ISLAMIC FINANCE: EXPECTATIONS AND REALITY

CIEF Roundtable Report
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مركز الاقتصاد والتمويل الإسلامي
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HAMAD BIN KHALIFA UNIVERSITY

CEO Roundtable - Islamic Finance: Expectations and Reality

Center for Islamic Economic and Finance
Qatar Faculty of Islamic Studies, Hamad bin Khalifa University

Introduction

The Qatar Faculty of Islamic Studies (QFIS), a college of Hamad bin Khalifa University (HBKU), hosted a CEOs Roundtable event on the subject of "Islamic Finance: Expectations and Reality" on Tuesday, 10 November 2015. This report is a summary of the roundtable deliberations.

The event was organized by the Center for Islamic Economics and Finance—a research center at QFIS—in collaboration with the QFIS Islamic Finance Program, and was held at the new QFIS building in Education City. Over 40 participants including academics, bank CEOs and their representatives, *Shari'a* scholars, policymakers, and students of HBKU participated in the roundtable. Industry professionals in attendance included: Mr. Yousuf Al-Jaida, CEO of Qatar Financial Centre Authority, Mr. Hashem Al Aqeel, CEO of Investment House, Dr. Osama Al-Deraie, CEO of Bait Al-Mashura, and senior management representing the CEOs of Qatar Islamic Bank, Masraf Al Rayan, Qatar Finance and Business Academy, Ezdan Group, Doha Bank, QInvest, and Silatech. Academics from HBKU College of Islamic Studies (QFIS), HBKU Law School, HBKU's Sustainable Energy Program, Georgetown University (Qatar), and Qatar University participated in the roundtable. Over a dozen students from HBKU also participated in the event and were given the opportunity to network with the industry leaders and to

Acknowledgments: The roundtable discussion was transcribed by HBKU MSc Islamic Finance student Enock Woga. Important contributions were made to the report by Enock Woga, Saqib Hafiz, Nadia Farhanah and Eman Tabet, who are all MSc Islamic Finance students at HBKU. This report was reviewed and edited by Wijdan Tariq. The roundtable was organized by S. Nazim Ali, Bahnaz Al-Quradaghi, and Wijdan Tariq.

share their concerns and views. Dr. Habib Ahmed, Professor of Islamic Finance at Durham University and Visiting Professor at QFIS, moderated the one-day event.

The purpose of this roundtable was to organize a constructive dialogue between academia and the leaders from the financial industry, providing them an opportunity to understand one another's standpoint on crucial matters and to work collaboratively towards building a robust and stable financial industry in Qatar and beyond. The roundtable was also an opportunity to discuss strategic issues confronting the Islamic finance industry today. It covered topics such as the primary objectives of Islamic banks in a market-oriented economy, the difference between perceptions of Islamic finance and the reality of the industry, and how Islamic banks can support the needs and expectations of recent graduates looking for employment opportunities.

Welcoming remarks were offered on behalf of Dr. Aisha Al Mannai, Dean of QFIS, by Dr. Muhammad Khalifa, Professor of Comparative Religions at QFIS, followed by remarks from Dr. S. Nazim Ali, Director of the Center for Islamic Economics and Finance at QFIS, and Dr. Tariqullah Khan, Professor of Islamic Finance at QFIS. In his welcoming remarks, Dr. Khalifa credited the dynamic leadership and patronage of Her Highness Sheikha Moza bint Nasser, Chairperson of Qatar Foundation (QF), for the Foundation's vision of preparing the people of Qatar and the region to meet the challenges of an ever-changing world, and to make Qatar a leader in innovative education and research. In furthering this vision, this roundtable event creates an opportunity for understanding and enhancing the field of Islamic economics and finance by fostering an open discussion among industry leaders and academia, while providing an opportunity for students to get more involved in Qatar's Islamic finance industry.

Dr. S. Nazim Ali, the lead organizer of this initiative, thanked the industry leaders for their participation in this event and described the roundtable discussion as a catalyst for a dedicated communication channel between the finance industry and academics. It is an opportunity to better understand the phenomenon called Islamic finance, and to review and discuss strategies for furthering the industry. According to Dr. Ali, an important goal of the roundtable was to get feedback from the industry leaders on the kind of support that academics can provide the industry with.

