



STRATEGIC ANALYSIS OF THE CURRENT SITUATION OF MOROCCAN PARTICIPATORY BANKING SECTOR

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Abstract:

The Moroccan participatory banking sector is relatively new, the development and the future of this industry are still uncertain, in this study we tried to analyze from a strategic point of view the current situation of this banking sector in Morocco, several marketing tools have been used, the PEST analysis, the 5 forces of porter as well as the SWOT analysis. The results of our analysis show that the development of the participatory banking sector in Morocco is promising.

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Keywords: participatory banking, SWOT, PEST, marketing strategy, Takaful

1. Introduction

Participatory banking in Morocco is the result of a series of repetitive tests and the persistent efforts of many parties, including potential customers, financial and economic associations, financial institutions, political parties... These attempts have started since the mid-1980s; however, the first concrete step was the introduction of participatory products in 2007, by publishing the recommendation n° 33 / G / 2007 (applicable since October 1, 2007) approving the marketing of three main participatory banking instruments, namely *murabahah*, *musharakah* and *ijarah*, while *salam* and *istisnaa* was still the subject of a study by Bank Al Maghrib (BAM). These products are assumed to be marketed only by certified financial institutions and by specialized subsidiaries. It should be noted that the terms definition, standards and other characteristics of these instruments were established in collaboration with the PGMB (professional group of Moroccan banks) and with reference to AAOIFI standards (Organization of accounting and auditing for financial institutions Islamic). Whereas at the beginning of February 2014, the central bank prepared the law project n° 103.12 relating to participatory banks

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adopted unanimously by the Moroccan parliament in June 2014. This project aims to create a leverage for economic development in the country. It reflects Morocco's choice to introduce the participatory banking professions into the national financial sector according to an assimilation approach by applying, on one hand, the general provisions of the laws in the financial system, and on the other hand, by introducing specific provisions in each of these so-called laws. Finally, on January 2, 2017, Bank Al-Maghreb published a press release in which it revealed the list of the first banks authorized to exercise the activity of participatory banking in Morocco.

By examining the development of the participatory banking sector in Morocco it can be affirmed that the central bank has taken into account all the risks and possible scenarios. This prevents any strategic attempt to increase the influence of the industry on the Moroccan banking market.

Nevertheless, the Central Bank had planned to increase the market share of the banking sector, due to the fact that a large part of households has beliefs regarding banking, so a large part of the wealth has been kept out of economic circuit, which strikes the Moroccan economy in general.

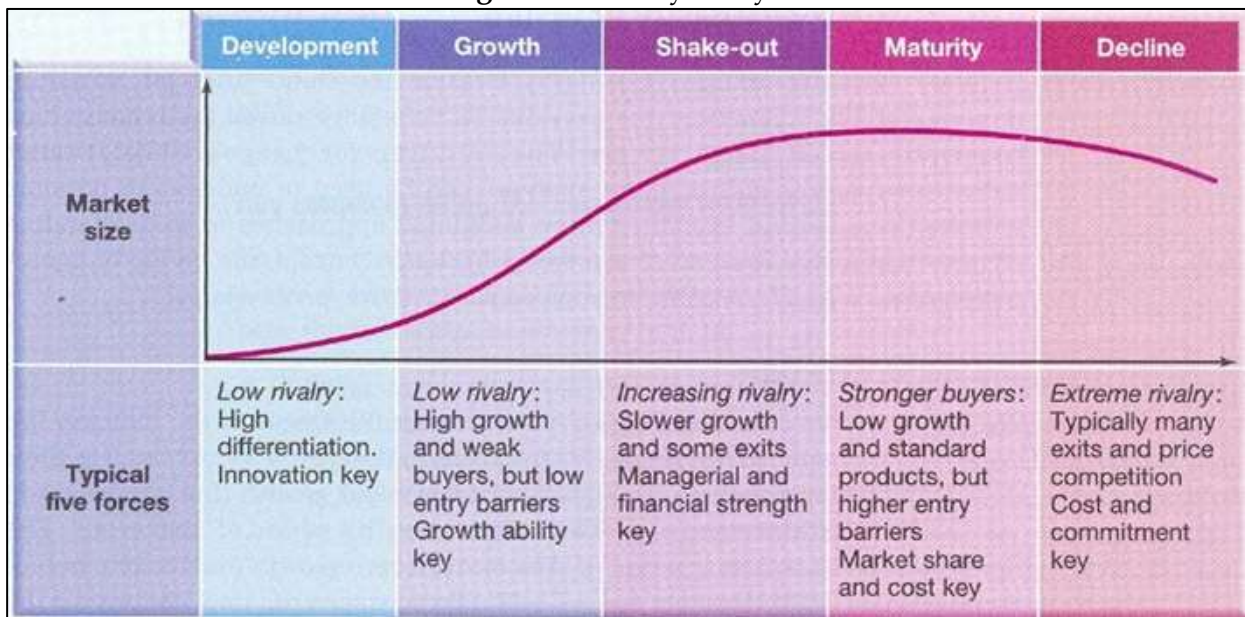
This article presents the Moroccan participatory retail banking market, for which PEST analysis is used, as well as the elements of the marketing strategy. In its analysis, PEST analyzes the political, economic, social and technological environment of the Moroccan participatory banking market. To go further, a micro-environmental analysis is also included in the discussion. In this analysis, Porter's five forces analysis is used to show competition in the market. This analysis is followed by the SWOT model, which explains the current strengths, weaknesses, opportunities and threats in the sector.

