

FAQs on Islamic Banking

Q.1 What is Islamic banking?

Islamic banking is an interest free banking system and is governed by the principles laid down by Islamic Sharia'h. Commonly Islamic modes Mudharabah used for deposit while Murabaha, Ijarah, diminishing Musharakah and others Islamic modes used for financing.

Q.2 What does Riba mean?

Anything over and above principle without any due consideration already stipulated in the contract. Therefore, rent and profit on sale, although are fixed and pre-decided are not termed as Riba.

The Holy Quran about Riba:

الذين يأكلون الربا لا يقومون إلا كما يقوم الذي يتخبطه الشيطان من المس ذلك بأنهم قالوا إنما البيع مثل الربا وأحل الله البيع وحرم الربا فمن جاءه موعظة من ربه فانتهى فله ما سلف وأمره إلى الله ومن عاد فأولئك أصحاب النار هم فيها خالدون(275)

275. Those who take Riba (usury or interest) will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said: "sale is but like Rib" While Allah has permitted sale, and prohibited Riba. So, whoever receives an advice from his Lord and desists (from indulging in Riba) then what has passed is allowed for him, and his matter is up to Allah. As for the once who revert back, those are the people of Fire. There they will remain forever.

يا ايها الذين آمنوا اتقوا الله و ذروا ما بقى من الربا ان كنتم مؤمنين(278) فان لم تفعلوا فاذنوا بحرب من الله و رسوله و ان تبتم فلكم روعس اموالكم لاتظلمون ولا تظلمون(279)

278. O You who believes, Fear Allah and give up what still remains of Riba, if you are believers. (279) But if you do not (give it up), then listen to the declaration of war from Allah and his Messenger. However, if you repent, yours is your principle. Neither wrong, nor be wronged.

The Holy Hadiths about Riba:

عن ابى هريرة رضى الله عنه قال قال رسول الله صلى الله عليه وسلم الربا سبعون حوبا ايسرها ان ينكح الرجل امه. رواه ابن ماجه والبيهقى

It is narrated from Hadhrat Abu Hurairah (may Allah be pleased with him): The Prophet صلى الله عليه وسلم said: " Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother."

عن عمرو بن العاص قال سمعت رسول الله صلى الله عليه وسلم يقول ما من قوم يظهر فيهم الربا الا أخذوا بالسنة وما من قوم يظهر فيه الرشا الا أخذوا بالرعب." رواه احمد

It is narrated from Hadhrat Amr ibn Ass (may Allah be pleased with him) said: I heard the prophet صلى الله عليه وسلم, said: "When usury becomes common within a nation, they are subjected to drought and when bribery becomes common within a nation they are subjected to fear."

عن عبد الله بن مسعود رضى الله عنه عن النبي صلى الله عليه وسلم قال ما احد اكثر من الربا الا كان عاقبة امره الى قلته. رواه ابن ماجه والحاكم

It is narrated from Hadhrat Abdullah ibn Masuood (may Allah be pleased with him): The Prophet صلى الله عليه وسلم said: "The person who will get the income through means of interest resultantly will get lesser wealth.

Moral: Imam UI Hadith Hadhrat Abdul Razzaq narrated from Muammar, he said: An interest-based business would deserve losses within (period of) forty years, meaning that some calamity may occur that would affect the business adversely.

Q.3 Some people claim that there is no concept of banking in Islam?

The use of the word banking does not make any institution Halaal or Haram, rather it is the underlying scope & nature of activities that are being conducted which makes it Halal or Haram. Concept of banking based on pooling of excess funds of depositors and channeling them towards those who require it for investing activities is not only approved but encouraged by Islam. But the concept to lending and borrowing on the basis of interest is not allowed in Islam.

Q.4 NBP is a conventional bank how can "Aitemaad" be Islamic then, while being the part of the same bank?

Yes, "NBP Aitemaad" is an integral part of NBP, but its funds and operations are segregated as a regulatory and Sharia'h requirement, to do Islamic Banking Business, being seated under the same roof does not imply that "Aitemaad" and NBP are same.

E.g.: a person having a Halaal store and a Haram store where operation, funds and books are completely segregated. In such an instance the Halaal store income and operation is validated by Sharia'h rather encouraged.

Q.5 Islamic banking looks the same as conventional banking, how can they claim to be different?

The validity of a transaction does not depend on the end result but rather the process and activities executed and the sequence thereof in reaching the end. If a transaction is done according to the rules of Islamic Sharia'h it is halal even if the end result of the product may look similar to conventional banking product.

For example a normal McDonald's burger in USA and Pakistan may look similar, smell similar and taste similar but the former is haram and the latter is halal due to its compliance of Islamic guidelines of slaughtering animals.

The same is also true for Islamic and conventional banking. The contracts and product structures used by Islamic banks are quite different from that of the conventional bank.

Q.6 Islamic banks use interest base system (KIBOR) as a bench mark while determining profit; how Islamic banking can be said to be Islamic?

Using Interest Rate benchmark for determining the profit in Halaal transactions does not render the transaction as invalid or Haram. The nature of transactions determines the validity of the transaction. Taking an example of two individuals Mr. A is selling Wine on a 10% profit while Mr. B is selling Juice and benchmark the same profit rate. This does not render Mr. B profit Haram.

Q.7 Fixed rate of return is not permitted under Islamic Sharia'h, how the bank charges fix?

Fixed return does not make a transaction Halal or Haram for example:

- Profit on trading
- Rent on property

Both of the above instances where returned is fixed, and it is very much Halal. Rather if the profit is not fixed in a transaction there will be invalid transaction.

Q.8 How do you pay profit and claim that this is not interest, e.g. you pay 5% on PLS and the same is being paid by NBP?

The remunerative deposits accepted by "Aitemaad" are based on "Mudharabah" a kind of partnership where one party provides capital called Rabb-ul-Maal and other provides services known as Mudharib. We share the profit with you as per the ratio announced at the time of accepting deposit, which then interpreted in percentage to give our customers and idea of profit they earned.

E.g. you have invested Rs. 100,000/- in PLS account with us at the end of the month we have earned Rs. 1,000/- as per our distribution ratio i.e. 50% your part will be Rs. 500/- which is 6% that might be the same as given by the conventional bank.

Q.9 If a person or organization has an interest free account in a conventional bank, would it be permissible to hold this account?

In this situation, it is preferred to open an account with an Islamic Bank where religious scholars have given their consent (fatwa). Opening of interest free account in a conventional bank should be avoided as the funds in such account(s) will be used in interest based businesses.

Q.10 Where do you invest?

"NBP Aitemaad" makes investment in different Sharia'h compliant avenues that includes operating lease called Ijarah, sale and purchase activities like Murabaha, Musawamah, partnerships etc. like we give car on Ijarah and earn rental over it, we buy raw material and sell it to the industries in requirement and earn selling profit.