

# Islamic finance is coining it

## MOHD DAUD BAKAR

ISLAMIC finance's global worth is estimated to be between R2-trillion and R3-trillion, with an annual growth rate of 15%- 20%.

This growth has continued throughout the global economic crisis — albeit at a slower pace — largely because of vigorous screening processes and stringent corporate governance practices in dealing with excess liquidity in many oil-producing countries.

Islamic finance is both a new and an old phenomenon. Its guiding principles originated in the early days of Islam. The modern form is new to many stakeholders such as regulators, standard-setting bodies, shareholders, practitioners and much of the general Muslim population.

The modern rebirth of Islamic finance took place in the Middle East in 1975 when the Dubai Islamic Bank became the first Islamic commercial bank in the world.

The first Islamic insurance companies, or Takaful, were established in Sudan and Dubai in 1979. Today, there are 300 Islamic finance institutions operating in more than 75 countries.

By and large, Islamic finance has been accepted and practised in various jurisdictions, even in non-majority Muslim countries such as the UK, Singapore and Japan. The most recent entrants include South Korea, France, Hong Kong and Australia.

Surprisingly, there is more of a synergy between the two financial systems than might

be supposed. The practice of Islamic finance is deemed compatible with traditional finance in terms of governance standards, capital requirements, know-your-customer (investment protection) policies, not to mention product innovation and sophistication.

One of the underlying reasons for this is that Islamic finance has departed from loan-based transactions to include a variety of new contract arrangements to deliver either the same economic benefits as conventional instruments, or entirely new financial benefits.

However, there is a real global shortage of people with demonstrable expertise in the complexities of all areas of Islamic finance. As this sector is growing at such a rapid rate, there is a growing demand for a standardisation of sharia principles, legal and product documentation, accounting and prudential standards, cross-border transactions, and so on.

The financial crisis brought about by the traditional financial system has made Islamic finance more relevant than before. Developing knowledgeable practitioners in this discipline is crucial.

Global qualifications such as the Chartered Institute of Management Accountants certificate in Islamic finance have been designed to be essential tools in developing the best talent from around the world.

● *Dr Mohd Daud Bakar is president and CEO of the International Institute of Islamic Finance Inc.*

