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## A new standard for banking equality

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THE establishment of the Islamic Financial Services Board (IFSB) paves a less bumpy road for developing countries heading towards globalisation.

Islamic banking has reached another milestone with the inauguration of the IFSB in Kuala Lumpur recently. The board will enable Syariah-based financial institutions to offer products at internationally accepted standards. The International Monetary Fund, the Islamic Development Bank, central banks and other standard-setting bodies from Saudi Arabia, Malaysia, Bahrain, Kuwait, Indonesia, Pakistan, Iran, Lebanon, Sudan and the United Arab Emirates, are responsible for the setting up of the IFSB.

The IFSB's main purpose is to monitor, regulate and provide consistency to all Islamic banking products offered by financial institutions worldwide. With the IFSB governing Islamic banking products and services worldwide, such products and services could be a better alternative for developing nations seeking financial assistance. It allows them to grow accordingly and compete freely in the global arena - in the future at least.

'There is recognition that markets are subject to excesses, including deliberate manipulation, which generally work against the interests of developing countries,' said Prime Minister, Datuk Seri Dr Mahathir Mohamad in his keynote speech at the launching of the IFSB. 'We (developing countries) would like to benefit from the process of globalisation and liberalisation. We would like to trade more, open up markets and enjoy the higher incomes and increased welfare that globalisation is supposed to deliver,' he said.

At the moment, many of these countries are facing economic turmoil with billions of dollars worth of bad debts because the current financial system thrives on interest. It is almost impossible for them to pay up debts and pull themselves out of their economic and political predicament.

Interest (usury) is forbidden in Islam because of its oppressive nature. In fact, Islamic finance forbids any involvement in anything that is morally questionable, such as gambling and speculating.

Calling such countries 'debt slaves', the Prime Minister said Islamic banking would free developing countries from the continued oppression from rich countries where many of the international banks that they borrow money from are based. He added that the managers of these financial institutions only aim to make profits for themselves and their corporations. 'The welfare of society is not the concern of these managers,' stated Dr Mahathir.

According to him, developing countries need an international financial system like the IFSB which is fair and rewards hard work rather than speculative activities that take advantage of the weak and ill-informed.

'The IFSB can play the role of an international financial regime that promotes more balanced growth, including greater equity in the distribution of income, less disruptive capital flows and relatively more stable financial markets,' he added.

No doubt, the creation of the IFSB is a positive step towards creating global economic stability because, unlike its conventional counterpart, Islamic banking is based on the moral elements of justice, honesty, public interest, moderation, kindness par excellence, patience and spending to meet social obligations.

This is not to say that these moral qualities are totally absent from

the conventional system, but the developments in the currency market which caused chaos in Southeast Asia in 1997 and the near collapse of transparent corporate governance in the United States have left a negative impact on the current financial standards.

Perhaps the answer lies in the strict moral standards of Islamic financing principles. In fact, it is winning consumer confidence in banking services slowly but surely. By 2010, Bank Negara Malaysia (BNM) is targeting to achieve a target of 20 per cent of total Islamic banking assets from the current eight per cent.

However, gaining the world's confidence in Islamic banking falls into the hands of the IFSB and informing the non-Muslim world community will definitely take time. 'A greater understanding of Islamic banking and finance on the international front would contribute towards our efforts to reinforce the on-going international initiatives towards fostering greater global financial stability,' says BNM Governor Tan Sri Dr Zeti Akhtar Aziz.

Adding that Islamic finance is a 'mirror of the sea', for until and unless it is explored with courage, the treasures that reside within will never be recovered. Therefore, Islamic financial institutions must put more effort in explaining their products and services to the world.

No doubt, it is a huge challenge for them to get non-Muslims to consume their products because currently Islamic products do not generate competitive profits.

Although still in its infancy and currently worth only about US\$ 200 billion (RM760 billion), Islamic banking is expanding at the rate of 15 per cent per annum. Given the potential wealth of the global Muslim community, the future certainly looks bright.

Nonetheless, with the IFSB established and the strengthening of Islamic banking products and services, it will have better credibility and will be able to garner consumer confidence of both Muslims and non-Muslims alike.