

# Shariah Issues in the Standardization of Islamic Banking Products

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# The Status Quo

- Different Islamic banking offer different products.
- Some are deemed unlawful by other Islamic banks.
- The Shariah procedures of the same product differ in Islamic banks.
- **Reason:** Conflict of Fatawa (legal opinions of Shariah scholars).

# Impacts

- Credibility of Islamic banks at risk
- Creating new banking operational risk; Shariah Risk
- Difficulty to solve inter-bank disputes
- Possible problems in syndicated finance with other Islamic banks
- Deterrent to development and receiving a wider universal acceptance
- Negative image for Islamic banking.

# The Solution

- Standardization of Islamic banking products and their applications.

## **Who to do the standardizations?**

- International Islamic legal bodies:
  - Fiqh (Islamic Law) academies
  - AAOIFI (Auditing & Accounting Organization for Islamic Financial Institution).
  - CIBAFI (Council for Islamic Banking and Financial Institutions).

# The Challenges



# Banks

## Challenges:

- Islamic banks having a genuine will to uphold Shariah standards, for risk of prohibiting some products and practices.
- Predetermined stands of some central banks towards certain products

## Solution:

- Educating Islamic as well as central banks about the necessity of standardization for sustainable success and credibility.

# Shariah Scholars in charge of standardization

## Challenges:

- Conflict of interests (Standardization does not serve the interest of SS: fear of loss of jobs, no likelihood to back from opinions made them attractive to banks).
- Possible fanaticism about some Fiqh schools & opinions
- Agreeing on the standards on which products to be standardized.
- Possible reliance on loose or controversial standards

## Solutions:

- Independence of the Shariah scholars involved
- Careful selection of the scholars involved
- Selection of Scholars of different Fiqh schools.
- Endorsement of the standards by Fiqh academies and leagues.

# Legal System:

## Challenges:

- Legal challenges resulting from possible conflicts with local laws.
- Different Fiqh opinions may serve or be in conflict with different laws of certain countries.

## Solutions:

- When opting for a particular Shariah rule for sake of standardization, the most dominant laws should be taken into account.



# Operationally:

- Inapplicability of standardization to the day-to-day transactions.

Result:

- Avenue for conflicting stands
- Possibility of standards dodge (use of customized financing instead of standard products)

## Solution:

- Day-to-day transaction must not contravene the standards.
- Shariah Audit.

# Benefits of Standardization

- Sound public image
- Elimination of Shariah risk
- Cost Reduction
- Less legal problems
- More possible cooperation between Islamic banks
- Clear way towards universality

# Thank You

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