

IFSB Role in Preventing Financial Crises and Islamic Ethics Perspective

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Abstract

Islamic Financial Services Board (IFSB) acts as the international regulatory and supervision framework for Islamic financial services institution. Though Islamic financial industry keeps growing in promising pace, it still experiences some criticisms; one of them is an underestimate claim regarding Islamic finance soundness and safety which notoriously promoted to be better than the non-Islamic is lack of evidence. This claim, however, serves as an early warning to the trajectory of Islamic finance development and global vision which is the ensure soundness and prudent of Islamic finance industry. Thus, this study addresses this challenge by analyzing IFSB's published frameworks based on the Islamic ethics. This is a descriptive inquiry which employed library-study approach. The result of this study suggests that IFSB should be more focus on human adversaries since moral hazard, either done collectively or individually, plays determining role in some systemic financial crises in the last two decades.

Keywords: *ifsb, islamic ethics, moral hazard*

A. Introduction

Preventing systemic financial crises has been a global concern. The damage of its severity has also been focus and coverage by many, including media, international organization, government agencies and most likely middle-down income groups who suffer most from the crises. The World Bank has drawn some lesson for both developed and developing countries from the last financial crises to learn. At least, there have been three responses government can possibly do: 1) in higher-income countries, more strict and broad regulation are set and implemented to impose higher capital reserve and risky behavior, 2) in less high-income countries, authority will regulate financial institution to ensure excessive and risky capital accumulation by putting more emphasize on domestic risk management strategies (world bank, 2010). Basel Committee on Banking Supervision (BCBS) also

modified their supervision-framework standard by publishing Basel III which specially formulated to prevent future potential crises (BCBS, 2010).

Reflecting to BCBS's respond, IFSB shares the same concern. This was shown in IFSB's mission and publication consideration. As its counterpart which is also prone to potential financial crisis, IFSB considers Islamic financial industry having the same threat. Since 2003, IFSB has published 2 (one) *Technical Notes*, 6 (six) *Guidance Notes* and 19 (nineteen) standards (Mission, 2018) (IFI). Function and IFSB's activities can be found in 4 (four) governing documents i.e. Articles of Agreement, IFSB Act 2002, IFSB By-Law and Guidelines & Procedures for the Preparation of Standards/Guidelines. Among others, one IFSB's objectives is to promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with sharia principles, and recommend these for adoption. It can be seen that the mentioned standards are not merely Islamic-originated but also those that are not Islamic originated.

IFSB's standard seems inspired by BIS's framework. Both international institutions employed the same approach in preventing and mitigating systemic financial risks. Both institutions set similar capital requirement approach which obligate financial institutions strengthening their capital structure by introducing new capital structure (Basel Committee, 2013; Islamic Financial Services Board, 2013). This capital structure divided IFI's capital requirement into two part; common equity tier 1 and capital addition tier 2. This condition implied that 1) instruments and non-Islamic framework have been used which in turn results in rather arbitrary conclusion, for example by Feisal Khan, who claimed that Islamic financial system seemed not to differentiate and serve as an alternative to that of non-Islamic financial system (Khan, 2010), 2) IFSB has presumably concluded or adopted an approach that views the main threat of crisis lies in the very core of financial practices and regulation of Islamic institution only – not in human's trait and behavior who practice the standards, 3) IFSB has presumably concluded or adopted an approach that the very core of Islamic finance framework was suffered the same defect as that of the non-Islamic one. Furthermore, Hans Visser viewed there were at least in 4 (four) claims which seemed weak or have not been addressed properly yet: 1) lower danger of insolvency, 2) better respond to financial crisis, 3) participation in the official financial system, 4) speculation (Visser, 2009).

