

**Research Paper**

**International Islamic Banking**

*Global Advent, Scope, Ideology, Structure, & Application especially in Pakistan  
WITH COMPARISON AMONG ISLAMIC BANKS OF Bahrain, Bangladesh, Iran,  
Jordan, Kuwait, Malaysia, Pakistan, Sudan, Tunisia, Turkey, and United Arab  
Emirates*

## International Islamic Banking

This research work is attributed to Shahid Saleem of Hailey College of Banking and Finance, 7<sup>th</sup> Constituent College of University of Punjab, Pakistan. The university has been oldest university established under British rule in India and has earned 3 Nobel laureates till date. Also, studying with Chartered Institute of Management Accountants of England & Wales (CIMA), London.

### ***Shahid Saleem***

**Website:** <http://shahidsaleem.co.nr>  
**Emails:** [marshal.shahid@yahoo.com](mailto:marshal.shahid@yahoo.com)  
**Telephone:** 0092-42-5757362 / 0322-4500231



Mr. Shahid Saleem has been studying in BBA (Hons.) with majors in BANKING & FINANCE, from University of Punjab, Lahore, Pakistan & certificate level in CIMA (UK). He is a fine speaker and researcher on banking, finance, economics, & management. Have taken part in various university level projects, organized seminars, and now publishing reports and research papers on international level.

## Research Paper

# International Islamic Banking

*“Once during a press conference in Malaysia, I was asked the question about contribution of Islamic banks in promoting Islamic economy..... I said, they have contributed a lot and they have contributed nothing.....”*

**(Justice Mufti M. T. Usmani)**

### **Abstract:**

The purpose of this exploratory and to some extent descriptive analysis is to highlight the Islamic banking & finance theory, and to explain the practical disparity all over the Muslim Umma along with commonalities of Islamic banking in them. Islamic banking has been now become a value proposition which transcends cultures and will do speedily in next decades despite of cutting throat competition expected in global banking scenario. The size of Islamic Financial Industry has now reached size of US\$ 250 Billion and its growing annually @ 15% per annum. Institutions like Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Finance Services Board (IFSB) have been formed. Due to these collective efforts, Islamic banking is now recognized by IMF,

World Bank and Basel Committee. While, 27 Muslim countries including Bahrain, UAE, Saudi Arabia, Malaysia, Brunei and Pakistan 15 non-Muslim countries including USA, UK, Canada, Switzerland, South Africa and Australia has already adopted it, but in all these countries a lot of diversities lie over theory “ Shariah Principles” and their implementation as bank products/services. In such context our effort is expected to be fruitful for not only local but international policymakers and scholars to overcome these disparities and to really make it a value proposition which transcends cultures.....

## 1. Introduction

While Islamic banking may not be a totally new concept, the widespread expansion of this form of banking is certainly a fairly recent phenomenon. There are more than 250 Islamic banking institutions and these institutions not only operate in Muslim countries, but have also gained footing in non-Muslim countries. In 1993, it was estimated that, on a global scale, total assets of this banking system were about US\$ 60 billion and would probably reach US\$ 100 billion at the end of this millennium. The term “Islamic banking” refers to a conduct of banking operation in consonance with Islamic teachings. The main principle of Islamic banking comprises prohibition of interest in all forms of transactions, business undertakings and trade activities.

Since Islamic banks are founded on the same Islamic business principles and are governed by the same law *i.e.* Sharia laws, there should be no differences in terms of

operations and practices amongst them. In reality however, many differences in practices do occur among the Islamic banks in various Muslim countries.

The objective of this paper is to survey the operational aspects and practices of selected Islamic banks in various Muslim countries. This survey covers the services and products available to customers, the usage of Sharia principles in their operations and sources and uses of their funds. The Islamic banks included in this study are from eleven Muslim countries: Bahrain, Bangladesh, Iran, Jordan, Kuwait, Malaysia, Pakistan, Sudan, Tunisia, Turkey, and United Arab Emirates. The banks covered in this survey, the year in consideration and the abbreviations used for the banks are all presented in Appendix I.

## **History of Islamic Banking**

In Muslim communities, limited banking activity, such as acceptance of deposits, goes back to the time when the Prophet Muhammad was still alive. At that time, people deposited money with the Prophet or with Abu Bakr Sedique, the First Khalif of Islam. The first modern Islamic bank, established in Egypt in 197, was called Nasser's Social Bank. Islamic accounting, an essential tool for the success of Islamic banks, is said to have been developed contemporaneously at the University of Cairo.

The desirability of abolishing fixed interest rates and the Islamization of financial systems were discussed at the first meeting of the Organization of Islamic Conference (OIC) in Jeddah in 1973. Subsequently, many Islamic banks were founded under the profit-and-Loss sharing system (PLS).

Modern Global Islamic Banking has undergone three phases of development:

- Emergence-1972 through 1975: This period was marked by a surge in oil revenues and great liquidity. Parallel events included a resurgence of fundamentalist Muslim movements, reemphasis on the Wahabi School of Brotherhood and Pan-Islamism, and establishment of OIC.
- Expansion-1976 to the early 1980s: Islamic banking spread from the Arabian Gulf eastward to Malaysia, and westward to England. For more than 155 Accounting Needs of Islamic Banking, 20 Islamic banks were established, including international and intercontinental institutions. Islamic banking associations or consultancy bodies broadened their operations.
- Maturity--1983 to the present: The Arab world was confronted by economic setbacks, including slowdowns in oil revenues, the collapse of Kuwait's Souk al-Manakh, the relative strength of the U.S. dollar, higher interest rates in the United States, and capital outflows from OPEC nations. At the same time, Arab banks opened branches in the United States and Islamic banking practices were implemented in both Pakistan and Iran.



At a summit, Prime Minister of Malaysia and also country's Finance Minister at same time gave the idea of Islamic Dinar and Islamic Dirham (as shown in diagram below). Due to high volatility in the world currency markets still persisting till date, and the Muslim countries, many of whom are primary commodities

producers, are perhaps amongst those that are most affected. World commodity prices including crude oil, natural gas, palm oil, natural rubber, rice, tea and so on are quoted on the commodity and futures exchanges in the US dollar.

Not surprisingly, many of the Muslim currencies including the Malaysian ringgit, the Saudi riyal, the Kuwaiti dinar, the UAE dirham, have traditionally been pegged to the US greenback. Malaysia was forced to go down this route in 1999, following the Asian crisis which saw the US dollar and other international currencies such as the Japanese yen and sterling sharply appreciate against the ringgit. It certainly is not a new idea. Several Muslim economists and prominent Shariah compliance experts have called for such a unit of currency in the past or some sort of return to a gold standard.

In fact, the Islamic dinar does already exist as the unit of currency of the Islamic Development Bank (IDB). But the IDB's dinar is also indirectly pegged to the US dollar, because one Islamic dinar is equivalent to one special drawing rights (SDR) of the International Monetary Fund (IMF), which needless to say, is quoted in the US dollar. As such the US dollar remains the de facto unit of currency of the IDB even if its accounts and internal accounting is presented in Islamic dinars.

## **2. The Usage of Sharia Principles**

A list of *Sharia* principles adopted by various Islamic banks in selected countries is shown in Table I. Among the salient features in the application of *Sharia* principles by Islamic banks, a few aspects worth noting are:

- I. The use of terminology,
- II. Category of principles,
- III. Number of principles,
- IV. Country - specific principles.

## I. The Use of Terminology:

BIMB of Malaysia is the only bank where Arabic words are used in describing all the Sharia principles governing its operations. Islamic banks in other countries, however, retain Arabic words for certain principles only, using vernacular words for others. Some of the Arabic words which are commonly used by almost all Islamic banks are the principles of *mudaraba*, *musharaka*, *murabaha*, *ijara* and *qard hassan*. The slight differences in spelling are due to the pronunciation of words in various countries.

The principle of *bai-mua'zzal* or cost plus sales under deferred payment which is used by IBBL only is similar to the principle of *bai bithaman ajil* of BIMB and the principle of instalment sales which is used by Islamic banks in Iran. Although this principle is not practiced by other Islamic banks, these banks still offer deferred payment facility to their customers. This facility is nevertheless incorporated within the principle of *murabaha*. In Pakistan, the principles of mark-up and buy-back arrangement also operate in line with the principle of *murabaha*.

The principle of *bai salam* of IBBL of Bangladesh is a principle in which the bank will make an advance purchase and the customer will deliver the goods at a later date. This



principle is similar to the principle of forward delivery transaction which is used by Islamic banks in Iran. The principle of *bai al-dayn* used at BIMB of Malaysia is for the transactions involving sale and purchase of trade documents such as bill of exchange and bankers' acceptance. This principle is similar to the principle of debt purchasing of Iran.

## II. Category of Principles:

Not all banks have listed all categories of *Sharia* principles which govern their banking operations. The *Sharia* principles adopted by Islamic banks can be divided into four categories, namely:

- (i) Profit and loss sharing,
- (ii) Fees based,
- (iii) Free services, &
- (iv) Ancillary principles.

