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## Islamic Banking and Economic Recession: An Empirical Discourse in the Midst of Global Recession 2007-2010

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*The present paper discusses the role of Islamic Banking in circumventing the global recession. The soundness of Islamic banks is accounted for by the fact that they use a classical banking model, with financing derived from deposits, rather than being funded by borrowings from wholesale markets. Consequently, when the credit crunch came and borrowing from wholesale markets was halted, Islamic banks were not exposed. The paper concludes that there can be no doubt that Islamic finance has an exciting future, and the quest for a financial system based on moral values rather than greed and fear, is bound to enhance its position in the global system.*

**Keywords:** Islamic Banking, Financial Crisis, Economic and Financing.

### Introduction

Islamic banking is gaining popularity in emerging economies as it bolstered financial institutions avoid the worst of the economic meltdown. With irresponsible banking practices taking the blame for bringing about the global economic crisis, there been a surge of interest in Islamic finance. Islamic banking refers to a system of banking or banking activity that is consistent with the principles of Islamic law (Sharia) and its practical application through the development of Islamic economy (Amin, S, 1978). Sharia prohibits the payment or acceptance of interest fees for loans of money (Riba, usury), for specific terms, as well as investing in businesses that provide goods or services considered contrary to its principles (Haraam, forbidden). While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions.

According to ratings agency Moody's, the global Islamic finance sector is worth \$700 billion and has the potential to be worth \$4 trillion. Islamic finance has been growing by 15 to 20 percent per year for some time and people are looking for alternatives to conventional banking products after the economic crisis (CNN-WB, 2007). There are a lot of non-Muslim countries, including the UK, France, Japan, Hong Kong and Singapore encouraging Islamic finance. In the West, banks including Lloyds TSB, HSBC, Deutsche Bank and Citibank all offer Islamic finance products.

There are many differences between Islamic and conventional banking practices. One fundamental difference is that Islamic banks do not charge interest rather than borrowers and

lenders; the system is based on buyers and sellers. Conventional banking is biased to the seller; Islamic finance is trying to level the ethics between the two parties. While Islamic banks allow taking advantage of financial services that are consistent with religious beliefs, it is the ethics underpinning Islamic finance that is attracting the interest of conventional finance institutions keen to learn lessons from the banking crisis.

Although Islamic banks have suffered from the global repercussions of the economic downturn, they emerged largely unscathed from the initial banking meltdown that brought about that financial turmoil; because Islamic banks are not allowed to deal in mortgage-backed securities or credit-default swaps, two of the practices behind the so-called banking crisis' (Ibid). Now it's too early to say if Islamic finance has dealt with economic downturn better than conventional finance. However, the Islamic system has many more layers of risk assessments and management, which could help protect it from the problems afflicting conventional banks.

The present paper is an empirical discourse on the relevance of Islamic banking to deal with the financial crisis; it discusses the role of Islamic Banks in the midst of Global recession as a remedy to prevent such incidences in future. This paper has seven sections, other than the introduction and conclusion. The principles of Islamic banking and the approaches used in business transactions are discussed in section-2. History of Islamic banking including concepts and techniques are briefed in section-3; section-4 analyses modern Islamic banking from the backdrop of growth of Islamic banking.

The origin of financial crisis starting from the sub-prime crisis is detailed in section-5. Having given the background of economic recession and Islamic banking, section-6 discloses the role of Islamic banking in settling financial recession. The lessons learned from the recession as enclosed in section-7 pointing to the importance of justice and ethics in financial transactions, on which Islamic Banking is rooted. Spread of Islamic Banking in the West is briefed in section-8 through the opportunities aroused out in Western Europe.

### Principles of Islamic Banking

Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah, known as Fiqh al - Muamalat (Islamic rules on transactions). The basic principle of Islamic banking is the sharing of profit and loss and the prohibition of Riba (usury). In an Islamic mortgage transaction, instead of loaning the buyer money to purchase the item, a bank might buy the item itself from the seller, and re-sell it to the buyer at a profit, while allowing the buyer to pay the bank in installments.

However, the bank's profit cannot be made explicit and therefore there are no additional penalties for late payment. In order to protect itself against default, the bank asks for strict collateral (Muslehuddin, M, 2007). The goods or land is registered to the name of the buyer from the start of the transaction, called Murabaha. Another approach is IjarawaIqtina, which is similar to real estate leasing. Islamic banks handle loans for vehicles in a similar way (selling the vehicle at a higher than market price to the debtor and then retaining ownership of the vehicle until the loan is paid).

