



THE ROYAL AWARD FOR ISLAMIC FINANCE™



DATO' DR. ABDUL HALIM ISMAIL

3RD RECIPIENT OF
THE ROYAL AWARD FOR ISLAMIC FINANCE

A COLLECTION OF SPEECHES AND PUBLIC LECTURES,
IN CONJUNCTION WITH THE ROYAL AWARD 10TH YEAR ANNIVERSARY



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



Suruhanjaya Sekuriti
Securities Commission
Malaysia

MALAYSIA

WORLD'S ISLAMIC FINANCE
MARKETPLACE

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THE ROYAL AWARD FOR ISLAMIC FINANCE™

ESTABLISHED IN 2010, THE ROYAL AWARD IS A BIENNIAL AWARD JOINTLY ORGANISED BY BANK NEGARA MALAYSIA AND THE SECURITIES COMMISSION MALAYSIA UNDER THE MALAYSIA INTERNATIONAL ISLAMIC FINANCIAL CENTRE (MIFC) INITIATIVE TO RECOGNISE AND HONOUR INDIVIDUALS WHO HAVE EXCELLED IN ADVANCING ISLAMIC FINANCE GLOBALLY THROUGH THEIR OUTSTANDING CONTRIBUTIONS AND ACHIEVEMENTS.



The Royal Award recipients are Tan Sri Dr. Zeti Akhtar Aziz, former Governor of Bank Negara Malaysia (2018); Professor Datuk Dr. Rifaat Ahmed Abdel Karim, CEO of the Capital Market Authority of Sudan (2016); **Dato' Dr. Abdul Halim Ismail, founding member of Malaysia's first Islamic bank (2014)**; Mr. Iqbal Khan, CEO of Fajr Capital (2012); and the late Shaikh Saleh Abdullah Kamel, founder of the Dallah al Baraka Group (2010). The Royal Award in 2010 also recognised the late Dr. Ahmad El-Naggar who was often referred as the 'Father of Modern Islamic Banking', with a posthumous honourable mention.

SPEECH

02

DR. ZETI AKHTAR AZIZ

FORMER GOVERNOR,
CENTRAL BANK OF
MALAYSIA
CO-HOST OF THE ROYAL
AWARD FOR ISLAMIC
FINANCE

Ladies and Gentlemen,

It is a great honour for me, on behalf of the joint organisers, Bank Negara Malaysia and the Securities Commission Malaysia, to welcome you, our distinguished guests to this Gala Dinner and Award Ceremony, held in conjunction with the Global Islamic Finance Forum 2014 which commenced this morning. This is the third time that Bank Negara Malaysia and the Securities Commission Malaysia are co-hosting this ceremony to commemorate the conferment of the biennial Royal Award for Islamic Finance since its inception in 2010. On this auspicious occasion, we are most honoured to be graced by the presence of His Majesty Seri Paduka Baginda Yang Di-Pertuan Agong Tuanku Haji Abdul Halim Mu'adzam Shah, who will graciously confer the award to this year's recipient this evening.

Ladies and Gentlemen,

Tonight is an opportunity for celebration, reflection and recommitment. As we honour and celebrate yet another outstanding individual for the significant contributions to the global Islamic finance industry, we should also take a moment to reflect on how far the industry has advanced today, to inspire our commitment to keep building on our strengths as we set the success bar even higher, in our quest to usher in a new chapter in the transformation journey of Islamic finance. In the relatively short history of the industry, Islamic finance has become a dynamic transformative force in the international financial landscape.



AMIDST THE GLOBAL ECONOMIC AND FINANCIAL CHALLENGES, ISLAMIC FINANCE HAS CONTINUED TO EXHIBIT RELENTLESS GROWTH, STEADILY EXPANDING ITS HORIZON IN MANY PARTS OF THE WORLD, AS IT RESPONDS TO THE CHANGING REQUIREMENTS OF THE REAL ECONOMY BOTH IN ADVANCED AND EMERGING COUNTRIES, WHILST CONTRIBUTING TO INTERNATIONAL CONNECTIVITY, IN THE WAKE OF THE INCREASED PACE OF ITS INTERNATIONALISATION.

