

Joseph DiVanna and Antoine Sreih

A New Financial Dawn: The Rise of Islamic Finance

Leonardo and Francis Press Ltd.

Cambridge, UK, 2009, pp. 166.

Reviewed by:

Ahmed Saied Bamakhramah

Islamic Economic Institute

King Abdulaziz University, Jeddah, Saudi Arabia

The code word for this book is "Innovation". Utilizing innovation in the "development of the next generation of products" is the main theme of the book. The authors go beyond explaining the principles of Islamic finance and how different it is from conventional finance to prescribing the ingredients for market growth and development. Though innovation is a significant ingredient, seizing the opportunities to create Shariah-compliant products and preserving the theological and ethical foundations of Islamic finance are necessary elements.

However, according to the authors, Islamic financial institutions in their endeavor to reap the fruits of innovation face several challenges that may restrict reaching these goals, prominent among which are the lack of "dedicated departments for product development, market research, process engineering, system development, operation research, back office automation and straight through processing". Such creative innovations do not depend only on large investments, but rather on the "will to promote change".

The authors argue for the important role financial institutions play in shaping the "social financial cohesion" of societies through the provision of the needed capital for the commercial and industrial business as well as meeting the varied daily needs of the ordinary people. They raise the question whether Islamic finance play such a role based on Islamic values and ethics.

Written on the threshold of the international financial crisis, the book argues in favor of the possibility that Islamic finance may play a greater role as a

substitute or alternative to financial institutions that were raised under the auspices of the free market capitalism. Such a role is influenced by how Islamic financial institutions can fulfill the urgent needs of the international banks for cash and capital, and it depends on how fast the international financial markets regain their strength and the way Islamic banks can benefit from innovations in the industry to take advantage of the newly introduced opportunities.

The book consists of: introduction, five chapters and a conclusion.

The "Introduction" explains the base from which this book is launched. Starting from showcasing briefly the difference between Islamic finance and conventional finance, the authors proceed to explain the conditions for the Islamic financial institutions in order to be viable alternatives to conventional ones, while maintaining their ethical and moral momentum.

Supported by tables and figures, chapter 1 titled "The Evolution of Islamic Finance" traces the recent developments in Islamic finance, including the financial revolution, and the following key subtitles: the pillars of Islamic finance, the need for financial engineering and building the brand of Islamic finance. Noticeably, the authors raise and attempt to answer the question whether Islamic finance is just another variation of conventional banking (p. 28-29). Paradoxically, the authors in this regard are concerned only with conventional commercial banks, although universal banks merit to be included in the argument, being more close to Islamic banks' products and operations and it will be interesting to see how in reality Islamic banks are fared when compared to universal banks.

Chapter 2 which is titled "Innovation and Market Growth" explains the requirements for market development mainly in the form of product innovation, innovation in service, quality innovations and back office innovation. The relatively newly financial instruments utilized by Islamic banks, e.g. *sukuks*, Islamic sovereign securities, Islamic bank cards and Shariah-compliant derivatives, have occupied a noticeable share in this chapter. Finally, the authors suggest four dimensions of market growth in Islamic finance, namely: increase in market breadth, increase in market length, increase in market quantity and increase in market depth.

Titled "Emerging Financial Hubs", chapter 3 is considered, in my view, an extension of chapter 2 in that it elaborates on the strategies for additional market growth for Islamic finance, including consolidation and expansion of financial capitals, particularly in the Middle East and Asia, while considering the potential for expansion into global markets. The authors suggest methods for achieving such an objective, including specialization, localization and standardization of products.

In chapter 4, under the title "New Forms of Capital for Twenty-First Century Business", the authors extend the argument further into the challenges that are faced by Islamic finance, specially when exposed to international business. Examples of such challenges are: over-liquidity in Islamic financial institutions, the adverse regulations and tax treatment in some countries, particularly Western, the economic unions and the role of the US dollar, the extent of efficiency in risk management, the still skeptic view by some international economists about whether Islamic finance is proving to be viable in terms of genuinely adhering to its declared values and objectives and its ability to efficiently exploit innovations in technology and operations in order to generate new products.

Stemming from the notion that Islamic financial institutions need to be assessed on criteria different from traditional banks, and now that they are ushering into their "second generation of maturity", the authors in chapter 5 titled "Industry Issues in Context", suggest that Islamic financial institutions will opt for more focus on new product design, streamlining internal business processes and new technologies to increase access to services, as caveats for efficient application of technological and business innovations aiming at attaining the goals of market development.

The book tries to answer two main questions (p. 162):

1. Where does Islamic finance fit into the overall global economic framework?
2. How is innovation in Islamic finance adapting to serve Muslim and non-Muslims communities?

In the face of the skeptic views about the ability of Islamic finance to survive, the authors are of the view that Islamic finance is proving itself as a "viable alternative in worldwide conventional financial markets". However, they do not incline towards the argument that Islamic finance is a viable cure for the problems the laissez faire capitalism is facing nowadays, particularly during the international financial crisis. According to them, such an acclaim has to be proved in reality.

The authors prescribe the strategy for a marriage between growth and technology in Islamic financial institutions, involving mainly the improvement of the employees' skills, engagement of customers in the process of using technology to apply new ways of business or acquiring new customers in an environment of improvised business and organizational processes.

Claims by Islamic bankers that in their business they aim mainly to generate "socially responsible profit" should, according to the authors, be subject to scrutiny and brought down to reality. Contributing to poverty aversion, maintaining customers' loyalty and satisfaction, financing development and business start projects are among the key elements for achieving the true values of Islamic finance.

The authors make effort to define and explain Islamic finance terms within the text and in the Glossary. However, I noticed that they spelled wrongly *suftaja* (bills of exchange) as *sutfaya* (p. 165) and defined *mohatra* " as a form of forward contract used by Arab traders of the day " (p. 165), while according to writings on this term, as applied in medieval era, explained it as some type of *Bai` `inah* contract (sale and buyback), though not necessarily mentioned particularly by this name^(*).

All in all, the book deserves to be read, being informative as well as evaluative of the Islamic finance movement as it matures within the new local and international financial competitive and dynamic environment.

* **Hutchinson, Marjorie** (1978) *Early Economic Thought in Spain, 1177-1740*, London, George Allen & Unwin, pp: 16-17, 'called in Arabic *mukhatra*,' 26, 59n.