

# **CENTRAL SHARIAH BOARD (“CSB”)**

**CHALLENGES, PRACTICALITIES AND CASE STUDIES**

**11<sup>TH</sup> AAOIFI - WORLD BANK CONFERENCE  
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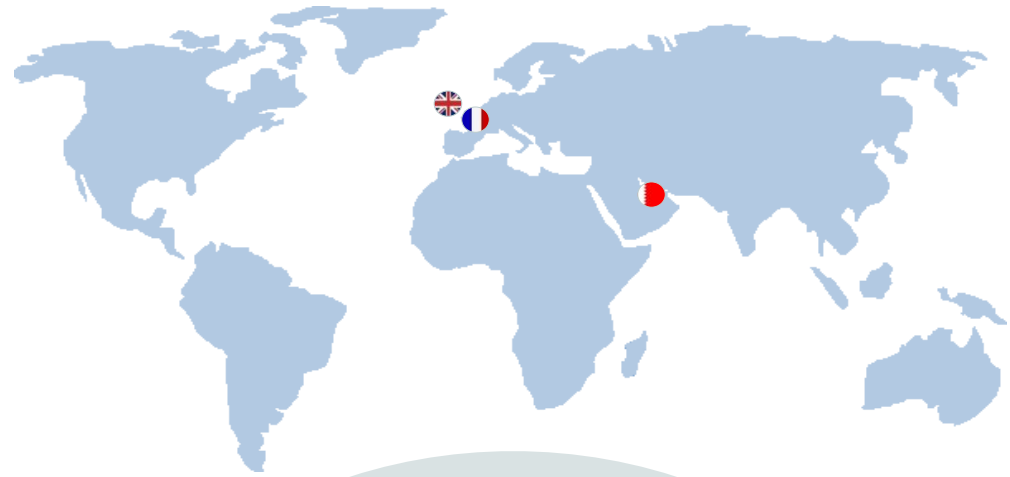
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# **IFAAS**

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

# AT A GLANCE

- ▶ IFAAS: Islamic Finance Advisory & Assurance Services
- ▶ Professional consultancy specialised in Islamic Banking and Finance incorporated in 2007
- ▶ 3 Offices: UK, France & Bahrain
- ▶ Over 50 institutional clients with present client reach in 5 Continents
- ▶ Projects in 35 countries (completed to date and in-progress)
- ▶ Over 100 Islamic financial products developed
- ▶ Worked on regulatory frameworks in 12 countries
- ▶ All services provided in English, French and Arabic languages



**Winner of the world's first Ethical Finance Innovation Challenge & Awards created by Thomson Reuters and Abu Dhabi Islamic Bank**