In his opening remarks, Dr. Tariqullah Khan thanked the participating institutions for the support that they have given to the QFIS Islamic Finance Program over the years. He outlined four potential areas of further collaboration between the industry and QFIS: (i) involve practitioners in classroom instruction (ii) organize tailor-made Executive Training programs for the industry (iii) incentivize financial sector employees to pursue the postgraduate program in Islamic finance at QFIS, and (iv) provide industry placements to the top QFIS graduates.

Dr. Khan went on to outline what he thought are the key issues that the Islamic finance industry is facing with the hope that some of these issues would be discussed during the roundtable. Firstly, he referred to the structural or "architectural risk" that the industry is facing. He argued that there is a need for the industry to agree on the architectural foundations of Islamic finance to overcome disagreements, for example, over the permissibility of key products in the industry; otherwise the industry will continue to face this serious architectural risk. Secondly, he argued that the key differentiation between Islamic and conventional banks should be compassion. Developing the institutions of compassion that Islamic finance calls for is a collective responsibility. Thirdly, there is the important issue of the environment and sustainability in general. Islamic finance, by virtue of its Islamic nature, should be sustainable at its core. As such, there is a need to discuss the contributions of Islamic finance to sustainability.

Part 1: What are the primary objectives of Islamic banks?

The first part of the roundtable discussion attempted to address some of the following questions:

- What are the objectives of Islamic banks in a market-oriented economy?
- What role has Islamic finance played in the local economy?
- What has been the performance of Islamic banks in recent times?
- Are there differences in perceptions of the expectations of society from Islamic finance and the reality of the industry?
- Does our understanding of the role of banks and financial institutions as promoters of economic growth and vehicles of distribution of wealth need to be re-visited?
- What are the objectives of Islamic banks in the light of maqasid al-Shari'a?

The moderator of the roundtable, Dr. Habib Ahmed, began proceedings by providing an overview of the fundamental roles and responsibilities of the firm. Organization theory tells us that we can distinguish between four responsibilities which a firm can perform: economic, legal, ethical, and social. The economic responsibility means that firms are there to make profits, and the legal responsibility means that firms make profit whilst fulfilling the laws and regulations of the country of operations. Firms are expected to be ethical but not required to, and they can choose not to be ethical. The financial crisis showed us that at least some financial institutions chose to be unethical. As for the social part, it is also a choice—firms can choose whether to have corporate social responsibility as an integral part of their operations.

Given this framework, if one looks at the original proponents of Islamic banking and finance—the scholars who proposed the Islamic banking and finance model—their normative view of Islamic finance was that Islamic financial institutions (IFIs) should be institutions that fulfill the principles, values and goals of *Shari'a*. Now, viewing IFIs from the four mentioned responsibilities, IFIs have to make money for their shareholders whilst fulfilling the laws and regulations of the country in which they operate. In addition, they also have to fulfill *Shari'a* principles. When it comes to ethics, IFIs do not have a choice—the Islamic characteristic of the industry mandates them to be ethical. As for the social aspect, if one looks at the overall goals of the *Shari'a*—which is what the Islamic economists envision for the Islamic financial system—then IFIs should cater to the social needs and development goals of the economies in which they operate. The broader social dimension would cover Environmental, Social and Governance (ESG) issues. However, it appears that the general feeling among Muslims is that the industry has fallen short on these social and ethical expectations and responsibilities. The perception is that IFIs are solely focusing on economic and legal/*Shari'a* responsibilities. Thus, one of the objectives of having this roundtable dialogue is to identify these foundational issues in terms of what is meant by "Islamic" in Islamic finance. Does it mean *Shari'a* compliance in terms of fulfilling the legal requirements or should it go beyond and also look at ethical and ESG issues?