Other long-established international financial institution (IFI) such as IMF, G10 countries, BIS and the World Bank have been dealing with financial crises longer than IFSB. It seems to be their strength but this paper views in the opposite way. Their very weakness lies in the similar and repeated approach in preventing systemic financial crises which relies solely on financial regulation such as capital structure

and adequacy, disclosure, market discipline and supervision reformation. This approach seems unsatisfying since resembled ‘trial-and-error’ practices or in other words the capital required by the regulation framework is not the real economic assets or practices (Previdelli and de Souza, 2018). Consequently, Previdelli and de Souza concluded, these international institutions need to discuss, reform and reorient in order to lessen developed countries dominance, strengthen cooperation and encourage good governance in developing countries. This condition must be in IFSB’s consideration hence not to sketchily and carelessly adopt these IFI’s formulation and framework.

Thus, this paper tries to propose ethical perspective in analyzing IFSB’s standards. IFSB has relied solely on financial and capital parameters and perspective in formulating prudent and resilient standards for IFI’s. Capital and financial parameters are tools which mainly used in accounting while the area considered technical and technological – though some approach accounting as art. In other words, technical and technological side of capital and financial parameters used both in IFSB and Basel Committee standards implied uniformity regardless ideological or spiritual value embodied in the industry. On the other hand, finance experts and scholars often neglect or underestimate the role of ethics in this field since the differences between ethical and financial approach. Furthermore, many financial scholars tend to simplify ethics as merely legal or regulatory matters (Boatright, 2011). So, proposing ethical perspective in analyzing IFSB standards will infuse new parameters which eventually can possibly answer the differentiation issues mentioned in previous paragraph. Proposing ethical perspective, especially Islamic ethics, is also a respond to bridge a gap between Islamic scholars who master textual scripture and Islamic finance practitioners (Ramadan, 2013). This bridge, Ramadan emphasized, would eventually help identity crisis and understanding both Islamic faith and principles.

Ethical perspective used in this study is *falāḥ* concept which proposed by Khan. He formulated 4 conditions to meet in order achieve *falāḥ*. The conditions categorized into four aspects i.e. 1) spiritual, 2) economical, 3) cultural and 4) political. Since IFSB standards are under economic or commercial domain this study focuses on the second aspect. There are 4 (four) elements under this category: *falāḥ* (spending for the community solely to seek Allah’s favor), prohibition of interest, fulfillment of covenants and trusts, justice and enterprise.

B. Objective

Having discussed the potential of ethical perspective in scrutinizing IFSB standards, this paper aims to voice the importance of ethics value to analyze the standards. This objective has consequently resulted in further questions as follows:

how crucial human trait and behavior in conducting financial activities viewed through Islamic ethics, how far ethical values have been violated in previous contemporary crises, has Islamic ethics served sufficiently in IFSB standards and which of Islamic ethics value should be entangled in the very textual standard of IFSB's publication.

The discussion in this paper will structured as follow: introduction, objective, study method, IFSB's standards, previous research, Islamic ethics, IFSB's standards viewed through Islamic ethics value.

C. Literature Review

The previous studies in this paper divided into two categories i.e. quantitative and qualitative approach. The first one mostly deals with capital and financial framework in practice. The empirical evidence shown in the studies support the notion that there is some level of connection between idealistic and currently employed prudent supervision framework and financial health. The evidence provided seemed sufficient and convincing but palpable conclusion leaving an area where qualitative humanly miss-behavior and moral hazard needed to observe and investigate further.

Slovik and Weder study regarding capital adequacy requirement in Basel III, an international financial supervision framework which express the same objective as IFSB-15, show that this framework leaves loopholes. Firstly, financial corporation tends to be more selective and conservative in creating or developing new business line. Secondly, worse; some banks try to evade the requirement in order to reserve less than they must do (Slovik, 2012). This will not significantly affect macro economy situation in the short term. However, Weder views the other way, stating that this situation could affect economy growth in long run (Weder and Wedow, 2002).

Turning to sharia banks, in Indonesia context, capital adequacy requirements which follow IFSB-15 – and Basel III, has begun to be socialized and applied by Bank Indonesia (Indonesia central bank) and OJK (Indonesia financial services authority). The current studies have not shown the direct impact of this new regulation to sharia banks' capital structure. Kasim and his fellows studied the implementation of AOIFI and IFSB regulation, but the discussion did not involve capital requirement regulation since the paper focuses on corporate governance (Kasim, NuHtay and Salman, 2013). Yet, he stressed the importance of sharia compliant in Islamic financial industry as an ultimate goal.

