

Introduction to Islamic Banking & Finance

Principles and Practice

M. Kabir Hassan
Rasem N. Kayed
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al-aqidan contracting parties
al-ma'qud alaih subject matter of contract
al-rida consent
'aqd contract
'aqd infradi unilateral contract
'aqd thuna'i bilateral contract
arbun down payment
Bait al-mal state treasury
bay' sale transaction
bay al-dayn sale of debt
bay al-inah sale and repurchase back
bay al-muajjal deferred sale
bay al-sarf contract of exchange of currencies
bay al-tawrid mutual forward contract
bay' bithaman ajil deferred payment sale
dhimmah juristic personality
fatwa legal ruling
fiqh Islamic jurisprudence
fiqh al-mu'amalat jurisprudence of commercial transactions
gharar speculative risk-taking
hadith Prophetic tradition
hajj pilgrimage to Mecca
hawalah contract of debt assignment
hibah gift
hilah legal artifice
hisbah guarding against infringements
ibra' rebate
ijarah lease contract
ijarah mawsufah fi dhimmah forward lease
ijarah muntahia bittamlik lease ending with ownership
ijarah thumma al-bay' Islamic hire-purchase
ijma consensus of opinion
ijtihad independent legal reasoning
istihsan juristic preference
istisna' manufacturing contract
ju'alah contract of commission
kafalah contract of guarantee
majlis al-'aqd session of contract
masalah mursalah unregulated public interest
maysir gambling
mu'allaq contingent contract
mu'amalat commercial transactions
mudarabah trust investment partnership
mudarabah al-muqayyadah restricted trust financing contract
mudarabah al-mutlaqah unrestricted trust financing contract
mudarabah sukuk trust investment certificates
mudarib entrepreneur
muhtasib ombudsman

mukallaf legally accountable person
muqaradah trust financing contract
muqasah offset contract
murabahah cost-plus financing
musharakah joint venture partnership
musharakah mutanaqisah diminishing partnership
muwa'adah bilateral promise
muzakki zakat payer
nikah marriage
nisab threshold amount for zakat
qard hasan benevolent loan
qimar game of chance
rabb al-mal capital provider
rahn collateral or mortgage
riba interest or usury
riba al-buyu'u interest in trade
riba al-duyun interest on loans
riba al-fadl interest of exchange surplus
riba al-jali obvious interest
riba al-khafi hidden interest
riba al-nasi'ah interest on money lent
riba al-mubashir direct interest
riba ghayr al-mubashir indirect interest
ribawi interest-bearing
Sa'a volume measurement (3 kg)
sadaqah charity or voluntary alms
Sadd al-dhari'ah preventive measures
salam forward sale contract
sanadat commercial papers
sarf exchange
Shari'ah Islamic law
shibh al-'aqd quasi contract
shirkah partnership
shura consultation
sighah form
sukuk Islamic bonds or certificates
Sunnah traditions of Prophet Muhammad
tabarru' donation
tabarru'at gratuitous contracts
takaful Islamic insurance
takaful ta'awuni cooperative insurance scheme
talaq divorce
tawarruq cash procurement
tawriq securitization
ujrah fee or commission
wa'ad unilateral promise
wadi'ah contract of bailment
wadi'ah yad damanah guaranteed bank deposit
wakalah contract of agency
waqf charitable endowment
wasiyyah bequest
zakat obligatory wealth levy



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PEARSON

This textbook is dedicated to our respective families who have stood behind us during the course of writing this pioneering work. They have been a constant source of inspiration. With renewed zeal, we have pursued the goal of producing a textbook for the global Islamic finance industry that will enhance the Islamic finance pedagogy.

