WAQF in Islamic Financial Institutions: Unleashing its Potential[1]

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A few decades ago, when Islamic financial institutions (IFIs) were yet to be established, the idea that an Islamic financial system could potentially replace an usury-based financial system invited much cynicism and criticism. At that time, it was inconceivable that an 'interest-free' Islamic financial system would come into existence as usury-based conventional financial system has been rooted for hundreds of years. In spite of all the criticisms by pessimists, the world is currently witnessing the Islamic financial industry phenomenal and rapid growth – from zero to hero – at a rate faster than its usury-based counterpart. This is all thanks to visionary Islamic finance scholars and leaders of the past. Kudos also to the practitioners who have made Islamic banking and finance a reality which was perceived as impossible years ago. These visionaries have left great legacies for present and future generations.

At the initial stage, the main concern at that point of time was how to establish IFIs, so that Muslims can be freed from being enslaved to the riba system. The elimination of riba which is the soul of conventional financial system from Islamic financial system is a must. Along with the elimination of riba, IFIs have to ensure that their aims, operations, businesses, affairs and activities are Shari'ah-compliant. They have to ensure that all the financial transactions are done in transparent and fair manner, with high ethics and integrity and fulfilment of the requirements and sanctity of contracts and mutual consent of the contracting parties. The present-day IFIs have been operating with prudence and sound control, in congruent with the Shari'ah. Throughout their operations, tremendous and continuous efforts have been taken to provide Shari'ah-compliant financial products as alternatives to its riba counterpart.

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Nonetheless, despite remarkable achievements, the contributions of IFIs at the macro level towards achieving the main objective of the Islamic financial system is still debatable and questionable.

Islam bans riba because it is unjust and it brings harm to the society. The increment of wealth is created unjustly and unjustifiably by the surplus circle at the expense of others. Though the elimination of riba is the nucleus of the Islamic financial system, more importantly the objective of the Shari'ah, which is to protect and bring wellness to the society is its hallmark goal. Hence, one should realize that the Islamic financial system should not be limited to just achieving 'interest free' banking. It should go beyond that. At macro level, the ultimate goal of the Islamic financial system is to uphold justice and to increase the quality of the well-being of the society. These can be achieved through equitable wealth distribution, social responsibility and circulation of wealth to all segments of the society. It is sad to hear that in spite of the fact that the Islamic financial industry has recorded transactions worth USD trillions worldwide, Muslims are still left behind in terms of economy prowess.

After four decades, perhaps it is timely to revisit the roles of IFI. IFIs should take a paradigm shift to change its ordinary way of thinking that IFIs are typical financial intermediaries. Without denying the fact that IFIs are profit-making business entities, it is timely to call on them – apart from CSR activities – to play a more significant role to achieve socioeconomic justice and equitable distribution of wealth. As such, there are various charitable instruments on the shelf; among others are zakah, sadaqah, qard al-hassan and waqf. Cash waqf is believed to be a very suitable instrument, it can be potentially enhanced and utilized further for the betterment of the society.

Historically, the success of cash waqf in achieving socioeconomic justice and equitable wealth distribution was traced during the flourishing age of Islamic civilization, particularly during the Uthmaniyyah era. Cash waqf was mobilized by the government to provide basic infrastructure, public facilities, education, research, and healthcare. The mobilization of waqf instrument for knowledge and science development in various disciplines, healthcare and hospitals was proven successful in improving the socioeconomic condition of Muslims.

The cash waqf is unique as it is liquid in nature, thus it can be efficiently mobilized compared to waqf in the form of fixed assets. It provides a great opportunity for all segments of community to contribute to the fund, which can start from a small amount. This feature is invisible in waqf in the form of fixed assets, whereby the opportunity to contribute is normally limited to the high income circle. Moreover, cash offers more flexibility when managing and investing in Shari'ah-compliant investment portfolios to expand the size of the fund.

