Islamic Finance as basis for a New International Finance Protocol

[Allah praises] those who convey the messages of Allah and fear Him and do not fear anyone but Allah. And Allah is sufficient to take Account of everyone. (Qur'ān 33:39)

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Progressing rapidly during last 40 years Islamic finance has come of age and reached the point of maturity. Despite global crisis faced by the conventional finance since 2008, Islamic finance as a whole has been covering increasing areas in the global finance and strengthening the capital base. Globally, 22 Islamic banks now have US $ 1b or more in shareholder equity with Capital Adequacy Ratio (CAR) ranging between 14 and 26 %. The average ROE of top 20 banks offering Islamic finance ranged between 6-20 % during 2010–14. Having covered this milestone, the JIBM aspires to analyse the performance and discuss the opportunities, potential and the challenges, keeping in view the developments in global finance during past 10-15 years - influx of derivatives followed by the meltdown of innovative finance, lessons to be learnt from the recent crises and responsibilities of the Sharī'ah fraternity, academicians, policy makers and the practitioners of Islamic finance.

1. Prelude

Islamic finance continues to grow in various parts of the world at different growth rates due mainly to the difference in Sharī'ah interpretations, which is considered both, strength of Islamic finance and Sharī'ah scholars' ability to adapt, as also the source of confusion for many. The assets of global Islamic commercial banking are expected to reach US $ 1 trillion in 2015 (*EY's I.B. Competitiveness Report 2016*). The growth is concentrated in selected QISMUT countries [Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey] that have approximately 80% of global Islamic banking assets. Likewise, the pulse of Islamic banking can be witnessed in the nine core markets, with addition of Bahrain, Kuwait and Pakistan to the above list, that collectively account for 93% of the global Islamic banking assets. According to the EY Report, the focus is now shifting to improve quality of growth, the move to be directed by the nine core markets and institutions operating there that collectively are the *'growth engine'* of the industry.

It is, however, a quite recent phenomenon that Islamic banking industry experienced a bump on the path of progress. According to *'The Banker'*[1], for the first time in nine years since it started ranking of the top Islamic finance institutions (IFIs), the total Islamic banking assets fell 8.48% in 2015 ranking. In UAE and Malaysia, the growth appeared to be converging to that of traditional banks. This demands fresh thinking and a more differentiated business proposition, going forward. [EY CR 2016: 7]

As indicated by *'The Banker'*, the decline can be attributed to consolidation in some markets, new regulatory measures, market saturation in some economies and the exchange rate differential of a number of currencies. But if we keep in view the potential areas of Islamic finance, namely the SMEs, micro business, agriculture, infrastructure, fund management and venture capital as structures of the assets classes, we may find that the IFIs' slower move to explore significant growth prospects in these areas and continued dependence on '*financialisation'* could be a prominent cause as these are the areas in which they cannot compete with their conventional counterparts due to avoidance from *ribā* and *gharar* as a minimum legal requirement. The over '*financialisation'* that started since 1970s / 1980s due to delinking the US Dollar from gold, and de-regulation of banking and finance in USA, UK, followed by almost all world, led to serious crises in global economy and finance. In addition to creating an extreme concentration of wealth, it increased vulnerability of the national and global finance. The global recession resulted in worldwide increase of 30 million unemployed people (Stijn Claessens[2]). The real sector where people work hard has been pushed to get lower returns compared to the financial sector where return is taken without business risk and any value addition. As expressed by the Nobel Prize–winning economists, the conventional system of earning money on money by way of interest, short selling, speculation and gambling has

[1] Joseph DiVanna and James King, *The Banker*, 02 November, 2015.

[2] Stijn Claessens, *et al* (2014) *Financial Crises: Causes, Consequences, and Policy Responses* (An IMF Publication).

proved to be harmful even for the developed economies[3]. The same is the case of financing by international institutions such as the IMF and the World Bank as many developing nations are in debt and poverty trap partially due to their policies.

