



Book Review: Islamic Capital Markets: Products and Strategies (2011) by M. Kabir Hassan & Michael Mahlkecht

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¹SMART Indonesia

This book is part of the Wiley Finance series, focusing on the development of Islamic Capital Markets (ICM). Its purpose is to explain the concepts, products, strategies, and practical as well as regulatory issues that shape the global Islamic capital market. The book is divided into four main parts: (I) General Concepts and Legal Issues, which explains the Shariah foundations in finance, particularly the prohibition of riba (interest), gharar (uncertainty), and maysir (speculation); (II) Global Trends in Islamic Capital Markets; (III) Case Studies and Regional Perspectives; and (IV) Lessons from the Global Financial Crisis. This book asserts that the Islamic capital market is not merely a financial alternative but a vital component of the global financial system. With product innovation, strengthening of regulations, and increased literacy, ICM has the potential to expand financial inclusion, support development, and offer more sustainable stability.

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INTRODUCTION

There are several key findings from this book. First, the ICM is growing rapidly, driven by the demand for halal products, especially in Southeast Asia, the GCC, and Western countries. Furthermore, sukuk has become a flagship instrument, providing an alternative for financing large-scale projects. Additionally, the harmonization of fatwas remains a challenge due to methodological differences between the GCC, Malaysia, and other countries.

Another major finding from this book relates to crisis resilience: Shariah principles (prohibition of riba, speculation, excessive leverage) provide relatively better stability compared to the conventional system. Last but not least is the institutional infrastructure (regulators, Shariah boards, educational institutions, standardization by AAOIFI/IFSB).

In conclusion, this book asserts that the Islamic capital market is not merely a financial alternative but a vital component of the global financial system. With product innovation, strengthening of regulations, and increased literacy, ICM has the potential to expand financial inclusion, support development, and offer more sustainable stability.

PART I: GENERAL CONCEPTS AND LEGAL ISSUES IN ISLAMIC CAPITAL MARKETS

Islamic Capital Markets (ICM) are expanding rapidly in line with the growing need for financial instruments that comply with Shariah principles. The first part of the book *Islamic Capital Markets: Products and Strategies* highlights the legal foundations, Shariah processes, governance, and integration of social values in ICM. Below is a review of each main theme.

Financial innovation in ICM cannot be separated from the Shariah approval process. Every product must adhere to the prohibitions of riba, gharar, and maysir, and fulfill the maqasid al-shariah, which emphasizes justice and the protection of wealth. Shariah products are divided into two categories: (1) Shariah-based – sourced directly from classical contracts such as mudaraba, musharaka, and ijarah; (2) Shariah-compliant – modifications of conventional instruments to align with Shariah, for example, sukuk.

The approval process involves financial institutions, Shariah boards, and international regulators like AAOIFI and IFSB. Strict screening of business

activities and financial indicators ensures that products are genuinely aligned with Islamic values.

Ideally, Islamic financial institutions should not only focus on profitability but also on social responsibility. Islamic principles position humans as khalifah (stewards) who are obliged to uphold justice, educate society, and manage resources fairly. This requires financial institutions to go beyond conventional corporate social responsibility (CSR). In practice, social responsibility can be mandatory (zakat, prohibition of riba) or recommended (waqf, social funds). Transparency and accountable reporting are crucial to maintain integrity and foster public trust.

One of the significant issues in ICM governance is the concentration of authority in the hands of a few Shariah scholars. Network analysis shows that a small number of scholars sit on dozens of Shariah boards across various institutions. This situation creates a risk of conflicts of interest and reduces the diversity of views. Proposed solutions include rotating board members, increasing the capacity of new scholars, and implementing more transparent governance mechanisms. This way, the industry's credibility can be enhanced and product innovation can become more varied.

