Risk-sharing versus risk-transfer in Islamic finance: An evaluation

By

Zubair Hasan*

Abstract

Some recent writings on Islamic finance have resuscitated the old 'no risk, no gain' precept from the earlier literature in the wake of current financial crisis. They argue that the basic reason for the recurrence of such crises is the conventional interest-based financial system that subsists purely on transferring of risks. In contrast, Islam shuns interest and promotes sharing of risks, not their transfer. The distinction is used to make a case for replacing the conventional system with the Islamic; for that alone is thought as the way to ensuring the establishment of a just and stable crisis free economic system. Islamic banks have faced the current crisis better than the conventional is cited as evidence.

The present paper is a critique of this line of thought. It argues that risk-sharing is not basic to Islam. It encourages profit sharing of which sharing of risk is a consequence not the cause. The paper concludes that the case is for reform, not for replacement, of the current debt dominated system marked with increasing duality.

* Zubair Hasan is professor of Islamic economics and finance at the Global University of Islamic Finance (INCEIF), Kuala Lumpur, Malaysia. The views expressed herein are of the author and need not be attributed in any way to the institution where he works.

Conventional Bank Interest and the *Murabahah* (cost-plus-profit) Contract in Islamic Finance: Two Sides of a Coin or two Coins of Different Sides?

By

Abdullahi Saliu Ishola• & Isa Olawale Solahudeen••[*]

Abstract

The emergence of the Islamic banking system led to the introduction of some financial transactions which were not hitherto considered in the classical books on Islamic financial system. Murabahah is one of such innovations. Like most of those newly introduced products of the Islamic Financial System or Arrangement (IFS or IFA), otherwise referred to as Products of Islamic Banking (PIB) or Products of Islamic Finance (PIF), arguments have been canvassed for and against the legality of Murabahah under Islamic Financial Principles (IFP). Of all the criticism against its operation, the most pronounced deprecation against it posits that, Murabahah is too close to interest transaction in the conventional banks, and cannot therefore be legally allowed in IFS. This paper examines the criticism and posits whether the criticism is tenable or not on the scale of the Islamic Law and given the financial market challenges facing the contemporary Muslim world.

[*] • Author: Abdullahi Saliu Ishola, Barrister and Solicitor of the Supreme Court of Nigeria, Lecturer, Department of Law, College of Humanities, Management and Sciences, Kwara State University, Malete – Nigeria (KWASU). E-mail: abdullahi.ishola@kwasu.edu.ng or siabdul2001@yahoo.co.uk

•• Isa Olawale Solahudeen**,** Lecturer, Department of Islamic Law, College of Law, Al-Hikmah University, Ilorin – Nigeria. Email: solahudeen1978@gmail.com

Shari’ah Compliant Liquid Commodity Market: {An Expositional Study on Bursa Suq al-Sil’ah in Malaysia}

By
Abdul Azeez Maruf Olayemi[*] *Aznan Hasan*[*] *Uzaimah Ibrahim,*[*]
Ahmad Hidayah Buang,[*] *& Riaz Ansary*[*]

Abstract

One of the major challenges before the emerging Islamic financial Institutions is the dearth of Shariah compliant money market platform for the management of their liquidity. However, a viable panacea to the problem has been developed in Malaysia. One of the measures that was taken for the solving of the problem in the country was the creation of Bursa Suq al-Sil'ah which is a Shariah compliant liquidity commodity market. The market is tremendously efficient and it can form a model for other countries. This paper submitt that the creation of a similar commodity market in the emerging jurisdictions will mitigate the problem of Shariah compliant liquidity management to a great extent. The study adopts Shariah method in its analysis in view of buttressing the mechanism of Bursa Suq al-Sil’ah as a model for the emerging jurisdiction.

[*] **Corresponding Author**: Abdul Azeez Maruf Olayemi, PhD, Post-Doctoral Research Fellow, Department of Shariah & Law, API / PPPI, University of Malaya, Malaysia, E-mail: ma1129uk@yahoo.co.uk.

[*] **Co-authors:** Assoc. Prof.,Dr. Aznan Hasan, Ahmad Ibrahim Kulliyah of Laws, IIUM, Malaysia..

[*] Asst. Prof. Uzaimah Ibrahim, Ahmad Ibrahim Kulliyah of Laws, IIUM, Malaysia.

[*] Prof. Dr. Ahmad Hidayah Buang., Department of Shariah & Law, API, UM, Malaysia.

[*] Dr. Riaz Ansary, PhD, Head of Research and Translation, International Shari'ah Research Academy for Islamic Finance, (ISRA), Malaysia.

