

The Philosophy and Objective of Islamic Banking: Revisited

"It is imperative that Islamic banks are staffed by people who are not only competent technically but are also well-versed in the Islamic financial system, believe in it and are committed to it. At present all Islamic bankers do not fall in this category; some jumped on the bandwagon for selfish reasons," ('Comment' *New Horizon*, September 1995). A climacteric comment which needs to be examined thoroughly by all parties who are involved in the Islamic banking system, writes *Sudin Haron*.

It is not the author's intention to lend support nor to dispute the above statement. In fact, there are many other reservations made by various quarters on fallacies of Islamic banking practices (see article by Dr. Sami Hassan Homoud in 'Islamic Economic Studies', December 1994 issue). It is truly unfortunate that if the Islamic banks are managed by those who do not believe or are not committed to this system, because the existence of this group of people will result in a great loss to the Muslim community. Therefore, it is inevitable that we will someday hear (or it has already been said) people claim that there is no difference between Islamic and conventional banks. There are already allegations made by those who patronage Islamic banks that charges or costs imposed on them are more expensive compared to those of conventional banks.

Today, Islamic communities are proud of the existence of more than 150 interest-free financial institutions world-wide. These institutions mobilise more than 70 billion US dollars and provide banking facilities compatible to those of the conventional banks. In fact, promoters of the Islamic banking system in some countries are eager to introduce more advanced financial derivatives such as options and futures in their system. Because of this eagerness, there is a possibility that they tend to forget (it may be because of ignorance, induced by profit or other selfish reasons) the main reason for the establishment of an Islamic bank. Those who are ignorant about the reasons for the establishment of Islamic banks will certainly believe that the achievement

of Islamic banks is measured by its compatibility with the conventional banks rather than the contributions made by the bank towards the betterment of the whole Islamic community.

Islamic scholars on many occasions, explained that the term 'Islamic banking' means conduct of banking operations in consonance with Islamic teaching. As mentioned by Muazzam Ali (one of the leading scholars in Islamic banking), Islamic financial system cannot be introduced merely by eliminating *riba* but by adopting the Islamic principles of social justice and introducing laws, practices, procedures and instruments which help in the maintenance and dispensation of justice, equity and fairness.

As an institution whose foundations are based on religious doctrines, the establishment and operations of an Islamic bank have raised many theoretical and conceptual considerations. Islamic banks therefore are not expected to have similar objectives and philosophies with other business entities.

As a business entity established within the ambit of Islamic law, the Islamic bank is expected to be guided by the philosophy of Islamic business. Establishing the right philosophies is important for any Islamic bank for two reasons. Firstly, these philosophies will be used by the management or policy makers of the banks in the process of formulating corporate objectives and policies. Secondly, these philosophies serve as an indicator as to whether the particular Islamic bank is upholding true Islamic principles.

The Philosophy of Islamic Business

Islam permits and encourages its followers to involve in trade activities. The Prophet (pbuh) in his early life used to be a trader and, similar to many of his eminent companions, was a businessman. From the religious perspective, the establishment of Islamic banks is considered a righteous move for two reasons. Firstly, its existence is in line with the divine revelation, i.e. to involve in trade. Secondly, Islamic banks provide an avenue for Muslims to perform banking business in the Islamic way, i.e. free from the element of usury.

Eliminating the element of usury in the banking system is only part of the Islamic business principles. As Islamic business entities, all Islamic banks not only have to conduct their business with the objective of making profit but at the same time must conform to the Islamic business principles.

Islamic banks are also expected to adhere to the rules and laws which are directly imposed on individual Muslims. Otherwise, these entities would not qualify to be called as Islamic entities. This leads one to the philosophical questions: 1) What should Islamic banks do?, and 2) what should they believe? For Muslims, the answers to these questions were given by the Quran in many of its verses.

Therefore, the foundations of the philosophy of Islamic banking are those principles which have been revealed in the Quran and the Hadith. All revelations and the Hadiths which require Muslims to uphold justice and virtue, serve as principles which guide Islamic banks in managing their business affairs.

The principles of Islamic business comprise of honesty, and trade is to be conducted in a faithful and trustworthy manner. Islam conceives trade as an honest effort, an earnest endeavour, and human striving and earning unfair profit through operations like hoarding, black marketing, profiteering, short-weighting, hiding defective quality of merchandise, adulteration cannot be regarded as honest trade. The Prophet (pbuh) was once conferred a title of 'amin' or 'the trusted one' because of his honesty in all dealings. The operations of Islamic banks, therefore, are based on the concepts of honesty, justice and equity as practiced by the Prophet (pbuh).

The meaning of righteous trade can best be understood from the metaphorical content of verse 29 of Fatir (35:29). This verse teaches Muslims that the godly man's business will never fail or fluctuate because Allah guarantees him the return, and even adds something to the return out of his own bounty. Analogically, honest trade will lead to the earning of profit in this world as well as in the hereafter. Tarmidzi, reported the Prophet (pbuh) as saying, "The truthful, honest merchant is with the Prophet, truthful and martyrs."

In the process of conducting business, Islamic banks seek to bring about a lasting balance between earning and spending in order to achieve a betterment of the whole community. Islam has always emphasised lawful earning of a livelihood. All unlawful means of acquiring wealth are prohibited (4:29&30).

In terms of spending, Islam demands its followers to spend money for the welfare of the people and not on wasteful or pleasurable activities (2:219). Verse 36 of Al Nisa (4:36) outlines the right conduct for Muslim and applicable for Islamic banks in conducting their business.