This remarkable progress has been fuelled by a strong wave of innovation, manifesting itself in the widening of the range of financial products and services for differentiated requirements of financial users, which has seen to the evolution of Islamic finance into a comprehensive system of financial intermediation.

Drawing our inspiration from the accomplishments of the industry thus far, we need to look ahead with a continued focus on how can its dynamism be sustained, and growth accelerated, taking into account the challenge and requirements of the present and the future. The international financial landscape today is changing dramatically, driven by a new vision of growth defined by considerations for sustainability, inclusion and fairness which has emerged pivotal, more now than ever before, to revive the global economy which is still languishing in the aftermath of the global financial crisis. As Islamic finance presses on to advance its role in contributing to the shared vision of sustainable growth in a post-crisis world economy, the industry is set to enter a dynamic new phase of new market opportunities. These opportunities however arise in an extremely challenging environment of more uncertainties, more competitive and rapidly changing market requirements.

Against this background, innovation that is the foundations of the next era of growth for Islamic finance will continue to rest on the ability of industry to keep harnessing the power of innovation that is fundamentally aligned to productive economic activities, more effectively and efficiently, and that is firmly anchored in Shariah principles and values.

THE CHALLENGE BEFORE US
IS TO ENSURE GREATER
ABILITY OF INDUSTRY
PLAYERS TO DRAW ON
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GROWTH AGENDA WILL
REQUIRE
MULTIDISCIPLINARY
CONSIDERATIONS
INVOLVING A DEEPER
UNDERSTANDING OF
ISLAMIC JURISPRUDENCE,
AND WILL ALSO NEED TO
ADDRESS THE GREAT
DEMANDS FOR ENHANCED
TRANSPARENCY AND
STRONGER RISK
MANAGEMENT.

It is our hope and aspiration that this Royal Award for Islamic Finance will lead to a growing pool of pioneering and innovative leaders in Islamic finance, who will steer and lead global Islamic finance industry to greater heights. Indeed, innovation is the very essence of this Award. Spearheaded under the auspices of the Malaysia International Islamic Financial Centre initiative, this Award celebrates innovation in Islamic finance by recognising those who have made breakthrough achievements in pushing the frontier of the industry.

This Award also distinguishes itself in prestige and distinction, as showcased by the eminence and calibre of past recipients, whose foresight, commitment and determination in taking on new possibilities for Islamic finance have made profound impacts to the global development of the industry. Let me therefore take this opportunity to extend my heartiest congratulations to this year's recipient of The Royal Award. On behalf of both Bank Negara Malaysia and the Securities Commission Malaysia, I would like to also express our deepest appreciation to the eminent members of the Jury panel of The Royal Award for their contributions and extensive deliberations in the selection process of the Royal Award for Islamic Finance.

Thank you.



ANNOUNCEMENT SPEECH

06

**TUN MUSA
HITAM**

CHAIR OF JURY

It is once again my honour and privilege to stand before you tonight, as the Chair of the Jury to the Royal Award for Islamic Finance 2014.

I would like to start by conveying my thanks and appreciation to the many parties involved in making tonight's event possible:

The Malaysia International Islamic Financial Centre must be commended for spearheading this Royal Award initiative; and to Bank Negara Malaysia and Securities Commission Malaysia for jointly organising The Royal Award;

Special thanks to the Steering Committee for giving us – the Jury – their support and most importantly, their full impartiality in the decision making process;

As Chair of the Jury, I would like to thank my fellow jurors for the robust challenge, debate and discussion during the selection process;

My heartfelt appreciation to the Secretariat team for their dedication and commitment in making The Royal Award happen, and finally, thank you to all present here tonight, especially those from overseas, for joining us to make this gala dinner and The Royal Award ceremony a memorable occasion.

When the call for nominations for The Royal Award closed on 31 January 2014, we received 48 nominations from around the world. This is a notable twenty-five percent increase since the inaugural Award in 2010.



