Islamic Banking and Finance: Traders not Mere Financial Intermediary

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Abstract

Although Islamic Banking and Finance has been in existence since 40 years ago, the subject of Islamic banking and finance continues to be at the forefront of economic and financial discourses all over the world. The issue of Islamic banking and finance losing its credibility, its apparent inability to respond decisively to the need of its clients and accusation that Islamic banking and finance is mere replication of the conventional system are but some of the pressing issues that need to be addressed before they can ruin the legitimacy of Islamic banking as a viable alternative system. Using qualitative research method by utilising document analysis, this paper attempts to critically investigate the role and function of Islamic banking and finance as a financial intermediary and trader in the course of discharging its fiduciary function as bank and financial institution. This article also addresses the major role of Islamic bank as a financial intermediary as well as at the same time trader of goods for sale to the customers.

Keywords: *Islamic Banking and Finance, Financial Intermediary Function, Trader.*

1. Introduction

Islamic banking and finance has been in the financial market for over four decades offering banking services, mobilizing funds from the surplus sector to the deficit sectors of the economy just like its conventional counterparts. While the basic functions of both these institutions are similar in nature, the methodology of transmission and deliverance of its services are in stark contrast between the Islamic banking and that of the conventional banking institutions. Islamic banking and finance operates within the purview of the Shari'ah laws governing financial transactions. It embraces a wide scope of human economic activities ranging from investments, development and trading. This has led the Islamic scholars to regard Islamic banking and finance as commercial undertakings based on the law of Shari'ah where *riba* and *gharar* are its primary philosophy of non-participation but focusing on trade transactions on the basis of sharing profit and loss (Taqī 'Usm̱ānī, 1998). This broad definition of Islamic banking brought to the forefront of the basic understanding that Islamic banking is a financial institution that does not indulge in any usurious activities, undertaking business transactions as partners rather than lenders and sharing profits or loss arising from the activities.

Compared to its conventional counterparts, the Islamic banking and finance in its present forms is relatively a recent phenomenon. It first emerged in the Arab Republic of Egypt with the setting up of a saving and cooperative institutions offering services that comply with the law of Shari'ah in the district of Mit Ghamar by Dr Mohammad Al-Nagger in 1963 (Abdul-Rahman, 2009). Then in 1975 the Islamic development Bank was established in Jeddah, Saudi Arabia by the Organisation of Islamic Countries. The bank modelled the World Bank in its set up but adhering strictly to the law of *Shari'ah* in its dealings. Its main function is to help its poor member countries in their effort to eradicate poverty through extension of soft loan and other facilities. In Malaysia, the call for setting up Islamic bank was preceded by the establishment of a saving institution to help Muslim saving their funds for the Hajj. Being an Islamic institution, Lembaga Tabung Haji need to invest the money collected from the Muslim in investment avenues that are not against the religion of Islam. Underpinning the government effort to provide Muslim with banking facilities that conform to the Shari'ah, Bank Islam Malaysia Bhd (BIMB) was then established in 1983 after the passage of the Islamic Banking Act 1983 which paved the way for the operations of banking institution in line with the law of Shari'ah (BNM, 2007, Venardos, 2012: 118). Moreover, it is also estimated that the assets of Islamic banks may reach US$5.5 trillion by 2020.

To date, the growth and development of Islamic banking and finance has been phenomenal in term of number of institutions and its volume of business. According to Ernst & Young's Report in 2013 the Islamic banking assets grew at an annual rate of 17.6% and the volume of business of Islamic banking and finance is estimated to reach a total of US$4.4t by 2018 with more than 500 institutions offering Islamic banking services in more than 75 countries (Dusuki and ISRA, 2011, Young, 2013). Interestingly, the advent of Islamic banking and finance is not confined within the Muslim countries but it has swept to the shore of non-Muslim countries in the world from the United State of America to the Great Britain and other European countries.

After more than 40 years of existence, the subject of Islamic banking and finance continues to be at the forefront of economic and financial discourses all over the world. The issue of Islamic banking and finance losing its credibility, its apparent inability to respond decisively to the need of its clients and accusation that Islamic banking and finance is mere replication of the conventional system are but some of the pressing issues that need to be addressed before they can ruin the legitimacy of Islamic banking as a viable alternative system (Ahmed, 2014).

This paper attempts to investigate the role and function of Islamic banking and finance as a financial intermediary and trader in the course of discharging its fiduciary function as bank and financial institution.

