

An Overview of Current Research and Development in Islamic Banking and Finance

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Research and Development (*R&D*) are an integral part for any organization. *R&D* activities will play a crucial role towards making an institution success with a competitive market and delivering quality product. Islamic finance and banking recognize this, as it is evident from recent literature review which reveals a good number of output both monographs, articles and conference papers based on research in this area.

Islamic banking is in the growth stage of its lifecycle and like any other industry, competition is a key characteristic of the growth stage. Therefore, to be successful it is imperative for the player to have a good understanding of the competitors activities which can only be possible through some form of research and development activity.

For the purpose of this paper, I define research as an inquiry systematically carried out by using scientific methods - the research can be divided into two major kinds - "Academic" and "Action" research. Academic includes research devoted to the investigation of problems that use appropriate methodologies, whether it is basic or applied, systematic or operational. Such research is the backbone of the profession. The greater volume of this type of research is being produced by academic institutions and the majority of it is a direct result of higher degree programs. Compared to academic research, "Action" or "Participatory" research is a simple and straightforward style and normally deals with the more practical aspects of a problem under investigation. This type of research, are an experimental approach designed to establish effective methods within the profession. Also, it studies administrative problems and consumer problems, especially those related to the demands and questions of the consumers. In practice it is hard to differentiate between academic and action research. In action research sometime the problem is localized within the banking structure, however, an investigation may attack any problem that is of interest to other institutions, without concern for the practical value of the findings.

Review of R&D activities

R&D activities at academic institutions:

A good example of *R&D* at the academic level is the success demonstrated by a number of universities in the Middle East, U.K., U.S. Malaysia and Pakistan which have been conducting research in Islamic finance and economics leading to Masters and Doctoral degrees. A quick search of Dissertation Abstracts International reveals a good number of doctoral and masters theses in this field. In addition, database such as ABI Inform, IntlEc, and Business Periodical Abstracts also given a good hit rate of articles and research projects published by academicians. With the sponsorship from National Commercial Bank (NCB) and Islamic Development Bank (IDB), Harvard University has undertaken an Islamic Investment Study which will be completed by end of 1995. The most noteworthy among all academic institutions is the International Center for Islamic Economics of King Abdulaziz University in Jeddah, Saudi Arabia. It has got excellent facilities for research and have been

publishing a number of research monographs, reports, and an scholarly journal in the field of Islamic economics.

R&D activities at Islamic banks:

Islamic banks such as the IDB's Islamic Research and Training Institute (IRTI) and Albaraka have established within their organization a formal structure of Research and Training activities. IDB's IRTI has been actively involved in a number projects and published reports, directories and bibliographies.

R&D activities at independent institutions:

Independent institutes such as International Association of Islamic Banks in Jeddah, International Association of Islamic Economics in Islamabad, Islamic Foundation in London are also involved in research.

Experimental Work

In order to assess the current situation of *R&D*, a questionnaire has been designed and distributed to all Islamic banks in Bahrain, Dubai, Qatar, and Saudi Arabia; and a number of selected ones in Egypt, Sudan, Switzerland, Malaysia, Pakistan, Indonesia, etc. In addition, the researcher himself visited a number of banks in Bahrain and talked to the senior management personnel to ascertain data as well as their perception regarding *R&D*. Our aim of the study was to measure the following variables and perceptions:

Current state of *R&D*

Percentage of funds spent on *R&D*

Usefulness of *R&D* and Future Trends

Institute of Islamic Banking & Insurance

Islamic Finance and Banking Information Program

The response rate was not encouraging; several reminders by telephone and via fax were sent to follow this matter. Only twelve completed questionnaires were received out of 35; one was eliminated from the study because of not having either formal and informal *R&D* activities.

Current State of R&D

In the questionnaire two options were given; does your bank have a formal *R&D* activity or not? Two different sets of questions were asked for those respondents who answered "Yes" and for those answered "No". In the analysis and discussion of data I decided to treat them separately.

When asked about the current state of *R&D*, most of the respondents indicated that they do not have a formal *R&D* activity within their banks, but they have an informal level of *R&D* activities. A majority of them who have informal activities, indicated that the senior management is responsible for conducting research while others mentioned that marketing staff as well as the Sharia board are responsible to carry out this task (*see Table 1*). As can

be seen from data presented in *Table 2* on future programs with regard to *R&D* activities, the response is mixed. This indicates that in practice these banks are using all possible outlets to accomplish their goals. During the process of personal interviews conducted by me in Bahrain, a senior manager indicated that before any major transactions or financing a project, they do a thorough search to find out the similar transactions or deal done in that particular area or on that particular product. This is being done by contacting various vendors, searching databases, etc. Mostly it is done as team research work. Another senior manager indicated that since I am part of the major banking system, I have this privilege whereby I can tap to any source for information or I may contact the main *R&D* if I need any further assistance.

