

FREQUENTLY ASKED
QUESTIONS IN

ISLAMIC FINANCE

BRIAN KETTEL

Sukuk

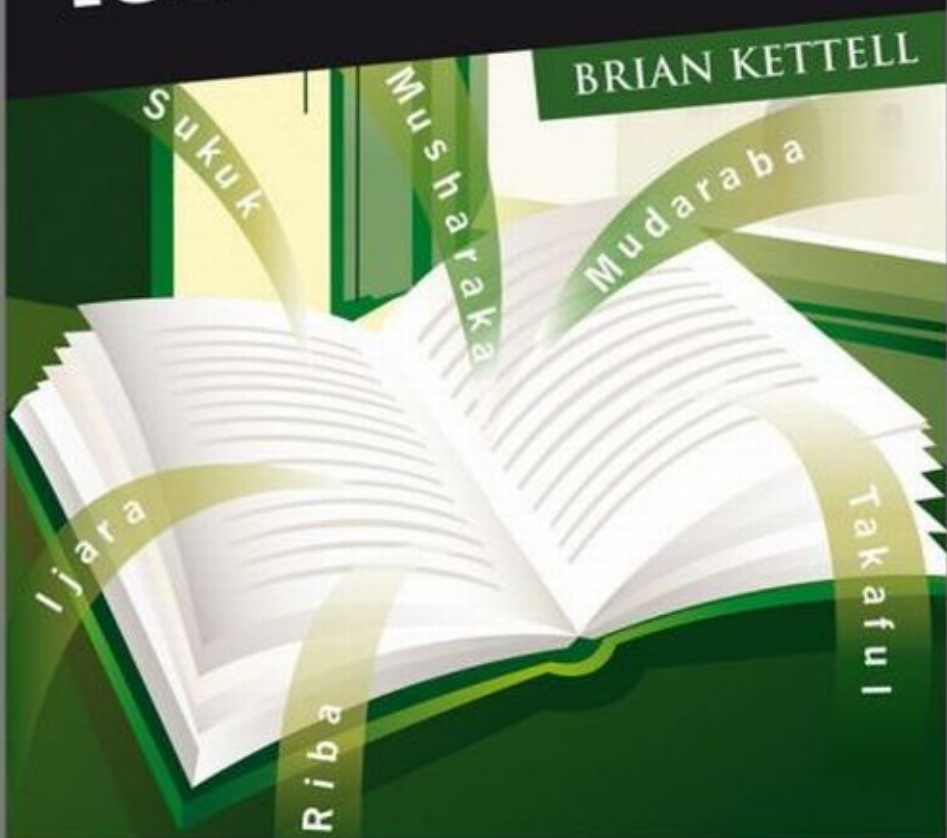
Musharaka

Mudaraba

Ijara

Riba

Takaful



Frequently Asked Questions in Islamic Finance

Previously Published Titles by the Author

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Introduction to Islamic Banking and Finance*

Islamic Sukuk: a Definitive Guide to Islamic Structured Finance*

Islamic Banking and Finance in the Kingdom of Bahrain,
the Bahrain Monetary Agency

Financial Economics, Financial Times-Prentice Hall.

Economics for Financial Markets, Butterworth-Heinemann

What Drives Financial Markets? Financial Times-Prentice Hall

What Drives the Currency Markets? Financial Times-Prentice Hall

Fed Watching: The Impact of the Fed on the World's Financial Markets,
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(Co-author), Graham and Trotman

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Brian Kettell



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*To my wife Nadia, our son Alexei and daughter Anna.
Nadia keeps the whole fleet on an even keel with only the
occasional shipwreck.*

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Preface

The ongoing turbulence in the global financial markets has drawn attention to an alternative system of financial intermediation, Islamic banking and finance. This sector of the financial markets has so far remained on the sidelines of this turbulence. It is a sector which has undergone rapid growth in recent years. Despite this growth the financial community remains largely uninformed as to the key characteristics of the industry. But what exactly is Islamic banking and how does it work? This short text is designed to answer the frequently asked questions almost always raised, by non-specialists, whenever the subject of Islamic banking gets mentioned. It is literally FAQs. Readers seeking more specialised knowledge need to refer to some of my other publications listed earlier.

Even amongst conventional bankers there is much misunderstanding as to what Islamic banking is all about. If you ask a conventional banker what Islamic banking is, he will mumble something about religion. He will then say, 'Well they cannot charge interest but they use something else which is the same thing'. This 'something else', incidentally, is never defined. The banker will then move on to describe Islamic banking as being about smoke and mirrors. To conclude, he will then profoundly announce that, with a few tweaks, it is what he does every day anyway. And that is the end of it.

If pushed to actually describing an Islamic financial instrument or, even worse, to define some Islamic terminology such as Murabaha or Mudaraba, then the banker's eyes will start to gloss over.