



## **BOOK REVIEW**

### **ISLAMIC CAPITAL MARKETS**

*Edited by Brian Kettell, United Kingdom: Islamic Banking Training, 2009. ISBN 978-0-9558351-1-7, 244 pp.*

*Reviewed by Oladapo Hakeem Babatunde, Ph.D, Student, Department of Economics, Kulliyah of Economics and Management Sciences, International Islamic University Malaysia.*

---

This book is about Islamic capital market products and operations. The global financial crisis, which has adversely affected the financial markets across the globe, has highlighted the weaknesses of the conventional financial system. Based on this concern, the author claims that his inspiration to write this book is a result of his deep concern for an alternative financial system. The author has had a first hand experience as an Islamic Banking and Finance practitioner. This motivated him to research into this area of finance, more so since the conventional financial systems of the world are facing threats to existence (p. 5).

The book comprises of ten chapters of 244 pages including the bibliography and appendices. Generally, chapters one to three of this book discuss the five pillars of Islam and beliefs, the *Shari'ah* law and the *Shari'ah* boards, and conventional Islamic financial intermediation. Specifically, chapter one discusses Muslim beliefs by analyzing the five pillars of Islam. The author further emphasizes on the six Islamic creeds which Muslims must rest their belief on earth, and hereafter as the Islamic worldview upon which every human activity is built. In chapter two, the author examines the *Shari'ah* boards and the stipulations of the divine law (*Shari'ah*) upon which Islamic banking is based on, sometimes referred to as Islamic jurisprudence. In the faith and belief of a Muslim, Islam is the religion revealed to Muhammad (pbuh) by

Allah (swt) and the *Shari'ah* is the religious law that governs the religion (p. 35). Similarly, within the Islamic scheme of life, Islam imposes its laws (*ahkām*), which in modern terminology is known as norms or values to be exhibited by its believers. These laws or values are not man made, instead they are ordained by Allah. These laws are derived from the sources of *Shari'ah vis-à-vis* the *Qur'ān* and *Sunnah* (p. 37). The book under review discusses in detail the system of Islamic financial intermediation, a market that is free from the involvement of prohibited activities by Islam, as well as issues of usury (*ribā*), gambling (*maysir*) and ambiguity (*gharar*) among other things in chapter three.

Chapters' four to six deal with Islamic capital markets and Islamic securitization, Islamic investment principles and *Shari'ah*-compliant wholesale markets. In chapter four, the author treats Islamic capital markets and Islamic securitization. The *Shari'ah* Advisory Board is set up to formulate policies and monitor the operations of the Islamic capital markets from facing the same problems as being faced by conventional capital market and financial system as a whole. In support of this, the author agrees that capital markets play an important role in the economy where they “play two critical roles in an economy; allocation of risk capital through savings mobilization and risk-pooling, and promotion of responsible governance and control through providing outside investors a variety of mechanisms for monitoring inside decision makers,” (p. 59). The author also *Shari'ah* about Islamic securitization which requires a thorough verification process that must ensure *Shari'ah* compliance before assets can be allowed for security: ‘the assets to be securitized Islamically might include leasing contract, equity ownership, *murābahah* and other sales contracts,’ (p. 87).

In chapter five, the author points out that the *Shari'ah* condemns investment funds or Islamic institutions dealing with prohibited goods (*ḥarām*). In line with the aforementioned, dealings in equity shares can be acceptable in *Shari'ah* subject to compliance with Islamic norms and ethics. Islamic banking is a further step from traditional banking: “unlike a conventional, which is basically a borrower and lender of funds, an Islamic banking is essentially a partner with its depositors on the one side, and also a partner with entrepreneurs, on the other side, when employing depositors' funds in productive direct investment,” (p. 67). The author confirms that there is no restriction in Islamic capital market: “. . . it does not prohibit participation of non-Muslims (p. 75).

It is very necessary to draw the major difference between conventional and Islamic finance ‘while Western investment are structured to generate maximum returns, Islamic investment are based on *Sharī‘ah* law, which forbids the payment and receipt of interest and requires risks and profits to be shared amongst investors,”(p. 75). He agrees that commodity *murābahah* is an instrument traded on short to medium term bases in Islamic financial markets. It does not attract interest (*ribā*) as is commonly done in conventional financial market: “. . . bank is making profits rather than earning interest, this is considered *Sharī‘ah* compliant,” (p. 114). Investment of funds is the capital outlay or capital sum put in an organization with the expectation of making profit like in the case of commodity (*murābahah*), equities, property investment, *takāful* or Islamic compliant insurance, Islamic bonds (*sukūk*), etc.

