Ear to Asia podcast

Title: Islamic finance in a fintech future

Description: Having built a Shariah-compliant global finance industry now worth US$3 trillion, Islamic legal experts are now grappling with the question of whether cryptocurrencies are permissible for the world's 1.8 billion Muslims. Just how are religious laws from the 7th century adapted to meet the present-day needs and economic aspirations of believers? How do Islamic jurists decide what is halal, and what happens when there's disagreement? And how will cryptocurrencies and other emerging technologies fit into the future of Islamic finance? Dr Ryan Calder, who researches the social impacts of Shariah law, and Hassan Jivraj, Islamic finance journalist, probe these issues with presenter Ali Moore. An Asia Institute podcast. Produced and edited by profactual.com. Music by audionautix.com.

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Voiceover:

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Ali Moore:

Hello, I'm Ali Moore. This is Ear to Asia.

Ryan Calder:

Sharia scholars in Islamic finance have taken a range of opinions. Some say it's completely unacceptable because it's too close to gambling. There are some scholars that said, "Look, lets wait and see."

There have even been some that say, "Look, it's okay to buy and sell Bitcoin but you shouldn't trade them too rapidly because then it becomes speculation."

Hassan Jivraj:

But if we talk about things like Islamic fintech or Islamic crypto, it's still at a very early stage and there are huge opportunities for different entrepreneurs and companies and players to take advantage of growing fintech and emerging technology trends in Muslim-majority countries.

Ali Moore:

In this episode, Islamic finance in a fintech future. Ear to Asia is the podcast from Asia Institute, the Asia research specialist at the University of Melbourne.

In recent years, cryptocurrencies like Bitcoin and Ethereum, which began as an attempt to wrest control of money away from governments, have gained both popularity and controversy as a global asset class. Against this backdrop, Indonesia's national Islamic council recently ruled that cryptocurrencies are not halal or not permissible under Islamic law. At the same time, Islamic jurist from other Muslim majority countries have taken a diametrically opposed position, with some actively advocating for cryptocurrencies and other emerging trends in fintech. It's the perfect example of some of the challenges facing Islamic finance.

With one of the fundamental tenets of Islamic law, the prohibition of interest or usury, how do Muslims across the globe square their religious beliefs with predominantly Western interest-based financial systems? How have Islamic jurists adapted religious laws from the seventh century to meet the present day needs and aspirations of believers as they look to finance purchases such as housing and education? Who decides what's permissible and what's not? And how will cryptocurrencies and other forms of fintech fit into the future of Islamic finance?

To address these questions, I'm joined by Dr. Ryan Calder from Johns Hopkins University, whose research examines the nexus between Islamic law and Muslim societies, and by Islamic finance and fintech journalist, Hassan Jivraj, who writes for the publication Salaam Gateway. Ryan and Hassan, a very warm welcome to Ear to Asia.

Ryan Calder:

Thank you, Ali. It's good to be here.

Hassan Jivraj:

Thanks for inviting me.

Ali Moore:

Let's start with some basics here. Ryan, if I can start with you and the very basic question of what is Islamic finance and what are the absolutes, if you like, of Islamic financial products?

Ryan Calder:

Sure. So when speaking about Islamic finance, I think we can distinguish between Islamic finance as a concept and Islamic finance as an industry. As a concept, Islamic finance is just any finance that someone considers to be Islamic, and very often that means adhering to Islamic law. Now, one can go back to the very beginnings of Islam. In the Quran, there's a very clear statement, it's something called riba, is prohibited by God. It's a very severe sin. Many Muslims have interpreted this riba to be interest at any level. While many others have said, "Well, perhaps it's not. Perhaps it's only certain kinds of interest, interest that's particularly at a high rate or harmful to people or something like that."

This debate has actually been going on for quite a long time. But it was only in the 1950s and 1960s that you started to have experiments in creating modern financial institutions that tried to do financial intermediation while avoiding interest. In 1975 in Dubai, you get the very first for-profit Islamic bank known as Dubai Islamic Bank. So that's the date at which the Islamic finance industry really is born, and it's grown a great deal since then. Really, it was kind of small potatoes through the 1980s and the first half of the 1990s. But since the late 1990s, it's really grown gangbusters, and today, Islamic financial assets are estimated at about $3 trillion, which is round about 1% of all global financial assets. So by comparison, that's about the same size or a little larger than the entire financial sector of Latin America.

Ali Moore:

Hassan, when we talk about riba or interest, we're talking essentially usury, aren't we? And that is one of the absolutes in terms of not permissible of Islamic financial products.

Hassan Jivraj:

Yeah, absolutely. I mean, obviously interest in the Quran is clearly expressed. Interestingly, the longest chapter in the Quran, Surah Al-Baqara, talks a lot about things like interest and debt. You'd think in the book of the holy scripture of Muslims that it would talk a lot about God or Prophet Muhammad, but actually it talks a lot about debt.

Ryan is completely right on what he was saying. It's also important to note that not being involved in interest is one of the facets of Islamic finance in the way it's practised. Obviously you can't be involved in any, let's say, non-halal activities. So that includes things like weapons, pork, alcohol, gambling, and speculation. So I'm sure we're all aware that in some areas of the financial industry there is huge, huge speculation and injustice involved. So yeah, obviously not being involved at riba is probably one of the most primary outcomes or byproducts of what happens in Islamic financial or Sharia-compliant financial transactions.