Currently, waqf assets worth billions of dollars in Muslim countries are not efficiently mobilized due to some constraints and lack of knowledge, expertise and incompetence in asset management. Hence, the expertise of IFIs are very much sought after to mobilize the waqf fund in a more efficient and professional manner. Being equipped with up-to-date technology, sophisticated system and financial expertise, IFIs are seen as the right entities to engage actively in mobilizing cash waqf. It is well known that IFIs have been practicing solid and prudent control policy in a robust regulatory framework governed by regulators. With such high reputation, the society has trust in IFIs which are perceived to be the most regulated institutions operating in the most regulated industry.

In addition to that, the IFIs existing networks, branches and pool of customers are definitely great contributing factors in increasing the funds significantly. As a matter of simple calculation, a single dollar contributed by each existing customer can easily create a fund worth millions. The customers may opt to deduct an amount from their existing deposit accounts via standing instruction or auto debit to be channelled to the established waqf account1. Waqf instrument can also be introduced as an added value to mudarabah or wakalah-based investment accounts whereby the customers may agree upfront to channel part or all of their profit to the waqf account. This added value initiative offers a great opportunity for the customers to simultaneously gain profit and reward in the world and the hereafter. Interestingly, IFIs may gain the benefit of attracting more new customers due to the added value, which will thereafter boost the deposit and investment capital proportionally with the increasing number of customers.

The good news is that the call for this initiative is neither rhetorical nor theoretical. In fact, this model has been introduced and applied in Malaysia a couple of years ago. Bank Muamalat Malaysia Berhad (BMMB), a Malaysian-based Islamic bank stepped up in a proactive way beyond the typical roles of financial intermediaries to take up the challenge. BMMB is the first Islamic bank in Malaysia to have launched corporate waqf as its financial product. The strategic partnership initiated between BMMB and the Selangor Waqf Corporation (PWS), offers a new revolution in Islamic banking industry. This synergistic cooperation promises a more impactful waqf mobilization towards strengthening the socioeconomic condition of the Muslims.

Currently, the corporate waqf fund is being utilized mainly in a few main sectors, i.e. health and education such as providing facilities, infrastructure, equipment in

[1] Please note that Malaysia's Islamic Financial Services Act 2013 (IFSA) has segregated Islamic deposit accounts with a principle guaranteed feature from investment accounts with a non-principle guaranteed feature.

hospitals, clinics, schools, and orphanages. An example of this is where mobile clinics were initiated in collaboration with a private hospital to provide medical care for people in rural and remote areas irrespective of their religion. The mobile clinics were efficiently utilized during Malaysia's 2015 flood disaster. There are more plans in the pipeline. Moving forward, there are plans for strategic partnerships to establish specific waqf fund to build hospitals, schools and dialysis clinics in rural areas. To increase the value of the asset and generate consistent income, a portion of the fund is wisely managed in the Shari'ah-compliant investment portfolios such as properties investment. It is our hope that we can see more IFIs take similar initiatives.

Admittedly, IFIs are not established as welfare providing entities; rather they are profit-making entities. There is nothing wrong with that. The Shari'ah perceives positively profit generating activities and commercial transactions that reflect real economic activities. Nevertheless, we should ask ourselves, "Is profit-making the sole objective in this industry? Are we satisfied with all the achievements when many people are still suffering? Are the benefits of the Islamic financial industry shared by all levels of the society?"

A statement such as 'IFI is not a welfare entity' is not a valid excuse to isolate IFIs from charitable activities. IFIs should be integral in a comprehensive Islamic system that works toward achieving equitable wealth distribution, socioeconomic development and alleviation of poverty. The stakeholders of IFIs must realize that from the macro perspective, the benefit of a flourishing Islamic financial industry should be shared by all levels of the society. None should be left out.

In fact, the author does not expect IFIs to be charitable entities. The call is that IFIs should act in a proactive manner and create strategic partnerships with relevant parties that manage waqf or other Islamic charitable instruments such as Zakat and Sadaqah. It may be somewhat ambitious to witness how synergetic collaborations would crystallize the potential of these instruments so that it may become more fruitful and impactful to the society. Indeed, IFIs's financial expertise is very much sought!