

“My Chat with a Bank CEO”

TOPIC | UNDERSTANDING ISLAMIC BANKING

CEO: FAZAL MEHMOOD SAIB

BANK: FIRST COMMUNITY BANK

DATE: 3RD JUNE 2016

TIME: 10:00AM-11:00AM



CONTENT

1. Understanding Islamic Banking

Understanding Islamic Banking

Fazal Saib: Asalaam alaikum and Good Morning to everyone.

I'm happy to be here and taking your questions about Islamic finance...I'm looking forward to a lively chat

Peter Ouma: is there a difference between usury, riba and interest rates? 2. How does mudharabah work?

Fazal Saib: Good morning Peter. Thanks for getting us started.

The difference between usury and riba...usury is the English word and riba is the Arabic word for usury so there is no difference between the two. Usury means in the classical definition, the excessive charges for money borrowed. And Riba means the same thing. However, the definition of interest is money charged on money borrowed.

Mudharabah is a contract between two or more parties whereby the parties share profits on an agreed, upfront ratio. So if you go into business, parties would get together and agree how much each one would receive at the end of the period.

Fazal Saib: Allow me to share some thoughts about Islamic Finance. Islamic Finance is based on the Shariah laws prescribed in the Holy book. So some of the fundamental principles in Islamic Finance is that there must be an underlying asset which means that one would have to buy and sell an asset; therefore Islamic banks do not allow money paid for money borrowed. The other principle around Islamic Finance is transactions have to be transparent and there should be no ambiguity in the contracts.

Joe Ngahu: Hi, this is my first time in the chat. Is Islamic Finance only for those who profess the faith?

Fazal Saib: Joe ... great question...Islamic finance is for everyone irrespective of colour, creed, religion or culture. You are very welcome to this Chat.

Christine Mwaka: Can non-Muslims enjoy the facilities?

Fazal Saib: Welcome Christine. Absolutely is the answer.

PAUL MUTUKU: Good morning Fazal can anybody open an account if he is not from Muslim community?

Fazal Saib: Welcome Paul. Anyone can open an account with an Islamic bank. There are currently two fully fledged Islamic banks in Kenya and about 8 Islamic windows that are part of conventional banks.

Conrad Karume: Since no interest (Riba) is charged on borrowed funds, how does a mortgage financing contract (Aqd) work under these circumstances?

Fazal Saib: Thank you Conrad. Because Islamic Finance is based on trade, simplistically the bank would buy the house and then add a mark-up and sell the house to you.

Mohamed shakeel: What happens in case of default? How does sharia banking manage the recovery?

Fazal Saib: Asalaam alaikum Mohamed, it depends on the contract, if it is a debt contract (murabaha) then the bank is entitled to collect its full outstanding balance. However, if it is an equity contract then the Islamic bank would collect proportionate to the equity contribution.

mohamed shakeel: Walaikumsalam. Thank you for the clarification

Fazal Saib: You're most welcome brother Mohamed

Christine Mwaka: Thanks Fazal does it mean that I can borrow at 0% interest?

Fazal Saib: Christine, Islamic banks do not charge interest. However, because the bank is based on the purchase and sale of assets (i.e. trade), there would be a mark-up that the bank would charge.

Conrad Karume: Thanks Fazal, does that translate to cheaper than a conventional mortgage?

Fazal Saib: Conrad, price is negotiated between the buyer (customer) and the seller (bank) which could be cheaper than a conventional mortgage.

Lawrence Njuguna: Hi, besides trade, do they take deposits, foreign exchange and other non-interest income generating activities employed by banks?

Fazal Saib? Lawrence thank you for your question. Islamic banks operate just as any other bank and provide all banking services which includes the ones you mention and financing activities.

Lilian Nyamongo: Hello. What are the common top myths about Islamic banking/finance?

Fazal Saib: Thank you Lilian. I think the top myth is that Islamic finance is free banking. People are generally used to conventional banks charging interest on monies borrowed; therefore because Islamic banks do not charge interest, people believe it is free. The other myth is that Islamic banking is only for Muslims. The other myth is that profit and interest is the same, which is actually not the case. Interest is determined by many factors and normally a function of inflation; however, profit is determined by the amount a person wants to gain.

PAUL MUTUKU: Is there a way Muslim sisters or ladies are sensitized on Islamic banking because they form a bigger market untapped market?

Fazal Saib: Paul, Islamic banks do spend significant amounts of monies in creating awareness and education of both the genders. First Community Bank for example has dedicated products for women clients.

PAUL MUTUKU: Mr. Fazal in the Banks that conduct Islamic banking do they do social or community responsibility like giving back to the society, in helping sponsoring needy students?

Fazal Saib: Thanks Paul, Islamic banks do engage in social responsibility programs including education, health and other activities.

Conrad Karume: Kindly explain to us how the Hawala Money Transfer system works. Does it fall under the regulated monetary services?

Fazal Saib: Conrad, banks are regulated by the Central Bank of Kenya and follow the CBK prudential guidelines for money transfers. Hawala system is outside of the banking system.

