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The Influence of the Qur'an on Islamic Finance

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SENIOR THESIS APPROVAL

This Honors thesis entitled

"The Influence of the Qur'an on Islamic Finance"

written by

Connie S. Quintero

and submitted in partial fulfillment of
the requirements for completion of
the Carl Goodson Honors Program
meets the criteria for acceptance
and has been approved by the undersigned readers.

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The Influence of the Qur’an on Islamic Finance

A Thesis Presented in the Ouachita Baptist University Honors Program

Connie S. Quintero

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Introduction

I have always been interested in the Middle East customs, culture, and religion. I was fascinated from a young age by the different world that exists outside the United States. I noticed that the people in the Middle East lived very differently from the way I lived. It took many years to understand that they had a different religion, and what Islam is. It took even longer to know that they follow Shariah law in the country where they live. Not only do they have to follow their religion if they believe in it, but they also have to follow it because otherwise, they would be breaking the law.

I wanted to incorporate my majors, Accounting and Finance, and my passion for law and the US Army in my Honors Thesis. This led me to think about current issues in 2020 and the financial aspects of the Middle East. This work involves the incorporation of all my undergraduate experience at Ouachita Baptist University. The Middle East has several countries that follow Shariah law, and I thought it would be the perfect combination to study. This would combine finance, law, and my future career in the military.

In this honors thesis, I researched how the Qur'an molds and influences the Islamic Financial Institutions and their lending practices. I analyze what types of practices are made in Islamic Finance that differentiate them from Finance that Americans are accustomed to. The Qur'an has explicit sentences that describe how finances are to be conducted, and what is to be avoided when it comes to lending practices. This impacts the way finance can be conducted in Islamic countries. I analyze this in further detail and provide descriptions and examples of more methods allowed by Islamic Finance in the following thesis work.

Introduction to Islam

To create a shared understanding of what is to come in my thesis, I have placed these pages on the introduction to Islam. My goal is to create a section in this document where people who have no past knowledge of Islam can connect the dots and see where the origin of Islam started and later trace it to Islamic Finance. This serves as the foundation for what is later coming where I discuss the nations that follow Islam, and their importance when it comes to financial institutions in their country.

It would not be fair to present my thesis work without this background information, as it is important to grasp the whole concept of why certain countries in the Middle East such as Saudi Arabia are so important when it comes to the financial institutions' roles. They create so much revenue and run balances for oil that pushes the economy forward. It should be noted that the start of Islam in Saudi Arabia is essential to understanding why their beliefs spread in that area, and why so many Saudi Arabian financial institutions, if not all, follow the beliefs of Islam. With this introduction to Islam, I want to set the tone that true practicing Muslims place a high emphasis on following mandates from the Qur'an, and they do this in every aspect of their lives. They do not just do this in personal aspects, but rather even in relationships, business interactions, and social situations. I want to show that devoted Muslims will demonstrate their faith through actions such as a pilgrimage to Kaaba, which I will explain later, and also why they place so much emphasis on following the commands of the Qur'an.

The act of following Islamic banking is voluntary in all Middle Eastern countries except Iran and Sudan, where it is mandatory. However, with the majority of individuals in the Middle East being Muslim, they prefer to follow the methods of Islamic banking. Through this method, they know they are avoiding usury and complying with their religious mandates.

The three great monotheistic faiths of the world are Islam, Judaism, and Christianity. These three religions have some shared doctrines and holy sites, however, they are different in many other forms. The religion of Islam started with the Prophet Muhammad and the whole concept of their religion is “surrendering to the will of God.”

The followers of Islam are called Muslims. The Qur’an is the holy book that Muslims base their teachings and religion on. Muslims believe in many Christian figures including Adam, Noah, Abraham, Moses, and Jesus. They believe Jesus was a significant prophet before the coming of Muhammad.

Muhammad’s birth was in 570 C.E. in a town called Mecca in Saudi Arabia. In the time, around 610 C.E., Muhammed had a religious experience. He had much doubt and worries about whether what he was doing was the right thing. He doubted he could start what his religious experience had mandated of him. According to Islam, he accepted his role as the prophet of God. God is called “Allah” in Arabic.