Nominations came from all parts of the world – the Middle East, Europe, Africa, North America and the Asia Pacific region, and from diverse backgrounds in Islamic finance – such as Shariah, academia, industry practitioners, and government agencies. There were also non-Muslim and female candidates.

To me, this is a clear encouraging indicator that Islamic finance is now widely accepted as an important segment of the global financial marketplace.

The selection criteria covers both qualitative and quantitative aspects and when assessing the candidates, the Jury took into account innovation and pioneering work, as well as the impact of their contribution on the global financial marketplace.



The Jury also considered the leadership role, inspiration, advocacy and influence that the candidate had played in the global development, recognition and acceptance of Islamic finance.

With all these in mind, it is my supreme pleasure to announce that the recipient of the Royal Award for Islamic Finance 2014 is ... Dato' Dr. Abdul Halim Ismail.

Dato' Dr. Abdul Halim started his illustrious career in academia, as the first dean of the faculty of Economics & Management at Universiti Kebangsaan Malaysia (National University of Malaysia) in 1974.

Wanting to do more than just teach, Dato' Dr. Abdul Halim left academia to join a management consulting firm as an economist and strategic planner, where he was involved in projects for The World Bank and the Malaysian government.

After joining Bank Bumiputra as General Manager and Chief Economist in 1977, Dato' Dr. Abdul Halim saw the need for an Islamic bank. He then played a prominent role in the conceptualisation and development of an operational framework for an Islamic bank, which was mooted and approved by the Government of Malaysia. Dato' Dr. Abdul Halim Ismail was appointed as the first Managing Director of Bank Islam Malaysia Berhad upon establishment in 1983 - the first full-fledged Islamic bank in the region. During his tenure, Bank Islam was recognised internationally as a robust Islamic financial institution upholding Shariah best practices, and served as a benchmark for other regional Islamic financial institutions.

Notwithstanding this landmark appointment, Dato' Dr. Abdul Halim did not rest on his laurels but continued to strengthen the Islamic finance industry by spearheading the development of takaful, that is Islamic insurance and Islamic stockbroking. Dato' Dr. Abdul Halim provided strategic consultancy to countries starting up their own Islamic banks, and also collaborated with multilateral agencies to develop policies and standards in Islamic finance, economics and accounting. As his achievements and contributions are far too numerous for me to mention, a special

video presentation about Dato' Dr. Abdul Halim after this would add on to his achievements.

DATO DR. ABDUL HALIM IS
QUITE EXTRAORDINARY AS
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BETWEEN THE SHARIAH
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DURING THOSE FORMATIVE
YEARS. AND THOUGH LONG
RETIRED, HE CONTINUES TO
SERVE ON VARIOUS
COMMITTEES AND SHARIAH
COUNCILS, AND ALSO
LENDS HIS VOICE TO
CHAMPION
GLOBALLY-RECOGNISED
SHARIAH-COMPLIANT
STANDARDS IN ISLAMIC
FINANCE.

Ladies and Gentlemen,

Before I conclude, allow me to stress here that the Jury had observed the most diligent and objective selection process, and that the decision was unanimous. Many of you would know that Dato' Dr. Abdul Halim is a quiet and unassuming man, but there is no doubt in my mind that the development of Islamic finance in Malaysia and indeed much of the world, had benefitted from his foresight, vision, dedication, commitment and leadership. So let me on behalf of all of you and if I may, as Chairman of the Jury, offer our most sincere congratulations to Dato' Dr. Abdul Halim Ismail, on being the recipient of the Royal Award for Islamic Finance 2014.

THE ROYAL AWARD FOR ISLAMIC FINANCE™



PROFILE, ACHIEVEMENT AND GLOBAL CONTRIBUTION

DATO' DR. ABDUL HALIM ISMAIL

Dato' Dr. Abdul Halim has been an eminent figure and prominent voice in the Islamic banking and finance industry. Being at the forefront of Islamic finance industry for over three decades, Dato' Dr. Abdul Halim had pioneered on many frontiers, creating a strong footing for Islamic finance to grow.

