings are by no means unique to Oman and it has also been suggested by some that the increased expendable income of the younger generation of Omanis has led the banking sector to expect, “lending opportunities in the consumer segment to rise, given the substantial increase in salaries for public sector employees announced by the government since 2011 and new job creation for Omanis” (Stubing, 2013). In addition to opportunities in the consumer segment, as illustrated by Figure 3, favourable market conditions are being created for banks as a result of increased government spending (Figure 4) due to the fact that the Government has entered into the second year of the Eighth Five-Year Development Plan (2011-2015) involving large public investment programs, particularly in the infrastructure and social sectors (Central Bank of Oman, 2012). This point is echoed by Mr. Abdul Razak Ali Issa, chief executive of Bank Muscat, who explains that “the good macroeconomic growth will create beneficial operating conditions for the bank, as the government accelerates financial support, primarily for infrastructure projects” (Platt, 2012). The findings of the research discussed above have important implications for the employment prospects of graduates of the Sultanate of Oman. If the growth of the industry materializes as anticipated by the referenced independent research the opportunities for individuals with relevant degrees will be numerous and diverse.
4. The Potential for Islamic Finance in Oman

As the services are yet to be offered in the Sultanate, there is no way of assessing the current performance and hence it is difficult to reliably predict future trends. With this said however, the Sultanate of Oman has already identified the potential demand and opportunities offered by the Islamic finance industry and the Royal decree announced by HM Qaboos bin Said in May 2011 has paved the way for the adoption of a dual financial system where conventional and Shariah compliant products will be available to the people of Oman. A report prepared by the Islamic Finance Advisory & Assurance Services (IFAAS) entitled “Islamic Finance in Oman – Sizing the retail market” found the following:

- 85% of consumers in Oman expressed an interest in Islamic Finance products, of which 59% were very interested and 26% quite interested
- 70% of consumers in Oman anticipated opening an Islamic savings account in the next 12 months with half (35%) expecting to do so within 3 months of one becoming available
- 77% of consumers in Oman expect to take out Islamic financing (loans) within the next 1 to 2 years
Currently 86% of consumers in Oman have some kind of conventional banking products, of which 60% declared themselves to be ‘bothered’ about using products that are based on Riba (interest).

These findings are supported by Khalid Ansari, Partner in Charge of Advisory Services of KPMG in Oman, who stressed that as the introduction of Islamic Finance in Oman is demand-driven from markets and customers, its future is secure. With this said, the development of an Islamic Financial system from scratch is not a straightforward process. The Central Bank of Oman has already issued licenses for two institutions, Bank Izza and Bank Nizwa, to act as dedicated Islamic financial institutions with a number of conventional banks having chosen to offer Shariah compliant products through a windows model. Having established both the immediate and future demand for the service it is also important to consider the potential threats to the development of the industry in Oman. Mr. Azmat Rafique, the head of Islamic banking at Oman Arab Bank has highlighted that “there is an expectations mismatch. On the ground things haven’t been finalized...and banks are still gathering teams and systems” (Al Arabiya News, 2013). Mr. Azmat is not alone in his observations. As reported in the Arab Times, Ernst & Young have estimated that the industry in Oman will require 500 bankers to cater for the demand of Islamic finance in the Sultanate (Fuchs & Pasha, 2011). This initial demand is like to be met by imported expertise with the ultimate aim of replacing foreign expertise with an Omani work force. It has also been reported by Business Today, Oman’s leading business magazine, that “having no prior experience in Islamic finance, the Omani banking industry will face a significant challenge in attracting and recruiting experienced Islamic finance professionals” (Jose, 2011).

It is clear that at present the Sultanate, like all nations during the implementation phase of establishing an Islamic financial system, is experiencing a shortage in terms of necessary industry relevant skills and knowledge. This gap can and will initially be filled using imported experienced experts in the industry however in order to compete in the long term with neighbouring nations, the Sultanate must be able to provide local providers of Shariah compliant services with a steady supply of graduates with the foundation of knowledge necessary for a successful and meaningful career in the industry.

5. Reasons for Islamic Banking

Having established a demand for the products and services in the Sultanate, it is now important to understand why individuals opt for Islamic banking over the conventional services already on offer and exactly what banks in Oman can do in order to effectively compete in the market.