An innovative approach applied by some banks for home loans, called Musharaka al-Mutanaqisa, allows for a floating rate in the form of rental. The bank and borrower form a

partnership entity, both providing capital at an agreed percentage to purchase the property. The partnership entity then rents out the property to the borrower and charges rent. The bank and the borrower will then share the proceeds from this rent based on the current equity share of the partnership. At the same time, the borrower in the partnership entity also buys the bank's share of the property at agreed installments until the full equity is transferred to the borrower and the partnership is ended. If default occurs, both the bank and the borrower receive a proportion of the proceeds from the sale of the property based on each party's current equity (Umer. C.M, 2008). This method allows for floating rates according to the current market rate such as the BLR (base lending rate), especially in a dual-banking system like in Malaysia.

There are several other approaches used in business transactions. Islamic banks lend their money to companies by issuing floating rate interest loans, which is pegged to the company's individual rate of return. Thus, the bank's profit on the loan is equal to a certain percentage of the company's profits (Rozenberg, C.I, 2006). Once the principal amount of the loan is repaid, the profit-sharing arrangement is concluded and is called Musharaka. Further, Mudaraba is venture capital funding of an entrepreneur who provides labor while financing is provided by the bank so that both profit and risk are shared. Such participatory arrangements between capital and labor reflect the view that the borrower must not bear all the risk/cost of a failure, resulting in a balanced distribution of income and not allowing lender to monopolize the economy.

Islamic banks and banking institutions that offer Islamic banking products and services (IBS banks) are required to establish a Shariah Supervisory Board (SSB) to advise them and to ensure that the operations and activities of the banking institutions comply with Shariah principles. On the other hand, there are also those who believe that no form of banking that involves interest payments can ever comply with the Shariah. In Malaysia, the National Shariah Advisory Council, which has been set up at Bank Negara Malaysia (BNM), advises BNM on the Shariah aspects of the operations of these institutions and on their products and services. In Indonesia the Ulama Council serves a similar purpose (Habib, F.E, 2007). A number of Shariah advisory firms have now emerged to offer Shariah advisory services to the institutions offering Islamic financial services. Issue of independence, impartiality and conflicts of interest have also been recently voiced.

### History of Islamic Banking

During the Islamic Golden Age, early forms of proto-capitalism and free markets were present in the Caliphate, where an early market economy and an early form of mercantilism were developed between the 8th-12th centuries, which some refer to as "Islamic capitalism" (Muslehuddin, M, 2007). A vigorous monetary economy was created on the basis of the expanding levels of circulation of a stable, high-value currency (the Dinar) and the integration of monetary areas that were previously independent.

A number of economic concepts and techniques were applied in early Islamic banking, including bills of exchange, the first forms of partnership (mufawada) such as limited partnerships (mudaraba), and the earliest forms of capital (al-mal), capital accumulation (nama al-mal), cheques, promissory notes, trusts, transactional accounts, learning, ledgers and assignments (Arjomond. S.A, 1999). Organizational enterprises independent from the State also existed in the medieval Islamic world, while the agency institution was also introduced during

the time. Many of these early capitalist concepts were adopted and further advanced in medieval Europe from the 13th century onwards.

Applying interest was acceptable under some circumstances. Currencies that were based on guarantees by a government to honor the stated value (i.e. fiat currency) or based on other materials such as paper or base metals were allowed to have interest applied to them. When base metal currencies were first introduced in the Islamic world, the question of "paying a debt in a higher number of units of this fiat money being *riba*" was not relevant as the jurists only needed to be concerned with the real value of money (determined by weight only) rather than the numerical value.

The criticism of usury in Islam was well established during the Prophet Mohammed's life and reinforced by several of verses in the Quran. This was accepted to refer directly to interest on loans so that, by the time of Caliph Umar, the prohibition of interest was a well-established working principle integrated into the Islamic economic system (Lopez, R. S. 2001). It is not true that this interpretation of usury has been universally accepted or applied in the Islamic world. Indeed, a school of Islamic thought which emerged in the 19th century led by Sir Sayyid still argues for an interpretative differentiation between usury, which it is claimed refers to consumption lending, and interest which they say refers to lending for commercial investment (Ibid). Nevertheless, there does seem to be evidence in modern times for what describe as a gradual evolution of the institutions of interest-free financial enterprises across the world. For instance, the current existence of financial institutions in Iran, Pakistan and Saudi Arabia, the Dar-al-Mal-al-Islam in Geneva and Islamic trust companies in North America.

