Dialogue Within and Outside of the Islamic Finance Industry

Outline

Introduction: Interdisciplinary of IFP

IF unique field interacts with many fields. It rely for research and information to come from various disciplines. terms of its scope it is quite different from the conventional one.

History: In 40s and 50s economists writing and then Muslim bankers, Shari‘a scholars, etc.

Created a dialogue among these groups

Require research

**Dialogue within industry**

Interaction among these groups has generated

Addresses issues and help in developing the products

Conferences, seminars and workshops have played good role

More outlets

Challenges – confrontation among the groups e.g. LSE Workshop

Dialogue Outside of the Industry

Microfinance – 2 symposiums

Current economic crisis – panel discussion

As Chapra said the current architecture of conventional financial system existed for a long time, it may perhaps be too much to expect the international community to undertake a radical structural reform of the kind that Islamic finance system envisages. However adopting some of its elements, which are also part of the western heritage, is indispensable (essential) for ensuring the global financial system’s health and stability.

As Rodney Wilson said there can be no doubt that IF has an exciting future, and the quest for a financial system base on moral values rather than greed and fear, is bound to enhance its position in the global system.

Regulators – US Regulators and IF industry

Media - 9/11 study

Public Lectures

FT Special Suppl issue Islamic Finance

Islamic Finance is a unique industry and thus necessitates a need for dialogue in order to promote the field. Dialogue is crucial in two aspects: both within the industries, as we create new norms, products and legal rulings, and between the Islamic Finance industry and that of regular global financial systems.

The Islamic Finance industry requires input from professionals in many different fields. These include Islamic economists, Sharia scholars, bankers and legal professionals. In the conventional finance industry, there might not be as great a need for dialogue because of the nature of the field--- it is established and highly regulated, and until recently there was little room to discuss major innovations or paradigm shifts. On the other hand, given the early stages of IF development, the professionals from different fields tended to discuss IF within those fields and thus there was very little dialogue between different types of professionals. For example, it was only later on that these professionals decided to bring Sharia scholars to the table in order for them to understand the Sharia viewpoint as well as to enable Sharia scholars to remain up to date with the growing IF industry and its products.

The Islamic Finance Project has looked for ways to foster partnership and dialogue, so as to advance the theory and practice of Islamic finance. Advancing partnership between scholars, economists, bankers and legal professionals we have promoted dialogue between them which is necessary for the continued growth and success of IF and development of new products and services. One way dialogue is bolstered is though participation in seminars by professionals from different areas of expertise. The ensuing discussions during such seminars are vital for Research and Development in the IF industry. The industry’s growth thus depends on cross professional dialogue which brings all the professionals together so that they can discuss and share their knowledge. As a result we see two important trends: through open debate and communication differences disappear and agreements and understanding arise.

As part of unique financial system, Islamic banks have other challenges to meet; in the conventional finance industry banks have to worry about their customers, if they are happy then the bank is fine. Whereas for Islamic banks even if they are doing well in terms of customer satisfaction, they must still deal with external problems such as perception and islamophobia by the non-Muslim world. For example, after 9/11 many banking transactions were looked upon suspiciously because there was a lack of understanding about exactly what Islamic finance is, which was fueled by a paranoid hysteria regarding the nature of terrorist funding. In general Islamic banks have to have solid dialogue with national Regulatory bodies, regardless of where the banks are based. In this regard we see the importance of dialogue between the field of IF and the field of conventional finance. Lastly, its important for members of the IF field to develop their own standards and extra due diligence.

As I was saying, there is a need for dialogue with professionals from areas of expertise outside the IF industry. In the field of micro finance, for instance, there is a need for IF professionals to gather and discuss opportunities an IF-oriented microfinance might provide. The industry of microfinance occupies a key role, especially in developing countries, but Sharia-compliant microfinance accounts for only 2.5 % of the microfinance industry (as reported by CGAP Group). Islamic Finance and especially Islamic Banks have not made advancements in this field in order to try and develop new structures and products that are not only Sharia compliant but are also attractive to consumers---at least on par with conventional microfinance products. Even in Muslim majority countries, conventional microfinance products are very popular and therefore there is a need for Islamic Finance to develop products that tap into this potential market. At conferences like the IFP-LSE London conference, such issues and their solutions are discussed in a small and focused gathering of selected individuals who are experts in different areas of IF. The results from such discussions are then revealed to the public in a lecture the same evening in order to spread the benefits of these discussions.

