

ISLAMIC BANKING AND INSURANCE

Proceedings and Papers of
International Seminar held
in Dhaka, Bangladesh on

October 27, 1989



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ISLAMIC BANKING AND INSURANCE

**Proceedings and Papers of
International Seminar
Held in Dhaka, Bangladesh
On October 27, 1989**

BOARD OF EDITORS

**Mohammad Sharif Hussain
M. Azizul Huq
Mohammad Nurul Islam**

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**In the Name of Allah
The Beneficent, The Merciful**

Those who swallow Riba (Usury) cannot rise up save as he ariseth whom the devil hath prostrated by (his) touch. That is because they say: Trade is just like usury; Whereas,

Allah permitteth trading and forbideth usury.

He unto whom an admonition from his Lord cometh, and (he) refraineth (in obedience thereto),

He shall keep (the profits of) that which is past, And his affair henceforth is with Allah.

As for him who returneth (to Riba) such are rightful owners of fire. They will abide therein.

(Al-Quran 2 : 275)

Allah hath blighteth Riba and made Sadaqat fruitful; Allah loveth not the impious and guilty.

(Al-Quran 2 : 276)

"O, ye who believe, observe duty to Allah, and give up what remaineth (due to you) from usury, if ye are (in truth) believers.

(Al-Quran 2 : 278)

And if ye do not, then be warned of war (against you) from Allah and His Messenger. And if ye repent, then ye have your principal (without interest). Wrong not, and ye shall not be wronged."

(Al-Quran 2 : 279)

Editorial Note

Banking in the modern world has adopted many innovations but the most recent and the most remarkable innovation has been the system of Islamic Banking. The principles underlying the Islamic System of Banking, no doubt, date back to the days of Prophet Muhammad (sm) himself but in its modern form it appeared as late as in the sixties. Starting from an humble beginning in rural Egypt in the mid sixties, it has spread over three continents including some important metropolis during less than three decades. Three countries, namely, Pakistan, Iran and Sudan have officially committed to adopt it on an economy-wide scale. In addition to the micro Islamic Banks at the national level, Islamic Development Bank has been established as an inter-governmental Bank of the OIC level. At the international level two private sector umbrella organisations, namely DMI and Al-Baraka are planning to promote Islamic Banking around the world.

Bangladesh officially joined the Islamic Financial System as early as in 1975 as a Founder Member of IDB. Within the country, the Islamic System of Banking was first introduced in 1983 with the establishment of Islami Bank Bangladesh Limited (IBBL). Since its inception, IBBL has maintained close solidarity with the International Movement for Islamic Banking. In 1985 as a member of the International Association of Islamic Banks, IBBL hosted the 18th Conference of IAIB which was preceded by a 2-day lively international seminar on Islamic Banking. It was in line with this tradition that IBBL also hosted the 27th Conference of IAIB which was preceded by another Seminar on Islamic Banking and Insurance.

With the rapid spread of Islamic Banking in different socio-political and economic environment, the vital role of appropriate manpower was realized, the highly supporting role of Islamic Insurance was also appreciated. In the Seminar it was forcefully argued that Islamic Banks need a completely new breed of Bankers, having a non-conventional type of knowledge, skill, orientation and commitment. Since such types of Bankers are not generally and sufficiently produced by the existing System of education and training, the Seminar came out with a proposal for establishment of a Regional Institute for Training and Research in Islamic Banking to be located in Bangladesh.

The highly supporting role of Islamic Insurance was also appreciated and the Seminar voiced the urgent need for establishment of Islamic Insurance everywhere particularly in places where Islamic Banks are in operation.

If viewed from a broad perspective, we can comfortably assert that Islamic Banking has been consolidating its position everywhere. The multi dimensional discussions of the Seminar will help us furthering and consolidating the movement.

May Allah give us tawfiq to work on them ! Ameen !

PART: I

CHAPTER ONE

A. Key-Note Paper

**Islamic Banking Around the World
: Nabil Nassief**

B. Discussants' Views

**Dr. M. A. Hamid
A. S. M. Fakhru'l Ahsan**

C. Chairman's Round-up

S. B. Chaudhuri

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ISLAMIC BANKING AROUND THE WORLD

Nabil Nassief

1. INTRODUCTION

In order to provide a general background to the topic of this Paper, it is desirable to give a broad introduction consisting of factors which gave rise to renewed interest in Islamic Economic principles, understanding of these principles, emergence of Islamic Financial Institutions and broad difference between the ultimate objective of Islamic System and conventional western financial approach.

1.1 Renewed Interest in Islamic Finance

Interest in the development of Islamic banking in the past couple of decades coincided with the Islamic revival that has taken place in the recent past. These efforts to apply Islamic Shari'a principles to essentially avoid "riba" in financial transactions started in the Muslim world with greater interest in Islamic way of life. Once there was a categorical declaration that the bank interest is also "riba". Devout Muslims were extremely reluctant to participate in the banking system which is founded on forbidden grounds.

The revival and self awareness of Islamic Umma during the last two decades is mainly attributed to the following reasons :

- i) Muslim populations have been discovering their distinct identity and values after gaining freedom from colonial regimes.
- ii) Unprecedented boost in the oil-related income of many Muslim Arab nations giving them economic recognition and strength to play an active role in the world financial affairs.
- iii) Dissatisfaction of Muslims with the materialistic ideologies of Capitalism and Communism. An outcome of this revival is the emergence of a new practical discipline in the form of Islamic Economics.

1.2 Basis of Islamic Economic System

Islamic Economic System is based on equitable treatment of assets. Islamic Shari'a prevents injustice in the acquisition and disposal of material

resources and requires full utilisation of these resources in order to allow satisfaction of worldly needs of human beings in the optimal manners; thus, avoiding wastage and enabling human beings to perform their obligations to Allah and the Society.

Thus, under the Islamic Financial System though dealing in materials is the apparent basis of any transaction, betterment of overall society, relationship among society members and between the members and Allah is the ultimate objective. This order is opposed to the modern economic system which being based entirely on material consideration has become a mathematical model having no regard to individual human beings.

Islamic economic model has got the following broad features :

- i) Fairness and just treatment of other's property,
- ii) Earning of profit by using fair means,
- iii) Disclosure of all relevant information pertaining to a transaction, and
- iv) Respect for free enterprise and private ownership.

1.3 Basis of Islamic Financial System

The banking system within the Islamic discipline lays emphasis on, but not confines itself only to, the elimination of fixed pre-determined rate of interest. It allows for the replacement of interest by return obtained from investment activities and operations that actually generate extra wealth. Money is not considered capital or even representative capital; rather it is deemed as 'potential' capital which can bring return only when it obtains real increment through investment. Accordingly under Islamic banking, all banking activities are necessarily related to movement of or investment in goods, equipments, projects and other tangible business activities, etc., as opposed to conventional banking where interest is considered to be the return on money irrespective of the utilisation and generation of any effective and real growth of capital through investment.

Islamic Shari'a, provides rules that cover the allocation of resources, property rights, production, consumption, the functions and working of markets and distribution of income and wealth. It also defines, in broader terms, the framework of monetary and banking systems. Since these were not implemented in their entirety for a considerable duration in the past, it is not possible to subject the system to any analytical examination. We are, thus, still in the developmental stage as far as implementation of Islamic Financial System is concerned.

1.4 Reasons for Non-Implementation in the Past

One comes across references made by many as to the failure of Islamic Economic System to respond to changes. The example of the Muslim

countries is generally cited that they are lagging far behind the advanced nations in industrialisation and technology. It is also pointed out that as against the industrial revolution that transformed North America, Europe and Far East in this century, nothing comparable happened in the Muslim countries. To western observers, the Ottomans seemed incapable of pursuing the economic policies needed to promote industrialisation while the efforts of the reformers such as Mohamed Ali of Egypt to this end did not meet with any success—all attributed to the inadequacies of the system.

Although it is true that the Muslim countries have actually failed in the past few centuries to keep pace with industrialisation and technological advancement of the developed non-Muslim nations, it will not be justified to relate it to the failure of the Islamic System itself for the following reasons :

- i) The Islamic System was never implemented except for a short period in the very early stage of Islam when Muslims actually obtained unprecedented political, economic and geographical expansion.
- ii) The flexibility permitted by Islam through 'Ijtihad' that provides scopes to the system to solve the emerging problems and stand up to challenges of the changing time, was not fully utilized. Ijtihad is one of the main features that has made Islam most modern and progressive.
- iii) It was political failure of the Muslims in the past that most of their people were subjugated to colonial or other inimical regimes, under the yoke of which their development, on all counts, were suppressed.

2. DEVELOPMENT OF ISLAMIC FINANCIAL INSTITUTIONS

The history of Islamic Banking is very recent. There has always been a desire to establish financial institutions to operate as per the tenets of Islamic Shari'a. The first attempt in this regard was made in Pakistan during 1950's as a pilot scheme, but unfortunately it did not succeed. It was followed by a more successful venture in the form of a local bank in Egypt (Myt Gamt Savings Bank, July, 1963). Subsequently, Islamic Banking Movement gathered steady progress and assumed significant size and role with the establishment of the Nasser Social Bank (1972), Dubai Islamic Bank (1975), Islamic Development Bank, Jeddah (1975), Faisal Islamic Bank in Egypt and Sudan (1977). Emergence of the Islamic Development Bank with a view to involving all the Islamic countries in the creation of Islamic financial sector was considered as a milestone in the history of Islamic Banking. Today, by the grace of Allah, it is estimated that Islamic financial institutions either operating or in the process of establishment number about 100.

3. DIFFERENCE OF APPROACH

Banking institutions perform the function of intermediaries in putting together suppliers of investible capital with those who are in need of such capital. Islamic Banks also perform this function by acting as financial intermediaries and administrators of payments and transfer system of the economy. While the conventional banks exploit the market imperfections (surplus, deficits, information, transaction costs, search and acquisition, financial claims, etc.) solely to obtain maximum results for the benefit of their shareholders. Islamic Banks maintain a greater balance between the interests of the investors, depositors and the shareholders without discriminating against and causing any adverse effects on any section of the society.

Under conventional financial system it is argued that interest rate mechanism is used to allocate resources to most deserving projects. This statement may appear to have some merits when considered from theoretical point of view. However, when we see the application of this theoretical concept from practical point of view, we notice that actually prefixed interest rates do not necessarily work in allocation of capital to most deserving projects but actually channel funds to suboptimal projects. Funds should be channelled to projects which offer the highest return/reward ratio. However, in practice, everything else being equal, lenders give very high regard to credit-worthiness of the borrower and the project becomes a secondary consideration. Lender's bias favours the project for which the borrower enjoys better credit standing even though returns for such project may be lower to some other project which for the same or more risk consideration may offer better return. Thus, the conventional system based on fixed interest return does not necessarily allocate resources in the optimal way to projects based on their viability and return.

Another material difference lies in the approach of the Islamic and conventional bankers. An Islamic banker is more closely attuned to the needs of its customers and the society as a whole than his conventional counterpart. Islamic banker is more than an entrepreneur in that he implements the system which supports enterprise in order to obtain creation of new wealth which may be shared by the investors whereas his counterpart in the conventional banking is more concerned to base his judgement revolving improvement of the net-work of the institution and hence the shareholders. The main concern for an Islamic banker is the product itself, management knowledge and expertise applied in production or management of such product and the optimal productivity levels rather than the net-work of the user of funds himself. The system, therefore,

provides a much better distribution of wealth to larger numbers rather than accumulation of wealth in a few hands.

4. OBJECTIVE OF ISLAMIC BANKING IN THE MODERN AGE

While Islamic financial institutions are commercial entities working to generate profits, the above discussion should have made it clear that such profit generation is subjected to the beneficial contribution to the society by creation of further economic wealth. In hard terms, the objectives of Islamic Banking may be outlined as below:

- (i) to offer contemporary financial services in conformity with Shari'a ;
- (ii) to contribute towards economic development and prosperity within the principles of Islamic justice ;
- (iii) to undertake financial activities which are ethical, socially desirable and profitable; and
- (iv) to serve Ummat Al Islam and other nations having Muslim Population.

5. COMPLIANCE OF SHARI'A

Islam permits a wide freedom of contracts so far these do not violate Shari'a. In order to maintain such adherence to Shari'a Islamic Banks, in general, retain Shari'a Supervisory Bodies whose prior approval is invariably obtained for all contracts and operations of the banks. These Bodies also acts as Shari'a Auditors and maintain a continuous check and monitoring through periodic review of the banks' operations in order to ensure that strict compliance of the approved procedures and documentations is observed throughout and that no violation of the codes takes place.

The Body after being satisfied about the compliance of the Shari'a requirements, provides a certificate, to that effect which is appended in the bank's Annual Report side by side with the Report of the bank's statutory auditors. Normally the Body meets several times each year to review business operation of the bank and to approve various procedures and documentation relating to the bank's new products and operations.

6. REVIEW OF PERFORMANCES OF ISLAMIC BANKS

6.1 Arabian Gulf Countries

Despite economic recession in the region persisting for the past few years, Islamic Banks obtained a substained growth throughout this period without exception. These Banks have not only established and maintained prudent policies but also developed in house systems fully supporting their wide range of Islamic Banking operations. All the Islamic Banks engaged in domestic banking in Bahrain, the U.A.E, Kuwait, Qatar and Saudi Arabia have done far better than the conventional banks during this period. One

reason for such an excellent performance is that these Islamic Banks have been mostly engaged in trade financing, hire purchase and other activities which by very virtue of their policies have kept them away from general purpose financing.

On the international banking front, banks, such as Faisal Islamic Bank of Bahrain and Al Baraka Group's subsidiaries such as Al Tawfeek and Al Amin, have been working on developing Islamic products from international marketing point of view. These institutions have remained deeply involved in the development of new and innovative services in conformity with Islamic Shari'a as well as geographic expansion, optimal utilisation of resources and development of manpower. This is being achieved by establishing an international network.

6.2 Western World

A number of entities working on Islamic principles have been established by prominent groups in the West which have created considerable interest in the Islamic financial activities. Viewing the attraction of this sector and its appeal to Muslims, a number of leading conventional financial institutions have started to offer Islamic products such as equity pool, trade pools, etc. These conventional institutions which are involved in offering Islamic products include Union Bank of Switzerland, Klienworth Benson, Saudi International Bank, etc.

One of the difficulties faced by Islamic Banks willing to work in the West is that Central Banks in these countries require banks to guarantee their depositors the principal and return on their investments. Under Islamic Banking, the bank is not in a position to take deposits on a predetermined guaranteed return basis. In fact the bank takes the money from its customers under a discretionary management arrangement and passes on any profit and loss generated by investing these funds in Islamically acceptable investments to the customers after charging its own management fees. This is akin to a mutual fund structure. However, in conventional banking system, deposits made by customers are considered direct obligations of the bank and become part of their liability.

Whatever the result of using these deposits by the bank in its activities, the bank is obliged to pay the promised return to the depositors. Due to this distinct difference in operations, Central Banks in the western financial centres of the world do not categorise Islamic Banks under "bank category" in conventional sense. However, if Islamic Banks, under the Islamic concept of "Amanah" guarantee the deposit (without the promise of any profit) then it may be considered direct obligation of Islamic Banks. Some of the Islamic Banks operating in the western financial system seem to have used this concept to get a banking licence.

The equity based Islamic system of rewarding the saver on the basis of profit and loss sharing can still be operated in the western countries under investment licence.

Other obstacles faced by Islamic Banks in the conventional banking environment stem from the Central Banks' practice of using interest rate mechanism to control credit expansion policies and undertaking of "open market operations". Central Banks in these countries will be reluctant to grant banking status to such institutions which may have impact on monetary expansion policies without being under the control of the Central Banks in this regard as they do not charge interest on their outlay of capital in the economy. This, however, is a more theoretical consideration at present, considering the overall size of Islamic Banking vis-a-vis conventional banking in these countries.

Most of the other requirements such as information-returns, liquidity ratio, capital adequacy ratio, etc. can easily be met by Islamic Banks operating in the conventional financial environment.

6.3 Asian Countries

Pakistan and Iran are the only countries which have tried to bring the banking system in the country in line with Islamic Shari'a. This exercise has attracted a considerable interest from all over the world to see the future of the system and its practical application to cover the entire economy of a country. Initially it required a considerable work to be undertaken to establish the new system, develop new product, familiarise the staff and customers with new financing modes and investment means. Once these aspects, had been covered the system is now working well. In Pakistan branches of foreign banks have to adjust themselves with the system in such a way that their consolidation of business with their Head Offices may be carried out smoothly.

In Bangladesh, the establishment of Islami Bank Bangladesh Ltd. and Al-Baraka Bank Bangladesh Ltd. has created precedence for more Islamic institutions to play a constructive role in the economy of the country. There are other financial institutions in South East Asia. These institutions are reported to have been playing an important role in their economies.

6.4 African Countries

In Egypt and Sudan, the movement of Islamic Banking became deep rooted in the last fifteen years. In Sudan, Faisal Islamic Bank of Sudan achieved a position of prominence by becoming the biggest bank in the country. There are other Islamic Banks which brought the financial system in the line of Shari'a. However, due to political changes and split in the approach in the country, the movement has slowed down. In Egypt, the collapse of a

number of so called Islamic investment companies, all of which emerged to attract investments from Islamic investors created a temporary setback for bonafide institutions earlier this year. Faisal Islamic Bank of Egypt experienced a run due to confusion of its name with another Islamic financial institution which suffered due to its business policy approach. FIB, Egypt met all demands from its depositors for withdrawal even though most of these were premature. This subsequently reinforced its image and standing in the financial community with the investors.

Other financial institutions in places like Senegal, Guinea, etc. are faring well in line with the economy of these countries.

7. PROBLEMS CONFRONTING ISLAMIC BANKS

The Islamic Banks have and continue to face considerable problems in their operations and other matters related to their relations with other banks and institutions ranging from managerial, financial, regulatory to legal extent, such as :

- (a) shortage of professionals conversant with Islamic Banking;
- (b) total lack of familiarity by international financial and non-financial sector with Islamic products;
- (c) severe competition in the financial sector;
- (d) economic slow down and political situation in some of the countries;
- (e) inadequate track record of Islamic Banking itself in particular and Islamic Banks in general;
- (f) lack of a professional image in the market;
- (g) absence of infrastructure for Islamic trade financing on international basis;
- (h) an offshore banking unit status of some of the major Islamic institutions without prospects of doing business in the home market;
- (i) non-acceptance by national laws of many countries of the provisions of Shari'a; and
- (j) relatively under-developed corporate sector and capital market in Islamic countries.

8. DEVELOPMENT OF ISLAMIC PRODUCTS

8.1 Introduction

With the background of previous sections it is more appropriate to consider characteristics and development of Islamic financing and investment

products of the use of Islamic financial institutions. This is considered from international point of view rather than within a closed Islamic Economy. This wider cross-border approach is considered more relevant in the present general investment environment prevailing in the world where globalisation and internationalisation of financial services have become very popular.

8.2 Establishment of Track Record

Islamic Banks and Investment Companies which have been active in channelling investments of devout Muslims who are eager to avoid riba-related products have been striving to develop products which not only be free from interest element but also should offer high return after taking account of risk/reward ratio. However, since these institutions do not offer to guarantee even the capital, let alone any return for these investments, their entry into the financial world was not easy in terms of their competitive positions vis-a-vis conventional financial institutions on the basis of safety considerations.

For a devout Muslim the avoidance of riba is the prime concern. However, this does not mean taking unduly high risk. Thus, from general competitive point of view Islamic financial institutions had to establish a record of credibility even before a devout Muslim becomes interested in entrusting his hard earned saving to these institutions to manage.

Financial sectors in all the advanced Western economies have been tremendous changes during the last decade. While there has been far reaching disclosure of information about transactions and interests of intermediaries and high degree of globalisation has been achieved, rights of investors have been more and more protected. Under these circumstances Islamic Banks had been through added pressure to establish a solid track record and to offer an implicit "sense of security" to investors based on the past experience in the absence of a written and contractual obligation to provide guarantee for invested funds.

8.3 Initial Investment Strategy

The need to establish a credible track record necessitated for the Islamic institutions to follow cautious investment strategies and prudent policies in employing depositors funds. Particular attention was paid to maintaining high level of liquidity so that confidence of the depositors is maintained in all circumstances even if they wish to withdraw their funds before prematurity. This approach obviously rendered good results in strengthening confidence of depositors in Islamic financial institutions. However, this was achieved at the expense of offering net returns to them which were relatively modest as compared to ordinary bank deposits.

8.4 Recent Development

Recently Islamic financial institutions have moved to second phase in their investment activities after establishing an impressive track record to offer their depositors safety for their investments especially in the absence of any contractual obligation to do so. This record assumed further importance and visibility when viewed against the experience of a number of conventional investment institutions whose performance suffered as a result of "October 1987 Crash" and other volatile movements in some of the international financial markets.

8.5 Second Phase Development

The move to second phase of development in their investment activities entails that the Islamic institutions may blend their need to offer safe and secure investment opportunities with somewhat longer maturities. This means that safety consideration will still remain in the forefront, but at the expense of some liquidity, the return will improve considerably and performance of these institutions will be fairly competitive with other conventional financial institutions.

9. ISLAMIC PRODUCTS

9.1 Financing Products

Islamic financial institutions, like other conventional institutions play role of an intermediary. On the one hand, they offer financing facilities to their clients both corporations and individuals and on the other hand, they attract funds from depositors with surplus funds to invest. The institutions' role is to channel these savings into Islamically permitted ways of financing which should also meet the investment criteria of depositors. In order to satisfy the financing requirements of their customers in the international market, Islamic financial institutions have been using the following financing modes :

- (a) Morabaha and other Trade Related Facilities,
- (b) Leasing and Hire Purchase (Ijara, Ijara wa Iktina),
- (c) Project Financing,
- (d) Profit & Loss Sharing Financing,
- (e) Establishment of Short Term Interbank Market and
- (f) International Modaraba Syndication.

9.2 Investment Products

- (a) Equities,
- (b) Venture Capital Fund.

- (c) Participation Term Certificate, and
- (d) Special Modarabas.

General Comments : There may be several other Modarabas based on any feasible product which make commercial sense and which may be in line with Shari'a. For a Modaraba to be successful, it is essential that all the relevant information and relevant factors are considered in depth relating to underlying activity (real estate market, rental and sales for commercial building, valuation, etc.) to achieve the best results from investment. For this reason it is imperative to use services of specialists in these areas. Though the cost of some of these may be high but there may be no substitute for their expertise and in the long run advantage to be derived by using their services will be several folds as compared to their fees.

A number of typical Modarabas for small investors may be established to make investments in the following areas:

(i) **Real Estate Modaraba :** Funds are invested in real estate activities mostly for those properties which may generate income. However, if the size of the fund is substantial then other activities such as development of special purpose buildings, etc. may be undertaken on project basis and any profit upon completion and sale of the project, passed on to the Modaraba. Also the Modaraba may undertake trading in real estate assets in a fast moving market. Investors need to be warned about the low liquid and speculative nature of the investment.

(ii) **Aircraft Financing Modaraba :** Reference has repeatedly been made to leasing of aircrafts in this paper. This may be done by forming a special purpose Modaraba which will undertake leasing of airplanes. It would be more appropriate to launch one Modaraba for one aircraft on close-end basis. The term will, of necessity, be long but reward and risk would be quite favourable for an investor who is willing to commit funds for the entire period.

(iii) **Ship/Tanker Modaraba :** With the present tanker and ship market where charter rates have seen good revival over the recent past, it may be timely to form a Modaraba to own tanker/ship for the purpose of chartering it to the users. The tanker market is expected to remain buoyant for sometime as there are not many new tankers under construction which may fulfill future transportation needs of the world.

10. CONCLUSION

Islamic financial institutions have gained good momentum over a short period of time. Islamic countries are the natural markets for these

institutions. But they should not confine their activities to these countries only.

Contemporary markets have expanded beyond domestic boundaries following the concept of "Euromarket". The growth of these markets is based on innovation, efficient service, meeting requirements of the players in these markets, fast communications and availability of maximum information to market participants which removes imperfections in the market and information advantage enjoyed by a few participants. The market is subjected to the forces of supply and demand. These aspects are in line with the structure of a market developed on Islamic principles.

In order to maintain their momentum, Islamic financial institutions will have to expand their activities on the lines of contemporary financial markets. For this they will have to develop innovative products in line with Shari'a, introduce marketable instruments by "unitising" and listing funds either already managed and run by them or establishing more funds based on actual transactions with the backing of cash flow generating from Islamically organised company's shares, morabaha financing, real estate, leasing, etc. No doubt, exclusion of financial products with interest element reduces the number of instruments in which Islamic Banks can participate in the global markets but then this is what essentially separates an Islamic financial institution from a conventional one. The main challenge faced by Islamic financial institutions is, thus, to securitise their products in order to make entry into the modern financial markets to attain their place there.

Islamic Financial institutions are in their infancy as compared to conventional institutions. Conventional institutions have reached the present status after centuries of evolution based on their innovation in meeting customer's needs. For this purpose these conventional institutions spent substantial sums on research and development. Islamic Banking movement emerged in a very competitive environment. Their survival hinges very much on maintaining depositors' confidence. This confidence after effective support by Islamic investors of financial institutions requires that depositors' funds are rewarded with good returns. This, in turn, demands in-depth research in discovering products which not only offer acceptable risk profile but also are in line with Islamic Shari'a. For this purpose Islamic institutions have to spare resources for experts who have the knowledge of financial markets and who are dedicated for the cause of Islamic Banking and financial service to spend time and efforts in research and development of new instruments.

In the evolutionary process of conventional banks, Governmental Monetary Authorities and Central Banks played a vital role in guiding, supporting and

providing resources to these banks. Islamic institutions need the support of authorities as their movement has yet to develop certain essential infrastructure to function, such as in interbank market on interest free system. For this purpose support of Central Banks of Islamic countries is inevitable.

While going to resolve some crucial issues, at least more and more awareness acquired by Islamic institutions of practical problems and their attentions to find a solution will open new avenues and directions for these institutions in advancing the cause for Islamic markets and their involvement in some of the products of the conventional markets.

For attaining the above stated objectives, Islamic Financial institutions need to exert concerted efforts to undertake intensive research in the field of product designing. This essentially requires employing dedicated experts who have a genuine interest in advancing the cause of Islamic finance and are well conversant with conventional markets and their operations. Islamic financial institutions have to make a strong lobby with the Central Banks of the Muslim world to help Islamic financial institutions develop an interbank market with their assistance.

The experience that Islamic financial institutions have built over the last decade is only the first stage in their development process. Financial sector is moving very fast in term of product designing to meet customers preference. Islamic financial institutions have to move with this fast pace to maintain the momentum they achieved in the past.

DISCUSSANTS' VIEWS

Dr. M.A. Hamid

His Royal Highness, Distinguished Chairman and Ladies and Gentlemen.

I have tried to understand the Paper presented by brother Nabil Nassief this morning. To my mind the best part of his Paper is the review of the performance of Islamic Banks around the world. I would like to concentrate my discussion on this particular aspect only, since time is very limited. Before we go on making observations on the Paper at the very beginning, I would like to point out that the fundamental objective of Islamic Banks is not necessarily the elimination of what is called 'Riba' alone, I would believe that the basic objective of Islamic Banks is to establish socio-economic justice with growth. The Riba based system has failed, and measurably failed to achieve that particular objective. Rather, it has led to widening the gaps between the haves and have-nots and also it has led to misallocation of scarce resources of the developing Muslim world. Therefore, we must have alternative modes of finance.

Brother Nassief in his Paper has very beautifully termed these modes as Islamic Products. Frankly speaking, this is for the first time, I have heard this term "Islamic Products". There are so many of them and he has mentioned only a few. Murabaha or other stipulated modes—Hire purchase, PLS system or Mudaraba and Musharaka systems. I believe that all these modes of finance do not contribute equally towards the achievement of those particular goals that I have mentioned. To my mind, the last modes that means the Mudaraba and Musharaka are the most important ones and these would help us achieve those particular goals that is economic emancipation or economic development with justice and kindness. But as a matter of fact applications of these modes of finance are relatively difficult. On the other hand, the Murabaha or Hire purchase mode is relatively easier but one of these will help, at least, under the circumstances prevailing in a country like ours or Pakistan, achieve this particular goal. From the Paper of brother Nassief, we learn that in the Arabian Gulf countries particularly, in Bahrain, Qatar, Kuwait, U.A.E. and Saudi Arabia, the performances of Islamic Banks have been very satisfactory. He has called it sustained growth and again mentioned that the performances of Islamic Banks have been better, much better than the conventional ones. But the question is what

sort of modes have so far been used by Islamic Banks in these countries. From his Paper we see that these are usually the Murabaha types of financing and I am afraid, the sort of results that these countries have obtained, probably may not be applicable in a situation prevailing in a country like Bangladesh or Pakistan or similar countries.

In Asian countries, particularly, in Iran and Pakistan, he has said that, of course, in those countries they have completely Islamised the financing system. I have little idea about Iran but have got some idea about Pakistan. Recently I visited Pakistan and I tried to understand how they were dealing with people of rural areas and I had a long discussion with Pakistan Agriculture Development Bank and I came to know that although they did not call it interest yet they were charging what they called service charges at the rate of 12% or something like that, and I tried to understand the distinction between interest—the predetermined one and the service charge, they were charging. I got it difficult to find out the exact difference between these two. In Bangladesh, too, we have the same picture. Islami Bank Bangladesh Ltd. is running very well, no doubt, but it has not yet been able to follow what is called Mudaraba and Musharaka sorts of financing. You will hear from the next Paper that only 5% of our total investment has so far gone to Musharaka Mode of financing and 95% is being financed through other modes and it is also true that in a country like ours, 90% people are living in rural areas and probably we have not been able to do anything positive or tangible for those people. Of course, it is a matter of satisfaction that Islami Bank Bangladesh Ltd. has been trying its level best to make a concrete programme for the benefit of the rural people. I have no idea about Al-Baraka Bank. I don't know whether it would be a sweeping remark to say that probably they have not yet been thinking for the upliftment of the rural poor in Bangladesh.

I do not know the situation in African countries. It seems to be a gloomy one in Sudan and Egypt. We know that Egypt is the first country which has made real success in the development of the Islamic Banking System. But brother Nassief in his Paper has shown some problems. Any way, although the performance of Islamic Banks is not yet upto our expectation but still I am sure that we should not be discouraged at least for two main reasons: first, Islamic Bank is just in its infancy, definitely in its infancy and the conventional banks have come to the stage after hundreds of years' experimentations and second, the scenerio of performances of Islamic Banks as given in the Paper is, owing to time and space constraint, not comprehensive and the problems as being confronted by Islamic Banks in different countries of the world, like Malaysia, Guinea, Niger, the Phillipines, Switzerland, Bahrain, Bahamas, Denmark and Turkey could not be sufficiently dealt with.

But from detail discussion and deep research it will reveal that Islamic Banks have come to stay and they are making progress day by day, because, they are based on God-gifted principles and are being proved to be superior to the conventional one. So, a time is soon coming when the conventional banking system will itself come forward to accept the Islamic Banking principles. Brother Nassief in his Paper has identified many problems very briefly. He has said that the economic slow down and political situation in some of the countries are acting as hindrance.

I don't agree with the view, because, these are the problems for the solution of which we need Islamic Banks. This is the basis by which we justify the establishment of Islamic Banks in a particular country. Secondly, brother Nassief has pointed out the non-existence of the provisions of Shariah in the national legal system of some countries. This is not also a constraint if we keep in our view the remarkable progress so far achieved by Islamic Banks in Bangladesh. Finally, I would fully agree with brother Nassief that shortage of professionals conversant to Islamic Banking is definitely the most and most critical constraint for advancement of Islamic Banking System in a country like ours and to my experience I am confident that unless and until we have trained people we cannot have the desired success. I am sure, for that we shall have to give emphasis on manpower development for Islamic Banking.

Thank you very much,

Assalamu Alaikum.

A.S.M. Fakhru Ahsan

Bismillahir Rahmanir Rahim.

Mr. Chairman, Distinguished Guests and Participants

Assalamu Alaikum Wa-rahmatullah.

I congratulate Brother Nassief for presenting a comprehensive Paper where he has given a good resume on Islamic Banking, its rationale, its achievements and also its problems and challenges. We should not miss the point that our goal is the replacement of 'Ribá' which has been practised and which has been ingrained over centuries. But why do we replace Riba at all? I think it is good to remember that Almighty Allah is most gracious. He has taught the Quran, He has created mankind and He has taught the speech and in the Quran itself Allah says, "Wa-ahallallahu Baia Wa-harramar Riba"—Allah has permitted trade and exchange and prohibited Riba and this prohibition of Riba is not only in the Quran, it was also in the Books revealed on the previous Prophets. So, why it is so?

Because, a dispassionate study and analysis of Riba will show that this Riba scheme does not fit in the Scheme of life that Allah envisages for mankind. It is no denying a fact that the interest-based system creates inequity and social injustice between the rich and the poor. It harms the poor directly or indirectly through inflation, the ups and downs of the business swings and business cycles. And that the Riba styled banking management even in conventional understanding and analysis is rigid, fixed-cost and variable return basis to this, has often led to failure of even in unit conventional banks in the western countries—developed countries like the U.S.A. In that case it harms the rich also. On the contrary some recent studies in the international organisations like the IMF and the World Bank, for example, the latest prestigious World Development Report, the World Bank has come up with the conclusion that Islamic Banking can improve the functioning of the financial system by its operational flexibility. And again a study will show that the lender-borrower relationship in Riba banking is undignified as people in this region have seen and experienced in the past. That in Riba banking, out of three parties: the depositor, the banker and the businessman or borrower or the entrepreneur, the risk is shifted only to the latter—the borrower alone. Thus, at times this becomes unbearable and leads to the eliminations of the latter. But Islamic Banking System applies the principles of participation instead of lender-borrower relationship and share the business risks and tries to minimise and spread the risks among all concerned to make them bearable. Risks can be avoided or minimised by knowledge and experience gained through proper education and training, commitment and dedication to the cause.

Now, the Islamic Banking has made a good start in different countries including Bangladesh and it is also facing some problems as mentioned by brother Nassief in his Paper. The foremost need is to have more and more competent Islamic bankers to carry on the movement to establish equity and justice and to ensure development for all classes of people in the society.

Thank you.

CHAIRMAN'S ROUND-UP

S. B. Chaudhuri

Bismillahir Rahmanir Rahim.

Distinguished Key-note Speaker, Distinguished Discussants and the Distinguished Delegates.