Except for IBBL of Bangladesh, JIB of Jordan, BIMB of Malaysia, and FF1 of Turkey which have adopted principles in all four categories, the Islamic banks in other countries only employ three of the above mentioned four principles. Although these banks do not mention other principles such as *wadiah* (trust) and *rahn* (mortgage), in practice they are involved in the activities which fall within the ambit of *wadiah* and *rahn*. For example, IBB of Bahrain, BMI of Iran, KFH of Kuwait, MCB of Pakistan, FIBS of Sudan, BEST of

Tunisia, and DIB of the United Arab Emirates provide finance based on collateral. Similarly current account facilities at MCB of Pakistan and KFH of Kuwait are based on *wadiah*.

### III. Number of Principles

Within the four categories of principles there can be as many as 14 different principles employed by Islamic banks in their operations. Both IBB of Bahrain and DIB of the United Arab Emirates have the least number of principles *i.e.* five. The State Bank of Pakistan which is the central bank of Pakistan has provided twelve methods or principles to be used by all banks in Pakistan. Also in Iran, the Law for Usury-Free Banking 1983 has listed twelve principles.

Within the category of profit-loss sharing, except for Iran and Pakistan which have more than two principles, and IBB of Bahrain has one principle *i.e. musharaka*, other Islamic banks are having two principles *i.e. musharaka* and *mudaraba*. Although it seems that Iran and Pakistan have more principles within the profit and loss category, these additional principles actually operate along the lines of both *musharaka* and *mudaraba*.

In the category of fees based, DIB of the United Arab Emirates has two principles followed by JIB of Jordan, with three principles. Malaysia *i.e.* BIMB, has the highest number of principles *i.e.* nine, followed by Islamic banks in Pakistan which have seven principles. Principles in this category are used universally by all Islamic banks irrespective of countries. Principles within this category are further divided into three

categories, namely, (i) fees based on mark-up, (ii) fees based on commission, and (iii) fees based on services. Products or services whose charges are based on mark-up are usually governed by the principle of *murabaha*, *ijara*, *ijara wa-iktina* (or *istisna* for Kuwait and *taajir* for Tunisia), hire-purchase, and *bai mua'zzal*. The marked-up amounts are based on the nature of the transactions and the length of the credit given to the customer. Commission is usually received by the Islamic banks for the transaction based on the volume or the amount. However, service charges are imposed on customers upon utilization of bank services and the rate is fixed in line with the naof services. Within the free services category, all banks have adopted a single principle called *qard hassan*. Four banks (IBBL, JIB, BIMB, and FF1) have listed additional principles which fall within the ancillary principles category.

#### **IV. Country-specific Principles**

Beside common principles, some countries have listed specific Sharia principles to be used by their Islamic banks. Although these principles are available at a particular country, this does not necessarily mean that other countries are not familiar or do not use those principles. In some cases, specific principle of a particular country is considered within the ambit of one of the common principles adopted by other countries.

In the case of Iran, for example, they have five additional principles in the profit- loss category, namely, civil partnership, legal partnership, direct investment, *mozaarah* and *mosaqat*. While civil partnership, legal partnership and direct investment are dealing with

the legal aspects of the formation of new ventures, both *mozaarah* and *mosaqat* are methods in agricultural financing. Similarly with Pakistan which has additional principles such as equity participation, participation terms certificate, *modaraba* certificate and rent sharing. All these principles, however, can be clustered together within the principles of *mudaraba* and *musharaka*.

Although Pakistani banks and BIMB seem to have many Sharia principles for their fixed charges category, these principles can be grouped together within the principles of service charges. In Pakistan for example, development charges and service charges are terms used in imposing charges on customers. Similarly in Malaysia, the principles of *al-wakalah*, *al-kafalah*, *al-hawalah*, and *al-ujr* are terms used by BIMB to represent the nature of services rendered to customers and how charges will be imposed on customers for using these services. Iran also has an additional principle within this category called '*joalah*'. This concept refers to the undertaking of one party *ja'e'l* or employer (either bank or customer) to pay a specified amount of money or wage to another party in return for rendering a specified service in accordance with the terms of the contract. This principle, therefore, is similar to the principles of commission and service charges of other countries.

### **3. Services Available**

The central objective of Islamic banks is to provide banking products and services in accordance with Islamic principles, rules and practices. This means Islamic banks

provide saving facilities to depositors and extend loans to deficit units. Normal deposit facilities such as savings account, current (checking) accounts, fixed or investment deposits are available to customers. Islamic banks are also involved in facilitating international trade for their customers. Services such as letters of credit, bills for collection, letters of guarantee, buying and selling of foreign currencies, and remittance services are also available at Islamic banks.

Advisory services are provided at Islamic banks in many countries. These services include project planning, property management, preparation of feasibility studies, project evaluation, trustee services and training and education in Islamic finance and economics. Unlike conventional banks some Islamic banks are also actively involved in social activities. The services that are considered as social service include benevolent loans, collection and distribution of *zakat* funds, donation and activities that will enhance Islamic values and ways of life.

### **3.1 Deposit Facilities**

The deposit facilities available at selected Islamic banks are listed in Table 2. Some of the similarities and differences in terms of deposit facilities are highlighted below:

1. Except for FF1 of Turkey which offers only two types of deposit facilities *i.e.* special current accounts and PLS "*modaraba*" accounts, Islamic banks in other countries

- provide three types of deposits facilities to their customers *i.e.* current accounts, savings accounts and investment account facilities.
2. The three types of deposit facilities available at Islamic banks *i.e.* current accounts, savings accounts and investment accounts can fall within various grouping of Islamic principles such as profit and loss sharing, free services and ancillary principles. The most common principles used by the Islamic banks are *mudaraba* from the category of profit and loss sharing, *qard hassan* from the category of free services, and *wadiah* from the category of ancillary principles.
  3. There are however some differences in the treatment of savings accounts facility among these banks. Islamic banks in Iran, BIMB of Malaysia, El Gharb of Sudan, and DIB of United Arab Emirates for example, regard savings accounts as a facility by itself. IBB of Bahrain, IBBL of Bangladesh, JIB of Jordan, KFH of Kuwait, and BEST of Tunisia consider savings accounts as one of the facilities within the category of investment accounts.
  4. Investment accounts facilities have been divided into three categories, namely, (i) deposits based on time *e.g* for three months, six months, nine months, etc., (ii) deposits based on notice *i.e.* notice must be given by customers prior to any withdrawal, and (iii) deposits for specified projects or purposes. Investment accounts facilities based on time are available at all Islamic banks in all countries. Investment

deposit facilities based on notice, however, are only available at IBBL of Bangladesh, and JIB of Jordan. Customers of IBBL must give seven days notice prior to any withdrawal and ninety days notice at JIB. Specific investment facility is available in most countries except Iran, Kuwait and Turkey. In Tunisia, the investment account is divided into two categories, namely, (i) participating deposit account, and (ii) committed participating deposit. Participating deposit account comprises of *tawfir* or savings account and time deposit. The operations of these two accounts are similar to the savings and ordinary investment accounts of other Islamic banks. In the case of committed participating deposit, its operations are similar to special or specific investment accounts facility of other banks.

5. There is no standardized Sharia principle used by all Islamic banks in delivering deposit facilities. In the case of current accounts for example, Iran and Kuwait use the principle of *qard hassan* whereas other countries such as Bangladesh, Jordan, Bahrain and Turkey use the principle of *wadiah*. For savings accounts, Iran uses the principle of *qard hassan* whereas in Kuwait, both the principles of *qard hassan* and *mudaraba* are applicable for these accounts. The principle of *qard hassan* is applied for the uninvested portion of funds in the savings accounts and the principle of *mudaraba* is for the invested portion. In Malaysia, savings accounts are governed by the principle of *al-wadiah yad dhamanah* or guaranteed custody. Islamic banks in some Muslim countries (Bangladesh, Jordan, Kuwait, Pakistan and United Arab Emirates) use the principle of *mudaraba* for their savings accounts facility. As for the

investment accounts facilities, the principle of *mudaraba* is the only principle used by the Islamic banks in all countries.

6. In practice, Islamic banks provide guarantee to return the full amount of deposits placed by customers in accounts even though the facilities operate on *qard hassan* or *wadiah*. But no guarantee is given for deposits which operate under the principle of *mudaraba*. Both Malaysia and Iran provide some kind of returns to their savings accounts customers. These rewards however are solely based on the discretion of the banks and the customers will have no prior knowledge of the reward. Non-fixed prizes or bonuses in cash or in kind, such as air tickets to holy shrines, carpets, gold coin or even cars, an exemption or reduction from payment of commission for banking services; and priority in the use of banking facilities are some of the examples of rewards given by the Islamic banks in Iran. In Malaysia, the reward for savings accounts holder is usually in the form of rate of profit announced by the bank on a monthly basis.

