

# Islamic Finance – A Short Brief

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# Islamic Finance Philosophy

- The concept of purity of wealth/halal
- Wealth procreation/risk sharing
  - Intrinsic value vs measure of value
- Usury as an 'evil'
  - Riba
- Ethics of information exchange /speculation/gambling
  - Gharar
- Justice/ethics in trade
  - Adl
- Fair competition/anti-monopoly
  - Hokr
- Alms
  - Zakat



## Immediate Exclusions

- Interest based lending
- Futures/forwards
- (Islamically) unlawful investments
  - Highly interest-based/leveraged companies
  - Gambling
  - Alcohol/drugs
  - Prostitution
  - General indecency and unacceptable cinema/media
  - Weaponry (unless purpose is defined and limited)



## Available instruments

- Financed installment trade – Murabaha
- Lease - Ijara
- Lease to purchase – Ijara wa iqtina
- Build/Manufacture to order – Istisna
- Equity partnering – Musharaka
- Profit sharing – Mudaraba
- Stock dealing – Musahama
- Zero interest lending – Qard hasan
- Collateral - Rahn



## Available resources

- Islamic Banks
- Islamically sanctioned funds
- Islamically sanctioned stocks
- Sukuk (Islamic notes) versus bonds
- Takaful (collective providence) versus insurance
- Others!



## The Punch Line

- There's nothing wrong in making huge profits!!
- It's all about 'Terms and Conditions'
- They need to observe the fundamental ethics of financial dealing and wealth creation



## Some Examples

- US\$11.4 B Dubai Port Takeover of P&O through Islamic Sukuk
- Emirates airlines fleet expansion through Ijara
- US\$1 B Istisnaa contract for the Dolphin gas pipeline project in Qatar
- HSBC and Lloyds banks offer Islamic home finance in the UK



## Some Recommendations

- Forget the label – look at the content
- Capitalize on the opportunity:
  - Increasing Muslim population in a developed market
  - Increasing free capital flow – diversity of fund sources
- Adjusting T&Cs is much easier than waiting for new regulations



**It's a huge subject and there's hardly  
enough time**

So.....I'll take questions now

