Book Reviews


This book with an English title but German text is the first thorough study and exposition of Islamic finance in the German language. The very fact that the book has found its way to the book market is indicative of the roots Islam is steadily taking in Germany.

Gassner (38), a German economist by training and a convert to Islam, became increasingly fascinated with the challenges and opportunities of Islamic finance during his career as a business manager. This is documented in his website <http://www.islamicfinance.de>. Currently he is serving Al-Jazeera Bank in Jeddah, Saudi Arabia, as a division head.

Curiously enough, Dr Ayyub Köhler (70), President of the Central Council of Muslims in Germany, is not only Gassner's father-in-law, but also preceded him as the author, in German language, of a small publication on the Guiding Principles of Economy and Society in Islam (1981).

Gassner's German co-author, Dr Philipp Wackerbeck, who works as Associate Fellow of the Institute of Islamic Banking in London has been publishing extensively, both in English and German, on issues of Islamic finance.

In his Preface Rushdi Siddiqui, Global Director of the Dow Jones Islamic Market Index in New York, points out that Islamic finance, with already more than 350 Islamic banks and insurance companies around the world, is about to branch out into new fields. Until now mainly focusing on corporate and investment banking, institutional asset management, and private banking for the affluent, quite often Arab customers, Islamic banking is now entering the retail segments, in terms of substance, and continental Europe, geographically.
Given that the first successful Islamic bank was established as late as 1975, in Dubai, after some failed attempts in Egypt in the 1960s, the growth of the market for Islamic financial products has witnessed a phenomenal growth. Indeed, it has been lately growing at a double-digit rate, while press reports on it have even quadrupled during the above-mentioned period. Evidently, the success of Islamic banking is such that even non-Muslim banks have entered the business with “Islamic Windows.”

Even so, with $500 billion representing only 1% of the total economy, the Islamic segment still is marginal, given that Muslims make up approximately 25% of the world population. Nor is it definitely proven yet that Shari‘ab-compatible bank products, suffering under higher risks and transaction costs, in terms of return can compete with the conventional products, even though interest-free does not necessarily mean cost-free transactions. Underdeveloped in particular are models of Islamic insurance, if only because until now most life risks were met in the Arab world through the remarkable coherence of families and clans (p. 38). At any rate, thanks to the book under review, particularly its 31 excellent diagrams, Islamic finance is clearly coming out of the shadow within the Muslim world as well.

The book begins with a model exposition of Islamic theological doctrine (‘aqīdah), also in the economic field, pointing out that Muslims can defeat the “law of scarcity” (of resources) by properly contributing to production while sensibly limiting consumption. It is indeed for the Ummah to prove that beyond seeking “maximization of profit” economics must strive for justice and brotherhood (p. 21).

Against this background Islamic Finance can be defined as all Shari‘ab-conforming financial services based on the social ethics of Islam (pp. 13, 19). This is neatly reflected both in the structure of the book and its bibliography, dealing as they are with:

* General Aspects, i.e. the inadmissibility of interest (riba‘), and speculation (gharar) or gambling (maysir) and the rôle of taxation (zakāh);
* Economic Organization (including Shari‘ab Boards);
* Financial Products;
* Islamic Banking;
* Derivatives; and
* Islamic Insurance and Re-insurance.

The authors describe in some detail the major centres of Islamic financing so far, i.e. Abu Dhabi, Doha, Dubai, Geneva, Jeddah, ar-Riyadh, Kuala
Lumpur, Kuwait City, London, Manama, Singapur, and Zürich, followed by a description (pp. 43–50) of the following:

* Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), created in Bahrain, in 1991, known for its publication of banking standards (56 so far);
* Islamic Development Bank (IDB), established in Jeddah, in 1973, with its renowned Islamic Research and Training Institute (IRTI);
* Islamic Financial Services Board (IFSB), set up in Kuala Lumpur, in 2002, for the development of regulation and auditing systems of Islamic banks.

In its bulk sections 3 and 4 of the book discuss the functioning and Islamic attitude of tolerance, if not of willing acceptances, of the Islamic banks’ 25 instruments and products:

1. *Murābahah*, i.e. the turning of an illicit credit sale into two sales, with a mark-up price;
2. *Bayʿ ʿInāl/Tawarruq*, i.e. the turning of an illicit credit sale into two sales, the second one being a spot sale back to the seller (without returning the object).
3. *Bayʿ Salam*, i.e. term sale of clearly defined future mass products, possibly with a price discount.
4. *ʿArbān*, i.e. sale of future mass products with down-payment and withdrawal option.
5. *Istīnāʿ*, i.e. production of a good as ordered by a bank for a bank client, turning a contract on credit into two contracts, with a mark-up.
6. *Qarḍ Hasan*, i.e. no interest bearing credits, given to, or by, a bank, in the latter case possibly with fee-bearing guarantees.
7. *Muḍārakah*, i.e. a joint venture between a credit giver (*rabb al-māl*, usually a bank) and a manager (*muḍārīb*) with agreed profit sharing. Loss is borne by the creditor alone, unless the manager is found to be fraudulent or guilty of gross neglect.
8. *Musārakah*, i.e. creation of a company run jointly by creditor and manager, both personally liable without limits, unless they form a registered company with legal personality, thus limiting responsibility.
9. Diminishing *Musārakah*, typical for acquiring landed property, i.e. joint acquisition of an object by a bank, financing it, and an individual using it and gradually paying it off.
10. *Ijārah*, i.e. the leasing of an object bought by a bank on the order of the tenant, thus avoiding a sale on credit. If at the end of the lease the property is transferred to the tenant the contract is called *ijārah wa iqtina*.