2. Industry life cycle

The industry lifecycle, illustrated in Figure 1, is basically a concept of the industry lifecycle, from its birth to its decline. Each phase of the life cycle is marked by characteristics within the five forces. As Figure 1 shows, any industry will experience 5 life cycles during its existence.

The "development" cycle is characterized by low competition and by the uniqueness of the product (Johnson et al., 2008: 68). In addition, Johnson et al. (2008: 68) argue that not all of the elements of the five forces are very powerful and that firms may have low returns due to spending.

Figure 1: Industry life cycle



Source : Johnson et al (2008 :68)

According to Johnson et al. (2008: 68), in the "growth" phase, the degree of competition is still low since there are many rooms for all participants. In addition, Johnson et al. (2008: 68) indicates that "... the obstacles to entry may be low, because the existing competitors have not accumulated many scales, experience or customer loyalty".

Johnson et al. (2008: 68) argue that, in the "take-off" phase, the survival of the fittest will dictate the market, as the rate of development of the industry is declining. They also underline that, as soon as the sector reaches its "maturity", the difficulties of entering the market are very great because the actors of the sector have set up sound logistics, have experienced low operational costs and have acquired knowledge deeper competition.

In addition, the heights also indicate that the products tend to be identical and that the costs of switching suppliers are very low for customers since there are many companies on the market. Finally, they point out that at the "decline" stage, competition intensifies, especially when the price of smoking cessation is high.

After examining each stage of the life cycle concept, we see that the Moroccan participatory banking sector is already in the first stage, namely "development". The description of the "development" phase corresponds to what happened to the Moroccan participatory banking sector in 2017.

On the socio-cultural level, we can get an idea of the demography of Morocco and analyze the Moroccan people from the cultural dimensions of Hofstede (2003). Technologically, we know that Morocco currently has a large infrastructure capable of generalizing the use of broadband Internet in all regions of Morocco.

Economically, Morocco remains stable with a reasonable inflation rate. Luckily, it is also politically stable. Above all, the Moroccan parliament has adopted the new law on participatory banks which could stimulate the development of this sector. Regarding Porter's five forces analysis of participatory retail banking in Morocco, first, entry threats remain low, but are expected to increase over time. It can be argued that the number of

players currently on the market, the geographic areas poorly covered by operators and the new law on participatory banks which will guarantee sound legality are the key elements to stimulate competition. In terms of supplier bargaining power, the number of suppliers supplying office equipment is sufficient. Thus, participatory banks are assumed to be in good conditions to do good business in order to reduce costs, since there are many suppliers to examine in the market. It should be noted that at the present time, participatory banks have negotiating power over customers because there are not enough participatory banks at the moment. Over time, it could be argued that the situation will likely change as new competitors enter the market. Thus, over time, the negotiating power of clients will increase, while the opposite would happen for Moroccan participatory banks.