2. Islamic Banking and Finance Fundamental Frameworks

The establishment of Islamic banking is primarily to fulfil the aspiration and desire of Muslims all over the world to conduct banking transactions that conform to the law of Shari'ah. The role of Islamic banking is substantively similar to the conventional system. They are the mobiliser of funds from the surplus sector to the deficit sector of the economy, providing financing facilities to stimulate business and trading activities of the community it serves. However, while conventional banking has established itself as a reliable and efficient financial system, the Islamic banking is still at its relatively infant stage and still searching for its rightful position in the economy. In addition, while the conventional banking is a debt-based financial institution, the Islamic banking is not allowed to receive or pay interest on all its transactions because Islam provides a different doctrine to its followers for setting up a system that is entirely different from the western conventional system (Hassan and Lewis, 2007a: 2).

The Islamic banking according to Dusuki (2011) was founded on the three basic principles. First it strives for just, fair and balanced society as envisioned by the Islamic economics. Second Islamic banking is constructed upon the principle of brotherhood and cooperation which denotes for equity sharing, risk sharing and stake taking. Third a system grounded on ethical and moral frameworks of the law of Shari'ah. From these foundations, Islamic banking is defined as a financial institution which conducts all its operations conforming to the divine of Shari'ah, without involving itself and its clients in Riba and other usurious transactions but based on real economic activities and sharing the profit and loss (Aḥmad, 1993, Taqī 'Us̱mānī, 1998, Ayub, 2007, Dusuki and ISRA, 2011:). The Islamic Banking Act 1983 (the act was then replaced by The Islamic Financial Services Act 2103) has defined Islamic banking in its Article of IBA as a company which carries on Islamic banking business where its objectives and operations do not involve any elements which are not approved by the religion of Islam. Theoretically, therefore, Islamic banking revolves around replacing interest in bank lending by the profit sharing thus changing the status of financial intermediation making the fund owners as well as financial intermediaries shares the risk enterprise often encounter while utilizing funds for its investments (Siddiqi, 2006). In short it can be said that Islamic banking is a system that is consistent with Islamic (*Shari'ah*) principles in particular it prohibits usurious activities, indulging only in a lawful business or investments, and avoidance of *mysir* and *gharar* in its transactions.

Prohibition of *riba* is central upon all Islamic trade transactions. Riba is not restricted to loan transaction as in the conventional banking but *riba* can occurs even in the trade transaction. As long as it is in excess over and above and beyond the original capital or price be it in lending or in trading it is *riba* and it is prohibited in Islam (Suruhanjaya Sekuriti Malaysia, 2009). The prohibition of *riba* is made clear gradually in the Al-Quran through various revelations as in Surah Al-Rum verse 39 in which Allah said that *riba* deprives wealth of Allah blessings. Then in Surah Al-Nisa verse 162 where Allah condemns interest, placing it at the juxtaposition with wrongful appropriation of properties belonging to others.

Finally, Allah s.w.t. revealed an all-encompassing injunction on Riba in Surah Al-Baqarah verse 275 in which Allah said "*Those who devour riba will not stand except as stand one whom the evil one by his touch has driven to madness. That is because they say: "Trade is like usury," But verily Allah has permitted trade and forbidden Riba. Those after receiving Direction from their Lord, Desist, shall be forgiven for the past; their case is for Allah (to judge); But those who repeat (the offence), are Companion of the Fire; they will Abide therein (forever)*" (Ali, 1994). While prohibition of *riba* is made in general in the Al-Quran, the detail and clear reference as to what constitutes *riba* is found in the Saying of our Prophet Mohammad s.a.w. In His prominent Hadith reported by Abu Said Al-Qudri the Prophet s.a.w. said "Gold for gold, silver for silver, wheat for wheat, barley for barley, slat for slat, like for like, equal for equal and hand to hand, if the commodities differs then you may sell as you wish provided that the exchange is hand to hand (Narrated by Ahmad and Muslim).

In the above hadith, there are two major criteria in which any transaction can give rise to Riba. First is the deferment of the time of exchange and second, the difference in counter value in the exchange of *ribawi* items mentioned in the Hadith of the Prophet s.a.w. In order to avoid any usurious transaction, all *ribawi* items must be transacted on the spot and of equal counter value. It can be concluded therefore, that *riba* can be categorized into two categories namely, *riba* al-dayn which can arise from delay in payment which usually involve monetary transactions. The other is *riba* Al-Buyu' due to the non-compliance of the two conditions mentioned in the Hadith involving commodities transactions.