In most cases, the operational aspects and practices of these deposit facilities are similar to practices of conventional bank deposit facilities. These similarities include the procedures and requirements such as minimum deposits required for opening the account, identification, stop payment of cheques, closing accounts, management of unclaimed monies, etc. [See Table 2 at the end]



## 3.2 Financing Facilities

Like conventional banks, Islamic banks are also actively involved in financing the needs of their customers. This means providing short, medium- and long-term funding facilities. Since the Islamic banks are prohibited from making loans with interest to their customers, all financing operations are either based on profit-loss sharing or based on fixed charges. The principles of *mudaraba* and *musharaka* based on profit-loss sharing concepts are widely used by all Islamic banks in financing working capital loans. Principles such as *murabaha* and *bai-mua'zzal* tend to be used by banks to finance the purchase of fixed assets by customers. Principles of *murabaha* and *bai mua'zzal* are also commonly used by Islamic banks for customers who want to purchase raw materials and merchandises. For buying machinery and heavy equipment, the principles of *ijara* and *ijara wa-iktina* are employed.

Some of the general observations are:

1. The five modes of financing which are commonly used by Islamic banks world-wide are *musharaka*, *mudaraba*, *murabaha*, *ijara* and *qard hassan*. However, IBB of Bahrain uses only three modes of financing *i.e.* *musharaka*, *murabaha*, and *qard hassan*. Similarly, DIB of United Arab Emirates also uses three modes *i.e.* *musharaka*, *mudaraba* and *murabaha*.

2. Although the principles of *musharaka* and *mudaraba* are recommended by Islamic scholars, no Islamic bank surveyed in this study is channeling more than ten per cent of the total financing portfolio along these modes of financing. Similarly with the principle of *qard hassan*.
3. There are some variations among Islamic banks in the use of *qard hassan* loan. The Jordan Islamic Bank Law allows the JIB to give *qard hassan* loans for productive purposes in various fields to enable the beneficiaries to start independent lives or to raise their incomes and standard of living. In case of IBB, the *qard hassan* loan is used as assistance for persons to get married, for house repairs, medical treatments and for education. At the DIB, this loan is extended for productive purposes and available to shareholders or depositors. The amount, however, is relatively small and on a short term basis. In Malaysia, the *qard hassan* loan is extended by BIMB through other social organizations such as Amanah Ikhtiar Malaysia or AIM (AIM is a social organization established by the Foundation of Islamic Economics of Malaysia with the objective of increasing the income of poor Muslims).
4. The principle of *murabaha* is the most widely used principle among Islamic banks. IBB of Bahrain for example, channeled 96% of its financing activities in form of *murabaha*. However, the percentage of *murabaha* for BIMB of Malaysia was very less than other banks of study.
5. BIMB of Malaysia has the highest percentage of *bai bithaman ajil* principle of financing. Although there is no *bai bithaman ajil* principle for banks such as IBB of

- Bahrain, JIB of Jordan, FF1 of Turkey, and DIB of United Arab Emirates, these banks incorporate deferred payment facility within the principle of *murabaha*.
6. JIB of Jordan and FF1 of Turkey have a high percentage of financing in the category of 'others'. While no explanation is given by the JIB, the 'others' category for FF1 comprises of short term investments abroad and advances made to vendors.

Islamic banks tend to finance all sectors within the economy. The funds however are not equally distributed among these sectors. The sectoral breakdown of loans is shown in Table 4. Since there is no standardization among Islamic banks in classifying the distribution of financing, it creates difficulties for comparative analysis.

1. Sectoral financing of Islamic banks varies and is in line with the economic environment of the respective countries. BMI of Iran, IBBL of Bangladesh and FIBB of Bahrain concentrate on commercial and manufacturing sectors, whereas BIMB of Malaysia and JIB of Jordan tend to concentrate on the miscellaneous sector (e.g housing, real estate, manufacturing and services). There is no sectoral concentration for FF1 of Turkey.
2. The biggest percentage of loans for commercial and manufacturing sectors extended by FIBB of Bahrain and BMI of Iran respectively. The percentage for these sectors is very much higher for IBBL of Bangladesh.
3. BIMB of Malaysia and JIB of Jordan have provided the highest percentage of loan to the miscellaneous sector. The miscellaneous sector of BIMB comprises mainly of housing loans given to the individual customers. The miscellaneous financing of JIB

- as explained in their annual report comprises loans to fulfill the basic needs of citizens and includes loan for building materials, vehicles, furniture and craftsmen requirements.
4. Faysal Islamic Bank of Bahrain is the only bank involved in financing other banks and financial institutions.
  5. Except for FF1 of Turkey which is heavily involved in financing the agricultural sector, other Islamic banks are not really involved in this sector.

### **3.3 Other Facilities**

Other facilities available at Islamic banks comprise letters of credit, letters of guarantee, collection of bills, sale and purchase of foreign currencies, and remittance services. In most cases, facilities such as letters of guarantee, sale and purchase of foreign currencies and remittance services are provided to customers on a commission and service fee basis. There are however slight variations in principle adopted by Islamic banks for letters of credit facilities. JIB of Jordan, DIB of United Arab Emirates, FIBB of Bahrain and Islamic banks in Pakistan use wakalah and murabaha principles in providing this facility. In the case of wakalah, the customer must pay in advance the full value prior to the issuance of the letter of credit (i.e. fully-covered L/C). The bank will receive commission or service fees on the service rendered to the customer. Under the principle of murabaha, the bank would import or purchase goods and resell to customers on a marked-up price agreeable to both parties. The title to the goods will be transferred to

customers on the arrival of the import documents. If the customer does not have deferred payment facility, he or she must settle in full to the bank the resaprice and other charges prior to receiving the import documents.

At BIMB of Malaysia, the principle of musharaka is used in addition to wakalah and murabaha. In this case, the Bank requires the customer to deposit a certain percentage of money (based on agreement made with the Bank) prior to the importation of goods. The Bank will then issue a L/C and make payment using both customer's and it's own funds. The customer is responsible to sell the goods and return to the Bank the Bank's funds plus the Bank's share of profit. IBBL of Bangladesh uses a similar approach as practiced by BIMB of Malaysia for the letter of credit facility.

There are also some differences in terms of emphasis of facilities extended by Islamic banks to their customers. BMI of Iran, MCB of Pakistan, IBBL of Bangladesh and JIB of Jordan seem to concentrate on letters of credit facilities, whereas BIMB of Malaysia, KFH of Kuwait and DIB of United Arab Emirates tend to concentrate on providing letters of guarantee.

## **4. Sources and Uses of Funds**

Basically there are three main sources of funds for Islamic banks, namely:

- (i) Deposits from customers,
- (ii) Other liabilities (e.g. profit payable to depositors, notes payable and 'other' payables), and

(iii) Shareholders funds.

IBB of Bahrain, BMI of Iran, BIMB of Malaysia, & MCB of Pakistan are those banks for which the funds deposited by customers constitute about 90% of the total liabilities. The percentage figure for other Islamic banks was within the range of about 60% to 85% of total liabilities.

With regards to the shareholders funds, except for BEST of Tunisia with 17% of total liabilities no other bank has shareholders funds in excess of 7% of total liabilities. Shareholders funds comprise paid-up capital, various reserves and retained earnings. Majority of the banks have shareholders funds between 5% to 7% of the total equities and BMI of Iran has the lowest figure *i.e.* less than one per cent of total equities.

Although deposits from customers are the major sources of funds for Islamic banks, the contribution of each deposit facility varies from one bank to another.

Some of the salient features relating to the composition of deposits facilities among these Islamic banks are given below:

1. Accounts which operate on *mudaraba* principle are the most well received deposits facilities among the Islamic banks' customers.
2. Savings accounts facilities operating on a *mudaraba* principle are more attractive to the depositors as compared to investment account facility. The percentage of savings accounts is always bigger than the percentage of investment accounts. These percentages are based on total deposits.

3. The percentage of savings accounts (relative to total deposits) operating on principles other than *mudaraba* is smaller, not only than the percentage of current accounts, but also compared to savings accounts which operate on *mudaraba*.
4. Current accounts are also major providers of funds to the Islamic banks especially for Islamic banks in Sudan.

How Islamic banks use their funds is represented by the types of assets held; as disclosed in their balance sheets, these assets basically belong to five main categories, namely:

- (i) cash,
- (ii) financing,
- (iii) investment,
- (iv) others, and
- (v) fixed assets.

