

Main concepts in Islamic banking, Islamic finance, & international Islamic finance: An introduction to the conference

Ghada Gomaa A. Mohamed

gmohamed@eco-ena.ca,
ghadagomaa1@yahoo.ca

Associate professor of economics
President; ECO-ENA, Inc., Canada

ECO-ENA: Economics & ECO-Engineering Associate, Inc., Canada

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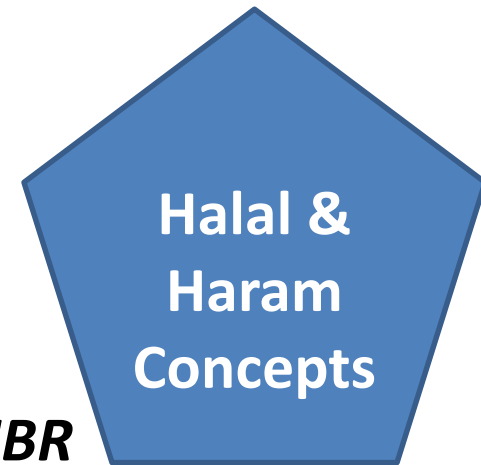
<http://www.eco-ena.ca/islamic-economicsfinance.html>

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The Definition of Islamic Finance

- The Islamic Finance is a system of financial activities consistent with “Islamic Banking Regulations (IBR)”.

- *Principles of Islamic Finance (PIF)*
- *The Islamic Banking Regulations (IBR)*
- *Financial Activities Consistent with the IBR*
- *Shariah-Compliant Finance (SCF)??????????*



Main principles of Islamic finance:

- Wealth must be generated from legitimate trade and asset-based investment.
- Investment should also have a social and an ethical benefit to wider society beyond pure return.
- Risk should be shared.
- All harmful activities (haram) should be avoided.

Source: Ken Garrett, Introduction to Islamic Finance:

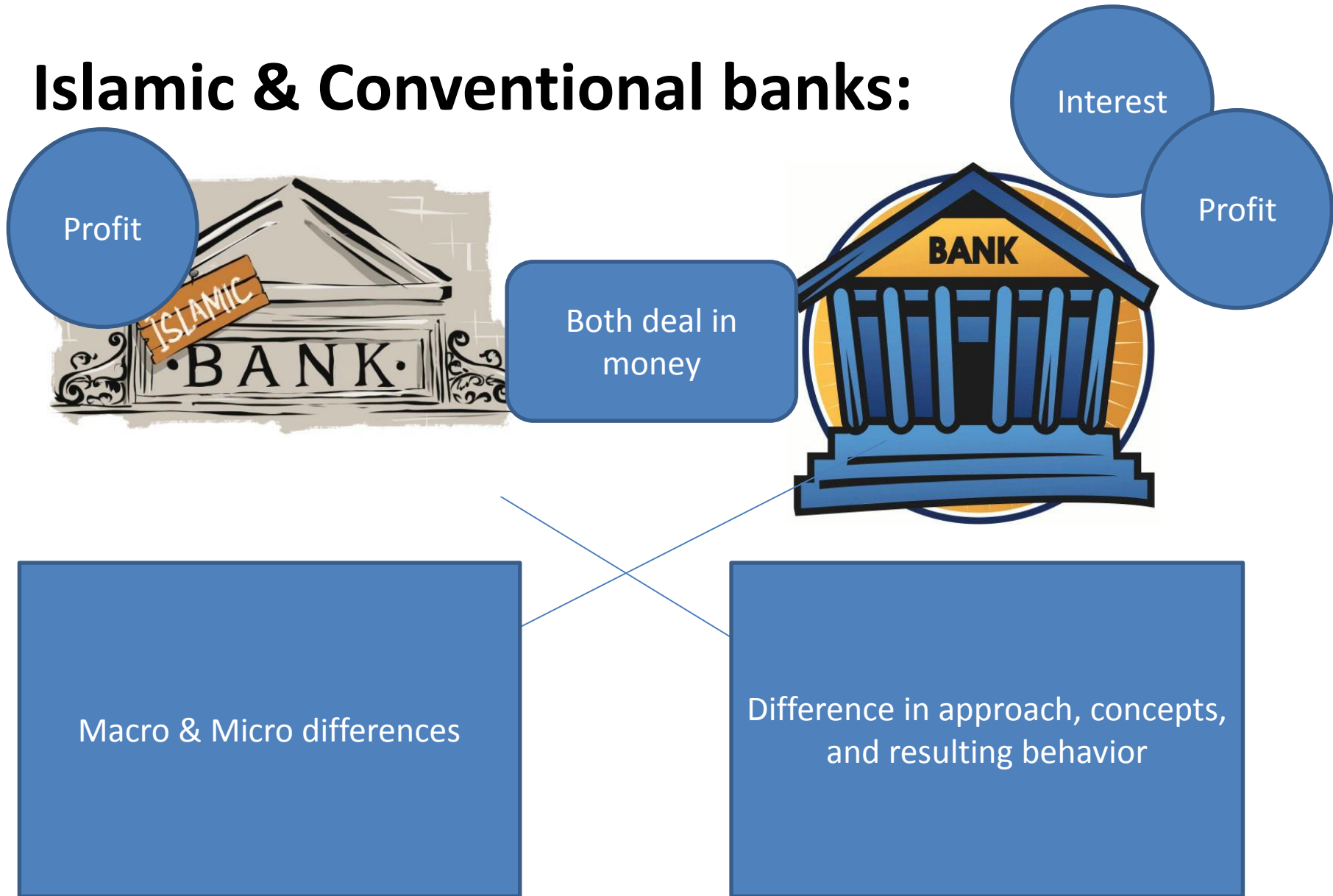
<http://www.accaglobal.com/content/dam/acca/global/PDF-students/2012/introlsFinance.pdf>

