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Habib Ahmed, Mehmet Asutay and Rodney Wilson (Editors)
Islamic Banking and Financial Crisis: Reputation, Stability and Risk
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The book under review is the outcome of an important international conference held in July 2010 on 'Islamic Finance and Financial Crisis: Issues at Regulatory, Organizational and Product Levels', jointly organized by the Islamic Research and Training Institute of Islamic Development Bank Group (IDBG) and Durham University. It was held at a crucial time to understand the reason for the financial crisis of 2008 and its impact on global finance.

The book has 12 articles and 22 contributors. It has been edited by three prominent experts in the field of Islamic banking and finance - Habib Ahmed, Mehmet Asutay and Rodney Wilson. Professor Habib Ahmed is the Sharjah Chair in Islamic Law and Finance at Durham University, UK. Prior to this, he was Manager, Research and Development, Islamic Banking Development Group and, at the National Commercial Bank (NCB), Kingdom of Saudi Arabia. Professor Mehmet Asutay is the Director of Durham Centre for Islamic Economics and Finance. He is the Managing Editor of the *Review of Islamic Economics* and is an Associate Editor of the *American Journal of Islamic Social Science* and a member of the Editorial Boards of *International Journal of Islamic and Middle Eastern Finance and Management* and of *Borsa Istanbul Review*. Dr. Rodney Wilson is an Emeritus Professor in the International Centre for Education in Islamic Finance (INCEIF), Malaysia. He has been involved in research and teaching in Islamic economics and finance for over 30 years. He founded the Durham University Islamic Finance Programme.

The book makes interesting reading and helps in understanding the financial crisis and its solution from an Islamic perspective. Its first chapter, 'Reflecting on Islamic Banking and Financial Crisis: Risks, Reputation and Stability' (p. 1) is a powerful introduction to the title of the book and its content. It not only summarizes the book but complements it by adding missing points like Basel III (Basel III was not introduced at the time of the conference), Arab Spring, Glass - Steagall Act, Lehman brothers, *Souk al-Manakh* crisis, etc. It would have been worthwhile if the editors had also commented on The International Islamic Liquidity Management Corporation (IILM) as it directly relates to chapter 7. In 2010, the Malaysian government established IILM (www.iilm.com) to meet liquidity challenges with a few central banks of OIC (organization of Islamic Cooperation) members including IDBG. Its membership is open to all central banks and financial authorities. It was brought under ILLM ACT 2011 with privileges and immunity.

The editors are right when they state, "It is simplistic to blame the growth of derivatives for the crisis" (p. 6). The financial crisis was much more complex and brought to light many flaws in the global financial system which includes the rating agencies.

In chapter 2, 'Reshaping the Islamic Finance Industry: Applying the Lessons Learned from the Global Financial Crisis', Rafe Haneef and Edib Smolo in their survey of articles could not find consensus on the causes of the financial crisis (p. 22), but they have listed 3 major factors for the casual attitude of banks (p. 24). a) The ability of banks to freely transfer their risk to third parties by selling their loan portfolios, b) The sense of security that both banks as well as depositors acquire from the "too big to fail" syndrome; whereby, in case of a crisis, the central bank would assume the responsibility to bail out the banks in order to contain a systemic risk to the economy, c) The deposit insurance companies that guarantee citizens' deposits (p. 25).

Rafe and Edib speak of 'fine-prints' (p. 32) to be a method of lack of transparency. Yes 'fine-prints' have hidden unpleasant/unattractive terms and conditions whereby both conventional and Islamic banks try to portray the better part to the public. But I find Rafe and Edib have done the same. While reporting a Ḥadīth it is important that a clear picture is given. The Prophet Muhammad (PBUH) refused to pray the funeral prayer for those with outstanding debt (p. 30), *unless someone took guarantee to payback the deceased's debt (if he has left nothing*). The italicized part is put in endnote 2; perhaps to emphasize their point 'the importance of keeping away from debt'.

