



# ISLAMIC FINANCE BULLETIN

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## GOVERNANCE AND REGULATORY ISSUES & CHALLENGES

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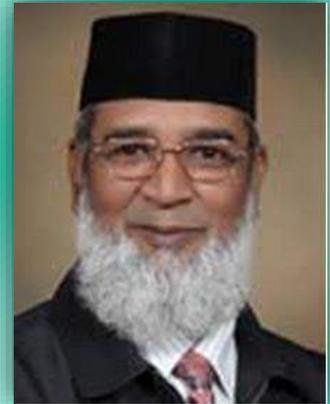
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## MESSAGE FROM THE DEAN OF II/BF/ PRESIDENT OF ICIFE

Dear members of the ICIFE,

*Assalamualaikum warahmatullahi wabarakatuhu*



As we herald in the new academic year, join me in congratulating the Editorial Board on the production of their first issue. Islamic Finance Bulletin, a strategic collaboration between IIUM Institute of Islamic Banking and Finance (II/BF) and International Council for Islamic Finance Educators (ICIFE), was first conceptualised over six months ago with the aim of bridging the gap between the institute and the industry.

This issuance marks yet another milestone for the EPP- project as we strive to achieve our mission of producing competent graduates and scholars through curriculum and talent development initiatives, who are well vested with theoretical and practical knowledge. It is my hope that the students as well as the practitioners of the industry actively contribute to the bulletin as we attempt to bring the two together in this intellectual platform. These two wings of a bird, Islamic banking and Finance (IBF) is utmost necessary to fly. Without intellectual input and industry advancement it will remain either day dreaming or nightmare in absence of former or later accordingly. Institutions of higher learning under the purview of ministry of higher education need to fill in the need of intellectual capacity while central bank of Malaysia namely Bank Negara has to do the another part to regulate and rightfully govern the industry to bring Malaysia to the next level of Islamic banking and finance.

I look forward to discovering new ideas and thoughts in this bulletin and wish the best to the Editorial Board in their endeavours.

May Allah (s.w.t.) bless all of you for the job well done-*Ameen*

*Wassalam*

**Prof. Dr. Khaliq Ahmad**

**Dean, II/BF, IIUM; cum**

**Founding President of ICIFE**

**MESSAGE FROM THE EDITOR-IN-CHIEF**

Dear Esteemed Readers,

*Assalamualaikum warahmatullahi wabarakatuhu*

It gives me great pleasure to welcome you to the inaugural issue of the IIiBF-ICIEFI *Islamic Finance bulletin*.



*The Islamic Finance bulletin* aims at providing a common platform for Islamic Finance community to exchange ideas and innovate practices of Islamic Economics, Banking & Finance that promote both global industry and community development. As a conduit to encourage academic discourse as well as engaging in emerging industry technologies, a symbiotic as well as synergistic learning experience is aspired.

This inaugural issue presents governance and regulatory issues and challenges facing the Islamic financial services industry. Given the need to consolidate the Islamic financial industry to better serve the Islamic finance community, special emphasis for it to be resilient as well as supportive of enterprising initiatives is anticipated.

Regulation and Governance are mutually supportive and yet not substitutable. The choice of the degree of regulation for compliance is to be effectively supported by adequate effective governance. With this novel issue, I would gladly like to introduce the debut issue of *the Islamic Finance Bulletin* on the theme of 'Regulatory Issues and Governance in Islamic Finance'. It is realized that there is a need for a comprehensive regulatory and governance environment for Islamic financial services industry - pertinent in the wake of globalization of the industry.

I would like to express my considerable appreciation to all authors of article contributors and readership for their continuous support to realize the goal envisioned in current issue of *the Islamic Finance bulletin*.

Thank you,

**Assoc. Prof. Dr. Syed Musa AlHabshi**

**Editor-in-Chief**



## THE IIUM INSTITUTE OF ISLAMIC BANKING AND FINANCE (IIiBF)

IIiBF first opened its doors as the centre for excellent education and research in Islamic Banking and Finance in January 2005. IIiBF seeks to address the demand for proficient talent in Islamic Banking & Finance by educating competent graduates and scholars who are well vested with knowledge in Islamic finance related contemporary fields of study such as economics, finance, management, accounting, law, and information technology as well as the Shariah.

IIiBF also aims to attain as an international referral centre for all issues and matters relating to Islamic Banking and Finance for the industry and community, and in fact, it is reported by the Ministry of Higher Education Malaysia, IIUM is ranked No.1 worldwide in the field of Islamic Banking & Finance.

Lead by the Dean, Prof. Dr. Khaliq Ahmad, IIiBF has a strong force of 15 faculty members, all who are experts in their fields. The institute offers Doctorate and Masters of Science in Islamic Banking and Finance.

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## THE INTERNATIONAL COUNCIL OF ISLAMIC FINANCE EDUCATORS (ICIFE)

Established in January of 2014, ICIFE aims to enrich and improve the quality of education in the Islamic Finance sector through contributions in curriculum and human capital development. Based in Malaysia, ICIFE envisions achieving its aim at the global scale through consultation and participation of experts from across the globe.

Along with over 12 public universities, ICIFE is lead and hosted by the International Islamic University Malaysia (IIUM). It is the product of the strategic initiative of the government of Malaysia to hoist the country as a global hub of Islamic Banking and Finance, through the Economic Transformation Program (ETP) and Entry Point Projects (EPP).

During the closing ceremony of ICIFE Round Table discussion in August, 2015, the chairman of ICIFE International Advisory Panel, Tan Sri Dr. Rais Yatim announced the proposal of Islamic Finance Educators Act bill to the Malaysian Parliament – imparting ICIFE's zealous efforts to achieve its aim to achieve comprehensive educational excellence in Islamic finance in Malaysia.

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## HIGHER ORDER GOVERNANCE FOR ISLAMIC FINANCIAL INSTITUTIONS?

By Syed Musa AlHabshi<sup>1</sup>

With the advent of information age, articulated with information science, information communication technology (ICT) and social media, transparency has become a dominant feature in social choices. In this regard additional required disclosures for service industries, with particular reference to Islamic financial services industry (IFSI), are a primary concern.

In a highly regulated financial sector enterprising bankers express concern that excessive regulation tend to stifle innovation. On the other hand in serving public interest, customer protection is deemed utmost important to ensure information symmetry which enables ethical financial services.

A typical “black box” of non-disclosure or lack of disclosure in the financial intermediation process presents potential moral hazard and adverse selection in financial transactions. This has been a primary regulatory concern since the history of financial intermediation. The need for transparency towards ethical banking has been advocated with prescribed product disclosure requirements as well as customer friendly disclosures.

Financial innovation in a more ‘service provider friendly’ and supportive regulatory environment, however, can be the catalyst for sustainable growth of the financial sector. However, would this allow preferred financial innovation to promote customer care and enhanced customer value?

Islamic financial institutions since the 60’s began as specialized institutions which cater for faith driven missions. These are primarily directed towards the Muslim markets that embrace ‘socio economic justice’. Since the primary motivation is “religious” in nature, despite some financial mishaps and operating within conventional or dual framework, both investors and stakeholders are fully aware that the financial institution has an important role with regard to the wealth administration and management in accordance to the religion of Islam.

With increasing emphasis on commercialization of Islamic financial institutions since the 1980’s, survival and growth have taken precedence and “permissibility” to engage in Islamic financial services has become a priority. As a result, in addition to Islamic banks and specialized institutions, Islamic windows and Islamic subsidiaries of conventional institutions mushroom to promote the ‘dual banking’ system.

Both the sophistication and the complexity of Islamic financial system escalate the urgent need for “permissible” innovative financial products and services to meet emerging market segment demand. This is consistent with the Islamic legal maxim “*That an act is deemed permissible unless stated prohibited.*” Specific reference to Shari’ah legal maxims, rulings and opinions became the basis for permissible financial transactions and related innovations.

Specific regulatory concerns were also raised on the preservation of ‘soundness and stability’ of the dual banking financial system as well as the legitimacy of Islamic financial instruments, products and services. Significant steps towards a comprehensive legal and governance framework are introduced to sustain established financial intermediation models as well as to ensure Shari’ah compliance culture.

With common industry policy initiatives applicable to both conventional and Islamic financial sectors and additional statutory provisions to the Islamic financial sector, would such provisions provide leverage to a

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<sup>1</sup> Assoc. Prof. Dr. Syed Musa is a Full time lecturer at the Institute of Islamic Banking and Finance, IIUM. He also serves as Shariah committee member in Islamic Financial Institutions in Malaysia.

higher compliance culture or on the contrary becomes an impediment to potential innovation in a non-level playing field? Thus the issues of 'higher order' regulation and multi-facet governance currently impacting the Islamic financial services need to be tread carefully.

The religion of Islam as peace and submission to One True God, Allah S.W.T., was revealed to His final Prophet and Messenger Muhammad S.A.W. who is the seal from a divine chain of prophets and messengers. His mission is to invite mankind to be mindful of the Ultimate Abode (*Al-Aakhiraah*) whilst serving man's best efforts to enjoin goodness and avoid evil in this temporal world (*Ad-Dunya*).

Islamic financial services are deemed as an activity governed by the values prescribed in the revelation of the Quran as immutable source of Shariah. These universal values have been recognized as collective wisdom of virtue and ethics accepted by global society. Hence 'principle based ethical reasoning and choices' effectively are the basis of moral action through regulation and governance of an orderly society.

Shariah as the source of guidance for mankind from the immutable revealed book Al Quran which is exemplified by the notable exemplary conduct of Prophet Muhammad S.A.W. as As-Sunnah or Prophetic Traditions has been adopted in financial practices. This is based on Islamic jurisprudence which promulgates legal maxims, rulings and opinions to prescribe permissible financial practices that encourage fair dealing and mutual good-will in trade and avoid usury and games of chance as well as prohibited activities harmful to mankind. Most Shariah engagements are in the form of compliance to the prescribed rulings and opinions. Hence Shariah compliance is both legal process and regulatory requirement.

Should Shariah governance be directed towards compliance culture only? Maqasid as Shariah which is intended to bring forth the goodness in all human aspects with specific reference to religion, life, lineage/progeny, intellect and property/wealth requires a comprehensive and integrated approach that caters to human/social welfare that is at peace and in submission to Allah S.W.T. the Creator and the Sustainer of the Worlds

Hence a higher order governance of Islamic financial institutions that not only recognizes compliance culture but embraces the principles of truth, honour and justice to promote values pertaining to transparency, integrity and fairness as well as to nurture ethical Islamic financial institutions needs to be the focus of the hour.

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**YOUTH VOICE****IFSA 2013 IN THE LIGHT OF TAKAFUL IN MALAYSIA**

Edited by Horiya Hussain\*

*The need for innovative and competitive edge of the Malaysian takaful industry has encouraged the initiative for more transparent guidelines and Shariah compliance practices by the Bank Negara Malaysia. The Takaful Act 1984 being framed on the structure of Insurance Act 1996 has limitations as to its practical applicability for Islamic Insurance providers in Malaysia. Thus, the 'omnibus' Islamic Financial Services Act of 2013 provides for comprehensive provisions to ensure effective corporate structure, Shariah and corporate governance for the Takaful operators. This article aims to throw light on the limitations of Takaful Act and particular implications of IFSA on Takaful industry.*

\*Masters Candidate at Institute of Islamic Banking and Finance, IIUM

In Malaysia, although the takaful has developed since 1984, issues in the Takaful Act persisted. The increased awareness and demand for Takaful has encouraged the initiative for more stringent guidelines and Shariah compliance practices- resulting in introducing the Islamic Financial Services Act 2013 (IFSA) to provide the regulation and supervision of takaful institutions, Islamic banking, payment systems and other relevant entities. The Act emphasizes Shariah and regulatory compliance through elaborate provisions, transparency and emphasized governance structure.

