



Establishing Successful Islamic Banks in Unchartered Territories: Spotlight on Maldives Islamic Bank

What does it take to turnaround a pioneer Islamic banking institution (IBI) in a small country like Maldives (population 325000) with several challenges such as absence of a supporting infrastructure, availability of talent and lack of economies of scale?

One approach is to adopt a typical MNC style strategy entailing recruitment of expensive human resources and huge marketing budgets. Failure of this strategy may result in colossal sunk cost for the stakeholders, especially given the fact that results are uncertain when experimenting in new markets. On the contrary, the stakeholders could opt for gradual improvement in profitability by taking simple measures and establishing a Board that facilitates the management in achieving the desired goals. As the majority stakeholder, Islamic Corporation for the Development of the private sector (ICD) opted for the latter in case of Maldives Islamic Bank (MIB). The results were highly encouraging.

MIB commenced operations in March 2011 as the first Islamic commercial bank in Maldives. Initial paid up capital was USD 11.76 million with ICD's contribution of USD 10 million. Government of Maldives was the other shareholder of the bank. Although the journey since inception was challenging, ICD successfully managed to achieve the desired goal.

The bank posted a pretax loss of USD 979,000 for the year 2012 due to difficulty in mobilising assets on account of limited product offering. Liquidity management was a daunting task in the absence of Shari'ah compliant instruments. Trade finance business was negligible with a non-existent correspondent banking network. There was a dire need to streamline critical success areas of the bank including operations, retail and financing

functions. Competent Islamic finance professionals had to be recruited from abroad due to dearth of talent in the local market. Business planning was deficient resulting in inability to meet budgetary targets. Above all, there was mounting pressure from MMA to meet the minimum capital requirement.

ICD worked closely with the management to resolve the above mentioned problems in the most practical and economical manner. The Board was reconstituted with a clear mandate to implement the strategy required for turnaround of the bank. Being well aware of the key issues and challenges faced by the bank, the board steered the bank towards the growth trajectory. The Board acted as an 'Enabler' with hands on approach.

ICD supported the management in negotiations with the regulator for placement of excess funds under a Wakalah Agreement with the state entities. Pakistan based Burj Bank, in which ICD is a core sponsor, facilitated the process of establishing a correspondent banking relationship with Habib American Bank in USA. Furthermore, a consultant was engaged by ICD to assist MIB in the development of new products, policies and recruitment of human resources. As result MIB launched several products in 2013.

Home financing under Diminishing Musharakah, Construction Materials Financing and Balance Transfer Facility were introduced by the bank in 2013. On the retail side, cash withdrawal service via POS was launched for the first time in Maldives. The bank initiated Saturday banking. Moreover, an MOU was signed with Maldives Hajj Corporation and with the Ministry of Education to provide consumer financing. Another first by MIB was the launch of Instant Debit Card in Maldives.

The results were reflected in the financial performance of MIB during 2013. The bank posted a pretax profit of USD 359,000 in 2013. Average Return from Financing & Investment almost doubled to 10.7% in 2013 from 5.5% in 2012. This is just the beginning. ICD aims at strengthening MIB further through continued support and guidance. The bank is targeting a return on equity of 17% in 2016 with a balance sheet footing of USD 147 million.

MIB is not the only one, ICD encounters a similar situation in most of its member countries which are generally small in size and lack Islamic banking infrastructure. ICD's experience so far suggests that it is possible to earn a healthy return on equity in such markets by focusing on simple solutions rather than complex costly initiatives. Hands on approach by the Board, strong financing, retail & operation functions, efficient liquidity management, ongoing product development and restrained non-performing loans are the critical success factors for IBIs across the globe.