

Value-Oriented Islamic Finance Practices: Affin Islamic Bank Berhad as a Case Study

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Introduction

- This paper is a continuation of the discourse in the article published in Humanomics, volume 32, No 4, 2016 entitled From Legalism Towards Value-Oriented Islamic Finance Practices. This paper further argues that while significant concerns have been invoked on the material aspects of Islamic finance such as financial growth and products sophistication, it is nevertheless observed that equal emphasizes have not been given on social objectives of Islamic Financial Institutions (IFIs) as part of its value-oriented frameworks.
- This paper attempts to highlight the importance of corporate governance in stimulating the social function of IFIs within the Islamic ethical dimension paradigm and supports its arguments by highlighting efforts by AIBB Berhad towards promoting and inculcating value-oriented Islamic finance practices.

Foundational Dimension of CSR

- The integrated elements of *Tawhid*, *Shari'ah* and ethics have three important characteristics namely the criterion of *adl* (justice), *amanah* (trust) and *ihsan* (benevolence).
- *Adl* requires all individual to behave justly to all.
- The concept of *amanah* then further characterizes Islamic corporate governance by considering individual as a vicegerent of God and he is accountable to Him.
- The concept of *Ihsan* requires extra caution, effort and good intention where the individual performs good deeds with the realization that Allah is watching him at all times.
- All of these criterions then expect all stakeholders in IFIs regardless of shareholders, managers, BOD and employees to take into consideration not only the material and profit dimension but the socio-economic aspect as well as the environmental issues which are in parallel with the CSR.

Critiques over lack of Social Responsibility in IFIs

- While acknowledging the solid and cogent theoretical foundation of CSR in Islam, the reality indicates otherwise where there is lacking of initiative by IFIs to implement CSR as part of their corporate social objectives.
- Asutay, (2008) maintains that the Islamic finance has failed to realize the very reason of its existence in providing socio-economic development for the larger parts of the Muslim world and communities. He further criticizes that IFIs do not serve and engage with communities but rather to serve markets.
- A study by Farook, (2009) indicates significant improvement of IFIs on the CSR initiative. The report reveals that IFIs have taken numerous and significant social measures towards social responsibility in various aspects such as charitable activities, social welfare and development, environment, concentration on screening, serving and responsible dealing with customers and employee welfare

CSR in IFIs

- In the context of IFIs, the Association of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued specific standards on CSR known as Governance Standards No. 7: Corporate Social Responsibility, Conduct and Disclosure for IFIs. The AAOIFI refers CSR as “to all activities carried out by IFIs to fulfill its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries as individual and institutions” (AAOIFI, 2010). Unlike the WBCDS and the EC, the AAOIFI’s definition further enhances the scope and foundation of CSR. The CSR is considered as not only part of IFIs contribution to socio-economic development but regarded as religious obligations and ethical consideration inspired by the teaching of *al-Quran* and *al-Sunnah*.

CSR Framework in IFIs

Mandatory Forms	Recommended Forms
<ul style="list-style-type: none">• Screening Clients for <i>Shari'ah</i> compliance• Responsible Dealing with Clients• Earning and Expenditure Prohibited by <i>Shari'ah</i>• Employee Welfare• <i>Zakah</i> (Obligatory Tax)	<ul style="list-style-type: none">• <i>Qardh al Hasan</i> (Benevolent Loan)• Reduction of Adverse Impact on Environment• Social, development and environment based Investment Quotas• Customer Service• Micro, Small Business and Social Savings and Investments• Charitable Activities• <i>Waqf</i> (Endowment) Management

Roles of Corporate Governance

- Corporate governance plays very imperative roles to foster and to stimulate CSR initiatives in IFIs. The state of CSR practices in IFIs is strongly influenced by the way they are directed, controlled, monitored and supervised.
5 factors to determine and influence the level of CSR Practices
- 1. Pro-active roles of stakeholders;
- 2. Organizational structure;
- 3. Ownership structure
- 4. Monitoring mechanism and
- 5. Corporate social reporting

Governance of AIBB

- **AIBB's BOD and Management** seek to ensure the Bank operates and comply with the IFSA 2013, MCCG 2012, BNM CG, SGF 2010 and other applicable laws and regulations.
- **BOD** provides guidance and oversight of the Bank's strategic agenda, operations and overall performance. The BOD ensures that high ethical standards and commits in establishing long term sustainable value to the shareholders and stakeholders.
- AIBB's BOD consists of **3 committees** as followed:
 - **Shariah Committee** - which responsible towards the Shariah governance of AIBB and ensuring the business operation of AIBB comply with Shariah principles
 - **Board Risk Management Committee** – which responsible for overseeing management activities in managing credit, market, liquidity, operational, legal, reputational and ensuring risk management process is in place and functioning well
 - **Board Audit Committee** – which responsible for providing oversight on adequacy and integrity of internal control system and oversees the work of internal and external auditors
- **Management of AIBB**
 - liable for managing implementation of vision and strategy set by BOD and
 - ensuring bank's operations are executed according to the policies and procedures. The Management also
 - responsible to develop and adopt a holistic culture of Shariah compliance within the organization

Zakat Policy

- AIBB only pays zakat **on behalf of its shareholders**.
- It may use the method outlined by AAOIFI, any local zakat authorities or any other methodology as approved by the Shariah Committee.
- Zakat policy allows distribution to **8 asnaf** as stated in the Holy Quran (9:60).
- The policy describes criteria for each *asnaf* to guide assessment and verification for zakat approval purpose; *asnaf* criteria, *haddul kifayah* and types of assistance.
- The policy is being endorsed by the Shariah Committee and approved by the BOD. **Assessment and verification** is conducted by Zakat Management Unit, under **approval** of the Management. The **zakat distribution report** is submitted to the Shariah Committee in periodic basis.
- Since 2013 to 2017, AIBB has **declared** zakat of around RM23M.
 - AIBB has paid RM7.5M to state zakat authorities throughout Malaysia,
 - RM7.0M to public and private universities,
 - RM3.0M for armed forces (Tabung Zakat ATM), and
 - RM1.0M for individual and families.

