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B.COM HONOURS	SEMESTER 6	CALICUT UNIVERSITY	COURSE CODE: COM6EJ312

ISLAMIC INVESTMENT AND INSURANCE

EXAM REVISION NOTES

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MODULE I

1. OVERVIEW: CONCEPT AND DYNAMICS OF CAPITAL MARKETS

The Islamic Capital Market (ICM) and Its Foundational Principles: The Islamic Capital Market (ICM) is an organized financial marketplace where commercial transactions, investments, market behaviors, and financial instruments operate in strict compliance with the tenets of Shariah (Islamic jurisprudence).

PROHIBITION OF RIBA (INTEREST)

PROHIBITION OF MAYSIR QIMAR (GAMBLING)

BAN ON SHORT-SELLING (*BAY' MA LA YAMLIK*)

A. Tier 1: Sectoral / Qualitative Business Activity Screening: A company is immediately disqualified if its primary business activities derive revenue from prohibited sectors:

- **Conventional Financial Services:** Commercial banks, insurance companies, microfinance firms lending at interest.
- **Non-Halal Consumables:** Manufacture, processing, or distribution of alcoholic beverages, pork products, and non-halal meat.
- **Gambling amp; Adult Entertainment:** Gambling amp; Adult Entertainment: Casinos, lottery operators, betting software, adult media, and nightclubs.
- **Tobacco amp; Weapons:** Tobacco amp; Weapons: Cigarette manufacturing and offensive military weapons production.
- **5% of total corporate revenues:** Permissible Tolerance Threshold: Under AAOIFI and Dow Jones Islamic Market standards, incidental revenue from non-permissible activities must not exceed , and this tainted 5% must be purified through charity.

B. Tier 2: Quantitative Financial Ratio Screening: If a company passes the sectoral screen, its balance sheet must satisfy strict financial ratio benchmarks to ensure it is not overly leveraged with debt or earning excessive interest:

- **Debt / Leverage Ratio:** Market CapitalizationTotal Interest-Bearing Debt lt;30% (Focuses on limiting corporate debt reliance); Trailing 24-Month Average Market CapTotal Debt lt;33%
- **Cash amp; Interest Investments:** Market CapitalizationCash + Interest-Bearing Securities lt;30% (Limits surplus liquid cash earning interest); Trailing 24-Month Average Market CapCash + Short-Term Securities lt;33%
- **Accounts Receivable / Liquidity:** Total AssetsTotal Trade Receivables lt;30% to 50% (Prevents trading in debt rather than real business); Trailing 24-Month Average Market CapTotal Accounts Receivables lt;33%

Risk Management Derivatives in Islamic Capital Markets: Conventional capital markets rely extensively on speculative derivatives (options, futures, credit default swaps) for risk hedging.

- **Call Options / Put Options:** ; Arbun Contract (Down-Payment Sale): A buyer pays a non-refundable deposit (*Urbun*) to hold goods.
- **Currency Futures amp; Forwards:** ; Wa'ad-Based FX Forward: A unilateral, legally binding promise (*Wa'ad*) from one party to execute a spot currency exchange on a specified future date at a benchmarked rate.
- **Interest Rate Swaps (IRS):** ; Islamic Profit Rate Swap (IPRS): Executed through two parallel, sequential *Murabahah* commodity sales on different payment terms, achieving fixed-for-floating yield management legally.

Key Institutional Players in the Islamic Capital Market

SHARIAH ADVISORY BOARDS COUNCILS

ISLAMIC ASSET MANAGERS TAKAFUL

Factors Influencing Islamic Capital Market Development: 5 trillion in global assets) is propelled by powerful macro-structural tailwinds:

- **Demographic Expansion amp; Financial Deepening:** Demographic Expansion amp; Financial Deepening: Rapid population growth across the 57 Organization of Islamic Cooperation (OIC) countries, coupled with rising middle-class disposable income, has fueled demand for faith- savings and investment vehicles.
- **Sovereign Infrastructure Financing via Sukuk:** Governments across the GCC, Malaysia, Indonesia, Turkey, and the UK utilize Sukuk to finance massive green energy, highway, airport, and urban development projects without expanding interest-based sovereign debt.
- **Convergence with ESG and Ethical Investing:** The philosophical principles of Shariah (prohibiting tobacco, weapons, predatory lending, environmental degradation) exhibit near-perfect alignment with modern Environmental, Social, and Governance (ESG) criteria, attracting non-Muslim institutional investors.
- **Islamic FinTech amp; Digital Trading Platforms:** , Wahed Invest), and blockchain-based fractional Sukuk have democratized Islamic capital market access for retail millennial investors globally.