There are proponents of the view that Islamic banks should aim to achieve the objectives of the Islamic finance paradigm in terms of broader social objectives and in terms of creating a financial system that is more efficient, stable, and sustainable than the conventional financial system. However, the same proponents did concede that in the current environment of socio-economic tensions, the perceptions of society may not be a reliable gauge for identifying the contributions of Islamic banks. It was agreed by the majority of the participants that it is not fair and realistic for Islamic banks to take the burden of solving all of society's problems, as is often suggested by critics. It was agreed by almost all the participants that the primary objective of Islamic banks as they currently exist is to maximize the wealth for their shareholders. In fact, this is often cited as being in line with one of the most important objectives of *Shari'a* (*maqasid-al-Shari'a*) which is *hifz-al-mal* (preservation of wealth). The creation of broader societal benefits can be considered as an externality for Islamic banks, so they would not be incentivized to address those objectives if it does not contribute to maximization of profits. One participant was of the view that regulators and supervisors can encourage a pattern of behavior that would enable society to internalize those benefits, although he stopped short of suggesting how.

In answering the question of the objectives of Islamic banks, one participant took a historical approach and asked why Islamic banks were created in the first place. He argued that in his view, there were two main factors that led to the establishment of Islamic banks. The first was because of a widely held opinion of *fuqaha* that all forms of bank interest equate to the *riba* that the *Shari'a* forbids; hence an alternative banking system was needed. The second reason was that although conventional banks in Muslim societies were successful in financing international trade and exports, there was limited financing going to industry and development. The current reality of Islamic banks can be compared with those two original expectations. On the former point, it is evident that Islamic banks have not escaped the interest-based system. Islamic finance is still guided by interest-rate benchmarks. Furthermore, since the credit-worthiness principle is embedded in the interest-based system, the concerns regarding the maldistribution of income and wealth still remain. For the latter point, the participant argued that in his view Islamic banks have not done enough to finance industrial development in these societies. There is a distinct focus on financing consumer durable goods using *murabaha* products. What is more worrisome for this participant is the rise of the controversial *tawarruq* products, which he considered to be an inferior banking product even as compared to a simple interest-based loan.

Participants from the industry reiterated a number of times during the roundtable that Islamic banks exist first and foremost to create shareholder wealth, just like any other commercial institution. They are addressing a market demand for Islamic financing solutions. One can argue that simply by providing *halal* products to customers who demand them, IFIs are providing a very important service to the society. Furthermore, IFIs continue to foster financial inclusion of the population, whether Muslims or non-Muslims. More and more IFIs are being established globally. According to the industry participants, there are major differences between the ways IFIs conduct the banking business as compared to conventional banks. One industry participant stated that Islamic banks do appreciate that there are many stakeholders and do take into account the interest of all stakeholders in the market. However, he conceded that there are problems and that support of all the stakeholders is needed, be they academics, customers, governments, or policymakers.

One industry participant stressed that when assessing the role and contributions of Islamic banks, it is important to acknowledge and appreciate the different value-proposition that Islamic banks are offering today compared to conventional banks. Islamic banks do not promote financing of prohibited activities, such as alcohol, gambling and its related activities. In addition Islamic banks are not involved in derivative products that are out there in the market without any underlying real asset or without any link to the real economy. Islamic banks are said to offer compassion to individual customers. It was stated that if customers were to default on their financing, an Islamic bank will not charge or benefit from late penalty fees. However when it comes to conventional banking not only will the customer be penalized for the delayed payments but they will be charge a higher rate of interest on their remaining dues. All these elements taken together do make a big difference and makes a very strong business case for Islamic banks, according to the industry participants.

Part 2: How can Islamic finance address the strategic issues it faces?

The second part of the roundtable discussion attempted to address some of the following questions:

- How can Islamic banks be more closely aligned to the real economy within the immediate economic needs of the regional economies in a way that generates shareholder wealth and at the same time creates visible socioeconomic impact?
- Should Islamic banks invest serious efforts to address divergences between expectations of society and perceived reality of Islamic banking practices?
- What does the word "Islamic" in Islamic banking mean and is this Islamic label still relevant?

Participants noted that Islamic finance is facing a number of urgent challenges that are affecting the progress and growth of the industry. Among the challenges that were discussed include the quality of *Shari'a* governance, customer awareness of Islamic finance, lack of financial products, and a gap between theory and practice due to lack of qualified human capital. One of the key issues that emerged was the support the IFIs can give to SMEs.

