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Islamic finance could be an answer to global economic problems

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Adopting Islamic finance practices could lead to a more equitable global economic system, an Islamic finance expert told an AUB audience.
Sheikh Zaher Nsouli, chief of Sharia audits at the Lebanese Islamic Bank, added that methods applied in Islamic institutions could help prevent future economic meltdowns.
Nsouli, in the talk “Islamic Finance in the Midst of the Meltdown Crisis,” held at AUB’s Suliman S. Olayan School of Business, praised the Islamic Zakat system where a 2.5 percent of all revenue is continually redistributed to the poor.
“No economy is capable of doing or reaching such results except with Islamic finance, which is divine. As GDP increases, the Zakat increases and goes towards poverty alleviation,” he said.
Anwar Soubra, Sharia compliance officer at Elaf Bank, Bahrain, praised the Islamic finance system due to its refusal to allow speculation.
According to Soubra, 97 percent of all transactions done on the New York Stock Exchange were based on speculation.
“Nobody goes for real delivery and this is not acceptable in Islamic finance,” he said.
Speculation is an action that does not guarantee the safety or return of initial investment. It typically involves lending money or purchasing assets, equity or debt in an imprecise manner and is deemed to have a significant risk of the loss.
The end result, according to Soubra, is a worrying disparity in the value of the real economy and that created by speculation.
“We produce what is worth $60 trillion in the market but we buy and sell what is worth $2000 trillion,” he said. “It is a very big bubble and when it burst it hurts everybody.”
Nsouli rounded on the greed of world finance, suggesting it was “malign neglect” which brought about the recent financial meltdown.
“According to (ratings agency) Fitch, $1.4 trillion of subprime mortgages originated from 2005 to 2007. The heart of the subprime meltdown rests with the default of these loans. This is inadequate and it is something that I refer to as a malign neglect,” he said.
A subprime mortgage is a loan granted to individuals with poor credit histories, who would not be able to qualify for conventional mortgages. Since subprime borrowers present a higher risk for lenders, subprime mortgages charge interest rates above the prime lending rate, something which Nsouli disapproved of.
“We actually have a crisis in the system,” Nsouli added.
He said that Adjustable Rate Mortgages – which charge repayment rates linked to financial indexes – comprised 80 percent of US mortgages and accused derivatives markets of helping bring down some of the world’s biggest banks.
“Derivates are estimated by the Bank of International Settlements to be $600 trillion, 10 times greater than the size of the world economy,” he said.
A derivative is a security whose price is dependent upon or derived from one or more underlying assets, he explained.

“Its value is determined by fluctuations in the underlying asset,” Nsouli said. “Derivatives are referred to by the American philanthropist Warren Buffett as being financial weapons of mass destruction.”

Nsouli said that the current world economic system led to the 2007 world food crisis.

“Food prices increased by 40 percent in 2007 and 50 percent in 2008,” he said.

He added that 850 million people went to bed hungry in 2008 but the number today reached 1 billion.

“To prevent the death of 50 million children it is estimated that $2.5 billion a year is needed, which is the same amount that a cigarette company spends on advertisements,” Nsouli said.

He added that the problem lay not in scarcity of food, but in reallocation of wealth.

“The GDP of 41 poor countries is less than the wealth of the richest seven persons combined,” he said.