The Islamic Banking Conditions (IBC)

Sharia Requirements for conventional banks

- Complete segregation of funds.
- The existence of a sharia supervisory board.
- Management committed to Islamic Financial Concepts (IFC).
- Safeguarding investors' funds from negligence, trespass, and fraud.
- Compliance with the Standards of the Accounting and Auditing Organization for Islamic Financial Institutions. (AAOIFI).

Islamic & Conventional banks:



Source: Dr. Iraj Toutouchian & Prof. C. G. Harcourt, The Role of Central Banks in Islamic Banking, http://www.islamic-banking.com/jarticle_1.aspx

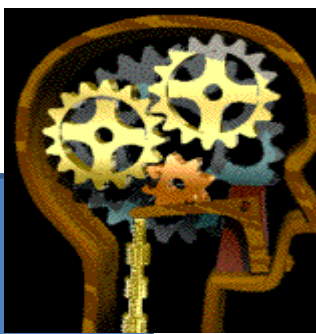


Money investment

Money
makes
capital
equip-
ment



Capital investment



Money
makes
money

Interest

Profit

Various modes of contract available to Islamic banks:



Partnership based mode

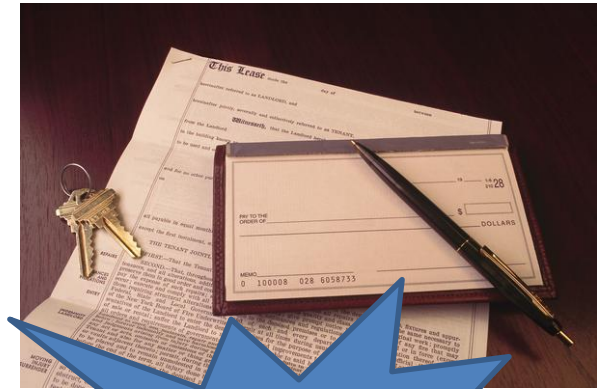
Musharaka

Mudaraba



Trade based mode

Murabaha

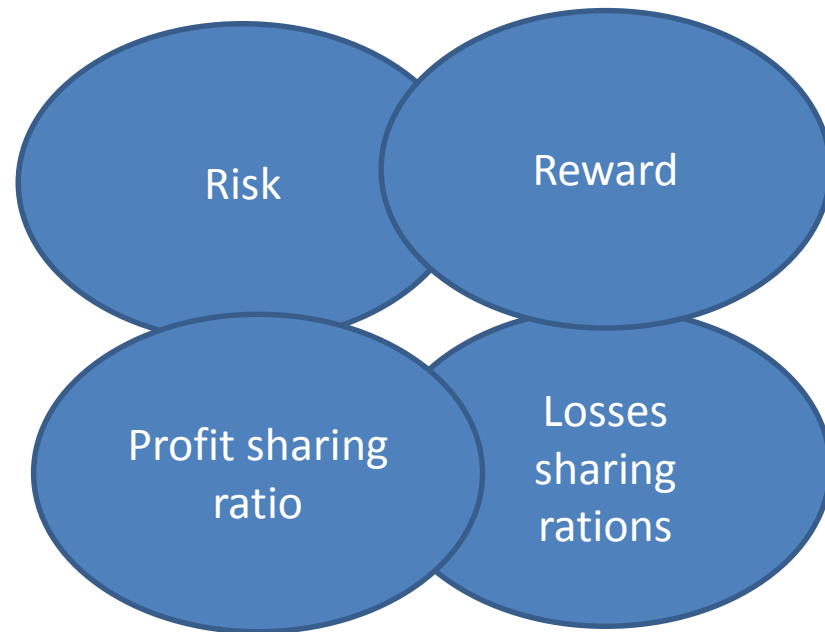


Rental based mode

Ijara

Partnership based mode:

Musharaka = (Capital : Capital) Partnership



Partnership based mode: **Mudaraba = (Capital : Expertise) Partnership**



“If no profit is made, the loss is borne by the fund first investor and the Islamic bank takes no fees.”

