

Analysis of Financial Performance of Islamic banks in Oman: A Comparative study of Alizz Islamic Bank and Bank Nizwa of Dhofar Region

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Abstract

Banks are definitely the spine within the economic system in the country since they perform an important part within the effort to achieve steady costs, higher level of work as well as sound financial development. The financial organizations within Oman have been witness to a tremendous development these days, primarily because of continual boost within oil costs, initiatives to diversify the actual economic system, execution of huge industrial, real-estate and also infrastructure ventures as well as developing increased exposure of the actual private arena. The actual financial system within Oman have been through numerous rounds of mergers since 1990s having a couple of bank exits as well as new entrants, and as by the end of 2009, the quantity of commercial banks stands with an overall of eighteen, of which seven are regionally integrated, two specialized banks and nine of them are branches of international banks. This paper will take a look on the financial system of two selected Islamic banks, Bank Nizwa and Alizz Islamic Bank. The study reveals that these Islamic banks are stable. However, it is evident that these banks have not yet overpowered the command of other commercial banks existing in their respective regions. Moreover, in comparison to other Islamic banks in regions like Africa, Islamic banks in Oman perform better.

Keywords: Islamic banks, financial performance, Bank Nizwa, Bank Alizz, growth

1 .INTRODUCTION: Islamic bank refers to a financial institution which must comply with the Islamic Sharia rules based in its aims, principles as well as practices and must avoid the interest in any of its operations (Ahmed, 2004) .The fledgling yet vibrant Islamic Banking industry in Oman, has lately been attracting a lot of attention for its vigorous legislative, regulatory and market developments. Right from the time, when in 2011 a Royal Decree was issued to incorporate Islamic Financial System, which paved way for the promulgation of regulatory framework, and subsequent realization of two Independent Banks and Six window operations operating in the Monarchy - a lot has been written on the prospects and the promise that Islamic Banking in Oman has got to offer. Presently, almost all of the eight Islamic Banking

Institutions (IBIs) in Oman have completed a year of operation, and account for a significant 3.24% (OMR 745 Bn) of the overall Banking assets in the country. This stipulates the need to factually assess the performance of IBI's against the visualized goals, to identify prospects, gaps, challenges and impediments and align the strategy to address them.

One of the most important departments in any organization is the Finance Department. It is meant to identify appropriate financial information prior to communicating this information to managers and decision makers, to ensure that there are adequate funds available to acquire the resources needed to help the organization to achieve its objectives, to ensure costs are controlled, to ensure adequate cash flow, to establish and control profitability levels. Bank Nizwa: The actual

structure regarding Bank Nizwa took place along with the Central Financial institution regarding Oman approving its preliminary authorization towards the licensing within the financial institution towards Sheikh Saud bin Ali Al Khalili. Sheikh Saud and a additional NINETY TWO different Omani people, businesses and also old age finances constitute the actual owner investors associated with the actual Financial institution. Financial institution Nizwa is actually Oman's 1st devoted Islamic financial institution, having completely Shari'a compliant services and products. The financial institution provides a complete collection associated with professional financial solutions, prior to the actual certificate released from the Central Financial institution regarding Oman (CBO) and also the actual Financial Law promulgated through the Royal Decree No. 114/2000.

Alizz Islamic Bank: Alizz Islamic Financial institution (SAOG) had been founded in respect in order to Royal Decree No. 69/2012 that amended our financial law that include Islamic financial at certified banking institutions thru either specific banking institutions or impartial organizations at the current professional banking institutions. Launched within November 2012, Alizz Islamic Financial institution offers retail as well as corporate financing via branches, on the internet (alizzislamic.com), as well as cellular devices. Alizz Islamic Financial institution is here now to provide outstanding and also lasting results to the stakeholders by giving excellent Shari'a compliant monetary solutions. Bank is headquartered within the Main Business Region within Ruwi,

1.1 RESEARCH PROBLEM

This study proposes that there are measurable

the study were as follows:

- a) To measure the performance of Bank Nizwa and Alizz Islamic Bank
- b) To identify the problems faced by Bank Nizwa and Alizz Islamic Bank
- c) To suggest measures based on findings for sustainable growth of Bank Nizwa and Alizz Islamic Bank.