## **Differences between Theory & Practice International Islamic Banking**

It is sometimes argued against Islamic financial system that Islamic banks and financial institutions, working since last 3 decades, didn't bring any visible change in economic

setup, not evening the field of financing. But, these criticisms are unrealistic and it doesn't take into account usually the following facts:

1. In proportion to conventional banking, Islamic banks and financial institutions are no more than a small drop in the ocean, and thus not supposed to bring a "changed" economic ideologies in short time span.
2. Second, the institutions are passing through their age of infancy like most of Islamic banks in Pakistan (2nd largest independent Muslim country in world) have started "the real game of Islamic banking and finance" just 4-5 years back with a lot of constraints.
3. Islamic banks are not usually supported by governments, taxation, legal departments, of the country but this situation has been changing, off course it will take time.
4. After 9/11 disaster at Petronas towers, WTC, New York, which changed the global scenario and introduced new constraints on Swiss and Islamic banks (like El Gharb Islamic bank of Sudan suspected to be engaged in terrorist financing, nuclear proliferation, etc. has been closed). There is a need to show Islamic banking as Interest free Medieval Christian banking in West and as alternate to conventional banking in all sense to Far East including Japan and china. This is a new problem for Islamic banking as it was in infancy to cater this menacing threat, but with passion and dedication of Islamic bankers/scholars and proper marketing using world media, it will be overcome soon.



5. As mentioned above, Islamic banks have to show off their products/services as alternate to conventional banking in non Muslim world, so blaming the Islamic banks that products are not specifically for Muslims, is a wrong thought itself.
6. It has been claimed that holy Quran and Sunnah of Holy Prophet Mohammad (P.B.U.H.) or rulings of Islamic scholars provide a complete specific answer to each and every minute detail of life is not so simple and true. We are living in information age where life has been changing at speed of thought with modern thoughts, ideas, machinery, etc. So, using Islamic scholars as Sharia Advisors, is a best practice among Islamic banks, provoking the innovation of Islamic thoughts for meeting rapid changing scenario of our life.
7. Geographically and demographically, every where, banking has been practiced differentially to meet the finance requirements of that place. Such attitude is needed for formulating and implementation of Islamic banking globally using the concept of Istinbat and Ijtihad by religious scholars, banking jurists, and modern Islamic bankers e.g., Malaysia is a Muslim country with only 50 % Muslim population has different attitude towards Islamic banking and different practices have been used to meet the requirements as compared to Pakistan with 98% Muslim population. Similar analogies can be expected in size of country, distance from Middle East and core Muslim regions (Middle East, South Asia, etc), and Muslim/non Muslim proportion in national population.

## **“Real” Deficiencies in Practice of Islamic banking**

1. Concept of Islamic finance is based upon economic philosophy underlying the rules of Shariah towards distributive wealth (of all types) and towards “Modern Economic Development” true sense as mentioned by Dudley Seers:
  - Whether reducing poverty?
  - Whether reducing unemployment?
  - Whether reducing income inequality?

But, the answer is towards negative when we consider Islamic banking practically and objective of most of Islamic banks is not to reduce the 3 factors of underdevelopment of society in most cases.

2. In Musharakah mode of financing, profits and losses are shared on equitable basis but in practice, profits are paid to depositors including cost of production & amount paid to depositors has been claiming back through increase in prices, both practices are prohibited in theory.
3. Ignoring Musharakah, Islamic banks are forced to use instruments of Murabahah and Ijarah, within framework of conventional benchmarks like LIBOR, etc. Thus net result is not materially different from interest based transactions.
4. Some financial institutions have presumed that Murabahah is substitute for interest, for all practical matters. Thus, they contract a Murabahah even for financing overhead expenditures or for financing bills for goods/services already

consumed. Obviously, Murabahah cannot be effective in this case as not commodity is being purchased by the bank itself. Buy-back agreement using same instrument is also banned in Islamic Principles of Shariah but used by Islamic banks.

5. It has been observed that even in destruction of asset due to FORCE MAJEURE, the lessee is required to keep paying which means lessor neither assumes liability for his ownership nor offers usufruct to the lessee. This type of Ijarah is banned in Shariah.
6. A strong interbank transaction based system is a prerequisite of true Islamic banking in practice. Absence of such system forces the Islamic banks to turn to conventional banks to meet their short term liquidity at interest. With over 250+ Islamic banks and financial institutions, a fund with mixture of Murabahah and Ijarah instrument, the units of which can be used even for overnight transactions.

***Islamic Bank of Britain***



***A case study for Global Islamic Banking  
for purpose of this paper.***

To capitalize on similarities and variations in Islamic banking value proposition, Islamic banks have 3 distinct strategic options: -

1. Cost Leadership (especially through SME sector financing)
2. Market Differentiation ( personal banking products and services)
3. Micro Segmentation ( localized targeting of efforts and banks resources)

Islamic bank of Britain started his operations with latest technology, delivery channels, and management systems to serve the Muslims in a way that is efficient and not against their faith. It emerged as first European bank offering Shariah compliant Banking products and services. In order to do more, IBB (Islamic Bank of Britain) has to work with FSA and other governmental authorities to amend the banking laws of UK to gain an access to operate in UK.

The fact that money itself has no intrinsic value in Islamic faith has made Islamic finance a complex issue among westerners to understand. In order to demonstrate its degree of trustworthiness to customers, IBB defines a value proposition in a way that communicates high degree of fidelity stating that its main values are faith, value, convenience, and trust.

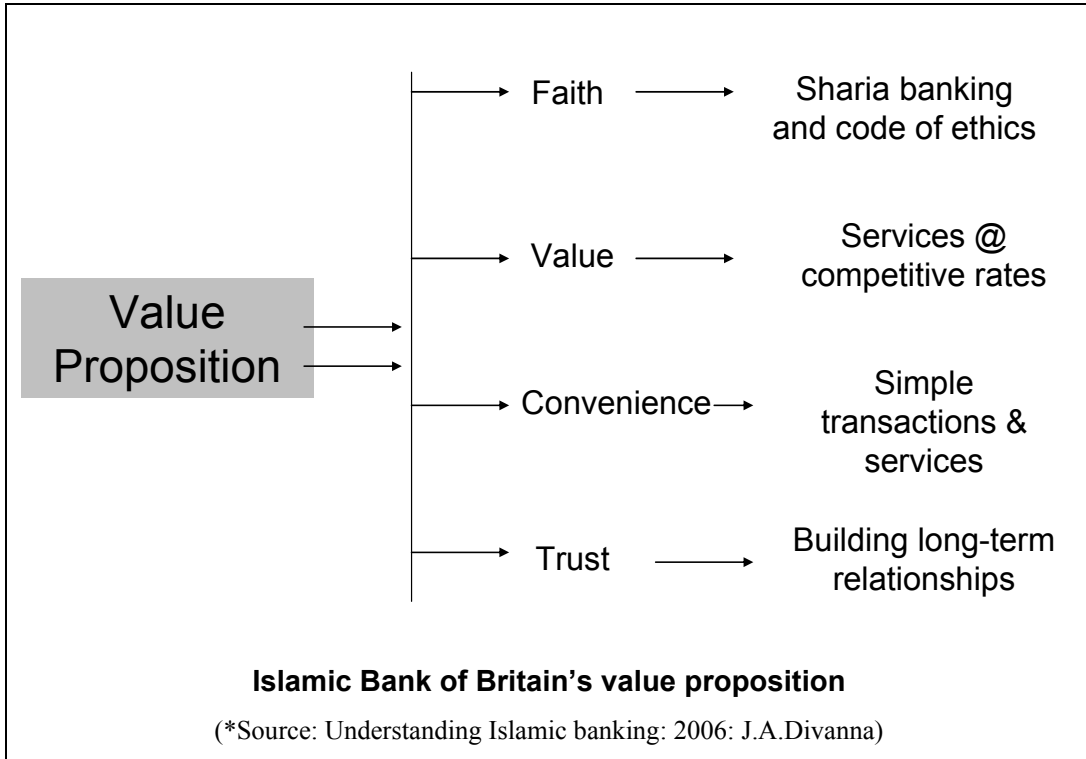
The bank's strategy was initially simple to attract Muslims who until then had to belong to unbanked sectors or violate their faith on conventional banking; competitive pricing in addition to religious and moral factors played a great role in developing the bank's initial depositors base. To attract the sufficient numbers of these people, the bank needed to build trust between its won image, brand, and potential customers. So, IBB embarked upon a plan of customer education by visiting mosques and developing a dialogue with local imams, who customers regularly turned to for guidance.

Another aspect of Islamic bank of Britain's range of services is the offer of special services to masjids and maddrassahs. These institutions are extended free Sharia compliant banking which allows them to earn profits on their funds for the first time in UK history.

Developing a growth agenda is another tedious task for IBB. Thus IBB will have to develop a 3 tiered agenda for the top line growth as:

1. **Product width-** To compete with conventional banks, IBB needs e-banking, Islamic debit and credit cards, a wide range of investment options etc. Adding subsequent layers of products will give the bank greater flexibility in its approach

to the market. Products can be targeted to specific demographic Muslim or Non-Muslim market sub segments.



2. **Market depth-** To increase Market depth by identifying which Muslim communities constitute sufficient population density to understand the opening of a new branch.
3. **Market breadth-** One can speculate that perhaps starting operations of banks in FRANCE, GERMANY, NETHERSLAND, etc.

As first to market mover, IBB's ability to attract Muslim customers will grow as its brand matures and its value proposition becomes known to customers.

**List of some Islamic banks & institutions  
analyzed during paper:**



*Progresif, Profesional & Mesra*







# **List of Tables**

Table 1: List of *Sharia* Principles Practiced in Selected Islamic Countries.

