



**ATTIJARAH**  
Center of Islamic Economics

## **Islamic Banking & Finance- A Need to Change the Mindset &**

### **Requirement of Real Approach**

**Muhammad Zeeshan Farrukh**

Islamic Banking and Financial Industry has been enhancing their pace day by day and it has proved itself as a viable and possible alternative to complex conventional financial system which is based on the principles of riba and some other evil elements that are the causes of social unrest and economic injustice. The Shariah scholars also watch the activities of Islamic Financial Industry to ensure the Shariah compliance of different transactions.

Being a Muslim and follower of Islam, our main ambition is to make possible the implementation of Islamic Economic System. We must consider and observe how the present structure and activities of Islamic Financial Industry will help in obtaining Maqasid-al-Shariah (aims and objectives of Shariah) that ultimately lead to economic welfare of the society. In a collective manner and by making an honest approach; unfortunately, the present practices of Islamic Financial Industry are showing ignorance towards this end and the special consideration and thinking is required in this direction otherwise the dream of implementation of a viable Islamic Economic System cannot come true.

We have to need for revamping the structure and thinking upon which Islamic Financial Industry is being run. If we go through the general behavior of Islamic financial industry, we observe that the products and services offered by Islamic financial institutions are, no doubt, Shariah compliant but the industry is still very much impressed by conventional system. Due to this reason, products and services are designed in order to achieve the same results as conventional financial institutions.

The important question arises at this point why we are taking inspiration and examples from the conventional system which is not valid according to Islamic posture. Unfortunately, the conventional mindset of the IFIs' management is the biggest hurdle in the development and implementation of a real economic system. It is a pity reality that the present behavior of Islamic financial industry is not leading towards and clearing the way for the implementation of the Islamic economic system but a supporting tool for accelerating capitalism. The materialistic approach is still in practice and the spiritual approach is missing.

The above-mentioned mindset has raised major concerns. At present, the development of modes of Islamic Banking & Finance has been stopped due to risk aversion of IFIs' management and there is no serious striving for bringing a viable product as far as real business modes of Mudaraba and Musharaka are concerned. Consequently, the Islamic Financial Industry is

restricted to some modes i.e. Murabaha, Ijarah and Diminishing Musharaka etc. that are the possible and viable shariah-compliant alternatives of conventional products.

The eradication of pricing benchmarking based upon KIBOR/LIBOR etc. is required for this industry to abolish the concept of earning of money on money. The constructive work has to be done in this respect because this benchmarking is the main reason for *keeping the concept of earning of money on money* rather than the concept of *earning of money on commodity/asset*.

The rate of return on deposits, as more or less the same as conventional banks offering, is making confusion among the general public that both the systems are same and it is only being misguided the general public. In a real sense, the situation is not as they are thinking. Actually, Islamic banks try to give profit to the customer as conventional financial institutions offering in order to compete with conventional institutions. For this purpose, Islamic banks set the profit distribution mechanism in such a way, keeping in view their expected income, as they can deliver the desired profit rate on certain periodical basis. In case the earning is low as compared to expectation, Islamic banks pay the gap from their own share of profit as gift (HIBA) to the customers. It is worth-mentioning here that according to Shariah, it is allowed but the major point of concern here is that this permission is opening a gateway to Riba in case of verbal commitments of front-end staff that commit with important corporate customers in the same way as conventional banks do. The reason for this commitment of front-end staff is the assumed surety that the bank will pay from their own pocket. Therefore, they commit from the corporate customers by making verbal surety to the customers and this commitment is tantamount to Riba. These activities are disseminating negative impact and give a chance for laughing of people upon IFIs. Therefore, I suggest that the practice of HIBA must be stopped to eliminate possible riba-based transaction or it might be practiced by the management only in case of immense need.

The other major concern is that while making retail and corporate transactions, IFIs must educate people about the concerned transaction and mode of Islamic finance as according to Islam, the business terms and conditions regarding relationship between the two parties at the time of any transaction must be understood otherwise it will lead to Gharar (uncertainty) which is prohibited by Islam because the presence of gharar might be the reason of dispute and it is a fact that these disputes have been experienced by IFIs. Therefore while making any transaction, the execution of agreement, in written, is not enough rather than proper understanding.

It must be understood that Islamic finance is not the same as conventional finance either on the basis of theory or practice. Therefore, the people must be appointed, particularly on the supervisory level, after giving proper training and proper assessment. The proper fit and proper criteria must be announced by the regulatory authority in this respect.

Being a nation, if we are serious to implement Islamic economic system in the country, Islamic banking can help very much in this respect if we run this industry in an idealistic way, rather

than prevalent way because this behavior will deliver the same result in the society as conventional economic and financial system.

The most important consideration must be given to education curriculum keeping in view to develop well-educated business resource from Islamic point of view. Unfortunately the people coming from colleges and universities after completion of their education are not aware of Islamic business concepts in general. Our educational structure is absolutely based upon the western or secular thoughts with respect to the education of economics and finance. Although it is a healthy and positive trend in universities and colleges that the subjects of Islamic economics and business transactions are being included in curriculum, the curriculum is designed in such a way that the secular or western thoughts are shown as basis or foundation of economics and Islamic economics is shown as alternative or a secondary subject. Being an Islamic country, this behavior must be abolished and the Islamic concepts must be taught as real economic and financial concepts as our young generation may equip with adequate and sound knowledge of Islam in this respect.

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**ATTIJARAH**  
Center of Islamic Economics

Web: <http://www.attijarah.com>

Email: [info@attujarah.com](mailto:info@attujarah.com)