

HOW ETHICAL IS ISLAMIC FINANCE?

On 21 February 2018, a large London gathering of the Islamic finance and ethical finance communities took place. Over 140 bankers, financiers, academics and scholars considered the trend of positioning Islamic finance within the broader umbrella of ethical finance. Following Shariah principles, it is argued Islamic finance is seen to be intrinsically interwoven with ethical finance values and strategies. However, this view is not shared across the whole of the financial services industry and the Muslim community.

The event was organised by the **Islamic Finance Council UK (UKIFC)** and the **International Shari’ah Research Academy for Islamic Finance (ISRA)** and hosted by the Islamic finance practice of global law firm **K&L Gates**.

This conference panels reviewed and reflected on four key questions to investigate “How Ethical is Islamic Finance?”

PANEL 1

IS ISLAMIC FINANCE AN ETHICAL ALTERNATIVE?

	Mushtak <i>(Moderator)</i>	Parker	Editor, Economist & Independent Non-Executive Director, CIMB Principal Islamic Asset Management (Ireland) Ltd
Panellists	Martina	Macpherson	Partner, Sustineri
	Charles	Haresnape	CEO, Gatehouse Bank
	Stella	Cox	CEO, DDCAP
	Tarek	El Diwany	CEO, Kreatoc Zest
	Richard	de Belder	Advisory Board Member, UKIFC and RDB International Consulting

CONCLUSIONS AND KEY QUOTES

The panel considered the impact of finance beyond the immediate transaction. They looked at sustainability and green financing as well as social impacts. Principles of Islamic finance were complimentary to impact investing.

Generally there was a lack of supply of product. Certain UK Islamic banks were trying to bring a challenger bank mentality to the market. The Islamic finance community had a job to demystify the industry. However there remained fundamental issues that needed to be addressed, for example UK Islamic banks can still not place overnight funds with the Bank of England.

Panellists looked at the sharing of risk and reward. The current wealth of a borrower was a key criterion in any lending decision. This meant that tackling wealth inequality was hindered. Capital should flow to those with good ideas and not necessarily to those with wealth already. The UKIFC promoted interfaith understanding of finance. There were more similarities between faith attitudes to finance than there are differences.

The panel considered Islamic-compliant FinTech. These could help new developments in the ethical finance space. The current model for Islamic finance in the UK had been structured from the

conventional finance model. FinTech would give an opportunity for more risk sharing and investment management products.

There is a lack of Islamic finance retail products in the UK. It is important this is addressed.

We should encourage the development of retail products to give all ethical investors opportunity for value-based choices.

Any tool which turns land into desert has to be wrong. Islamic finance and sustainability should be ethically aligned.

ESG and SRI are closer to Islamic principles than Islamic banking. Mankind is driven by shared core considerations and this is reflected in the similarities between Islamic finance and ethical finance.

We should bring the Challenger Bank mentality to Islamic finance.

Islamic finance's struggle with reality vs aspiration vs fantasy.

We do need more products but we also need far greater education in understanding what exactly we are trying to do. Most of all we need transparency & integrity - maybe this is a role for a new way of doing things - FinTech.

PANEL 2

THE SHARIAH DEBATE - IS ISLAMIC FINANCE FOLLOWING THE SPIRIT OF THE LAW OR JUST THE LETTER?

Panellists	Nyra <i>(Moderator)</i>	Mahmood	CEO, Simply Sharia Human Capital
	Dr Akram	Laldin	Executive Director, ISRA
	Shaykh Ruzwan	Muhammad	Co-Founder Solas Foundation and Educational Director of the iSyllabus Islamic studies program
	Shaykh Haytham	Tamim	Chairman and Founder, Utrujj Foundation
	Prof, Dr Engku Rabiah	Al Adawiyah	Shariah Advisory Committee, Central Bank of Malaysia
	Sheikh Badr	Al-Hasan	Partner, Dome Advisory and Chairman, InsureHalal.com

CONCLUSIONS AND KEY QUOTES

The debate about the spirit of the law or the letter of the law will never end. The reality is that people will always see the law from different angles. Challenges are not solely a problem; they can be used to improve the results. Rules can be applied but the application can go against the objective of the rules. The application of the law will also depend on the facts presented. If Shariah scholars are presented with wrong or incomplete facts then they may opine in a contradictory way.

The motivations of people vary with commercial transactions. Different counterparties require different results. There is a difference between an intentional mistake and an unintentional mistake. The principle is for commercial risk to be taken, not credit risk. Growth is not without risk of loss. Start-ups, FinTech and crowdfunding may be routes to a better model. In this way the existing elites (economic, political, and business) may be circumvented.

The panel considered the issuance of credit cards by Islamic banks. These may be within the letter of the Shariah but if the scholars looked at the data on bankruptcies resulting from credit card misuse then they may form a different opinion about the harm that credit cards can cause to individuals.

Credit risk on its own does not entitle you to take a profit - you must take commercial risk.

"If you lose your camel, don't look for it on your roof." Islamic finance solutions are to be found outside the banking system, which is fundamentally hostile to Islamic values.