Against the backdrop of a clear and all-encompassing injunction of *riba* in Islamic jurisprudence. Islamic banking and finance therefore, is to avoid at all costs, *riba* or any transaction that has in it elements of *riba*. Instead Islamic banking should focus its entire activities on doing trading, buying and selling of commodities with its clients and undertaking investments on the principles of sharing profit and loss. In other words Islamic banking and finance is a faith-based and socially responsible brand of community banking and its aim is to eliminate Riba and how to reconstruct its products in order to comply with the law of Shari'ah (Abdul-Rahman, 2009).

3. Practice of Islamic Banking and Finance

The establishment of Islamic bank and finance was intended to become a financial institution for the Muslims to enable them to do business in accordance with the divine Shari'ah. Its role as financial institutions is substantially similar to the conventional banking; mobilizing funds from the surplus sectors to the deficit sectors of the economy and providing financing facilities to the society enabling them to conduct their businesses. In short Islamic banking and finance is the financial intermediaries between these two contrasting sectors of the economy. This is because financial intermediation enhances the efficiency of saving/investment process by eliminating the mismatch inherent in the need of surplus and deficit unit with respect to size, duration, liquidity and risk profiles (Iqbal, 2011). Financial intermediaries are also in a better position to gather information about the economic conditions and business opportunities which is crucial for efficient allocation and transmission of society's resources.

Like its conventional counterpart, Islamic banking and finance uses people's money as deposit for its liquidity requirements and also to fund its investment's activities and its financing operations. However, being an Islamic institution, the manner in which Islamic banking and finance conduct its operations differs greatly from the conventional banking. Islamic banking and finance is not based on the notion of a predetermined fixed return on capital but through direct undertaking of trade activities assuming risk before it can reap any potential profits. According to Hanif (2011). Islamic financial transactions have two distinct features that are totally absent in the conventional system. First is the linkage between financial and real sector of the economy as Islamic financial institution cannot extend credit facilities without having support from real sector. Secondly, the concept of *Mudharabah* plays greater role as catalyst for transforming the society into prosperity by extending capital facility to skilful person but lacking in capital. This is because under the *Mudharabah*, partnership between capital and skill is formed which can be used to provide self-employment to jobless skilful citizens.

In Islamic transaction, capital must be employed into the productive use before it can gain return. Therefore, the basic principle of Islamic transaction is based on risk/profit sharing as return for entrepreneurial efforts and financial capital (Iqbal, 2011). In practice there are verities of Islamic contracts which can be used to conduct business. According to Lewis and Algaoud (Lewis and Algaoud, 2001) three types of contracts are the most widely used in Islamic finance namely Trustee contracts (*Al-Mudharabah*), Equity contract (*Al-Musharakah*) and Debts-based contracts.

Al-Mudharabah is a contract between provider of capital (*rab al-mal*) and the entrepreneur (*Al-mudharib*) whereby skill and money are brought together to conduct business. Profit is shared according to the agreement usually based of agreed ratio while loss is born entirely by the *rab al-mal*. The concept of *al-Mudharabah* is also applicable in the collection of deposit by Islamic banking worldwide. *Al-mudharabah* can be restricted or unrestricted and no one party in the contract can claim a lump sum profit but must be based on actual outcome of the business undertaking (Qudamah, 1972, Taqī

‘Usmānī, 1999).

Al-Musharakah or *Shirkah* is literally sharing or partnership. It means a joint partnership formed to conduct business undertaking in which all partners share the profit according the agreed ratio while loss is shared based of capital contribution. For *Al-Musharakah* to be valid it must fulfil certain conditions (Hanif, 2011);

1. There must be written agreement among all partners stating clearly the terms and conditions including management, capital contribution, profit and loss sharing among partners.
2. Capital can be contributed in cash as well as in kind.
3. Profit is to be distributed according to the agreement of partnership. Sleeping partners cannot claim more than his proportionate share in equity.

Debts-based contract is a mode of financing involving deferred payment arrangement whereby the clients are allowed to pay the purchased good on periodical instalments within a specified future period. Included under this mode of financing is al-Bai’ *Bithaman Ajil (BBA), Al-Murabaha* (cost plus sale*), Bai’al-inah, Ijarah* or leasing. The debt-based contracts as practiced by most Islamic banking and finance invariably involve the purchase and sale transaction whereby the financial institutions purchase commodities on cash term to be sold later to its clients on a deferred payment (Anwar, 2003).