5.1. Religious Motivations

Without question the obvious starting point would be to look at religious motivations which have been found to be a significant factor. The previously discussed report carried out by the IFAAS suggested that of the 86% of customers in Oman that had a conventional banking product, 60% had declared themselves to be ‘bothered’ by using a product based on interest. This figure could in fact prove to be higher. The lack of any existing alternative to products based on Riba could permit some individuals in the questionnaire to justify its use although if this question was put to them in an environment where a viable alternative was available, it could prove that more customers in Oman would be ‘bothered’ by the use of Riba based products. Lee and Ullah (2011) found that Shariah compliance was a key factor and that any institution that was seen to be in breach of Shariah principles on more than one occasion could expect to see its customers move their accounts. Rehman and Masood (2012) found religious obligations to be a significant motivator although they also observed that that it was by no means the only determinant as practical reasons such as a ‘convenient location’ also played an important role. Another potentially motivating factor that could be seen to be linked to religious devotion is that of social responsibility which was found to be important by Ajmi et al (2009) and Dusuki and
Abdullah (2007). Social responsibility can also be linked to the reputation and branding of the institution in question and has important consequences for banks in terms of reporting and general communication with stakeholders regarding its activities. Not all studies however have found religious motivations to be important. Amin et al (2011) found religious obligation and government support to be insignificant factors as predictors for the intention to use Islamic personal financing. What they did find however was that among the key determining factors was that of social influence. This would suggest that if there is an overall acceptance and uptake of Islamic finance among enough of the general public, for whatever the reason may be, then individuals that may be considered neither for nor against the services could find themselves swayed by the prevailing social influences around them. The consequence for Oman in particular is that the demand for the services on a national basis could well turn out to be higher than the IFAAS report (IFAAS, 2011) has suggested, should this social influence factor be significant in the Sultanate. So what does this mean for banks offering Shariah compliant products and services? The depth of product knowledge among the local population can be an important factor in this area. It could be argued that by simply having ‘Islamic’ in the banks title or by using what would be deemed as Islamic terminology in its literature, customers would feel that their religious obligations are being met. As highlighted above, this may not be the case. In countries with established Islamic financial systems customers have demonstrated an increasingly sophisticated knowledge of the nature of Islamic products and services and are willing to punish banks that are found to be operating outside the parameters set by the Shariah. This places a great importance on the area of compliance and as a result banks operating in the Islamic finance sector can expect to incur greater monitoring costs than their conventional counterparts. In summary, while religious motivations appear to be important, the review of the literature has shown that it must be considered along with basic functions such as customer service and pricing which will now be looked at in more detail.

5.2. Quality of Products and Services

There is no question that religious obligations have a significant impact on determining the uptake of Islamic finance however this does not mean that institutions offering Shariah compliant products can simply strive to ensure Shariah compliance at the neglect of functions such as product pricing, customer service and other basic issues that are common to conventional banking. Dusuki and Abdullah (2007) acknowledged the role of religious motivations but also added that financial reputation and quality service offered by the bank where key factors. The theme of customer service was again highlighted by Awan and Bukhari (2011) who found that in addition to quality of customer service, product features where also important. While a number of papers have highlighted the knowledge level of customers these studies must be examined in the context of customers operating in a financial system that has had an Islamic financial option available for a number of years. The circumstances in Oman are slightly different where the introduction of Islamic finance will be into an environment that can be expected to have little or no knowledge base of the products available. This is where it is essential that quality service is extended to include staff in customer facing roles having sufficient knowledge of products and services available in order to be able to provide clients with the most informed possible advice. When mentioning quality service it is important to identify practical steps banks may take in order to facilitate an environment that promotes continuous improvement in this area. In their study of banks in Qatar, Chaker and Jahnoun (2010) identified three main dimensions that acted as barriers to service quality in banks. These were; a lack of empowerment, centralization and a lack of transformational leadership. The implementation of an organizational structure that would facilitate all of the above dimensions is beyond the scope of this paper however basic steps such as encouraging employee feedback and allowing the delegation of more responsibility are examples of the practical steps that can be taken. Awan et al (2011) identified five main customer satisfaction dimensions as being: ‘responsiveness, competency, safe transaction, competitive services, and knowledge for the overall banking industry’. Competency, responsiveness and industry knowledge are clearly dimensions that have particular relevance to customer facing roles such as branch level tellers and call centre support. The key issue here is that of training both in terms of the characteristics of the products and services
offered and also with regard to dealing with customers face to face in an appropriate manner. Quality customer service is an area that an institution can really distinguish itself from the competition in Oman. Butt et al (2011) in their study relating to Islamic finance in Pakistan identified a number of barriers that non users faced when selecting an Islamic bank including limited branch networks and inconvenient locations. These themes of convenience combined with technological advancement were also yardsticks of satisfaction identified by Lee and Ullah (2011). Finally, Mansour et al (2010) found low services charges to be the number one factor for customers regardless of their religious background or demographic with the Islamic characteristics of the bank being second. The practical significance of the above findings is that banks must ensure that they do not rely too heavily on customers being motivated by religious obligations in order to maintain and increase market share. According to the above mentioned literature, customer service, product features, pricing and convenience are all areas upon which conventional banks can compete if it is accepted that religious obligation is not the sole factor in determining whether or not individuals opt into Islamic products. The emphasis here should be that competition should not only be seen in the form of other institutions offering Shariah compliant products, but also from conventional banking which must be considered a very real threat to market share.

