

The Drives beyond Switching to Islamic Financial System as Alternative by Stable Economies of the World

Qaisar Bilalⁱ

Dr. Hussain Muhammadⁱⁱ

Abstract

The history reveals the fact that last century was the century of financial crises started from the Great depression in 1929 and has been passed through number of financial disaster like oil crises in 1973, Latin American Debt crises in 1982 and so many other financial disasters happened. The most worse were the Global financial crises of 2008 affect extremely almost all the dollar based countries.

The introduced Islamic Banking System is one of the positive steps taken by religious scholars in order to pull out the humanity in general and Muslims specifically from man-made unsound and unreliable Financial System. The statistic proves that the introduced Islamic banking system has a rapid growth in the market for the last two decades and more stable economies are going to adopt the Islamic financial system.

This research work focuses on highlighting different aspects and dimensions of motives and drives beyond adaptation of the Islamic Financial System in the context of economies trends and swift inclination towards Sharī'ah based financial system.

Key Words: Emerald(International Publisher), Islamic Financial System, Sharī'ah, Riba(Interest)

Introduction

Indeed, human error never come to end. As long as the human exist they need to establish such phenomena to fulfill their daily requirements and needs. For the said purpose, their engagement in trade and other prevailed occupations like agriculture, different forms of services is the evidence and proof of its intellectuality. By this way, finance get enter in our daily lives and not even a single person can survive without participation in financial market. Financial market requires some rules and regulations for its smooth operations and all the rules and regulations are always made by the dominating party and by keeping in view their own interest, they regulates terms and conditions.

i Ph.D Scholar, University of Science & Technology, Bannu

ii Assistant Professor, University of Science & Technology, Bannu

A man can't detached his self from own interest which lead him to open loophole to get benefit for himself. The biased regulations always become the root cause of system failure. In a comprehensive it can be uttered that as long as the societies get engage in the trade, financial bug will circulate and on its growth lead the big adversity and calamity and the world called this disorder, Financial Crises or Financial Disaster.

The history reveals that in last century human faced different forms of financial crises, some were of short period and had low impact and some were for long duration and of great influence and effect. Some were at very high phase so that effect not only that country where it occurred but affected the twenty of countries like financial disaster in 1929, known by the Wall Street Crash and the Global financial Crises of 2008. Between these two many others financial crises occurred with different time interval but these two were severe.

American Economic Association (AEA) and Strong Economies

It is uttered by religious scholars that Islamic economics was ignored by mainstream economist in the world. The mentioned statement justification may be cleared from the behavior and trend of the American Economic Association (AEA) which is most popular, admired and largest association of the economist of America¹.

This association publishes different journal, two journals among them are more popular and widely read. Most of these are used for references named; *the journal of Economic literature* and *the journal of economic prospective*².

The keyword 'Islam' was searched in titles and abstracts of these journals from 1999 till October 2012, the results showed only three records. This clearly reflects the message that how the Islamic economics was deemed not to be the inclusive component of world economies. As a result of this approach the man-made ideas were become the building stones and the God commands and orders were totally ignored which leads the economies to miserable condition and the world faced severe and harsh downfall and disaster in last ten years especially the financial crisis in 2008 is one of the unforgettable example called Global Crisis of 2008.

Moreover, it was a firm perception of the economist to maintain the financial system free from religious interference as they considered it as specific for worship only. The same point was highlighted by religious Scholar, Taqi Usmai as;

“Modern Economies has been used to a purely materialistic and secular approach that does not allow religious concepts to interfere with its theories and concepts, on the premise that economy is outside the domain of religion. It is however, an interesting irony that every dollar note has the admission: “In God we trust”, but when it comes to develop theories to earn dollars or to distribute or spend them, trust is placed only on human ideas based on personal assessments; God is held totally out of picture, as being irrelevant to economic activities³.”

Secondly, the world strong economies are under the influence of small group or few hands that control the entire conventional system. These few hands were not willing to enter any system that based on Islamic Teachings although they were fully informed about the fact that Islamic financial system has firm rules and regulations based on justice and fulfill the needs of all sort of people as considered the most fundamental and basic areas of Muslim state like poverty alleviation, *zakat* system in order to maintain the wealth flow and proper distribution, *waqaf* and charity for the purpose of enhancing the living standard.

In short, there is nothing new in conventional economic system that becomes the competitive factor against Islamic financial system. It is pertinent to say that the only approach which was used to restrict the Islamic financial system or *Sharī'ah* teachings to be the element of world economies is the consideration of Islamic financial model is favorable for Muslims only, not for non-Muslims. Obviously this approach is not in accordance with ground realities.

