

Islamic Finance: What Success Looks Like?

When market figures are considered, the future of Islamic Finance looks bright, but [Ayman A. Khaleq](#) of Morgan Lewis, considers what Dubai's Islamic Finance market actually needs to focus on to elevate it to the next level.



Practitioners in the Islamic finance industry often feel a sense of déjà vu when they attend industry focused conferences and roundtables. Time often tends to be taken up by discussions on the standardisation of Islamic finance documentation and the role of Islamic scholars, or deal-of-the-year debates while barely addressing the salient structuring components of the underlying transactions. Although these themes are worthy of discussion, a growing number of practitioners in the industry feel the focus needs to shift. There needs to be broader discussions of what success looks like, and the spotlight should be falling on innovation and entrepreneurship, which in turn means greater investment in human capital in the Islamic finance sector.

HUMAN CAPITAL

When it comes to Islamic finance, there is one thing most seasoned Islamic finance bankers, lawyers and above all scholars agree on, and that is the dearth of specialised human capital. From the perspective of the legal industry, the list of the most highly ranked Islamic finance specialists has been largely static for over ten or so years. The same can be said about Islamic bankers although it is also arguable that their position is actually worse as some of the bankers who focus on Islamic finance, in the early years, have frequently changed course and opted to take a generalist approach after the credit crisis of 2008 and the restructuring and corporate defaults which followed. This begs a question in itself - whether the most effective Islamic bankers are those who have solid traditional (non-Islamic) banking experience within their specialist field (whether that be corporate, investment or private banking, derivatives or investment management) and then specialise in Islamic banking, or who focus on the sector from their early days as junior bankers and have then gained seniority through the ranks of one of the leading Islamic banks.

The first type of banker may be more effective if the 'effect' is measured from the perspective of their ability to make a global, not purely local or regional, impact. However, Islamic bankers, and lawyers, need to be as credible within their existing fields of specialisation as their peers in the conventional banking industry or law practice are expected to be and should possess similar technical skills. However, their ability to develop Islamic banking skills will depend on their institutions' commitment to the sector. Unfortunately, when it comes to international banks only a handful have demonstrated a high enough level of commitment. Ultimately, what Islamic banks need is a steady flow of suitable talent but the supply from international banks is unlikely to be sufficient for the industry's needs.

EDUCATION

One of the main challenges that the Islamic Finance industry faces is the lack of specialist academies or business schools which offer training in Islamic jurisprudence, banking and finance (including traditionally) the necessary linguistic skills, and humanitarian studies such as history and culture. Not only are there not enough specialist institutions, there is also a strong need for reputable regional and international business schools to offer a specialisation in Islamic banking but also benefit from access to professors coming from high-ranking international academic institutions.

This is an area where Dubai, Bahrain, and Kuala Lumpur should be taking the lead, although Bahrain has been a pioneer.

Affiliations with leading international business schools and active academic exchange programmes are also probably needed if we are to ensure the Islamic finance industry is well-integrated into the global banking and financial worlds.

SHARIA SCHOLARS

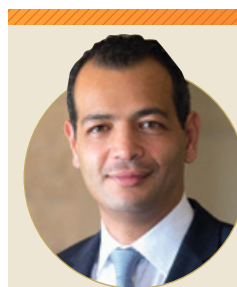
I would also argue a different approach is needed in terms of promoting the next generation of Sharia scholars. The most credible Sharia scholars and governments which have taken it upon themselves to promote Islamic banking need to be encouraged to work together, with a sense of urgency, to tackle this shortage. There is no one area where the human resource deficit manifests itself more clearly than Islamic scholarly work. In 2013 in Dubai, HH Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, announced his plan for developing the Islamic economic sector which would rely on seven main pillars and 46 initiatives. Then to further cement their commitment to make Dubai the 'Capital of Islamic Economy', in May 2016, the UAE Cabinet approved organising of the Higher Sharia Authority, which will provide oversight and guidelines to financial institutions on Islamic finance-related matters. These are important developments in which the private sector must endorse with their support.

TASKS FOR THE INDUSTRY

There are also other areas where the Islamic finance industry needs to catch up. These include focusing on fundamentals by ensuring Islamic finance entrepreneurs are backed by venture capital investments and identifying and pursuing more 'touch-points' with socially responsible investing, and enhancing bankability for all the Muslims who lack it, by supporting credible, innovative and well-regulated and funded FinTech initiatives.

WHAT IS SUCCESS?

Ultimately, the success of the Islamic banking industry should not be measured by its mere size (even if this is two or three trillion Dollars) but by whether or not it can provide solutions to tangible problems and challenges, and co-exist with, and in fact contribute to, social, environmental and economic initiatives with broad global appeal. There are a number of interesting and innovative assignments currently being worked on including an Islamic venture capital fund and investments in FinTech and education; and a Sukuk backed by the proceeds of renewable projects and investments in healthcare and life sciences through either development projects, buyouts or technology development. However, it is also important that such innovations are not an alternative to a continued investment in the region's infrastructure, industrial and real estate sectors but rather that they represent balanced growth in which investments in traditional and innovative sectors run hand in hand. ■



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