Chapters seven to ten critically examine Islamic funds, equities, indices and exchange-traded funds (ETFs), derivatives and hedge funds in Islamic finance, Islamic bonds (*sukūk*) and Islamic real estate investment trusts. The author states in chapter seven that Islamic fund is a fund that brings about a partnership between the financial institution and the investors in which case the institution is vested with the responsibility of exercising control over the pool of resources on behalf of investors: “Islamic investment fund means a joint pool wherein the investors contribute their surplus money for the purpose of its investment to earn *ḥalāl* profit in strict conformity with the precepts of *Sharī‘ah*,” (p. 126). He however, soundly warned that, “if the main business of a company is unlawful in terms of the *Sharī‘ah*, it is not allowable and is a sin against norms and values of *Sharī‘ah* to make use of an Islamic fund to purchase, hold or sell its shares, simply because it will directly involve the shareholders in the prohibited business,” (p. 134). The author agrees that there is need to make pure the proceeds from prohibited activities and donate the impure part to the less privileged members of the society in the form of charity: “Investment gains that result from prohibited activities of company issuing stock such as; company’s profit from alcohol sales or interest income, should be purified and the amount arrived at be donated to charity,” (p. 104).

The author also delves into Islamic investment funds such as *ijārah*, *murābahah* and mixed Islamic fund. He agrees that in order to give credibility to the industry, the available fund must be boosted: “. . . the biggest boost of fund came in 1999 when Dow Jones launched their

Islamic indices, this brought about credibility and viable investment categories.” (p. 31). In view of the global financial crisis, there has been an increase in demand for *Sharī'ah*-compliant products, thus, Islamic capital markets are moving fast and shareholders are starting to realize its potentiality.

Having reviewed this book, it is important to point out some critical issues on the operations of the Islamic financial system at this present time. This observation is necessary to check the players of the market. Many Islamic banks attempt early in their operations to conduct *mushārah* and *muḍārah* but eventually converge to using *murābahah*, *bay' al-mu'ajjal*, and leasing as the main modes of operation. Those practices are commonly favored due to the elimination of the risks of enterprise failure, moral hazard, and adverse selection. The avoidance of risk among other things violates the stipulations of the *Sharī'ah*. The *Sharī'ah* stipulates that for every transaction to be *Sharī'ah*-compliant, the three elements of *iwad*; risk, effort, and liability must be present.

Perhaps, one of the most damaging criticisms is that while relying on secondary modes of financing, they do not seem to be fulfilling faithfully the conditions laid down by the *Sharī'ah* for the permissibility of these modes. More so, the certificates about the Islamic credentials are issued to the aforementioned institutions by their own internal *Sharī'ah* board. Nobody doubts the integrity of the members of these constituted boards, who are highly qualified and well respected *Sharī'ah* scholars. They are, nevertheless, employees or paid advisers of Islamic banks for example, and there is every possibility of conflicts of interests.

The author has done a marvelous job in dealing decisively with issues on Islamic capital markets at this point in time when conventional market is sending people into untimely grave as a result of slashes in the price of stocks in the former market. Most stocks could not even be sold at nominal value which is the price of stock at the time of purchase. In support of this assertion, billions of dollars were wiped from stock markets across the world in March, 2000. The excuse for this is the global financial crisis which is attributed to human errors.

It is worthy of mention at this point that the author has written this book under review based on ideals from Islamic perspectives. The *fuqahā'* have laid down the condition that must be fulfilled to ensure that the operations of the Islamic financial system in general, conform

to the Islamic teachings. To ensure this, for example, Islamic banks in different countries have religious Supervisory Board to ensure that the management of banks has easy and continuous access to these scholars for consultations in evolving the operating procedures of the banks. Among other things, the scholars are saddled with the responsibility of scrutinizing the actual operating procedures of the banks. This type of advisory boards also exists in the capital market. As it can be seen in reality, some of the operating procedures are not in conformity with the Islamic norms and as such, a lot more need to be done on the enforcement of the ideals to bring about a vibrant, competitive and efficient Islamic financial system. Conclusively, Islamic finance scholars should be encouraged to write more on this particular and allied issue with all realities.