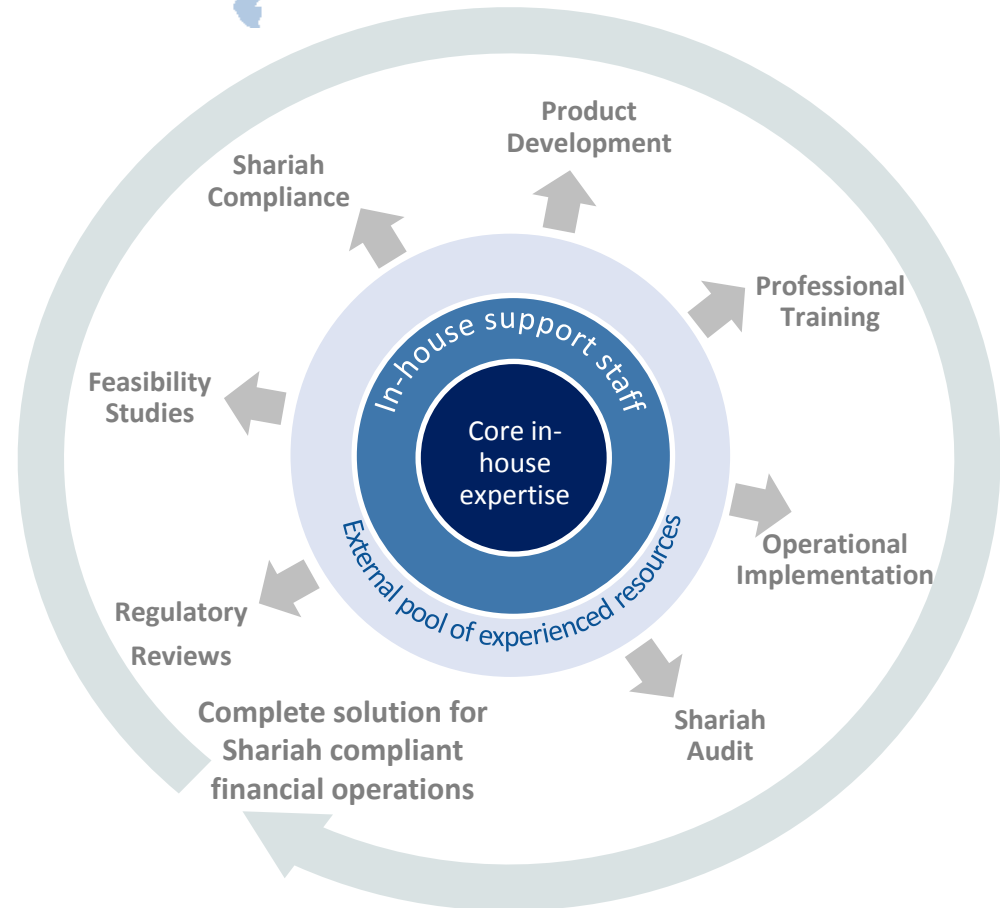


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مصرف أبوظبي الإسلامي



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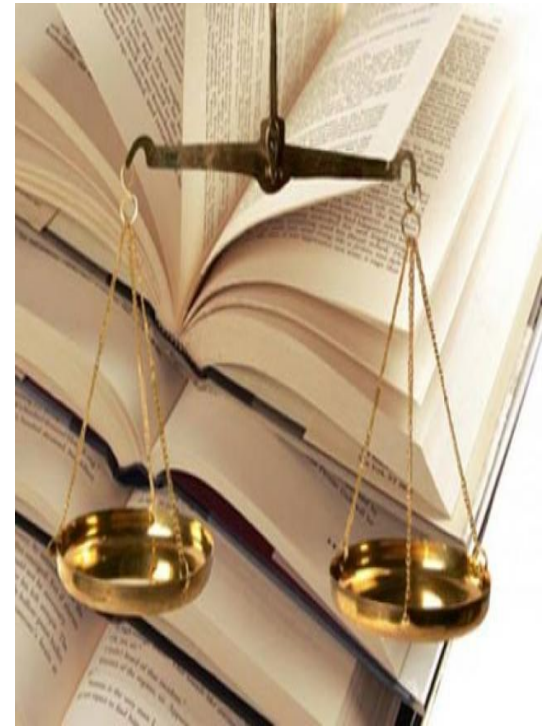
- Emergence of the CSB concept
- Fit and proper criteria – behind the lines
- Mandate of the CSB
- Industry Shariah governance model

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**LAYING DOWN THE FOUNDATIONS**

# EMERGENCE OF THE CSB CONCEPT

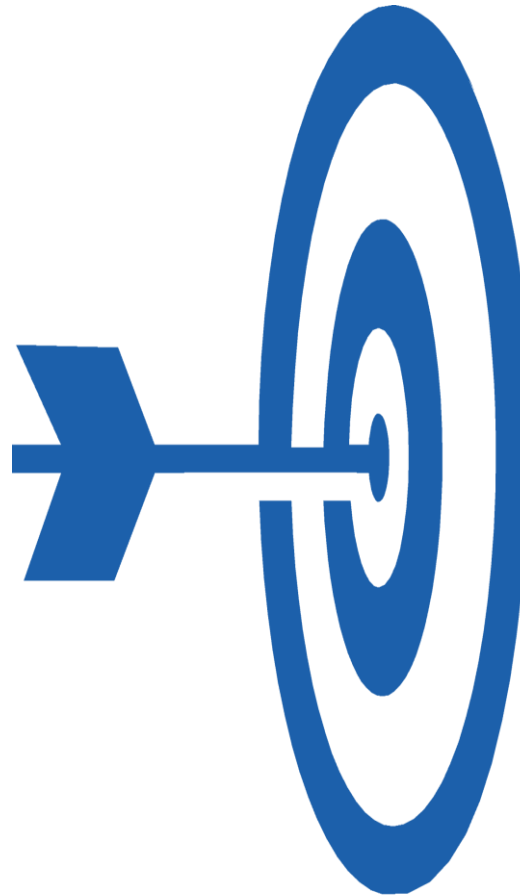
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**Importance of Shariah governance and Shariah compliance in Islamic finance**