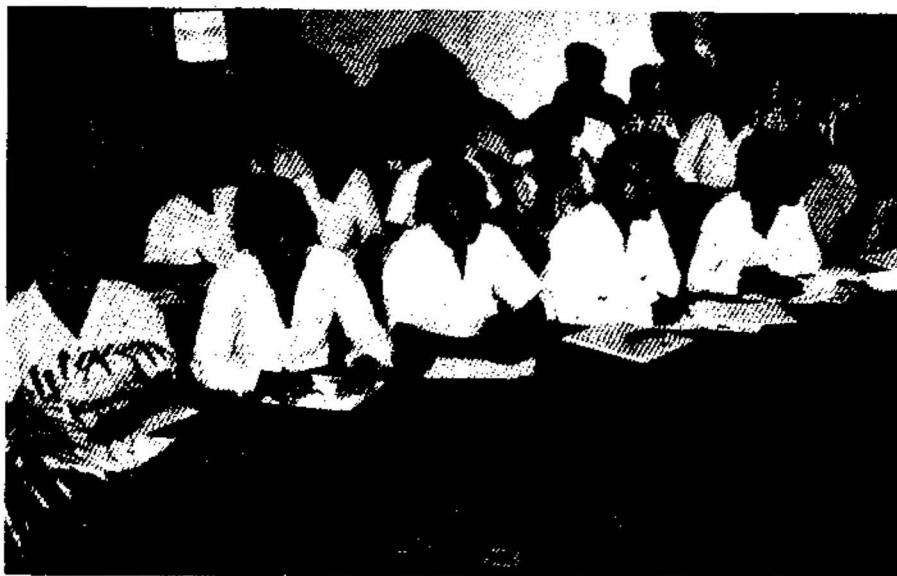
Assalamu Alaikum.

We all had a very good presentation, a very perceptive and comprehensive presentation by Mr. Nassief followed by very lively discussions. Our proceedings were enlivened and enriched by the participation of His Royal Highness. I am quite sure that the proceedings and the deliberations will provide valuable inputs for the seminar recommendations and that the participants will immensely benefit from this. We all remember that in the Opening Session Dr. Ahmad El-Naggar termed the present phase of Islamic Banking movement the phase of consolidation and rightly emphasised in his presentation the importance of the quality of service, the excellence of the products. This is very important and this needs hardly be repeated. In this context I am inclined to note that many from Western conventional banking world think that Islamic Banking is just one or rather yet another innovative mode of financial intermediation which may or may not last. This is totally wrong and on this point I would refer to the very inspiring comments of His Royal Highness about the perfectness of the Islamic Banking System. Because, it emanates from a Perfect Source and it has to be perfect and as he mentioned, imperfectness, if any, is in us not in the System. After all what the Islamic System is doing now is, putting into effect suited to the modern needs certain principles for financial intermediation which would suit the Islamic ways of life and which were laid down more than 14 (fourteen) hundred years ago. As a Central banker I must mention that a bank's stock in trades is money but it is not its own money it is the depositors' money which is an Amanat, a sacred trust. In the conventional banking system principal misuse and diversion of this fund constitute, as experience shows, causes of the banking failures. But here the Islamic Banking System which is based on certain fundamental principles, generates a strong awareness about importance of guarding and properly using this Amanat—the sacred trust. I mean let the Islamic Banks set an example in this area.

Brother Nassief has mentioned certain problems in Islamic Banking which needs to be urgently addressed to. For the consolidation of the Islamic Banking System, we should try to solve these problems. Among the problems he mentioned one and this was also emphasised in the Opening Session. This was the effective arrangement for training the staff and personnel to create a pool of able functionaries in Islamic Banks. I just thought in this context to inform you that in the 18th 'Sienza', Council of Governors' meeting in Bombay it was, at the initiative of Bangladesh, agreed to include Islamic Banking in its next training courses. So, training and building up of qualified manpower is very important.



A part-view of the audience at the Opening Session of the Seminar



A Section of Journalists at the Opening Session of the Seminar.

PART: I

CHAPTER TWO

A. Key-Note Paper

Islamic Banking in Bangladesh, Manpower Development and Establishment of a Regional Training and Research Institute

: M. Azizul Huq

B. Discussants' Views

Dr. Ahmad El-Naggar

Dr. A. H. M. Habibur Rahman

C. Chairman's Round-up

S. M. Al-Hussainy

M. Azizul Huq: Deputy Executive President, Islami Bank Bangladesh Limited, Bangladesh.

Dr. Ahmad El-Naggar: Professor of Islamic Economics; Secretary General, International Association of Islamic Banks, Cairo, Egypt.

Dr.A.H.M. Habibur Rahman: Professor, Department of Finance, University of Dhaka, Bangladesh.

S.M. Al-Hussainy: Chairman, Public Service Commission, Bangladesh.

ISLAMIC BANKING IN BANGLADESH, MANPOWER DEVELOPMENT AND ESTABLISHMENT OF A REGIONAL TRAINING AND RESEARCH INSTITUTE

M. Azizul Huq

1. INTRODUCTION

In Bangladesh out of thirty financial institutions only two banks i.e. Islami Bank Bangladesh Limited and Al-Baraka Bank Bangladesh Limited have been operating on Islamic principles. The rest 28 financial institutions conduct their operations on interest-based systems.

Islami Bank Bangladesh Limited started operations in early 1983 and had 30 operating branches by middle of 1989 (1). It is a public limited company incorporated under the Companies Act of 1913. Its broad objectives are banking business through Islamic mechanics and to contribute to the achievement of the socio-economic ideals of Islam. Its Head Office is located in Dhaka, the capital city of Bangladesh. It is a joint venture of Bangladeshi and overseas capital. Its equity is held by Islamic Development Bank, Al-Rajhi and Company for Currency Exchange and Commerce, K.S.A., Kuwait Finance House, Government of Bangladesh, Investment Corporation of Bangladesh, Ministry of Awqaf and Islamic Affairs, Ministry of Justice, Department of Minors' Affairs and the Public Institution for Social Security, Kuwait, Dubai Islamic Bank, Bahrain Islamic Bank, Jordan Islamic Bank, Al-Baraka Islamic Bank and Development Company, K.S.A., Islamic Economics Research Bureau, Bangladesh Islamic Centre, Ibn Sina Trust and Baitush Sharf Foundation Limited, Bangladesh, and the rest by local and foreign private individuals. Its share is quoted in the local Stock

1. By 31st December, '89 the number of branches reached 40 and a good number of branches are going to be opened by 1990.

Market at a high premium. At the end of 1988 its deposits and investments were Tk. 2830 million and 2100 million respectively.

The second Islamic Bank of the country Al-Baraka Bank Bangladesh Limited is also a joint-venture of Bangladeshi and Saudi Arabian capital, the latter being in majority. It was established in Dhaka in as late as 1987 and has seventeen operating branches (2). The deposit and investment of this Bank were Tk. 2560 million and 2360 million respectively at the June-end of 1989.

These two banks together serve about 5% of the total banking business of the country having 1500 employees on their payroll.

(1) By 31st December'89 the number of branches reached 40 and a good number of branches are group to be opened by 1990.

(2) At the end of 1989, the number of branches of Al-Baraka Bank reached 18.

2. BANKING ENVIRONMENT OF BANGLADESH

To understand the scope, problems and prospects of Islamic Banking in Bangladesh, it would be appropriate to have a brief overview of the total banking context of the country vis-a-vis Islamic Banking.

Banking is one of the few fastgrowing sectors of the economy of Bangladesh. The sector consists of the following institutions including two Islamic Banks :

i. Central Bank	1
ii. Government-owned commercial banks	4
iii. Locally incorporated private commercial banks including 2 Islamic Banks	8
iv. Overseas banks operating in Bangladesh	7
v. Government-owned specialized banks	3
vi. Non-bank financial institutions	6
vii. Co-operative bank	1

Total—30

These institutions transact their business through 5500 branches. The country has a total population of nearly 110 million, 90% of whom are Muslims. The sector has employed about 100,000 personnel including 25,000 in the rank of officers. The deposit and advances of the banking sector were 165 billion and 132 billion respectively as at the year-close of 1988. Due to historical reasons, all these financial institutions with the exception of 2, transact their business through interest mechanics. All

2. At the end of 1989, the number of branches of Al-Baraka Bank reached 18.

financial instruments used by the Government and Money Market are interest-based. All commercial, financial and fiscal laws are interest-oriented.

3. TRAINING ARRANGEMENTS IN THE BANKING SECTOR

The Central Bank, the Government-owned commercial banks and most of the other financial institutions mentioned above have their in-house training arrangements. Besides, there are two central institutions for training professional manpower of the banking sector of Bangladesh. These are, Institute of Bankers, Bangladesh (IBB) and Bangladesh Institute of Bank Management (BIBM).

3.1 Institute of Bankers, Bangladesh (IBB)

The Institute of Bankers, Bangladesh conducts a Diploma Examination for the practising bankers. The Examination is phased out in two parts i.e. Part-I and Part-II. Its syllabus covers:

- | | |
|----------------|--|
| Part-I | <ul style="list-style-type: none"> i) Practice and Law of Banking, ii) Economics. iii) English Composition and Bank Correspondence, iv) Book Keeping & Accounts, and v) Rural Finance. |
| Part-II | <ul style="list-style-type: none"> i) Commercial Law, ii) Monetary Theory and Practice, iii) Practice of Banking, iv) Higher Accountancy, v) Finance of Foreign Trade & Foreign Exchange, vi) Industrial Finance & Investment, and vii) Principles of Management. |

To help the intending examinees, it conducts coaching sessions in the evening at the Metropolitan Cities. The examinees who complete both the parts are awarded the Diploma styled “Diplomaed Associate of the Institute of Bankers, Bangladesh” (DAIB).

3.2 Bangladesh Institute of Bank Management (BIBM)

Bangladesh Institute of Bank Management was established by Bangladesh Bank and nationalized commercial banks and other financial institutions as a national institute for training, research and consultancy. The major objectives of the Institute are :

- i. Training of the Mid and Senior level Bank Executives,

- ii. Research in Banking and allied fields, and
- iii. Consultancy in banking and allied areas.

Bangladesh Institute of Bank Management is a residential institution and can train upto 1000 professionals per year.

The syllabii of these two institutions i.e. Institute of Bankers, Bangladesh and Bangladesh Institute of Bank Management do not have any subject particularly related to Islamic Banking or Islamic Economics. They have neither institutional orientation nor resources for the purpose. In view of the heavy pressure on them from the conventional banks they are not likely to develop expertise related to Islamic Banking and Islamic Economics in the near future.

4. THE GENESIS OF ISLAMIC BANKING IN BANGLADESH

At birth (1971) Bangladesh inherited an interest-based banking system which was introduced here earlier when the country was a part of British Colony. At that time ownership of and employment in banks were limited, with rare exception to non-Muslims. During the period from 1947 to 1971 when the country was a part of Pakistan, banking, of course, came under Muslim control but the system was not changed. It continued to be based on interest.

Since its inception, Bangladesh saw a new trend in banking both at home and abroad. Islamic Banking was successfully tried in Egypt. After the Mitghamr Model, Nasser Social Bank was in the process of establishment. During the seventies, Islamic Development Bank and a number of Islamic Banks at national levels were established in the Islamic world.

At home, the Islamic groups were vigorously working for adoption of Islam as the Complete Code of Life. They found Islamic Banking in ready form for immediate introduction. Two professional bodies—"Islamic Economics Research Bureau" (IERB) and "Bangladesh Islamic Bankers' Association" (BIBA) were taking practical steps for introduction of Islamic Banking.

Their professional activities were reinforced by a number of Muslim entrepreneurs working under the aegis of Muslim Businessmen Society. The body concentrated mainly in mobilizing equity capital for the emerging Islamic Bank.

Due to continuous and dedicated work of these groups and individuals and active support of the Government, Islamic Banking could be established in early eighties as stated earlier. In this connection it would be relevant to review the attitude of the Bangladesh Government towards Islamic Banking.

5. BANGLADESH GOVERNMENT POLICY TOWARDS ISLAMIC BANKING

The attitude of Bangladesh Government towards Islamic Banking has been although positive. It supports Islamic Banking within and outside the country, but as a strategy it believes in a gradual and cautious implementation of the system. This fact is revealed from the following official statements and actions :

- i. As early as in 1974, as a founder-member of Islamic Development Bank, Bangladesh Government subscribed to its Charter which stipulates to undertake research for enabling the economic, financial and banking activities in the Muslim countries (obviously including Bangladesh) to conform to Shariah.
- ii. The Islamic Foreign Ministers' Conference held in Dakar, Senegal in April 1978, recommended to the members of the O.I.C. to make systematic efforts to establish Islamic Banks gradually. Bangladesh participated in the above Conference and subscribed to the above recommendation.
- iii. Again in the Islamic Foreign Ministers' Conference held in Islamabad, Pakistan in May 1980, Bangladesh proposed that steps should be taken for development of an Islamic International Banking System with branches in all the Islamic countries so as to co-ordinate and expand the credit facilities within the Islamic Community.
- iv. At the Third Islamic Summit Conference held at Makkah and Taif in January 1981, the then President of Bangladesh made the following suggestions in his speech :

"The Islamic countries should develop a separate banking system of their own in order to facilitate their trade and commerce. Both in the public and private sectors the Islamic countries would promote joint ventures and financial institutions which could profitably use the Islamic investments. We (the Islamic countries) should promote an Islamic Development Authority or Corporation which could function primarily on a commercial basis. The activities of the Islamic Development Bank should be expanded considerably not only in terms of project financing but also in the field of research and consultancy services."

In line with the above policy, Bangladesh Government has permitted establishment of two Islamic Banks i.e. the Islami Bank Bangladesh Limited (1983) and Al-Baraka Bank Bangladesh Limited (1987). Though these Banks had ben sponsored by private sector entrepreneurs the Bangladesh Government contributed to the capital of both the Banks to the extent of 5%

of their respective paid-up capital. The Government, however, has not yet undertaken any programme for large scale or total Islamisation of the banking sector.

6. OPERATIONS OF ISLAMIC BANKING

Having a look into the banking environment of Bangladesh and the Government attitude towards Islamic Banking, let us now examine how the two Banks apply Islamic principles in their banking operations.

6.1 Sources of Funds

The sources of funds of the two Islamic Banks of Bangladesh are :

- i. Paid-up Capital and Reserves,
- ii. Deposits.

Volume of funds against the above two heads are approximately in the ratio of 6:100.

Paid-up capital consists of share-money which conforms to the nature of Musharaka principles of Islamic Shariah. Musharaka means a joint-venture of two or more persons who subscribe to the capital fund and have right to participate in profit and management and have obligation to bear proportionate loss, if there be any. The highest rate of dividend paid by Islami Bank Bangladesh Limited on its share money is 15%.

Deposits are mobilized through the application of the following two Shariah principles :

- i. Al-Wadia and
- ii. Mudaraba.

Al-Wadia principle implies that the Bank receives funds with undertaking to refund the deposit on demand and also with authorization from the depositors to use the funds for benefit of and at the risk of the Bank. Bank's Current Account Deposits are managed on this principle. By opening such account, a depositor does not acquire any management (voting) right on the Bank or on the funds deposited.

Mudaraba principles implies that the Bank receive deposits from the depositor with the authority that the Bank will have exclusive right to manage the fund and the profit resulting from such deposits will be shared between the Bank and the depositor at a pre-agreed ratio and the loss, not resulting from the negligence of the Bank or any of its representative will be borne by the depositors. PLS Accounts and various term deposits of these two Banks are conducted on this principle. Through these accounts, the depositors do not acquire any management (voting) right on the Bank or on the deposits. Of the total deposits of the two Islamic Banks, Mudaraba fund constitute 80% to 85% and the share of Al-Wadia deposits vary from

15% to 20%. Islami Bank Bangladesh Limited distributed so far 70%—72% of its income derived from the use of Mudaraba deposits to such depositors. The highest rate of profit paid on Mudaraba deposits has been 15% per annum by Al-Baraka Bank Bangladesh Limited and 14% per annum by Islami Bank Bangladesh Limited.

6.2 Uses of Funds

To earn income the two Islamic Banks have to invest their funds ; but they do not and they are not allowed to invest their entire funds without keeping any reserve. They are under obligation to keep with Bangladesh Bank 10% of their deposits as Statutory Liquidity Reserve. In addition they need to keep, in the context of Bangladeshi situation, 2% of their deposits as Till Money to meet the day-to-day transactional needs. Thus, normally they can invest upto 88% of their deposits. In practice, IBBL's investment has never crossed 80% mark whereas the total investment of Al-Baraka has in most cases exceeded this limit. Of the two Banks IBBL has always suffered from excess liquidity.

6.2.1. Shariah Principles in Investments

After making provision for Statutory Liquidity Reserve and Till Money as stated above, the remaining funds are invested through mechanics conforming to the following principles of Shariah :

- i. **Murabaha** (Cost plus sales)
- ii. **Bai-Muajjal** (Deferred payment sales)
- iii. **Ijara-bil-Bai** (Hire-Purchase),

The Mudaraba principle used by the two Banks in collecting deposits is totally absent from the Investment side. Similarly, the Musharaka investment constitutes very insignificant part of the total volume of the Bank's investment. Murabaha means resale of goods with the addition of a fixed surcharge of the stated original cost. Bai-Muajjal means deferred payment sales and Ijara-bil-Bai means leasing ending in purchase of the leased asset. If we analyse the volume of business through different modes of Islamic Banking in Bangladesh the following position emerges :

i. Murabaha	60%
ii. Bai-Muajjal	20%
iii. Hire-Purchase (Ijara-bil-Bai)	10%
iv. Musharaka	5%
v. Quard	5%

Total—100%

Thus, we find that the classical modes of investment i.e. Mudaraba, Musharaka and Quard have not yet got due place in Bangladesh and

naturally the socio-economic benefits associated with these modes are also equally absent.

6.2.2 Sector-Wise Use of Funds

An analysis of the present investment port-folio reveals the following position of IBBL's investments :

i. Industry	15%
ii. Transport	5%
iii. Export Production and Finance	15%
iv. Agro-related activities	2%
v. Imports and Local Trade	63%

Total—100%

The position of Al-Baraka Bank also reveals almost the same picture except that its port-folio excludes industry and includes real estate.

7. COLLATERAL POLICY AND INSURANCE

Still being in infancy, Islamic Banking in Bangladesh has been following a line of least risk and assured success. Naturally, the two Banks insist on collaterals. Again, they are using the services of conventional insurance companies to cover their assets including investments and collaterals. It may be noted here that Islamic Insurance is likely to be established in Bangladesh very shortly and then the two Islamic Banks of the country will be able to avoid interest-based insurance.

8. OTHER SERVICES

In addition to deposit and investment services mentioned above both the Banks issue guarantees, L/Cs and make transfer of funds, etc. To facilitate these services, they have correspondence and accounts relationship all over the world. While establishing such relationship, they give preference to Islamic Banks. Where Islamic Banks are not available, they deal with conventional banks without violating Islamic principles. Western banks generally show respect towards Islamic Banking principles. Islami Bank Bangladesh Limited has Locker Services in most of its big branches.

9. RELATIONSHIP BETWEEN THE TWO ISLAMIC BANKS

The overall bilateral and multilateral relationship amongst the banks including the two Islamic Banks operating in Bangladesh have been satisfactory. In the larger interest of the Islamic Banking Movement, the relationship between the two Islamic Banks should have been more co-ordinated and integrated. Presently the co-operation is limited to the exchange of surplus funds only. The relationship may be extended to the advantage of both Banks' branch expansion, training and research

programmes. The ideological dimension of IBBL is looked after by a Shariah Council consisting of qualified and competent Fugaha, lawyers and Islamic economists—all drawn from Bangladesh. The members are well conversant with the local environment, besides their professional knowledge. Al-Baraka Bank Bangladesh Limited is guided in its Shariah affairs by the Shariah Unit of its parent body which being located outside Bangladesh is not well conversant with the local situation. This situation has resulted in divergent practices in the two Islamic Banks with resultant confusion amongst the clients who are yet to be educated in the Islamic Financial and Economic System. To avoid this confusion, there should be closer co-operation between the two Banks which can be ensured if both of them are supervised by a common Shariah Council consisting of members nominated by both Banks.

It may be noted here that at the O.I.C. Expert level Meeting on Islamic Banking Studies held in Bangladesh Bank, Dhaka, during May 10-12, 1986, a recommendation was made to the effect that all the Islamic Banks in a particular country should be supervised by a common Shariah Body. Bangladesh Bank should take steps to implement this decision.

10. LEVEL OF PERFORMANCES

While evaluating the growth of Islamic Banking in Bangladesh, obviously, we are to evaluate the performances of these two Banks. But it would be improper to judge them by the same norm without considering their perspective.

IBBL was started in 1983 without any Islamic Banking tradition in the country. Naturally, in many activities and areas, it learnt by trial and errors. This did not happen with Al-Baraka which was started 4 years later and had all the advantages of a late starter including the services of some bankers already trained. The driving forces behind the two Banks, the dominant orientation of the sponsors and officials and the cultural outlook of the two institutions are dissimilar. As such the focus of activities and results are also likely to be different. Moreover, Al-Baraka being only in the second year of its operations, the implications of many of its activities are not yet ripe for evaluation. With these observations let us now analyse their performances, problems and prospects.

First, the successful launching and operations of the two Islamic Banks have established the fact that banking without interest is feasible in Bangladesh despite so many constraints. This was necessary to facilitate its large-scale replication.

Secondly, the two Banks have jointly initiated an Islamic Money Market where they can ease out their problems of surplus and deficit to some

extent. The mechanic is that they maintain profit-sharing deposit accounts with each other.

Thirdly, the two Islamic Banks have brought many depositors and entrepreneurs under coverage of banking. So far these depositors and entrepreneurs avoided interest-based banking on grounds of religion and have now become clients of either of the two Banks. This represents an extension of the banking sector. Besides these common achievements IBBL has the following special marks of success to its credit which deserve attention .

Garments export is a flourishing sector of Bangladesh economy. IBBL has helped in the establishment of as many as 70 garment factories and it handles 10% of export business of the sector. When more than 20 financial institutions compete for such business, the size of IBBL's business is appreciable.

Immediately after its establishment, IBBL started its Zakat and Sadaqua fund and initiated welfare-oriented and rehabilitation programmes for the poor and the distressed. It has conducted relief operations, of course, within its means, at the time of natural calamities like flood, cyclone, etc.

Islamic Banking needs a special breed of bankers who are not readily available anywhere. Considering the urgent need for such bankers, IBBL has already established a Training Academy. The Academy has been offering need-based training to mid and junior level officials of the Bank. Besides, it has conducted a few 2-day orientation programmes for its existing as well as potential clients. It also works as pre-emptive motivation against defaults. These are some of the special contributions of IBBL in promoting Islamic Banking within the country.

11. PROBLEMS OF ISLAMIC BANKS AND THEIR POSSIBLE SOLUTIONS

The process of establishment of Islamic Banking in Bangladesh has not been without obstacles. Despite tremendous popular support, Islamic Banking in Bangladesh could not yet achieve the desired level of success. The Islamic Banks operating here are under constant threat of low profitability and wilful defaults. There are many reasons for this, but the direct ones are :

- i. Absence of Interest-free securities,
- ii. Absence of legal frame-work for Islamic Banking,
- iii. Shortage of support institutions, and
- iv. Shortage of trained manpower.

Let us briefly discuss the above issues to find out their impact on the working of the two Banks.

11.1 Government Securities and Islamic Money Market

All the Government approved securities in Bangladesh are interest-bearing. Naturally, the Islamic Banks, which are committed to avoid interest, cannot invest the permissible part of their Statutory Liquidity Reserve and Overnight Surpluses in those securities.

As a result they deposit their entire reserve in cash with Bangladesh Bank. Similarly, the overnight surpluses also remain uninvested. But the conventional banks of the country do not suffer from this limitation. They receive interest on part of their credit balance kept with Bangladesh Bank as Statutory Liquidity Reserve. Besides, they invest a part of their liquidity reserves in Govt. securities which yield them around 8.5% per annum. The Central Bank of the country appreciates this structural disadvantage of the two Islamic Banks and as short-term remedy they have reduced the reserve requirement for Islamic Banks to 10%. The Central Bank has offered to reimburse to Islamic Banks proportionate administrative cost on a part of their balances with the latter.

11.2 Legal Framework For Islamic Banking

The other constraining factor for the Islamic Banks is the absence of necessary legal framework for Islamic Banking. All the financial and commercial laws of the country are interest-oriented. Even the tax structure has a bias towards loan financing. Interest-cost on borrowed funds is exempted from taxes whereas dividend paid on funds mobilized as equity is subject to tax at varying rates ranging upto 50%. Under Islamic frame the loan mechanics are required to be replaced by Shariah laws like Musharaka, Mudaraba, etc. But there is no enactment to validate these Shariah laws. As such Islamic Banks are required to have recourse to existing interest-based laws to have legal remedy in case of need.

11.3 Defaults by Fund Users and Income Loss on Overdue Investments

The absence of special legal provisions for Islamic Banking has given certain undue advantages to unscrupulous clients. They avail of Bank facilities under Bai-Muajjal and Murabaha mechanics only to default causing income loss to the financier bank. This income loss on overdue investments could have been avoided by suitable legal provisions as have been introduced in Pakistan and Iran.

11.4 Support Institutions

Any system, however integrated it may be, cannot thrive exclusively on its built-in elements. It has to depend on a number of link institutions and so is the case with Islamic Banks. For identifying suitable projects, Islamic Banks can profitably draw the services of economists. Similarly, they need the

services of Lawyers, Shariah Experts, Management Consultants, Auditors and so on. They even need training forums for promoting entrepreneurship amongst their clients. Such support-services, properly oriented towards Islamic Banking are yet to be developed in Bangladesh.

11.5 Manpower for Islamic Banks And Their Link Institutions

Thus, we are led to the conclusion that for smooth implementation and successful replication of Islamic Banking we need a band of people having a different type of knowledge, skill and orientation. Such people are needed for Islamic Banks as well as for link institutions. The people working in the banks and in the link institutions will have diverse but complementary expertise and should have commitment for a common cause. The trainers engaged in promoting such people should be very clear about the required profile of such people so that they can channelise their efforts accordingly. It should be relevant here if we draw up a profile of an Islamic Banker which is, by no means, the last word on the subject.

12. ISLAMIC BANKER'S PROFILE

As compared to the conventional Banks the Islamic Banks and Financial Institutions which have emerged and which are emerging have different socio-economic objectives, strategies and functions. Naturally, the realisation of these new objectives, and pursuing these functions and strategies need a completely different breed of bankers. We mention below some of the new areas of knowledge, skill and orientation of these type of bankers i.e. Islamic Bankers.

An Islamic Banker must be a practising Muslim having strong commitment to establish Islam in all spheres of life, particularly, in the socio-economic field. He should have a developmental and welfare orientation and should have positive concern for the society, particularly, for the poor and the weak. He should have a natural urge to meet people, should be able to earn their confidence and be able to inspire them towards Islamic System. He should be enterprising and be able to promote entrepreneurship.

In the field of knowledge, in addition to the banking laws and practices prevalent in the national and international banking, he must have knowledge of Islamic Ideology, Islamic Economics and Shariah. He must have an intimate knowledge of the society, its problems and he should be able to apply Islam to the solution of those problems.

In short, the requirements of an Islamic Banker are wider and more challenging than those of a conventional banker. Such type of bankers are not generally produced by the existing system of education and training.

13. TRAINING NEEDS IN BANGLADESH

13.1 For The Two Existing Islamic Banks

The two existing Islamic Banks which need to be expanded quickly require to train their existing and future employees. At the moment the number of such officials is 1500 which is going to be double every four years. Broadly speaking, the specific training needs of these two Banks may be categorised as follows :

- i. Procedure-related training at lower levels,
- ii. Concept and Shariah-related training at middle & upper levels,
- iii. Policy-related training for top-management, members of the Board and Shariah Council, and
- vi. International programme for integration with the Ummah.

13.2 For The Conventional Banks

As already stated, Bangladesh has a population of 110 million, 90% of whom are Muslims who have a natural urge to do banking following Islamic principles. In line with this spirit, a decision was taken in the Bankers' Consultative Committee in 1981 for phase-wise implementation of Islamic Banking by all the banks of the country. Due to certain constraints including the shortage of required number of trained manpower, no progress on implementation of the decision could be made. To implement the decision we need to train the entire group of bank employees numbering about 100,000 by a suitable mix of training programmes.

13.3 For The Existing And Potential Clients

Since the country's education system teaches primarily interest-based banking which is also the dominant on the banking system, the existing and potential clients of Islamic Banks are quite familiar with interest-based system but know very little about Islamic Banking. Thus, the felt needs relating to banking are more oriented towards interest-based system than towards Islamic one. As a result, quite often these clients demand from Islamic Banks such services which are possible only through interest-based system. They are not aware that though a particular service can not be provided by the Islamic system, possibly a better alternative is available within the latter one. Hence, to orientate and reorientate clients towards Islamic Banking and also to integrate them more closely with the emerging Islamic System, suitable training programmes are to be developed for Islamic Banks' existing and potential clients. This will help Islamic Banks to avoid or minimise many of its client-related problems. Development of Islamic Banking knowledge and commitment in the clients will add

momentum to the movement for Islamisation of banking.

13.4 For Regulatory Bodies And Support Institutions

In the absence of required knowledge of Islamic Banking and Economics, it is observed that the relevant officials of the regulatory agencies like Central Bank, Taxation Authorities and Department of Finance cannot always appreciate the particular needs of Islamic Banks. As a result they frame such regulations which, in effect, put Islamic Banks at a disadvantage vis-a-vis the conventional ones. Some provisions of Income Tax Laws and liquidity requirements against PLS Deposits are two examples of many such cases. Similarly, Auditors, Accountants and Lawyers cannot render proper support service to Islamic Banks without an in-depth knowledge of Shariah Laws on finance and investment. It is rightly felt that the performance of an Islamic Bank is dependent to a large extent on the quality and the extent of support given by these bodies. To improve their contributions towards Islamic Banking all the above-noted categories of professionals need to be given appropriate training in Islamic Banking and Economics.

13.5 For The Education Sector

The training of the practising bankers will produce only short-term result. If we want to create long-term impact and sustain the growth of the economy and banking along Islamic lines we need to remodel the education sector of the country. Islamic Banking and Economics have to be taught at the universities and colleges of the country. That will need training of teachers, preparation of books and research work. Since two Islamic Banks have already been started, now the management of these Banks are to play some positive role in the promotion of appropriate infrastructure for research and education in the field.

14. RESEARCH NEEDS

Islamic system, though a viable and progressive one, has remained out of practice during last few centuries. Meanwhile situation all over the world has changed enormously. New elements like paper money, inflation, narrow nationalism and resultant trade barriers, unemployment and most of other economic and financial problems have appeared at national and international levels Islamic system needs to address all these new developments effectively. Research is needed to develop strategies. Results of researches on such global issues will have more or less universal application. We may consider them as Basic Researches. Again different regions of the world do not have uniform social, economic and legal conditions. These conditions widely differ from country to country and region to region. Thus, the Islamic strategies developed in the context of labour-short and capital-surplus middle-eastern economies may not necessarily be relevant to the poverty alleviation programmes of

capital-poor, labour-surplus countries. So, to develop situation-specific Islamic model Adaptive Research is necessary. Such researches need to be undertaken within the context of concerned economies and not outside. We may consider them as Applied Researches.

14.1 Some Possible Areas of Research

Keeping the above-stated observations and many more practical considerations in view, we outline below some of the possible areas for undertaking research on urgent basis:

Research on Islamic literature to discover knowledge of Islamic economic, commercial, financial and developmental activities. Modern education and training system is poorly equipped with such knowledge.

Research on local problems to understand their nature and their possible solutions under Islamic perspective. In the absence of official commitment and shortage of Islamic economists and scholars in the concerned bodies such studies are not generally undertaken even in the Islamic countries.

Research on the international situations having bearing on local problems and their solutions, such studies from Islamic perspective are urgently needed to enable us to reformulate our internal and external strategies.

Research on the contemporary experience of different economies, to evaluate the strength and weakness of various strategies used by them so that the emerging Islamic system may benefit from their experiences.

Action Research and Comparative Study of different models for establishment, rationalization and improvement of various Islamic models.

Study of the financial, commercial and fiscal laws of individual Islamic countries from an Islamic perspective. Such studies are helpful in defining the areas for legal reforms.

These are some of the representative areas of research. An exhaustive agenda for research will, however, be much wider and the order of priority will depend on practical needs in each situation.

Thus, we find that the need for Training and Research in the field is enormous. Let us now review the facilities that exist in the country to meet these needs.

15. FACILITIES FOR TRAINING AND RESEARCH IN ISLAMIC BANKING IN BANGLADESH

If we make a quick survey, we find that some basic work in the field of training and education in Islamic Banking has been done by the following institutions :

- i. Islamic Bank Training and Research Academy (IBTRA),
- ii. Bangladesh Islamic Bankers Association (BIBA),
- iii. Islamic Economics Research Bureau (IERB), and
- iv. Finance Department, University of Dhaka.

Immediately after its inauguration, Islami Bank Bangladesh Limited established an in-house institution for Training and Research in Islamic Banking known as IBTRA. Though it is not yet fully equipped in respect of accommodation, faculty, library, training materials and other hard-wares and soft-wares of training, it is catering to the needs of Islami Bank Bangladesh Limited to a reasonable extent.

BIBA and IERB are two non-profit voluntary associations of Islamically committed professionals. These bodies undertake training in Islamic Banking and Economics during evening hours. Courses run by them are of very short-duration and as such are not very exhaustive. These are designed primarily for motivational purposes.

The Finance Department of the University of Dhaka has recently introduced a paper on Islamic Banking at Post-Graduate level. The paper is quite popular amongst the students. But in the absence of complimentary support-education in Islamic Economics at any level, the students fail to reconcile their newly acquired Islamic concept of banking with their past education. Beyond these limited activities in training and education, there has been no work on the research side in the field. Thus, we find that the combined achievements of these institutions have been very limited.

16. TRAINING NEEDS OUTSIDE BANGLADESH

Apart from the training needs of Bangladesh there is a sizeable demand for training from outside. Malaysian Islamic Bank Berhad which is of the size of Islami Bank Bangladesh Limited has manpower similar to that of IBBL. They need overseas training for their senior level executives. In India Islamic Banking is being practised through co-operative system and some non-bank financial institutions. These institutions don't have any standard institutional arrangement for training. Similarly, there is demand for training and research in Islamic Banking in Pakistan, Brunei, Indonesia, Thailand, Singapore and the Philippines.

17. PROPOSAL FOR A REGIONAL INSTITUTE

Keeping in view the overall requirements of Bangladesh and other related countries of South and Far Eastern Asia, IBBL proposes establishment of an English Medium Regional Institute to be located in Dhaka, the centre of the said region. The Institute to be named as "Regional Institute for Training and Research in Islamic Banking" (RITRIB) would cater to the selective needs of Bangladesh, Pakistan and Malaysia where Islamic Banking has already made some progress. Besides, it could cater to the potential needs of India, Maldives, Indonesia, Brunei, Thailand, Singapore and the Philippines where Islamic Banking is at various stages of establishment and where formal training arrangement for the system does not at all exist. The proposed Regional Institute could even hasten the process of establishment of Islamic Banking in those countries.