6. Potential Barriers

Although the IFAAS report has clearly indicated a demand for the Islamic banking services in the country, there can be a significant difference between the actions and words of potential customers. In terms of establishing market share it is envisaged that the newly established Islamic financial institutions shall be at a significant disadvantage. Rather than just competing with other dedicated IFIs, Islamic Banks will face stiff competition from conventional banks aiming to enter the market through a windows model. The obvious disadvantage is that conventional banks have an existing customer base that would simply convert their conventional products over to any shariah services offered in a windows model. With this said, conventional banks will still face a number of challenges common to their IFI counterparts. There are a number of issues such as training staff, implementing new operational systems, establishing a Shariah Supervisory Board, to name but a few, that take up a significant amount of time and resources which cannot be justified by an underperforming windows operation. Unlike the new Islamic institutions, CBs do not have to concern themselves with issues to the same extent such as creating brand awareness and securing a share of the market which is increasingly difficult for IFIs due to a lack of an existing customer base.

6.1. Institution Branding

Branding is an area that concerns both the established conventional banks and the new entrants to the market for different reasons. There are two –ways to potentially look at the branding issues faced by the established institutions such as Bank Muscat which are firstly that the reputation they have gained through years of operating in the industry is a benefit due to the relationships and trust that they have built. Alternatively, it could be hypothesized that customers with a sophisticated knowledge of Islamic banking may greet their expansion into Islamic Finance with slight scepticism and question just how Islamic the operations and products of a primarily conventional institution can actually be. Given what we have uncovered regarding the importance of non-religious factors in the uptake of Islamic financial services, it is probably be more rational to expect that experience in the industry, albeit in conventional finance, is likely to be advantageous provided that the reputation gained over the years has not been in conflict with the notions of quality customer service, convenience and competitive pricing of products. This is further echoed by Ahmed et al (2010) who while recognizing the importance of the religion factor, stated that branding, customer interaction and the ease of use of services that influence the choice of Islamic banking. Yeo and Youssef (2010) looked at how Banks in Saudi Arabia communicated their corporate image to their existing customer base and found that ‘market presence’ had little to do with how the bank was perceived. The main factors influencing the perception of a bank appeared to be financial prospects, corporate image and corporate communication. This would suggest
that newly established Islamic institutions could compete on a level footing with their window operated counterparts if they can demonstrate that they are well capitalized, offer competitive returns and just as importantly that they can communicate all this in an effective manner to the end customer. The authors go on to highlight the importance that communicating financial performance can have on instilling confidence and customer loyalty. The question of customer loyalty can also be examined the point of view of local attitudes towards national and foreign banks. Pinar et al (2012) found that brand loyalty was significantly higher for private banks in Turkey than it was for state owned or foreign financial institutions which could suggest that Omani IFIs may have a potential advantage over any foreign institutions seeking to take advantage of opportunities in the Sultanate. The above literature will mean different things for different banks. The common theme that they should all be aware of is the importance of communicating their financial performance and the competitiveness of their products to the marketplace. This will instil confidence in the organizations and should ultimately lead to customer loyalty and potentially an increased share of the market dependent on how well the financials actually are.

