

I must say that I welcome this opportunity to participate at this book launch event. I like to thank the organisers, particularly Puan Sheila Aion Yusoff, who, incidentally, is one of the compilers of this book 'ISLAMIC TRANSACTIONS AND FINANCE: Principles and Developments' who persistently persuaded me to attend this function. I was picked and given the honour to say a few words at this function probably because I was associated with the introduction of Islamic Finance and Banking and Takaful in Malaysia soon after I was elected Chairman of the Islamic Development Bank under the aegis of O.I.C. in 1977. I invited Prince Mohammed Al-Malek Feisal of Saudi Arabia, who is the ardent proponent of Syariah-Compliant Islamic Banking and Finance System and his team of experts to come to Malaysia to assist us in the setting up of Islamic banking in Malaysia in the early 80's. The book we are launching today is a collection of essays, based on research and practice of Islamic finance in the country and I am sure will be of great assistance to Islamic banking practitioners and students.

2. It is worth reiterating that the Islamic economic system is neither capitalistic nor socialistic in nature. It is a system that has been provided by the Quran and the Sunnah of the Holy Prophet Muhammad SAW. It is the ethical system that operates on the basis of shared risk and profit to the lender and the borrower.

3. The fundamental of the Islamic economic system lies in the belief that man is the representative or trustee of Allah SWT who is the real owner of the heavens and the earth and everything in the universe. Allah is the sustainer and provider of livelihood and subsistence to all His creatures in the universe. Allah provides sustenance to all His creatures by creating infinite resources for man to exploit, provided it is done in a lawful and halal manner without violating the rights of others. And divine wisdom dictates that man should not hoard his wealth as if it belongs to him absolutely while denying the use of such wealth to others. It is for this reason that sadaqah and zakat were instituted and these serve as the platform for the equitable distribution of wealth. While sadaqah and zakat channel wealth from the rich to the poor, interest channels away wealth from the poor to the rich.

4. Islam views life as a compact whole and economics is one of its most important components. The Islamic economic system is balanced and everything in the system has its right place. Everything is for the benefit and welfare of mankind based upon the principle that everyone has a responsible and honest role in meeting the needs of the body and the soul, the physical and the spiritual. In sum, the Islamic economic system encompasses all aspects of Man's activity. The system stands for simplicity, modesty, charity, mutual help and cooperation. It denounces miserliness, greed, extravagance and unnecessary wastage.

5. Distinguished guests, the period from the fall of Rome to the dawn of Islam was the darkest, most corrupt and unsettled in the history of man. The dawn of Islam was seen as instrumental in removing that darkness to bring about a secure and stable environment. This rise brought about tremendous changes in the economic, political, social and judicial spheres thereby ushering in a new civilisation based on the Shariah.

6. International trade was particularly stimulated by the convergence of believers to Makkah and Madinah for the hajj pilgrimage. With this development of trade came the development of finance and banking in relation to lending and borrowing as well as to the transferring, guaranteeing and safeguarding of goods as well as other aspects pertaining to the movement of goods.

7. Muslims were able to establish, from the early stages of Islamic history, a financial system without interest for mobilising resources to finance productive activities and consumer needs. The system was largely based on profit and loss sharing modes of mudharabah (passive partnership) and musharakah (active partnership).

8. The decline of the Islamic empire in the 12th century marked the weakening of the Islamic influence on trade and finance. The influence of the Muslim world weakened and western institutions displaced its Muslim equivalents. The reasons for the decline and fall of the Islamic empire include the gradual and continuous deviation from Islam and the Shariah; the extravagance and lavish expenditures of the authority; the lack of or failed organisations as a result of bloated bureaucracies; political breakdowns resulting in the loss of authority at central level and the emergence of petty dynasties that degraded the caliphs to puppets of the military commanders; and the rise and development of sect conflicts, with each sect claiming to be the only true Muslims.

9. The Muslim world then underwent a long period of decay and deterioration – the age of decline. It lasted for more than eight centuries, from the 11th to the mid-20th century. This affected all aspects of life – political, social, economic and cultural. The consequences were disastrous. The once united caliphate became divided into tens of dynasties fighting each other. The once just and balanced Islamic society, based on Shariah, was turned into militaristic feudal societies and was much less conducive to economic and social development. From the 11th century, Europeans took over the trading role of the Muslims and became the main traders in the Mediterranean Sea. From the middle of the 19th century nearly all Muslim countries, under direct or indirect pressure from the newly dominant west, adopted the economic system based on the western model. The centuries old practice of finance in Islamic form was eclipsed, to be replaced by the then established and accepted western system.

10. Independence from colonial powers and the nationalisation of foreign banks in Muslim countries and the development of local banks saw the end of banking colonisation. But the system remained the same, operating and dealing with interest which is unacceptable in Islam. This subsequently led to the idea of “interest free” or Islamic banking.

11. The first attempt at establishing an Islamic bank was made in the late 1950s in Pakistan. Just as the Pakistani venture came to a close, a new initiative was undertaken in Egypt modelled along the German Savings Bank but adapted to the environment of an Islamic developing country. Its main purpose then was to mobilise idle savings and funds from Muslim Egyptians, in accordance with the Shariah.