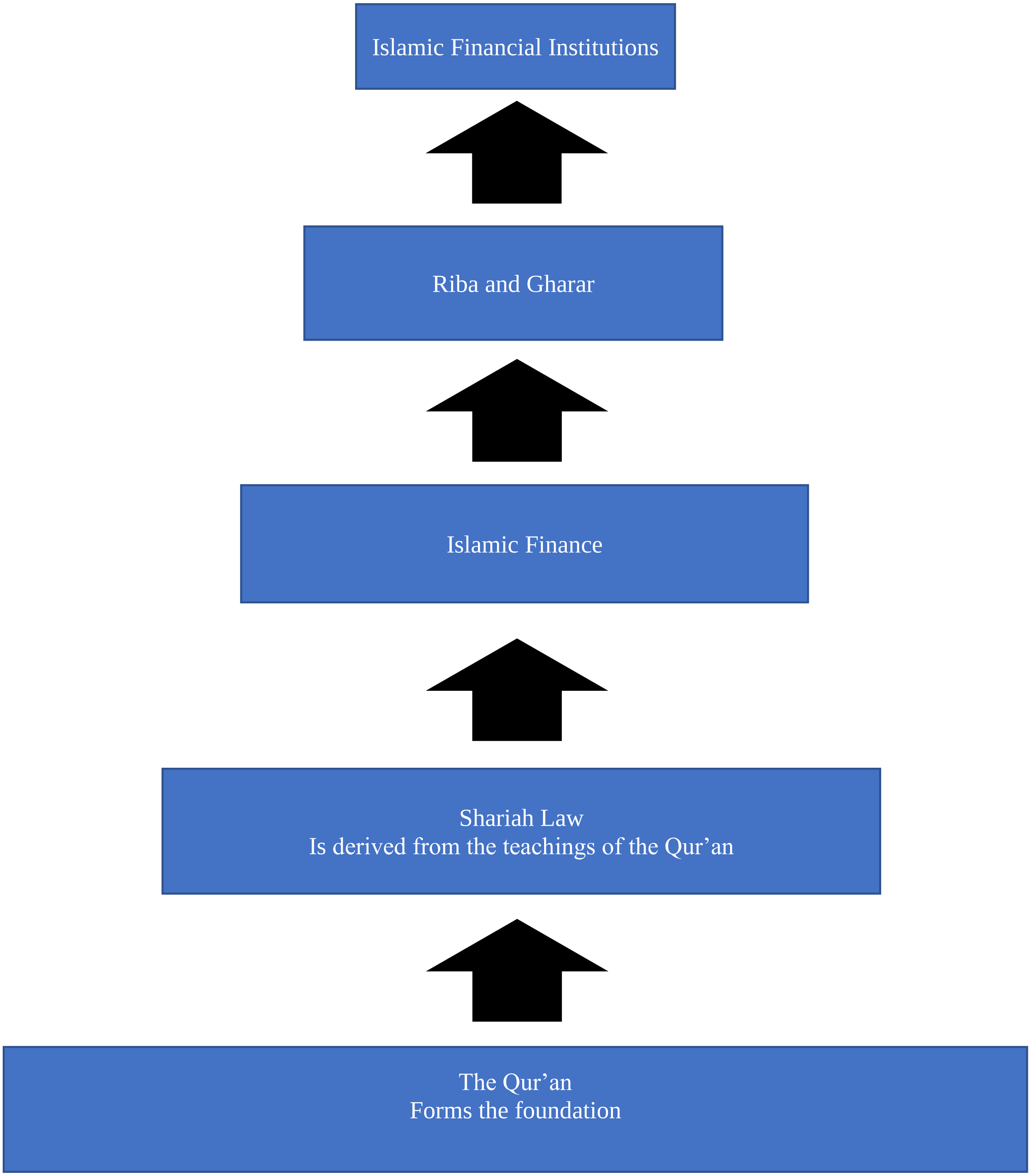
Early Muslims faced persecution because the monotheistic Islamic faith went against the ruling tribe of Mecca’s religion. Saudi Arabia is so important to Muslims today because they see this place as the origin of their religion. They believe it is thanks to the first Muslims that they can follow their religion today. Once the battles between the ruling tribe of Mecca and the new Muslims were over, Muhammed’s people were victorious, and they were then able to enter Mecca again in 630.

The first action Muhammad did was to eliminate idols from the area of the Kaaba. This is a site in Mecca, Saudi Arabia, and it is considered the most sacred site in Islam. Muslims consider it to be the “House of God.” Muslims have five daily prayers, and they orient themselves to this shrine wherever they are to do their prayers. A pilgrimage to the Kaaba is called hajj. It is one of the commands placed in the Qur’an. All Muslims are meant to aspire to undertake the hajj at least once in their lifetime if they are able. The Qur’an says that Abraham and Ishmael were the ones that created the foundations of the Kaaba. As of today, only Muslims may visit holy Islamic cities like Mecca and Medina.

