

Islamic Finance in Swiss Banking Area: Characteristics, Opportunities and Challenges

Master Thesis in
Corporate Finance

Department of Banking and Finance

Prof. Dr. Michel Habib

Dr. Jacqueline Haverals



University of Zurich

Author:

Kuebra Isik

Date of submission:

April 12th 2012

Executive Summary

Islamic banking and finance (IBF) is a rapidly growing industry, including in the United Kingdom and Switzerland. IBF is an interest free system that relies on equity rather on debt, thus assumed to be inherently stable. Considering this, did the Islamic finance industry remain on the periphery of the latest credit crunch? Switzerland is an important player in global financial markets, how is the fastest growing sector Islamic banking emerging on its territory? What kind of challenges or opportunities is it confronting in contrast to the City of London, also a global financial centre within Europe.

This master thesis aims to provide a solid analysis of IBF and its status in the Swiss banking area, by conducting a literature review completed by interviews with experts. Furthermore this study tries to answer, whether Islamic finance can withstand shocks.

IBF is governed by an array of principles that are derived from Islamic law. It is a system that prohibits the use of interest, uncertainty or any kind of speculation, and therefore, it is based on the concept of mutual sharing so that involved parties share both profits and losses. Avoiding highly engineered financial instruments such as speculative derivatives, and sharing the profits as well as the risk mostly explain the positive outcome of Islamic banking.

The Islamic finance industry weathered the recent financial crisis better than its conventional counterpart since it was not exposed to the flaws that contributed to the crisis, such as low credit standards, highly engineered derivatives, or speculative behavior. However, this does not necessarily mean that IBF is immune to shocks. On the contrary, this unique industry faces various challenges and risks. Ultimately, Islamic finance is not completely resilient to financial shocks, however, it seems that a crisis with such severe costs as of the latest global financial crisis would not have occurred under an Islamic financial system. Nevertheless, since Islamic finance has been operating in a conventional-dominated environment, it was affected indirectly by the crisis. Despite rapid growth and expansion, this IBF has not reached its full potential yet. There are still untapped markets and sectors such as the wealth management of HNWI, which is the core business of Swiss banks. Therefore, Switzerland has an opportunity to emerge as a hub for Islamic finance.