Besides increasingly using the exotic products to replicate almost all conventional instruments, IFIs have resorted to rebranding to remain competitive with the conventional institutions; e.g. Islamic Bank of Britain became Al Rayan Bank, while Dubai-based Noor Islamic Bank rebranded itself as Noor Bank to appeal to a wider customer base. But what really required was Sharīʻah compliance both in letter and spirit and thus moving towards social inclusion in its true perspective (Ed. JIBM Vol. 5 No.1). The policy makers in Islamic finance need to ponder seriously on the point as to why conversion to Islamic finance is so slow even in Muslim majority countries like Indonesia, Bangladesh, Pakistan, and the GCC countries. According to the EY Report 2016, Turkey and Indonesia that represent key growth markets have set the target of reaching 15% Participation banking asset share by 2023 while Pakistan aspires to reach the 15% mark by 2019. One crucial factor is the perception issue – a vast majority of the Muslims believe in prohibition of interest and considers it the most serious evil after *shirk* (polytheism), but are not satisfied with what IFIs are offering as an alternative to do business while avoiding *ribā*. Hence, they either avoid banking or are continuing to do business with conventional banks. *The Banker*'s research indicates that more than 75.12% of the world’s Muslim population is still vastly underbanked. This situation requires that the IFIs must rethink to change their views, objectives, approach and the procedures not only to exploit the huge potential, but also to help resolve the serious problems facing global economy and finance.

2. Resolving the Conflicts: Economic Objectives, Risk Management and Sharīʻah Compliance

The IFIs have been replicating the conventional products with the objective to give highest possible returns, without care for the socio-economic objectives of the Sharīʻah and, in many cases, even Sharīʻah compliance in letter. The result is that a hybrid banking system with conventional products in Islamic disguise prevailed. They need to give due weightage to all three factors of economic objectives, risk management

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[3] See for example: Joseph E. Stiglitz (2012); *The Price of Inequality: How Today's Divided Society Endangers Our Future*; ii) Thomas Piketty, 2013 (French); “*Capital in the Twenty-First Century*” English translation by Arthur Goldhammer, 2014.

and the Sharīʻah compliance, according to their relevance. But, first of all we discuss 'financial engineering and securitization of debt that had excessive influence on the objectives and procedures pursued by the IFIs.

2.1 Sharīʻah based Financial Engineering and Debt Securitization

The very art of *financial engineering* is a process through which risk is partitioned into the smallest possible components, and then financial assets are designed that can best match the profile of the micro and specific risk takers (Iqbal and Khan 2005:9). The IFIs massively resorted to financial engineering during last 2/3 decades as succinctly summed up by Vogel and Hayes (2006:236). Increases in leverage and rapid credit growth have been identified as the most serious cause of crises (Alan Taylor, 2014). This has to be avoided by the Islamic finance industry if it wants sustainable growth[4].

The debt and its securitization turned out to be a tool of exploitation and serfdom even in case of small scale/micro financing where the apparent objective had been alleviation of poverty (Briggs 2015)[5]. Sharīʻah allows incurring debt, but the debt must not become a curse or a tool to enslave the poor. The conventional banks charge interest on loans and debts and popularize their loaning schemes. This trend was the basic cause of the sub-prime debt defaults and global crisis in 2007[6]. Milford Bateman and Ha-Joon Chan (2009) contend that far from being a boon to impoverished communities, microcredit loans have been aggressively harmful. It may ultimately constitute a new powerful institutional barrier to sustainable local economic and social development or sustainable poverty reduction. At the international level, the capability to create Dollars (paper gold) created imbalances in the global finance and led to devastation of human societies in wars.

There has been a lot of development in issuance of *ṣukūk* all over the world. During 2014 UK, Hong Kong and Luxembourg issued AAA rated sovereign *ṣukūk* that *"created a higher level of confidence in the market in non-Muslim countries"* (J. DiVanna, 2015). However, these *ṣukūk* were dubbed as "*Sharīʻah-compliant government bonds*", with wrong signal to

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[4] For mixed evidence on the stability of Islamic banks, see: IMF WP/15/120.

[5] Briggs; Laura (2015); *Imperialism as a Way of Life: Thinking Sex and Gender in American Empire*; Radical History Review; Issue 123 (October).

[6] The Great American Recession resulted in the loss of eight million jobs between 2007 and 2009. More than four million homes were lost to foreclosures, … total amount of debt for American households doubled between 2000 and 2007 to $14 trillion (Atif Mian and Amir Sufi, 2015; *House of Debt: How they …;* The University of Chicago Press).

the market. *"Ṣukūk increase in popularity but hit compliance issues"* contends Michael Watt in his report (*The Banker*, 02 November, 2015). Juristically, *ṣukūk* have to be equity based as far as investors are concerned. The AAOIFI's standards No.17 makes it clear that income from *ṣukūk* must be derived from the underlying activities for which the funds have been used. Hence, the debt based *ṣukūk* would not be valid as per Islamic principles. But, there have been many lapses in observing these principles on account of which Sheikh M. Taqi Usmani, as chairman of AAOIFI's Shari'ah Board, issued a statement in 2007 that many of the *ṣukūk* structures were not Sharī'ah compliant in reality.

