



Introduction to Islamic finance

Studium Generale

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Introduction



Introduction

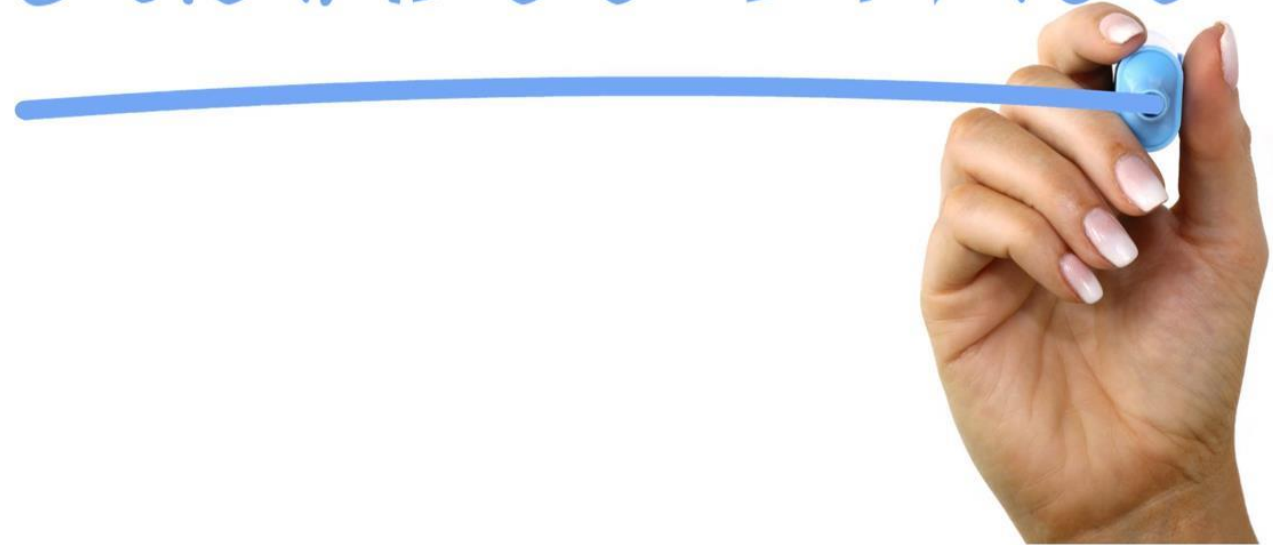
- Ethical
- Socially responsible
- Sustainable



Introduction



BUSINESS ETHICS



Introduction

religious teachings shape morality of
a substantial portion of the people
making business ethical decisions

Introduction

- Introduce yourselves to your neighbors
 - Name
 - School
 - Year
 - Country



Introduction

- Do you care about the ethical behavior of the companies, the products of which you buy?





Introduction

Global Consumer Pulse Research

- Consumers (under 30), across all generations, care about what retailers say and how they act
- Gen Z and Millennial generations
- More than six in ten younger consumers

Religion & Business

- Religion influence morality of the majority
- Business ethical decisions are shaped by morality



Business is secularized (separate from religion)

- Why do you think is that?

Religion & Business

- Catholic
- Protestant
- Jewish
- Islamic
- Hinduism
- Buddhism



Religion and Business

- Max Weber
- *Protestant Ethic and the Spirit of Capitalism*
 - Protestant Christianity
 - Development of modern capitalism



Religion and Business

- Religion & Business → Business ethics
- Philosophy, social sciences and business
- Emerged in 70s
- Corporate Social Responsibility (CSR) reporting

- What do you think is the purpose of the CSR reporting?

Islam & Business



- Have you heard the term “halal” before?

Islam & Business



Haram

Islam & Business

- Sources
 - Qur'an
 - Sunna



Islam & Business



Principles



The God is the ultimate owner of all.



Material pursuits must be balanced with an individual's spiritual needs.



An individual's needs must be balanced with society's needs.



Economic transactions should take place within a just, responsible, free-market economy.

