

# Modern Investment under *Shari'ah* Discipline

By  
Mohd Ma'Sum Billah, Ph.D

## Abstract

*Modern investment activities under Shari'ah (Islamic law) principles had promisingly been attracting both Muslim and non-Muslim across the world ever since 1963. Despite such an achievement there are situations when the spirit of true Shari'ah (Islamic law) guidelines are not accurately observed in an Islamic investment culture. This shortcoming might be due to lack of understanding, socio-political or eco-cultural influences or less priority to the spirit of divine principles. It is an essential factor for a true Islamic investment to observe Shari'ah (Islamic law) standard and divine ethical principles accurately in all aspects of the investment activities. Thus, in this paper an attempt is made to analyze the Shari'ah (Islamic law) standards affecting modern investment activities. The study has been conducted by applying a possible 'meta analysis approach' for a common benefit in the modern Islamic investment environment.*

# Review Of Some Historical Facts And 'Rulings' On Ḥiyal And Their Practice In The Contemporary Islamic Banking Sector

By  
Shafiq ur Rahman

## Abstract

*The era comprising circa two hundred years i.e. 18<sup>th</sup> and 19<sup>th</sup> centuries is the most dormant period in the entire Islamic History in which the work on Sharī'ah Law had almost come to a total halt. It started with the Muslims politically declining and Western nations rising to the leading role. This gradual process not only affected the Muslim nations politically, but also on academic and literary levels as well. Islamic Law, inter alia, was also subject to certain changes. After remaining away from the scene for considerable period, the re-emergence of the Sharī'ah has been observed in the shape of Islamic banking and finance. There may, however, be certain issues with regard to the compliance of the Islamic banking and finance with the basic Sharī'ah. One of the issues is the assertion that the Islamic Banking and finance is based on Ḥilāh. This paper explores some factors which might have affected the evolution of the Sharī'ah Law during the preceding circa two centuries prior re-emergence in the shape of Islamic Finance. The paper reviews pioneer work which paved the way for transition to changes in concepts and other developments in the Fiqh during recent centuries. The author concludes that Ḥiyal as a whole are neither absolutely prohibited nor permitted totally. Hence the present practices of the Islamic Banking and finance can neither be construed to be Ḥilāh-based nor devoid of the same. The paper recommends that the Sharī'ah Advisors in the respective Islamic Finance should endeavour to avoid indulging in the transactions that tend to be based on 'Inah, organised tawarruq or other similar kinds of modes offered in their dealings. They should also practically and physically oversee, monitor and audit all the projects offered by their respective institutions at each stage.*

# **This is the Time to Offer Takaful (Islamic Insurance) in India**

By

*Syed Ahmed Salman  
Hafiz Majdi Ab. Rashid  
Sheila Nu Nu Htay*

## **Abstract**

*India is known as a multi-racial and multi-religious country. In addition, the second highest Muslim population in the world and also the second highest total population belong to India. Based on the review of religious teachings, conventional insurance is not in favor due to the prohibited elements in its practice. However, Takaful known as an ethical insurance seems to fit in all religions and it has been widely introduced in both Muslim and non-Muslim countries all over the world. However, Takaful has not been offered until now. Therefore, the objective of this paper is to explore on the factors which are pulling Takaful to be offered in India. The review of literature finds that there are seven main attracting factors to offer Takaful in India. Firstly, there is a limited engagement of life insurance by Muslims and hence, if Takaful is offered, it can grasp the untapped market. Secondly, there is historical evidence of existence of unethical conventional insurance practices in India. Third factor is related to the rapid growth of the Takaful industry all over the world showing the wide acceptance of Takaful regardless of the country and religion. Fourthly, India has the second highest Muslim population in the world and thus, India should initiate offering it. Fifth point is related to the involvement of the conventional insurance practices in interest, uncertainty and gambling and these items are prohibited by the main religions in India and the advantage of Takaful is that it is free from these prohibited elements. The six highlight is concerned with the economic growth of India and generally there is a positive relationship between growth of insurance industry and economy. The last fact is the practice of surplus sharing in Takaful which can attract the policy holders. It is expected that the paper will be of interest of investors, Insurance operators, regulators and general public in India.*

# Islamic Financial Literacy: Empirical Study Among Bankers In Kuala Lumpur And Labuan

By  
Mohamad Azmi Bin Abdullah  
Ahmad Aizuddin Hamzah  
Nur Sahirah Azman  
Najwa Khalil

## ABSTRACT

*This article presents the findings on the study that determines the factors which influence financial literacy of bankers around Kuala Lumpur in term of Islamic financial products. The Governor of Central Bank of Malaysia pointed out several years ago that in order to make Islamic financial products acceptable to a wider spectrum of investors and businesspeople alike, financial literacy on Islamic financial products needs to be enhanced. This is to facilitate transactions, with a clear understanding and appreciation of the unique characteristics and features of Islamic Finance and its real economic value. However, to date there is scarcity in the studies of Islamic financial literacy in Malaysia. This is proven when Kayed (2008) queries if there are any attempts by the research community to assess levels of Islamic financial literacy in various Muslim communities. In addition, Ahmad (2010) also points out the importance of Islamic financial literacy. These issues have actually motivated the current study to review available literature focusing on the Islamic financial literacy. The objectives of this study are to (i) determine if the bankers possess adequate financial literacy to undertake financial decision with respect to Islamic financial products and services, and (ii) identify the significant factors that influence Islamic financial literacy among bankers. SEM was used to analyze the variables that affect financial literacy. The findings reveal that 3 factors determine banker's financial literacy on Islamic financial products and services.*