<b>Category Countries</b>	<b>(A)</b>	<b>(B)</b>	<b>(C)</b>	<b>(D)</b>
<b>Bahrain</b>	Musharaka	Morabaha Commission Service charges	Qard hassan	
<b>Bangladesh</b>	Al- mudaraba Musharaka	Bai-mua'zzal Bai-salam Hire-purchase Ijara Murabaha Commission Service charges	Qurd-e- hasana	Wadiah
<b>Iran</b>	Civil partnership Legal partnership Direct Investment Modarabah	Forward delivery Transaction Instalment sales Jo'alah Debt trading Hire-purchase	Qard al- asanah	

	Mozaarah Mosaqat			
<b>Jordan</b>	Mudaraba Musharaka	Morabaha Commission Service charges	Al-qird al- hassan	Wadiah
<b>Kuwait</b>	Mudaraba Musharaka	Morabaha Commission Service charges Istisna Leasing	Qard- hassan	
<b>Malaysia</b>	Al- mudharabah Al- musyarakah	Al-murabahah Bai bithaman ajil Bai al-dayn Al-ijarah Al-ijarah thumma al-bai Al-wakalah Al-kafalah Al-hiwalah Al-ujr	Al- qardhul hasan	Ar-rahn Al-wadiah yad dhamanah

<b>Pakistan</b>	Mushrika Equity participa- tion and purchase of share Participation term certificate (PTC) Modarabah certificate Rent sharing	Mark-up Purchase of trade Bills Buy-back arrangement Leasing Hire-purchase Development charges Loan with service Charges	Qard-e- hasna	
<b>Sudan</b>	Mudaraba Musharaka	Morabaha Ijara Commission Service charges	Qard hassan	
<b>Tunisia</b>	Mudaraba Musharaka	Morabaha Taajir Commission	Interest free	

		Instalment sales		
<b>Turkey</b>	Mudaraba	Morabaha	Interest	Trust
	Musharaka	Ijara Ijarah wa-iktina Commission Service charges	free	
<b>UAE</b>	Mudaraba	Morabaha	Qard	
	Musharaka	Service charges	hassan	

Table 2: Deposit Facilities Available at Islamic Banks in Selected Countries

<b>Bahrain</b>	<p>Current accounts</p> <p>Inv. accounts</p> <p>Saving accounts</p> <p>Fixed term</p>
<b>Bangladesh</b>	<p>Current accounts</p> <p>PLS accounts:</p> <p>Saving</p> <p>Term deposit</p> <p>Short notice</p> <p>Inter-bank deposits</p>
<b>Iran</b>	<p>QH Current accounts</p> <p>QH Savings accounts</p> <p>Time or investment deposits</p> <p>Inter-bank deposits</p>
<b>Jordan</b>	<p>Trust accounts:</p> <p>Current</p> <p>Demand</p> <p>Joint inv. account:</p> <p>Saving accounts</p>

	Notice accounts Fixed accounts Specific inv. accounts Inter-bank deposits
<b>Kuwait</b>	Current accounts Inv. accounts Saving accounts Limited period Unlimited period
<b>Malaysia</b>	Current accounts Saving accounts Investment deposits Other deposits Inter-bank deposits
<b>Pakistan</b>	Current accounts Savings deposits Fixed deposits Other deposits
<b>Sudan</b>	Current accounts Saving accounts



	Inv. deposits
<b>Tunisia</b>	Account at call Inv. accounts: PDA Saving ( <i>tawfir</i> ) Time deposits CPD
<b>Turkey</b>	Special current account PLS " <i>Modaraba</i> " accounts
<b>UAE</b>	Current accounts Saving accounts Inv. deposits: <i>Muddharabah</i> Specified

\* Notes to table:

- Inv. : Profit and loss sharing principles,
- QH : Fees or charges based principles,
- PLS : Fees services principles,
- PDA : Ancillary principles.
- CPD : Committed participating deposit.

Table 3: The Modes of Financing and its Composition by Islamic Banks in Selected Countries.

Country		%	Total
<b>Bahrain</b>	<i>Musharaka</i>	4	100
	<i>Murabaha</i>	96	
	<i>Qard hassan</i>	*	
<b>Bangladesh</b>	<b>Musharaka</b>	3	100
	Hire-	13	
	purchase	51	
	<i>Murabaha</i>	19	
	<i>Bai mua'zzal</i>	4	
	<i>Qard hassan</i>	10	
	Others		
<b>Jordan</b>	<b>Musharaka &amp;</b>	3	100
	<i>Mudaraba</i>	44	
	<i>Murabaha</i>	11	
	Promissory	*	
	Note	42	
	<i>Qard hassan</i>		

	<b>Others</b>		
<b>Malaysia</b>	<b>Musharaka</b>	2	100
	<i>Mudaraba</i>	*	
	<i>Ijraa</i>	9	
	<i>Murabaha</i>	18	
	<i>Bai mua'zzal</i>	68	
	<i>Qard hassan</i>	*	
	<b>Others</b>	3	
	<b>Tunisia</b>	<b>Musharaka</b>	
Leasing		19	
<i>Murabaha</i>		54	
Installment		20	
sales		*	
<b>Others</b>			
<b>Turkey</b>		<b>Musharaka</b>	1
	<i>Ijarah</i>	17	
	<i>Murabaha</i>	61	
	<i>Qard hassan</i>	*	
	<b>Others</b>	21	

<b>U.A.E</b>	<b>Musharaka</b>	2
	<b>Mudaraba</b>	2
	<i>Murabaha</i>	85
	<b>Others</b>	11

**Table 4: Islamic Banking  
Current Scenario & Way ahead**

\*Source: A Presentation by Muhammad Imran, Head of Islamic Banking  
Standard Chartered Bank Pakistan, Nov.17, 2005

## Islamic Banking Pakistan 5 years Scenario

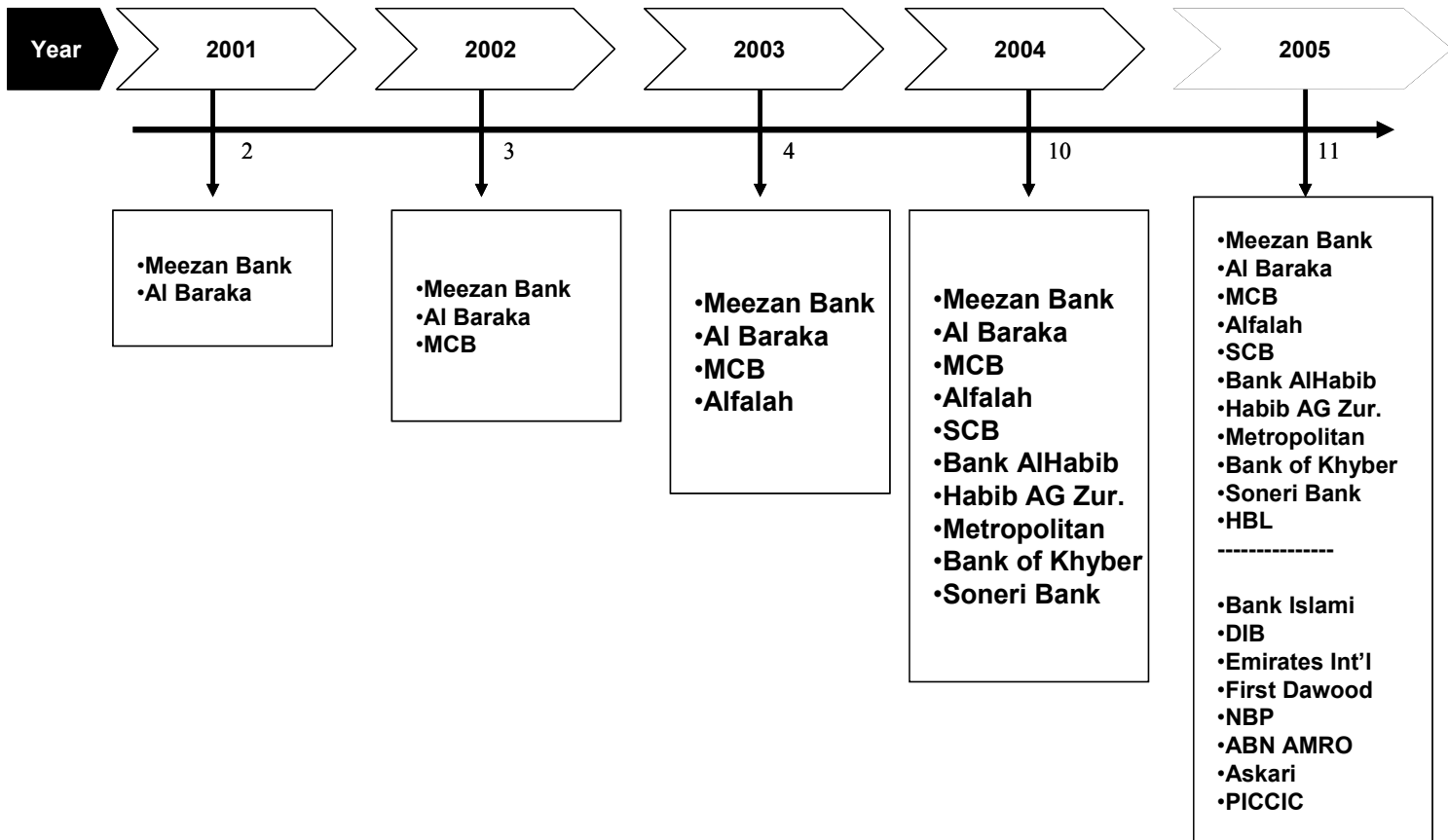


Table 5: Islamic products and services offered by 250+ Financial Institutions around the world in 2005