Nonetheless, Yeano and Suprayogi inquiry in 2017 stated that sharia banks' CAR in the period 2011-2015 significantly related to bank size, NPF (Non-Performing Financing) and ROE (Return on Equity) and Financing to Deposit Ratio

(FDR) in various directions. This study shows that bank size related negatively to CAR. Other parameters show the same type of relation, except for FDR which shows positive relation.

Having discussed about what influence Islamic banks' CAR, Simon Archer dan Abdel Karim (Karim and Archer, 2013) noted that CAR has an important role in IFIs because it's functioned as a capital buffer during crisis. The fund/capital is derived from retained profit like in many jurisdictions (but not in the United Kingdom). However, CAR is not only pivotal to prevent crises but also to essential as a stabilization instrument (Chapra, 2007). Moving to basic premise i.e. Western thinker, for example Frederick Mishkin is in the same position as Islamic scholars since this concept of capital adequacy and banking industry originated in non-Islamic countries (Mishkin, 2004). He argues that capital adequacy management in banks is critical for three reasons. First, prevent financial failure. Second, influence owner's return. Third, has legal consequence when the requirement level is underachieved.

Research and study regarding the relation between ethics and business have been extensive in the last decades. The similar situation also applied to the utilization of Islamic ethics in business and finance study. One of studies that reflects how western businessmen perceive Islamic ethics and all its properties showed in Fang and Foucart work (Fang and Foucart, 2014). They found that the Western businessmen awareness and knowledge both towards Islamic finance and ethics conducts have been greater and developing. However, the assimilation process of Islamic finance to Western world seemed to be determined by interaction of multidimensional factors which, in their study, are as follow: perception towards Islamic ethics as an alternative, an international convergence of practices, Islamic ethics inclusiveness in Western finance industry and 'cosmetics' aspect of Islamic finance practices.

D. Islamic Ethics

Literally, Islamic ethics closely related to some terms is *al-Qur'an* for instances *khuluq* (خُلُق) Arabic for moral character and trait, plural *akhlaq* (أَخْلَاق), *khayr* (goodness), *birr* (righteousness), *qist* (equity), *'adl* (balance and justice), *haq* (truth and righteousness), *ma'ruf* (known, approved), and *taqwa* (piety) (Iqbal and Mirakhor, 2017).

By definition, there are some perspectives of how Islamic ethics being viewed. Islamic ethics are often viewed as a system that derives from multiple Islamic sources and at the same time can be perceived as a synthesis between deontological, consequentialist, virtue ethics and some liberal approaches (Abdallah, 2010). Reinhart viewed Islamic jurisprudence and its framework as the fundamental of and

Islamic ethics itself (Reinhart, 1983). Hence, the concept *halal*, *haram*, *sunnat*, *mubah* and *makruh* are the very properties of Islamic ethics.

Though Reinhart seemed to rely mainly on linguistic approach, his study shows a strong and clear argument. This seems obvious when his statement is to be tested by comparing to well-established core concept of western ethics. As Shafer-Landau stated, western ethics falls under 3 (three) core concepts of moral philosophy i.e. theory of value, normative ethics and meta-ethics (Shaver-Landau, 2015). Theory of value tells us what is right or wrong, is happiness the ultimate value we must pursue, what is good life etc. Normative ethics tells us how to behave relative to others. Do we should respect nature equally as we respect ourselves, animals and even fetuses, what principle is pivotal in human relation etc. Then, meta-ethics discusses how ethics argumentation can be justified. In other words, it is mainly concern about the formulation process rather than the conclusion itself. These three concepts resemble in what is known as *fiqh* (Islamic jurisprudence) and *ushul fiqh* (Hallaq, 2009). *Fiqh* implies an understanding which derives from the authoritative law source of Islam i.e. Al-Qur'an, *hadits* (the prophet deeds) and other sources. This understanding implies what are permissible, what are forbidden, what are favorable etc. Yet, the initial development of *Fiqh* tradition represents Islamic normative ethics before widened to *ushul fiqh* which is comparatively similar to meta-ethics in Western ethics tradition.

