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# ISLAMIC BANKING AND FINANCE: FROM KUALA LUMPUR TO LONDON

AREA: ECONOMIC  
ENVIRONMENT

COURSE Nr 37

SESSIONS: 10  
CREDITS: 2

PROFESSOR: **CELIA DE ANCA**

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## **Director of the Centre for Diversity in Global Management**

When approaching the subject of diversity in the corporate world, Celia de Anca is looking more deeply and broadly than many other specialists in this area. She sees diversity in terms of three concentric circles or layers and is interested in establishing the different tools needed to train people at these different levels.

On the outer layer, she says, are the marketing and communications activities companies put in place around diversity, while the central layer concerns more practical issues such as encouraging work-life balance, providing maternity leave or accommodating employees with a disability. At the inner core is what culture and gender can bring to the business.

It is this inner core Prof de Anca finds most compelling and is what she believes brings the most value to those companies that get it right. "You can have a flexible place to work, and you need marketing, but if you want to really learn about diversity you have to go deeper," she says. And for the Spanish-born professor, diversity means more than simply gender or ethnicity. It also encompasses personal characteristics. "Just because you have a woman on the board, doesn't necessarily mean you have sensitivity," she says.

Prof de Anca also believes that her work is filling a gap between a strictly academic approach to diversity and the hands-on diversity training conducted by consultants and in-house corporate learning departments. "At business schools, we can give more depth to what corporations are doing but we also need to take on board more of the practicality that corporations and consultants use in their teaching."

She also spreads her knowledge and experience beyond business school walls. Part of this is reading papers at international conferences and publishing articles in specialist magazines. But Prof de Anca also organises training and mentoring programmes for female entrepreneurs in Latin American and Islamic countries, and has run and managed educational projects in the Middle East for 10 years. She is a member of the Ethics Committee of Morgan Stanley's Ethics Fund, Spain and a member of the International Scientific Committee of the UNiversity Euromed in Marseille, France.

### **Academic Background**

PhD in Philosophy, Universidad Autónoma de Madrid, Spain

BA in Arabic Philology, Universidad Autónoma de Madrid, Spain

Master's Degree in European Community Studies, Universidad Politécnica, Madrid, Spain

Master's Degree in International Relations, Fletcher School of Law and Diplomacy, Boston, USA

### **Academic Experience**

Professor of Global Diversity, Instituto de Empresa, 2002 to present

Director of the Centre for Diversity in Global Management, Instituto de Empresa, 2002 to present

Regular researcher for the Centre for International Mediterranean Studies (TEIM)

### **Corporate Experience**

Assistant to the Vice-President, International Financial Institutions, International Division Banco Santander, Madrid, Spain

Co-ordinator of Development Projects, Centro de Promoción de Investigación Iberoamérica Europa (CIPIE)

Director of Corporate Programmes, the Euro-Arab Management School (EAMS) Granada, Spain

## **INTRODUCTION**

Moody's estimated recently that there are 250 Islamic mutual funds in the world with 300 bn\$ of assets while another 300 Islamic Financial Institutions hold \$250bn of assets, in addition to approximately \$200bn of assets in conventional Western financial Institutions.

Since the oil crisis and the rapid spread of Islamic movements in the 70s an increasing part of the Islamic population is seeking to live in accordance with *Islamic Law* (shari'a) both in private as well in the social or economic spheres of life. As a result, a large number of banks and companies applying the Shari'a have emerged over the last three decades. - Such companies differ from the conventional ones in the sense that they forbid the payment of interest and other cornerstones of western business.

The growing number of Islamic Financial Institutions and its weight in international financial markets have resulted in an increasing interest by western financial institutions in understanding this phenomena and to find ways to penetrate this new market. Of paramount interest is the London case. It is estimated that Islamic Financial Operations dealt in London markets amount to 20bn\$ annually and are growing at a rate of 15% annually.

The Islamic investment trends of the last decade are in some aspects similar with current tendencies in the Western Capitals Markets; in concrete, it can be compared with the *Sustainable Responsible Investment* (SRI) movement represented in the widespread of funds in the European financial markets. These funds as well as the Islamic equivalent intend to link financial results with ethical concerns.

