Islamic Banking in the UAE

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Growth of Islamic finance/banking warrants a policy framework for

✓ Governance;
✓ Accounting practices;
✓ Regulatory environment;
✓ Value added.
SNA is revised and updated to provide a more comprehensive overview of financial services....

... has been modified previously to cater for developments in financial derivatives in the 1990s,
The rapid growth of Islamic finance warrants similar updates …
The issue ...

implications when compiling national accounts statistics of these unique financial transactions ..
Of particular interest in relation to national statistical methodology is in the ways the financial transactions and instruments differ between Islamic banking and conventional banking.
Ways need to be devised to facilitate the task of compilers of the national accounts statistics ...
Islamic Banking in the United Arab Emirates (UAE)
UAE is a pioneer in promoting Islamic finance and banking; The first commercial Islamic bank, Dubai Islamic Bank (DIB), was established in 1975.
UAE issued the Federal Law no (6) of 1985 regarding Islamic banks, financial institutions and investment companies;
## Institutions offering Islamic Financial Services (IIFS)

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banks</td>
<td>8</td>
</tr>
<tr>
<td>Islamic Windows</td>
<td>26</td>
</tr>
<tr>
<td>local banks</td>
<td>13</td>
</tr>
<tr>
<td>foreign banks</td>
<td>13</td>
</tr>
<tr>
<td>Islamic Finance Company</td>
<td>12</td>
</tr>
<tr>
<td>Islamic Investment Company</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
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</table>
UAE ranks second in the Global Islamic Economy Indicator (GIEI)

The GIEI shows the current health and development of the Islamic economy ecosystem
Global Islamic Banking Assets

- UAE: 32%
- Others: 68%
UAE Islamic Banking Assets

- Islamic Banks: 19%
- Conventional Banks: 81%
Operations of the banking sector are regulated by a number of central bank committees;

No independent union of banks;

No complete separate regulations, though the CBUAE board of Directors adopted in 2004 a resolution setting out specific conducts of Islamic finance companies;

No separate reporting is required for Islamic windows;
Conventional banks with Islamic windows report net income from Islamic financing, no separate expenses are recorded, which makes it difficult to compile the value added …
Appendix II. Income Statement of Conventional Bank with Islamic window

Interest income
Interest expense
Net interest income

Income from Islamic financing
Islamic profit distribution
Net income from Islamic financing

Total net interest and Islamic financing income

Operating income
Operating expenses
Operating profit before impairment allowances

Profit before taxation
Income tax expenses

Profit for the year
Appendix I. Income Statement of Islamic Bank

**NET INCOME**
Income from Islamic financing and investing activities
Commissions, fees and foreign exchange income
Income from other investments measured at fair value, net
Income from properties held for development and sale, net
Income from investment properties
Share of profits from associates and joint ventures
Other income

**Total income**
Less: depositors’ and sukuk holders’ share of profit

**Net income**

**OPERATING EXPENSES**

**Net operating income before net impairment charges and taxation**
Impairment charges, net

**Profit for the year before income tax expenses**
Income tax expenses

**Net profit for the year**
The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are not effectively applied by the Islamic Financial Services Institutions (IFSIs) in the UAE, neither do the guidelines of the Islamic Financial Services Board (IFSB)
The Central Bank has recently stopped issuing licenses to existing conventional banks to offer Islamic windows.

Unlike Islamic banks who can offer all Islamic financial instruments to customers, existing Islamic windows are not allowed to offer more than five Islamic products.
As to regulations, the main difference between Islamic and conventional services is in terms of the governance requirement.
The Banking Law stated that a Higher Shari’a Authority (HSA) is to be formed by a cabinet decision to set standards across the financial services industry.

The HSA was only activated and approved by the Ministers’ Council in May 2016.
Key Issue ....

What is the value added of Islamic banking/finance to the financial sector and, thereby the national economy?
Statistical centers in the UAE do not have the necessary input to measure value added of Islamic banking transactions.
Way forward ..

✓ Strengthen regulations and legislations governing the operations of Islamic finance;

✓ Official unified obligatory financial accounting standards.
Way forward..

Compiling of statistical data on IFSIs need to be strengthened in order to avert any imprecision when measuring the worth of the industry across sectors.
Way forward ..

it is essential that the UAE central bank compile and require Islamic banks to report on the prudential Islamic financial indicators (PIFIs) and structural Islamic financial indicators (SIFIs) introduced by the IFSB in 2007
Thank You .....