

On the issue of standardization:

It goes without saying that standardization is a basic requirement for the growth of any industry. We all recall how the personal computer was going nowhere until an “IBM compatible” was born and became the standard, and as they say: the rest is history.

While everybody recognizes the importance of standardization, every player in the market weighs the “common good” of standardization against the desire to distinguish oneself as a breed apart, different from the rest of the herd.

Which force is more dominant depends on the structure of the market. When profit margins are relatively high, players tend to “postpone” standardization.

Standardization is already taking place in Islamic banking, albeit slower than we had hoped for. There are now institutions specializing in the promotion of standardization for Islamic banks. One of these is AAI OFI in Bahrain. Furthermore, for the first time banks in Saudi Arabia are now working together to have uniform contracts that can be used by all. They started with a uniform Murabaha investment agreement.

Shari'ah is never a hindrance to standardization. On the contrary Shari'ah boards are now a force promoting this trend. Through annual meetings of Shari'ah board members, progress has been achieved in unifying fatwa and establishing the ground work for common rules to govern the Shari'ah aspects of Islamic banking.