Editor's Note

Islamic banking has emerged as an alternative banking system in the global scene with the advent of Islam. Islamic banking, which is interest-free banking, has gained momentum over time especially with introduction of new Islamic financial products. The interest-free banking is shaped by Islamic legal doctrine and has gained a positive universal reputation for Islamic banking in the contemporary world. The fundamental idea behind Islamic banking is facilitation of financial interaction and encouragement of beneficial symbiotic commercial associations among the parties involved. This type of banking business in the present world has reached the zenith where it can no longer be blithely ignored in the global banking business. It is thus worth exploring the best practices of Islamic banking with the aim of to integrating it with the diverse practices in international banking to reinforce the world economy.

The international banking system requires numerous alternative banking models to moderate the effects of potential economic or financial meltdown. There are encouraging experiences of Islamic banking in Muslim countries and Muslim-inhabited countries in Europe and America irrespective of its initial teething hurdles. The development of Islamic banking in the contemporary world has witness remarkable changes particularly in the recent international financial plunge. For example: even after reaching a $152.5 billion tax-payer bailout agreement, American International Group Inc (AIG) offered Islamic insurance in U.S during 2007/8 financial crisis as an exigent measure to cushion itself against the effects of the global financial crisis. To this end, AIG recently established subsidiaries in Muslim majority countries like Bahrain, Malaysia and United Arab Emirates. It is self-evident to that Islamic insurance (*takaful*), which is a component of Islamic finance and Islamic financial mechanisms was used during financial crisis and thereafter by troubled but dominant financial-cum-insurance firms.

The Islamic banking system has unique features albeit some of its financial products are similar to those of conventional finance. However, there is compelling need to design and develop an alternative banking system that meets the banking needs of Muslims and non-Muslims who favor the interest-free banking system. The international banking system requires numerous choices to meet diverse banking needs of customers with special religious and socio-cultural settings. Islamic banking system has thus developed under the platform of ethical banking primarily to cater for the interests of Muslims who constitute roughly a one-fourth of the world population.

Financial intermediaries perform the important role of accepting small savings from surplus economic units; repackage them into huge loans to meet the borrowing needs of deficit economic units (mostly firms and industries). This way, savers get a fair return on their savings while firms and industries produce goods and services for the benefit of the society. Islamic banks perform this value-adding financial intermediary role in a socially responsible way in the economy.

Although Islamic banking system is a component of Islamic economic system, it can be established in any country as long as certain fundamental requirements are met. These requirements include but not limited to existence of Supreme Sharīʻah Council, supportive legal framework and swift judicial system, conceptual change from credit risk to overall risk management, disciplined entrepreneurship, strong ethical values, uniform accounting standards, committed management, progressive and modern outlook, and a body to evaluate Islamic financial institutions. The tenets of Islamic banking are enshrined in the Qur'an and Sunnah and the compendium of these principles are any predetermined payment over and above the actual amount of principal is prohibited, the lender must share in the profits or losses arising out of the enterprise for which the money was lent except in benevolent loans, making money from money is not allowed since it is a mere medium of exchange which has no value in itself, transactions involving *gharar* (deception) and *maisir* (gambling) are prohibited, and investments should only support practices or products that are not forbidden or even discouraged by Islam. The expansion of Islamic banking system demonstrates its ability of being used as a feasible international financial intermediary. The ethical values of Islamic financial transactions (*fiqh muʻamalat*) form the basis of continued and profitable convention of Islamic banking. Islamic banking operations generate positive socio-economic effects through profit adequacy, fair and equitable pricing mechanism, cost efficiency and real sector development.

The frequent introduction of new Islamic products is making Islamic banking business increasingly complex and stakeholders in the Islamic financial industry have to face the persistent contemporary challenges. The introduction of a strong legal framework is a harbinger to strong Islamic financial institutions. This regulatory challenge must be addressed by the industry to facilitate productivity of the Islamic banking business. It should properly define the duties of the Sharīʻah Advisory Councils to ensure the efficiency of their work. Such a regulatory framework should provide sustainable mechanism of dispute resolution in Islamic banking in addition to streamlining and standardizing the operations and practices of Islamic banking industry as agreed by Muslim jurists and experts in the field. Specifically, the legal framework should include arbitral tribunal constituting industry experts to amicably resolve customer-banker relationships related disputes.