Money Economy and Contemporary World Economic Order: A Challenge of Identity and Survival for Islamic World

By
Hamzah Adesola Dawood[*]

Abstract

The emergence of 'money economy' is awesome in the course of human development. The inspiring corollary of this historic development is the institutionalization of Banking and Finance as well as the jaundiced 'interest' economy and its consequences. It is argued that Banking and Finance are rooted in Islamic jurisprudence and thus, not an invention of this century's Islamic political movements. Ijtihad mechanism has thus become an effective tool in finding rightful conceptual and practical frameworks especially now that the world economy is being confronted with endless crisis. Specialists and stakeholders are struggling to proffer solution; the Muslim world is challenged by a world economic order that is beyond its sway while its intellectuals are pre-occupied in disentangling the cob-web of definitional point of 'riba'. In a challenge of identity and survival what is way forward?

[*] Author: Hamzah Adesola Dawood is a PhD Research Student in International Law/Islamic Law at the School of Oriental and African Studies, University of London, London. E-Mail: dawosla@live.com

State Bank of Pakistan – Fueling the Growth of Islamic Banking in Pakistan

By
*Obaid Usmani**

Abstract:

Pakistan, in recent years has showed strong inclination towards Islamic Banking. Islamic Banking share is more than 10% of the entire Banking Industry. Over the last decade, Islamic Banks have been successful in providing end to end alternatives to all conventional banking products. The support coming from the central bank of the country is one of the major factors of the rapid growth of Islamic Banking industry. With more than 1400+ Islamic Banking branches and a 20%+ growth in deposits, assets, financing and investments, the Pakistani Islamic Banking industry is set to become the hub of Islamic Banking of the region. In this paper, we review the steps taken by the central bank in Pakistan to promote the growth in Islamic finance and to reach standardization in the regulatory framework.

* Author: Obaid Usmani is a business graduate from IBA, working with the Product Development & Shariah Compliance Department at Meezan Bank, e-mail: obaid.usmani@meezanbank.com

The Jurisprudential Principles in Managing the Risks Available in Certain Islamic Finance Contracts

By

Mahadi Ahmad and Ibrahim VambaFofana[*]

Abstract

It is a universal fact that in any financial transaction there are risks, which may be inherent or operational. This is more so in Islamic finance due to its distinct mode of operation - operations based on principles derived from divine laws which are enshrined in the Holy Quran and Hadith. With the fact that the Islamic financial institutions are responsible to Allah and then to their shareholders and depositors, their responsibilities became higher than their conventional counterparts. It is to this reason this paper aims at studying the jurisprudential principles of risks in certain Islamic finance contracts and how to manage same. The methodology of the paper is analytical in nature based on the contents of the Islamic jurisprudential literature and contemporary writers. The paper finds that the establishment of the jurisprudential principles in certain Islamic finance contract will enable to pave the way for Shariah compliant devices to carry out those contracts with a greater sense of mitigation of those risks.

[*] Authors: Mahadi Ahmad and Ibrahim VambaFofana are Ph. D Candidates, Ahmad Ibrahim Kulliyyah of Laws, International Islamic University, Malaysia, Email: almahdi_2k2@yahoo.com

An Empirical Assessment of the Displaced Commercial Risk in Malaysian Islamic Banking Institutions: Bank Profitability Model Evidence

By

Noraziah Che Arshad[*]
Roza Hazli Zakaria[*]
Ahmad Azam Sulaiman @ Mohamad[*]

Abstract

Islamic banks are exposed to a unique risk - Displaced Commercial Risk (DCR). DCR arises from the assets managed on behalf of the investment account holders which may be borne by the Islamic bank's own capital, when the Islamic banks forgo part or all of its share of profits on the investment account holders funds, in order to increase the return to the investment account holders. In a dual banking system, DCR could be a threat to the Islamic banks given the competition of fixed and higher return from the conventional banks. However, DCR would not be a threat to Islamic banks if their account holders choose Islamic banks due to religious obligatory factor. Pertaining to this issue, this paper aims to examine whether DCR is a threat to Islamic banks' profitability in the case of Malaysia. For that purpose, a model is set up to estimate bank profitability. The model includes other bank specific characteristics and macroeconomic variables as control variables to avoid omitted variables bias. We find that DCR is one of the factor that affects bank profitability, at least in the case of Malaysian Islamic banks. This empirical evidence implies that Islamic banks operating in a dual banking system are affected by DCR. The risk of losing deposits happens when bank profitability is lower than that paid by the competing banks. Hence, analysis concluded that the relationship between bank profitability and DCR is shown to be significant and negative.

---

[*] Corresponding author: Noraziah Che Arshad, PhD candidate, Institute of Graduate Studies, University of Malaya. She is also as a Lecturer of Islamic banking and finance, Northern University of Malaysia (UUM). e-mail: noraziaharshad@gmail.com

[*] Roza Hazli Zakaria is a Senior Lecturer of Economics, Faculty of Economics and Administration, University of Malaya. (PhD)

[*] Ahmad Azam Sulaiman @ Mohamad is a Senior Lecturer of Syariah and Economics, Academy of Islamic Studies, University of Malaya. (PhD)