The five pillars of Islam are the core beliefs and practices that Muslims undertake throughout their lifetime. The first is Profession of Faith, the second is Prayer, the third is Alms, the fourth is Fasting, and the fifth is Pilgrimage.

The first pillar called Profession of Faith is the belief that “There is no god but God, and Muhammad is the Messenger of God,” and that is central to their religion. The second pillar is Prayer, and this is where Muslims pray five times a day. The third pillar Alms has to do with how Muslims donate a portion of their income to charities, whether it be in money, structures, or other forms of donations. The fourth pillar, Fasting, is when Muslims abstain from food and drink during the daylight hours of Ramadan. The fifth and last pillar is the Pilgrimage, and this is when every Muslim who has the health and money to do so must make at least one visit to Mecca in Saudi Arabia.

There is so much importance placed on countries in the Middle East for Islam because that is where their religion originated. In today’s world, the countries in the Middle East still adhere to the teachings that they were brought up on in Islam. They incorporate the teachings of the Qur’an into their everyday lives and organizations because that is what they are taught in their pillars and their religion. Today, countries like Saudi Arabia keep the teachings of the Qur’an in their businesses.


Islamic Financial Institutions
Riba and Gharar
Islamic Finance
Shariah Law
Is derived from the teachings of the Qur’an
The Qur’an
Forms the foundation

Arabic Countries and Shariah Law

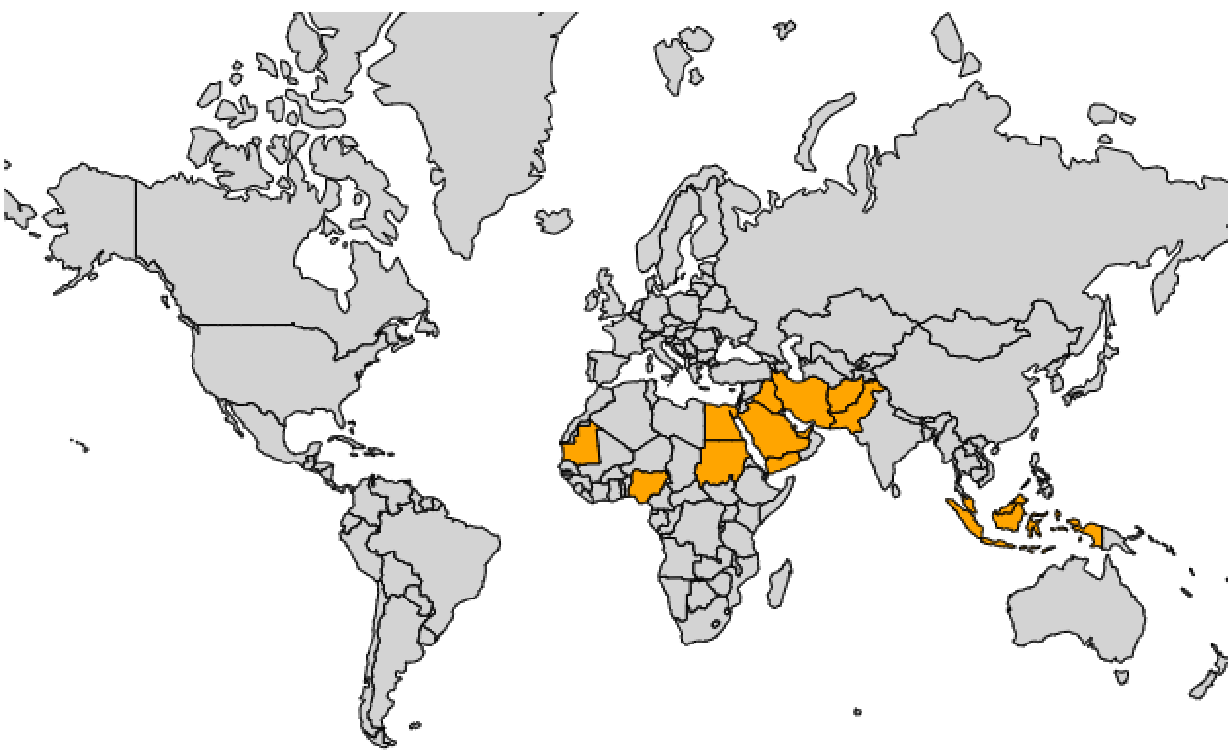
The Arabic countries are located in the Middle East and Northern Africa. The countries that are considered Arabic countries due to their official language being Arabic are Algeria, Bahrain, Chad, Comoros, Djibouti, Egypt, Eritrea, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tanzania, Tunisia, United Arab Emirates, and Yemen. These countries are known as "The Arab World".