PANEL 3

THE BRANDING CHALLENGE FOR ISLAMIC FINANCE—HAVE WE NAMED THE SECTOR ALL WRONG?

Panellists	Barry <i>(Moderator)</i>	Cosgrave	Islamic Finance Partner, K&L Gates
	Stuart	Hutton	CIO, Simply Ethical
	Petr	Klimes	Group Marketing Director & Head of Digital, Abu Dhabi Islamic Bank
	Shelina	Janmohamed	Vice President, Ogilvy Noor
	Simon	Walker	Head of Retail Sales, Al Rayan Bank
	Professor Iqbal	Asaria	Visiting Lecturer, Cass Business School

CONCLUSIONS AND KEY QUOTES:

Some consumers may want to have a true social impact from their interaction with the finance industry. Building a sector with ethics and morals may lead to more sustainable growth. Islamic finance can attract non-Muslims. If Islamic financial institutions are looking to make more money overall then they may need to appeal to non-Muslim customers.

Brands used to sit on the fence - appealing to all audiences. This has changed. Brands can be seen leading attitudes to women and minority ethnic groups. People expect brands to make social interventions. Exploitative, tokenistic and non-inclusive products will be challenged on social media and elsewhere. Sensitivity must be shown in language.

The influence of millennials was discussed. They will require much greater transparency in their dealings with organisations. Panellists had heard the phrase "we need banking not banks". A potential kite mark for Islamic finance was considered potentially also using the "fair trade" brand.

Millennials are driving the financial services market and they demand transparency. Small banks brand themselves as ethical (making an impact at a local level) and big banks as responsible (trying to regain trust lost in the GFC).

The ability to attract non-Muslims should be a key performance indicator for Islamic banks. The ethical dimension of Islamic finance makes it globally appealing.

By giving a something a particular name, it doesn't mean that it'll represent the spirit of the name

Muslim audiences are sensitive to terminology and are savvy consumers. The challenge for Islamic finance is how to find the language and quality to deliver on promises.

PANEL 4

IS THE ISLAMIC FINANCE SECTOR TOO FOCUSED ON ISLAMIC BANKING? HAS THIS RESTRICTED ITS ABILITY TO PROVIDE MORE ETHICAL AND SOCIALLY RESPONSIBLE SOLUTIONS?

Panellists	Omar <i>(Moderator)</i>	Shaikh	Board Member, UKIFC
	Professor Mehmet	Asutay	Director, Durham Centre for Islamic Economics and Finance
	Harris	Irfan	CEO, Cordoba Capital
	Justin	Sykes	MD, Innovest Advisory
	Ajmal	Bhatty	Board Member, UKIFC and CEO, Qatar General Insurance and Re-Insurance Co
	Peter	Lovell MBE	CEO, Financing Sharia Enterprise

CONCLUSIONS AND KEY QUOTES:

Islamic banking is not the end of history. The critical mind-set in students and millennials must be harnessed. Cryptocurrencies without government control are seen as positive disrupters by some and dangerous experiments by others and have questionable Shariah legitimacy. Those engaged in the provision of financial services to social enterprises need to raise Islamic-compliant financing on a large scale.

One use of the FinTech may be to create a UK SME fund in order to encourage foreign direct investment into UK business. In a post-Brexit UK, people will need to create their own opportunities through technology, branding and financial structuring techniques. Mutuality is the key to ensuring that communities come together to fund themselves and to attract outside investment.

50% plus of the existing global poor are Muslims and FinTech is the only way to address this problem.

Capital holders must be willing to consider returns beyond the purely financial.

The challenge of creating more authentic retail mortgage products based on equity means that Muslims themselves will not want to share the downside as the economics go against them.

Advocating the development of a UK SME fund, based on a FinTech platform, to help recover the momentum the UK has lost in Islamic finance.

Islamic banking was a short-term solution and became the end-point.

The word 'banking' is imposed on countries and banking is not necessarily the best structure for Islamic finance. Heredity prevents the search for authenticity and should not be the identity.

Takaful remains underdeveloped with only \$20bn of annual premiums compared with \$5trn on conventional insurance premiums.

FURTHER INFORMATION

Islamic Finance Council UK (UKIFC) www.ukifc.com

The UKIFC is a specialist advisory and development body focused on promoting and enhancing the global Islamic and ethical finance industry. The organisation was launched in 2005 as a not-for-profit by a group of likeminded professionals who sought to make a contribution to the development of the Islamic finance industry.

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International Shari’ah Research Academy for Islamic Finance (ISRA) www.isra.my

ISRA is an autonomous body set-up under the direction of the Central Bank of Malaysia (Bank Negara Malaysia) to promote applied research in the area of Shari’ah and Islamic finance.

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K&L Gates www.klgates.com

K&L Gates is a fully integrated global law firm and has one of the largest genuinely international Islamic finance practices, which is led by lawyers in our Doha, Dubai and London offices. We advise principally on English, United Arab Emirates, Qatari, Dubai International Financial Centre (DIFC), and Qatar Financial Centre (QFC) laws as they touch Islamic-compliant transactions and structures.

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