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 1): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
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- **Working Capital Governance:** ; Tandon amp; Chore Committee Norms for Bank Working Capital Credit Appraisal.

Executive Synthesis, Governance Policy, and Continuing Professional Mastery: To conclude, mastery of the concepts examined throughout this module empowers students and commerce executives to evaluate complex fiscal data with precision, independence, and analytical clarity.

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 2): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

MODULE II

1. INTRODUCTION TO ISLAMIC INVESTMENTS AND WEALTH PRINCIPLES

Introduction to Islamic Investments and Wealth Principles: In the Islamic economic framework, wealth (*Mal*) is recognized as a divine blessing and an essential instrument for human flourishing, provided it is generated, deployed, and purified within the boundaries of Shariah.

- **The Obligation of Productive Investment (Tanmiyat al-Mal):** Capital must be actively circulated into real, productive economic activities that generate employment, goods, and social value.
- **The Prohibition of Wealth Hoarding (Kanz):** Hoarding cash or gold without putting it to productive use is severely condemned in the Quran (*Surah At-Tawbah 9:34*).

Sukuk: The Islamic Investment Certificate: Under AAOIFI Shariah Standard No. "

- **1. Legal Ownership:** ; Represents a pure debt obligation (promissory IOU) owed by the issuer to the lender; zero asset ownership.
- **2. Nature of Return:** ; Investors receive a contractually guaranteed, predetermined rate of interest (coupon), independent of issuer profits.
- **3. Underlying Risk:** ; Investors bear credit risk (issuer default risk) and interest rate risk; zero asset operational risk.
- **4. Shariah Compliance:** ; Subject only to secular financial regulatory and statutory securities laws.

SUKUK AL-IJARAH (LEASE-BASED)

SUKUK AL-MUSHRAKAH / MUDARABAH

SUKUK AL-SALAM AL-ISTISNA'A

Specialized Islamic Investment Products: Beyond Sukuk, modern Islamic finance offers sophisticated collective investment schemes:

ISLAMIC MUTUAL FUNDS ETFS

Venture Capital and Private Equity in Islamic Finance: Venture Capital (VC) and Private Equity (PE) represent the most authentic structural embodiment of Islamic economic ideals.

- **Stage 1: Seed Capital amp; Angel Stage:** Stage 1: Seed Capital amp; Angel Stage Financing initial concept ideation, product prototyping, and patent filing.
- **Stage 4: Exit Strategies (Harvesting):** Realizing investment returns through: (1) Initial Public Offering (IPO) on an Islamic stock exchange, (2) Strategic Trade Sale to a multinational corporate, or (3) Management Buyout (MBO).

Comprehensive Calicut University Academic Examination Bank: Because Sukuk al-Ijarah represents fractional ownership of real tangible assets and usufruct, Shariah scholars universally agree that it is 100% negotiable and tradable on secondary exchanges at market-determined prices, making it the preferred instrument for sovereign treasuries and global pension funds.

- **Structural Transaction Flow:** , ports, airports, offices) to the SPV.
- **Step 2:** The SPV issues Sukuk certificates to international investors to raise the required purchase funds, holding the assets in trust for the certificate holders.
- **Step 3:** , 5 or 10 years).
- **Step 4:** The Originator pays periodic semi-annual lease rentals to the SPV, which distributes these cash flows as coupon payouts to the Sukuk holders.
- **Step 5:** At maturity, under a unilateral purchase undertaking (*Wa'ad*), the Originator repurchases the assets from the SPV at an agreed terminal price, and the proceeds redeem the Sukuk principal.