12. The success of the bank was such that it could have easily covered the whole of Egypt. However, it was stopped for political reasons and in February 1967, the operation came to an end. The success, rather than failure, created problems for the bank. The concept of observing the Shariah that the bank embraced also prompted the public to shift to the new bank for their banking needs. The loss of business irked the more established conventional commercial banks. The Islamic Development Bank (IDB), established its operations in Jeddah in 1975.

13. In 1963, another successful Islamic economic initiative started its operations in Kuala Lumpur, that is, the Pilgrims Management and Fund Board of Malaysia, or more commonly, Tabung Haji, the brainchild of a pre-eminent Malaysian economist, Royal Professor Ungku Aziz. It is perhaps relevant to note that Tabung Haji has been successful from the start. From an initial membership of 1,281 with a total deposit of 15,400 US dollars, Tabung Haji had, in 2013, 8.2 million members with deposits in the excess of 10.4 billion US dollars. Islamic finance products are no longer being offered exclusively by Islamic banks. They are now available from conventional banks through their Islamic banking divisions. It is interesting to note that a comparative study to ascertain the performance of Islamic against conventional funds across varying economic conditions in Malaysia concluded that Islamic funds are considered less risky than conventional funds. The findings confirm the idea that Islamic finance does not recognise the speculative nature of investments.

14. In addition to the Islamization of the Iranian, Pakistani and Sudanese banking systems, there are, according to the General Council of Islamic Banks and Financial Institutions, more than 300 Islamic financial institutions all over the world with assets exceeding 1.6 trillion US dollars. Most of these institutions were set up in the late 1970s and early 1980s. This lucrative new business line has encouraged Islamic banks and investment companies to operate in

Europe.

15. The worldwide development of Islamic banking and finance is phenomenal. Although its volume is small relative to the global trade volume, its growth is considered very rapid and thought to be at an average of 20 per cent a year. Given the general wish and inclination of OIC to conduct trade and business using Islamic financing, the potential that this represents to Islamic finance is tremendous. By the same token, the amount of sukuk sold each year, from 2006 to 2012, has grown six fold to some 133 billion US dollars.

16. The rapid growth of Islamic finance and the attendant attention given to it as an alternative financing source is not merely limited to Muslim businesses. It has even captured the interest of non-Muslim individuals, entrepreneurs and businesses. In Malaysia, for instance, we have witnessed a significant increase in the number of non-Muslims opting for Islamic banking and finance services.

17. Islamic finance is growing at an accelerated rate in the east as well as in the west. There are more than 20 banks in Britain offering Islamic financial products. Of these, five are operating as full Islamic banks. Additionally, Britain prides itself in offering Islamic finance education at 55 colleges and professional institutions. The same trend is emerging in Germany, France, Belgium, Sweden, Italy and almost all of Europe.

18. It is now, perhaps, timely for me to refer to cautions that had been voiced by several ulama regarding the rapid development of the system. In the early days when the system was at the stage of finding its footing within the industry, there was a tendency to design Islamic finance products not to the strictest of Islamic principles and standards. It was inevitable then as the understanding and measurement of the economic and finance systems were based on the conventional system. This could have led to the development of products that were less than perfect and lacked Islamic comprehensiveness when they were measured against the Shariah economic yardstick. In this regard, I still remember the endless debate, in the early days of Bank Islam Malaysia, regarding the concept of Islamic banking that was misconstrued due to the fallacious understanding. This being the case and given the lingering tendency, a relook at the system with a view to refining it is timely and opportune. In this regard, it does not hurt the system if we were to revisit what constitutes halal and haram in Islamic banking and finance. This, I submit, is part of the continuous quality assurance exercise that we have to go through to keep our practice true to the dictates of the Shariah.

19. Distinguished guests., I have dwelt at length on the development of Islamic economics and finance. I am sure, that economic management is a key task of governments, any government. The failure to manage the economy in the way that it should, could lead to the downfall of a government. We have witnessed the truth of this observation often enough around the world.

20. I had mentioned earlier that the capitalist system advocates a relationship between business and politics which gives rise to corruption. Financial pilferage as a result of corruption or political lobbying increases costs unnecessarily and, in all likelihood, will be passed on to and be borne by consumers and the community at large. On the other hand, a strict implementation and management of the economy under the Islamic system would eliminate this possibility. It is often said that man's desire knows no bound and satisfying him is a difficult proposition. But it stands to reason to think that a reasonable man can appreciate the sharing by all of what is achieved even if there is a shortfall in that achievement. This is what one could expect of responsible societies and governments. But, what is unacceptable is the feeling that certain segments of the community are being hard done by the prevailing economic difficulties while a select few wallow in luxury as if there is no tomorrow. Be that as it may, it is heartening and reassuring to note that Islamic economics and finance, in contrast to what has just been said, advocate efficiency, effectiveness, transparency, and sharing and selflessness.

Wabillahi taufeeq wal hidayah, wassalaamu alaikum wa rahmatullahi wa barakaatuh.

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