

AL-QURAAAN

- The word Al-Qur'an is derived from an Arabic word That means “to read” and Al-Qur'an means “the books which is most repeatedly read”
- It may be defined as: The book containing the speech of Allah Ta'ala, revealed to the beloved prophet Muhammad (Peace be upon him) and transmitted to us by continuous testimony, or Tawatur..
- It is the Primary Source of Islamic Shariah. The fundamental and main sources of Rulings derived explicitly from Qur'an are Frad, and its refutation is “Kufr”.
- Address to all humanity, without distinction of race, region or time
- Guidance for human beings in all aspect of life.
- All sources of Islamic law must be in essential agreement with the Qur'an, the most fundamental source of Islamic knowledge. When the Qur'an itself does not speak directly or in detail about a certain subject, Muslims only then turn to alternative sources of Islamic law.

AL-QURAAAN & ISLAMIC FINANCIAL SYSTEM

- The central feature of the Islamic financial system is the prohibition of the payment and receipt of **interest or Riba** stated in the following verses of the Holy Quran: And Allah has permitted sale, purchase and forbidden Riba. (*AL-BAQARAH 02:275*).
- O People who believe! Fear Allah and **forego the remaining Riba**, if you are believers.
- And if you do not, then be certain of a war with Allah and His Noble Messenger; and if you repent, **take back your principal** amount; neither you cause harm to someone, nor you be harmed. (*AL-BAQARAH 02:278-9*)

SUNNAH

- Lexically, it means “new way or new action or a course”.
- Technically, Sunnah means: Sayings Actions and Tacit (Unspoken) Approvals of the Holy prophet.
- It is the second primary source of Shariah.
- As a second source of Shariah, Sunnah does not contradict the Qur'an-e-Majeed.

HADITH

Literally: communication, story, conversation

Technically: What was transmitted on the authority of the Prophet, his deeds, sayings, and tacit approvals, or description of his sifaat (features).” Both cover the same ground: practice, sayings and tacit approvals (taqrir)

A hadith has been very carefully collected and compiled since the death of the Prophet.

Six collections of Hadith are regarded as the most authentic. They are:

1. Sahih Al-Bukhari (Collected and compiled by Muhammad bin Isma'il, known as Imam Bukhari, born 194 AH, died 256 AH).

2. Sahih Muslim (Muslim bin al-Hajjaj, known as Imam Muslim, born 202 AH, died 257 AH).
3. Sunnah Abu Dawud (Aulaiman bin Ash'ath, known as Abu Dawud, born 202 AH, died 275 AH).
4. Sunnah Ibn Majah (Muhammad bin Yazad, born 209 AH, died 273 AH).
5. Jami' At-Tirmidhi (Muhammad bin 'Isa, date of birth not known died 279 AH).
6. Sunnah An-Nasa'I (Ahmad bin Shu'aib, born 215 AH, died 303 AH).

SUNNAH & ISLAMIC FINANCIAL SYSTEM

The Last Prophet (P.B.U.H) said the following words:

“Every loan that draws **any benefit** is Riba based loan”.

Thus, interest is defined in the Qura'an and Sunnah as any pre-agreed excess given by the borrower to the lender above the principal. This excess has not been segregated in Shariah Rulings between interest and usury as both the terms are included in the broad term “Riba”

- Quran generally deals with the broad principles or essential of religion. The details are supplied by Prophet SAW through hadith.
- Sunnah includes Sayings, Practices, No-objection (Silent Approvals) of Prophet and practices of four caliphs and other companions of holy Prophet (SAWS).
- A hadith have rather specific meanings, it mean Sayings of Prophet (SAWS).
- A hadith act for Quranic teachings and directives as interpreter and explainer.
- The Sunnah can thus clarify details of what is stated generally in the Qur'an.

IJMA

- Ijma' – Consensus of opinion among the jurist on certain issues and ruling.
- Literally: Ijma is the verbal noun of the Arabic word Ajma'a which has two meanings: To determine OR To agree upon something.
- Technically: Consensus of mujtahids (jurist) from the ummah of Muhammad (saw), after his death in a determined period upon a rule of Islamic law.
- In the Shariah, the meaning of “Ijma is the unanimity of all Fuqaha-e-Mujtahiddeen of **one era** on a single Shariah ruling, after the period of Prophet Muhammad(SAW).
- Ijma' thus is the agreement of all people of knowledge of a given generation (whether it is the generation of the Companions or any generation thereafter) on a matter of Islamic Law.
- Consensus of opinion among the jurist of a particular period on a question of law. It may be based on Quran, hadith or analogy.
- Ijma' is the secondary/Derived source of Shariah.

