

## “my 15min chat with a bank CEO”

---

*Abdulatif Essajee, Managing Director,*

*First Community Bank*

*Chat Summary*

*Thursday, 2<sup>nd</sup> August 2012*

*Topic: Islamic Banking*

*Time: 10:00am – 11:00am*



If you had the opportunity to chat with a Bank CEO, what would you talk about?

### Contents

1. *Understanding the Islamic Banking Model*
2. *Background/History*
3. *Governance*
4. *Lending & Investments*
5. *Social Responsibility*
6. *Final Comments*
7. *Unanswered Questions*

### **Understanding the Islamic Banking Model**

**AEssajee:** Let’s talk about Shariah banking and how the model operates.

Islamic banks are banks that do banking business in conformity with Islamic Shariah law which prohibits the dealing in interest and that is what separates Islamic banks from conventional banks

**admin:** Question came in to Mr Essajee: “do you have to be of Muslim origin to operate an account in any bank that practices Sharia banking?”

**AEssajee:** Thank you, you do not need to be a Muslim to access the services of an Islamic bank. The services of an Islamic bank are open to all, both Muslims as well as Non Muslims.

It is for this reason we (First Community Bank) have named ourselves a Community Bank that takes care of all members of the community.

## Kenya Bankers Association

### “My 15 Min Chat with a Bank CEO”

2 August 2012 Chat Log: Islamic Banking with Abdulatif Essajee

#### Understanding the Model (Continued)

**admin:** another question came in: \"what makes sharia banking stand out from other banking institutions?\"

**AEssajee:** As stated earlier, Shariah banks do not engage in any transaction that involves the giving or taking of interest and any activities or trades that are not Shariah compliant.

Islamic banks operate on the model of trade and investments, sharing profits and losses when it comes to investments and charges a profit on goods and services when it comes to trade.

As Islamic banks we do not trade in money. Money in Islam is considered as a medium of exchange and not a commodity to be bought and sold.

**sirliddy:** Whats the difference between Profits earned by the Bank and Interest charged by other banks?

**AEssajee:** Thank you Sirliddy for your question, Profit would arise where the transaction involves a good or a service or an asset...there has to be a product that is a subject of a transaction....on the other hand, Interest is charged on Money that is advanced, Interest is pre-determined and the risk is on the borrower.

**mm:** can non-muslims access Shariah compliant financing terms?

**AEssajee:** MM thank you, we've discussed that Islamic banking is accessible to all.

**mm:** at the end of the day, is the financing cost/profit lower than the interest one pays in a normal arrangement or do you structure the terms to approximate

**AEssajee:** Thank you mm, I would say it all depends on the underlying Islamic contract used for the transaction...what I can assure you is that at the end of the day Islamic banks are competitive

#### Background/History

**AEssajee:** Earlier I noted that Islamic banking is now approximately four years old in Kenya, and Im happy to say that the response has been good...although it might seem to be a new concept, it is a model that has been operational and successful for more than four decades in other parts of the world

Im also pleased to say that Kenya has been a pacesetter in the area of Islamic financial services with the presence of two fully fledged Islamic banks in Kenya.

It is only in November last year that Tanzania embraced and had their first fully fledged Islamic bank opening its doors to the public

## Kenya Bankers Association

### “My 15 Min Chat with a Bank CEO”

2 August 2012 Chat Log: Islamic Banking with Abdulatif Essajee

#### Governance

**tonymbogoh:** What is the difference with other normal banks??

**AEssajee:** We have talked about the issue of non-interest, now lets talk about the governance structure for Islamic banks.

Islamic banks, unlike other banks, have additional checks and balances to ensure Shariah compliance.

Within Islamic banks you have a Shariah Audit Unit, in addition to the usual internal audit units.

The Shariah Audit Unit goes through all documents and all contracts to ensure that they are shariah compliant before the bank can transact with the client...the unit reports to a Shariah Supervisory Board appointed by the shareholders who also conduct an annual Shariah audit and report to the shareholders in the annual general meeting

#### Lending & Investments

**CapitalFM:** David Mbaya asked on Facebook: are Islamic Banking lending rates get affected by CBK interest rates

**AEssajee:** Thank you David Mbaya, I covered earlier that Islamic banks do not provide loans, but rather, we partner with the customer (individuals, community groups, chamas, companies) in trade and investments

Let me give another example, if someone wants to construct a home the client provides us with a proposal on what kind of home he/she wants, we do our due diligence and we agree to participate in the construction of the home. We then agree to construct the home jointly, and agree to co-own the building and the client agrees to buy us out at an agreed price, over an agreed period of time.

To answer the question on whether Islamic banks are affected by CBK rates, I would say, we are not directly affected by CBK rates. For example, when the CBK rates went up, we could not revise our contracts given the Shariah position. This is because certain Islamic contracts do not allow revision of the terms and conditions.