Trade based mode:

Murabaha = “I accomplish your dreams at once and pay me slowly + an agreed profit margin”:



No loan --- No interest

Purchase --- Resale

Rental based mode: Ijarah = Leasing



Islamic
Mortgages

No loans --- No interest

Purchasing ----Leasing

“In 2002, HSBC was the first UK clearing bank to offer mortgages in the UK designed to comply with Shariah.”

International Islamic Finance: “Islamic financial regulations – qualified equities”:

Investments in companies engaged in prohibited products & services is not permissible.

Investments in business interest –based generated activities is not permissible.

Investments in companies that are financed in a risky manner is not permissible.



Permitted financial regulations for companies are:

A total debt-to-asset ratio shouldn't exceed one-third.

The account's receivable to total asset ratio should be less than 45%.

The portion of cash + interest bearing securities compared to the company's market capitalization cannot exceed 33%.

S&P/TSX 60 Shariah Index: Facts

- ❑ “In 2006, Standard & Poor’s introduced the S&P Shariah indices.”
- ❑ “In May 2009 the S&P/TSX 60 Shariah Index was launched.”
- ❑ “The Shariah version screens the index constituents for compliance while adhering to the guidelines of the S&P/TSX 60 Index.”
- ❑ “The S&P/TSX 60 Index is the leading tradable Canadian index designed to represent leading companies in leading industries.”
- ❑ “The S&P/TSX 60 Index covers approximately 73% of Canada's equity market capitalization.”
- ❑ “Its 60 stocks make it ideal for large cap coverage and a cost-efficient way to achieve Canadian equity exposure.”
- ❑ “S&P/TSX 60 Shariah Index is highly correlated to S&P/ TSX 60 Index.”

S&P/TSX 60 Shariah Index: Facts

Number of Constituents	27
Adjusted Market Cap (C\$ Billion)	397.476
% Weight Largest Constituent	13.68%
Top 10 Holdings (Market Cap Share - C\$ Billion)	262.28
Currency	CDN Dollars

“Shariah Screening: Standard & Poor's has contracted with Ratings Intelligence Partners (RI) to provide the Shariah screens and filter the stocks based on these screens.”

“Ratings Intelligence Partners is a London/Kuwait-based consulting company specializing in solutions for the global Islamic investment market. “

Excluding business activities according to the RI:

“1. Advertising and Media, with the following exceptions: Media and advertising companies generating revenues in excess of 65% of total income from the Gulf Cooperation Council (GCC) countries
News Channels
Newspapers
Sports Channels

