



Islamic Banker

ASIA

CHAT WITH

Muath Mubarak



Mohammad Farrukh Raza



Mohammad Farrukh Raza

Mohammad Farrukh Raza, Managing Director IFAAS (Islamic Finance Advisory & Assurance Services). Farrukh is the founder and managing director of IFAAS, an award-winning professional consultancy dedicated to Islamic finance currently providing expertise to a range of institutional clients across several countries, from its offices located in the UK, France and Bahrain. He holds an MBA in Strategic Management and has exceptionally rich experience across various sectors of the Islamic finance industry. He has led many pioneering Islamic Finance projects in Europe, Central America, GCC and Africa where IFAAS is particularly active in the French speaking regions. Farrukh's experience includes advising the key stakeholders and regulatory authorities on developing the regulatory, legal and tax frameworks for implementing Islamic Finance in several markets including France, Senegal, Niger, Mauritania and Morocco. He has also led the ground-breaking market research projects sizing the retail markets for Islamic banking in France, Belgium and Oman. He has previously held senior roles at Islamic Bank of Britain, the first Islamic bank in Europe and also played a key role in rolling out the first Takaful company in Europe. He is a member of the Chartered Institute of Marketing (UK), Islamic Finance Experts Group (UK), Islamic Finance Commission at Paris Europlace (France), Business & Economics Committee of Muslim Council of Britain (UK) and Mosaic Network of The Prince's Trust. Farrukh is a highly experienced trainer and a popular speaker at international industry conferences. He also lectures frequently at many reputed universities worldwide. He speaks several languages with excellent command on English, French and Urdu.

MIM: As the Managing Director of IFAAS (Islamic Finance Advisory & Assurance Services) - UK, France & Bahrain, what are your aspirations for Islamic Finance industry in 2014?

FARRUKH: I wish my wish list for Islamic Finance industry was shorter than what it is. Little of 2014 is left now so including 2015, I aspire to change the course of the industry by giving it a new direction towards more credibility, efficiency and an inclusive appeal. I know that making a change at industry level will take a lot more than just my aspiration but I am hopeful that many of my peers will share my views and yes, collectively we can make a change that

is much required in the industry now.

MIM: IFAAS is involved in various activities from product development to Shari'a compliance audit in different countries. Could you brief its journey, achievements and future prospects?

FARRUKH: Our journey began in the UK back in 2007 when we made a modest start in Birmingham, home to our first client, IBB (Islamic Bank of Britain), Europe's first fully-fledged Islamic bank and the previous employer of IFAAS's founding members. Our relationship with IBB has lasted till to date and now spanned over a decade

including our 3 years of employment. Soon after our launch, we got involved with Salam Insurance, laying foundations of Europe's first Takaful company, followed by our role in launching several other Islamic finance operations in the UK. Our active role in the development and growth of Islamic finance in the UK was soon noticed on the other side of the English Channel, where the French authorities were actively seeking to position Paris as an alternative to London in terms of Islamic finance. An ever-increasing demand from France for our expertise that was deemed very rare at that time due to our French language

capabilities led to our second office established in Paris in summer 2008. Our journey in France was very exciting in the beginning when we actively contributed in developing the Islamic finance infrastructure in the country whilst working on major projects for institutional clients. However, the French aspirations of making Paris the European hub for Islamic finance diminished quickly a couple of years later when the then Finance minister Christine Lagarde being the biggest supporter of Islamic finance moved on to head the IMF. Meanwhile our Paris office took the lead role within IFAAS across the French-speaking markets in North and West Africa. This region now represents one of our top markets where we have successfully completed high-profile projects across over half a dozen countries all the way from developing regulations for the governments to setting up Islamic microfinance institutions. Today, IFAAS is undoubtedly perceived as the first point of call for Islamic finance in the French-speaking Africa. Our third office opened in Bahrain in late 2010 with the aim of serving as the hub for GCC region however its growth within the Bahraini market was severely impaired by the adverse impact of the Arab Spring that hit the Kingdom in early 2011. However, we continued with our plans for the rest of the GCC with a major mark that we put in Oman where IFAAS is recognised as the leading Islamic finance advisory due to its active role in introducing Islamic finance in the Sultanate. To date Alhamdulillah, we have completed Islamic finance projects in 18 different countries for over 50 institutional clients spread across 4 continents all the way from the Caribbean to the Far East. We have worked in every sector

of Islamic finance, knowingly the only Islamic finance advisory with the capability of offering all services in three languages including English, French and Arabic, and with the largest market share in the west of Makkah. Having developed Islamic finance regulations for 10 countries and a portfolio of over 100 Islamic financial products, we were awarded last year at the inaugural Global Islamic Economy Summit in Dubai for designing the best Islamic financial product, giving us a trophy and a bank cheque for 100,000 US dollars.