The response was mixed with regard to the future direction of *R&D* only for those who do not reported to have formal *R&D* activity within their institutions. Only 7.5% were inclined towards having *R&D* at future stage while 17.0% were not in favour of having it in the near future. A majority of respondents selected to hire an in-house research consultant and will participate in conferences. Surprisingly, most respondents (66.0%) said that they will not employ external agencies to conduct research on their behalf (*see Table 2*).

Table 1. *R&D* research conducted by

Sharia board	14.0%
Senior management	43.0%
Marketing staff	29.0%
Financial control	7.0%
Other, please specify (Treasury)	7.0%

Table 2. *Future direction of R&D activities*

	<i>Yes</i>	<i>No</i>
Will establish a formal <i>R&D</i> unit	7.5%	17.0%
Will employ external agencies to conduct research	7.5%	66.0%
Will hire an in-house research consultant	31.0%	0.0%
Will have a retainer agreement with a research firm	7.5%	17.0%
Will participate in conferences	39.0%	0.0%
Other, please specify (Market driven, developed by account Off	7.5%	0.0%

Percentage of Funds Spent on *R&D*

All respondents, except three indicated that they have formal *R&D* activity within their institution. One respondents indicated US\$ 8million budget for 1994 while the other two indicated US \$500,000 and above for the same year. Since we did not receive response from other organizations, it is difficult to provide the true picture of spending on *R&D*. However, as we know NCB, IDB, The Albaraka Group, all three from Saudi Arabia, and Dar Al Maal Al Islami Group (DMI) which includes Islamic Investment Company of the Gulf (IIGC) and Faysal Islamic Bank (FIB) from Bahrain do have formal *R&D* activities and

have sponsored a number of research projects and conferences which have had an overall impact on the Islamic banks. Although most banks reported that they do not have a formal *R&D* but have set small targets for *R&D* budget which indicates at least an awareness of the value of research. When asked about how easy is to obtain data on various Islamic banking activities from other institutions for research purposes, the answer was "difficult" and "very difficult". For the current survey, our experience is somewhat closer to this response. The detailed breakdown by percentage for various *R&D* activities is presented in *Table 3*.

Table 3. Approximate allocation as a percentage of the R&D budget for the following activities.

Primary research by in-house staff	60.0%
Secondary research	15.0%
External agency research	5.0%
Sponsor research by outside agencies	5.0%
Publications	5.0%
Sponsorship for conferences and seminars	10.0%
Participation fee for conferences and seminars	----
Continuing education and training	----
Other	----

Usefulness of *R&D* and Future Trends

During personal interviews, most of the Islamic bank's senior management staff believed that *R&D* is very vital to their operation. However, they would like to see more Action type of research rather than theoretical ones. A few respondents reported that a pragmatic approach to the problem will resolve many of their operational problems and they believe that bulk of the theoretical research deals with academic matters are not directly related to the reality of the market, as bankers, they would like to make profit for their shareholders and invest properly. For this reason, they would like to see a more practical aspect for day to day banking. It was suggested that researchers from large Islamic banking research centers should survey the Islamic bank market and make personal interviews with the staff, such as accountants, investment officers, financial controllers, and come up with products which are market driven. Also the research can identify problems with the help of practitioners and solve them on a practical basis. It was also indicated by and large that the *R&D* function within their institution is very useful and they employ a large number of full time staff. *Table 5 & 6* present data on various *R&D* activities undertaken in the institution.

Table 4. Usefulness of R&D function

Very useful	100%
Useful	----
Marginally useful	----
Of no use	----

Table 5. Various R&D activities undertaken

	Yes	No
Conduct primary research by in-house staff	100%	----
Conduct secondary research	100%	----
Appoint external agency to conduct research	67.0%	33.0%
Sponsor research by outside agencies	100%	----
Subscribe to various publications	100%	----
Sponsor conferences and seminars	100%	----
Participate in conferences and seminars	100%	----
Continuing education and training	100%	----
Other, please specify Holding conferences	67.0%	33.0%

Table 6. Major areas of research undertaken to-date

	Yes	No
Sharia	100%	----
Product development	67.0%	33.0%
Conventional banking practices	33.0%	67.0%
Islamic banking practices	100%	----
Competitive comparison studies	67.0%	33.0%
Service quality surveys	33.0%	67.0%
Theoretical studies	100%	----

Institute of Islamic Banking & Finance

A majority of the respondents agreed to the idea of having an Institute for Islamic Banking and Finance. A few of them said, this can be established "once Islamic banking matures as a product" (see Table 7). However, the Institute of Islamic Banking and Insurance (IIBI) has already been established in 1993 in London. IIBI has already started offering a Diploma course in Islamic banking and Insurance on the distance learning method. In addition it has an Institute and Individual membership program and it publishes a monthly magazine, *New Horizon*. Also, recently it has published an excellent research work entitled, *Encyclopedia of Islamic Banking and Insurance*. All these activities of the IIBI need to be commended.

