

Islamic Banking Products, Theory, Practice & Issues

(Islam Bankacılığı: Ürün, Teori, Uygulama ve Sorunlar)

March 8 to 9, Kuala Lumpur 2011

The second conference of the foundations of Islamic finance series: Islamic banking products, theory, practice and issues held at Kuala Lumpur from March 8 to 9, 2011, was as much a great opportunity as for academicians, industrialists, practitioners and students. This foundations began to organize conferences with the support of an Australian Research Council Industry Large Grant for research on Islamic Banking over 2007-2008. The conference is organized by Graduate School of Management (GSM) of University Putra Malaysia with two aims: "a- to create a forum for serious public discussion relating the new emerging industry and academic discipline, Islamic Finance, and b- to produce peer-reviewed quality publications of books and journal articles of high quality on industry issues." The University Putra Malaysia (UPM) had in the first instance contemplated regional meetings in Melbourne and Dubai then it was felt that the time and world agenda now prevailing in this field made the summoning of a continental conference the more appropriate course organizing it jointly with International Shari'ah Research Academy for Islamic Finance (IS-RA), International Centre for Islamic Finance (INCEIF), Association of Islamic Banking Institutions Malaysia (AIBIM).

The Conference was nominally an Islamic banking and finance conference. It was so allocated to deflect analysis, but it was clear from the first that the discussions could not be confined to the finance issues alone. Indeed what the organizers and the keynote speakers in most delegates wanted was a conference which would fully and honestly discuss the Islamic banking products, finance issues and potential crisis in their field of study. This being the case the financial atmosphere was something of a responsibility because it meant in prac-

tice that the socio-economic field was surveyed as a whole, but only in those parts which could, in some way or other, be associated with finance issues. That is why to refer at this arena to one prominent omission there is practically less consideration of strategic thinking and their attitude on the new alternative financial system. The conference mainly covers the frame work of maqasid al-Shari'ah & related issues; product structuring, instruments & innovation; issues of Shari'ah Laws, regulation and compliance; accounting, legal and regulatory issues; Risk management & treasury operation.

The Conference was hailed by Prof. Mohamed Ariff and by other speakers as a landmark in the Islamic finance conference series. The papers to be presented in this event are designed in three categories: a- General papers to be presented on March 8, b- PhD colloquium papers to be presented on March 8 also, c- commissioned papers to be presented on March 9, as well as distinguished scholars and eminent keynote speakers from the field of industry. The 76 papers were presented by International and local participants of 40 academic peer-reviewed papers, 21 commissioned papers written by eminent industry personalities and scholars with the sole aim of editing these papers into a book on banking products, 15 PhD proposals papers and not included papers of keynote and special addresses were within this number. Local and international media outlets and representatives of government bodies, as well as officers and representatives from the Department of Bank Negara Malaysia, chairs of finance institutions such as International Shari'ah Research Academy for Islamic Finance (ISRA), International Centre for Islamic Finance (INCEIF), Graduate School of Management (GSM), Association of Islamic Banking Institutions Malaysia (AIBIM), Islamic Development Bank (IDB), Chair in Banking in Australia, Bond Pricing Agency, Rating Agency of Malaysia, Sultan Qaboos Chair in University of Melbourne Centre of Excellence in Islamic Studies, also attended. One of the main objectives is to encourage open discussion leading to quality publications: authentic books, refereed journal articles, doctoral proposal discussions and conference proceedings. Islamic banking and finance has grown rapidly over its short fifty years history. The total assets managed by institutions in the world reached USD 2 trillion by now. The two-thirds of the markets being managed in Malaysia, Kuala Lumpur has emerged as the major center for Islamic financial markets.