As far as surrogates are concerned, the only question worth considering is to pay more attention to better financial access to banks in order to eliminate loan sharks. So you can say that the industry will be attractive in the long term.

Finally, we could witness an intense rivalry within the Moroccan banking sector. The first is between the participatory banks and their conventional counterparts. The second is the rivalry between the participatory banks. However, in the long term, competition between participatory and conventional banks will loosen up while participatory banks will intensify.

3. Industry structure benchmarking

This section presents the current situation of the Moroccan participatory banking sector and its forecasts for the future. "Entry threats" is assessed to be low since, at present, the probability of having new entrants is low. However, it is anticipated that "entry threats" will become more serious as many new arrivals join in the future. This is due to the fact that at least in the medium term, there will not be many participatory commercial banks launching in Morocco.

As for "supplier bargaining power", it has not changed, as there will be many suppliers of office and real estate equipment as well as an abundance of human resources from both new graduate students and employees of traditional banks.

As far as "buyer's bargaining power" is concerned, clients are not getting a lot of negotiating positions at the moment as there are not many participatory banks nearby. However, as competition increases and new products are introduced, customers have many more options in terms of bargaining power. In addition, it is very easy to switch from one bank to another as no documents are required. All customers can abandon their current bank accounts. However, in the future, clients will have more power, which gives them more bargaining power. As for "threats of substitution", there is nothing to worry about because one cannot predict a very good substitute for banks. Investment strategies may change. However, people will still go to the banks to save their money. On this basis, nothing will be changed.

At the moment, "rivalry" is already high. It can be argued that this is a rivalry between the participatory and conventional banks and a rivalry between the

participatory banks themselves. Therefore. In the future, it can be said that the rivalry will become more intense. As more participatory banks introduce a variety of products, customers can permanently abandon their traditional bank accounts.

4. Competitive and hyper-competitive cycles

So far, this section has dealt with the current forces at play in the Moroccan participatory banking sector. Using the analysis in subsection 1.2. it can also be deduced that the forces likely to play an important role in the future. Predictions may or may not be true. However, at least we can understand what is happening in the Moroccan participatory banking sector.

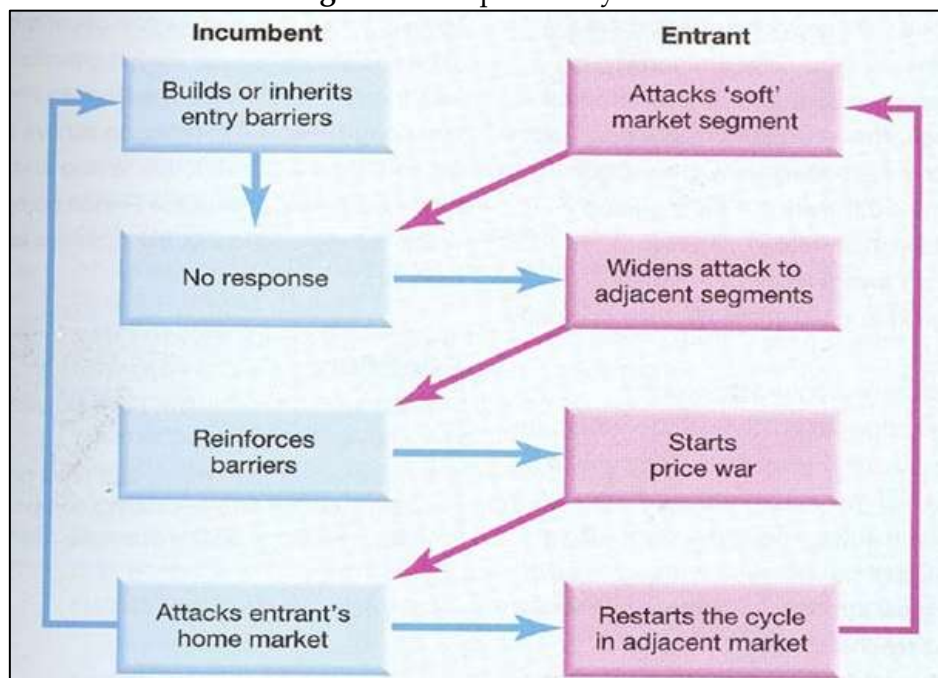
According to Johnson et al (2008: 69), *“competitors constantly interact in terms of competitive movements: price reductions are matched and innovations imitated. These consequences... are called competition cycles”*. In addition, the concept is shown in Figure 2.