### Issues in the Takaful Act 1984

There are certain issues in the Takaful Act that need deliberation in order to ascertain the modifications that have been considered and enacted in IFSA. These issues pertain to conflict in the legal structure being employed and the Shariah injunctions used in the practical application of Takaful- arising due to the conventional nature of the platform made available for the Takaful to operate in. As such, the application of the Takaful contract in such a system raises inconsistency in the Shariah base of the Islamic contracts employed for takaful product structuring.

#### 1. Insurable Interest

An insurable interest represents someone or something of value that, if lost, would cause financial harm to the insured. In conventional insurance someone that does not have insurable interest with the insured cannot be appointed as

the beneficiary to receive the policy money upon the death of the insured. The Takaful Act 1984 does not explicitly deliberate on the issue, while it is important to adopt this principle in takaful operation to reduce and prevent the possibility of exploitation of takaful contract with the objective of having material gains.

#### 2. Capacity to contract

As per section 64 of Takaful Act, as well as in accordance with the Age of Majority Act 1971, the capacity to contract of a person is based on whether the person has reached the age of 18. However in Islam, the legal capacity is determined by the subjective test of physical indication or when he already reaches the age of 15, which is in accordance with the concept of *Bulugh* (puberty) and *Rushd* (rationality) (Hasan, 2011).

#### 3. Nomination

Nomination is a right of policy holder to name a person who will receive the takaful benefit upon his death. In Takaful Act 1984, takaful operator shall pay the takaful benefit to proper claimant instead of paying it to the nominee (Ismail, 2011). Proper claimant, as explained in the Act, is a person who claims to be entitled to the sum in question as the executor of the deceased, or who claims to be entitled to that sum under the relevant law. Thus a proper claimant is not necessarily a nominee. Also, the Act has not detailed on the status of nominee, i.e., whether the nominee can become the beneficiary or can only be appointed as executor for the takaful benefit.

#### 4. *Utmost good faith*

Utmost good faith relates to the obligation of the policy holder to disclose any material things that could affect the judgment of the insurance company to approve participation of a customer. Even though it is not provided by the Act itself, but in the order for the contract to be Shariah compliant, it is obligated on the contracting parties to disclose such information. Since the law does not clarify the matter, there may be a possibility of dispute in the future between the takaful operator and the participant. This may raise difficulty of resolution as well as increased costs for the contracting parties as improper disclosure may lead to dispute resolution through formal court investigations.

In IFSA, Section 140, Subsection 3 and 4 elaborate on the issues of insurable interest and capacity to contract. However, the equivalent term used for insurable interest under the Act is permissible Takaful interest.

Permissible takaful interest is best explained as a person who has entered into a takaful contract for the coverage of a person other than himself. The 'Other person(s)' may be those persons that are closely related to the Takaful Participant, or a person that the participant has an interest in. Nevertheless, IFSA has outlined the individual who can be described as having permissible takaful interest - such as spouse, child, ward, employee and person who is wholly dependent at the time the takaful is affected. Hence, if the family takaful is insured under someone who does not qualify under permissible takaful interest at the time the contract is entered into, the contract is void.

With regard to capacity to contract, Section 140 further discusses on the provision of a minor aged between ten (10) years to sixteen (16) years to enter into family takaful contract with the condition that consent is obtained in writing from the parent or guardian. Upon reaching of age sixteen (16), the person may obtain permission in writing from parents to assign the family takaful certificates on his life by himself.

Also, to ensure the enforcement on this aspect, Section 141 has provided the provision on the responsibilities of both operator and participants to disclose information. This section stresses on the principle of 'utmost good faith'. It is the

responsibility of the Takaful Operator to confirm on any changes of the information given prior to renewal of takaful. In the absence of this, the requirement on customer is deemed to be waived under this section. According to subsection 3 of Section 141, "...*misrepresentation by a consumer may be classified as deliberate or reckless or innocent*". The section defines reckless as an act of dishonesty in providing wrong information. While, 'innocent' was explained in the subsection 6 as, "A *misrepresentation is careless or innocent, as the case may be, if it is not deliberate or reckless*"- implying that misrepresentation shall fall either in the form of recklessness or out of innocence.

In addition to this, the section further explains the resolution resulting from misrepresentation and the penalty imposed on the breach of the requirements- either through termination and decline of payment, or reduction of proportionate amount to be paid on a claim.

Section 142 outlines the power of participants to make nomination, the enforcement of payment claim in the event there is a nomination or no nomination, and the provision for revocation of nomination. The Act has clearly defined the status of nominee in subsection 3(1), as either an executor or as a beneficiary under a conditional Hibah, as well as explaining on the conditions whereby the nominee fails to claim the benefits.

#### **Conclusion**

With the schedule 9 Para 1-10 and 13-19 of IFSA(which deals with application of the schedule, pre-contractual disclosure requirements for takaful and Non-contestability & remedies for misrepresentation) coming into force on January 2015, IFSA will have a significant impact on Takaful and Re-Takaful operators in Malaysia by providing with a greater sense of regulatory control and consumer protection. One of the key challenges in implementing IFSA is to ensure the comprehensive guidelines are met with in form as well as retaining of the Islamic goals envisioned under Takaful, which has been fervently addressed under Islamic Financial Services Act, 2013. Nevertheless, the clear mention made in the IFSA of the principal concepts used in the Takaful industry will lead to comprehensive governance with transparency and Shariah compliance leading to creating trust in the customers – in turn resulting in business growth for takaful players.

## DIALOGUE

*Ms Fozia Amanulla is an experienced Islamic investment banker currently serving as the CEO and Director of Alliance Islamic Bank. She is the holder of numerous international and local awards for Malaysia's first Residential Mortgage Backed Securities and the first Islamic sub debt issuance. She is also a frequent speaker on Islamic Banking matters both locally and globally.*

*Ms Fozia herein shares her experience and insights on regulatory changes, challenges and her thoughts on the future of the Islamic Financial industry.*



Interviewed by Mohamed Cherif El Amri

### **Please provide us with a brief background of your experience in banking, particularly Islamic banking.**

As much as I have been a practitioner of Islamic banking for the last 10 to 12 years, I actually started my career in a conventional investment bank. I only came into Islamic banking at the point when Bank Negara Malaysia (BNM) was encouraging and facilitating many inaugural Sukuk issuances a little over a decade ago. That is when I gradually got involved in Islamic banking and thereafter, when the opportunity arose, I took on the challenge of helping an Islamic commercial bank. Since then I've been immersed in the development of Islamic banking in Malaysia. It's been an enjoyable experience with extensive developmental opportunities.

### **How do you evaluate the Islamic Financial Services Act (IFSA) as the governing system of Islamic finance?**

It has long been recognized that a robust legal and regulatory framework is crucial for the propagation of Islamic finance in any particular jurisdiction. We made great strides as an industry with the Islamic Banking Act and the Takaful Act. Now with IFSA, the industry is positioned for further progress and evolution. IFSA provides an integrated regulatory framework to govern the entire Islamic financial services sector. IFSA essentially replicates the Financial Services Act (FSA) but with additional specifications that address Shariah compliance and governance. While some bankers felt that due to IFSA, a lot

more requirements were placed on Islamic banks compared to conventional banks, I believe it is a situation where BNM is trying to ensure that Islamic banks move towards greater differentiation in proposition and business model. In that respect, IFSA should be seen as a driver of the industry's evolution towards more distinct products, operations, services and customer engagement models.

### **The introduction of IFSA meant a paradigm shift for Islamic banking in terms of promoting emphasis on risk sharing rather than risk transfer models. How does this impact banking operations in general and your organization in particular?**

You are right that this involves a major paradigm shift. Such a shift can mean considerable, and sometimes uncomfortable, adjustments. A case in point is the tightened operational requirements arising out of more stringent Shariah compliance standards. It was not easy for Islamic bankers to adjust to the new rules as for many it meant a major change in processes, infrastructure, documentations and general practices. For those Islamic banks which share distribution and operations infrastructure with a conventional parent bank, these new rules were seen to be especially onerous.

From a product development perspective, there were adjustments to be made too. For instance, the new standards and frameworks for investment accounts (based on Mudharabah, Wakalah and Musharakah) and Islamic deposits (based on

Wadiah, Tawarruq, and Qardh) present challenging trade-offs from a marketing standpoint. Wadiah deposits preclude any commitments to the customer on deposit returns, while investment accounts provide no guarantee on the investors' principal. It is a trade-off that some customers may even find hard to fathom and reconcile with what they are used to in terms of deposit products. Essentially there is a considerable mind-set shift that needs to take place, and therefore a lot of customer education will be required before banks can get customers' buy-in.

Similarly, for financing products, where tighter rules on how Shariah-compliant financing structures are operationalized, there were substantial clean-ups that needed to be done by Islamic banks on processes, documentations, systems followed by training of staff and partners on the new approaches. Easily there was a period of 6 to 8 months where Islamic banks would do nothing but clean-up the processes and operations. It was a situation where, like it or not, the banks had to do it to ensure Shariah compliance.

Personally, as arduous as the effort was, I am still glad we had gone through the adjustment. It is a sentiment I am sure is shared amongst all other Islamic banks. Because once we got that out of the way, we can now move ahead and offer our better Shariah complying new products and contracts to the customers.

### **How has the introduction of IFSA influenced the decision making process at the senior-level management?**

A lot! IFSA certainly nudged senior level decision makers to more deeply embed Shariah compliance considerations into Board and management matters. Not to say that we did not think we had responsibilities for Shariah compliance in the past, but this encouraged us to enhance the sophistication in which we approach Shariah considerations from strategic and tactical standpoints. Today we are in a situation where the Board and Board Committees are more aware of Shariah issues and nuances, and expect formal assurances of Shariah compliances in key decisions regarding strategy, management and operations.

### **How was the merger process between Hong Leong Islamic Bank and EONCAP Islamic Bank facilitated given that at that time no regulatory provisions were available for the merger of Islamic banking entities?**

As you have said, at the point of the 2011 merger between EONCAP Islamic Bank and Hong Leong Islamic Bank, there were neither special laws nor any guidance under the Islamic Banking Act (IBA) to allow for mergers between Islamic banks. Nor was the central bank accorded powers to facilitate Islamic bank mergers as what is provided in the Banking and Financial Institutions Act (BAFIA) then for conventional bank mergers. As such, the only legal framework available to us was section 176 of the Companies Act where the merger was framed as a scheme of arrangement that required the approval of creditors, including at least 75% of our depositors.

In order to formalize the creditors' approval for the merger, we had to call for a Creditors Meeting to vote on the merger. This is no easy feat because, as you can imagine, we had several hundreds of thousands depositors from whom we needed to obtain 75% majority agreement to the merger. You can imagine the kind of canvassing and campaigning strategies that needed to be applied in order to get the requisite number of votes. We engaged all our large depositors individually and explained to them what the concept of the merger is, why the merger was necessary, what the value creation would be. For the larger base of small of depositors, we wrote to them with a pitch pack, FAQs and a lot of material explaining the merger. We monitored and gauged the depositors' votes in the lead up to the Creditors Meeting. At the meeting proper, we brought in independent advisors and auditors to validate the voting exercise. It was as a result of these efforts that we managed to secure 99.99% positive votes that allowed the merger.

The whole process, as you can tell, was arduous. And it showed how, without the right regulatory provisions, the merger process for Islamic banks would take longer than conventional banks' process. In this case, the merger of EONCAP Islamic Bank and Hong Leong Islamic Bank took 5 months longer than the merger of the conventional bank parents'. And it was primarily because the Islamic Banking Act did not provide for such a merger scenario.

Thankfully, with the introduction of IFSA, this will no longer be the case.

### **What do you see are the main hindrances in the regulatory system for Islamic finance, locally and globally?**

It used to be that the key issues were Shariah governance and harmonization of Shariah standards. But largely we have gotten past this with better awareness and global acceptance of key requirements of the various Shariah concepts. Shariah governance for Islamic banks has also been clarified and codified in the new IFSA.