Isaac Mwaro: Insurance, savings and credit are a number of financial services which are affected by Sharia law and in Kenya we do not have many companies offering sharia compliant insurance and savings & credit services.

Fazal Saib: Lets talk about governance in Islamic banks...

Besides the regulatory framework within the country, Islamic banks have independent Sharia boards (scholars) that govern and oversee the implementation of Sharia rules / laws within the bank. This board keeps the bank management accountable to ensure that the highest ethical standards are upheld. Should the management not comply in its implementation, then the bank is penalized by it removing that portion of profit and giving it to charity.

Lawrence Njuguna: Were the loans awarded to Chase Bank management which were interest free in line with Islamic banking in your own view?

Fazal Saib: Lawrence, the Chase bank issue is still under investigation so I wouldn't comment on their Islamic finance practices.

Cyrus Maina: Am Cyrus Maina and i deal with movies shooting as the bank CEO would you sponsor us?

Fazal Saib: Welcome Cyrus, thank you for joining in. From time to time we do contract suppliers. Contact hhussein@fcb.co.ke .

Joe Ngahu: Thanks Fazal, just taking it from your sentence "...must be an underlying asset which means that one would have to buy and sell an asset..." and ..."because the bank is based on the purchase and sale of assets (i.e. trade)..."

Joe Ngahu: What does it mean for products geared to say, construction finance?

Fazal Saib: Joe good question... When it comes to construction finance, we could do it in two ways. One, the bank buys the construction material and sells it to you. Or, the bank could become your partner in the development phase. The partnership would mean that post construction, the bank has the ability to sell its stake in the business either to you or to another investor.

PAUL MUTUKU: Has the bank has expansion plan to open up more branches

Fazal Saib: Yes Paul, we would like to open branches in areas where we are not present yet. Currently First Community bank has 18 FCB branches throughout Kenya.

Joe Ngahu: Thanks a lot; I would like to explore such options further. Probably if you could share your key officer's contact?

Fazal Saib: Joe you are welcome to FCB please contact hhussein@fcb.co.ke

Fazal Saib: Another question we frequently get is if only Muslims work at FCB. The answer is no. We have non-Muslims throughout FCB including in senior positions.

John Njoroge: Mr. Fazal, as a bank CEO what are you doing to help young generation in their small businesses?

Fazal Saib: John we are focused on the development of the SME sector which includes youth and women development. We also are involved in microfinance. We believe that SMEs are the backbone for Kenya's growth and prosperity.

Lilian Nyamongo: There's a lot of talk about Sukuk bonds. What do you think needs to be in the Kenyan financial system to increase investment in them especially towards development projects e.g. infrastructure (apart from the creating the necessary regulatory framework)?

Fazal Saib: Lilian you ask a very good question. With excess cash in Middle East and Islamic countries, many of these investors are looking to Africa for investment. The Sukuk or Islamic Bond is an ideal vehicle for such. Apart from the regulatory framework, we would need a bond exchange which is fairly liquid to encourage secondary market participation.

PAUL MUTUKU: Mr. Fazal what are some investment tips you can advise youths who are new in the investment sector?

Fazal Saib: Paul I would say invest in yourself. Make sure you have a skill. And start saving from an early age.

PAUL MUTUKU: are there any career you can advise youths to study on to help youths to be self-sustainable instead of studying to get employed?

Fazal Saib: Paul I see your follow up question about areas of study...I think Kenya needs more artisans than academicians so my advice would be go into such fields.

Donald Kogai: I understand Islamic Banking is about sharing profits and losses. How do we go about this particularly in instances where there is a loss? How is that split between the buyer and seller of the credit facility? How about in situations when loss arise out of negligence?

Fazal Saib: Thank you Donald. Islamic banks pool depositor's money and invest in projects with clear profit share / loss ratios. Therefore, the concept of profit and loss sharing indicates an equity participation. In the event of a loss, the participants would lose their capital. In the case of negligence the defaulting party would pay the other party.

Daniel Munene: Morning Mr Fazal, mine is just a minor complaint. Having provided a service to your prestigious organization, I in good faith delivered and raised an invoice but since then all I get is rhetoric and arrogance. Is there a way I can do a formal complaint because I really expected more from a bank that has holistic values and great customer service?

Fazal Saib: Daniel I am sorry that you have experienced some poor service. Please share your email and I will get in touch personally.

Lilian Nyamongo: Hmm... I think that a great investment opportunity for Kenya since ME and Islamic countries since we do not see a lot of them taking the typical investment/aid route as Western countries and even China.

Lilian Nyamongo: I think Paul asks a good question about investment tips for the youth. It will be interesting to know your thoughts about Islamic banking and millennials and the future of Islamic banking in Kenya.

Chat Admin: Thank you all for your participation and the great questions posed. I think you will all agree it has been a highly informative session.

Fazal Saib: Thank you all for a brilliant chat session. Please contact us for your banking needs. We are here to serve you.