THE FUTURE OF ISLAMIC FINANCE

Nur Syafikah Binti Hamid

According to International Shari'ah Research Academy for Islamic Finance, the expression 'Islamic finance' combines two significant meanings which are 'finance' and 'Islamic'. The noun 'finance' suggests that Islamic financial markets and institutions deal with resource allocation, management, acquisition and investment. The adjective 'Islamic' implies some fundamental differences between Islamic finance and its conventional counterpart.

Islamic finance basically is built upon a number of distinctive and unique characteristics, which are based upon principles underlined by Shari'ah. Some of the prominent elements constituting parts of its characteristics include the prohibition of predetermined rate of interest (riba), the prevention of ambiguity (gharar) in contracts, the prohibition of gambling (maysir), the prohibition of conducting economic or investment activities which are ethically and socially unacceptable albeit being profitable (such as pornography, alcohol and prostitution), and the prohibition of monopoly.

Mr Imtiaz Merchant, MD Pragmatic Wealth Management Pvt Ltd stated that Islamic finance is about ethics, integrity, accountability and social responsibility, and it encourages business and entrepreneurship purely on profit and loss sharing basis and completely prohibits fixed incomes. Sharing of risks and returns by investors and entrepreneurs is an integral crux of Islamic finance.

The former Governor of Malaysia's Central Bank, Tan Sri Zeti Akhtar Aziz in her speech in 2004 mentioned that while the conventional banking system is guided by the Basel core principles which outlines the minimum requirements for the supervisory regime, these principles need to be reviewed from the perspective of Islamic banking taking into account the unique characteristics and risks involved in Islamic banking and its products and services. It is not as straightforward as a debtor-creditor relationship in conventional banking, but it includes other inherent risks arising from the investor-entrepreneur relationship where the risks exist in Islamic banking.

It had been criticized by Belouafi et al (2015) that the framework adopted in the development of Islamic financial instruments had been to design products in such a way that these products were almost equivalent in economic and risk characteristics to conventional debt instruments. Besides, there are other experts acknowledging that Islamic institutions are copying or repackaging conventional banking products just only to reach the 'cream' of the Muslim market.

However, the answers for those critiques had been given by Tan Sri Zeti Akhtar Aziz during an Islamic banking conference in London where she urged her colleagues to remember that the Shari'ah should always be viewed as an enabler to innovation and creativity, rather than just a constraint. The efforts therefore must be enhanced as to fully appreciate and maximize the true potentials and wisdoms of the

Shari’ah. Professor of Economics and Statistics at Rice University, Mahmoud Amin El-Gamal stated that a more realistic approach would be to conclude that Islamic products differ from their conventional counterparts in the same manner that Kosher water bottles differ from most other bottled water (certification by certain religious figures).

In regard to the future of Islamic finance, microfinance is one of the best opportunities to be developed and improved as microfinance is one of the least developed areas in Islamic banking and finance, and it currently stands at less than 1 percent of the global Islamic financial services industry. Given a huge financial exclusion in most of the Muslim-majority countries, Islamic microfinance actually possesses vital roles to be played in the economic development of Muslim societies.

The Ruler of Perak, Raja Nazrin Shah in the opening speech of Islamic Financial Intelligence Summit (IFIS) 2013 made a statement that the Islamic finance industry should look into opportunities to broaden the scope of Islamic microfinance where it currently only represents 1 percent of the global microfinance outreach. Raja Nazrin Shah also stated that the contemporary Islamic finance today has been largely disengaged from its socio-economic aspects as similar to how the conventional finance is said to have moved from Main Street to Wall Street in the developed markets.

The Global Islamic Finance Report 2017 by its overview of the global Islamic finance industry put an emphasis towards the financial inclusion as it could change the focus of Islamic Banking and Finance (IBF) and its concentration in terms of incidence of Islamic financial assets. The Islamic financial assets at present are largely concentrated in the Gulf Cooperation Council (GCC) countries and Malaysia, and a successful financial inclusion policy will bring countries like Indonesia, Pakistan, Bangladesh, Turkey and Egypt in a central focus. This explains why large Islamic banking groups such as Dubai Islamic Bank (DIB) and Kuwait Finance House (KFH) and Al Baraka Banking Group (ABG) must focus on these key markets as part of their strategy for future growth and expansion.

The introductory chapter of the Global Islamic Finance Report 2017 showed that the global Islamic financial services industry stood at US$2.293 trillion at the end of December 2016, and an additional stock of US$150.01 billion over the last reporting year of 2016 as when the industry stood at US$2.143 trillion at the end of 2015.

As to evolve a bright future of Islamic finance, the area for research can be focused on development of new integrated growth sectors. This encompasses the closer integration of Islamic banking with other Islamic financial sectors such as Islamic money and capital markets, takaful including retakaful, waqf and Islamic fund (asset and wealth) management, and through mutual cooperation within the liquidity framework and joint product and service offerings including bancatakaful and mortgage securitisation transactions as to retail and corporate customers.

One of the latest news pertaining to Islamic finance dated 11 September 2017 stated that Bahrain tightens Islamic finance rules to compete with Kuala Lumpur and Dubai. Bahrain by its efforts strengthens the rules for Islamic banks by requiring the

Islamic banks to undergo independent and external audits as to certify their compliance with the Muslim law, Shari'ah. The decision made by Bahrain could add momentums to the global pressure as for more centralised regulations of the industry, and it is expected to serve as an example for the region and the global Islamic banking market in which it can assist the Islamic finance to develop around the world.

In conclusion, Islamic finance has extremely important functions and positions which are seldom noted. The Islamic finance in fact has the abilities to provide the vehicle for financial and economic empowerment. Through the basic instruments of Islamic finance, it can be spanned into a wide and varied menu of financial instruments. By increasing the share of Islamic finance around the world, many countries including Malaysia definitely can obtain the benefits.