In dealing with their customers, Islamic banks are expected to conduct the transactions for the benefit of both, i.e. the banks as well as the customers and uphold the concept of justice. In addition to what was revealed in Verse 29, Verse 135 of Al Nisa (4:135) and Verse 90 of Al Nahl (16:90) also requested Islamic followers to

maintain the concept of justice and equity in every aspect of life. On application of these verses to business context it means that Islamic banks when imposing charges to customers and also when fixing the profit-sharing ratio either with their investors or with their business partners. This philosophy is also reinforced by Verse 87 of Al Maidah (5:87).

In Islam, the absolute ownership of everything belongs to Allah (3:189). This absolute ownership does not reflect that Allah has created everything for Himself (2:29). Scholars claimed that the verse emphasises that what Allah has created belongs collectively to the whole human society. Legal ownership by the individual, that is to say the right of possession, enjoyment and transfer of property, is recognised and safe guarded in Islam, but all ownership is subject to moral obligation and even animals have the right to share (51:19).

As for Islamic banks, while making profit from the business is acceptable, the accumulation of profit without utilisation for the betterment of the community is forbidden. Because of this revelation, Islamic banks are expected to be more sensitive to the needs of society, promote more social welfare programs and activities, and make more contributions towards the needy and the poor.

Islam prohibits accumulation of wealth or its unrestricted possession by individuals exclusively for their own self-interest. It is further reiterated that wealth which is earned by the right means should not be hoarded in selfish interest because it would impede the growth in the economy, thus creating social imbalance (104: 1-4; 180:3).

Three vices mentioned by the verses in Al Humazah (104:1-4) are here condemned in the strongest terms: i) scandal mongering, talking or suggesting evil of men or women by word of innuendo, or behaviour, mimicry, or sarcasm, or insult; ii) detracting from their character behind their back, even if the things commented are true, where the motive is evil; iii) accumulating wealth, not for use and service to those who need it, but in miserly hoards, as if such hoards can prolong the miser's life or

give him immortality. Miserliness in itself is a kind of scandal. The above revelation serves as a reminder to those who manage Islamic banks to be more cautious in managing its assets. As mentioned earlier, the wealth of Islamic banks should be spent on the needy and for the betterment of society. Failing to conform with the instructions from Allah, means there is great possibility that the wealth accumulated by the banks will be destroyed. The destruction may be in the sense that the bank will not be able to make further profit and may ultimately have to cease operations.

The Quran in many of its verses indicates the principles which serve as guidance for the Islamic banks in their practical affairs. To involve themselves in business is highly encouraged by Islam but the business must be conducted on the basis of equity and justice. Islamic banks are prevented from investing in or to have any dealings with unproductive businesses, or businesses which promote obscenity, business which involve manufacturing, selling and transporting of liquor, making and selling idols and services rendered in or to pagan places of worship, fortune-telling and drawing lots, and businesses that involve usury and bribery.

The Objectives Of Islamic Banks

As suggested by Muslim scholars that the existence of Islamic banks is to promote, foster and develop the banking services and product based on Islamic principles. Islamic banks are also responsible for promoting the establishment of investment companies or other business enterprises as long as the activities of these companies are not forbidden by Islam. The main principles of Islamic banking comprise of prohibition of interest in all forms of transactions, and undertaking business and trade activities on the basis of fair and legitimate profit. Islamic banks are to give *zakat* and to develop an environment which benefits society.

Like any other business entity, Islamic banks are expected to make a profit from their operations. It is considered unjust for Islamic banks if they are unable to provide sufficient returns to the depositors who

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entrusted their money to Islamic banks. While making a profit from the business is allowed in Islam, at the same time Muslims are prohibited from committing any excess (5:87). Applying this message to banking operations means that Islamic banks are prohibited from making excessive profit at the expense of their customers.

Therefore, while ordinary business institutions are likely to place profit as their primary objectives, Islamic banks have to incorporate both profit and morality into their objectives. The commitment in pursuing moral and social objectives among Islamic bank varies widely. While some banks undertake social activities as ongoing projects, whereas other banks considered themselves as ordinary business entities but providing products that are allowable by Shari'a.

The Jordan Islamic bank for example, is required to set aside a certain percentage of its net income for the purpose of scientific research and education. This fund is channelled to various higher institutions in Jordan. Similarly with Bahrain Islamic Bank which maintains a 'good

faith loan fund'.

One of the most outstanding Islamic banks in promoting moral objectives in the Islami Bank Bangladesh Limited (IBBL). This Bank clearly declares that its aim is to introduce a welfare-orientated banking system and also to establish equity and justice in all economic activities. In view of such an objective, this bank is considered one of the leading Islamic banks in promoting social activities. The bank has established a body called 'Islami Bank Foundation' which provides financial assistance to the poor and needy people through various programs. It also undertakes health care, relief and rehabilitation, education, humanitarian programs and religious activities. This foundation has also established a modern hospital in Dhaka and centres for socio-economic development of the country.

Faisal Islamic Bank of Kibris (FIBK) is another Islamic bank which is actively involved in social activities. This bank has established a special financial pool called 'Zakat and Social Help Funds'. The sources of this special fund come from zakat paid by the bank or other parties and

donations. This fund is managed by the bank under the scrutiny of Shari'a Supervisory Board.

It is incongruous for someone to believe that Islamic banks are charitable organisations which are obliged to provide monetary assistance as requested. Similarly, it is inappropriate for the management of Islamic banks to emphasise on the profit maximisation policies.

Although, the top managements of Islamic banks are responsible in developing and implementing policies, it is rather unfair to shift the blame solely on these financial technocrats. On the contrary, the providers of the funds, especially the depositors and shareholders have to share equal responsibilities. Their expectations for higher profits or dividend prompted the management of Islamic banks to optimise returns on every business opportunity undertaken by the bank. Therefore, every party within the Islamic banking system must have a clear understanding on the true concept of Islamic banking. The methods and steps taken in educating these groups are indeed formidable and challenging.

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