Ali Moore:

If we can just look at that issue of interest or riba. And Ryan, Hassan talked about going to the Quran and the extent to which it talks about debt, if you look back in history, usury was banned in Judaism and also in Christianity, but we don't have a Christian finance industry or a Jewish finance industry. Why did it persist in the Islamic world?

Ryan Calder:

That's a great question. Now, if you go back far enough, there are people in every major philosophical tradition who had some kind of problem with usury. For most of history, usury, by which I mean some kind of immoral lending, unethical lending, for most of history that meant to most people any level of lending and interest. So even if I charged you 1% interest or a 10th of a percent interest, to most people, that was something unethical. This is something that Aristotle argued, countless ancient philosophers argued this.

If we look at the Jewish and Christian traditions, we find in Deuteronomy in the Hebrew Bible, the Old Testament, the specific injunctions against lending at interest. In the Jewish case and the Christian case, you had different sorts of interpretations over time. Most rabbinical authorities in Judaism interpreted a passage in Deuteronomy to mean that Jews should not lend at interest to other Jews. And come the middle ages, Jews were often used by powerful Christian lords and kings and basically forced to function as money lenders partly because of this rule.

If we look in the Christian case, it's really from about the 9th, 10th century until about the 16th or 17th centuries that you see this incredible obsession with usury. You see the Christian church, which at the time in the Middle Ages was, of course, like a giant state. It was basically a super power. It was engaging in what I like to call a war on usury, much like contemporary wars on drugs. The church demonised anyone who lent at interest. They excommunicated clergy who tried to give last rights to usurers. They described them literature, described usurers in all kinds of disgusting terms with snakes coming out of them after they died and so on. So it really was a very, very big deal.

But what we see is early on in Christendom, one of the issues is you have the Reformation. Martin Luther is originally very much against usury, but he quickly realises after he leads the Protestant reformation he faces a peasant rebellion in 1525. And a lot of these peasants are pretty angry that they are forced to pay interest to their own Lords. And so, this all gets out of control, and Luther goes back on his original word and says, "Well, maybe let's worry about this peasant insurrection first. Maybe usury isn't what we should try to outlaw right away."

John Calvin comes along a few decades later, a great reformer as well, a Swiss reformer, and he says, "Look, maybe not all lending at interest is unacceptable. Maybe it's okay for people to charge a small amount in compensation for the kind of risks they're taking on their loans." So you see this gradual opening of the door in Christendom toward usury. And by the 19th century, the Roman Catholic Church is sort of making pronouncements every few decades saying, "Hey, remember, you're not supposed to deal in interest." But the church itself is dealing in interest. There are many banks, including in Rome, and so on. So it sort of becomes a dead letter and basically disappears.

One argument that I make is that this has to do with the declining importance of religious law and religious jurists, that is professors or specialists in religious law in Christendom. These are the people that really uphold detailed and minute rules about when you can and can't deal in interest. And these people continue to be very important in Islam. There's one list, it's called the Muslim 500. It's put out by a Jordanian think tank. It's allegedly a list of the 500 most influential Muslims in the world. Of course, you could quibble with anything on the list, it's one group's opinion, but it just so happens that 16 of the top 30 most influential Muslims in the world, according to their list, are religious jurists, that is experts in religious law.

I would challenge you to tell me the last time you knew the name of a famous contemporary religious jurist, right? They're just not popular figures, whereas, among Muslims, some of them have Twitter followings of millions of people. So I would argue that this persistence of this group of experts in religious law and the persistence of their social importance in giving some Muslims, by no means all Muslims, but some Muslims guidance about what's right and wrong in everyday life has a lot to do with the fact that you can have this Islamic finance industry, whereas there's no organised, so-called $3 trillion Christian finance industry.

Ali Moore:

So Hassan, is it those religious jurists that Ryan tells us about, are they who decide if a financial product or service is halal or permitted under Islamic law?

Hassan Jivraj:

They do, obviously. They're the ones that give what's called the fatwa, which is, if we want to call it, like a religious ruling of some kind, where they would do a full due diligence and investigation of a transaction or of a product where they would scrutinise it and go through all the elements to check and to test whether this is actually halal compliant. Ryan obviously rightly mentioned about the jurists. I think one of the interesting things, if you look at it, Islamic finance in the modern sense only really came about in the 1970s. As Ryan mentioned, that came in its first real iteration. Islamic finance kind of has been there since the time of the holy prophet Muhammad.

We should also not forget the kind of environment he was growing up in before the revelation of Islam within its formal sense. He was a trader. He was living amongst traders, and he was involved in business. I think one of the things that's really important to point out is that Islamic finance or Sharia compliant or Sharia-based transactions always has to be based on a real economic activity. It can't be based on speculation, based on gambling, based on any kind of non-real economy transaction. So it has to be a tangible service or some kind of physical, underlying asset in addition to not being involved in haram activities as we mentioned.