Dato' Dr. Abdul Halim has many distinctions to his name, not just in successfully implementing the structure of modern banking that incorporates Shariah contract of commercial transactions or *mu'amalah*, but also the incorporation of Syarikat Takaful Malaysia, the alternative to insurance as well as Islamic stockbroking.

- Successfully established Bank Islam Malaysia Berhad (BIMB) as the first Islamic commercial in Malaysia and in the region.
- Formed the inaugural Syarikat Takaful Malaysia Berhad (Islamic insurance company) in Malaysia. The Syarikat Takaful Malaysia Berhad provided services both in general takaful and family takaful.
- Involved in the revamp of Yayasan Pembangunan Ekonomi Islam Malaysia where it collected charitable contributions from the public and channelled the contributions to the needy and the poor.
- Completed the cycle of the Islamic finance industry with the setting up of an Islamic stockbroking company.

Dato' Dr. Abdul Halim was born on 28 January 1939 in Kedah, a northern state of Peninsular Malaysia, where he obtained his early education. After completing his Sixth Form education, Dato' Dr. Abdul Halim began his studies at the University of Malaya in 1962 and graduated with a Bachelor of Arts in Economics. He then went on to pursue a doctorate in

Economics at the University of Oxford in 1966. Dato' Dr. Abdul Halim began his career as a lecturer at Universiti Kebangsaan Malaysia in 1970 and was appointed the Dean of the Faculty of Economics & Management in 1974.

Dato' Dr. Abdul Halim was not formally trained in Shariah, but because he studied at the *ma'ahad* or religious school in his early years, his passion for Shariah never waned. He has the extraordinary capability of not just understanding the Shariah but with his formal training in economics, he is gifted with the skill to explain the intricacies of modern financial transactions using the language of Shariah that became easily understood by the Shariah community. That was indeed a tremendous achievement for the *ummah*. Many gap was thus narrowed or bridged, and BIMB that was under his stewardship was able to implement Islamic finance under the model of modern financial intermediation, that led to numerous product innovations.

In order to provide for diversity of investments by the Islamic financial institutions back in the 80s, Dato' Dr. Abdul Halim created the concept of activity screening for the stocks listed on the then Kuala Lumpur Stock Exchange (now Bursa Malaysia). This concept not only opened a new avenue for investment, but it also enabled Muslim ownership in the listed corporations.

This was a significant contribution by Dato' Dr. Abdul Halim to the Islamic capital market. The screening of listed stocks is today the key driver for the growth of both Islamic equity



After making Bank Islam a success, Dato' Dr. Abdul Halim initiated the establishment of Malaysia's first full-fledged Islamic stockbroking company, BIMB Securities Sdn Bhd (BIMB Securities). At BIMB Securities, Dato' Dr. Abdul Halim managed to innovate several forms of Shariah-compliant structures to facilitate the sophisticated needs of stockbroking, that has led to wide acceptance by the stakeholders.

Dato' Dr. Abdul Halim continued his contribution to the academia throughout his working life by being an advisor to various academic institutions. His articles, papers, workshops and forums are invaluable additions to the growing body of literature on Islamic banking and finance, and have been used as references by universities, colleges, industry practitioners and regulators both locally and globally.



Due to his immense contribution and achievements in the field of Islamic finance and in developing the Islamic banking and financial industry in Malaysia, Dato' Dr. Abdul Halim has received numerous prestigious awards, including:

- 'Leadership Award' by The Asset magazine (2012)
- 'Outstanding Figure in Islamic Finance' award by the Association of Islamic Banking in Malaysia
- 'National Maal Hijrah 1425H Personality Award' by the Government of Malaysia (2004)
- 'Honorary Doctor of Economics' by Universiti Kebangsaan Malaysia and Universiti Utara Malaysia (1995)

HIGHLIGHT OF KEY CONTRIBUTIONS TO THE ISLAMIC FINANCE INDUSTRY:

Dato' Dr. Abdul Halim, the first Malaysian to receive this Award is recognised for his pivotal role in establishing the organisational structure and operating procedures of the first Islamic bank in Malaysia in 1983. He was appointed the Managing Director of Bank Islam Malaysia Berhad and Chairman of the board of Syarikat Takaful Malaysia Berhad, the nation's first Islamic insurance company. In 1994, Dato' Dr. Abdul Halim also helped to set up BIMB Securities Sdn Bhd, the first Islamic stockbroking company in Malaysia. Under his stewardship, both the industry and financial institutions flourished, making Islamic finance an increasingly attractive alternative and complement to conventional finance.