A key challenge for policymakers, I imagine, would be to ensure that the overall cost of an additional layer of compliance (i.e. for Shariah) does not render structural competitive disadvantages to Islamic banks relative to their conventional counterparts. As much as Islamic banks would want to ensure end-to-end Shariah compliance in their products and operations, there are real world implications that are faced.

Take, for example, the underlying Tawarruq transaction for Commodity Murabahah deposit and financing. While we already have industry-level infrastructure for the performance of large scale Tawarruq, the pricing for commodity trading services is reflective of the limited number of service providers. As such, Islamic banks bear higher costs of operations for their deposit and financing products as compared to conventional banks.

Additionally, in some jurisdictions, the introduction of Islamic products is highly regulated and requires prior approvals from the regulator. Arguably, this may affect the relative speed-to-market for new Islamic banking products and render them less agile to capitalizing on changing market needs than conventional products.

In many markets where Islamic finance co-exist with conventional offerings and compete for both Muslim and non-Muslim customers, policymakers will need to craft regulatory modalities that ensure a level playing field between Islamic and conventional systems.

### **How would you evaluate the current regulatory systems governing Islamic finance locally and globally?**

Locally, I must say BNM has done an excellent job. I do not think it can even be compared with any other country practicing Islamic finance. I think we have done so much so fast, as BNM has particularly been hands-on in driving the growth of Islamic banking in Malaysia. I would easily say well done to BNM!

Globally, I would want to see greater governmental support in ensuring that Islamic banking is provided a conducive environment to grow within the respective jurisdictions. We have heard in the past how some countries have publicly announced their aspirations to be the centre of Islamic finance, however for most of those countries it did not really turn out that way. In fact, in one particular jurisdiction, only one Islamic bank was established and even then, it is not at the scale and sophistication to which it was initially aspired. I think the reason is because they never really facilitated the growth of this relatively new industry. I think one needs to have certain assistances accorded to an industry, in order that it could expeditiously gain a sound footing. If governments or regulators are not prepared to do that, it would be hard for Islamic banking to offer its propositions, and to grow as a social good.

### **What could be done to enhance the current regulatory system governing Islamic finance both locally and globally?**

As I have mentioned earlier, where conventional and Islamic banking systems co-exist in a jurisdiction, regulations need to be carefully crafted to ensure a level playing field and to avoid regulatory trade-offs or arbitrages between the two systems. From a competitive standpoint, it is difficult for an Islamic bank to be operating in a dual banking system where regulations are different from one system to another even though the customers and market that are being served are essentially the same. In this situation, regulations should not serve to unfairly impose a higher cost of compliance to participants of one banking system as compared to the other. Ideally in Malaysia, you would probably want to see a situation where if certain requirements that are imposed on Islamic banking have heavy cost-

impact, there needs to be a counterbalancing advantage that is accorded to Islamic banking. It could either be in the form of extended or wider fiscal incentives for Islamic banks. Alternatively, counterbalancing taxes or regulatory requirements could be imposed on conventional banks.

From a global perspective, because Islamic banking in many markets is still in a relatively nascent stage, I think it is necessary for governments to be facilitative of Islamic banking growth. As such, regulations to enable Islamic banking and incentives for the growth of Islamic banking will be critical in these formative stages. Perhaps the IFSA and the Malaysian experience can be useful references for these markets.

**What is your future vision for Islamic financial industry in Malaysia in terms of both growth and regulatory issues?**

I think for a start, I definitely cannot wait to see a situation where the Islamic finance industry in Malaysia is at par with the conventional industry. I look forward to seeing that. But considering the Islamic industry's current size and growth rates, this will realistically take a long time. I think for Malaysia to have that aspired parity, it is imperative that Islamic banks differentiate themselves substantially from conventional banking – both from a business model and value proposition standpoints. Importantly, as well, is the need to have an ecosystem of customers, providers, and intermediaries that are aware of the propositional distinctions of Islamic and conventional; and know how to match those propositions with their needs.

## ARABIC ARTICLE

## قراءة تحليلية في التشريعات المستجدة في حوكمة المالية الإسلامية

د. عبد الباري مشعل

رئيس مجموعة رقابة للاستشارات المالية الإسلامية

القضايا الكبرى في حوكمة المالية الإسلامية خمس وهي: توحيد المعايير الشرعية على مستوى قطاعي في الدولة - والهيئة الشرعية العليا على مستوى القطاع أو الدولة - وهيئة الرقابة الشرعية لكل مؤسسة مالية - والتدقيق الشرعي "المستقل" أو الخارجي" - ووحدات الامتثال والتدقيق الشرعي الداخلي. ويعتني هذا المقال بالقضايا الثلاث الأولى؛ حيث تميزت التشريعات المستجدة في عشر دول: إندونيسيا، السودان، ماليزيا، سورية، ليبيا، المغرب، الكويت، البحرين، والإمارات العربية المتحدة وتونس؛ بأنها أكثر احترافاً بقضايا توحيد المعايير الشرعية، والهيئة الشرعية العليا، بالمقارنة بالتشريعات الأخرى السائدة، والتي تؤكد أن هيئات الرقابة الشرعية الخاصة على مستوى كل مؤسسة هي المصدر التشريعي الوحيد للمؤسسة المالية الإسلامية.

وعلى هذا الصعيد تميز التشريع الإندونيسي والمغربي؛ ففي إندونيسيا تم استحداث "المجلس الشرعي الوطني" (1998م) تحت مظلة مجلس علماء إندونيسيا، وأضيف إلى ذلك استحداث "اللجنة الشرعية المصرفية" (2008) داخل مصرف إندونيسيا المركزي لمساعدته على تطبيق فتاوى "المجلس الشرعي الوطني" وهو تطور جدير بالاهتمام. وفي المغرب أيضاً تم استحداث "اللجنة الشرعية للمالية التشاركية" (2015م) تحت مظلة المجلس العلمي الأعلى (مجلس يضم علماء المغرب). وذلك بغرض إصدار المعايير الشرعية للبنوك التشاركية. وتسير تونس طبقاً لمشروع قانون البنوك 2015 على خطى إندونيسيا والمغرب بإسناد مهمة إصدار المعايير الشرعية إلى "المجلس الإسلامي الأعلى" في الدولة.

أما في الكويت والإمارات فإن المرجعية العليا تتمثل في وزارة الشؤون الإسلامية. فقد تضمن قانون البنوك 2003 في الكويت تحديد هيئة الفتوى بوزارة الأوقاف والشؤون الإسلامية للفصل في الحكم الشرعي في حال وجود اختلاف بين أعضاء الهيئة الشرعية الخاصة، وهو أمر نظري لا أثر له في الواقع. وفي قانون المصارف 1985 في دولة الإمارات تمت الإشارة إلى استحداث "الهيئة العليا الشرعية" بوزارة الشؤون الإسلامية والأوقاف للرقابة على المصارف والتحقق من مشروعيتها وممارستها وأنشطتها، وكذلك إبداء الرأي فيما يعرض على تلك المؤسسات من مسائل تتعلق بالنشاط. ولا توجد أي مستندات تشير إلى تفعيل ما ورد في القانون الكويتي والإماراتي فيما يتعلق بالمصارف.

أما في التشريع السوداني والماليزي فقد تم إسناد إصدار المعايير الشرعية فيهما إلى هيئة رقابة شرعية عليا يتم استحداثها في السلطة الإشرافية للقطاع على مستوى الدولة، ولكن يتم تعيينها من أعلى سلطة في الدولة، ففي ماليزيا تم استحداث "المجلس الاستشاري الشرعي" في كل من البنك المركزي الماليزي (2009)، وهيئة الأوراق المالية الماليزية (2010)، ويعين أعضاؤه من حاكم البلاد (الملك) بعد التشاور مع الوزير والمحافظ. وفي السودان تم استحداث "هيئة الرقابة الشرعية العليا" (1992، 2003) في بنك السودان المركزي، ويعينها رئيس الجمهورية.

وأما في التشريعات الأخرى فكانت هيئات الرقابة الشرعية العليا داخل السلطات الإشرافية للقطاع، ففي سورية استحدث مجلس النقد والتسليف المشرف على البنك المركزي في الدولة (2008) "الهيئة الاستشارية الشرعية"، كما استحدثت هيئة الإشراف على التأمين في الدولة (2009) "الهيئة الاستشارية للرقابة الشرعية" وفي ليبيا استحدثت قانون المصارف 2012 "الهيئة المركزية للرقابة الشرعية"، وفي سلطنة عمان (2013) تم استحداث "الهيئة العليا للرقابة الشرعية" في البنك المركزي للسلطنة، وفي الكويت استحدثت هيئة أسواق المال وتنظيم الأوراق المالية (2010) ثم استحدثت "المجلس الاستشاري للرقابة الشرعية"، وفي البحرين استحدثت مصرف البحرين المركزي في عام 2015 "المجلس المركزي

للرقابة الشرعية" بغرض الرقابة والإشراف واعتماد المنتجات الجديدة لمؤسسات الخدمات المالية الإسلامية.

هذا الاحتفاء بتوحيد المعايير الشرعية، وإلزاميتها لمؤسسات القطاع المالي على مستوى الدولة، صاحبه تأثير مباشر على وظيفة الفتوى الخاصة واستمرارية الشكل التنظيمي السائد لهيئات الرقابة الشرعية الخاصة. ومن هذه الزاوية يلاحظ أن القانون المغربي لم يذكر الفتوى وهيئة الرقابة الشرعية على مستوى كل بنك. أما في القانون الإندونيسي فقد استمر الشكل التنظيمي لهيئة الرقابة الشرعية الخاصة، وطبقاً للقانون يجب تعيينها من الجمعية العمومية لكل بنك، لكنه أسند إليها طلب فتوى جديدة من المجلس الشرعي الوطني ولا يمكنها طبقاً لذلك إصدار الفتاوى. وهو ما عليه الحال في ماليزيا أيضاً حيث لم يتضمن القانون أي مهام في الفتوى لهيئة الرقابة الشرعية الخاصة المعينة من مجلس الإدارة.

وفي هذا السياق يُفهم -إلى حد ما- مشروع القانون التونسي؛ ففي ظل إصدار المعايير الشرعية من المجلس الإسلامي الأعلى نص مشروع القانون على أن من مهام الهيئة الشرعية الخاصة النظر في أي مسائل شرعية تعرض عليها من مجلس الإدارة. وفي ليبيا نص القانون على أن مهمة الهيئة العليا هي اعتماد صيغ العقود التي تقترحها هيئات الرقابة الشرعية الخاصة، وبالتالي لن يكون من مهام الهيئات الخاصة اعتماد العقود. ويشبه ذلك ما جاء في التشريعات البحرينية حيث جعلت مهمة الفتوى وإبداء الرأي في المنتجات الجديدة إلى المجلس المركزي للرقابة الشرعية. وهو ما يعني من الناحية العملية أن الهيئات الخاصة تقترح هذه المنتجات وتعتمد من المجلس المركزي المذكور.

أما في السودان فقد خص القانون هيئة الرقابة العليا بحسم الخلافات الشرعية الناشئة بين الجهات الخاضعة لأحكام هذا القانون، وفي ظل سلطات واسعة للهيئة العليا بشأن توحيد الأسس الشرعية للنشاط المصرفي والمالي يتصور أن تكون فتاوى الهيئات الخاصة المستمرة في عملها في إطار الرأي المعتمد من الهيئة العليا. وفي سورية الهيئة الشرعية الخاصة تستمر في عملها أيضاً؛ غير أن التشريع أعطى للهيئة العليا الصلاحية لحسم الخلاف الشرعي داخل هيئات الرقابة الشرعية الخاصة في قطاعي التأمين والمصارف، وهو أمر نظري لا أثر له في الواقع، كما تفيد ممارسات هيئة الرقابة الشرعية العليا للقطاع المصرفي بأنها تصدر معايير لصيغ التمويل، وتراجع فتاوى الهيئات الخاصة وتطلب تعديلها وفق ما ترضه الهيئة العليا.