The current economic crisis is a golden opportunity for IF to talk to the world of finance and spread awareness of IF as an alternative method of ethics-based economics. In fact, given the global economic climate, people today are more open to discussing ways to re-instill an ethnical base into conventional finance, and Islamic finance—with its focus on equity, fairness and transparency, can contribute greatly to this conversation. IF has fared much better than the conventional finance industry during the crisis. Thus there is a need for Islamic experts to come out and inform people what they can extract from IF. This too requires a dialogue amongst the professionals from different fields in order to explain how IF can provide solutions to the problem and prevent such incidents from occurring in the future.

To be honest, I am neither a banker nor an economist by profession. My role as the Director of Islamic Finance Project at Harvard Law School is to identify professionals from different areas of expertise and bring them together to the table, and to structure conferences, seminars and panel discussions in order to effectively address issues that will enhance the scholarship within the sector, as well as the sector itself. I believe this work is crucial for the development of the Islamic Finance field as a whole as well as for bridging the gap between Muslim-non-Muslim understanding.

**Tawarruq Fatwa**

The International Council of Fiqh Academy, which is an initiative of the Organization of Islamic Conferences (OIC), in its 19th session  
To encourage the financial institutions to provide Qard Hasan (benevolent loans) to needy customers in order to discourage them from relying on Tawarruq instead of Qard Hasan. Again these institutions are encouraged to set up special Qard Hasan Fund.

This is all fine and good, but how do our learned jurists think corporations and businesses will fund working capital requirements?  Qard hasan is irrelevant for the funding needs of business, as should be clear given our discussions regarding the charitable nature of qard.

**Post-9/11 Perceptions of Islamic Finance study** conducted by Harvard’s Islamic Finance Project indicates that immediately after 9/11 the coverage of Islamic finance in the Western media has risen markedly***.*** The responses to our surveys indicate that both Islamic finance professionals and media professionals covering Islamic finance have noticed a greater scrutiny of the industry. Moreover, this scrutiny has created both hurdles to growth and opportunities for further understanding and awareness among consumers, media professionals, and industry regulators.

**History of academia in Islamic finance**

* Islamic finance would not happen if it weren’t for academia:
  1. Classical jurists documented legal opinions since the life of Prophet Muhammad
  2. 1940’s: Theoretical discussions on Islamic banking began in South Asia and the Middle East.

**Current Role of academia in Islamic finance**

* Center for exchange of knowledge on IF.
* Interdisciplinary analysis involving professionals and academics from a wide spectrum of disciplines – legal, economic, social, financial, industry, and history (e.g. Graham’s talk).
* IF is a unique field because of its interdisciplinary nature.
* It interacts with many disciplines, such as Economics, Business, Management, Law, Religion etc.
* Gauge current thinking, discuss new ideas, and analyze current and future directions in the field without the limitations of industry.
* Create better understanding and links with conventional industry players, academics, along with those in the Islamic finance arena. Examples include:
  + Conferences and seminars (e.g. Forums, Workshops, lectures, etc.)
  + Research & Publications
  + Educational Programs, and
  + Educating Wider Audience:
    - Islamic finance does not exist in a vacuum – stakeholders include regulatory bodies, global firms, general investors, communities affected by investment, and those involved in critical analysis of the field.
    - Educating the policy makers and regulators, such as that in the United Kingdom and the United States.
    - Global financial crisis created opportunity for re-thinking the financial dialogue.
* Innovative Thought & Achievements:
  + Discussion of Islamic equity indices at a Harvard forum helped inspire creation of Dow Jones Islamic Index.
  + Forefront discussions of Islamic microfinance and Islamic social banking later developed into practical Shariah-compliant models in Sudan and Bangladesh.
  + Forefront discussions on up and coming products, such as sukuk and tawarruq, later developed into formal opinions by authoritative bodies such as the Fiqh Academy and AAOIFI.

**Future Role of academia in Islamic finance**

* Economist and Shariah scholar/practitioner co-operation
  1. Form vs. substance debate
* Industry and Academic co-operation
  1. Academia and industry needs to create a symbiotic relationship
  2. Currently:
     1. Academic concentrations in Islamic finance are not attracting industry recruiters.
     2. Industry recruiters are focusing on experienced professionals from conventional realm.
* Industry advancements within products should continue:
  1. Recent workshop on Islamic risk management prompted officials to review and rethink some of the strategies and policies on Islamic derivatives. Something we’ll be seeing in the future.
* Last but not least, re-connecting the pioneering vision of early academicians and practitioners:
  1. Social development and micro-credit.
  2. Involve un-bankable Muslim population of the world.
  3. Mit Ghamr and Tabung Haji

Dialogue Within and Outside of the Islamic Finance Industry

* Conferences and seminars (e.g. Harvard Forum, LSE Workshop etc)
* Research & Publications
* Educational Programs, and
* IFP’s study on Post-9/11 Perceptions of Islamic Finance.