**Rapid growth and sophistication of the Islamic finance industry**

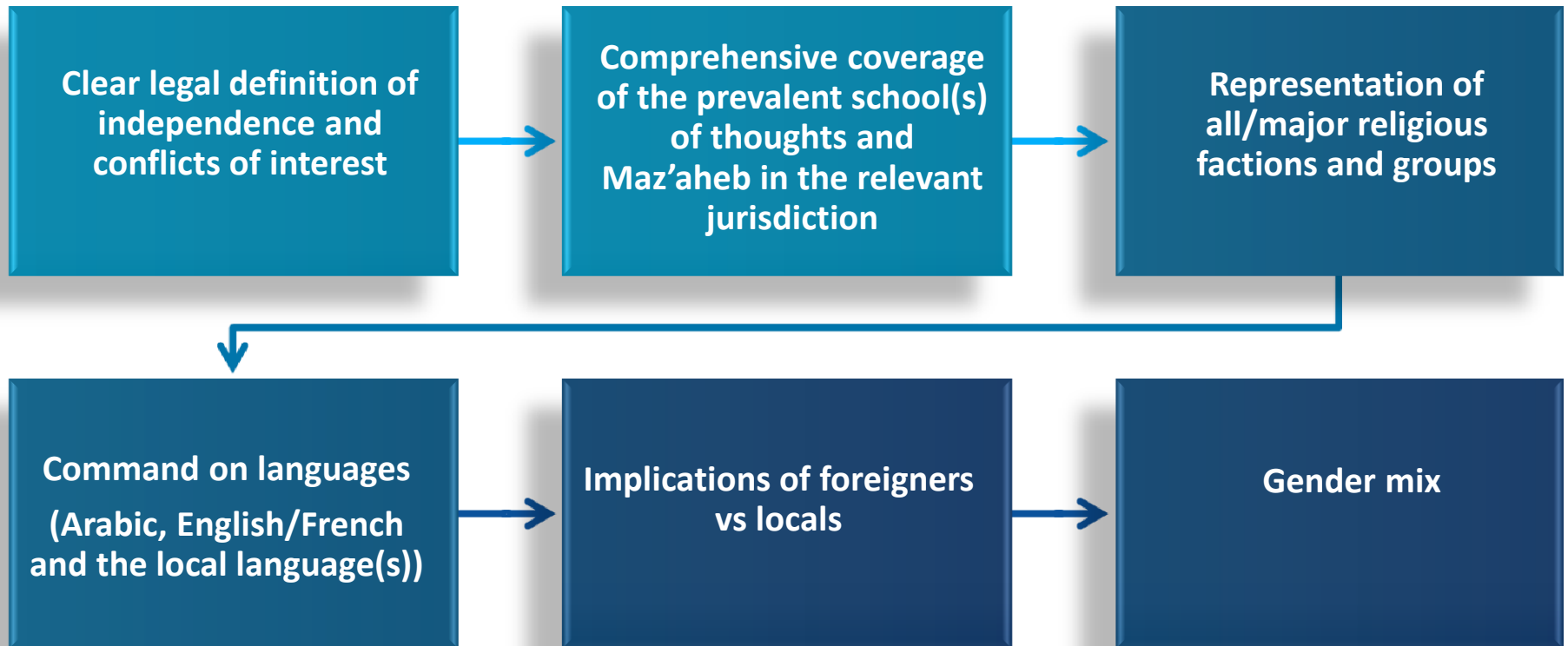
**Controversies in Shariah governance and regulators' concerns about the emergence of Shariah non-compliance as a systematic risk**

**Impairment of the growth of Islamic finance due to the instability caused by these issues in some countries**



**Emergence of a macro-level Shariah governance framework that is overseen by a CSB**

# FIT AND PROPER CRITERIA – BEHIND THE LINES



- Religious qualifications and practical experience
- Awareness in financial instruments and operations

# MANDATE OF THE CSB

## Consistency

Developing national Shariah regulations to create consistency in the products and services offered by IFIs