E. IFSB Mission and Standards

IFSB (Islamic Financial Services Board) is an international standard-setting institution for supervisor and regulator board of Islamic financial industry. Positioned under this board includes Islamic banking, stock market and insurance (About IFSB, 2016). Headquartered in Kuala Lumpur, Malaysia, IFSB was officially established in November 3rd, 2002 and effectively operated in March 10th, 2003.

1. Mission

IFSB aims (Mission, 2018) to support stability and resilience of Islamic finance industry. IFSB sets some actions to achieve these mission by publishing and facilitating global standard supervision and prudential of Islamic finance institution. Also, IFSB promotes other activities such as knowledge sharing and cooperation between Islamic finance regulatory and supervision institution.

2. Publication

Since 2003, IFSB has published 2 (two) Technical Notes, 6 (six) Guidance Notes and 19 (nineteen) standards (Mission, 2018) (IFI) Islamic finance institution. The detail of the standard is as the following :

a. Standard Principles (Published Standard, 2018)

1) IFSB-19 (April 2017)

- 2) Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (*Sukûk* and Islamic Collective Investment Schemes)
- 3) IFSB-18 (April 2016)
- 4) Guiding Principles for *Retakāful* (Islamic Reinsurance)
- 5) IFSB-17 (April 2015)
- 6) Core Principles for Islamic Finance Regulation (Banking Segment)
- 7) IFSB-16 (Published in March 2014)
Revised Guidance on Key Elements In The Supervisory Review Process of Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (*Takāful*) Institutions and Islamic Collective Investment Schemes)
- 8) IFSB-15 (Published in December 2013)
Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services Excluding Islamic Insurance (*Takāful*) Institutions and Islamic Collective Investment Schemes]
- 9) IFSB-14 (Published in 2013)
Standard On Risk Management for *Takāful* (Islamic Insurance) Undertakings
- 10) IFSB-13 (Published in March 2012)
Guiding Principles on Stress Testing for Institutions offering Islamic Financial Services
- 11) IFSB-12 (Published in March 2012)
Guiding Principles on Liquidity Risk Management for Institutions offering Islamic Financial Services
- 12) IFSB-11 (Published in December, 2010)
Standard on Solvency Requirements for *Takāful* (Islamic Insurance) Undertakings
- 13) IFSB-10 (Published in December 2009)
Guiding Principles on *Sharfah* Governance Systems for Institutions offering Islamic Financial Services
- 14) IFSB-9 (Published in 2009)
Guiding Principles on Conduct of Business for Institutions offering Islamic Financial Services
- 15) IFSB-8 (Published in December 2009)
Guiding Principles on Governance for *Takāful* (Islamic Insurance) Undertakings
- 16) IFSB-7 (Published in January 2009)
Capital Adequacy Requirements for *Sukûk*, Securitisations and Real Estate Investment