Economist tendency to Islamic Financial System

Islamic banking refers to a system of banking or banking activity that is consistent with the principles of the *Sharī'ah* (Islamic rulings). While elimination of "Riba" or interest in all its forms is an important feature of the Islamic financial system. In essence, it aims to eliminate exploitation and to establish a just society by the application of the *Sharī'ah* or Islamic rulings to the operations of banks and other financial institutions. Almighty Allah says in Quran;

الْيَوْمَ أَكْمَلْتُ لَكُمْ دِينَكُمْ وَأَتْمَمْتُ عَلَيْكُمْ نِعْمَتِي وَرَضِيتُ لَكُمُ الْإِسْلَامَ دِينًا⁴

“Today, I have perfected your religion for you, and have completed My blessing upon you, and chosen Islam as Din (religion and a way of life) for you”

It is clear from the Quranic verse that Religion Islam has complete code of life and its teachings are forever. They leave undying brunt on human beings directly or indirectly towards its spiritual as well as material purification (*Tazkia*) if put into practice appropriately according to the Shariah's teachings i.e. the noble Book, Qur'an and Sunnah. Islamic Financial System is not any

theory or ideology but sound and firm principles and guidelines for leading smooth life that not only discourage the man-made theories and ideas based on shaky and wobble theories or interest but also give the right and clear picture to the world.

It seems in last few years that the western economist mentality towards Islamic financial system is almost changed because of different reasons. One of them is the durability and firmness of Islamic financial system because of asset back financing and the other reason is the financial crisis in 2008 which leads the economies to tremendous downfall and misery but comparatively the performance of Islamic Banks and Islamic Financial Institutions were appreciative and showed a power and strength against global financial crises. Different research institutions proved it by different ways that asset back financing is the key of success in these severe situations. According to International Monetary Fund staff estimates and calculations shows that Islamic banks observe a very minor impact on profitability in crisis^{5,6}.

Some experts also highlight the factors behind the proclivity of mainstream western economist towards Islamic Financial System, to attract the wealth of Muslim in general and the Gulf Money in particular. So whatever the factor there behinds, it's really play a vital role in inclination of them towards Islamic Model. This tendency became the cause of awareness of Islamic Teachings and ideology and the people realize the fact that *Shariah's* teachings and directions are not only for the guidance of Muslims but for the all human beings, living anywhere in the universe and it gives the right fruits and pleasures to all with condition of proper execution and implementation of these *Shariah's* commands and directions according to the prescribed way and tone.

In the light of above scenario, it is observed that some other widely readable journals started publishing articles with titles 'Islamic'. For strengthening the statement, the example is quoted of well-known, reputable International publisher named Emerald has released some Islamic journals like 'the international journal of Islamic and middle eastern finance' and 'the journal of Islamic accounting and business research. In fact these journals play a vital role in enhancing the Islamic financial model but still there are reservation on it by different expert at different angles.

Business Model at Zero Interest Rate

Circumstances depict that in the past few centuries Muslim *Ummah* [Community] has been politically destabilized, dominated and confined to only mosques and *Madāris* [Religious Institutions] They have been kept aloof of

political and economic activities, and consequently, eliminating the role of religion in these affairs terming it as irrelevant to them. Moreover, under the influence of Secular rulers, having the slogan that all the state affairs except the particular religious worship practices are not absolutely binding to religion and should be run through own will, Muslim states, too, abandoned following religious norms in trade and economy resulting in a mere ideological status associated to religious economic teachings without any practical shape.

There was a time when it was claimed that establishing *Islāmic* financial system or *Islāmic* bank is utopian idea which cannot be brought into practice. The people believe that no financial system can work without the element of interest and it was considered that prohibition of *Ribā* is totally impractical in the context of modern society. It was claimed that the prohibition of *Ribā* has been driven from the teachings given some 1400 years ago and in the present, modern world it is not possible at all to base the financial institution on something else than *Ribā*. Different scholars raised this issue in different words. *Amr Mohamed El tiby* states⁷;

“One of the main issues that concerned Muslim scholars was how to eliminate Ribā from their lives and how they could make their financial dealings complaint with their shari’ah.”

But now number of businesses have been developed with said purpose and different financial institution are operating with zero interest rate models. In other words these are actually involved in real assets using Islamic instruments of partnership like *Musharakah* and *mudarabah*.

“ECB President Draghi (2016) explained that \One particular challenge has arisen across a large part of the world. That is the extremely low level of nominal interest rates...⁸.”

It is wrong to say that Conventional Banking system came into being in a jiffy. But to reach this state of condition took 400 years after this these Banks got firmness and strength and become concrete and well established and chain up the whole world in its curse web and clamp whole. In secular system of Govt. interest is considered as the backbone of economy and the system revolves around it whereas almost all the divine religions forbid interest. Besides Islam, Christianity and even Jewish teachings in Bible have a clear message about its prohibition. Leviticus narrates;

“If your brother becomes poor and cannot maintain himself with you, you shall support him as though he was a stranger and a sojourner, and he shall live with you. Take no interest from him or profit, but fear you’re God, that your brother may live beside you. You shall not lend him your money at interest, nor give him your food for profit⁹.”

The only legitimate shape of interest according to Jewish religious Books is the one enacted while a Jewish deals with non-Jewish. As a result the capitalist investor wants to build their system of economy on interest.