MIM: As you have played a vital role to create the first Islamic bank & Takaful in European region, could you share your memorable experience and how far it has grown now?

FARRUKH: Our involvement in the groundbreaking projects of the first Islamic bank and the first Takaful company in the western world was the greatest experience that any professional can dream of. I would say that it was the most challenging learning curve for everybody involved in these projects, definitely not suitable for the faint-hearted. But, it was the most rewarding as well due to the sense of accomplishment. Imagine sailing into uncharted waters, our feeling at that time. We were doing something that had neither any precedence in the western markets nor did we have the required capabilities. It was a marathon at a sprint speed which of course required an outstanding stamina, commitment and spirit. I am glad that both projects found teams including some exceptional individuals sharing this commitment and spirit. These teams made the dreams come true with their utmost collective efforts. The amount of learning in one year in

these projects was probably more than a decade of learning elsewhere. The people involved in those projects have now spread across the industry taking their extremely rich experiences to help many other institutions. Despite all the challenges that both institutions faced, they have become benchmarks in their respective sectors. IFAAS founding members have taken the expertise developed in these two projects to many corners of the world. Due to the same, we gradually evolved into the specialists of toiling the ground in new markets for Islamic finance helping the authorities and the players in developing the infrastructure. We never intended to be but we ended up being the Ibn-e-Batutas of Islamic finance, exploring new horizons and charting waters for others to sail safely.

MIM: Could you explain us on the Shari'a, Legal, Accounting & Taxation framework in European region especially in the UK & France for Islamic finance and how far is it conducive for the industry to emerge?

FARRUKH: UK has recognised Islamic finance as an alternative way of financing and addressed any taxation issues like double stamp duty and VAT, etc. by blanket neutralisation of any extra taxes generated due to the nature of Islamic finance products, putting Islamic finance on equal footing as conventional finance. It has also issued its first sovereign Sukuk, helping the country's six Islamic banks and other Islamic investors with the opportunity to invest in sterling whilst consolidating its leading position in Islamic finance. France started following the UK footsteps but in a different way by introducing tax reforms specific to each type of instruments used in Islamic

finance. Four reforms pertaining to Sukuk, Murabahah, Ijarah and Istisna were introduced in the French fiscal system. The reforms recognize the aforementioned instruments as modes of financing and hence neutralizing any tax discrepancies due to the structure of the instruments making them equal to conventional products. However, the work started in the times of Madame Lagarde stopped short of further developments that were in progress. Nevertheless, the changes so far have paved the way for launching the first products including a couple of small scale corporate Sukuk, Shari'ah compliant current accounts and the much demanded home finance based on Murabahah. Another European country that deserves a round of applause for its efforts in Islamic finance is Luxembourg. With over 40 Islamic funds domiciled and several Sukuk listed, and the first Euro-denomination sovereign Sukuk and the first fully-fledged Islamic bank just being around the corner, the small Duchy is punching way above its weight. It has certainly become the second largest player in the European market. One element still missing across the European markets is the regulation about Shari'ah compliance. I believe that a minimal level of regulation in

The market may be widening but it is not deepening enough to create the synergies and the economies of scale required to make it a more value-proposition instead of an emotional-proposition.

this regard will be required to take the industry in Europe to its next level. Of course we understand the complexities around Shari'ah compliance in non-Muslim countries but given the level of engagement demonstrated by the UK and Luxembourg authorities, any such move will help in enhancing their credibility in the international market.

MIM: As you have been working in different regions including Europe, America, Africa and GCC, how do you see the progress of Islamic banking and finance globally? What are the pressing issues and challenges faced by the industry and how it can be resolved?

FARRUKH: I believe in Islamic finance whole-heartedly and foresee a very bright future for it. However, I feel very disappointed with the poor performance of the industry. We keep on debating over the same issues without making any real progress in resolving them. It's good to talk about problems but it's even better to do something about them. Islamic finance has the potential to appeal to a much wider audience including non-Muslims but here we are struggling to appeal to even Muslims. This situation is not promising yet it is prevailing to my dismay. Islamic finance is progressing and expanding worldwide however I see this expansion as very shallow. The market may be widening but it is not deepening enough to create the synergies and the economies of scale required to make it a more value-proposition instead of an emotional-proposition. I believe that the players in the market need to do more and do something different to give Islamic finance the clear differentiation that it badly needs. Despite the double-digit growth rates quoted frequently