- 17) IFSB-6 (Published in December 2008)
Guiding Principles on Governance for Islamic Collective Investment Schemes
 - 18) IFSB-5 (Published in December 2007)
Guidance on Key Elements in the Supervisory Review Process of Institutions offering Islamic Financial Services (excluding Islamic Insurance (*Takāful*) Institutions and Islamic Mutual Funds)
 - 19) IFSB-4 (Published in December 2007)
Disclosures to Promote Transparency and Market Discipline for Institutions offering Islamic Financial Services (excluding Islamic Insurance (*Takāful*) Institutions and Islamic Mutual Funds)
 - 20) IFSB-3 (Published in December 2006)
Guiding Principles on Corporate Governance for Institutions offering only Islamic Financial Services (Excluding Islamic Insurance (*Takāful*) Institutions and Islamic Mutual Funds)
 - 21) IFSB-2 (Published in December 2005)
Capital Adequacy Standard for Institutions (other than Insurance Institutions) offering only Islamic Financial Services (LKS)
 - 22) IFSB-1 (Published in December 2005)
Guiding Principles of Risk Management for Institutions (other than Insurance Institutions) offering only Islamic Financial Services (LKS)
- b. Guidance Notes
- 1) GN-6 (Published in April 2015)
Guidance Note on Quantitative Measures for Liquidity Risk Management in Institutions Offering Islamic Financial Services [Excluding Islamic Insurance (*Takāful*) Institutions and Islamic Collective Investment Schemes]
 - 2) GN-5 (Published in March 2011)
Guidance Note on the Recognition of Ratings by external Credit Assessment Institutions (ECAIS) on *Takāful* and *ReTakāful* Undertakings
 - 3) GN-4 (Published in March 2011)
Guidance Note in Connection with the IFSB Capital Adequacy Standard: The Determination of Alpha in the Capital Adequacy Ratio for Institutions (other than Insurance Institutions) offering only Islamic Financial Services
 - 4) GN-3 (Published in December 2010)
Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders
 - 5) GN-2 (Published in December 2010)

Guidance Note in Connection with the Risk Management and Capital Adequacy Standards: Commodity *Murâbahah* Transactions

6) GN-1 (Published in March 2008)

Guidance Note in Connection with the Capital Adequacy Standard: Recognition of Ratings by External Credit Assessment Institutions (ECAIs) on Sharī'ah-compliant Financial Instruments.

c. Technical Notes

1) TN-1

Technical Note on Issues in Strengthening Liquidity Management of Institutions Offering Islamic Financial Services: The Development of Islamic Money Markets

2) TN-2 (December 2016)

Technical Note on Stress Testing for Institutions Offering Islamic Financial Services (IIFS)

F. Ethics-Business Relation and Islam

Ethics and business have been perceived as either related by many or unrelated by some. Financial world involves analyzing financial report and data through empiric daily, monthly or annual data. Thus, the industry seems relying heavily on mathematical approach to analyze the information available. However, this situation is not necessarily absent from human interest and moral hazard of the analyzer notwithstanding the empirical aspects of financial matter concerning numbers.

Some said, business has its own rules which far differently to ethics. However, many against this (Weiss, 2014; Kernohan, 2015; Iqbal and Mirakhor, 2017). For example, Boatright, stated that the critical role of ethics in finance is derived from day-to-day integrity of the industry's workers. Thus, he proposed the term "OPM" which stands for other people money where he emphasizes the pivotal roles of highly integrity, trustworthy and professional employees in managing other people money in financial industry. This situation, he added, always leaving a loophole to conduct irresponsibly and un-ethically.

The Holy Qur'an, the main resource of Islamic jurisprudence, also gives specific guidance to how mankind should gain and appropriate wealth. In other other words, OPM concept is also part of Islamic ethics concern thus can be tracked back to the birth of Islam. These are evidenced in *An-Nissa'*: 6 and 29. Both verses state the following respectively.

"Test orphans until they reach marriageable age; then, if you find they have sound judgement, hand over their property to them. Do not consume it hastily before they come of age: if the guardian is well off he should abstain from the orphan's property, and if he is poor he should use only

what is fair. When you give them their property, call witnesses in; but God takes full account of everything you do.”

“You who believe, do not wrongfully consume each other’s wealth but trade by mutual consent.”

This implies some principle of Islamic ultimate objectives such as that proposed by Izzudin bin ‘Abd al-Salām (‘Abd al-Salām, 1980) who stated that all of Islamic jurisprudence (Islamic ethics) is *mashlahat* (favourable for human life) either by dispelling *mafsadat* (harm) or taking interest. People deeds may lead to harm or *mashlahat*. The *mashlahat* could be used for worldly benefit. On the other hand, it could be used for hereafter benefit. but it could be used also for both benefits. Based on the above statements *mashlahat* is not only earthly or material concept but also a hereafter concept and should be approached with.