As such, much more is needed to establish Sharī'ah compliant securitization transactions than a simple rewording of conventional documentation (Norman, Newhorizon, July 2009). Working in the same market with the same mindset and operative objectives, Islamic banks are inclined to use the conventional products with minimum changes to maximize their returns. El-Gamal (2007) discusses how the jurists certified "Islamic" alternatives synthesized from simple traditional contracts to allow futures and options trading, banned by the majority of Islamic jurists. Hence, the general impression emerged about Islamic finance is that in practice it is the same as conventional finance. "According to Chong & Liu (2009), and Krasicka and Nowak (2012) *Islamic banks are not different from conventional banks* …. Other work by Beck, Demirgüc-Kunt, and Merrouche (2010) and Čihák and Hesse (2010) *finds few significant differences in business orientation, asset quality, efficiency, or stability"*, reports IMF Working Paper (Hussain M., *et al*; IMF WP/15/120, 2015). Now we revert to the issues of Sharī'ah compliance, commercial objectives and the risk management.

2.2 Sharī'ah Compliance: *Raison d'etre* of Islamic Finance

Islamic finance is by default subject to observing certain principles implementation of which determines the level of Sharī'ah compliance, in letter, in spirit, in both letter and spirit, or sometimes none of them. The IFIs' practices suggest that the objectives for introducing Islamic finance have been ignored altogether, or their relevance has been changed to avoiding *ribā* merely by way of *ḥiyal* to explore the profit avenues. Mere profit maximization cannot be sufficient goal of a business or any IFI; it must be accompanied by efforts directed to ensure transparency / disclosure, justice and fair play at all levels of interaction. According to Wajdi, innovative products, like some sorts of *ṣukūk* or tools / structures, which try to achieve the same economic outcome like that of conventional instruments, distort the vision of Islamic economics based on justice and equity[7]. In this context, Sharīʻah scholars and the finance experts need to contemplate to actualize the *maqāṣid al-Sharīʻah* in business in modern times. While the fundamental principles of Islamic law of contracts need to be kept in view for doing *ijtihād* for developing new products, objectives for introducing Islamic finance has to be the goal to be realized.

2.3 Objectives of Introducing Islamic Finance

The history of economic and financial crises during last 100 years implies that the prime objective of Islamic finance has to be value creation by channelling the community's funds towards production and exchange of goods and services, and closing all uses of finance that inflate the financing relative to real production and exchange activities. The monetary policy in a flourishing economy should create sufficient employment opportunities and control inflation. For this, the government and the central bank have to be jointly able to control the money supply. It is curious to note that notwithstanding so much work on Islamic banking and finance, the contemporary jurists have little work on the issue of money and credit creation in the light of Sharīʻah principles. Only a few economists and finance experts have discussed it recently and expressed the view that the credit / money created out of thin air is *ribā* as a whole, not only the interest on it[8].

The IFIs' management, the Sharīʻah scholars and policy makers must work jointly to implement the principle that money is not entitled to earn money without taking business risk, which is possible only if they resolve to assure that all financing is based on real assets in line with the principles of credit and forward trading as provided in the Sharīʻah in respect of *shirkah*, *mu'ajjal* and *salam* contracts. That way only the monetary authorities might be able to help generate money and credit sufficient enough to explore the potential of the economy and prevent recessions, but not more than the potential, to avoid inflation. The amount of money created under this arrangement has to be by sharing risk and reward as per the related business activity. It requires application of 100 % reserves banking, as was suggested in '*Chicago Plan*' of the 1930s, instead of the fractional reserve banking, the basic cause of anomalies and recurring financial crises. For this task, Islamic banks need to become model for the

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[7] *Challenges of Realising maqāṣid ……. Equity based ṣukūk*; Conf. Paper, Oct. 2009.
[8] [The "principal" created through a book-keeping entry by SBP seems to be clearly a kind of *excess* over nothing -- resembles *ribā* in its essence] (Riazuddin JIBM, 1 2011).

global finance. Such 100% reserve banking could be called ethical banking, green banking or banking pursuing the natural law for social justice. From religious perspective, we may call it Islamic banking, Abrahamic banking, Divine banking etc, but its fundamental ingredient has to be complete disclosure and just and equitable distribution of profits, resources and wealth among all members of the societies. Islamic finance is more demanding than the ethical finance as being discussed in the West. Providing finance by replicating conventional instruments and tools may only add to the problems and miseries of the poor and the developing economies.

