



ISLAMIC FINANCIAL SYSTEM

AN OVERVIEW

Islamic Banking and Finance (MFS 608)

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October 2012



ISLAM

- *Islam is a system of belief that encompasses not only man's relationship with God, but*
- *Islam also provides all mankind (not only Muslims) with codes that regulates their entire way of life.*
- *The Qur'an sets out its notions of equity, justice, fairness, morality and many other values which underpin the entire Islamic system.*

“Those who embrace Islam will be saved”

'AQIDAH
(Faith and Believes)

SHARI'AH
(Rules and Regulation
Safeguarding
Practices and activities)

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AKHLAQ
(Personalities,
Behaviors, Moralities,
and Ethics)

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- Aqidah

- ☺ It is a strong beliefs in the heart of a person to Allah The Almighty and to Prophet Muhammad (PBUH)
- ☺ Governs the principle of faith and belief

- Faith in God
- Faith in The Rasul (Prophets / Messengers)
- Faith in the Angels
- Faith in the Scriptures
- Faith in the Day of Judgement
- Faith in the Destiny

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Shari`ah

- ☺ “Way to water” – the source of all life and the way to Allah
- ☺ to march out a clear path and to direct human to the right path – to conduct life in order to realize the Devine Will
- governs all form of actions – behavior, spiritual, mental and physical aspects
- comprising *ibadah* (law pertaining to devotional matters) and *muamalah* (law pertaining to activity in political, economic and social spheres.)

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- Akhlaq

- ☺ Defines the Islamic ethical codes as it relates to personal conduct
- ☺ covers behavior, attitude and work ethics by which a Muslim perform his practical actions
- ☺ is based on the submission of Muslims to Allah

ISLAMIC ECONOMY

- Roughly 20% of the world's population is Islam
- Total assets within the Islamic banking industry are presently estimated to exceed \$200 billion
- Islamic financial institutions more generally are continuing to experience substantial growth in business turnover.

ISLAMIC ECONOMY AND FINANCE

- An Islamic Economy is an economy that is regulated by a set of rules based on outlines set by the Islamic Shari` ah.
- Islamic financing is not tied to any particular jurisdiction, but it can take place anywhere in the world where there are Muslims who wish to engage in financial transactions in a manner consistent with Islamic Shari` ah.
- Shari` ah is the set of guidelines mentioned in the Quran.

Definition

The use of the word Economy is some what too big for these rules, they don't add up to a full economical theory but they organize some aspect of an economy such as trade manners, partnership methods, and of course money matters or in other words “Islamic Financing”.

The Four Basic Foundations of Islamic Economy:

- **Economic peace in the Islamic norms framework**

In the process of getting a profit, IFS set a guideline where business is conducted by avoiding riba' and it is accepted in the capitalist system.

- **Brotherhood and just**

IFS promotes brotherhood and maintain justice in business activities whether with the Muslims or non-Muslims.

The Four Basic Foundations (cont...)

- **The fare distribution of wealth**

Investors involved in economic activities and not only as investor. Both, investors and entrepreneurs will be sharing the risk and profit. The investors provide capital and work with the entrepreneurs to develop the business and then the cycle goes on.

- **Individual freedom to gain social welfare**

In the implementation of IFS, there is no hindrance to anybody to be involved in the economic activities and helping those who are in need. This can be done through the zakat institution. In capitalist system, peoples welfare is not a priority.

Definition

- Islamic Financing is a concept that emerged in scientific manners in the second half of the past century.
- With the expanding role that the banking system and money handling, many Muslim communities were faced with a problem over the concept of INTEREST.

Why Islamic Finance?

- The Islamic Ruling (shari` ah) specifies, inter alia, rules that relate to:
 - ❑ the allocation of resources
 - ❑ property rights
 - ❑ production and consumption
 - ❑ the workings of markets
 - ❑ the distribution of income and wealth
- In shari` ah , there is a straight forward and definite rule that has to be obeyed, NO “RIBA”.
- So what is Riba’?

The Rules Relate to:

- The allocation of resources
 - Islam looks at wealth as life sustaining, to be used efficiently
“Give not unto the foolish your wealth which Allah has made a means of support for you”. (Quran, 4:4).
- Property rights
 - Private ownership is affirmed but viewed as a trust
“Believe in Allah and His messenger, and spend of that whereof He hath made you trustees.” (Quran, 57:7).
 - Muslims are obligated to fulfill contracts and keep their promises:
“O you who believe fulfill your undertakings”. (Quran, 5:1)

The Rules Relate to:

- Production and consumption

- Use of wealth and exercise of freedom of enterprise is constrained by the obligation not to harm others. The Prophet ruled:

“No injury, and no inflicting of injury”. (Ibn Maja, Sunan: chapter on Ahkam)

The Rules Relate to:

- The workings of markets

- Islam encourages enterprise, efforts to create wealth, which has been characterized as God's bounty:

“And when prayer is ended, then disperse in the land and seek Allah's Bounty”. (Quran, 62:10)

- All exchange should be with willing consent of the parties concerned:

“O you who believe squander not your wealth among yourself in vanity Except it be a trade by mutual consent”. (Quran, 4:29)

The Rules Relate to:

- The distribution of income and wealth
 - ❑ Obligation to care for others and share with them
“O you who believe squander not your wealth among yourself in vanity Except it be a trade by mutual consent”. (Quran, 4:29)
 - ❑ This is symbolized by the well-known duty of paying *Zakat* or poor tax
 - ❑ This is a spirit of a cooperative and helpful behavior .
“Who hath created life and death that He may try you, which of you is best in conduct”. (Quran, 67:2).

The Uniqueness of Islamic Financial System:

- All activities are to be based on the principle of Tawheed (believe in Allah)
- All trade and financial activities must not involve the fixing of interest (Riba').
- All activities must strictly follow the principles set forth by the Islamic laws in the business contract
- Activities must be based on the involvement of the capital owner and entrepreneurs in the production process, not only giving a loan.

General Principles in Islamic Mu`amalah

- All exchange should be with consent of the parties concerned
- Full ownership and eligibility of the contractual parties – voluntary, no misstatements and no mistakes
- The contract object must be clearly mentioned: the types, the amount, can be surrendered, useful and clean (pure) according to Islamic syari`ah
- Free from *riba'*, game of chance (*al-maisir*), preventable ambiguity or uncertainty (*al-gharar*) and other prohibited action
- Free from oppression: excessive profit (*Ghabn al-Fahsy*), hoard (*Ihtikar*), blockade from the market (*Talaqqi al-Rukban*).

The Uniqueness of Islamic Financial System:

- Faith based (believe in Allah)
- No interest (Riba') – credit is basic human right cooperation between capital owner and entrepreneurs in the production process
- Investment based on actual market price (tangible assets)
- Socially responsible
- Environmentally compliant
- Ethical (share risk, share profits and losses)
- Helping people free themselves from debt



“The best of people are those who benefit others the most” (Hadeeth)



Thank You...
Wassalam