

PREFACE

In the Name of Allah, the Most Beneficent, the Most Merciful

Here is the main point of all that follows in this report: the management of Islamic financial institutions must run the business, but other stakeholders must also lead the industry on the most crucial issues. Shari'a compliance is still important. Governance matters. But the time has come for the stakeholders to start re-balancing all the roles and responsibilities. It is the time to decide who should take the lead role, what should be done, and what should be the future strategic path of the growth of the global Islamic financial services industry.

Customers (both households and businesses), industry observers and general masses have all been pressing Islamic financial institutions to deliver on their social responsibilities. That requires a handful of decisions that must be taken on appropriate levels. It is important to determine who should take these decisions. Is it shareholders, management, or the regulators? At the end of the day, it is a choice between profitability and social responsibility or an optimal mix of these. Shareholders prefer to put profits on top. Management has its own preferences in terms of job security and recognition of their performance in the industry. Regulators are concerned about stability of the financial system and customer protection. All these are independent objectives and at times conflicting. Hence, there is a need to put IBF in the socio-economic and political agenda of governments.

How can this be done? It is an interesting question. The phenomena like microfinance have been incorporated in social policy, income generation programmes and political agenda of almost all governments in the less developed countries, because it brings a distinct value proposition in terms of financial inclusion and poverty alleviation. IT literacy has entered the pedagogical debates around the world because it has a direct relevance to teaching and learning from the primary level to the tertiary education. Similarly crowd funding is emerging as a new means of raising finance for start-ups and similar projects. Governments in a number of countries have started taken notice of it and it is expected that new legislations will be introduced in a growing number of jurisdictions to accommodate this new phenomenon.

WHAT IS THE VALUE PROPOSITION OF IBF? Does it bring stability to the financial system? Is it genuinely more equitable and just than its conventional counterpart? Has it shown to be useful in reducing financial exclusion? Can we furnish some examples of the use of IBF in combating poverty? Is it possible to use it as a tool in the war against terrorism? Can IBF be used in political negotiations between Islamic and other countries? It is probably most appropriate to ask at this juncture why IBF has failed to attract attention of the Nobel Prize Committee that picked up the likes of Muhammad Yunus for his leadership role in pioneering microfinance. It is an important question, and there is a need to answer this question in an objective way.

Answers to these and many more such questions should have implications for a debate on Islamic financial leadership. If an Islamic financial system is more stable than interest-based finance, then why IBF failed to impress the Western financial gurus and governments who felt a dire need for a better solution to their problems during the recent financial crisis. If IBF failed to offer credible and statistically significant evidence to prove its claim of being a more stable financial system, there is a need to re-look into the research and development (R&D) infrastructure that is supposed to support the industry. In this respect, it is important to re-consider the leadership role of the think tanks like Islamic Research and Training Institute (IRTI), an R&D

arm of the Islamic Development Bank (IDB). Some new research organisations, like ISRA in Malaysia, must also be positioned in such a way that they should play a leadership role in the development of IBF in their respective jurisdictions and world-wide.

It happens to be the case that Islamic financial services industry has given the role of determining its future course of action and development to Western organisations (e.g., information platforms and consultancy firms) which have no real stake in the industry. Such organisations keep on coming up with their recommendations (based on whatever fits well in their own commercial models), which are almost blindly followed by Islamic banks and financial institutions. Consequently, some Islamic banks have even changed their names to exclude the word Islamic from their branding. It is also expected that new Islamic banks in a number of jurisdictions will not have the word Islamic in their names. This is an important shift in terms of branding, and if the trend continues, it will have bearing on operations of such institutions in terms of the role of Shari'a compliance.

The new strategy for growth of IBF must ensure that the governments (at least in the Muslim-majority countries, if not elsewhere) must assume a leadership role in owning, developing and promoting IBF. Industry-wide organisations (like AAOIFI, IFSB, IIFM and CIBAFI) must be made more effective. At present, apart from IFSB, the other three organisations are not adequately staffed. There is a need to inject more resources into these organisations to make them effective industry leaders. In this respect, the role of IDB must be enhanced to develop effective leadership for the industry.

This edition of GIFR 2015 looks into leadership in IBF, with respect to governments and countries, market institutions, products and services, and individual personalities. There is no doubt that some governments have in the past played leading role in the development of IBF, and that a number of Islamic banks and financial institutions have pioneered products and practices. In this respect, some cornerstone products have emerged to lead the industry in a certain directions. The role of some leading individuals and families can also be not underestimated. This report lists such governments, institutions, products and individuals to highlight their leadership roles, with a view to get implications for developing future leadership in IBF.



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