IBBL also feels that in addition to the proposed English medium Dhaka Institute, there should be two more Regional Institutes in the regions :

- i. One Arabic-medium Regional Institute to be set up somewhere in the Arab Countries to serve the needs of the Middle Eastern Countries.
- ii. One French-medium Regional Institute to be set up somewhere in Africa to serve the areas where French is widely used.

18. BRIEF OUTLINE OF RITRIB, DHAKA

18.1 Command Area and Its Socio-Economic Profile

As already stated, the Dhaka based English medium Regional Institute would have an impact area ranging from Pakistan to the Philippines-Dhaka being the centre. Of course, this concept of impact-area has to be taken with sufficient flexibility. It is quite obvious that with the exception of a few newly industrialised countries, the region's population is pre-dominantly rural, engaged in agriculture and agro-related activities. Majority of the population is illiterate and poor. The rate of unemployment is very high. Savings and investments are low and the level of technology used is low-yielding. In short, socially and economically the region is yet to be developed. A redeeming feature of the region is that its land, though densely populated, has natural fertility. The region has an abundant supply of manpower which constitutes both potential work force and market. The majority of the Islamic Ummah of the world live in this region. Islamic Banking is, therefore, supposed to be the most natural form of Banking for them. The socio-economic objectives to be served by Islamic Banks in this region will be a bit different from those of capital-surplus and labour-short Middle Eastern countries.

The Dhaka Regional Institute will, therefore, be required to handle issues and problems quite distinct from the other two Regional Institutes.

18.2 Capacity and Facilities

The proposed Dhaka Institute will have capacity for training 100 participants at a time with living accommodation for 60 trainees. It will be housed in its own complex specially built for the purpose. The Institute complex will have suitable class rooms, auditorium, seminar – symposium hall, library and reading room. In addition to the hostel for trainees, it will have V.I.P. hostel for visiting faculties, mosque, common room, facilities for indoor games, etc. The complex will also have apartments for faculties and staff. The Institute is expected to deploy the latest techniques and equipments in its programmes.

18.3 Organisational Structure and Staffing Pattern

The Institute (RITRIB) would be governed by a Board of Trustees constituted of which representatives of IAIB, Islamic Banks of the region and other donors. The Director General of the Institute would act as the Secretary to the Board of Trustees. The Chairman would be elected from amongst the Trustees. The Board of Trustees would be responsible for overall policy-making of the Institute.

There would be an Academic Council to guide in formulating and supervising training programmes, within the policy framework given by the Board of Trustees. There would also be an Executive Committee chaired by the Director General for policy decisions for running the day-to-day administration of the Institute. The Committee would be small and would be formed of the Bangladeshi members of Board of Trustees and Directors of the Institute. The Secretary of the Institute would be the Member-Secretary of the Committee:

The Institute will have the following three departments each headed by a Director:

- i. Islamic Economics, Finance and Shari'ah,
- ii. Islamic Banking, and
- iii. Research.

The Directors will have a Ph.D. or equivalent degree with more than ten years' of experience. The two teaching departments will be responsible for offering training in their respective areas. The research department will undertake research in various areas of Islamic Economics, Finance, Banking and Shariah. The teaching departments will have five faculty members each while the research department will have two faculty members. In addition there will be three research officers. The faculty members should have a minimum of Master's degree and have more than 15 years' of experience. The Director General should have a proven career in Economics/ Banking/ Finance with aptitude for academic and research work. The Director General would be assisted by the Secretary of the Institute. The Secretary

should have a minimum Master's degree in law, specially, in Banking and Commercial Law. The Secretary would be assisted by an Administrative Officer and an Accounts Officer. The former should have minimum a Masters' degree preferably an M.B.A. with more than 5 years of experience and the Accounts Officer should have a minimum of M. Com. degree or equivalent with more than 5 years of experience. The mosque of the Institute will have an Imam having a Kamil degree with specialisation of Tafsir and Hadith. There would also be a Muazzin with minimum Fazil and Quari. The Library would be run by a Librarian with a Masters' degree in Library Science with 10-15 years of experience. He would be assisted by an Assistant having a Masters' degree in Library Science.

18.4 Project Cost

The proposed Institute Complex will have a total construction area of 30,000 sft. distributed as follows :

i. Functional area	15,000 sft.
ii. Residential area	15,000 sft.

It will cost Tk. 36 million in 1989 market price for construction and furnishing. The Projects will consist of divisible components and as such the implementation work can be phased out without causing wastage or inconvenience.

The Project cost is expected to be financed by endowments from the banks which are supposed to receive the benefit. Training programmes may be self-financed as far as possible. Before its own premises are constructed, the Institute can function in rented premises.

18.5 Training Methods and Development of Courses

Like any other training institution the proposed Regional Institute will use all modern methods of training keeping in view the level of participants and the nature of subjects. The following may be some of the methods :

- i. On-the-job coaching,
- ii. Lectures in plenary sessions,
- iii. Conference,
- iv. Case-study,
- v. Role-play,
- vi. Brain storming,
- vii. Nominal group technique, and
- viii. Training by correspondence and so on.

The Institute will not need much original work in the field of training methodology. It will simply train its trainers in the use of the existing methods. Besides, the latest audio-visual equipments will also be used by the Institute.

The Institute will do much original work in developing a good body of knowledge of Islamic Banking, Economics and Shariah. In developing this body, the Institute will require to do a lot of research work—basic applied and adaptive researches. Thus, unlike other training institutions, the proposed Institution will be more research and development oriented.

19. ADVANTAGES OF A REGIONAL INSTITUTE VIS-A-VIS A NATIONAL INSTITUTE

IBBL has already started its own in-house Training Institute maintaining it at a reasonable standard. Even then it urges for a Regional Institute because of certain advantages associated with such institutes, some of which are explained below :

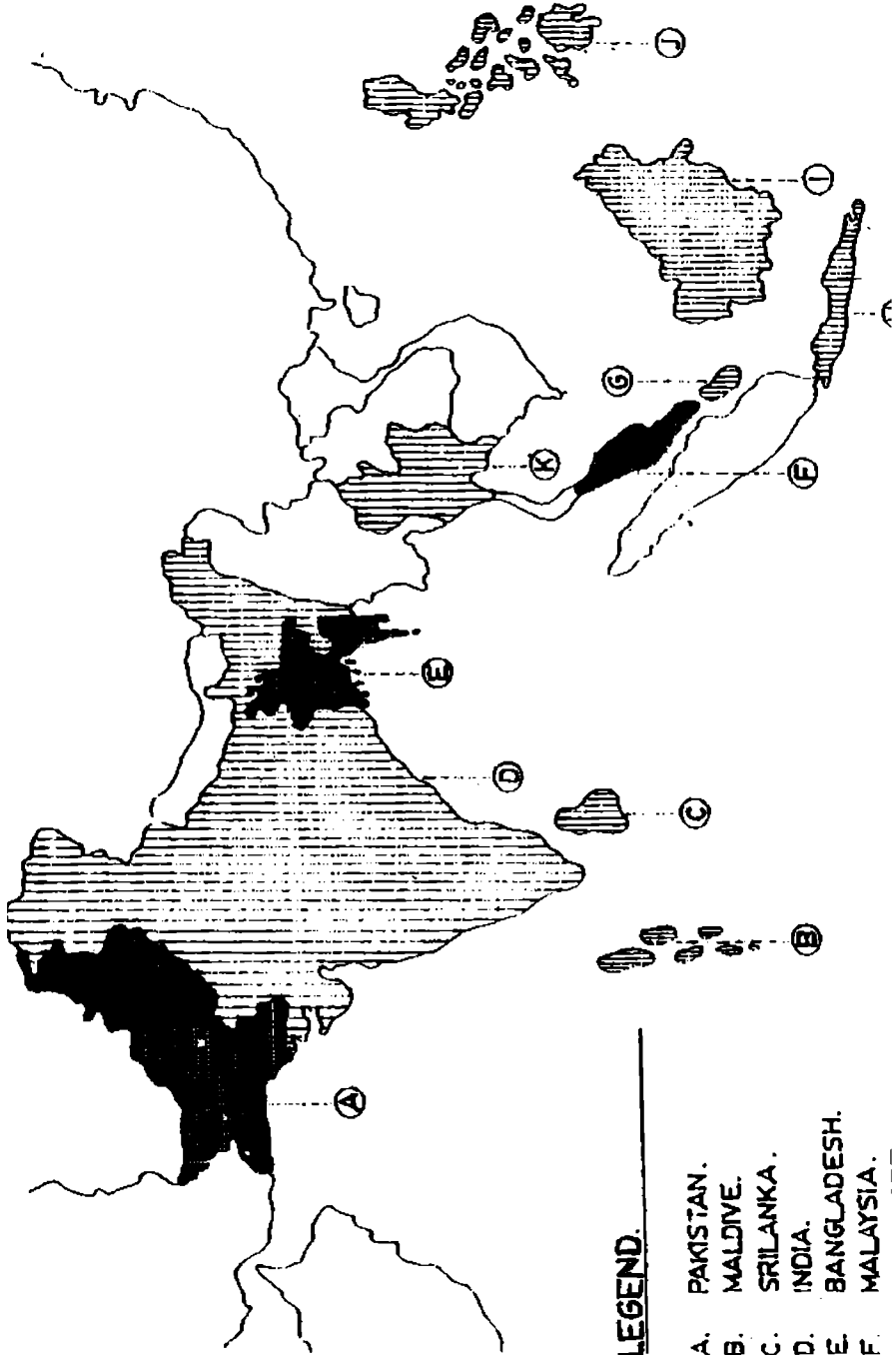
Different Islamic Banks working in their own environment have developed diverse methodologies, terms, etc. It is in the larger interest of Islamic Banking that these concepts, practices and terms need to be homogenised. Joint courses will serve as a forum for cross-country sharing of experiences and will promote professional fraternity. International exposure will widen the vision of the participants of each country and will make them more conscious about the needs of the Islamic Ummah. Joint-venture in training and research will also minimise costs of operation through economies of scale.

In fine, international participation will raise the capability and credibility of the Institute. Thus, it will be more effective in promoting the cause of Islamic Banking even at local levels.

The proposed RITRIB, when fully operationalized, is expected to play a significant role in the promotion of Islamic Banking in the region. We believe the proposal will meet with warm response from all members of the Ummah. May Allah enable us to work jointly in His Path.

“And hold fast,
All together by the Rope,
Which Allah (stretches out
For you), and be not divided
Among yourselves.

Al-Quran 3:103.”



DISCUSSANTS' VIEWS

Dr. Ahmad El-Naggar

Bismillahir Rahmanir Rahim.

I have a very short comment on the Paper. I congratulate brother Azizul Huq for putting stress on the necessity of training of manpower for Islamic Banks. We all agree that Islamic Banks have a Philosophy different from that of other banks and they must have trained people and responsible leaders to take the responsibility of this new system. Unfortunately, the practice uptil now has not shown that there is something peculiar or something which needs training. We know that there are not many training institutions as are required. There are training institutions all over the world for the conventional system of banking, but we have some problems which are to be solved by establishing specialised training institutes. So, training institute is essential not only for Bangladesh or South-East Asia but also for the whole Islamic world and for the non-Islamic world.

I have some questions and I hope, brother Azizul Huq and his colleagues will address those in the next session. The questions are : What is an Islamic Bank ? What are we talking about ? Is it a development bank ? Or, is it a religious institution applying all Islamic principles in its daily transactions ? Is it a real banking institution working as a mediator between the savors and the investors ?

In the conventional system, as we know, banks are mediators but they are selling and buying money. But Islamic Banks are mediators in the sense that they are buying and selling goods—they are connecting the savors to their risk of investments with that of the investors. We must have a common view as to what the Islamic Banks are supposed to do in the context of their distinct Philosophy and Message. We must also have the objectives and strategies of Islamic Banks. Unfortunately, there is no unified opinion uptil now concerning these points which are very important. Why to make an institute and for what ?

In conventional banking, all are agreed in respect of objectives, strategies and the functions and they have developed common norms for measuring their success or failure. Whereas, under Islamic Banking, since there is no uniform measuring rod, different banks are using different criterion for

measuring their performances. The set of criterion should include ability of the bank to create supporting entrepreneurs with participation mentality. While developing criteria for measuring performance of an Islamic Bank, we may keep the concomitant aspects in view which are : (a) changing the behaviour of the people from Riba way of thinking to participation way of thinking (b) extent of participation in Musharaka (c) ability to collect or to mobilise savings (d) development of new product for the international financial market to have a quick profit or not (e) profitability (f) degree of acceptance of the message of Islamic Banking (g) economic profile of the entrepreneur and (h) financing in the public sector.

To evolve the set of criteria and to fix the relative importance of its elements, we all have to agree. To achieve that, I have a suggestion. Before establishing the proposed institute, you who are here in Bangladesh, should have a working group together with intellectuals from universities, practitioner bankers and people from socio-politico-economic disciplines. They should sit together and try to give answers to those questions before starting the plan for the institution. After getting the agreed solutions to the above questions, a pilot project should be started to identify the potentialities and constraints of the solution, so that at a later stage we can replicate the solution on a wider scale.

Thank you very much.

Dr. A. H. M. Habibur Rahman

Bismillahir Rahmanir Rahim.

Hon'ble Chairman and Distinguished Participants.

Assalamu Alaikum.

Brother M. Azizul Huq, the Deputy Executive President of Islami Bank Bangladesh Limited is a practising Islamic Banker. I think his analysis for the development of Islamic Banks is very comprehensive and the proposal he has made at the end of the Paper is very justified. As a back-ground he has narrated briefly but adequately the status of the Islamic Banks in Bangladesh, problems faced by them here and in other countries including the problems of manpower. In fact, manpower is the most important input and heart core for implementing the objectives and purposes of the Islamic Banks.

Brother Huq has developed an excellent Islamic Bankers' profile. Some of the points, of course, have not been emphasised. I like to focus on those very briefly. If we look at the performance of Islamic Banks in Bangladesh we find that the only one bank has contributed 15% of its investment portfolio in industries. I think Bangladesh and other countries of the Muslim

world are emphasising on rapid industrialisation. For this purpose one of the major objectives of Islamic Banks should be to promote industrialisation and that is possible through the development of proper entrepreneurship in the country. Now entrepreneurship development needs stimulatory support and sustaining assistance. Islamic Banks working under the Shariah principles can not afford to invest money without looking into the capability of the entrepreneur, viability of the business project and the ultimate success of the business plan. So, what I like to say is that Islamic Banks should give prior attention to the development of the entrepreneurship in the country so that industrialisation grows rapidly.

Secondly, I think, since Islamic Banks function on Islamic principles of profit and loss sharing, they must see that the project is viable. In the western countries also emphasis is given on venture capital, the project itself, the proprietors and entrepreneurs of the enterprises. I think the Islamic Banks should develop in such way so that they can help the entrepreneurs who have initiative and creativity and who can really make success in this pursuit.

As regards the establishment of a Regional Training and Research Institute, I think, the proposal is a very sound and acceptable one in the sense that Islamic Banks need a Centre of excellence. Islamic Banks need a think-tank which may think about the training programmes, development of entrepreneurship and provide guidelines as to how Islamic Banks will function for overall improvement of the country. The proposal for establishing a Regional Institute for Training and Research is very significant and if this Institute is developed, it can shoulder the responsibilities to exchange ideas and experiences of the scholars not only of Bangladesh but also of those of the Islamic world. I like to conclude that the sooner the Institute is established, the better will be the development of manpower for Islamic Banks and for providing guidelines and counselling for the overall economic development of Islamic countries, particularly entrepreneurship development.

Thank you all.

CHAIRMAN'S ROUND-UP

S. M. Al Hussaini

Distinguished Delegates,
Assalamu Alaikum.

First I must say that the Islamic Banking system has come to stay, but that does not mean that the scepticism which is now declining about the Islamic principles has totally evaporated. We have challenges before us. There are two kinds of challenges : one is that within the Islamic countries we are still in negative attitude about the acceptance of ideas and its expansion and also in helping the rest of the world accept it. It is a very good sign that International banking system including the World Bank has given recognition to the Islamic Banking system ; but it does not mean that they have totally endorsed it. They have suggested many changes which may or may not be acceptable to our principles of Shari'ah. These need to be examined. Now we have to take the bull by the horn. Why should people accept the Islamic system ? Even in this room all of us may have extreme leaning towards the Islamic Economic order and Islamic principles ; we may be highly emotional about them ; but how many of us have accounts with Islamic Banks ? In spite of the fact that in the last five years the deposits of Islami Bank Bangladesh Limited has increased by 20 (twenty) times, the advances have increased by 175 times. The annual compound growth rate is 82% in deposit and 136% per annum in advances. It is really a fabulous figure ; but that is because there is no other system at work and this bank has started working in the vacuum from a very low base. So the figures are very impressive. Now what should make the other banks accept the Islamic principles needs a lot of exercising. If we want to expand the Islamic order, Islamic system and the traditional system must be brought closer. Otherwise Islamic Banking system will have to stay within its own cocoon. Because it has been said and as we believe that it is Allah's order we have to look forward to the day when Bank of America or say, Manhattan will adopt Islamic principles eventually.

But let's come to the more important issue : what are the objectives of Islamic Banking ? Why should we accept the Islamic Banking System ? This is the very important question that Dr. El-Naggar has raised. The objective of the Islamic System is not only to earn profit, but to do good and welfare for the people also. Islam upholds the concept that money, income and property belong to Allah and we have to see how this wealth is used in

doing the fundamental good to the society. Here we come to the point highlighted by Dr. Habibur Rahman that in a developing country, the greatest opportunity for growth lies in industry and the services sectors and in those sectors to promote investment and growth we need to develop entrepreneurs and professionals. To develop professionals, we need training. In Bangladesh there are only two Islamic Banking institutions where most of the Managers are self trained. But with the self trained people Islamic Banks can not go very far. Even for domestic purposes we need a banking institute and for the purpose of expanding the same at the Islamic Ummah level and the rest of the world we need something more and in that context the argument put forward in the Paper under discussion that there should be a Regional Institute. I think this is very apt and we should work for that.

Bangladesh is a very suitable place for it, because Bangladesh's commitment to the Islamic order is manifest from the fact that this is the 3rd successful International Seminar we are having here on the Islamic Banking system. These have created a very wide awakening and interest among the intellectuals and professionals of this country. Economy of this country is the least developed, but opportunity for growth is the highest. If we have an Institute for Training and Research, this will have the largest number of the case studies here. Besides, Bangladesh has got the geographical advantage of being located in the central place of the near East, far East and the Middle East. It has a good pool of talented bankers, economists, accountants, engineers and other professionals required for entrepreneurship development. Thus, we find that there are large number of issues which prove that Bangladesh is a suitable place where the proposed Regional Institute could comfortably be started and for materialising this the two Islamic Banks in Bangladesh, Bangladesh Bank and other Islamic Banks of the Region, OIC, IDB, and IAIB should join hands.

Thank you. May Allah bless you all.

PART: I

CHAPTER THREE

A. Key-Note Paper

**Islamic Insurance and Re-Insurance
(Takaful: Islamic Alternative to Insurance)
: Mohd. Fadzli Yusof**

B. Discussants' Views

**A. F. M. Yahya
Shah Abdul Hannan
M. Harunur Rashid**

C. Chairman's Round-up

Professor M. Safiullah

Mohd. Fadzli Yusof: General Manager, Syarikat Takaful Malaysia Sendirian Berhad, Malaysia.

A. F. M. Yahya: Ex-Director General, Islamic Foundation Bangladesh, Chairman, 'Sponsors' Committee, Proposed Islamic Insurance Co. of Bangladesh.

Shah Abdul Hannan: Member, National Board of Revenue, Bangladesh.

M. Harunur Rashid: Former Controller of Insurance; Executive Director, United Insurance Company Limited, Bangladesh.

M. Safiullah: Former Director, Institute of Business Administration, University of Dhaka, Bangladesh.

—AN ISLAMIC TAKAFUL ALTERNATIVE TO INSURANCE

Mohd. Fadzli Yusof

I INTRODUCTION

Syarikat Takaful Malaysia Sendirian Berhad (Takaful Company Private Limited of Malaysia) was incorporated on 29th November, 1984. Its business was launched in August 1985. The first press release issued by the Company announced the following terms :

“...In view of the fact that Takaful is a new system of insurance business to be introduced in the country, the Committee for the implementation of Syarikat Takaful Malaysia is planning to embark upon a campaign programme to disseminate information in order to educate the public, particularly the Muslims, on the concept and operation of Takaful...”

At that time, to operate insurance business based on the injunction of Islam (Islamic Insurance), was indeed a new concept. Notwithstanding the experience hitherto gained by the Malaysian Company after four years in operation, it is felt that the concept is still new.

The origin of Syarikat Takaful Malaysia lies further back in time. The call for the establishment of Islamic Insurance was first made at the pan-Malaysian Islamic Conference in 1969. The seventies saw a period of Islamic resurgence in which Muslims had desired to practise the rules of Shariah, as embodied in the dictum “Islam is a way of life”. This desire also includes matters related to finance. In 1972 the National Fatwa Committee of Malaysia unanimously agreed that the operation of life insurance by the insurance companies is not in accordance with the Islamic principles, and therefore, forbidden in Islam (haram).

However, discussions on the issue more or less cooled off. There was no action taken to change the situation until the issue came to light when the late Mufti of Kuala Lumpur responding to a question from an audience at a public lecture in connection with the celebration of Maulid -i- Rasul in 1979, declared that the present-day insurance was not in line with the Islamic principles. As a result of this chain of events the Muslims generally feel that this conventional insurance is not structured along the rules and practices of Shariah. Perhaps, this explains why participation of Muslims in the conventional insurance has been confined merely to comply with the requirements of law, of which motor vehicle insurance is a clear example. The call for Islamic Insurance gained further impetus in 1982, when the National Steering Committee on Islamic Bank in its report to the Malaysian Government highlighted the need for an Islamic Insurance in order to cater to the insurance requirements of the proposed Islamic Bank.

Consistence with the policy of injecting Islamic values in the administration of the country, the Malaysian Government took a positive step by forming a special body known as the 'Task Force on the Study of the Establishment of Islamic Insurance (Takaful) in Malaysia in 1982. Members of the Task Force were drawn from personalities and groups representing religious scholars, legal experts, economists and insurance practitioners.

The first known Islamic Insurance company is Islamic Insurance Co. Ltd. of Sudan. It started operation in 1979. There are now about a dozen Islamic Insurance Companies operating in different countries including some countries in Europe.

II DEVELOPMENT OF SYARIKAT TAKAFUL MALAYSIA

2.1 It is a fact that some form of cover or protection as provided for under an insurance policy is a necessity in the day-to-day life of a man in this modern society. Every member of the society is invariably exposed to the risk of facing catastrophies and disasters which may give rise to misfortunes, tragedies and sufferings such as death, loss of limbs, destruction, accident, etc. Although a Muslim must believe that any catastrophe or disaster that befall him as 'Qada' and 'Qadar' from Allah, it is also his duty to find ways and means to avoid such catastrophe and disaster wherever possible, and to lighten his or his family's burden should such event occur. For this purpose one must be adequately prepared, especially, in terms of financial resources so that the hardship and suffering could be alleviated. Although one may have the tenacity and discipline to save money for 'rainy days', it may, however, not be sufficient as a tragedy may strike at any time. Therefore, obtaining of some form of cover or protection, usually by way of insurance, becomes essential.

2.2 In view of the necessity and the real need for insurance cover coupled

with the presence of doubt on the participation by Muslims in the insurance policies, Muslim Jurists had, therefore, conducted a detailed study on the operations of the conventional insurance. How does Islam view at the present day insurance? Generally, the accepted view of the Jurists is that the present-day insurance does not, in its present form, conform to the rules and requirements of Shariah due to the presence of the following three elements:

(i) Al-Gharar

There is the element of al-gharar (unknown or uncertain factors in the operation of a contract) in both the life and general insurance contracts. This arises due to the uncertainty of the subject matter of the contract or "ma'qudalah" which is one of the basic rules of contract in Islam. In such a contract the insured or the policy-holder agrees to pay a certain sum of premium and in turn the insurance company guarantees to pay a certain sum of compensation (sum insured) in the event of a catastrophe or disaster. But the insured or the policy-holder is not informed, for example, of how the amount of the compensation that the company will pay him is to be derived.

(ii) Al-Maisr

There is the element of al-maisr (or gambling) which arises as a consequence of the presence of al-gharar, in particular in the case of life insurance. When a life policy-holder dies before the end of the period of his insurance policy after paying only part of the premium, for example, his dependents will receive a certain sum of money which the policy-holder, in the first place, is not informed of how and from where it is to be derived.

(iii) Al-Riba

There is the practice of al-riba (or interest) and other related practices in the investment activities of the conventional insurance companies which contravene the rules of the Shariah.

2.3 Against the backdrop of the rulings by the Jurists that the present-day insurance is not in line with Shariah, and realising the imperative of providing such cover to the Muslims, the "Task force on the Study of the Establishment of Islamic Insurance (Takaful) in Malaysia" was expected to put forward a plan as a basic framework for setting up of a viable Islamic Insurance Company. In the course of carrying its assignment, the Task Force in 1983, had also visited a number of Islamic countries in the Middle East, as well as had discussions with three Islamic insurance companies already established or about to be launched at that time. Finally, in its report to the Malaysian Government, the Task Force concluded that an Islamic Insurance Company should be established in Malaysia as soon as possible.

The fact that Islamic Insurance in Malaysia should be undertaken by a body established as a company was a good indication that Islamic Insurance would be run as a business venture. In addition, there were several recommendations related to the Islamic concept of the Company, capital structure, the licensing and regulatory/supervisory authority, and the setting up of a Shariah Supervisory Council.

2.4 Takaful

The comprehensive study by the Muslim Jurists of the present-day insurance from the view point of the Shariah also examined in-depth an alternative form of insurance cover acceptable to Islam. In this respect the Jurists concluded that a form of cover that conforms to the rules and requirements of Shariah ought to be based on the Islamic concept of Takaful. The word 'Takaful' means 'joint guarantee'. In a practical sense Takaful can be visualised as a method of joint guarantee among a group of members or participants against loss or damage that may inflict upon any of them. The members of the group agree to guarantee jointly that should any of them suffer a catastrophe or disaster, he would receive certain sum of money to meet the loss or damage. It means mutual help among the group. All members of the group pool together their efforts to support the needy.

2.5 Application of Al-Mudarabah in Takaful

Through Syarikat Takaful, the concept of Takaful as developed in Malaysia has been transformed into a business operation in private commercial (tijari) sector. As a business operation, serving along the Islamic framework, Takaful cover must, therefore, be based on certain Islamic principles and rules which are essentially derived from the body of principles of Muamalah (ahkam al-muamalah) in Islam that relate to takaful services. In this respect the contract or the agreement (akad) of Takaful is based on the muamalah principle of Al-Mudharabah. Al-Mudharabah simply means sharing of profit in business.

2.6 Under the contract of takaful which is based on the principle of Al-Mudharabah, the entrepreneur or Al-Mudharib (Takaful operator) will accept payment of the Takaful instalments or Takaful contributions (premium) termed as Ra's-ul-Mal from investors or providers of capital or fund (Takaful participants) acting as Sahib-ul-Mal. The contract specifies how the profit (surplus) from the operations of Takaful managed by the Takaful operator is to be shared in accordance with the principle of Al-Mudharabah between the participants as the providers of capital and the Takaful operator as the entrepreneur. The sharing of such profit (surplus) may be in a ratio of 5:5, 6:4, 7:3, etc. as mutually agreed between the contracting parties.

2.7 As a business agreement the Takaful contract also states clearly how the Takaful instalments or contributions or Ra's-ul-Mal paid by the participants are to be employed by the operator. The general terms and conditions of the Takaful cover including the benefits which the participants are entitled to, are spelt out in the contract. In essence the Takaful contract states clearly the rights and obligations of both the participants and the Takaful operator.

2.8 Tabarru'

Another equally unique and important feature, which underscores the Islamic character of Takaful, and also forms part of the Takaful contract itself, is the Islamic concept of Tabarru' (to donate, to contribute). In relation to this, unlike the normal contract of Al-Mudharabah, the participants of the Takaful contract shall agree to relinquish as donations, made in accordance with the concept of Tabarru', certain proportions of their Takaful instalments or Takaful contributions in order to fulfil the obligations of mutual help and joint guarantee as embodied in the concept of Takaful. Therefore, the purpose of tabarru' as stipulated in the contract is to enable the participants to perform their deeds in assisting sincerely fellow participants who might suffer a loss or damage due to a catastrophe or disaster.

2.9 The sharing of the profit or surplus that may emerge from the operations of Takaful, is made only after the obligations of assisting the fellow participants have been fulfilled. To meet these obligations as well as to be able to generate reasonable level of profits, it is imperative for a Takaful operator to maintain adequate assets in its Takaful funds while simultaneously striving prudently to ensure that funds are sufficiently protected against undue over-exposure. It must be appreciated that as a commercial or tijari institution, Takaful company also operates for profit.

2.10 In essence, therefore, the provision of insurance cover as a form of business in conformity with the rules and requirements of Shariah is based on the Islamic principles of Al-Takaful and Al-Mudharabah. Al-Takaful is an agreement among a group of people, called participants, reciprocally guaranteeing each other, whilst Al-Mudharabah is the commercial profit-sharing contract between the provider or providers of funds for a business venture and the entrepreneur who actually conducts the business. The operation of Takaful may, thus be, envisaged as the profit-sharing business venture between the Takaful operator and the individual members of a group of participants who desire to reciprocally guarantee each other against a certain loss or damage that may be inflicted upon any one of them.

2.11 It is also necessary to emphasise here that the Takaful business as presently transacted in Malaysia, under the regulation of the Takaful Act 1984, is of the kind of cooperative Takaful (al-Takaful al-taawuni) participated by a group of members of the public for their own cause within the domain of the private commercial sector. This kind of Takaful must not be mixed up with the social security Takaful (al-Takaful al-ijtimai) which is normally organised by or at the behest of the public (siasi) sector.

III. TYPES OF TAKAFUL BUSINESS

3.1 There are two types of Takaful business usually managed by a Takaful operator. For Syarikat Takaful Malaysia, being a composite company, it transacts both types of businesses prescribed under the Act. These two types of Takaful business are as follows :

- (i) Family Takaful Business (Islamic Life Insurance)
- (ii) General Takaful Business (Islamic General Insurance).

3.2 Briefly, the Family Takaful Business provides various Family Takaful Plans which, in turn, are long-term Al-Mudharabah contracts. The plans provide cover of mutual financial aid and assistance, in the form of Takaful benefits, in case of untimely death of a participant.

3.3 The General Takaful Business provides various General Takaful Schemes as a form of cover or protection against material loss or damage arising from catastrophes, disasters or misfortunes inflicted upon properties or assets belonging to participants such as buildings, houses, motor-vehicles, stocks in trade, etc.

IV. FAMILY TAKAFUL BUSINESS

4.1 This section of the Paper will highlight briefly pertinent facets of the operation of Family Takaful Business. A Family Takaful Plan, which is essentially an investment programme, provides investment returns to a participant as well as mutual financial aid. Any individual may participate in the Plan in order that he would be able to save regularly a sum of money as a measure to relief the financial burden that his dependents may face should he die prematurely, or as a form of long-term contingency savings should he survive the term of the Plan.

4.2 Therefore, the Family Takaful Plans would enable the participants to participate in a Takaful business with the following objectives :

- (i) to save regularly ;
- (ii) to invest with a view to earning profits in a manner not contrary to the rules and requirements of Shariah ;
- (iii) to avail of cover in the form of payment of Takaful benefits to heir(s) should a participant die before the maturity date of his Takaful Plan.

4.3 A person who wishes to participate in the Family Takaful Business may choose any one of the types of Plan designed by the Takaful operator. At present the Family Takaful Plans designed by the Syarikat Takaful Malaysia have the defined period of participation of 10 years, 15 years and 20 years.

4.4 At present, these fixed-period Family Takaful Plans may be participated by any individual between the ages of 18 and 50 years, and the term of participation must expire when the participant reaches 60. By incorporating a supplementary contract in the manner of 'assignment' (hibah) these Plans can be converted to Family Takaful Plans for Education. The benefits derived either upon untimely death or maturity of the plan, shall be used to finance higher education of his child(ren).

4.5 The Family Takaful Business also offers a Takaful Plan to any individual to cover the outstanding amount of his housing loan/financing facility in case he does survive the period of his loan/financing facility. Should such death occur Takaful benefits payable under the Plan will repay the outstanding amount of the loan/financing facility. This cover is provided under the Takaful Mortgage Plan. In addition, there is the Group Family Takaful Plan providing cover to a group of people under one Takaful contract. Similarly, the participants and operator enter into a Takaful contract based on the principle of Al-Mudharabah. The Takaful contract spells out clearly the rights and obligations of the contracting parties.

4.6 In consideration of participation in the various Takaful Plans the participants are required to pay the operator regularly, according to the agreed schedule, the Takaful instalments which are then credited into a fund (Family Takaful Fund). The amount of Takaful instalments to be paid during the term of the Plan is determined by the participants themselves. Such amount, however, should be within the financial means of the participants. It shall also be subject to the minimum sum as may be fixed by the Takaful operator.

4.7 Each Takaful instalment paid by the participants, and credited to the Family Takaful Fund shall, in turn, be divided and credited by the operator to two separate Accounts, namely, the Participant's Account (PA) and the Participants' Special Accounts (PSA). A substantial portion of the instalments, if credited to the PA solely for the purpose of savings and investment, the balance of the instalments is credited to the PSA as Tabarru' for the operator to pay the Takaful benefits to the heir(s) of a participant who may die before the maturity of the Family Takaful Plan he has participated. Within this context it is not too difficult to see that PA serves to accumulate savings while the PSA creates a form of mutual fund payable on death. The proportions of the Takaful instalment to be relinquished as

Tabarru' and in turn allocated into the PSA, is computed with the guidance of the actuarial principle. The proportion varies in terms of the participation period and the age-band of each participant, as follows :

Age-Band	Period of Participation of Family Takaful Plans		
	10	15	20
18-30	2.0%	3.5%	5.0%
31-35	2.5%	4.5%	6.5%
36-40	3.5%	6.0%	9.0%
41-45	5.0%	8.5%	—
46-50	7.0%	—	—

4.8 One of the management functions of the Takaful operator in administering the Family Takaful Business is the investment of the Takaful instalments. For this purpose the proportions of the instalments which have been credited to the PA and the PSA will be pooled as a single unit. Needless to say, the investment activities undertaken by the operator must be in accordance with the rules and requirements of Shari'ah. In line with the principle of Al-Mudharabah, profits generated from the investment are shared between them. The share of profits allocated to the participant is, in turn, distributed proportionately between his PA and PSA.