And obviously all of these what's deemed haram, what's deemed halal is derived from Islamic law, what we call Sharia. I think it's important to point out that Sharia, yes, today it is known as Islamic law, but it's better to call it like a code, and that this code is derived from what's called fiqh. So fiqh is actually Islamic jurisprudence. The source of fiqh are things like the Quran, the Sirah of the prophet or the Sunnah of the prophets or the prophets ways and the way he behaved. Within the Sunni tradition, obviously you have these four main schools of jurists over time who have developed interpreting all these sources and have come up with legal laws of how people should live their lives impacts Islam. And that doesn't just mean how you should pray and fast during Ramadan and all these things, but it also encapsulates their financial activities, their moral activities, their social activities, how you should treat the family and so on. And also that comes within the financial realm. So yes, in the Sunni tradition or in the majority tradition, it does talk about financial activities and how you should conduct yourself and how you should behave.

Ali Moore:

Hassan, how clear cut is that in order to determine whether a product or an industry is sharia compliant? Is it a very clear and easily interpreted set of rules? To what extent is that decision open to interpretation and different in different jurisdictions?

Hassan Jivraj:

So I can say it's probably not homogenous in the sense that there's no one right answer, and no one person's view on things will be entirely accepted by everybody. But I think it depends from region to region, what areas of the world follow a certain jurist's interpretation of Islam. For example, obviously in the Middle East you have the more Hanbali, which followed a guy called Ahmad ibn Hanbal, who was a jurist, I believe in the ninth century, if I'm not mistaken. And then you'd have other interpretations, say, for in Southeast Asia, Malaysia, they'd follow Muhammad ibn Idris Al-Shafiʿi, which was a different interpretation. The way they both looked at the Quran and the sources, particularly when it was coming up to things like debt or the view of debt, especially the trading of debt, they had a completely different world view on what that meant and what was allowed and what was not allowed. Obviously, that was done in the past, but obviously you can see that today in the way Islamic finance is practised in Malaysia and the Islamic finance is practised in, say, somewhere like Saudi Arabia. It's completely different.

Ali Moore:

And what about in terms of how it's regulated, Ryan? There are two international bodies, aren't there? There's the Bahrain-based Accounting and Auditing Organisation for Islamic Financial institutions, or AAOIFI, and there's the Malaysian Islamic Financial Services Board. Do they work together? Is there unanimity of decision-making processes between those bodies?

Ryan Calder:

They serve different functions. AAOIFI provides standards that Islamic banks can take up or not, if they want to. The most well-known ones are Sharia standards. It's an international attempt to create some kind of harmony across jurisdictions, across the juristic schools that Hassan mentioned, and indeed from scholar to scholar. The IFSB is a bit different. That is more of an organisation that seeks to build cooperation among governments that have substantial Islamic finance sectors. So this is things like central banks talking to one another and sorting out regulatory procedures and things like this.

But the question of whether Islamic finance can indeed be regulated at the international level is a fraught one. There are some countries that have said, "Look, we're going to adopt all of AAOIFI's Sharia regulations." And in some cases even said, "All Sharia scholars in the country ought to follow these." But there are many other places where Sharia scholars enjoy having the freedom to come up with their own interpretations even if they may clash with this emerging international regime.

Ali Moore:

Do you think that will change? Are we getting closer to a global standard of governance? Or do you that there will always be these differences? And if the latter is the case, what does that mean for the growth of this sector?

Ryan Calder:

That's a fantastic question. The jury is still out. I think in the past seven or eight years there's been significant movement strengthening AAOIFI as some governments have decided to adopt AAOIFI regulations. On the other hand, in some places, and I would cite Saudi Arabia as a good example, religious jurists, also known as Sharia scholars in the industry, have a great deal of social weight, social prestige, and the government is not necessarily interested in telling them how to do things. They might face a backlash, and on top of that, they might just not see it as their role. I had a conversation with the former governor of the Central Bank of Saudi Arabia, and I asked him, "Look, are you going to start establishing a national Sharia board with scholars at the very top to tell all the other scholars what to do in Islamic finance?" And he said, "That's not how we see ourselves going." But in a number of other countries, Malaysia being a fantastic example, the government has really stepped in and tried to standardise within the country.

What's challenging with international transactions, so these are things like... this could be billion-dollar Islamic financings or investments of hundreds of millions of dollars, money moving from the Gulf to Southeast Asia or invested in London real estate, or what have you, often you're getting 3, 4, 5 different participants just as you would in conventional finance, and getting everyone's Sharia authorities on board to agree is really challenging. And so there is certainly an incentive on the business end to try to harmonise, but there are forces going the other way. There are people saying, "Look, Sharia, it's not a single code. It's not a single set of rules."

Ryan Calder:

On the contrary, Sharia and fiqh in particular, Islamic jurisprudence, as Hassan rightly said, is a malleable and adaptable framework. It would be very difficult if all of a sudden we said that laws in Australia and the United States and Japan have to be perfectly harmonised. And you would face a similar challenge trying to do some of the same kinds of things in Islamic finance.

Hassan Jivraj:

Just going back to your point about why did this all come about, in the modern sense is that it actually came in the 1970s when the Arab oil crisis and countries all of a sudden in the Gulf Cooperation Council... or what we now know is the Gulf Corporation Council within that Arabian Peninsula accumulated a significant amount of wealth. And also in Southeast Asia there was a lot of wealth accumulated from higher commodity prices in the 1970s and '80s. What happened was people who came from these regions had investments in London predominantly, and they basically asked their practitioners and bankers and lawyers, "Could you make something that was synthetic in the sense it was similar, it felt similar, it would look similar, but it was in a Sharia-compliant manner?" So obviously, the bankers and lawyers are thinking to themselves, "How do we do this?"