### Modern Islamic Banking

Interest-free banking seems to be of very recent origin. In due course, the need for commercial banks and their perceived "necessary evil," have proposed a banking system based on the concept of *Mudarabha* - profit and loss sharing. In the next two decades interest-free banking attracted more attention. The early 1970s saw institutional involvement (Banaji, J, 2007). The Conference of the Finance Ministers of the Islamic Countries held in Karachi in 1970, the Egyptian study in 1972, the First International Conference on Islamic Economics in Mecca in 1976, and the International Economic Conference in London in 1977 were the result of such involvement (Kuran, T, 2005). The involvement of institutions and governments led to the application of theory to practice and resulted in the establishment of the first interest-free banks. The Islamic Development Bank, an inter-governmental bank established in 1975, was born of this process.

The first modern experiment with Islamic banking was undertaken in Egypt under cover without projecting an Islamic image. The pioneering effort, led by Ahmad Elnaggar, took the form of a savings bank based on profit-sharing in the Egyptian town of MitGhamr in 1963. This experiment lasted until 1967, by which time there were nine such banks in the country.

In 1972, the MitGhamr Savings project became part of Nasr Social Bank, which currently is still in business in Egypt. In 1975, the Islamic Development Bank was set-up with the mission to provide funding to projects in the member countries. The first modern commercial Islamic bank, Dubai Islamic Bank, opened its doors in 1975 (Ibid). In the early years, the products

offered were basic and strongly founded on conventional banking products, but in the last few years the industry is starting to see strong development in new products and services.

Islamic Banking is growing at a rate of 10-15% per year and with signs of consistent future growth. Islamic banks have more than 300 institutions spread over 51 countries, including the United States through companies such as the Michigan-based University Bank, as well as an additional 250 mutual funds that comply with Islamic principles (PE, 2009). It is estimated that over US\$822 billion worldwide sharia-compliant assets are managed according to the Economist (2008). This represents approximately 0.5% of total world estimated assets as of 2005 (Yun, M, 2010).

According to CIMB group holdings, Islamic finance is the fastest-growing segment of the global financial system and sales of Islamic bonds may rise by 24 percent to \$25 billion in 2010. There are evidences that people worldwide got a little concern about the conventional banking system, and the interest to explore Islamic banking has increased. While Islamic banking has gained ground most rapidly in the Middle East, the focus now is on the Asia-Pacific region (Totaro, L, 2009). Assets in the Asia-Pacific region reached \$450 billion roughly 60% of the global industry by 2007; given the industry's 10% to 15% annual growth rate in the last decade, total assets are likely approaching \$1 trillion (Umer C.M, 2007). Within Asia, Malaysia is a growing hub for Islamic finance. Other nations, including, Singapore, South Korea and Hong Kong are also competing for these assets (Yun, M, 2010). Nations are eager to attract investment from the Middle East to fund infrastructure, airports, toll roads and real estate projects.

### Origin of Financial Crisis

The US sub-prime mortgage crisis was one of the first indicators of the 2007-2010 financial crises. Coming out the dot-com bubble crash, the central bank kept interest rates low in order to stimulate growth in the economy. At low interest rates however, banks started engaging in sub-prime lending with adjustable-rate mortgages (ARMs)<sup>9</sup>. Simply put, you extend a house loan to someone with high credit risk at low interest rates but as the rates adjust upwards which means the monthly mortgage payments shoot up the same high-risk borrower becomes a "very high risk" borrower (Stiglitz, 2003).

While these loans were being issued innovation kicked in and several financial institutions repackaged the very same loans and sold them as "bundled" debt or MBS (Mortgage-Backed Securities) to other investors (BIS, 2008b). Rating agencies continued to rate these bundles of debt as relatively safe and high grade, which turned out not to be the case. To make this even worse based on these ratings many investors bought these securities and some also bought credit default swaps (CDS) as insurance against these loan packages.

On the other side insurance companies and other financials took on the credit default risk, i.e. if the loans went bad these insurance companies would pay for the shortfall. Recall this insurance companies were also relying on ratings agencies on the credit worthiness of the loans. With all of this playing out over several years leading up to 2006 as the markets started recovering from the dot-com bubble, interest rates now started going up.