4.9 Under the Family Takaful Business, proceeds from the Takaful benefits payable under the Takaful Plans shall be paid to the participants or their heirs upon the occurrence of any of the following events :

- (i) Takaful benefits payable consequent upon death of a participant before the maturity of his Takaful Plan ;
- (ii) Takaful benefits payable upon the maturity of the Takaful Plan.

In the event that a participant should die before the maturity of his Takaful Plan, the Takaful operator shall arrange the payment of Takaful benefits to the participant's heir(s) in the following ways :

(i) From his PA

The total amount of the Takaful instalments paid by the deceased participant from the date of inception of his Takaful Plan to the due date of payment of the instalment prior to his death and his share of profits from the investment of the instalments which have been credited to his PA.

(ii) From his PSA

The outstanding Takaful instalments which would have been paid by the deceased participant should he survive the period of the Plan. This amount is calculated from the date of death to the date of maturity of this Takaful Plan.

4.10 If a Participant should live until the date of maturity of his Takaful Plan, the takaful benefits shall be paid to him in the following manners :

(i) From his PA

The total amount of takaful instalments paid by the participant during the tenure of his participation and the share of profits from the investment of the Takaful instalments credited to his PA.

(ii) From his PSA

The net surplus allocated to the participant as shown from the last valuation of the PSA.

4.11 In case that a participant is compelled to surrender or discontinue his participation before the maturity date of his Family Takaful Plan he shall be entitled to receive the surrender benefits. The surrender benefits shall be the proportion of his Takaful instalments which had been credited to his PA plus his share of profits from investment of the instalments as credited to the PA. The proportion of his Takaful instalments which had been credited to the PSA as Tabarru' shall not be refunded to the participant.

The operation of the Family Takaful Plan is illustrated in Appendix I.

V. GENERAL TAKAFUL BUSINESS

5.1 The General Takaful Business may be participated by an individual or a body corporate as a way to cover against loss or damage of properties or assets caused by a catastrophe or disaster such as fire, accident, flood, etc. The contract of General Takaful is also based on the Islamic principle of Al-Mudarabah. The term of participation or the period of Takaful in respect of the General Takaful Business is usually for a tenure of one year. On expiry of the period of Takaful the term may be renewed for another one-year period.

5.2 The various types of General Takaful Scheme provided by the operator would enable participants to participate in the Takaful Business with the primary aim of attaining cover in the form of benefits should a

participant suffer a loss or damage as a result of a catastrophe or disaster that has struck upon his property or asset. Although essentially, Takaful provides cover, the General Takaful, unlike the family Takaful plan, is not, intended as a means of savings although a participant is entitled to some form of profit sharing as expressed in the principle of Al-Mudarabah at the expiry of the period of Takaful. Participants of the General Takaful Business agree that the Takaful contributions are paid as Tabarru' for the purpose of creating a defined asset or a fund (General Takaful) to enable the Takaful operator to pay against a defined loss or damage of properties or assets resulting from catastrophes or disasters.

5.3 The Takaful operator will invest the Fund having returns on such investments pooled back to the same. In line with the virtues of mutual help, shared responsibility and joint guarantee as embodied in the concept of Takaful the operator, as the manager or trustee of the fund, shall pay benefits, compensation or indemnity to any participant who suffers a defined loss or damage consequent upon the occurrence of a catastrophe or disaster. Other operational costs for managing the General Takaful Business such as the cost for arranging the Retakaful programme and the setting-up of a reserve shall also be borne by the Fund. Management expenses will not be borne by this Fund.

5.4 A participant who wishes to participate in a General Takaful Scheme such as a Motor Takaful to cover his motor vehicle, a Fire Takaful to cover his house from a loss or damage against fire or a Public Liability Takaful to cover against his third party liability shall pay a certain sum of Takaful contributions in consideration for his participation in the Scheme. The amount of Takaful contributions will depend on the value of the property or asset to be covered.

5.5 If no claims are made and there is surplus (profits) after deducting all the operation costs of the Fund as outlined above, that surplus shall be shared between the participants and the operator. The sharing of the surplus will be made in a ratio agreed to in accordance with principle of Al-Mudharabah such as 6:4, 5:5, etc. Profits attributable to the participants are paid on the expiry of the General Takaful Schemes participated provided the participants have not received claims.

The operation of the General Takaful Business is outlined in Appendix II.

VI. RETAKAFUL

6.1 When one is operating an insurance business it is essential for one to arrange reinsurance, so that the risks being underwritten could be evenly spread and therefore, one has the capacity not only to absorb more risks but bigger risks too. As Syarikat Takaful Malaysia is operating Takaful business,

it is, therefore, prudent that Retakaful arrangement or Islamic reinsurance be arranged by the company. It should be noted that Retakaful goes along with Takaful business as it would not be possible for Syarikat Takaful Malaysia, however strong it is, to meet all the losses from its own resources. Therefore, it must secure adequate Retakaful cover from reliable and financially viable Takaful/Retakaful institutions as this would enable it to safeguard the interests of the participants. In this respect Retakaful contract or Retakaful or Retakaful agreement should be subject to the same principles and rules as Takaful, with the only difference being that Takaful contract is primarily between a Takaful operator and a participant while Retakaful is a contract entered between the operator and a Retakaful company.

6.2 However, it is unfortunate that at present companies or organisations offering Takaful or Retakaful (Islamic insurance and reinsurance) are very limited. But Retakaful is a must. As such in case of Syarikat Takaful Malaysia, its Religious Supervisory Council has agreed that the Company can enter into Retakaful arrangement with the conventional Insurance/Re-insurance companies until such time that there are adequate Retakaful or Islamic re-insurance companies with the strength to underwrite the Retakaful business needed. However, in having this transaction the Company must not resort to excessive Retakaful arrangement with the conventional Insurance/Reinsurance. In addition, the Religious Supervisory Council has imposed certain conditions on the Syarikat Takaful Malaysia when placing Retakaful with the conventional reinsurers, viz :

- (1) it should not receive any commission from its reinsurance and reinsure on a net premium basis ;
- (2) it should not pay interest on the premium reserves (Takaful contribution) retained by it from its reinsurers ;
- (3) as Islamic Insurance Companies do not and cannot participate in the losses suffered by their reinsurers from their own business, Syarikat Takaful Malaysia cannot receive any profit commission from its reinsurers ; and
- (4) it cannot receive inward retakaful concession from the conventional insurance or reinsurance companies.

VII SYARIKAT TAKAFUL MALAYSIA SENDIRIAN BERHAD

7.1 Incorporation of the Syarikat Takaful Malaysia

Following the recommendation of the Task Force on the Study of the Establishment of Islamic Insurance (Takaful) in Malaysia, the Government agreed that the responsibility for developing the concept of Takaful as a working system be undertaken by Syarikat Takaful Malaysia Sendirian

Berhad which had been established as a Syarikat-ul-Inan. The Company was incorporated as a private limited company under the Companies Act, 1965 on November 29, 1984. Though established as per decision of the Government, the company, has been working neither as a Government statutory body nor as an agency rather as an ordinary company with the principal activities of transacting Takaful business or Islamic Insurance.

To underline the importance of its Islamic character, the Memorandum and Association of Syarikat Takaful Malaysia prefaces that "all businesses of the Company will be transacted in accordance with Islamic principles, rules and practices."

7.2 Shareholders

In the Memorandum and Association it is also stated that the authorised capital of the Company is \$ 100 million divided into 100 million ordinary shares of \$ 1 each. At present its paid-up capital is \$ 10 million held by the following institutions :

	\$ million
Bank Islam Malaysia Berhad	5.1
State Religious Councils/ State Religious Agencies	4.9
	<hr/>
	10.0

7.3 Takaful Plans and Schemes

The following are some of types of Takaful covers in which, at present, one can participate under both Takaful businesses, viz :

(i) Family Takaful Business

- (a) Takaful Plans
 - 10-year term
 - 15-Year term
 - 20-Year term
- (b) Takaful Plans for Education
- (c) Takaful Mortgage Plan
- (d) Group Family Takaful

(ii) General Takaful Business

- (a) Fire Takaful Scheme
 - Basic fire
 - Houseowners
 - Householders
 - Business interruption
- (b) Motor Takaful Scheme
 - Motor car
 - Motor cycle

(c) Accident/Miscellaneous Scheme	Personal accident All risk Workmen's compensation Public liability Employers liability Money Fidelity.
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7.4 Takaful Act 1984

In pursuance of the Government decision to introduce Takaful business in Malaysia, the Parliament passed the Takaful Act which was gazetted in 1984 providing for the licensing and regulating Takaful business. It has been modelled on Malaysia's existing Insurance Act 1963 with modification and amendments as are necessary to conform to Takaful business practices. Under the Act, the Supervisory Authority has been vested in the Central Bank of Malaysia through the Director-General of Takaful who is also the Governor of the Bank.

For the purpose of licensing, the Act provides that takaful business is divided into Family Takaful and General Takaful. Syarikat Takaful Malaysia Sendirian Berhad operates as a composite company managing both businesses.

7.5 Religious Supervisory Council

The Takaful Company has set up a Religious Supervisory Council to supervise its operation in respect of their compliance with the rules of Shariah. The Takaful Act 1984 states on the registration of Takaful operators that

"The Director General shall also refuse to register an applicant unless he is satisfied—

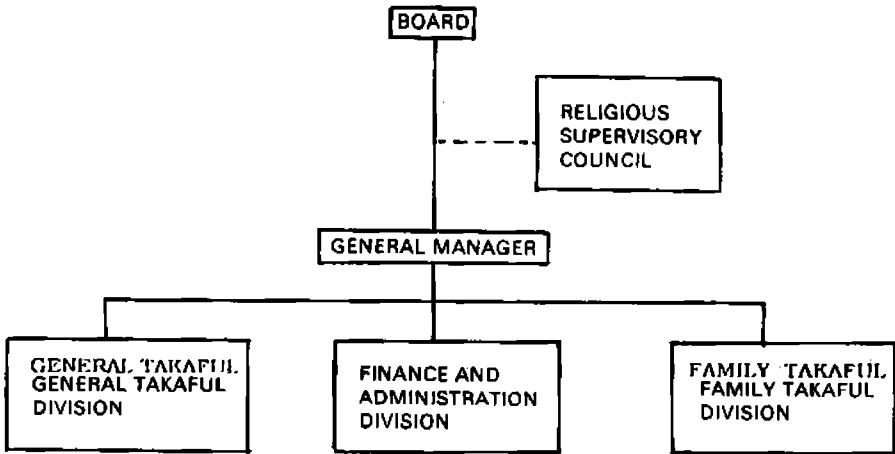
(a)...

(b) that, there is in the Articles of Association of the Takaful operator concerned, provision for the establishment of a Shariah Supervisory Council to advise an operator on the operations of its Takaful business in order to ensure that it does not involve in any element which is not approved by Shariah."

Accordingly, the terms have been incorporated in the Company's Articles of Association.

7.6 Organisational Structure

Briefly, as a measure of ensuring effective control and efficiency of management, the basic structure of the Company is divided into three main divisions as depicted in the following chart :



7.7 Business Performance

The Company started its operations in 1985 with a total staff strength of 22. Now the staff strength has grown to 121. For effective and quality services, the company has computerised its General Business Section.

The growth of the Company over the years is illustrated in the following table :

Year	Family Takaful \$m	General Takaful \$m	Company Profit/(Loss) \$m
1985/86	0.585	1.407	(0.570)
1986/87	1.093	4.691	0.004
1987/88	2.118	9.723	0.604
1988/89	6.035	16.516	1.457

From a total of 6,198 participants in the first financial year ending 30th June 1986, the number had increased to 89,386 at the end of the fourth financial year ending 30th June 1989. Similarly, the total amount of Al-Mudharabah paid to entitled participants jumped from \$2.028 to \$2.389 million over the same period.

7.8 Marketing

On the marketing side, unlike the conventional insurance Syarikat Takaful Malaysia does not adopt the agency system for its channel of distribution. Instead the Company employs the direct marketing method by establishing

its own branch network, and setting 'Takaful Desks' at the branch offices of Bank Islam Malaysia Berhad and at the district offices of the Tabung Haji—the Pilgrimage Management Fund Board (a Government statutory body). At present it has got seven branches and twenty-one 'Takaful Desks' at the major and secondary towns of the country.

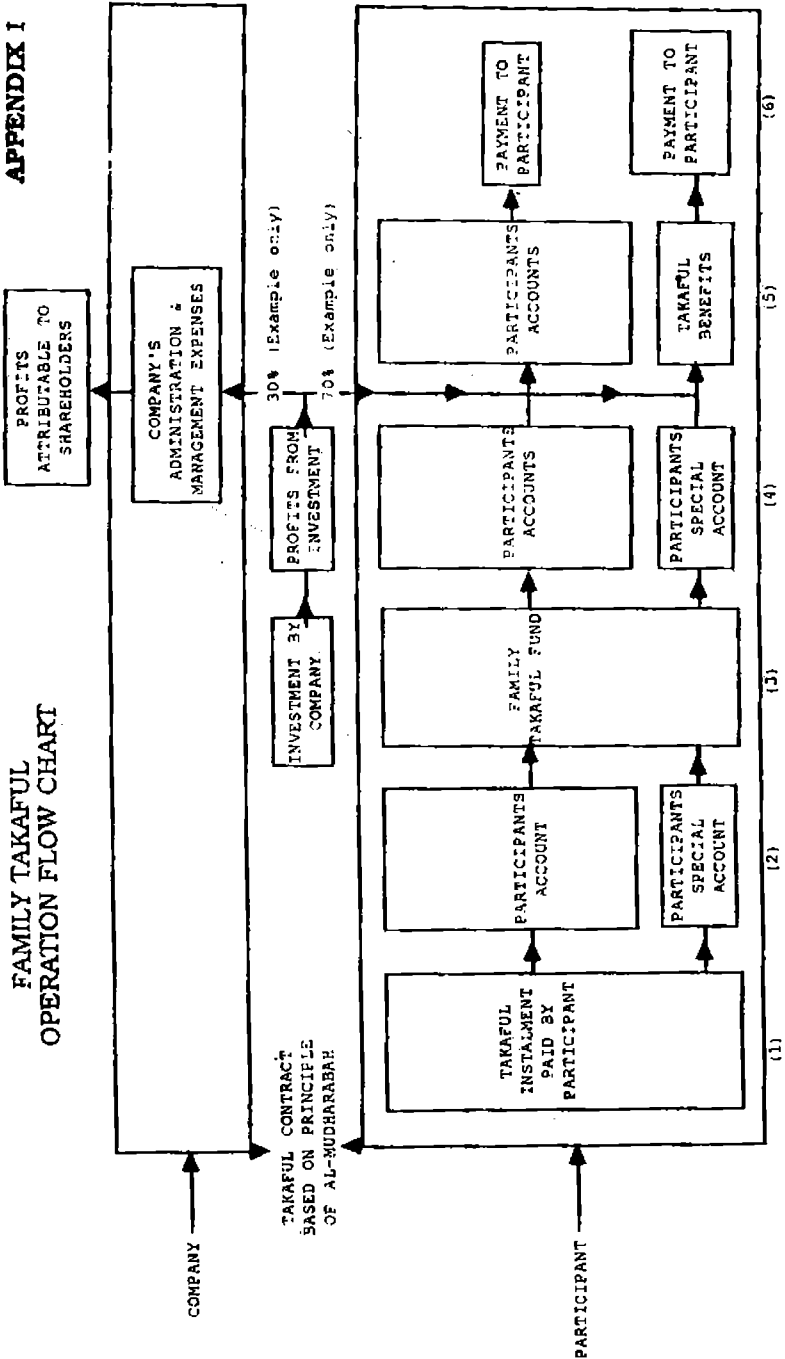
VIII. CHOICE OF TAKAFUL SYSTEM

So far a brief background of Syarikat Takaful Malayasia has been discussed with different stages of its development and operational experiences. It is to be highlighted again that the success so far it achieved is due to the basic philosophy of cautious business approach in all aspects of its operations. It has adopted a fairly strict underwriting policy. It has also established a fairly strong accounting system. Moreover, it has managed to curb expenses by not adopting the agency system in its marketing structure. The regulatory measures enforced by the Act helped ensure proper management of the Takaful business.

But Syarikat Takaful Malaysia is not the only model. A number of Takaful or Islamic Insurance/Reinsurance companies have been established in other parts of the world. Reference may also be made with these companies in order to study their developments and learn their experiences.

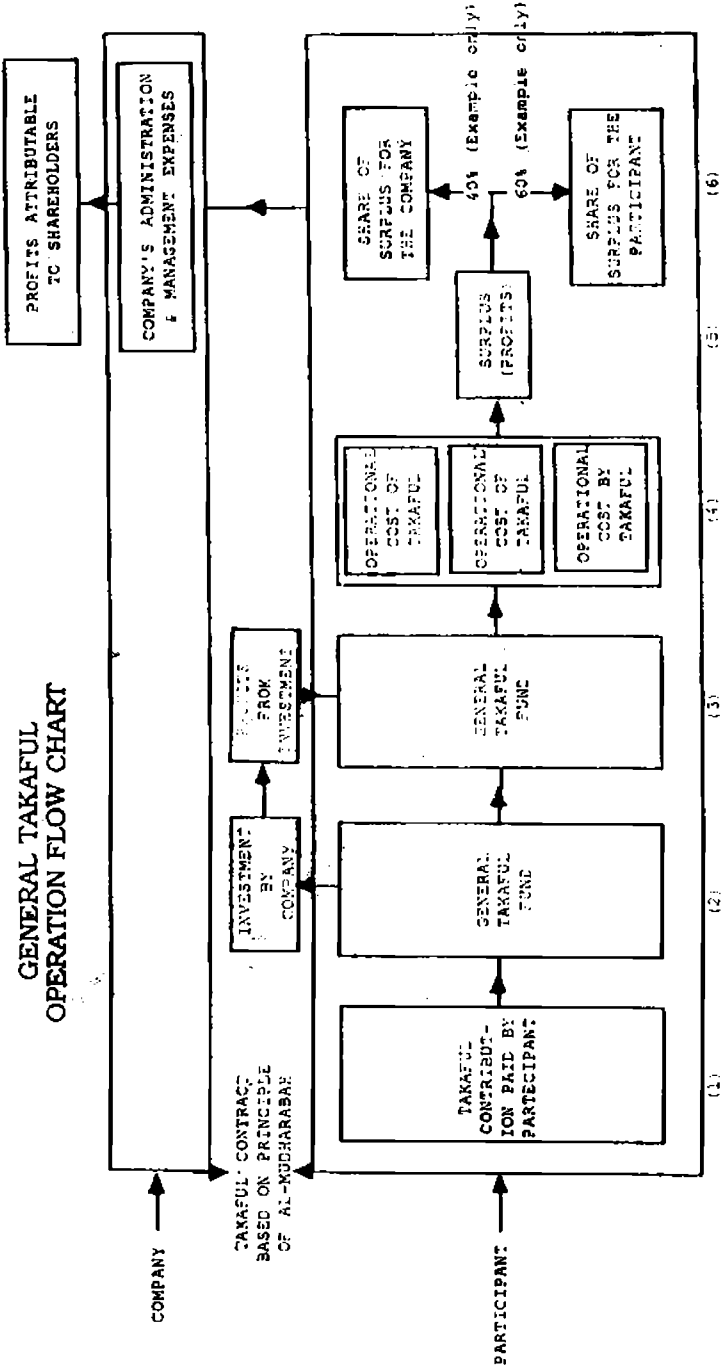
APPENDIX I

FAMILY TAKAFUL OPERATION FLOW CHART



APPENDIX II

GENERAL TAKAFUL OPERATION FLOW CHART



DISCUSSANTS' VIEWS

Shah Abdul Hannan

Alhamdulillah Rabbil Alamin, Assalatu Assalamu A'la Rasulihil Karim, Wala Ali Wa-Ashabihi Ajmain.

Mr. Chairman, Brother Yusof, Brother Yahya, Brother Harunur Rashid and Distinguished Delegates and Guests.

Assalamu Alaikum.

I will just speak on a few points. First of all I feel that the paper on Takaful presented by Brother Mohd. Fadzli Yusof is an excellent one. I congratulate him for the paper which is self-explanatory and very easy to understand. Now I will speak on Part Two of the paper where Brother Yusof has discussed the principle of Takaful and the Shari'ah position. Here he states that the present insurance is not in accordance with Al-Shari'ah because of the presence of Al-Gharar i.e. unknown and uncertain factors in the operation of a contract and Al-Maisr i.e. gambling and Al-Riba i.e. interest. The paper says that the Muslim Jurists concluded that a form of insurance with rules and requirements of Al-Shariah, must be based on Islamic concepts of Takaful. In this context I will read out a small portion from the book of Dr. Nazatullah Siddiqui who has summarised the position of Islamic Jurists regarding insurance. He says that eminent scholars like Zarqa, Yousuf Mussa, Ali al-Khafif, Muhammad Al Bahi, Sonosi, Ruhani, Tahabi, Amin and others see nothing wrong in the insurance so far the basic principles, under-lying insurance, are concerned. According to them it is free from gambling. It is not gambling they have said and can be freed from interest which is involved in its present practice and the ignorance or 'Jahl' and uncertainty i.e. Gharar involved are not of a degree large enough to call for its prohibition, that means, most of the Jurists, I mean, Islamic economists agree that insurance both Life and General is possible in the framework of Islam. But we have to remove Riba from it. Other scholars like Abu Zahra, Ahmed Ibrahim and Shauquat Ali Khan also agree with this view so far the General Insurance is concerned. Now I would read two small things from Islamic Fiqh literature about it. Islamic Fiqh literature (I am summarising from a paper presented by the Bangladesh delegation to the OIC on re-insurance) it says, "The system of payment of 'Diat' is prescribed by Islam when a Momin unintentionally and without any motive kills a fellow Momin, he commits an offence for which Islam provides payment of blood money or Diat as compensations to the heir's of the

victim." The responsibility of such payment has been made to be the responsibility of the nearest *ḳith* and kin. In Arabic it is called *Al Akila*, i.e. the nearest *ḳith* and kin. The reason for fixing such a duty to *Akila* emanates from the concept that if a killer himself is to pay it, he may become insolvent in which event the compensation may remain unpaid and also for ensuring the spirit of mutual cooperation, help and assistance. The *Encyclopaedia of Islam* defines *Akila* as the man's male relations who have to pay the penalty. I am not detailing further. Now it says that the relations have to take part in compensating along with the man who committed the unintentional murder. Here is a basis for cooperation of Islam and as Brother *Fadzli Yusof* has explained that the concept of *Tabarru'* which means donation or contribution.

When we pool together a group of participants in a General *Takaful* or in a Family *Takaful* or life insurance, they participate. If somebody dies before the maturity, I mean he has paid a few instalments, has not paid a few instalments, the instalments which are left unpaid, will be paid to him from *Tabarru'* fund i.e. the contribution of others and this is the basis in Islamic law. There is another example of cooperative insurance in Islamic law. Islamic law recognises a kind of contract known as '*Aqdul Mualat*' i.e. Guardianship Contract. In this type of contract two or more persons can contract together that they are guardians to each other in case of difficulty, for mutual help and cooperation. So, what I want to say is that there is a legal basis and *Shariah* basis and this is not against *Tawakkul*. There is no gambling and the *gharar* or the uncertainty involved, is very little and this can be tolerated according to the *Fuqaha*. Brother *Yusof* has given details how the family *Takaful* operates within the framework of *Takaful*. One principle involved is *Al-Mudaraba* and the other is *Tabarru'* i.e. solidarity. You can say the donation which is derived from the concept of *Takaful* i.e. you are co-operating with each other and sharing with each other institution ally instead of at individual levels. *Takaful* may be difficult in Bangladesh but in Malaysia they have done it where the Government and some social institutions have come together to form this company. We may keep it in mind in Bangladesh and we may try to bring as many institutions as possible but probably individuals will be there. Brother *Yusof* has used for a policy of cautious business approach and I also see in the Malaysian experience that general *Takaful* and family *Takaful* have gone hand in hand and may be, this will be required in Bangladesh in the beginning. I think his suggestions are very sound and should be kept in mind in Bangladesh. I also feel that we can recommend from this house to the Authority in Bangladesh to allow one or two General and Life *Takaful* companies in Bangladesh. Now, I would also say that the concept of insurance is neither against the concept of '*Tawakkul*' nor the concept of *Taqdeer*. This has also

been explained by Bangladesh position paper submitted in OIC by the Bangladesh delegation comprising a group of eminent scholars like late Moulana Abdur Rahim, Moulana Fariduddin Masud and Brother M. Azizul Huq. The discussant himself was one of the members of the group. We know that in the modern days operation of international trade is not possible without general insurance. Even Islamic Banks in Bangladesh can not operate without it. So to complete the circle of Islamic financial institution, insurance is a must in all countries including Bangladesh where Islamic banks exist.

Thank you all.

A. F. M. Yahya

Assalamu Alaikum.

Alhamdulillah Rabbil Alamin, Assalatu Assalamu Ala Rasulihil Karim.

Mr. Chairman, Dear Brother Faddzli Yusof, Fellow Discussants, Ladies and Gentlemen :

We are grateful to Brother Fadzli Yusof for presenting a very illuminating Paper which will go on a long way in helping us while setting up an Islamic Insurance company in Bangladesh. We need both functional experiences from fellow brethren and also we need to have concept and guidance. Brother Fadzli Yusof has given us a very good and detailed explanation of the functional experience and achievements. It would have been more welcomed if he could get some notings in his Paper on the deliberations of the Supreme Council, Shari'ah Council or the Religious Leaders, Council which they set up to explore the theoretical aspects of Islamic Insurance. Brother Shah Abdul Hannan has tried to throw some light on it. We may casually say that to combat a disease is not irreligious, similarly to combat any crisis in life cannot be irreligious nor un-Islamic, rather it becomes a duty incumbent on a Muzahid to sort it out. I consider insurance to fall in the category of such Zehadi efforts to combat the crisis which is a reality in our life. "Tie your camel, rely on Allah" should be the principle. We are concerned right at the moment in completing the circle now in our banking efforts. Our clientele have been insisting to have a full package of Islamic Financial services. We have Islamic banks in the country, and must have Islamic Insurance backing for it. That is why we are trying to impress upon our Govt. while seeking permission for floating this company. I hope the Seminar will make proper recommendation in this direction. I am afraid, perhaps in Bangladesh, we may not be able to conduct both family and general Takaful together because of the existing legal system. About Retakaful Brother Yusof has said something to be cautious later on we may perhaps having understanding what are meant by Management expenses

are to safeguard the interest of the participants. It makes the task all the more challenging. I don't think it will be difficult for us to involve institutions. We may have both institutions as well as individuals put together. The whole Islamic system as we know is a combination of duty and responsibility of both state and individual without this an Islamic Society cannot thrive, cannot succeed. So this has to be there. There are, you know, an well known Hadith about life sector as well as general sector, while in the Majlis one day a 'Sahabi' was informed that his ship has sunk and immediately Hazrat Mohammad (S) has collected fund right from that 'Majlis' and handed it over to him to start the business. Again the very principle of blood money given us indication that the loss of a life in a family may be the loss of the only earning member, that money will have the family to start life. Brother Yusof has mentioned that in Malaysia necessary laws have been enacted to facilitate Islamic Insurance. Such enactment would be needed in Bangladesh also. This very information will help our administration understand the requirement for it. Brother Yusof also quoted the steady performance of Malaysian Islamic Insurance for the last four/five years. We are happy at their performance and we congratulate them for their continued success. We are inspired by the successful experience of the Malaysian Islamic Insurance, particularly, the new system of salesmanship as introduced by them.

In Bangladesh the experience that we earned in introducing Islamic banking system with the committed sponsors and shareholders has proved it without the shadow of doubt that if a set of the same committed sponsors are there, we may reach the desired goal for establishing Islamic Insurance here in our country.

M. Harunur Rashid

Hon'ble Chairman and Distinguished Guests.

I was a delegate of the Seminar. Only two minutes before the start of this Session I was told that I would be one of the discussants. Any way, I was the Controller of Insurance and during my long career I had experiences of both Life and General Insurance and at the moment my discussion would be concentrated on the Act which regulates the operation of Insurance in life and general sectors, vis-a-vis an operation of an Islamic General and Life Insurance.

At the moment in Bangladesh Insurance is being practised or regulated on the basis of western concept and the Insurance Act has been modelled accordingly. As provided in the present Insurance Act, to float an Insurance Company, taka three crore is required as the paid-up capital, out of which taka five lac is needed to be deposited as statutory reserve with Bangladesh Bank and the balance amount, after meeting promotional expenses, is to be

deposited in any scheduled banks including Islami Bank Bangladesh Ltd. and Al-Baraka Bank Bangladesh Ltd.

It is evident that the portion of the paid-up capital deposited with Bangladesh Bank as Statutory Reserve and the portion of the same, after meeting promotional expenses, with conventional commercial banks, will all bear interest, save and except the amount deposited in Islamic Banks, as it is profit-bearing, instead of being interest-bearing. Here, Islamic Insurance Company faces the problem as in the present state of affairs in trade and industry, 99% of the funds are provided by the interest based commercial banks. So, if we don't deposit money with commercial banks, they will not allow us underwrite their business. As such Islamic Insurance Company right from the start will be constrained to limp and be impeded to go ahead.

I am not discouraging the establishment of the Islamic General or Life Insurance Company but what I am emphasising on is that these factors have to be looked into.

Again, regarding profit sharing or giving the money back to the policy holders, I was told by Mr. Sadeque who established the Insurance Company or Re-insurance Company in Sudan and Mr. Yusof in his Paper has also underlined that the premium which is being generated kept separate out of which a part goes to the policy holders. But in modern concept, it is called rebating which is prohibited in the Insurance Act. How this will be taken care of, is a matter to be seen.

Again, in case of Re-insurance, to speak in the context of Bangladesh, Sadharan Bima Corporation is the sole Re-insurance at the moment, but they are running on a westernised method of Re-insurance. So, we may face that problem of getting the Re-insurance also from Sadharan Bima Corporation where, as per provision of law, Islamic Re-insurance will have to do 100% of its business. So, if we go for Islamic Re-insurance, we may suggest for such an amendment in the law in vogue so that we are allowed to do at least 50% of our business outside, what we are required now to do 100% solely with the interest-based Sadharan Bima Corporation. There are Re-insurance Companies on Islamic way in Sudan and also possibly in Jeddah, may not be enough, because, the Re-insurance unless nearly 50% depending on the absorption capacity of an Insurance Company large chunk of the premium income goes to the Re-insurance, but those Re-insurance have been working on the western method which is actually other than Islamic. So, these are the points which require attention of those persons who are going to sponsor the Islamic Insurance and Reinsurance Company in Bangladesh. I would emphasise, if the determined sponsors want to go ahead, they must first try to get the Insurance Act amended.

because, unless the act is amended the Islamic Insurance Company may find it difficult for incorporation and in all other related things. As you know that it takes time for enactment for the law if the Govt. is serious to do it. Now it will take 2 or 3 years. So, I am cautioning the sponsors with this point.

CHAIRMAN'S ROUND-UP

Professor M. Safiullah

Dear Participants and the Distinguished Guests.

I have just to say that this Seminar on Islamic Insurance have given you an answer as to why Islamic Insurance is essential. The answer is already there in the Paper presented by Mr. Yusof. The Paper has laid down how such an Islamic Insurance can operate, and how its management is run. The Islamic Banks in Bangladesh are now using the services of conventional Insurance Companies to cover their assets including investments and collaterals. The conventional Insurance Companies operate on interest based system. The establishment of Islamic Insurance is necessary for Islamic Banks to avoid the interest based Insurance. Islamic Banks go hand in hand with the Islamic Insurance. This has been the theme of the Seminar. If we want the Islamic Banks to survive, Islamic Banks to prosper, we have to allow them to have Islamic Insurance also. Now the Insurance are of two types : Life and General. Only the life will not help the Islamic Banks. Life Insurance, as we know, has to be sold whereas in case of General Insurance people come to buy it. Without the General Insurance, the Insurance Business itself can not go only with the Life Insurance. This is what the Seminar has felt. Hence, Islamic Insurance, both Life and General is a must for Islamic Banks. Simultaneously, the question of Re-insurance comes. So we have to give them authority for Re-insurance also. At the same time we have the Insurance Companies in the country, and Insurance laws. Now the proposed law for Islamic Insurance has to be in conformity with the existing laws. This has been the main theme of this Seminar. The Seminar comes out with this suggestion that Islamic Banks be authorised by the government to do Islamic Insurance side by side with its Banking Business. I congratulate the key-note speaker and the discussants. I also thank you, the participants for your patient hearing.

PART: I

CHAPTER FOUR

A. Key-Note Paper

**Investment Opportunities in Bangladesh
: Dr. Salahuddin Ahmad.**

B. Discussants' Views

**Professor Hafiz G. A. Siddiqui
Lutfar Rahman Sarkar**

C. Chairman's Round-up

Lutfullahil Majid

Dr. Salahuddin Ahmad: National Expert, Planning Commission, Bangladesh; Vice Chairman, Islamic Economics Research Bureau, Bangladesh.

Dr. Hafiz G. A. Siddiqui: Professor, Institute of Business Administration, University of Dhaka, Bangladesh.

Lutfar Rahman Sarkar: Chief Adviser, Islami Bank Bangladesh Limited; Ex-Managing Director, Sonali Bank and Agrani Bank, Bangladesh.

Lutfullahil Majid: Additional Secretary, Ministry of Industry, Bangladesh.

INVESTMENT OPPORTUNITIES IN BANGLADESH

Dr. Salahuddin Ahmad

INTRODUCTION

With over 110 million people, Bangladesh provides a large market for potential investors. Bangladesh has one of the lowest wage-structure in the world. Its population is innovative. Their skill level is fast growing. As such Bangladesh has comparative advantage in a large number of labour intensive industries. Its particular comparative advantage lies in the agro processing industries, processing products produced by its large agricultural sector. With the introduction of modern technology including training of its hard-working workforce, Bangladesh provides an excellent field for investment.

Section I describes the Macro Economic Policy Perspective which affects the industrial growth. Such policy framework has been described with respective objectives of the Government in the industrial sector. Section II describes some industries with growth potential. This description has been drawn from various studies on comparative advantage, international demand pattern and domestic demand-supply situation.

SECTION I MACRO-ECONOMIC PERSPECTIVE

Bangladesh is basically an agrarian country. Agriculture contributes about 50% of its GDP. The development strategy of Bangladesh is characterized by the effort to accelerate the growth of agricultural sector. It is recognised that a dynamic agriculture is necessary for absorption of surplus labour and is a precondition for the growth of industrial sector. It is recognised by the development planners that land and labour are the two basic resources of Bangladesh and there is a constraint on the expansion of irrigated acreage in the long run. As such the acceleration of growth in the long run depends on the growth of the industrial sector.

