

Institution: Durham University
Unit of Assessment: Politics and International Studies
Title of case study: Informing Governance and Building Capacity in the Islamic Financial Services Sector
<p>1. Summary of the impact</p> <p>Durham University research on the governance and regulation of Islamic Finance in the global political economy has played a significant role in shaping the rapidly-growing global Islamic Financial services sector, informing industry provision and contributing to the development of the human resource base in many countries. Pioneering research over the past twenty years has made Durham a supplier of research-based advisory services to public and private institutions which manage the regulation and governance of the sector, deliver Islamic financial products, and develop the knowledge and skills of sector workers through the work of the Durham Centre for Islamic Economics and Finance.</p>
<p>2. Underpinning research</p> <p>Professor Rodney Wilson (employed Oct. 1973-Dec. 2011) originated research in Islamic Finance in Durham in the mid-1990s. At that time, short-comings in neo-classical economics and finance necessitated a paradigm shift recognising the impact of culture and religion on individuals' behaviour in the market place. Simultaneously, the first modern Islamic Finance institutions, established in the late 1970s but marginal market actors until this time, began rapid growth in size and market penetration. The nascent Islamic financial services sector was poorly equipped to translate textually-derived Islamic norms into practical financial services. Wilson's work pioneering the study of Islamic economics from within the disciplines of economics and political economy, exploring its philosophical foundations and moral economy, was therefore of enormous interest to the sector. A series of exploratory research publications culminated in R1 below. The book compared the ethical underpinnings of the three Abrahamic faiths as they impacted on economics and finance, substantiating the rationale for the emerging Islamic finance industry and offering theoretical and foundational logics connecting normative aspirations with operational manifestations. By identifying the normative underpinnings of economic behaviour governed by Islam (a perspective neglected by mainstream economic thought), and comparing this to existing perspectives on Christian and Jewish economics, Wilson brought Islamic finance into the mainstream of thought on banking and finance in the modern world. His contribution to foundational theory in this area has been unique and – as one testimonial makes clear (E8) – was 'seminal and ahead of its time'.</p> <p>Dr Mehmet Asutay's (employed Oct 2005-present) research has substantiated and developed Wilson's position, arguing that Islamic religious ethics can produce a new political economy framework, with its own methodology and founding axioms. Again, moving beyond neo-classical economic formulations, this extends the debate into issues of development, social justice, welfare and the role of the state. R3 exemplifies this research, offering an alternative to the neo-classical utility function and suggesting a three dimensional utility function endogenising the interest of society as well as spiritual accountability in the construction of individual utility function.</p> <p>These theoretical works provided the emerging Islamic financial service sector with theoretical pathways against which to benchmark emerging governance structures and product development. Subsequent Durham research developed the new Islamic economics paradigm to offer structures for sector regulation and institutional governance. R2 is an example of this research, where Wilson suggested that, in the absence of a single globally-recognised Islamic authority, and in the context of the dual (conventional and Islamic) banking system, additional layers of regulations had to be developed to internalise within individual firms the particular governance and risk management needs of Islamic financial products and instruments.</p> <p>The 2008 financial crisis indicates that ethically-constructed financial systems are more resilient than conventional systems. In R5 Professor Habib Ahmed (employed Sep. 2008 – present) argued that Islamic ethics provide an additional layer of protection for firms and customers alike since they avoid the risks associated with toxic products and speculation and maintain a focus on an asset-based economy in contrast with the conventional financial sector. Since joining Durham in 2008, his research has developed frameworks for structuring the shari'ah compliance of evolving financial products (R6). This research builds on the theoretical contributions of Wilson and Asutay, aligning it with the technical requirements of the sector.</p> <p>Growth in the Islamic financial sector and the development of Islamic finance products by</p>

Impact case study (REF3b)

conventional sector actors has created concern about 'convergence' between Islamic and conventional finance, challenging compliance with Islamic ethical foundations. R4 suggested that developments in the Islamic finance industry should self-consciously conform to the framework suggested in Wilson and Asutay's earlier works, reversing the trend for what is a market-driven industry to expose itself to the prevailing (conventional) paradigm, framing this in terms of privileging the 'substance' of compliance over its 'form'. The sector weaknesses identified by the paper have been recognised by major actors which have since engaged Durham researchers in deliberating their responses.