That in turn led to a trigger in sub-prime mortgage defaults, which in turn led to severe drop in MBS prices or the value of bundled loans, which further led to insurance companies

having to pay for the shortfall (Ben, B and 2007a). All of this led to freezing up of credit and money markets as capital was getting destroyed and investors just didn't know how bad this could get. As a result, markets collapse fairly quickly and global recovery initiatives started since the 2007/2008. So far, we could not fully avert the global crisis. The US economy is witnessing a jobless recovery for the most part with unemployment at 9.5% and the European Union crisis seems to have a revolving door, first with Greece and later with Ireland needing a bailout (Yun, M, 2010).

By no means should one assume that as an alternative, Islamic finance framework alone would be a 100% water-tight solution as the regulation and execution within the system is just as important as its underlying principles. However, if we just examine the sub-prime crisis chain of events and the level of leverage and speculation not to mention lack of regulatory oversight, we may deduce that under Islamic finance principles much of the excess would have been "checked at the door" and not have come about at several times during the birth of the crisis (Masud, S, 2009). For example, under Islamic banking regulation loans would not have been repackaged and traded as MBS and CDS would not be linked to these speculative products thus mitigating the chance for a ballooning effect. While Islamic finance continues to evolve rapidly the recent economic crisis has bought it some market share. In the end market decides the value of any goods and services and over last five years the Dow Jones Islamic Index is up 18% compared to the S&P 500 down 8% (Ibid).

### Islamic Banks and Economic Recession

A question that is often discussed is if the global economic crisis triggered by the housing bubble burst and the sub-prime credit crisis in the US would have been averted if the Islamic finance framework were in place. It is a question that is asked often and one that has generated global interest. The answer is that in principle, Islamic finance may have prevented the sub-prime crisis leading to the global economic crunch.

The very founding spirit of Islamic finance is anti-speculation and "anti-bubbles"; improper risk management and lack of execution of principles in any financial system can potentially lead to similar negative results (Masud, S, 2009). However, understanding the general concepts behind Islamic finance, one may begin to appreciate the positives of this form of banking that is one of the fastest growing in the world.

As we discussed in the earlier section, Islamic finance prohibits usury or charging interest for the use of money, investing in speculative financial products like certain derivatives and engaging in businesses, products and services that are considered forbidden in Islam. Furthermore, Islamic banking emphasizes partnership in profit and loss sharing, asset-backed investing and more importantly it is not restricted to Muslims alone (Farhad, N, 1994). As a matter of fact, several secular states including Singapore have seen an increase in demand for Islamic financial.

In essence under Islamic law (Shartah) one cannot lend money to make money or engage in predatory lending which leads to poor getting poorer and rich getting richer, i.e. exploitation is strictly forbidden. Also, debt cannot be taken on without collateral or an asset backing (Hasan, Z, 1994). One must refrain from gambling (Maisar) and uncertainty (Gitarar). Both buyer and seller

are involved in the transaction with a no-pain, no-gain approach to making profits or sharing losses. This sounds common sense, ethical, trust-fostering and would appeal to most people.

One of the major factors behind the success of Islamic banking is that all products of the Islamic banking are asset based unlike conventional banking where papers and securitization of the assets are in vogue. We should not see Islamic banking in isolation as the Islamic banking is not an exception to the global recession. However, as compared to the conventional financial regime, the Islamic financing is relatively safer due to its focus of prudence as well as quality of the assets.

One of the major reasons for stability in the Islamic banking is that unlike conventional financial system it does not create value without assets which protect the Islamic system from any major loss (IRTI, 2007). The global financial meltdown stemmed from the sub-prime or mortgage system in the United States and the European countries, where the value of the mortgage was created with backing of the assets (Ben, B, 2007b). Since Islamic banking does not have the structure of creating value without assets, it becomes relatively safer from any unforeseen damages. However, there are some risks faced by Islamic banking as well as conventional banking (Akkizidis, I, et.al. 2008). If it provides some loans to the trade or industry for purchasing any product or for investment, Islamic banks do it on Halal basis or without interest as it becomes partner in profit or loss.

In the present scenario the highest losses faced by the conventional banks are on personal loans because they are not asset based and if one customer declares that he has no money to pay back. The banks have no way to recover the losses because the personal loans are not backed by the assets. Hence the Islamic banking does not believe in any product which is without asset base. That is the basic reason which saved the Islamic banks from huge losses.