QIYAS

- Qiyas – analogical deduction
- Literal: Measuring or estimating on thing in terms of another.

- Technical: The extension of Shar'iah ruling from an original case (ASL) to a new case (far') because the new case has the same effective cause (Illah) as the original case.
- Qiyas is analogy and reasoning on the basis of similar circumstances.
- Analogical deduction of new issues on existing evidence from the Quran and Qiyas is a method that Muslim jurists use to derive a ruling with the help of early practices for new problem or situation that are not clearly mentioned by the Qura'n-e-Majeed, Hadith and Consensus of Muslims jurists.
- Qiyas is the secondary/Derived source of Shariah.
- “Allah will not let my community agree upon an error”

10. What is Islamic Banking?

Islamic banking is defined as banking system which is in consonance with (according to) the spirit (essence), ethos (beliefs) and value system of Islam and governed by the principles laid down by Islamic Shariah. Interest free banking is a narrow concept, Islamic banking, the more general term, is based not only to avoid interest-based transactions prohibited in Islamic Shariah but also **to avoid unethical and un-social practices**. In practical sense, Islamic Banking is the transformation of conventional money lending into **transactions based on tangible assets** and real services. The model of Islamic banking system leads towards the achievement of a system which helps achieve economic prosperity.

A system through which finance is provided in the form of money in return for either equity or rights to share in future business profits, (**Profit & Loss Sharing basis**) or in the form of goods and services delivered in return for a commitment to repay their value at a future date. (**Asset Backed Financing**)

11. Is Islamic banking meant only for Muslims?

- The teachings of Islam are not confined to Muslims, rather these equally address the non-Muslims due to their universal nature.
- The basis of Islamic banks is laid down on ethical values and socially responsible system.
- The values like justice, mutual help and honesty on the part of the parties to a contract, avoiding fraud, misrepresentation and misstatement of facts and negation of injustice or exploitation form the basic principles of Islamic banking.
- Therefore, the principles of Islamic banking lead the economic system to achieve the economic prosperity.
- On this premise, Islamic banking becomes a viable option for everyone irrespective of their religion.

12. What is Islamic Banking?

- Islamic banking is system of conducting trade and banking activities in line with the principles of Shari'ah.

I - INTEREST FREE

C - CONTRACTUAL

An - ASSET BACK/BASED

R - RISK BEARING/SHARING

E - ETHICAL

CHARACTERISTIC	CONVENTIONAL BANKS	ISLAMIC BANKS
CONCEPT & BASIS	THE FUNCTIONS AND OPERATING MODES OF CONVENTIONAL BANKS ARE BASED ON FULLY MANMADE PRINCIPLES.	THE FUNCTIONS AND OPERATING MODES OF ISLAMIC BANKS ARE BASED ON THE PRINCIPLES OF ISLAMIC SHARI'AH.
RATE OF RETURN	THE INVESTOR IS ASSURED OF A PREDETERMINED RATE OF INTEREST AT A CONVENTIONAL BANK.	IN CONTRAST, ISLAMIC BANKING PROMOTES RISK SHARING BETWEEN PROVIDER OF CAPITAL (INVESTOR) AND THE USER OF FUNDS (ENTREPRENEUR).
MODE OF PROFIT MAXIMIZATION	CONVENTIONAL BANKS AIM AT MAXIMIZING PROFIT WITHOUT ANY RESTRICTION.	ISLAMIC BANKING ALSO AIMS AT MAXIMIZING PROFIT BUT SUBJECT TO SHARI'AH RESTRICTIONS.
MONEY BASED LENDING VERSUS BUSINESS BASED LENDING	LENDING MONEY AND GETTING IT BACK WITH	PARTICIPATION IN BUSINESS IS THE FUNDAMENTAL FUNCTION