The analogy must be driven very carefully especially when we connect them to Islamic ruling, Qur'ān and Ḥadīth. Rafe and Edib compare the need for taking loans (debt) to giving divorce (p. 31). What they actually focus on is using that just as a last resort, but that is an extreme comparison done by them. Debt/loans/financing is much different to the extreme comparison the two are putting forward. Debt and divorce are by nature very different. Debt could be inherited, one could agree to pay back the debts of others, and *zakāh* has provision to help the indebted, etc., while divorce as mentioned (endnote 3) is the most detestable among the things made permissible by Allah Almighty (p. 31).

Rafe and Edib rightly suggest that banks must be the educators (p. 32), however the onus of borrower should not be put on the lender (banks/ financial institutions). Rafe and Edib argue whether Islamic banks should promote their products during festive seasons as conventional banks do? According to them, Islamic banks should not (p. 31). One must understand that banks and financial institutions are there to make profits like any other commercial organization, be it Islamic or conventional. They must be given their own space to promote and market their offering, be it in festive season or otherwise.

The financial crisis of 2008 has brought the Islamic banking and finance sector into the limelight for its in-built resilience to the crisis of 2008. Chapter 3, 'Assessing the Resilience of Islamic Banks: An Empirical Analysis' by Rania Abdelfattah Salem and Ahmed Mohamed Badreldin, concludes that "since Islamic banks by definition avoid 'toxic assets', which impose excessive risk-taking behavior, this has contributed to their resilience against financial crisis" (p. 53). They also suggest that Sharīʿah-compliant products must be extensively examined and regulated.

In chapter 4, 'Stability of Islamic Banks: A Comparison of Conventional and Islamic Banks', Matthias Verbeet studies 7 banks - 5 from Malaysia which has 2 Islamic Banks (Bank Islam Malaysia Berhad – BIMB and Bank Muamalat Malaysia Berhad – BMMB) and 3 conventional Banks (Hong Leong Bank Berhad – HLB, Alliance Financial Group Berhad – AFG, and Affin Bank Berhad – AB) and 2 from UK (Hongkong Shanghai Banking Corporation – HSBC, and Northern Rock – NR). The study is critical but a bit confusing as well. All the three conventional banks selected from Malaysia also operate an Islamic Window. Is the Malaysian representation sufficient to understand the stability of Islamic banks? The selection of HSBC is also confusing. Is it meant to represent Islamic banking? Did HSBC fare well because of its large operation or because of its Islamic banking operation? Now HSBC has closed its Sharīʿah-compliant operations in the

UAE, UK, Bahrain, Bangladesh, Indonesia, Singapore and Mauritius. It is operating only in Malaysia and Saudi Arabia (http://www.hsbcamanah.com/).

Chapter 5, 'Islamic Banks' Financing Behaviour: A Pilot Study' by Mohd Afandi Abu Bakar, Radiah Abdul Kader and Roza Hazli Zakaria. Afandi et al., explains Reserve and Loan Loss Provisions (LLP), with reference to the story of Prophet Yusuf. It states that "The importance of reserves and LLP instruments for managing the business cycle can be found in the Qur'anic principles" (p. 88) and it mentions Surah Yusuf verse 47-49. Firstly there is a typo error in the translation '*then what you reap leave**5** it on the ear'*. This '5' is a typo and is not supposed to be there. It relates to the story of the King of Egypt having a dream that was interpreted by Prophet Yusuf and advised that the kingdom must save the produce in the first seven years and use the saving in the next seven years. But the analogy itself doesn't seem to fit the business cycle rather, it could be a lesson for the government, *waqf* management and other NPOs.

Risk management is an important area of research in Islamic banking. The book contains three chapters related to 'risk management'. Chapter 6, 'Risk Management Practices in Islamic Banks: International Evidence' by Romzie Rosman and Abdul Rahim Abdul Rahman discusses all aspects of risk management like operational risk, market risk, equity investment risk, credit risk, liquidity risk, etc. The chapter also discusses 'risk mitigation techniques' but claims "Only a minority of Islamic bank uses the Shariah-compliant risk mitigation technique" (p. 118). Instead, they use security deposits as their risk mitigating technique (P. 118). Hence, they rightly conclude that there is a "necessity to develop unique Shariah-compliant risk mitigation techniques" (p. 121).

