

# Islamic Finance: Writings of V Sundararajan

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*Islamic Finance is a way to meet out the money requirement and sharing the risk and return on asset. It's not for generating more money.*

The book "Islamic Finance" is an attempt to communicate the contributions of Dr. Venkataraman Sundararajan's to the development of Islamic Finance during twelve years, i.e., 1998 to 2010. The motive of the book is to recognize the role and importance of Islamic Finance in the fields of Financial and Risk Management. The writers have a vast and rich experience in the context of Islamic Finance. This book is ideal for those who would like to know about the Islamic Finance and for those who are responsible to set and implement the Islamic Financial policies, standards and instruments at the national and international level.

This book is a collection of Dr. Venkataraman's writings and editions of Dr. Abbas Mirakhor and Dr. P. R. Narvekar on Islamic Finance. The book is classified into three parts, with each covering a specific issue and successive aspect of the features, development, problems and solution of Islamic Finance with detailed descriptions.

The first part is imparting the general awareness about the basic principles and practices of Islamic Finance. This is basically for the finance students and general readers who is having interest in knowing Islamic Finance. The second part of the book, divided into four chapters, deals with and explains the major policy issues. The third part of the book provides an overview of complex technical issues, growth and global financial system and governance of Islamic Finance Industry. It deals with the development of Islamic finance into more and more countries. The editors included Dr. Sundararajan's contributions to analyse and resolution of issues on global financial system and its governance.

The chapter titles are evocative, which gives an idea to the reader about the chapter. The book chapters tell about the evolution of Islamic Banking and Finance in critical years. Dr. Sundararajan found relevant issues and weakness in the field of Islamic Banking and Finance. He helped in shaping the Islamic Finance by providing

various kinds of suggestions and solutions. He also developed various tools and methodologies to solve the issues.

The first chapter, *Current Development and Key Issues in Islamic Finance*, gives an idea about basic foundations, core principles, key features, structure, size and scope of Islamic Banking and Finance. It gives a crisp description of Islamic Banking, Islamic Capital Market, Takaful (Islamic Insurance), Islamic Nonbank Financial Institutions and Islamic Money Market. This chapter may also help the readers in knowing the history of standard setting bodies, challenges in the future development and supervision, design of financial instruments, requirement of close relationship between banking and securities regulators.

Chapter two, *Monetary Operations and Government Debt Management under Islamic Banking* has been written in 1998. This chapter gives the opportunity to the reader to know about the various challenges faced by monetary authorities, financial sector regulators and supervisors. How all the authorities fulfil their responsibilities while promoting Islamic Finance is detailed in this chapter. A description of three critical issues, viz., issuance of government securities under Islamic finance Principles, development of monetary instruments under Islamic banking and issues in institutional arrangements for monetary operation are given.

Chapter three, titled *Islamic Financial Institutions and Products in the Global Financial System: Key Issues in Risk Management and Challenges Ahead*, during the year 2002 is one another chapter on a very important policy issue, i.e., risk management. This chapter is an attempt to describe special risk surrounding Islamic finance. It also places an emphasis on risk management techniques. The author has also emphasized on various hindrances like underdeveloped interbank and money markets as well as government funding instruments, limited availability and access of facilities, legal uncertainties and limited market infrastructure which are responsible for lack of hedging instruments and techniques in Islamic Finance. For which this chapter provides a strengthening regulatory and disclosure framework. Few key challenges like how to make better reflections in banks with true risk, how to implement the supervisory regime, enhance market discipline by encouraging sound disclosure policies are also discussed in this chapter.

Chapter four, *Risk Measurement and Disclosure in Islamic Finance and the Implications of Profit Sharing Investment Accounts*, is an extension of the third chapter. It deals with risk measurement and disclosure issues. This chapter properly describes a specific approach to measure the actual sharing of risk between shareholders and Profit Sharing Investment Account (PSIA) based on Value-at-Risk (VAR) methodology. Author has concluded that supervisory authorities can provide strong incentives for effective overall risk management and transparent risk sharing with PSIAs.

Chapter five, titled *A note on Strengthening Liquidity Management of Institutions offering Islamic Financial Services: The development of Islamic Money Markets*, the last chapter of part II of the book, deals with strengthening liquidity of institutions providing Islamic financial services. The author has written this chapter in 2008, the year of financial crisis. For the development of Islamic money market Dr. Sundararajan has suggested following points to the policy makers:

- Concentrate on rationale for Islamic money market development.
- Focus on structure and instrument of Islamic finance.
- Focus on factors affecting the money market, i.e., legal and Shariah issues.

Chapter six, titled *Issues in Managing Profit Equalization Reserves and Investment Risk Reserves in Islamic Banks*, sets the background a set of accounting definitions and current practices has been described in this chapter. After that, main determinants of Profit equalization and investment risk reserves and their relationship to Displayed Commercial Risk (DCR) have been mentioned. The analysis of this chapter helps the reader and policy marker to understand that the use of IRR is to cover all the potential losses on assets invested with IAH funds. The relationship between PER/IRR and DCR is difficult to understand but the concept is well explained by the writer.

Chapter seven, titled *Towards Developing a Template to Assess Islamic Financial Services Industry (IFSI) in the world Bank:IMF Financial Sector Assessment Program (FSAP)*, is a new chapter added in this book. This chapter emphasizes on the practical use of Islamic Finance in Central Bank, IMF and World Bank. The purpose of this chapter is to review the methodology and procedures used in the Bank-Fund Financial Sector Assessment Program (FSAP). This helps in identifying the areas where additional guidance and benchmarks are required. It deals with Islamic Social Institutions and access to finance. It discusses the analysis of missing and underdeveloped Islamic money market and also provides supervisory guidance by IFSI for its development. This chapter also discussed about various testing and analysis technics for the future development of Islamic Finance.

Chapter eight, titled *Supervisory, Regulatory, and Capital Adequacy Implications of Profit-Sharing Investment Accounts in Islamic Finance*, is the last chapter, written during the year 2010. Author has explained the main types and features of PSIA's under Mudarabah Contracts. This chapter is about the financial instrument, level of risk for shareholders, level of regulatory and economic capital requirement, risk sharing and implication of these PSIA's for regulatory and supervisory authorities both national and pan-national- IFSB for Islamic Banks. This chapter discussed about the various approaches of risk management and suggested that panel data approach needs to be applied to fit a statistical model. Public disclosure of historical data on asset return is required to make Islamic Finance effective and more reliable. It is also mentioned

that for the effective application of IFRS standards there should be a relationship between PER, IRR and DCR.

## CONCLUSION

This book presents the complete growth story of Islamic finance and the efforts made by Dr. Venkataraman Sundararajan towards the development of Islamic Finance. This book has not only discussed the challenges and problems in Islamic Finance but also provides the solution. The book has stressed on the methodology of risk measurement and risk management which proved to be very useful for Islamic Finance. This book has touched upon various issues pertaining to Islamic finance and tried to give a complete picture of Islamic finance during past decades. This book is broad in nature; it's a good read for finance students, financial institutions and for policy makers. Overall, the book is a good read and suggested that there is a need for integration between Islamic finance and global financial system.

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