Akram Khan (Khan, 1994) uses different words concerning *maslahat* by stating that the final aim of Islamic economic system is *falāḥ*. *Falāḥ* derived from Arabic root فَلَاح which comes from verbal أَفْلَحَ – يَفْلَحُ meaning : to become happy, to thrive, to have a good luck or success. According to *Rāghib al-Isfahani* (Al-Isfahani, 1906), *falāḥ* contains both worldly and hereafter concept. The worldly concept represents : *baqā* (survival), *ghinā* (freedom from want), ‘*izz* (power and honour). Whereas the hereafter concept represents: *baqā bila fanā* (external survival), *Ghinā bilā faqr* (eternal prosperity), ‘*izz bilā dhull* (everlasting glory) dan ‘*ilm bilā jahl* (knowledge without ignorance). Akram Khan formulated four conditions in order to achieve *falāḥ*. The conditions categorized into four: 1) spiritual, 2) economical, 3) cultural and 4) political.

The concept of *maslahat* itself comparatively different to the one in western philosophy which more or less lean to one of John Rawls concept of justice or Bentham’s principle of utility. Both classic thinkers viewed human life from special perspective which detached from spiritual entity or spiritual revelation which generically inherent in Islamic tradition. Islamic jurisprudence tradition which also called Islamic ethics – borrowing Reinhart term, rooted deeply in Islamic worldview which did not underlying by long history of academic discourse but more on traditional school of thought in pre-Islam era to early development of Islam (Hallaq, 2009). Thus, Islamic ethics grasp the authoritative Holy Qur’an and prophet’s deeds as ultimate sources. Brown (Brown, 1999) saw this approach in understanding what is right or what is wrong through voluntarily submission of Holy Qur’an and prophet’s revelation as voluntarism.

Ethical issues have been obvious in some cases of financial crises. Take a case from Enron. Enron scandal causes by ill-code of conduct and poor ethical acts.

Bulatova (Bulatova, 2016) added that this scandal highly involved ethical issue, though she took different angle in scrutinizing this topic by taking psychological and mental health aspects into account. In Indonesia, the Century Bank scandal, beside of political turmoil the event caused, was an act of crime proven by court decision to sentence few people. The 1997 Asian crisis also hid some misconduct and misbehavior by the practitioners or the authority involved. Table 1 summarizes 3 (three) approaches in studying and finding the causes of the crisis which shows seemingly technical and financial issues, but humanly factors and behavioral traits behind is inevitable and obviously exist. For example, overspeed financial liberalization and lack of transparency. These two issues have been anticipated through regulations and supervision framework reformation. Still, the problem occurs and people try to gain personal interest behind this strict regulation.

Table 1. Summary of the causes of 1997 Asian Crisis (O'Brien and William, 2013)

Approaches	Liberal	State Power	Critical
Causes	Crony capitalism, lack of transparency	Overrapid liberalization, reduced state capacity to regulate	Predatory liberalism, power of financial interest, systemic flaws
Key issue(s)	Corruption, lack of liberal economic practices	Clash of Anglo-American versus Asian Models	Human suffering caused by financial collapse
Lessons	Increase transparency and good practice in developing countries	Limit financial speculation through state policy	Reform international financial system, defend national system

The main issue in finance or business based on Islamic ethics (Rizk, 2008) are not scarcity. Islamic ethics puts more emphasizes in human adversaries, how do people regulate themselves which depart from special worldview. This approach tends to be more suitable because these human adversaries which evidently shown in 2008 crisis by increasing number of wager or speculation (Koslowski, 2011) (see the citation below). Another scholar shared the same view which though concluded three financial conditions as crisis triggers i.e financialization, global inequality and over-grown-debt in the US (Lucarelli, 2011). This conclusion is still implying moral hazard issue especially on financialization which refers to a phenomenon when real

investment seems uninteresting since profit can be relatively easy to gain through temporary boost in stock market.