	COMPOUNDING INTEREST IS THE FUNDAMENTAL FUNCTION OF CONVENTIONAL BANKS.	OF ISLAMIC BANKS. SO WE HAVE TO UNDERSTAND OUR CUSTOMER'S BUSINESS VERY WELL AS IF WE ARE PARTNERS IN THIS BUSINESS.
5. DEPOSIT GUARANTEE	A CONVENTIONAL BANK HAS TO GUARANTEE ALL ITS DEPOSITS.	ISLAMIC BANK CAN ONLY GUARANTEE DEPOSITS FOR DEPOSIT ACCOUNT (E.G. CURRENT ACCOUNT), WHICH IS BASED ON THE PRINCIPLE OF AL QARD, HOWEVER IF THE ACCOUNT IS BASED ON THE MUDARABAH CONCEPT (E.G. TERM DEPOSITS) , CLIENT HAVE TO SHARE IN A LOSS POSITION IF LOSS IS INCURRED.
6. TREATMENT OF PENALTY OR LATE PAYMENT CHARGES	CONVENTIONAL BANKS CAN CHARGE ADDITIONAL MONEY (PENALTY AND COMPOUND INTEREST) IN CASE OF DEFAULTERS. THESE BANKS TAKE THE EXTRA INTO INCOME	THE ISLAMIC BANKS HAVE NO PROVISION TO CHARGE ANY EXTRA MONEY FROM DEFAULTERS. ONLY SMALL AMOUNT IS TAKEN AND THESE PROCEEDS ARE GIVEN IN CHARITY. REBATES ARE GIVEN FOR EARLY SETTLEMENT AT THE BANK'S SHARI'AH ADVISOR DISCRETION.
7. BORROWING BY BANKS	FOR INTEREST-BASED COMMERCIAL BANKS, BORROWING FROM THE MONEY MARKET IS RELATIVELY EASIER.	FOR THE ISLAMIC BANKS, BORROWING FROM MARKET MUST BE BASED ON A SHARI'AH APPROVED UNDERLYING TRANSACTION.
8. ENHANCEMENT OF KNOWLEDGE AND EXPERTISE	SINCE INCOME FROM ADVANCES IS FIXED, A CONVENTIONAL BANK GIVES LITTLE IMPORTANCE TO DEVELOPING EXPERTISE IN PROJECT APPRAISAL AND EVALUATIONS.	SINCE ISLAMIC BANKS SHARE PROFIT AND LOSS, THEY PAY GREATER ATTENTION TO DEVELOPING PROJECT APPRAISAL AND EVALUATIONS EXPERTISE.
9. STATUS OF THE BANK	THE STATUS OF A CONVENTIONAL BANK, IN RELATION TO ITS CLIENTS, IS THAT OF CREDITOR AND DEBTORS.	THE STATUS OF ISLAMIC BANK IN RELATION TO ITS CLIENTS IS THAT OF PARTNERS, INVESTORS AND TRADER, BUYER AND SELLER.

13. Basic Principles of Islamic Banking

- If you thought that Islamic banking and conventional banking are two sides of the same coin or if you believed there can be no banking without interest, we welcome you to the amazing world of Islamic banking, where interest does not play any role.
- A banking system which is governed by a strong code of ethics in all its practices and functions. And, a banking system where ‘no interest’ is just one of the many aspects you’ll find interesting to follow for your own benefit.
- There are at least **six basic principles** which are taken into consideration while executing any Islamic banking transaction. These principles differentiate a financial transaction from a Riba/interest based transaction to an Islamic banking transaction.

1. Sanctity of contract:

Before executing any Islamic banking transaction, the counter parties have to satisfy whether the transaction is halal (valid) (Bai Sahih) in the eyes of Islamic Shariah. This means that Islamic bank’s transaction must not be Void (invalid) (Bai Batil) or voidable (Bai Fasid). There are Four Elements: Contract, Subject Matter, Price, & Possession or delivery.

2. Risk sharing:

Islamic jurists have drawn two principles from the saying of Prophet Muhammad (SAW). These are “Alkhiraj Biddamaan and “Alghunum Bilghurum”. Both the principles have similar meanings that no profit can be earned from an asset or a capital unless ownership risks have been taken by the earner of that profit. Thus in every Islamic banking transaction, the Islamic financial institution and/or its deposit holder take(s) the risk of ownership of the tangible asset, real services or capital before earning any profit there from.

