

## **FINANCIAL CRISIS, SECURITY AND ALTERNATIVE ETHICAL FINANCIAL MODEL**

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**Building Competence. Crossing Borders.**

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# Welcome !

## To start with... some remarks:

- The research is still an ongoing research.
- The motivation to this study was the latest financial crisis and a long practical work in financial sector and lecturing experiences.
- We do here mainly concentrate on crises in the developed and capitalist world in the era of globalization, more precisely on the latest financial crisis (Sub-prime crisis)
- What we do present here is just a small part of the study (actually about 90 pages, with more than 97 references)

# A long history of financial crises

- 124 banking crises,
- 208 currency crises, and
- 63 sovereign debt crises over the period 1970 to 2007.

(Laeven and Valencia, 2008)

# Some characteristics of financial crises

- Repetition of the crises
- Amounts involved in the crises are increasing.
- New measures are taken to prevent new crises from happening.
- Preventive decisions are taken from the political power(s) on demand and under the influence of economical power.
- The measures are generally taken under the pressure of the crises
- The technological development : chances and risks.
- Globalization: possibilities and interconnections.
- Obsoletes measurement tools: GDP, Poverty Index, HDI, Ginni index etc..

# What does that mean, what do we need?

- Is that an indication of the failure of the capitalist system? If yes, in which part of the system?
- Is that an indication that we don't understand or control the interactions of the financial market?
- What are the risks related to that in term of instability and security?
- Do we need changes in behavior?
- Do we need early warning system?
- Do we need more regulations?
- Do we need a new paradigm for financial markets?

## The Idea

- “Understand” the origin of the financial crises
- “Understand” the impact of the financial crises
- Propose a solution for prevention and minimization

## The Challenge

- How to measure all that in way to be accurate as much as possible?

# First step

- Define the security variables to be considered

#	Category of the variable 1=Material 2= Non- material 3= Values	Security Variable***
1	1	Basic conditions: Food , shelter, work, health care and education
2	1	guaranteed minimal social security
3	1	Physical integrity (personal security),
4	1	GDP level, per capita income, inflation , National Debts
5	1	Circulation of money, Affordable taxation
6	1	Stable condition for business development, foreign investments
7	1	Sound Financial regulation
8	1	Control of technical development
9	2	Mental integrity
10	3	Freedom of belief, Tolerance
11	2	Providing welfare, solidarity
12	3	Personal belonging, trust and confidence, dignity
13	2	Family relation and broad social cohesion**
14	2	Job satisfaction
15	3	Equity, Equality, Fairness

\*\* With social cohesion we understand the combination of tolerance of differences (race, culture, minorities, social structure and cultural order)

\*\*\*Originally they were 33 variables, they are grouped here for this paper

## Second step

- Define the relation between the causes of crises and these variables
- **Technical set of reasons:**
  1. Economical cycle (T1)
  2. Distribution of risks through interests based financing (T2)
  3. Dissociation of finance and real economy (T3)
  4. The essence and implementation of set of financial regulation (example: the Home Mortgages system) (T4 & later)
  5. The lack of risk analysis and the tendency to minimize the impact (T5)
  6. Every thing is a commodity for sale as long as partners accept the terms (T6)
  7. The globalization and belief in a self problem resolving financial system (T7)



## Second step

- **Ethical set of reasons:**

1. (E1) The low level of actual ethics embedded in business systems and institutions
2. (E2) conflict of interest since Man is the legislator, the actor and the judge at the same time.
3. (E3) Self-interest sometimes morphs into greed and selfishness,
4. (E4) Some people suffer from stunted moral development
5. (E5) Some people equate moral behavior with legal behavior,.
6. (E6) Professional duty can conflict with company demands.
7. (E7) Individual responsibility can wither under unethical demands of the client
8. (E8) The dissociation between individuals and society in term of interests
9. (E9) The double standards applied in the society regardless whether this is fair, accepted or allowed.

