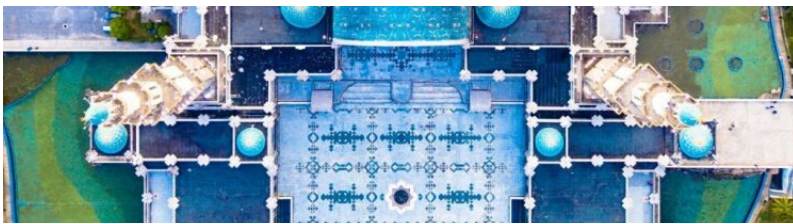


BUSINESS LESSON

JP MORGAN'S PERSPECTIVE ON THE DEVELOPMENT OF ISLAMIC FINANCE

TEACHER'S NOTES

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JP Morgan's Perspective on the Development of Islamic Finance

<https://www.esldebates.com/business-jp-morgans-perspective-on-the-development-of-islamic-finance/>

Vocab matching answers

1. c
2. j
3. a
4. e
5. b
6. f
7. g
8. i
9. h
10. d

Video Answers.

1. No, it is not. It is being adopted by many non-Muslim clients.
2. Islamic finance assets are currently worth 2.2 trillion dollars worldwide and are said to hit nearly four trillion by 2022.
3. He is the Global Managing Director of Islamic Banking at JP Morgan, the financial services company.
4. The main difference between Islamic finance and conventional finance is the prohibition on charging or receiving interest (the concern against having excessive leverage in the system) and the second prohibition is against excessive speculation (the creation of a financial crisis by overly speculative behaviour).
5. He refers to tobacco, gambling, arms manufacturing, pornography and things like that. Direct investment into one of these industries is prohibitive.
6. Not necessarily. The indirect investment into these industries may be frowned upon but may not necessarily be prohibitive.
7. The scholars are the ones who are responsible for ensuring that the values in the system are retained.
8. Because Islamic Finance is based on ethical and religious values, the most difficult undertaking is to ensure that the products are economically equivalent to the conventional products and still retain their ethical and religious foundation.
9. JP Morgan is not making those value judgments; it has scholars who are the experts in doing

Warmer questions

- When you save money or invest do you have a preference for ethical investments?
- Is it possible to make money and still follow religious rules?
- Are there any companies or businesses you would not invest in for personal/ethical/moral reasons?

Reading section



God's law?

Islamic finance is a financial system that operates according to the Islamic law called Sharia and is, as a result, Sharia-compliant. This system of finance based on Sharia law finds its source of values in the Holy Koran and Hadeeth (sayings of Prophet Mohammad). But, just like any conventional financial system, Islamic finance features investment firms, banks, fund managers, insurance companies and capital markets.

Although the Islamic finance industry that we know today is relatively young, Islamic theories of economics have existed for more than a millennium. By the 12th century, many Muslim scholars presented significant concepts of Islamic economics that are still relevant today. However, Islamic finance was put on hold for a long time due to political and social confusion. It was only in the 20th century that Muslim scholars and academics began to go back to these topics. And by doing so, they set the stage for the modern Islamic finance industry to emerge in the 1970s

God is the owner of all wealth

A primary concept of Islam is that Allah is the owner of all wealth in the world –humans are only its trustees. Consequently, individuals need to manage wealth according to Allah's commands, which prohibit certain activities and promote fairness. Muslims have the right to enjoy all the wealth they acquire and spend it in Sharia-compliant ways. Therefore, they should not feel shame about being wealthy provided that their behaviour aligns with Islam.

Islamic firms follow a set of key principles

Based on the core concepts of Islamic economics, Islamic finance organisations adhere to certain values that distinguish them from conventional finance:

- Prohibiting interest (riba).
- Steering clear of uncertainty-based transactions (gharar).
- Avoiding gambling (maysir or qimar).
- Avoiding investment in prohibited (or sin) industries: it prohibits application of money for alcohol, tobacco, pork processing, pornography or weaponry, speculation, betting, etc. It is only permitted to operate in economic areas which are permissible or lawful under Islamic law (halal).
- It prohibits trading in Debt, hence Islamic banking compliant banks issue Sukak or Islamic Bonds which are in spirit to the Sharia law.