Table 7. Need to establish an Institute of Islamic Banking and Finance

Urgent need	64.0%
In the near future	27.0%
No need	9.0%

The International Association of Islamic Banks

The International Association of Islamic Bank (IAIB) is an international recognized body established in 1977. There are a number of aims and activities undertaken by IAIB ranging from strengthening ties between Islamic financial institutions to providing technical assistance and expertise to establish Islamic banks. These activities no doubt involve *R&D* and the current state of affairs of all Islamic financial and banking institutions globally. One of their recent publications include the compilation of *Directory of Islamic Banks*.

***R&D* Network and its Dissemination**

A good *R&D* network would be a good sign of a conducive research environment, in which researchers are able to produce and communicate research results, and in which the practitioners will have capability, and appreciation to make optimum use of these results. Often it has been observed that due to the lack of good resources the quality of research was not produced. A network of these is to be established for coordination and avoiding duplication. Research and its eventual application should be inextricably bound together. For practitioners actively involved in the banking field, field experimentation is likely to seem more important than theoretical studies, since they are apt to be impatient with anything not directly applicable to their immediate situation. Keeping this in mind, publications and dissemination are frequently essential to the application of knowledge. Journals seem to be the most important formal means of communication in the dissemination process. In the field of Islamic banking and finance, a number of existing journals need improvements. As a result of that a number of articles have been published in journals not solely devoted to Islamic banking and finance. Please refer to the list to see the dispersion of titles, reproduced from my book.

The information needed for researchers and practitioners is scattered in a number of primary and secondary sources both printed and non-printed. It is difficult or rather impossible to keep abreast of the exponential growth of information in this era, where the society is transpiring into one with paperless information with technological advancements especially in the area of computer and information technology. Moreover, in order to remain competitive in this field, the Islamic banks will have to resort to a better understanding of the customer needs and will have to have access to relevant information. In the absence of an institutionalized effort in gathering and disseminating information relevant to this field, these banks have been at a loss in terms of satisfying their information needs for *R&D* despite the fact that in the past, individual efforts were made to compile bibliography and/or directories on this subject. In order to enhance the *R&D* activities and provide better resources in Islamic finance there appears to be a definite need for the establishment of a focal point for the compilation and distribution of research, analysis and information relating to the deal structures, practices and accomplishments of Islamic finance and banking. In this regard, a question has been asked whether there is a need to establish an Islamic Banking and Information Center? The response was positive (*see Table 8*), all respondents except two indicated what the role of this Center would be?

Table 8. Need to establish Islamic Banking and Finance Information Center

Urgent need	73.0%
In the near future	9.0%
No need	18.0%

Harvard University in the United States, in conjunction with Islamic Investment Company of the Gulf (IIGC) - has recently initiated an information program to meet this need. This program will be the logical extension of the existing Islamic Investment study undertaken by Harvard. At the beginning the program will merely address the initial aspects of information needs of Islamic financial institutions. However, once the program gets started, other information needs demanded by our sponsor(s) can be easily provided with the feedback received from other Islamic institutions. The program will be instituted to be known as "**Harvard-IIGC - Islamic Finance Information Program**" and will be attached to Harvard's Center for Middle Eastern Studies. The Program will also be a *window for Islamic finance and banks to access information on conventional banks and other institutions by using Harvard resources*. Likewise, it will also be a window for conventional banks and other institutions to access information on Islamic Finance and Banking. The various services planned for will be offered in a phased manner.

The Program will be a non-conventional one and it will be based on electronic data-management system, providing access to subscriber world wide through an on-line access as well as via CD-ROMs. Electronic Bulletin Board and a Web page on INTERNET will be created for this program for anyone to know more about this program and at the same time to provide a platform whereby the Islamic banking customers can pose problems and receive answers to their questions. This Program will be served as a Research Register for any on-going and completed project to avoid duplication and to provide cooperation and coordination among the Islamic banking research centers.

The Program will also act as a Clearinghouse for locating and identifying items held at the Harvard University Libraries collection. For items not available at Harvard, arrangement should be made to acquire them from international document delivery agencies.

Three main types of databases would be available initially, however, based on requirements other suitable databases will also be included. These databases will be updated on a regular basis. Users can get access to this information through an online subscription or a CD-ROM (networkable multi-user environment):

Bibliographic with abstract information: This will be the world's premier database covering all published and un-published items, reports, monographs, articles, etc. Professionally this database will be a unique ones in the field of Information Science containing bibliographic information, abstract, content, and the list of references.