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First and foremost I would like to offer my utmost *Syukur*, gratitude and thanks to the Al-Mighty Allah SWT on his enormous bounty, that he has bestowed upon me by making me the recipient of the Royal Award for Islamic Finance 2014. I humbly, pray to Allah SWT for His guidance to do the correct act of *Syukur*, and for His forgiveness if I fall short of doing so.

Second, I would like to offer my thanks and gratitude to the Chairman of the Jury of the Royal Award for Islamic Finance, Bank Negara Malaysia, and the Securities Commission Malaysia, and Government of Malaysia for making this Award possible.

Third, I would like to thank my colleagues and friends who worked with me in various institutions throughout my career in Islamic banking and finance. Without their dedication, hard work and cooperation, I would not be able to achieve much.

Lastly, my thanks and love to my wife and family.

After immersing myself for almost thirty years in Islamic banking and finance, and moving about during that period in four different institutions, I have formed certain impressions on the progress of Islamic banking and finance in relation to the Muslims and people of Malaysia. I shall now briefly, talk on one of these impressions.

**DATO' DR.
ABDUL HALIM
ISMAIL**

2014 ROYAL AWARD FOR
ISLAMIC FINANCE AWARD
RECIPIENT



Until the 1980s, that is around 30 years ago, economically speaking to be a Muslim is to stagnate. You absolutely could not make any economic progress. You could not put your money in the banks. You could not buy insurance. You could not invest in the capital markets. Neither could you deal in exports or imports, nor invest overseas.

A similar situation existed in respect of Government banking and financial operations of lending, borrowing and investing.

You could not do anything without coming up with receiving or paying *al-Riba* (interest or usury), or facing a situation of *al-Gharar* (uncertainty in contractual terms) or buying

and selling forbidden items and such like prohibitions in Shariah. Clearly, Muslims were for centuries then faced with a big dilemma. Their choice was then to stick to Shariah and forget about economic progress; or pursue economic progress and abandon Shariah. Both choices would entail disastrous results.

Then, beginning in the 1980's, we in Malaysia, like Muslims in many other countries, began to build Islamic banking and finance. And, *Alhamdulillah*, within 20 to 30 years, the Muslim community in Malaysia and the world have been able to completely change the scenario.



In brief, today, Muslims in Malaysia, and elsewhere, may put their money in various Shariah-compliant instruments in their Islamic banks, avail themselves of various takaful facilities, invest in various instruments in the Islamic capital market and invest abroad. Similarly there are a widely available Shariah facilities and products for Government banking and financial operations.

The Muslims are no longer in a dilemma. They can now push for economic development, and at the same time attain *Ridzwan Allah* (the pleasure of Allah). While this is not a revolution, perhaps it may qualify as a reformation. In some other societies, this process might take a far longer time.

My impression is therefore this:

Muslims appear to be able to work quietly to transform their societies domestically, regionally, and at the *ummah* level towards a betterment of their societies within a reasonably short span of time.

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My Wishful Thought on the Development of Islamic Banking and Finance Products for the Social Welfare Sector

The Three-Sector Islamic Economy

The Islamic economy may be conceived as being made of three sectors.

The first sector is the *Siasi* Sector. This is the government or public sector. In this sector, the government deals with the private sector in the areas of economic activities, administration, maintenance of law and order and the like.

The second sector is the *Tijari* Sector. This is the private sector. In this sector, people deal among themselves largely in the areas of economic and social activities. This is the nerve centre of the economy.

The third sector is the *Ijtimaai* sector. This sector may be referred to as social welfare sector. In essence, funds are raised in the government and private sector, and distributed to the poor and needy in this sector.