## Mitigation

Mitigation of conflicts of interest of the institutional governance model

## Supervision

Supervise and oversee the activities of the Islamic finance industry on a macro-level

## Advisory

Providing Shariah consultation to the regulators and relevant authorities on sovereign Islamic finance initiatives

## Disputes

Resolving Shariah disputes and acting as the ultimate arbitrator in Shariah interpretation with relation to Islamic finance

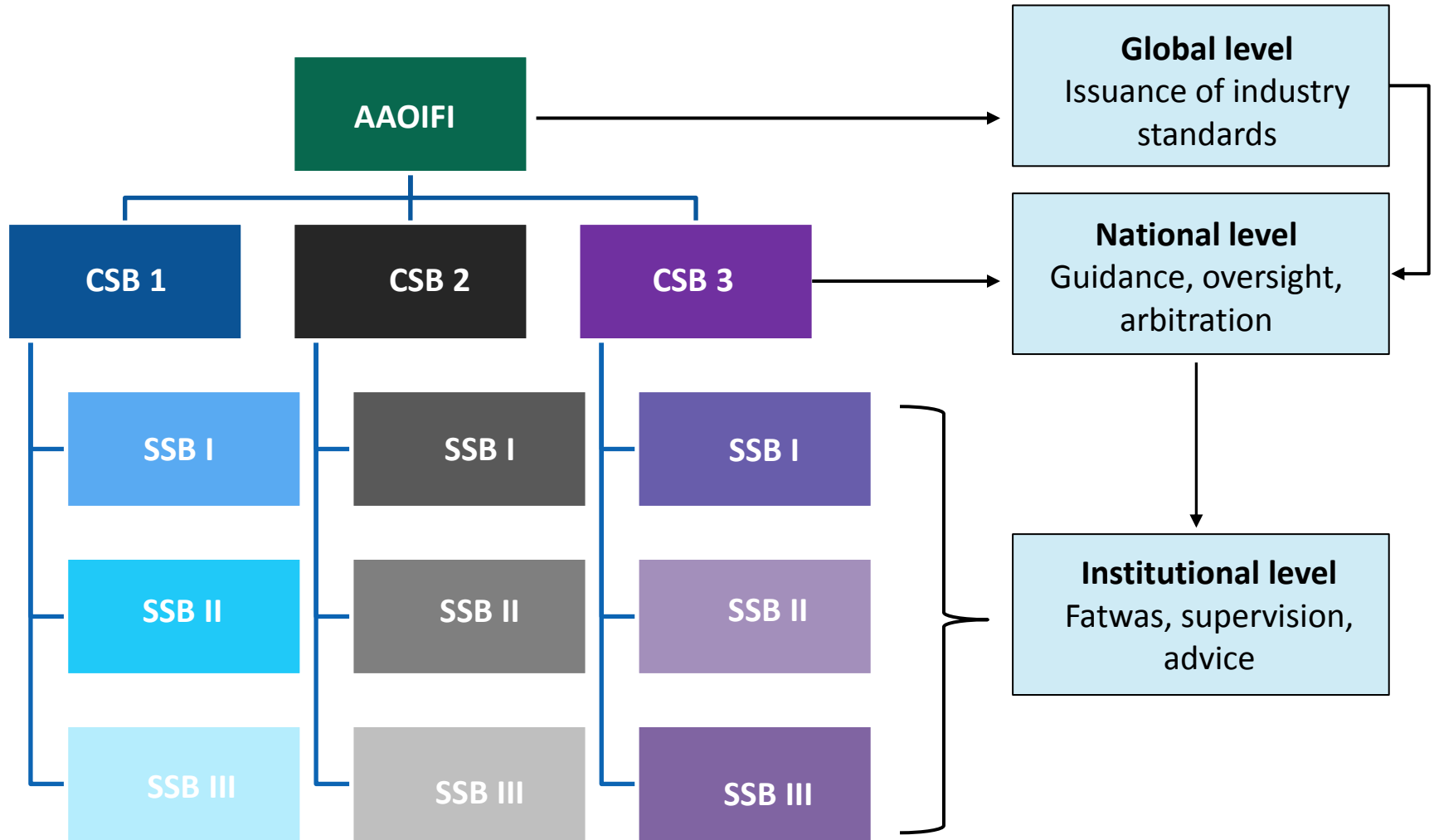
## Innovation

Play a thought-leadership role in research and innovation (e.g. product development and Shariah compliance assurance)

