

Islamic finance in Syria: Does the crisis matter?



Dr. Mahmoud Al Homsy is the co-founder and general manager of *Insight for training and consulting*, senior lecturer at Arab International University and a former research economist at CIBAFI Bahrain. He can be contacted at m.alhomsy@insight-sy.com.

The banking sector in Syria was affected like many other sectors during the last eight years due to the war in the country. However, the effect on the banking sector was more severe as it is closely linked to other economic sectors. Islamic banks showed a robust performance during the crisis. Three Islamic banks in Syria, namely Cham Bank, Syria International Islamic Bank and Albaraka Bank Syria showed a growth in their assets during the last 10 years including the crisis years.

Al Baraka Bank Syria recorded the highest total assets in 2018 with SYP396.37 billion (US\$1.84 billion) of total assets (20.5% growth compared to 2017) followed by Syria International Islamic Bank with SYP366.18 billion (US\$1.7 billion) (26.7% growth) and Cham Bank with SYP156.71 billion (US\$729.4 million) (15.6% growth).

The shifting down of Cham Bank assets in 2017 could be because of the US sanctions on the bank in the same year; however, the bank showed a positive growth in 2018 and likewise Syria International Islamic Bank which was sanctioned in 2012. Both banks showed an ability to overcome the challenges from the sanctions.

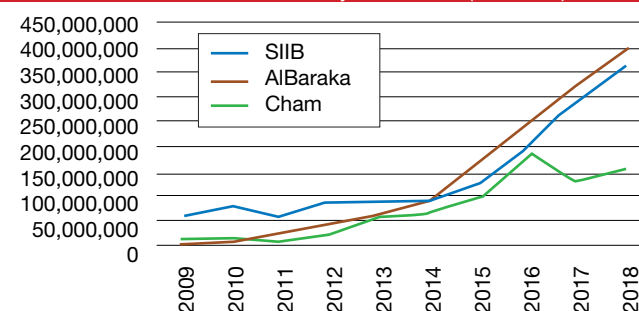
The three Islamic banks also showed a positive net income in 2018, led by the Al Baraka Bank Syria (SYP4.35 billion (US\$20.25 million)) followed by Syria International Islamic Bank (SYP2.36 billion (US\$10.98 million)) and Cham Bank (SYP858.44 million (US\$4 million)) respectively.

2017 witnessed a downward slump in the net income figures for all Islamic banks. During the crisis, the Syrian pound values were harshly depreciated due to many factors. In 2016, the value of the Syrian pound reached a very low level for the first time (US\$1 to around SYP650 compared with US\$1 to around SYP47 in 2010). 2017 witnessed improvement and appreciation in Syrian pound, with the changes and instability in the Syrian pound reflected in the income statement of Islamic banks as their unrealized profit from their capital structure position increase or decrease. Due to the appreciation of the Syrian pound in 2017 compared with 2016, the unrealized income obviously decreased and was reflected in the net income decrease of Islamic banks.

Islamic banks' figures continued their upward trend in 2019, reflected by positive growth in net income, assets and shareholders' equity. The net income in the third quarter of 2019 was SYP4.58 billion (US\$21.32 million) for Al Baraka Bank Syria, SYP3.96 billion (US\$18.43 million) for Syria International Islamic Bank and SYP1.51 billion (US\$7.03 million) for Cham Bank.

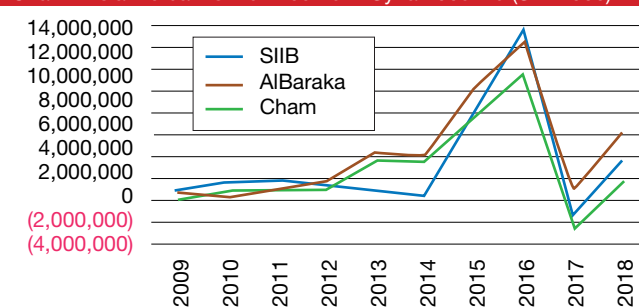
The stocks of Islamic banks showed a very active tradability (volume and values) on the Damascus Stock Exchange (DSE). Cham Bank joined Syria International Islamic Bank and Al Baraka Bank Syria and became one of the leading stocks on the DSE in November 2019. Consequently, the three Islamic banks are now part of the leading index in the market. The last week of October 2019 showed that Syria International Islamic bank led the market and acquired 40.6% of market trading (trading volume 108,752 stocks), Al Baraka Bank Syria acquired 16.92% with a trading volume of 32,543 stocks and Cham Bank 6.24% with a trading volume of 16,948 stocks.

Chart 1: Islamic banks' assets in Syria 2009–18 (SYP '000)



Source: Author's own

Chart 2: Islamic banks' net income in Syria 2009–18 (SYP '000)



Source: Author's own

Islamic insurance (Takaful) in Syria

Two Islamic insurance companies operating in the insurance market in Syria, Al-Aqeelah Takaful Insurance and Syrian Islamic Insurance, acquired around 5.4% of the insurance market in the country in the third quarter of 2018 (4.2% for Al-Aqeelah and 1.2% for Syrian Islamic Insurance). The 5.4 percentage may look small but it is not due to the fact that Syrian Insurance Company which is the government owned insurance company controlled around 69% of the market, and if we focus on the private insurance market, Al-Aqeelah Takaful Insurance ranked second with a 14% market share and Syrian Islamic Insurance was the penultimate company in the rankings with a 4% market share in the third quarter of 2018.

The main contributions of the market come from two main insurance branches which are car insurance and medical insurance with more than 75% of market contributions, and this concentration is considered one of the weaknesses of the insurance market and Islamic insurance market in Syria, due to the fact that this two branches are characterized by the rapid payment of compensation (high frequency of accidents) and very low profit rates compared to other branches.

In addition to that, the crisis resulted in more concentration due to many factors including the decrease in foreign trade export and import, a slowdown of construction projects and the difficulties in reinsurance operations as many international reinsurers have stopped their dealings with Syrian insurance companies.

Despite eight years of the Syrian crisis, sanctions and other non-preferable external and internal circumstances, Islamic banks and Islamic insurance companies had a good performance during the last 10 years, reflected in their financial results and the continuity of providing services to the extent that the general situation allowed. The industry is expected to continue in upward growth in the upcoming years as the general conditions in the country are improving year after year. ☺