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## Waiting for a Breakthrough in the Islamic Financial System

The recent development of Islamic banking and finance (IBF) in its practice as well as its discourse has been dominated by technical/operational issues; i.e., how to produce financial products or contracts that are compliant with Islamic law (usually called Shari'ah compliance). Many view this stage as a seamless continuation of the early three decades (1960's-1980's) of IBF's development, in which the scholars and practitioners laid its philosophical and conceptual foundations. Some, however, do not view the impressive development in a relatively short period as a natural progression from the pioneering stage. Many questions have been raised about the Islamicity of IBF and the nature of its progress.

Although evaluating progress is always a subjective enterprise, the criticisms cannot be underestimated, especially if we want to have real Islamic banking and finance that can be sustainably developed in the future. Therefore, reflection on the Islamic financial system's development and direction should be an ongoing practice.

Two important contentions have received considerable attention among scholars as well as practitioners. First, the real development of IBF requires that it proceed within the bigger picture of Islamizing the economic system. In the early discussions, Islamic economics, banking and finance were presented as part of an Islamic economic system that was contrasted with capitalism and socialism and identified as having distinct goals (drawn from Islam's spirit).

Efforts have been made to develop the foundations of a new system of finance

that would not only address the shortcomings of the mainstream financial system but, more importantly, reflect the Islamic worldview or, more specifically, its economic vision in the financial sphere. These efforts, although they might be viewed as naively idealistic in the dominant system of capitalism, are actually timely and avidly awaited. The recent 2008 financial and economic crisis opened the eyes of the people of the world to the foundational fragility of the current financial system and the hollowness of its promises of progress. Economic crises, inflation, depression and unemployment are inseparable companions of the promises of wealth, growth and profit in the capitalist financial system. It has also been widely realized that the crisis is not the outcome of some sudden and unexpected shock; rather, the crisis has been building since the Great Depression of 1929 and, as Soros (2008:312) concludes, "was generated by the financial system itself". To solve it we need a new philosophy to manage the financial system. The calls for a new financial system cannot, therefore, be dismissed as idle daydreaming.

People throughout the world became curious about the Islamic financial system because it seemed to offer an operating alternative to the failed system, one that could prevent and solve economic crises. The initial interest seems to have faded as scholars and practitioners have shown more interest in discussing the technical issues of financial products rather than laying down coherent foundations for an Islamic financial system. They seem to prefer a strategy that Maki

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(1994: 237) has termed a *family quarrel approach* in evaluating the assumptions of conventional theory. They have avoided an *antagonist approach*, which would propose an alternative framework of analysis, theories and approaches and acknowledge that the two frameworks are mutually incompatible.

The second dimension that needs to be taken into account is that IBF products should be structured in light of Islam's economic vision and goals. That is only natural. Consider the evolution of mainstream finance: its products were developed to serve the very purpose of the capitalist economic system. *Instruments are designed to serve ends.* Financial products in Islamic banking and finance, on the other hand, are reverse engineered; i.e., the existing conventional products are modified to meet Islamic legal requirements while maintaining the same objectives as the financial capitalist system. There are almost no conventional banking and finance products that do not have Islamic counterparts. We expect this trend to continue as ever more sophisticated IBF products are developed through a process of replicating conventional financial products by splicing together nominate *fiqh* contracts in unprecedented combinations.

This strategy of IBF has led many to view it as part of the mainstream conventional system that focuses on trivial issues in current financial practices instead of going deeper to provide a breakthrough on how a just and fair financial system could operate. Any changes offered by IBF will, therefore, be absorbed in the system, which, despite the crisis and turmoil, appears to be solidly entrenched. The system will continue in its own way of functioning, absorbing changes in a way that neutralizes any potential effects on the larger system.

The question is whether IBF has any goals besides providing interest-free finance by cleansing the interest elements in conventional products. While

we agree that the Islamic financial system should not reinvent the wheel in the midst of the advanced development of world financial practices and is not expected to offer totally new financial practices, the *raison d'être* of IBF and the directions or goals to which it should be directed need to be taken into our consideration.