Conventional banks and Islamic banks are under-serving the SME sector in the region, even though it is widely known that SMEs can potentially make a very significant contribution to GDP. It is important to explore how Islamic finance can be leveraged for financing SMEs[1]. Some important challenges would have to be overcome. SMEs are perceived to be too risky, they do not have enough collateral, and they are very young. Banks in the region prefer to finance larger institutions and governments. There are ways that banks can be supported to work with SMEs. Providing credit guarantees is one way. Saudi Arabia, Jordan, and Malaysia are very good examples where Islamic credit guarantees have been developed. Scholars have to work more on that and see how this works, as this typically showed an increase in terms of financing of SMEs through Islamic banking. With respect to non-banking financial services, there is space for *ijara* companies to play a role. In fact, the Islamic Development Bank has a division which is supporting *ijara* companies globally. The concept of using movable collaterals is essential. This concept needs further research because SMEs do not get financing mainly because they have a collateral issue. Most of SMEs' assets are movable assets. These movable assets are not registered so the bank cannot consider this as an asset that can be used as collateral for financing. So creating registries of collaterals, including movable collateral, is very important. The International Finance Corporation (IFC), the World Bank and a number of institutions are working on policies to support this.

[1] See: World Bank and Islamic Development Bank (2015), "Leveraging Islamic Finance for SMEs", G20 Policy Paper.

In the area of non-banking financial institutions and instruments, there is the potential of venture capital and private equity funds. It was claimed by one participant that there is a misunderstanding in the industry that private equity and venture capital are *Shari'a*-compliant by default. The structure in conventional private equity or venture capital is not *Shari'a*-compliant. Typically there is an emphasis on leverage in these conventional structures. The structure has to provide preference shares to the limited partner and to the general partners. Preference shares are problematic from a *Shari'a*-perspective because they provide fixed dividends to the preference shareholder, irrespective of the issuer's profitability. This is where more research needs to be conducted. In addition, crowd-funding are also exciting because they would have a social mandate. Investors in crowd-funding know that this is more risky but they are not in it only for the money—they also want to create social impact.

According to one academic, for IFIs to address the strategic issues it faces, regulatory support is needed. There are no hedging products for Islamic banks. There is not enough *sukuk* to do treasury operations. Banks need to hedge on short-term money. Conventional banks are provided with government bonds or treasury bonds. If the government issues more *sukuk* and structures the *sukuk* in a way to be resold in the secondary market, then the secondary market can be much more extended and beneficial to IFIs. Such regulatory measures would help IFIs with respect to their ability to participate in different types of transactions.

A common criticism of Islamic banks is that they are similar to conventional banks. This is the case, argued one academic, because regulations are mostly designed for conventional banks. For instance, it is really hard and almost impossible for Islamic banks to properly utilize profit-and-loss sharing (PLS) because it will affect their risk management position. This results in IFIs offering similar type of products as conventional banks, and exacerbates the perception problem that the Islamic finance industry faces. Such issues need to be answered through regulation and support of other stakeholders, rather than the Islamic banks addressing these issues solely by themselves.

One industry participant suggested several steps that can be taken (and have been taken) to give Islamic banks and IFIs an opportunity to make a more meaningful contribution to GDP and to the society. For instance, the step taken by Qatar Central Bank to separate Islamic banking from conventional banking gives more Islamic legitimacy to the Islamic finance market in Qatar. Another potential area of enhancement that is being talked about in the GCC region is to create a unified *Shari'a* board at the national level to reduce the uncertainties and differences of opinions held by various *Shari'a* boards. This would contribute towards reducing some of the architectural risk of the Islamic finance industry that was referred to earlier in the day. In creating a unified *Shari'a* board, care must be taken not to create bureaucratic processes that will hold back the industry[2].

The concerns in the current systems of *Shari'a* governance were repeated by another participant who discussed it at length and emphasized the strategic role that Islamic banks play to reform *Shari'a* governance systems. Concerns were raised regarding the true independence of *Shari'a* boards from the banks that they are appointed by. It was re-iterated that a unified *Shari'a* body is essential so that standard products and practices can be created for the industry. This can reduce conflicts and increase public confidence in the sector which is good for the industry. It was implied that it is in the interest of the Islamic finance industry to contribute to reforms in Islamic banking with respect to *Shari'a* governance. Islamic banks have only one competitive factor on their side compared to conventional banks which is their Islamic identity. Being "Islamic" is what brings most customers to Islamic banks. Thus, it is important to protect this identity because if it is threatened then the competitive factor will be lost and there will be no way to compete against conventional banks.

