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Digital Currency from Shari‘ah, Economic & Practical Perspective

Summary Report

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INTRODUCTION

As of January 2018, the market capitalization of all combined cryptocurrencies in circulation is recorded to be high above US$ 700 billion. Whether it is asset-backed like 'petromoneda', a cryptocurrencies issued by the Venezuelan government, or not like the thousands of cryptocurrencies that are available in the market, it can be generally defined as a digital currency which uses mathematical algorithms and by peer to peer network to create a decentralized mode of payments.

To grasp and have the insight views of this financial phenomenon, The Center of Islamic Economics and Finance (CIEF), College of Islamic Finance, Hamad Bin Khalifa University held a public symposium entitled "Digital Currency from Shari'ah, Economic, and Practical Perspective" on March 19, 2018. Dr. S. Nazim Ali, the director of CIEF, opened the symposium by warmly welcoming the speakers and audience, and thanking the individuals that help to organize this event. He then began the symposium by giving the audience a snapshot overview of the current state of digital currency.

In summary, the symposium was divided and discussed under three perspectives, namely:
Practical perspective, delivered by Mr. Abdulaziz Al-Khalifa, CEO of Qatar Development Bank; Shari'ah perspective, delivered by Sh. Ali Al-Quradaghi, secretary general of the International Union of Muslim Scholars; Economic perspective, delivered by Dr. Tariquallh Khan, professor, Hamad Bin Khalifa University.

PRACTICAL PERSPECTIVE

In February 2018, Qatar Central Bank (QCB) issued a formal statement banning all bitcoins activities and tradings in the country. Like many other governments, Qatar took the precautionary approach when it comes to the recent FinTech development and especially the bitcoin outburst phenomenon.

Mr. Khalifa explained that QCB decision is due to several issues associated with many types of cryptocurrencies. Essentially, the extreme price volatility posed a significant threat to the overall market stability. Moreover, cryptocurrency transactions have broadly been used for money laundering purposes. Due to these circumstances, it is a prudent way for QCB to protect the users as cryptocurrencies users are not entitled to any legal claims or guarantee of conversion, and as well as to ensure the overall stability of the market.

Nonetheless, the Qatar government acknowledges the potential of the cryptocurrencies underlying technologies (blockchain) and the impending development of a cashless economy. It also recognizes that blockchain technology helps to reduces the cost transaction and improve the overall efficiency of raising funds through a mechanism like ICO (Initial Coin Offering).

Thus, to position Qatar at the frontier of the financial innovation hubs, a special task force has been set up and headed by QCB and other national banks to extensively study and analyze the potentials and threats of FinTech. The special task force utilizes security mechanism like 'sandbox' to test any new financial technologies in safe virtual space before releasing it to the general public.

SHARI'AH PERSPECTIVES

Shari'ah maxims stipulate that the general rule on any practices is permissibility. Additionally, anything that has been proven to cause harms is generally prohibited to be practiced or used. The Quran confirms this in Surah al-A'raf, verse 157, which states: "He allows them as lawful what is thoyyibaat (good that is generally accepted by the human nature and the sane mind)and prohibits them from what is khabaa'is (bad that is generally accepted by the human nature and the sane mind)." Hence, all new development and innovation of the financial technologies, even it is here to stay, need be to analyze through the Shari'ah lens.

Sheikh Ali Al- Quradaghi gave his view on cryptocurrency under four sections:
Can cryptocurrency be accepted as a currency (money)?
Does cryptocurrency resemble a credit card?
Can cryptocurrency be regarded as a commodity?
Does cryptocurrency constitute as a property right?

Cryptocurrency as Money:
In brief, there are three Shari'ah concerns regarding cryptocurrency. Firstly, the cryptocurrency has no physical forms or attributes to derive the concept of intrinsic value and has no legal regulations that govern it which pose a crucial problem when it comes to the guarantee of conversion for the uses. Secondly, unlike fiat money which derives its value by being a legal tender, its high price volatility in addition to not being backed by any real asset has emulated the characteristics of the 2008 financial crisis and the 16th-century tulip mania. It bears a resemblance to these price bubbles that were recorded in history that threatens the overall economic stability.

Lastly, it does not satisfy the five characteristics of money that Imam Ghazali and the modern economics stipulated, which are:
- General acceptability

- Medium of exchange
- Unit of account
- Store of value
- Standard of deferred payment

Furthermore, Ibn Qayyim states that money is a store of value and unit of value used and through it, the value of goods and services is measured. Thus, money should be stable, and it should not be sold for profit. This because it will cause the price of money to increase or decrease and it will harm the people and the economy.

Cryptocurrency as a Credit Card:
He views that cryptocurrency that does resembles or function like any credit cards that are available in the market.

Cryptocurrency as a Commodity:
He views that cryptocurrency does not has any intrinsic value due to its virtual and intangible characteristics. Thus it does not satisfy the Shari'ah conditions for it to be constituted as a commodity.

Cryptocurrency as a Property Right:
He views cryptocurrency does not satisfy the Shari'ah conditions for it to be constituted as a property right. It is because the existing cryptocurrency nowadays is not backed by any real asset for it to qualify as a property right under the Shari'ah rulings.

In conclusion, Sh. Ali Al-Quradaghi views that cryptocurrency is not prohibited due to its essence or nature, but it is prohibited due to what negative consequences. This is because cryptocurrency in its essential form is based on mathematical algorithms knowledge which permissible and laudable in Islam. However, it is prohibited due to what it entails from price speculation, loss of wealth, not guaranteed by any legal tender, and nor backed by any real asset which all will cause harm to the people and the economy.

