



LSE-HARVARD PUBLIC LECTURE ON ISLAMIC FINANCE  
LONDON SCHOOL OF ECONOMICS, LONDON, UK - FEBRUARY 23, 2011

## BUILDING BRIDGES ACROSS FINANCIAL COMMUNITIES: A SHORT REPORT

The Islamic Finance Project (IFP) of the Islamic Legal Studies Program (ILSP) at Harvard Law School, in partnership with the London School of Economics and Political Science (LSE), co-hosted a public lecture, “Building Bridges Across Financial Communities”, on 23 February 2011 at the LSE campus in London. This was the fifth in an annual series of public lectures aimed at expanding dialogue and understanding of contemporary issues in the field. The event was moderated by Dr. Frank Vogel, Founding Director of ILSP.

The opening remarks were given by Sir Howard Davies, the then Director of the London School of Economics and Political Science, former Chairman of the Financial Services Authority of the UK, and former Deputy Governor of the Bank of England. In the context of the recent financial crisis, Davies said in the United Kingdom, the contribution of the financial services sector to the society is being actively debated and it is timely for Islamic finance to reflect on the way it is coping with changing economic circumstances and social expectations.

Davies added that the question of how to embed ethics in financial services is crucial and he believes that compliance with the black letter law will not be enough and that financial firms will have to explain how they integrate consumer interests into planning and design. Davies was of the view that Islamic finance will coexist with conventional finance, perhaps as a niche in some countries like the United Kingdom and a parallel system in other countries like Sudan, which makes it important for the two – Islamic finance and conventional finance -- to build bridges between each other.

Following the address by Sir Howard Davies, Mr. Iqbal Khan, CEO of Fajr Capital and former founding CEO of HSBC Amanah delivered his speech. Khan paid a tribute to the late Lord Eddy George, former Governor of the Bank of England, for his contribution to Islamic finance in the UK. Iqbal said that if the UK, where Muslims are a small minority, can provide a legal framework for Islamic finance, other countries with Muslim majority can also do the same to facilitate the industry.

Khan mentioned that justice is fundamental to Islam and Islamic thought and therefore Islamic finance. Giving his perspective on the history, Khan said that Islamic finance was started by middle class enlightened scholars, Islamic economists, and entrepreneurs post colonization.

Khan explained that pioneers of Islamic finance had to make strategic choices and they chose the route of commercial banking rather than asset management because the former was better recognized. Khan pointed out that taking the commercial banking route meant Islamic finance had to somehow fit in the rules and regulations of central banks which dictated the way the Islamic banking business was run. This, according to Khan, led to Islamic finance losing its spirit and mimicking conventional finance.

Khan said that there is interest in Islamic finance in different parts of the globe but Islamic finance needs to shift from shari’a-compliant to the more authentic shari’a-based products to differentiate itself from conventional finance. Khan saw an opportunity to choose narrow banking over commercial banking and align with ethical investment in asset management. Khan Islamic financial sector needs to do more in areas such as SME (Small & Medium Enterprises) finance and micro finance.

Khan added that today in the conventional financial sector there is interest in the principles of Islamic finance but those in the conventional financial sector need to see the principles in practice. In line with the theme of building bridges across financial communities, Khan ended his talk with a quote from Thomas Jefferson: “He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me.”

Following Khan’s speech, Shaykh Haytham Tamim, a shari’a expert based in London who is also a Director at Shariah Solutions Ltd delivered his speech. Tamim emphasized the importance of people knowing each other regardless of religion, race, and culture. Tamim said Islamic finance is about justice and preventing oppression. Tamim

quoted historical accounts of sayings of Prophet Mohammad pertaining to spreading peace and greetings, meeting the needs of people, and making connection with others, which he interpreted as the opening of communication lines and the building of bridges across communities. Tamim suggested that the Islamic financial sector needs to move from the permissible (halal) to the beneficial (tayyib)

Following the speeches by Sir Howard Davies, Mr. Iqbal Khan, and Shaykh Haytham Tamim, the floor was opened for the audience to ask questions.

Responding to questions from the audience Khan said that by increasing the required risk capital, Basel III will increase the cost of ownership of assets by banks. Khan expressed the view that those financial institutions which control the payment system are the ones which get bailed out. Khan clarified that unlike some conventional financial institutions, Islamic financial institutions are not beneficiary of ill gotten wealth of tyrants. Khan held that political will is needed to provide enabling regulations for the Islamic financial sector, such as what is seen in Malaysia. Khan saw inflation as a risk which affects the overall economy but those transactions in the Islamic financials sector which are asset backed can provide some protection against inflation risk. Tamim said that that financing micro enterprise and SME is Islamic in nature as Islamic finance is not about making the rich richer.

The panel agreed that given the prohibitive cost of commercial events in Islamic finance, there is a need for more free academic events, such as this lecture, which everyone can attend.