

Implementing the new Islamic banking law



THE PHILIPPINES

By Rafael A Morales

Declaring the new Islamic banking law (Republic Act No 11439) as a “great stride in financial inclusion,” the Bangko Sentral ng Pilipinas (BSP) is now formulating the rules and regulations that will implement that statute.

BSP Governor Benjamin E Diokno stated that “RA No 11439 will unlock the full potential of Islamic financing in fostering inclusive economic growth,” adding that “with a well-defined regulatory framework now in place, the BSP looks forward to seeing greater participation in Islamic financing by both domestic and foreign banks”.

In fact, the BSP will also be authorizing conventional banks to engage in Islamic banking transactions through designated Islamic banking units that are to be segregated from their conventional banking business.

In developing a regulatory framework for Islamic banking and finance, the BSP

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is being assisted by an Inter-Agency Working Group composed of the Asian Development Bank, Bureau of Internal Revenue, Department of Finance, Securities and Exchange Commission, Philippine Deposit Insurance Commission, Bureau of Treasury, Financial Reporting Standards Council, National Commission on Muslim Filipinos and the BSP itself.

The Bureau of Internal Revenue, in particular, is working on a set of regulations that will implement the law’s ‘tax neutrality’ mandate aimed at placing Islamic banking transactions and their conventional counterparts on an equal footing tax-wise.

Diokno also said that: “The BSP shall continue to pursue measures that enhance access to quality financial products and services as well as foster the overall welfare of financial consumers.” He was referring to measures that “include amendments to the Bank Deposit Secrecy laws, the Financial Consumer Protection bill and agricultural financing reforms”.

According to the BSP’s governor, the new law is “expected to widen opportunities for Muslim Filipinos, including those from the Bangsamoro region, in accessing banking products and services”. The Muslim population accounts for about 10% of Filipinos. ☺

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No-interest credit unions



THE US

By Aliredha Walji

Muslims have long believed in the prohibition of interest, and many wish to align their finances in accordance with this Islamic value. One of the areas where this has seen some development in the US – albeit minor – is the area of credit unions. Credit unions are non-profit institutions whose function is to encourage saving among its members as well as offer loans to people of ordinary means. They can be set up at either a federal or state level.

Perhaps the only one of its kind in the US, the Jafari No-Interest Credit Union (JNICU) based out of Houston has been in existence since 2016 and currently serves approximately 250 members. Because Texas law requires a defined field of membership for credit unions, membership is limited to those living in Houston, Dallas or Austin and their

direct family members. This limitation on membership is perhaps the biggest challenge facing the growth of the no-interest credit union. The workaround – gaining federal status – would require a minimum of 500 members relatively quickly upon inception, and 2,000 members in three to five years.

JNICU’s founders, whose vision and determination enabled the creation of JNICU, say that growth has been slow due to limited education around the concept of credit unions and a limited amount of resources available – as a non-profit, and especially compared to the banking industry – to spread the word. The organization currently relies on donated space and a volunteer staff, allowing them to charge only US\$3 per month for an account with funds.

Despite these limitations, JNICU has had a relatively amazing amount of success. Just through offering refinancing options for auto, student and home loans of up

to US\$25,000 per applicant, JNICU has issued 70 loans totaling US\$734,000 as of September 2019. The organization estimates the community’s savings in interest as equaling approximately US\$220,000.

JNICU’s founders and board members are willing to share their expertise and experience with others who may be looking to set up something similar in their own communities. They believe credit unions could help to fill the gap in no-interest financing within the US, and could do so at a relatively manageable cost: the annual cost to operate the JNICU is about US\$36,000. Other upcoming players within the field include Salaam Credit Union, also based in Houston, which is still in the process of being established. ☺

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