Launching public awareness campaigns and sensitization programmes

Improving the credibility of the industry and boosting confidence in the offerings of the IFIs

# INDUSTRY SHARIAH GOVERNANCE MODEL



Sound governance = stronger industry, sustainable growth, achieving the objectives of Shariah





# **CSB ACROSS THE GLOBE**

## **IFAAS EXPERIENCES**

# CSB – IFAAS SELECTED EXPERIENCES

## INDONESIA



- Established Islamic finance industry
- Majority Muslim country

## KENYA



- Emerging Islamic finance industry
- Majority Christian country

## UEMOA



- Single zone of 8 countries, mainly new entrants to the Islamic finance industry
- Political and religious dynamics are complicated



## INDONESIA - IFAAS

# NATIONAL SHARIAH BOARD OF INDONESIA – CASE STUDY

- The National Shariah Board or Diwan Syariah Nasional (“DSN-MUI”) is the **supreme authority** in the country to oversee Shariah compliance, approve Islamic financial products and provide guidance, opinions and Fatwas related to Islamic finance matters
- DSN-MUI is **completely independent** of all government entities and part of the Indonesian Council of Scholars (Majlis Ulama Indonesia)
- The DSN-MUI consists of **35 scholars** from **different regions** of the country representing different religious groups in Indonesia
- The DSN-MUI has played an **instrumental role** in the development and growth of the Islamic financial industry in Indonesia. It has maintained its independent character within a unique model of Shariah governance. However, the current structure has caused challenges for the market hence there is a need to redefine DSN-MUI’s role and enhance the overall framework of Shariah governance in the country
- The **Islamic Finance Masterplan**, recently launched by the **Indonesian government**, and prepared by **IFAAS**, includes a comprehensive set of recommendations in relation to DSN-MUI that are very relevant to the context of CSBs across the world



# KEY RECOMMENDATIONS – SHARIAH GOVERNANCE 1/2

Issue the general frameworks and guidelines instead of product approvals

Number of scholars to be reduced to 7 for a term of 3 years with maximum 2 terms

Scholars not able to sit simultaneously on DSN-MUI and any institutional SSBs

Aggregate number of appointments (SSB, academic, pastoral etc) limited

DSN-MUI to be subject to SLAs with Indonesian regulators

Government allocation of annual budget for DSN-MUI (no other funding allowed)

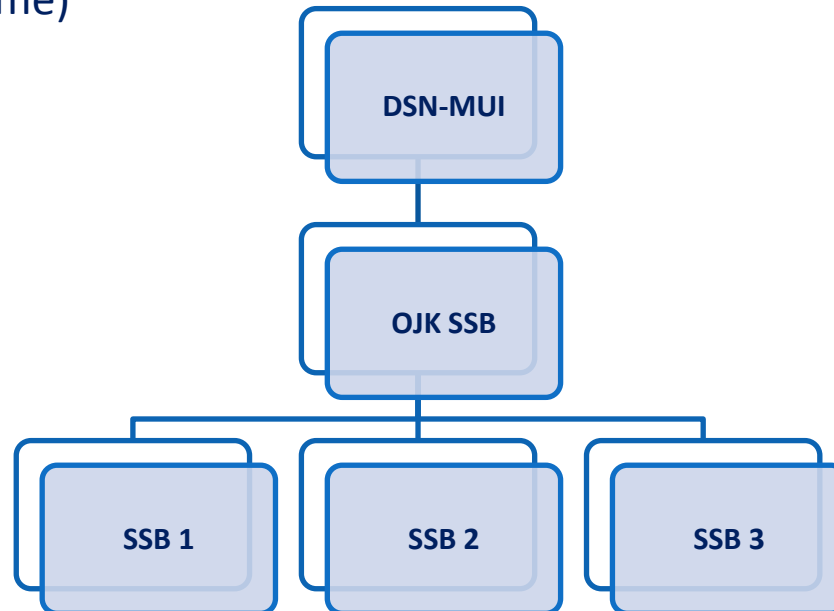
DSN-MUI plays a thought-leadership role in research and innovation