1.4 HYPOTHESIS OF THE STUDY

H₀: There exists no significant relationship in movement of operating profit among selected Islamic banks.

H₁: There exists significant relationship in movement of operating profit among selected Islamic banks.

1.5 RESEARCH QUESTIONS

This paper attempt to investigate the following research question:

linkages among bank's size, asset management, the operational efficiency, and the financial performance. The purpose of this study is to analyze the financial data of Omani commercial banks for the financial periods 2013 to 2017 of two selected banks, Bank Nizwa and Alizz Islamic Bank. In addition, to examine the relationships among measures such as bank's size, operational efficiency, asset management, return on assets (ROA), interest income, and to discuss their impact on the bank's performance. Financial analysis is used to quantitatively examine the differences in performance among commercial banks in Oman, and the banks are ranked based on their financial measures and performance for each bank.

1.2 SIGNIFICANCE OF THE RESEARCH

This research will provide the information about that how these two banks are making the performance among each other in the market. The policies of these banks will be in view. In the future how they can take the further steps to making their performance better for the best business. It will be helpful to the managers of the banks to make the better policies for the better business of their banks as per the rules and regulations of the government in the future.

1.3 OBJECTIVES OF THE STUDY

The main objective was to examine the performance of Islamic banks of Oman in particular the experience for Bank Nizwa and Alizz Islamic Bank. And the other objectives of

- Is there any difference between the financial performances of selected two banks in Sultanate of Oman?
- What factors influence the performance of the two banks?
- What are the impediments to the financial performance of the two banks?

1.7 LIMITATIONS OF THE STUDY

The data collected from Bank Nizwa and Alizz Islamic Bank only and the study is limited to 5 years. The study is restricted to the details available from the financial statements of annual reports of Bank Nizwa and Alizz Islamic Bank.

1.8 DATA METHODOLOGY

Data collection refers to the gathering of data for use. Data collection often takes two

dimensions where it can be sourced from primary sources or secondary sources. A researcher can opt for collecting data from secondary sources or from primary sources. Primary data is used for a specific study whereas; secondary data is data collected by others for the use of their specific purpose (Saunders et al. 2009). Due to the nature of this study where the intention is to investigate the financial prospects of two Islamic banks and their respective dimensions, the researcher decided to collect primary data in form of questionnaires. Secondary data was equally deployed to get a further insight in the research. For instance, secondary data was taken from annual reports of Bank Nizwa and Aliz Islamic Bank, other published information such as journals, magazines, papers booklets of Islamic banks, branch manager's conference ranging from the year 2012 to 2016.

1.8 QUESTIONNAIRE DESIGN

Data was collected using structured closed ended questionnaires. Questionnaires are data collection instruments that enable the researcher to pose questions to subjects in his or her search for answers to the research questions. Saunders, et al. (2003), maintains that it is generally good practice not to rely solely on questionnaire data but to use the questionnaire in conjunction with at least one other data collection instrument. The questionnaires were structured in a five point Likert scale format. A highly structured question format allows for the use of closed questions that require the respondent to choose from a predetermined set of responses or scale points. Blumberg, Cooper and Schindler (2005) state that a Likert scale format on the other hand, involves the use of special rating scale that asks respondents to indicate the extent to which they agree or disagree with a series of mental belief of the statements about a given subject.

In this research, the target population was the employees of two Islamic banks in Oman, bank Nizwa and Alizz Islamic bank. Managers and line managers of these two banks composed the most significant respondents, alongside other staff of the two bank. The aim of having the mentioned as the target population was to get comprehensive and timely information in regards to the financial performance of the two Islamic banks. The total target populations summed to 50.

2. REVIEW OF LITERATURE

Samad and Hassan (2000) analyzed the inter-temporal and interbank performance of Malaysian Islamic bank (Bank Islamic Malaysia Berhad) during 1994-1997 by applying the financial ratios. The performance is measured in terms of profitability, liquidity, risk and solvency, and community involvement. The findings described that the bank is relatively more liquid and less risky compared to a group of 8 conventional banks. Also, evaluating the inter-temporal comparison of BIMB's performance show that Islamic banks make statistically significant progress on profitability ratios (ROA and ROE) over the period of the study.