The first article examines the impact of human characters of probationary officers on their training performance at the Islamic Bank Training and Research Academy. The authors used a structured questionnaire study of 123 foundation officers of 5 different but consecutive batches in 2008 to assess the impact of human characters of the trainees on their performance. They show that although the trainees generally agree that the trainers' communication, presentation and lecture relevancy with subjects matter were good, but the trainees also indicated that there is room for improvement. Extra-curricular activities need to be integrated with regular training sessions so that trainees learn in a congenial environment. Younger trainees are found to be better performers. Trainees with banking and finance academic background performed better than non-banking background. For trainees with non-banking and finance background, special remedial courses can arranged to bring them at par with those with banking and finance background. There should be enhanced training arrangements for those who have better academic background to hone their professional skills further.

The second article examines important Islamic legal maxims relating to the practice of mortgage in the UK. The study appraises numerous financial products offered by either conventional commercial banks or Islamic banks to determine whether necessity can be used as a pretext to contravene the prohibition of *riba*. Granted *maqasid al-shari'ah* (the spirits of Islamic law, the study, through these legal maxims, affords a lucid answer to those who criticize the absolute *"halality"* of the present Islamic mortgage products and recommend an agreeable solution. The paper tracks the development of Islamic mortgage in Britain and the involvement of Muslims in development process. It further details the doctrine of necessity in Islamic law and its role in alleviating its supporter from hardship. The paper then argues that if provision is a settled rule in Islamic law, its application to Muslims in Britain is unavoidable. If Muslims refrain from involvement in the contemporary global economy, particularly real estate investment in the West, then, Muslims will be in despoliation of wealth.

The third paper evaluates how competition affects efficiency of commercial banks in Tunisia from 1990 through 2009. The authors utilize three pronged approach. First, they appraise the degree of competition in the Tunisian banking sector over the sample period. Second, they use stochastic frontier approach to estimate the level of efficiency of these banks. Third, using several specifications, they empirically assess how competition and efficiency are related. They find empirical evidence that suggests a positive relationship between efficiency and competition.. This implies that decrease in competition (due to increased concentration in Tunisian banking sector) negatively affects efficiency during the sample period. Further, all else held constant, private banks report higher efficiency relative to state owned banks. Such empirical evidence affords the normative implications of competition policy in the Tunisian banking industry.

The fourth article investigates whether Islamic Financial System (IFS) is a feasible financial intermediation alternative to the modern global financial system. The persistent growth of IFS over the past number of decades makes it a practical alternative to offer stability to global financial system especially after the recent economic and financial convulsions. However, the adoption and integration of IFS as an alternative financial system is plagued by legal and political machinations. Developed countries have granted marginal, if any, consideration to adjust their financial regulatory framework or laws to benefit from Islamic money markets. The implementation and adoption of IFS thus remain at the mercy and convenience of Western countries. Developing countries thus become the intended receptors of IFS. These countries are either the hope of true IFS or simply the convalescent points of crumpling IFS. The study highlights the incompatible areas between the two systems and exposes the high wire politicization and legal technicalities employed to take advantage of the new system. It suggests that developing countries need a more proactive legal framework and genuine political will in reception of IFS.

The fifth paper argues that a highly talented and trained labor force is necessary to maximize the opportunities presented by the growing and future economic environment. A developed human capital through training and education is key to performance and competitiveness of Islamic financial industry in international financial intermediation. Moreover, as Islamic banking becomes widely accepted viable alternative of global financial intermediation within Muslim countries (especially Malaysia) and beyond, there is need to develop new, diverse and differentiated financial products and services to meet the need of the new global economy. This requires practitioners to identify and develop training needs of human capital to meet the needs of global financial system and economy.

I hope you will enjoy reading this issue of the Journal.

Reference

Umer Oseni and M. Kabir Hassan, "The Emergence and Development of Islamic Banking," *Islamic Finance: Instruments and Markets*, Bloomsbury Press, London, UK, 2010

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