that I strongly dispute, the overall proportional size of the industry is almost stagnant while the size and the profitability of Islamic financial institutions remain of the size of a bonsai. I remain as far as a light year away from being convinced that the potential of Islamic finance has been reached, for me it still remains untapped as we have just scratched the surface but only if the Islamic finance leaders realise the size of the gold mine they are sitting on. I believe that the most pressing need is the redefinition of Islamic finance as a concept. We have to give it a new and true meaning by going beyond the traditional rhetoric of ethical that doesn't sound convincing enough to many and marketing the products as religious products instead of financial products. On the other hand, mimicking the conventional products to offer Shari'a compliant solutions is not helping either. We have to openly admit that Islamic finance is totally different from conventional finance due to the fact that the money cannot be treated as a commodity. Hence any transaction that resembles to treating the money as commodity will not last as an Islamic product as it would never appeal to the masses. No wonder that Islamic financial institutions are performing poorly as they are putting their resources in fighting a battle that is lost by definition. Any such move will require a concerted effort by all stakeholders in the industry with everybody demonstrating much higher levels of ownership and accountability. It will include the institutions as well as the individuals in key positions. The industry also needs to invest more in research and development to find genuine and long lasting solutions for the challenges.

CV

Mohammad Farrukh Raza

NATIONALITY:
British and French

QUALIFICATIONS:
MBA, MCIM, ACISI

PROFESSIONAL GOAL:
Proving to the world that Islamic finance is viable and the true solution

FAVOURITE SHARI'A SCHOLAR:
Every scholar that fulfils his/her moral duties in a professional way

INSPIRING ISLAMIC FINANCE BOOK: Heaven's bankers

ONE-LINE ADVICE: Never give up and remain positive

WHAT ONE WOULD DESCRIBE YOU? Determined

WHAT ARE YOU MOST PASSIONATE ABOUT YOU? Islamic finance

WHAT IS YOUR GREATEST ACHIEVEMENT IN YOUR LIFE? Yet to come

WHAT IS YOUR FAVOURITE JOURNEY? Travelling to Madinah for peace and serenity

WHAT IS YOUR MOTTO? Life is too short, let me spend it in doing things that are enjoyable and fulfilling

MIM: You have authored many articles and also have been a speaker in many conferences. How do you see the receptiveness of the regulatory bodies and the relationship with its stakeholders in the European region?

FARRUKH: European regulators generally have a very collaborative approach. They are receptive towards Islamic finance and willing to explore it further to learn how it can help them with offering alternative options. But obviously having limited knowledge of Shari'a, they sometimes feel confused and unfortunately the stakeholders of the industry are mainly responsible for

this confusion with their conflicting messages and unrealistic demands. Any cohesive approach by the stakeholders usually results in positive response from the European regulators who boast their famous policy of level playing field based on *"no favor, no discrimination"*.

MIM: How do you see the market gap for qualified and experienced Shari'a scholars, bankers and advisors to fuel the growth of this industry?

FARRUKH: Human capital is one of the biggest challenges that the industry is facing today. Scarcity of qualified and experienced human resources is seriously impeding the growth of the industry. This issue is debated at every Islamic finance conference yet no collective effort has been made to date to address it duly. The industry desperately needs to step up its efforts in producing high-quality human capital that also understands and promotes the true spirit of Islamic finance, driving the industry forward but more importantly, in the right direction.

MIM: In your view, what are the major influencing factors for the last global financial crisis and how can it be prevented by the Islamic finance system?

FARRUKH: What exactly led

to the global financial crisis is more than a debate in its own right. A number of factors have been pointed out by the experts but in my humble and personal view the biggest flaw in the global financial system is its foundation on Riba that has been strictly prohibited in all Abrahamic religions. Due to its inherent detrimental effect, any system built on these foundations will eventually lead towards problems as it is in conflict with the nature. Islamic finance system on the other hand is founded on trade and entrepreneurship that by definition has different effects on the human society. The Islamic financial principles have existed and been successfully practiced over the centuries however, it's now that they are being institutionalised and transformed to match the modern day frameworks of regulatory requirements that are not made for these principles. This challenge is not being fully met due to the reasons that I mentioned previously, hence despite serious flaws in conventional system, Islamic finance system is struggling to claim its position of a viable system, let alone the very far cry of being "the financial system". I strongly disagree with people who think that Islamic finance will replace the conventional system. It certainly has the potential

but it cannot do so due to a number of micro and macro factors. To its best in the present situation, it will sit next to conventional system as an alternative option and a refuge in case of crisis that will continue to occur till the conventional system continues to standing on Riba. In this realistic scenario, it will help in reducing the shock of the crisis and recovering from it quicker than usual but it will not be able to prevent it from happening.

MIM: Could you share with us some valuable advice for the stakeholders of this industry including the leaders, regulators and the young entry level professionals?

FARRUKH: As an industry, we have come a long way but it's a much longer way that is still left. It may be full of challenges but it is the most exciting and probably rewarding as well. Let us sit back once and think what we want to achieve from Islamic finance. If the answer is building a sustainable and viable financial system then we really need to change our approach by swapping the current short term objectives with a long term vision and underpinning our efforts with sincere commitment and pragmatic measures. From there will derive the way to success as promised by the Almighty. **IBA**