About the Authors



M. Kabir Hassan

Dr. M. Kabir Hassan is a financial economist with consulting, research, and teaching experience in development finance, money and capital markets, Islamic finance, corporate finance, investments, monetary economics, macroeconomics, and international trade and finance. He has provided consulting services to the World Bank (WB), International Monetary Fund (IMF), Islamic Development Bank (IDB), African Development Bank (AfDB), USAID, Government of Bangladesh, Organization of Islamic Conferences (OIC), Federal Reserve Bank, USA, and many corporations, private organizations, and universities around the world. Dr. Hassan received his BA in Economics and Mathematics from Gustavus Adolphus College, Minnesota, USA, and MA in Economics and PhD in Finance from the University of Nebraska-Lincoln, USA, respectively. He is now a tenured Full Professor in the Department of Economics and Finance at the University of New Orleans, Louisiana, USA. He has 135 papers published in refereed academic journals to his credit. Dr. Hassan has published in the *Journal of Banking and Finance*, *Pacific Basin Finance Journal*, *Journal of Financial Services Research*, *Financial Review*, *Quarterly Review of Economics and Finance*, *Journal of Business, Finance and Accounting*, *Journal of Economics and Finance*, *Global Finance Journal*, *World Development*, *Thunderbird International Business Review*, *African Development Review*, *Islamic Economic Studies*, *Review of Islamic Economics*, *Journal of King Abdul Aziz University* and *Journal of Developmental Entrepreneurship*. Dr. Hassan supervised 27 doctoral theses, and many of his students are now well placed in the academia, government and private sectors. He is editor of *The Global Journal of Finance and Economics* and *Journal of Islamic Economics, Banking and Finance*, *International Journal of Islamic and Middle Eastern Finance and Management*, and co-editor of *Journal of Economic Cooperation and Development*. Dr. Hassan has edited and published many books along with articles in refereed academic journals. He is co-editor (with M. K. Lewis) of *Handbook of Islamic Banking and Islamic Finance*, *The International Library of Critical Writings in Economics* (Edward Elgar, 2007), and co-editor (with Michael Mahlkecht) of *Islamic Capital Market: Products and Strategies* (John Wiley and Sons, 2011). He is co-author of *Islamic Entrepreneurship* (Routledge UK, 2010). A frequent traveler, Dr. Hassan gives lectures and workshops in the USA and abroad, and has presented more than 257 research papers at professional conferences and has delivered 91 invited papers/seminars.



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Preface

Islamic banking and finance is becoming one of the most significant aspects of the modern global financial system. Why? Because it is a fast-growing industry that has developed rapidly within a few years from a niche industry to a global force to be reckoned with in the international arena. However, with the worldwide spread of Islamic financial products and the growing interest of students and financial experts in Islamic finance, numerous books, monographs, and academic articles are being produced to explain the significance of this new industry to the global financial system. Nevertheless, there has not been much focus on a professional textbook on Islamic banking and finance for students of higher education who require case studies and practical examples in their programs. This seemingly neglected aspect of Islamic financial literature is the gap that this book seeks to fill, focusing on the principles and practice of Islamic banking and finance in the modern world. In this dynamic industry, there is a need to present a textbook for the ever-increasing academic and professional institutions offering Islamic finance as a course.

Approach

We have tried to simplify the discussion through practical case studies and other helpful pedagogical features. Underpinning this are three major principles that have guided our approach to the presentation of the book.

- *Practice-oriented approach.* The pedagogical features embedded in the book—ranging from Professional Perspectives, Islamic Finance in Practice, Global Islamic Finance and Islamic Finance in the News, to problems and activities, marginal challenges, and marginal definitions—are meant to facilitate the understanding of the underlying principles. These practice-oriented features provide a hands-on experience for the students in understanding the dynamics of the Islamic finance industry.
- *The need for more sustainable practices.* We believe that in order to sustain the tremendous growth recorded in the Islamic finance industry, a dedicated textbook that addresses key issues should be made readily available for the students and practitioners alike. While there are numerous monographs on Islamic banking and finance, this textbook provides both the theory and practice, which is necessary to prepare the future professionals in the industry for the rewards and challenges they are bound to face in their careers.
- *Towards the standardization of Islamic finance.* As the pioneering textbook on Islamic banking and finance that seeks to fulfill the academic and professional needs of both students and practitioners, it also seeks to standardize the principles and practices of Islamic finance, bearing in mind the notable differences in the use of some products between jurisdictions in South-East Asia, the Middle East, and North African countries.

We have tried to present complex Islamic financial transactions in a manner that is easy to grasp, particularly for students who are new to the field of Islamic finance. Our goal in writing this book is to help students understand the underlying principles of