In recent years, it has been observed that some Islamic banks have made the strategic decision to drop the "Islamic" label from their official names. Although this strategic issue was not addressed in detail, one participant did mention that in order to appeal to broader masses such strategic considerations should be taken into account. Branding that is familiar to a larger audience, such as "socially responsible banking", "development banking", "participation banks", and so on can be explored.

Part 3: Bridging the gap between expectations and reality

The third part of the roundtable discussion was a continuation of the first two parts and attempted to address some of the following questions:

- Is there a need for the industry to move towards a *maqasid al-Shari'a* based approach in Islamic finance practices?
- How can Islamic banks support the needs and meet the expectations of recent graduates and the youth who are looking for employment opportunities?
- What, if anything, can Islamic banks offer to the 500 million Muslims who are at the bottom of the poverty pyramid?

[2] Another industry participant cautioned that a unified *Shari'a* body may stall innovation, as it would restrict research and development to a small group of *Shari'a* scholars rather than open up the challenge and opportunities for younger scholars who can innovate and provide novel solutions to some of the challenges. However, this industry participant did not consider the current situation in the Islamic finance industry. Even in the absence of a unified *Shari'a* board, there is a very small group of *Shari'a* scholars who are appointed by most IFIs with few opportunities for younger *Shari'a* scholars to enter the industry. See the *Islamic Commercial Law Report 2016* produced by ISRA and Thomson Reuters.

An Islamic bank can be viewed in terms of four key stakeholders: shareholders, customers, *fuqaha*, and management. It was reiterated, even by the academics, that there is no dispute that management is supposed to maximize *halal* profit for their shareholders. This requires maximum efficiency in allocation of available resources which should take into consideration opportunity cost and risk. However, some of the academics argued that management also have to consider that customers (as depositors) and shareholders are the same from an Islamic point of view. Both stakeholders are taking risk so there is no need to distinguish between them. The question was asked that why should customers of Islamic banks who deposit in current or investment accounts receive profits/returns through the same means as conventional banks in the end. In other words, participants questioned the lack of profit-loss-sharing in investment accounts that are said to be based on *mudaraba*. They urged that something needs to be done to bridge the gap in terms of the importance that is given to these different stakeholders as well as the divergence in what products IFIs are offering and how those products are supposed to behave.

The lack of profit-loss-sharing in financing is an age-old criticism of the Islamic finance industry. Information asymmetry is often cited as the key barrier to their utilization. One academic argued that the universal banking model where banks can make equity investments in companies and provide other forms of financing to those same companies helps to alleviate information asymmetry. It was argued that Islamic banks can adopt the universal banking model to remove some of the key barriers to utilizing *musharaka* and *mudaraba*-based financial instruments. This would help bridge the gap between the theory and practice of Islamic finance. Often, the issue of maturity mismatch is cited as a reason for not utilizing the classical Islamic financing instruments such as profit-loss-sharing (PLS) financing arrangements. Bankers often suggest that they have short-term deposits and that they do not have the tools for long-term investments. One academic countered this argument stating that to alleviate this problem, Islamic banks can use restricted investment deposits with long (>5 year) tenor. There are other ways of dealing with the problem, such as issuing *sukuk*, securitization, and other forms of financial innovation that Islamic finance offers.

When discussing strategic issues, the industry cannot ignore the global development agenda. This year was significant in that the Sustainable Development Goals (SDGs) were announced by the United Nations. The Millennium Development Goals (MDGs) are expiring this year and the UN has initiated the SDGs for the next 15 years with the objective of eradicating poverty by 2030. The SDGs are more ambitious than the MDGs and would require a huge amount of resources. The UN has estimated that at the current level of investments they will be a shortfall of 2.5 trillion US dollars annually in developing countries. Given the reported data which shows that in Muslim countries there are 700 million people living under $2 per day, the issue is what Islamic finance can do to tackle the problem of this huge amount of poverty and to achieve the SDGs in these countries. IFIs need to be aware of these important developments and take them into account in their strategic plans.