## **COURSE OBJECTIVES**

The course aims to:

- Bring and understanding of Islamic Economics and how they differ from the economies of Islamic Countries
- Strengthen participants' competencies on how to use Islamic Instruments and how these compare with western equivalents
- Explore the new openings in the world financial markets that these new financial instruments can provide.
- Comparing Islamic Financing with other western financial instruments and with SRI instruments in Western Markets
- Foster participants' abilities in dealing with current financial issues in Islamic and western financial markets

## **METHODOLOGY**

The course will combine lectures and discussions; research in working groups; and, on the last day, there will be presentations by each group to the class as a whole, of project work findings.

The programme utilises different participatory styles to obtain the highest possible participation, combining:

- Class lectures
- Case studies
- Group dynamics

The case studies should be discussed in groups before the session, based on the questions stated in this programme. In addition to the conclusions achieved in each group, each participant will bring his or her individual opinion to the class discussion.

Group work and group presentations: In specific cases and/or exercises, each group will be asked to present a written report and/or a class presentation. Those reports and presentations will form part of the final evaluation as indicated in the evaluation section under the label group work evaluation.

Individual participation: Individual participation in class is another relevant aspect for the development of individual skills and abilities. Individual participation in class discussion will constitute part of the final grade.

Final project: Participants individually or in groups of maximum three people will have to do a research project that will be presented in class as their final class project.

The first day of class a series of options for the final research project will be presented

The final project will be presented during the last session (in session 5, participants will submit a half-page summary, describing their project, including the selected option, the theme and the object of the analysis. The report will be returned to the participant to guide the participants in the final analysis).

## TYPE OF EVALUATION

Evaluation will be based on:

- 30% Quality of class participation
- 30% Effectiveness of contribution to the work in groups.
- 40% Final project

## PROGRAMME

The programme will include three main subject areas:

- I- Islamic Banking and Finance: Fundamentals (sessions 1 to 3)
- II- Islamic Banking and Finance: Practical examples (sessions 3 to 6)
- III- Islamic Banking and Finance: Current markets (sessions 6 to 9)

### SESSION 1: Fundamentals

**Theme:** *An Introduction to Islamic Banking and Finance in the XXI Century*

Topics include:

- Why Islamic Banking?
- Islamic Economics vs. Economies of the Muslim Countries;
- General overview of the programme

*Readings:*

Gillian Tett: "Banks Create Muslim "windows" as Islamic Banking Expands its niche" // "London gains greater role in expanding Shari'a Market" // "Koran bans creation of money but Islamic transactions have much in common with West". In Financial Times Friday June 2 2006

#### SESSION 2: Fundamentals:

**Theme:** *Fundamentals and development of economics under the Shari'a rule*

Topics include:

- An introduction to Shari'a (Islamic Law)
- The question of interest in the different ethical traditions
- Shari'a and development in economic thinking

Reading:

The origins and evolution of finance until the twelfth Century . IE DF2-113-I .

#### SESSION 3: Fundamentals

**Theme:** *Islamic Economics vs Western Economics: Different paradigms?*

Topics include:

- Review of the western Economic model
- Discussions on new paradigms based on Shari'a

Readings:

Humayon A. Dar & John R. Presley: *Islamic Finance: A Western Perspective in International Journal of Financial Services*. Vol 1 n° 1 . 1-1- 2003

Mohammad Ziaul Hoque and Masudul Alam Chouldhury; *Islamic Finance: A western Perspective- Revisited*. In International Journal of Islamic Financial Services, Vol 5. n° 1.

#### SESSION 4: Practice

**Theme:** *Understanding Islamic financing in a practical context. The PAMA Kuwait case.*

**Case Study:** *The Role of IT in business process re-engineering in the public authority for minor affairs (PAMA), State of Kuwait. Developed by Nadia al Olaimy, (University of Kuwait) this case will help the understanding on how Islamic finances and Islamic accounting operates in a real situation.*

Prepare in groups the following questions to be discussed in class

- 1- Define PAMA's function and services in light of its cultural Islamic context; try to find an equivalent institution in a Western context.
- 2- Why did PAMA's authorities decide to re-engineer the functions of the organization? Define the main problems the organization faced, and how the IT strategy helped meet the challenges.
- 3- What resistance did the new IT strategy meet with, and how did the organization manage to overcome resistance to change?.
- 4- What cultural conflict did the international consortium face? Give details.
- 5- How did PAMA and the foreign contractors manage to overcome the cultural conflict? In your opinion was the conflict successfully managed?
- 6- In your opinion, how could the cultural conflict have been avoided?
- 7- Try to define, using the information provided in the case, the main rules of Islamic Inheritance.
- 8- How did accountant practices from an Islamic based financial system differ from conventional accountant rules? In which aspects did they differ the most?
- 9- In which countries do you think the contractors of the case will face similar problems? What would you recommend them to do for their future strategy in the region?
- 10- Identify the main activities in PAMA that function on an Islamic Based financial system. Try to analyse differences between these and the same activities in a conventional non-Islamic context.