Islam & Business



Prohibitions



Interest, usury (*riba*)



Uncertainty



Gambling



Prohibited products and industries

Time Value of Money



Interest

"A dollar today is always worth more than a dollar tomorrow"



Uncertainty

Unfair

- Cheating
- Unclear
- Ambiguous
- No informed decision possible

Too Risky



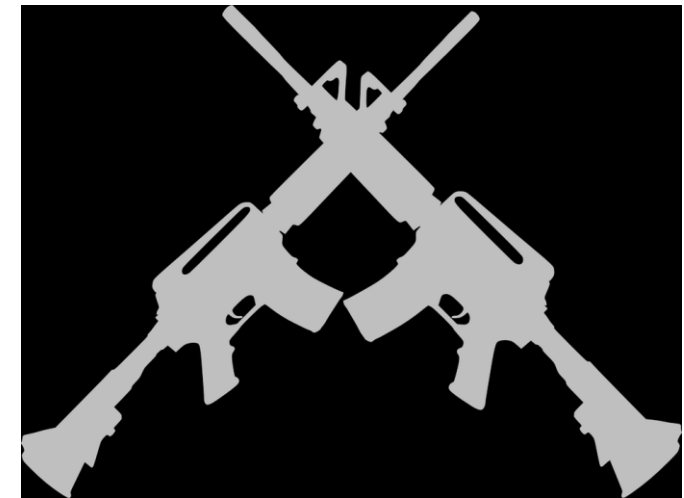
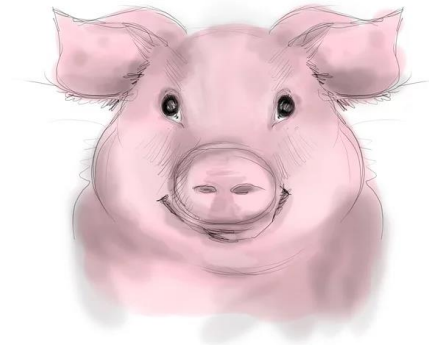
Gambling

- Game of chance
- Wealth by chance
 - Addiction
 - Unexpected consequences
 - Exploitation

Haram



Prohibited products and industries



Islamic Finance & Banking



Islamic banking



Over 300 Islamic banks around
the globe



Follow Sharia (Islamic law)

Islamic Finance & Banking



- Do you think anyone can use Islamic financial services?

Myths!

Only for Muslims

*1/3 is a non-Muslim

Not profit oriented

Practiced only in Muslim countries

It is a new industry

Islamic Finance & Banking



Interest-free banking



Profit and loss sharing



How Do They Make Profit?

Common Contracts

Profit-and-loss sharing contracts (mudaraba)

Partnership and joint stock ownership
(musharaka)

Installment (cost-plus) sale (murabaha)

Leasing (ijara)

Islamic forwards (salam, istisna)

Profit-and-loss sharing contracts (mudaraba)



Two-tiered mudaraba
&
First-tier mudaraba



Mudaraba

- Restricted
- Unrestricted



Partnership and joint stock ownership (musharaka)



Permanent/constant
&
Diminishing



Musharaka



Installment (cost-plus) sale (murabaha)

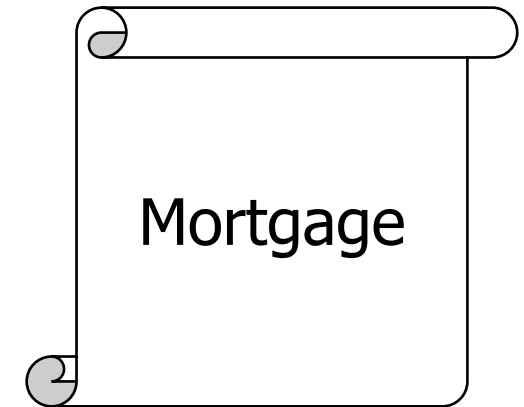


- Real estate
- Car
- Household appliances

Installment (cost-plus) sale (murabaha)

