



Islamic Finance and SRI Parallels and Differences

by Luc Van Liedekerke
Takaful Summit 2009
London, 1 and 2 July

What is SRI

‘Integrating personal values and societal concerns with investment decisions is called socially responsible investing (SRI). SRI considers both the investor’s financial needs and an investment’s impact on society. With SRI, (one) can put (one’s) money to work to build a better tomorrow while earning competitive returns today.’

(Social Investment Forum)

Islamic Finance and SRI close parallels

- History of IF starts in 1963, SRI history starts somewhat earlier. Both know their breakthrough only in 90ties.
- Both are pushed by a cultural transformation which guarantees the growth of the sector
- Strong product differentiation over the past years
- Both are converging towards the mainstream financial sector
- Tension between mainstreaming and retaining ethical quality

Parallel

- Sharia board comparable to ethical guidance committee. Decentralised decision making on what constitutes ethical quality. This is a risk as well as an opportunity.
- Struggling to find qualified people knowledgeable of the ESG/Islam as well as financial side of the problem
- Credibility of the sector needs constant vigilance (you risk your reputation) both in SRI and IF

Differences

- IF Looks at leverage of the asset and ethical quality of the financial institution offering the product; SRI does not
- Transparency is a strong issue in SRI, IF leans on the authority of the Sharia board
- Quality of the screening process and strong professionalization of screening in SRI. Less clear in IF

Challenges and opportunities

- Creation of new products in Islamic finance based on SRI characteristics should be possible
- 3 stages in SRI: from excluding the worst to picking the best to engaging the challenge. IF at present does not go beyond stage 1
- Screening process and presence of new intermediaries like screening organizations is stronger in SRI and could be useful for the creation of new IF products
- Guarding ethical quality risk, as real as financial risk