2.4 Genuine Risk management: A Necessity

Financial derivatives and hedging are resorted seemingly to manage the risk. Islam encourages the act of taking calculated risk with the expectation to make profit from any venture or business activity. Such risk has to be managed so as to avoid incidence of failure of the project or loss to the capital. However, the manageable risk has to be differentiated from unmanageable risk (*gharar*) that is ambiguity and uncertainty injected *ab initio* in a contract in terms of precise specification of quantity and quality of the subject matter or its recompense. Uncertainty of the nature and level of *gharar* cannot be predicted or calculated as in case of gambling. The idea given by renowned economist Jon Danielsson of the LSE, an authority on financial risk forecasting, *"Trusting your risk models will lose you money in a crisis"* is worth considering and implementing particularly by the IFIs. Hedging involving ambiguity or uncertainty is prohibited. Islamic financial engineers can develop products using other existing products, hybrid combinations of existing products, and also by looking directly into the Sharī'ah for new ideas for new products.

2.5 The Available Potential

Given the profit taking as business objective and the scope for risk management, huge potential is available for financing the production and business activities and sectors. However, different approach and business structures are required to avail of the potential. "*The real potential captive market is six times bigger, but requires a different banking model……*[EY, 2016]. The infrastructure and energy related projects and businesses provide immense opportunities particularly in developing countries. Recent initiatives for real economic growth at the global level, namely trade flows among the 25 rapid-growth markets (RGMs), 10 of whom have large Muslim population; and in

Southeast Asia the China-led Asian Infrastructure Investment Bank (AIIB) is going to be launched with US$100 billion capital from 56 shareholder countries. China's ambitious development framework, the *Belt & Road Initiative*, is set to accelerate economic activity in the region, notable initiatives being the China-Pakistan Economic Corridor (CPEC) and the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor. The IFIs need to restructure themselves to explore business potential in the emerging scenario.

3. The Way Forward

The above deliberations guide us to the way forward which comprises different policy approaches, new structures of finance as a business, new models, procedures and fresh thought to relate banking and finance with the real economy. As the first priority of investors / deposit holders in Islamic finance is the Sharīʻah compliance, and thereafter the return, IFIs need not be and cannot be the competitors of the conventional institutions. Instead, they need to facilitate the business and production units and corporate entities to provide better and stable link between the real and the financial economies.

The IFIs, in order to provide a real alternative to the present corrupt system, have to take the lead to be innovative for proper linkage between the real and the finance sectors of the economy and discipline the finance to abide by the principles of justice, moral values and business ethics. Implementing the natural law for creating harmony among various groups of human societies would lead to achieving the much sought after objectives of providing funds to the *'financially excluded'*.

The real and the long-term solution is that the structured products are revisited in the light of Sharīʻah standards and governance guidelines by AAOIFI and IFSB respectively. Such standardization for Sharīʻah compliance would ultimately benefit the IFIs and Islamic finance movement by dint of better link with the real economy and enhanced creditworthiness. The first step towards this end is making the AAOIFI Sharīʻah standards obligatory through effective intervention by the IDB, AAOIFI and the IFSB requiring the regulators in about 10 countries where Islamic finance has become important for financial systems, accounting for over 15 percent of total financial assets there[9]. This step is to be taken by the regulators in Saudi Arabia, Kuwait, UAE, Pakistan, Malaysia,

[9] As Christine Lagarde, MD IMF, observed during the Islamic Finance Conference, held in Kuwait on November 11, 2015.

Indonesia, Bangladesh, Brunei, Oman, Jordan and also in the non-Islamic countries that claim to be the regional hubs for Islamic finance[10].