As Figure 2 shows, it can be seen that the new entrants will try to attack the market segments, which are not occupied by operators (Johnson et al., 2008: 71).

In the Moroccan context, these could be the regions where the participatory banks are not yet installed. If the opponents do not react, the new entrants could then attack the market segments, close to those of the operators already established (Johnson et al., 2008: 71).

When this happens, opponents can adjust entry barriers to make it difficult for new entrants (Johnson et al., 2008: 71). Seeing this, newcomers can retaliate by initiating a price adjustment (Johnson et al., 2008: 71). As competition intensifies, opponents will attack the domestic market for new entrants and hope that new players can leave the competition (Johnson et al., 2008: 71).

Figure 2: Competition cycles



Source: Johnson et al. (2008 : 69).

Overall, such a scenario could occur in the future on the Moroccan market. However, it all depends on the willingness of the people to accept and trust the participatory banks to manage the financial needs of customers.

5. SWOT analyses

The PEST analysis Aguilar (1967) and the five forces of Porter (1991), mentioned above provide content regarding the strengths, weaknesses, opportunities and possible threats of the Moroccan participatory banking sector. Table 1 summarizes the likely strengths, weaknesses, opportunities and threats of participatory retail banking in Morocco. Each component of the SWOT Humphrey (1960) analysis is discussed and contextualized as follows:

5.1. Strengths

One of the strengths of the participatory banking sector lies in the availability of a legal infrastructure. As previously discussed, the Moroccan parliament already adopted the law on participatory banks in 2014. This is undoubtedly a bold step forward towards the development of a solid and stable banking sector.

In addition, it has been argued that participatory banking practices are characterized by strict banking practices. This is seen from the elimination of everything that Islam has forbidden to do. In addition, strict adherence to Islamic teachings can also apply to the business practices of the participatory bank. Therefore, from a marketing point of view, it can be said that compliance with Islamic law is the uniqueness of marketing participatory banking products. Finally, the participatory banking sector is also supported by other participatory financial institutions, such as Takaful insurance, Zakat and Waqaf and Sukuk institutions, etc. It can be argued that the development of these industries could strengthen the commercial performance of Moroccan participatory banks. For example, the banking industries could cooperate with Takaful insurance. As part of this cooperation, participatory banks could sell their products with insurance coverage, under which customers would be automatically covered in the event of an accident.

5.2. Weaknesses

One of the challenges of the participatory banking sector concerns human capital. Based on several sources, it can be said that human resources are a fairly serious problem in this industry, both in quantity and in quality. In terms of quality, the number of universities and colleges is still unable to provide qualified human resources to work in participatory banks.

The situation gets worse when you consider the fact that the participatory banking sector is not the only one in the context of an Islamic economy. In an Islamic economy, there are other institutions (for example Takaful insurance and the capital market ex: Sukuk), which also require a lot of human resources. Although participatory banks can obtain resources from conventional banks, it could be said that such a practice would not

solve the problem over longer periods. This is due to the difference between conventional banking culture and participatory or Islamic banking culture. Another weakness that the participatory sector is currently facing is the slow development of the product. Again, the quality of human resources plays an essential role in the slow process of product innovation (Harja, 2011). Indeed, participatory banks should allocate an additional budget to organize workshops or training on product innovation (Harja, 2011) and the development of human resources and skills.

5.3. Opportunities

In addition to the strengths and weaknesses, the Moroccan participatory banking sector is also faced with several opportunities. These opportunities, if used well, will no doubt become assets. One opportunity to consider is the fact that Morocco is a country with a large Muslim population.

Therefore, this situation can be well used if the participatory banks are able to educate Moroccan Muslims on the importance of depositing their money in participatory banks in order to avoid bank interest. In addition, it can also be argued that the governments of other countries could use surplus revenues such as the GCC countries as an opportunity for investments by Moroccan participatory banks. Finally, it was said that past economic crises could be used as a "disguised blessing" to show the resilience of participatory banks. On the basis of the discussion, it could therefore be said that the Moroccan participatory banking sector should be optimistic about the promising prospects of the participatory banking sector.