Assurance of Shari'ah Board Supervision

There is strong claim that all the products and activities of the Islamic banks are in full conformity with *Shari'ah* standards and all the performances of these Islamic banks are properly supervised by *shariah's* Board. The *Shari'ah* board of each Islamic bank is consists of religious scholars and economic experts having strong command on the financial tasks. They observe the transaction thoroughly in the light of Quran and Sunnah and used to compare the products and transactions with *Shari'ah* standards in order to avoid any interest factor or contradiction with *shariah's* teaching thereon.

The said practice is somewhat assurance that all the product or services offered by the Islamic financial institutions are operating in full conformity with *shariah* standards which not only secure the transaction from entering any non-Islamic element but also enhance the confidence of people on these institutions. Beside that there are also loopholes in the in-practice Islamic banking system that restrict one to say that whatever is going on there, are hundred and ten percent according to the *Shari'ah*. But here it needs to mention the hidden message that these loopholes are not up to that extent that one give ruling [*fatwa*] of *haram*.

The moderate gateway is very clear and there is dire need of forward step of *Shari'ah* board members to asses and analyze these areas and come with possible solution in order to eradicate these flaws and loopholes.

Justice in Profit/Loss Distribution

One of the core feature of Islamic financial system is the justice and equality in profit and loss distribution. One cannot enjoy the profit without bearing the risk of loss. It is essential principle for one claiming of profit must be linked with risk of loss. In Islamic Jurisprudence, the said ruling is stated as; (الغنم بالغرم)¹⁰ while in conventional financial system is totally free of it that's why leads the system to the peak of disaster.

On other hand, Islamic Principles in this regard are very clear and transparent in profit distribution. In *Islamic* banks, it is practicing that the people invest in it for different time period. The investors are generally the account holders. The process of depositing and drawing is continue and it is not only difficult but seems impossible to restrict all account holders to deposit

and draw the cash in one particular day and afterward, no one will be allow to deposit in *Musharakah* account, this is because every person has its own way of leading life and priorities of spending money and on daily basis anybody may need the money today and on next day it may not.

The procedure introduced for this purpose is the profit and loss distribution will be based on daily product, means that after the end of business cycle, the profit of the entire capital will be calculated and then the profit will be divided by the number of days in order to calculate the per day profit of the *Musharakah* period. Afterword, each account holder will receive the own share of profit according to the days proportion of his capital remain there in Bank. It is pertinent to mention the statement of *Sharī'ah* Expert and introducer of Islamic Banking, Mufti Taqi Usmani "It is not necessary that all the assets must be in liquid form at the time of final profit and loss distribution. It can be calculated by the evaluation of assets."¹¹ This is how the profit is distributed among the parties with respect to their deposited amount remains in the bank for specific time period in days¹².

Conclusion

In the context of current scenario where the economic race is going on, challenges faced by or facing these Islamic Financial Institutions and different countries adopting this financial system because they realize its durability, strength, potential to meet the financial needs of the people and firmness of the system along with portraying the picture that these institutions are in right direction in order to accomplish their individual and collective goals.

Conclusively, one sentence statement of the study; the submission on every dollar, "In God We Trust" execute only when the dollar ought to earn through the directions of God which exist in contemporary era in the shape of Islamic Financial System accepted across the Globe by the stable Economies as well.

References

- 1 *The American Economic Association (AEA) is a [learned society](#) in the field of [economics](#), headquartered in [Nashville, Tennessee](#). It publishes one of the most prestigious [academic journals](#) in economics: the [American Economic Review](#). The AEA was established in 1885 by younger economists trained in the [German historical school](#); since 1900 it has been under the control of academics.*
- 2 *The Journal of Economic Perspectives (JEP) is an [economic journal](#) published by the [American Economic Association](#). The journal is very broad*

in its scope. According to its editors its purpose is to synthesize and integrate lessons learned from active lines of economic research, to provide economic analysis of public policy issues; to encourage cross-fertilization of ideas among the fields of thinking, to offer readers an accessible source for state-of-the-art economic thinking and to suggest directions for future research.

- 3 http://muftitaqiusmani.com/en/?avada_portfolio=present-financial-crisis-causes-remedies [March 2017]
- 4 *Surah Almaida: 03*
- 5 *IMF Survey Magazine (October 04, 2010)*
- 6 *Ibid*
- 7 *Amr Mohamed Altiby, [2011], Islāmic Banking, How to manage Risk & improve Profitability, John Wiley & Sons, Inc, Hoboken New Jersey, 09.*
- 8 http://www.berndschwaab.eu/papers/LSS_BBM.pdf [March 2017]
- 9 *Leviticus 25:35-37, 14- Bible verses about Charging Interest.*
http://www.openbible.info/topics/charging_interest [March 2017]
- 10 *Ijaz Samdani, Islamic banking, a realistic & balanced analysis, ppg 25, Karachi, Maktaba Maarif al Quran, 2010*
- 11 *Muhammad Taqi Usmani'' Introduction to Islamic Finance'', Maktaba mā'arif al Qur'ān Karachi, 2009*
- 12 *Muhammad Taqi Usmani'' Ghair soodi bankari'' ppg 305, Maktaba mā'arif al Qur'ān Karachi, 2009*