

Zero sum games effect on islamic banking products

[Finance](#), [Banks](#)



Islam is not only a religion but also a complete code of life. It gives solution to all the problems of humanity from personal, social, political and economic life. Though Islamic economists had written about Islamic banking and finance from the beginning of nineteenth century, it got its framework at the beginning of 1960's with small mutual saving project in Egypt (Schoon, 2009). It started to take off from 1990's and it is a trillion dollar business now growing at the rate of 15%-20% annually. But in terms of product development it is facing significant obstacles because of the lack of expert human resources with the combination of both banking and Sharia skills. That is why, it is very important to understand prohibition in Islamic banking like gharar and zero sum game, so that it can be avoided at the time of future product development in Islamic banking.

Islamic Banking:

“ Islamic banking is an alternative banking system based on principles of Sharia. It has been developed with the addition of permissible economic techniques (Halal-to do) from Fiqh muwamalat (Islamic business laws) like sales, business, profit and loss sharing and eliminating prohibition of Sharia (Haram-not to do) like Riba (interest), gharar (Ambiguity), zulm (oppression), mysir (Gambling) and investment in Haram products like alcohol, tobacco and pork business”.

Yahia Abdul Rahman (2010) says ” Islamic banking is socially responsible and community based both in spirit and intent”. While conventional bank deals with only money which leads to Riba, Islamic bank though a financial

intermediary like conventional bank deals with trade. As Islam prohibits Riba and allows trades. (Al Quran, 2: 275)

Zero sum game

Decision theory, a case in which one or more participants (loss) profit of other participants from harm (benefit) is equal to So a profit (loss) one or more others (www. businessdictionary. com) loss (gain) should lead.

Zero sum - are playing a game where one wins and another loses, Zero sum problem - only when others insist that win may lose. Zero sum problems - emotional appeal that victory for unbeaten fun can defeat reflects. All games and gambling games are zero sums. Robbery and looting in the war zero amounts is difficult. Overriding need: zero sum relationship for granted is at the political level " that rule or principle." I do not belong to the same. " You have no others before them." Joke about a farmer who wish talent, but he called the next two zero sum mentality explains very well. " A poke my eyes"

Product Development in Islamic Banking:

No industry can survive for long term without continuously developing new products. Change in technology, demand of customers and forces of new competitors lead to new product development (Clark and Wheelwright, 1994). While in secular industry fulfilment of customer demand and winning competitors in order to maximize revenue of the company within the framework of rules and regulation of the state is sufficient, but it needs to stay within the parameter of sharia in terms of sharia compliant product development. Development of products for Islamic banks can be done by

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either completely developing new product based on quran, sunnah, ijma and qiyas or by purifying existing conventional banking products (Ayub, 2009).

Gharar:

“ The term Gharar does not have a specific definition like Riba from Quran and Sunnah. It is because what is gharar today may not be gharar tomorrow. It keeps the flexibility and options for arguments among sharia scholars at the time of new product development. Gharar generally refers to uncertainty, ambiguity, high risks, unknown and even ignorance. Because of the gharar prophet (PBUH) forbade pebble sale, sale of things before acquiring ownership, two dependent contracts in one sale, sale of birds in the sky and fish in the sea etc” (Vogel & Hayes, 1998).

Zero Sum Game:

A game is a contest among two or more players where everyone is competing for his own interest. But a zero sum game is a contest among two or more individuals where what others lose (zero) is a win (sum) for only one person (Swaillem, 2000). It means in order to win one must lose another. While competition among companies brings harmony, zero sum game brings hatred and enmity in the market.

Relationship between Maqsad al Sharia, Gharar and Zero Sum Game:

Maqsad al Sharia explains wisdom behind ruling. In broad sense it means to understand the reasons and objectives of laws laid in Quran and Sunnah. Mujtahids use their individual analogy in order to find answer for contemporary problems based on maqsad al sharia (Ibn Ashur , 2006).