Below, we identify some milestone of the future track that may enable the economists, scholars and personnel at the helm of affairs to make the history different from the one written over the last four centuries:

3.1 Adopting a new Money and Credit Creation Law

The most crucial step is adopting the law that money can earn return only by way of taking business risk and adding value for the parties concerned. It has to be an international agenda to solve the problems facing global as also national economies and finance. As all civilized communities and nations believe in good ethics, justice, fair play and harmony, adoption of such law should not be a problem. Alvin Roth of Harvard / Stanford University was awarded Nobel Prize in 2012 for showing that people can make a stable market based on mutually-beneficial swaps rather than cash to satisfy a specific need. Such cooperation is the need of every society at national and global levels. Particularly, it has to be the requirement for all Islamic countries and Muslin communities to become the flag bearers for promoting finance that could lead to socio-economic inclusion in all societies, while the others might follow as business venture and opportunity for social reforms. Different strategies could be applied for different jurisdictions. For Islamic Countries, we discuss Pakistan, as a case study, the Constitution of which mandates the State and its functionaries to transform the economy to the Islamic principles[11].

3.1.1 Islamizing the Domestic Banking: The Case of Pakistan

Transformation of Pakistan's economy to Islamic system is the dire need as the debt based system is not sustainable even from economic point of view. First step in this direction is that the controversy about the interpretation of *ribā* must be resolved in the light of the general consensus reached by the Resolutions of the Jeddah and Makkah based Islamic Fiqh Councils, Pakistan's the Council of Islamic Ideology and Sharīʻah bodies in almost all Islamic countries. The State and the regulatory authorities need to spell out before the Sharīʻat Court that they believe in prohibition of '*interest'* (JIBM Vol 3, No. 2 Editorial). With

[10] So far only a few regulators like Bahrain, Qatar, Sudan, and Syria have made the AAOIFI's standards mandatory for the IFIs (IMF WP/15/120).

[11] Pakistan's market has not gone as astray as the global finance since the local bourse is an 'all-cash market' with no leverage and with the regulator strictly monitoring '*in-house badlā*,'. Hence, the outflow of smart money during first half of this year did not spark the kind of volatility seen in some other regional markets (Dawn EBR, Dec 21, 2016).

regard to the application of the alternative system, they have to change the structure of the financial institutions and business procedures and resort to phasing approach for coverage of different sectors and subsectors.

As per the policy in vogue, the IBIs working in parallel with the conventional banks since December 2002 have covered only 10.4 % of the banking business in Pakistan (EY 2016). The '*non-interest based banking*' (NIB) system introduced during 1980-85, declared un-Islamic by the Federal Shariat Court, is still being offered as is evident from various SBP Circulars with regard to 'PLS' deposits, returns thereon based on *Principles of Sharīʻah* (BPD Circular 20 of 2003) and the use of the phrase 'mark-up' in place on interest by the conventional banks. One workable option in this scenario is that the contract documents used by the IBIs might be mandated for the NIB banks, instead of 32 documents implemented in 1980; BCD Circular No. 13 of 20th June 1984 be taken back, in addition to adoption of profit distribution and pool management system introduced by the SBP vide IBD Circular No. 03 dated November 19, 2012[12]. To resolve the issue of public debt related Treasury Operations, the 'holding company model' of banking may be adopted to finance all business sectors and sub-sectors in the economy by the fully owned subsidiaries of the banks that will be doing different activities like trade related banking, investment banking, commercial banking, etc (Ayub, M. 2002: 136-158). Treasury functions may be undertaken by the each Parent Company for investments of its equity. Detailed operations could be discussed by the experts prior to adoption of such system.

Inefficient tax system, lavish spending, corruption and resultant unsustainable fiscal deficits lead to debt trap. Transformation of the public debt system requires serious deliberations and re-organisation focusing on balanced budgeting by the government and the PSEs in a phased plan and exploring interest free alternatives of public sector financing. *'Prevention is always better than a cure'!*

As banks do not pay any return on Current Accounts balances, they can be asked to remit certain part, say 50 %, of the same to the government with or without service charge (to recover the actual expenses). The private banks, doing business with the funds provided by the society, are socially bound to serve the society, and remitting a part of the current account deposits in the form of repayable loan to the State; it is

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[12] For details, see a) Ayub; *Islamic Banking and Finance: Theory and Practice*, SBP; 2002; b) Ayub M and Shahul Hameed b. M. Ibrahim, JIBM, Vol.3 No.1, 2013 and c) Janjua, M. Ashraf; History of the State Bank of Pakistan (1988-2003).

a kind of social service. Besides, the national savings centers, public sector banks, or even some newly created savings banks, with as minimum personnel as possible, may provide C/A facility with anytime withdrawal facility as loan to the Government.