West Asia, Malaysia, and Indonesia are the countries where the system of Islamic banking is gaining currency. Remarkably, the assets of Islamic Banks have risen at an average rate of 15 per cent over the last decade. Islamic banking is not for Muslims alone; in the U.K. more than 40 per cent of the customers of these banks are non-Muslims.

Questions to consider:

- While there is legal consensus on some issues, Muslim scholars have different opinions concerning almost every aspect of Sharia. How can Muslims put into effect Sharia law when there is a difference of opinion about what precisely the Sharia says about a particular matter?
- Islam and social justice are inseparable, which means social justice is, therefore, a key concept of the Islamic finance industry. Still, there is a wide gap between rich and poor in many Islamic countries. Why are there such wealth disparities in some Sharia-ruled societies?
- If poverty and privation are pandemics in a determined Muslim community, how can the law of amputation for theft be applied?
- There are a number of Muslim scholars leading the way in Islamic finance. Aren't they imposing their own personal religious view upon the rest of the community?



Vocabulary matching

Using the words on the left match them to their real definitions.

Vocab Meaning	Meaning
1. Islamic	a. the management of large amounts of money, especially by governments or large companies.
2. Muslim	b. a sin stock refers to a publicly traded company that is either involved in or associated with an activity that is considered to be unethical or immoral.
3. Finance	c. relating to Islam (the religion of the Muslims, a monotheistic faith regarded as revealed through Muhammad as the Prophet of Allah).
4. Assets	d. investment in stocks, property, or other ventures in the hope of gain but with the risk of loss.
5. Sin stocks	e. property owned by a person or company, regarded as having value and available to meet debts, commitments, or legacies.
6. Investment	f. the action or process of investing money for profit or material result.
7. Prohibitive	g. forbidding or restricting something.
8. Scholars	h. the ratio of a company's loan capital (debt) to the value of its common stock (equity).
9. Leverage	i. a specialist in a particular branch of study, especially the humanities; a distinguished academic.
10. Speculation	j. a follower of the religion of Islam.

Video: How Islamic finance works

JP Morgan is one of the world's leading banking institutions and as such, they are always keen to meet their customers' expectations. Given that the market for Sharia-compliant products is growing the banking section is closely following developments to better market products to customers. Hassan takes us through the details of this new type of financial products and its implications for the rest of the market.

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Watch the video and then answer the questions below

1. Is Islamic finance for Muslim clients only?
2. How much are Islamic finance assets worth?
3. Who is Sain Hassan?
4. What's the main difference between Islamic and conventional finance?
5. What does Hassan mean by sin stocks?
6. Is indirect investment into these economic industries also prohibitive?
7. Who are the scholars?
8. What is the most difficult part does he think of Islamic finance to get right?
9. Is JP Morgan making value judgments on the businesses they are investing in?

Pros of Islamic finance

- **No Interest.** As the earning of interest is prohibited in Islam, there is not any interest charge percentage in a loan agreement. Unlike conventional loans, whose interest rates can fluctuate, Islamic loans have a fixed profit mark-up or a profit rate cap.
- **No Compounding Interest.** Since Islamic loans do not charge interest, they do not have compounding interest in the event of late payments either. In addition to not having high penalties, the late payment fee for Islamic loans can hover around 1.00 per cent per year, which is much lower than conventional loans with higher charges and uncapped compounding interest.
- **Open to All.** Islamic loans are not only for Muslims. Islamic loans are an alternative made available for those who prefer Islamic financing.
- **Encouraging Stability in Investments.** In Islamic finance, intensive audits and analyses are performed; this promotes the reduction of risk and creates the space for greater investment stability.