6.2. The Role of Educational Institutions

It is clear that universities and colleges have a significant role to play in the potential success of the Islamic finance industry in the Sultanate. In order for the industry to flourish in the long term a steady stream of home grown graduates must be produced from which industry participants may draw their workforce. At present however there are no Islamic finance programs offered in Oman at university level and despite the fact that a number of institutions have made known their intentions to deliver the subject, there will be an inevitable lag time between program development and the graduation of the first batch of workers. As previously discussed this gap shall be filled mainly by expatriate workers however there may be an alternative source of labor that could supplement these experienced, although expensive, professionals. Professionals currently working in the financial sector of Oman could prove to be the short to medium term solution to the sectors problems. Due to their experience in the industry and the relevant qualifications they have already gained, they could be ideal candidates to undergo intense training programs that would equip them with the product knowledge necessary to successfully operate in the industry. It could be the place of higher education institutions, in partnership with the IFIs and participating CBs, to develop custom tailored programs that will develop the existing workforce while the next generation of graduates are still in their studies.

7. Potential Benefits

While an in-depth discussion of the benefits of implementing Islamic financial systems are outside the scope of this article, there are two key benefits that are specific to the Sultanate of Oman:

7.1. Reduce reliance on oil revenues

In recent times the recognition of an overreliance by GCC countries on oil as not only a source of power but also a revenue stream has increased the urgency to diversify their economies. Among the strategies that are being employed by countries such as the UAE are to invest heavily in the tourism industry as well as facilitating an environment that is favourable for foreign investment. Oman has also taken steps to reduce its reliance on oil and the establishment of an Islamic financial system will go some way to contributing to this objective. Investing in a growth industry may not only add to the contribution towards GDP but may also put a stop to any funds leaving the country from investors that have been seeking Shariah compliant ways to invest their funds. It must be stressed however that it is not possible to determine the scale of this potential problem as the promoters were unable to find supporting data.
7.2. Employment opportunities for graduates

The issue of youth unemployment is a global problem and Oman is no exception to this. While the Sultanates push to make higher education available to all Omani citizens through the establishment of additional private universities and the provision of scholarships is commendable, a number of issues have come to the surface. The greatest problem is how the economy is going to absorb the increased amount of graduates. While in the short term additional public sector positions may well alleviate some of the problem, the fact of the matter is that the private sector shall need to grow in order to provide employment for the majority of graduates. The establishment of an Islamic financial system shall provide additional employment opportunities for graduates from a wide range of backgrounds. While the more obvious roles will be in financial institutions themselves, the need for new expertise in areas such as law, accounting and regulation to name but a few will create opportunities in positions that do yet exist.

8. Recommendations

The fact that it appears financial institutions offering Shariah compliant products and services cannot depend upon religious devotion alone as being a key driver for product uptake would suggest that other key factors must be considered in combination. Based upon a review of the literature, the following key variables would appear to be vital to the success of the Islamic financial system in Oman:

8.1. Customer Service

Having identified the importance that customers place on quality of service and products, it is clear that this is not an area where financial institutions can afford to be complacent. Customers may already be hesitant about depositing their money in a new type of account, and this hesitancy may only be compounded if confronted with frontline staff that appears to be lacking a sufficient level of product knowledge. In addition to this, the ‘customer experience’ in relation to the convenience of the products and services offered is also an important consideration. This can relate to a number of separate issues such as branch location, services available online or even the perceived helpfulness of staff. With this in mind, the authors recommend the following:

• **Emphasis on product knowledge**: it is essential that customer facing staff have not only an in-depth knowledge of Islamic financial products, but also a solid foundation in their conventional counterparts. Staff training takes up both time and resources which could contribute to the temptation of concentrating staff development solely in the area of Islamic products. This can lead to employees being unable to identify sales opportunities with clients when discussing how their individual needs are being met by conventional banks and what the Islamic alternative may be.

