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*Usury and its Alternatives*

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# Is Islamic Banking Kosher?



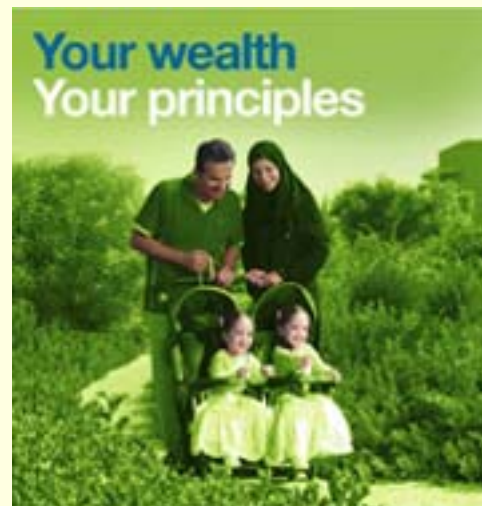
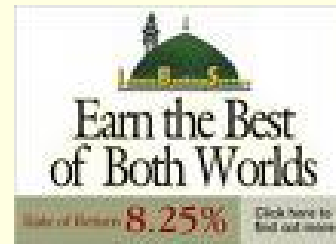
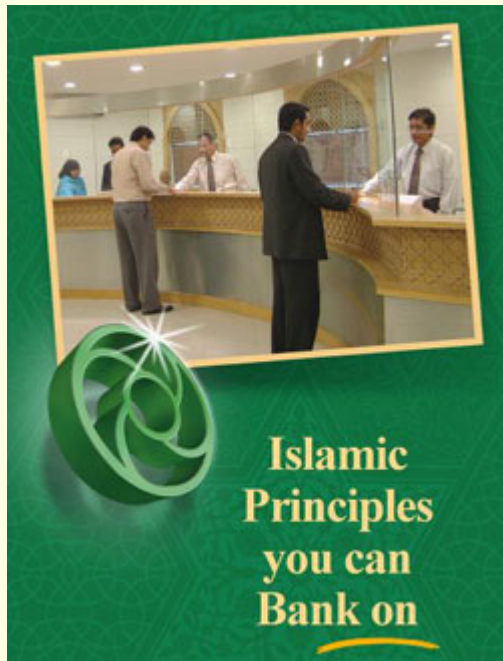
Shariah-Compliance in a Global Context

# Islamic / Shariah-Compliant Banking

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- > 300 Islamic financial institutions
- > 51 countries
- > 250 mutual funds
- > \$375 bn asset base
- 10-15% per annum growth rate

# Samples of Islamic Marketing



# 6 Associated Risks

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- Compliance Risk
- Operational Risk
- Regulatory Risk
- Fatwa Risk
- Spiritual Risk
- Scholar Risk




# Post-transaction discoveries

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- Funds not fully segregated
- Manager not committed to shariah-compliance across the business
- Scholars' authority questioned
- Minority opinion support for transaction

# Solutions to Key Risks

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- Single, global operational standard
  - ITU-like technical body
  - UNCTC-like policy body
  - OIC working group body
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- Multiple and voluntary standards bodies

# Kosher Foods analogy

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- Originally governmentally enforced
- Separation of religion/state reoriented major features of enforcement
- Definitions and enforcement measures now in hands of voluntary standards organizations
- Administrative and Judicial branches of government left to general “good faith and fair dealing” oversight

# Samples of Kosher Markings

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**OUKOSHER.ORG**  
THE WORLD'S MOST  
RECOGNIZED AND  
TRUSTED KOSHER  
TRADEMARK



- There are nearly 50 such organizations worldwide, with their own distinctive markings and standards.

# Handling Identified Risks

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- Compliance, Operational & Regulatory Risks – establish SSBs
- Fatwa, Scholar & Spiritual Risks – calculation of probabilities for acceptance/rejection



# 5 Consequent Steps

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- Any financial institution (FI) may claim to offer Islamic or shariah-compliant products and services
- Any FI that makes such claims shall explain and warrant those claims
- Warranted bases for those claims are essential elements to deals so agreed, and so any change in bases is significant

# 5 Consequent Steps (con't)

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- Timely notice to investor/consumer of any change in bases (incl. change of scholars or schools of jurisprudence)
- Any change permits investor/consumer to renegotiate or unwind/close out the deal, without financial or other penalty

# Islamic Standards Organizations

هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية  
Accounting and Auditing Organization for Islamic Financial Institutions



# Spreading alternatives

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- Diversity can be the Islamic financial sector's strength, not its weakness

# Islamic Alternatives

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- Murabaha = purchase + markup for resale
- Mudaraba = capital investment → pre-arranged share of profits (passive investor)
- Musharaka = capital investment → share of profits/losses per amount invested (active partner)
- Ijara = lease [often combined with option to purchase]
- Sukuk = capital investment on bond, backed by assets producing cash flow to pay pre-arranged share of profits
- Takaful = mutual aid (replaces traditional insurance)

# Schools of Islamic Jurisprudence (Fiqh) extant

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- Hanafi (oldest and most liberal of Sunni schools, found *inter alia* in Turkey, Pakistan, the Balkans, Central Asia, China and Egypt)
- Maliki (second oldest, third largest of Sunni schools, found *inter alia* in North Africa, West Africa, Persian Gulf states)
- Shafii (standard reference point for Sunni scholars, found *inter alia* in Southeast Asia, Egypt, India)
- Hanbali (predominant Sunni school on Arabian peninsula)
- Jafari (Shi'a school, found *inter alia* in Iran, Iraq, Lebanon, Pakistan, Saudi Arabia)