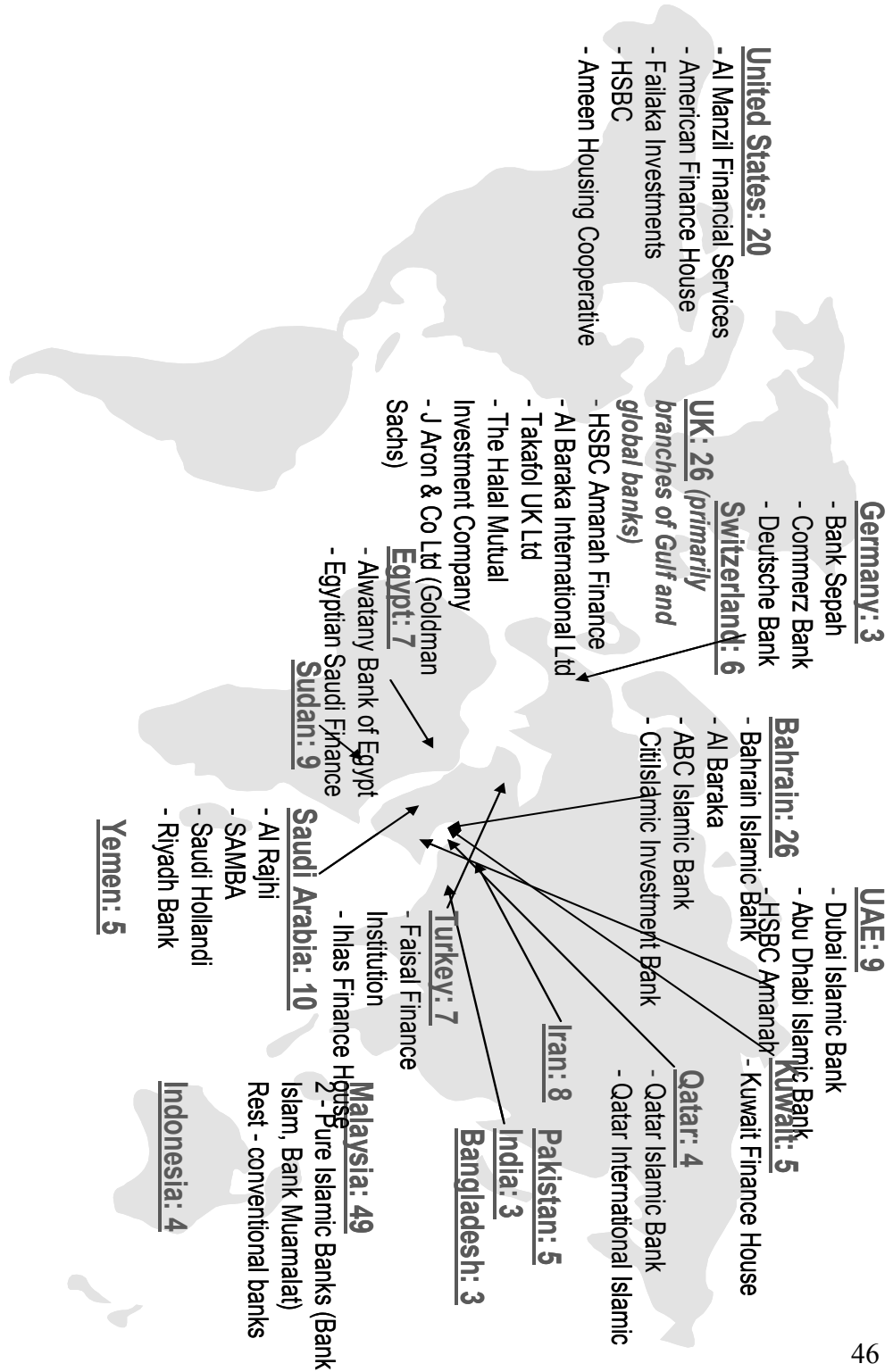


Table 6: Best Islamic Banks Polls Awards

\*Source: www.islamicfinancenews.com

<i>Best Islamic Bank category:</i>		
Dubai Islamic Bank – 21%	<b>1<sup>st</sup></b>	
Kuwait Finance House – 19%	<b>2<sup>nd</sup></b>	
CIMB Islamic – 12%	<b>3<sup>rd</sup></b>	

<b>Category</b>	<b>1st</b>	<b>2nd</b>
<b>Best Islamic Bank – Africa</b>	Albaraka Bank – 32%	Faisal Islamic Bank – 21%
<b>Best Islamic Bank – Bahrain</b>	Bahrain Islamic Bank – 25%	Arcapita – 16%
<b>Best Islamic Bank – Brunei</b>	Bank Islam Brunei Darussalam – 73%	TAIB – 13%
<b>Best Islamic Bank – Egypt</b>	Faisal Islamic Bank – 56%	Egyptian Saudi Finance Bank – 19%
<b>Best Islamic Bank – India</b>	Kotak Mahindra – 37%	Al-Barr Finance House –

		25%
<b>Best Islamic Bank – Indonesia</b>	Bank Muamalat Indonesia – 48%	Bank Syariah Mandiri – 26%
<b>Best Islamic Bank – Iran</b>	Bank Saderat Iran – 44%	Bank Melli – 22%
<b>Best Islamic Bank – Jordan</b>	Jordan Islamic Bank – 53%	Islamic International Arab Bank – 35%
<b>Best Islamic Bank – Kuwait</b>	Kuwait Finance House – 76%	Boubyan Bank – 13%
<b>Best Islamic Bank – Malaysia</b>	Kuwait Finance House Malaysia – 29%	CIMB Islamic – 23%
<b>Best Islamic Bank – Oman</b>	Bank Muscat – 57%	National Bank of Oman – 29%
<b>Best Islamic Bank – Pakistan</b>	Meezan Bank – 45%	DIB (Pakistan) – 21%
<b>Best Islamic Bank – Qatar</b>	Qatar Islamic Bank – 58%	Qatar International Islamic Bank – 19%
<b>Best Islamic Bank – Saudi</b>	Al Rajhi Bank – 75%	National Commercial Bank



<b>Arabia</b>		– 10%
<b>Best Islamic Bank – Turkey</b>	Albaraka Turkish Finance House – 38%	Kuveyt Turk – 23%
<b>Best Islamic Bank – Europe</b>	Islamic Bank of Britain – 47%	European Islamic Investment Bank – 30%
<b>Best Islamic Bank – UAE</b>	Dubai Islamic Bank – 65%	Abu Dhabi Islamic Bank – 11%
<b>Best Islamic Bank – USA</b>	Lariba – 36%	University Bank – 21%
<b>Most Innovative Islamic Bank</b>	Dubai Islamic Bank – 16%	Kuwait Finance House Malaysia – 15%

#### Methodology of Results:

- A record total of 1,232 votes were cast in the 31 contested categories in the Islamic Finance *news* 2006 Best Islamic Banks Poll.
- Of these, 143 were rejected owing to irregularities found during the due diligence process. Therefore a total of 1,089 votes counted towards the final results.
- Islamic finance issuers, investors, non-banking financial intermediaries and Government bodies from around the world were invited to participate.

- Voting took place during December and participants were requested to take only 2006 into consideration when casting their votes.

## Glossary of Global Islamic Finance Terminology:

- Ahadeeth: Sayings and traditions of the Holy Prophet Muhammad (S.A.W.).  
Singular: Hadith.
- Ahl ar-ra'y: Means people of opinion. It refers to people that are consulted on Islamic matters. These people are highly learned in Islam.
- Ahliyah: Legal capacity.
- Ahliyat al-add': Legal capacity for execution.
- Ahliyat al-wujub: Legal capacity for the acquisition of rights and obligations.
- Ajrul Mithl: A remuneration based on what is customary in the community or Salary.
- Al-Wadi'ah: This refers to deposits in trust, in which a person may hold property in trust for another, sometimes by implication of a contract.
- Al-Wakalah al Mutlaqa: Resale of goods with a discount on the original stated cost.
- Al-Qard al-Hassan: Loans fixed for a definite period of time without interest or profit sharing.
- 'Alim: An Islamic religious scholar. Plural: Ulamaa.