One academic argued that since IFIs are getting most of their funds from current accounts which are effectively free money, there will naturally be an expectation that some of those free funds will be used to serve society. So viewed in this light, therefore, it is not unfair if IFIs have at least 2% of this on some regulatory arrangement to provide *Qard* (interest-free loans) which can increase the GDP. Consider the studies that are reporting that 700 million Muslims live on less than $2 a day. If IFIs can increase their income from $2 to $4, tremendous opportunities will be presented for the global GDP. Further, if household incomes rise from $2 a day to a respectable $20 a day, one imagines the tremendous impact this would have on the world. An industry observer agreed that this kind of out-of-the-box thinking is useful and that mandating the 2% to 2.5% of current account deposits to interest-free loans as a regulatory requirement might be feasible.

Some participants suggested that there is a need to look beyond Islamic banking to address some of these challenges. Venture capital, private equity, and crowdfunding were discussed. Furthermore, if one looks at Islamic history, there had been intensive investment in *awqaf* assets and the institution of *waqf* played a vital role in the provision of public services. Nowadays, there are billions of *awqaf* assets idle without generating any income. A simple *waqf* bank or *waqf* institution local or regional will have large assets on the balance sheet from inception. Capital can be raised from individuals who are looking for charitable opportunities. There are viable solutions in the broader area of Islamic finance (beyond just Islamic banking) to address the expectations of the poor. These solutions have largely been ignored in contemporary times and there is a need to revive them.

An academic offered four suggestions for IFIs that can narrow the expectations gap. First, IFIs would need to actively make an effort to reduce or limit the use of controversial products. Second, IFIs need to be innovative in using other forms of feasibility analysis rather than solely relying on the credit-worthiness of customers or the project returns of the project. IFIs should also look into the purpose for which financing is being obtained and to try to apply more positive screening criteria whereby projects that meet financial as well as social objectives are preferred. Thirdly, there needs to be reforms in *Shari'a* governance, such as more independence to *Shari'a* auditors, in order to reduce *Shari'a* risk. Fourthly, bankers at IFIs working at all levels should be expected to undergo continuing professional education, especially to cover any gaps in their knowledge of *Shari'a*. An industry professional commented on the last suggestion, stating that there is a need for more professional training. He encouraged young graduates to strengthen their credentials by passing professional certification exams, and to focus on getting strong results for the bank in order to get recognized.

One participant took objection to the way that the questions in this part are being framed. He argued that the questions are implying that Islamic banks are about charity. As already discussed and agreed by everyone, they are profit-making commercial entities. However, another participant countered this by stating that when we discuss about providing opportunities to graduates in the form of graduate training programs and so on, there is no implication of charity. This is in the best interests of the IFIs themselves. All top conventional banks have rigorous graduate programs in place. That attracts the best talented graduates. If Islamic banks do not offer such programs for graduates, they will not be able to attract the best talent to work for them. The Islamic Development Bank (IDB) is a good example in this case. They have the Young Professionals Program (YPP) where they bring in fresh graduates and train them for about one and half years. After the program, most would continue to work for IDB. The YPPs are actually playing a very important role in the Islamic financial sector globally.

One of the practitioners referred to a Hadith where it is reported that the Prophet (PBUH) said that there will come a time when we will not be able to find a single person in all of mankind who will not be consuming Riba, and that if anyone claims that he is not consuming Riba then surely the vapor (or dust) of Riba will reach him. The practitioner related this Hadith to today's global financial and economic system where it is not possible to avoid Riba completely. This is the environment that Islamic banks have to face. With reference to the expectations of people, there is a perception from customers that everything is based on pure Islamic principles. However, as mentioned the reality on the ground is different. There have been calls in different countries, for instance, to move away from a fiat currency to the gold dinar and for reformation of economies based on Islamic principles. These are visionary objectives that will take a long time to materialize. To further complicate issues, the challenge in the next phase is how IFIs would be operating if the paper currency disappears and is replaced by the digital currency. People will need to adapt to the changing economic environment and to take these issues into consideration when they are forming their perceptions.