In sum, the rapid growth, widening geographic appeal and resilience of the Islamic finance sector offers important lessons for global political economy. Durham's contribution has been to identify the authentic ethical, foundational framework for the sector and the means, models and implications for its operationalisation.

3. References to the research (indicative maximum of six references)

NB: Islamic Economics and Finance rarely features in mainstream economics and finance journals since it derives from different foundations. Lacking an Anglo-Saxon tradition, major publications are located almost entirely in the Muslim countries of the Middle East and East Asia which do not conform to citation and ranking systems. .

- R1. Rodney Wilson (1997) *Economics, Ethics and Religion: Jewish, Christian and Muslim Economic Thought* (London, Macmillan). *This was reviewed extensively in publications such as the Review of Religious Research and had 83 citations on Google Scholar.*
- R2. Rodney Wilson (2009), 'Shari'ah Governance for Islamic Financial Institutions' (Journal of Islamic Finance, 1(1) pp.59-75) *This is an internationally peer-reviewed journal published by the International Shari'ah Research Academy for Islamic Finance. It is a bi-annual journal and is currently seeking Thompson ISI ranking.* <http://www.studymode.com/essays/Shariah-Governance-For-Islamic-Financial-Institutions-279208.html>
- R3. Mehmet Asutay (2007), 'A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System' in *Kyoto Bulletin of Islamic Area studies*, 1 (2), pp.3-18. *This is an open access journal published by the Organisation for Islamic Area Studies at Waseda Univerersity, Japan. Google Scholar 20 citations.*
<http://repository.kulib.kyoto-u.ac.jp/dspace/handle/2433/70894>
- R4. Mehmet Asutay and Nazim Zaman (2009), 'Divergence Between Aspiration and Realities of Islamic Economics: a Political Economy Approach to Bridging the Divide' in *IJUM Journal of Economics and Management* 17 (1), pp.73-96. *This is an internationally peer reviewed journal published twice-yearly by the International Islamic University of Malaysia. It is indexed and abstracted in key sources such as EconLit, e-JEL, JELonCD, EBSCO and Index of Islamic Literature.* <http://rms.research.iium.edu.my/bookstore/Products/398-wwwgooglecom.aspx> (subscription site)
- R5. Habib Ahmed (2009), 'Financial Crisis: Risks and Lessons for Islamic Finance, International Journal of Islamic Finance 1, (1), pp.7-32. *This is an internationally peer-reviewed journal published by the International Shari'ah Research Academy for Islamic Finance. It is a bi-annual journal and is currently seeking Thompson ISI ranking. This was the very first article in the very first issue.* <http://www.isra.my/publications/journal-english/current-issues/volume-1-dec-2009.html>
- R6. Habib Ahmed (2011), *Product Development in Islamic Banks*, (Edinburgh University Press, Edinburgh). *The book was extensively reviewed in industry magazines like Global Islamic Finance, New Horizon and the Islamic Banking Bulletin which described it as "a valuable addition to the existing Islamic finance literature" and "a useful resource for Islamic finance practitioners" (1 March 2011).*