3. No Riba/interest:

Islamic banks cannot involve in Riba/interest related transactions. They cannot lend money to earn additional amount on it. However as stated in point No. 2 above, it earns profit by taking risk of tangible assets, real services or capital and passes on this profit/loss to its deposit holders who also take the risk of their capital.

4. Fairness:

Islamic banking inculcates fairness through its operations. Transactions based on doubtful terms and conditions cannot become part of Islamic banking. All the terms and conditions embedded in the transactions are properly disclosed in the contract/agreement.

5. No invalid subject matter:

While executing an Islamic banking transaction, it is ensured that no invalid subject matter or activity is financed by the Islamic financial transaction. Some subject matter or activities may be allowed by the law of the land but if the same are not allowed by Shariah, these cannot be financed by an Islamic bank. Alcohol, gambling, pork, etc.

6. Economic purpose/activity:

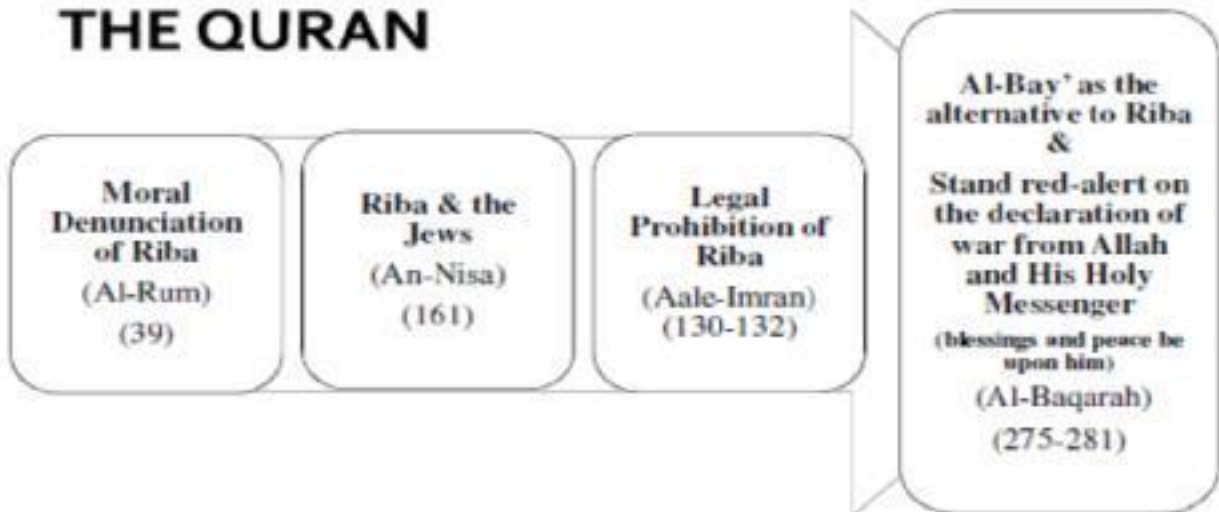
Every Islamic banking transaction has certain economic purpose/activity. For example, Real Goods are required to be purchased under Murabaha and a real non consumable asset has to be there capable of producing a usufruct in case of Ijara of assets. Further, Islamic banking transactions are backed by tangible asset or real service.

RIBA

INTRODUCTION

- Riba was gradually prohibited through 4 stages in 7 different verses of the Quran.
- There are more than 40 A hadith.
- To eliminate something that have been accustomed for so long is not an easy task
- This approach also adopted in the prohibition of liquor.
- Arab society had been given ample time to gradually adjust themselves (6 Nabawi to 9 Hijri).
- Riba is prohibited in almost all religions

STAGES OF PROHIBITION OF RIBA IN THE QURAN



PROHIBITION OF RIBA IN OTHER RELIGION

The prohibition of Riba An Nasiyah is one of those issues which have been confirmed in the revealed laws of all Prophets (AS). Some of the old testaments has rendered Riba as haram:

Judaism & Christianity

Following are the references of Bibles of Jews and Christians:

- Prophet Moses (May Peace be upon him) Torah 22nd versus of the “Exodus”
- “If you lend money to any of my people that is poor, that dwelled with you, you should not be hard upon them as an extortion, nor oppress them with interest.”
- Other References: In several Biblical passages, the taking of interest is either forbidden, discouraged or disliked:
- Exodus 22:25, Leviticus 25:35-36, Deutronomy 23:20, Psalms 15:5, Proverbs 28:8, Nehemiah 5:7 & Ezakhiel 18:8, 13, 17 & 22:12).

