

## **THE FUTURE OF ISLAMIC FINANCE**

**Amirah Mardhiah binti Hamdan**

Mohammad Nasr Abdeen, the Chief Executive Officer of Union National Bank said that Islamic Finance has seen significant geographical expansion in the past few years, with the new countries drafting up legislation to facilitate it. It is an ever-changing field, full of innovation and growth in equal measure. There are now a lot of Islamic banks all around the world even in the western countries. The existence of Islamic banks in western countries can be the indicator of the acceptance of Islamic Finance by the westerners. As for United Kingdom being the home for 3 million Muslims, according to the office of National Statistics in 2016, the United Kingdom is a leading hub for the Islamic finance industry in Europe. It has also a fully Shariah-compliant retail bank named as Al-Rayan Bank which formerly known as Islamic Bank of Britain. Nyra Mahmood acting as the managing director of UK based-Simply Sharia Human Capital said that Britain is the leading centre for Islamic Finance in the West, including British higher education institutions leading the Non-Muslims world in the teaching of Islamic Finance. The top 5 growth markets for Islamic Finance as reported by the World Finance website, Qatar with \$54 billion worth of Islamic assets, occupies 24% of the overall Islamic Finance market being the top 1, followed by Indonesia, Saudi Arabia, Malaysia and United Arab Emirates.

Islamic Finance must be in relation with the world economy as to make it a potential replacement to conventional finance. Many people understand that Islamic Finance just merely another religious doctrine coming from Islam as to fund mosques, charities work to Muslims or as to financing the Muslims entrepreneurs. Most unconvinced secularist as well as other critical observers argued that Islamic finance is a broader political agenda as to change the world to be in parallel with the principle of Islam. Codomic Nestorovic, Professor at ESSEC Business School Asia Pacific enlightens that Islamic finance seems impossible to replace conventional finance based on three things, which are it would lead to limited organic growth, limited institutional and individual demands and also hypertrophy of the industry. He is not the only one who critics on Islamic finance. Al-Attas views that Islamic finance remains very much wed to neo-classical economics and employs Keynesian economics model to prove that interest-free economic system is workable and superior to conventional finance. If we take a closer look in our country Malaysia, Persatuan Pengguna Islam Malaysia in the year of 2012 reported that they received over 4000 reports of dissenting the Islamic banking system endorsed by the banks claiming it was shariah-compliant from the year of 2003 until 2012. The report was made as there are so many default in the system. PPIM warned those banks to not use the name of Islam as to derive profits from the system and they also explained that this matter shall be looked into by the authorities such as Bank Negara Malaysia and National Syariah Advisory Council.

Next, according to Associate Professor Dr. Zulkifli Hasan in his article, "Kritikan dan Kewangan Islam: Apa yang perlu diketahui", there are two

categories of people in criticising the Islamic finance. First, the people who critics with authority, research and arguments. The second one is those who critics with conspiracy's theory. They actually criticise Islamic finance because they believe that Islamic finance brings aspiration as to uphold Islam in Western countries and started to endorse Islam there. All those critics shall be taken into consideration and taken in a positive way as it can become the bedrock to enlighten the future of Islamic finance. For example, organise a new stratagem, revise the existing structure, plans and practice as to improvise it.

ICS Financial Systems preached that Islamic banking must be standardised. Robert Hazboun, the Managing Director of ICS Financial Systems said that the main challenges faced by Islamic finance is the variety of Shariah regulations between countries and even within each country. Although Islamic financing regulators, such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board, have been very active in recent years, differences still exist. These different interpretations of Sharia rules slow down the growth of Islamic finance. Such diversity may seem positive in terms of satisfying different views and demands, but in general, not having a unified approach causes rifts between Islamic banks.

As to overcome this problem and difficulty, it might be useful for all Islamic banks and financial associations to follow an agreed set of rules and regulations. By the year of 2020, the Gross Domestic Products of Malaysia said to be grown by 1.6% as reported by Trading Economic Website. It is also suggest that the unemployment rate will be increased by 4.1 percents and there will be 511 thousands jobless citizen. A very big thing to ponder on, does Islamic finance capable to survive in the future based in the economic forecast?

As mentioned above, Islamic finance is actually receiving many critics but it is not all about critics when we want to discuss on Islamic finance. If we look from the other perspective, Islamic finance is really welcomed by experts because its capability in providing a viable system. This can be seen when Irakli Berdzenadze, Chief Executive Officer of Nanocredit said that Islam is not only a religion in the ordinary sense of the word, but a complete system of life. While other religions codes provide guidance only for the relation between man and His Creator, Islam guides man in his relationship with God and gives him in the norms which govern his temporal existence as Islam cover all matters concerned with spiritual, political, social economic, moral and other aspects of the human being. The Islamic bank total assets range between US\$1.88 trillion to US\$2.1 trillion in 2016 and are expected to reach US\$3.4 trillion by 2018 globally.

As opposed to conventional banking, depositors to Islamic banks are entitled to be informed about what the bank does with their money and to have a say in where their money should be invested. Another difference is Islamic banking avoid interest at all levels of financial transactions and promote risk-

sharing. In case of profit, both the Islamic bank and its customer share it in a pre-agreed proportion.

Islamic bank cannot create debt without good and services to back it. The bedrock of Islamic finance are must be interest-free, free from uncertainty and gambling. The difference between Islamic finance and conventional finance also that zakat need to be paid as to purify the assets as a precaution if the assets contain those three things.

As a conclusion, Islamic finance holds a bright future but in order to reach that future there are few obstacles and challenges. The system provided by Islamic finance shall be standardised all over the world with certain modifications. It may seem hard to be done because different countries has different religious code but it can be done. Furthermore, when we talk about Islamic finance nowadays, everyone is starting to have an idea of it even the Non-Muslims. United Kingdom even claims that by years they will be the leading hub in Islamic finance. Talking about the similarity of Islamic finance and neo-classical economics, the statement can be rebutted with a well-research on the principals and bedrock of Islamic finance also the pure implementation of Islamic finance as explained before, even in Malaysia there are too many complaint and report by the customers about the Islamic banking system when they are only using the name of Islam merely to derive profits out of implementing the system to help the society. Last but not least, by looking at the growth of Islamic finance, we can say that it held a very bright future as it is possible to replace the conventional finance because it keep increasing by year. The West also starting to adapt Islamic finance because they see the potential in it principles and system. Malaysia can the reference country if other countries want to endorse the Islamic finance as it already own a legal framework and standards to be followed. So, Islamic finance can be said to hold an outstanding future but there are still lot of works need to be done.