• **Excel in customer care**: the area of customer service has been the subject of increased attention in the Middle East for a number of years now particularly in countries such as the UAE who have realized the important role customer satisfaction has to play in developing their tourism industry. The Islamic finance sector in Oman has the potential to significantly increase its market share by not only offering services that conventional banks cannot, but also by offering a level of service that conventional banks do not. Traditionally in the Omani banking sector, as with many industries, organizations have suffered with problems such as poor response times to customer inquiries and long waiting times at branch level. In addition to this, there can be an overreliance on a particular member of staff to carryout specialized tasks such as international transfers or issuing bank drafts. By identifying key areas of customer dissatisfaction with current services, banks in the Islamic finance sector could compete on a second front with CBs.

• **Technological considerations**: the importance of providing suitable online services to customers benefits banks in a number of ways. Any services, such as balance transfer or activating credit cards,
which reduce the customers’ need to visit the branch, is likely to increase customer satisfaction. The reduced amount of customers visiting branches also increases the satisfaction of customers that must visit the branch out of necessity such as a SME owner depositing takings due to the fact that waiting times shall be reduced. Finally the bank can either reduce expenses by reducing teller staff at branch level or retrain the staff in question to carryout revenue generating activities such as actively pursuing sales opportunities.

8.2. Institutional Branding

The issue of branding will be vital to both IFIs and CBs alike. At the heart of the issue appears to be the effective communication between the institution in question and their potential customer base however what are the key messages to be? While it is true to say that this may be dictated by different national characteristics there are a number of issues that are arguably universally in the financial sector:

- **Experience:** stability is clearly a key factor with customers when it comes to selecting a bank. Local institutions that have been operating in the market for a significant period of time may do well to emphasize this fact and to assure prospective customers opting for Islamic products that they shall replicate their successful conventional operations in the shariah compliant field. Newly established institutions do not have the luxury of highlighting successful past dealings. In this case, a level of importance should be placed on the appointment of senior figures within the institutions who are respected on either an international or, at the very least, the national level. The institution would essentially be trading on the past successes of senior management although the confidence that this can give to the markets and ultimately the customers can be invaluable.

- **Financial prospects:** again on the theme of stability, customers are unlikely to be willing to entrust their assets to an institution that they believe to be undercapitalized. There may be a fear that a newly established institution will not be as safe an option as the windows model and with the recent and well documented liquidity problems of banks in the West making the failure of a bank a more realistic prospect than it may have been before the global financial crisis. The only real way to combat this is to ensure that the bank constantly communicates their financial position through various channels ranging from industry analyst reports to articles in popular local publications. It is clear that public perception is an incredibly important factor in the financial sector and must be managed accordingly.

- **Legitimacy of the service:** this means two very different things for CBs and IFIs. For conventional banks it is a question of making sure that the public see their windows model as one that offers genuinely shariah compliant products. The disadvantage that they are faced with is the fact that dedicated IFIs can emphasize the fact that they only deal in Islamic finance which may be seen as more appealing in the eyes of the public. It is for this reason that the makeup of the CBs Shariah Compliance Board must be perceived by customers to be legitimate and credible. IFIs on the other hand do not have this problem. What they do have to worry about is convincing customers using conventional banking products that they offer a legitimate alternative that can compete in terms of returns and service.

Conclusion

It would appear that the current economic and political environment in Oman should prove favourable to the adoption of the proposed dual financial system. The introduction of Islamic financial products and services seems to be demand driven with both newly established Islamic financial institutions and conventional banks in the country intending to offer shariah compliant products and services. It is difficult to estimate the market share that Islamic financial products are expected to gain although as this article has highlighted, the assumption that Oman’s majority Muslim population will leave conventional banking products behind purely due to religious obligations is too simplistic. Factors such as customers perceived quality of service, convenient
branch locations and the institutional brand could be key determinants of customer uptake. Finally it has been highlighted how educational institutions in the Sultanate have the opportunity to play a key role in the growth and development of the industry. In order to flourish in the long term, IFIs and CB window operations shall rely on higher education institutions (HEIs) to produce graduates with industry relevant degrees. There is also an opportunity for HEIs to assist in the more immediate term through the provision of training programs for individuals with experience in the conventional banking environment.

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