Charity Policy

➤ Charity Fund comes from 2 sources,

➤ **Affin Barakah Charity Account-I**

- designed to cater depositors who wish and donate at the same time.
- based on *Qard*, where AIBB may give certain return as *hibah* (discretionary and non-conditional).
- depositors may channel the hibah partially or in full for charitable purposes and AIBB will disclose such in all its publicity.

➤ **Tainted income,**

- come from Shariah non-compliant events
- penalty amount (above the bank's cost).
- not considered as sedeqah but it is purification of the bank's income.

➤ Charity policy is being **endorsed** by the Shariah Committee and **approved** by the BOD.

➤ This policy **disallows** AIBB to utilise or benefit directly from the fund.

➤ **Assessment and verification** is conducted by Zakat Management Unit under **approval** by the Management.

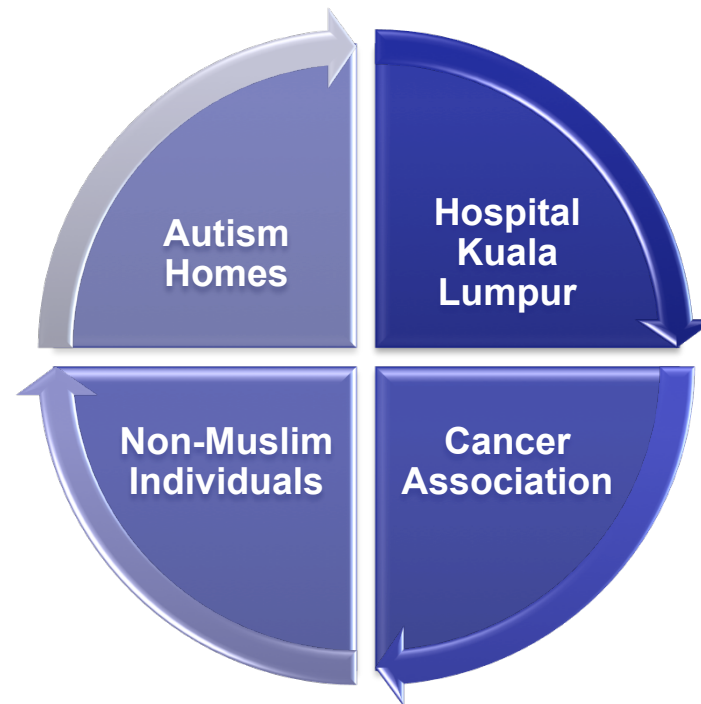
Zakat Distribution

- Starting 2016, AIBB became main sponsor for **Harian Metro Kotak Rezeki 2016**, a programme to distribute 10,000 boxes worth RM144,000 to the poor and underprivileged all over Malaysia.
- AIBB also decided to celebrate it's **10th Anniversary** by distributing RM120,000 to 12 orphanage and old folk homes throughout Malaysia



Charity Distribution

- The **distribution report** is submitted to the Shariah Committee in periodic basis.
- AIBB may **publicise** the distribution with some restriction imposed in regards to publicizing distribution of tainted income.
- Since 2013, AIBB has **distributed** around RM0.5M for various recipients



Recovery Policy

- Another value-oriented practices by AIBB refer to its recovery approach towards delinquent customers. The guideline aims to facilitate the staff to identify customers with genuine difficulties, minimising offensive approach, protecting customer's right while enforcing the Bank's rights as well as practicing good manners in approaching customers. With this guideline, Islamic value of kind consideration in recovery process is expected to have good impact to the bank's reputation and image.
- AIBB has also developed a parameter to determine customers in genuine difficulties as guidance for identification by the staff who are performing recovery functions. Genuine difficulties may be in form of lost of job, suffering of permanent or temporary disability, death of family breadwinner as well as property being financed is affected by perils or force majeure. The parameter also outlines ways for verification to be done, among others, by way of customers' official letter or oath, visitation, medical proof by hospitals and others.

Approach on Products and Services

- AIBB maintain its diversification of products, Musyarakah Mutanaqisah, Istisna, Ijarah and etc.
- To limit as much as possible the usage of tawarruq financing facilities and for the purpose of liquidity.
- Stop offering controversial products such as Bay Inah and Bay Dayn.
- Monitoring the performance of each Islamic financial products and services.

Concluding Remarks

- Corporate governance is an important mechanism and one of the factors that determine and influence the IFIs' initiatives on CSR. Strong corporate governance with pro-active roles of stakeholders, appropriate organizational structure, ownership structure, sound monitoring and supervisory frameworks and proper corporate social reporting would be able to stimulate and induce the IFIs to play more roles in social and moral initiatives.
- This paper supports its arguments with pro-active initiatives and efforts by AIBB in promoting and inculcating value-oriented Islamic finance practices. Despite numerous challenges and problems, AIBB has successfully proven that such initiatives are possible and workable. A wider framework of CSR with the support of various stakeholders including the influential roles of *Shari'ah* committee is a determinant factor that will enhance the corporate socio-economic dimension. Through clear policy and standard operational procedures and guidelines beyond the legal mechanistic of *fiqh*, IFIs are able to transcend the existing Islamic finance paradigm towards value-oriented and *maqasid al-Shari'ah*-based practices.