- Amanah: Something given to someone for safekeeping. Trust. The contract of amanah gives rise to fiduciary relationships and duties.
- Amwal: Wealth. In business context, Amwal means wealth that is contributed as capital in a partnership. Plural: mal.
- Ameen, also spelled Amin: Custodian or guardian.
- 'Arbun : down payment; a nonrefundable deposit paid by a buyer retaining a right to confirm or cancel the sale
- Arkan: The elements or essential ingredients of an act, without which the act is not legally valid.
- Aqd: A contract.
- Aqd Sahih: A legal contract.
- amanah : trust.
- 'Ayn : a tangible (physical) asset  
Bai' also Bay': Literally means sale. Commonly used as a prefix in referring to different types of sales: Muajjal, Murabahah, Tawliyah and Wadi'ah.
- Bai' Bithaman Ajil (BI), also spelled as Al-Bay-Bithaman Ajil (BBA) financing: In modern Islamic banking, the term refers to a buying and selling transaction between the bank (or financial institution) and the customer, whereby the former buys a property (or an asset, e.g. a house) at the prevailing market price and sells it to the customer at a mark-up price where payments are made by installments over a period of time agreed upon by both parties. The profit earned by the bank is legitimate from the Shari'ah point of view since the transaction is

based on a sale contract rather than a loan contract. Any predetermined profit arising from the loan is prohibited in Islam as it amounts to Riba.

- Bai Mu'ajjal, also spelled as Bay Mu'ajjal: Sale based on deferred payment, either in a lump sum or instalments. A form of Murahaba.
- Bai Salam, also spelled as Bay Salam: This term refers to the advance payment for goods which are delivered later. Normally, no sale can be effected unless the goods are in existence at the time of the bargain. But this type of sale is the exception to the general rule provided the goods are defined and the date of delivery is fixed. The objects of this type of sale are mainly tangible but exclude gold or silver as these are regarded as having monetary value. Barring these, bai al-salam covers almost all things which are capable of being definitely described as to quantity, quality and workmanship. One of the conditions of this type of contract is advance payment; the parties cannot reserve their option of rescinding it but the option of revoking it on account of a defect in the subject matter is allowed. It is also applied to a mode of financing adopted by Islamic banks. It is usually applied in the agricultural sector, where the bank advances money for various inputs to receive a share in the crop, which the bank sells in the market.
- Baitul Mal: An Islamic treasury intended for the community development as well as provision for Masakeen (needy Muslims).
- Baligh: One who has reached the age of maturity.

- Batil: Null and void.  
Dhaman : liability
- Dhaman al-'Amal: Liability underlying a partnership formed on the basis of labor, where the partner is liable for performing the contract or completing the work accepted by either partner.
- Dhaman al-Thaman: Liability underlying a partnership formed on the basis of credit-worthiness where each partner is liable, jointly and severally, for paying the price of goods bought on credit.
- Dharar : harm, damage
- Dayn: Loan or debt.
- Diminishing Musharakah: Another form of Musharakah (a financing mode), developed in recent years. According to this concept, a financier and his client participate either in the joint ownership of a property or equipment, or in a joint commercial enterprise. The share of the financier is further divided into a number of units and it is understood that the client will purchase the units of the share of the financier one by one periodically, thus increasing his own share until all the units of the financier are purchased by him so as to make him the sole owner of the property, or the commercial enterprise, as the case may be.
- Fadl (Riba): A type of interest. Taking something of superior quality in exchange for the same kind of thing of poorer quality. Allah Subhana wa Ta'ala has strictly prohibited any kind of Riba and has warned of severe punishment for those who have any association with it. See the Holy Qur' an, Surah Al-Baqara (2):275-280

- Fa'idah: Benefit. In investment context it means return on investment.
- Falas: Bankrupt
- Faqeeh: An Islamic scholar who can give an authoritative legal opinion or judgement.
- Faqir: A poor person.
- Fard: Obligatory. An act which is obligatory on Muslims.
- Fard 'Ain: An action which is obligatory on every Muslim.
- Fatwa: A legal verdict given on a religious basis. The sources on which a fatwa is based are the Holy Qur'an, Sahih Bukhari and Muslim, and all other authenticated Ahadeeth. Plural: Fatawa.
- Fidyah: Compensation for missing or wrongly practising necessary acts of worship. Fidyah usually takes the form of donating money or foodstuff, or sacrificing an animal.
- Fiqh: Islamic jurisprudence.
- Fuqahaa: Jurists.

Gharar: Uncertainty, hazard, chance or risk, ambiguity and uncertainty in transactions. Technically, the sale of something which is not present at hand; or the sale of something where the consequences or outcome is not known. It can also be a sale involving risk or hazard in which one does not know whether it will come about or not, such as fish in water or a bird in the air; or an event where assurance or non-assurance is subject to chance and thus not known to parties

of a transaction. Can also mean uncertainty or a hazard that is likely to lead to a dispute in a contract.

- Gharim: A person in debt.  
Halal: An act or product that is permitted by Islam.
- Hadith: A saying or tradition of the Prophet Muhammad (S.A.W.). Plural: Ahadeeth.
- Hadith-Qudsi: A saying of Allah Ta'ala narrated by Prophet Muhammad (S.A.W.), that is not a part of the Holy Qur'an.
- Halal : permissible, lawful
- Haram: An act or product which is unlawful or prohibited in Islam.
- Hawala : contract of assignment of debt
- Haq: Legal right.
- Hijri: Name of the Islamic lunar calendar. It took its name from the early Muslims who migrated from Mekkah to Madinah, and commences from the date of the Prophet Muhammad's (S.A.W.) Hijra, which he made with Abu Bakr as-Siddiq (A.S.), in 622AC. Often abbreviated to A.H. (After Hijra).
- Hudud: The boundary between what is Halal (lawful) and what is Haram (unlawful), set by Allah.
- Hukum: The closest equivalent in the English language is "verdict". It usually applies to a judgement on legal issues, especially with regard to religious matters.

- Huquq: Rights, Plural of haq.  
Ijarah, also spelled ijara: Literally means "to give something on rent".
- Ijarah wa iqtina: Contract of renting, hiring or leasing. This term refers to a mode of financing adopted by Islamic banks. It is a contract under which the Islamic bank finances equipment, a building or other facility for the client against an agreed rental together with an undertaking from the client to purchase the equipment or the facility. The rental as well as the purchase price is fixed in such a manner that the bank gets back its principal sum along with some profit, which is usually determined in advance.
- 'Ijma: Consensus. What all the Ulama (people of religious knowledge) from among the Muslims agree upon.
- Ijtihad: Technically, it means an endeavour of a jurist to derive or formulate a rule of law on the basis of evidence found in sources; scholarly effort through which a jurist/scholar derives Islamic law on the basis of the Qur'an and Sunnah.
- Ishtirak: Equivocally; participation; partnership.
- Istidanah: Raising or building up credit through credit purchases. It however does not apply to the raising of cash loans.
- Istisna': This is a kind of sale, where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of Istisna' comes into existence. But it is necessary for the validity of Istisna' that the price is



fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them. This kind of sale, used as a mode of financing, is also called 'Parallel Istisna'.

- Iwad: Compensation or counter-value.

Ja'alah : a unilateral contract promising a reward for a specific act or accomplishment

- Jahalah: Uncertainty in a contract that may lead to a later dispute; see gharar.
- Jo'alah, also spelled Joalah: The undertaking of one party (the Jael, bank or employer) to pay a specified amount of money to another party in return for rendering a specified service in accordance with the terms of contract.
- Jizya: A tax imposed on non-Muslims who are in a Muslim country.
- Kafalah bi al-Thaman: Surety for paying the price or sum if unpaid by the person originally liable.
- Kafil: A person providing surety or a guarantor.
- Kharaj: Tax imposed on the revenue from land taken from non-muslims to ensure their equal rights under Islamic law.

Maiser: Gambling. Literally means getting something too easily.

- Makrooh: Disapproved of, but not prohibited by Allah Subhana wa Ta'ala.
- Manfa'ah : usufruct. Sale of usufruct is ijarah
- Morabaha: Sale at a special profit margin. The seller purchases the goods desired by the buyer and sells them at an agreed mark-up price. The payment being settled within an agreed time frame, either in instalments or lump sum. The

seller undertakes all management needed for the purchase and also bears the risk for the goods until they have been delivered to the buyer.