Hence it is very important to understand it in order to develop products for Islamic banking. Sharia intends to bring samaha (ease) between parties in dealing with one another. Samaha is the standing in the midway between strictness and indulgence (Ibn Ashur, 2000). It is to create win-win situation for counter parties in exchange so that they do not regret afterwards. Therefore gharar and zero sum game should be understood in light of maqasid al sharia in order to avoid those in future product development for Islamic banking.

Relationship between Maqsad al Sharia and Gharar:

A purpose (Maqsad) is not valid unless it leads to fulfilment of some goods (maslahah) or the avoidance of some mischief (mafsadah). Therefore the objective, intent, principal, end or goal of the Islamic law is there for the ' interest of the humanity' (Auda, 2008). So, sharia intends to avoid any conflict between counterparty, avoids uncertainty, stops harming oneself or others and regret after transaction. On the other hand, gharar leads to uncertainty, dispute and conflict which may cause harm to the society. So it can be concluded that Maqsad al sharia and gharar are opposing to each other.

Relationship between Maqsad al Sharia and Zero sum game:

While Maqsad al sharia is to save society harming to one or to others, Zero sum game must compete to lose others for individual gain. Therefore sharia does not allow zero sum game.

Relationship between Gharar and Zero Sum Game:

Imam Malik in Muwatta states “ Included in gharar and risky transactions is the case in which a man whose camel is lost, or his slave has escaped, the price of which is (say) fifty dinar, so he would be told by another man: I will buy it for twenty dinars. Thus if the buyer finds it, the seller loses thirty dinars; if not, the buyer loses twenty dinars” (Swailem, 2000). Here both buyer and seller’s interest is completely opposite, which one loses is the gain of others. Hence this is a zero sum game as well. So, all kinds of Zero sum games lead to gharar. Because players in zero sum game does not know beforehand whether he is going to win or not (uncertainty), if he loses then loses everything he puts in the game (excessive risk).

Existing Islamic products, Gharar and Zero sum Game:

To be able to develop new products for Islamic banking in future it is essential to know existing permissible products in terms of gharar and zero sum game.

Mudarabah (Passive partnership):

“ Mudaraba is a partnership where one party supplies capital (Rab ul Mal) and another puts his expertise (Mudarib). Sole management remains with the mudarib without any interference from Rab ul Mal. A profit rate (%) but not a fixed amount is assigned to each party before venture starts. So in case of success, both of the party distribute the profit between them in agreed ratio and in case of failure Rab ul Mal lose his capital and mudarib loses his time and efforts (Saeed, 1999). In this business venture both rab ul

mal and mudarib co operate with each other unlike zero sum game and they know beforehand the consequences for profit and loss unlike gharar”.

Musharaka (Active Partnership):

“ Musharaka is partnership like mudaraba but only difference is here both party invest capital and engage in management as well. So overall success of business brings profit to both and failure of business brings loss to both at a time. Hence musharaka is free from zero sum game and gharar”.

Murabaha Bai Muajjal (Cost plus deferred sale):

“ Most of the trade in Islamic banking are based on the mixture of murabaha and bai muajjal. Murabaha is a contract where both buyer and seller agreed on goods, cost, and mark up and payment date. Buyer pays higher price than market rate but get the ownership of the good to be benefitted from it (Thomas et al, 2005). So in this sale contract, seller benefit by higher price and buyer benefit from ownership of the goods, creating a win-win situation for both parties in the contract. Hence it is a none zero sum game and no scope of gharar in the contract as everything about product, price and time is written down in the contract.”

Ijara (Lease):

Lexically ijara means to give something for rent. It is of two types. Renting usufructs of property or asset (Lease) or hiring/employing service of a person or company for wages, fees or commission (Kettell, 2010). Both the lessor and lessee are being beneficial for lease contract, one is enjoying service while other getting profit as a rent or fee. So, ijara contract develops win-win

condition for both parties. Hence ijara contract is free from zero sum game. There is no gharar in the contract as well because property, rent and time of payment is specifically written before executing contract.

