

Book Review

Islamic Finance Principles and Practice, by Hans Visser, Cheltenham: Edward Elgar, 2009, 184 pp.

The publication of this excellent book by Professor Hans Visser is timely given the growing popularity of Islamic finance worldwide. Though, as pointed out by Professor Visser that Islamic finance constitutes a platform for Muslims to practice Islam in the modern world and to distinctly display their identity without isolating themselves from the rest of the world, Islamic finance has appeals to both Muslims and non-Muslims in terms of patronage and even intellectual discourse. New financial instruments have been actively developed by Western financial institutions. The International Monetary Fund's (IMF) interest in forging cordial relations with the Islamic world also speaks of the growing acceptance of Islamic finance by the international community.

The book has eight chapters. Chapter 1 traces the motivations for the establishment of an Islamic financial system. Islamic finance and economics are assigned to the domain of ethics and morality and seen as paving the way for the development of a fairer economic order. The second chapter explores the different sources of Islamic law, both secondary and primary. It also highlights the different ways of interpreting the *Sharia* law. Chapter 3 examines Islamic finance against the backdrop of an Islamic economy. Islamic economics as a normative economics is predicated upon the principles of the oneness of God (*tawheed*) and brotherhood, fair remuneration for labour and redistribution of private wealth. The different financial instruments are presented in Chapter 4 with identification of those widely acknowledged as *halal* and those which are questionable. Strict observation of the *Sharia* would limit the variety of Islamic financial instruments available. Chapter 5 dwells on the peculiarities of Islamic banking and the incorporation of Islamic principles by banks. It explains how banks handle problems related to asymmetric information. Special sectors in Islamic finance namely; insurance, home finance and investment are the subject of Chapter 6. Exponents of Islamic finance regard conventional insurance as being laden with *riba* and *gharar*. *Takaful* (cooperative and mutual insurance) is then hailed as the proper alternative. Investments in common stocks, not preferred stocks, are acceptable so long as they are *Sharia*-compliant as they involve profit-loss sharing between investors and the firm. Chapter 7 highlights the problems encountered by fiscal and monetary authorities if they decide to embrace Islamic principles. The ban on *riba* is problematic to these authorities. New

modes of borrowing funds that do not involve issuance of conventional bonds have to be devised. A *Sharia*-compliant equivalent of an interest rate has to be developed as a monetary policy tool. Finally in Chapter 8, successes and failures of Islamic finance from the perspectives of conventional economics and Islamic scholars are addressed. More often than not, the cost and quality of services matter as much as religious grounds in the choice between an Islamic and a conventional financial institution even in Muslim nations.

From this easily comprehensible book, one is generally enlightened on a number of interesting points about Islamic finance and they include *inter alia* all of the following. Globally, the scale of Islamic finance is still relatively small. Though, worldwide, the total assets of all Islamic financial institutions is astronomical, most of the largest banks in the world would each individually have more assets than all the Islamic financial institutions taken together. Islamic finance is still at a nascent stage of development. In fact, conflicts abound between Islamic principles and practices as it is not always that they are unambiguously obvious as to what is permissible and what is forbidden. There exists a vast scope for disagreement on the financial instruments acceptable in Islam. Deep rifts exist amongst Muslims in this respect. By implication, the lofty ideals in Islamic finance and Islamic economy have yet to gain universal acceptance amongst Muslims. Standards-setting bodies at the international level have to be established to harmonize rules for any financial product to gain wide marketability. Islamic finance basically revolves around the bans on interest (*riba*), gambling or speculation (*maysir*) and undue risk-taking (*gharar*). *Riba* being a form of excess, involves undue appropriation of income that violates the principles of *tawheed* and income distribution. The ban on *riba* is also directed at preventing debt slavery. There is pragmatism and not always dogmatism amongst followers of the Islamic faith. For example, based upon *darura* (necessity), interest payments are allowable under certain circumstances. With respect to *gharar*, futures, forwards and other derivatives are an anathema. The ban on *maysir* is based upon commutative justice as gambling is a zero-sum game. It is the sentiment towards profits and interest that distinguishes Islam from capitalism and socialism. While capitalism accepts both profit and interest, and socialism opposes both, Islam only agrees with the profit motive but not interest. As in the conventional financial system, there is no shortage of serious moral hazard and other agency problems in Islamic finance. Islamic financial assets such as profit-loss sharing (PLS) accounts and *murabaha* credit are not consonant with the rules imposed by regulatory agencies. For example, the capital adequacy standards of the Basel Committee of Banking Supervision (BCBS) do not favour the PLS accounts. The implementation of Islamic finance principles could be onerous, cumbersome and costlier compared with conventional banking. Small and medium scale enterprise (SMEs) could be disadvantaged

by Islamic banking as overdraft facilities are not easily accessible to meet their working capital requirements. By drawing parallels with Christianity, the book highlights that the negative view against *riba* is not unique to Islam. Interest payments were also frowned upon by the Church. Moreover, the Mediaeval Christian Church also had to grapple with questions on what is acceptable and what is not.

On the whole, the book provides a balanced perspective on Islamic finance and its related products. Though the book is on Islamic finance, there is a good discourse on the Islamic economy apart from a general introductory background on Islam. Religious terms are clearly defined. Apart from numerous citations of past studies, it contains handy website addresses that could facilitate further research into the realm of Islamic banking and finance. As such, it is an essential reference for scholars, be they Muslims or non-Muslims, interested in the Islamic system as a possible alternative to the conventional system.

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