Thematic Workshop on Ethical Finance

How Ethical is Islamic Finance?

London, 21st February 2018

Islamic Finance Council

ISRA

Hosts

K&L GATES

Overview

Attracting over 140 bankers, financiers, academics and scholars the Islamic Finance Council UK (UKIFC) and the International Shari'ah Research Academy for Islamic Finance (ISRA) were proud to organise a thematic workshop, entitled "How Ethical is Islamic Finance?" The workshop, hosted by the Islamic finance practice of global law firm K&L Gates, took place on 21 February 2018, 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.

Introduction

The Thematic Workshop kicked off with a welcome address from Jonathan Lawrence, the event MC and Islamic Finance Partner at hosts K&L Gates.

This was followed by further opening comments from Omar Shaikh and Dr Akram Laldin of co-organisers UKIFC and ISRA respectively. They both highlighted the success of the 2016 Thematic Workshop, entitled "Is the Current Model of Shari'ah Governance Fit for Purpose?" which received excellent feedback on both the format and quality of the discussions. As not-for-profit developmental bodies it was highlighted that both the UKIFC and ISRA are committed to the progression of the sector and believe the Thematic Workshops provide a unique platform to shine a light on key issues and challenges facing the Islamic finance. Particular thanks were given to event partners DDCAP Group, Economic Development Board Bahrain, Gatehouse Bank and K&L Gates.

In his keynote address Lord Sheikh provided an overview of the Islamic finance sector in the UK as well as an update on the activities of the All-Party Parliamentary Group on Islamic Finance that he Co-Chairs. The final keynote address was delivered by Alderman Alastair King who outlined the importance of Islamic finance to the City of London in that it is one of the four priority areas along with green finance, fintech and internationalisation.

Views and Insights

- 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 must be ethically aligned
- ESG and SRI are closer to Islamic principles than Islamic banking
- Credit risk on its own does not entitle you to take a profit - you must take commercial risk
- Millennials are driving the financial services market and they demand transparency
- Development of a UK SME Islamic-compliant fund, based on a FinTech platform, to help recover lost momentum
- 50% plus of the existing global poor are Muslims and FinTech is the only way to address this problem

Session 1
Is Islamic Finance an Ethical Alternative?

Leading practitioners participated in an engaging discussion exploring the synergies between Islamic and ethical finance. The session was moderated by Mushtak Parker with perspectives shared by Martina Macpherson (Susteneri), Charles Haresnape (Gatehouse Bank), Stella Cox (DDCAP Group), Tarek El Diwany (Kreatoc Zest) and Richard de Belder (UKIFC).

Discussion

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.

Session 1: Key points

- We should encourage the development of retail products to give all ethical investors opportunity for value-based choices.
- There is a lack of Islamic finance retail products in the UK. It is important this is addressed.
- Islamic finance's struggle with reality vs aspiration vs fantasy.
- We should bring the Challenger Bank mentality to Islamic finance.
- 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 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.

Session 2
The Shariah Debate

The Shariah debate was moderated by Nyra Mahmood (Simply Sharia Human Capital) and considered whether Islamic finance is following the spirit of the law or just the letter. Perspectives from Malaysia were shared by Dr Akram Laldin (ISRA) and Dr Engku Rabiah Al Adawiyah (Bank Negara) while insights from the UK were offered by Shaykh Ruzwan Muhammad (Solas Foundation), Shaykh Haytham Tamim (Utrujj Foundation) and Sheikh Badr Al-Hasan (Dome Advisory).

Discussion

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.

Session 2: Key points

- 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.

Session 3
International Best Practice Case Studies

This session provided an opportunity to showcase two examples of international best practice.

Graham Burnside (UKIFC) and Shaykh Ruzwan Muhammad (Solas Foundation) delivered an update on progress of the inter-faith shared values framework that is being develop in Scotland through an innovative partnership between the UKIFC and Church of Scotland. It is anticipated that the Shared Values Framework will underpin the creation of a financial solution that is open to all in society, regardless of race, religion and ethnicity.

This was followed by a presentation from Dr. Ashraf bin Md. Hashim (ISRA Consultancy) who provided an update on some of pioneering projects in Malaysia. This included the Values Based Intermediaries initiatives by Bank Negara Malaysia which aim to create an enabling environment for IBIs in Malaysia to adopt relevant practices, offerings and conduct that generate positive and sustainable impact to the economy, community and environment, without compromising the financial returns to shareholders. The second example was focused on a temporary cash Waqf for development projects.

Session 4
The Branding Challenge

This session provided an opportunity to discuss branding in Islamic finance and whether the naming of the sector has inhibited its growth. Barry Cosgrave (K&L Gates) moderated the session with insights and opinions shared from Islamic finance practitioners (Stuart Hutton, Simply Ethical), Petr Klimes (Abu Dhabi Islamic Bank), Simon Walker (Al Rayan Bank) and leading economist (Professor Iqbal Asaria (Cass Business School). Shelina Janmohamed (Ogilvy Noor) offered a unique perspective from an Islamic brand consultancy.

Discussion

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.

Session 4: Key points

- 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.
- 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).
- 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.
- By giving a something a particular name, it doesn’t mean that it’ll represent the spirit of the name.

Session 5
Looking Beyond Banking

This session sought to take a more holistic view by questioning whether the Islamic finance sector has been too focused on Islamic banking and if this has this restricted its ability to provide more ethical and socially responsible solutions. Omar Shaikh (UKIFC) moderated the session which started with Professor Mehmet Asutay (Durham Centre for Islamic Economics and Finance) highlighting some of the failures of Islamic banking. Alternative Islamic finance perspectives were then shared by fintech expert Harris Irfan (Cordoba Capital), microfinance specialist Justin Sykes (Innovest Advisory), takaful expert Ajmal Bhatty (UKIFC) and Peter Lovell MBE who manages the UK Government's Shariah Compliant Start-Up Loans fund.

Discussion

Islamic banking is not the end of history. The critical mindset 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.

Session 5: Key points

- 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.
- 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.
- Islamic banking was a short-term solution and became the end-point.
- 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.
- 50% plus of the existing global poor are Muslims and FinTech is the only way to address this problem.
- Takaful remains underdeveloped with only $20bn of annual premiums compared with $5trn on conventional insurance premiums.
- Capital holders must be willing to consider returns beyond the purely financial.

Delegate Insights

It was a very lively event with no shortage of audience participation. The following data was captured from the delegate feedback forms:

75% thought there is not sufficient supply of retail shariah-compliant products in the UK

48% thought existing Islamic finance providers are perceived as ethical

75% thought that existing Islamic finance providers in the UK are not providing products that meet their ethical aspirations as well as religious needs

69% did not think Shariah scholars are doing enough to ensure products meet maqasid/spirit of the law not just the letter

31% believed that Islamic finance rebrand itself in countries with Muslim minorities

Islamic Finance Council

The UKIFC was established in 2005 as a specialist advisory and developmental body focused on promoting and enhancing the global Islamic and ethical finance industry. As a dynamic and forward-thinking not-for-profit organisation its Advisory Board Members, who provide pro bono support, have defined and evolved the role the UKIFC plays in making a tangible impact in the sector. Its principle service areas are: Advisory, Ethical Finance, Training and Awareness and Thought Leadership.

www.ukifc.com

ISRA

ISRA is an autonomous body established 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. ISRA provides a platform for greater engagement among practitioners, scholars, regulators and academicians via research and dialogue, in both the domestic and international arenas. Through pioneering research and rigorous intellectual dialogue, ISRA aims to promote innovation and dynamism and thus extend the boundaries of Islamic finance.

www.isra.my

Event Partners

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