The Conference started with recitation of the Holy Qur'an. Mohamed Ariff (Conference Co-Chair, Renong Chair UPM and Prof. of finance in Bond University) welcomed the audience and gave remarks on the Conference and its program. He spoke of the importance of Islamic finance, the history of the conference, missing points of literatures in the newly established field. Chair person Syed Othman Alhabshi (Chief Academic Officer, INCIEF) introduced Mohd Ra-

zif Abdul Kadir (the Deputy Governor of Bank Negara Malaysia) who gave an opening address. He assured that Bank Negara Malaysia (BNM) is planning to issue up to two mega Islamic bank licenses. Therefore right investors are being expected. He added that local players can invite foreign partners which can enrich the Islamic financial landscape. "Currently there are 17 foreign Islamic banks in Malaysia." The governor reckoned that "the marked in Malaysia is vibrant with various innovations taking place. As witnessed in the year 2010, Malaysia has evolved its sukuk (bond) marked to become a multi-currency sukuk origination platform with the issuance of four foreign currency sukuk that amounted to about USD 3 trillion."

The first day's first parallel session "Issues in Islamic Banking," chaired by Michael Skully (Australia), featured Muhammad Z. Mamun (Professor, Institute of Business Administration [IBA] University of Dhaka, Bangladesh), Nisar Ahmad (Junior Joint Director, State Bank of Pakistan, Faisalabad, Pakistan), Iman Sastra Mihajat (Researcher, Islamic Economic Forum for Indonesian Development [ISEFID]), Shahida Shahimi (Senior Lecturer, University Kebangsaan Malaysia [UKM], Malaysia), Yulizar D. Sanrego (Tazkia University College of Islamic Economics, Bogor, Indonesia), Zubair Hassan (Prof of Islamic Economics and Finance, [INCEIF], Malaysia), Chandra Setiawan (Graduate School of Management [GSM], University Putra Malaysia [UPM]). Zubair Hassan highlighted the idea of Islamic house financing: current models and proposal for social justice. He pointed out that Islamic house financing model in a broader societal context meets the norms of equity, fair play and openness which does not violate any Islamic norms.

The second parallel session, "Islamic Banking Management," consisted of Mohammad Omar Farooq (Royal University of Kingdom of Bahrain, Bahrain) discussed debt culture, financial crisis and stabilization policy; Cheng Fan Fah (University Putra Malaysia [UPM]) focused on Islamic banking and diversification of Malaysian commercial banks; Marliana Abdullah (Selangor International Islamic University College [KIS]) presented a topic of operations in Islamic banks: issues and management; Rafe Haneef (Research Fellow International Shari'ah Research Academy for Islamic Finance [ISRA] Malaysia) analyzed *Mushārah Mutanāqisah* and legal issue: a case study of Malaysia; Seethalechumy Thambiah (Multimedia University, Malaysia) highlighted An Empirical Analysis on Islamic Retail Banking Adoption in Malaysia; Mariani Abdul-Majid (University Kebangsaan Malaysia) elaborated upon the legal environment and bank performance; Asmadi Mohamed Naim (College of Business, University Utara Malaysia) pointed out the performance of world Islamic banks and the impact of 1998 and 2008 financial crises.

The third parallel session, "Islamic Banking Disclosures, Human Capital & Other Issues," chaired by Zainal Mohamed (Professor in GSM, UPM), comprised Viverita (Senior Researcher, University of Indonesia) talked about Performance analysis: Islamic & conventional banks; Aisyah Abdul Rahman (Lecturer, University Kebangsaan Malaysia) focused on Human capital and Islamic bank's operational risk; Mohammad Nizam Jaafar highlighted Determinants for human capital development in Islamic banking industry: An empirical study; Imam Wahyudi discussed Analyzing Markovian and non-Markovian behavior with censored continuous-time observations in Islamic financing contracts; Catherine S.F. Ho (University Islam Technology Malaysia [UiTM Mara]) presented Comparison of quantitative *syariah* compliance standards; Shahida Shahimi (Senior Lecturer, University Kebangsaan Malaysia [UKM]) elaborated Financial risk disclosure of Malaysian Islamic bank; Amirul Afif Muhamat (University Islam Technology Malaysia [UiTM Mara], Malaysia) focused on A Study on the prospect of *Waqaf* (endowment) lands for agricultural activities: A case study of Kedah; Nor Hayati Ahmed (Prof in College of Business, University Utara Malaysia [UUM]) analyzed An analysis of the linkage between determinants, confidence and selection of Islamic banking: A SEM approach.