Bai Salam (Prepaid Purchase):

Bai salam is opposite of Bai Muajjal. It is a sale contract specifically for the agricultural products. In this contract full price of the goods (Rice, wheat) is paid in advance and delivery is taken in a pre agreed future date. Though sharia does not allow selling something which is completely not ready to be sold but this exception has been made to facilitate poor farmer who needs money in advance to process agricultural product to make it usable for market (Siddiqi, A & Hrubu, 2008). In Bai salam contract determined price is lower than spot price. Buyer is benefited by paying less money and seller is benefited by receiving money in advance. Though it is risky for buyer in case of any natural calamity, but it is sharia permitted risk which is acceptable for any business. At the time of delivery if the price of the goods goes up, seller has the incentive to default or sell goods to someone else. But he will not do that because sale contract has been already done. So, it will be subject to legal consequences. Bai salam contract creates win win situation for both buyer and seller. That is why it is not a zero sum game.

Istisna (Commssion to manufacture):

Istisna is an exceptional sale contract like salam. At the time of contract, good or item generally not owned or never existed before. Buyer gives order to seller to build some item with specification. Unlike salam, delivery time need not to be fixed and sale price may not be paid full in advance (Siddiqi,

A., 2008). In istisna contract both buyer and seller are in win-win position and their interests are not conflicting to each other, hence, it is a non zero sum game.

Some Contradictory Islamic products and Issues of Gharar and Zero Sum Game:

After analyzing permissible products of Islamic banking in terms of gharar and zero sum game, it is necessary to see some products where fuqaha from different schools of thought take different views for sharia rulings.

Bay' Al Inah (Same item sale repurchase):

In Bay' al inah borrower (customer) sells some property to the lender (bank) for cash price and then lender turns back to sell same property to borrower with deferred but higher price (El-Gamal, 2006). In this contract, it is a condition of second sale for the execution of first sale. Since it brings two contracts within one sale, it leads to gharar. Final result of two contracts is original property is transferred to borrower with a liability of debt. Extra amount for second deferred sale that borrower loses is the gain of lender, hence it leads to zero sum game. So, Bai'al inah is prohibited by major schools of thoughts.

Tawarruq:

To overcome the criticism of bay'al inah, a third party arrangement is introduced. In this contract customer buys a product from Islamic bank on murabaha bai muajjal basis and sells it back with lower price to a third party on spot basis. In practice, bank organizes this third party so that customer can easily sell it back to the party whom bank has bought the product from.

So in reality product or asset does not move from the original place. Islamic fiqh academy and AAOFI has rejected this kind of organized tawarruq (Swailem, 2006, pp. 103-104). End result of tawarruq is like bay' al ina. Extra amount paid by customer is the gain of bank leading to zero sum game.

Marketing strategy, Gharar and Zero Sum Game:

From many element of marketing, promotion to attract new customer is very crucial for the existence of any organization. In conventional system, organization can take many approach like sale, discount, and limited time offer, buy one get one free or even chance of getting very costly items as a gift (iphone, ipad) etc . Another kind of marketing approach is multilevel marketing (MLM), where people get reward for making their relative, friends and family to be customer of that organization. Promotional activities in Islamic banking must follow sharia parameter and it must avoid any sort of gharar, deception and zero sum game.

Attracting customers with offer of chance:

Most of the company attract new customer with offer of chance of receiving costly and alluring items. For instance, a web based telecom company may advertise customer registering to their website within a specific month, their name will be put into a pool of lottery. Lottery will be drawn after certain time to pick up the name of winner who will receive an iphone. At the time of registration, if it is a condition from the company that they must buy a product to be eligible for entry to pool of lottery, it will lead to zero sum game. Because of customer is actually not only paying for product but also buying the product with the hope of winning lottery. After the draw of the

lottery, only some people win while other gets nothing. Hence it is zero sum game. But if the customer needs not to pay for any product and get free entry to pool of lottery, it will not be zero sum game. Because of prize of the lottery will be considered as a gift from company. Islamic bank can practice second approach to attract new depositors and buyers of its products.