An Arab is a person whose first language is Arabic. An Arab is not a race, but rather a type of culture. Arabs are united by their history and their culture. As one can see from the list of countries recognized as Arabic countries, there is a wide variety of ethnic communities. There are over 300 million Arabs in the world.

Just because one is Arabic does not mean they are a certain religion. Arabs can follow whatever religion they choose, but most are Muslim, and some are Christian Arabs as well. Some also follow other religions.

In countries that are regarded as Arabic, fifteen of them follow what is called "Shariah Law". This law system derives from the teachings of the Qur'an and is the primary legal system in countries where Islam is predominant. Those countries that follow Shariah Law are Afghanistan, Egypt, Indonesia, Iran, Iraq, Malaysia, Maldives, Mauritania, Nigeria, Pakistan, Qatar, Saudi Arabia, Sudan, United Arab Emirates, and Yemen.

Countries that Follow Shariah Law



The Influence of Shariah Law

Shariah Law regulates all the human actions in the country where it is implemented. One's actions always fall under the categorization of either obligatory, recommended, permitted, disliked, or forbidden. Most actions one can commit fall under permitted. They are neither encouraged nor discouraged. In countries where Shariah Law is enforced, it will regulate all aspects of life. This includes public behavior, personal behavior, and one's own beliefs.

In the United States, we are given the freedom of religion. One can decide whether or not to have a religion, and which religion to follow. That is not the case in countries with Shariah Law. Some of those countries follow the law to where one can be put to death for denying the teachings of the Qur'an. Countries that enforce Shariah Law are not secular. They base everything they do and regulate, off of what their religious text says.

All countries that follow Shariah Law do not have the same interpretations of the Qur'an. Some change certain punishments. Others do not regard the same activities as being forbidden or recommended. It all depends on which country's legal system one is analyzing.

The one important piece of Shariah Law that I will be examining in this Thesis is the effects of implementing the teachings of the Qur'an in Islamic Finance in today's economy. When an individual or a business raises capital according to Shariah Law, one becomes involved in Islamic finance. Only certain types of investments are allowed or permissible under Shariah Law. For example, investments in gambling, alcohol, and tobacco are not allowed. Many consider this to be a form of socially responsible investing.

Qur'an Words on Finance

Usury is mentioned in 6 verses in the Qur'an.

Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] – those are the companions of the Fire; they will abide eternally therein. (2:275)

Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever. (2:276)

O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. (2:278)

O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful. (3:130)

And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment. (4:161)

And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in zakah, desiring the countenance of Allah – those are the multipliers. (30:39)

Islamic Finance

Islamic Finance avoids usury and deception. Usury is called *riba* and deception is called *gharar*. Riba is prohibited due to the belief that charging interest to a borrower is only for the benefit of the lender. Gharar can come in different forms. Gharar is prohibited because there can be deception when there is a sale of items whose existence is uncertain. One example is insurance. People purchase premiums to provide insurance if an accident were to happen. Actions like this are prohibited because one cannot sell items that might or might not exist or might never come to complete fulfillment. Another form of gharar is derivatives that are used to hedge.

Equity finance is allowed. What is not allowed is investing in companies that are involved in restricted businesses. Those would include producing alcohol, gambling, and such.

Many institutions in the United States have started to become more inclusive and to consider many different perspectives of people. They have started to include more options to lend people money in forms like Islamic finance.

Islamic finance, compared to conventional finance, promotes the concept of risk-sharing, does not implement interest rates, and has no late payment fees. On the contrary, conventional finance charges interest and ensures late payments have fees to deter late payments from occurring. There is no risk-sharing in conventional finance. Islamic finance promotes sustainable development and reduces poverty.

Riba

Riba is usury under Islamic Law. This refers to the interest that is charged on loans or deposits. The Qur’an prohibits riba because it is considered illegal and unethical. Still, financial institutions work around it and can create financial transactions while charging service fees and usage fees on bank accounts.