So obviously they consulted with Sharia scholars because at that time the industry was quite in a nascent period in the 1980s, 1990s. And obviously that came about more with the rise of HSBC Amanah, which was established in an early 1990s. And then you've had other Islamic financial institutions, predominantly in the West, popping up and starting to offer Sharia-compliant services.

When we talk about the Muslim majority world, when we talk about the OIC countries, the Organisation for Islamic Corporation, which encapsulates 57 countries, a lot of these countries were colonised by the British or other Western power, so they did inherit a lot of the financial systems mainly of the British. And it's interesting, if you look at a lot of Islamic financial transactions, they actually are written not only in Sharia law but also in English law. Because it's interesting, English common law and Sharia law, whatever interpretation you're following, generally speaking, are actually quite similar in some ways, particularly with regards to trade and finance. So it's very important to know that Islamic finance in its modern iteration didn't come from political events within the Muslim world. So it didn't come from the Iranian Revolution of 1979. It didn't come from the Soviet invasion of Afghanistan in 1979. These were more economic considerations done at the time where people wanted to combine commercial investments and transactions with their faith.

Ali Moore:

This malleability and adaptability that Ryan talks of, Hassan, it doesn't mean that it doesn't translate across borders.

Hassan Jivraj:

Yeah. Over the last, say, 10 years, we've seen non-Muslim countries. For example, in 2014, the UK, South Africa, Luxembourg, Hong Kong, predominantly non-Muslim countries...or majority countries issued their first Islamic bonds. The UK, for example, has a very developed, for a non-Islamic jurisdiction, a very developed Islamic financial sector, whether that's in banking, law services, and investment services, and in fintech. The level of development in different jurisdictions, whether they're Islamic jurisdictions or non-Islamic jurisdictions, is very mixed, if I want to call it. So different countries are different stages of their development.Ali Moore:

Ryan, what about the question of the extent to which these products are entirely and utterly different to what you might see in a more traditional sense? So if you have a vanilla product like a mortgage or a car loan, is it simply not called interest but interest charged in another name, the way those products are designed?

Ryan Calder:

This is one of those eye of the beholder sorts of things. Let me put a bit of historical context on that and then talk about how most products are structured today. As we've been discussing, Islamic finance has roots that go back to the lifetime of the prophet. Prophet Muhammad was very concerned with the problem of debt in early Meccan society. He was concerned with growing inequality, and he talked a great deal about this to his companions and came up with a number of rules that helped govern trade and the movement of money. In the late 19th century, early 20th century, particularly in British-ruled India, what's today, India as well as Pakistan, Bangladesh, you see a lot of efforts to theorise something called Islamic economics, particularly in Hyderabad.

The idea is a different form of economics that will work for Muslims by Muslims for Muslims. Instead of living under a financial system that extracted, through banking among other things, wealth and shunted it back to the colonial metropole, could Muslims come up with a form of finance that was theirs, both religiously and from a political economic perspective? This train of thought develops through the fifties and sixties toward a new form of finance that was supposed to be based on what was called profit and loss sharing. This is a lot like private equity – conventional private equity. The idea here is this: instead of engaging in debt, whether it's based in interest or something else, as many financial transactions as possible should be done on an equity basis. So let's say, Ali, you need a million dollars to start your own business selling, I don't know what, pizza.

Ali Moore:

It's a very good pizza place you're talking about.

Ryan Calder:

Good. I'm happy to hear it. I had a sense. You could get it two ways, right? Forget about anything Islamic for a moment. Well, you could get a million dollar loan from the bank down the street and pay interest on that. Or you could find some investors. Now, it just so happens that Hassan and I are both familiar with your pizza-making prowess. We have great faith in you as a business person. And so between two of us, we pull together a million dollars and give it to you. And we say, "Ali, we trust you. If you go bust, then you don't lose a dime. You just lose all the sweat equity, the work that you put in. But if you earn a profit, then we're going to take some percentage of that profit," that we agree with you in advance. Say, it's 50/50 or 60/40, or whatever.

This is what's called profit and loss sharing. Again, it's a lot like private equity or venture capital. A lot of people in this sort of school of Islamic economics said, "Look, this is a better way to finance almost anything than just lending money at interest." Because here comes Ali. She is smart and she makes great pizza, and we all know she's a capable business person, but she just doesn't happen to have the money. She's got entrepreneurship but not the money. Meanwhile, Hassan and I are flush with cash. So why shouldn't we have this system in which people who don't have money can still have business opportunities?

Now let's say something horrible happens. God forbid, Ali, your car crashes and you need to pay for that, and you can't spend time on your business and it fails, right? Well, you don't lose a dime. Whereas, if you had borrowed a million dollars and you were out of work for a while, well, you'd still they'll be on the hook to pay the bank a million dollars. So the idea here, according to these Islamic economists, there's something intrinsically fairer and better about doing finance in this model as opposed to dealing in interest. Now, what ends up happening, that's sort of become part of the marketing message of Islamic finance is this belief in profit and loss sharing. But as it happens today, the vast majority of Islamic banking is not actually done that way. It's done in other ways that we can talk about, but that replicate debt and from an economic perspective look very, very much like conventional interest-based finance. There are certainly differences, but the differences have to do with legal process and not so much with economic outcomes.