The Development of Islamic Banking and Finance Products So Far Only Caters To Government and Private Sector

We have thus far developed Islamic banking and finance products to serve the government sector in its relationships with the people in its economic and financial dealings. There is now a flow of funds from the government to the private sector and vice versa through various instruments of Islamic banking and finance. There are various types of Government Certificates, various types of sukuk and various types of investment management instruments and so on and so forth.

The development of Islamic banking and finance is even more impressive within the private sector for the people to conduct economic activities and financial dealings among themselves. Here, an array of institutions have been set up. These include Islamic commercial banks, Islamic leasing companies, Takaful companies, stockbroking companies, investment management services and the like. The contractual arrangements or *Uqud* are also varied centering on *Uqud al-Ishtirak* (i.e. profit-sharing), *Uqud al-Mudayanat* (i.e. debt financing) and so on and so forth.

Another dimension of development in this area has been the increasingly cross-border dealings in the international arena.

In short, the development of Islamic banking and finance services for the government and the private sector thus far has been comprehensive and impressive.

There is a Void in the Social Welfare Sector

However, the situation is in stark contrast in the *Ijtimaai* or social welfare sector, the third sector in the Islamic economy.

Both the government and the private sector have a role to play in the social welfare sector. The duties here as we have said earlier, are almost solely to raise funds from the two sectors and distribute these funds to the poor and the needy in the social welfare sector. And the function of Islamic banking and finance is to develop products and services to facilitate the flow of these funds.

But what has Islamic banking and finance done so far along this line of its duty? The answer is almost nothing. It is true that there is now the collection and distribution of *zakat* and, to some extent, of *waqf*. But this is done by the government sector, not the private sector, and largely not through banking and finance services.

Clearly, there is a void here.

Islamic Banking and Finance To Be In Line With Islamic Teaching

This is not, in my humble view, in line with what Islam stands for. Islam teaches a holistic approach. Any development should encompass all the three sectors. That is the whole *ummah*.

I would like to quote in particular, the following verses from the Al-Quran:

In these verses, in short, Allah SWT praises men and women who, while they daily conduct *Tijarah* and *Bai'*, this however does not cause them to ignore and neglect *Zakat*. Now, the term *Tijarah* means trade in general. In detail, it includes all contractual activities of *al-Mudharabah* and *al-Musharakah* and all other *Uqud al-Ishtirak* (i.e. profit sharing contract).

The term *Bai'* means sale and purchase in general. In detail, it includes all contractual activities of *Uqud al-Muawadhat* (i.e. contract of exchange), in cash or deferred such as *al-Bai'*, *al-Murabahah*, *al-Ijarah*, *al-Istisna'* and the like.

Now we may ask: who are these people referred to in these verses as daily dealing in *Tijarah* and *Bai'*? The answer is: a group of them are officers in Islamic banking and finance. They develop the facilities and services of *Tijarah* and *Bai'* in their institutions, they offer them, and they operate them.

And, more, the verses continue to state while these men and women routinely do that, this does not cause them to ignore the remembrance of Allah, performance of prayers, and significantly the giving of *Zakat*.

The term *Zakat* or tithe is sometimes used interchangeably in Al-Quran with *Sadaqah* or charity. Hence *Zakat* here may be taken to mean all forms of *Uqud al-Tabarru'at* (i.e. contract of charity) which include *al-Sadaqah*, *al-Waqf*, and *al-Hibah*.

Clearly, therefore, these verses of Al-Quran are referring to the Islamic banking and financial dealings, amongst others, of *Tijarah* and *Bai'* which take place in the government and private sector, and *Zakat* and *Sadaqah* which are supposed to take place in the social welfare sector. This then becomes the holistic development of Islamic banking and finance in the three-sector Islamic economy.

It is therefore my wishful thought that from now on the Islamic banking and finance will embark on efforts to develop products and services for the social welfare sector. This is to be just one new line of development. Other lines of development may continue as usual. Go on innovating but take on this line as a new line of development.