“During the period that culminated in the financial crisis, the financial wager had risen to a previously unknown prevalence. The wager’s rise to dominance was evident in all financial markets. It was evident in the capital market, in which speculation on the capital gains of shares had risen dramatically. It was equally evident in the credit market, in which the policy of easy money had driven lending volumes to staggering heights, while the relaxation of requirements for loan collaterals had led to a higher tolerance of speculative uncertainty about debtors, and bad credit collaterals were purchased from the banks by speculative investors in the form of structured products.” (Koslowski, 2011)

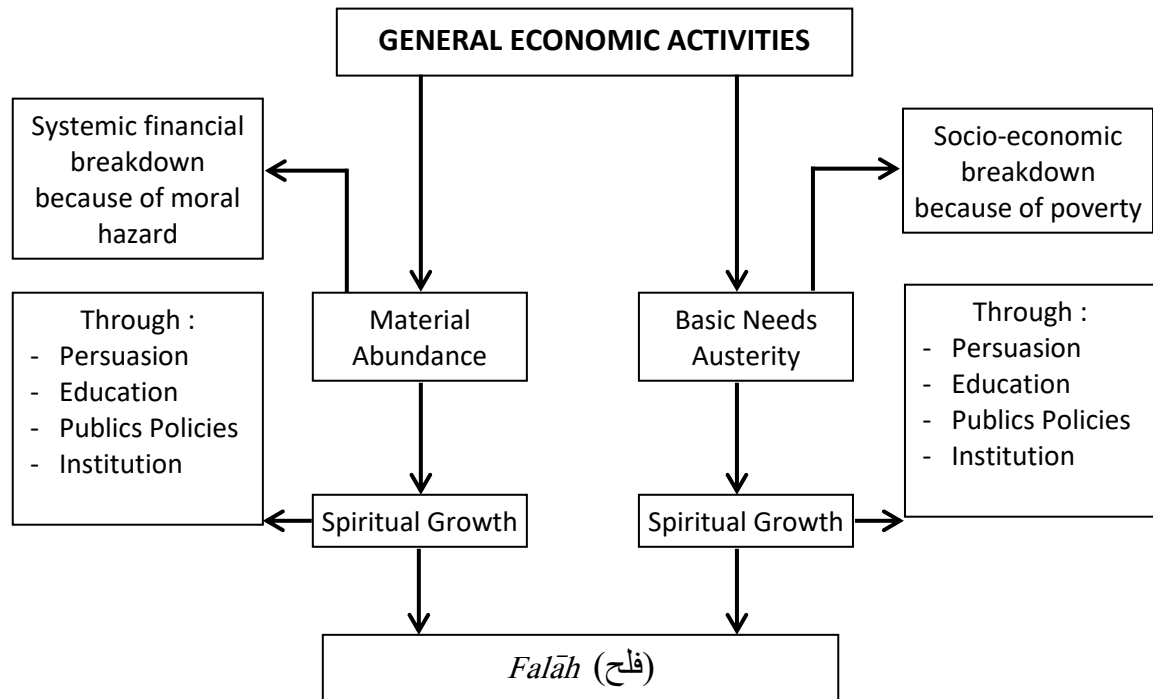
Financial wager is another main issue regarding 2008 financial crunch. Current financial framework and supervision set stronger focus on structuring financial and equity investment as seen in Basel III framework and IFSB-17, yet imposing these regulations is not adequate to suppress financial wager since the evidence showed otherwise.

G. IFSB Publications Viewed from Islamic Ethics

Finance as in the others life affairs essentially be dealt holistically under Islamic ethics umbrella. Islamic ethics itself, at least composed from 3 (three) aspects: i) *al-akhlāq* (ethics), ii) *al-maqāṣid* (the objectives), iii) *al-aḥkām* (the rules) (Ramadan, 2013). The first, term often refers to deeds, human behavior, what ought and what not ought to do. Second, *al-maqāṣid* (the objectives) refers to the ultimate objectives and justification behind Islamic jurisprudence. In non-Islamic ethics sense, this can be put in the same place with meta-ethics which concern to the process and reason behind moral valuation rather than the result itself. Third, *al-aḥkām* or the rules derived from the holy Qur’an and of Islamic tradition (prophet deeds) as well as his following generation sometimes also known as *fiqh* or *shariat* (Saeed, 2006) .