Between the three types of contracts mentioned above, most of the Islamic scholars agree that the most preferable and acceptable mode of financing are *Al-Mudharabah* and *Al-Musharakah* financing because these transactions are asset-based and entail real economic activities while simultaneously undertaking liabilities associated with them (Taqī ‘Usmānī, 1998, Ayub, 2007, Dusuki and ISRA, 2011). However, despite the acknowledgement of the Islamic scholars about the validity of *Al-Mudharabah* and *Al-Musharakah* as the preferred mode of financing under Islamic banking and finance, most Islamic banking and finance in reality prefer to engage in the debt-based deferred payment contracts of BBA, *al-Murabahah, Ijarah* and *Inah*. For instance, in the context of Islamic bank in Malaysia, these forms of financing constitute more than 80% of the total assets held by Islamic banks (Dusuki and ISRA, 2011). The trend is similar in other Islamic banking and finance where these financing modes comprise between 60% and 80% of the total asset holdings.

The Islamic banking and finance preference and overconcentration on the debt-based contracts over the profit - sharing contract is due chiefly to the fact that Profit Sharing concept entails more risk and uncertainty as it is hard to ascertain that the *mudharib* is capable of undertaking the business and it takes longer gestation period before business produce any profits. As the bank is responsible to its deposits which are relatively short term in nature it is therefore, untenable to the bank when it cannot give return to the depositors due to the fault of the *mudharib*. On the other hand, under the debt-based transaction, the profit is predetermined and repayments are assured thus enabling the bank to distribute its profits to the depositors (Dusuki and Abozaid, 2007, Dusuki and Mokhtar, 2010, Dusuki and ISRA, 2011).

4. Trader and Financial Intermediaries

The Islamic banking and finance is indeed a financial intermediary acting as a go-between in the financial market and undertaking transaction that is in line with Shari’ah. Financial intermediation does not violate Shari’ah as long as it is undertaken based on the rules and procedures prescribed by Islamic jurisprudence. Financial intermediation in the Islamic economy is crucial in today’s global economy because as a fast growing economy it is unimaginable in a society without intermediaries, depriving the society the opportunity to undertake business based on Islamic banking principles. It will expose the society to the evil and manipulation of conventional system which is obviously unacceptable from the Islamic religion view point. However, Islamic bank and finance is not an ordinary intermediary but whose activities are strictly undertaken in compliance with the law of Shari’ah. Unlike conventional banking, Islamic banking cannot lend money with interest but focus its activities on trading. It is in this area therefore, that Islamic banking must demonstrate its capabilities to mobilise fund for the genuine and real economic activities and not just providing financing.

Islam emphasises trade transaction and prohibit lending with interest because *riba* is prohibited by Allah s.w.t. as it is not only associated with ephemeral wealth that can increase or decrease through receiving or paying of interest without undertaking actual activities but also due to the serious ramification of *riba* that can cause to mankind. However, as the Islamic banking is still relatively at its infant stage, it was not in the best position to introduce *Mudharabah* or *Musharakah* contracts with its clients when it first open its door to the customers. Thus conventional financing facilities such as home financing, trade finance and consumer lending were reconstructed to comply with Shari’ah and offered to the Islamic banking clienteles. Indeed these are amongst the first few contracts used by Islamic banking because they are straightforward contracts and consist of sales and purchase transactions which are the cornerstone of Islamic *muamalat*. Overtime these forms of financing has become the backbone of Islamic banking business and incur criticism from many scholars as they are akin to the interest-based lending operations of the conventional banking (Dusuki and Abozaid, 2007, Soualhi, 2012, Ahmed, 2014).

The debt-based financing methods should rightly become the flagship product of Islamic banking as they demonstrate the true nature of trading activities. However, Islamic banking and finance failed to seize this golden opportunity of becoming real trader because they are more concerned of being financial intermediaries rather than traders. Under the BBA, *Murabaha* or *Ijarah* contract, one of the most important conditions is that Islamic banking must assume ownership of the property before they are sold to the customers. By assuming ownership bank face ownership risk which can occurs in three different stages (Ahmed, 2011);

Beginning of transaction: Bank buys property based on promise from the buyer. However, promise is not binding and if customer refuse to honour his promise the bank may get stuck with the asset and may run a loss if price fluctuate. Such a loss is borne entirely by the bank.

During transaction period: once assets is transferred to the client bank may still face with credit risk. This is especially so if the asset is sold on deferred payment and customer were to default his obligation. To mitigate this risk, bank may request that the asset be collateralised to guarantee performance of the contract.