# Islamic Banking and Risk Management: Issues and Challenges

By

Nurhafiza Abdul Kader Malim *PhD*

## Abstract

*In view of the massive failure of banking institutions in response to the global financial crisis (2007-2009), there has been proliferation of writings on risk management as never before. Islamic banking is much less affected by the turmoil for a variety of reasons, especially because it is still a very tiny part of the global system and has yet to develop enough connectivity to catch the cold. The current wave of financial liberalization and globalization naturally prompts for examining the question of risk management in Islamic banking. This paper discusses on risk management in Islamic banking and focuses on the credit, operational and Shari'ah risks. The fact that Islamic banking is submerged in the global system makes the risk treatment not only urgent but also extra complicated. Their exposure to the risk of financial losses is enhanced and performance may be disrupted. Finally, the paper highlights the issues and challenges in risk management and provides suggestions for risk mitigation in Islamic banking.*

# Shariah Supervisory Board (SSB) And Earning Management In Islamic Banks

(EVIDENCE FROM INDONESIA ISLAMIC BANKS 1992 – 2013)

By  
*Sepky Mardian*

## **Abstract:**

*The asymmetric information in the sharia compliance is an agency problem faced by Islamic bank. The Sharia Supervisory Board (SSB) was expected to reduce asymmetric information that currently exists. The previous studies found that earning management also occurs in the Islamic banks, though likely less in the Islamic bank compared to the conventional. This study used all the full fledged Islamic commercial banks established. Bank data might vary from 1992 until 2013. The data points collected are 72 data from 11 Islamic banks. The earning management was measured by loss avoidance and abnormal loan loss provision. The SSB variables are indicated by SSB Size and the members of SSB with accounting and/or banking skill background. The model also incorporates the control variables - total assets, growth of assets, loan ratio, change cash flow and loan loss provision. The data has been analyzed by the logistic and linier regression methods. The study explains that the sharia supervisory board (SSB) is associated to the earning management measured by loss avoidance and not by abnormal loan loss provision. While the the members of SSB with accounting and/or banking skill background are not associated to the earning management measured by loss avoidance and abnormal loan loss provision.*

# Panel Data Estimation of Liquidity Risk Determinants in Islamic Banks: A Case Study of Pakistan

By  
Salman Ahmed Shaikh

## Abstract

*The two most important problems identified in a post-financial crisis look back are perverse incentives and de-linking of financial sector growth and activities with the real sector of the economy. These problems are inherently avoided by Islamic banks. In this study, we take 7 year data from 2007 to 2013 for all 5 full-fledged Islamic banks in Pakistan. We attempt to empirically explore the determinants of liquidity risk in Islamic banks. As per the findings, deposits to total capital ratio increases the liquidity risk. It is plausible since greater deposit mobilization implies greater liabilities of banks. The increase in this ratio implies that a greater portion of funds with banks are in the form of deposit liabilities as compared to own capital. We also find that increase in capital to financing ratio decreases the liquidity risk which is again consistent with a priori expectations. The results further highlight that improvement in efficiency also reduces the liquidity risk by freeing tied up resources. Finally, the increase in spread increases liquidity risk since there is a tradeoff between increasing spread and credit risk. Higher spreads improve profitability, but they narrow the scale of operations due to which finance to deposit ratio decreases. For Islamic banks, it is true that finance to deposit ratio and spread move in opposite directions.*

# The Islamic Implication of the Standard Benchmarks in the American Islamic Mortgage Product

By  
Husam Suleiman

## Abstract:

*This paper examines the permissibility of the American Islamic mortgage sector use of the standard metrics synonymous with the conventional and conforming mortgage; debt to income ratio and loan to value. For this purpose, section one will discuss the formation of the traditional conventional mortgage juxtaposed with the reduction in the savings as well as an increase in spending by Americans. The second section will explore the relevant Islamic financial views on overspending and the correlation with negative societal effects such as excessive debt, grief as well as the lack of fulfillment of the rights of other. The conclusion will correlate the current American Islamic finance mortgage options to the overspending mentality due to the overwhelming adherence to the standard benchmarks. The conclusion suggests that mortgages structured with the conventional benchmarks have had a detrimental effect on personal and societal well-being, albeit labeled Islamic or not. Suggested further is the moving away from the conventional benchmarks in the next evolutionary model of the American Islamic mortgage product.*

# Islamic Economic System – The Real Solution

By  
Muhammad Zeeshan Farrukh

## Abstract

*Due to the constant failure of conventional economic system in achieving the desired socio-economic objectives, there is a need for a viable alternative. The purpose to write this paper is to do ample analysis of Conventional and Islamic Economics to find out the flaws of the existing system and present Islamic economic system as a real viable solution to resolve socio-economic harms.*

*In this respect; the philosophy, theory and practices of both the economic aspects have been discussed in detail. The historical and contemporary developments have been referred along with the analysis of different scholars and economists.*

*The research elaborates that the conventional and Islamic economic systems have two different perspectives. The conventional system has serious evils due to which the socio-economic unrest has been created. Throughout history, different socio-economic disorders and unrests have been tried to resolve with new theories, policies or temporary decisions rather than serious consideration of eradication of the real evils from the system. The Islamic Economic system is free from those evils and presents the absolute framework to establish socio-economic welfare in a true sense.*

*The implementation of the principles of Islamic Economic System can bring revolutionary social effect to the society as it will be the conversion of the social mindset and living behavior of the society.*

*Thus, this paper presents a comprehensive sketch of the Islamic Economic System at micro and macro levels and emphasizes to adopt it with proper justification. It opens the gate for further wide thinking for the effective implementation according to the needs of a modern era.*