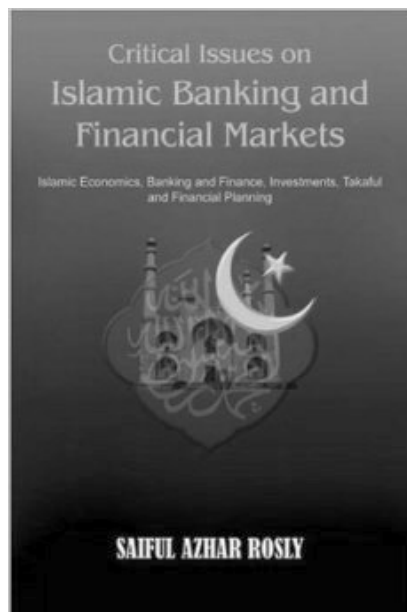


Book Review

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Title	Critical Issues on Islamic Banking and Financial Markets
Author	Saiful Azhar Rosly
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“Critical issues on Islamic banking and financial markets” written by Saiful Azhar Rosly was published in 2005 by AuthorHouse, Bloomington, USA. The author is a Professor at the International Centre for Education in Islamic Finance (INCEIF), Kuala Lumpur, Malaysia. He teaches subjects such as Islamic economics, Islamic banking and finance, money and banking,

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economic development, and principles of economics. In addition, Prof. Saiful is a consultant for many institutions, both public and private.

“Critical issues on Islamic banking and financial markets” is a book widely used at universities and educational institutions in Malaysia. It covers both theoretical and practical aspects and also common issues debated in the field of Islamic banking and finance. The book’s content includes topics such as Islamic economics, Islamic banking and finance, Islamic investment, Islamic insurance, Islamic wealth planning, and Islamic capital market. The author has divided these topics into three levels; basic, intermediate, and difficult. The book has been used in courses at the undergraduate and postgraduate levels in economic, finance, MBA programs, and executive short courses.

“Critical issues on Islamic banking and financial markets” consists of 10 sections. The contents of each section can be summarized as follows:

- **Section 1:** As the financial sector is part of a country’s economy, section 1 starts with the topic of Islamic economics and how it differs with conventional economics. It also explains Islam’s worldview before entering the topic of Islamic finance. In the latter, it describes why and how finance and banking in Islam operates differently from the conventional system. The prohibition of interest, a core principle of Islam, is expanded in details. In order for the reader to get a good grasp of the principle, the author tells how Islam views money and its time value, and what constitutes as rightful profit. The crucial question that many readers are looking for an answer is, “if Islam prohibits interests, how then does the financial and banking system operate?”. The author attempts to answer this question in a comprehensive way by giving a broad view of the alternative concepts and products used as a substitute for the interest system.

- **Section 2:** This section gets into the details of Islamic banking products on the financing side. It includes products such as Murabahah (buy and sell), Mudharabah and Musharakah (partnership and jointventure), Ijarah (leasing), Istisna (order-to-produce), Salam (agriculture futures), and Rahn (pawn broking). Basically the section explains how the principles of trade and investments can be used in commercial banking.

- **Section 3:** After considering the financing side of Islamic banks, this section gives readers a clear picture of how the deposit side works. In other words, if there are no interest rates involved, how do these banks attract deposits? In short, Islamic deposits operate like a mutual fund. There are two main types of deposits, the Wadiah account and the Mudharabah account. The former’s objective is for safekeeping while the later is for investments. Instead of interests, the customer receives returns from the bank based on a pre-agreed profit-loss sharing ratio.

- **Section 4:** A major difference in the operation of an Islamic bank compared to a conventional one is the application of the profit and loss sharing principle to its products, both on the deposit and financing side. This section describes in details how the principle is practically used in Islamic banking. To sum, the bank acts similar to a venture capitalist where it enters into a partnership contract with the customer. The section also covers the obstacles an Islamic bank faces in using these products including issues with the law and asymmetric information problems involving adverse selection and moral hazard. The author proposes solutions to overcome these challenges in order to promote the products and make it more popular.

- **Section 5:** As a lecturer in the school of development economics, this is one of the sections I enjoy reading most. The section covers macroeconomic issues and topics. As an Islamic bank operates differently from a conventional one, what is its impact on the economy? Is an Islamic bank safeguarded from bank failures or bank runs? When the market interest rate fluctuates or when the economy is rising or falling, how does the bank manage its assets and liabilities? What are the impact of an Islamic bank's products on inflation, poverty, and income inequality? These questions are among the many interesting macroeconomic issues the author attempts to clarify.

- **Section 6:** This section covers the legal aspects of Islamic banking. It addresses the varied legal opinions between the schools of thoughts and its role in the Islamic financial system. This is important as there are two major models of Islamic banking; the Malaysian (the one Thailand and South East Asian countries apply) and the Middle East. As these two regions follow a different school of thought, the Islamic banking products of each model may vary in certain aspects. In addition, the section discusses the need for Shariah (Islamic law) trained economists and also uses real cases in Islamic banking to explain legal disputes in the business.

- **Section 7:** Besides Islamic banking, another part of the Islamic financial sector that has experienced significant growth is its capital market. This section covers various aspects of the market starting from the Shariah stock index and its purification process (the process of screening out non-Shariah complied stocks), Islam's views on short selling and the 1997 financial crisis, the role of corporate governance and ethical standards in investments, Islamic mutual funds, and the development of Islamic derivatives.

- **Section 8:** A product that has received enormous attention from both Muslim and non-Muslim countries is the so-called Sukuk or Islamic bond. After the 9/11 incident, Middle Eastern investments in the US and Europe were heavily restricted, regulated, and monitored. This caused the petrol dollar funds to seek for alternative investment sites especially in East Asia. In addition, Arab investors also looked for investments that are Shariah compliant. Hence this leads many governments in East Asia to focus on issuing Sukuk bonds. This section covers the process in issuing an Islamic bond from the very beginning till selling it. The author describes how various trade and investment contracts can be used to form such an interest-free product. Moreover, he also explains the challenges a Malaysian Sukuk faces in marketing the product globally.

- **Section 9:** Although Islamic banking, capital market, and Sukuk have received most of the attention, the Islamic insurance industry has experienced steady growth in many countries. This section compares the similarities and differences between Takaful (Islamic insurance) and its conventional counterpart. The author also examines an important issue on Islam's views towards life insurance. In short, Takaful uses a cooperative system for reimbursement or repayment in case of loss based on the principles of profit and loss sharing (Mudharabah).

- **Section 10:** The last section includes other important and interesting issues in Islamic finance. It covers topics such as Islamic debt securitization, Islamic law of inheritance, the Islamic gold standard exchange rate, Islam's views on the marketing of financial and banking products, currency trading in Islam, Islamic corporate governance, and the Islamic interbank money market. Furthermore, questions such as are there limits to profits? How should Islamic banks handle bad loans? and can currency be traded in Islam? are also tackled.

Islamic banking and finance is a relatively new field. Learning from Malaysia, the innovation hub of Islamic finance, should be a good point to start. Although "Critical issues on Islamic banking and financial markets" is written based on the model and experiences of the country, it is still a very good reference book I suggest to keep. The book covers a broad and complete variety of topics in Islamic finance and the style of writing is short and comprehensive. Hence the book is suitable for those interested in the field whether they are students, lecturers, practitioners, or anyone involved with the industry.