End of period: Upon expiry of the agreement bank may still face with potential problem when customer fails to satisfy his obligation under the contract. In this instance bank may initiate legal proceeding to compel customer to settle the purchase price of the assets failing which bank may demand court order to dispose of the asset.

It is precisely this potential risk bank as trader may suffer that entitle the bank to impose higher price on the asset sold. However, the practice of Islamic bank in Malaysia is that bank transferred all its risk under the contract to the client leaving the bank with no risk but assured of its profits. This has diminished the role of Islamic banking as trader and thus renders Islamic banking and finance as mere replication of conventional banking institutions (Hassan and Lewis, 2007b, Ahmed, 2014).

As an Islamic financial institution, its function as financial intermediaries is different from the conventional bank. The key difference is that while conventional banking is using its fund for its lending operations and collecting rent in the form of interest the Islamic banking utilize *Mudharabah* as the cornerstone of its financial intermediation. This means that the concept of fund mobilisation and the employment of funds for business activities are based on profit sharing among depositors and the bank after the business undertaking for which fund is used to finance has yielded profits. It follows that even under the *Mudharabah* contract, Islamic bank is also acting as trader taking an active role in the business undertaking with the customer and sharing the risk and rewards for such an undertaking. In Islamic banking and finance, the financial intermediation is merely a passing-through arrangements similar to the concept of fund management (Iqbal, 2011). This type of financial intermediation is in total contrast with the conventional banking where funds are regarded as direct liabilities and entails cost to the bank.

Islamic banking and finance like any other conventional institution is a business organisation where profit maximisation is it main objective. Conventional banking regards profit as a factor of production, capital and labour. They are not concerned with individual welfare because the pursuit of self-interest automatically promotes the collective goal. Islam on the other hand recognizes profit as signifying the firm's endeavour to create, enlarge and maintain the balance between revenue and cost. Islam also regards business as a social obligation of the individuals and it places business as among the most beneficial and noblest of vocation (Hassan, 1998). However, Islam recognizes profit as being created out of real economic activities. It can be achieved not just through imposition of interest but via trade transactions by owning assets and trading these assets for profits. Being trader, Islamic banking is assured of profit. The *Mudharabah* and *Musharakah* financing contracts are designed to ensure that Islamic banking and finance is able to generate profits. For some sectors where financing on the basis of *Mudharabah* and *Musharakah* is not feasible, the contemporary scholars have suggested other instruments which can be used for purpose of financing like *Murabahah*, *Ijarah* and *Istisna'* (Taqī 'Us̱mānī, 1998). After all Islam does not recognize money as subject-matter of trade, it has no intrinsic utility and is only a medium of exchange. Islam believes that profit is generated when something having intrinsic utility is sold for money. Therefore, Islamic financing is always based on illiquid asset which can create real activities and inventories.

The bottom line is that Islamic banking must not rely solely on being pure financial intermediaries but opted to non-pure financial intermediaries through transactions like *Murabahah*, *Bai' Bithaman Ajil*, *Ijarah, Salam* and *Istisna'* (Siddiqi, 2006). In other words, Islamic banking and finance must always undertake trading of real assets in order to generate profits. This is in contrast to the conventional banking which relies on financial assets to realise profit through imposition of interest. In essence, Islamic banking should reflect real assets in its balance sheet and not financial assets as in the conventional banking.

From the preceding paragraphs, it seems that there are two operational approaches which characterize Islamic banking since its inception some forty years ago. According to Kahf (2000) the two approaches are;

1. Islamic banking as mere financial intermediaries

Under this approach, the bank does not take any business activities in buying and selling goods directly with the customers or in providing venture capital only at the request of its clients. According to this approach, financing activities must always begin from the user of funds. Banks are mere intermediaries channelling funds to and from each sector of the economy.

This approach is desired and promoted by the central banks because they would want to see Islamic banking equal to its conventional counterpart. They argue that this approach ensure specialization, efficiency and justice to all concerned.

2. Non-pure financial intermediaries or Business approach.

This approach was pioneered by the Kuwait Finance House. In addition to financial intermediation, Islamic banks also owns showrooms, maintain warehouses and buys goods to be offered to customers on *Murabahah* basis. Fisal Islamic bank of Egypt even own and manage housing estates for sales to its customers under *Murabahah* financing. This approach receives strong support from Islamic scholars because it demonstrates the fundamental role of Islamic banking and finance as trader and financial intermediaries. Such approach is however, met with strong resistance from the law makers especially the central bank (Abdul-Rahman, 2009).