Interestingly, the core values of Islamic capital markets do not stand alone. Similar principles are also found in Jewish and Catholic traditions, as well as in modern sustainable investing (socially responsible investing). These similarities include the prohibition of usury, rejection of "unethical" sectors (alcohol, gambling, pornography), and the promotion of equitable investments. Research shows that faith-based funds can compete with conventional instruments in terms of performance. This opens up opportunities for ICM to build collaborative bridges with cross-faith ethical investment models.

The first part of this book confirms that the legal foundation and Shariah governance are the main pillars for the growth of Islamic capital markets. Legal reforms in Saudi Arabia, product approval mechanisms in Malaysia, the integration of social responsibility, and the strengthening of Shariah board governance are all key factors toward a more credible and sustainable ICM.

Furthermore, the overlap with other ethical religious traditions shows the potential for ICM to be an integral part of the global ethical investment movement. With a strong legal foundation and good governance, the Islamic capital market has a great opportunity to become a financial model that is not only halal but also fair and resilient.

PART II: GLOBAL TRENDS IN ISLAMIC CAPITAL MARKETS

The development of Islamic Capital Markets (ICM) is not only occurring in Muslim-majority countries but also at a global level. Product innovation, the development of new instruments, and legal and regulatory challenges are the main themes in Part II of the book *Islamic Capital Markets: Products and Strategies*. This section highlights derivatives, securitization, takaful, and alternative contract models, emphasizing how Shariah-compliant instruments interact with global market trends.

Uberoi and Khadem (2011) discuss the position of derivatives in Islamic finance. Instruments like futures, options, and swaps are considered problematic because they are linked to speculation, gharar, and obligation trading. However, Shariah-based innovation has given rise to alternatives such as wa'd-based contracts, arbun (optional down payment), and salam for forward transactions.

The issuance of the Tahawwut Master Agreement by ISDA/IIFM in 2010 marked a significant step toward standardizing Shariah-compliant hedging instruments. Although still controversial, Shariah-compliant derivatives are seen as an urgent necessity for risk management in Islamic financial institutions.

Jobst (2011) highlights the fundamental differences between conventional securitization and Islamic securitization. In the conventional system, incentive problems led to the subprime mortgage crisis. In contrast, Islamic securitization is based on tangible assets, making it more tied to the real economy.

The sukuk instrument has become the primary face of Shariah-compliant securitization. However, challenges remain, including regulatory harmonization, the need for legal certainty, and cross-border supervision. Jobst emphasizes that sukuk can be a positive side of securitization if Shariah principles are strictly enforced, especially in the aspect of tangible asset ownership.

Lewis (2011) provides an overview of the development of Islamic insurance, or takaful. Islam rejects conventional insurance because it contains gharar and maysir, leading to the development of alternative models. Takaful products are now increasingly varied, including health, life, and micro-takaful. The prospects are immense in developing countries with large Muslim populations, although public awareness and regulatory infrastructure still need to be improved.

Cattelan (2011) offers an alternative model for option contracts based on an ijara wa-hiba (lease and gift) structure. This model is considered more compliant with Shariah principles than conventional options. Additionally, classical concepts like khiyar al-shart (conditional option) and arbun (down payment) are being re-examined as a basis for developing new instruments.

This approach aims to create hedging instruments that are free from excessive speculation while still providing a legitimate market function for risk mitigation.

Part II shows that ICM has moved towards a more complex stage of product innovation. Instruments like derivatives, sukuk, takaful, and Islamic option contracts have become a battleground for debate between market needs and Shariah compliance.

Despite facing challenges—especially in harmonizing Shariah standards, legal certainty, and resistance to instruments that resemble conventional ones—the global trend of ICM shows great potential to fill the gap in risk management instruments while expanding financial inclusion.

PART III: CASE STUDIES AND REGIONAL PERSPECTIVES IN ISLAMIC CAPITAL MARKETS

Besides discussing general principles and global trends, Islamic Capital Markets (ICM) must also be viewed from a regional perspective. Part III of the book *Islamic Capital Markets: Products and Strategies* features case studies from Malaysia, the United States, and Australia, and discusses the role of education and research in supporting the development of ICM.