وفي قطاع التأمين بالإمارات سيكون عمل الهيئات الخاصة في إطار المعايير الشرعية التي تعتمدها اللجنة العليا للفتوى والرقابة الشرعية في هيئة التأمين. أما في سلطنة عمان فالهيئة الخاصة مستمرة في عملها، غير أن القانون جعل للهيئة العليا حسم الخلاف الفقهي بين لجان الرقابة الشرعية للمصارف. وهو على ظاهره أعمّ من الخلاف الفقهي داخل الهيئة الواحدة، ومُؤداه لو تمّ تطبيقه توحيد الفتوى على مستوى القطاع.

## حتى يحب لأخيه ما يحب لنفسه

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هذه القاعدة الأخلاقية العظيمة جاء بها الرسل صلوات الله وسلامه عليهم واتفقت عليها الشرائع السماوية. وهي قاعدة تكون محل اتفاق بين الأمم جميعاً، ولهذا تسمى: «القاعدة الذهبية Golden Rule». هذه القاعدة هي أفضل منهج للتعامل مع الناس. ومعناها هو أن تنتظر فيما يحبه أخوك، وتقدم له الذي يحبه هو. ولذلك جاء في بعض روايات الحديث: وأن تأتي إلى الناس الذي تحب أن يأتوه إليك. وهي مع وضوح معناها قد يخفى أحياناً كيفية تطبيقها. إذا كان صديقي يحب القهوة ولا يحب الشاي، وأنا أحب الشاي ولا أحب القهوة، فكيف أطبق القاعدة؟ هل أقدم له الشاي الذي أحبه أنا؟ أم القهوة التي يحبها هو؟

الجواب واضح مما سبق: فما هو الذي يحبه أخي؟ إذا كان يحب القهوة فأقدم له القهوة. السبب هو أنني لو كنت أنا الضيف، لكنت أحب أن يقدم لي الشاي لأنني أحب الشاي، لا أن يقدم لي القهوة التي يحبها هو ولا أحبها أنا.

فالقاعدة تطلب من الواحد منا أن ينظر فيما يحبه أخوه فيأتيه، وما يكرهه فيدعه، لأنه لو كان مكانه لم يكن يرضى أن يعامله الناس بما يكرهه هو، سواء أحبوه هم أم لم يحبوه. أحياناً قد لا نعلم ما الذي يحبه الطرف الآخر، ففي هذه الحالة نحتاج أن نستفسر عن رغبته وما الذي يفضله.

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هذه القاعدة هي الأساس لكل قواعد التمويل الإسلامي. فهي الأساس لتحريم الربا، ولوجوب الزكاة والصدقة والإحسان. كيف؟  
لنبدأ بالزكاة والصدقات عموماً. لو كنت فقيراً، هل كنت تحب أن يتبرع لك الغني بشيء من فائض ماله؟ الجواب نعم. إذن فلو كنت غنياً لكان ينبغي لك أن تتصدق على الفقير. فالصدقة تردم الفجوة بين الغني والفقير لأنها تجعل الغني يشعر بشعور الفقير ويحاول أن يجبره بما يمكن. فهي عمل نبيل يوثق الروابط الاجتماعية والعلاقات الإنسانية.

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لننتقل إلى الربا. المرابي يقول للمقترض: يجب أن تعطيني زيادة على أصل القرض لأنك سوف تسدد القرض بعد سنة (مثلاً) وقيمة القرض بعد سنة أقل منها اليوم، فيجب أن تجبر هذا النقص بزيادة على أصل القرض. جميل.

الآن لننظر إلى المسألة من زاوية المقترض. عند حلول الأجل سيستخدم المقترض الحجة نفسها والمنطق نفسه ولكن في الاتجاه المعاكس. سيقول المقترض للمقرض: لقد أخذت منك القرض قبل سنة، وقيمه قبل سنة أقل من قيمته الآن، لكن منطقي الحسم واحد في الجهتين. فنحن نحسم المستقبل ونحسم الماضي كذلك، كما قال تعالى: (كأنهم يوم يرونها لم يلبثوا إلا عشية أو ضحاها). بل إن الحسم للماضي أولى من الحسم للمستقبل، لأن المستقبل سيأتي وأما الماضي فذهب ولن يعود.

وعليه سيرفض المقترض أن يرد أصل القرض، دع عنك الزيادة، لكن قيمة أصل القرض عند حلول الأجل بالنسبة له أقل من قيمته عند إنشاء القرض.

هذا يعني أن القرض بفائدة لا يمكن أن يكون مُرضياً لكلا الطرفين: فهو يرضي المقرض عند إنشاء العقد ولا يرضي المقرض عند السداد. كما أن رفض المقرض السداد لأصل القرض يرضيه هو ولا يرضي المقرض. فالحل هو إبرام القرض بلا زيادة أو نقصان، كما قال تعالى: ﴿لا تظلمون ولا تُظلمون﴾.

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هناك زاوية أخرى تظهر من خلالها حكمة تحريم الربا من خلال القاعدة الذهبية. المرابي لا يريد أن يتحمل أي مخاطر ولا أن يتحمل مشقة الاستثمار والتجارة وما إلى ذلك. فهو يريد أن يربح على أن يتحمل هذه المخاطر والمشقة المقرض. جميل. ولكن ماذا لو أن المقرض قرر هو بدوره أن يتجنب مخاطر الاستثمار والتجارة، وبدلاً من ذلك قرر أن يقرض بفائدة هو أيضاً؟ وماذا إذا اتخذ المقرض الثاني القرار نفسه؟ وكذلك الثالث وهكذا لكل أعضاء المجتمع؟

الجواب: سينهار الاقتصاد، لأنه لا أحد يريد تحمل مخاطر الاستثمار والتجارة. إذن الإقراض بفائدة سلوك لا يمكن تعميمه على المجتمع لأنه يؤدي إلى انهيار الاقتصاد. أي أن المرابي لا يحب لبقية إخوانه ما يحب لنفسه، بل يريد هو وحده أن يقرض بفائدة، أما البقية فيريد منهم أن يتحملوا مشقة التجارة والاستثمار.

أما المشاركة مع بقية أعضاء المجتمع في التجارة والاستثمار فهو تطبيق نموذجي للقاعدة الذهبية. ولكن مجرد التبادل التجاري مع بقية أعضاء المجتمع كاف في تطبيق القاعدة لأن الكل يشارك في النشاط الإنتاجي ولكن في تخصصات مختلفة بحسب ما يتقنه كل منهم. فكل واحد منهم يتحمل من المخاطر ما يناسب قدراته، لكن لا أحد منهم يتخلى عن التجارة والاستثمار. بخلاف القرض بفائدة فهو مصدر للربح دون تحمل مخاطر التجارة بأي شكل.

ولهذا فإن المرابي يوصف بحق بأنه «متطفل» على المجتمع لأنه يعيش عالية عليه، وهذا واضح من خلال تطبيق معيار «القاعدة الذهبية».

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الخلاصة أن التمويل الإسلامي يقوم على أسس أخلاقية راسخة. وهي أسس مشتركة بين الأمم جميعاً ولا تختص بالمسلمين. فالمالية الإسلامية نظام عالمي في حقيقة الأمر، وإن كانت الشريعة جاءت بتفاصيل أخرى تختص بالمسلمين. لكن المبدأ العام مشترك بين الأمم، فهو نظام عالمي للبشرية جمعاء: ﴿وما أرسلناك إلا رحمة للعالمين﴾.

## ENGLISH TAZKIRAH

### “UNTIL HE LOVES FOR HIS BROTHER THAT WHICH HE LOVES FOR HIMSELF”

By Dr. Sami Suwailem<sup>1</sup>

Translated by Dr. Mustafa Omar<sup>2</sup>

The title above is part of a Hadith where the Prophet, peace be upon him, states:

*“No one will be a true believer until he loves for his brother what he loves for himself”.*

This noble principle is a basic principle of morality brought by all the Messengers of Allah, not only Mohammed, may they be all blessed by Mercy and Peace from Allah. The principle, furthermore, is a subject of consensus among most nations. Hence, it is called the “Golden Rule.”

This Rule is essential in guiding social interactions. It means that you have to see what your brother loves and thus present to him that which he loves, not what you love - as has been transmitted in a Hadith narration

*“You should come to people with that which you would love them to come to you with.”*

Despite its intuitive and clear meaning, it might be confusing to some, regarding the application of the Rule. If my friend prefers coffee over tea, while I, on the other hand, prefer tea over coffee;

How then can I apply this rule? Do I offer to my friend the tea that I prefer, so that “*I love for my brother what I love for myself*”? Or shall I offer him the coffee he prefers?

The answer should be clear from the above stated Hadith. What is it that my brother prefers? If he prefers coffee, then I should offer him coffee. The reason is that if I were in his position, then I would prefer to be served tea because I enjoy tea, not coffee, which my friend prefers but I do not. So the Rule in reality is focusing on the treatment of my brother the way I prefer to be treated if I were in his position, rather than ones preference about things. Since I prefer to be offered the things I like, not the things my brother likes, and then I should treat my brother in the same manner:

Offer him the thing that he prefers, not what I prefer.

This ‘Golden Rule’ is the basis for major principles of Islamic finance. It is the basis for the prohibition of *Riba* and *Gharar*, and for the requirement of Zakat, Sadaqah [charity] and Ihsan [benevolence acts].

How does the rule apply? Let us start with Zakat and charity in general. If you were in a situation of need, would you prefer the rich to support you from his wealth? As long as this does not impose any negative costs upon you or him, the answer would naturally be yes. Similarly, if you were rich, you should support the poor, because that is how you prefer to be treated if you were in his position. Philanthropy therefore bridges the gap between the rich and the poor, as it makes the rich share the feelings of the poor and try to assist as much as possible. Charity is a noble act that strengthens social bonds and human relations.

Let us now come to *Riba*. The usurer (the one who lends at interest) tells the borrower “I am lending you today \$1000 that you have to pay in one year”. However, today I view the \$1000 I lent to be less in value after a year, because it is in the distant future, and I prefer the present to the distant future. Therefore, you have to pay me little

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more than the principal, so that, after being discounted, the value is same as the \$1000 that I am lending you now. So far so good!

Now let us look at the matter from the borrower's point of view.

At the time of repayment, had the borrower to apply the same logic (however in the opposite direction) he would say: "You lent me \$1000 one year ago. That was a long time ago. The present is more valuable to me than the distant past. So, today, I view the \$1000 received one year ago to be of less value than \$1000 today that you ask me to pay you. Hence, I shall pay you less than \$1000, forget about the interest!"

The borrower will refuse to repay the principal amount of the loan, let alone the interest. He is simply applying the same logic of time-discounting used by the lender, but for the past.

Logically, one can as simply reason discounting for the past, as one does for the future. Both, past and future are distant from the present. If anything, the past is more distant from the present than the future: This is because the future is yet to come but the past has gone and it will never come back. The Quran has pointed out to past-discounting in many verses, e.g.: "It will be, on the Day they see it, as though they had not remained [in the world] except for an afternoon or a morning thereof".

This means that applying time-discounting to loan cannot satisfy both the lender and the borrower. If each party follows 'the Golden Rule', then they will realize that time-discounting is not acceptable to any of them. The only way out is to give up time-value in lending, and agree to borrow and lend at no interest and no discounting, as stated in the Quran: "No injustice is done by you, nor injustice be done to you." Each party agrees to donate his valuation of time. If they do so, it becomes a mutually satisfying arrangement, in line with 'the Golden Rule'.

One may ask, can time-discounting in trade be compared to time-discounting in loan?

