

Book Review

Islamicity of Banking and Modes of Islamic Banking:

By: Mohd. Anwar

Selangor, Malaysia: International Islamic University Malaysia, 28 pp. n.d.

This monograph is basically the inaugural lecture delivered by the author in October 2000 at the International Islamic University, Malaysia. It contains a number of vital issues relating to Islamic banking and economics. The heavy reliance of Islamic banks on *Murabahah* financing along with the practices of seignorage by Islamic commercial banks have been given special attention with critical analysis. The author is quite convincing in his attempt to examine the Islamicity of the functions of central and commercial banking system. The book has been divided into 5 sections with each covering a separate subject of study.

In section one, the author has rightly argued that in the process of Islamization of banks, operational technicalities have taken precedence over other concern and therefore the change of name from banking to Islamic banking is nothing but merely a psychological achievement. To prove his point Prof. Anwar gives a statistical account of the financial instrument adopted by the leading Islamic banks. Followed by this is the spatial account of Islamic Banks, which are compared with the conventional bank. Author has tried to prove that Islamic banks have performed better than the conventional banks. One wonders that if there is no difference between Islamic and conventional bank as he has argued, then how these Islamic bank could be better than the conventional banks?

Next section deals with the Islamicity of the modes used by Islamic banks. This section discusses the time value of money, which according to author is *Riba* and therefore stands prohibited. Whereas it is the time value of money, which is a part and parcel of all financial transactions of Islamic banks. Islamic banks have relied on certain trading modes like *Murabahah* and *Bai Bitaman ajil* because it is convenient to charge time value of money in the name of profit margin. The author also criticized the two-tier *Mudarabah* on the ground that it is nothing but exchange of money in different amount. This needed some more elaboration, which unfortunately is missing. The legitimacy of *Qardul-Hasan* as zero interest loans is also questioned.

In his entire study author has diagnosed three broad areas where improvement are required. Creation of fiat money by the central bank, creation of money supply by the commercial bank and elimination of *riba* component from the Islamic banking transactions. Measures suggested include, the replacement of fiat money with the commodity money by the central bank and splitting of banking activities into two sub groups i.e. investment and social banks.

Author has no objection in circulation of paper money but he calls for 100% reserve requirement, which to him is necessary to stop seignorage. Banking activities shall be divided into two specialized forms, the investment banks can solicit deposit on the basis of *Mudarabah* and *Musharkah*, which shall be employed by the bank itself, while social banks shall be managed by a trust. This shall be like a depository where depositors will not receive any return, however, interest free loans shall be issued to serve the identified individual and social needs. Seignorage created in the process shall be utilized for the development of the society. Here one may ask if seignorage can be allowed for communities benefit, why not interest?

Shariq Nisar