Institutional Framework

The service which we wish to develop revolves around *Sadaqah*. To make things easy, let us take the existing Takaful service as a model. And let us call the equivalent of a Takaful company a Sadaqah House (*Bait as-Sadaqah*). Therefore the Sadaqah House would be in the business of providing products and services to collect various types of *Sadaqah*, *Waqf* and *Hibah* mainly from the private sector and distribute these to the poor and needy in the social welfare sector.

The form of organisation of a Sadaqah House might be a foundation formed by the owner or a subsidiary company of the owner. An important requirement here is that the Sadaqah House is owned and controlled by the banking group or any other organisation which is given the license.

Like a Takaful company, a Sadaqah House would be a financial institution. It would operate in the Islamic banking system and the Islamic capital market. It is therefore under the supervision of Bank Negara Malaysia and the Securities Commission Malaysia as appropriate.

There should be a need for such an Act of Parliament and various Bank Negara Malaysia Guidelines which specifically spell out important matters such as licensing of Sadaqah Houses, financial requirements and

duties of Sadaqah Houses; ownership, control and management of Sadaqah Houses; powers of supervision and control over Sadaqah Houses; and the like because Sadaqah Houses will be financial institutions operating in the financial system.

Finally, in this area, if I may, I thought that in the initial 5 to 10 years, 3 to 5 licenses may be given to the organisations which are preferably Islamic banking group.

Products And Services: A Special Products Of Sadaqah Jariah

We shall now turn to the possible products and services that a Sadaqah House might offer. It might device a range of products and services through varying the nature of the related charities. For example, it might offer charities for specific or general purposes. Likewise, it might offer one-off charities, medium-term or long-term charities.

But I want to turn to a product which I consider to be very crucial in many ways at this stage of the development of the Islamic economy in Malaysia. The product is crucial to the giver, with a view to his life in the Hereafter (*Akhirah*); crucial to the receiver, with a view to his long term sustenance and climbing out of poverty; and a challenge to the expertise and skills of Islamic banking and finance. The product is called, in the terminology of the related hadith, Sadaqah

Jariah. *Sadaqah Jariah* means, approximately, charity in perpetuity. Charity, once given, is ongoing.

There is a famous *Hadith* on the substance of *Sadaqah Jariah*:-

صدقة جارية، أو علم ينتفع به، أو ولد صالح يدعو له:
إذا مات ابن آدم انقطع عمله إلا من ثلاث

Abu Hurayrah Rahimahullah reported that Allah's Messenger Sallallahu'alayhi wa Sallam said: "When a human being dies, all of his deeds are terminated except for three types: an ongoing *sadaqah*, a knowledge (of Islam) from which others benefit, and a righteous child who makes Du'aa for him." (Muslim and others).

The *hadith*, in a liberal translation, says that when a person dies, all his channels of good deeds from which the reward flows will be stopped, except from three channels: (1) *Sadaqah Jariah* (2) beneficial knowledge which he has imparted and which people continue to practice, and (3) a pious son or daughter who continuously pray for him.

Now, let us strategically look at these three sources. Not many of us would have the beneficial knowledge and the opportunity to impart this knowledge, except perhaps for those who work in the teaching profession or in *Dakwah* fields. Similarly, the pious son or daughter may not be reliable. A person may

not have a son or daughter; or he has but the son and daughter may not be pious; or they are pious but unfortunately they may die before he dies. Thus the best channel of the three is *Sadaqah Jariah*. This channel you can do it yourself here and now. You can plan and implement it how you want it to be.

As *Sadaqah Jariah* is charity in perpetuity, in essence in the category of charity, the principal charity amount is to be preserved intact forever, and only the profits are distributed regularly.

As mentioned earlier, the Sadaqah House might accept this *sadaqah* in the form of the many Shariah contracts of *Sadaqah*, *Waqf* and *Hibah* but it must make sure that it follows the variants of those contracts which transfer the ownership of the charity to the Sadaqah House in perpetuity. This is in order to maintain the perpetual nature of the *sadaqah*.

In my view, it is highly advisable for the Sadaqah House to accept *sadaqah* only in cash, but it may also wish to extend this to other Islamic banking and financial instruments such as shares and sukuk which may be converted to cash.

