

## INTERVIEW: Dr Mohd Daud Bakar, recipient of The Royal Award for Islamic Finance 2022

In this exclusive interview with IFN, world-renowned scholar Dr Mohd Daud Bakar, the recipient of The Royal Award for Islamic Finance 2022, shares his two cents about the Islamic finance industry, including its organic growth, opportunities, areas to grow and how he thinks certain recent developments have been “too strict and too literalist”.

**Congratulations on being conferred The Royal Award for Islamic Finance. What does the award mean to you?**

I believe that the Royal Award for Islamic Finance 2022 is highly devoted to Islamic finance thought leadership. It reflects the recognition by the industry of the contribution by Shariah scholars and experts in the past few decades, considering that I am part of this fraternity. As for me personally, this prestigious award will definitely inspire me to venture into new areas that I have not been involved in yet which are equally essential and critical to push the Islamic finance industry to the next level, especially in the area of impact measurement and social return.

**Can you share with us your journey into Islamic finance and what has been your inspiration?**

I started my journey as a naive and reluctant Shariah advisor not knowing what to expect and not that keen to pursue this line of professional career. I was reluctantly persuaded to write a new course outline on Islamic finance back in 1994 of which I had no knowledge. However, upon preparing the course outline and teaching the course for one semester, I began to appreciate the subject matter. The young industry of Islamic banking in Malaysia was looking for talents among Shariah-trained scholars. I was then invited to join Shariah committees of many banks in Malaysia so much so at one point of time, I realized that I was advising most of the financial institutions in Malaysia. I have learned more than I have contributed. The Islamic finance practitioners were my mentors. Fast forward, I was given the opportunity to be connected to the global market upon joining AAOIFI and DJIM [Dow Jones Islamic Market Index] Shariah boards respectively.



In 2005, I set up my own Shariah advisory firm, namely Amanie Advisors. I reckon this is the first Shariah firm to be incorporated by a scholar. The company has spread its wings into many cities of the world striving to bring Islamic finance to both developing and emerging markets. As of today, I am the chairman of the Shariah Advisory Councils of Bank Negara Malaysia and Securities Commission Malaysia as well as the Shariah advisory committees of Permodalan Nasional (Malaysia); First Abu Dhabi Bank; Salama Insurance (Dubai); National Bank of Fujairah (UAE); Astana Islamic Financial Centre, Kazakhstan; and Madina Takaful of Oman. I am also serving a few other Islamic financial institutions globally as a member of their Shariah committee.

**As an experienced industry leader, how do you think the Islamic finance industry has evolved over the years? Looking ahead, what are some of the most important developments unfolding or themes emerging?**

From my humble opinion and observation, Islamic finance has evolved organically in the last five decades. The policies and best practices have moved in tandem with product development. Many jurisdictions — new and old — have embarked on putting the proper policies and parameters to govern both the compliance and governance aspects

of the Islamic finance industry. Thus, this has strengthened some areas that need proper control and oversight. This is crucial to avoid any unexpected reputational risk and market rejection.

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Nevertheless, I have a feeling and intuition that some of the newest developments and requirements in the industry — at a global stage — have been too strict and too literalist so much so that Islamic finance might face many hurdles and contraction. I would like to believe that the adoption of a balanced and proportionate Shariah requirement may be warranted. I have to admit that this is a very delicate issue, but the future of Islamic finance also hinges on this new mindset. I am confident that the stakeholders of contemporary Islamic finance can appreciate the matter holistically and coherently and resolve the issue the soonest possible.

**Were there any, in your opinion, watershed moments for the Islamic finance industry? How were they significant?**

There are many watershed moments in Islamic finance. While some of them are well documented and articulated, some are kept in the dungeon. The introduction of AAOIFI Shariah Standard No 59 has posed new challenges to manage the restructuring of the Islamic debt or obligation, more so in the aftermath of the COVID-19 pandemic. This matter has received a lot of attention from the industry and still is.

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Another interesting moment is the synergy between Islamic finance and SDGs in real product offerings. The global community seems to push for SDGs at all levels while Islamic finance — broadly speaking — is still struggling to position itself, its narrative and product offerings in light of the SDGs. The response to the SDG expectation varies from one bank to another or rather from one jurisdiction to another.

Of course, we can't discount the rush of fintech and smart technology as well as the digital assets trying to dominate the financial world. I don't think that the Islamic finance fraternity is pessimistic about this new and most-impactful

technology — that can help reduce the cost to income ratio and to increase the level of transparency and traceability — but they may be slow in responding to all these powerful tools, algorithm and smart learning machines, as well as new assets in the form of digital assets backed by blockchain technology.

**To you, what are the key opportunities that the industry must explore in order to grow the industry in a meaningful way? What does it take for the industry to do this?**

I would personally vouch for two important strategies. First is to leverage on the wonders of smart technology, and second, to advocate for a synergetic working relationship with international agencies and institutions of the world. I am a strong believer of the first approach as I have been indulged in this industry for more than five years and I have seen how these tools can transform almost everything in life exponentially. The quicker we adopt and embrace this super-computing tool and analytics, the better we control the compliance, efficiency and visibility, not to mention trust and confidence of the public.

Quoting an example of a win-win strategy, I once established it with the World Gold Council, working closely to bring them to the Islamic finance gravity center. I have mediated them with AAOIFI to work together to produce the first-ever Shariah Standard on Gold. It was quick, speedy and cost-effective. Now, the Shariah Standard on Gold has been the point of reference of the world community relating to gold transactions. Surely, there are many other potential candidates or stakeholders that we need to work with. If we hope that they will come to our backyard, they won't. It is up to the Islamic finance fraternity to befriend them.

**Of all your achievements in Islamic finance, which one are you most proud of and why?**

There are a few achievements that I am always proud of. The work with the World Gold Council together with AAOIFI is one of them. Working diligently in Kabul, Afghanistan for one full year to develop the required SOPs [standard operating procedures] for the introduction of Islamic banking is another one. But the most exciting one was the publication of my first book, 'Shariah Minds in Islamic Finance: An

Inside Story of a Shariah Scholar', in 2016. The book has literally transformed me from being a Shariah practitioner to becoming a Shariah thinker. The book has pushed me to take a new role in my life, that is to think for the industry. Since 2016, I have been speaking and writing — no longer on Shariah pronouncements and Fatwas as I used to do — but on the policies and strategies, as well as on wrong or out-of-context Shariah mindsets in navigating modern and contemporary Islamic finance.

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**What is your hope for the Islamic finance industry?**

My ardent hope is that Islamic finance can anticipate the future and challenges moving forward. Taking one step or one decision at one point in time will not make Islamic finance relevant, impactful and relatable. Islamic finance must free itself from a contractual mindset and shift toward a financial mindset. Islamic finance is no longer about a few contracts to govern the whole industry. It is always — at least from my personal lens — about a system or ecosystem to govern the mobilization of funds systematically, holistically and efficiently to benefit both the surplus and deficit units in society while conforming to Shariah guidance. To Allah the Almighty, we seek help and strength, as well as courage. (🙏)