SESSION 5: practice:

**Theme:** *Understanding the differences between the Islamic Banking system and the conventional banking system. The Case of the International Islamic Bank – Jordan*

**Case Study:** *International Islamic Bank: new competitive environment in Islamic banking, Jordan. Developed by Ayman Salim Khraim; (Jerash University- Jordan)* This case analyses the differences between conventional and Islamic Banking in terms of a marketing strategy:

Prepare in groups the following questions to be discussed in class

- 1- Define the strong and weak aspects of the Jordan Islamic Bank before and after the establishment of the Islamic International Arab Bank.
- 2- Suggest new policies for the JIB to be able to compete in the new competitive context.
- 3- Suggest a plan for the IIAB to acquire a reasonable market share.
- 4- Define the main instruments use in Islamic Banking, in the deposits as well as in the lending side.
- 5- Compare Islamic Banking Instruments in deposit and lending with conventional banking Instruments.
- 6- Are the Islamic Banks competitive in an open market?, define how can it acquire a market share in a conventional banking context.

SESSION 6: practice:

**Theme:** *Islamic Investment Funds: Comparing Islamic Investment with (Sustainable Responsible Investment (SRI) in Western Markets.*

Topics will include:

- Investment following Shari'a rules
- Social Responsible Investment SRI
- International Islamic Indexes ( Dow Jones Islamic Index (DJIM), FTSE Global Islamic Index Series
- International SRI Indexes (Dow Jones Sustainable Group Indexes , FFTS4good group Indexes)

Class work:

In groups prepare a 5 /10 minutes presentation to be given in class:

- Participants in groups will have to make a research work and presented it in class (5 / 10 minutes presentation). The research will identify an existing Ethical Fund from an European market and compare it with an Islamic Fund also in the European region.
- The analysis should include among other factors; equity criteria, rules and regulations of the funds and the profitability of the funds

Useful information for the group exercise:

- List of all existing Islamic Funds (in your class materials)
- Celia de Anca: *Investment with Values: Islamic Investment Vs. Ethical Investment. IE Business School. RRHH/427-I. April 2005.*

Useful internet pages:

- Falaika corp. <http://www.failaka.com>
- Amana corp. <http://www.amanafunds.com/>
- Sustainable investment funds in London <http://www.uksif.org>
- Sustainable investment <http://www.socialfunds.com>
- Siri Research <http://www.avanzi-sri.org> // <http://www.siricompany.com>
- KLD Research & Analytics, Inc <http://www.kld.com>
- <http://www.ftse4good.com/> / the FTSE index for sustainable investment
- [http://www.ftse.com/.indices\\_marketdata/global\\_islamic/index\\_home.jsp](http://www.ftse.com/.indices_marketdata/global_islamic/index_home.jsp) the FTSE index for Islamic investment
- Dow Jones Islamic Indexes <http://www.djindexes.com/mdsidx/?event=showIslamicOverView>
- Dow Jones sustainable indexes <http://www.sustainability-index.com/>

**Current Markets: Guest Speaker:** A guest speaker from the financial Industry (to be confirmed name and date) will present how Islamic products operate in real markets.

SESSION 7: Current Markets:

**Theme:** *Islamic Banking and investment in Western Markets: The case of London*

Readings:

Islamic Finance in the UK; *Brown- Defender of Faith-based Banking // HSBC Amanah Expands Global Takaful Reach // Brown Sees Britain Gateway to Islamic Finance. Islamic Banker May/June 2006 pp 2- 4*

SESSION 8: Current Markets:

**Theme:** *Islamic Banking & Finance in the MENA region*

Guest Speaker DR. Tariqullah Khan, Islamic Banking & Finance Division IRTI-Islamic Development Bank (to be confirmed )

Readings:

30<sup>th</sup> Annual Meeting of Islamic Development Bank: Realism & Urgency Impacts upon IDB in KL // IDB Separates Trade & Project Finance Activities // A 10 – year Plan worth Mastering // Whither the IDB Vision 2020? **Islamic Banker July/August 2005 pp 6-13**  
Islamic Private Equity in the MENA Region in Business Islamica. Tradewind Business Media Co. Ltd December 2007 pp 34- 41

SESSION 9: Current Markets

**Theme:** *Islamic Banking and Finance in Southeast Asia: The Case of Kuala Lumpur*

Readings:

Bank Negara Malaysia 2005 Annual Report: Steady Growth but no breakthrough // Badawi's MIFC Leverages Mahathir Legacy // **Islamic Banker September/October 2006. pp 14-18**  
Financial Stability Test Boost for MIFC Banks. In Islamic Banker May June 2007 pp 8-11

SESSION 10: final work group presentations and handling of final work

#### ADDITIONAL READINGS

- Abdul Latif A. Rahim Janahi, "Potential use of Salam Financing in Malaysia" in: Munawar and Tariqullah Khan ed. *Financial Engineering and Islamic Contracts*. Palgrave Macmillan 2005. pp 123-144
- Abuamria, Faeyz MJ. El mecanismo de funcionamiento de los bancos Islámicos y su tamaño en los mercados Financieros. Un estudio comparativo internacional de su eficiencia. Fundación Euro-Arabe Granada 2007.
- Ahmad Khurshid, "Globalization: Islamic Perspectives, Challenges and prospects". In Munawar Iqbal & Ausaf Ahmad ed. *Poverty in Muslim Countries and the New International Economic Order*. Palgrave Macmillan 2005. pp 15-27
- Chouldhury Masudul, Alam, *Money in Islam. A study in Islamic political economy*. Macmillan UK ,1992
- de Anca, Celia, *Economía Islámica y economía ética. Convergencias en la diversidad cultural: Fondos islámicos de inversión y fondos de inversión éticos en el mercado de Londres*. Uam ediciones Madrid 2003.
- Esposito John, *What Everyone Needs to Know about Islam*, Oxford University Press, 2002.
- *Falilaka Islamic Fund Review* December 2006.
- *Gabriela Gimigliano E Gennaro Rotondo, la Banca Islámica e La Disciplina Bancaria Europea*. Giuffrè Editore – Milano 2006
- Mariani Abdul Majid, NorGhani Mohammed Nor and Fatin Faezah Said, "Efficiency Of Islamic Banks in Malasia" in: Munawar Iqbal and Ausaf Ahmad ed. *Islamic Finance and Economic Development* Palgrave Macmillan UK 2005
- Munawar Iqbal and Tariqullah Khan ed. *Financial Engineering and Islamic Contracts*. Palgrave Macmillan 2005
- "Oil Wealth paves way for Islamic MBA", Financial Times 18-12 2006
- Ramadan Tariq-al, "Western Muslims and the Future of Islam" (Paperback), Oxford University Press 2004- 2005

- Rodney Wilson, "The implications of globalization for Islamic Finance". In Munawar Iqbal & Ausaf Ahmad ed: *Poverty in Muslim Countries and the New International Economic Order*. Palgrave Macmillan 2005. PP15-27
- Said al-Hallaq, "The Role of Islamic Banks in Economic Growth: The Case of Jordan" in Bunawar Iqbal & Ausaf Ahmad ed *Islamic Finance & Economic Development*, Palgrave Macmillan. 2005.
- Taqi Usmani, Justice Muhammad. *Writings on Islamic modes of finance*. 2000: <http://www.failaka.com/research.php>
- Wilson Rodney, *Economics, Ethics and religion. Jewish, Christian and Muslim Economic Thought*, Macmillan UK 1997.
- Wilson Rodney, *Islamic Finance*. Financial Times Financial Publishing. London 1997.

**Internet Links:**

- The Institute of Islamic Banking and Insurance. <http://www.islamic.banking.com/>
- The Islamic Chambers of Commerce: <http://www.islamic-comerce.org>
- Harvard Islamic Finance Information Page: <http://www.hifip.harvard.edu/>
- International Institute of Islamic Business & Finance (IIIBF) <http://islamic-finance.net/>
- Islamic Development Bank: <http://www.isdb.org/>
- Siri Research <http://www.avanzi-sri.org> // <http://www.siricompany.com>
- KLD Research & Analytics, Inc <http://www.kld.com>
- Ethical Investment research Service EIRIS <http://www.eiris.org>