Roman Catholic Church

- In fourth century AD prohibited taking of interest by Church Scholars.
- In the eighth century under Charlemagne it was declared usury to be a general criminal offence.
- *"The love of money is the root of all evil."* (Timothy 6:10)

Ancient Hindu Religion

- Vasishtha, a well-known Hindu law-maker made a special law which forbade higher castes of Brahmans (priests) and Kshatriyas (warriors) from being usurers or lending at interest. Vedic texts of Ancient India (2000-1400BC).
- In the Jatakas, (600-400 BC) Usury is referred to in a humiliating manner: “Two- Faced Elites accused of practicing Usury”.

RIBA & Its TYPE

Definition of Riba

Definition of Riba or Interest The word “Riba” means excess, increase or addition, which correctly interpreted according to Shariah terminology, implies any excess compensation without due consideration (consideration does not include time value of money).

Literally Meaning of Riba:

- Riba is an Arabic word, derived from the verb raba that literally means ‘to grow’ or ‘expand’ or ‘increase’ or ‘inflate’ or ‘excess’
- Excess quantity, addition, an increase of a thing over and above its original size or amount.
- It is generally translated into English as “usury” or “interest”, but in fact it has a much broader sense in the Shari`ah. Riba in the Shari`ah, technically refers to the ‘premium’ that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity.

CATEGORIES OF RIBA

1. Debt Riba
 - Riba Qardh
 - Riba Jahiliyyah
2. Trade Riba
 - Riba al-Fadl
 - Riba al-Nasiah

DEBT RIBA

- **Riba Qardh**

Any predetermined benefit for the owner of debt stated in the contract, which the debtor need to fulfil E.g.: interest stated in loan contract.
- **Riba Jahiliyyah**

The surplus or excess payment above the original debt as a penalty to the debtor due to his inability to service the loan repayment within the stipulated time.
Giving or taking of every excess amount in exchange of a loan at an agreed rate irrespective of whether it is low or high E.g.: interest in credit card transactions due to the delay in the repayment

TRADE RIBA

- **Riba al-Fadl**

Any additional quantity or inequality in the exchange of goods from the similar type of the ribawi items (Quantity Factor)
- **Riba al-Nasiah**

Any delay in the exchange of the ribawi items from the same type and category (Time Factor)

Types of Riba

There are two types of Riba, identified to date by the scholars namely ‘Riba An Nasiyah’ and ‘Riba Al Fadl’.

Riba An Nasiyah

- Riba An Nasiyah is defined as excess, which results from predetermined interest (sood) which a lender receives over and above the principle (Ras ul Maal).
- Riba An Nasiyah refers to the addition of the premium which is paid to the lender in return for his waiting as a condition for the loan and is technically the same as interest.
- During the dark ages, only the first form (Riba An Nasiyah) was considered to be Riba. However the Holy Prophet also classified the second form (Riba Al Fadl) as Riba.
- The verses of Quran has directly rendered this type of Riba as haram.
- The meaning of Riba has been clarified in the following verses of Quran:

Riba Al Fadl

Riba Al Fadl is defined as excess compensation without any consideration resulting from a sale of goods. Riba Al Fadl actually means that excess which is taken in exchange of specific homogenous commodities and encountered in their hand-to-hand purchase & sale as explained in the famous hadith: From Abu Sa'id al-Khudri: The Prophet, said: "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, and handto-hand. Whoever pays more or takes more has indulged in riba. The taker and the giver are alike [in guilt]." (Muslim; and MusnadAhmad).

This hadith enumerates 6 different commodities namely:

1. Gold
 2. Silver
 3. Wheat
 4. Barley
 5. Dates
 6. Salt
- These six commodities can only be bought and sold in equal quantities and on spot.
 - An unequal sale or a deferred sale of these commodities will constitute Riba.
 - These six commodities in fiqh terminology are called “Amwal-e- Ribawiya”.
 - Does this hadith apply only to the items mentioned in it?
 - Does it concern sales of barley or wheat but not rice? Of dates but not raisins?