There is a lack of comprehensive statistics on the industrial sector. As a result, it is difficult to evaluate the structure and the performance of

industrial sector. Whatever limited data are there, relate only to large and medium scale industries. Very little information exists on small and cottage industries. Based on such partial data the industrial structure can be described in the following way. The share of manufacturing sector in total GDP is around 10%. With extended coverage the share should be around 12%. The sector provides employment to 2.43 million people. Large, medium and modern small industries account for about one-third of all industrial employment. Cottage industries (except handloom) employ about one-third while handloom employs the rest one-third.

The growth rates of real gross output exhibit such large fluctuations that it is difficult to interpret the underlying long run trend of the growth rate. While growth rates of manufacturing sector value added in the First Five Year, Two Year, and the Second Five Year Plans were 9.24, 2.26 and 4.76% per year respectively. The average annual growth rates during 1985-88 was about 5.20%. If one abstracts from short run fluctuations due to fluctuations in agricultural incomes, import availability and monetary policy, it can be seen that there was a rapid growth of industrial output growing at an average annual growth rate of around 9% per annum. The rapid output growth which characterized the First Plan was mainly due to better utilization of the existing capital stock resulting in a continuous decline in capital output ratio during the FFYP. Even though other plans made pronouncements about better utilization of existing capacity, in actual implementation such an emphasis was missing. The capital productivity fell during the post First Five Year Plan.

1. DEVELOPMENT OF INDUSTRIES LINKED WITH AGRICULTURE

The objective has been emphasized by the Government in its various plans which implied that the growth in agriculture would induce growth in industrial sector and the industrial growth would facilitate the growth of agricultural development.

As far as input supplying industries to agriculture is concerned, there has been a growth in industries like fertilizer, engineering industries for supplying spares to agricultural machinery as well as for production of such machineries.

Recent analysis at the Planning Commission shows the location of such industries do not coincide with the areas of agricultural growth potential.

As far as agro-based industries is concerned, the following table shows that share of Agricultural Raw Material-Based, Industries have fallen over time.

Share of Agri Raw Material-Based Industries

Year	% Share in Gross Value of Output	% Share in Gross Value Added
1964-65	59.92	65.80
1973-74	50.96	53.47
1981-82	38.01	45.14

(Source : Bangladesh Bureau of Statistics)

This slow growth is the result of shift in emphasis from local raw material-based industrial strategy followed in 1960s to increased emphasis on import substitution, first, in consumer goods and then in basic industries. Slow growth in agriculture was also responsible for this.

One of the major constraints in the development of such industries is the slow growth of agriculture which had been affected in the past by natural disasters. Yields are less than optimal and technological progress has been slow. Recent steps taken by the Government will certainly have a positive impact on growth. A major Study on Agricultural Sector has recently been completed. Many of its recommendations are being implemented. Steps have been taken to strengthen the institutions such as Agricultural Extensions Organization, Agricultural Input Distribution Organization, etc. An Agricultural Price Commission is being set up. A large flood protection project is being undertaken. Specific programmes are being undertaken to improve (a) the yield of various crops, and (b) the quality of livestock. The resultant higher growth in agriculture would give impetus to the growth of Agro-processing industries. Similarly, steps are being taken to gear the agriculture to the development of surplus for export market. It is now being recognized by the development planners that aggressive marketing would be necessary to improve the export market for products such as processed food, etc. With these proposed steps, prospects for agro-processing industries seem to be quite bright.

2. DEVELOPMENT OF SMALL AND COTTAGE INDUSTRIES PARTICULARLY IN RURAL AREAS

This has been the stated objective of various development plans of Bangladesh. Bangladesh Small and Cottage Industries was set up to aid small entrepreneurs in establishing industries, improving efficiency, etc. Loan programmes were undertaken for small scale industries. In spite of this, the small scale industries have been discriminated against. Some of these are described below :

A. Exchange Rate Policy followed in the past has discriminated against small scale industrialization in the following ways :

(1) Over-valuation of home currency and import licensing system means cheaper import of machineries favouring the development of large capital-intensive industries.

(2) The system of over-valuation of home currency and import licensing generally excluded the small enterprises from access to discriminatory licensing system because of their small scale and disadvantageous locations, requiring them to depend on commercial imports and therefore, on markets paying scarcity prices.

(3) Over-valuation of home currency as such puts domestic producers, predominantly small enterprises, at a disadvantage in commodity market in comparison with imported goods.

B. Tariff policies followed in the past have been biased against the development of small industries in the following way :

The general level of tariff in 1977-78 was 26.4% on dutiable import which increased to 31% in 1986-87. However, tariff on imported machineries has been reduced from 36.8% to 18.1% during the same period. Such low tariffs on machineries favour development of capital intensive large industries.

Currently, tariff is lower if a plant is located in backward areas or in small industrial estates of BSCIC. (i) This promotes irrational location of industries particularly peripheral location along the border of high tariff. (ii) The small and cottage industries in these areas are not benefited as machinery constitutes a small component of their fixed investment.

A tariff concession does not help such industries because of their overwhelming dependence on local raw materials.

C. Investment and Credit Policies :

The Small and Cottage Industries (SCI) have poor resource base but they have limited access to institutional credit.

Between 1957 and 1971 the Small Industries Corporation could organize only Rs. 25 million credit. After independence, Bangladesh Bank and Bangladesh Krishi Bank (BKB) provided credit to SCIs while commercial banks participated in foreign loan operations. It seems, however, that SCIs suffer from sufficient access to institutional credit.

Among other constraints faced by the SCIs are the following :

(i) Marketing problem : The market size for SCIs' products are small.

However, studies show that with increased income some SCI products can enjoy enlarged marketing. Product design and its quality are some of the marketing constraint.

(ii) Lack of utilities, particularly, in rural areas.

Currently steps are being taken which would favour the development of small scale industries. These steps include :

(i) Correction of exchange rate.

(ii) Imports through the Secondary Exchange Market, are being expanded. This means a more competitive commercial import which is to the advantage of small enterprises than it was under the licensing system.

(iii) BSCIC is being strengthened for providing services to small scale industries.

(iv) Supervised credit in the style of Grameen Bank is being expanded.

(v) Rural electrification is progressing at a brisk pace. Rural roads, particularly, in Food Assistance Development Programmes, are being developed. Development of Small and Cottage Industries would be a priority during the Fourth Five Year Plan. With the policy package stated above prospects of investing in small scale industries would be quite lucrative.

3. DEVELOPMENT OF EXPORT ORIENTED AND IMPORT SUBSTITUTING INDUSTRIES

In the early phase of industrialization before independence focus was on import substitution in consumer goods industries (e.g. sugar, paper, etc.) though the growth of typical leading sector, cotton textile, was lagging behind domestic demand. The period was also characterised by development of export oriented industries such as jute and jute goods. In the post independence period import substitution in intermediate and capital goods was emphasized.

Distribution of Gross Value (percentage)

Economic use	1964-65	1976-77	1979-80
Consumer goods	53.0	46.6	41.8
Intermediate goods	43.5	48.8	53.5
Capital goods	3.5	4.6	4.7
	100	100	100

(Source : Bangladesh Bureau of Statistics)

Analysis of specific industry-wise growth of import substituting industries is given below :

During the mid sixties, share of food, beverage and tobacco in Manufacturing Value Added was about 31% compared to 40%-50% in the mature developed economics at the beginning of modern development. Even though it has continued to expand in absolute terms, its percentage contribution has declined to about 26% in 1982-83. Unlike many British colonies such as Kenya, Nigeria and Malaysia which were accustomed to importing British textiles, the textile industry was relatively more developed in Bangladesh.

The share of this industry has consistently risen in the sixties, the share of intermediate and capital goods have followed the historical pattern in the now developed countries. The share of metal product, machinery, electrical apparatus, electrical machinery and transport equipment rose from 4.47% in 1964-65 to 6.49% in 1981-82. Faster growth was observed for this group during 70's. Basic metal grew even faster from a share of 1.90% in 1964-65 to a share of 7.79% in 1981-82. As such the thrust of contemporary import substitution is in the capital goods and intermediates.

The import substitution strategy with the use of subsidies, over valued exchange rate, high levels of effective protection and subsidized loans have resulted in the production of import substitutes by capital intensive, labour saving methods and have resulted in industrial profit in the sheltered sector. At the same time as policies have facilitated subsidized import replacement they have inhibited export expansion (as explained later) but there has not been any saving of imports since the replacement and production of finished import commodities has required heavy imports of fuel, industrial materials and capital goods, etc.

The export oriented industries have suffered from state of external demand. As a percentage of GDP at current prices export has in fact declined from 8.1% in 1969-70 to 6.3% in 1984-85. The primary reason is that export of Bangladesh is still dominated by primary goods like jute, leather and jute goods while world wide stagnation in 1970 as well as technological development (e.g. synthetic fibre) depressed the demand for such commodities.

Diversification requires increase in export of manufactured goods. But such export has not grown either in volume or in nature to any significant degree.

Share of Manufactures in Export (%)

1969-70	55.9
1973-74	63.6
1979-80	79.2
1984-85	82.1

However, in the first half of 80's non-traditional export begun to grow fast led by frozen food and then by ready-made garments. Also some import substitution industries set up in 60's have started working in export market, e.g., Paper & Urea. Some of the major constraints in the development of export oriented industrialization are :

- (1) Inability to identify products with firm international demand growth potential.
- (2) Lack of product development in terms of design to meet changing international demand, product quality and product diversification.
- (3) Lack of Aggressive salesmanship to develop market.
- (4) Current export promotion measures work imperfectly and the level of assistance provided to them is very small (Effective rate of protection is around 11%). Some of these difficulties are described below :
 - a. Measures other than bonded warehouse system such as duty drawbacks work imperfectly and do not provide full offset on the taxes paid on imported inputs.
 - b. Most export activities do not have full access to foreign exchange at the partial exchange rate.
 - c. Limited export activities have restricted access to importable materials due to control on import. However, getting the authorization for importing banned items has become cumbersome.
 - d. Bank Credit Scheme for export financing at subsidized interest rates is not working as lower interest rates at which the banks are supposed to extend credit to direct export units are a direct deterrent to lend to this sector. Further, Credit Schemes do not apply to indirect exporter.
- (5) There is an anti-export bias in the tariff structure. While assistance offered to export oriented industries is low, the import substitution industries enjoy very high protection. As such there is a preference for producing for domestic market rather than for export.

- (6) There is a lack of backward linkage for export oriented industries such as Ready-Made Garments, so that domestic value added generated by export oriented industries is low.
- (7) Institutional support for promoting foreign investment, joint venture projects, etc. are weak.

Currently, however, strong commitment has been made by the policy makers for following an export oriented industrial development strategy. Steps are taken to strengthen Export Promotion Bureau, rational assistance given to exporters so as to maximize incentives to the exporters. Participation by exporters in foreign trade fairs have increased substantially in recent years. Steps are being taken to diversify products of some export oriented industries such as Ready-Made Garments and Jute Textiles, etc. The FFYP would give priority to export oriented industries. With concrete steps which are being now taken such industries would find good prospects in future.

4. DEVELOPMENT OF BASIC INDUSTRIES

The growth in such industries has been quite substantial. Some of the obstacles faced by these industries are as follows :

Project procurement programme is an important market for diesel engines, pumps, electric motors, transformers, etc. Such programme declared in September, 1983 have been successful in promoting certain assembly-type, single product, vertically integrated 100% export oriented units. This has not helped engineering industries as they make more than one product using same raw materials, their subcontractors are not entitled to import all material requirements, and they face long delays between making bids at tender and finally receiving its payment.

In recent years Government has taken programmes to develop engineering industry. Project procurement programmes are being rationalized. For this a policy has recently been declared by the Hon'ble Vice President. Training of entrepreneurs in design, provision of heat treatment facilities, strengthening of technical assistance through BITAC are some steps in right direction and would induce investment in this direction.

5. DEVELOPMENT OF TECHNOLOGY

According to a HIID Project at the Planning Commission the total factor productivity has been declining. Small firms are further below the frontier of the prevailing best practice technology. Bangladesh is lagging behind its neighbours in technological organization lacks in manpower and organizational strength. Strong commitment has been made to increase allocation to Science and Technology. R & D institutions are being

strengthened. With the present state of technology and the emphasis, the Govt. is putting on technological development, foreign collaboration with technological assistance provided to existing units have been seem to offer good prospects.

Balanced Regional Dispersal of Industries

As discussed earlier the assistance policies undertaken to facilitate such dispersal have not worked. In fact such policies have provided incentives to the development of capital intensive large scale industries. Tariff concessions have led to the development of industries along the border-belt of backward areas. Such policies are being currently studied.

SECTION II

INDUSTRIES WITH GROWTH POTENTIAL

There seems to be quite a large possibility for developing countries to expand their manufactured exports. In the quarter of a century, earning from primary exports from all developing countries have grown at less than 4% a year in real terms while manufactured exports have grown at more than 12%. The more successful cases in this regard are Israel, Taiwan, Singapore and Korea. In this pattern the inflow of foreign capital replaced foreign exchange normally earned from primary export for a period sufficient for industry to become established and to develop abilities to export.

These countries shifted from primary product to light industry as the main source of export expansion. In the Taiwan-South Korea-Thailand- The Philippines pattern there has been a major reliance on export of electronic equipment and machinery component. However, Malaysia-Singapore pattern, with greater reliance on direct foreign investment and international sub-contracting arrangement have emphasized textiles and clothing followed by plastic and wood product, footwear and handicrafts. Thus, from external demand side, the above labour intensive item seem to have good export potential. In fact, there is a wide range of internationally identifiable labour intensive goods with good export potential whose numbers are on the increase through the product cycle process. The successful patterns mentioned above have critically been dependent on the selection of proper industries at the very outset.

Among the industries which have comparative advantage, the following seem to have growth potential:

(a) Ready made Garment

Despite the quota imposed by U. S. and Europe, the industry still has

prospects. There is a need for product diversification, horizontal market expansion and upgrading of export unit values. Woolen and Acrylic Sweaters seem to be promising.

(b) Electronic Goods

In the absence of significant economies of scale in assembly, a number of small units with foreign collaboration could be established. Such units must be able to respond quickly to order because of rapidly changing technology. Owing to the same reasons, the units would have to be flexible with respect to item types.

(c) Leather and Leather Goods (Especially Footwear)

Bangladesh has a comparative advantage in such products. The industry suffers from ill conditions of the herd. The tanning industry suffers from lack of modern technical skill, especially, with respect to chemical processes. With improvement in technical condition, quality of the herd and with foreign marketing collaboration, this industry would make a break-through in the international market.

(d) Shrimp Processing

The industry has comparative advantage and has had substantial growth recently. With aggressive marketing there is still possibility for a significant growth.

(e) Capital and Engineering Goods

The items which seem to have growth prospect in international market are: Electric Wires, Transformers, Electric Motors, Diesel Engines, Power Pumps, Tubewell Irrigation, PVC & GI Pipes, Telephone Cables and Electric Fans. This industry needs technological upgradation and quality improvement. There is a need for development of infra-structural facilities for delivery of technical services and improvement in the quality of such services. There is a need for improvement in technical know-how of the entrepreneurs, particularly, in the area of design. There is substantial internal demand for engineering products for production of machinery spares, etc.

(f) Textile Fabrics

As stated earlier, this industry has a parative advantage. Export break-through is possible if finishing quality is improved. In recent years, quality of such fabrics has been improved and forward linkage with Ready-Made Garment industry has been established though in a modest way.

In this industry both handloom and sericulture are labour-intensive and as such has a comparative advantage. However, improvement of quality and foreign technical and marketing collaboration is necessary for increasing their export potential.

(g) Hosiery Products

These products have also a comparative advantage. Investment in modern plants and balancing, modernization and rehabilitation of existing plants is required.

(h) Processed Food (Fruits, Vegetables, Spices)

These items enjoy a comparative advantage. However, in order to make a dent in the international market greater marketing efforts are needed (esp. in Middle East). Among such products are Jam, Jelly, Marmalade, Dehydrated Fruits like Pineapple, etc. and vegetables like Potato, Ginger, etc.

(i) Ceramic Table Ware

This is a low cost product and its quality is good. These items are exported to Europe. This has further export possibilities and as such there seem to be good investment opportunities in this area.

(j) Jute Goods

Jute Textile Industries need considerable rehabilitation. With reduction in cost and improvement in export assistance, some item like jute carpet export could be increased.

In a recent study at the Planning Commission, the following industries have been identified to have experienced considerable growth in the post Independence period:

Pesticides, Insecticide, Metal and wood work Machine, Hand Tools, Rubber Product, Hydrogenerated Vegetable Oils, Fruits and Vegetable, Batteries, Fabricated Metal Product, NEC, Iron & Steel Foundries, Structural Metal Products, Metal Barrels and Drums, Pens and other articles, Saw mills, Polythene Products, Matches Manufacturing, Leather Footwear, Bolts, Nuts and Rivets, Wooden, Cane and Bamboo Furniture.

These industries have developed some sort of dynamism and have had sustained growth in the past. Among these industries, the growth of industries dominated by small industries has been in consonance with plan objective of development of small industries. The growth of export oriented industries like Fruits and Vegetables and Leather Footwear have been substantial. There are some industries which have international demand potential but had slow growth. These are, for example, Carpet and Rugs, Textile Machinery, Agricultural Machinery, etc. With aggressive marketing and quality improvement, these industries have tremendous potential.

Among the import substitutes which seem to have great potential for growth is the Plastic Industry. In fact, in modern age, plastic has diversified uses in manufacturing various items such as container, buckets, furniture,

stationery, electrical goods and equipments, different fittings, toys, pens, cover/body of different articles, etc. In Bangladesh it is still a nascent industry. With technical and marketing collaboration and perhaps with international sub-contracting arrangement, this industry has tremendous potential for growth. In view of high cost of imported raw material, some protection from the Government may be needed initially.

Another import substituting industry with growth potential is the Chemical Industry. Among its products are intermediate products, industrial raw materials, such as chemicals for tanneries, dyes and pigments for textiles, raw material for pharmaceuticals, etc.

There is also a great potential for growth for the Dairy and Poultry Industries. These are sources of nutritious food for the people of Bangladesh. In fact, Bangladesh imports a huge quantity of powder milk every year. However, for the success of such industries, there is a need for development of linkage industries such as feed industry, etc.

CONCLUSION

In the above paragraphs issues related to investment opportunities have been discussed and industries having growth potential have been identified. The list is, by no means, all exhaustive but presents the major areas for profitable investment in Bangladesh. With low labour cost, Bangladesh represents an area where there is the scope for profitable investment in many more labour-intensive products with considerable export possibilities. In most cases technical and marketing collaboration would be a prerequisite for successful investment.

DISCUSSANTS' VIEWS

Lutfar Rahman Sarkar

Bismillahir Rahmanir Rahim.

Respected Chairman, Distinguished Guests and Participants.

Assalamu Alaikum.

Present Session's subject is very interesting from the banker's point of view. I will just hurriedly give my comments wherever I feel comments are required. Dr. Salahuddin deserves thank for presenting a very nice and excellent Paper this evening. Bangladesh, as you know, is a poor and developing country. It offers a vast field and vast opportunities for various types of investments by banks. But from the Paper presented by Dr. Salahuddin as we have listened to just now has identified broadly two areas only for investment opportunities for banks. One area he has mentioned is Agriculture and the other is Industry. In my opinion, these are the two major sectors, no doubt, and there is also no doubt that these two areas offer a vast opportunity for banks for deploying their funds. But there are other avenues in the country for investment. I will just mention a few of them afterwards but let me now discuss the points Dr. Salahuddin has raised. First of all Agriculture. Bangladesh is an agrarian country as we all know and its development largely depends on the development of agriculture. There is no doubt about it. There is a gap between the supply and requirement of food to the tune of 2 million tons in the country, import of which costs not less than taka one thousand crore for the Government from the hard earned foreign exchange and a bank which believes in the development of the country and in the welfare of the people can not but go for financing agriculture. But unless the bank has a network in the rural areas it will not be able to extend any credit in this field. As we all know, the private banks including the Islamic Banks do not have a network in the rural areas for extending rural credit. This is one of the handicaps.

The number two is financing the rural people ; but for what purpose—for productivity or for income generation ? This is to be identified first. Dr. Salahuddin has dealt with productivity side of agriculture. This is, no doubt, very important. But as we all know a large number of people are unemployed in the rural areas of Bangladesh. Out of one hundred million people, 90 million are living in villages, of which 60% are landless. This is to be borne in mind before we go for extending any credit in the rural areas.

Dr. Salahuddin has referred to the Gramin Bank. They are concentrating their efforts in the income generation side in the rural areas. They are dealing with the landless people mainly. If a bank wants to go for income generation in the rural areas, it can do it, but first they must have a network in the villages. If we don't have the network and if we want to help the rural poor from the urban branches; I would say; it will be simply dolling out of banks' fund for no use. This will only increase the consumption need of the people and add to the inflation of the country. Unless it is supervised, unless the end-use is supervised we are not going to get back the credit. The rural credit primarily should be a supervised one and if we cannot supervise it, we should not go for any credit i.e. any investment in the rural areas. This is the main hindrance for the commercial banks here.

Now, I will go to the other side. Dr. Salahuddin has referred to industrial investment. Here there is a great opportunity for banks to make investment. Industrialisation is just being initiated in the country and we have a lot of things to do in this sector. But we should keep in view the hazards and risks for the commercial bank to enter into this field. First of all the hazard is that the commercial bank's deposit is of short term nature but the industrial finance has to be a long term one. The commercial banks probably can not afford to make sufficient investment in industrial sector; 10% of their deposit is to be maintained with the Bangladesh Bank as cash reserve, 15% as liquidity and if commercial banks go for investment in industrial sector, say for another 25%; this will go up to 50% of their fund. The remaining 50% they can deploy in the commercial sector i.e. in short term credit. A bank, particularly, a commercial bank, if it wants to prosper, its major portion of fund should be deployed in the short term investment. And if they go for maximum amount of investment for long term finance, they will be landed in trouble. So, these are the points we are to bear in mind before we go for investment in the industrial sector.

The next point is, commercial banks do not have sufficient expertise to handle industrial project financing. As a result the commercial banks are facing trouble with many of their industrial projects which have fallen sick. The difficulty here is that if any bank takes over a project, there is none to manage it on behalf of the bank. I think we should develop management consultancy firms under the joint venture of all commercial banks to look after this area.

Experiences confirm the fact that in most cases industries fall sick owing to the management failure which can be redressed by developing entrepreneurship by proper training. This training should be made compulsory along with the sanction of any project by a bank. Another point, a bank must take into consideration while sanctioning a project to an

entrepreneur is the level of education of the entrepreneur. As industry is a modern technology, so an entrepreneur must be of such a level having the required proportion of knowledge to understand the technology he is going to undertake. Another point is that we do not have sufficient savings in our country ; rather our savings rate is very poor. That is why I propose that the banks should be encouraged to take up new schemes for mobilisation of savings or alternatively a savings bank should be initiated in the country.

We have in our country a large number of unemployed people, particularly the youths. Employment opportunity should be created for them and bank can play a very important role in this respect. They can find out areas where they can do something for creating employment opportunities. Then there is another area of investment for bank funds and that is real estate investment, low cost housing projects, we can go for. Further we require a separate company or subsidiary company to be allowed to be formed by the banks. Unless, because this is a non-banking area and if a bank goes for real estate finance they can not properly manage or handle it. So I feel that there should be a subsidiary company formed for this purpose.

Thank you very much.

Dr. Hafiz G. A. Siddiqui

Bismillahir Rahmanir Rahim.

Mr. Chairman, Dr. Salahuddin, Mr. Sarkar, Distinguished Delegates and Friends.

Assalamu Alaikum.

I think Dr. Salahuddin deserves credit for presenting an excellent Paper. From national point of view he has identified all most all the potential areas, where investment can be made fruitfully. And Mr. Sarkar has explained or has clarified where the banks can make investments i.e. from the country's point of view, from the bankers' point of view we have had enough information regarding investment opportunities. I would like to supplement what has been said by adding only one dimension. I would like to include the point of view of a private investor particularly a foreign investor. We know that there are many sectors and sub-sectors where investment can be made but if I am a private investor inspite of this knowledge why should I go to invest there. My interest would be to earn profit. I think there are certain sectors where the range of profitability can be ascertained by analysing the past profits in those sectors. There are some other areas where

potentials exist, but we do not know how much profits would be there. In order to attract the investors in these sectors we need to provide certain incentives. I am sure all of us know the types of incentives offered to the prospective investors, particularly the foreign investors. There is a long list of incentives which includes tax holiday, tax concessions, right of repatriation of capital and guarantee against nationalisations, etc. But problem is not to talk about the incentives we have designed to offer or we are ready to offer. The problem is to convince investors particularly the foreign investors that if they come and invest in Bangladesh they would get what we are promising. I have had opportunities to talk to a number of foreign potential investors in Bangladesh. They asked me only a few questions. These something like that if we go to Bangladesh and make the investment, can you give us the guarantee that foreign exchange rules will not be changed—suddenly or the clause of non-nationalisation will not be changed due to pressure from some stronger political elements? These things bother the foreign investors. My suggestions would be to do something to create an environment of confidence among foreign investors. In this context, I think, an important role can be played by our trade commissions in foreign countries.

The trade commissions should be able to contact the potential investors and explain that this moment the situation has changed and they should be able to give kind of guarantees that the investors want. Otherwise, we will not be able to achieve what we want to achieve. Let us cite the example of our zone which has been in existence for quite sometimes but only a few foreign investors have invested in this country.

But the success level of processing zones in some of our neighbouring countries is much higher than ours although the economic condition of these countries are not much different from that of ours. So, our attempts should be to get that kind of things.

Thank you all.

CHAIRMAN'S ROUND-UP

Lutfullahil Majid

Bismillahir Rahmanir Rahim.

Distinguished Guests, Speakers and Participants.

Assalamu Alaikum.

I must first thank as a representative of the Ministry of Industries, the organisers of this Seminar for kindly including this subject as one of the subjects of the Seminar i.e. Investment Opportunities in Bangladesh. The main speaker Dr. Salahuddin has treated the subject extensively. I would simply say that the points made by Mr. Salahuddin Ahmed and the discussants in general are quite valid. Industrialisation of our country at a fast speed is needed for our survival, for the survival of the country and its people.

In this respect I would make just a few comments from the view point of the Ministry of Industries. First let us speak about the industrial policy. As we all know that the industry as one of the major development sector is indeed a very important sector but the growth in this sector has not been as desirable or as projected. We had experimented with some different sort of policies like nationalisation, socialism, etc. in the beginning of the history of the country and later on we shifted so far as industrial policy is concerned from those emphasis. In the recent years the Govt. has taken the industrialisation of the country as one of the major targets. In 1982 the new industrial policy was promulgated which was revised and the revised industrial policy was announced in 1986.

We cannot stick to policy for all time to come and even the revised industrial policy is also under constant revision, constant amendment, analysis and whenever necessary changes are quickly made. The current policies of the govt. for industrialisation include as Dr. Salahuddin has pointed out: import substitution, export development and also include a large number of incentives with regard to tax benefits, exemptions, tariff benefits, etc. One of the major aspects of the Govt. current policy is the emphasis on privatisation. As you all know that many of the nationalised enterprises have been disinvested. This has taken place in two ways ; one, by direct or out right sale and the other, by offloading the shares to the public. So far more than five hundred enterprises have been disinvested and more are under consideration. A very major decision taken by the Govt. is the

establishment of the Board of Investment particularly to encourage and to give adequate incentive to the private sector. The emphasis is new. The policy, the package of incentives that is given to the private sector is new. The concept is, of course, that the private sector should be given all supports and all sorts of incentives but the practice or the experiences has been that the private sector people and the entrepreneurs have to go from door to door, place to place for permission or licenses or registration and things like that. Now with the establishment of Board of Investment, the major intention is that the entrepreneurs would get all supports and services at one place. Here the major emphasis is that the entrepreneur should be supported in certain respects like import entitlement or import requirement, matters relating to controller of capital issues, etc.

But in other respects like facilities relating to infrastructure such as his energy requirement, telephone, water and gas connection, etc. In the past it was felt these infrastructural facilities were not given to the entrepreneurs in the quickest possible time. We hope that with the establishment of Board of investment, the private sector in particular will get the necessary supports and set-up and that the Industrialisation will get the necessary boost.

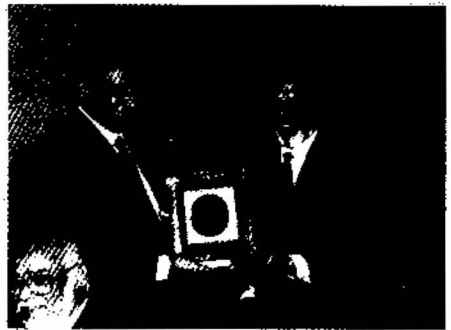
Now, I again come to Dr. Salahuddin's Paper, particularly, his comments with regards to SCI i.e. Small and Cottage Industries. In regard to SCI, he has pointed out certain matters on foreign collaboration, particularly in the marketing areas. He commented on comparative advantage in certain particular industries and suggested for providing incentives to industries established in the undeveloped areas. I would rather agree to his comments and suggestion and I would also say that in certain respects policies are under way to remedy the present weaknesses in the small and cottage industry sector. Perhaps, the Govt. has started to provide the dividend. Last year, I think, the investment in the small and cottage industries sector had exceeded 250 crores taka, which, I think, is a quite significant achievement. But there is no cause for being satisfied; a lot of other necessary measures need to be taken for helping this sector.

Mr. Sarkar has particularly pointed out the problems of commercial banks for investment in industries. Specially he has spoken about rural areas, the predominance of agriculture sector and preponderance of the landless people in the rural areas. We all are aware of these problems. And at the same time we have seen that if special measures are taken and specific attention is paid by the bankers, the problems could be overcome.

Dr. Siddiqui has pointed to problems of foreign investment in Bangladesh and referred to guarantees demanded by foreign investors. This is in fact a very good point, no doubt. Bangladesh in the matter of foreign investment has an image problem. But Bangladesh is perhaps better than the most

other countries in the South Asian region in providing much better incentives package. Despite this fact Bangladesh has a very poor image outside. The image that Bangladesh has outside is that the country is frequently visited by natural calamities, desasters, etc. Dr. Siddiqui has pointed out that our Embassies abroad should do something about it which is a valid point. I agree with him completely. The Ministry of Industry and the Govt. is taking special measures to introduce Bangladesh to the foreign investors and also inviting foreign investors to invest here. But the fact is that foreign investment is a time-taking matter, we have to be patient, and finally we might get the result. And my personal feeling is that we have started to get the result.

Khoda Hafez.



Members of the IAIB Board of Governors and some foreign delegates are being presented with the Replia of IBBL.

PART: II

A. MESSAGES

**PRESIDENT
PEOPLE'S REPUBLIC OF BANGLADESH**

I am happy to know that the International Association of Islamic Banks headed by His Royal Highness Prince Mohamed Al-Faisal Al-Saud is holding a Seminar and Conference in Dhaka under the auspices of the Islami Bank Bangladesh Limited.

IAIB has tremendous contribution in pioneering thoughts and ideas of Islamic Banking around the World. I am confident that the deliberations at the Seminar and the Conference by eminent bankers, economists and professionals from both home and abroad will further strengthen the conviction that Islamic Banking can provide a solution to the equidistribution of wealth of the nations of the world.

I am particularly happy to learn that the vital issue of manpower development has drawn the attention of the top bankers of the Islamic World who are going to study the feasibility of establishing a Regional Centre for Islamic Banking and Economics in Dhaka. I am of the opinion that Bangladesh which has the second largest Muslim population and has officially proclaimed Islam as the State Religion, is an ideal place for such an Islamic Institution.

I wish the Seminar and the Conference all success.

Hussain Muhammad Ershad

VICE-PRESIDENT PEOPLE'S REPUBLIC OF BANGLADESH

I am delighted to know that the International Association of Islamic Banks (IAIB) and Islami Bank Bangladesh Limited are going to hold an international Seminar on 'Islamic Banking and Insurance' in Dhaka.

Concept of Islamic Banking and Islamic Insurance is now well known and gaining popularity gradually.

The present government under the able and prudent leadership of Hon'ble President H. M. Ershad is striving hard to alleviate mass poverty, generate employment opportunity, raise the level of literacy and create ground for equitable distribution of wealth and income. I believe an appropriate model of Islamic Banking and Insurance can be of immense use to supplement the Government's efforts.

I hope the findings of the Seminar will be pragmatic and useful particularly to meet the socio-economic development needs of Bangladesh and that of other third World countries.

I wish the Seminar a grand success.

Moudud Ahmed

**MINISTER OF AGRICULTURE
GOVERNMENT OF THE PEOPLE'S
REPUBLIC OF BANGLADESH**

I am very happy to learn that the International Association of Islamic Banks (IAIB) and Islami Bank Bangladesh Limited are jointly holding a Seminar on Islamic Banking and Insurance at Dhaka.

In the present global economy Islamic Banking and Insurance is no more a literary concept but an established fact. Islamic Banking and Insurance system can play a vital role in the poverty alleviation programme of the third World, while contributing to the moral regeneration of the Society so vitally needed, if we are to achieve a lasting solution to our economic and social problems. The system has already earned great popularity in this country.

I am confident that the present Seminar will bring out useful findings on many topical issues which can provide us appropriate guidelines for action, and add to the knowledge of all who are interested in bringing Islamic sense of values into our working life.

I wish the Seminar a grand success.

Mohammad Abdulmunim

PRESIDENT ISLAMIC DEVELOPMENT BANK

It is a great honour for me to send this message on the occasion of the International Seminar on Islamic Banking and Insurance being held in Dhaka under the joint auspices of the International Association of Islamic Banks and the Islami Bank Bangladesh Limited. The important achievements of the International Association of Islamic Banks, under the dynamic leadership of His Royal Highness Prince Mohamed Al-Faysal are indeed praiseworthy. I pray to Allah, Almighty, to help them achieve goals in the service of Islamic Economics in general and Islamic Banking in particular.

Thanks are also due to the management of the Islami Bank Bangladesh Limited for hosting this important gathering.

This will be an important event as during the last two decades a number of Islamic Banks have been established in different countries and their experiences would be useful to provide guidance for the future activities of Islamic Banks.

Ever since its inception in 1396H (1976), the Islamic Development Bank has endeavoured to support the Islamic Banks and to cooperate with them to further the common objectives of both. In this context IDB has encouraged the formation of new Islamic Banks and has participated in the share capital of some of them. The first Islamic Bank in the sub-continent was established in 1983 under the title of Islami Bank Bangladesh Limited. Another Islamic Bank, Al-Baraka Bank Bangladesh, was set up in 1987. IDB participated in their share capital. Both of them are progressing well and contributing significantly to the social and economic development of Bangladesh.

The IDB through its Islamic Research and Training Institute (IRTI) has conducted various activities in the field of Islamic Economics and Banking. It is also noteworthy that activities complementary to Islamic Banking are also being undertaken. Islamic Insurance based on the cooperative criteria (Al-Takaful) is playing an important role.