Ali Moore:

Would you agree with that description, Hassan?

Hassan Jivraj:

Yeah, I mean, I agree that what's preached in Islamic finance literature is exactly what Ryan said. It's primarily based on profit and loss sharing. And as I mentioned before, it has to be based on a tangible underlying asset of some kind, whether that be a piece of land, a building, or a revenue-generating business such as a pizza business, which has a clear revenue model. Ryan mentioned a really important point is that it's kind of similar, if you want to think about it, kind of like private equity, venture capital sort of thing in the sense that it's more profit and loss sharing where everybody is exposed to risk, and there's a chance that there could be loss as well as profit. So all parties are particularly in exposure here. That's been preached by Islamic economists and Islamic jurists not only in the early 1970s or fifties, but going all the way back to the Prophet Muhammad where it was talked about and it's been developed since there.

But what we see in the modern Islamic banking is exactly banking. We're seeing commercial banks similar to the conventional banks creating commercial credits and part of a system which has been around for a while and operates almost the same. But as Ryan mentioned, maybe the legal processes and the names of the products are a little bit different, but the actual products themselves are very, very similar to conventional products. And there are reasons for that. I think primarily one of the reasons is that the financial legal infrastructure in a lot of Islamic countries doesn't cater for Islamic finance. In Morocco, for example, which follow lot of French civil law, the idea of how you inherit assets, which is an important part of an Islamic financial transaction, that's proved to be a big problem in a country like Morocco in trying to do Sharia-compliant transaction.

Similarly, another big problem that Turkey had for a while but managed to solve was the idea of double taxation because certain Islamic or Sharia-compliant structures... You'd think that a country with a Muslim majority would cater for a Sharia-compliant transaction, but in fact, what we see is a complete opposite where laws have to be changed or introduced to facilitate Islamic finance or Sharia-compliant finance. So yeah, that's just one area of why Islamic finance is not a big story in a lot of Muslim countries.

Ali Moore:

Hassan, is it still though? Is there sufficient differentiation from more vanilla financial products?

Hassan Jivraj:

Again, I think it's a mixed story across the board. I think in some countries, like in Malaysia for example, it's more of a top down thing where it's been driven by the government. So the governments of Malaysia since the 1990s or even earlier that have introduced laws, a financial infrastructure, and an ecosystem which allows Islamic finance to flourish and to do it really well and compete pari passu, competes almost the same in terms of price with the conventional. That's being driven by the government as well as a more well educated financially literate market like Malaysia. But if you compare it to a country, say for example, like Bangladesh, Bangladesh, which is a huge, huge population, and only Islamic finance has really come about within the last, say, two years. And that was a combination of where it came from the bottom up, so from the population and driven by the government. So it's mixed across the board. Sometimes it's demanded by the population or it's facilitated by the governments.

Ali Moore:

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I'm Ali Moore, and I'm joined by fintech journalist, Hassan Jivraj and Sociologist of Islamic Law, Dr. Ryan Calder, and we're talking about Sharia finance.

Ali Moore:

Ryan, we were talking just before about the differentiation of product, the differences, perhaps, about Malaysia and products coming from top down versus a place like Bangladesh where it's more bottom up. If you look across the Muslim world, 1.9 billion Muslims, what's the range of views towards Sharia finance? Is it like the many interpretations? Does it differ in Muslim majority countries versus, for example, places like the UK?

Ryan Calder:

There is a tremendous range of views, and yes, it does vary from country to country, but it varies a lot from individual to individual as well. We've been talking a lot about Sharia scholars, that is religious jurists, people who are professional experts in religious law, like law professors essentially, but this is only some tiny, tiny fraction of Muslims in the world. I spent some time interviewing Muslims in many, many places, but Muslim consumers in particular in Pakistan and Saudi Arabia, to get their views on this. They ranged from, "I take very seriously what Sheikh X," a particular religious scholar, "has to say about Islamic finance. For example, he endorses it or he even endorses this particular bank, and that's why I patronise it." to one young lady I interviewed in Pakistan in a shopping mall who said, "Look, anything the religious scholars tell me to do, I will do the opposite." She said, "I have no time for them. I don't need to have anyone else tell me what to do."

And within that there's a huge gamut. I know many, many, many Muslims who deal in interest and don't think twice about it. There are people who do but maybe don't feel good about it. There are people who might feel okay buying, say, a chocolate bar on interest and putting it on a credit card. When it comes to the home where they're housing their family, that's something they'd prefer to buy cash or through an Islamic financing. So really the range is incredibly broad.

The reasons why people believe or don't take seriously Islamic finance vary to a great deal as well. Some people say, "Look, you shouldn't deal in interest because interest is a way of making money that involves no work. Right? You're not doing any work, you're just earning some money off of someone else's misfortune." You have people who say, "Well, look, it's prohibited in Islamic law, and that's it, it doesn't really matter beyond that why." You have people who give all kinds of other arguments like interest exploits the poor. And so it's really incredible, and one of the things I love studying about this sector is this tremendous, tremendous diversity of views.