Most participants agreed that the lack of qualified human capital to support the industry was a major challenge. Academics have the role of educating and providing training in order for finance professionals as well as customers to be more refined. It was also stated that it is not only lack of human capital in general but there is a lack of scholars who possess knowledge in both *Shari'a* and finance. Some of the clerks working in some IFIs lack basic Islamic finance knowledge which is essential for efficient performance of their duties and effective communication with customers. Banks were asked to encourage their staff to take professional courses and executive programs in Islamic finance such as those being offered at QFIS. Internship and employment opportunities were also promised for students as a positive step for students to be involved in the Qatar Islamic finance sector and to develop the future human capital.

Part 4: Concluding remarks, recommendations and way forward

This was the concluding part of the roundtable and it attempted to address the following questions:

- What role can academia play in bridging the gap between expectations and realities?
- How can Islamic banks support academic initiatives that aim to bridge these gaps?

Instead of discussing issue at abstract and theoretical level, it was urged for discussions to move to a more practical and empirical level. For instance, the criticism among scholars about *tawarruq* has been lingering for a long time. Islamic banks can come forward and lay out their view in respect of what are the challenges that they face in reducing the percentage of *tawarruq* in the balance sheet. This can be actually worked on and studied in detail if Islamic banks come forward and share their experiences with the academics. Through proper fact-finding, the industry and academics can work together to identify the precise difficulty and address them, whether it is to do with regulations, human capital, IT solutions, etc. One academic gave the example of how *tawarruq* was successfully reduced in Turkey through a concerted effort. So it is possible to cooperate to move the industry forward in a sustainable way.

As for academics, they can work on developing new financial products which are compliant to *Shari'a*. For example, asset-backed securitization in the European and Western world are very much in line with *Shari'a* understanding they can be studied and amended to produce new products for Islamic banks. Issues of risk management can also be studied. All it requires is more cooperation and coordination between academia and industry.

The general public still does not understand what Islamic banking is even in Muslim societies such as Qatar. Islamic finance is generally viewed as being more complicated than a simple conventional loan-based finance, and perhaps rightly so given the array of financial contracts that are potentially available in Islamic finance. This gap in financial literacy has also been contributing to the credibility and perception problems that the industry faces. Academia can play a vital role here in increasing financial literacy.

In the final session, students were allowed to voice their opinions and concerns. They thanked the participants for this unique experience and shared their anecdotal experiences of studying in QFIS and working in the Islamic financial industry at the same time. The industry professionals motivated the students to continue in their efforts at professional development and offered advice on how they can make progress in their careers at their institutions.

Recommendations

It was agreed that such events as this CEO roundtable should continue because they play an important role for the growth and sustenance of the Islamic finance sector. These healthy dialogues can make problem solving easier and faster.

The participants agreed on a number of recommendations and conclusions as follows:

1. Participants recognize that the differences in views between academics and practitioners pose a real architectural risk to the Islamic financial industry and there is a need to deal with the differences in a positive way by continuing dialogue.
2. It is recommended to have periodical meetings between the different industry stakeholders and academia to identify specific issues raised in the roundtable and to follow up on action points that are agreed.
3. A working group could be established composing of an equal number of representatives from academia and industry.
4. Practitioners can be involved in QFIS Master's curriculums as guest lecturers.
5. Banks and education providers can coordinate and collaborate in addressing the human capital needs of the industry through training and internship programs.
6. Participants have recognized the need to further study *Shari'a* governance systems, standards and contracts, and explore how they can be improved and harmonized, both within and across jurisdictions.

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Ms. Eman Tabet, QFIS, HBKU
Mr. Enock Woga, QFIS, HBKU
Mr. Hisham Ibrahim, QFIS, HBKU
Mr. Ibrahim Ari, HBKU
Mr. Mohammad Fadzlan Sulaiman, QFIS, HBKU
Mr. Mohammed Idris, QFIS, HBKU
Ms. Nadia Farhanah, QFIS, HBKU
Mr. Saqib Hafiz, QFIS, HBKU