Book Review: "Islamic Wealth Management: Theory and Practice" edited by Mohamed Ariff and Shamser Mohammad

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Islamic Wealth Management: Theory and Practice, by Mohamed Ariff and Shamser Mohammad (Eds), Edward Elgar Publishing (2017), 398 pp ISBN 978 1 78643 938 3 (cased) ISBN 978 1 78643 939 0 (eBook).

When I first read the title I thought that this might be a "how to" book, a manual of how a practicing Muslim can manage his or her wealth; indeed the rhetorical question "*how does one put the wealth to earn returns over time?*" is asked (p.38), but no: the reader wishing to know the answer to that particular question is referred to Bodie et al. (2011)[1]. Instead, the book is an exploration of theory and principles, with a description of some Islamic financial instruments and markets and how these together work, primarily for sovereign wealth funds. This could have been made somewhat more obvious in the preface, written by one of the two editors, which instead includes some rather perplexing comments. One such is that *"Islamic Finance has but a very short history of some 65 years"*. One wonders how then were the vast international trade networks, the great public works and institutions, the huge states of Islamic history, all financed? Are we to assume by some form of "non-Islamic finance"? Perhaps the author meant to say "modern Islamic Finance", but even that is built on ancient foundations and principles. He goes on to say that wealth *"is a secular concept"*, but then cites Calvin *"Wealth is God's gift to man"*, notes that Hinduism forbids interest, and that Islam bases economic activity on the private sector (no citation provided). This last statement is followed by a gratuitous and incomprehensible pot-shot at the government of Iran, where he seems to suggest that there is no private sector economy. The public sector does indeed dominate, but only because 60% of that economy is oil and gas, in national ownership as it is in many other oil rich nations: Iran nevertheless has a large and thriving private sector[2].

The book is a compilation of chapters from nineteen contributors. Fifteen of these are associated in some way with Malaysia's INCEIF – the International Centre for Education in Islamic Finance. Ten are INCEIF staff, three are pursuing PhD studies there, one is a postgraduate student, and one a master's graduate. Three of the remaining four are distinguished academics from other institutions, two in Malaysia, one in Australia, while the fourth is a senior practitioner of Islamic Finance in Malaysia.

The book is divided into five parts and twenty-one chapters. The first part concerns definitions and concepts, and Chapter 1 is a useful reminder for the layman of different interpretations of "wealth" through the evolution of economic (and accounting) thought. Significantly, we are told (p5) that *"the concept of wealth has never been a matter of general consensus"*[3]. There is a disappointingly sloppy mistreatment of Adam Smith's statement "*where there is great property there is great inequality*". This is quoted correctly, but the author then writes *"Smith says that great <u>prosperity</u> coincides with great inequality"*. Perhaps he did, and maybe it does, but it is not what he said in the passage indicated, which has an entirely different meaning. The second chapter looks at wealth from the *shariah* perspective. The main difference between the two (as one might have guessed from the book's title) is that

[1] Bodie, Z., Ariff, M., Rosa, R., and Kane, Ed., (2007:2011). *Investment*s. McGraw Hill, Melbourne, Australia
[2] On 12 May 2018, 298 companies with a combined market capitalization of US$98 billion were listed on the Tehran Stock Exchange with (http://tse.ir/en/MarketWatch.html, accessed 12 May 2018)
[3] Heilbroner, R.L., (1987). *The Wordly Philosophers: The Lives times and Ideas of of the great economic thinkers.* New York, Touchstone.

from the latter point of view there are restrictions on how wealth may be earned, and that however earned it brings with it religiously mandated responsibilities and obligations – largely because (according to this viewpoint) true ownership of wealth does not rest with the individual, but with his Creator. Buried in a footnote the author provides a useful definition of Islamic economics as the study of *“human behavior in relation to multiplicity of wants and scarce resources with alternative uses so as to maximize ‘falah’ that is the well-being both in the present world and in the hereafter”.* The “hereafter” is provided for by following certain principles about how wealth is to be earned and disbursed. Chapter 3 introduces the idea of wealth management, but there is a certain amount of repetition of definitions and ideas from the first two chapters, which can be a bit tedious.

The three chapters in Part Two provide an overview of and insight into the governance systems used in Islamic financial institutions (IFIs) and markets, and is in the main a discussion of the efforts made and measures taken to ensure that the activities of these IFIs comply with the *sharia:* a layer of governance imposed over and above the standard requirements of international corporate governance. There is a suggestion that *sharia* supervisory boards need to take a more aggressive stance in assuring compliance, as not all Islamic financial products that have been introduced are fully compliant (their proponents use as mitigation that it is a necessity that cannot be avoided, and that efforts are being taken to ensure full compliance in the near future). This laxity has encouraged the “retro-fitting” of pre-existing branded financial products from conventional institutions by granting them a certificate of “Islamicity”.

Perhaps the main part of the book is the seven chapters that make up Part Three. This section is entitled “Wealth creating institutions & Markets”, but the first two of the chapters are about sovereign wealth funds, particularly those of the OIC[4] group, and state foreign exchange reserves. These are followed by two chapters about bench-marking, with only the final three about the only wealth creating institution mentioned: the market for *sukuk*[5], an Islamic form of debt. Chapter 9 “Application of conventional benchmark in Islamic wealth management” is interesting: one of this reviewer’s main criticisms of “Islamic banking” is the widespread use of LIBOR[6] (an interest rate) to determine the rent charged to borrowers for e.g. Islamic mortgages. The authors of this chapter make a case for a new benchmark consistent with Islamic religious and economic fundamentals. The justification given for concentrating on state-held wealth is that *“the amount of wealth is large and there is no information about how these governments are managing the wealth in place”*. If that is the real focus of this book it has been inaccurately titled. Part Four is about preserving and protecting wealth, and its two chapters address the questions of Islamic treatment of insurance (“*takaful*”), and how wealth can be “purified”. The chapter “Challenges for the Takaful industry” provides an interesting history of the thinking that led to the now widespread acceptance of this idea of “Islamic insurance”, which many had previously considered to be un-Islamic because it

[4] Organisation of Islamic Co-operation
[5] Islamic bonds, structured in such a way as to generate returns to investors without infringing Islamic law (that prohibits riba or interest). Sukuk represents undivided shares in the ownership of tangible assets relating to particular projects or special investment activity [http://lexicon.ft.com/Term?term=sukuk-(islamic-bonds), accessed 13/5/2018].
[6] London Inter-Bank Offer Rate

“involves *riba* (usury), *gharar* (ambiguity) and *maisir* (gambling)” – all prohibited by sharia.

The final section, “Wealth Distribution”, is not one normally found in a text on wealth management, which can be defined as “a practice that in its broadest sense describes the combining of personal investment management, financial advisory, and planning disciplines directly for the benefit of high-net-worth clients”[7]. Islamic laws (sharia) relating to wealth include the requirement to give away a percentage of unused capital every year (in the form of a tax “*zakat”* to be used by the authorities for those in need), and dictate the precise way that a person’s estate should be apportioned on his or her death, specifying who is entitled to inherit, and what share. There is much discussion (six chapters) on these concepts, which the unfamiliar reader is likely to find enlightening.

In summary this is an interesting compendium of the some key aspects of the Islamic perspective towards wealth, with an interesting digression on sovereign wealth funds and foreign exchange reserves. It is not a personal investment guidebook for Muslims or anyone else.

[7][http://lexicon.ft.com/Term?term=wealth-management, accessed 13/5/2018]