Ali Moore:

Ryan, given that tremendous diversity of views, though, why does it succeed in some countries and not in others?

Ryan Calder:

For any industry to grow, you have to have some stakeholders get together and come to agreement about how to make money in that industry, what is the right way to do things. So even if you have all these different opinions around the world, I would argue that in countries where powerful stakeholders got on board together and agreed what Islamic finance would look like, in those places you've had a lot of commercial success. In the Gulf countries, for example, you have reasonably good relations between powerful religious scholars, governments, and the financial sector. This is also true in Malaysia. But you've had some other places. You look at Pakistan in the 1980s and '90s where Islamists, members, particularly activists, from political Islamic parties said, "Look, what we need to do is Islamize our entire financial system right away, and we need to do it on the basis of that kind of profit and loss sharing that I was talking about." And then the bankers came along and said, "Whoa, whoa, whoa, you're going to overturn our entire financial system overnight? That's bonkers."

And they went at logger heads and it continues to be a somewhat contentious issue. So even though there's a wide range of views, a lot of it comes down to domestic politics to business interests and regulation. On the regulatory point, the degree to which government, and particularly a central bank, supports Islamic finance is incredibly important.

Ali Moore:

And it's also, I guess, Hassan, it's notable that in some places many of the consumers of Islamic financial products don't actually follow Islam.

Hassan Jivraj:

That's correct. I haven't checked the latest statistics, but from my last visit to Malaysia, which was a while ago, it's interesting, the majority of the people using Islamic financial services were not actually Muslim. Similarly, I think some Islamic banks in the UK, the majority of their customer base don't identify as Muslim. The reasons they cite why they choose to use the Islamic financial services is quite interesting. I think obviously this big movement over the last say five or six years with ESG-

Ali Moore:

That's the environmental and social governance in the corporate world, yeah.

Hassan Jivraj:

Correct. Since 2008 with the financial crisis, people don't trust the financial services sector, whether that be their banks or other kind of institutions, but they feel or they want to feel that their finances or their investment activities or their financial activities are more ethical in a sense.

I think you asked really important questions like, "Why should we care about Islamic finance?" Obviously, Ryan made a really good point in that it's mixed across the board. Like certain countries and societies, some people might view Islamic finance in a more positive way than they would in another society. Certain countries have had a difficult history with Islamic finance and with Islam in general. I mean, if you take the UK for example, although it has a very sophisticated and developed Islamic financial sector for a non-Muslim country, the actual take-up of products, the actual adoption of products by Muslims in the UK, so there are about three million Muslims in the UK according to the last census, the actual adoption of Islamic financial practises amongst these communities is actually quite low. When you go into the data points and ask them why, it's quite interesting, a lot of them cite that they don't trust these Islamic products or they don't really think that they're authentically Islamic. But the bigger reason is probably because they feel that it's a more expensive product.

And that goes back to the regulation point. The cost of doing business in an Islamic way is more expensive than a conventional way. So Muslims are saying, "Why should I be paying more money just to be in line with my faith?" I mentioned before, the industry came about through economic considerations rather than religious. If it's fulfilling the same kind goal or outcome but just having Islamic labels at Arabic or Sharia labels, does it really make a difference? So that's what a lot of people cite and why they don't use Islamic financial products.

Ali Moore:

I did mention at the very outset of this conversation cryptocurrencies. Hassan, the bigger question being, in particular, the challenges that they pose for Islamic finance.

Hassan Jivraj:

As a point, Islamic finance is quite late in adopting technology. So Islamic fintech only really began in 2015, I want to say. So the whole idea of neobanks or digital banks have come about in the last couple of years, especially with the incumbent Islamic banks in the world. But what you're seeing is now a popup of different fintechs and tech startups around the world, so obviously in Malaysia, Indonesia. And interesting, in the UK as well, there's a lot of Islamic tech startups, whether they cover finance and other sectors. But with regards to cryptocurrencies, I think there are different kinds of what are deemed Sharia-compliant coins and exchanges. It goes back to the heart of this conversation, and because there are no homogenous views on Sharia, coins in different countries can be acceptable in one country but not acceptable in another country, and different Islamic jurists and scholars have said, "Cryptocurrency such as Bitcoin is completely non-Sharia compliant. We shouldn't be involved." Some have said, "Maybe a little bit of it is okay." Maybe some will say, "Yeah, it's okay. It's fine." Others will say, "Oh no, we don't really understand this. We need to do you more investigation, so give us a bit of time to think about it." So it's kind of mixed across the board.

Ali Moore:

If you can give us a brief explanation of what it is, and then my question following from that would be, where's the physical asset to underpin?

Hassan Jivraj:

A cryptocurrency is a form of digital currency which relies on something what's called the blockchain, and that authenticates all transactions and all activities on these currencies. It's not controlled by a central authority. It's very decentralised. It's done more at a community level. You know the money supply is not controlled by a central authority, like a central bank or a central government. When we talk about cryptocurrency like Bitcoin or like Ethereum or any of these other kind of technologies, it's more decentralised form of finance, right? But a lot of the Sharia scholars are working for, say, a commercial bank or a central bank, so obviously there is an entity which would like to maintain control of the financial system or of the monetary system. Some of them may feel that cryptocurrency or any kind of new technology, which is disrupting the industry, could impact them from a business perspective. So a lot of them probably would take a position that they'd say it's not halal.