Having said that the paramount objective of Islamic law i.e. Islamic ethics is *falāḥ*, based on Khan’s concept, the strategic step achieving this goal are obviously orchestrated holistically and comprehensively (see Figure 1). What it means by “holistically” is that both physical and spiritual aspects are considered in achieving *falāḥ*. In the same way, “comprehensively” means that all parties are involved e.g. policy makers, education institution, financial (and social) institution and government agency (see both right and left side of figure1)

Figure 1. Holistic approach of strategic model to achieve *falāh*



The table above describes a holistic approach to achieve *falāh*. It has two pathways based on the assumption that there are two groups of country namely rich-resource countries and poor-resource countries. The right side of the table represents poor-resource countries which suffer from poverty. These countries' main problem usually related to basic necessities of their people such as health care, poverty, sanitation and basic education. Whereas, the left side of the table represents rich-resource countries which usually abundance in finance and more developed compared to the poor ones. However, to achieve *falāh*, both group of countries must work over their problems and issues through spiritual consideration. In Islamic countries context this denotes holistic approach since 4 (four) entities must involve. Persuasion conducts by Islamic scholars through their teaching, encouragement and opinion, as well as pronouncing fatwa or other Islamic legal opinion ensuring Islamic finance inclusion and soundness. Education poses indirect influence to Islamic finance industry, but in the long run, this, seemingly tiny, contribution can be impactful. The task of strengthening Islamic finance soundness goes hand in hand with offering an alternative financial system which based on Islamic ethics and eventually; interest-free. Also, education institutions can play as catalyzers in widening model, analysis or strategic approach to achieve *falāh*, that is involving human traits, motivational drive, psychological and environmental needs. Public policies ensure the normative and official guidance of every aspect of financial and economy conduct. The policies often described as a behavior designer. Thus, to

incorporate Islamic ethics and Islamic ethics behavior in public financial area, formulating supportive public policies are inevitable. The policies should aim not only to appreciate quantitative financial soundness but also encourage people and practitioner's involvement as independent agent of Islamic ethics for instance by formulating more rewards or social incentives to those who perform well on Islamic-ethics base. Another formulation emphasized (Taswan, 2011) the relation between customers and banks. This relation will eventually act as independent checking function in the sense that customers will withdraw their money from banks which consistently perform risky decision. These policies must integrate to every individual entity practicing in Islamic financial industry.

In the context of IFSB, as a guiding institution of supervision and policy making concerning of Islamic finance industry, this model is highly relevant. Its role must cover at least two areas. First, in a uniform action with the others three parties in strengthening not only regulation and supervision but also humanizing and encouraging the actors of Islamic finance industry to behave righteously based on Islamic ethics. Previous study has proven that Islamic ethics characters performed by bankers and Islamic finance practitioners perceived as Islamic finance positive nature (Fang and Foucart, 2014). Second, building an industry which unbound man from financial reliance and dependency. This requires a roadmap towards interest-free financial system. This is an "imminent task", borrowing Khan's term, for humanity and obviously Moslem to deal with.

H. Conclusion

The result of this study suggests that IFSB should try to widen its supervision scope on human adversaries since moral hazard, either done collectively or individually, plays determining role in some systemic financial crises in the last two decades. Though ensuring Moslems acting in free-interest financial and economic environment is part of a long-term task. Contributing in imminent task of offering alternative for current a non-interest-free financial industry is an avoidable and pivotal agenda for IFSB. This uniqueness of Islamic finance, a branch of Islamic ethics, is worthwhile to support by all parties concerned in the industry either in local-based or global-based institution such as IFSB and AAOIFI.

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