As you know, the mandate given to the IDB by its Articles of Agreement was "to foster economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Shariah". Within this framework IDB has been cooperating with Islami Bank Bangladesh Limited in the process of

economic development and would be glad to continue this endeavour along with other Islamic Banks. I am sure that these will continue to play a vital role in the process of the economic development of Bangladesh.

I am sure that this Seminar will achieve its noble objectives and I wish the Seminar and the management of the Islami Bank Bangladesh Limited all success.

May Allah Almighty help them and protect them.

AHMAD MOHAMMAD ALI

CHAIRMAN INTERNATIONAL ASSOCIATION OF ISLAMIC BANKS

In the name of Allah, the most Beneficent, the most Merciful.

Praise be to Allah, Lord of the worlds, blessings and peace be upon the last of the Prophets.

Islamic world is currently passing through a dynamic period of history which is noteworthy. With the resurgence of Islamic socio-economic concepts in the Muslim countries, serious discussions of economic and financial problems in today's context is the prime need of the hour. The strength of the Islamic world can be attained through the solution of its economic and financial problems.

Islamic Banks are playing an important role in mobilising the savings of Muslims and in deploying them for investments within the framework of development plans of the Islamic countries. Such investments are directed towards the establishment of productive projects and other sectors of activity which help open new avenues of work for the people, increased the national wealth and consequently raise the standard of living of all members of the society.

Islamic Banks have both economic and social dimensions, emanating from the application of Islamic principles which comprise both social and moral aspects derived from the Shari'a. Contracts governing Islamic dealings comprise, in their various aspects, a social and cultural dimension, since these operations are carried out within a framework combining the material aspect, the moral principles and the avowed goal of service to the society. The system applied by Islamic Banks and its interest-free dealings can be considered a sound approach for resolving the economic and social problems of the Islamic world. It will also give Muslims confidence in themselves, which is a pre-requisite for development.

It is gratifying to see the progress of Islamic Banks in Bangladesh. I am confident that the deliberations of the International Seminar on Islamic Banking will be fruitful and constructive and will help enlighten the public about the potential of the Islamic Banking system.

May Allah grant us courage and fortitude in our endeavour and may He bless us with continuous success in the future.

**His Royal Highness Prince
Mohamed Al-Faisal Al-Saud**

PART: II

B. ADDRESSES

INAUGURAL SESSION

- 1. Address of Welcome by Commodore Mohammad Ataur Rahman (Retd.)**
- 2. Address by Dr. Ahmad El-Naggar**
- 3. Address by the Special Guest Mohammad Abdulmunim**
- 4. Address by the Chief Guest Barrister Moudud Ahmed**
- 5. Address by His Royal Highness Prince Mohamed Al-Faisal Al-Saud, Chairman of the Session.**
- 6. Vote of Thanks by Professor Mohammad Sharif Hussain.**

Commodore Mohammad Ataur Rahman (Retd.): Chairman, Islami Bank Bangladesh Limited; Chairman, Organizing Committee, IAIB Seminar and Conference, Dhaka, Bangladesh.

Dr. Ahmad El-Naggar: Professor of Islamic Economics; Secretary General, International Association of Islamic Banks.

Mohammad Abdulmunim: Minister for Finance and Planning (the then Minister for Agriculture), People's Republic of Bangladesh.

Barrister Moudud Ahmed: Vice President, People's Republic of Bangladesh.

HRH Prince Mohamed Al-Faisal Al-Saud: Chairman, International Association of Islamic Banks; Chairman, Dar-al-Maal Al-Islami, Geneva.

Professor Mohammad Sharif Hussain: Director, Islami Bank Bangladesh Limited; Convenor, Seminar Committee, International Association of Islamic Banks.

ADDRESS OF WELCOME

Commodore Mohammad Aatur Rahman (Retd.)

Auzu Billahi Minash-Shaituanir Rajeem
Bismillahir Rahmanir Rahim.

Honourable Chairman, Your Royal Highness Prince Mohamed Al-Faisal Al-Saud, respected Chief Guest Barrister Moudud Ahmed, the Honourable Vice-President of the People's Republic of Bangladesh, Respected Special Guest Major General M. A. Munim, Minister for 'Agriculture, Govt. of Bangladesh, Esteemed Members of the Board of Governors of the International Association of Islamic Banks, Distinguished Chairmen, Executive Heads of Islamic Banks, Distinguished Guests, Members of the Press and Media, the Participants ; Ladies and Gentlemen :

Assalamu Alaikum wa Rahmatullah.

On behalf of the members of the Board of Governors of the International Association of Islamic Banks (IAIB) and the Board of Directors of Islami Bank Bangladesh Limited, I welcome you whole-heartedly to this International Seminar on Islamic Banking and Insurance. Bangladesh, the second largest Muslim country in the world had always been on the vanguard of all efforts in championing the cause of Islamic Solidarity throughout the whole world. The Government and the people of Bangladesh had always been guided by the true spirit of Islam.

The Islami Bank Bangladesh Limited, by the grace of Allah, has created enthusiasm and evoked a wide-spread response among the masses of all walks of life in this country. In this connection, it will not be out of context to reiterate that Bangladesh as an active member of OIC recorded its national commitment to Islamic Banking system in the Islamic Foreign Ministers' Conference held at Dakar, the capital of Senegal in 1978. Thereafter in 1980, Bangladesh initiated a proposal in the Islamic Foreign Ministers' Conference held in Islamabad for steps to be taken for development of an Islamic International Banking system.

Subsequently in the Plenary Session of the Third Islamic Summit Conference held at Makkah and Taif in 1981, Bangladesh put forward the suggestion that Islamic countries should develop a separate banking system of their own in order to facilitate mutual trade and commerce.

The role of Bangladesh in establishing Islamic Banks is well known. I am proud to mention that the Government of Bangladesh in general and

Bangladesh Bank in particular are according all facilities in further expansion of Islamic Banks and to-day we have 52 branches of Banks in Bangladesh running on Islamic principles. Only a few years ago, the people of this region used to think that Banks run on Islamic principles will not be viable, but Alhamdulillah to-day more and more people are being attracted towards Islamic Banking. This is indeed great achievement and it has been possible because it is a better system compared to the conventional one.

It is also relevant to mention that constant effort is being made by Islamic Development Bank and International Association of Islamic Banks (IAIB) to update the Islamic Banking System and the methodology of its operation strictly in accordance with the Shari'ah and to render advices to all the Islamic Banks all over the world. The Seminar in which we are happy to be present today and which has been graced by the kind presence of the Hon'ble Vice-President of the People's Republic of Bangladesh as the Chief Guest and other distinguished guests is also sponsored by IAIB.

Inshallah, after deliberation on various subjects enlisted in the Seminar by the eminent Scholars, Bankers, Economists, Financiers and Fuquaha we shall be able to draw valuable recommendations for our future reference and guidance.

The adage that "The man behind the gun matters" is applicable in war fields and on the same analogy we can say that "the Banker behind the counter matters." Hence emphasis is being laid today on training of Bankers for effectively carrying the load of Islamic Banking. In this Seminar we will discuss the need and methodology for training and take appropriate decision thereupon.

Banking and Insurance go hand in hand and hence we have a subject today for discussion on Insurance and Re-insurance and Inshallah at the close of the day we would gather sufficient knowledge for making a realistic recommendation in this respect.

The Government of Bangladesh formed a Commission on 'Money, Banking and Credit' and the said Commission invited our suggestions for making new laws and or amending existing ones to facilitate Islamic Banking. We have prepared a complete "Legal Frame Work" and submitted the same to the Government about two years back and we are awaiting the response. We would hope that the relevant authorities will kindly take up the issue and settle it.

In the end I once again welcome you all to this Seminar and hope that your contributions would guide us in arriving at a fair decisions.

May Allah bless us all.

Wa ma Taufiq-e-Allah Billah

ADDRESS

Dr. Ahmad El-Naggar

Assalamu Alaikum Wa Rahmatullah Wa Barakatuh.

Wassalatu Wassalamu Ala Sayyedina Wa Ashraful Mursaleen.

Honourable Chief Guest, the Vice-President of the People's Republic of Bangladesh, your Royal Highness, Sisters and Brothers.

I was asked to talk about the development of the movement of Islamic Banks. As a matter of fact, we can divide this Movement into four distinguished stages. The first stage was the experimentation period in the fifties and the sixties in this sub-continent and Egypt. Some of the experiments were well conceived and based on careful studies, scientific principles, sound economic and financial basis and healthy administration while others were based on emotions and religious feelings of the people. But lack of the scientific background which was the result of the experiments based on the scientific grounds pave the way for further development, further researches in different Universities among scholars all over the world has created the confidence on the viability of the interest-free financial institutions. While others have not been very successful and have not expanded except as a trial, because it depends only on emotions.

The 2nd stage was the stage of attracting the attention of the International Financial Institutions, Governments and International Organisations towards the Islamic Banking System. This stage resulted in the emergence of the Islamic Development Bank in Jeddah—the Inter-governmental Bank and also some banks in the Gulf Area like Islamic Bank of Dubai. This stage was full of events and hesitations to the procedures and suspicion where some of Heads of States of the Islamic World have played a very supporting role, while others were cautious of the success of the system. Although in these years the Islamic Development Bank has done a lot of functions and a wide range of financial services, yet it has achieved only a fraction of the objectives of this Institution which were laid down by the sponsors and the hopes expressed by the Member Islamic countries in their first meeting in Karachi.

We hope that the Islamic Development Bank can realise these objectives in future.

The 3rd stage was the stage of diffusion of Islamic Banks and Financial Institutions in many parts of the world where within ten years the number jumped from one single institution to 52 institutions which were set up all over the Islamic world. This stage has also witnessed a large number of scientific researches, conferences and seminars, evoking increasing interest amongst scholars in the West and in the East and among all Muslims and Non-Muslims. They began to study the viability of the system and the rationale of the Islamic Financial System and their principles, which had also led to the emergence of many joint ventures companies in America, Europe and Japan, based on the same principles of utilizing funds of the Islamic Banks. This stage can not be analysed and can not be mentioned without reference to the role, sacrifices and efforts exerted by His Royal Highness Mohamed Al-Faisal Al-Saud. In fact he has devoted his wealth, his health and time in this stage for promoting researches and studies on Islamic Banking system all over the world. He has prepared and paved the way for all other people to establish Islamic Financial Institutions.

The 4th stage where we are now and witnessing is, in my opinion, the stage of consolidating and strengthening these Institutions and specifying the objectives and strategies for the Islamic Banks. Now it is badly in need of unity and exchange of views which the International Association of Islamic Banks (IAIB) has been trying to achieve. In the last few years the whole concentration was to extract recognition and to have the permission for establishing the Islamic Financial Institutions. The enemies of Islamic countries who do not want to see the development or the strength of the economy of the Islamic countries will not spare a chance to destroy any achievement of the Islamic Mission, especially, in the economic field. They will seize every opportunity to reject this system or to create suspicion and doubt about the superiority of the Islamic Economic system, so that they can make the Muslim world dispare and dependent on them preventing us to restore our distinct identity. We have been witnessing these phenomena all over the world. We have to be very cautious that the enemies resort to pin-point the omissions and commissions, in the initial development of the Islamic Financial Institutions and throw doubts on the whole concept and in its superiority. This is a real challenge which we have been facing and shall be facing. That is the stage of consolidating the existing Financial Institutions which are still in their infancy. More efforts are needed all over. Most important factor is the concentration on preparing and building up those people who can be entrusted with the responsibility of the financial institutions. I believe that Bangladesh with its intellectuals and dedication and with the support of its Government, will Insha-Allah, play a very effective role in defending Islamic Economic system on behalf of the whole world and the Muslim Ummah.

Thank you very much.

ADDRESS BY THE SPECIAL GUEST

Mohammad Abdulmunim

Bismillahir Rahmanir Rahim.

Hon'ble Vice-President, Your Royal Highness, Excellencies, Ladies and Gentlemen.

Assalamu Alaikum.

It is indeed an honour to participate in this opening ceremony of the Seminar on Islamic Banking and Insurance. It is pleasing to note that Islamic Banking system has come a long way since the beginning of its movement and it is taking a hold in this country also, where I think the ground is very fertile for the system in the commerce and banking, and which is more akin to the traditions and feelings of the people. This country has always been with all the Islamic movements particularly beginning from the Khilafat Movement and people from this country have gone out to fight wars all over the world.

Plain thinking, plain living and simple faith are the life-style of our people. I mean, there are no controversy, no ifs and buts in their belief. They adopted the system of Islam straight way and with a deep touch of emotions. That is why, I feel, a proper system of banking based on Islamic principles if can be established as an alternative in this country, it will help build up a very prosperous future. This country needs a straight commercial banking in consonance with the belief and life-style of the common masses. Our country needs a people-oriented banking, commercial and industrial system, more than a mechanical one. That is why, this system which is based on the principles of Islam and is, by its nature, people oriented is of great importance for this country.

I find a good number of scholars and practitioners who have assembled here to-day to talk about various aspects of Islamic Banking and Insurance and I am confident that the deliberation will be very rich and will contribute significantly towards advancement of the system not only in this country but also for the whole Islamic Ummah. I feel that this Seminar is of a great importance to all of us and I wish the organisers of this Seminar and the participants all success.

Khoda Hafez.

ADDRESS BY THE CHIEF GUEST

Barrister Moudud Ahmed

Bismillahir Rahmanir Rahim.

Mr. Chairman, Your Royal Highness Prince Mohamed Al-Faisal Al-Saud, Hon'ble Minister, Excellencies, Distinguished Participants, Ladies and Gentlemen,

Assalamu Alaikum.

It is indeed a great honour and privilege for me to be here with you this morning. I would like to thank the International Association of Islamic Banks (IAIB) and the Islami Bank Bangladesh Limited for organising a Seminar of this importance, particularly in Dhaka. The subjects on which the Seminar is going to take place are of a great significance to us both from the banking point of view and from the point of view of belief and faith, in which our people are deeply devoted. I would also like to welcome the members of the Board of Directors of the International Association of Islamic Banks (IAIB) and other participants who have come all the way to attend the Seminar and I am sure this will provide an opportunity for all the participants and all others attending this Seminar to know the principles of Islamic Banking.

It is still a new phenomenon and there is still confusions and conflicts with the existing conventional system of banking and these need to be clarified in order to make people aware and understand the principles of Islamic Banking and Insurance. We are a Muslim country, our people are deeply devoted Muslims and when the question of Islamic Bank comes, emotion plays a very important role, and as the Quran has forbidden interest and the Shariah is very clear on the subject, the people naturally like to know about it, more because, they have been used to conventional banking system for centuries. Main point here, whether it is an Islamic Bank or a conventional bank, no bank will operate or will function unless it makes profit, and it gives a return to the depositors. That is the basic bottom line of banking but along with that the principles of the Islamic Banking system will perhaps have an additional contribution to make and that will be the question of equity but equity without profit will not make any bank functional, and so no Banking system based purely on emotion will work. It will have to be based on reason and that is why this Seminar expected to play a very important role and will be able to tell us that scientific basis on which

Islamic Banking system will survive. And it can only survive, if it can compete with the conventional banks, provide better service, make better profit and can play a more important role in the economic development of a particular country. So, I think that it is a very big challenge undertaken by Islamic Banks and I am sure, with the strength of Islamic Ummah, this challenge will be met and can be met and certainly can succeed if we can achieve those goals of banking which I have just mentioned.

Bangladesh is a very poor country. We have a hundred and ten million people. Out of it nearly one hundred million people are devoted Muslims. But the fact is, we are poor. The banking system does not reach even to-day 90% of our people. But this is a country, which is struggling for its own survival and for any country, particularly in the third World and like Bangladesh the aim is to achieve economic development for the people, which, in turn, means not in any vague term but in clear language the increase in the purchasing capacity of the people, to create demand in the country. In order to have more and more job opportunities in the country which will, in turn, provide an increased purchasing capacity for the individuals. This is the economic cycle which brings economic development for the people of a particular country and this is exactly what we are trying to achieve. We are poor not because we do not have the wealth, we are poor mainly because we are unable to manage the wealth that we have. We have abundant natural resources, proven and subproven. We have a huge human resource which a very few countries in the world have. But we have not yet been able to exploit and manage these resources to the best of utilisation for the economic development of our country. Ours is a country of great potentials. Our people have proved again and again for centuries that this is a country where the people are of vitality, resilience and courage. In the recent past they have proved it in achieving our independence. In the last two floods in 1987 and 1988, we have proved again that we can manage our own affairs and we can fight back.

This strength of our people we have not been able to utilise as yet, and this is why the policy to-day that we are persuing, is to achieve this goal of economic development in the shortest possible time, because a country like ours, unlike a developed country, can not wait for a long time to achieve this economic goals, as the time will overtake many of our problems which will go on increasing like the question of population. So we are in a hurry. Bangladesh as a nation should be in a hurry, because in ten years time it will have another additional population of $2\frac{1}{2}$ times more which means 25 million people that we can not afford to maintain. Therefore, this problem has to be addressed as quickly as possible and this is what we are trying to do and one of the ways of doing it is to create job and employment opportunities in the country and that is possible only if we can create

favourable atmosphere in the country for investment and that can not be done by the government alone. So we have opened the entire industrial sectors for direct private investment. For foreign investment we offer incentives which are more attractive than offered by many countries of this region and there comes the question of the banking system. We have also brought in a lot of reforms, a lot of changes. Our new industrial policy is commended by people at home and abroad and it is one of the most dynamic policies that any government has introduced in this country. If we look at the South Asian Scenerio, and East Asian Scenerio, we will see that the change of development in this region is unprecedented. If we look at the countries like South Korea, Hongkong, Singapore and Taiwan, we will see with surprise what major development or progress they have made in their respective country. Korea does not have the natural resources of any worth compared to ours. It used to enjoy per capita income less than that of ours about 25 years ago. But today they have a per capita income of \$ 2,800 dollars. They have achieved it and it is possible for us also to achieve the same progress, provided we also take the opportunity that is prevailing in the world today. We belong to the same group of nations like Thailand, Malaysia, the Philippines and Indonesia having more or less the same growth rate. The cost of living and wages in all these countries are going up, the GSP has been withdrawn. So they have to have reallocation of industries, migration of technology, international market for their products. They have to come to Bangladesh or countries like Bangladesh as because we provide the opportunity for their investment. We have started attracting investments. Although this has little relevance to my inaugural speech. Yet this is most relevant from our national point of view. That is why I have stated the points. I hope you will keep these facts in mind when you discuss the "Investment opportunities in Bangladesh."

Banks and Insurance companies in the modern world are key to development of any country and therefore, Islamic Banks can also play not only in Bangladesh but in all other Muslim countries a very important role in the development of each of these countries. I am sure this role of the Islamic Banks in Bangladesh will continue and will be strengthened in future. The values of Islam have to be reflected in the economic system of a Muslim country, but it will not be very easy to achieve. It will require purseverance, dedication, and a firm conviction that an Islamic Economic system will provide a better opportunity to the masses, particularly in countries like Bangladesh which have resource constraint, lack of cash flow which hinders the development of technology that we want to have or use. It will be the real challenge of the Islamic economic system to make it worth, to bring a better life and improve the quality of life of the people of a country like Bangladesh. I am sure with the dedication and commitment of your

Royal Highness and the International Association of Islamic Banks (IAIB), you will be able to meet this challenge and we will be by your side in going ahead in meeting this challenge. It will need courage and total commitment, and along with these, Insha Allah, Islamic Ummah will get consolidated and strengthened and this is what we all expect. With these words I would like to declare this International Seminar on Islamic Banking and Insurance opened. Thank you all.

Bangladesh Zindabad. Khoda Hafez.

ADDRESS BY THE CHAIRMAN OF THE SESSION

HRH Prince Mohamed Al-Faisal Al-Saud

Bismillahir Rahmanir Rahim.

Alhamdulillah Rabbil A'lamin.

Wassalatu Wassalamu A'la Afwalil Ambiyai Wal Mursalin.

Mr. Vice-President, Excellencies, Brothers and Sisters.

Assalamu Alaikum Wa Rahmatullah Wa Barakatuh.

With the indulgence of my Arabic speaking brothers I will deliver my address in English. Mr. Vice-President, I would like to begin by thanking you for attending this session and also for the kind words and the support that you have expressed today in front of us. I also would like to extend my personal and my colleagues, gratitude to the President for the warm reception that we are receiving here and for the kind words he has expressed on several occasions about our work. I also would like to extend to you, the President and the people of Bangladesh our thanks for being an outpost of Islam in South East Asia and demonstrating through their ability and resilience to meet all challenges.

Mr. Vice-President, we are meeting to discuss one of the newest and most vigorous ideas that have met the world in recent history. Although it is new in recent history, it has its basis in very old time. It dates back the days of the birth of Islam. For many centuries since the fall of the last Islamic Empire, the ideas and concepts and thought inherent in the message of Islam as it applies to daily living of human beings have been put on the back shelf and replaced by new vigorous ideas emanating essentially from the western hemisphere. This is not a surprising fact, because always new nations impose their philosophies and ideas on peoples they conquer or dominate. We find that inspite of their dominance and inspite of weaknesses in the social, political and economic spheres of our societies, the ideas and ideals of Islam are today the most vigorous on the world scene.

We are witnessing today a surrender by one of the world on the philosophical level which is the communist world. By their own admittance they have said that their ideas and ideologies are no longer viable for this world. And this philosophy was supposed to be the most modern and the most vigorous to-day. So is remaining to-day, the only two philosophies:

one is the western philosophy and the other, naturally, is our Islamic Philosophy. These two philosophies are in competition in the world to-day. We have every confidence because of our Aquidah (faith) that our Philosophy is the one that shall prevail, not because of us but because it is a God-given. Thing—not a creation of human being while the other philosophy stems from the creation of human beings. No matter, how good it is, it can never attain the objective of a God-given philosophy and Aquida. The themes to the subject that we are in the process of discussing is the economics, philosophy and ideas of the Islamic system. Being based on a God-given ideology the Islamic system has a totally different basis and Philosophy than the western one and for the lack of any better word we might call it the capitalist system. The basic and essential point of difference of the Islamic System is that it is based on such principles which are God-given and the man is nothing more than a Mustakhalaf—the Vice-gerent of God and the Islamic principles, in commercial terms, are factors of actual contract between the Creator, God—The Original Owner and the man, the user of God's bountry in this World. This distinguishes the Islamic Economists from the capitalistic economists because the capitalistic economists, basic assumption is that man is the original owner and disposer and therefore the Islamic Economists is constrained in his action by the original contract that God has given him while the capitalist is not constrained and therefore he has one less aspect in his dealings in his economic endeavours which is the moral aspect. Islamic system, first and foremost, assumes that morality is legality. You can not divorce the two, while the other system assumes that legality is not necessarily always moral and this basic point is why I have every confidence that inspite of as being in the third world, which is under-developed, eventually the system we are living under will prevail and this is why we are engaged in the call for the establishment of an Islamic Economic Order. Today we seed even science in the western world where thinkers and philosophers are beginning to doubt the assumptions under which their system work and they tend usually to reach the conclusion that it will bring them closer and closer to the Islamic system. This gives us heart to keep on fighting and thinking and developing our ideas without losing sights of the basic principles of our culture. We are hopeful that God will give us the wisdom to make as little mistakes as possible in our implementation of this essentially perfect system and if there is any mistake, it would be ours, it would not be of the system. I might add, because if the system is coming from a perfect source, therefore, it is perfect. So, the imperfection is in us. And I hope that God will clear our path.

Now permit me, your excellency, to talk a little bit about our interest in your wonderful country. We are here in order, first of all, to demonstrate

concretely that although you are far away in distance, you are very close to our hearts and to demonstrate also that we have every intention to look for means in order to be small part of the effort of Bangladesh to develop and raise the standard of living of the people and give them the means to live a prosperous life. We feel, my colleagues and I, that opportunities offered by Bangladesh whether they be for investment or cultural exchange for tourism and for education and training are extensive. And we hope that we will be able to identify through expert discussions by our people and the people who are here in Bangladesh specialised in these matters, to find avenues of joint endeavours whether they be in Banks, developing companies, insurance or commercial enterprises and try to be a catalyst whereby we can bring closer co-operation not on the governmental level because that is already taken care of. But rather on the private level private individuals and institutions in order to promote exchanges of ideas, of commerce and of mutual benefits to both Bangladesh and the countries we operate in. Again at the end, I would like to thank your excellency and our other distinguished guests for attending this Seminar and extend my thanks to the President and Bangladeshi people and hope that God may give us the strength and wisdom to be able to serve this precious part of this Islamic world.

Thank you very much.

VOTE OF THANKS

Mohammad Sharif Hussain

Bismillahir Rahmanir Rahim.

Alhamdulillah Wassalatu Wassalamo a'la Rasuluhil Karim Wala a'lihi Wasahabihi Ajmayaan.

Honourable Chief Guest, respected Special Guests, Your Royal Highness, Excellencies, Esteemed Members of the Board of Governors of the IAIB, Distinguished Chairmen and Executives of Islamic Banks, Distinguished Delegates of the Seminar, Esteemed Guests and Ladies and Gentlemen present.

Assalamu Alaikum Warahmatullahi Wabarakatuhu.

I take this opportunity to express profound gratitude to the Almighty Allah Who has helped us organise this International Seminar on Islamic Banking and Insurance, the Second of its kind sponsored by the IAIB after the 1st one held in 1985 in this historic city of Dhaka. We feel proud to welcome the galaxy of distinguished scholars, economists and reputed bankers from home and abroad who spared their valuable time to participate in this Seminar and enrich it with the fruit of their erudite thoughts and experiences.

On behalf of the Seminar Committee and my own behalf, I express hearty thanks to the honourable Vice President of the People's Republic of Bangladesh who, despite his tremendous pre-occupations and heavy schedules, is kind enough to grace the occasion with his presence and inaugurate the Seminar. The honourable President of the People's Republic of Bangladesh has kindly inspired us with a message—echoes of his heart, on the eve of this Seminar wishing it a grand success. We are grateful to his honour. The Respected Special Guest, Minister for Agriculture, Government of the People's Republic of Bangladesh, your kind presence in the Seminar and your thoughtful speech has inspired us. We are thankful to you.

We are indebted to your Royal Highness, the Pioneer of the Islamic Banking movement, for your kind presence in this Seminar and inspiring speech that has rewarded us all with rich elements of philosophy and guiding principles. We are grateful to the noted intellectuals, scholars, the

elite and journalists of the City who have kindly responded to our invitation and encouraged us with their presence. Finally, I do heartily appreciate the valuable services of the executives, officers and workers of Islami Bank Bangladesh Limited and all those who have directly and indirectly contributed to the success of the Seminar. We strongly hope that the Working Sessions of the Seminar will come out with concrete results and recommendations on the issues of Islamic Banking and Insurance.

May Allah help us reach a happy and successful conclusion. I once again thank you all. Ma-Assalam.

PART: II

C. ADDRESSES

CONCLUDING SESSION

1. Opening Remarks

Mir Quasem Ali

2. Addresses by the Guests of Honour

Lutfullahil Majid

Professor M. Safiullah

S. M. Al-Hussainy

S. B. Chaudhuri

3. Address by the Chairman of the Session

HRH Prince Mohamed Al-Faisal Al-Saud

Mir Quasem Ali: Director, Islami Bank Bangladesh Limited, Bangladesh.

Lutfullahil Majid: Additional Secretary, Ministry of Industry, Bangladesh.

Professor M. Safiullah: Former Director, Institute of Business Administration, University of Dhaka, Bangladesh.

S.M. Al-Hussainy: Chairman, Public Service Commission, Bangladesh.

S.B. Chaudhuri, Governor, Bangladesh Bank, Bangladesh.

His Royal Highness Prince Mohamed Al-Faisal Al-Saud: Chairman, International Association of Islamic Banks; Chairman, Dar-al-Maal Al-Islami, Geneva.

OPENING REMARKS

Mir Quasem Ali

Bismillahir Rahmanir Rahim.

Alhamdulillah Rabbil A'lamin. Wassalatu Assalamu, A'la Rasulihil Kareem Wa' a'la A'lihi Wa Ashabihi Ajmaeen.

Your Royal Highness—the Chairman of this Session, Distinguished Guests of Honour, Participants, Brothers and Sisters.

Assalamu Alaikum Wa Rahmatullah Wa Barakatuh.

This concluding Session of the Seminar is significant from various aspects. It is attended by outstanding personalities like Dr. Naggar, the architect of Islamic Banking Movement, who has devoted his full time for designing a system of Islamic Banking which can meet all the future challenges. His Royal Highness, the leader of the Islamic Banking Movement has also graced the occasion by his presence. It is attended by experts, executives and policy makers from both home and abroad. The notable thing is that the attendance in the Seminar has been full throughout the whole day. This shows that the theme of the Seminar was really an interesting one. We feel sorry that we could not allow time for discussion from the floor as we had to cover the main aspects such as Islamic Economics, Banking, Insurance, Investment opportunities and Training aspects. But with this short-coming, I can safely say that the Seminar has been a successful one and I hope in future we shall be able to arrange Seminar for longer duration as suggested by different distinguished guests, specially His Royal Highness.

I had a personal chance to meet His Royal Highness and Dr. Naggar who expressed the strong hope that Bangladesh could be a model country—model area for successful implementation of Islamic Banking system. So, I would request in the opening remarks that we the Bangladeshi people along with our intellectuals are ready to render our services to set up a model of Islamic Banking. Really, Bangladesh like all other developing countries needs Islamic Banking to change its fate. Bangladesh is a virgin country having immense potentials. But it needs determined leadership and a specific goal. I had the mind to cover all the Sessions in my remarks but due to the time-constraint I like to conclude here by only referring to the guiding speech given by His Royal Highness. He not only has very clearly explained the concepts of Islamic economy but also very correctly mentioned that the oponents of Islamic concepts have started to surrender

themselves and they themselves have been declaring their failure. Now, as he mentioned, there is left only one opponent, the western secular system. He also expressed his firm belief that if we could successfully practise and demonstrate the Islamic system the opponent would also surrender to Islam, Inshallah. I also personally believe that the whole world will embrace Islamic system as Rasul (Sm.) said. No army will be needed Inshallah, no war-heads will be required, no nuclear weapon will be needed to conquer the world for Islam. It is only practice and demonstration of the beauty of Islam that will bring the victory for us. I think Islamic Banking system is one of the best methods to prove before the world that Islam is the only alternative for the solution of human problems. May Allah give us all the capacity, courage, fortitude to demonstrate Islam, Islamic economy in our country and in the Muslim world at large.

In fine, I like to say that the recommendations of this Seminar will be a guideline for our future course of action. After the quarter century of the Islamic Banking movement we have reached such a stage where we need new dimension to take up the challenges to practise real Islamic Banking and I hope Islamic Banking movement as ushered in all over the world is capable enough to face the new challenges.

May Allah give us that courage and help us attain the cherished goal.

Assalamu Alaikum.

ADDRESSES BY THE GUESTS OF HONOUR

Mohammad Lutfullahil Majid

Your Royal Highness— the Chairman, Distinguished Guests and Participants.

Assalamu A'laikum.

This International Seminar on Islamic Banking and Insurance has indeed been a very noble venture and I am particularly grateful to have the privilege to be associated with the successful conclusion of this Seminar. I was honoured to be asked to chair one of the sessions and the subject of that Session was Investment Opportunities in Bangladesh. I would like to point out the recommendations made in that particular Session. The principal speaker and the discussants pointed out and made assertions that the investment opportunities in Bangladesh at the moment were quite bright. I think that this Session made very useful comments with regard to policies, investment in Bangladesh and also made very useful recommendations to overcome the shortcomings. There is a good investment opportunity in Bangladesh and if we could combine these investments and the policies with the subject matter of today's Seminar that is Islamic Banking principles and Islamic Insurance, I believe we would be able to definitely go a long way towards achieving both economic prosperity and the basic purpose of our existence that is our religious faith.

I congratulate the organisers of the Seminar and thank you all.

Assalamu Alaikum.

Prof. Md. Safiullah

Bismillahir Rahmanir Rahim.

Your Excellency, Participants and Guests.

Assalamu A'laikum.

I had the honour to preside over the Session which was devoted to the development of Islamic Insurance and Re-insurance. In that Session it was clearly explained as to why we need Islamic Insurance. We tried to give an answer to that question. We also laid down the principles on which Islamic Insurance should operate. The experiences of Malaysia were given by the

principal key-note-speaker and we could learn quite a lot from that experience. But Islamic Insurance in Bangladesh had to be on the background of Bangladesh-needs and socio-economic conditions. Islamic Banks need Islamic Insurance. Because, without an Islamic Insurance, the Islamic Banks would not be fully Islamic. Islamic Banks if they go to the present conventional insurance companies for their own coverage, then they would involve themselves into the riba i.e. interest. To get rid of that interest based system, the Islamic Banks, need Islamic Insurance. Islamic Insurance go hand in hand with Islamic Banks. If Islamic Banks to be truly and purely Islamic, there have to have Islamic Insurance also. Now, only the life insurance would not do. Because most of the covers which the Islamic Banks need are general insurance. So, general insurance is a must for Islamic Banks for their own coverage. So, this Session came out with the suggestion that both life and general insurance are needed for the Islamic Banks and it is also stated that the re-insurance would also to be arranged under Islamic frame-work. For all these a legal frame-work is essential. So the Seminar also came out with the suggestion that the Govt. should be requested to expedite the enactment of the required legal frame-work in the country for the purpose.

Thank you all.

S. M. Al-Hussainy

Bismillahir Rahmanir Rahim.

Your Royal Highness— the Chairman, Distinguished Guests and Participants.

Assalamu A'laikum.

I have been tremendously profited having been able to participate in most of the Sessions and enrich myself. But at the end of the day the question that lingers in one's mind that to the common man and to the society as a whole what is the urge and what should be the urge for the Islamic Banking System. A common man has his hard earned money in the profit and loss sharing scheme of Islamic Bank. He wants his money to be secured. Now can this security be guaranteed? Money will change its value; it has a time value either in a positive way or in a negative way. If we just keep your hundred dollars in a box, after one year its value is likely to be eighty dollars in some countries, even forty dollars in some other countries, even in the best managed economy of the world it would be possibly 95 or 96 dollars. How to keep the value of the money safe against this erosion of value and if a profit is to be given, how that profit can be ensured and at what rate should it be calculated? Here comes the difference between the traditional

banking and the Islamic Banking Systems. A traditional banker gives the return only at a stipulated value and even in that case he tries to give the depositors the minimum. Thus, at the end of the year the institution itself makes a lot of money. But how much do the depositors with whose money that profit has been earned, get? This is the question of a common man. Now if an Islamic System of Banking is going to provide that it needs to manage its money in such a manner that can ensure that return. The fund management of Islamic Banks should be so efficiently done that the superior Islamic System should not suffer such setback to deprive its depositors of their expected profits.