Cons of Islamic Banking

- **It May Be More Expensive.** Since Islamic financiers do not earn profit from interest charged on a loan, they mark up a fixed profit from a loan value instead. This makes any requests to increase the facility amount or alter terms of finance will incur extra-legal charges due to requiring more legal documents than conventional loans.
- **Less Transparent Extra Charges.** Conventional loans are very clear regarding their extra charges or penalties for defaults, late payments, early settlements, or other issues. With Islamic loans, the terms and conditions in the contract may not be as clear.
- **No Early Settlement.** Some Islamic financiers encourage its clients to settle early and will even offer rebates for early settlement. This is especially true for Islamic loans with a fixed profit mark-up since they will recover the same amount of profits regardless of the period of installments. On the contrary, there is a possibility of becoming liable for future profit rates if the client settles early.
- **The Enterprise Must Be Halal.** The word “halal” refers to anything that is permissible or lawful under Islamic law. This business criterion might be challenging for numerous companies.

Potential debating topics

- The concept of 'halal' marks the future of a better business world. It will define a new model of society combining business competitiveness and improved social measures.
- Islamic banking sets a bad example for conventional financing.
- Conventional banking should follow a good example of Islamic finance and lower (if not eliminate) its penalty fees.
- Islamic banking should not be permitted in democratic countries, for it does not grant loans and/or make investments in all business alike. They limit the freedom of action.
- Democratic countries should allow Islamic banking to operate as they please, because that is what democracy is all about, and that is what freedom of choice is all about.



DEBATING PLANS

PREMIUM 30-PAGE DEBATING LESSONS ON DOZENS OF TOPICS

These lessons are extensive and includes a magazine-like introduction, a 2-page article, vocabulary section, grammar exercises, and images for discussion. To help students organize their debate, worksheets are included for appropriate language and pros and cons to get them started. In total these lesson plans offer 30 pages of activities and tasks for students.

Environmental Crimes

Debate Lesson Plan

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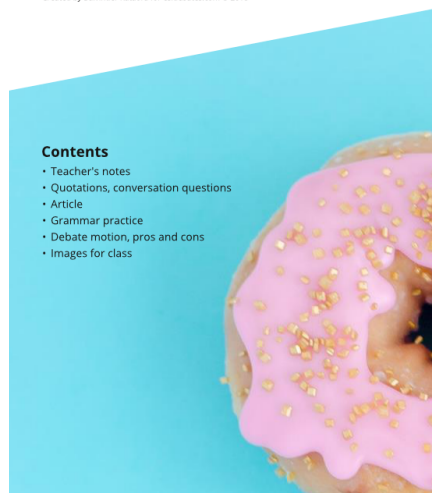


Should natural features be given legal rights to protect them from pollution? This debate will target issues relating to how to legally protect the environment and criminalise pollution.

Food Tax

Debate Lesson Plan

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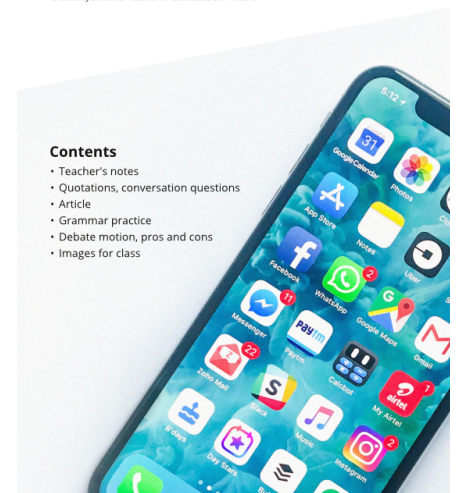


What are the best ways to tackle obesity? Some people advocate better food education, while others want to tax people to change their spending habits. Which is the most effective?

Social Media

Debate Lesson Plan

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People are becoming increasingly concerned about social media. Discuss the main issues and find out what your students think and why.