## Third step

- Define the impact of the crises on the variables
  1. Impact of the financial crisis on the economy (C1)
  2. Impact of financial crisis on retirement security (C2)
  3. Impact of financial crisis gender equality (C3)
  4. Impact of financial crisis on employment (C4)
  5. Impact of financial crisis on health and poverty (C5)
  6. Impact of financial crisis on food supply (C6)
  7. Impact of financial crisis on small crime, identity theft and fraud (C7)
  8. Impact of financial crisis on national and regional security (C8)

# Third step

#	Category of the variable 1=Material 2= Non- material 3= Values	Security Variable	Influenced by the following results of financial crises	Influenced by the following Causes of financial crisis
1	1	Basic conditions: Food , shelter, work, health care and education	C4, C5, C6	T3, T4.1
2	1	guaranteed minimal social security	C1, C2, C5	
3	1	Physical integrity (personal security),	C7, C8	T6
4	1	GDP level, per capita income, inflation , National Debts	C1, C8, C2, C4; C5	T2, T3; T4,3
5	1	Circulation of money, Affordable taxation	C1, C5	T2, T3
6	1	Stable condition for business development, foreign investments	C1, C4; C7, C8	T2, T3; T5
7	1	Sound Financial regulation		T4.2, E7
8	1	Control of technical development		T4.4
9	2	Mental integrity	C3, C5, C8	
10	3	Freedom of belief, Tolerance	C8	
11	2	Providing welfare, solidarity	C5,C8	E1, E9, T4.6, E4
12	3	Personal belonging, trust and confidence, dignity	C3, C4, C5, C8	T3, T4.5,T7 E8
13	2	Family relation and broad social cohesion	C3, C7	E4, E9
14	2	Job satisfaction	C4, C5	E8
15	3	Equity, Equality, Fairness	C3, C4, C5	T6, E10

## Fourth step

- Define the Alternative system
- alternative Islamic Ethical Financial Model (IEFM).
  1. First Dimension (Shifting egocentrism) Economical and financial rules (I1):
    - (I1.1) profit and loss sharing (instead of interest based transactions),
    - (I1.2) risk sharing (and not risk transfer as prescribed by conventional system),
    - (I1.3) link between assets, financial transaction and real economies.
    - (I1.4) Transparent transactions, far from speculation and mainly asset based,
    - (I1.5) role of the state (guarantor of equitable chances)
    - (I1.6) role of the work in the economy (as main source of wealth)
    - (I1.7) wealth and ownership rules
    - (I1.8) and collaborative insurance system (as the active part of the safety net)
    - (I1.9) solidarity and institution of charity (as a part of the socio-economic system)
    - (I1.10) Decision should be taken in accordance to equity and justice as well as following the rule of closing the door of interested motivations
    - (I1.11) Actions are to follow the rule of no harm (one himself) and no harming (others)
  2. Second dimension Ethical and moral values (I2):

A set of moral and ethical values in business, where the rules and regulations should fit within. Response to Man's aspirations for social justice, welfare and spirituality thus creating -mainly- a "self-control system" (through education and awareness).