5.4. Threats

One of the threats, particularly in the participatory banking sector, is acceptance by the Moroccan public. Public education is just as important for participatory banks to be publicly accepted, as many people still believe that it is impossible to trust a participatory bank.

Participatory banks must also make it known that they are targeting Muslims. Thus, the participatory banking sector must develop strategies to give the correct information concerning the participatory banks. Another threat arises at a time when an economic crisis is emerging. It is said that in case the interest rates are higher than the profit-sharing rate, the depositors could transfer their money to a conventional bank account. On the other hand, it can be argued that depositors can return to their participatory bank account, otherwise. In addition, it can also be said that the boom in the participatory sector could be used by opportunists to invest their time and money only for profit.

In this way, we could say that such an attitude might not contribute to the development of the industry in the way expected by the pioneers of the sector. This is very important because it is said that the participatory banking sector is considered to be the ultimate solution to all economics problems.

Table 1: SWOT analysis of the Moroccan participatory banking sector

<p>Strengths</p> <ul style="list-style-type: none"> - important legal aspect due to the new law on participatory banks. This means that the government is attentive to sector development. - participatory banking practice eliminates everything that is prohibited from doing. - the growth of the participatory banking sector activity. - supported by other Sharia-compatible financial institutions (Takaful insurance , Zakat and Waqaf institutions, Sukuk , etc.). 	<p>Weaknesses</p> <ul style="list-style-type: none"> - human capital problem. - product development is still slow.
<p>Opportunities</p> <ul style="list-style-type: none"> - Morocco is a country with a very large Muslim population. - the excess income in the Arab countries due to the oil boom could be used to invest in the Moroccan participatory banking sector. - opportunities for many finance students and participatory banks to pursue their careers. - the resilient of the participatory banking system to the crises. 	<p>Threat</p> <ul style="list-style-type: none"> - public acceptance of the industry. - macroeconomic infrastructure can influence the interest rate, which makes profit-sharing rates unattractive for customers of participatory banks. - the rise of the participatory banking sector could be used by opportunists to invest their time and money only for profit.

6. Synthesis and discussion

This article discusses many aspects of the participatory retail banking market in Morocco. Macro-environmental analysis concludes that the Moroccan market meets the conditions to create a suitable participatory banking activity.

Considering that, from a demographic point of view, Morocco is a large Muslim country, this is a crucial advantage for the creation of a bank based on the ethical values of sharia. Another point to consider is the technological development of countries which gives the majority of the population internet access.

Strategically, this means that the sector must take into account the diversity of Internet services. On the economic level, we could say that the Moroccan government still has important tasks to manage in the economy, such as the substantial reduction of unemployment. However, it can be said that participatory banks could use this opportunity to channel their funds without risking loss.

With regard to the political aspect, we could say that a favorable political environment could lead to a favorable commercial environment.

In addition, from a micro-environmental point of view, the threat from new entrants is rather low at the moment. As there are more and more participatory commercial banks, it can be said that competition will tighten.

However, newcomers should not enter the Moroccan market simply because Morocco has many Muslims. The strategy of conquering the participatory banking

market should be carefully evaluated, although the presence of new laws on the participatory banking sector may give potential investors a level playing field.

With respect to supplier bargaining power, it could be argued that the management of participatory banks should consider providing high quality suppliers for day-to-day operations. Furthermore, it could be argued that the supply of human resources is also crucial for the development of this industry

Due to its growth, the participatory banking sector needs many people to work in this sector. However, we could say that the threats from this sector are rather weak. In addition, for Muslims, working in participatory banks is not only about getting a salary, but also about purifying the source of income. With the growing awareness of halal wages for workers in the financial sector, the need to move to the halal financial sector will also increase.

With regard to buyer bargaining power, it can be said that depositors are still unable to build up high bargaining power, although the costs of switching suppliers are low.

This is due to the large number of other people who are not yet depositors in participatory banks. However, as the market contracts over time, clients' bargaining power will increase.