Another form of riba is the form of making a trade with goods of unequal quantities or qualities. There are a couple of reasons why riba is prohibited. The main reason is that it is meant to ensure equity in exchange. The religion of Islam promotes charity and attempts to remove the feelings of selfishness from financial transactions. Feelings of selfishness promote distrust and resentment. This is the argument proposed by Islam. Islam, therefore, makes riba prohibited to prevent feelings of resentment and distrust.

Riba is considered to be exploitive. There is agreement that riba is prohibited, but there is confusion as to what is considered riba, whether it is against Islamic law, and whether it is punished by people or by Allah. Some consider all interest rates to be riba, others consider only excessive interest to be riba. It all depends on which country is interpreting the Qur'an.

Some modern scholars believe that the value of inflation should allow interest in that amount. This would be to help make up to the lenders the time value of their money. The lenders would not be attempting to make a profit, but simply compensate for the time value of money.

The avoidance of riba has formed the basis of the Islamic banking industry. According to Investopedia, "The Muslim world has struggled with riba for quite some time, religiously, morally, and legally, and eventually, economic pressures did allow for a loosening of religious and legal regulation, at least for this period." Countries that follow Shariah law are having to resort to different methods to keep up with the evolving economies of the world that function on interest rates and productive investment.

Gharar

Gharar is a word in Arabic that means uncertainty, deception, and risk. It involves sales of items that are not yet existent. For example, crops that are not yet harvested and fish that are not yet in nets.

Shariah Law prohibits gharar because it involves sales of uncertainty. Examples of modern finance gharar are futures and options contracts. These have dates of delivery set in the future. Derivative contracts fall under gharar because of the underlying assets involved. They are prohibited because of the concept that they are sales based on items that are not yet existent.

There are two forms of gharar. There are minor and substantial forms. Another form of gharar is commercial insurance. Commercial insurance is an item that is vital to today's society. However, it is considered a prohibited practice due to the uncertainty of purchasing a premium every month without knowing for certain if one will ever use it.

Murabaha

Murabaha is known as cost-plus financing. This is a concept in the Islamic financing structure where the seller and buyer agree on the cost and markup of an asset. There is no interest involved, but there is a markup that takes the place of the interest. This is not an interest-bearing loan, therefore, it is accepted in the way of lending money.

An example of this is included from Devon Bank. They believe in being inclusive and providing options for purchasing homes for many different cultures and religions. Part of their home purchasing involves Murabaha. Their steps involve the following: Devon Bank purchases the property that the individual seeks to own. At closing, the individual will assign the purchase contract to the bank, and then the bank will be able to purchase the house from the seller. Then a second transaction will occur. In the second transaction, the bank will sell the house to the individual seeking to purchase it for a fixed price spread out over time, with no interest. The fixed price includes the price the bank paid for the house and the profit of the bank.

For Devon Bank to determine the profit, the bank considers the purchase price, the amount of the down payment, the term of repayment, and the market rate of return on real estate transactions. The bank becomes the intermediary between the seller and the purchaser and manages the additional fees instead of interest payments. This satisfies the payment requirement for the seller and satisfies the avoidance of usury by the purchaser.

This procedure is an example of a financial institution that follows the guidelines of being more inclusive with the community that is around it. It specifically states on its website, “Rather than lending you the money to purchase the property of your choice with interest, Devon Bank purchases the property of your choice and sells it to you for a fixed price.” It also states, “From an economic perspective, we have tried to keep Islamic Financing as close to an equivalent conventional loan and to keep any additional costs as low as possible.” More financial institutions are including Islamic finance methods to accommodate more customers.

Profit Rates

Usury is prohibited in Shariah Law. This is because lending money and charging interest only favor the lender. It does not help out the borrower. Because this system is believed to exploit the borrower, it is prohibited. Islamic banking is created to achieve socio-economic goals in countries with prevalent Islamic communities.

Islamic finance still finds a way to satisfy economic requirements. It bases many of its foundations on ethical principles and makes sure to get involved in businesses that are conscious of the impact they make on the world. Due to the oil industry being very important in Arabic countries, their investments need some development. However, they are rapidly making changes to how they capture their investments. There are still some challenges, such as reconciling Islamic investment policy and becoming involved in modern portfolio theory.

Instead of interest rates like the ones used in conventional banks, “profit rates” are used in Islamic personal financing. This is due to how Islamic financial institutions are prohibited from using interest rates to make money off of individuals. The foundation of Islamic financial institutions is that they revolve around the purchasing and selling of commodities and services that follow the principles of Islam, making them Shariah-compliant.

