

Global Leaders *in* Islamic Finance

INDUSTRY MILESTONES
AND REFLECTIONS

Emmy Abdul Alim

WILEY



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*Industry Milestones
and Reflections*

Emmy Abdul Alim

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Whoever does an atom's weight of good will see it, And whoever does an atom's weight of evil will see it.

—*Al Qur'an, Sura 99, Az Zalzalah, Verses 7-8*

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Selected List of Acronyms

A

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
ADB	Asian Development Bank
AED	Emirati dirham

B

BCBS	Basel Committee on Banking Supervision
BCCI	Bank of Credit and Commerce International
BIS	Bank for International Settlements
BNM	Bank Negara Malaysia (the Malaysian Central Bank)
BoE	Bank of England

C

CIBAFI	General Council for Islamic Banks and Financial Institutions
COMCEC	Committee for Economic and Commercial Cooperation of the Organisation of the Islamic Cooperation

D

DIB	Dubai Islamic Bank
DJIMI	Dow Jones Islamic Market Indexes
DMI	Dar Al-Maal Al-Islami

E

ESG	Environmental, social, and corporate governance
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G

GCC	Gulf Cooperation Council
GIC	Government Investment Certificate
GII	Government Investment Issue

I

IAIB	International Association of Islamic Banks
IASB	International Accounting Standards Board
IBB	Islamic Bank of Britain
ICM	Islamic Capital Market
IDB	Islamic Development Bank
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board

IICG	Islamic Investment Company of the Gulf
IIFM	International Islamic Financial Market
IILM	International Islamic Liquidity Management Corporation
IIMM	Islamic Interbank Money Market
IIUI	International Islamic University in Islamabad
IMF	International Monetary Fund
INCEIF	International Centre for Education in Islamic Finance
IOSCO	International Organisation of Securities Commissions
IRTI	Islamic Research and Training Institute
ISRA	International Shari'ah Research Academy for Islamic Finance
IZO	International Zakat Organisation
K	
KFH	Kuwait Finance House
L	
LIBOR	London Interbank Offered Rate
M	
MENA	Middle East and North Africa
N	
NGOs	Nongovernmental organisations
NYT	<i>New York Times</i>
O	
OIC	Organisation of the Islamic Conference, or Organisation of Islamic Cooperation (from 2001)
P	
PwC	PricewaterhouseCoopers
R	
RM	Malaysian ringgit
S	
SAC	Shari'ah Advisory Council
U	
UAE	United Arab Emirates
UNDP	United Nations Development Programme
W	
WSJ	<i>Wall Street Journal</i>

Introduction

What is Islamic finance, and how is it different from “regular” finance? Why is there a need for it, and how did it all start? Is it only for Muslims?

This book is not a technical book or textbook on Islamic finance; it will neither teach you the finer details of Islamic financial structures nor present the minutiae of technical issues that challenge the Islamic finance industry.

This book brings you the individuals who have built the industry from scratch, individuals who were there from the very beginning of this new industry, and individuals who have contributed to Islamic finance at the global level. Within these pages you will encounter the motivations behind industry milestones and learn about the major challenges and issues affecting the modern Islamic finance industry since its birth in the 1970s through the perspectives and very candid opinions of leaders responsible for some of the industry's most significant developments.

The modern Islamic banking and finance industry is widely acknowledged to have its roots in the Mit Ghamr Savings Bank in Egypt, which opened its doors in 1963. The bank was established by the late Dr. Ahmed Al Najjar, and operated more along the lines of an interest-free cooperative credit union. Unfortunately Mit Ghamr Savings Bank was shuttered in 1967 due to various political reasons. Thereafter the first Islamic commercial bank opened in Dubai in 1975. From that first Islamic commercial bank to over 600 Islamic financial institutions in more than 50 countries today, the Islamic financial industry continues to grow much faster than the conventional interest-based system, charging forward as it escaped relatively unscathed

from the direct impact of the global financial crisis that started in 2007–2008.

