

Innovation approaches of Islamic Banks

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The reasons behind the rapid growth (Islamic Retail Banking)

- ◆ Increasing demand for products and services that comply with the Shari'a in the countries with Islamic communities
- ◆ Introductions of Islamic windows by major reputable banks
- ◆ Change in customer's perception about Islamic banking
- ◆ Availability of products as a substitute to the conventional banks products

The reasons Cont

- Superior customer services and competitive pricing offered within contemporary outlets
- Offerings of greater options through e-banking
- Improve in the speed of delivery
- Keeping a qualified Shari'a compliance officer permanently in house
- Operating with transparency and adherence to Shari'a

The Key success factors

- ❖ Innovating products and services that match or supersede conventional banks
- ❖ Superior marketing and customer services vis-à-vis Conventional Banks
- ❖ Build operational efficiency and improve processing time
- ❖ Monitor business growth and adequately balance the manpower supply and staff training needs

The Key success Cont

- ❖ The Shari'a committee members must enjoys with a sound reputation in the community
- ❖ Maintain a strong credibility reputation within the community
- ❖ Some of the Sharia'a committee members must be knowledgeable about modern Islamic finance in addition to their main role as scholars
- ❖ Train the staff adequately how the product functions within Sharia'a framework

The Key success Cont

- ❖ Provide proper guidance to the customer about the credibility of the product
- ❖ Publicize fatwa issued on approved new product
- ❖ Maintain who's who profile of all Sharia'a members
- ❖ Introduce eye catching advertising theme supported by unique mottos

Branding & PR

- ❖ Building the bank's branding image around its "Islamic credibility"
- ❖ Participation of the bank's Shari'a committee in major religious and social conferences/activities
- ❖ Publicizing Shari'a committee member's views and comments on current Islamic issues
- ❖ Leveraging the bank's position to actively participate in social events

Branding & PR Cont

- ❖ Spreading the bank's positive image within the community
- ❖ Launching unique innovative products backed up by well thought out marketing and advertising campaigns

Product innovation imperatives

- ❖ Innovation must lead to customer satisfaction
- ❖ Offer unique value proposition - product and value differentiation
- ❖ Nurture and retain best talent on board and invest in their capabilities
- ❖ Foster ambition and provide scope for creativity
- ❖ Encourage staff to participate in product innovation activities, forums etc.

Product innovation Cont

- ❖ Islamic products strive for innovation through reengineering (blending & understanding Sharia'a limitations and reservations)
- ❖ The invented product must be 100% Shari'a compliant

Product innovation risk-return trade-off

- ❖ Maintaining credibility of the bank within the community - products and services must be free from criticism from Islamic scholars
- ❖ Imitating similar products of conventional bank's may carry the risk of being rejected after being launched
- ❖ Receiving Instructions by the Sharia'a committee to reverse a previous decision made by them after the product has been launched

Product innovation risk Cont

- ❖ Islamic products have greater risk of being rejected by consumer than the conventional bank product
- ❖ Banks might limit their business growth opportunity by avoiding controversial products and sticking to basic portfolios

Challenges facing Islamic product innovation

- ❖ Heterogeneity among the Sharia'a committees of various banks
- ❖ Limited number of people with ability to develop new products that comply with Shari'a
- ❖ Tough negotiation and convincing process involved in dealing with a Shari'a committee
- ❖ Expertise required to convince the sharia committee about the merits and the structure behind new products

Challenges Cont

- ❖ Lack of knowledge on the part of Shari'a about modern finance
- ❖ Shari'a reservations on some products may limits the Product's flexibility

Some of BisB's new products

Finance products

- **Tas'heel** - Personal Finance
- **Auto 555** - Auto Finance
- **Islamic Credit Card**
- **SME**

Deposit products

- **Tijoori** - Saving account
- **Iqra** - Education Saving Scheme

Services

- **IVR**
- **Internet Banking**

BisB Achievements in 12 months

BD - Million

Items	Q3-2007	Q3-2008	Variances
Total Customers Deposits	196	366	86%
Total Customers Financing	163	380	144%
Total Customers Financing (Retail)	24 15%	88 23%	266%
Net profit	17.5	32.1	83%

Conclusion

Islamic product innovation is an engineering design for a product where both profitability and community benefits are the key drivers,

Sharia'a is the cornerstone of any Islamic financial product or services innovation. If a customer becomes aware that the products they have bought were not Sharia'a compliant, this would seriously undermine customer confidence in the bank.

Thank You



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