The fourth parallel session, "*Sukuk* Debt Securities and Islamic Banking Risk Management," chaired by Annuar Md Nassir (Dean Fac of Econ and Management, University Putra Malaysia [UPM]). The first presenter of this session began with Saim Kayadibi (International Islamic University Malaysia [IIUM]) talked about the teachings of Islamic Banking and Finance in the faculty of Economics and Management Sciences. He emphasized that the faculty became a centre for Islamic banking and finance soon after its establishment. Almost with its inception countless of international students have already graduated and many are still being trained to serve the Muslim nation. Islamic economics and banking must do its arguments according to Islamic principles in theory and practice. Therefore, the faculty responds to the shortcomings through providing the two systems, conventional and Islamic, simultaneously. The session continued with the following presenters Omar Salah (Tilburg Law School [TISCO Research Institute], Netherlands) "Building a Transnational Framework for *Sukuk* structures from a Dutch legal perspective"; Meysam Safari (University Putra Malaysia [UPM]) "Are *Sukuk* securities same as conventional bonds?"; Adesina-Uthman Ganiyat (University Putra Malaysia [UPM]) "Liquidity premium theory: An empirical support from *Sukuk* yields and credit curves"; Co-authors Tika Arundina and Mohd Azmi Omar (International Islamic University Malaysia [IIUM]) "Determinant of *Sukuk* ratings"; Saadiah Mohamed (University Kebangsaan Malaysia [UKM]) "*Wa'd* application in Islamic hedging mechanism: Case study of Malaysian Islamic banks"; Wan Masliza

(Multimedia University [MU]) "Factors determining the issues in adopting risk management framework in Islamic banks in Malaysia"; Atef El Shabrawy (CEO, Family Bank, United Kingdom) "Innovation in micro-entrepreneurship and Islamic microfinance: The model of family bank".

The final session of the first day of the conference before the lunch, "Takaful Insurance, Equity Funds and Gold Dinar" chaired by Datuk Syed Othman Alhabshi (Chief Academic Affairs in International Centre for Islamic Finance [INCEIF]). Interesting topics were discussed in this session by significant scholars such as "Feasibility of Islamic insurance products: Corporation of Islamic Bank and Islamic insurance company" by Lili Suryani Widiyastuti (Bogor Agricultural University [BAU]); "Takaful solution to migrant workers' woes" by Sherin Kunhibava (with International Shari'ah Research Academy for Islamic Finance [ISRA], Malaysia); "The inconsistency in Islamic insurance models, advantages, and disadvantages" by Fatima A. Galal (University Islam Technology Malaysia [UiTM Mara], Malaysia); "The Islamic mutual fund performance: Evidence on market timing and stock selectivity" by Fadilah Mansor (Latrobe University, Australia); "Risk and return characteristics of Islamic equity funds" by Roman Kraeussl (University Amsterdam, Netherlands); "Return performance and leverage effect in Islamic and socially responsible stock Indices: Evidence from DJ and FTSE indices" by Mohamed Shikh Albait (The University of Malaya [UM]); "What does equity fund flow tell us about investor behavior?" by Mahmood Nathie (Key Centre for Law, Ethics & Governance, Griffith University, Australia); "Examining the potential of gold dinar as the currency in Malaysia" by Norzitah Bte Abdul Karim (University Islam Technology Malaysia [UiTM Mara], Malaysia).

The afternoon session of the first day began with PhD Colloquium sessions. Khaled Alotaibi (University of Dundee, United Kingdom), Pooya Sabetfar (University Putra Malaysia), Mohd Yazin bin Zulkepli (International Islamic University Malaysia [IIUM]) presented their research in the session on "Investment Issues in Islamic Finance"; Tayyab Ahmed (London School of Economics, London University, United Kingdom), Sabarina binti Mohammed Shah (University Putra Malaysia), Nidal Abdul Hameed Alsayed (International Centre for Islamic Finance [INCEIF], Malaysia) discussed their papers in the session on "*Shari'ah* Board and *Sukuk*"; Saiful Anwar (Nagaoka University of Technology, Japan), Muhamad Abduh (International Islamic University Malaysia [IIUM]), Muhammad Adli Musa (Asia Institute, Faculty of Arts, The University of Melbourne) elaborated their academic articles in the session on "Bank Depositor Relations and Ethics"; Omaira El Tahir Babikir Mohamd and Norashikin Ismail (International Centre for Islamic Finance [INCEIF], Malaysia), Faezah Abdul Majed Shafei (University Islam Technology Malaysia [UiTM Mara], Malaysia)