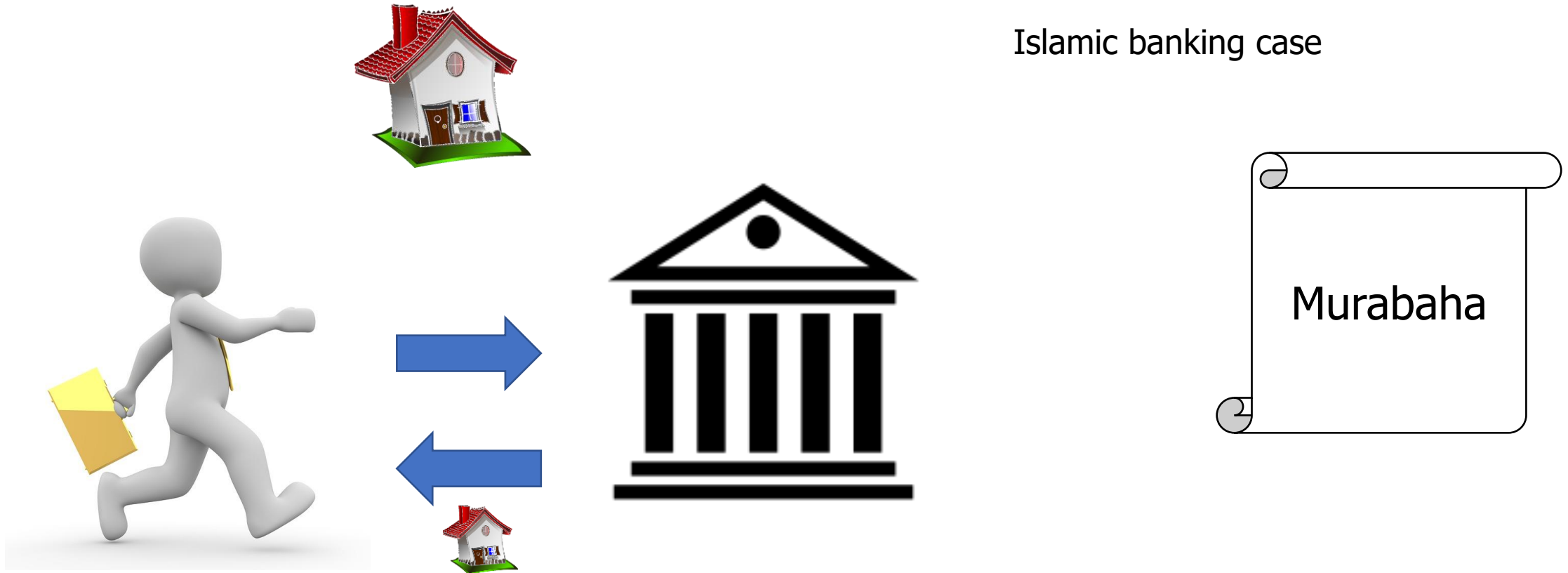


Conventional banking case



Installment (cost-plus) sale (murabaha)