Obviously, in Indonesia, we had the Ulama Council come out last year saying, "Don't get involved in cryptocurrencies." But it's interesting, Indonesia's one of the biggest countries where crypto mining is done. And interestingly, in other countries such as Iran, which has its own economic challenges, cryptocurrency, Bitcoin has been hugely popular there. So it's not a straight story across the board, and different scholars will say different things in terms of their ruling. Some Sharia scholars are saying, "Where is the physical assets?" But there are crypto exchanges, there are products, and there are newer products coming every day.

Ali Moore:

So given the challenges around cryptocurrency, Ryan, do you see cryptocurrency as just, in many ways, a very good example of the challenges of Islamic finance in the year 2022?

Ryan Calder:

I think cryptocurrency already is a challenge for not just Islamic finance but for monetary authorities around the world in the sense that, as Hassan explained, the essence of cryptocurrency is that it's money that is not issued by nor under the control of a particular government or even a particular bank. Now, Sharia scholars in Islamic finance have taken a range of opinions. A lot of them are pretty suspicious of cryptocurrency. Some say it's completely unacceptable because it's too close to gambling. And look, if you look at crypto markets, I mean, that's a pretty reasonable thing to say, I think, in the sense that the vast majority of people who buy and sell crypto are not buying and selling it to use it in transactions as a medium of exchange to go buy a latte or whatever, but-

Ali Moore:

It's a form of speculation.

Ryan Calder:

For the most part, it's a form of speculation. And that kind of speculation is something that is clearly banned in Islamic law. So there's that issue. Exactly as Hassan said, there are some scholars that said, "Look, let's wait and see." There have even been some that say, "Look, it's okay to buy and sell Bitcoin or other cryptos, but you shouldn't trade them too rapidly because then it becomes speculation." And indeed, you have a lot of Islamic scholars who say the same thing about stocks. They say, "It's okay to buy and hold, because that's not speculation. But day trading where you're trading the same shares 17 times a day, that is speculation." I think it's important not to think of Islamic law purely as a set of dictates that come down and are totally unmalleable or arbitrary, but rather are often commonsensical approaches to emerging problems.

Ali Moore:

And the rules can change, Ryan, that they are not themselves static? They change according to the challenges that the sector is faced with.

Ryan Calder:

Absolutely. One of the striking things about Islamic law is that it's very decentralised. There is a principle of normative pluralism, or what in Arabic is called ikhtilaf, which is the idea that, look, let's say Hassan is an Islamic scholar and Ali's an Islamic scholar and I'm an Islamic scholar. We may not agree on everything, and that's okay. If one of us says something that's really outlandish or says something is okay that's clearly banned in, say, the Quran, then we've got a problem. But if you and I disagree on the finer points of what kind of crypto is okay, that doesn't mean that I suddenly say you're a bad Muslim or you're not a Muslim or something like that. So this is important because it means that different institutions, even different banks or different lines of business that are starting to emerge, can sometimes draw on the interpretations of different scholars in different places. And this is how you get this kind of adaptation and this kind of change over time.

Ali Moore:

So given this, I suppose, flexibility, this malleability, how does that all play into how you both see the future for Islamic finance. Hassan, how are the growth rates today, and how do you see the growth rates in the future?

Hassan Jivraj:

Islamic finance will continue to grow in a lot of countries, and it's still at a very nascent stage in what I call the non-core-Islamic countries. What I term core-Islamic finance countries, I'm talking of the GCC, I'm talking about Malaysia and these primary markets, and also Pakistan as well to a lesser extent, and also Turkey. But if you look at countries, for example, like Uzbekistan, which is currently trying to introduce Islamic finance, similarly other countries like Bangladesh and countries in Sub-Saharan Africa are trying to introduce Islamic finance, and even larger countries like Egypt, for example, over the last couple of years are beginning to introduce more Islamic financial products. And interestingly Egypt's about to issue its first sovereign sukuk, first Islamic sovereign bond, which for Egypt would be a very big step.

So, the growth rates are there. I think that's more for the vanilla kind of Islamic finance, but if we talk about things like Islamic fintech or Islamic crypto, that's also what's known as a blue ocean in the sense that it's still at a very early stage and there are huge opportunities for different entrepreneurs and companies and players to take advantage of growing fintech and emerging technology trends in Muslim-majority countries. I mean, just with the pandemic, you've seen the rise of people trading on their phones and people being involved in things like cryptocurrency. So there are huge opportunities for people in Muslim-majority countries to develop, create, and also use these kind of products, which they couldn't have done maybe even five years ago. So there are huge opportunities, both in the vanilla banking sense and financial sense and also in the technology sense as well.

Ali Moore:

Ryan, how do you see the future of Islamic finance? How do you see the growth and the opportunities?