- Mubah: Things or acts permissible in Islamic law.
- Mufawadah: A basic contract of partnership based on wakalah and kafalah. It requires full commitment from the partners. In order to achieve this purpose, the partners must try to maintain equality in the capital, labor, liability and the legal capacity and also declare each partner to be a surety for the other.
- Modaraba: An agreement between two or more persons whereby one or more of them provide finance, while the other(s) provide entrepreneurship and management to carry on any business venture whether trade, industry or service with the objective of earning profits. The profit is shared in an agreed proportion. The loss is borne by the financiers only in proportion to their share in the total capital.
- Mudarib: The partner who provides entrepreneurship and management in a Mudharabah agreement.
- Mufti: One who passes verdicts.
- Muhaddith: A scholar of Ahadeeth. Plural: Muhaditheen.
- Muhadhitheen: Scholars of Ahadeeth (sayings and traditions of the Holy Prophet Muhammad, may Allah bless him and grant him peace). Singular: Muhadith. Muhammad Believed by Muslims to be the Final Messenger of Allah Subhana wa Ta'ala to Ins wal Jinn (mankind and the Jinn).
- Muqaradah: Another name for Modraba.

- Musaddiq: The person discharging voluntary charity.
- Musharika: A temporary equity participation agreement between a bank and a client for effecting a certain operation within an agreed period of time. Both parties contribute to the capital of the operation in varying degree and agree to divide the net profits or losses in proportions agreed upon in advance.
- Mustahab: Recommended, but not obligatory.  
Nis'a (Riba al): A type of interest. Taking interest on loaned money. An act which is Haram. See the Holy Qur'an, Al-Baqara (2):275-280 and Aali'imran(3):130.
- Nisab: A threshold of wealth of which any excess is subject to Zakah.  
Qabz : possession
- Qarz: A loan given for a good cause in the name of Allah, in hopes of repayment or reward in the Hereafter.
- Qarz al Hassan: A loan extended without interest or profit-sharing.
- Quadaa: Paying in a debt.  
Ra's al-mal: Capital invested in Mudarabah or Musharakah.
- Rabb al-ard: Owner of the land in Musaqah or Musaqat and Muzara'ah contracts.
- Rabb al-mal: A person who invests in Mudarabah or Musharakah.
- Rahn: Pledge or mortgage.
- Riba: Increase, addition, expansion or growth. However, not every increase or growth is prohibited by Islam. Under the Shari'ah, Riba technically refers to the premium that must be paid without any consideration. According to the jurists of

Islam, this definition covers the two types of Riba, namely Riba Al Fadhl and Riba Al Nasi'ah.

- Example 1 of Riba: If A sells \$100 to B with \$110. The premium of \$10 is without any consideration or compensation. Therefore, this amount of \$10 will be Riba.
- Example 2 of Riba: If A lends \$100 to B (a borrower) with a condition that B shall return him \$110 after one month. In this case, the premium paid that must be paid by the borrower to the lender along with the price is Riba because the premium of \$10 is without any consideration.
- Riba al-Fadhl: An extension of Riba to trade because while trade is allowed, not everything in trade is permissible. The prohibition of Ribaal-fadl closes all back doors to Riba through trade; unlawful excess in the exchange of two counter-values, where the excess is measurable through weight or measure. According to some Ahadith, (Sayings of the Holy Prophet) if six things i.e. gold, silver, wheat, barley, dates and salt are exchanged against themselves, they should be spot and be equal and been specified. If these conditions are not found, this transaction will become Riba Al Fadhl.
- Riba al-Nasi'ah: It 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 an extension in its maturity. It is thus equivalent to interest. 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.

- Rukn: Pillar. Singular of Arkan.  
Salam : sale with deferred delivery of exchanged good but with advanced price payment
- Sarf : currency exchange
- Sahib al-Mal: The financier in the modaraba form of partnership agreement. Plural of Ashab al-mal. The sahib al-mal (also, rabb al-mal) provides the finance while the mudarib provides the entrepreneurship and management. There can be many ashab al-mal and mudaribs in a given muddrabah agreement.
- Shari'ah: Islamic law as ordained by Allah Ta'ala. Literally it means 'a road'. The Shari'ah is the legal and social modality of a people based on the revelation of their prophet. The last Shari'ah in history is that of Islam. It abrogates all previous Shari'ahs. It is, being the last, therefore the easiest to follow, for it is applicable to the whole human race wherever they are.
- Sharikah: The term is used for joint-stock companies and corporations as well, but is qualified with an adjective to indicate its nature. Thus, sharikah musahamah for a public limited company or a corporation whose capital has been subscribed to by the general public.
- Sharikat al-Wujuh: Partnership based on credit-worthiness of the partners in which the ratio of profit and loss is based on the liability borne, but the partnership has to be of the type 'inan or mufawadah.
- Sharikat 'ammah: A partnership in which each partner is a general attorney for the other partner; a partnership that permits trading in all types of goods.

- Sharikat khassah: Partnership for a single venture or for trading in a particular item; partnership in which each partner is a special attorney of the other partner.
- Sharikat al- 'inan: A basic contract of partnership based on agency in which participation may either be on the basis of wealth or labor or credit-worthiness, and in which, equality of contribution or legal capacity is not necessary.
- Sharikat al-abdan: Another name for sharikat al-a'mal.
- Sharikat al-amwal: A partnership in which participation is based on the contribution of wealth by all partners, but the partnership has to be of the type 'indn or mufdwadah.
- Sharikat al-jabr: Mandatory co-ownership created by an act of law, like inheritance.
- Sharikat al-mafalis: A partnership between persons, whose assets have been reduced to copper coins and who have to buy on the basis of credit-worthiness; see sharikat al-wujuh.
- Sharikat al-zimam: It is a term used by the Maliki school of thought to indicate a situation, where two or more persons are buying goods on credit. It is different from the Hanafi sharikat al-wujuh insofar as it requires the physical presence of all the partners at the time of purchase.
- Shirikat al- 'aqd: A partnership created through contract as opposed to co-ownership that may be the result of a joint purchase or agreement or it may result from inheritance or from some other legal situation.

- Shirkah: Partnership between two or more persons, whereby unlike mudarabah, all of them have a share in finance as well as entrepreneurship and management, though not necessarily equally.
- Shurut: Terms and conditions in Islamic law.
- Shukuk: Check, certificate of debt, certificates of investment; plural of Shak
- Sunnah: All the traditions and practices of Prophet Muhammad (S.A.W.), that are recorded not only in such books as Sahih Bukhari and Sahih Muslim, but also in living people to whom these traditions and practices have been transmitted, from person to person, from then until now.
- Takaful: Islamic Insurance. A scheme of mutual support that provides insurance to individuals against hazards of falling into unexpected and dire need. Tameen: Another name for Takaful.
- Thimma (zimma) : the capacity to accept obligations and duties.
- Tijaarah: Trade. Act of buying and selling.
- Ulamaa: Plural of 'Alim. The people of knowledge from amongst the Muslims who act on what they know and do what they say.
- Ushr: Ten percent (in some cases five percent) of the agricultural produce payable by a Muslim as part of his religious obligation, like zakah, mainly for the benefit of the poor and the needy.
- Wajib: Compulsory.

- Wadi-ah: Deposit.
- Wakalah : agency.
- Waqf: Endowment. A charitable trust in the name of Allah, usually in perpetuity, and usually for the purposes of establishing the Deen of Islam, teaching useful knowledge, feeding the poor or treating the sick.
  
- Zakatu-rid Tijaarah: Zakah of profits of merchandise.
- Zakah Al-Mal: The Muslims' wealth tax: One must pay 2.5% of one's yearly savings above a certain amount to the poor and needy Muslims. The Zakah is compulsory on all Muslims who have saved (at least) the equivalent of 85g of 24 carat gold at the time when the annual Zakah payment is due.
- Zakatul Huboob: Zakah of grain/corn.
- Zakatul Ma'dan: Zakah of minerals.
- Zakatur Rikaaz: Zakah of treasure/precious stones.

## **References and citations:**

- Divanna. Joseph. A. ( 2006): "Understanding Islamic Banking".
- Usmani. Mufti Muhammad Taqi: "Introduction to Islamic finance".
- Haron. Sudin: "A Comparative Study of Islamic Banking Practices" Associate Professor, School of Management, University Utara, Malaysia.
- Latest available Annual Reports of :



- Bank Islam Malaysia Berhad
- Bank Melli Iran, Islamic Republic of Iran.
- Beit Ettamwill Tounsi Saudi (B.E.S.T Bank), Tunisia.
- Dubai Islamic Bank, United Arab Emirates.
- El Gharb Islamic Bank of Sudan, Sudan.
- Faysal Islamic Bank of Bahrain, Bahrain.
- Muslim commercial bank, Pakistan.
- Islami Bank Bangladesh Limited, Bangladesh.
- “List of Islamic banking and financial institutions” Institute of Islamic banking and insurance, London.
- “Best Islamic Banks Poll: 2006”, Islamic finance news.
- Websites of State Bank of Pakistan, Pakistan and Islamic Development bank, Jeddah, Saudi Arabia.
- [http://www.islamibankbd.com/page/ih\\_1.htm](http://www.islamibankbd.com/page/ih_1.htm) :“Concept and ideology :: Evolution of Islamic Banking”
- Imran. Muhammad: Head of Islamic Banking, standard Chartered Bank, Nov 17, 2005: “Islamic Banking Current Scenario and ahead”
- Interviews of Local bank officers in Islamic banks within Lahore, Pakistan.