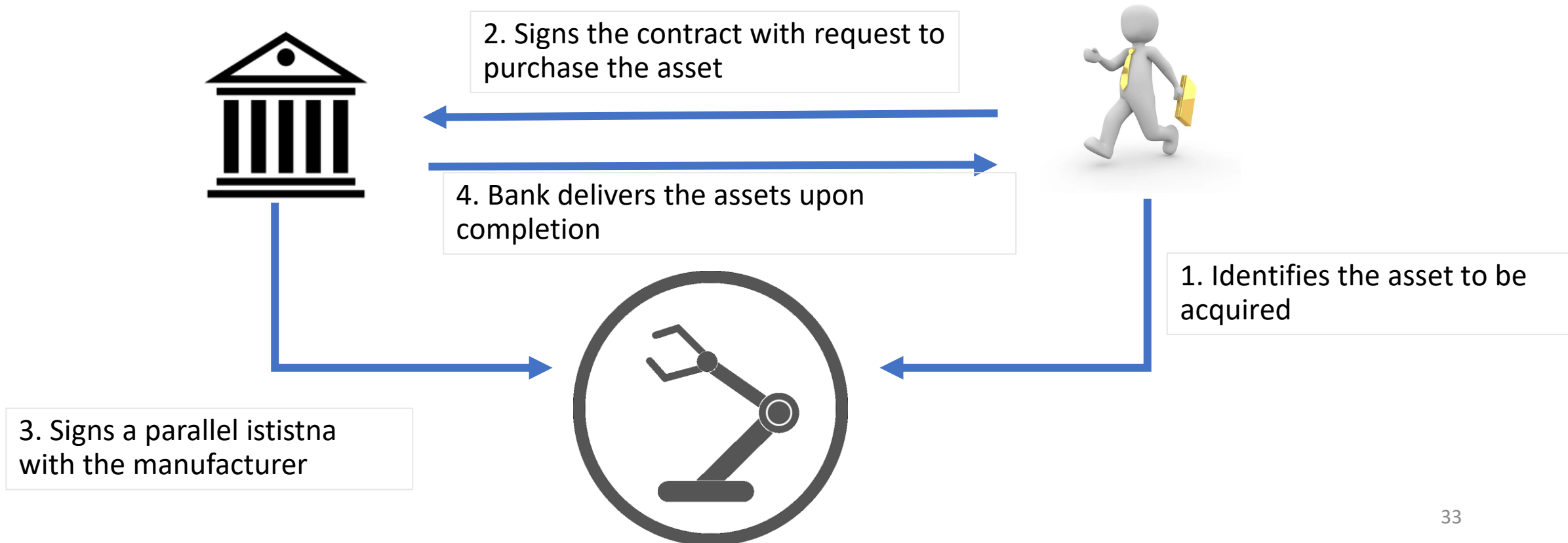
Islamic banking case



- No interest allowed
- Murabaha replaces loans
- Murabaha aka cost-plus financing (profit markup instead of interest)

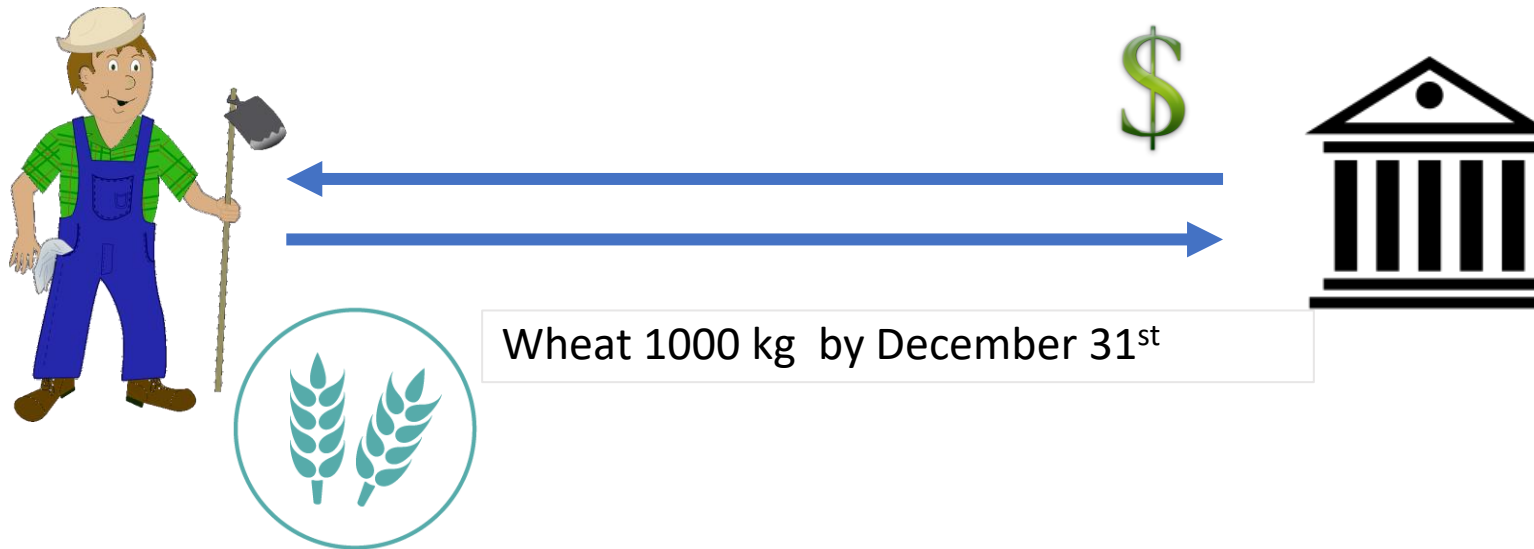
Islamic forwards (salam, istisna)

- Istisna is a sale contract of assets that need to be manufactured before the delivery.