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Perhaps the other angle on the wisdom of the prohibition of Riba as seen through 'the Golden

Rule' can be used to consider time discounting in trade.

Innately, the usurer does not want to bear any risks associated with trade or production. He wants to enjoy making money and shift the risks to the borrower.

Now, what if the borrower on his part decides to avoid the risks of trade and production as well, and lend the money he had borrowed on interest to another borrower? What if the second borrower makes the same decision? And so does the third, and the fourth, and so on?

The economy will simply collapse, because nobody wants to bear the risks of trade and production. Therefore, interest-based lending is a behaviour that cannot be generalized to the entire society, since it leads to the collapse of the economy. Looking at it from another perspective, Riba leads to the "fallacy of composition", it works for only few to lend on Riba, but if everyone does, they all lose. This means that the usurer does not love, for his fellow citizens, what he loves for himself. Instead, he desires that he himself alone should lend on interest. As for the rest, he wants them to bear the risks of trade and investment.

In contrast, all members of the society can participate in production and trade. In fact, if they do, the economy will grow and prosper. That is, trade can be generalized, while *Riba* cannot. Trade therefore is not subject to the "fallacy of composition" as *Riba* is.

In fact, if each member of the community participates in production and trade, this will be a perfect application of the Golden Rule. Each member will specialize in trades depending on what he or she excels in. So each bears the risks appropriate to his abilities, yet collectively they are all participating in creating wealth. This is contrary to interest-based lending, which is a means for making profit but without bearing any kind of commercial or productive risk.

In conclusion, Islamic finance is based on firm moral foundations, which are shared among most nations worldwide, not only Muslims. Islamic finance therefore is a universal system for mankind at large: "We have not sent you except as mercy for mankind."

## EVENTS UPDATES

### IIiBF EVENTS

IIiBF is persistently involved in Seminar, Workshops, Industrial and Academic Programmes throughout the year with the aim of instilling comprehensive knowledge in the institute's talented students. Aspiring to complement academic knowledge with industrial happenings, as well as at the same time boosting the industry with academic researches to bring together intellectual pool from the professionals and academics in the field of Islamic Finance, various events took place in 2015.

Below are the events updates organized by the Institute and Islamic banking and finance;

### 2015 EVENTS AT IIUM INSTITUTE OF ISLAMIC BANKING & FINANCE

<i>EVENT NAME</i>	<i>DATE</i>
KNOWLEDGE SHARING SESSION – PANEL DATA ANALYSIS USING STATA	21 <sup>ST</sup> JANUARY 2015
VISIT FROM UNIVERSITY OF DAR-US-SALAAM, GONTOR, INDONESIA (UNIDA)	5 <sup>TH</sup> FEBRUARY 2015
VISIT FROM UNIVERSITY OF INDONESIA	12 <sup>TH</sup> FEBRUARY 2015
CIBF REGISTRATION – PUBLIC BANK	25 <sup>TH</sup> FEBRUARY 2015
VISIT BY VICE CHANCELLOR, UNIVERSITY OF ZANZIBAR	27 <sup>TH</sup> FEBRUARY 2015
KNOWLEDGE SHARING SESSION – PANEL DATA ANALYSIS: HETEROGENOUS CO-INTEGRATED PANEL	27 <sup>TH</sup> FEBRUARY 2015
iMAL TRAINING PROGRAMME – PATH SOLUTION	23-25 <sup>TH</sup> MARCH 2015
PG SUPERVISION AND TURN-IT-IN	22 <sup>ND</sup> APRIL 2015
KNOWLEDGE SHARING SESSION – GARCH	24 <sup>TH</sup> APRIL 2015
46 <sup>TH</sup> IIiBF DISCUSSION SERIES – “AUDITING OF ISLAMIC FINANCIAL INSTITUTIONS: CHALLENGES & PROSPECTUS”.	22 <sup>ND</sup> MAY 2015

### ICIFE EVENTS

#### 2015 EVENTS AT INTERNATIONAL COUNCIL OF ISLAMIC FINANCE EDUCATORS

<i>EVENT NAME</i>	<i>DATE</i>
1 <sup>ST</sup> HALF-DAY BOOSTER ON SHARIAH & REGULATORY FRAMEWORK FOR ISLAMIC BANKING FINANCE	13 <sup>TH</sup> MARCH 2015
2 <sup>ND</sup> HALF-DAY BOOSTER ON INTRODUCTION TO STATISTICS FOR AUDITING & GOVERNANCE FOR ISLAMIC FINANCIAL INSTITUTIONS	27 <sup>TH</sup> MARCH 2015
ICIFE ROUND-TABLE DISCUSSION	6-8 <sup>TH</sup> AUGUST 2015

**CURRENT PUBLICATIONS AND ONGOING RESEARCH AT IIFB**

Numerous researches on the array of areas such as Regulatory Issues, Marketing, and Islamic Economics to Shariah Issues are currently on-going at Institute of Islamic Banking & Finance. Abstracts on current PhD researches endorsed by the Institute authorities and numerous papers presented and published articles on the area of Regulatory Challenges and Governance in Islamic Finance are provided.

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**ON-GOING PhD RESEARCH ABSTRACTS AT IIFB****BANK GOVERNANCE, TECHNICAL EFFICIENCY, PRODUCTIVITY CHANGE AND FINANCIAL STABILITY IN DUAL-BANKING SYSTEMS OF THE SAMI COUNTRIES**

Mustafa Aydemir

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**Abstract**

An empirical investigation on the effectiveness of corporate governance of banks in emerging markets with special focus on bank corporate governance specific attributes in dual-banking systems and its likeliness to enhance financial stability is carried out in this research. Several emerging markets, in particular Muslim majority countries in the Middle East, North Africa and South East Asia show tremendous growth in the niche-sector of Islamic finance. The superior performance of Islamic finance during the global financial crisis (Hassan and Dridi, 2010) raised attention to alternative financial systems, perhaps with convincing ethical principles. The current research follows this line of research and compares the differences between Islamic and conventional banks for effective corporate governance, technical efficiency, productivity change and financial stability in the dual banking environment. This study focuses on the SAMI countries, the four rapidly developing economies in the Muslim world that are Saudi Arabia, Ankara, Malaysia and Indonesia. Financial statements of 151 banks provide the sample, out of which 36 are Islamic banks. The time period chosen for the study ranges 5 years, i.e. from 2008 to 2012. This time frame has been chosen as the code for good governance practices were introduced before the global financial crisis, the Euro debt crisis as well as local crisis that took place in 2008 to 2012. The study aims to enhance the literature on bank governance by testing the hypothesis that banks with more effective governance structures have greater performance. Performance is measured in technical efficiency using Data Envelopment Analysis - a non-parametric liner programming technique that computes a comparative ratio of outputs to inputs for each bank, reported as the relative efficiency score. The score is divided into several components that highlight specific areas of inefficiencies. The Malmquist Productivity Index and two Z score components (return - on - asset and capital-asset ratio) and multivariate regression are applied.

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**COMPETITIVE CONDITIONS AND MARKET POWER OF ISLAMIC AND CONVENTIONAL COMMERCIAL BANKS IN INDONESIA**

Cupian

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**Abstract**

The expansion of the Islamic banking industry seems to accentuate the increased banking competition in Indonesia where conventional and Islamic banks coexist. In addition, the 2007/2008 global financial crisis and deregulation have the effect (please explain what effects?) on competitive conditions in the banking sector of Indonesia. In this context, this study aims to examine the competitive conditions and the market power of the Islamic and conventional banks using firm level data over the period 2006-2013 in Indonesia. The study attempts to identify the factors that express the power of the market for banks to better study the degree of competition in both Islamic and conventional banking markets in Indonesia. Using a sample of 27 Islamic banks and 106 conventional commercial banks, the study uses a variety of structural and non-structural measures related to the traditional approach and the new empirical approach of the industrial organization. The methodology is based on set of measures of the competition and market power. The first measure is a set of Concentration Ratios (CR4) and Herfindahl-Hirschman Index (HHI). The second measures are the Panzar and Ross H statistic, The Boone indicator and the Lerner index based on econometric estimations with the aim of evaluating the structure of market and measuring its power in terms of price setting. The results of the competition analysis suggest that the banking markets of Indonesia cannot be characterized by the bipolar cases of either perfect competition or monopoly over 2006-2013. That is, banks earned their revenues as if operating under conditions of monopolistic competition in that period. Overall, Islamic banks in Indonesia operate in a relatively less competitive environment compared to conventional bank. In other words, market power is higher in Islamic banking markets compared to conventional commercial banking markets. The study also shows that profitability significantly increases with market power, but this does not warrant higher profitability levels for Islamic banks. The study adds value to the existing literature by providing empirical evidences on impact of the recent financial crisis and deregulation into Islamic and conventional bank's competitive condition in Indonesia. The study is also expected to benefit regulators, bankers and other stakeholders of Islamic and conventional banks in Indonesia in understanding the factors that influence the degree of competitiveness and minimizing the impact of any future financial crisis.

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**THE IMPACT OF BOARD DIVERSITY ON PERFORMANCE AND DISCLOSURE: EVIDENCE FROM MALAYSIAN TAKAFUL AND INSURANCE INDUSTRY**

Nurul Afidah Mohamad Yusof

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**Abstract**

This study attempts to examine the impact of board diversity on the performance and disclosure of Malaysian *Takaful* operators and insurance companies. The time frame chosen for the study ranges from the year 2007 until 2013. The board diversity is examined from two perspectives, viz. Statutory Board Diversity (SD) and Demographic Board Diversity (DD), which are based on the agency theory and resource dependence theory respectively. The researcher has undertaken a novel approach to examine them collectively by constructing SD and DD indices instead of looking at the individual board characteristics. In addition, the impact of *Shari'ah* Supervisory Board (SSB) diversity is also examined alongside the DD and SD diversity on the performance and disclosure of *Takaful* operators.

**THE IMPACT OF MONITORING AND CONTROL MECHANISM OF CORPORATE AND  
SHARI'AH GOVERNANCE STRUCTURES ON THE PERFORMANCE OF ISLAMIC  
FINANCIAL INSTITUTIONS.**

Memiyanty Hj. Abdul Rahim

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**Abstract**

The lack of understanding of the governance attributes for Islamic banks from Islamic perspective will result in inaccurate strategic planning and decision making for the Islamic banks. Corporate governance is crucial for Islamic banks to maintain their momentum of growth, international acceptance and safeguard the interests of the stakeholders. The incapability of the decision makers, for example, in understanding of the strategic objectives of Islamic banks will lead to the difficulty in performing tasks in the market. This research aims to examine how monitoring and control mechanism of the Corporate and *Shari'ah* governance in the form of board of directors, institutional investors, *Shari'ah* boards and the key *Shari'ah* compliance functions can better contribute to the Islamic economic and financial success. This study also aims to fill in the research gap by identifying the performance measurement from the Islamic economic objectives and use them as indicators in measuring Islamic banks performance besides financial performance. Hence, this study will highlight the best practices from corporate and *Shari'ah* governances' monitoring and control mechanisms that are expected to reduce or minimize agency and accountability problems in Islamic banks.

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**THE IMPACT OF SOLVENCY CAPITAL ON THE EFFICIENCY OF TAKAFUL COMPANIES IN  
THE GCC REGION**

Asafa Adeyinka Dauda

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**Abstract**

*Takaful* companies are faced with issues that affect their solvency and efficiency. GCC region arguably identified as a hub of the *Takaful* industry, the supervisory authorities in the region have come up with several regulations as means of resolving solvency and other related issues confronting the industry. This is meant to protect them against adverse economic consequences, especially in the light of massive capital losses and assets impairment they suffered due to the global financial crisis. While the intent may be commendable, concerns are also raised in some quarters that compliance with a solvency margin may impede optimal resource utilization, and by extension, their efficiency. This study, therefore aims to examine the relationship between solvency capital and efficiency of *Takaful* companies in the GCC region. Mathematical programming non-parametric DEA (Data Envelopment Analysis) with RAM (Range Adjustment Measure) model is used for the analysis. This model is selected as it possesses some very desirable properties vis a vis other DEA models.

