



ECONOMICS ISLAMIC INFLUENCE

In a world of capital instability, Islamic finance is emerging as a key zone of global innovation.

At the heart of this innovation is the reform of Islamic finance. In a world coping with the after-effects of risky banking practices and development strategies that, in many cases, have burdened nations with inescapable debt, Islamic finance offers alternatives for managing risk and debt. In this world, new Islamic financial products are providing a way for Muslims to engage with the global financial sector—they are also emerging as both an alternative model of capitalism and a central requirement for global capitalism.



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ISLAMIC FINANCE: DIFFUSION OF INNOVATION

Aspects of Islamic law limit the ability of devout Muslims to engage with conventional banks and banking practices. Prohibitions on interest restrict their use of everything from mortgages to credit cards, while broader restraints limit the amount of debt they can assume.

As oil money has flooded the Islamic world and as globally mobile Muslims have sought to establish lives in non-Muslim countries, Islamic legal scholars have begun working with financial experts and banks to develop new instruments that are *shariah*-compliant—that is, that conform to the strictures of Islamic law.

At the same time, Western banks are opening so-called Islamic banking windows that recognize the requirements of Islamic law. These windows are a way to service the growing Islamic diaspora—recipients of growing oil wealth—as well as enter predominantly Muslim markets. The combination of innovation within the Islamic banking sector and the assertion of Islamic identities in both the West and the broader Islamic world is leading to the growth of new urban hot spots of Islamic finance, from London to Kuala Lumpur.

ISLAMIC PROHIBITIONS: BUFFER AGAINST RISK?

The world of banking has been destabilized by several decades of increasingly risky investment practices, culminating in the current subprime mortgage crisis. In the face of this risk, many are asking whether Islamic financial instruments provide a buffer against risk, since they theoretically limit the burden of debt to one-third of a company's liabilities and prohibit "making money from money"—that is, interest. Investors, insurers, and borrowers alike are looking to these

instruments as an alternative way to manage risk.

In reality, many of the innovations in Islamic finance may simply be "shell games," as some people have called the efforts to repackage existing products to make them look as though they conform. The near-term performance of the Islamic stock exchange and *sukuk* bonds will be measures of the capacity of Islamic finance to provide alternatives that are truly less risky.

BEYOND BANKING: A NEW ETHICS OF DEVELOPMENT

The influence of Islamic finance may well spread beyond the worlds of banking and insurance:

- The role of Islamic businesswomen may grow as more of these women take higher positions in new business domains and as Islamic scholars challenge the dominant norms, interpreted from the Quran, the Hadith, and Islamic history, regarding the role of women in general—and specifically in finance.
- A broader strategy of addressing issues of financial ethics may emerge as diverse groups—both secular and religious—grapple with what might be described as a "new moral order."
- Experimentation with alternative models of economic development may avoid some of the shortcomings of current development practices as they create new property arrangements, customary law, and financial institutions by drawing upon the resources of religion.

This interaction between Islamic women's roles, alternative financial ethics, and Islamic financial innovation may be the source of significant economic surprises over the next decade.