Address by Paul M Koster - Chief Executive
Dubai Financial Services Authority (DFSA)
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Panel Discussion: Direction of Development Policies

Your Excellencies, Ladies & Gentlemen,

I am still very much a newcomer to Islamic finance, and in introducing this final Session it befits me to be modest. I shall therefore try to pose questions more than to offer answers.

In looking at the infrastructures to support Islamic finance, it is natural to look at the infrastructures which have been evolved for conventional finance, to identify where there are similar needs, and to assess what institutions can meet those needs. Indeed in some cases they will be the same institutions. For example, no country will operate more than one Central Bank to act as lender of last resort. It follows that in a mixed economy, with both conventional and Islamic finance, the question must be not what institution will play this role for the Islamic sector, but what instruments it will have to do so.

The infrastructures that are needed fall into several categories. One is clearly standards-setting, including regulatory, accounting and market standards. Here the challenge is clear. It is to develop standards that are as consistent as possible with those of conventional finance, which respond to the real differences of Islamic finance, and which meet the highest standards of quality. As non-Islamic regulators around the world come to deal with Islamic finance, they will not simply tear up their rulebooks, based on the standards of Basel, or IOSCO or the IASB; they will seek to adapt them, and they will look for standards that are as well thought out as those they are used to. If they cannot find them, they will either ignore Islamic finance or press the conventional standards-setters to address the issues. Similar comments apply to market players, in areas such as documentation.

Market infrastructures are in general similar to those for conventional finance, though there are of course issues about how to stimulate active trading in certain areas. The most obvious exception to my mind is the problem of how to create a short-term money market to allow liquidity to move around the system without high transaction costs and, if possible, without too much artifice.

This is closely related to the next issue, which is the infrastructure to support financial stability. In the conventional world one foundation of this is the role of central banks as lenders of last resort. What instruments do they have, or what substitute can be found, in Islamic finance – especially at a time when their interventions are more extensive – and probably longer lived – than ever before?

Then there is the whole area of institutional and market development. What should be the relationship between the Islamic Development Bank, the World Bank, the IMF and indeed any other bodies, as development moves outside the Islamic Conference countries? In prosperous mixed, cross-cultural economies – like the one we are meeting in – who should take the lead in developing the infrastructure for Islamic finance?

Finally, there is the area of the Shari'a infrastructure. This is an area in which I need to tread carefully. However, it is clear both that Shari'a advice is critical to the proper conduct of Islamic finance, that there are many areas in which there is not full consensus, and that Shari'a governance imposes material costs. There is much discussion of how greater consensus can be achieved in important areas, and how the supply of Shari'a scholars can be increased. But there is scope also to discuss how the need can be reduced, in areas where transaction forms can be standardised, and also about the infrastructure of what is now becoming a profession. Will it become like my own profession, accountancy, in which firms rather than individuals are critical, and there is an acknowledged development and career structure? Will it become like other professions – for example many aspects of design – where key individuals head their own firms, but much of the work is done by supporting staff? Or is there another model altogether?

I ask these questions very much as a new comer, and I look forward to hearing at least some views on them from our distinguished speakers this morning.

Jaseem Ahmad is an economist. He is Director, Governance, Finance and Trade Division, at the Asian Development Bank, where he supervises the Bank's financial sector and governance operations in a number of South East Asian countries. He is also responsible the ADB's joint work with the IFSB on standards for Islamic Finance. He is particularly well-qualified to discuss the roles of multilateral banks and standards-setters at this time of global financial crisis.

Edmond Lau is Executive Director (Monetary Management) at the Hong Kong Monetary Authority, where his interests include the impact on HKMA of major external developments such as globalisation and liberalisation of financial markets. His focus will be on strengthening financial intermediation and capital markets in this region in particular.

Professor Volker Nienhaus is President of the University of Marburg, having previously been a professor of economics at the universities of Trier and Bochum. He has published numerous books and articles on Islamic economics and Islamic banking and finance. I know he shares my own concern that Islamic finance should maintain its distinctiveness from conventional finance, not just in form but also in substance. He will be looking at how the industry should position itself after the current crisis, and in particular at how some elements of the financial stability infrastructure can be developed.

Your Excellencies, ladies and gentlemen, Mr Jaseem Ahmed.