Saleh and Zeitun (2006) are of the idea that in order to evaluate the Islamic banks' performance in Jordan, examine and analyze the experience of two Islamic banks, Jordan Islamic Bank for Finance and Investment (JIBFI), and Islamic International Arab Bank (IIAB). The research reveals that the efficiency of both banks has increased and they have played an important role in financing projects in Jordan. Also, the Bank for Finance and Investment (JIBFI) is found to have high profitability. The study concludes that Islamic banks have great development in the credit facilities and in profitability.

Berger, A. and D. Humprey, 1997 compared the efficiency of Islamic banks in a number of developing countries, while focusing on the countries of the Arab Maghreb Union, Algeria, Mauritania and Tunisia. The study covered the years 2005-2009 to assess the financial performance of the seventeen Islamic banks. The results obtained in the light of the ratios analysis revealed that, while the overall performance of the sample is declining, that of the Tunisian and Algerian banks is increasing and that of the Mauritanian bank is stable.

Ajlouni and Hamed (2013) investigate and compare the development of three Jordanian Islamic banks performance over time 2005-2009. The authors used two different approaches: Malmquist Data Envelopment Analysis and Financial Ratio Analysis. They found that those Jordanian Islamic banks are constantly efficient. Moreover, it is recommended that Jordanian Islamic banks managers should increase their banks

efficiency by improving recourse utilization to produce optimal outputs.

Odeduntan et al. (2016) analyzed the financial stability of sixteen Islamic banks in Malaysia, using Z-score analysis, Liquidity ratio, Non-performing financing as well as Credit risk ratio for the years 2008-2012. Their findings reveal that the Z-score is relatively high and thus conclude that Islamic banks are financially stable. However, the results show that Islamic banks currently provide excessive financing in relation to the total assets they invest in financing. Despite this, Auteurs argued that Islamic banks are not likely to experience financial messing the immediate term if their liquidity ratios and loan to deposit ratios are regularly monitored.

Cihak and Hesse (2010) evaluated the relative financial strength of Islamic banks. They used Z-score as a measure of stability on individual Islamic and commercial banks in 19 banking systems. The results revealed that small Islamic banks tend to be financially stronger than small commercial banks. The results also pointed out that large commercial banks tend to be financially stronger than large Islamic banks. Furthermore, the results showed that small Islamic banks tend to be financially

stronger than large Islamic banks. They found also, that the market share of Islamic banks does not have a significant impact on the financial strength of other banks.

3. DATA ANALYSIS

Data analysis gives an insight on the presentation of data collected by use of questionnaires, pie charts and bar graphs. Thereafter, an in depth analysis of the findings is done with common trends and patterns being evident. The main aim of this study was to investigate the financial performance of two Islamic banks. The target population of this study comprised of managers, line managers and staff of the banks. Thus, the target population summed up to 50 employees. The questionnaires used to collect data were structured according to a 5 point Likert-scale format. When presenting the results, strongly agreed and agreed responses were combined, as with strongly disagreed and disagreed responses were also combined for the percentages. The results are presented in the form of tables. This study was quantitative in nature and out of 50 questionnaires and a high response rate of 96% was obtained. Descriptive statistics was used to analyze data in this research paper.

Respondents by Segment	Targeted population	Actual respondents	Percentage of the total
Managers	2	2	100%
Line managers	18	17	94.4%
Other staff	30	29	96.7
Total	50	48	96%

3.1.: Response rate of the Respondents

The response rate in this particular research was excellent, with an average of 96% of the targeted population taking part as respondents.

Respondents	Bank Nizwa	Alizz Islamic Bank	Total
Managers	1	1	2
Line managers	8	9	17
Other staff	16	13	29
Total	25	24	48

Table 3.2: Summary of the Study population

The study population from the two banks selected then comprised 2 managers, 17 line staff and 29 other staff. Each group had its own significance in the research.

Table 3.4: Asset management (N=48)

		Frequency	Percentage (%)	Cumulative percentage (%)
Valid	Strongly agree	14	29.2	29.2
	Agree	21	43.8	73
	Neutral	8	16.7	89.7
	Disagree	3	6.2	95.9
	Strongly disagree	2	4.1	100
	Total	48	100	

Table 3.3c shows that a large percentage of the respondents agreed that best asset management practices are a major contributor to boost the financial performance of Islamic banks; 29.2% strongly agreeing while 43.8% agreeing with the same. 16.7% of the respondents were neutral. 6.2% of the respondents disagreed.