Now, in the context of Bangladesh and other Muslim countries which are developing I have mentioned in the Session I participated, that the trade driven economy, the opportunity of doing good to the society and to the country is increasing the industrial investment. To-day groping and own Industris can not contribute even 10% to the G.D.P. How can we get 20%? Islamic Banking with its system can do that. But we have found that Islami Bank Bangladesh Ltd. has done very well. But it has not done well enough in the Musharaka system. Why? All said and done, We come to the question of the management efficiency of the Islamic Banks. Let alone all the good principles of Islamic System, but unless you can do well and deliver the good, there is no use of this good principles or value to the country or to the society. For that we need competent people. We have talked in our Session that the Manpower Development and Training Institute, these are very important and we have argued that Bangladesh is very rich in human resource. So, let there be a regional centre and Bangladesh would be a very serious candidate for that because of its unique geographical location, a vast reservoir of talented professionals who can be trained and used for this purpose to serve the cause of Islamic Banking for the entire Islamic Ummah and the whole world. It also needs mention here that the two Islamic Banks in Bangladesh have already recorded very good performances. But for model development, they need extensive consolidation with a very proportionate expansion, because without consolidation, particularly in respect of Manpower, unplanned expansion may expose them to a bad impression in the mind of the public. So, must we start with a Training Institute immediately with the help of International Association of Islamic Banks and the two Islamic Banks in Bangladesh under the patronage of Bangladesh Bank and give it an international status and for the required logistics let us take up the proposal to the OIC or other Forums.

May Allah bless us all.

S. B. Chaudhuri

Bismillahir Rahmanir Rahim.

Your Royal Highness— Prince Mohamed Al-Faisal Al-Saud, Dr. Ahmad El-Naggar, Distinguished Guests of Honour, Chairman, Islami Bank Bangladesh Ltd., Distinguished Delegates and Participants.

Assalamu A'laikum.

I must first thank the sponsors and the organisers of this Seminar for giving me the opportunity of being associated with it. I have the honour and the privilege of presiding over the 1st Session of the Seminar. This Seminar has covered a wide range of subjects and evidently it has attracted very extensive and active participation. This in itself shows the interest that Islamic System of Banking has generated. Special attraction had been the guiding speech of His Royal Highness in the opening Session, from which not only all of us present but also the Islamic System of Banking as a whole would benefit immensely. Brother Nassief, the key-note speaker in the Session, I had the honour to preside over, sketched very skillfully, but briefly a clear picture of the emerging global system of Islamic Banking. In the process he highlighted some of the problems that are coming up or those tend to persist and the modalities of Islamic Banking as in practice now, pointed out some of the problems which were coming up and tending to persist. The discussions were quite lively and covered certain areas by way of illucidation of Brother Nassief's presentation. I am sure all these will be reflected in the proceedings of this Seminar and will benefit Islamic System of Banking.

The respected Chairman of the Public Service Commission has mentioned certain areas. But the very fact is that these questions are being placed and efforts made to answer those would stimulate new thoughts and new activities within the layers of Islamic System of Banking. The thing is that the Islamic System of Banking has already gained acceptance. I fully agree with Dr. Naggar that time is now to consolidate the System and that is important to increase the level of confidence in this System and this requires an attitude of mind of those who function in the System. A sense of dedication, in addition to, expertise and knowledge is necessary because this System has not been built up by any human mind. It has been given to us by the Almighty and we have to deploy ourselves to its implementation with dedication.

I thank you all again. Assalamu A'laikum.

ADDRESS BY THE CHAIRMAN OF THE SESSION

HRH Prince Mohamed Al-Faisal Al-Saud

Bismillahir Rahmanir Rahim.

Alhamdulillah Rabbi A'lamin.

Honourable Chief Guest, Guests of Honour, Brothers and Sisters.

Assalamu A'laikum. Warahmatullahi Wabarakatuhu.

It is with the mixture of both pleasure and sorrow that I address you to-night. I address you with pleasure because we are meeting in brotherly fashion to achieve recommendations towards a most precious goal for us all and with sorrow because our meetings are coming to a close and each one of us is going to go of his own way. The recommendations we have just adopted are going to give us who are in the field, another push towards doubling our efforts in order to perfect and strive to accomplish the goals that are laid down upon our shoulder so that we may make the system of gaining our livelihood and developing our countries in total conformity with God's will and Shariah.

I would like to thank every one who has participated in this Seminar. I would also like to thank specially the distinguished Chairmen of the various Sessions. I want to thank the organisers and specially the personnel of Islamic Bank of Bangladesh headed by the Chairman and Board of Directors and everybody who has participated in the setting up of this Seminar. I wish to congratulate also my colleagues at the International Association of Islamic Banks for having the farsight to choose Bangladesh as the venue of this Seminar, because after all we have seen from the full participation and the great interest that was demonstrated today and our knowledge of what Bangladesh stands for or represents and its location on the map and the heart-felt sincere feelings that we noticed in its people towards the Islamic ideal and principle. We feel that we have made a wonderful discovery for our work. Many of us are going to go back home remembering the warm feelings that we have had here and I am sure each one of us will be wishing come back.

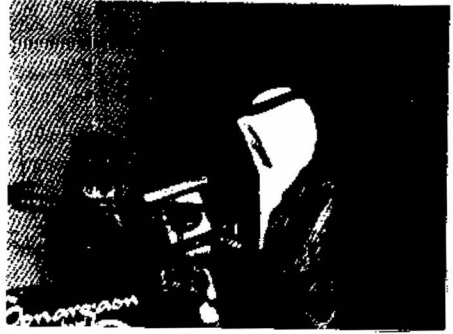
Finally, I would like to thank the Government of Bangladesh and specially

the President who has demonstrated his wise and inspiring guidance in this precious part of the Islamic world. I would like to apologise to any body I have forgotten to mention. I would like to conclude by saying that we have just begun, the road is long and the process is arduous and we always have to be careful not to let our emotions govern our actions, because emotions sometimes can destroy, no matter how good they are. Let us remember always to stop and apply our brains before we act on the impulses of our emotions. Emotionally we would like to have the Islamic Economic System immediately in place but we all know that is not in the cards, we have to work, we have to innovate and we have to sacrifice and we have to make mistakes, so that in the future the process becomes fruitful and bring forth a system which can compete in the world markets on the level that its philosophy requires. It's a gradual process. It may be that none of us sitting here today, will see when it fruits. But each one of us has to put his little contribution. May be, our children will see it and that is satisfaction enough. The important thing is that a Muslim puts the effort, the sincere effort. If he does not get the result, he must know that it is not time as yet and the result is really in the hand of God. I have put in the effort sincerely with the objective of achieving the best that I can and I am sure that we will Inshallah one day arrive at the point where our system will be seen by all as the system that should govern the actions of human being,. In my estimation, this is a successful result and if we don't accomplish anything else in this trip but this Seminar and the result it came out with, we consider that we have made a good Murabaha.

Thank you very much. May God bless you.

PART: III

RECOMMENDATIONS ADOPTED IN THE SEMINAR



Members of the IAIB Board of Governors and some foreign delegates are being presented with the Replica of IBBL.

Recommendations of the International Seminar on Islamic Banking and Insurance :

1. The Seminar views with satisfaction the rapid growth of Islamic Banking around the world which has created new hopes and aspirations in the minds of the people towards establishment of Islamic Banking based on social justice and equity. The Seminar, therefore, urges upon the Govt. and Central Banks of all Islamic countries to extend their assistance and co-operations in promoting Islamic Banking in their respective countries.
2. The Seminar feels that for effective implementation of Islamic Banking around the world, intensive and comprehensive Institutional Training of their working forces is very essential. With this end in view, a Regional Training Centre be established in Dhaka for development of human resources of Islamic Banks in this region.
3. The Banking and Insurance go side by side in matters of trade and business as there should be an institution to protect the investments of Banks against the unforeseen hazards and catastrophies. As such this Seminar feels that an Insurance Company based on Islamic principles be established immediately for covering all sorts of risks of the Banks. The Seminar also recommends that courses on Islamic Economics with special emphasis on Islamic Banking and Insurance should be introduced in all the Universities, Colleges, Schools and Madrasahs of all the Muslim countries.
4. The Seminar recommends that there should be exchange of manpower among Islamic Banks for acquiring professional skills and equipping them with modern banking knowledge and technologies so that effective methodologies can be devised for implementation of Islamic Banking mechanism.
5. The existing Financial laws of most of the Islamic countries are not favourable for the growth of Islamic Banking. As such the Seminar feels that necessary legal frame-work be introduced immediately by the countries for accelarating the growth of Islamic Banking.
6. The Seminar recommends that Seminars and Workshops on Islamic Banking should be frequently arranged for exchange of views and experiences among the personnel of Islamic Banks of different countries so that a feeling of unity and fraternity is fostered among them and that they can enrich their knowledge and experience.
7. Inconformity with the basic objectives and principles of Islamic Banks, the Seminar feels that the Islamic Banks should go for rural financing and real estate investment including low cost housing. For

the purpose, the Central Banks should allow formation of subsidiary companies by Islamic Banks to conduct proper operations and supervision of investment in these sectors.

8. Since the Development of a country largely depends on its industrialisation the Islamic Banks, which believe in the total welfare of the people, should participate in financing such industrialisation. For the purpose, the Seminar recommends that training for the Development of entrepreneurship should be undertaken for successful implementation of industrial projects financed by the Banks.
9. Since the Islamic Banks can not participate in the existing money market of a country which is based on interest, they face unsurmountable difficulties in profitable utilization of their short-term surplus resources. As such the Seminar urges upon the Central Banks of all Islamic countries to issue separate financial instruments to promote the cause of Islamic Banking in their respective countries.
10. The Seminar strongly feels that the valuable Papers presented in the Seminar be published subsequently in a book form for wide circulation at home and abroad.
11. The Seminar records with great appreciation the patronage and courtesy extended to us by the Govt. of the People's Republic of Bangladesh and extends its gratitude and heartfelt thanks specially to the Hon'ble President of the People's Republic of Bangladesh for his help and kind message to the Seminar showing great interest in the Islamic Banking movement.
12. The Seminar appreciates the dynamic leadership of His Royal Highness Prince Mohamed Al-Faisal Al-Saud in the field of Islamic Economics and Banking and hope that as Chairman of IAIB he will continue to inspire us by his brotherly visits and encourage us in undertaking economic activities for the benefit of the people of the country.



HRH Prince Mohamed Al-Faisal Al-Saud arrives at Zia International Airport, Dhaka to attend the Conference of the IAIB Board of Governors and Seminar.



At the Inaugural Session of the Seminar (from the right): Barrister Maudud Ahmed, Vice President of the People's Republic of Bangladesh, HRH Prince Mohamed Al-Faisal Al-Saud, Chairman, IAIB and Mohammad Abdulmunim, Minister for Finance (the then Minister for Agriculture) of the People's Republic of Bangladesh.



Barrister Maudud Ahmed, Vice President of the People's Republic of Bangladesh, addresses the Inaugural Session of the Seminar as the Chief Guest.



Mohammad Abdulmunim, Minister for Finance (the then Minister for Agriculture), People's Republic of Bangladesh, addresses the Inaugural Session of the Seminar as the Special Guest.



HRH Prince Mohamed Al-Faisal Al-Saud, Chairman of IAIB, delivering speech as the Chairman of the Inaugural Session of the Seminar



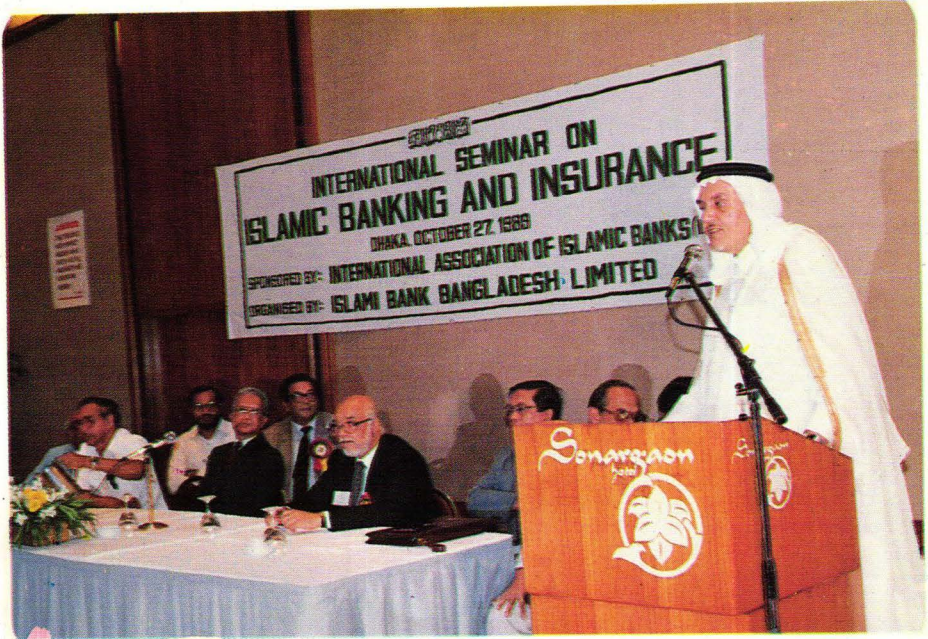
Dr. Ahmad El-Naggar, Secretary General of IAIB, delivering speech at the Inaugural Session of the Seminar.



Commodore Mohammad Ataur Rahman (Retd.), Chairman, Islami Bank Bangladesh Ltd. and Chairman Organising Committee, IAIB Seminar and Conference, delivering address of welcome at the Inaugural Session of the Seminar.



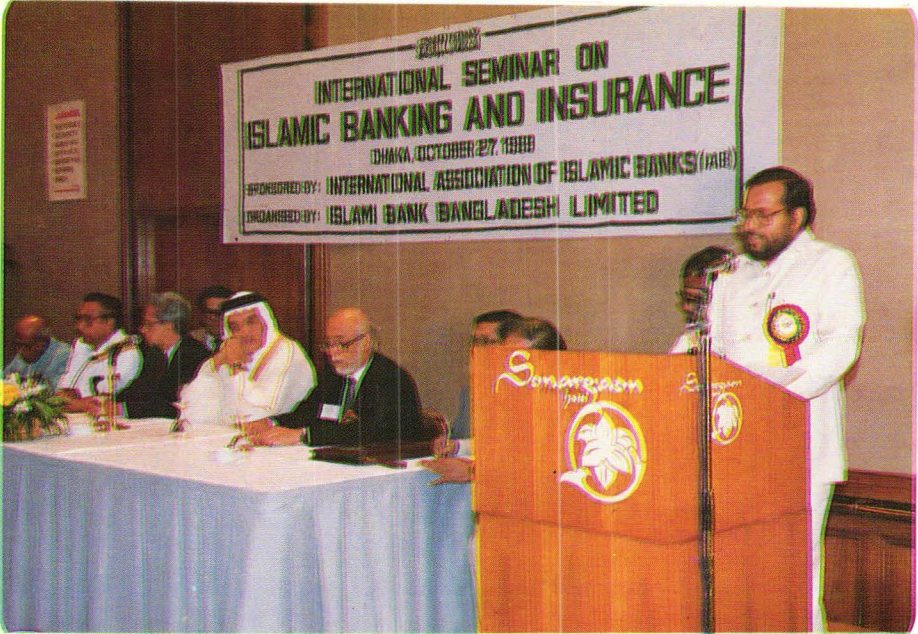
Professor Mohammad Sharif Hussain, Convenor, IAIB Seminar Committee (1989) giving vote of thanks at the Inaugural Session of the Seminar.



HRH Prince Mohamed Al-Faisal Al-Saud, Chairman, IAIB, delivering speech as the Chairman of the Closing Session of the Seminar.



Dr. Ahmad El-Naggar, Secretary General, IAIB, addresses at the closing Session of the Seminar.



Mir Quasem Ali, Director, Islami Bank Bangladesh Ltd., makes Opening Remarks at the closing Session of the Seminar.



Some diplomats at the Inaugural Session of the Seminar



The 27th Conference of the IAIB Board of Governors with HRH Prince Mohamed Al-Faisal Al-Saud in the Chair.



A part-view of the audience at the Inaugural Session of the Seminar.



The Chairman of the Four Working Sessions of the Seminar (from left): S. B. Chaudhuri, S. M. Al-Hussaini, Prof. M. Safiullah and Lutfullahil Majid.



The Writers of the Key-Note Papers (from left): Nabil Nassief, M. Azizul Huq, Mohd. Fadzle Yousof and Dr. Salahuddin Ahmad.



Discussants on the Key-Note Papers of the Seminar (from left): Dr. M. A. Hamid, A. S. M. Fakhru Ahsan, Dr. A. H. M. Habibur Rahman, A. F. M. Yahya, Shah Abdul Hannan, Harunur Rashid, Lutfar Rahman Sarkar, and Dr. Hafiz G. A. Siddiqui.



HRH Prince Mohamed Al-Faisal Al-Saud accompanied by an IAIB team attends a meeting at Bangladesh Bank.



A group of Seminar-Participants enjoys a river cruise with HRH Prince Mohamed Al-Faisal Al-Saud, who is seen flanked by B. M. Abbas A.T. and Dr. Ahmad El-Naggar.



HRH Prince Mohamed Al-Faisal Al-Saud with Kazi Zafar Ahmed, Prime Minister of the People's Republic of Bangladesh.



HRH Prince Mohamed Al-Faisal Al-Saud with A. B. M. Gholam Mostafa, Minister for Irrigation, Water Resource Development and Flood Control.



HRH Prince Mohamed Al-Faisal Al-Saud with B. M. Abbas, A. T., Adviser of the President for Water Resource Development.



HRH Prince Mohamed Al-Faisal Al-Saud with Commodore Mohammad Ataur Rahman (Retd.), Chairman of Islami Bank Bangladesh Limited.



HRH Prince Mohamed Al-Faisal Al-Saud addressing a post-Seminar Press Conference.



A Section of Journalists at Press Conference.



HRH Prince Mohamed Al-Faisal Al-Saud at Islamia Eye Hospital, Dhaka.



HRH Prince Mohamed Al-Faisal Al-Saud in a meeting at IBBL Head Office with Members of the Board and top Executives.



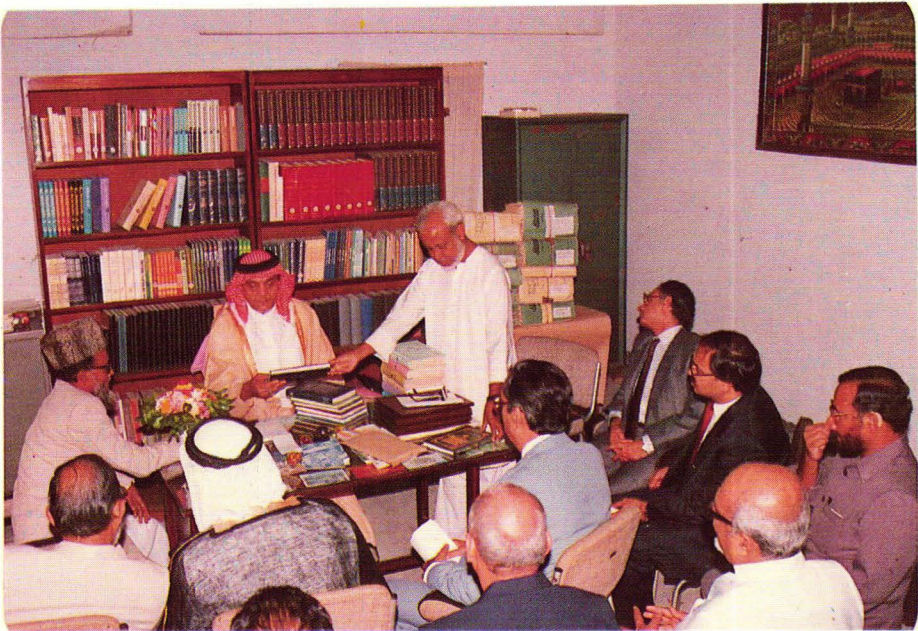
Dr. Ahmad El-Naggar, Secretary General, IAIB, addressing the executives and officers of Islamic Bank Bangladesh Limited.



Dr. Ahmad El Naggar, Secretary General, IAIB, addressing at a Seminar on "Development from Below and Role of Banks" organised by Islamic Economics Research Bureau on October 24, 89.



HRH Prince Mohamed Al-Faisal Al-Saud at Islamic Economics Research Bureau, Dhaka.



HRH Prince Mohamed Al-Faisal Al-Saud at the Bangladesh Islamic Centre, Dhaka.



HRH Prince Mohamed Al-Faisal Al-Saud at Ibrahim Memorial Diabetic Centre, Dhaka.



Board of Editors: IAIB Seminar Papers and Proceedings.

PART: IV

A. Islamic Banking in Perspective

A. S. M. Fakhrul Ahsan

B. Need for Islamic Insurance

Kazi Mohd. Mortuza Ali.

C. Islamic Banks and Financial Institutions Around the World

A. S. M. Fakhrul Ahsan: Deputy Governor, Bangladesh Bank, Bangladesh.

Kazi Mohd. Mortuza Ali: Deputy General Manager, Bangladesh Shipping Corporation, Bangladesh.

ISLAMIC BANKING IN PERSPECTIVE

A. S. M. Fakhru'l Ahsan

1. THE PERSPECTIVE

Since the establishment of the Islamic Development Bank (I.D.B.) as an international financial institution in 1975, over half a hundred Islamic Banks and Investment/Finance Companies have been set up in different countries. Forty four (44) member-countries of the Organization of Islamic Conference (O.I.C.) are also members of the I.D.B. The purpose of the Bank is to foster economic development and social progress of the member-countries and Muslim communities in accordance with the principles of Islamic Shari'ah. The Bank is also charged with the responsibility of providing technical assistance to member-countries, extending training facilities for personnel and undertaking research for enabling the economic, financial and banking activities in Muslim countries to conform to the Shari'ah. Thus, I.D.B. has already promoted a number of Islamic Banks in the member-countries and participated in their share capital and management. The Bank has also set up a full-fledged Islamic Research and Training Institute at its Head Office in Jeddah, Saudi Arabia.

2. Two countries viz., Pakistan and Iran have totally changed their domestic banking from the traditional interest-based to the Islamic modes while Sudan has also adopted Islamic Banking on a large scale. In the other countries Islamic Banks/Investment/Finance Companies exist and operate with the traditional ones in a mixed system. Some of the issues and problems of the Islamic system of banking and finance to be consolidated and widespread are discussed in the subsequent sections of the Article.

3. The Islamic Bank have the following distinguishing characteristics:

(a) They are committed to operate according to the principles of Islamic Shariah (Jurisprudence). In other words, their objectives, operating principles and working procedures must conform to the Shariah.

(b) They are forbidden to pay or receive interest on any of their operations which means that their basis of operation is entirely different from that of the conventional banks.

(c) Islamic Banking implies zero rate of interest but not zero rate of return. This is so because they do not give any prefixed interest on deposits or charge prefixed interest on loans and advances. In fact, they do not give any loans and advances of the type given by the conventional banks. But the Islamic Banks do share in the profits (and losses, if any) of enterprises as per agreement with those who take funds from them for actual trade or investment, and these are on the basis of the realised profits or losses, as the case may be.

(d) It is said that, unlike the conventional banks, the Islamic Banks do not deal in money but deal with money as a means to finance productive, trading and investment activities, either directly by themselves or in partnership with others, seeking to earn or share legitimate (Halal) profit.

(e) They are required to pay to the Zakat Funds 1/40th or 2.5 percent of their capital and profits every year for the benefit of the weaker/poorer section of the society.

(f) They have provision for Qard Hasan or beneficent loan in deserving cases without any consideration of profit or return on the same. These are, returnable, if and when the beneficiary is able to repay.

II. THE RATIONALE AND PHILOSOPHIC FOUNDATION

4. The emergence of Islamic Banking in several Muslim countries and elsewhere in the world during the last decade should be viewed not in isolation but in the perspective and as an integral part of the Islamic Economic System and Islamic way of life (the Deen Al-Islam).

5. Islamic Economic System represents in essence economics with the highest form of ethics. Economics without ethics is like a ship without a radar⁽¹⁾ in a turbulent and boundless ocean—at best an academic discipline without direction.

6. Islam views life as a compact whole and does not divide it into many separate and conflicting parts. The economic aspect is one of the most important parts of man's life, while not being the whole of it. The Islamic system is balanced and places everything in its right place. Islam has given detailed regulations for the conduct of man's economic life which concerns mainly the earning and use of wealth for individual as well as collective good.

7. Man needs bread to live but he does not live for bread. This means that earning and spending money is essential for human living, but man does not live only for this. As the best of Allah's creations, man has a greater purpose of life. All men are Allah's agents (Khalifah) on earth. They not only have a body but have a soul and a conscience as well. Without soul and conscience, mankind would be considered little more than animals.

8. Everything in Islam is for the benefit and welfare of mankind. The economic principles of Islam aim at establishing a just society wherein every one will behave responsibly and honestly, and be accountable not only in the worldly life but also in the life Hereafter. Thus, unlike secular economics, Islamic Economics is concerned not only with the satisfaction of the material needs of the individual who commands purchasing power or effective demand—and who seeks to maximise his own utilities (the economic man) but also with the fulfilment of the legitimate basic needs of all human beings, even if some of them may not command purchasing power at the moment whose needs must be made effective by transfer of income as a social and moral obligation of the Islamic individuals / community / state..

9. The Islamic Economic System is based on some fundamental principles and rules as briefly illustrated below :

(1) **Earning and Expenditure by Halal Means**

Islam has prescribed laws to regulate earnings and expenditure. Muslims are not allowed to earn and spend in just any way they like. They must follow the relevant rules of the Quran⁽²⁾ and the Sunnah in this regard.

- (a) Any earning from the production, sale and distribution of alcoholic drinks is unlawful, as are earning from gambling, lotteries and from interest (Riba) transactions. (5:90-91, 2:275)
- (b) Earning by falsehood, deceit, fraud, theft, robbery and burglary are unlawful. Deceitful acquisition of orphan's property has been particularly banned. (2:188, 4:2, 6:152, 7:85, 83:1-5)
- (c) Hoarding of foodstuff and basic necessities, smuggling and artificial creation of shortages are unlawful. (3:180, 9:34-35)
- (d) Earnings from forbidden (Haram) pursuits and indecent practices which are harmful to society are also unlawful. (24:23)

Islam strikes at the root of evil and wants to establish a just and fair society. A Muslim must earn in Halal ways and he/she should always bear in mind that whatever he/she does is known to Allah. He/she will be accountable for his/her actions on the Day of Judgement. He/she cannot hide anything

from Almighty Allah. (99:7-8)

Unlawful expenditure is also not allowed in Islam. It does not at all befit a Muslim to spend money irresponsibly. His/her actions should be responsible and meaningful. Extravagance and waste are strongly discouraged and censured in the Quran.(7:31, 17:26, 19:27-31, 25:68)

(2) **Balanced Use and Equitable Sharing of Wealth**

- (a) "Truly, the extravagant are the brothers of the Satan, and the Satan is ungrateful to his Lord." (17:27)
- (b) "Those are on the right course who, when they spend, are not extravagant nor are they niggardly, but hold a just balance between those extremes." (25:67)
- (c) "In their (the affluent) wealth there is due share for the needy and the destitute". (51:19)
- (d) "Do good to others as Allah has done good to you". (When Qaroon Refused to share even a little of his vast wealth with his less fortunate brothers saying that his wealth was on account of his special knowledge, Allah gave him the most stern punishment). "Then we caused the earth to swallow him up and his house, and he had no party to help him against Allah, nor could he defend himself." (28:77-81)

(3) **Dignity of Labour**

"It is better for anyone (of you) to take his rope and bring a bundle of wood on his back and sell it, in which case Allah will save his honour, that to beg of people—whether they give him or refuse him anything." (Hadith)

Right to Property and Individual Liberty

Islam allows a person to earn and own his/her Halal earnings. The Islamic State does not interfere with the freedom of speech, work and earning of an individual provided this freedom is not harmful for the greater good of the society. (4:7, 36:71, 61:11)

(5) **System of Zakah (Compulsory Welfare Contribution)**

Compulsory payment of Zakah is one of the main principles of an Islamic Economy. Every Muslim who owns wealth more than his needs and Shariah prescribed limits (Nisab), must pay the fixed rate of Zakah to the Islamic State. Zakah is a means of narrowing the gap between the rich and the poor. It helps fair distribution of wealth. It is a form of social security. The Islamic State is responsible for providing basic necessities of food, clothing, housing, medicine and education to every citizen. No one should have any fear of insecurity or poverty. Where there is no state machinery for compulsory collection and distribution of Zakah, it remains equally obligatory on the part of the Islamic individual/person/institution to pay

Zakah to the rightful recipients specified in the Quran. (9:60, 103, 98:5)

(6) Law of Inheritance (Mirath)

Islamic law of Inheritance is a divine system of stopping concentration of wealth. It provides very detailed laws regarding the rights of dependents over the property of the deceased person. The Surah Al-Nisa of the Quran deals with the law of Inheritance in great detail. (4:7-12, 4:176)

(7) Prohibition of Interest (Riba)

An Islamic Economy is free of interest. Islam prohibits all transactions involving interest. Interest is neither a trade nor a profit. It is considered to be a means of exploitation and concentration of wealth and thus perpetrating social inequity and injustice. Interest is the basis of modern capitalism. It is completely opposite to Zakah, Zakah channels wealth from the rich to the poor while interest takes away wealth from the poor and hands it over to the rich. The Qur'an says :

“They say, trade is like interest and Allah has permitted trade and prohibited interest.” (2:275)

“Whatever you pay as interest, so that it may increase in the property of (other) men, it does not increase with Allah.” (30:39)

“O you who believe, do not take interest, doubling and quadrupling, and keep your duty to Allah, so that you may prosper.” (3:130)

“O you who believe, observe your duty to Allah and give up what remains (due) from interest, if you are believers. But if you do not do it, then be warned of war from Allah and His Messenger, and if you repent then you shall have your capital. Do not exploit and be not exploited.” (2:278-279)

The Prophet of Allah (P.H.) condemned the taker of usuary and interest and the giver of it (Riba), and the writer of its papers and the witnesses to it as being equal in sin. (Hadith)

The Prophet (P.H.) said : “A time will come over people when none will remain who will not devour Riba. If he does not devour it directly its vapour will over take him.” (Hadith)

(8) Other Principles and Provisions

Islam has laid down many more rules about economic life. An Islamic State must bring all productive resources into use, including unemployed man-power, unused land, water resources and minerals. An Islamic State must take steps to root out corruption and all harmful pursuits, even if they are economically lucrative. Individual freedom may have to be sacrificed to the extent necessary for the national interest.

In sum, Islam encourages simplicity, modesty, charity, mutual help and

cooperation, but discards miserliness, greed, extravagance and unnecessary display and wastage.

III. OPERATIONAL MECHANICS AND ISSUES

We may now attempt to define and distinguish the Islamic Banks and illustrate their operations in the following sections :

A. Definition and Distinction of an Islamic Bank

(1) An Islamic Bank is a financial and social institution whose objectives and operations as well, as principles and practices must conform to the principles of Islamic Shari'ah (Jurisprudence), and which must avoid the use of interest in any of its operations.

(2) An Islamic Bank is not only a financier but also a partner in productive economic activities and development. The system essentially involves sharing of risk between the owner of capital and the entrepreneurs to share the results of collective efforts, unlike the interest-based system in which the risk is to be borne entirely by the entrepreneur or the user of capital.

(3) Islamic Banking stands for an alternative financial system based on Islamic ideals of social justice and fair deal for all.

B. Credibility of the System of Islamic Banking

Credibility of the system of Islamic Banking has been established starting from the successful operation of the Islamic Development Bank (IDB) since 1975. From then some 60 Islamic Banks/finance houses have been set up in Asia, including the Middle East and the Far East, Africa and Europe.

(1) The first world reaction to the new system was of curiosity and doubt which have been mostly cleared by now. IDB's Annual Commitment totalled 600-700 Million IDs until 1983 and reached IDs 1000 million in 1985. The different national Islamic Banks have also shown steady growth and profitability.

(2) Then it was thought that Islamic Banks were feasible only in the oil-rich Middle East as the first Islamic Banks were set up in the UAE, Kuwait and Bahrain

(3) But Islamic Banks have also been set up and successfully operating in not so rich countries like Bangladesh, Jordan, Egypt, Sudan, Guinea, Niger and Senegal.

(4) Pakistan, Iran and Sudan have undertaken total large scale transformation to Islamic Banking.

(5) The biggest Islamic Bank of Asia has been set up in Malaysia in 1983.

(6) Islamic Banks have been established in non-Muslim countries like Bahamas, Luxembourg, Denmark, etc.

Criticism of the new system is sometimes bitter but not sound—as some people, even some educated and sophisticated, tend to see no difference between Interest and Profit. Similar was the initial reaction of the unbelievers at the time of revelation on prohibition of interest (Cf. 2:275). Moreover, the state of health of the World Economic and Financial System would suggest that the traditional banking system based on interest does not deliver all the goods. The plight of Argentina, Brazil, Israel and Chile (and their creditors) who are confronted with mounting interest on debt and runaway inflation would bear testimony.

Despite such criticism, Islamic Banking is now a decade old, growing steadily and achieving maturity. Tolerance, co-existence and interaction are also growing and becoming meaningful.

C. Sources of Funds/Resource Mobilization

- (1) Islamic Banks have recourse to their capital, paid-up and subscribed by the share holders and the public.
- (2) They are also authorized to accept deposits of the following categories :
 - a. Current Deposits.
 - b. Ordinary Savings Deposits.
 - c. Investment (Term) Deposits.⁽³⁾

Banks are obliged to repay the principal amounts of current and Ordinary Savings Deposits and may undertake and/or insure the principals of the investment/term deposits.

As usual, no return is payable on current deposits by Islamic Banks like other conventional banks. Ordinary savings deposits may earn some profit according to the return realised by the Islamic Bank on Investment/use of proceeds of such deposits. (However, in order to attract and mobilize deposits, the Iranian Banking Law of August, 1983 allows the banks to pay non-fixed bonuses in cash or in kind to the depositors of both current and savings deposits, and exempt the depositors from, or grant discounts therein, in payment of commissions and/or fees).

As the name implies, investment or term deposits are accepted by the Islamic Banks for utilisation in various investments for which they enjoy the power of attorney/authority from the depositors. Based on signed agreements, the proceeds from investments are shared between the bank and the depositors in proportion to the term and investment deposits and the bank's own resources used as a proportion to the aggregate resources used.

D. Banking Services and use of Investment Funds

Islamic Banks by their very nature have to be composites or universal banks, engaging in both short-term commercial banking and medium/long term project financing, the mix and proportion of either function depending on their individual capabilities and stage of growth.

(1) Islamic Banks also offer the entire range of usual banking services like conventional banks for appropriate service charges or fees, meticulously calculated and without involving interest.

(2) Islamic Banks use their investible funds in financing and participating in permissible economic activities according to Shari'ah-approved modes on profit and income sharing basis. In essence, these are: Profit/Loss sharing, equity participation, leasing, service charge, trade mark-up, *Qard Hasan* (or benevolent loan). In addition, they have provision for Sadaqah (special assistance), collection and payment of Zakah to the needy and indigent in the society.