Introduce a Fit & Proper criteria for all scholars at all levels including CPD requirements

Enhancing internal audit and introducing external Shariah audit

# KEY RECOMMENDATIONS – SHARIAH GOVERNANCE 2/2

- Instate a **Shariah Supervisory Board** (“SSB”) in the Indonesian financial services authority or Otoritas Jasa Keuangan (“OJK”) that should be independent and work in accordance with the frameworks and guidelines set out by DSN-MUI
- OJK SSB should be responsible for all **product approvals and provide guidance** to the institutional Shariah boards
- OJK SSB should **seek guidance from the DSN-MUI** in case of any issue related to Shariah
- The number of scholars on OJK SSB should not exceed **5 with a term in the office for 3 years renewable once only** (not to be members of the DSN-MUI and any institutional SSBs at the same time)



# OBJECTIVES OF THE RECOMMENDATIONS

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- **Enhancing the national Shariah governance framework to support the expected rapid growth** in the Islamic financial industry in accordance with the Masterplan
- Increasing levels of **transparency, efficiency, accountability and professionalism** in relation to Shariah compliance
- **Creating synergies by eliminating conflicts of interests, streamlining the processes, segregation of duties** between scholars at different levels
- **Providing more freedom** to the DSN-MUI, more **productive environment** and **equal opportunities** to scholars
- Building a much **stronger base** and **future pipeline** of highly professional and skilled scholars, ready to take the new challenges of product innovation and sustaining the growth in the industry
- **Reinforcing the regulatory framework** for effective implementation of all new measures