expressed their papers in the session on “Takaful Insurance”; and Mior Ahmad Jafri Bin Md Sabri (University Tunjku Abdur Rahman, Malaysia), Adam Ng Bo-on Ka (International Centre for Islamic Finance [INCEIF], Malaysia), Abdou Diaw (International Centre for Islamic Finance [INCEIF], Malaysia) discussed their papers in the session on “Miscellaneous Topics”.

The second day of the conference was launched by keynote speaker Abbas Mirakhor (First Holder Chair of Islamic Finance, International Centre for Islamic Finance [INCEIF], Malaysia) after a welcoming speech given by Mohamed Ariff (Conference Co-Chair Renong Chair UPM and Prof of Finance Bond University). Mirakhor talked about Epistemological Foundations in Finance: Islam and Conventional. The second sitting in the first session Shamsheer Mohamed (Deputy Dean, Graduate School of Management [GSM], University Putra Malaysia [UPM] and Conference Co-chair) has introduced the second keynote speaker, Munawar Iqbal (former Chief of the Islamic Research and Training Institute [IRTI], Islamic Development Bank [IDB]), who highlighted the current issues with the title of “towards Making Islamic Finance Islamic”.

Following the keynote speeches, at the second sitting, chaired by Abdullah Saeed, Abbas Mirakhor presented a paper called “Islamic banking Industry: An overall prospective.” Other two presenters, Abdullah Saeed (Director of NCEIS and Chair Professor The University of Melbourne) elaborated Historical development and adaption of ideas covering usury and interest rate and Mohamad Akram Laldin (Deputy Director of ISRA, Malaysia) who outlined the objectives of Islamic banking: The theoretical perspective. The subsequent plenary session featured Ishaq Bhatti (Founding director of Islamic Banking and Finance Program at Latrobe University [LTU]), Asyraf Wajdi Dato’ Dusuki (The Central Bank of Malaysia's *Shari’ah* Advisory Council [SAC]), Yeah Kim Leng (Group Chief Economist of RAM Holdings), Madzlan Mohamad Hussain (a Partner and Head of the firm’s Islamic Financial Services Practice), Meor Amri Meor Ayob (CEO, Bond Pricing Agency Malaysia), Habib Ahmed (Sharjah Chair in Islamic Law and Finance at Durham University), Syed Alwi M. Sultan (the Director of Islamic Origination at Standard Chartered Saadiq Berhad), S. P. Parashar (Head, Center for Banking, and Head, Center for Research at Bahrain Institute of Banking and Finance [BIBF]). Within this session variety of topics were discussed and elaborated fascinatingly.

The seminar’s sessions concluded with the third plenary session, which was chaired by Obiyathullah Ismath Bacha (Head of Postgraduate Program, INCEIF), consisted of Osman Babiker Ahmed (Manager of training at the Institute for Research and Training, Islamic Development bank[IDB]) focused on Risk management in financial institutions, Zubair Hassan (Prof of Islamic Economics

and Finance, INCEIF, Malaysia) talked about Money creation and control by Islamic banks, Mervyn K. Lewis (Professor of banking and finance at the University of South Australia) highlighted Islamic banking products and underlying ethical bases, Michael T. Skully (Professor of Banking, Monash University) presented Practice of Islamic banks: The regulatory perspective, Munawar Iqbal (Former Chief IRTI Islamic Development Bank) elaborated upon the Foundation Principles in engineering Islamic Banking products to be *Shari'ah* consistent, Mike Grover (a tax specialist with the Labuan International Business and Financial Centre Inc Sdn Bhd) analyzed International Tax and Islamic Financial Products – creating a level playing field from the Labuan IBFC perspective, Obiyathulla Ismath Bacha explained Risk management in Islamic Banking and Finance.

* * *

Associate Prof. Dr. Saim KAYADİBİ

International Islamic University Malaysia (IIUM)