Finally, he closed his symposiums by proposing a few Shari'ah solutions and practical alternatives. He suggested the government to issue their very own regulated cryptocurrency so that it will be treated as a legal tender which entitles the users the guarantees of conversion. Also, he proposed the idea of establishing a Sukuk through blockchain technology and used it to issue the cryptocurrency so that the cryptocurrency will be backed by a real asset.

ECONOMIC PERSPECTIVES

One can notice a rapid digital transformation of the global economy if one studies it in details. The digitalization of the global economy started with the wake and development of the internet. In 2017, the value of the digital economy is estimated to be around USD$ 12 trillion, which constituted 15.5% of the global economy, and it is predicted to reach USD$ 23 trillion by the end of 2025, which represents 25% of the global economy.

This digital economy is currently comprised of e-business infrastructures (hardware, software, telecoms, networks, human capital), e-business technologies (any processes that an organization conducts over computer-mediated networks), and e-commerce assets (transfer of digital goods). This fast-growing digital development is leading to many digital technological advancements, one of which is the digital intangible assets. It can be found in many forms, such as software, patent, music, information, knowledge, and so forth, including digital tokens and currencies. Nowadays, with the advancement of the digital technology, a new kind of digital assets class is created through the adoption of blockchain technology.

The idea of the blockchain, the technology that powers the cryptocurrencies, is that it allows two foreign parties to 'create trust' and make a digital transaction without relying upon the middleman. Traditionally, we had to trust financial institutions to act as the middleman for verifying our transactions. The financial institution will first verify that party A has sufficient cash, and then debit party A account and credit the recipient party B account. With blockchain, rather than all of this information being held and verified by the financial institutions, it is done on a distributed ledger technology (DLT) or commonly known as "open public ledger." With all of the verification is done by the DLT system, the verification of a trusted central authority is no longer needed by the users. Instead, the traditional trust system is transferred from one central authority to many decentralized, anonymous participants or commonly known as "miners." In brief, when a transaction is being made using the system, it is verified by miners, which is a supercomputer, then encrypted and added as a block to the ledger and forms a chain of blocks.

Dr. Khan pointed out that even though the current cryptocurrency conditions posed serious risks to the economic stability, it (DLT) has several advantages and benefits to the fast-growing global digital economy. One of which is that DLT enhances the efficiency and robustness of the payment system. It also helps to facilitate ICOs and smart contracts which improves the overall governance. Nonetheless, Dr. Khan views that DLT may lead to overall financial disintermediation, which will cause a change in the future of financial services and other businesses. Furthermore, the uncertainties of what DLT entails will continue, and regulators need to invest in understanding the disruption it may cause while also encouraging technological innovations to improve the overall efficiency of the economy.

CONCLUSION

All the distinctive invited speakers acknowledge the potential of FinTech and predict its gradual growth into the economy. However they are in agreement that the current condition and state of cryptocurrency makes it unfeasible for government to adopt it in entirety and exercising conscious in dealing with it is the prudent approach. The symposium ended after a lively question and answer session, and exchange of ideas as well as reactions of the participants on the key issues highlighted during the symposium.

ACKNOWLEDGEMENTS

A special thank goes to Bahnaz Al-Quradagi for moderating the symposium and to Dr. Syed Nazim Ali, the director of CIEF and his team for their assistance and tireless contribution in organizing this event. Lastly, a special mention goes to Muzaffar Muratov for transcribing the symposium.

SPEAKERS BIOs

Abdulaziz Al-Khalifa

Abdulaziz Bin Nasser al-Khalifa is the CEO of the Qatar Development Bank. He previously held leadership positions at QDB, where he was the Executive Director of Strategy & Business Development for three years, serving simultaneously as Vice President of several internal and external committees. Prior to joining QDB, Abdulaziz worked at Qatar Shell as a Business Development Manager for nearly three years and held technical and managerial positions at The Qatar General Electricity & Water Corporation for six years prior to that. He has extensive experience in the SME, private and entrepreneurship sectors. He played a leading role in the launch of several flagship development initiatives, including the Al Dhameen Partial Guarantee Program, Tasdeer Qatar Export Development Agency and the Housing Loan Program for Qatari citizens.

Ali Al-Quradaghi

Ali Al-Quradaghi has a Ph.D. in Contracts and Financial transactions and Master's degree in Shari'ah and Comparative Fiqh from the University of Al-Azhar. He is currently the Secretary-General of the International Union for Muslim Scholars and Vice-President of the European Council for Fatwa and Research. He was a Professor at the University of Qatar and has published over 100 papers and written over 30 books. Dr. Ali is a prominent Shari'ah scholar serving several Islamic financial institutions worldwide both as chairperson as well as board member of various Shari'ah Supervisory Boards (SSBs).

Tariqullah Khan

Tariqullah Khan is currently a Professor and Coordinator of the College of Islamic Studies' Islamic Finance program and he is also member of the College's Executive Committee since 2009. Previously, he worked in the Islamic Development Bank, IRTI since 1984 in different academic and managerial positions, lastly as the Division Chief of Islamic Banking and Finance, officiating Division Chief Islamic Economics and Development Cooperation, and was Editor of the Islamic Economic Studies Journal. He initiated and implemented a number of global strategic initiatives for the development of Islamic finance. He worked in a number of international advisory teams and working groups concerning the development of Islamic financial services.He has contributed with over 25 highly cited research papers in different areas of Islamic finance and developed a number of international flagship conferences in these areas. He has led the CIS academic team in organizing three mega international research conferences during the last four years and coordinated the publication of seven volumes of proceedings. He has twice been elected President of the International Association for Islamic Economics. He also serves in the Editorial/Advisory Board of two leading journals in Islamic economics and finance.