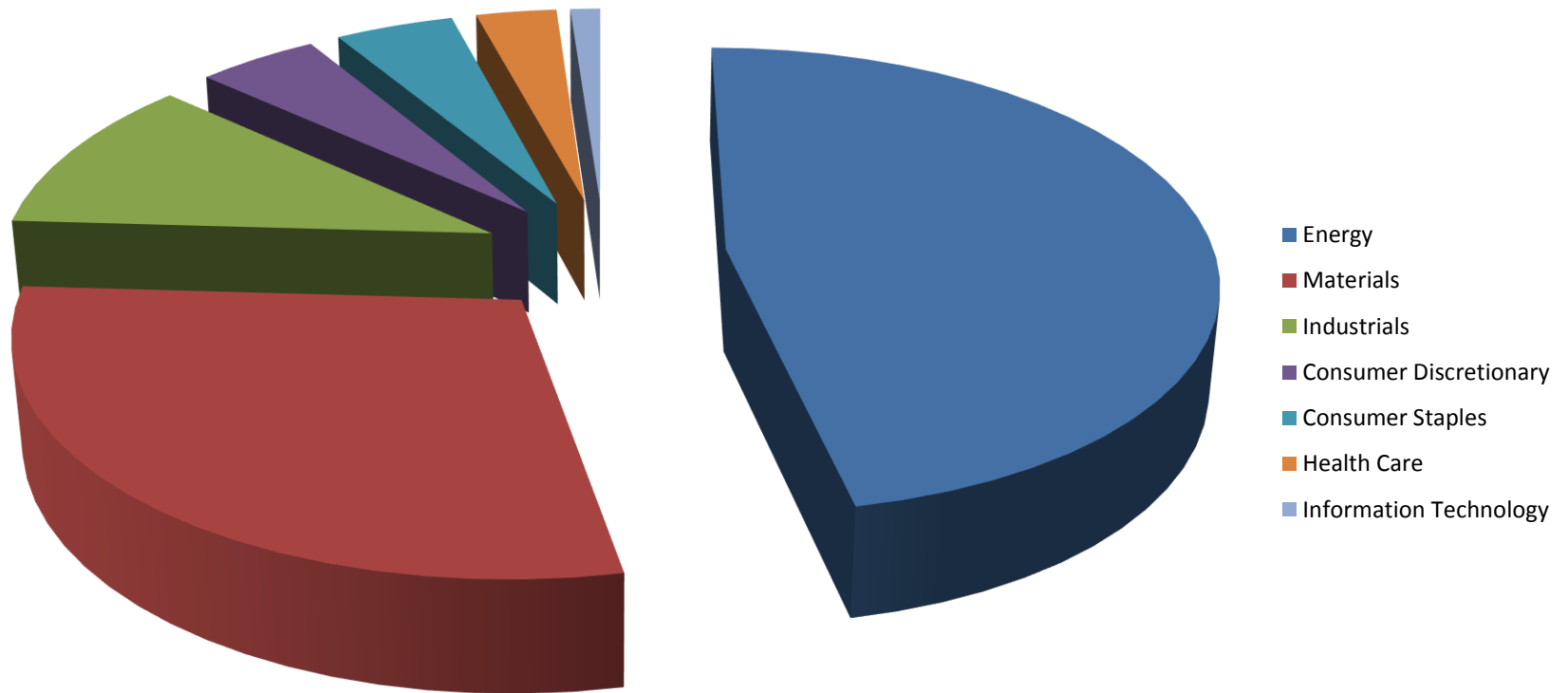
2. Alcohol
3. Cloning
4. Financials, except:
Islamic Banks
Islamic Financial Institutions
Islamic Insurance Companies

5. Gambling
6. Pork
7. Pornography
8. Tobacco
9. Trading of gold and silver as cash on deferred basis .”

“During the selection process, each company's audited annual report is reviewed to ensure that the company is not involved in any non-Shariah compliant activities. Those that are found to be non-compliant are removed. The above industries are not considered Islamic and would not be appropriate for investment for observant Muslims. “

Source: TMXmoney.com, http://web.tmxmoney.com/tmx_indices.php?section=tsx&index=^TXSI

Sector & Top 10 - S&P/TSX 60 Shariah Index



Source: TMXmoney.com, http://web.tmxmoney.com/tmx_indices.php?section=tsx&index=^TXSI

Main concepts in Islamic Finance:

Takaful (Islamic Insurance)



Business cycle

Most sukuk are asset-based, not asset-backed investment.

Political risk

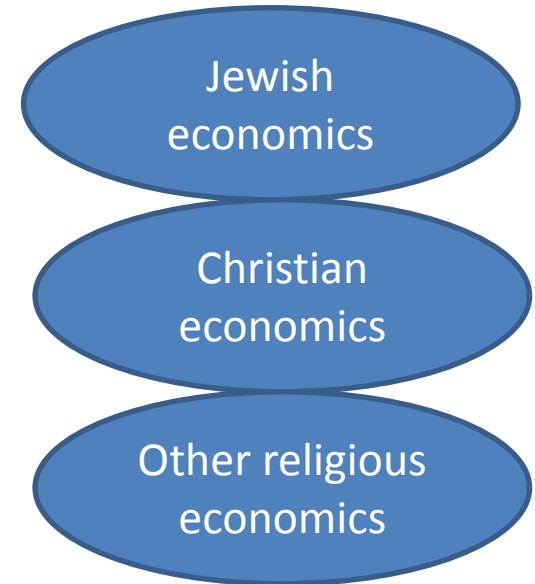
The rate of return is based on the asset transaction and not based on interest on money loaned.

Sukuk (Islamic bonds)



Why religious finance???

- Religion or ethical standards?
- Are we the first???
- What about others' ethical standards?
- Is it a complement or a substitute?
- Why in the west?
- Why here???????
- What about conventional banks?
- Is it real or all is about psychological issues?
- Can human being satisfaction make money?
- And many other questions????????????????????????????????????



Thank you!

- -----*Enjoy the intellectual material of the conference!*

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