#### Lessons learned from Recession

Islamic finance is concerned with justice in financial contracts to ensure that none of the parties is being exploited. The bank may advance the clients an interest-free loan to enable them to continue their payments during the recession in anticipation that they will pay in full when the economy rebounds.

Interest or usury is one source of exploitation, especially, as in the case of sub-prime lending the highest rates were charged to lower earners. Such discriminatory charging by conventional banks was justified as reflecting the risks involved. Those on lower incomes, with poorer prospects of finding new employment in the event of redundancy, were less likely to be able to service their interest payments.

Islamic housing finance involves risk sharing between the bank and the client, rather than transferring all the risk to the latter. Under the most commonly used diminishing Musharaka (partnership) contract, the bank and the client form a partnership, with the bank providing up to 90 percent of the purchase price, and the client at least 10 percent. Over a period of usually 10 to 25 years, the client buys out the ownership share of the bank which makes its profit from the rent paid by the client for the share the bank owns (Kuran, T, 2005). In the event of a rental or repayments default, the bank may advance the clients an interest-free loan (qardhassan) to enable them to continue their payments during the recession in anticipation that they will pay in full

when the economy rebounds. The client retains their home rather than being faced with eviction—like the victims of the sub-prime crisis.

Of course, Islamic banks have to appraise credit risk, and indeed are more cautious about who they should finance than conventional banks. The banks in the United States charged high arrangement fees for sub-prime borrowers which were used to pay bonuses for those signing up new clients. The banks became mere booking agents, with no long-term commitment to their clients.

When the credit crunch came and borrowing from wholesale markets was halted, Islamic banks were not exposed. In contrast to conventional banks, no Islamic bank has failed and has needed government recapitalization which ultimately becomes a burden on hard pressed taxpayers. All Islamic banks comply with the Basel II capital adequacy requirements and the Islamic Financial Services Board (IFSB)<sup>14</sup> has produced detailed guidelines on compliance. The soundness of Islamic banks is accounted for by the fact that they use a classical banking model, financing derived from deposits, rather than being funded by borrowings from wholesale markets.

Consequently, when the credit crunch came and borrowing from wholesale markets was halted, Islamic banks were not exposed. However Islamic banks are not immune from the effects of the global recession and the fluctuations in oil prices will inevitably have a negative impact on Gulf-based Islamic banks. Nevertheless, being state owned, institutions such as Bank Melli, the largest Islamic bank in the world, are well placed to ride out the global financial storm. With assets of over \$50 billion, and profits exceeding \$540 million, it has more than adequate resources to cope (Joanna, S, 2007). Islamic banks enjoy a built-in stabilizer to help them cope with economic downturns, as instead of paying interest to depositors, those with investment *mudaraba* accounts share in the banks' profits.

Thus, if profitability declines in an economic downturn, depositors receive lower returns, but if profits rise, they enjoy higher returns. This profit sharing reduces risk for the banks and means they are less likely to become insolvent. However, as the banks build up a profit equalization reserve, which can be used to finance pay-outs during difficult years, depositors benefit from some protection of their returns during economic downturns. The last years have been difficult, if not disastrous, for equity investors, given the fall in stock market prices globally.

### Opportunities in West

Islamic banks have been less affected than many conventional banks in the current global recession as they are prohibited from activities that have contributed to the credit crunch such as investment in toxic assets and dependence on wholesale funds. London has been consolidating its position as the key western centre for Islamic finance in 2008. Two Islamic banks, Gatehouse Bank and European Finance House, have been granted licenses bringing to five the number of fully Sharia compliant banks in the UK (BIS, 2008a). Principal Insurance became the first Shariah compliant independent company authorized to offer *Takaful* to UK residents. In capital markets, four new exchange traded funds and two new equity funds are available.

The International Financial Service London (IFSL's) report indicates that the UK's offering includes a total of 22 banks, far more than in any other western country (IMF, 2008). Professional services are provided by 18 law firms and the Big Four accounting firms. A cumulative total of 18 Sukuk issues raising \$10bn have been listed on the London Stock Exchange, second only to Dubai (Masud, S 2009). With 55 institutions offering educational and training products in Islamic finance, the UK has more providers than any other country worldwide. Evidence of London's growing role in Islamic finance is shown in the UK being the only western country to feature prominently, 8th with assets of \$18bn, in a global ranking of Sharia compliant assets by country (CNN-WB, 2007). Despite its origins overseas, Islamic finance has found a natural home in the UK. Though no sector is immune to the global financial crisis, Islamic finance has shown great resilience.

