Does Islamic Finance Need a Voice?

"Does the industry (by this we mean investors, consumers and practitioners) need a communication channel to interact with other industry bodies (such as AAOIFI, IFSB, IIFM) as well as with regulatory bodies? Could this serve a positive role in lobbying for improvements and supporting industry-wide initiatives? Does it risk being a weak voice among the marketing noise of the industry?"

The industry should have a voice with the regulators. Here is Pakistan we have a channel where the consumer/customer has a communication access to the regulators where he can report his grievances. This arrangement has ample benefits and the most momentous aspect is that the institutions have an apprehension that their wrong practices and mis-commitments can be reported to the regulators that can draw disciplinary actions. This acts as a watch and vigilance control over the institutions.

Such communication also brings harmony within the industry. The customer and the public will explore the system and Islamic Finance in detail. Ultimately they will be more aware of the practices, the principles and the system.

However communication with other bodies such as AAOIFI, IFSB or IIFM will need a lot of background knowledge as a pre-requisite for their understanding. At a very elementary stage it will be confusing for the general public to understand and time-consuming for the institutions to entertain them all.

Of course arranging seminars, conferences and awareness programs is very effective in disseminating knowledge and communicating message across the prospective community, which can amplify the voice in a polluted ambiance.

Islamic finance does need a voice or body that promotes the development of Shariah compliant finance as a whole, and is not just representative of one particular narrow interest group. The problem we have is that not everyone has the same collective vision or ambition, and there are already a number of bodies in Islamic banking such as AAOIFI, IFSB, IIFM etc which play a key role in accounting and other standards, but with the differing interpretation of Shariah, having common standards usually means moving to the most conservative stance. In addition, within the Islamic institutions, there are some who take a very active role in trying to drive Islamic finance to a new level, whilst others are happy to give next to nothing towards the industry’s development. However, the key point in all this is that these bodies are all driven either by, or for the industry, and there are few bodies outside of the industry that have a voice loud enough to be heard.

There is a perception in my view that the Islamic finance industry is not listening to where the end users, especially the retail market, want the industry to develop. To be able to build, therefore, a group that represented all the interested parties that had an interest in the markets development would be an excellent idea. It would need to be very focused to ensure that it became more than a talking shop only, it should include members (individuals or institutions) from the Islamic finance industry who shared such interests, and should probably pick one or two key initiatives that could be delivered to ensure that the group gained credibility.

Geographic spread is also important, to include all those centres where Islamic finance is on the agenda, whether because predominantly Muslim countries, or where there is the vision that the growth of Islamic finance is going to be one of the major trends in the coming decades, as alternatives to the conventional finance become more main stream.

Ehsan Ahmad  
Member Shariah Committee  
Emirates Global Islamic Bank

Simon Eedle  
Global Head Islamic Banking  
Calyon
Islamic finance is still embryonic and at the same time growing with a rapid pace. These two are distinct features and require extra care. While on one hand Islamic financial products are getting popularity for providing an alternate source of funding, on the other hand there is criticism regarding its effectiveness. Moreover, there are some differences among scholars as well on few products. None other than open communication among relevant parties could serve as an effective tool to discuss and resolve industry issues.

Mudassir Amray
Head of Islamic Banking - Asia Pacific
Citigroup

I believe strongly that as long as there is no global trade association representing Islamic Finance, this nascent industry will not be able to realise its true potential. A common body made up of major financial institutions and corporates (buy side) comprising both international and regional players having interests in Islamic products and services, would provide the industry with the cement it badly needs and with the accreditation it is due. At present, as each country has its own sets of rules and regulations, Islamic Finance appears very fragmented indeed. A common voice would ensure financial institutions, corporates and service providers interact with the AAOIFI, the ISFB and other regulatory and industry bodies in a consistent way.