Islamic Loans

An Islamic loan is not made up the same way a personal loan is set up in a conventional bank. In a conventional bank, the lenders lend money to the borrower, and there is a principal amount and an interest amount that must be paid for borrowing the money, and for the time value of money. Interest rates create much profit for conventional banks. The difference between someone getting a 10% interest rate or an 8% interest rate on a loan can be astounding. The biggest purchases people make are cars, education loans, and home mortgages. Because these loans take many years to pay off, interest rates varying from .1% can make a large difference in the amount of interest that gets paid in the long run. In comparison, Islamic financing avoids Riba, which is interest-based transactions. Islamic finance pursues a method involving “buying something on the borrower’s behalf, and selling it back to the borrower at a profit.” In the contract, an interest rate is not mentioned, but a profit rate is what is stated explicitly. Profit rates can be fixed rates or floating rates.

Advantages and Disadvantages

There are many advantages and disadvantages to Islamic financing. The advantages include that in Islamic financing, the lending involves taking care of the borrower, not just the lender. Islamic finance creates a balance between the lender and the borrower where the profits or loss are shared between those two parties, instead of just falling on the borrower. Another advantage is that the loans that people borrow money for are restricted from being involved in the goods and services restricted in Islam like alcohol, tobacco, and gambling. A third advantage is that investments are taken cautiously and there is a thorough decision-making process. The last advantage is the ethical and moral values in this banking system. There are several disadvantages to this method as well. The first disadvantage is that because there are no interest rates, there are many administrative fees to regulate the account. According to CompareHero.my, "These add-on charges would vary across banks but are likely equal to the conventional product charges to maintain the competitiveness of conventional banking." Another disadvantage is that there are many restrictions in the process, and this leads to a degree of uncertainty for both the bank and the customer. The last disadvantage is that changing the terms of the financing is very troublesome. To alter the agreement, the parties must make a new "Buy-back agreement", which incurs additional fees. Compared to conventional banking, Islamic finance provides more value to the system, but for just about the same fees as conventional banking.

Several countries in the Middle East have rerouted their options when it comes to creating banks, and they have created "Shariah-compliant" banks. Many of their banks in the Middle East are banks that have connections with American ones like American Express. One of these banks is The Saudi Investment Bank. They have options on their online websites of "Apply for Shariah-compliant personal or home finance". As stated in previous paragraphs, Muslims know that they have to follow decrees issued by their theocratic governments, and therefore they do what they can with the law. However, their financial banking institutions have realized that to keep up with the demands of today, still make a profit, and please customers, they have to manage to make a method where customers can still borrow money and not have to pay interest rates. The Saudi Investment Bank has a category called “Special Rates” where they have a subcategory that says, “Convert purchases into monthly installments (with 0% profit rate) through Easy Payment Plan at selective partners”. Islamic finance has become more creative with its products to still be able to compete with conventional banking.

Shariah Board

As part of the process to ensure compliance with Shariah Law in financial institutions, banks have implemented a “Shariah Board.” According to Matthias Casper, “These Boards, generally composed of three Shariah Scholars, proof to investors that their business conducts of an Islamic financial institution or at least their financial products are Shariah-compliant.” Shariah Boards represent the confirmation to the investors that they can trust that what they are purchasing from Islamic financial institutions are reliable and they are complying with Shariah. The Shariah Boards of each bank run three important functions: certification, supervisory and advisory. Since there is no uniform interpretation of Shariah across all the Sunni and Shia majority Muslim countries, many financial institutions run the risk of Shariah risk. Shariah risk is where they find issues with not having uniform guidelines concerning Shariah-compliant across all nations.

As stated earlier, Shariah Law aims to follow the teachings from the Qur’an and not take advantage of the poor. The Saudi Investment Bank, mentioned earlier, has a category called Arzaq Murabaha Finance. They have an interesting way of making sure that their clients do not feel taken advantage of if they somehow end up not being able to repay. They also make sure to describe their products in a manner where people trust that the bank is complying with Shariah Law. From their website, they say, “Arzaq Murabaha Finance is an Islamic financing product approved by SAIB's Shariah Committee. You can buy a certain quantity of goods owned by the Bank at an agreed profit and repayment plan. You can take possession of the goods, and if you choose not to, we have made it easier to sell the goods on your behalf by signing a procuration (WAKALA) to the merchant. Proceeds will be credited into your account. The goods offered by SAIB include rice and flour.” This, in contrast with American banks, is so different. The Shariah-compliant banks want to ensure that their customers know they are following Shariah Law primarily. Then they want to let the customers know that both the bank and the customer will agree on a certain profit and repayment plan. Afterward, the customer can take possession of the goods they purchased, and if they choose not to, they can have the bank help sell the goods on their behalf. The proceeds just go straight to credit the customer’s account. The goods that customers can purchase from this institution are rice and flour.