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**EMPIRICAL STUDY ON THE UNDERSTANDING OF SHARIAH REVIEW BY ISLAMIC BANKS IN MALAYSIA**

Zariah Abu Samah &amp; Rusni Hassan

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**Abstract**

The key value proposition offered by Islamic banking and finance is an end-to-end Shariah compliant business environment. In supporting the above proposition, Bank Negara Malaysia (BNM) had on October 2010 issued the Shariah Governance Framework for Islamic Financial Institutions (the Framework) with the aims to strengthen the Shariah Governance process, accountability, decision making and independence of Shariah Committee. One of the important expectations of BNM via the Framework is for the Islamic Financial Institutions (IFIs) to outline and perform the function of Shariah Review for a comprehensive Shariah compliant environment in their operation and business activities. Its introduction received several comments from the Islamic banking players, which stated that its function is more or less similar to Shariah Audit function that would entail duplication of function. This paper examines on the understanding of Shariah Review function performed by the Islamic banks via (1) analysing the existing practices of Shariah Review function by the Islamic banks and (2) identifying gaps in the Shariah review function performed by Islamic banks in comparison to those stipulated in the Framework. This study would provide an environment to evaluate the understanding of Shariah Review by the Islamic banks.

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*\*This paper has been presented at the Islamic Business Management Conference on 19th August 2014\**

Read full paper [here](#)

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**PROPOSED PERFORMANCE MEASUREMENT FOR ISLAMIC BANKS:  
A REVIEW ON ISLAMIC ECONOMIC OBJECTIVES LITERATURE**

Memiyanty Abdul Rahim &amp; Abdul Rahim Abdul Rahman

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**Abstract**

The main argument of this paper is that Islamic banks' performance should be measured using unique and specific objective indicators that will reflect their Islamic economic objectives. Hence, it is of vital importance to translate the normative Islamic economic objectives that require broader and more societal approach of measurement rather than focusing on the narrow financial measurement of conventional finance. The aim of this paper is to propose performance measurement for Islamic banks. In developing the indicators, the study has developed and adapted the performance measurement indicators based on well-established Islamic economic objectives by selected scholars. This proposed performance measurement indicators is very useful to be tested by future empirical studies.

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*\*This paper has been presented at the Islamic Perspective of Accounting, Finance, Economics and Management (IPAFEM) 2015, University of Glasgow, UK. 7th April 2015\**

Read full paper [here](#)

## GLOBAL

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### **Regulatory and Governance**

#### **IMF: Islamic finance has potential to spur inclusive growth**

Islamic finance has potential to increase financial inclusion and spur inclusive growth, according to the International Monetary Fund (IMF). IMF Deputy Managing Director Min Zhu suggested that regulation and supervision of Islamic financial products need to be developed properly.

*Read more at:*

<https://www.zawya.com/story/IMF-Islamic-finance-has-potential-to-spur-inclusive-growth-ZAWYA20150426030727/>

#### **Basel III requirements to strengthen Islamic banks' liquidity management**

Regulatory proposals for a liquidity coverage ratio for Islamic financial institutions could help address some of the industry's long-standing weaknesses, particularly the lack of high quality liquid assets (HQLA), Standard & Poor's Ratings Services said Tuesday in a report "Basel III Requirements Could Strengthen Islamic Banks' Liquidity Management".

*Read more at:*

<https://www.zawya.com/story/Basel-III-requirements-to-strengthen-Islamic-banks-liquidity-management-ZAWYA20150401043441/>

#### **Islamic Finance Forum to tackle future in digital age**

The world's largest and longest-running gathering of global Islamic finance leaders is set to connect the industry with pioneers and innovators in the financial technology space. Supported by the Central Bank of Bahrain and under the patronage of Prince Khalifa Bin Salman Al Khalifa, The Prime Minister of the Kingdom of Bahrain, the World Islamic Banking Conference (WIBC) will focus very prominently on the changing face of financial services in the digital age.

*Read more at:*

<https://www.zawya.com/story/Islamic-finance-forum-to-tackle-future-in-digital-age-ZAWYA20150812043230/>

#### **CIBAFI and World Bank bring Islamic Finance stakeholders together to discuss Corporate Governance**

The General Council for Islamic Banks and Financial Institutions (CIBAFI), the global umbrella of Islamic financial institutions and the World Bank are pleased to announce their joint international conference on "Corporate Governance for Islamic Financial Institutions: Lessons from Recent Global Developments", which is due to take place in Amman, Jordan on 15<sup>th</sup> and 16<sup>th</sup> September 2015. The one and half day conference, which is held under the patronage of the Central Bank of Jordan, aims to bring together various stakeholders from the private sector, multilateral development institutions, international and national regulatory bodies, policy-makers, and academia to discuss the issue of corporate governance in the Islamic financial services industry (IFSI).

*Read more at:*

<https://www.zawya.com/story/CIBAFI-WB-conference-to-discuss-corporate-governance-ZAWYA20150729074642/>

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### **Sukuk**

#### **Global Sukuk issuance to gain momentum in 2015**

Global Sukuk issuance is expected to gain momentum in 2015 as oil-exporting GCC countries and Malaysia are likely to tap the Sukuk market to fund their public spending plans, according to Khalid Howladar, senior credit officer at Moody's.

*Read more at:*

<https://www.zawya.com/story/Global-sukuk-issuance-to-gain-momentum-in-2015-GN-15032015-160315/>

## World Bank-linked IFFI prices \$500 million 3-year Sukuk

The International Finance Facility for Immunisation Co. (IFFI), with the World Bank as treasury manager, launched a \$500 million Islamic bond issue. The three-year Shariah-compliant floating rate note has been priced at 15 basis points over the three-month London interbank offered rate.

*Read More at:*

<http://www.reuters.com/artile/2014/11/27/iffisukukidUSL6N0TH2LD20141127>

## Infrastructure Sukuk could be the future of project funding

The G20 group of nations' decision to examine the use of Sukuk to finance infrastructure investment could eventually spur a big increase in the size of the market. Infrastructure projects could eventually be a key source of Sukuk issuance due to their asset based or asset-backed nature.

*Read more at:*

[https://www.zawya.com/story/Infrastructure\\_sukuk\\_could\\_be\\_the\\_future\\_of\\_project\\_funding-GN\\_05042015\\_060404/](https://www.zawya.com/story/Infrastructure_sukuk_could_be_the_future_of_project_funding-GN_05042015_060404/)

## New markets for Islamic Finance emerging: study

New markets for Islamic finance are emerging, with African countries launching debut sovereign Sukuk and East Asian countries enabling their domestic markets to tap into Islamic financing, a glimpse of the 2015-2016 edition of the 'State of the Global Islamic Economy' said ahead of the Global Islamic Economy Summit that will run in Dubai on Oct. 5-6, 2015.

*Read more at:*

[https://www.zawya.com/story/New\\_markets\\_for\\_Islamic\\_finance\\_emerging-ZAWYA20150816035257/](https://www.zawya.com/story/New_markets_for_Islamic_finance_emerging-ZAWYA20150816035257/)

## 2015 Sukuk Summit Stresses Initiatives to Take Sukuk Origination to the Next Level

In an environment of excess liquidity in core markets and the encroaching impact of capital and liquidity requirements under the new Basel III Concordat, the proliferation of Sukuk issuances led especially by Sovereigns both from traditional and new markets continues unabated.

*Read more at:*

[https://www.zawya.com/story/2015\\_Sukuk\\_Summit\\_stresses\\_initiatives\\_to\\_take\\_Sukuk\\_origination\\_to\\_next\\_level-ZAWYA20150616113645/](https://www.zawya.com/story/2015_Sukuk_Summit_stresses_initiatives_to_take_Sukuk_origination_to_next_level-ZAWYA20150616113645/)

## Takaful

### International Takaful Leaders meet to Chart the Future Direction of the Global Takaful Landscape.

Supported by the Dubai International Financial Centre Authority (DIFC Authority), the 10th Anniversary special edition of the World Takaful Conference (WTC 2015) confirmed its position as the world's largest and most influential annual gathering of international leaders in the takaful industry. A powerful line-up of more than 50 international speakers and industry thought leaders discussed critical issues that the global takaful industry is currently facing and how the industry needs to be reshaped for greater success.

*Read more at:*

[https://www.zawya.com/story/International\\_Takaful\\_leaders\\_meet\\_in\\_Dubai\\_to\\_chart\\_future\\_direction\\_of\\_global\\_Takaful\\_landscape-ZAWYA20150413071817/](https://www.zawya.com/story/International_Takaful_leaders_meet_in_Dubai_to_chart_future_direction_of_global_Takaful_landscape-ZAWYA20150413071817/)

## Microfinance

### Islamic microfinance unlocking big potential

The confluence of two strongly expanding industries, microfinance and Islamic finance, has seen rapid growth in the past years. Islamic microfinance is becoming an important instrument to fight such poverty, especially in rural areas, and improve access to financial services. This goes in line with Islamic finance emerging from a market niche to a powerful industry worldwide that saw more than 500 Shariah-compliant financial institutions having been created over the past 30 years in about 75 countries.

*Read more at:*

[https://www.zawya.com/story/Islamic\\_microfinance\\_unlocking\\_big\\_potential-ZAWYA20150506042148/](https://www.zawya.com/story/Islamic_microfinance_unlocking_big_potential-ZAWYA20150506042148/)

**Japan's FSA explores opening market to  
Islamic finance**

Japan's Financial Services Agency (FSA) is considering relaxing rules to allow banks to provide Islamic financial products in its domestic market for the first time. Japanese lenders are already allowed to provide Islamic financial products through their overseas subsidiaries, and Bank of Tokyo-Mitsubishi UFJ (BTMU) recently became the first Japanese commercial bank to issue Sukuk.

*Read more at:*

<http://www.reuters.com/artile/2015/02/26/islamfiancing-japan-idUSL5N0W03Z420150226>

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**Regulatory & Governance**

**Asian Development Bank promotes Islamic  
finance for member countries**

Manila-based Asian Development Bank (ADB) is embarking on promoting Islamic finance-funded projects among its member nations in the Asia Pacific, especially for infrastructure development. This would include assistance to get access to funding, as well as credit guarantees. The exclusive programme would start as early as September this year. With focus on legal aspects and regulations, the ADB looks forward to consumer awareness initiatives through financial literacy programmes.

*Read more at:*

[https://www.zawya.com/story/Asian\\_Development\\_Bank\\_promotes\\_Islamic\\_finance\\_for\\_member\\_countries-ZAWYA20150401040512/](https://www.zawya.com/story/Asian_Development_Bank_promotes_Islamic_finance_for_member_countries-ZAWYA20150401040512/)

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**Sukuk**

**Malaysia sovereign fund plans \$279 million  
"social impact" Sukuk**

Malaysia's \$40 billion sovereign wealth fund Khazanah Nasional plans to issue a Sukuk worth up to 1 billion ringgit (\$279.17 million) to help fund schools. The move is aimed at opening funding for education to a broad pool of investors rather than financing it out of its own reserves, he added.

*Read more at:*

<http://www.reuters.com/artile/2015/02/26/sovereignwealth-malaysia-dUSL5N0W06KH20150226>

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**Hong Kong Opens More Doors for Islamic  
Finance**

Hong Kong is now trying to make the city a welcoming place for Islamic finance. The local government issued its first triple-A rated Sukuk in September, officially putting Hong Kong in the race to attract Shariah-compliant business.