11. *Hawālah*, i.e. the technique of transferring money via agents.

12. *Kafālah*, i.e. letters of guarantee.

13. *Rahn*, i.e. proving a concrete guarantee for a bank credit.

14. *Ṣarf*, i.e. dealing in foreign exchange.

15. *Wādiʿah*, i.e. the employment by banks of creditors as brokers or agents.

16. Checking accounts, i.e. running accounts without interest (but *non-percentage* penalty payments) in case of over-charging.

17. Savings accounts, i.e. accounts managed according to *muḍārabah* principles.

18. Debit Cards, i.e. credit cards without overdraft facilities.

19. Bank Credits, i.e. the financing of consumption, building, etc., all turning a contract on credit into two contracts, with a mark up and, usually, double taxation.

20. *Sukūk*, plural of *sakk* (certificate), i.e. Islamic bonds issued for existing and licit underlying assets only, with detailed description of functioning *sukūk* like the Dubai Airport and Gold Sukuk (pp. 94–124).

21. Stock Companies, are considered *Sharīʿah* conforming as long as they do not produce *haram* products like alcohol. Trading in stocks at the exchange is Islamically permitted unless it turns into gambling.

22. Investment Funds, under the same conditions, are *Sharīʿah*-compatible as well. There exist already more than 140 Islamic funds.

23. Hedge Funds, unrelated to concrete sales of concrete products, usually qualify as forbidden for having the element of *gharar*.

24. *Takāful* (“mutual guarantee”), i.e. Islamic insurance contracts designed to avoid *riba*, *gharar*, and *maysir* — all three involved in conventional insurance—by organizing the insured as a solitary society jointly administering a *takāful*-fund, in case of Islamic life insurance supplemented by saving funds (pp. 143–153).

25. Derivatives, as techniques for hedging (but not for speculation) not necessarily un-Islamic but mostly so because—as with futures in general—no real delivery of product is involved, only a settling of price differences. Efforts in Pakistan to provide hedging Islamically through so-called *istikār* contracts have not yet come to fruition (pp. 153–158).

In each case, where warranted, the authors show their skepticism about the acceptability of these financial products in Islam. But they also point out that in most of these cases at least one of the Muslim schools of law, most often the Hanbali one, accepts borderline cases as Islamically tolerable.
All this is competently studied on the basis of German and English literature only, with particular emphasis on books from Kuala Lumpur (as by Imran Ahsan Khan Nyazee), Karachi (as by Muhammad Taqi Usmani), and London (as by Sohail Jaffer).

For the future, the authors see as particularly pressing issues like the following:

* the training of Muslim bankers competent both in finance and Islamic law;
* the creation of an Islamic money market for a better management of the liquidity of Islamic banks;
* better protection of creditors in the mudārabah-mode against mudārib who are taking too many risks for having nothing to lose personally.

Finally, the authors hope that Muslim experts will stop their habit of artificially pressing conventional products into a Shari‘ah frame, making them de iure compatible while de facto remaining barely veiled conventional products (p. 175).

Thus the book under review is a major contribution to the spreading of Islam through making its financial techniques intelligible to Western readership. (If it had come out a decade earlier, it would have made my work on the Shari‘ah Board of the Islamic Bosna Bank International in Sarajevo much easier.)

Thus my suggestions for improvement are few, and minor at that:

(i) The usefulness of the book would be greatly enhanced by a subject index.

(ii) The authors should like to see a harmonization, if not standardization, of the opinions (fatāwā) of the individual Shari‘ah Boards of Islamic banks, perhaps even via a supra-national supreme Board. In my view this might be counter-productive for the necessary development of standards since this requires productive differences of opinion, as they fruitfully exist, e.g., between Islamic bankers in Malaysia and in the Middle East (pp. 36, 56).

(iii) The authors are of the strange opinion that the trading with and financing of weapons was totally illicit, without, however, proving their point under Islamic law (pp. 32, 127). Islam is a peaceful but not a pacifistic religion, allowing legitimate defence.

(iv) Algeria became independent already in 1962, not only in 1963 (p. 37). I know because I was there at the time.

Murad Wilfried Hofmann

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