

MORAL VALUES AND FINANCIAL MARKETS: ISLAMIC FINANCE AGAINST THE FINANCIAL CRISIS

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Some relevant questions

1. Does Islam differ from the other religions?
2. Is Islam an obstacle to the economic growth?
3. When, where and why is born Islamic finance?
4. Is Islamic finance really different from conventional finance?
5. Has Islamic finance resisted better to the financial crisis?
6. What is the future of Islamic finance ?

See Rony Hamaui and Marco Mauri, *Economia e Finanza Islamica*, Il Mulino, Bologna ,2009

1. Does Islam differ from the other religions?

Probably YES

Closer relationship between theological-moral dimension and legal dimension

2. Is Islam an obstacle to the economic growth?

Probably Not
≠ Kuran (1993)

The socio-economic situation of Islamic countries is very heterogeneous and largely depends on the geographic area

Islamic countries are not just Middle East

3. When, where and why is born Islamic finance?

Pakistan, 1940

≠ Muhammad, 570 / Mit Ghamr, 1963

To regain a cultural identity:
Islamic policy, Islamic Constitution,
Islamic Finance

4. Is Islamic finance really different from conventional finance?

Probably yes,

Sound principles

- Prohibition of interest (*riba*)
- Asset-backing is essential
- Profit and loss sharing
- Contractual certainty (clear and transparent investor rights and obligations)
- No betting and gambling (*maisir*), no unilateral (or zero-sum) gains
- Sales must be immediate and absolute without uncertainty (*gharar*)

4. Is Islamic finance really different from conventional finance?

... but

Questionable practices.

- Low use of profit and loss contracts (*mudàraba* and *mushàraka*)
- Extensive use of trade contract (*muràbaha*)
- Extensive use financial engineering

An example: Derivatives in Islamic Finance

	Legacy Derivatives	Explicit Derivatives
Forward ²	x (<i>salam, bay mu'ajal, bay bithaman ajil</i> (BBA), <i>istisna</i>)	x (various commodity hedges and "wrappers")
Option	x (<i>wa'd, arbun, al-shart</i>)	x (foreign exchange option contracts)
Swap	x (<i>tawarruq, al-muqasah</i>)	x (<i>wa'd</i> -based swap, profit rate swap, cross-currency swap)

Jobst, A. (2009), "Islamic Derivatives," *International Journal of Monetary Economics and Finance*, Vol. 2, Nos. 3/4, 254-60.

5. Has Islamic finance resisted better to the financial crisis?

Yes and No

- Not involved in toxics assets
- Very much involved with real estate
- Significant loss of Islamic banks
- Significant capital losses with equity investment, although recent gains
- Defaults of number of Sukuk (Saad Group, Investment Dar)

The distinction between financial crises and economic crises is weak

6. What is the future of Islamic finance ?

If it remains faithful to its guiding principles
it will have a great future