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MODULE III

1. CONVENTIONAL INSURANCE: MECHANICS AND SHARIAH CRITIQUE

Conventional Insurance: Mechanics and Shariah Critique: Conventional insurance is an institutional risk-transfer arrangement whereby an individual or business (the insured) transfers the financial burden of potential future hazards to an insurance corporation in exchange for regular, non-refundable monetary payments (premiums).

RIBA (USURY INTEREST)

GHARAR (EXCESSIVE UNCERTAINTY)

TA'AWUN (MUTUAL ASSISTANCE)

TABARRU' (CONDITIONAL DONATION)

A. Underwriting Surplus and Deficit Handling (Qard Hasan): 6944em; quot; gt; lt;/span gt; lt;spanclass= quot;mord quot; gt; lt;spanclass= quot;mord quot; gt;Technical Reserves lt;/span gt; lt;/span gt; lt;/span gt; lt;/span gt; lt;/span gt; Surplus does not belong to shareholders; it is returned to participants as cash dividends, retained as contingency reserves, or used to reduce future contributions.

General Takaful vs. Family Takaful

FAMILY TAKAFUL (LONG-TERM / LIFE ALTERNATIVE)

Reinsurance and Retakaful: , Swiss Re, Munich Re), primary Takaful operators require Retakaful.

SHARIAH RETAKAFUL PRINCIPLES

Comprehensive Calicut University Academic Examination Bank: Define Takaful as a cooperative risk-sharing mechanism rooted in early Islamic history (the ancient Arab practice of *Aqilah* mdash; mutual tribal blood-money pooling).

- **The Pure Wakalah Model:** Contractual Relationship: The operator acts as a commercial agent (*Wakeel*) administering the Takaful fund on behalf of the participants.
- **Ujrah:** Remuneration: The operator deducts an upfront fixed agency fee () directly from gross contributions.
- **Surplus Treatment:** 100% of the underwriting surplus belongs to the participants.
- **The Pure Mudarabah Model:** Contractual Relationship: The participants act as capital providers (*Rab-ul-Mal*) and the operator acts as business manager (*Mudarib*).
- **Remuneration:** The operator charges no upfront administrative fee; its sole compensation is an agreed percentage share of both investment profits and underwriting surplus.

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MODULE IV

1. ISLAMIC MARKET INDICES: ARCHITECTURE AND METHODOLOGY

Islamic Market Indices: Architecture and Methodology: An Islamic market index is a specialized financial benchmark tracking a basket of publicly traded equities that satisfy Shariah compliance guidelines.

- **Investment Universe Definition:** Authoritatively delineating which stocks globally are Halal for Islamic mutual funds, pension schemes, and individual investors.
- **Performance Benchmarking:** Establishing objective, transparent hurdle rates against which Islamic portfolio managers are evaluated.
- **Basis for Passive Products:** Enabling the creation of Islamic Exchange-Traded Funds (ETFs) and index-tracking mutual funds.

A. Index Maintenance, Rebalancing, and Downside Crisis Resilience: Quarterly Review amp; Rebalancing: Index providers re-screen all constituent corporations quarterly (or semi-annually).

THE GCC HUB (SAUDI ARABIA UAE)

SOUTH ASIA AFRICA

WESTERN JURISDICTIONS (UK)

Comprehensive SWOT Analysis of Islamic Investments Takaful: To formulate future growth strategies, the global Islamic investment and insurance industry must be evaluated through a rigorous SWOT Matrix:

WEAKNESSES (INTERNAL)

OPPORTUNITIES (EXTERNAL)

Contemporary Challenges and Strategic Remedies

- **2. Shortage of Human Capital amp; Expertise:** Com Islamic Finance stream) and professional certifications (CIPA, CSAA by AAOIFI).
- **3. Public Awareness amp; Perception Gaps:** ; Launch nationwide financial literacy campaigns, publish transparent Shariah audit reports, and demonstrate tangible social impact through Zakat and Qard Hasan initiatives.

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