Ethical Principles of Islamic Financial Institutions

Dr. R. Ibrahim Adebayo¹ and Professor Dr. M. Kabir Hassan²

The current global economic meltdown is a clear revelation of the shortcomings of the conventional financial set-up and the weakness of self-designed system devoid of spiritual and divine guidance, hence the yearning and desire for a socially just financial system by conscious individuals and corporate bodies. The recent adoption and establishment of Islam based financial institutions in many parts of the world has exposed the system to serious studies by scholars and economists. Also, the adoption and integration of the Sarbanes – Oxley Act of 2002 into the America system of business to introduce ethical principles to the United States corporate environment through the application of many rules, could be seen as a leaf borrowed from Islamic ethical principle. This further strengthens the importance of the ethical principles of Islamic financial institutions. The assertion that Islamic financial system is only distinguished from other economic systems in its emphasis on interest free and other usurious transactions coupled with the fact that many concepts are springing up contending with the Islamic financial system inform the need to study the system within the context of Islamic ethical principles.

In addition to the above, the conventional global financial system needs to adjust its laws to accommodate Islamic financial system and by implication, it cannot be ruled out that the latter too will have to adjust its operations amidst other systems. In the same vein, inter-bank and intra-bank transactions between Islamic financial institutions and conventional banks cannot be avoided both locally and internationally. This implies that a number of intricacies will have to take place between the two divergent systems. This paper is therefore out to articulate the ethical principles of financial institutions as enshrined in the Qur’an and the Sunnah of the Prophet so that Islamic financial system will not lose focus and to avoid being carried away by the flamboyant and excessive profits and surpluses of the conventional financial institutions. The implementation of the rules and standards laid down by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the principle of ethics of the Islamic system shall equally be considered. Strict adherence to these ethical credentials of Islamic financial institutions would make consumers to find solace in them.

¹ Department of Religions, University of Ilorin, Ilorin, Nigeria
² Department of Economics and Finance, University of New Orleans, New Orleans, LA 70148, USA
Email: mhassan@uno.edu