But Islamic finance did not just magic into existence from the 1960s. To different degrees, Muslim communities have been influenced by and aligned their trade rules and financial transactions with shari'ah since the spread of Islam from its Meccan and Medinan epicentres in the seventh century. European colonization of Muslim lands punctuated the development of Islamic finance, and introduced the now all-pervasive banking model. It was only from the 1970s that we see an institutionalized financial system following shari'ah, albeit largely in the “Western” banking and finance mould, that has grown to become international. Fuelled by Islamic revivalism and Middle Eastern petrodollars, the industry mushroomed following the establishment of two pan-Islamic initiatives: the Organisation of Islamic Conference in 1969 and the Islamic Development Bank in 1975. This contemporary industry is the focus of this book.

From 2000 to 2011 global Islamic finance assets achieved a compounded growth rate of 27 percent, with the period 2000 to 2007 recording a higher 30 percent. Growth slowed post 2008 due to the impact of the global financial crisis on the real economy which in turn impacted negatively on assets held by the Islamic finance industry.

Most Islamic finance assets today are based in the Middle East and North Africa, followed by Southeast Asia (primarily Malaysia). But these regions are not the only ones with Islamic finance activities. Additionally, not all Islamic finance practitioners, clients and customers are Muslims. In Malaysia, for example, more than half of Islamic banking customers are non-Muslims, and there are many conventional financial institutions who now have Islamic businesses or who are involved with shari'ah-compliant finance, including Barclays, Citi, Deutsche Bank, HSBC, and Standard Chartered. While Muslims were Islamic finance's

target market in the 1970s and 1980s, the expansion of Islamic finance from the 1990s pushed its appeal and use beyond the epicentres in the Middle East and Malaysia. Following the 2008 global financial crisis the Islamic financial industry has increasingly been considered as a viable and sustainable alternative financial system. The challenge for the Islamic finance industry today is how to move forward to widen its appeal based on differentiating itself from the conventional financial model and offering its own unique products and services. In short, how does Islamic finance co-exist with the dominant global financial system while remaining distinct from it.

The prominent individuals considered in this book cover the broad range of sectors within the Islamic finance industry: banking, capital market, *shari'ah*, law, economics, policymaking, and international standard setting. Each chapter leads with the work and contributions of the leader and explores relevant issues while presenting insights and perspectives on Islamic finance-related matters closest to each individual's heart. All interviews were conducted face-to-face and in person except for two—the interviews with Professor Khurshid Ahmad and Michael J. T. McMillen were conducted online due to scheduling difficulties.

The pages of this book expose unswerving hearts steeped in the belief and conviction that the Islamic system is a strong and viable financial alternative. At the same time, they unreservedly address the industry's shortcomings. The leaders reveal what they consider to be the Islamic finance industry's achievements; perhaps more interestingly, they also reveal their own disappointments and misgivings about the industry's methods and current trajectory.

During the course of the writing of these chapters, drafts were read by people working within the Islamic finance industry as well as those completely unfamiliar with the subject matter. To the author, the more valuable reactions

and feedback came from the latter group. The main challenge faced by the author has been, firstly, to faithfully represent and relate the message of the merits and value of Islamic finance sans gross hyperbole and overstatement. The other challenge was to make accessible financial and Islamic financial jargon and argot to a non-Islamic finance readership. It is the author's sincerest hope that these twin challenges have been met to some extent; in working towards these aims, the honest feedback from the non-Islamic finance readers has been invaluable.

Selection of Leaders

The ten leaders in this book stand on their own strengths and merits.