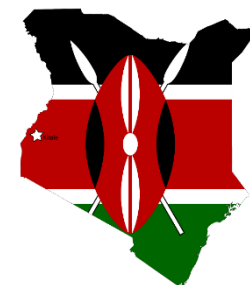


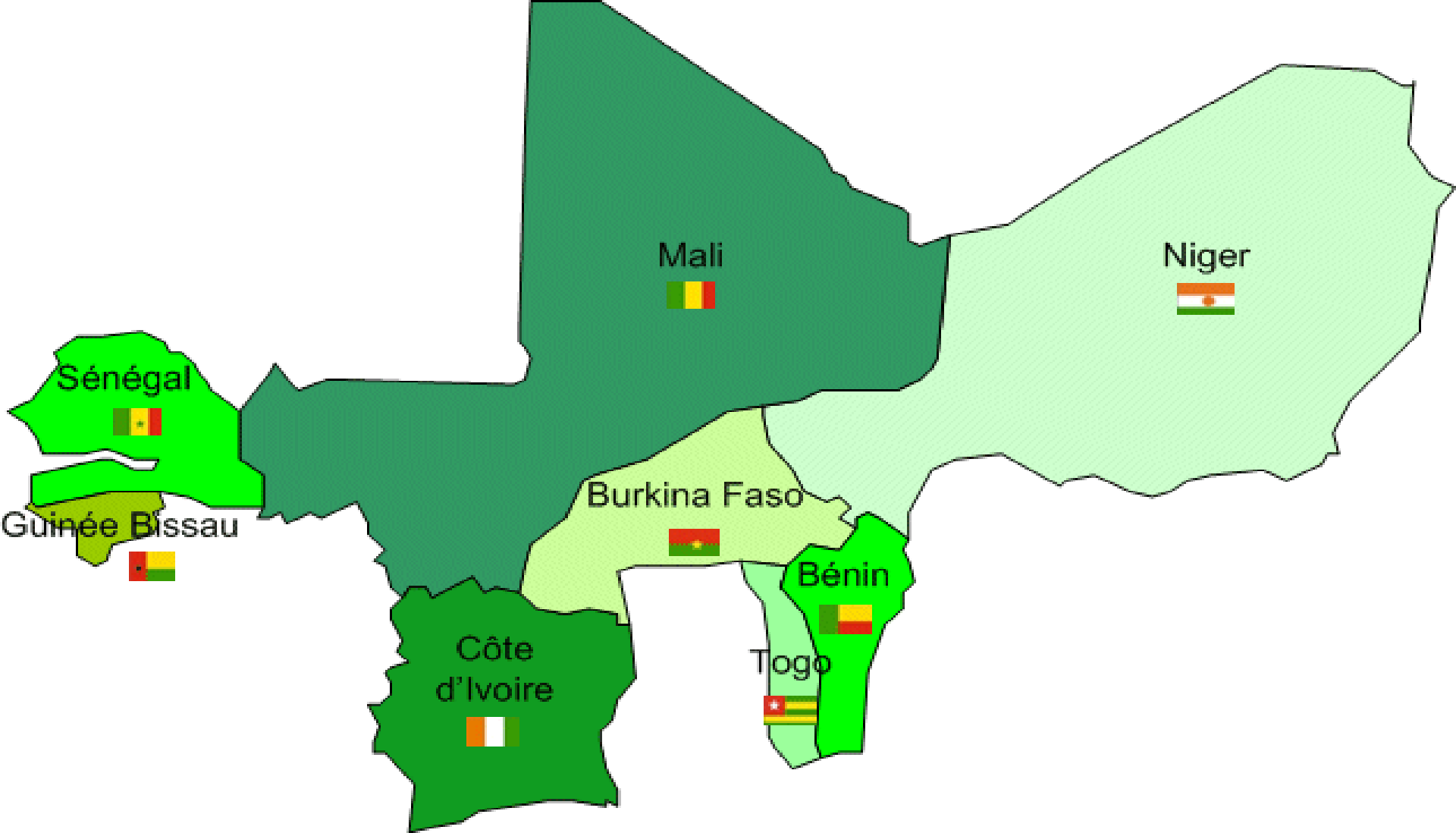
## **KENYA - IFAAS**



## **NATIONAL SHARIAH SUPERVISORY BOARD OF KENYA – CASE STUDY**

- Kenya has ambitions of becoming the **Islamic finance hub of East Africa** and hence the Kenyan government is keen to create the enabling environment
- To this end, IFAAS was commissioned earlier this year to set up the **Project Management Office (“PMO”)** for Islamic finance in Kenya
- **Islamic finance in Kenya**
  - A decade of track record in the Kenyan market
  - Around 10 financial institutions offering Islamic products (mainly banks and one Takaful provider)
  - No adequate infrastructure for the industry (regulations, supervisory frameworks, tax exemptions etc.)
- Assessing the **feasibility and viability of introducing** a CSB in Kenya
- Our **recommendations** in relation to the Shariah governance model of Kenya:
  - A National Shariah Governance Framework (“NSGF”) overseen by a National Shariah Supervisory Board (“NSSB”) is recommended for Kenya for a number of reasons including the legacy of difference of opinions in the market and open criticism between different SSBs with no available central mechanism for resolving Islamic finance disputes





# UEMOA - IFAAS

# CENTRAL SHARIAH BOARD OF UEMOA – CASE STUDY

- Union Economique et Monétaire Ouest Africaine (“**UEMOA**”) or the **West African Economic and Monetary Union**
- UEMOA has **8 member countries** including Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo
- UEMOA has established a **common legal and regulatory framework** for a regional banking system with one central bank (“**BCEAO**”) based in Dakar
- Islamic finance in UEMOA exists for 3 decades but growing fast more recently
- Assessing the **feasibility and viability** of introducing a CSB in BCEAO
- Our **recommendations** in relation to the Shariah governance model of UEMOA:
  - A centralised Shariah governance model overseen by a CSB was not feasible due to various complexities (e.g. some countries predominantly Muslim while others are not, constitutionally all states are secular, different languages, ethnic tensions, political sensitivities, religious fabric diversity including fraternities, language barriers, lack of scholars, absence of Shariah financial expertise etc.)
  - Alternatively, BCEAO to have access to an external Shariah advisory body to consult when required to resolve any Shariah related matters



# CONCLUSION – CSB ACROSS THE GLOBE

- Compare and contrast the Shariah governance models of Indonesia, UEMOA and Kenya
- Developed Islamic finance markets vs emerging Islamic finance markets
- International standards and best practices vs local requirements and context
- **One size fits all?**





# **CHALLENGES IN INTRODUCING THE CSB**

# CHALLENGES IN INTRODUCING THE CSB

Identifying qualified scholars with adequate levels of independence



Authority and legitimacy



Misunderstanding about “Islamisation” of the country



Managing expectations of different stakeholders

Accommodating the requirements of the local religious fabric and demographics



# Q&A

# THANK YOU!

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