**mm:** does this agreed upon buy out price vary with macro-economic conditions or its fixed(on the home construction plan)

**AEssajee:** Thank you MM, definitely, macroeconomic conditions specific to that industry, in this case construction, will be taken account in making a decision on the buy out price.

## Kenya Bankers Association

### “My 15 Min Chat with a Bank CEO”

2 August 2012 Chat Log: Islamic Banking with Abdulatif Essajee

#### Lending & Investments (Continued)

**sirliddy:** Buying Shares.....I have heard conflicting responses on Stock Market...Can we (Muslims) buy shares for companies which deal with Items that are deemed Legal according to Islam.... For example, buying Shares for a telecommunication company

**AEssajee:** Thank you Sirliddy, there are a number of factors that one has to evaluate before determining whether it is acceptable under Shariah law to buy the shares of that particular company...fundamentally is what you have mentioned, that the company has to be engaged in a business that is Shariah compliant. Secondly one has to evaluate their financing structure to determine whether the company has borrowed on interest basis and also whether they have investments that are non Shariah compliant

**CapitalFM:** Moreen asks on Face book; What investement products does First Community Bank offer

**AEssajee:** Thank you Moreen, FCB has two types of investment pools, one that is general where the bank decides where to invest the money whether it is in construction, trade, financing of assets and the like, and a second investment pool which is specific where the customer can advise the bank where they want their money invested

**AEssajee:** Moreen, to go further on investment products and also on the significant difference between Islamic banks and Conventional Banks, on the return to Depositors, Islamic banks would quote an expected rate of return as opposed to a fixed rate as is the practice in Conventional banks. So for Islamic banks the actual return will be dependent on the performance of some income lines of our banks. For example, where in a particular month during which the bank has performed beyond its target, the depositors earn a higher return than what was quoted as expected

So our belief as Islamic banks is to share with our partners (customers) in both return and risk.

**sirliddy:** In the US, we have organizations which tend to operate on the same principles as FCB (First Community Bank). They claim they can buy property for someone hence end up making profit yet they Acquire their Income from Banks at some interest..... They Take Loans, then buy U property at some profit..... is that Acceptable in Islam?

**AEssajee:** Thank you Sirliddy for joining us from the U.S.

To answer your question, Islam does not prohibit Muslims dealing with non Muslims so long as they underlying deal conforms with Shariah

**sirliddy:** thnks for the ans Essajee.

## Kenya Bankers Association

### “My 15 Min Chat with a Bank CEO”

2 August 2012 Chat Log: Islamic Banking with Abdulatif Essajee

#### Social Responsibility

**Madey:** do you offer La-riba loans?

**AEssajee:** Thank you Madey, lets first define “La-riba”.

La-riba means 'no interest'...Islamic banks generally do not provide loans, the only loans that Islamic banks can provide is what we refer to as 'Qardh Hassana' which means 'benevolent loans' that do not attract any form of return on the bank and this would fall under the corporate social responsibility of the bank.

So, in benevolent loans the benefactor would be required to pay only the principle advanced, with no addition (no interest).

I should note that this (benevolent loans) is done at a low scale since it is not the core business of banks, instead of La-Riba loans, Islamic banks provide trade financing, asset financing, including educational financing at COST + Negotiated profit.

**Madey:** thank you AEssajee, Hopefully under CSR you sponsor social services, do you give chance to sports e.g soccer?

**AEssajee:** Thank you very much Madey, we do sponsor social services in terms of sports, even health, cleaning of environment... we have sponsored medical camps, workshops for entrepreneurs ...and may more...

**Madey:** thank U sir, im the manager of soccer club in Wajir(Home ground), how can i go about connecting with you guys as far as support is concerned?

**AEssajee:** Thank you Madey for joining us from Wajir, I suggest you get in touch with our branch manager for Wajir branch, they can guide you on the process for the application

**Madey:** thank you.

## Kenya Bankers Association

### “My 15 Min Chat with a Bank CEO”

2 August 2012 Chat Log: Islamic Banking with Abdulatif Essajee

#### Final Comments

**AEssajee:** I have enjoyed this session, it is my prayer that I have added to the understanding of the operation of Islamic Banks, and demonstrated briefly that this is an alternative financial service customers of any faith can consider

**sirliddy:** JazakaALLAH Kheyr .. thanks for the Informative session..

**AEssajee:** I welcome you to visit [www.firstcommunitybank.co.ke](http://www.firstcommunitybank.co.ke) to learn more about Islamic banking and also about the products we offer.

**mm:** that was informative

**AEssajee:** Shukran MM

**jonhnnie:** i have learned new things about islamic bank and thatnks to you CEO

**AEssajee:** Thank you all, Maa'salaam

#### Unanswered Questions

**CapitalFM:** J Maweu asked on Facebook: Does Islamic Banking offer offshore investment solutions