In selecting people to be interviewed for this book, the overarching aim was to include living individuals whose contributions to Islamic finance have made a global impact and who have blazed new trails and broken new ground for Islamic finance. To this end, the pioneers who built the industry from scratch are easy to spot in any lineup—these include Professor Khurshid Ahmad, Saeed bin Ahmed Al Lootah, His Royal Highness Prince Mohamed Al Faisal Al Saud, Saleh Abdullah Kamel, and Tun Dr Mahathir Mohamad. While the leadership, calibre, and influence of most of the interviewees are undisputed, every person involved in and/or familiar with the Islamic finance industry has their own views as to who or what a global leader in the Islamic finance industry is or should be. The views of a cross-section of the industry the author reached out to were revealing—in some cases, criticisms and attacks *ad hominem* were easily dismissed, but beyond this baseline almost everyone had different candidates to propose. Perhaps reflective of the progress and trajectory of the Islamic finance industry over the past four decades, this author learnt that you cannot

please everyone and that you must press on towards a bigger picture with the knowledge that the final outcome would incur (no doubt impending) criticisms of many an industry stalwart. The author hopes that others will continue what this book has started and continue to document industry milestones and perspectives of its leaders.

The chapters are organised according to the interviewee's year of formal entry into the Islamic finance space. We start in Chapter 1 on the Indian subcontinent, looking at the roots of Islamic revivalism that inspired and influenced an entire generation of Muslims. From the upheavals of the Indian fight for independence and the Indian Muslim's struggle for a separate nation-state, we meet Islamic economist Professor Khurshid Ahmad, whose work and activism from the early 1970s led to the watershed First Islamic Economics Conference in Mecca in 1976.

In the oil-rich Gulf, we hear in Chapter 2 from Hajj Saeed Bin Ahmed Al Lootah whose deep piety and leap of faith resulted in the world's first Islamic commercial bank in Dubai in 1975. Hajj Saeed reveals Dubai Islamic Bank's difficulties growing up amid the emirate's booming wider economic environment. In Chapter 3, we learn of the travails of banks and industry building with the pioneering multinational Islamic financial institution established by HRH Prince Mohamed Al Faisal Al Saud, whose vision, conviction, and international reach has served as a well of influence for the industry. Then in Chapter 4 we hear from another larger-than-life trailblazer, Sheikh Saleh Abdullah Kamel, whose contributions and initiatives have set the foundation for the global Islamic finance industry.

In Southeast Asia, Malaysia's rise to global Islamic finance prominence is mapped in Chapter 5 by the country's former prime minister Tun Dr Mahathir Mohamad, who led the country's economic development for 22 years.

From the work of these pioneers who established the first academic, professional, and commercial institutions serving the Islamic finance industry come the second generation who have strengthened the industry and pushed its boundaries beyond core Muslim markets. In Chapter 6, one of Islamic finance's "intellectual godfathers," former International Monetary Fund executive director Professor Abbas Mirakhor, gives us direct insight into the very essence and *raison d'être* of Islamic finance. We see how, through his leadership and expertise, a vital bridge between Islamic economics and conventional economics was built. In the same vein, in Chapter 7, Professor Rifaat Ahmed Abdel Karim leads the way in securing the stability and soundness of the global Islamic industry while pushing its integration with the global financial architecture. At the very core of *shari'ah* compliance we speak in Chapter 8 to one of the industry's most influential and prominent gatekeepers, *shari'ah* scholar Sheikh Nizam Yaquby. Working closely with Sheikh Nizam and other leading *shari'ah* scholars, leading expert and lawyer Michael J. T. McMillen, the topic of Chapter 9, has been responsible for some of the industry's most significant innovative legal structures and financial transactions, and he gives direct insight into the widespread use of Islamic finance in the United States. Last but not least, in Chapter 10 we hear from Rushdi Siddiqui, whose leadership launched the Dow Jones Islamic Market Index in 1999, an industry game-changer. From him we learn the difficulties the Islamic finance industry faces with regard to staying relevant to the man on the street while striving to achieve the highest levels of global professional efficiency.

Pulling all the threads together, Chapter 11 presents an overview of the main issues and concerns of the 40 years of the global Islamic finance industry as discussed in the 10 chapters.

Revealing Thoughts

It is important to point out that the focus of the book is Islamic finance. Through the interviews with the leaders, the book presents the subject's many facets and offers multiple perspectives on the world of Islamic finance. During the interviews, some leaders chose to focus primarily on their own work; others were more comfortable offering their opinions on a broad range of issues. As a result, the chapters are not structured in the same manner. This book is a collection of interviews that reveal different insights and opinions about Islamic finance and its development and growth over the past four decades. The author's aim has been to record each leader's main concerns, flesh them out, and position these concerns within the bigger financial and socio-economic context.