Reference, directory, & numerical information: This will include a profile of all Islamic financial institutions. Other items, such as Islamic Finance Terminology; Al-Qur'anic and Al-Hadith relating to economics, trade, welfare, etc. will also be included.

This database will allow users to manipulate and present data in different formats and will be flexible to the local requirements.

Full-text information: This will have all types of reports including annual reports, and any information made available on leases and contracts, etc.

The Information Program's activities will be directed by an advisory board composed of faculty and administrators from the Center for Middle Eastern Studies, Harvard Business School, Harvard Law School and advised by representatives of IIGC.

Further research

In the absence of a good universal response, it was difficult to draw any valid conclusions regarding the *R&D* activities in Islamic banking sector. The above findings will just serve as a trend or guidelines. I have already distributed the questionnaire on a large scale to almost all Islamic financial institutions globally and I hope to receive good response to it. We will update this research in the light of the new data and will publish and share the findings of this project with all respondents.

Appendix
Questionnaire

An overview of current research and development in Islamic banking and finance

Dear Sir:

I will be presenting a paper in an Islamic banking conference, October 17 & 18, 1995 in London on the above topic. I would appreciate your kind cooperation in completing the following questionnaire and returning your response to me as soon as possible, preferably via FAX +973-689516. All data will be treated very confidential and findings of the survey will be shared with all respondents. Many thanks for your kind cooperation.

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Section I

1. Name of the bank _____

1. Does your bank has a formal Research and Development (R&D) activity?

- Yes () If Yes, then please answer only Section II of this questionnaire
- No () If No, then please answer only Section III of this questionnaire.

Section II

1. Please select the activities undertaken by the R&D department at your bank?

	Yes	No
• Conduct primary research by in-house staff	---	---
• Conduct secondary research	---	---
• Appoint external agency to conduct research ---	---	---
• Sponsor research by outside agencies	---	---
• Subscribe to various publications	---	---
• Sponsor conferences and seminars	---	---
• Participate in conferences and seminars	---	---
• Continuing education and training	---	---
• Other, please specify _____		

2. In which major areas has research work been undertaken to-date at your bank?

	Yes	No
• Sharia	---	---
• Product development	---	---
• Conventional banking practices	---	---
• Islamic banking practices	---	---
• Competitive comparison studies	---	---

- Service quality surveys --- ---
- Theoretical studies --- ---
- Other, please specify _____

3. What percentage of your total profit of your bank is allocated for R&D activities?

- US \$ _____

4. What is the absolute amount spent on R&D activities in previous three years?

- 1992 - US\$ _____
- 1993 - US\$ _____
- 1994 - US\$ _____

5. Please give an approximate allocation as a percentage of the R&D budget for the following activities.

- | | |
|--|------|
| • Primary research by in-house staff | --- |
| • Secondary research | --- |
| • External agency research | --- |
| • Sponsor research by outside agencies | --- |
| • Publications | --- |
| • Sponsorship for conferences and seminars | --- |
| • Participation fee for conferences and seminars | --- |
| • Continuing education and training | --- |
| • Other | --- |
| Total | 100% |

6. How useful is the R&D function to your organization?

- Very useful ---
- Useful ---
- Marginally useful ---
- Of no use ---

7. How many staff are working in the R&D department?

- Number of staff _____

8. To whom does the Head of R&D report in your bank?

- _____

9. How easy is to obtain data on various Islamic banking activities?

- Very easy ---
- Relatively easy ---
- Difficult ---
- Very difficult ---

10. In your opinion is there a need to establish an Institute of Islamic Banking & Finance?

- Urgent need ---
- In the near future ---
- No need ---

11. In your opinion is there a need to establish Islamic Banking & Finance information center?

- Urgent need ---
- In the near future ---
- No need ---

Section III

Only for those who have ticked a "NO" in question 2 Section I

1. Does your bank have any informal R&D activities?

- Yes () If Yes, then please move on to question #2
- No () If No, then we thank you for taking your valuable time.

2. Who is responsible for R&D in your bank? (multiple choice)

- Sharia board ---
- Senior management ---
- Marketing staff ---
- Financial control ---
- Other, please specify _____

3. What is the future direction of your bank in terms of R&D activities?

- | | Yes | No |
|---|-----|-----|
| • Will establish a formal R&D unit | --- | --- |
| • Will employ external agencies to conduct research | --- | --- |
| • Will hire an in-house research consultant | --- | --- |
| • Will have a retainer agreement with a research firm | --- | --- |
| • Will participate in conferences | --- | --- |
| • Other, please specify _____ | | |

4. In your opinion is there a need to establish an Institute of Banking & Finance

- Urgent need ---
- In the near future ---
- No need ---

5. In your opinion is there a need to establish Islamic Banking and Finance Information Center?

- Urgent need ---
- In the near future ---
- No need ---

Thank you