4. Details of the impact

1. *Informing Governance and Regulation:* Islamic Financial Services is one of the fastest growing components of international finance, Shari'ah-compliant assets growing globally from \$400 billion to \$1,130 billion between 2009-13. Ethical investment vehicles have grown in popularity in the wake of the global financial crisis, and Islamic financial products are being offered in many countries and by Islamic and conventional finance providers. As the sector develops to meet demand, systems for its regulation and governance have become a major issue within national and global contexts, complicated by the absence of any globally-recognised supreme Islamic authority. The research done at the Durham Centre for Islamic Economics and Finance has fed directly into the sector's emerging regulatory and governance frameworks. For example, Professor Wilson was recruited by the Islamic Financial Services Board (IFSB) in 2009 as a key consultant in the

production of a report guiding governance of Shari'ah compliance in the regulation of Islamic financial organisations. The IFSB is an international standards-setting organisation, made up of regulatory and supervisory bodies, which issues prudential standards and guiding principles for banking, capital markets and insurance. Wilson participated in five IFSB Shari'ah Governance Working Group Meetings and subsequently contributed to authoring *The Guiding Principles on Shari'ah Governance Systems for Institutions Offering Islamic Financial Services* (E1). The report provided benchmarks for best practice in sector governance which are promoted on the basis of 'comply or explain'. In October 2012 the Asian Development Bank signed a five-year agreement with the IFSB which will see the ADB supporting its 187 members (banks, law firms and regulatory institutions) in meeting the legal and regulatory aspects of these IFSB standards, effectively endorsing them as the principal set of international benchmarks and standards of governance. The agreement extends the influence of the IFSB, which is dominated by regulatory bodies and private institutions in more developed countries, into less developed countries where the ADB has a stronger presence. The ADB has established an initial \$750,000 technical assistance fund to help implement the standards in Afghanistan, Pakistan, Bangladesh and Indonesia. In assessing Professor Wilson's contribution, the Special Envoy to the President of the World Bank and member of the World Bank Special Task Force on Islamic Finance, notes "the contributions of Professor Rodney Wilson's seminal work to the development of the global Islamic finance research. Through his research, the study of Islamic Finance has deepened significantly. Professor Wilson's contribution provided a solid foundation for the development of the global regulatory standards for the industry" (E2). The CEO of Edbiz Consulting (a global Shari'ah advisory company) and the editor of industry magazine, *Islamic Finance Review*, has described how leading industry organisations such as the IFSB or the Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions have "directly or indirectly incorporated the research conducted by Durham staff in drawing governance, accounting, auditing and Shari'ah standards. In this way, Durham University has been on the forefront of developments in Islamic Banking and Finance around the world". (E3). One example of this work is the annual roundtable held jointly by the International Shari'ah Research Academy (Kuala Lumpur, Malaysia), the Islamic Research and Training Institute (Islamic Development Bank, Jeddah, Saudi Arabia) and Durham staff. Starting in 2011 in Durham, and subsequently taking place in Kuala Lumpur and Jeddah, these bring leading Shari'ah scholars, key industry figureheads and Durham staff together to deliberate issues surrounding governance and institutionalisation in the sector, subsequently informing institutional policy. The Special Advisor on Business and Economy Affairs to the Secretary General of the Muslim Council of Britain comments on the importance of Professor Wilson's research in informing regulatory bodies in countries such as Morocco and Qatar (E8).

2. Building capacity in the Islamic Financial Services Sector: Research by Durham staff has fed directly into the training of professional staff in the Islamic Finance and conventional banking sectors in three ways.

Firstly, Durham staff have drawn upon their research in delivering the Durham Centre for Islamic Economics and Finance annual Summer School (DIFSS), an executive training course for existing and aspiring sector professionals. Initiated in 2007, DIFSS has trained over 400 participants from the Far East, Middle East, South and South East Asia, Europe, Australia, Africa and the USA. An on-line survey conducted in Spring 2013 found that between 2008 and 2012, 94 individuals already employed in the financial sector attended the events, and a further 64 are known to have since moved into professional employment in the sector. Responses described the course as an "absolutely essential contribution to the industry", as being "well-known worldwide for its major influence and contribution in the development of the Islamic Finance industry" and as being "very important to develop relationships between Islamic bankers, academics and students" (E4). One respondent noted that "The role of DCIEF in the development of human resources of the Islamic finance and banking industry is worldwide", another that "DIFSS is helping to improve human resources of the Islamic Finance sector in general" and another that "Durham's academic leadership is of paramount important in developing human resources of the IF sector" (reiterated in E8). One key impact is the building of unique professional networks bringing industry figures together with shari'ah scholars. The CEO of Al-Fajr Capital Group (one of the world's largest private Islamic Financial Investment Groups) describes the event as "a landmark event in the Islamic Finance industry's calendar" which "has contributed immensely to the professional