Regarding the threat of substitutes, it can be said that there is no real substitute for banks. Although depositors can transfer their money to other types of investments, it can be said that some of the money will go to their savings accounts. Although pawnbrokers and loan sharks also exist, their existence cannot fully replace the role of banks. The issue of competitive rivalry is also important to consider. In this case, it could be argued that conventional banks also target the same customer groups as participatory banks.

However, the economic model of conventional banks is quite different from that of participatory banks. Furthermore, it could be argued that the size of the Moroccan participatory banking sector is still not as large as that of the traditional banking sector. In other words, competition between participatory and conventional banks in Morocco is not yet as tight. In conclusion, the problem of rivalry between participatory banks and conventional banks in Morocco remains weak for the moment.

On the issue of a market exit barrier, we could argue that it is rather difficult to develop given that no Moroccan participatory bank has been threatened with bankruptcy so far.

Regarding the analysis of the structure of the sector, three elements are undoubtedly crucial for the discussion. These are the "industry lifecycle concept", "hypercompetitive information cycles" and "comparative analysis of the 5 forces".

Regarding the concept of life cycle of the industry, the participatory banking sector is already in the development stage. Regarding the benchmarking of the structure of the industry, the threats of entry into the future remain low, since the number of commercial banks is not very high at the moment. However, this could increase in the future with increased competition.

On the other hand, there are still many suppliers in the future. This may not put pressure on the industry. When it comes to the buyer's bargaining power, customers still

don't have many options for choosing a participatory bank. However, as competition intensifies, more participatory banks will open and offer a variety of products. This, in turn, will increase the bargaining power of buyers.

As far as substitutes are concerned, nothing can replace banks at the moment. Although there are entities such as loan sharks and pawnbrokers, these two entities do not resemble the function of banks. Therefore, the threats from this problem are minimal or non-existent. In addition, competition is rather strong at the moment. This is due to the competitive nature between participatory and conventional banks. In the future, this competition will intensify. In addition, we would think that depositors could completely abandon conventional banks if participatory banks could offer a wider variety of products.

In the area of competitive cycles and hyper competition, the scenario of competitive cycles and hyper competition could be present on the Moroccan market. However, it can be argued that it depends on the readiness of the Moroccan people to recognize and believe that the participatory banks manage their funds. By carrying out a SWOT analysis for the Moroccan participatory banking sector, Morocco has several strengths to develop in its participatory banking sector. A solid legal position due to the promulgation of the law on participatory banks served as a catalyst to further develop this industry.

In addition, the uniqueness of the participatory banking sector would be convincing for the Moroccan people. In addition, the sector is surrounded by other participatory financial support institutions, such as Takaful insurance, zakat and waqaf as well as Sukuk. It can be argued that the availability of these institutions could strengthen the participatory financial sector in Morocco.

In addition to its strengths, the problems of human capital and the slow development of the product currently constitute the weaknesses of this industry. However, it can be argued that government support could turn these weaknesses into strengths. Opportunities could also arise in the Moroccan participatory banking sector. Morocco has untapped potential to become the leader in the participatory retail banking sector in Africa.

In addition, the investment opportunities of the GCC countries could be used to attract more investors to open participatory banks in this country. In addition, the growth of the Moroccan participatory banking sector could serve as a catalyst to observe young talents interested in developing their careers in the halal banking sector. Still, it can be argued that financial crises could be used as a "disguised blessing", particularly for the participatory sector. In addition to the opportunities, several threats are also present in the Moroccan participatory banking sector. If not properly managed, these threats could hinder the development of the participatory banking sector. The opinion that the participatory banks are not 100% Islamic is true. However, if they are not well managed, it could be argued that people will perceive that the participatory banks and the conventional banks are identical. In addition, in the event of a financial crisis, conventional banks may raise interest rates in response. This will no doubt make the profit participation rate unattractive.

Finally, the rise of the participatory banking sector can be used by some people as a means of generating profits. Such attitudes undoubtedly hamper the real cause of the development of the participatory banking sector.

7. Conclusion

So far, this paper has attempted to include all possible research regarding the participatory banking sector in Morocco. In general, the development of the participatory banking sector in Morocco is promising. However, there are still a lot of tasks to be accomplished for the industry to reach the same level as its conventional counterpart. In addition, we could say that all actors of the Moroccan participatory banking sector should work together to increase their market share.

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