		Frequency	Percentage (%)	Cumulative percentage (%)
Valid	Strongly agree		0.0	0.0
	Agree	3	6.3	6.3
	Neutral	4	8.3	14.6
	Disagree	35	72.9	87.5
	Strongly disagree	6	12.5	100
	Total	48	100	

Table 3.5 Size of the bank (N=48)

Table 3.4 shows that a large percentage of the respondents disagreed that the size of the bank affects the financial performance of Islamic banks. 3% of the respondents were of the idea that the size of the bank affects the financial performance of Islamic banks while 72.9% disagreed with the same and 12.5% strongly disagreed with the same.

Table 3.5: Operational efficiency (N=96)

		Frequency	Percentage (%)	Cumulative percentage (%)
Valid	Strongly agree	14	29.2	29.2
	Agree	22	45.8	75.0
	Neutral	5	10.4	85.4
	Disagree	7	14.6	100
	Strongly disagree	0	0	100
	Total	48	100	

Table 3.5 shows that 29.2% of the respondents strongly agreed that operational efficiency directly affects the financial performance of Islamic banks, while 45.8% of the respondents agreed with the same. 5% of the respondents were neutral while 7% disagreed.

4.SUMMARY OF RESULTS, CONCLUSION AND RECOMMENDATIONS

The study focused on the financial performance of Islamic banks in Oman. The evident trend was gradual improvement in the financial performance of these banks. However significant to note is that in terms of profitability, community involvement and liquidity between the banks, there was a slight discrepancy despite them collectively contributing to the gradual financial performance of these banks. Over the years, none of the two banks had a constant lead over the other in relation to profitability, community involvement and liquidity. Moreover, none of the banks had a constant gradual financial performance over the individual months in every given financial year with respect to profitability, liquidity and community involvement. However, the overall financial performance annually for each of the banks improved annually on average.

This research points to the fact that operational efficiency is key to the financial progression of each of the banks. In contrast, the research revealed that the size of the Islamic banks does not directly affect their financial performance in the banking sector. In addition, the research brought to light the fact that asset management is key to the financial performance of the Islamic banks. It was noted that best asset management practices vastly contribute to financial progression of the Islamic banks. This study therefore makes recommendations arising from the empirical analysis, to curb the gaps evident in the financial performance of Islamic banks in Oman.

4.1 CONCLUSION

The study supposes that Islamic banks in Oman perform fairly in the banking sector. The study also reveals that these Islamic banks are stable. However, it is evident that these banks have not yet overpowered the command of other commercial banks existing in their respective regions. Moreover, in comparison to other Islamic banks in regions like Africa, Islamic banks in Oman perform better. If a similar result is to be replicated in Africa regions, this will call for heavy involvement in community involvement besides heavy investments in the banking sector in these regions. The evident drop in financial performance in the Islamic banks in Oman

over some financial years is attributed to harsh economic times. It is therefore important for these banks to be preparing in advance for such challenging economic times.

4.2 RECOMMENDATIONS

Arising from the empirical analysis of results, the following recommendations are made for Islamic banks in Oman:

- They should put more emphasis on community involvement as this is likely to increase their market share in the banking sector.
- They should refrain from excessive financing in relation to the total assets they invest in financing as this has proved to be detrimental in the financial performance of these banks. This is in reference to the propagation of Odeduntan et al. (2016).
- They should diversify their activities as a method to command a more reasonable market segment in the banking industry. Cihak and Hesse(2010) while evaluating the relative financial strength of Islamic banks found out that the market share of Islamic banks does not have a significant impact on the financial strength of other banks.

5. DIRECTION FOR FUTURE RESEARCH

A quantitative approach was employed in this research in which questionnaires were used to collect data from the respondents. In this study, the majority of respondents had different opinions on the performance of the two banks in Oman. There is also a need to conduct further research which can focus on how to improve the performance of Islamic banks worldwide. Further research could be done in this field of study using qualitative methods. Qualitative methods could allow the researcher to use interviews to collect first hand, comprehensive data from the respondents.

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