*Read more at:*

<http://www.reuters.com/video/2014/12/19/hong-kongopens-more-doors-for-islamic-b?videoId=348876828>

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**Banking**

**Indonesia Pushes Ahead With \$8 Billion  
Shariah Megabank**

Indonesian authorities are pushing ahead with a plan to create an \$8 billion Islamic megabank, even after a similar proposal fell through in Malaysia. A potential merger of the Shariah compliant units of government-controlled Bank Mandiri, Bank Rakyat Indonesia and Bank Negara Indonesia could happen as soon as this year.

*Read more at:*

<http://www.bloomberg.com/news/videos/2015-02-03/indonesia-pushes-ahead-with-a-megabank>

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**Islamic banks to account for 25% of Malaysian  
banking sector by 2017, says RAM**

The Malaysian Islamic banking industry's assets have almost doubled in the last 5 years, accounting for over 20% of the banking system's assets. "RAM projects Islamic banking assets to represent 25% of the Malaysian banking sector by 2017," says Foo Su Yin, CEO of RAM Ratings, in conjunction with the publication of the agency's inaugural *Islamic Banking Bulletin* today.

*Read more at:*

[http://www.mifc.com/?ch=ch\\_contents\\_media\\_centre&pg=pg\\_media\\_centre&ac=3556](http://www.mifc.com/?ch=ch_contents_media_centre&pg=pg_media_centre&ac=3556)

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**RAM Ratings: Islamic banking consolidation  
still on the cards**

RAM Ratings still sees consolidation potential for the Malaysian Islamic banking industry as the smaller players scale up in order to remain

competitive. "We believe the creation of an Islamic bank with greater financial clout and reach is still on the agenda," observes Wong Yin Ching, Co-Head of Financial Institution Ratings. This is also consistent with Bank Negara Malaysia's goal of strengthening Malaysia's leadership in Islamic finance

*Read more at:*

[https://www.zawya.com/story/RAM\\_Ratings\\_Malaysia\\_Islamic\\_banking\\_consolidation\\_still\\_on\\_the\\_cards-ZAWYA20150310060112/](https://www.zawya.com/story/RAM_Ratings_Malaysia_Islamic_banking_consolidation_still_on_the_cards-ZAWYA20150310060112/)

### **ASEAN integration to create Islamic finance opportunities**

The economic integration of the ten-member bloc of the Association of Southeast Asian Nations (ASEAN) into the ASEAN Economic Community -- expected by the end of 2015 -- is seen by financial analysts as a moment that will create large opportunities for Islamic finance in the entire region. The region is in the process of formulating the ASEAN Banking Integration Framework, which aims to liberalise the ASEAN banking sector by 2020.

*Read more at:*

[https://www.zawya.com/story/Asean\\_integration\\_to\\_create\\_Islamic\\_finance\\_opportunities-ZAWYA20150325033549/](https://www.zawya.com/story/Asean_integration_to_create_Islamic_finance_opportunities-ZAWYA20150325033549/)

### **Malaysia Islamic Finance Report 2015: Mainstreaming Islamic Finance within Global Financial Systems**

In a strategic partnership with CIMB Islamic, Thomson Reuters, Islamic Research and Training Institute (IRTI) and the General Council for Islamic Banks and Financial Institutions (CIBAFI), today launched the Malaysia Islamic Finance Report 2015. According to the study, for the next five years Malaysia's Islamic banking sector is expected to grow at an average of 18% year-on-year, to more than double to US\$296.29 billion in 2019 compared to US\$141.77 billion in 2013. This projected growth can be achieved if sustained favourable conditions are met. The study also projects takaful contributions to grow at an average 18.2% year-on-year to reach a market share of 17.96% of total insurance premiums by 2019, equal to US\$5.51 billion, from 10% in 2013, equal to US\$2.02 billion .

*Read More at:*

[https://www.zawya.com/story/Malaysia\\_Islamic\\_Finance\\_Report\\_2015\\_Mainstreaming\\_Islamic\\_Finance\\_within\\_Global\\_Financial\\_Systems-ZAWYA20150701113937/](https://www.zawya.com/story/Malaysia_Islamic_Finance_Report_2015_Mainstreaming_Islamic_Finance_within_Global_Financial_Systems-ZAWYA20150701113937/)

### **MBSB-Muamalat merger, full-fledged Islamic bank on the cards?**

Malaysia Building Society Bhd. (MBSB), one of the non-conventional banks in the local financial industry, is on track to obtaining a full-fledged Islamic banking licence with plans under way for a merger with Bank Muamalat. Sources said the plans were being crafted as part of MBSB's vision to obtain a full-fledged Islamic banking licence.

*Read more at:*

<http://www.thestar.com.my/Business/Business-News/2015/07/30/MBSBMuamalat-merger/?style=biz>

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## **GULF**

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### **Regulatory & Governance**

#### **Bahrain looks for regional edge with central Shariah board**

Bahrain's central bank is drafting legal documentation to set up a Shariah board of scholars that would oversee the kingdom's Islamic finance sector, in a step that could help the market compete with regional rivals.

*Read more at:*

[https://www.zawya.com/story/Bahrain\\_looks\\_for\\_regional\\_edge\\_with\\_central\\_sharia\\_board-TR20150204nL6N0VE048X2/](https://www.zawya.com/story/Bahrain_looks_for_regional_edge_with_central_sharia_board-TR20150204nL6N0VE048X2/)

#### **AAOIFI Standards go digital with Thomson Reuters**

In an unprecedented move in the development of the Islamic finance industry, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards will be made available online through Thomson Reuters' range of digital information platforms, including Zawya Islamic.

*Read more at:*

[http://www.zawya.com/story/AAOIFI\\_Standards\\_go\\_digital\\_with\\_Thomson\\_Reuters-ZAWYA20150202134044](http://www.zawya.com/story/AAOIFI_Standards_go_digital_with_Thomson_Reuters-ZAWYA20150202134044)

The Department of Economic Development (DED) in Dubai and the Institute of Corporate Governance (Hawkamah), a subsidiary of the Dubai International Financial Centre (DIFC), has signed an agreement to cooperate in the setting up of an Islamic Management and Governance Centre in Dubai. The agreement, signed between Ali Ibrahim, Deputy Director General of DED, and Dr Ashraf Gamal El Din, CEO of Hawkamah, is part of public sector collaboration for developing the economic and trade aspects of Islamic governance across all levels in Dubai.

*Read more at:*

[https://www.zawya.com/story/Islamic\\_Management\\_and\\_Governance\\_Centre\\_to\\_be\\_set\\_up\\_in\\_Dubai-GN\\_30062015\\_010748/](https://www.zawya.com/story/Islamic_Management_and_Governance_Centre_to_be_set_up_in_Dubai-GN_30062015_010748/)

### **Regulatory changes cause a shakeout in Gulf Islamic Insurance markets**

The Gulf States have experienced massive regulatory change with respect to insurance over the past 12 months. Recent measures include the doubling of the minimum capital requirements in Oman; enhanced liquid asset requirements in Kuwait and the United Arab Emirates (UAE); and more stringent solvency measures in Bahrain. In a report published today, "Regulatory Changes Cause a Shakeout in Gulf Islamic Insurance Markets," Standard & Poor's Ratings Services considers the long-term effect of these measures.

*Read more at:*

[https://www.zawya.com/story/Regulatory\\_changes\\_cause\\_shakeout\\_in\\_Gulf\\_Takaful\\_Markets\\_report-ZAWYA20150721075226/](https://www.zawya.com/story/Regulatory_changes_cause_shakeout_in_Gulf_Takaful_Markets_report-ZAWYA20150721075226/)

### **Sukuk**

#### **Saudi Arabia issues first sovereign bonds since 2007, more to come**

Saudi Arabia has issued its first sovereign bonds since 2007 to cover a budget deficit created by low oil prices, launching a series of debt sales that could reshape its financial markets. The government sold 15 billion riyals (\$4 billion) of bonds to local banks this year, Friday's al-Iqtisadiya daily quoted central bank chief Fahad al-Mubarak as telling reporters.

*Read more at:*

[https://www.zawya.com/story/Saudi\\_Arabia\\_issues\\_first\\_sovereign\\_bonds\\_since\\_2007-TR20150710nL8NOZQ03FX3/](https://www.zawya.com/story/Saudi_Arabia_issues_first_sovereign_bonds_since_2007-TR20150710nL8NOZQ03FX3/)

### **Banking**

#### **ADIB eyes acquisitions as it focuses on expansion**

Abu Dhabi Islamic Bank (ADIB) is looking for new opportunities in Asia, Middle East and North Africa as it focuses on expansion through acquisitions and green-field investment. Speaking to reporters in Abu Dhabi late on Sunday, the bank's chief executive, Tirad Al Mahmoud, said they are looking closely at Indonesia, Malaysia, Jordan, Algeria and Morocco as part of their expansion plans. He ruled out the possibility of the bank venturing into Western Europe or North America

*Read more at:*

[https://www.zawya.com/story/ADIB\\_eyes\\_acquisitions\\_as\\_it\\_focuses\\_on\\_expansion-GN\\_06072015\\_070740/](https://www.zawya.com/story/ADIB_eyes_acquisitions_as_it_focuses_on_expansion-GN_06072015_070740/)

#### **Gulf Based Islamic Banks' operating outlook sombre**

Islamic banks in the Gulf face a gradually weakening operating outlook in 2015-2016, largely due to declining oil revenues, a report titled "Gulf-Based Islamic Banks Grapple with Weakening Regional Economies"

*Read more at:*

[https://www.zawya.com/story/Gulfbased\\_Islamic\\_banks\\_face\\_weakening\\_outlook-ZAWYA20150816034550/](https://www.zawya.com/story/Gulfbased_Islamic_banks_face_weakening_outlook-ZAWYA20150816034550/)

## **CENTRAL ASIA & EUROPE**

### **Regulatory & Governance**

#### **ADIF to establish Kazakhstan as an Islamic financial hub of Central Asia**

The Association for Development of Islamic Finance (ADIF) today announced the signing of memorandum on cooperation with Shariah Review Bureau (SRB). The agreement was signed at the 12th IFSB Summit which took place in Almaty, Kazakhstan.

[https://www.zawya.com/story/ADIF\\_to\\_establish\\_Kazakhstan\\_as\\_an\\_Islamic\\_financial\\_hub\\_of\\_Central\\_Asia-ZAWYA20150520062230/](https://www.zawya.com/story/ADIF_to_establish_Kazakhstan_as_an_Islamic_financial_hub_of_Central_Asia-ZAWYA20150520062230/)

## Sukuk

### **Russian Banks Warm to Shariah as Crisis Looms**

Russian lenders would like to tap Islamic finance just as international sanctions and a low oil price brings their country to the brink of a recession. The Vnesheconombank is currently seeking advice from Middle East lenders on how to sell Islamic bonds

Read more at:

<http://www.bloomberg.com/news/2014-12-29/russian-banks-warm-to-shariah-as-crisis-looms-islamic-finance.html>

### **2015 London Sukuk Summit - The Development of Islamic Income as an Asset Class**

In the 10 years since 2004, annual Sukuk issuance has increased at a compounded growth rate of 37%, to \$119bn in 2014. Unsurprisingly, this has been a game changer for the Islamic Capital markets, opening avenues which were previously unavailable and significantly reducing the cost and risk of financing and re-financing.

Read more at:

[https://www.zawya.com/story/2015\\_London\\_Sukuk\\_Summit\\_Development\\_of\\_Islamic\\_Income\\_as\\_an\\_asset\\_class-ZAWYA20150610054907/](https://www.zawya.com/story/2015_London_Sukuk_Summit_Development_of_Islamic_Income_as_an_asset_class-ZAWYA20150610054907/)

## Banking

### **First Islamic bank in Germany to open in July, 2015**

Germany got its first fully operational Islamic bank on July 1. Opened by the Turkish finance group Kuveyt Turk it will provide Shariah compliant banking services. The wholly-owned subsidiary of the Turkish lender will be called KT Bank AG with its headquarters based in Frankfurt and branches in Cologne and Berlin. It will serve Germany's 4 million Muslims but also plans to expand its services throughout Europe.