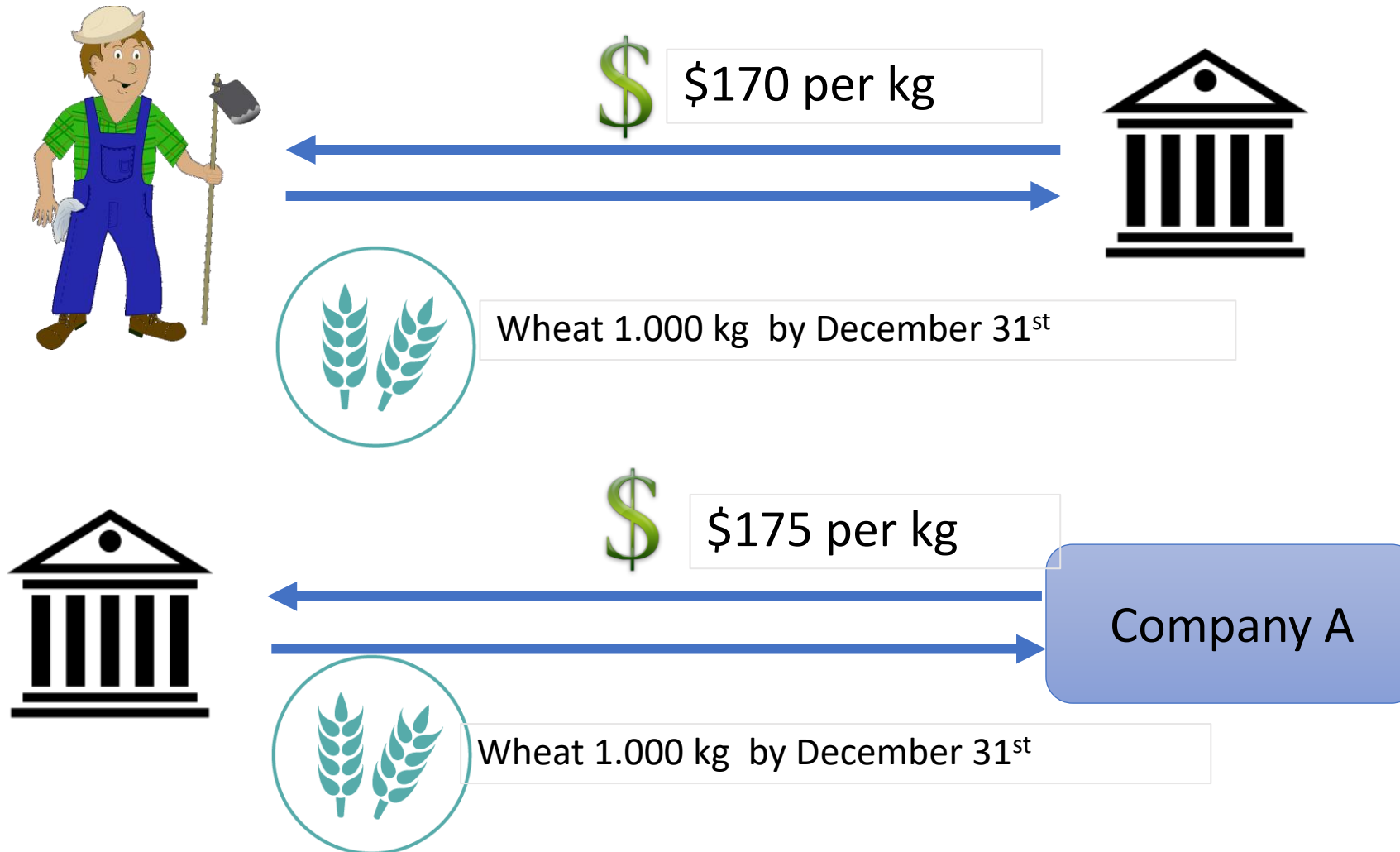


Islamic forwards (salam, istisna)

- **Salam** is an Islamic contract in which full payment is made in advance for specific goods (often agricultural products) to be delivered at a future date.



Islamic forwards (salam, istisna)



Zakat

- Zakat – obligatory annual tax paid by individuals and businesses.
- Calculation of zakat by individuals: 2.5% of unused the whole lunar calendar year wealth \geq 84.8gr of gold (nisab)

Beginning of the year ~ \$2.500 (savings)

End of the year ~ \$4.000 (84.8gr of gold = \$3.489.52)

Zakat payment ~ \$4.000*2.5%=\$100

Sharia Supervisory Board

- Sharia Scholars
- At least 3 members
- Overview bank's activities
- Opinion in annual reports
- Purify income



Sukuk (Bonds)

- Islamic financial certificate, equivalent to bond.

Sukuk	Bond
Asset ownership	Debt obligations
Profit	Interest

- Case of Dana Gas
 - Conflicting rulings by UK and UAE courts

Criticism

- Standardization issues
- Emphasis on the form (vs substance)
- CSR Reporting

CSR: Islamic Perspective

- Corporate Social Responsibility
- Unity of God
- Stewardship
- Holism

Thompson
Spoon