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BOOK REVIEW

Meezan Bank's Guide to Islamic Banking

by

Muhammad Imran Ashraf Usmani

Published by Daruel Isha' at Karachi

Reviewed by

Javed A. Ansari

Islamic banking has been seriously effected by the financial crisis of 2007-2010. The impending collapse of financial institutions in the Gulf, specially in Dubai and the growing threat of sovereign debt repudiation and default by oil exporting countries has had a particularly severe impact on global Islamic finance growth. Forecasts for Islamic finance transactions have been revised downwards several times during 2009 and riskiness and illiquidity of leading Islamic finance institution are perceived as having increased due to the growing instability of the Gulf economies.

This is not unexpected as Islamic finance has since its inception been a Saudi project Prince Muhammad al Faisal son of King Faisal established the world's leading Islamic finance house the Dar-al Maal-al-Islami three decades ago. The Islamic Development Bank, based in Jeddah has strong Saudi financial backing. All the pioneer Islamic economists - Prof Khurshid Ahmad, Dr. Nejatullah Siddiqui, Dr. Umar Chapra - were Saudi employees. Downturn in the Gulf thus inevitably contributes to growing upheaval in Islamic financial markets.

There are two other major causes of the current deceleration of growth in Islamic finance transactions. Islamic finance has served as a conduit for the transfer of billions of dollars from the Muslim world to America and Europe - that is why although Islamic financial growth has stagnated in countries such as Turkey and Malaysia and Jordan, Islamic finance continues to boom in London, Frankfurt and New York (Henry and Wilson2005). As New York and London capital and money markets became more and more risky during 2008 and 2009 the incentive for transferring funds through Islamic banks to these centres from the Muslim world declined. A revival of global financial growth is a pre-requisite for a revival of the growth of Islamic finance since Islamic finance is a supplement to not a substitute, for riba based finance.

Indeed this is the second major cause of the growth deceleration of Islamic finance. There is growing realization throughout the Muslim world that Islamic finance is organically identical to non Islamic finance. In 2008 in Pakistan 27 leading Ulema of the mainstream Deobandi school issued a fatwa proclaiming the illegitimacy of Islamic banking and finance and declaring that both conventional and Islamic banking and finance were haram according to Sharia and there were no religious grounds for preferring Islamic banking over conventional banking transactions. Both Islamic and conventional banking were part of a capitalist world system and Islam and capitalism are inherently antagonistic and incompatible (Meenai and Ansari 2010 Chp21)

The world of Islamic finance is in a state of turbulence. The book under review however does not deal with any of these contemporary issues. It was published in 2002 just after the Musharraf government's decision to abandon the quest for a comprehensive Islamization of the financial system and the institution of a dual banking system in which Islamic financial institutions as well as dedicated Islamic finance branches of conventional banks were permitted to operate within a substantially uniform regulatory framework. As of 31st December 2008 the share of Islamic banks in total scheduled banks assets in Pakistan was about 5 percent. Islamic banks thus continue to be a very marginal segment of the national financial system.

This book is not a guide to Islamic banking - so the title is somewhat misleading. A guide should provide details of current transactional practices in specific institutions. This is not attempted anywhere in this book. The book is not a guide to actual practices. It does not for example analyze differences among institutions in the formulation and execution of similarly named contracts. Similarly differences in regulatory procedures and process between countries and over time in Pakistan are not described. A reader cannot use this book to understand what Islamic banks actually do when they transact business or the similarities and differences in Islamic and conventional transaction structures.

This is also not a textbook. Semester level courses in Islamic banking have been introduced in several universities and some institutions are also offering full fledged MBA and MS programmes in this area. Good text books are therefore needed. But such texts should methodically review the vast and rapidly growing literature in this area, trace the historical evolution of Islamic transactional practices and compare and contrast them with conventional financial instruments. A good textbook should also review at least the technical controversies that have emerged and the conflicting tendencies which inhibit attempts to standardize Islamic financial terminologies, transactional form and regulatory frameworks. None of this is attempted in this book which has no references and no bibliography. The extensive glossary focusing on English translations and explanations of Arabic terminologies also leaves a great deal to be desired since no attempt is made to elaborate upon different interpretations of specific terms by different banks - e.g. gharor, hamil, heela, majhool, khult, muhaqala etc.

The book is a collection of lectures designed for a training courses but there is a lot of general material (e.g. all chapters in sections 1 and 2) which are not needed for professional courses. The technical material covered in sections III, IV and VI on the other hand is not technical enough. There is a tendency to lapse into a repetitive general discussion from time to time (Sec p135-137, 107-109, 211-233 etc) and a tightening of the argument is disparately needed. Moreover there is a significant need for updating as interpretations and practices have evolved over time and current Islamic financial contracts are no means replicas of contracts drawn up in 2002.

Dr. Imran Usmani is probably well aware of this, since he has been serving as Shariah advisor to Meezan Bank for several years. He is also a permanent consultant to UBS (AG), UBS Warburg (Switzerland) and Time Space Fund New York all leading players in the global Islamic money and bond markets, Reinterpreting and revising standard contracts must be the heart and soul of Dr. Usmani's daily work routine. However Islamic finance institutions have a tradition of keeping their cards hidden. This is evident in the book's refusal to describe controversies and its bland presentation of conventional wisdom.

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Selling hundreds of comforts I bought only one pain
and this growing pain led me to my friend.

Shah Abdul Latif

Over the past decade or two, managing a large corporation has changed out of all recognition. That explains the emergence of the “CEO superman” such as Jack Welch of GE, Andrew Grove of Intel, or Sanford Weill of Citygroup. But organizations can not rely on supermen to run them; the supply is both unpredictable and far too limited. Organizations survive only if they can be run by competent people who take their job seriously. That it takes genius today to be the boss of a big organization clearly indicates that top management is in crisis.

Peter F. Drucker
Managing in the Next Society