



**Ethics and financial
practice from a global
perspective symposium**

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21 November 2008



Presentation Overview

- n Islamic banking & finance ARC research
- n Ethical Finance Symposium
- n Mix of papers presented
- n Ethics and Islamic banking
- n Historical aspects
- n Pricing mechanisms
- n Performance
- n Other Islamic instruments
- n Conclusion



ARC Research Project

- n The Australian Research Council provided specific funding over three years to sponsor research on Islamic banking and finance to a consortium comprised of three Monash and one Melbourne University academics. It was also supported by the Muslim Community Cooperative of Australia, Amanie Business Solutions, McPherson & Kelley, Australian Financial Investment Group and, more recently, the Kuwait Finance House.
- n Besides funding research, the project was also to disseminate these findings and otherwise encourage a greater understanding of Islamic financial practices within Australia.



Ethical Finance Symposium

- n The group have help organise a number of one day programs on Islamic related finance in Melbourne of which the Islamic banking and finance: Ethics and financial practice in global perspective symposium is the most important.
- n It entailed an international call for papers which were blind refereed as well as several invited paper from a range international experts.
- n It is the most extensive Islamic finance related conference yet held in Australia.



Papers presented

- n The symposium saw the presentation of 24 separate papers involving speakers from 7 different countries: 9 Malaysia, 8 Australian, 2 Bangladesh, 2 USA, 1 Pakistan, 1 Indonesia and 1 UK.
- n They included 8 papers related to legal, historical and religious matters and 10 on Islamic banking and risk management. The remainder covered Islamic insurance, Islamic microfinance, financial instruments, financial markets and education.



Ethics and Islamic banking

- n Ethics and ethical behaviour was the feature of many papers. This is quite appropriate as the Islamic principles of justice and fairness should govern the behaviour of Islamic bankers.
- n Thus predatory lending and the sub prime crisis styled loans would be unlikely to happen within an appropriately run Islamic financial institution.
- n This does not mean that Islamic banks are necessarily less risky than conventional banks.



Historical aspects

- n At least part of reasoning why interest is so negatively viewed and plays an much more important role in Islam than other religions is a function of its age.
- n Other religions had similar prohibition on usury, but this is more important in Islam. This is partly because it later developed in a monetary economy rather than a barter one. It also varied over time.
- n There should be a risk sharing associated with gaining any returns from financial investments.



Islamic pricing mechanisms

- n There is some differing views as to whether *riba* and usury are exact translations.
- n While many consider that any sort of interest is *riba*, some question whether a fixed return set in advance (but not called interest) could actually be considered profit sharing.
- n So there are “Avon bankers” who provide cosmetically changed conventional loan products to clients, Islamic compliant ones, as well as true Islamic based ones.



Ethics and funding clients

- n While most research attempts to identify behaviour at the bank level, one of the papers presented attempted to identify the impact of ethics and performance among “borrowers.”
- n They found among microfinance clients that those that fulfilled their five times a day pray and other Islam related requirements were more likely to prove successful than less religious clients. So as the “character” in the five Cs of lending, ethical standing is important in Islam client selection, too.



Islamic institutions & performance

- n Several papers attempted comparison of Islamic and conventional banks across a range of countries.
- n They found little difference between the two with minor exception that countries comprised of many newer Islamic banks were modestly less efficient.
- n The investment performance of Islamic versus conventional fund managers in Malaysia also proved very similar.



Islamic instruments

- n As with Islamic banking, Islamic insurance is a function of risk sharing and the working toward mutual benefit via insurance pools. The customers benefit accordingly in periods of lower than expected claims.
- n Islamic housing finance, lending to the poor, specific Islamic instruments and their characteristics and the need for more education were also covered.



Conclusion

- n Many areas for further research were identified over the day as was the potential for future joint collaboration as well as ideas for publishing the outcomes.
- n The need for better and more consistent financial standards, published disclosure and regulations were frequent comments across the papers.
- n Finally, there would be considerable potential for Australia to learn from the experiences of others within the region and improve its financial landscape so that all Australian families can access financial services appropriate for their needs.