Shariah Law also applies to the buying and selling of shares. According to the Saudi Investment Bank, they have an option called “Shares Murabaha Finance.” This method allows people to purchase local shares that are owned by the bank with a profit and repayment plan. This also gives the buyer the option to keep or sell their shares in trading.

Islamic Finance in Secular Countries

In today's world, more countries outside the majority Muslim Middle East are introducing Islamic financing to their banking institutions. Countries like Luxembourg, which is in the middle of Europe and part of the European Union, have begun to take advantage of the opportunities of the large market of millions of Muslims seeking to expand their businesses outside the Middle Eastern borders. Many Muslims would prefer to bank with Shariah-compliant options, and with non-Muslim banks offering this option, this opens so many more business opportunities across the world.

According to an article from Ernst & Young from May 2019, *Luxembourg: the gateway for the Middle East and Islamic finance*, there are large business opportunities offered by Luxembourg financial institutions if one wants to get involved with businesses from the Middle East. The article states, "Luxembourg…globally renowned as a preferred choice…as well as its early positioning on Islamic Finance… the third largest Islamic fund center in the world after Saudi Arabia… and the first outside the Muslim world…" The country of Luxembourg started with government treaties with an international proactive approach. They have realized that they had a large market opportunity if they expanded the financial institutions' possible investments. They have a growing interest in Islamic finance as well. According to the article, "Islamic finance is one of the fastest-growing areas of the global financial services industry. The spread of Islamic finance into western markets demonstrates that it is now being viewed by investors, financial institutions and regulators as a viable alternative to conventional products." The article explains the differences between regular conventional banking and Islamic banking, and also details how the Islamic banking method is also available to non-Muslims who find this option interesting. Financial institutions like the banks in Luxembourg have made the decision to incorporate Shariah Boards as well to ensure the compliance with the Shariah requirements and prohibitions.

Islamic finance has become a global force. According to a financial article from November 5, 2020, “Islamic finance is today a $2.5 trillion industry spread over more than 80 countries with the bulk of it concentrated in very few markets.” There are just 10 countries that makeup almost 95% of the Shariah-compliant assets, and they are all located in Iran (where Shariah-compliant is mandated by law and not optional), Saudi Arabia, Malaysia, the United Arab Emirates, Kuwait, Qatar, Turkey, Bangladesh, Indonesia, and Bahrain. In just the past decade, Islamic finance has grown exponentially year after year at about 10%-12%. With this pace, according to *Arab News'* 2019 State of Global Islamic Economy Report, the total Shariah-compliant assets will grow to $3.5 trillion by 2024 depending on the economic conditions of those 10 countries. The number of Islamic banks in the Middle East and North Africa outnumbers the number in other countries, due to the Arab world being majority Muslim and also the amount of investment in oil. 190 Islamic banks belong to the area of the Middle East and North Africa. In the Gulf Cooperation Council, 41 Islamic banks ranked in the global top 100. The number of banks these countries have is small, yet the relative amount of money they handle is extravagant. For example, Saudi Arabia has four Islamic banks, and they have assets of USD 194.7 billion. Even the one Islamic bank that belongs to Tunisia handles and owns over USD 1.4 billion. There is also another aspect on this, where some countries in the Middle East already have had Islamic banks and are pushing for conventional banks to establish themselves in Muslim countries and commercialize Shariah-compliant products.

Asia-Pacific represents 25% of the global Islamic finance sector. They have much development to go through, as their finances are not as strong as the Middle East, even though their population is 90% Muslim. The area of Sub-Saharan Africa represents 1.5% of the Islamic finance sector, and yet they have the world's fastest-growing population. 80% of their population does not deal with banks, and 16% of the world's Muslims are from this area. This is a large opportunity for Islamic finance to expand and grow.