There is another chapter on risk management, 'Risk Management and Islamic forward contracts' (chapter 8) by Sherin Binti Kunhibava. This is well-written with focus on exchange rate hedging, which is a great challenge to international trade. Ms. Sherin recommends further research on risk-shifting or risk-sharing.

Liquidity management is a real challenge to all financial institutions irrespective of their orientation. Noraini Mohd Afiffin and Salina Hj. Kassim deal with this issue empirically in their paper: 'Liquidity Risk Management and Financial Performance of Islamic Banks: Empirical Evidence' (chapter 7). They are right to say that liquidity management is unique and more challenging for Islamic banks as they have limited choices (p. 124). The authors focused only on Malaysia in their empirical study. As such, it would have been more appropriate to mention 'Malaysian Islamic Banks' in the title. The authors while discussing the results of the study on page 130, mention 'industry average' but no numbers are mentioned in the discussion or in the table, so as to enable the reader to understand the gap. Again on page 132 while discussing the Financial Performance, it would have been better to give industry average. In their description of Return on Equity (ROE) results they used "exceptionally high" ROE for BIMB (Bank Islam Malaysia Berhad); they could have explained this exception of 508.23 compared to the rest of the banks which were all under 20 percent. This exception was due to BIMB issuing more than 1 billion worth of equity that year.

Chapter 9 is on governance, 'Enhancing Governance, Accountability and Transparency in Islamic Financial Institutions: An Examination into *Shariah* Internal Control Audit' by Zurina Shafii and Supiah Salleh. The authors elaborate well on the Sharīʿah internal controls. The chapter has an internal checklist for Sharīʿah-compliance (appointment of Sharīʿah committee, qualification of Sharīʿah committee, disqualification of Sharīʿah committee, duties and responsibilities of Sharīʿah committee, policies and procedures, and audit governance committee) and Internal Control (control environment, risk assessment, control activity, information and communication processes, and monitoring).

In Chapter 11, 'A Survey on *Shariah* Governance Practices in Islamic Financial Institutions in Malaysia, GCC Countries and the UK', Zulkifli Hasan provides primary data for the readers. He sent survey questionnaires to 80 Islamic financial institutions (IFIs),

excluding Islamic insurance institutions (p. 201), in Malaysia (20), GCC (54) and UK (6), and received responses from 35 IFIs which corresponds to 43.8% response rate. He provides his survey details and questionnaires in the chapter which is divided into eight sections: i) general approach of Sharīʿah governance, ii) regulatory framework, iii) roles of Sharīʿah board, iv) competence, v) independence, vi) disclosure and transparency, vii) operative procedures and, viii) Sharīʿah board's assessment. Among other things, his survey finds that of the 35 who responded only 6 had female members, all from Malaysia (p. 208).

The Sharīʿah reporting is yet to be standardized by banking standards globally. Chapter 10, '*Shariah* Report: A Potential Tool for *Shariah* non-Compliant Risk Management' by Abdou Karim Diaw and Irawan Febianto tries to reflect on Sharīʿah reporting and level of following the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The chapter is important as Sharīʿah report gives confidence to the consumers who are looking for *ḥalāl* financial services. The chapter has real report samples from various banks in the appendix. Abdou and Irawan conclude that the Al Baraka Banking group is following the AAOIFI reporting guidelines that reaches 100% while Meezan Bank is most extensive in its report (p. 177).

The last chapter, 'Towards Genuine *Shariah* Products with Lessons of the Financial Crisis' (chapter 12) by Abdulazeem Abozaid focuses on *eina (bayʿ al-ʿīnah*) and *tawarruq* products. *ʿĪnah* and *tawarruq* are considered to be questionable products by many Sharīʿah scholars. Both *ʿīnah* and *tawarruq* are very well explained here. Abozaid concludes that "in order for an Islamic financial product to be rightly and logically labelled as Shariah-compliant, it must be genuinely distinguishable from the prohibited conventional finance products" (p. 231).

The book makes a useful reading for those who wish to understand the financial crisis and lessons on risk management for Islamic banks and financial institutions. The book studies Islamic banks' resilience and provides empirical data and has in-depth analysis through literature review on the discussed topics. Various contributors have recommended future researches to enhance their findings.

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