Sohail Jaffer
Partner and CIO
FWU Group

A voice is an essential part of any debate. Islamic Finance (IF) is a young industry possessing vibrant, committed, passionate, intelligent, experienced and knowledgeable stakeholders and practitioners whose contribution at this stage of its development is the life blood of its future. The more engagement between the various parties from regulators, standard-setting bodies, institutions both educational and financial, the better the offering for the utilizers. In any industry the matters are usually best resolved discussed around a table. IF has much to offer, it is conservative, socially responsible, ethical and has an approval and oversight function built-in to address any violation of preset Shariah criteria. If all the stakeholders contribute together to establish it as a true alternate offering to the global finance space, then the best way to achieve this is through dialogue and engagement. The customers need to be informed of the mechanisms of IF and how it is different from conventional finance in order to be comfortable with the offering. Presently there is much misunderstanding that needs to be addressed for IF to become acceptable on a critical mass basis. IF has developed from the top down and needs a broad base from the grass roots to become a serious alternative to conventional finance and currently only represents 1% of global finance. The recent economic crisis bringing misery globally provides an unique opportunity to IF to establish a foothold in the global finance space as it is attractive to those who feel that the excesses of the unregulated and unmonitored sector of conventional finance need to be reined in and leverage and short selling should be discouraged. All of this can be achieved through dialogue and solution searching among the IF stakeholders from all parts of it and also engagement with the conventional finance counterparts.

In my view, there is a tremendous need to establish channels between the various stakeholders, such as Scholars, practitioners, regulators, customers, lawyers and auditors on a regular basis to avoid reaching decisions in a vacuum. This is an industry which affects all the stakeholders and so bodies to include the voice of all stakeholders is a must. It may not seem effective, but a platform for airing the issue and getting the feedback is an important part of the development of the IF industry.

Majid Dawood
Chief Executive Officer
Yasaar Limited
The rapid and recent growth of the Islamic Banking industry has certainly highlighted the fact it has been difficult to coordinate all the key stakeholders in an efficient manner. The stakeholders include: Islamic Financial Institutions, regulators, scholars, consumers, who naturally have their own agendas. Currently there is no constructive platform to ensure these interests are reconciled for the industry to develop in a uniform manner. Compounding this is the fact that each country already active in, or recently entering, Islamic banking, has a desire to promote its own agenda, which makes cross border, international cooperation difficult. The industry is becoming very large, both across the number of new and “innovative” products being delivered to the market, and the ever increasing number of entrants into the market.

All appears well, growth is certainly good, and the industry needs to develop a framework for effective administration and management of this growth.

It is also clearly evident that independent and objective analysis highlights key issues that are not being addressed in any noticeable manner by the industry. Issues such as the fact that all financing (as opposed to investing) is benchmarked to Interest rates, assets introduced into Islamic transactions typically serve just to facilitate cash flows (again often priced on or benchmarked to interest where deferred cash flows are involved) rather than serve to make the transaction truly asset based, and that in many fundamental areas, Islamic banking is seen to be practicing sophistry in how it presents itself.

These issues go to the heart of the industry and any growth achieved whilst these and other key issues remain unaddressed only further serves to undermine and erode the deep principles underlying the philosophy of Islamic banking. This view is expressed by several within the industry, and also by Muslim as well as non-Muslim observers. However, the race to be a part of this growing and lucrative industry is blurring these considerations.

The most beneficial role that could be played by an independent body or entity would be to ensure that the industry does not further diverge from its founding principles, and that the competition for market share, growth, products and revenue do not override these principles. The industry and its stakeholders would benefit from such an impartial and objective body, and should also expect advice on concrete and realistic policy and strategy on how growth can still be sustained without sacrificing their key tenets.

Safdar Alam
Head of Islamic Structuring
JP Morgan

My fundamental answer is a “yes”. However, we do need to understand what it is we need to achieve before prescribing a set of solutions. A welcome first step would be pulling together a list of issues and gradually turning that into a blueprint with corresponding action items that require attention and follow-up.

I have been particularly critical at a number of conferences in the recent past - and while the debate has been interesting it has only been that. This “voice” can document these issues but simultaneously it needs to be empowered with the right tools to be able to follow up on these action items and ultimately enact positive change. Those individuals and institutions involved will have an onus to do that, hence it requires arms and legs to do the heavy lifting.

The regulatory bodies have their own agendas and are challenged enough in trying to formulate guidelines and promote buy-in. Perhaps People Power is the currency required at the initial stage so that this initiative can build momentum and gain acceptance across the industry.

There is not a moment to lose.

David (Daud) Vicary (Abdullah)
Managing Director, DVA Consulting
Global Leader, Global Islamic Finance Group, Deloitte