After the crisis of 2008, many countries have found Islamic finance to be a safer alternative than the conventional Western banking system. This is because Islamic finance reduces or eliminates the speculation involved in trades and products. Europe has started to introduce more Islamic banking and Shariah-compliant financing to entice Muslim populations to feel comfortable investing or borrowing money from their banks. For example, London has called itself the "hub for Shariah-compliant finance in the Western world." They currently have five licensed Islamic banks and over 20 conventional banks that offer Islamic financial products. Other European countries include Luxembourg as mentioned earlier, along with Germany, Switzerland, and France. There are some fears, however. France, having the largest Muslim population in Europe, has wanted to incorporate more Islamic finance. However, the banks have fears of being associated with Islam as terrorist attacks might damage their reputation.

Some banks in the United States have started to offer Shariah-compliant products, however, there is not much of a large market here as it is in countries like Saudi Arabia and North Africa. Not surprisingly, Latin America is the last continent where Islamic finance is being established. This is mostly due to the geography where Islamic finance originates in the Middle East and it is taking many years to expand to the farthest countries. Also, the majority of people in Latin America are Christian, more specifically Catholic. Many were raised in this faith and their culture revolves around Catholicism, so this market might be more difficult to penetrate for

Islamic banking. As of December 2017, the very first Islamic bank to be established in the Americas was opened in Surinam.

Comparison of Islamic and Conventional Mortgage Lending

	Islamic	**Conventional**
Interest	None	Do Apply
Fees	Do Apply	Varies
Mortgage	Rent to Own or Full Payment	Payments over time
Payments	At once	Over time

In comparing the Islamic and the Conventional Mortgage Lending, one can see that there are drastic differences. As Americans, we are accustomed to an individual seeking out a bank to secure a loan and purchase a home through payments. One automatically understands there will be a money deposit and interest rates applied to the loan amount. This is because we see it as the time value of money. The time value of money is essential in today's economy where one's money could be invested into different forms of investments with differing risks and seek to have a return for that risk. Therefore, banks in America are constantly seeking to create loans where they know their investments are safe because ultimately, they are lending out the money of the depositors.

On the other hand, one can see that Islamic Mortgage Lending is very different. As discussed in a previous chapter, interest rates are not applied because they are considered usury from the Qur'an. This is important because since interest rates are not applied, banks must still be able to make a profit from these mortgages, or else they would not be into the business at all. People in Islamic finance will secure homes through rent-to-own methods or Murabaha as discussed earlier. Ultimately, Islamic finance has found loopholes to where people can still purchase homes and large expensive items, without paying interest, but rather fees.

In today's economy, Islamic finance is struggling to keep up with mounting pressures. It is difficult to involve Islamic finance in things like stocks or derivatives if they consider that to be prohibited. Islamic finance has to look for loopholes, however, it might not be possible if derivatives are all about investing in items that are yet to come, and do not exist at the moment.

Application to Today's World

Oil is essential to today's way of life. The Arab world maintains many oil reserves. Islamic finance has much to develop itself if they are to fully capture the profits that they can from their oil industries. Oil industries could be a development for the countries that have the product and follow Shariah law because they could also become involved in futures. There is room for much needed growth.

According to Fitch Ratings, there are ways in which Islamic Finance moves around the Shariah Law implementations of not using usury and gharar. Instead, they reach out to conventional banks whether in America or other countries and have those banks do the investments that involve usury. In this manner, Islamic banks do not commit the prohibited acts themselves. At this point, it has worked well for them. In this manner, the Islamic bankers do not commit prohibited acts, but rather offshore them to bankers that do not consider those actions to be prohibited acts.

Conclusion

Maybe in the past, before everyone in the world was so interconnected to the point where one can order something from China and have it delivered the next day, maybe then, Islamic finance was fine. Maybe then, it did not matter that they could not get involved in interest rates, derivatives, or futures. However, with the changing economy and world, the world is more connected with each passing day. It can be a very big opportunity for Islamic finance to get involved.

In this research for my thesis, I have reached the conclusion that the Qur'an deeply influences the Islamic finance that countries like Saudi Arabia and Nigeria follow. It influences the people who manage the banking system so much, they are more than willing to reach out to conventional banks, have those banks conduct the prohibited acts of usury and gharar, than for the Islamic banks to conduct them themselves. The teachings of the Qur'an are rooted in their systems of government, politics, finance, and social aspects. People who manage the systems of Islamic finance have found ways to avoid committing prohibited acts, while still taking advantage of today's interconnected world economy.

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