Unlocking Corporate Governance Pillars for Islamic Banking

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According to Islamic Finance Development Indicator (IFDI), Malaysia has a highest score of 55 for the corporate governance indicator compared with other neighbouring countries, Singapore (47), Indonesia (33) and Brunei (14) for the year 2016. Malaysia reported high scores for five key indicators used to gauge the corporate governance indicator.

These include average number of independent chairman of the board, average number of independent directors, average number of non-executive chair of risk management committee and average number of non-executive of audit committee, to mention some. These countries have promoted seriously the notion of Islamic banking industry in the Southeast Asia region.

This article intends to examine four fundamental pillars of corporate governance from the context of Islamic banking. Analytical approach is used to expound the issue. I will synthesise the pillars by linking them with the primary source for better insight. In essence, Islamic banks are of without exemptions to run their businesses where fundamental pillars of corporate governance are brought into play. Typically, the pillars of effective corporate governance are broken down into four (4), viz., responsibility, accountability, fairness and transparency. I prefer to combine these terms as an acronym of RAFAT.

Explaining in more details, the term responsibility is described as one's duty or obligation to deal with. This term is emanated from Latin *responsus* that means *to respond.* In the context of Islamic banking, I define this term as a form of trustworthiness, in which one is entrusted to do something and must conduct it ethically according to Allah's will for His blessings. It is prescribed in the *Quran*. *Surah al-Anfal* (8:27) mentions "O ye who believe! betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you". The implication of this verse to Islamic banking corporate governance is one must extend the ethical conduct in their professional duties to bridge their position, firstly as a servant of Allah (*abd*) and only then a role as a caliph of Allah follows. In the case of Islamic banks, generally, board of directors, for instance has a great responsibility to act responsively for the benefits of all shareholders.

In terms of accountability, by definition, I define it as an individual who makes both decision and action on a specific financial transaction is held accountable for both of them (i.e. the decision and action). *Surah Ali Imran* (3:30) prescribes that "On the day when every soul will be confronted with all the good it has done, and all the evil it has done, it will wish there were a great distance between it and its evil. But Allah cautions you (to remember) Himself, and Allah is full of kindness to those that serve Him." This verse has an implication to Islamic banking corporate governance. As such, one is required to be accountable for what he is doing in the banking transaction and in the hereafter. In the context of Alliance Islamic, for instance, 5 members of board of directors are accountable to shareholders. Some banks, however, have appointed one member from their *Shariah* committee as a member of board of directors like in the case of Affin Islamic and Alliance Islamic, inter alia. Hong Leong Islamic, on the other hand, does not.

Responsibility and accountability are usually intersected. The former is overtly seen in one's behaviour of doing something while the latter is difficult to observe. In my view, responsibility is "being the owner of an obligation/task", can be occurred before and after a task while accountability is only occurred after a task is finished. For instance, one who is assigned to sell Islamic financing products to a client is "the owner of the task to sell the products alone" not others. Responsibility ponders both times, be it before or after a transaction is taken place. Accountability, instead, occurs after the responsibility is accomplished that brings consequences, whether good or bad. For instance, one is answerable for the mistake to sell the product to an unqualified customer that leads to acute losses to the bank. In other words, he takes the consequences in full. On balance, the two are interrelated although there exists a discrepancy.

To practice effective corporate governance, Islamic banks are urged to promote fairness in their dealings. Fairness is defined as being impartial and just behaviour without "favouritism" and "discrimination". In the Islamic banking context, however, the rights of various stakeholders are protected, recognised and valued. For example, minority shareholder interests must obtain identical deliberation to those of the dominant shareholders. Bank Muamalat, for example, has the shareholders that consist of DRB-HICOM, which holds 70 percent shares in the Bank while Khazanah Nasional Berhad holds the remaining shares. This means, somewhat, that the former is the dominant shareholder while the latter is minority shareholder. The importance of this pillar is told in the *Quran*. *Surah An-Nisa* (4:58) mentions that "Allah doth command you to render back your trusts to those to whom they are due; and when ye judge between man and man, that ye judge with justice: Verily how excellent is the teaching which He giveth you! For Allah is He Who heareth and seeth all things".

The last pillar is transparency that is related to the information disclosure. The high the extent of information disclosure, the better the bank corporate image. It is also defined as a measure of how good the bank is at making important information is accessible to outsiders not only in terms of audited data but also unaudited data. The *Quran* provides evidence on the importance of this pillar. *Surah al-Baqarah* (2:282) says "O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing Let a scribe write down faithfully as between the parties; let not the scribe refuse to write: as Allah Has taught him, so let him write". As such, the bank is urged to disclose information concerning its business policy, activities and the protection of environment where integrity acts as a key for enhanced disclosures.

Taken as a set, these fundamental pillars are a key ingredient for successful corporate governance practice of Islamic banks in Malaysia. The said pillars are of utmost importance to put together into practice by management and board of directors of Islamic banks for the well-being and sustainability of the banks where enhanced performance comes into play.

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