The interviewees in the first five chapters paint their work and contributions and the development of the Islamic finance industry in much broader brushstrokes than the next interviewees do. This could perhaps be due to their need to distil their decades of experience down to a memorable essence. At the same time, it is reasonable to expect most details to be lost from memory. In certain instances, some leaders chose to reveal more than others, but none was indecorous—readers hoping for a tabloid tell-all volume will be disappointed.

Most in the industry prefer to focus on the bigger textures and needs of Islamic finance than to count their own achievements. But not all shy away from the limelight. A leader or two asked the author why she had decided not to list awards and prizes won by the interviewees. Any mention of awards or prizes in the book supports a much larger theme or strand of argument; by and large, it is hoped that the achievements and influence of our ten leaders speak through their actions, decisions, and thought leadership.

Lastly, readers will notice that some of our leaders are joined in their chapters by others who have worked alongside them. These other individuals are featured where their voices and contributions are contextually fitting.

Broad Overview of the Development of the Islamic Finance Industry, Showing Milestones, Earliest Islamic Banks and Events/Institutions Mentioned in This Book

1950s	• Start of the development of theoretical framework for Islamic economics and interest-free banking
1960s Early interest-free experiments	• Mit Ghamr Savings Bank in Egypt 1963 to 1967 • Tabung Haji established in Malaysia 1963 • Organisation of Islamic Conference (OIC) established 1969
1970s Kick start of operations	• 1st International Conference on Islamic Economics in Mecca 1976 • Start of the operationalising phase for Islamic banks • Dubai Islamic Bank 1975 • Islamic Development Bank (IDB) 1975 • Faisal Islamic Bank Egypt and Sudan incorporated 1977 • Kuwait Finance House 1977 • International Association of Islamic Banks 1977 • Jordan Islamic Bank 1978 • Bahrain Islamic Bank 1979 • First Islamic Banking Conference in Dubai 1979
1980s Dominated by Islamic banking Second phase of Islamic economics	• Advancement of Islamic financial products in banking and funds management • Islamic banks and investment houses open mainly in Middle East and North Africa, and Southeast Asia • Pakistan, Iran and Sudan start 'Islamising' their economies • Dar Al-Maal Al-Islami 1981 • Islamic Research and Training Institute (IRTI), part of the IDB 1981 • Malaysia's first Islamic bank - Bank Islam 1984 • Amana Income Fund in USA 1986 • American Finance House LARIBA 1987 • Al Baraka International Bank in United Kingdom 1982 (closed 1993)

	• Failure of Islamic money management companies in Egypt
1990s Rise of Islamic capital market Participation of global players	• Shell MDS first sukuk in Malaysia 1990 • Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) in Bahrain 1991 • Bank of Credit and Commerce International (BCCI) scandal • Harvard Islamic Finance Project in USA 1995 • Citi Islamic Investment Bank 1996 • HSBC Amanah 1998 • FTSE Islamic Index December 1998 • Dow Jones Islamic Market Index launched early 1999
2000s Infrastructure-building institutions Sukuk market takes off	• General Council for Islamic Banks and Financial Institutions (CIBAFI) in Bahrain 2001 • Islamic Financial Services Board (IFSB) in Malaysia 2002 • International Islamic Financial Market in Bahrain 2002
Industry shows its mettle post global financial crisis	• Malaysia's first global sovereign sukuk 2002 • Islamic Bank of Britain in United Kingdom 2004 • World Bank issues its first sukuk 2004 • INCEIF—The Global University for Islamic Finance in Malaysia 2005 • Sheikh Taqi Usmani 2007 sukuk pronouncement
2010s Internationalisation and cross-border focus	• International Islamic Liquidity Management Corporation (IILM) in Malaysia 2010 • Goldman Sachs US\$2 billion sukuk scandal 2011 • Islamic Interbank Benchmark Rate (IIBR) 2011 • IILM launches debut sukuk August 2013 • Dubai Islamic Economy drive 2013

Chapter 1

The Islamic Economist/Activist

Khurshid Ahmad

Whoever rallies to a good cause shall have a share in its blessings.