The Sadaqah House may accept *sadaqah* at a minimum of, say, RM10 at one time at any time through deposit, bank transfers, or salary deduction.

I would like to pause a moment here and point out the significance of this event. You would notice that through the Sadaqah House, the Islamic banking and financial system would be able to offer to the Muslims the services of creating *Sadaqah Jariah* for themselves to everybody, at anytime and anywhere. This is a totally new phenomenon. Up to now, *Sadaqah Jariah* is only available through donating big-ticket item, such as land and buildings, only by the wealthy.

The mechanism for implementing *Sadaqah Jariah* would be for the Sadaqah House to treat the principal amount of *sadaqah* as capital to be carefully preserved and prudently investing it to generate profits which will be regularly distributed. I would suggest that the investment should generally be confined to Islamic banking and financial instruments within the banking and financial institutions such as various types of deposit, investment accounts, sukuk and various investment management products.

In Malaysia, we need only to look at Tabung Haji and Permodalan Nasional Berhad (PNB) to be convinced that this method of investment will work and attain its objective. Tabung Haji has been successfully managing the deposit of its investors for the last 50 years, while PNB has done the same for its unit-holders for the last 40 years.

My view is that the Sadaqah House should provide this and other similar services at no loss to itself, but at a profit like any other financial institutions, although it might

intentionally moderate its profit motive. Subject to the decision of the relevant Religious Supervisory Council, Sadaqah House should be allowed to charge the initial fee and annual fees on the amounts that it manages. Further, it is also my view that a Sadaqah House should be allowed to keep all or a large part of the businesses that it generates within its respective banking groups, at arm's length.

We come now to a question which is perhaps on everyone's minds that is; will there be demand for this product? Will Muslims in the private sector give *Sadaqah Jariah*? Allow me to offer my views on this subject.

Regardless of the outcome, we in Malaysia have come to the stage where it has become our duty to organise our Islamic economy which integrally incorporates the social welfare sector.

There is a healthy growth of population of Muslims in Malaysia. Their standard of living is continuously improving. Their level of education is also improving. Consequently there is evidence now that their savings are increasing. *Sadaqah* is in a way a function of the level of income and savings.

In general, Muslims in Malaysia have become more conscious of the religious requirements placed on them. I am amazed at the term they use to describe this type of *sadaqah*. They say "*Saham Akhirat*", i.e. investment of the Hereafter.

Perhaps we could be guided by what has happened in the collection of *Zakat* in the government sector. In Malaysia, the collection of *Zakat* is nearly always undertaken by a body under the Religious Departments of the various states. The amounts collected appear to be continuously rising over the years. In some states, the collection is now in excess of RM100 million per state per year.

A large part of the success of the introduction of *Sadaqah Jariah* would hinge on how the Sadaqah House manages the information flow, the publicity and the advertisement of the *Sadaqah Jariah*. For example, many Muslims would be touched if they are correctly and clearly explained the meaning of the verse of Al-Quran:

(Surah Al-Hashr: 18)

This verse says that “Oh you who believe, fear Allah, and everyone should look closely and carefully at what he has done to prepare for his future”, i.e. his days in the Hereafter. And then, gently inform him the *Sadaqah Jariah* is precisely one form of preparation that has been designed for his requirement.

Finally the Sadaqah House will need a clear and concise plan for the periodic distribution of the profits. Perhaps the individual Sadaqah House may prefer to specialise in one or two specific areas such as the livelihood of the poor and the needy, health services, education services.

In the initial years, however, the Sadaqah House may want to concentrate on getting the *sadaqah* and may opt to use the existing channels for distribution such as the State Religious Department, Dakwah bodies and the Government Social Welfare Department to do the distribution on its behalf.

The Difference

People often ask me; what is the difference between Islamic banking and conventional banking? Now, if this movement catches on and becomes a reality, I shall tell the people; Islamic banking and finance is based on a three-sector Islamic economy, and it integrally incorporates the social welfare sector, whereas the conventional banking and finance does not.

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