<http://rt.com/business/252729-germany-islamic-bank-launch/>

## **AFRICA**

### Regulatory & Governance

#### **Regulations and Fiscal Incentives could speed Islamic Finance Development in Africa**

The development of an Islamic finance industry in Africa could help plug the region's large infrastructure gaps over the coming decade, says Standard & Poor's Ratings Service in a report published today. However, a framework of regulation and fiscal adjustments will be necessary to foster African Sukuk markets, provide wider investment options for potential Islamic investors, and attract a pool of Islamic liquidity, the report says.

Read more at:

[https://www.zawya.com/story/Development\\_of\\_an\\_Islamic\\_finance\\_could\\_help\\_Africa\\_fund\\_infrastructure\\_needsSP-ZAWYA20150806092054/](https://www.zawya.com/story/Development_of_an_Islamic_finance_could_help_Africa_fund_infrastructure_needsSP-ZAWYA20150806092054/)

## Banking

### **West Africa an Emerging Market of Islamic Finance**

**Dakar** - There is an ample scope of Islamic banking and finance in western African region and Senegal can play a vital role in elevating it through the countries. It was spoken by Muhammad Zubair Mughal, Chief Executive Officer Al-Huda Centre of Islamic Banking and Economics (CIBE) while attending an international seminar on Takaful that was held at Dakar Senegal. Delegates from Senegal, Mali, Ivory Coast, Mauritania, Guinea and other neighbouring countries of western Africa participated in the stated seminar.

Read more at:

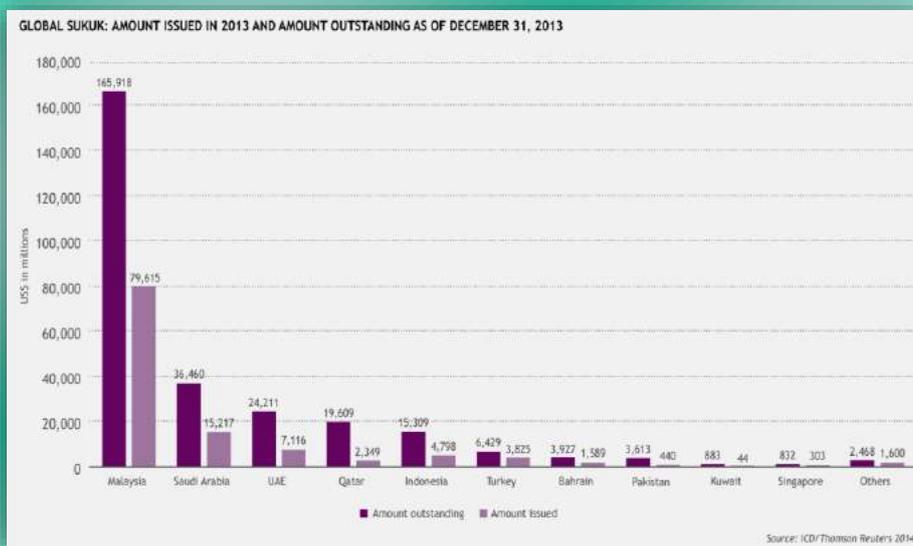
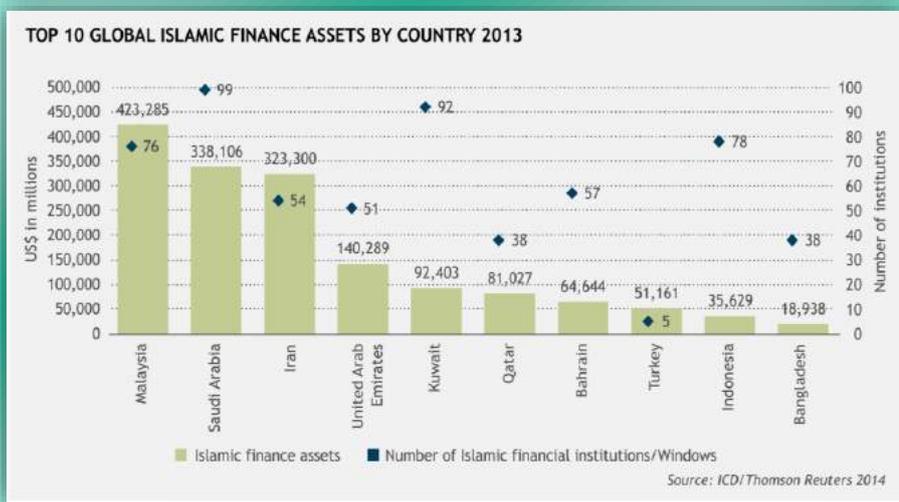
[https://www.zawya.com/story/West\\_Africa\\_an\\_emerging\\_market\\_of\\_Islamic\\_Finance-ZAWYA20150601103212/](https://www.zawya.com/story/West_Africa_an_emerging_market_of_Islamic_Finance-ZAWYA20150601103212/)

**KEY GLOBAL ISLAMIC FINANCE STATISTICS\***

Total Islamic finance assets (US\$ in trillions)	1.658
Total number of Islamic finance institutions	933
Total Islamic banking assets (US\$ in trillions)	1.214
Total fully fledged Islamic banks/Windows	411
Total takaful assets (US\$ in billions)	27.84
Total takaful institutions	281
Total OIFI** assets (US\$ in billions)	85.54
Total number of OIFIs	301
Total volume of sukuk issued (US\$ in billions)	116.9
Total sukuk issues	812
Total outstanding sukuk volume (US\$ in billions)	279.6
Total outstanding sukuk issues	1812
Total Islamic funds volume outstanding (US\$ in billions)	50.7
Total Islamic funds outstanding	791
Total Islamic funds launched	121

\* All statistics as of the end of 2013 \*\* Other Islamic financial institutions

Source: ICD/Thomson Reuters 2014



**CONFERENCE UPDATES**

Conference details	Website
<p><b>LPEM's CONFERENCE ON ECONOMICS AND FIANNCE IN INDONESIA</b></p> <p><b>Date: 30th November - 1st December 2015</b>  <b>Venue: Jakarta - Indonesia</b></p> <p>Conference Fee: No fees charged to registered participants.  Organiser: Lembaga Penyelidikan Ekonomi dan Masyarakat (LPEM) (Institute for Economic and Social Research), Universitas Indonesia</p>	<p><a href="http://submit.confbay.com/conf/cefi2015">http://submit.confbay.com/conf/cefi2015</a></p>
<p><b>HEMATIC WORKSHOP ON ISLAMIC FINANCIAL INNOVATIONS (ICIFI 2015)</b></p> <p><b>Dates: 21-22 October 2015,</b>  <b>Venue: Turin Italy</b></p> <p>The Conference is programmed to be in correlation and following to the Turin Islamic Economic Forum (TIFF) 2015 that will be held in Turin 19th and 20th October, 2015</p>	<p><a href="http://www.tief2015.org">http://www.tief2015.org</a></p> <p><a href="http://submit.confbay.com/conf/icifi2015">http://submit.confbay.com/conf/icifi2015</a></p>
<p><b>3rd AICIF ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE</b></p> <p><b>Dates: 17-19 November 2015</b>  <b>Full Paper Submission: June 1 – 30 September, 2015</b>  The conference focuses on <i>“The Role of Zakah and Islamic Financial Institution into Poverty Alleviation and Economics Security”</i></p>	<p><a href="http://aicif2015.unissula.ac.id/">http://aicif2015.unissula.ac.id/</a></p>
<p><b>The 19th MACFEA NATIONAL SEMINAR ON CONSUMER AND FIANNCE</b></p> <p><b>Dates: 19-20 November 2015</b>  <b>Venue: Palm Golden Hotel, Putrajaya</b></p> <p><b>Important Deadlines</b>  5-10 pages Working Paper Deadline: 10 Sept 2015  Notification of Acceptance: 30 Sept 2015  Registration &amp; Full Payment: 10 Oct, 2015</p>	<p><a href="http://submit.confbay.com/conf/macfea2015">http://submit.confbay.com/conf/macfea2015</a></p>
<p><b>The 3<sup>rd</sup> INTERNATIONAL CONFERENCE ON ENTREPRENEURIAL FINANCE</b></p> <p><b>Date: 11-12 December 2015</b>  <b>Venue : National School of Trade and Management, Agadir, Morocco</b></p> <p><b>Important Deadlines:</b>  Full Paper Submission : 15<sup>th</sup> October, 2015  Notification of Acceptance : 15<sup>th</sup> November, 2015</p>	<p><a href="http://www.encg-agadir.ac.ma/cifema">http://www.encg-agadir.ac.ma/cifema</a></p>

## GLOSSARY

No.	Abbreviation/ Terminology	Definition
<b>B</b>		
1.	<b>Bay` al-Dayn</b>	The sale of payable right either back to the debtor, or to other third-party. The payable right (debt) can be either money or commodity.
2.	<b>Bay` al-`Inah</b>	A contract involving the sale and buy-back transaction of assets by a seller. A seller sells an asset to a buyer on a cash basis and later buys it back on a deferred payment basis where the price is higher than the cash price. It can also be applied when a seller sells an asset to a buyer on a deferred basis and later buys it back on a cash basis, at a price which is lower than the deferred price.
3.	<b>Bay` al-Istijrar</b>	A sale contract in which a customer receives the commodities in instalments and pays the price later in lump sum. In some cases the payment can be done in advance.
<b>C</b>		
4.	<b>Commodity Murābahah</b>	A Murābahah-based purchase and sale transaction of Sharī`ah-compliant commodities, whereby the buyer purchases the commodities on a deferred payment basis and subsequently sells them to a third party on a cash payment basis.
<b>D</b>		
5.	<b>Diminishing Mushārahah</b>	Diminishing Mushārahah or Mushārahah Mutanaqisah is a form of partnership in which one of the partners (customer) promises to buy the equity share of the other partner (financier) gradually until the title to the equity is completely transferred to the buying partner. The transaction starts with the formation of a partnership, followed by the financier leasing his equity share to the customer throughout the tenure of the lease, the customer will gradually buy the other financier's share at market value or the price agreed upon at the time of entering into the contract. The "buying and selling" contract is independent from the partnership contract and should not be stipulated in the partnership contract since the buying partner is only allowed to give only a promise to buy. It is also not permitted that one contract be entered into as a condition for concluding the other.
<b>F</b>		
6.	<b>Fatāwa (sing. fatwa)</b>	A juristic opinion or pronouncement of facts given by the Sharī`ah board, a mufti, or a faqīh on any matter pertinent to Sharī`ah issues, based on the appropriate methodology.
7.	<b>Fiqh</b>	Knowledge of the legal rulings pertaining to conduct, which has been acquired from specific evidence in the Sharī`ah.

Source: <http://www.ifsb.org/terminologies.php>

Editorial Committee:			
			<b>Sulaiman Liu JiuJiang</b> , a Ph.D candidate in IiBF, Co-founder of Society of IBF Professionals (China) and Al-Sadiq Consulting Ltd. (H.K.), both are dedicating to promoting Islamic Finance in China
	<b>Mohamed Cherif El Amri</b> , a Ph.D candidate in Islamic Banking and Finance in IiBF, an Islamic Finance Consultant attached at Amanie Advisors, dedicate to promoting Islamic Finance in Morocco.		<b>Nur Harena Redzuan</b> , a Ph.D candidate in Islamic Banking and Finance in IiBF, with 5 years experience in banking industry.
	<b>Horiya Hussain</b> , a PG candidate at IiBF, currently pursuing M.Sc. in Islamic Banking and Finance. She holds bachelor degrees in Commerce as well as Education.		<b>M Afzal Osman</b> , M.Sc. in Islamic Banking and Finance, IiBF, an economic enthusiast, research assistant and political analyst.