## Conclusion

From the foregone discussion it could be seen that Islamic banking provides a viable alternative to conventional banking and is less cycle prone. The spread of Islamic finance into western markets demonstrates that it now being treated seriously by regulators and finance ministries.

The United Kingdom authorities are promoting London as an international centre for Sukuk issuance to rival Bahrain, Dubai and Kuala Lumpur.

In addition to banking, Islamic Sukuk security issuance has enormous potential. Unlike conventional bonds and notes, Sukuk are backed by real assets, which provides assurance to investors. Although global Sukuk markets were adversely affected by the global recession in 2008, longer term prospects look promising. The Malaysian ringgit Sukuk market has been largely unaffected by the global turmoil in securities markets, and issuers such as the Saudi Arabia Basic Industries Corporation, one of the world's largest petrochemical producers, view Sukuk as a desirable instrument to raise funding for plant expansion.

There can be no doubt that Islamic finance has an exciting future, and the quest for a financial system based on moral values rather than greed and fear, is bound to enhance its position in the global system.

## Notes

- The system is based on justice for the two parties how one gets to the justice is extracted from Islamic faith.
- Common terms used in Islamic banking include profit sharing (Mudharabah), safekeeping (Wadiah) joint venture (Musharakah), cost plus (Murabahah), and leasing (Ijar).
- Islamic banking is restricted to Islamically acceptable transactions, which exclude those involving alcohol, pork, gambling, etc. The aim of this is to engage in only ethical investing, and moral purchasing.

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- The World Database for Islamic Banking and Finance (WDIBF) has been developed to provide information about all the websites related to this type of banking.
  - For example, it was acceptable for a loan of 1000 gold dinars to be paid back as 1050 dinars of equal aggregate weight. That is, the value in terms of weight had to be same because all makes of coins did not carry exactly similar weight.
  - The earliest references to the re-organization of banking on the basis of profit sharing rather than interest are found in Anwar Qureshi (1946), Naiem Siddiqi (1948) and Mahmud Ahmad (1952) in the late forties, followed by a more elaborate exposition by Mawdudi in 1950. The writings of Muhammad Hamidullah 1944, 1955, 1957 and 1962 should be included in this category.
  - The Vatican has taken the unusual step of expressing support for Islamic banking, suggesting in a 2009 issue of its publication L'Osservatore Romano that conventional banks can regain clients' trust by adopting the "ethical principles" that form the cornerstone of Islamic finance.
  - Known as IT bubble, was a speculative bubble covering 1995-2000 period, during which stock markets in industrialized nations saw their equity value rise rapidly from growth in the internet sector and related fields, and finally busted.
  - To avoid high initial mortgage payments, many sub-prime borrowers took out ARM, which gives them a lower initial interest rate.
  - In its simplest form CDS is a bilateral contract between the buyer and seller of protection, where buyer of the CDS makes a series of payments to the seller in exchange of a payoff, if bond or loan experiences a default.
  - Many banks had shelved their consumer financing products in the face of economic slowdown and due to shockwaves of the world financial meltdown particularly the car and home financing, Dubai Islamic Bank continued to serve the people with these products which did not suffer from major defaults or non-performing loans.
  - As the mortgages were sold on to Freddie Mac and Fanny Mae, the arrangers were unconcerned that the sub-prime borrowers might be unable to meet their financial obligations. Indeed, gifts were provided to entice the feckless to sign up, and the mortgages often exceeded the value of the property.
  - Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel committee on banking supervision; even the new update came in the form of Basel III.
  - The IFSB is the body which advises regulators with respect to Islamic finance. The IFSB has an on-going relationship with the bank for international settlements, the institution which developed the Basel standards and is certain to be consulted as Basel III guidelines

are drafted for capital adequacy which is likely to be implemented globally in the coming decade.

- Two Islamic housing financial institutions, Amlak and Tamweel are being merged, as both have faced problems given their exposure to the Dubai property market.
- Investors in equities screened for Shariah compliance have also suffered, but less than their conventional counterparts, because they have not invested in the shares of riba-based banks which have fared especially badly during the global financial turmoil. Investors seeking Shariah compliance have portfolios which are more heavily weighted in sectors such as healthcare or utilities where revenue streams are maintained even during cyclical down-turns.

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