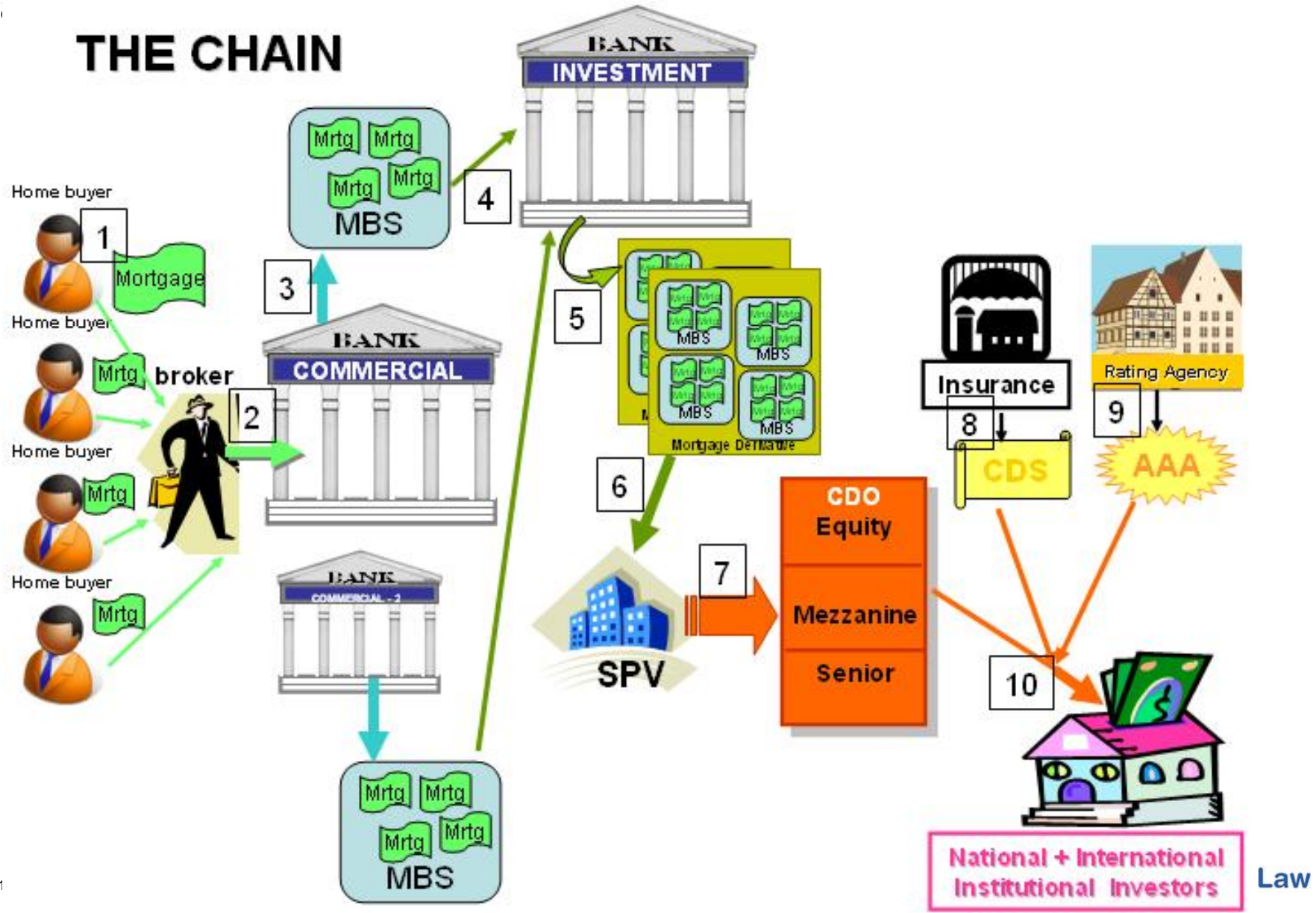
# Fifth step

- Define the relation between the variables and the IEFM

#	Category of the variable 1=Material 2= Non-material 3= Values	Security Variable****	Influenced by the following results of financial crises	Influenced by the following Causes of financial crisis	Influence of IEFM
1	1	Basic conditions: Food , shelter, work, health care and education	C4, C5, C6	T3, T4.1	I1.1, I1.2, I1.6, I1.7, I1.9
2	1	guaranteed minimal social security	C1, C2, C5		I1.5, I1.8, I1.9,
3	1	Physical integrity (personal security),	C7, C8	T6	I1.5, I1.9, I1.10, I1.11
4	1	GDP level, per capita income, inflation , National Debts	C1, C8, C2, C4; C5	T2, T3; T4,3	I1.4, I1.5, I1.6
5	1	Circulation of money, Affordable taxation	C1, C5	T2, T3	I1.4, I1.5, I1.7, I1.9, I2
6	1	Stable condition for business development, foreign investments	C1, C4; C7, C8	T2, T3; T5	I1.5, I1.6, I1.10, I1.2, I1.4, I2
7	1	Sound Financial regulation		T4.2, E7	I1.5, I2
8	1	Control of technical development		T4.4	I1.5
9	2	Mental integrity	C3, C5, C8		I2
10	3	Freedom of belief, Tolerance	C8		I1.5, I1.10, I2
11	2	Providing welfare, solidarity	C5, C8	E1, E9, T4.6, E4	I1.5, I1.7, I1.9, I2
12	3	Personal belonging, trust and confidence, dignity	C3, C4, C5, C8	T3, T4.5, T7 E8	I1.5, I 1.9, I2
13	2	Family relation and broad social cohesion	C3, C7	E4, E9	I1.5, I1.8, I1.9, I2
14	2	Job satisfaction	C4, C5	E8	I1.5, I2
15	3	Equity, Equality, Fairness	C3, C4, C5	T6, E10	I1.4, I1.5, I1.10, I1.11, I2,

# Sixth step

- Apply the finding on two financial crises in term of case studies:  
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## Seventh step

- Is there any possibility to use future studies methodology to find out the accuracy of proposed solution using these variables?
- Still an open question... At this stage!

# Eighth step

## 1- Conclusions:

- Financial crises are the major threat for stability and security.
- Financial crises are part of the human activities, but their recurrence and strength are not a fatality.
- Egocentrism of Man should be re-located: No judge, victim, aggressor and legislator at the same time.
- Integrated solution where education, morality and regulation are combined

## 2- Next steps:

- Make deeper researches and analyses: empirical, experts consultation,
- Complete the model with link to future studies
- Proposal of a comprehensive solution
- Analyze its robustness and sustainability





# Thank you