In this unique scenario the only binding factor which makes the relationship stronger is the dialogue among these groups. Dialogue is crucial in two aspects: both within the industries, as we create new norms, products and legal rulings, and between the Islamic Finance industry and that of regular global financial systems.

**The development of the** industry pretty much depended upon the intensity of dialogue among these groups. In early 40s or 50s Islamic economics or Islamic banking discussion was confined within the group itself, for e.g. economists were exchanging their scholarship among themselves, so as the shari‘a scholars and other professionals. There was very little dialogue exists among the different groups. It was only later on that these professionals start to interact and understand each other which enhance the industry.

Obviously Conferences, Seminars, Workshops have played a greater role in communicating and disseminating the information as well as to promote the field.

One of the missions of IFP is to identify professionals from different areas of expertise and bring them together to the table, and to structure conferences, seminars and panel discussions in order to effectively address issues that will enhance the scholarship within the sector, as well as the sector itself. I believe this work is crucial for the development of the Islamic Finance field as a whole as well as for bridging the gap between Muslim-non-Muslim understandings.

Harvard Forum is a unique example among these conferences which brings experts across the disciplines to foster increased understanding of Islamic finance between Islamic and non-Islamic world as well as between the industry and academia. Since its inception, Harvard project has looked for ways to foster partnership and dialogue, so as to advance the theory and practice of Islamic finance.

Not only Harvard but other conferences sponsored by different groups have promoted dialogue among the professionals which is necessary for the continued growth and success of IF and development of new products and services. The ensuing discussions during such seminars are vital for Research and Development in the IF industry. As a result we see two important trends: through open debate and communication differences disappear and agreements and understanding arise.

International Org: One area which is worth mentioning here today is the research and development. Beside the product developments, the field of Islamic economics and finance has made substantial growth with the establishment of several specialized bodies and research centers, such as IRTI, AAOIFI, IFSB, and specialized institutions and colleges granting qualifications in Islamic finance. It has become now fashion in the first in several universities to understanding Islamic finance as a subject academic interest.

Recruiting: Let me share with you that there are several institutions now offering degrees in IF mostly at the post-graduate level. What is missing here is the dialogue with the industry where at the end of the day they will be absorb by them. The western model has to be applied here that the institutions offering the programs should have the industry representative sit on their advisory board to make their curriculum more practical and at the same time provide opportunities for career path.

Information: Prior to 1990 there was not a single on IEF. There are many journals and websites providing information on IF. Recently we saw a FT supplement on IF.

Research: There is a little ongoing cooperation and coordination in R&D.

Challenges

Challenges – confrontation among the groups e.g. LSE Workshop

Regulatory issues - Regulators – US Regulators and IF industry

Islamphobia - Media - 9/11 study

**Post-9/11 Perceptions of Islamic Finance study** conducted by Harvard’s Islamic Finance Project indicates that immediately after 9/11 the coverage of Islamic finance in the Western media has risen markedly***.*** The responses to our surveys indicate that both Islamic finance professionals and media professionals covering Islamic finance have noticed a greater scrutiny of the industry. Moreover, this scrutiny has created both hurdles to growth and opportunities for further understanding and awareness among consumers, media professionals, and industry regulators.

Data analysis of the levels of knowledge regarding Islamic finance reveals that there is still much work to be done in terms of educating consumers, professionals, and regulators about the industry. This is certainly to be expected, given the relatively recent growth of the industry in Western markets. The combination of increased scrutiny and the general expansion of the industry create a unique opportunity for the Islamic finance industry to proactively market itself as a positive, socially-responsible banking alternative and to grow as an industry. Islamic financial professionals and media professionals both note that there are still misconceptions that need to be cleared up. The media professionals, however, warn that the Islamic finance industry has not done a very good job of representing itself in the past. This point was also stressed at a panel discussion on international media perceptions of the Islamic finance industry at WIBC 2004, in which it was indicated that the responsibility is on the industry itself to be more proactive in representing itself to the media.

Dialogue Outside of the Industry

As part of unique financial system, Islamic banks have other challenges to meet; in the conventional finance industry banks have to worry about their customers, if they are happy then the bank is fine. Whereas for Islamic banks even if they are doing well in terms of customer satisfaction, they must still deal with external problems such as perception and islamophobia by the non-Muslim world. For example, after 9/11 many banking transactions were looked upon suspiciously because there was a lack of understanding about exactly what Islamic finance is, which was fueled by a paranoid hysteria regarding the nature of terrorist funding. In general Islamic banks have to have solid dialogue with national Regulatory bodies, regardless of where the banks are based. In this regard we see the importance of dialogue between the field of IF and the field of conventional finance. Lastly, its important for members of the IF field to develop their own standards and extra due diligence.