Ryan Calder:

Just as Hassan said, there are some relatively mature markets, as he said, Malaysia and the GCC, that is the wealthy countries of the Arabian Peninsula. And then you've got some outlier markets. A lot of this has to do with how quickly they got started and how quickly their governments got on board. If we look back to the 1980s, remember, the first for-profit Islamic bank formed in Dubai in 1975, if we look back to the 1980s and even the 1990s, you had a fair number of governments around the world that were scared of Islamic finance because they thought it might have some association with political Islam, and often they were scared of political Islam because they were worried about being overthrown, right? Sometimes we're talking about various kinds of corrupt governments.

By the 1990s and thereafter, it becomes very clear that Islamic finance is a very apolitical industry. It's another flavour of contemporary capitalist finance, not some kind of revolutionary programme. There were, of course, some people who wanted to be part of a revolutionary programme decades ago, but the fact of the matter is that since the late nineties, since really the nineties, it has been that way. And so, you have all these governments jumping on board saying, "Look, this is a decent way for us to proclaim our Islamic bonafides. We've got business persons that are interested in this. What we can do is borrow templates, particularly from Malaysia, which is a very heavily-regulated but very well-regulated Islamic financial sector. We can borrow what they're doing and bring it to our country."

And so that's why, as Hassan said, you're starting to see this growth in a lot of the outlying markets. Now, in some of the core markets, you might start to see some natural tapering off as you start to hit some saturation. Islamic finance in the Gulf countries, in Malaysia is widespread enough that it has arguably lost its newness, the excitement that comes with its newness, right? People are now totally used to see an Islamic bank around the corner.

Ali Moore:

And indeed, Ryan, I was going to say to what extent does the future growth of Islamic finance depend on it being able to continue to distinguish itself as something that is different, that is something that is special and indeed better, that it's economically and ethically superior?

Ryan Calder:

I would say in the medium term, the next 10 to 20 years, you will continue to see growth because of the kinds of new markets, the greenfield markets, in countries where it's not very big. But at some certain point, you may start to get demand from people saying, "Look, it's all well and good that it is Islamic in some juristic sense, but how is this really different from conventional banking?" Now, I would argue there are a number of ways in which it is. For example, during the 2008 financial crisis, a lot of Islamic financial institutions did a lot better than conventional ones because their religious scholars and their interpretations of Islamic law prevented them from investing in a lot of very risky assets, things like credit default swaps and collateralized debt obligations.

So I think in the best interpretation, Islamic finance today is a form of capitalist finance that it's a little less risky and a little safer and doesn't take some of the risks that conventional capitalist finance, particularly at the fringes, right, might feel comfortable doing. There are some brakes that Sharia arguably puts on what can be done. But is that enough to turn it into a truly different value proposition? I think the jury's still out.

Ali Moore:

Hassan, would you agree with that?

Hassan Jivraj:

I agree that there's a debate going on in core Islamic financial markets in the sense is that there's a big debate, is there more form over substance? In the sense, is there a lot of forms of Islamic finance, but what's the substance of these products? There's a big drive by organisations like the UK Islamic Finance Council, which is an advocacy group based in Scotland. They do a lot on talking about how there's a convergence between Islamic finance and ethical finance, particularly with this UN Sustainable Development Goals, these 17 goals that the UN has come up with. So they talk a lot about and they publish a lot of reports and research about how Islamic finance has some similarities with ESG or SDG-linked finance. Obviously, there are some clear differences. Islamic finance can't be involved in any kind of interest-bearing activities or any kind of non-Sharia-compliant activities. But obviously, there are some similarities, I think the whole thing about ethical finance.

Islam talks a lot about justice, being just in your religion and being just in your transactions and in your acts. The verse which I go back to, Surah Al-Baqara talks a lot about how you shouldn't deal unjustly and that you should be fair and you should be just in your activities. So there is this drive towards a more ethical and more inclusive form of finance. The challenge, I think, for Islamic finance going forward, especially in its core markets, is continuing educating the consumer and continuously updating the legal framework and the financial framework to facilitate newer ideas that are taking place in the industry.

Ali Moore:

Well, it's been an absolutely fascinating conversation, and I thank you enormously for your insights, both of you. Before I let you go, can I just ask, for those who are listening, who want to hear more about your thoughts and more about your work, Hassan, I assume the best place to point people to is Salaam Gateway.

Hassan Jivraj:

Yes, so you can visit the website, it's www.salaamgateway.com, and you can follow me on Twitter as well, @hassanjivraj.

Ali Moore:

Very good. And Ryan, what about you?

Ryan Calder:

You can Google me at Johns Hopkins University in the United States. I'm working on a book on Islamic finance, which will be coming out in a couple of years, so please look out for that. I've got a few articles that you'll find on my website at Johns Hopkins as well.

Ali Moore:

I'm guessing the fact that your book takes a couple of years is just indicative of how big and how complex this whole topic is.

Ryan Calder:

It is a complicated topic, but it's endlessly interesting. So it's been a lot of fun talking to you about it.

Ali Moore:

Well, thank you to both of you. It is indeed an endlessly interesting topic. A huge thank you.

Hassan Jivraj:

Thank you.

Ryan Calder:

Thank you, Ali.

Ali Moore:

Our guests have been Dr. Ryan Calder from Johns Hopkins University and Hassan Jivraj, finance journalist for Salaam Gateway.

Ali Moore:

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This episode was recorded on the 8th of March 2022. Producers were Kelvin Param and Eric van Bemmel of profactual.com. I'm Ali Moore, thanks for your company.