3.1.2 Challenges in external finance

Transforming the external finance to interest free bases is bigger challenge than the domestic debt. The recurring crises in the balance of payments leave sometimes little option but to resort to IMF or other external sources to bail out of debt default situation. However, the reality is that debt based international financing provided generally with certain conditions has not enabled any country to come out of poverty or bring stability. Rather, the economies that avoided the IMF's emergency loan packages, often referred to as structural adjustment programs (SAPs), were able to control short term crises with their own will and efforts. The financial crises are caused largely by currency speculation in the global casino economy added by kick-backs, corruption in such economies and international politics[13]. Rather than providing remedy against the causes and resolving the problems faced by the recipient economies, the SAPs or other donors' packages render the recipient economies vulnerable forever. Similar is the case of Pakistan where the economists are increasingly feeling that the disappointing results of Pakistan's long partnership with the IMF make a strong case of moving away from it[14].

For the new approach of global finance system, a new economy and finance related protocol needs to be agreed and implemented to validate only the risk based returns and ban all such incomes that are based on short selling, gambling, speculation, and unethical /secretive activities and behavior injurious to the mankind and the nature. The principles of Islamic finance as Divine and ethical protocol can be the best basis for such stable and cooperative system that would resolve the issues of hunger, enmity, wars and crises in the global economy. Islamic finance has been introduced to almost whole global economy and a growing number of international development agencies are exploring the *ṣukūk* market in order to diversify sources to fund their operations. At this stage, the approach, role and activities of the IFIs are crucial as they could set an example for doing business remaining within the ethical constraints.

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[13] An American institution, 'Global Exchange' has listed top 10 reasons why to oppose or avoid the IMF programs; the most important is that the IMF bailouts deepen, rather than solve, economic crisis http://www.globalexchange.org/resources/wbimf/oppose . (Nov 15 2015)

[14] Rashid Amjad *'Time to say goodbye to IMF'; Dawn; November 19th, 2015.*

Sharī'ah compliance in both letter and spirit, without resort to debt or short-sale related *ḥiyal*, must be the mission and objective of all stakeholders of Islamic finance, particularly the Sharī'ah scholars. As successors of the Prophets (*"al 'ulamāu warathat al-Anbiyā"*), jurists may convey the messagages of Sharī'ah, allow, approve and certify only what is really in line with the Sharī'ah and *maqāṣid al*-Sharī'ah without any conflicts of interest or fear. (Qur'ān; 33:39). Some other steps may also be required relating to CSR, transparency and disclosures, revamping the States' policies, promoting cooperation at national and international levels, developing institutions for risk based investments and ensuring good governance by promoting ethics based discipline (JIBM Ed; June 2015).

To conclude, the failure to properly understand the conventional tools of minting money, prior to their adaptation, combined with the desire for quick-fix solutions has led the Islamic finance to mimic or use conventional products without taking into account their impact on development and sustainability of the system. Ethical and responsible finance is the need of the global economy and finance and the IFIs have to serve as the role model for transition to such finance. As witnessed during the recent crises and the aftermath, mere regulatory approaches and prudential oversight remain insufficient to restrict excessive risk taking (Stijn Claessens *et al* 2014). It needs different policy responses by moving from speculation based shadow banking and finance to risk based and real sector related finance and investment activities. It has to be supplemented by rigorous regulations to restrict all types of financial institutions to create money without any genuine basis. Some such regulations were introduced after 1930s' Great Depression as part of the Banking Regulation Act of 1935. The commercial banks, investment banks, mutual funds and all off-balance-sheet vehicles of banking have to be brought under such regulatory perimeters ensuring that linkage between the surplus and the deficit units in an economy is based on really productive activities or future potential at global or international levels.

We recommend that the Sharī'ah scholars and Islamic finance professionals may delve into the Sharī'ah and the real business needs to find answers to the current Islamic banking issues and lead the industry on the right path of developing Sharī'ah based products to do *ḥalāl* business and hedge business risk. The suggested inclusive business strategy may be helpful in achieving the objective of Islamic finance relating growth and development with social harmony.