—*Al Qur'an, Sura An Nisa, Verse 85*

“What Is Islamic Economics?” was the keynote address delivered by Professor Khurshid Ahmad at the World Assembly of Muslim Youth in Riyadh, Kingdom of Saudi Arabia, in 1973. That conference led to his involvement in organising the watershed First International Conference on Islamic Economics in Mecca in 1976. Professor Khurshid's vision and activism planted the seeds for the development of Islamic Economics at the institutional, political, and academic level. He started the first ever academic Islamic economics programme in the 1960s at Karachi University, and served as the founding chairman of the International Institute for Islamic economics at the International Islamic University in Islamabad, established in 1983. Nationally he has been involved with the Islamisation of Pakistan's economy since 1978. Professor Khurshid's work also extends to the United Kingdom, where the Islamic Foundation, an institution he founded in 1973, has been a major influence.

In my youth I was groping in search of an ideology and a life mission. The choice was between socialism, which had

glamour for the youth at that time, or going back to my own roots, Islam.

—Professor Khurshid Ahmad

Khurshid Ahmad was born in 1932 in Delhi, India. It was a time of heightened debates and demonstrations over the position of Indian Muslims as members of a minority community in British India amid the much wider struggle for Indian self-government. By the time Professor Khurshid was born, Mahatma Gandhi had become the dominant figure in Indian politics, after more than a decade of campaigning for self-government from the British; his nonviolent movement became more important after the bloody Amritsar massacre of 1919 that saw British and Gurkha troops kill hundreds of peaceful and unarmed demonstrators protesting British forced conscription of Indian soldiers and the heavy war tax.

As part of his political activism, Mahatma Gandhi called for a new way of economics, or “true economics,” as he put it. His call was for economics that “stands for social justice, or promotes the good of all equally including the weakest, and is indispensable for decent life.”¹ But where Gandhi based this “decent life” on Hindu precepts of *dharma* (righteousness), *artha* (material wealth), *kaam* (happiness), and *moksha* (freedom from life), Indian Muslims were devoting their energies to establishing Islam as the foundation for their separation from predominantly Hindu India.²

Professor Khurshid grew up in this highly charged nationalist and Islamic revivalist atmosphere. He first received traditional Islamic schooling and then attended Anglo-Arabic Higher Secondary School, where he excelled academically. Stoked by the political overtones of the day, his pedigree and abilities as an activist and leader shone through from a very young age. A year before the partition of India, in 1946, he was elected president of the Children's League in Delhi. In this capacity at the age of 14, he

regularly led demonstrations for Pakistan's independence. Following partition in 1947, his family emigrated, first to Lahore, then to Karachi. In 1949 he wrote his first article, on Pakistan's budget, which was published in the *Muslim Economist*.³

In that same year he made the decision which would prove to be the wellspring for his life's work: he became a member of the Islami Jamiat-e-Talaba, the autonomous students' organisation that draws its inspiration from the Islamic revivalist party Jama'at-e-Islami founded by Sayyid Abul A'la Mawdudi in 1941.

From early on Professor Khurshid looked to Muslim thinkers who were searching for a new interpretation of Islam suited to the modern context. "In my youth I was groping in search of an ideology and a life mission. The choice was between socialism, which had glamour for the youth at that time, or going back to my own roots, Islam."

He further explained his early influences: "It took about two years to discover that Islam should be my destiny. In this search I was influenced by Iqbal, Muhammad Asad and Mawdudi. But the most profound and all-embracing influence was that of Mawlana Mawdudi."

Early Influences: Muhammad Iqbal, Muhammad Asad, and Sayyid Abul A'la Mawdudi

Much of the drive and early impetus for Professor Khurshid's work was informed by the activism and influence of these three leading Muslim thinkers of the twentieth century. The