Briefly, the Shari'ah-approved terminology for the various methods permissible of transactions include the following :

- (1) "*Musharaka*": a partnership for sharing profit and loss on a productive investment.
- (2) "*Mudaraba*": venture capital or project finance for a fixed time provided by banks to an entrepreneur with profits and losses being shared.
- (3) "*Murabaha*" / "*Mark-up*": on trade financing, with exports, imports and stocks temporarily being owned by the banks and then sold off with appropriate mark-ups in price.
- (4) "*Ijara*" or Leasing of capital machinery and equipments, etc. for appropriate rent and income arrangements.
- (5) "*Ujra*" or services charge: on ordinary loans for infrastructure projects, etc. with an appropriate and meticulously calculated service charge (but no interest) and not including cost of funds or provision for bad debt.
- (6) "*Qard Hasan*": benevolent loans given free of any service charge on compassionate grounds and special welfare considerations

E. Other Operational Issues

11. Under the mixed system in the transition phase when one, two or a few Islamic Banks exist and operate side by side with interest-based banks in most countries, it is interesting to note the nature of inter-bank transactions, Central Bank-Islamic Bank relationship and operation of monetary and credit policy to realise the overall national objectives and priorities :

a. Inter-Bank Transactions

- (1) Inter-bank transactions between Islamic and traditional banks are developing smoothly. For example, the new banks are members of the same clearing arrangements and temporary placement/borrowing of funds are made without interest by mutual arrangement.
- (2) Correspondent relationship has also been established for international trade and other transactions between Islamic and conventional banks on reciprocal accommodation basis without involving interest.
- (3) **Relationship between Islamic and Conventional Banks :**
There can be meaningful co-operation between Islamic and conventional banks in the following fields :
 - (a) Correspondence Services.
 - (b) Opening documentary credit.
 - (c) Professional societies and associations.
 - (d) Functional training programmes.
- (4) **Relationship among the Islamic Banks :**
The Islamic Banks should also develop close co-operation, co-ordination and collaboration among themselves, particularly in the following fields :
 - (a) Joint investment.
 - (b) Identification, promotion and establishment of joint projects.
 - (c) Exchange of Fatwa and Shari'ah view points.
 - (d) Promotion of Islamic financial market.
 - (e) Intra-Islamic Bank exchange of personnel for promotion of expertise in various fields.

b. Central Bank-Islamic Bank Relationship

- (i) Except in Pakistan, Iran and Sudan, there is as yet no attempt at total Islamization of the banking system. Other countries have so far followed a policy of co-existence of traditional and Islamic Banks.
- (ii) But the Central Banks have given licences to and accept the existence of Islamic Banks as the latter are members of the (mixed) banking system and subject to the discipline of the Central Banks. They get accommodation of the Central Bank without compromising their cardinal principle of non-interest operation.
- (iii) On principle, all the OIC member-countries are committed to

promote Islamic Banking and financial system gradually as their individual circumstances permit.

- (iv) **Provision of Financial Assistance by the Central Banks:**
 - (a) To help any Islamic Bank tide over its liquidity problem, the Central Bank may provide general accommodation in the form of Mudaraba deposit on which the Islamic Bank may pay profit at the rate declared on such deposits. Bangladesh Bank is currently offering such facility to the Islamic Banks operating in the country.
 - (b) The Central Bank may also provide refinance to Islamic Banks against finance provided by them for purposes, projects or sectors specified by the Central Banks. Such refinance may be provided under Mudaraba, Musharaka or any other Islamic mode of finance. It may be noted that the State Bank of Pakistan in providing refinance under its schemes and sharing in profits earned by the banks.
- (v) **Opening of Current Accounts at the Central Banks and Participation in the Bank Clearing House :**

Islamic Banks may be allowed to maintain current accounts with the Central Bank for their clearing house operations. If the current account is occasionally overdrawn, the Central Bank may consider providing this facility without any charge. Alternatively, such facility may be made available on the basis of sharing of the profits of the bank.

- (vi) **Regulations and Supervision of Islamic Banks by the Central Banks :**

Islamic Banks may be subjected to similar regulation and controls by the Central Banks and monetary authorities as applicable to the conventional banks in respect of:

- (a) Permission to establish banks and to open new branches.
 - (b) Minimum share capital.
 - (c) Specifying the terms governing the constitution of Boards of Directors and appointment of Auditors.
 - (d) Tariffs for banking services.
 - (e) Measures regulating foreign exchange transactions.
 - (f) Submission of statements and data to the Monetary Authorities.
 - (g) Compliance with the working hours.
- (vii) **Statutory Liquidity Ratio :**

The liquidity requirement on the deposits accepted by Islamic Banks may be kept lower till such times as appropriate. Islamic

Financial instruments become available which can be counted towards liquidity requirement. Bangladesh Bank has extended this facility to the Islamic Banks operating in the country. Further, funds collected by Islamic Banks on Mudaraba basis and kept separate from deposits may be subjected to liquidity requirement lower than that applicable to deposits. The Islamic Banks may, however, establish separate Mudaraba Companies for floating Mudarabas, wherever possible.

(viii) **Central Bank's Inspection of Islamic Banks**

As in the case of conventional banks, Islamic Banks may also be subjected to periodic inspection by the Central Banks to ensure their operational soundness. The Central Banks personnel may be adequately trained in Shariah-based operations of Islamic Banks. Central Banks and monetary authorities may prepare separate guidelines for inspection of Islamic Banks keeping in view their special characteristics.

c. Operation of Monetary and Credit Policy

For the proper functioning of the monetary and credit system, the Central Bank can adapt its armoury and secure its objectives and mandate through the following new instruments basically to replace the Bank Rate or Discount Rate and control through regulation of interest rates :

- (1) Fixing a minimum and/or maximum ratio of profit for Islamic Banks in their joint venture and Mudaraba activities ; these ratios may vary for different fields of activity.
- (2) Designation of various fields for investment and partnership within the framework of the approved economic policies, and the fixing of a minimum prospective rate of profit for the various investment and partnership projects ; the minimum prospective rate of profit may vary with respect to different branches of activity.
- (3) Fixing a minimum and maximum margin of profit, as a proportion to the cost price of the goods transacted for banks in instalment and hire-purchase transactions.
- (4) Determination of types and the minimum and maximum amounts of commissions for banking services (provided that they do not exceed the expense of service rendered) and the fees charged for putting to use the deposits received by the banks.
- (5) Determination of the types, amounts, minimum and maximum bonuses and the establishment of guidelines for advertisement by banks.

- (6) Determination of the minimum and maximum ratio in joint venture, Mudaraba, investment, hire-purchase, instalment transactions, buying or selling on credit, forward deals with respect to various fields of activity ; also fixing the maximum facility that can be granted to each customer.

The above are in addition to the traditional instruments of monetary policy, e.g., (i) Reserve Ratio, (ii) Liquidity Ratio, (iii) Selective Credit Control, (iv) Moral Suasion and (v) Modified Open Market Operation (in profit-based papers).

d. Operational Soundness of Islamic Banks

- (i) By their very nature of operation and in their own interests Islamic Banks have to be extra cautious.
- (ii) They are also subject to Central Bank discipline like other banks as mentioned above.
- (iii) They have also both internal and external audit to ensure operational soundness.
- (iv) They have the fourth control mechanism of the Shari'ah Board to ensure conformity of operations to the canons of Shari'ah.

e. Social Face of Islamic Banks

- (1) They are human and humane : (in contrast, Interest-based banks are secular, only the men of means can come to the latter—the credit-worthy and those having disposable income).
- (2) Through PLS they are in a position to sympathise with those in temporary distress/loss of business.
- (3) They have provision for Qard Hasan for good people in temporary difficulty.
- (4) They have to pay Zakah/can also collect Zakah for those who are not creditworthy for their economic rehabilitation and socio-economic integration with the main-stream of society as a continuous process.

IV. SOME PROBLEMS OF TRANSITION

12. Despite the steady progress of Islamic Banking system in the world and spectacular success of individual Islamic Banks in terms of deposits mobilized and profits distributed, some countries undertaking total Islamization of banking system face initial problems in the area of :

- (i) Foreign Capital/Borrowing; existing borrowings bearing interest and further borrowings to finance the domestic savings-investment gap.
- (ii) Domestic Savings/borrowing schemes (e.g.; interest-bearing Savings certificates/bonds/bills) of the Government to finance budget deficit/development plan.

(iii) **Foreign Currency Deposits of Non-Residents.**

- (a) About foreign capital borrowing, apart from the question of mortgaging the future resources, the fact is that the poor developing countries who are presently in need of foreign capital have no capacity for commercial borrowing on interest because they cannot service them out of their current export earnings. So in recent years they depended mainly on soft development credits at 0.75% service charge from IDA, the soft lending arm of the World Bank or at 1% from Development fund of ADB, besides outright grants from others. Such resource transfer should continue for mutual benefit and historical reasons.
- (b) Secondly, capital may flow on new modes successfully adopted by the Islamic Development Bank.
- (c) As regards official domestic savings/borrowing schemes, first, the resources mobilized should be productively used, and if so (variable) profit-based government Investment certificates may be issued instead of fixed interest saving certificates/bonds. Secondly, the balanced budget would always be considered at the ideal and cherished goal of any Government.
- (d) Wage earners abroad are a favoured class compared with their compatriots left behind in the country. They already get exchange rate advantage. They may be offered PLS deposits and Government Investment Certificates like other citizens of the Country.
- (e) Muslim bankers and economists also argue that if the Islamic financial system is allowed to work then, on the contrary, there would be a more judicious and efficient use of capital, with sound projects and first-rate monitoring which would see lower defaults and higher returns. Moreover, inflation which erodes the value of saving would be checked. They argue, this will encourage savings and reduce the dependence on overseas resources. The system, in fact, would bring the economy nearer to the aims of development financing.

13. The sheer success of Islamic Banking, with often higher returns than the conventional interest-based banks in almost all the states where it is practised, has sparked international conferences in Baden-Baden, Texas, Geneva, Stockholm, New York and elsewhere, which have discussed various aspects of the Islamic finance movement. There is also increasing contact and, cooperation between Islamic financial institutions and conventional banks on a basis which bypasses the "interest problem".

14. Islamic Banking has, however, yet a long way to go to firmly establish its operations in a riba-based system and society to iron out the

contradictions it is facing and to fully convince the world long used to interest that the new system can really and satisfactorily work. But as Ingo Karsten wrote in the prestigious *IMF Staff Papers*, even "If the PLS system is introduced on an optional basis, it seems likely that the enlargement of choice would have generally beneficial consequences, particularly for savings...A complete conversion to a PLS system would require satisfactory handling of several issues that will have to be resolved, particularly those concerning the allocation and remuneration of short-term financing."⁽⁴⁾

V. CONCLUSION AND RECOMMENDATIONS

15. The viability of Islamic Banks based on Shari'ah principles has been established and public enthusiasm for the new banks conforming to their faith and convictions has also been demonstrated by the working results of these Banks. But total conversion of the entire system of banking and finance in most of the Islamic countries seems to be yet far off on account of several practical issues of national and international finance that need to be resolved. These require not only deep knowledge of Islamic Shari'ah and modern economics but also thorough research and analysis. The switch-over to the Islamic system has, therefore, to be gradual with faith, sustained efforts and will. To that end we may offer the following recommendations :

- (1) The experience of countries which have already undertaken total conversion of the existing system to the Islamic system of banking and finance may be useful for the other Muslim countries and as such should be disseminated and shared.
- (2) The Islamic countries which have not yet set up any Islamic Bank should make every effort to establish, as soon as possible, and keeping in view their particular circumstances and technical resources, one or more Islamic Banks, whose charter and statutes will manifestly provide that (a) such bank/s will operate according to the principles of Islamic Shari'ah and that (b) they will ban the use of interest in all their operations.
- (3) The Islamic countries which have already established Islamic Banks should make sustained efforts to strengthen such banks and establish new ones gradually with the objective of ultimately replacing the present interest-based conventional banking system by interest-free Islamic Banking system.
- (4) The established national Islamic Banks which have gained useful and practical experience, as also the Islamic Development Bank which has already set up an Islamic Research and Training Institute should provide technical assistance and staff training

facilities to the member countries to establish new Islamic Banks and to the existing Islamic Banks in order to improve their functioning.

- (5) The research and training facilities available at other premier institutions like the International Centre for Research in Islamic Economics at King Abdul Aziz University, Jeddah, the International Institute of Islamic Economics, Islamabad and The Islamic University in Malaysia should also be extended to the Muslim countries to enhance their capability towards Islamization of their banking and financial system gradually.
- (6) The International Association of Islamic Banks should extend all possible assistance and advice to the Islamic countries who come forward to establish new Islamic Banks or expand and strengthen the existing ones and also provide the forum for seminar and symposia of relevant experts from Islamic Banks, Central Banks and Universities, etc. for exchange of ideas and experience in this regard.
- (7) The Islamic countries which have already established Islamic Banks in their territories and gained useful and practical experience should extend all possible assistance to their fellow Islamic countries to learn from their experience by allowing on-the-spot visits and the benefit of direct discussion with their banking experts so that the latter may also set up Islamic Banks with confidence.
- (8) Until such times as the conventional banking system in the different Islamic countries can be entirely replaced by the Islamic Banking System, they should make efforts to carry on financial transactions among themselves through their Islamic Banks, as far as possible, to help their growth and capabilities.
- (9) The IDB and the national Islamic Banks already set up in different countries should also undertake and carry on operational research and analysis and maintain close liaison and correspondence among them, extend mutual assistance and cooperation and try to learn from the experiences of one another in order to ensure the growth and success of the system as a whole.
- (10) As Islamic Banking involves a comprehensive analysis covering the overall monetary policy, including the control of liquidity, detailed studies on the promotion of Islamic Banking covering all issues should continue to be undertaken by competent experts in the Muslim countries. Fortunately, sufficient relevant

expertise is available with Islamic institutions and academic circles to carry out such exercise.

In fine, Allah has not imposed anything impossible on mankind. An interest-free economy and banking and financial system which has its roots in Islamic Shariah and which promises to be a boon for all people should be possible to achieve and develop through sustained efforts and collective will of the Muslim Ummah with firm faith and dedication.

FOOT-NOTES

1. Professor J.C.O'Brien, California State University, "The Role of Economics and Ethics in Civilization and Progress," International Journal of Social Economics, Vol.8, No.4, 1981.
2. In the Quranic references quoted the first number relates to the Surah (Chapter) and the next numbers to the Ayat (Verse/s).
3. With or without option for specific projects financed by the Islamic Bank.
4. Article on Islam and Financial Intermediation, IMF Staff Papers. Vol.29, No.1, March,1982.

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11. Bashir, B.A.: *Portfolio Management of Islamic Bank*, University of Leicester, Leicester.
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19. Muslehuddin, M: *Banking and Islamic Law*, Islamic Reserch Academy, Karachi.
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22. —————; *Issues in Islamic Banking*, The Islamic Foundation.
23. Talib, S.Abu Shahid: *Interest, Usury and Islamic Development Bank*, George Town University, Washington.
24. Uzair, Mohammad: *Interest-Free Banking*, Royal Book Company, Karachi.
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NEED FOR ISLAMIC INSURANCE

Kazi Mohd. Mortuza Ali

The objective of Islamic Economic System is to create an exploitation-free society and upliftment of the entire society as a whole. Therefore, any system or organisation which is for the welfare of the mankind is not in contradiction with Islam. The objective of the Shari'ah is the promotion of welfare of people which lies in safeguarding their faith, their life, their intellect, their posterity and their property. Whatever ensure the safeguarding of these elements of human beings, serves public interest and is desirable as the basis of Shari'ah is wisdom and welfare of the people. Further, anything that departs from justice to injustice, from welfare to misery, from mercy to harshness and from wisdom to folly has nothing to do with Shari'ah.

The Principal foundation of insurance as an economic institution is the equitable distribution of the financial losses of a few over many. In insurance, each policy-holder contributes an amount commensurate with the risk the introduces to a fund, established and administered by the insurer and out of the fund, the losses are paid to the insured members. The main function of an insurance organisation then becomes the management of the fund and the assessment of the equitable contributions to be made by the policy-holders.

In the business world without insurance, businessmen would have to set aside some of their capital resources against the possible losses that might occur. The capital, thus, safeguarded is freed for the further development of the business. Apart from that insurance removes the anxiety and thus, help to increase the efficiency of the business community. Insurance also helps to achieve a consistency of trading results and an avoidance of wide fluctuations. In this way insurance helps to develop and consolidate business on stable basis.

In the field of overseas commerce, the banks will not negotiate the bills of exchange unless the goods are insured against marine and sometime also war risks. Even when shipment are not financed by the bank, common prudence call for marins insurance protection, as the cost of insurance is but

only a small fraction of the market value of the goods. Similarly the large industrial organisation could not operate as the banks would not be prepared to finance them without insurance arrangement. No large scale enterprises could function were it not possible to transfer many of its risks to insurer. Vast amount of capital in the form of promises, plant machinery are at risk in industrial concerns. Without insurance, these risks would remain uncovered.

A human life has value for many reasons. We will be interested in discussing here the economic values only. The main economic problem which arises when someone in the family dies, is the loss of earnings of the deceased person, in a business firm, if a key employee dies, the firm may lose valuable customers whose loyalty depends on this individual. The value of human life, apart from death, may also be destroyed through loss of health by way of loss of earning due to disability and expenditure for medical care. Old age is another peril which destroys earning capacity, just as premature death or loss of health.

Because human life is recognised to have great economic value, a demand has grown in the capitalist economy for life and health insurance. As a social and economic device, life insurance is a method by which a group of people may co-operate to even out the burden of loss resulting from the premature death of members of that group. The purpose of life insurance is, therefore, primarily to accumulate wealth or property and even if death intervenes, to insure that the intended wealth will be available. Two distinct objectives of life insurance must be understood clearly. The first objective is termed a "saving need" and the latter is termed as "protection need."

The basic theory of life insurance is that all who pay life insurance premiums to the common fund do so with the willingness that the fund should be used to compensate the estate of those contributors at whatever age in life they may die. However, increasing emphasis on the investment aspects of life insurance has tended to overshadow the primary purpose of protection against premature death.

The uncertainties of life are such that no man can say how long his life will last and every prudent and considerate man desires to make some provision for his dependents, in the event of his death. The fundamental economic purpose of life insurance is to mitigate such possible loss.

Technically speaking, insurance is a socio-economic device which implies sharing of losses sustained by some members of a group by all the members of that group. It provides economic security to mankind against loss of life or property or pecuniary interest. Insurance also provides indemnity to the persons for legal liability. Therefore, insurance as a system is acceptable to Islamic Society as it resembles the concept of Bait-ul-Mal.

Insurance as a socio-economic device is acceptable to the Islamic Society, but certainly not in the forms and methods as being practised in the western world and inherited in majority of the Islamic states. This is simply because the so-called commercial insurance involves exploitation and certain other objectionable features not permitted in Islamic Shari'ah. Most of the Islamic Scholars did not find anything wrong in so far as the principle of insurance is concerned. However, they are of the opinion that it is possible to regulate commercial insurance in such a manner that it functions without exploitation and other vices so as to render it permissible from the view point of the Shari'ah.

It has been rightfully observed that the western oriented insurance system is not in conformity with the Islamic principle, although the principles of insurance i.e. its legal doctrines are not against the Shari'ah. Therefore, some organisational and operative modifications have been suggested so as to bring the business of insurance and re-insurance within the domain of Shari'ah. This can be done by wiping out the Riba from all sorts of operational and economic transactions involved in the system of insurance and modifying the capitalistic form of organisational pattern by injecting into it the principles of co-operation and mutual help. The mutual principle of insurance has been agreed upon by the Ulama as a form of co-operation on the basis of charity and piety. It is meant to co-operate in avoiding harm and minimising its effects when it occurs. By practising the Islamic way of insurance system (whether of person or property or of liability) a Muslim can follow a lawful Islamic way and derive the benefits out of it.

Co-operative form of insurance as has been suggested by the Islamic Scholars is permissible in Islam because it is a sort of co-operation for good things. The purpose of Islamic Insurance System is not to make profit by providing security to the persons who are exposed to risks. On the other hand the objective should be to help those who are harmed by a disaster. Therefore, an Islamic Insurance Company organises its insurance transactions in a way that assures the refunding of the surplus of the insurance operations to the insured according to the regulations laid down by the Board of Directors, of the Company. Furthermore, the Company is managed by the founders (who contribute to the Company's capital) as well as by the representatives of the insured group dealing with that Company. The sponsors get the legal investment return of their respective contributions to the share capital.

Since the Islamic Insurance Company transact business in accordance with and subject to the Islamic Shari'ah all its operations i.e., insurance /re-insurance terms and conditions, investment of funds and disposal of profits, etc. ought to conform to Islamic Shari'ah principles. But in order to ensure this, the scope and benefits of insurance/coverages as being made

available by modern insurance companies are not curtailed in any way.

During last ten years several Islamic Insurance Companies have been formed in different parts of the world. They are operating both the General and Life insurance business. Participants of a General insurance (Takaful) scheme enter into contract with the Company on the basis of the principle of Al-Mudarabah. The Company acting as an entrepreneur collects contributions from the participants under different schemes, such as motor, fire, accident, etc. The contributions are credited in a General Fund and are invested by the Company in accordance with the Shari'ah. All the profits are pooled back to the respective funds. The Company pay from this fund compensation or indemnity to fellow participants who suffer a defined loss as per policy terms and conditions.

Life insurance are also transacted in similar pattern whereby the members participating in different saving and investment plan for a fixed period of time. In the event that a participant should expire before the attainment of the plan period, his heirs get portion of the up-to-date savings and profits from the investment plus the outstanding instalments which would have been paid by the incumbent should survive. The would-be instalment outstanding is paid from a special account maintained for the purpose by way of taking "Tabarru" from each participant. The Company, therefore, maintain two accounts, one is participant's own account and the other is general (special) account.

In Bangladesh, Islam has been declared as State Religion. Therefore, it is very much expected that the Govt. would come forward and encourage for the establishment of the Islamic Insurance Companies to transact the insurance business under the framework of Islamic Shari'ah. In this respect, Govt. may exempt these Companies from depositing their funds (depending on the volume of business carried out) in interest accruing account of the State Bank. Instead, they may be allowed to deposit this amount with the Islami Banks of the country. Similarly, these Companies may be allowed to elect Directors from among the policy-holders. It is felt that Islamic Insurance Companies be established at the earliest possible time, in order that the Islamic Banks can meet its insurance requirements through these Companies. If this is not done, the Islamic Banks will have to insure its and its clients' assets/liabilities etc. with the commercial (non-Islamic) insurance companies.

ISLAMIC BANKS AND FINANCIAL INSTITUTION AROUND THE WORLD

Country	Name and City of Head Office	Year of Establishment or Conversion
1. BANGLADESH	1. Islami Bank Bangladesh Ltd, Dhaka.	1983
	2. Al-Baraka Bank Bangladesh Ltd., Dhaka.	1987
2. BAHAMAS	1. Islamic Investment Company Ltd., Nassau.	1979
	2. Dar-Al-Maal Al-Islami, Nassau.	1980
3. BAHRAIN	1. Bahrain Islamic Bank, Manama.	1979
	2. Bahrain Islamic Investment Company, Manama.	1981
	3. Al-Baraka Islamic Investment Bank.	1984
	4. Islamic Insurance and Re-Insurance Company, Bahrain.	1985
4. DENMARK	1. Islamic Bank International of Denmark, Copenhagen.	1983
5. EGYPT	1. Nasser Social Bank, Cairo.	1972
	2. Faisal Islamic Bank of Egypt, Cairo.	1977
	3. Islamic International Bank for Investment and Development, Cairo.	1980
	4. Bank Misr—Islamic Branches, Cairo.	1980

6. GUINEA	1. Faisal Islamic Bank of Guinea, Conakry.	1984
7. IRAN	1. Bank Melli Iran, Tehran.	1979*
	2. Bank Saderat Iran, Tehran.	1979*
	3. Bank Mellat, Tehran.	1979*
	4. Bank Tejarat, Tehran.	1979*
	5. Bank Sepah, Tehran.	1979*
8. JORDAN	1. Jordan Islamic Bank for Finance and Investment, Amman.	1978
	2. Islamic Investment House, Amman.	1981
9. KUWAIT	1. Kuwait Finance House, Safat.	1977
10. LUXEMBOURG	1. Islamic Banking System International Holding, S. A.	1978
11. MALAYASIA	1. Bank Islam Malaysia, Kualalumpur.	1983
	2. Syarikat Takaful Malaysia Sendirian Berhad (Islamic Insurance Company)	1985
12. NICOSIA	1. Kibriz Islamic Bank, Lefkosa.	1982
13. NIGER	1. Faisal Islamic Bank of Nigar, Niamey.	1984

Islamic Banking and Insurance

14. PAKISTAN	1. National Investment Trust, Karachi.	1979*
	2. Pakistan House Building Finance Corporation, Karachi.	1979*
	3. Investment Corporation of Pakistan, Karachi.	1979*
	4. National Development Finance Corporation, Karachi.	1979
	5. Bankers Equity Ltd., Karachi.	1979
	6. Islamic Mudareb Company, Karachi.	1980
	7. Pakistan Nationalised Banks PLS System.	1981
	8. National Bank of Pakistan, Karachi.	1985*
	9. Habib Bank Limited, Karachi.	1985*
	10. United Bank Limited, Karachi.	1985*
	11. Muslim Commercial Bank Limited, Karachi.	1985*
	12. Allied Bank of Pakistan Limited, Karachi.	1985*
	13. Foreign Banks (17) operating in Pakistan.	1985*
15. PHILIPPINES	1. Amanah Bank, Zamboanga.	1982
16. QATAR	1. Islamic Exchange and Investment Company, Doha.	1980
	2. Qatar Islamic Bank, Doha.	1980
17. SAUDI ARABIA	1. Islamic Development Bank, Jeddah.	1975
	2. Al-Baraka Investment and Development Company, Jeddah.	1982
	3. Al-Rajhi Islamic Investment Banking Company, Jeddah.	1985

18. SENEGAL	1. Faisal Islamic Bank of Senegal, Dakar.	1984
19. S. AFRICA	1. Islamic Bank Ltd., Johannesbwg.	1990
20. SUDAN	1. Faisal Islamic bank of Sudan, Khartoum.	1977
	2. Islamic Insurance Company of Sudan, Khartoum.	1980
	3. Al-Baraka Bank, Khartoum.	1982
	4. Al-Baraka Insurance Company, Khartoum.	1984
	5. Tadamun Islamic Bank, Khartoum.	1984
	6. Sudanese Islamic Bank, Khartoum.	1984
	7. Islamic Co-oparative Bank, Khartoum.	1984
	8. Islamic Bank for Western Sudan, Khartoum.	1984
21. SWITZERLAND	1. Islamic Investment Company Limited.	1979
	2. Dar Al-Maal Al-Islami, Geneva.	1980
	3. Shariah Investment Services, P.C.I., Geneva.	1980
22. TURKEY	1. Al-Baraka Trukish Finance House, Istanbul.	1985
23. U.A.E.	1. Dubai Islamic Bank, Dubai.	1975
	2. Islamic Investment Co. Ltd., Sharjah.	1977
	3. Islamic Arab Insurance Company, Dubai.	1980
24. U.K.	1. Islamic Finance House, London.	1982

* Conversion.



Members of the IAIB Board of Governors and some foreign delegates are being presented with the Replia of IBBL.

PART: V

- A. Committees**
- B. Programme**
- C. Participants and Delegates**

Hold fast together to Allah's cord and let nothing divide you. Remember the favour of Allah upon you, when you were enemies to one another. Then He united your hearts, and by His Grace, you became like brothers, and you were on the brink of the abyss of Fire and He rescued you from it.

(Al-Imran : 103)

COMMITTEES OF IAIB SEMINAR AND CONFERENCE

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|--|------------------|
| 1. Commodore Mohammad Aatur Rahman (Retd.)
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| 2. Mr. Mohammad Younus
Director, IBBL | Member |
| 3. Mr. Mir Quasem Ali
Director, IBBL | Member |
| 4. Mr. Mohammad Mosharraf Hossain
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Director, IBBL | Member |
| 6. Prof. Mohammad Sharif Hussain
Director, IBBL | Member |
| 7. Mr. Lutfar Rahman Sarkar
Chief Adviser, IBBL | Member |
| 8. Mr. M. Azizul Huq
Deputy Executive President, IBBL | Member Secretary |

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| 2. Dr. Salahuddin Ahmad
National Expert, Bangladesh
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| 4. Mr. M. Kamaluddin Chowdhury
Executive Vice President, IBBL | Member |
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Director, IBBL | Convenor |
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| 3. Mr. Lutfar Rahman Sarkar
Chief Adviser, IBBL | Member |
| 4. M. Kamaluddin Chowdhury
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| 5. Mr. A. K. M. Habibur Rahman
Secretary, IBBL | Member |
| 6. Mr. M. Tajul Islam,
Asstt. Vice President, IBBL | Member |

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| 1. Mr. Mohammad Mosharraf Hossain
Director, IBBL | Convenor |
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Deputy Executive President, IBBL | Member |
| 4. Dr. Salahuddin Ahmed
National Expert, Bangladesh
Planning Commission | Member |
| 5. Mr. Sayeedur Rahman Chowdhury
Executive Vice President, IBBL | Member Secretary |
| 6. Mr. Mohammad Nurul Islam
Asstt. Vice President, IBBL | Member |

Committee for Decoration, Hall, Mike and Entertainment

- | | |
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Asstt. Vice President, IBBL | Member |
| 6. Mr. Abdul Hye
Asstt. Vice President, IBBL | Member |

PROGRAMME OF THE SEMINAR

INAUGURAL SESSION

- Time 9:00 AM to 10:00 AM
- a) Telawat-i-Kalame Pak
- b) Address of Welcome Commodore Mohammad Ataur Rahman(Retd.)
Chairman, IAIB Seminer and Conference
Organising Committee and Chairman, IBBL
- c) Speech on behalf of IAIB Dr. Ahmad El-Naggar
Secretary General, IAIB
- d) Speech by Special Guest Mr. Mohammad Abdulmunim
Minister for Agriculture
Govt. of the People's Republic of Bangladesh
- e) Speech of the Chief Guest Barrister Moudud Ahmed
Vice President
People's Republic of Bangladesh
- f) Speech of the Chairman of the Session His Royal Highness Prince Mohamed
Al-Faisal Al-Saud
Chairman, IAIB
- g) Vote of Thanks Prof. Mohammad Sharif Hussain
Convenor, Seminar Committee

TEA BREAK

Time 10:00 AM to 10:30 AM

1ST WORKING SESSION

SUB: ISLAMIC BANKING AROUND THE WORLD

Time 10:30 AM to 11:30 AM

Chairperson	Mr. S.B. Chaudhuri Governor, Bangladesh Bank
Key-Note Paper Writer	Mr. Nabil Nassief Managing Director Faisal Islamic Bank of Bahrain
Discussants	1. Dr.M.A.Hamid Professor, Department of Economics University of Rajshahi 2. Mr. A.S.M. Fakhruul Ahsan Deputy Governor, Bangladesh Bank

**2ND WORKING
SESSION**

**SUB: ISLAMIC BANKING IN
BANGLADESH, MANPOWER
DEVELOPMENT FOR ISLAMIC BANKING
AND ESTABLISHMENT OF A REGIONAL
TRAINING AND RESEARCH INSTITUTE IN
DHAKA**

Time	11:40 AM to 12:40 PM
Chairperson	Mr. S.M. Al-Hussainy Chairman, Bangladesh Public Service Commission
Key-Note Paper Writer	Mr. M. Azizul Huq Deputy Executive President Islami Bank Bangladesh Limited
Discussants	1. Dr. A.H.M. Habibur Rahman Professor, Department of Finance University of Dhaka 2. Dr. Ahmad El-Naggar Secretary General, IAIB

SALATUL JUMA'

**3RD WORKING
SESSION**

**SUB: ISLAMIC INSURANCE
AND RE-INSURANCE**

Time	3:15 PM to 4:15 PM
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- Chairperson Professor M. Safiullah
Former Director
Institute of Business Administration
University of Dhaka.
- Key-Note Paper Writer Mr. Mohd. Fadzli Yusof
General Manager
Syarikat Takaful Malayasia Sendirian Berhad
- Discussants
1. Mr. A.F.M. Yahya
Ex-Director General, Islamic Foundation
Bangladesh, Chairman, Sponsors
Committee, Proposed Islamic Insurance
Company, Bangladesh
 2. Mr. S. A. Hannan
Member, National Board of Revenue
 3. Mr. M. Harunur Rashid
Former Controller of Insurance
Executive Director
United Insurance Company Limited

SALATUL ASR AND TEA

**4TH WORKING
SESSION**

**SUB: INVESTMENT OPPORTUNITIES IN
BANGLADESH**

- Time 4:30 PM to 5:30 PM
- Chairperson Mr. Lutfullahil Majid
Addl. Secretary, Ministry of Industries
Govt. of the People's Republic of
Bangladesh
- Key-Note Paper Writer Dr. Salahuddin Ahmad
National Expert, Planning Commission
Ministry of Planning, Govt. of Bangladesh
- Discussants
1. Mr. Lutfar Rahman Sarkar
Chief Advisor
Islami Bank Bangladesh Limited

2. Dr. Hafiz G.A. Siddiqui
Professor,
Institute of Business Administration
University of Dhaka

SALATUL MAGHRIB

CONCLUDING SESSION

Time	6:00 PM
Chairperson	Dr. Ahmad El-Naggar
Guests of Honour	1. Mr. S.B. Chaudhuri 2. Mr. S.M.Al-Hussainy 3. Professor M. Safiullah 4. Mr. Lutfullahil Majid
Opening Remarks	Mr. Mir Quasem Ali Director Islami Bank Bangladesh Limited (On behalf of the IAIB Seminar and Conference Organising Committee)
Presentation of Seminar Recommendations	Mr. Lutfar Rahman Sarkar Chief Advisor, Islami Bank Bangladesh Ltd.
Speech of Guests of Honour Speech of the Chairperson Vote of Thanks	Chairman, IAIB Seminar and Conference Organising Committee and Islami Bank Bangladesh Limited

PARTICIPANTS AND DELEGATES

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1. **His Royal Highness Prince Mohamed Al-Faisal Al-Saud**, Chairman, International Association of Islamic Banks (IAIB) Chairman, Dar-al-Maal Al-Islami, Geneva.
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3. **Mr.S.M. Al-Hussainy**, Chairman, Bangladesh Public Service Commission.
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2. **Mr.A.S.M. Fakhru Ahsan**, Deputy Governor, Bangladesh Bank.
3. **Dr.A.H.M. Habibur Rahman**, Professor, University of Dhaka, Bangladesh.
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