Reflecting back upon the literature on Islamic banking and finance in the early phase of its development, providing interest-free financial contracts was not the primary aim; rather, there was emphasis on the need to rearrange everyday socio-economic aspects of life in line with Islam's injunctions and within its overall framework and system, to provide indigenous solutions to the problems of the Ummah, and to achieve the prescribed goals of life. Scholars

should keep that spirit alive, for people have become very critical of the development of IBF, and they demand more than replicating and modifying existing practices and labeling them Islamic. The 'Islamic' title carries the expectation of a financial system and practices that are truly based on Islamic principles and serve the noble goals prescribed by Islam (*maqasid al-shari'ah*).

In this light, IBF's progress will be monitored by how well it realizes the *maqasid* in producing a good economy marked by the spirit of brotherhood (*ukhuwwah*) and cooperation (*ta'awun*), social equality and social justice (*'adalah*), just and fair allocation of resources, elimination of

poverty, protection of the environment and helping society in achieving well-being (*maslahah*). Having Shari'ah-compliant products is certainly not the endpoint in our effort to develop an Islamic financial system. It is the means of having proper instruments in our effort to achieve the objectives (*maqasid*) of the Shari'ah. The paradigm should be shifted from legalistic Shari'ah compliance to *maqasid* compliance. Effort should be focused on producing financial instruments that are consistent with and serve the higher objectives. ■



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## ISRA Awarded **Most Outstanding Islamic Finance Research House**



**International Shari'ah Research Academy for Islamic Finance (ISRA)** marked another landmark on the 4th October 2011, being recognized by the renowned Kuala Lumpur Islamic Finance Forum (KLIFF) as the Most Outstanding Islamic Finance Research House at the 8th KLIFF, which was held at Hotel Istana, Kuala Lumpur City Centre, Malaysia. The 8th KLIFF was officiated by Malaysia's Second Finance Minister Dato' Seri Ahmad Husni Hanadzlah, and former Prime Minister YAB Tun Dr. Mahathir Mohamad also gave a keynote address during the KLIFF 2011 Main Forum. The distinguished award,

which was presented during the dinner held at Hotel Istana's Grand Mahkota Ballroom, was received by the Executive Director of ISRA himself, Associate Professor Dr. Mohamad Akram Laldin.

Besides the award that was presented to ISRA, we are also proud to inform that the top three papers in the KLIFF Islamic Finance 2011 Essay Writing Competition were awarded to persons associated with ISRA. They are:

- Head of the Research Department, Associate Professor Dr. Asyraf Wajdi Dato' Dusuki, for his paper titled, "Ethical and Social Responsibility Models for Islamic Finance".
- ISRA's ex-internship student, Hafas Furqani, for his paper titled, "The Challenges in the Construction of Islamic Economics Discipline".
- ISRA research assistant, Dr. Umar Almhanosi for his paper titled, "Islamic Finance Litigation: An Empirical Analysis of the Practitioners' Views on Dispute Resolution".

With only three years passed since its establishment, the distinguished awards have further affirmed that ISRA has been accepted both locally and internationally as one of the most reputable Islamic finance research houses, alongside with the Islamic Research and Training Institute (IRTI). With that, ISRA's vision carved three years ago, 'To Be the Premier Shari'ah Research Centre in Islamic Finance', has been achieved. ■

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ISRA UPDATES



### ISRA STRIKE FOR BEST BOWLER

Besides being an established and renowned research entity, ISRA also excelled in some of the sports activities that have been organized within the Islamic financial industry. Recently, ISRA bowling team captain named Noor Azmir Nizam emerged as the Top Individual Best Male Bowler in the AIBIM Bowling Tournament 2011 organized by Association of Islamic Banking Institutions Malaysia (AIBIM) located at WangsaWalk Bowling Centre. In only three games, he managed to score 510 pins. Also, 24 team from both the local and International Islamic banks participated in the tournament. The others team players from ISRA are Shamsol Kamar, Ainul Mardziah and Jasmina. ■



Are there any Shari'ah issues you would like us to write about? Send your suggestions to [bulletin@isra.my](mailto:bulletin@isra.my)