Pursuing the role as trader, Islamic banking and finance need not have to emulate what the Kuwait Finance House or Fisal Islamic bank has undertaken. The Islamic banking and finance particularly in Malaysia may form strategic alliance with various housing developers to ensure special allocation of housing units to the banks which upon completion of construction can be traded with the interested clients. By having this kind of arrangement the bank is able to fulfil its role as financial intermediaries providing finance to house buyers under deferred payment contract and significantly establish it as trader of residential and commercial real estates without having to become real estate developer.

To become an active trader, Islamic bank requires contacts with suppliers of commodities other than houses so as to enable it to dispose merchandise produced in the name of the bank under *Murabahah* or *Salam* contracts. Standing arrangement with suppliers and marketing agencies can considerably reduce transaction cost and financial risk for the Islamic bank. This arrangement eliminates the need of the Islamic bank to have its own warehouse or inventories.

5. Realising the Maqasid Al-Shari'ah

The main purpose of setting Islamic bank and finance is to realise the *Maqasid al-Shai'ah* in banking and finance, to fulfil social welfare responsibilities and religious commitment, promoting the Islamic value as well as protecting the need of the Islamic society without undermining its commercial viability (Dusuki and Abozaid, 2007, Dusuki and ISRA, 2008). In order to realise this objective, Islamic banking and finance must be able to demonstrate its readiness to embrace the real role as financial intermediation offering facilities that differs from the normal conventional banks. Islamic banks is therefore, not mere financial intermediaries but also an active participant in trade transactions.

In doing its business, Islamic banking and finance is expected to display the highest regards to the fundamental principle of *Shari'ah* in business. Since the early establishment of Islamic banking, it is recognized that equity-based financing of *Musharakah* and *Mudharabah* has always been promoted as financing method that involve real economic activities and thus is closer to the achievement of *Maqasid al-Shari'ah*. Debt financing on the other hand though it is *Shari'ah* compliance is not in line with *Maqasid al-Shari'ah* and therefore, should not be pursuit seriously to avoid criticism of Islamic banking as mere replication of conventional system. Ensuring social welfare is another objective Islamic banking and finance has to observe while conducting business. Abuse of sale contract like in the case of *Bai' al-Ina*h where Shari'ah requires a selling party to hold all liabilities arising from defective goods sold base on *Khiar al-aib* rules but in reality bank hold no such liability is to avoided because it will victimize the customers (Dusuki and ISRA, 2008). Thus while Islamic banking seem to be doing trade transactions it must give due consideration to the equitable demand for fairness to its clients by not overcharging the price or using *hilah* to legitimise transactions.

6. Policy Recommendation

Islamic banking and finance has a unique role in the development of the Islamic *muamalat* system. It is a financial intermediary that functions as fund mobiliser and provider of finance but its role is not confined to pure financial intermediation but also display as an active role of trader. The prohibition of *riba* made it impossible for Islamic banking and finance to give monetary loan and charge interest in order to make profits. Under the circumstance therefore, Islamic bank has to play the role of not mere financial intermediation but also trader of goods for sale to the customers. In order to achieve these objectives Islamic banking and finance must first demonstrate that they are capable of instituting changes in the manner of doing its business;

1. Islamic banking and finance must display its courage to discard the conventional banking mentality by assuming the role of traders and focusing on trading of goods rather than mere providing financing like the conventional banking.

It must return to its root and avoid imitating the practices of conventional banking focusing on Profit and loss sharing activities and reducing its dependency to the debt-based transactions of al-*murabahah, al-Bai' Bithaman Ajil,Ijarah* and *Inah*.

Islamic banking and finance must strengthen its business procedures by standardizing its legal documents, accounting procedures and terminology of transactions. This is to avoid ambiguity and achieve harmony among the Islamic banking and finance all over the world.

It must promote greater cooperation amongst the Islamic banking and finance to meet the challenge as trading partners in the economy.

Product reengineering is another area of concern in the development of Islamic banking and finance which requires a closer look by the institutions. Successful innovation of a flagship product that can distinctively be associated with Islamic Banking and finance serve to as the benchmark of Islamic finance which will silence critics of Islamic banking and finance as mere replication of conventional banking. Success of such an endeavour will also boast Islamic banking as a vibrant and independent financial system unique on its own and moving away from it's over dependence to its conventional counterpart.

7. Conclusion

In conclusion therefore, Islamic banking and finance is a unique institution playing the role of not only an intermediary of finance but also an active trader seeking to achieve profit from its effort and also ensuring equitable benefit to the society it serves as embodied in the *Maqasid al-Shari'ah* in banking and finance.

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