development and training of Islamic bankers, financial analysts, lawyers and regulators.....Through these interactions, many opportunities are created for British firms and British companies to do more business with the Islamic Finance world... Durham University has contributed uniquely to the growth and development of the human capital of the Islamic Finance industry and I have no hesitation in saying this is one of the most unique and important programmes supporting the growth and evolution of the Islamic Finance industry and building goodwill for the United Kingdom (E5). *Global Islamic Review* stated “Those who have attended various DIFSS trainings over the last seven years have benefitted from in-depth analysis of Islamic banking and finance from both an academic as well as practitioner’s viewpoints” (E6)

Training activities have been extended to partnerships with professional and sector organisations. For example, Rodney Wilson has delivered regular (2 or more per year) training for private firms such as Euromoney Legal Training and Central Banking since 2008 on courses targeted at in-house lawyers, Islamic finance professionals, international bankers and financiers, lawyers in private practice, asset and fund managers, venture capitalists, compliance officers, investment advisers and leasing professionals. Wilson, Asutay and Ahmed have all delivered training for industry professionals through The Islamic Research and Training Institute of the Islamic Development Bank (based in Saudi Arabia), the International Shari’ah Research Academy in Malaysia, Kyoto University in Japan, the Chartered Institute of Management Accountants, and the International Centre for Education in Islamic Finance (a Malaysia-based university offering professional qualifications in Islamic Finance). A partnership between the DCIEF, Hawkamah Institute of Corporate Governance for the MENA Region and Dar al-Sharia’ah Legal and Financial Consultancy in Dubai, delivers an annual training programme targeting professionals in the finance industry which addresses *Islamic Securitization, Sukuk Structures and Documentation* (September 2011, April 2012, May 2013). The theme and content of this workshop reflect Habib Ahmed’s research on Islamic financial product development, setting the terms of reference for product development in the sector. A 2012 Workshop Survey found that all participants from the Financial Service sector would recommend the workshop to colleagues and the programme had an 84% satisfaction rate. (E7).

Industry training on *Business Ethics and Corporate Social Responsibility* was co-organised with the Society for Economic Entrepreneurship and Business Ethics (IGIAD) in Turkey (Istanbul, April 2011), attracting 37 professional participants (49.33% of attendees) and reflecting the research which Wilson and Asutay have pioneered in the ethical philosophy of Islamic finance and its practical implementation.

Award for Contribution to Profession

The quality of training provided by Durham staff was recognised in 2012 through the Global Islamic Finance Award for their contribution to human development and education in the sector. These awards, sponsored by the Asian Institute of Finance, “celebrate the achievements of individuals and institutions in strengthening and advancing the industry”.

5. Sources to corroborate the impact

- E1. *Guiding Principles on Shari’ah Governance Systems for Institutions Offering Islamic Financial Services*, IFSB 2009.
- E2. Testimonial letter from President’s Special Envoy, The World Bank, Washington DC.
- E3. Testimonial letter from Chairman, Edbiz Consulting and Editor of *Islamic Finance Review* magazine, London.
- E4. Results of On-line Questionnaire regarding Durham Centre for Islamic Economics and Finance Annual Summer School Executive Training programme.
- E5. Testimonial letter from CEO, Al-Fajr Capital Group.
- E6. “Durham Islamic Finance Summer School 2012” in *Islamic Finance Review ISFIRE*, Vol. 2, Issue 3, August 2012.
- E7. Hawkamah Understanding Islamic Securitization, Sukuk Structures and Documentation Workshop, Survey results 2012.
- E8. Transcript of Interview with Special Advisor on Business and Economy Affairs to the Secretary General of the Muslim Council of Britain (3 July 2013)