Saeed (2011) emphasizes that Malaysia is one of the most successful global Islamic financial centers. Key factors for Malaysia's success include: (1) Pioneering Shariah-compliant financial institutions, such as Tabung Haji, which provided a practical foundation for Shariah-based investment; (2) A progressive regulatory framework, with the National Shariah Council and Bank Negara Malaysia as drivers of supervision and standardization; (3) Product innovation, including sukuk, Islamic mutual funds, and Shariah-compliant derivative instruments. The Malaysian model emphasizes close collaboration between the government, regulators, industry, and academic institutions, making it a global reference for the development of Islamic capital markets.

El-Gamal (2011) discusses the case of Australia, which is trying to adapt its legal and tax framework to support Islamic finance. The biggest issue is the double taxation treatment of Shariah contracts like murabaha or ijarah. Tax reform is needed so that Shariah products can compete with conventional ones. Although the Muslim population is small, the community in Australia is a key driver for the demand for Shariah products. Government initiatives to facilitate discussions with the industry show a commitment towards financial inclusion.

Laldin (2011) stresses the importance of educational and research institutions in supporting the growth of ICM. Institutions like INCEIF (International Centre for Education in Islamic Finance), ISRA (International Shariah Research Academy), and IBFIM (Islamic Banking and Finance Institute Malaysia) play a major role in: providing higher education programs specifically in Islamic finance; producing industry-relevant research; and standardizing fatwas and Shariah methodologies.

Regional case studies show that the development of Islamic capital markets is heavily influenced by the local context. Malaysia successfully became a global model thanks to progressive regulation and product innovation, while the United States and Australia face legal and regulatory challenges. On the other hand, education and research have proven to be essential pillars for the industry's sustainability.

By combining these regional experiences, it can be concluded that ICM requires a flexible, context-specific approach that remains grounded in universal Shariah principles.

PART IV: LESSONS FROM THE GLOBAL FINANCIAL CRISIS

The global financial crisis of 2007–2008 shook the conventional financial system, primarily due to weak regulation, excessive leverage practices, and reliance on complex derivative instruments. Part IV of the book *Islamic Capital Markets: Products and Strategies* examines how Islamic Capital Markets (ICM) responded to this crisis, and the opportunities that emerged to strengthen the industry through innovation, microfinance, and Shariah-compliant portfolio management.

Hassan (2011) emphasizes that Shariah principles—the prohibition of *riba*, *gharar*, and *maysir*—prevent the use of excessive leverage and speculative transactions. As a result, the Islamic capital

market was relatively more resilient to the crisis compared to the conventional market.

Although not entirely immune, the asset-backed system of sukuk and other Shariah products provided additional stability. The crisis actually strengthened the argument that ICM could be a more sustainable financial model.

Iqbal (2011) discusses the importance of Islamic financial engineering post-crisis. Product innovation is needed to meet the demands for risk management, liquidity, and long-term investment.

However, challenges arise when new products too closely mimic conventional instruments. Therefore, the innovation process must prioritize *maqasid al-shariah* and avoid mere "form over substance." Examples of relevant innovations include hybrid sukuk structures, wa'd-based hedging, and social investment instruments.

Obaidullah (2011) highlights the importance of microfinance and micro-takaful in increasing financial inclusion. The global crisis revealed the weak protection for low-income groups, making Shariah-based solutions a viable alternative.

Microfinance models based on *mudaraba*, *murabaha*, and *qard hasan* are considered suitable for empowering small businesses. Meanwhile, micro-takaful offers risk protection at an affordable cost. Both expand the reach of ICM from institutional investors to the grassroots community.

The lessons from the global crisis confirm that the Islamic capital market has better resilience thanks to its tangible asset base and restrictions on speculation. Product innovation, expansion of access through microfinance and micro-takaful, and strengthening portfolio management methodologies are on the main agenda for the future of ICM. By adhering to *maqasid al-shariah*, ICM can function not only as an alternative but also as a more stable, inclusive, and just global financial solution.

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