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LSE Workshop: At conferences like the IFP-LSE London conference, such issues and their solutions are discussed in a small and focused gathering of selected individuals who are experts in different areas of IF. The results from such discussions are then revealed to the public in a lecture the same evening in order to spread the benefits of these discussions. **Tawarruq Fatwa**

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In conclusion, we can safely state that following the impact of 9/11, negative coverage of Islamic finance in the media has not significantly affected the development of the industry. On the contrary, the industry appears to be rising to the challenge of improving media relations. As evidenced by the views of Islamic finance practitioners and media professionals, increasing coverage in Western media, and the sustained growth of the industry worldwide, the outlook for future development of the industry is overwhelmingly positive.

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Education: Another example where we need dialogue is between industry and academia. A number of institutions started offering qualifications in Islamic finance and banking especially at the postgraduate level in various countries. Islamic finance media reported that the industry needs several thousands qualified graduates. A number of graduates received degrees from these institutions are having problems of finding jobs. As one banker said, Industry is continued to look upon people having experience in conventional finance because we use the conventional banking system without violating the Sharia restrictions. They also said that the market is not now in need to have people with this specific area of expertise. The speakers also confirmed that Islamic banks are not here to help the Islamic society, including Islamic finance students, to grow up. The idea is all about business.

Another banker is quite optimistic of the future of students who have completed or undergoing courses in IF said it takes time for a discipline to get matured and be recognized by the industry players. As time passes by, industry does take note of this additional qualification. This will include conversion of conventional bankers to Islamic Finance professionals as well new entry for Islamic Finance professionals.

Some dialogue between the industry and academia may streamline the programs similar to those exist in the conventional scene. Input from the industry is more important in structuring their curriculum so that it can more tailor to reality. Also creates opportunity for industry to come recruit students.

Dialogue within and Outside the Islamic Finance Industry

Islamic Finance is a unique industry and thus necessitates a need for a dialogue in order to promote the field.

The Islamic Finance industry requires input from professionals in many different fields. These include Islamic economists, Sharia scholars, bankers and legal professionals. In the conventional finance industry, there might not be such a great need for dialogue because of the nature of the field. In the early stages of IF development, the professionals from different fields tended to discuss IF within those fields and thus there was very little dialogue between different professionals. It was only later on that these professionals, for instance, decided to bring Sharia scholars to the table in order for them to understand the Sharia viewpoint as well as to enable the Sharia scholars to remain up to date with the growing IF industry and its products. This partnership of scholars, economists, bankers and legal professionals promoted dialogue between them which is necessary for the continued growth and success of IF and development of new products and services. Participation in seminars by professionals from different areas of expertise and the ensuing discussions during such seminars is a vital for Research and Development in the IF industry. The industry’s growth thus depends on cross professional dialogue which brings all the professionals together for so that they can discuss and share their knowledge as a result of which differences disappear and agreements and understanding arise.

As part of unique situation, Islamic banks have other challenges to meet; in the conventional scene banks have to worry about their customers, if they are happy then the bank is fine. Whereas for Islamic banks even if they are doing well, then it comes problem from external environment, such as after 9/11. In general Islamic banks have to have solid dialogue with the Regulator bodies and developed their own standards and extra due diligence.

There is also a need for dialogue with professionals from areas of expertise outside the industry of IF. In the field of micro finance, for instance, there is a need for IF professionals to come and discuss the opportunities it might provide. The industry of microfinance occupies a key role, especially in developing countries, but Sharia-compliant microfinance accounts for only 2.5 % of the microfinance industry (as reported by CGAP Group). Islamic Finance and especially Islamic Banks have not made advancements in this field in order to try and develop new structures and products that are not only Sharia compliant but are also attractive to consumers at least on par with conventional microfinance products. Even in Muslim majority countries, conventional microfinance products are very popular and therefore there is a need for Islamic Finance to develop products that tap into this potential market. At conferences like the IFP-LSE London conference, such issues and their solutions are discussed in a small and focused gathering of selected individuals who are experts in different areas of IF. The results from such discussions are then revealed to the public in a lecture the same evening in order to spread the benefits of these discussions.

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IFP is a unique program which monitor’s the development and trends taking place in Islamic finance industry and bring those to the table to discuss them.

In other words it is a knowledge producer through systematic debate in the form of biannual forum where the topic of general nature are discussed in a bigger setting; specialized workshop such as LSE workshop focused discussion targeted to bring the major partners such as *shari‘a* scholars, Islamic economists, and financial professionals to discuss the topic which confront the industry.

New areas and avenues are always explored such as Islamic microfinance, faith based investments to expand the discussion by bring the other players.

IFP also works with regulators and other international bodies by conducting seminars, for e.g. US Treasury and Federal Reserve Bank of New York